



The King Baudouin Foundation and Compagnia di San Paolo are strategic partners of the European Policy Centre

'Old' Europe, new Europe? Demography, labour markets and social policies

By Katerina Rüdiger

Background

The term 'old Europe' was, of course, first used disparagingly by former US Defence Secretary Donald Rumsfeld to describe the countries which opposed the invasion of Iraq. But it could also be employed, much more aptly, to describe the changing demographic landscape in Europe.

Europe's population is ageing rapidly, and not just in the EU-15. The Central and Eastern European countries which joined the EU in 2004 are also experiencing a sharp population decline caused by a combination of low birth rates, a lack of immigration and the migration of younger adults to Western Europe.

While it is important to examine policy options to counteract this trend, it is also necessary to think more concretely about how to manage a society dominated by the 50-plus generation.

Demographic change has a range of social and economic implications for Europe, as it struggles to cope with the increasing economic dependency rate, the strain on

welfare systems in terms of pensions and health care, and the impact of an ageing population on Europe's labour markets.

Just four years from now, the proportion of the working population aged between 50 and 64 will be greater than at any time since the 1970s – and, by 2030, there will be an estimated shortfall of 20 million workers following the retirement of the 'baby boom' generation.

The new workforce which emerges as a result of these changes will be far more diverse than in the past. It will be older and will include more women and an increasing number of workers of 'foreign' origin. The traditional age 'pyramid' of modern societies is being replaced by a 'cube' – or worse.

Root causes and trends

The impact of this demographic time bomb may have only moved up the political agenda relatively recently, but the trend which has sparked the current debate began several decades ago. It started with

a significant fall in fertility rates in Northern and Western Europe, followed later by Southern Europe.

The high fertility rates in Northern and Western Europe from the mid-1940s to the early 1960s (the 'baby boom') gave way to a very low rate (close to one child per woman) by the 1980s. Today, after a period of stagnation in the 1990s, all EU countries have fertility rates below the 2.1 children per woman needed for physiological population replacement.

There are, however, substantial differences among EU Member States, largely along North-South lines. Northern Europe, plus France, is now the EU's 'fertility belt', with a total fertility rate (TFR) of 1.7, compared with 1.4 in Southern Europe, Germany and Austria. Fertility rates in the EU's new Member States are declining even more sharply, and this is being exacerbated by economic migration.

This said, falling birth rates are not an exclusively European phenomenon: Japan and China

are also experiencing similar trends. As some analysts have argued, the Chinese, in particular, risk growing old before they grow rich.

Debates on this issue – which has also been analysed by the European Commission in a series of documents – generally focus on the damage the ageing of Europe's population may do to its competitiveness if it is not addressed appropriately. It is often suggested, for example, that competing successfully

in a global knowledge-based economy is at odds with having an ever-older and more diverse work force.

In fact, employment in the knowledge society is increasingly shifting from manual to technological, skills-based work. This enables people to work longer, and to pursue different career paths and patterns during their working lives. But it also requires policies which take into account the fact that two-thirds of the employees who will make up Europe's workforce

in 2015 are already in the labour market today – and they will need to be equipped with the skills required to adapt to changing circumstances.

Creative solutions are vital to tackle the looming labour shortages – and, above all, fresh approaches to the way we work and changes to traditional career patterns. Cross-border strategies also need to be explored, in order to take account of (and arguably encourage) a higher degree of mobility within the EU.

State of play

The policy issues related to demographic change are connected to employment legislation, labour market regulation and, more broadly, social policies. These are issues which remain primarily a matter for individual EU Member States: welfare states in Europe are still national, even if they are based on common values.

EU labour legislation was designed to ensure that creating the Single Market would not lead to a lowering of labour standards. It is also a tool which underpins efforts to achieve the Lisbon Agenda objectives. It sets targets for labour-market reform and participation within the Member States, with the EU playing a coordinating role while leaving the implementation of the necessary reforms up to national governments.

The targets set by the European Councils in Lisbon 2000 and Stockholm 2001 were to increase labour-market participation to close to 70% for the working-age population as a whole, to more than 60% for women and to 50% for older workers (55-64). However, only a few countries have met these targets and

there are still great disparities between regions and between Member States.

These differences appear to be closely linked to the welfare state models in each country, especially when it comes to the North-South divide in fertility rates and labour-market participation.

Less protective labour markets have, for example, helped the UK, Sweden and Denmark improve their participation rates and make greater progress towards meeting the Lisbon Agenda targets. Moreover, these countries have higher fertility rates than Germany or Italy, indicating that there is a positive correlation between increased female labour-market participation and higher fertility rates.

There is, however, one remarkable '*exception culturelle*'. Despite strict employment protection laws and a distinct lack of labour-market flexibility, France has Europe's second highest birth rate after Ireland (an average of 1.9 children per woman).

This is largely a result of the government's active family policies, which include universal full-time schooling from the age of three,

generous childcare allowances and family support such as subsidised day care and the highest-paid maternity leave in Europe.

The role of public policies

This underlines the importance of reducing the costs of raising children and creating a supportive environment to increase fertility rates. The so-called 'fertility gap' – i.e. the number of children a woman wants versus the number she actually has – can only be closed or at least reduced by introducing active family policies which address these problems.

These should be coupled with policies that deal with wider issues such as the division of work in the home between men and women, the gender pay gap, and the difficulties parents face in balancing work and family responsibilities.

Recent studies show that although highly-skilled, well-educated women have been substantially helped by policies addressing the obstacles which previously prevented them from breaking through the 'glass ceiling', the situation has in fact worsened for the low-skilled workers who

constitute the majority of the female population.

In countries where traditional family patterns persist but are now being steadily eroded, such as Spain and Italy, low fertility rates are a result of women struggling to combine their family responsibilities with their participation in unsupportive labour markets.

The marginal role of social assistance in the Mediterranean countries was historically offset by the informal safety net created by extended families. This is no longer sustainable in a more dynamic (and ageing) society unless it is supported by adequate public policies.

Indeed, the French example not only shows how policy-makers can create an environment which encourages higher birth rates, but also holds lessons for those seeking to address the other side of the equation: namely, how to encourage older people to remain in the workforce for longer.

Initiatives could include measures which go beyond the current legislation designed to combat age discrimination, the (still hesitant) steps being made towards raising retirement age, and the (too cautious) pension reforms introduced so far in some Member States.

This is all the more important given that, although active family and gender-equality policies can increase fertility rates to some extent, population decline is almost certainly here to stay.

Significant changes in life-cycle choices and generational behaviour make it unlikely that the EU will ever see a return to the high fertility levels of the past. Today's parents tend to have their children later in life – and to have less of them – in order to pursue their careers and fulfil other ambitions.

This is coupled with a growing trend for young people to enter the labour market much later than in the past – and to do so in the

knowledge that they will have to be much more flexible than previous generations, switching from one job to another and moving between cities – and even countries – during their careers. This generates a sense of insecurity which does not encourage them to start families.

This trend is not universal, of course. Others still prefer to lead more stable lives, even if this reduces their career prospects. This helps explain why, for example, there is a high preference for public-sector jobs – particularly in France but also elsewhere.

Immigration has the potential to fill some of the future labour shortages, depending on how well migrants are integrated into the formal economy. However, it is not a panacea and is fraught with problems, including widespread public hostility to the idea of mass immigration. And it is certainly no substitute for labour-market reforms.

Prospects

The rise of China and India, not just through low-cost competition but also thanks to a focus on higher value-added sectors and the use of innovative technology, highlights the need for European companies and governments to invest in human capital and update existing employment models.

How successful economies are in creating jobs will, of course, be crucial, but so too will be how well they use – and invest in – the existing workforce.

Although there has been an increase in labour-market participation among the over-55s in some countries, policies have not been broad enough to foster the necessary changes in cultures and attitudes.

Older workers often feel under-valued even though they are increasingly crucial to boosting Europe's productivity.

Furthermore, it is not only the workforce which has changed: technology has also had a significant impact on the way we work, and employers will have to adapt to the demands of an increasingly knowledge-based economy in which employees will have more control over how, when and where they do their work.

The situation is not made easier by the fact that we are now witnessing a reversal in policies, often without proper prior debate on why changes are needed or how best to achieve them.

Not long ago, unemployment was the main issue and, in response to this, shorter working hours and pre-retirement schemes were introduced. This probably encouraged many people to believe that retirement at 55 was natural and to be expected.

Now the challenges are different and workers' expectations need to be changed. Early retirement is not necessarily an option, and they need to continue upgrading their skills throughout their working life.

The public's response to changes in pre-retirement schemes has underlined just how difficult it is to get this message across and, given that the average age of Europe's voters is also rising,

it is hardly surprising that it has been difficult to introduce the relevant reforms.

Oldies but goldies

Population decline is not necessarily or exclusively negative. It is the change in the demographic structure, with fewer younger and more older people, which poses potential problems both for productivity and growth, and for financing welfare systems.

There is also a risk that, without measures to address these problems, the fiscal burden on younger generations becomes so great that some may choose to leave and move to places where the burden of supporting older generations is more bearable – thus leading to a ‘brain drain’ from some European countries.

The trick could well be to use the fast-growing pool of older workers to redress the balance. Surveys have already shown that many older workers want to stay in the labour market for longer.

Yet this, in turn, may raise another problem: if older workers can be persuaded to remain active for longer, there will be implications for the average age of workers in general and thus for the mix of knowledge gained through experience versus newly-acquired knowledge and fresh entrepreneurial efforts.

The long-established tradition that employees win promotion and earn higher salaries primarily because of the amount of time they have spent in the labour market is not sustainable.

The present retirement age should instead become the launch pad for embarking on

a second (or even third) career. This will probably be easier to achieve in large international companies, and much harder in the smaller organisations which dominate the European labour market.

A solution could be found by involving not only the social partners, but also governments. A strong European dimension is also important because in order to get these ‘second-career’ jobs, people may well have to move from one EU Member State to another.

Learning to cope

A flexible working environment is the prerequisite for any form of lifelong learning, for combining care and work, and for integrating older workers.

Ideas such as creating lifelong ‘time accounts’ for workers – allowing them to work at different levels of intensity at different stages in their lives – make perfect sense from a life-cycle perspective, and would certainly help women to combine motherhood with careers. But these require a substantial effort on both sides: it is hard to see how, without government incentives, small- and medium-sized companies could introduce such systems.

Developing a framework for new career patterns within a life-cycle approach through collective negotiations with the social partners would require an increase in trust on both sides which does not yet exist. It requires a cultural shift backed by policy incentives.

Achieving a work-life balance is a crucial aspect of quality of life: it is essential to recruit talented people and to keep them in the labour market at every stage of their lives.

Social infrastructures need to be adapted to the new realities – for example, the provision of pension rights for workers who have not followed conventional career patterns – and to include adequate parental leave and temporary unemployment benefits, and facilities such as out-of-school care.

By creating new opportunities for all, especially for those previously marginalised by the labour market (young people, women, elderly, migrants), employers can also play a key role in fostering trust amongst workers, encouraging them to accept change and to take risks by following unconventional career patterns.

Demographic change, in other words, is not just a threat. It also provides an opportunity to develop a more inclusive labour market and contribute to a more equal knowledge-based society.

None of this can be realised, however, without widespread acceptance that the relatively short period most people spend in formal education early in life is no longer adequate. The knowledge and skills needed in modern economies are changing too rapidly, and technology is challenging the role of traditional learning models as well as lifestyles.

Lifelong learning is essential and the EU needs to create a culture which fosters this in order to sustain the European way of life.

To respond to this challenge, men and women, old and young, businesses and governments will have to adapt and evolve accordingly.

Katerina Rüdiger is a Junior Policy Analyst at the European Policy Centre.

