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The OECD and the world economy

Contribution
Social, Health and Family Affairs Committee
Rapporteur: Mrs Sinikka Hurskainen, Finland, Socialist Group

1. First of all, the rapporteur wishes to congratulate Mr Cosido on his excellent report on the OECD and the world economy. The rapporteur is aware that it is difficult to cover the whole range of the OECD's activities. Yet it is unfortunate that issues such us population ageing and its impact on employment, and pension policies are not mentioned.

2. European governments are currently faced with the difficult task of harmonising two relatively opposing trends: the pressure of a globalised economy to contain public expenditure and reduce labour costs in order to remain competitive and a justified demand by European citizens to strengthen the European social model as a basis for a stable and socially prosperous Europe.

3. The Rapporteur is convinced that the European social model reflects a common set of values, based on the preservation of peace, social justice, equality, solidarity, the promotion of freedom and democracy and respect of human rights. In the last 60 years this set of common values has allowed a growing Europe to successfully become an area of greater economic prosperity and social justice. Therefore social policies, when appropriately designed cannot be regarded as a cost but, instead, as a positive factor in economic growth. Although European States have different social systems, and have implemented these values in different ways, they commonly aim to attain a balance between economic growth and social solidarity, and this is reflected in the European social model as a unity of values with a diversity of systems,

4. At the same time, it is obvious that today a new vision of the purpose of social policy is needed. Society is indeed undergoing profound upheaval. Ageing populations are increasing pressure on workforce. By 2050, Europe could have lost nearly 55 million people of working age. Demographic decline is therefore not an abstract and distant event. It is already transforming society, the economy and relationships between individuals and generations. If nothing is done, the labour force will shrink dramatically in many OECD countries in coming years. Both firms and workers will have to adapt to the changes caused by globalisation and technological advances, especially as large, labour-rich countries, such as China and India, become better integrated into the world economy

5. It is therefore becoming a matter of urgency to establish a common approach to meeting the three major challenges of globalisation, technological change and demographic change. The crux of the matter is clear: the European social model must demonstrate its ability to respond effectively to these challenges.

6. Declining birth rates and increasing longevity have produced a significant increase in the share of elderly in the population of most OECD countries over the past three decades. The trend is likely to accelerate sharply in the next decade, as the baby boom generation begins to reach retirement age.

These demographic changes may have significant fiscal and economic consequences and pose important public policy challenges for the countries involved.

7. A recently concluded comprehensive study on the implications of ageing and on possible remedies to meet future challenges of the OECD Secretariat shows that unless there are major changes in policy (et al. re-balancing of social policies and expenditures between generations), the increase in the number of retirees relative to persons active in the labour force will reduce growth in material living standards and put public budgets under mounting pressure.

8. In European countries, it is expected that, by 2050, for every person in retirement there will be only one person in employment. This will put pensions at risk and increase tax pressures on the working population. Moreover, the prosperity of OECD countries will be put at risk. While all countries are faced with similar challenges, the solutions must take account of national circumstances. In this respect the Rapporteur believes that controlled immigration can help Europe overcome the shortages of manpower likely to arise in certain regions or sectors. But it can be only one element in a much more global solution.

9. We must start by ceasing to regard population ageing simply as a problem of financing pensions or employing older workers, although these are of course essential issues which, moreover, have been European priorities for several years.

10. We must therefore ask ourselves three simple questions: what priority do we attach to children, and what place do we want to give families, whatever their form? How can we develop new forms of solidarity between generations, in other words a new approach to the life cycle? How must we respond to the rise in the number of retired people and very old people?

11. The Rapporteur thinks that the OECD should look at the potential role of policy in supporting families and helping young people to enter into the labour market and should identify which interventions alleviate and will contribute to the eventual eradication of child poverty, break the cycle of inter-generational deprivation, and develop the capacity of children to make successful transitions through the life course.

12. A new approach to policy on *reconciliation* of work and family life is also becoming essential. Parental leave, part-time work and flexible organisation of working hours are all of limited value if mothers are the only ones to benefit. Europe will have to “move into top gear” by encouraging women and men to work and consolidating the position of children in society. We must respond to the demographic challenge by giving a new dimension to the policy of equality between women and men and by doing more to encourage the sharing of family and domestic responsibilities.

13. Recent reforms in old-age pension systems have gone in the direction of reducing the incentives to early retirement by changing several of the basic parameters determining pension benefits. The removing of the incentives to early retirement might pose a considerable challenge to OECD labour markets. It might be difficult to absorb the increased labour supply of older workers in countries with high structural unemployment. The adjustment would be eased if reforms of pensions and other income support systems for the elderly were to be accompanied by measures to increase job opportunities in general, including elimination of measures and practices that discriminate against older workers.

14. However, the OECD study highlights the importance of increasing the average age at which people retire from the labour market and – concurrently - improving the employment perspectives of older people as crucial elements in meeting the ageing challenges. The more broad-based reforms of labour and product markets advocated in the OECD *Jobs Strategy* are highly welcomed.

15. In any case, OECD countries need to introduce more active social policies, which would mean getting people off benefits and into work instead of keeping people in a state of dependency. It is not enough getting people into jobs: more efforts need to be made to help people keep jobs and to develop careers.

Specific amendments proposed by the Rapporteur and the Social, Health and Family Affairs Committee

Amendment N°1

In paragraph 5 of the draft resolution, replace the beginning of the first sentence by: “Controlled migration flows may have a positive effect…”

Amendment N°2

In paragraph 10 of the draft resolution, add at the end two new sentences as follows: “It is therefore a matter of urgency to devise a common approach to meeting the three major challenges of globalisation, technological change and demographic change. The crux of the matter is clear: the European social model (which is distinguished by a specific balance between economic growth and social justice) must demonstrate its ability to respond creatively to these challenges.

Amendment N°3

In the first sentence of paragraph 11 of the draft resolution, add after the words economic growth “and social rights”

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Head of Secretariat: Mr Géza Mezei

Secretaries to the committee: Mrs Nollinger, Mrs Meunier