Oldies' productivity

That continental European countries' age pyramid is rapidly becoming top heavy is a cause of considerable concern for policymakers; aging populations are an increasing burden on state budgets which pay not just their pensions but also their health and welfare services. With constantly increasing life expectancy and declining birthrates, the problem can only worsen unless significant action is taken. Nor are the prospects any better: Europe's birthrates are well below replacement levels and falling. In Spain and Italy they are now near the level when the population will halve in a single generation.

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Such demographic changes imply a sharp rise in the "dependency burden," the number of active persons paying for the inactive, especially the retired—from 4:1 in 1963 to nearly 2:1 today—and a decline in potential economic growth by as much as half or more from the current 2.5% since an aging population has a negative impact on productivity. The overall result could be a fall in the European Union's (EU's) share of "world gross product" from the current 18% to 10% by 2050.

Tight national budgetary situations are compounded by individuals spending more time up front on education and training, still paid for mainly by the state rather than the individual, and by more early retirements. Naturally, in knowledge societies where "human capital" is the key factor, more education is important for longer-term productivity. However, the early retirements clearly are not, especially when the state foots the bill to smooth labor market restructuring as a growing number of European companies, because of past "benign" industrial policies, have had to adapt to greater regional and global competition.

Since the taxpayer must pay for these policies, the youth are increasingly being asked to work for the leisure of the elderly without knowing whether there will be a sufficient number of workers to pay for their own retirement. In this respect, Europe is at a disadvantage when compared with the USA: in populations of roughly the same size, for every three Europeans aged between 25 and 34 there are four Americans (Developing Business Leaders for 2010 Conference Board). Options for tackling this problem—and there is no single policy solution—all demonstrate the essence of positive productivity development and the need to combine changes not just in knowledge and skills but also in attitudes. To resist significant change is clearly not an option; hard choices have to be made from "least bad" alternatives. This is particularly so in the case of the EU which will have 100 million "new" Europeans in 2004, most of whom are elderly. This raises a first policy option: importing significant numbers of migrant workers to make up for the shortfalls in labor.

Just outside the boundaries of the EU there are vast sources of skilled labor. Already nearly one-tenth of Portugal's current workforce is made up of migrants from Russia and Ukraine. Indeed, the government's 2002 productivity program sees a significant national productivity potential in making much greater use of their skills as they are often graduates who work as unskilled laborers. However, post-9/11, the migrant option lost its appeal.

What about lengthening working life? There are some signs of this happening. After years of declining retirement age, northern Europe is increasing retirement flexibility to between 63 and 68 years. Although obstacles to using the skills of pensioners are being reviewed, the voice of vested interests in favor of their maintenance remains loud as working pensioners are seen as taking jobs away from the unemployed. Some national programs have been launched, like in Finland, to highlight good corporate practice in the productive use of older workers, such as more flexible working practices and reduced work intensity. However, even broad actions can only make marginal differences. Of much greater significance is the reform of pension systems which, however, goes beyond any productivity remit.

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Efforts must be intensified to raise the productivity of the existing workforce, particularly in those areas least subject to competition. In this respect, Europe, seeing competition as the driving force of productivity, is continuing to open up to competition vast areas of what were previously public services, with railway freight transportation currently in the news. Private industry and services are subjected to the continuing pressures of competition within the European market (exports to countries outside the EU account for no more than 15% of their GNP). In addition, national governments are starting to tackle two major obstacles to increased corporate productivity.

The first is costs, particularly the indirect labor costs levied by the state on companies to provide welfare. European governments have been proclaiming for the past decade (when pressure to do so started to be exerted by the European Commission) that these costs really are being reduced. But with no abatement in the rising bur-

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den of welfare, notably pensions, there has been little positive effect. The nations' vested interests that oppose real productivity-enhancing actions—particularly in the "non-private" sectors—have dug their heels in. Indeed, a major challenge for the present decade is for the nations to raise the productivity of their healthcare, pension, security, and educational systems.

The second obstacle is bureaucracy. Over the past half century, Europe has heaped regulations upon regulations so that there are often no rapid and short-cut approaches to change. Latent enterprise is dulled as regulations and tax burdens do not encourage individuals to develop this initiative. One of the many results of bureaucracy has been a growing "unofficial" labor market. This is bad, not least since those concerned pay no income tax. And when change is proposed it is less than enthusiastically embraced and its implementation often sabotaged by (again) vested interests.

Nevertheless, there is some hope that "old Europe" will not succumb and go into permanent decline under population imbalances. However, much depends on resolute government, not a phenomenon for which politicians are renowned.

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