



ETUI-REHS

Demography, Social Cohesion and the Future of the Welfare State

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Introduction

In the coming decades Europe will be faced with the consequences of the constantly changing composition of age structure in the population driven by low birth-rates and increasing life expectancy, as well as of a diversification in lifestyles and hence in the definition of the concept of family.

These rather profound changes in the composition of the population will have powerful impacts on the future of European societies and economies, and will require reflection on how trade unions can contribute to ensuring that welfare states in the future are financially sustainable and that they provide adequate as well as appropriate benefits and services. Furthermore – though this aspect will not be dealt with in this background document – trade unions will also have a major role to play in managing the challenge of the shrinking working-age population that will face Europe as from 2010. In other words, the demographic changes will put something of a strain on the financing of the welfare states as we know them today and will require a reassessment of the role of social protection in providing benefits and services.

The magnitude and impact of the changing demographics vary greatly across the European Union, depending on a host of different factors such as level of birth rates, longevity, size of baby boom, financing method, as well as level of expenditure of social security, employment levels, and economic and productivity growth. Although choices made today will not have a major impact on population composition until more than a generation has passed, they *will* have a direct impact on the wellbeing of the population in the short, medium and long run.

The challenge for trade unions in this respect is to ensure that these adjustments and improvements are carried out in an integrated manner, taking a life-course approach to employment as well as social protection and thereby allowing for a more fluid interchange between education, work, family responsibilities and retirement, while guaranteeing that social cohesion is maintained and improved.

The changing face of demographics

The demographic landscape in the EU, as in the rest of the world, is undergoing radical change. The changes in demography that came in the wake of socio-economic progress in income and literacy are being followed up by a second demographic transition that is an outcome of further economic growth and of intellectual emancipation through education and the spread of ideas. The satisfaction of material needs and anxieties through prosperity, and – in Europe at least – the personal security offered by welfare states, have enabled the population to free themselves from subservience to traditional modes of behaviour. Under these circumstances the single state, cohabitation, lone parenthood, and the avoidance of parenthood all together, have become more socially acceptable. However while the diversification in lifestyles can be explained by the fact that the population is able to make differentiated choices, it cannot explain the drop in fertility rates, as the lowest rates in Europe are observed in precisely those countries where traditionalism in relation to sexual relationships and living arrangements persists. Furthermore, the progress in health care and overall living standards has contributed to a continuous rise in life-expectancy, albeit with wide variations. As a result of lower fertility rates combined with increased survival rates, most countries in

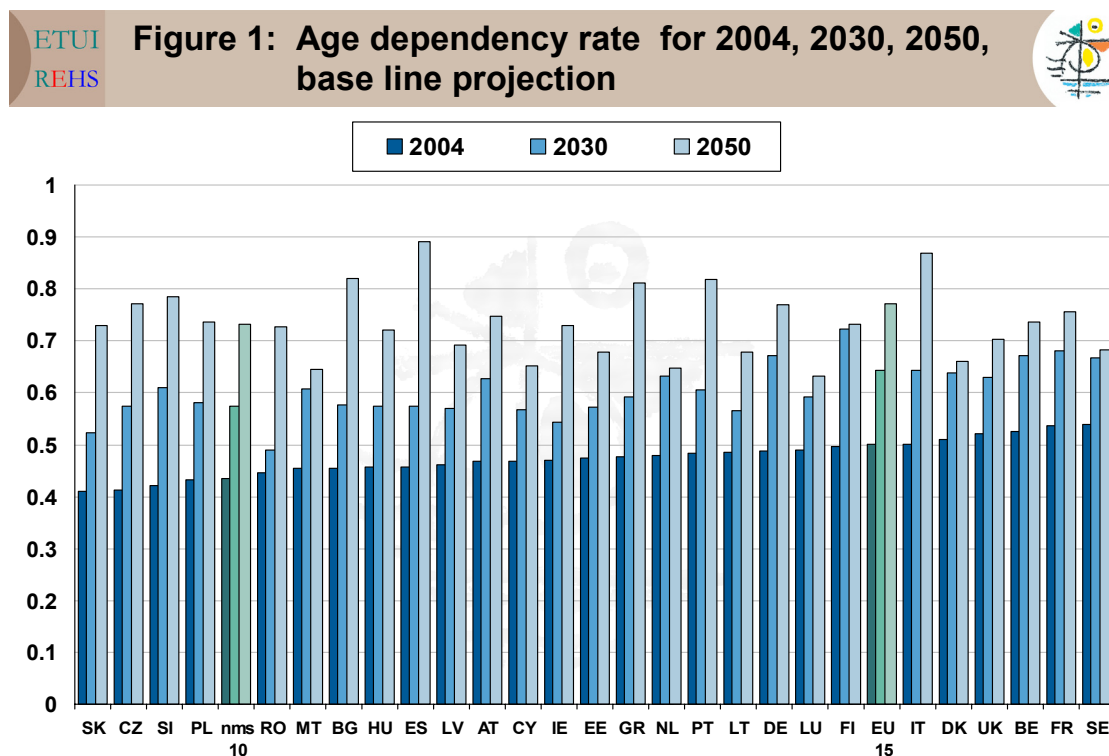
the world and especially the European Union are today experiencing older population structures and will, at a certain point in time, experience population decline. In Germany, Italy and Greece this has already started but is being offset by immigration. In the next 30 years the remaining EU countries will follow. In the US no decline is expected and a divergence in population trends is expected to increase between Europe and the US.

While the Old EU Member States (OMS) and the New EU Member States (NMS) are facing similar changes in their demographic structures, there are certain important differences. Unlike the OMS, the NMS did not experience a baby-boom during the 1960s and therefore do not have this particular cyclical effect to deal with. Furthermore, it is only recently (1980s) that fertility rates have declined in these countries, while death rates remain fairly high. Accordingly, while the natural decline of population has already started, it is currently less of a problem. Life expectancy has decreased during the past 15 years in the NMS, as a result of the enormous transition undergone by these countries. Currently, though the decrease has stabilised and even been reversed, this improvement is certainly not benefiting the population evenly. For the lower socio-economic groups life expectancy is actually continuing to decrease, while for the better-off it is increasing. In the OMS, though life expectancy also differs between these two population groups, the trends are not divergent.

Demographic projections are based on a host of assumptions. As these have often proved wrong in the past, one should be careful not to paint the devil on the wall and give way to panic solutions. One thing can be taken for granted, namely, that there will be an increase in older people, for these people have already been born. However, the remaining assumptions concerning productivity, employment rates, fertility, etc. can and probably will vary from the various projections, though projections 20-30 years into the future can be taken more or less at face value and the age dependency rate will certainly increase¹.

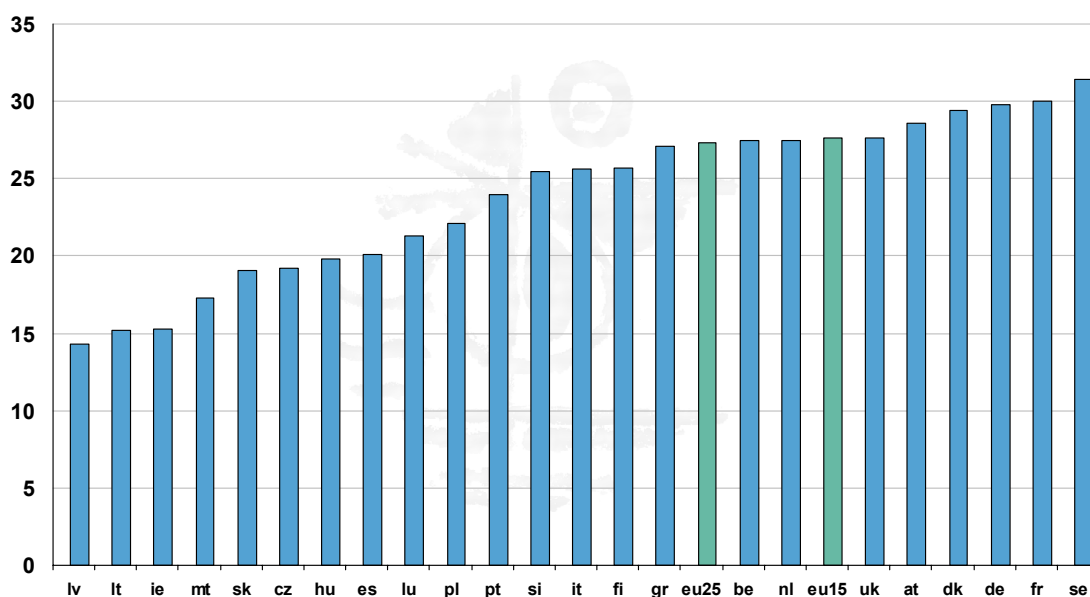
Notwithstanding the differences between regions and problems, it remains true that throughout the EU relatively fewer babies are being born, the population is growing older, and choices with regard to lifestyles are diversifying. The question is whether this situation constitutes a crisis. The latter two positive developments, which are results of prosperity, are posing challenges to the welfare states as we know it today, but for different reasons. The ageing poses problems in the sense that it is expected that relatively fewer people will have to support more people; diversified lifestyles, meanwhile, are such that welfare states need to adapt in order to provide the right support to a host of different types of family unit, not only to the traditional unit composed of two adults and two children. Hence welfare provision can be expected to require adaptation and reorientation, but this does not necessarily imply down-sizing. It is important to clarify to what extent demography is being used as a pretext for cost-cutting when discussing welfare state reforms, rather than adapting the welfare state to the new situation and needs.

¹ Age dependency rate = the ratio between the economically dependent and the economically active population = $(\text{pop (0-14)} + \text{pop (65-)}) / \text{pop (15-64)}$



Facing the changes in terms of social cohesion

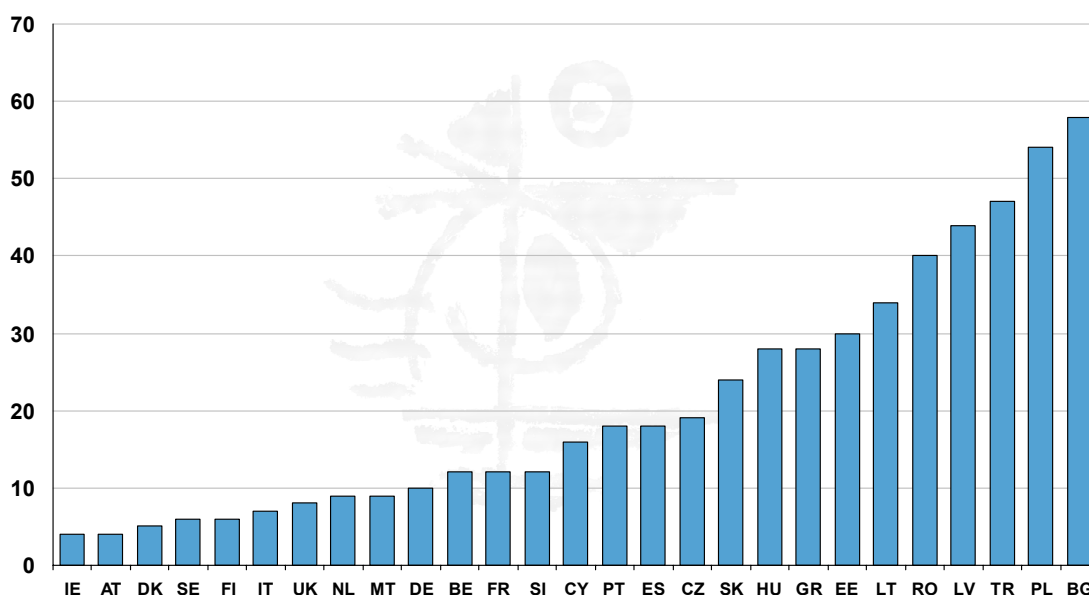
Against this backdrop it is important to realise that the point of departure for facing these changes in demography is not the same across the European Union. The social protection systems play a key role in assuring social cohesion by providing income replacement during labour market transitions as well as providing poverty alleviation, health care, etc.; however, the importance and scope of these income replacement schemes – in terms of service provision as well as financing – varies greatly across the European Union. Notwithstanding, the relatively high level of social protection in most EU member states is one of the main factors distinguishing the EU from the rest of the developed and developing world. A factor common to all the member states is that the social protection system is highly interlinked with the whole employment system, and changes affecting either one of these systems will have repercussions on the other. Hence the increasing economic dependency rates, as well as the changing demographic landscape in a broader sense, are bound to have major implications for the welfare states in terms of both provision of benefits and services *and* financial sustainability.

Figure 2: Social protection expenditure as percentage of GDP in 2001

Source : Eurostat, ESSPROSS database

Figure 2 shows the difference in social security spending as a percentage of GDP. The variation across Europe is tremendous, with some countries spending twice as much as certain others and the NMS a far lower percentage than the OMS. As such, the problems to be addressed also vary considerably, from being a question of general sustainability to one of finding ways to provide more appropriate benefits and services to the population.

This difference in spending on social protection is reflected in household hardship levels. While in financial terms there is not a big difference in relative poverty levels between the NMS and the OMS, there are huge differences if one looks at the percentage of households that have difficulty in making ends meet. Hence the NMS face an enormous challenge of both building up a welfare state that can ensure more social cohesion, and coping with the change in demography.

Figure 3: Percentage of households having difficulties in making ends meet, 2003

Source: European Foundation for the improvement of Living and Working Conditions (2004) in Benchmarking Working Europe (2005)

Facing the changes in terms of reforming the welfare state

The main challenges for the welfare state may be presumed to lie in the financing and cost containment of adequate pension and health care systems, as well as reforming the entire social security system so as to provide support for all groups and family types in society.

The ageing of the population has implications for the pension system via three channels: people tend to work fewer years (late entry and early exit) and hence contribute less; they live longer; and there will be relatively more people dependent on pensions than today. In anticipation of the impact of the ageing population, most European Union countries have reformed their pension systems over the past 10 years. In some countries, however, major reforms are still to come. By now it is commonly acknowledged that switching from pay-as-you-go financing to funded pensions will not solve the problem of sustainable pensions and that other solutions – or rather combinations of solution – must be found, along the lines of a state guaranteed pension (1st pillar), topped up by an occupational pension system (2nd pillar) and private savings (3rd pillar). This is the type of model – known as the cappuccino model – found in the Scandinavian countries, Great Britain and the Netherlands. In general there is a trend towards more developed 2nd-pillar pensions, and in some cases a downsizing of 1st-pillar pensions. The major pension reforms in the EU during the past 10 years, though varying widely from country to country, have in common the fact that pension benefits are becoming more closely tied to individuals' employment and wage records. Furthermore, in more general terms, the social protection system is also undergoing reforms to convert universal-type benefits into targeted and means-tested measures. Another trend of reforms related to the sustainability of pension systems is that of retaining older workers on the labour market

and moving towards more progressive retirement solutions, thereby ensuring that workers both contribute for a longer period to the pension system and draw on the social protection system for a shorter period.

While these changes seem to work effectively in some countries, they appear to have more worrisome effects in others, mainly due to the crisis on labour markets and the minimal safety net provided by the state. This raises major concerns, especially with regard to income preservation and service provision both in old age and among working families.

Another aspect with regard to which the social protection system has a proactive role to play is in relation to the demographic landscape, not by interfering in the individual choice to have babies or not but rather by providing assistance for men and women in the task of reconciling their private and professional lives. The main thrust of this argument pertains to the fact that not only are fertility rates at a worrisome low in the new member states, Southern Europe, and parts of the continental European countries, e.g. Germany, but the female participation rate is *also* very low in most of the same countries. This is to a large extent due to the fact that, although across Europe over the past 30 years married women, in particular, have increased their labour supply, the measures needed to enable families to combine work and family responsibilities have been developed to an uneven extent in the different countries. Currently gainful employment has become the norm for women, and the choice to have children or not has become dependent on the quality of the job (in terms of employment security and income) and on whether there are possibilities to combine work and children, as well as caring for parents. In other words, the choice for women today is whether to have jobs and careers with children or without children. Accordingly, providing women (and especially young women!) with a perspective on the ability to reconcile family and work, and the ability to share this responsibility with their male partners and society, gearing welfare systems towards the changing realities of families and the labour market, combined with an emphasis on high-quality employment for women in terms of contractual relationships and wages, are key in facing demographic change. Women have an interest in promoting change, in order for reality to take better account of their specific situation, but also so as to encourage men to take advantage of opportunities to play a full part in family responsibilities. The social security system must play a key role in providing universal, affordable childcare and must also foresee the provision of affordable, high-quality elderly care. Parental leave provisions should also be strengthened and shared between the parents. Furthermore, social protection systems based on the male-breadwinner model should be reformed to take full account of the role played by women in the economy; family derived rights in social protection and taxation systems should be abolished and compensatory measures for unpaid care work introduced. The Scandinavian countries have implemented these principles and have high female employment rates and relatively high fertility rates, while the Southern European countries, and also Germany, which have maintained the principle that families (read women) are the main providers of care, today experience low fertility rates and low female employment rates. These measures should be viewed as an investment rather than a cost to society, as they will allow women to become a fully fledged component of the labour market, entailing also the payment of taxes on their wages. Gösta Esping-Andersen has made this computation for Denmark and found that the State receives more tax revenue when, by ensuring childcare availability, it allows women with very young children to participate in the labour market.

Conclusions

Facing up to the demographic challenge may be an opportunity to review and adapt welfare states as we know them today, but it should by no means be used purely as an excuse for an exercise in cost-cutting. Social expenditure should be perceived as an investment in the current and future workforce, and as an instrument to redistribute the risks that occur within a society.

Trade unions should face this challenge head-on and provide answers with respect to the need to diversify sources for financing the social protection systems and in relation to the adjustments required in order to use and support the full potential for employment of all groups in society, e.g. women and older workers, as well as to guarantee social cohesion.

As to the question of how to achieve sustainable social protection systems, especially pension systems, there is a general consensus today that shifting the financing from public to private systems is not going to solve the issue. The main focus to be adopted is to ensure that the base for financing the social protection system is enlarged, relying not only on contributions from the workforce but also on direct taxation on other production factors, and profits, while also incorporating sources of indirect taxation.

With regard to the adjustments and improvements of the welfare state, there is a need to move towards a system that allows for a life-course perspective, i.e. to break down sharp barriers between education, work, and retirement, in order to use the full potential of the working-age population and allow for negotiated and protected individual choices on the labour market.

Questions

Many questions and issues can be raised with regard to an issue as broad as “demographic change and the future of the welfare states in Europe”. Some of the more important, linked to the issues raised in this document, can be grouped under five headings:

Social protection as an investment

To what extent will high employment rates and economic growth provide security for the population and to what extent will more pro-active measures with regard to provision of security to the population enable high employment rates and economic growth to be achieved? To what extent can social provisions be perceived and promoted as an investment rather than as a burden or cost?

Sustainable finances

- a) Mobilising new financing sources: What mix of financing sources is suitable for social protection? To what extent can alternative funding sources be mobilised e.g. taxation of capital, green taxes, general taxation? To what extent can special “grey” funds alleviate the problem?
- b) Mobilising the workforce: to what extent can we expect workers to remain longer in the labour market and under what circumstances? In order to counter the increasing dependency rates, is it enough to improve mobilisation of the existing population – youth, women, older persons, immigrants – or should more proactive instruments be put in place, via the welfare state, in order to encourage higher fertility rates and immigration? How can trade unions be prepared for the shrinkage in the workforce and hence the demand to increase the labour supply that is likely to become a reality within 10 years?

Pension provisions

How should the trade unions react to the stronger demands for individuals to carry the pension risk instead of the state? How can trade unions work towards a universal state-guaranteed minimum pension income financed by means of public taxation? How and at what level (European, national, sectoral, enterprise) can trade unions best defend their case to ensure that pension provisions relate to earned wages? How can trade unions best protect the rights and hence deferred wages of workers under the second-pillar system?

Reconciling work and private life

How can we ensure that the “new” needs – e.g. childcare, elderly care – in society will be met, given the continuing budgetary constraints? How can the demographic changes be used to increase gender equality? To what extent can trade unions contribute to the abolition of family-derived rights in the social protection and tax systems? How can trade unions play an active role in ensuring work-life-friendly workplaces and a general change in attitudes towards the combination of child-rearing and paid employment?

Individualisation/targeting of social provisions

How, in the light of the move towards more individualisation and targeting of resources, can trade unions remain defenders of social security systems and continue to conduct bargaining? How can the trade union movement continue to ensure that social protection remains an instrument of solidarity for the benefit of the population at large and not for its marginalised section alone? What level of intervention and negotiation is most appropriate in view of the highly divergent systems not only between countries but also between different groups of workers within countries? How can we make sure that all groups in society are deriving benefits from the increase in life expectancy?

Further reading:

CES (2005) « Face au changements démographiques, une nouvelles solidarité entre générations. Contribution de la CES au débat lancé par le livre vert » comité exécutif, Bruxelles, les 14 & 15 Juin 2005

Commission of the European Communities (2005): Communication from the Commission on Green Paper “Confronting demographic change : a new solidarity between the generations”, COM(2005) 94 final.

Esping-Andersen, G. (2004): Indicators and Social Accounting for 21st Century Social Policy, paper presented at the OECD World Forum on Key Indicators Palermo, 10-13 November 2004.

Jepsen, M. and Hutsebaut, M. (eds.) (2002) : A lifelong strategy for active ageing, ETUI, Brussels.

UNECE, UNFPA (2005): The new demographic regime. Population challenges and policy responses, United Nations, Geneva