

»Successfully tackling demographic challenges«

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Introduction

Demographic change, whether in Germany, Europe or world-wide, is one of the mega issues on the sustainability agenda – a matter of serious concern for policy makers, business and society. As a network of multinational German businesses, econsense has therefore looked in detail at this issue and set up an internal working group. The member companies have begun to discuss the tasks which face them as part of a joint process looking at the specific challenges facing the individual companies, and the approaches being taken, as well as the crucial political and social strategies. econsense will continue this process which also supports the exchange of best practice and evaluations.

We present a working paper as a living document at the 2006 annual meeting. It reflects the current status of the discussions which have been held to date. Demographic change has far-reaching consequences and demands the implementation of measures at several levels. The exchanges which take place within the econsense platform reflect this complexity: not all of the findings and not all of the recommendations of the working paper are therefore shared in the same way by all of the companies.

An intense strategic process of analysis and evaluation of the demographic issues is also taking place in the companies themselves and has given rise to a wide spectrum of approaches to the problem.

The challenge of demographic change – a business perspective

Changes in population are one of the most important long-term location factors for any country. It makes a big difference whether a population is increasing or decreasing, is primarily young or old. Germany is facing a particularly serious challenge in this context. In the absence of large numbers of immigrants, its population is decreasing rapidly, and the proportion of old people will grow rapidly with or without immigration. The rise in the average age of the working population in particular could cause a serious decline in the attraction of Germany as a future business location compared to countries with much younger working populations.

The demographic structure of a country is an important benchmark of its future viability. Germany's future will not look very rosy if the demographic trends recognisable in its population continue on their present course. Germany's inhabitants live demographically at the expense of future generations, and therefore at the expense of the future:

- The rise in national debt and the pay-as-you-go financed social security systems – which themselves represent a type of crypto-national debt – merely saddle future generations with burdens which today's working population is not prepared to shoulder itself.
- A large proportion of Germany's infrastructure is still designed to cater to an expanding young population. The expensive reorientation of the infrastructure-needs of a shrinking and ageing population is also simply shifted in many cases to the subsequent generation.
- There are still hundreds of thousands of migrants living in Germany who are barely or completely unintegrated within Germany society. This is a high risk situation because the longer it lasts the higher the economic and social costs. The problem is well known. But there is still no sign of any adequate response to compensate for the decades of inaction.

- And most seriously, the subsequent generation is inadequately prepared to take on this burden. Its education standards are stagnating. Germany invests less in education, research and development than many other classic industrial countries.

The demographic change will exacerbate these problems. At stake here are not only Germany's quality as a business location and improvements in prosperity, but also social cohesion. Finding solutions to the problems arising from demographic change must be given a high priority if Germany is to continue to be an attractive business location with a future-proof society.

Politics, business and society overall must jointly tackle this issue. This requires a sea change in people's viewpoints and behaviour. It is absolutely vital that we grasp and acknowledge that the demographic frameworks which existed in the past are no longer tenable. This does not merely change just one or two aspects, it affects almost all economic and social structures across the board.

This places a particular burden of responsibility on the globally active companies committed to promoting sustainable development and allied under the econsense umbrella. Tackling demographic change is one of society's most important sustainability tasks. It is crucial in this context to assess Germany against the background of global developments. In our view, demographically sustainable means restoring the equilibrium between the interests and needs of today's industry and society, and those of subsequent generations. A particularly urgent issue here is stripping the future of those burdens which could and should be borne by today's active stakeholders.

We have a contribution to make here. This not only includes remaining innovative and productive in the coming years and decades with a rapidly ageing workforce, but also increasingly adapting the range of goods and services on offer to cater more strongly to the interests and needs of old and very old people – businesses have already implemented numerous measures in this respect. By raising the awareness of the general public, we also wish to help to drive forward the necessary objective and subjective adjustments required in all areas of business and society.

We depend here on a legislature and society which play their role in the change process to ensure that there continues to be a basis for productivity. Demographic change is inevitable, but its impact can be ameliorated, and in particular, it forces business, policy makers and society to tackle with dedication and commitment the problems which they have too long ignored. The measures which have been implemented so far are inadequate. Although we still have room for manoeuvre, the window of opportunity is closing at an increasingly fast rate.

We want to play an active part in the debate on tackling demographic change, both in our own economic interests, and as corporate citizens. Analyses and recommendations are not intended to be new, perfect or uncontroversial, our aim here is to highlight that we all stand at the start of a long journey – despite the measures already initiated – whose aim is to solve the problems associated with demographic change. We are also confident that this change of course will succeed if we tackle it rigorously without further delay.

The impact of demographic change

Opportunities and risks from antithetic population trends

The world is undergoing a period of demographic change without parallel in its history. The average age of the global population is increasing steeply – and the previous continuous rise in the global population may actually come to a standstill for the first time in the second half of this century. The countries which industrialised early on are the first to undergo this change, with Germany in pole position. Assuming future net migration of 200,000 people per year, the population in Germany will shrink by a tenth by 2050 from today's 82.4 million to 75 million (this may be a conservative estimate because the 11th population forecast recently issued by the German Statistics Office predicts an even stronger decline because its assumptions include a smaller number of net immigrants!). Half of these 75 million inhabitants will probably be older than 49; more than a third older than 59, and an eighth older than 79. In absolute terms, this means more than 28 million over 59-year-olds and well over 9 million over 79-year-olds.

The scenario in most non-European regions is different, with population numbers forecast to continue to rise, at least initially. The global population is forecast to grow by almost three billion people by 2050, representing a tripling of the global population within a lifetime – from 1960 to 2050. At the same time, there is also a continuous global reduction in the number of countries with a surplus birth-rate or birth-rates maintaining stable population numbers – which may lead to a global decline in population numbers in the second half of the century.

An increase in migration flows here will ameliorate the otherwise larger quantitative and age-structural differences resulting from these demographic changes. People will move more than ever into zones with attractive living and economic conditions as a consequence of the increasingly open national borders, and assisted by greater mobility and the intense global exchange of information. These attractive zones include Germany and Europe: their future demographic developments will therefore be strongly influenced in future by migration trends.

With the considerable shrinkage in the populations in Europe and Japan, and a few other regions on the one hand, and the initial continuation in population growth particularly in Asia, Africa, and to a lesser extent in South America on the other hand, we see an effective end to the former congruity of global population trends: in the past, population figures have tended to grow throughout the world, and up to only a few generations ago, the age structures were very similar although not identical. A different regime will dominate in future: population numbers are developing antithetically on a regional basis. This also means that initially only the populations which are continuing to expand will have large proportions of children and young people. Old people will now begin to dominate in those countries whose populations are shrinking.

Every aspect which is influenced by the quantitative and age-structural development in populations – society, business, culture and a great deal more – will therefore be affected by different trends in the coming decades depending on the specific region. Whilst most countries still confront the opportunities and risks of a quantitatively expanding and overall relatively young population, a minority will have to face the pros and cons of shrinking and ageing populations. This – temporary – period of completely opposing trends in demographic change has never been experienced before in the course of human history. We cannot fall back on empirical data. It is, however, thought likely that the ageing of the populations in the early-industrialised countries will tend to make it more difficult to solve the problems associated with structural change and globalisation.

Decreasing demographic strength of classic industrial countries

The deeply ingrained certainty and reliance of Germans and Europeans on the notion that each succeeding generation will have greater strength and resilience than the current active generation because of their greater numbers is no longer viable. The achievement potential of European societies built up to date will only be sustainable if the productivity of the economies in Germany and Europe can be boosted to levels which far exceed anything previously achieved.

Failure to do so – in other words, if the achievement potential of our industrial countries declines compared to others for demographic reasons – will only serve to exacerbate home-made problems such as inadequate investment in the public sector, as well as in part also in the private sector, explicit public debts, and promises made by the government to fund future services as integral parts of the social security systems, which all impair the room for manoeuvre of younger generations.

Shortage of qualified staff

Even though the long and steady rise in life expectancy has no direct impact any more on the age structure of our working populations (the increased life expectancy now lies well beyond the pensionable age) the consequences of a birth rate well below replacement level include a continuous marked increase in the average age of the workforce because of the continuous increase in the number of older employees compared to the younger members of the workforce. One of the special demographic challenges facing Germany is the baby boomer generation involving the very large number of people born in the 1950s and 1960s. As members of the workforce, they are largely responsible for the increase in the average age of the working population. As a result, companies will have to face a continuous rise in the number of older employees in the next years and decades.

In Germany, the absolute and relatively strongest group in the workforce in 2005 was the 40 to 44-year-olds in the working population. In 2010, it will be the 45 to 49-year-olds, and ten years later, the 50 to 54-year-olds. In absolute terms, this period of fifteen years will see the number of up to 44-year-old working population shrink by around three million, whilst the number of over 45-year-olds expands by roughly the same figure.

But the workforce is not only experiencing a rapid rise in its average age: there is also a gradual quantitative decline. It is difficult to forecast the speed with which this decline will progress because it not only depends on the age structure of a population but also on other factors such as general willingness to work – specifically of women and older people – and future migration trends. The forecasts differ depending on the assumptions. The Institut für Arbeitsmarkt- und Berufsforschung (IAB) forecasts that the size of the workforce in Germany will decline by almost 1.4 million by 2020, followed by an additional loss of another 7.7 million between 2021 and 2050 – a shrinkage of around 9 million in total. Without an increase in the willingness to work and net migration, this decline is forecast to be as high as 18 million – corresponding to around 40 % of the current working population.

The world-wide trend is in the opposite direction: the global workforce is currently increasing by around 40 million per year – roughly corresponding to the current size of the workforce in Germany. And in the foreseeable future, the general population trends mean that the annual growth in the workforce will rise to 60 million and well beyond. Increases of this order of magnitude will no longer be absorbable by the job markets in emerging economies – even assuming the most optimistic growth scenarios. The International Labour Organisation (ILO) has therefore raised concerns about an “employment crisis of enormous dimensions”. High levels of unemployment amongst young adults can also

affect the stability of these societies. And strong migration pressures can also harm the stability of neighbouring countries and international relations.

If migration and integration can be successfully tackled there should actually be no shortages of labour internationally, and purely numerically, for many decades, given the assumed migration movements and the probable shifts in production capacity. A critical factor, however, is the nature and scope of qualifications: although the qualifications of the workforce are rising markedly world-wide, it is often failing to keep pace with the higher and ever increasing demands of the job market in early-industrialised countries in particular. This is why there may be a painful shortage of qualified labour in these countries, and globally – a situation which is then exacerbated by the ageing of the working population. This may force companies to increasingly take demographic aspects into account when reaching their location and investment decisions.

Uncertain growth dynamism

Even when it is sometimes not possible to clearly differentiate cause and effect – population rises and economic growth have usually gone hand-in-hand in the past. This would support the idea on the one hand, that a regional population decline against the background of global population expansion could be a factor in the build-up of differential growth dynamism. On the other hand, the early-industrialised countries experienced their strongest surges in growth at a time when their quantitative population development had already largely reached a plateau. However, it should not be forgotten that there were considerable structural shifts at the time in the developing industrial societies away from agriculture and into the more highly productive industrial segments. It remains to be seen whether the labour-saving production techniques of knowledge and capital-based economies will continue to feed their growth dynamism, and the extent to which these factors can compensate for a shrinking population and a potential decline in domestic demand.

It is also uncertain whether the productivity of knowledge societies will continue to develop positively in the face of an ageing population – because populations with such high ages are unprecedented. Empirical knowledge in this case is replaced by plausible assumptions. The analysis of the productivity of ageing populations is therefore an important field of research. Despite improved physical performance, better health, and last but not least, a new self image of what it means to be “older”, it is still generally true that older people shy away from stress and are more security-conscious than younger people – and this should therefore also apply to older populations. Overall then there is a reduction in the willingness to change individually and collectively. Economic growth, and particularly the essential innovations required to drive this growth, depend on change by definition. Ground breaking innovations are empirically made by younger people. The same applies to company start-ups. The 25 to 44-year-olds are the most active start-up entrepreneurs in all early-industrialised countries. Innovation and start-up activity will therefore also decline hand-in-hand with the quantitative decrease in younger people.

These and similar considerations support the conclusion that growth dynamism in numerous early-industrialised countries, including Germany, will decline. Not only because of the long-term slide in population numbers, but also because of the age-related changes in attitude and behaviour.

This is naturally only a generalisation. Different sectors and segments of the economy will develop in completely different ways in a society with a decreasing and rapidly ageing population. One of the most exciting questions is how consumerist the ageing population will prove to be, because this social group will also have a large class of “New Old” with strong spending power. Although on the one hand there are material needs which will

increasingly already have been fulfilled as people grow older, supply and demand will itself adjust to the changing conditions, and new markets will emerge. The most important trend by far here is the move from goods production to services – the already established shift in this direction will therefore be given further impetus. The demand for material goods will continue to remain high in the markets outside the early-industrialised countries, even though the development of the service sector will proceed at a faster pace here than experienced in the early-industrialised countries. This makes it very attractive for companies to shift production into these regions to position themselves even more strongly in the future in these expanding markets. This could also diminish the economic dynamism of the early-industrialised countries.

Growing influence of the state

If social security continues to be largely organised by the state, as in Germany and other industrial countries, it will increase in significance in parallel to the growing proportions of older citizens. This is because more older people also means a larger number of sick people and people in need of care. The public sector in Germany currently spends on average around Euro 11,000 per year on under 20-year-olds, Euro 8,000 on 20-59-year-olds, and more than Euro 21,000 on over 59-year-olds, and the last figure increases significantly with increasing age.

Maintaining the status quo of the established social structures in a society with an ageing population will therefore lead to an expansion in state activity. The proportion funded by the state increases, with a knock-on effect on the amount of taxation. Whether we like it or not, the relationship between citizens and the state will shift at the expense of the citizens: their room for manoeuvre will therefore shrink. Their dependence on the state will grow. This in turn can have a knock-on effect on how democracy is experienced. The democratic control of state actions will become more difficult.

This trend will be exacerbated by the growing security sought by an ageing population. The social goals of improving living conditions and environmental conditions are at risk of being pushed aside in such populations in favour of achieving the highest possible security in all of the areas affecting people's lives. The relative weighting of "freedom" and "security" could shift further in the direction of "security".

Social security systems at risk of erosion

Demographic change puts pressure on the whole social security system. Pay-as-you-go financed social security systems react particularly sensitively to demographic change. This is particularly true if funding is raised via the work factor: the rise in the percentage of old people increases costs whilst the simultaneous decline in the young proportion of the population diminishes the revenues. The rift that this opens up weakens the ability of such systems to function properly, and ultimately leads to the complete erosion of their financial basis.

A probable consequence of this is a weakening of the social cement, in particular the solidarity between the generations, because this solidarity is fundamentally based on an acceptable distribution of the burdens. This spread of the burden between the generations is at risk of serious disruption by the demographic changes taking place in Germany. There is a growing danger that the structures of the social security systems will cause the old to live increasingly at the expense of the young and therefore unfairly restrict their room for manoeuvre. The sustainability gap – in other words the sum of open and hidden national debts from the pay-as-you-go financed social security systems – has currently grown to around Euro 8 trillion or around 350 % of the gross domestic product.

Compounding regional differences

Because the population is not ageing everywhere at the same speed and with the same degree of intensity, considerable structural differences can already be observed even within relatively small areas such as Germany. Populations with high proportions of old people live right next door to populations with low percentages. This strengthens existing location disparities as well as creating new ones.

There are increasingly large disparities in economic growth, employment opportunities, training, recreational and cultural opportunities, and a number of other aspects, which themselves influence migration movements. Young people in particular are attracted to the economically prosperous regions – leaving the older people behind. This results in a social as well as a geographical separation between winner and loser regions, which probably acts overall as a brake on prosperity. The previous financial assistance extended to structurally weak regions will probably not guarantee the maintenance of comparable living conditions.

Changes in social structures

The family unit is diminishing in significance in populations with low birth rates such as Germany. Unlike populations with large numbers of children, the family unit is no longer the natural pivotal element of social structures. However, this weakens all social structures which are intrinsically based on the family unit. As a consequence, mutual care and support services are less likely to be handled within the family unit itself. It is replaced by new social structures and the formation of new types of inter-personal living relationships.

Recommendations

Giving a higher priority to tackling demographic change

The antithetic development in populations between almost all industrial countries on the one hand and almost all other countries on the other hand, requires completely different political strategies as a response. Germany and Europe must adapt to quantitative reductions in their populations, increasingly ageing populations, as well as increasing proportions of migrants. Most other countries have to tackle the challenges of continuing population expansion followed by only gradual ageing. Both challenges will mean a huge effort for the affected regions. Unlike in the early-industrialised countries where tackling the problems of demographic ageing will take place against the background of broad-based social security systems and considerable private affluence, the late-industrialised countries still need to build up these systems and this wealth.

The latter countries can, however, benefit from the wealth of experience of the Europeans and learn from their mistakes because their demographic development is roughly analogous to that undergone by Europeans around three generations ago. We in the industrial countries, however, have no population-policy blueprints to fall back on. We are entering completely new territory. This does, however, mean that the strategies which we are now developing could form the basis for global action within a few generations. This increases our responsibility and motivates us to find good solutions. Globally active companies can play a particularly important part in the global implementation of the developing strategies.

The population-policy strategies developed by Germans and Europeans so far are no cause for celebration – the challenges arising from a shrinking and ageing population have not yet been adequately tackled. Even if some of the measures

Areas of corporate responsibility – for example:

- Raising the awareness of management, employees and employee representatives for demographic change
- Raising awareness in industry committees and at a local authority, regional and national level for the challenges brought about by demographic change, particularly its impact on Germany as a business location

which have been implemented will only come into full effect in the coming years or decades, it is already possible to say that they are inadequate to solve the foreseeable changes. And some areas where action is required have not even been looked at yet. Many of the windows of opportunity for achieving transitions with the minimum amount of disruption will close within only a few years. Adjustment will then become increasingly difficult. Politics, business and society therefore urgently need to give population policy overall a much higher priority.

New mind-set required

Although large parts of the population in Germany and Europe are already aware that their numbers will shrink in the medium term, and that there will be a strong increase in the proportion of old people, not to mention more ethnic heterogeneity, their actions are still only influenced to a minor degree by this information. Many are still living under the treacherous illusion that they themselves will be either unaffected or only marginally affected by the imminent changes, and that a solution will be found when the time comes. In the light of this mind-set it is difficult to formulate and implement effective policy which responds adequately to the challenges.

Populations develop at a generation time scale, whilst politics and business generally have to focus their decision making on much shorter time horizons. A large proportion of social action in early-industrialised countries is characterised by an overemphasis on short-term interests and needs which ignore long-term requirements and demands. Because population change falls into the long-term category, it languishes at the back of the queue. It is almost impossible to tackle population issues adequately as long as there is no balanced relationship between short-term and long-term interests and needs.

We need a new paradigm, a new mind-set. This in turn requires educating the population comprehensively and subjectively on this issue – a task involving all of the stakeholders: policy makers, science, business, trade unions, churches, media, etc. The social leaders must immediately initiate a sober cross-party debate on how Germany and Europe are to successfully tackle demographic change. Part of this process involves clearly emphasising to interest groups and the inhabitants that this will be impossible to achieve without sacrificing dearly held vested interests, or cut-backs in the social security safety net. No one should be allowed to shirk this responsibility any longer. This education campaign includes getting across the message that the conditions we are used to cannot be maintained and that specific effects of demographic change can only be ameliorated at best but not completely avoided. The national pension scheme in Germany for instance exaggeratedly implied that people could and would reliably secure their pensions on the basis of their pension contributions alone. Most people are unaware that these pensions depend entirely on measures which are either implemented outside of this system, or not implemented at all, as the case may be. If the present working population were aware of how extremely dependent they will be as pensioners on the then working population, they would probably not only ensure that there were adequate numbers of workers to support them, but also that they would receive the best possible education and training, and be equipped with state-of-the-art equipment, infrastructure and facilities etc.

Areas of corporate responsibility – for example:

- Make allowance for demographic factors in human resource planning, investment and acquisition decisions
- Prepare regular demographic analysis of the age structure of the workforce
- Expand corporate planning horizons to incorporate demographically relevant time periods
- Recognise demographic-oriented corporate policy as a competitive advantage

In addition to politicians, companies also have a responsibility to bring about this change in mind-set. It may be possible for globally active companies in particular to fend off for a while the consequences of demographic change in early-industrialised countries – although they would surely jeopardise their identity and their roots if they did so. However,

they will not be able to tear themselves free from these developments in the long term, wherever they have set up business. They should therefore already make allowance for demographic factors in their human resource planning, as well as in their investment and acquisition decisions.

Those who pursue this strategy with the greatest rigour could enjoy considerable competitive advantages as a result. They would also emphasise the opportunities associated with these demographic changes. They could demonstrate how, thanks to their even more effective utilisation of knowledge and capital, they can remain innovative and productive, and therefore globally competitive, despite a strongly ageing workforce. Companies play an important part in solving the challenges of demographic change. To fulfil this role as efficiently as possible, they depend on supportive frameworks and incentive structures adopted by the legislature. In the face of the global competition for business locations, they will make their future decisions to invest in Germany dependent on factors including whether politicians and the general public are responding adequately to the need for change.

Think European – Seeing the large-scale regional relationships of population change

There are certainly differences in the demographic changes affecting individual EU member countries, and they are also confronted by different migration requirements and problems. The nation states will naturally use their own autonomous means of regulating these issues individually. But because the population as a whole within the European Union, and across Europe generally, is undergoing similar developments, and because there is an increase in freedom of movement and mobility within this zone, purely national approaches lose their prudence and effectivity. Despite the continued existence of language and cultural barriers, people will still increasingly move to those areas where they see more promising living and economic conditions.

Demographic issues will therefore increasingly become location issues, and vice versa the quality of a location will influence the development of its local population. Because these interrelationships do not stop at national boundaries, it is now more important than ever to consider European population development as a whole. If not, even the greatest national commitment will ultimately prove worthless because they could be swamped or even thwarted by developments at a European level.

This also applies to global developments. Germany and Europe will be joined by others experiencing the same downward population trends. We can already observe the countries around the Mediterranean tackling the challenges of global migration movements. This means that Germany and Europe must develop a truly viable and future-proof migration and integration policy. The previous approaches have not gone far enough. Europe must make its position clear here as probably the most important

immigration continent in future: one of the European Union's most urgent tasks is implementing a coherent and long-term population policy. And as one of the most seriously affected countries, Germany must play a major role in formulating this policy.

Areas of corporate responsibility – for example:

- Play an active role in integration measures and pass on experience gained from diversity programmes
- Publicly announce its stand against racism and social marginalisation

Define “old” in a new way

Although their life expectancy is rising rapidly, most people stick inflexibly to the images of age painted in times when life expectancies were only half of what they are today. This mind-set highlights more clearly than anything else how little people have individually and collectively taken on board the truth about demographic change and its repercussions to date.

Only a hundred years ago, and even just fifty years ago, people in their 60s, or at the latest in their 70s, had usually reached the limits of their physical and mental powers. And they could often only look forward to a few more years of life. Retirement in today's sense of the word was completely unknown. People mostly worked until they (almost) died. Things have changed dramatically: although people in Europe now enjoy an average life expectancy of 80 years, most of them end the working phases of their lives when they are 60 – regional differences excepted. The Federal Employment Agency even describes people over the age of 44 as “older workers” – who are difficult to place in jobs because of their advanced age. This flies in the face of studies which reveal that many of today's 70-year-olds are physically and mentally just as fit as the 60 and even 50-year-olds in the past.

Neither politics nor industry have allowed this to alter the way they define age limits which bear absolutely no resemblance whatsoever to criteria such as limitations and infirmity. Large proportions of the population have got used to the idea of living on transfer payments for many years despite being fully fit to work. Early retirement schemes co-financed by taxes and social security systems have enabled them to end their working lives prematurely. Because of the inflexibility of the German labour market, many companies have made extensive use of these options. It was considered to be more socio-politically acceptable to reduce the number of older workers instead of having to make younger workers redundant, or not even employ them in the first place. Another factor is that older employees often want to stop working and retire at an earlier date.

The huge jump in the proportion of over 60-year-olds in Germany and Europe urgently requires a serious review of this practice. In a few decades, almost every second adult in Germany will be older than 59. Maintaining this arrangement in the future would mean that one adult half of the population would not only be primarily involved in raising children, but also having to pay for the other half of the adult population – this is neither prudent nor acceptable.

One of the most urgent priorities arising from the demographic changes is a redefinition of “old”. Old cannot and should not in future continue to be defined by having lived a certain number of years, but should only apply to those – as in the past – who have become to infirm to earn their livelihoods themselves and take part in normal social activities. The age at which people reach this point is very individual. People age at different rates. And the differences are set to increase further with the rise in life expectancy. The consequence of this line of thought is naturally not that people in future should have to work until they are forced to stop as a result of infirmity. What it really means is that

today's unprecedented productivity increases enable the working population to economise physically more than ever before. But this also means that the population must know that they have to budget and save in advance precisely because they enjoy very long lives. Saving for pensions plays a fundamentally different role in a strongly ageing population than in populations in which people only have short life expectancies. People in early-industrialised countries are going to have to get used to this fact increasingly as time goes on – as will the rest of the world a short time later.

Precisely because the ageing process takes place in different forms and at different times, retirement ages must be made as flexible and differentiated as possible. Old employees must also continue to be given the option of retiring early from gainful employment – particularly if their capacities are limited by increasing or changing job demands or qualifications. Nevertheless, it is also necessary to ensure – and this is the major challenge of demographic change for businesses – that employees maintain their capacity and ability to work throughout their working lives. This demands greater awareness of flexibility and private pension arrangements.

Areas of corporate responsibility – for example:

- Develop and maintain an age-oriented management style
 - = unbiased assessment of the working capacities of older and younger employees
 - = promoting dialogue between older and younger employees
- Equalise lifetime working hours accounts
- Gradual transition to retirement
- Increase long-term time sovereignty

A changed understanding and definition of “old” opens up gradual transitions between the different phases of people’s lives. Instead of rigid boundaries with abrupt changes, it opens up the parallel existence of different seasons of life. People will no longer have to compress the chapters of their lives into brief intense periods: partnerships, children, careers. Their long lives enable them to spread their

lifetime achievements over a period of half a century rather than just 20 to 30 years. This demands sustainable, mutually integrated changes in corporate structures and social security systems. One option amongst many others is giving employees greater time sovereignty with more long-term oriented positive time balances or even lifetime working hours accounts. The first moves have been made but do not yet go far enough.

Boosting innovation power and productivity

A quantitatively declining and rapidly ageing population, like that in Germany, will only be capable of maintaining its level of affluence, and bearing the large burdens forced upon it by public sector debt, social security systems and increasing international obligations, if it further boosts its innovative strength and productivity. More intense efforts should be undertaken to ensure that this succeeds.

This is also forced by increasing global competition. As a high-tech, high wage economy, Germany will only be able to maintain its position if it continues to boast well above average innovation and productivity. This requires people with the best possible qualifications, and greater creation of real capital. Politics, business and society all have a vital part to play here.

Using labour better

Labour has only been used inadequately in Germany for many years now. This particularly concerns labour with a migration background, women and older workers.

As demonstrated by the employment figures, people in these categories are much more poorly integrated within the job market in Germany than in numerous comparable countries.

Although the reasons are many, the crucial factors are often social and corporate structures, as well as outdated social attitudes and opinions. All of these factors contributed to the failure over many years to integrate migrants thoroughly and comprehensively into society and the job market. Work has only now begun on making a greater number of opportunities available to old and new migrants to learn the language and acquire training. It still continues to be difficult for women to achieve a reasonable work-life balance – combining a career with raising a family is still difficult. It is not unusual for older employees to be stigmatised because of their age. Another difficulty is the exaggerated faith in the opportunities made available by the social safety net.

The better use of older members of the workforce will be particularly important in future. The previous practice exercised by many companies of replacing 50 to 55-year-old employees by younger members of staff will soon reach its limits – for demographic reasons. The innovation and productivity increases required in future have to be increasingly achieved by older employees. Neither business nor society have adequately prepared themselves for this requirement so far. Even though there are more and more companies whose own good practise have shown that this can work well!

Business has no choice but to change its definition of “old”. Companies can no longer judge whether something is “old” merely by its age. The crucial factors are knowledge and skills. According to IAB, workers over the age of 54 in ten years time will have a much higher formal level of qualifications – plus all of their accumulated experience – than younger members of the workforce. Companies and employees should ensure in their own interest that this high level continues to be put to good use.

This will only be possible by implementing specific measures to maintain the long-term capacity to work. These primarily include regular changes in jobs to underpin long-term employment flexibility. Further training must also be made more available to older employees – the

Areas of corporate responsibility – for example:

- Expanding preventative health measures and health education
 - = Defining health policy objectives
 - = Ergonomic workplace design
 - = Healthy nutrition in canteens
 - = Expanding health promotion opportunities
- Lifelong learning – independent of age
 - = Regular job changes
 - = Pushing the further education of middle aged and older workers: training in learning skills, further education coaching
 - = Creating incentive structures for further education
 - = Self-learning programmes for home use (e-learning etc.)
- Strengthening knowledge transfer
 - = Using experienced staff strategically as supervisors / mentors
 - = Forming mixed-age teams early on to improve integration between the generations
- Implementing age-oriented working hours
- Developing age-independent salary and job structures
 - = Replacing the seniority principle
 - = Expanding profit sharing, individual performance-related components
- Make working conditions more flexible
 - = family-friendly working hours
 - = company childcare support
 - = Time-off schemes for child raising and care responsibilities

current further education quota for over 49-year-old employees is only half that of 35-49-year-olds. Companies in co-operation with private and public sector training organisations therefore have to face up to the task of developing wide-ranging further education programmes for older members of the workforce, which are tailored to their specific skills and interests. This is also one of the vital innovative services of an ageing working population.

This strategy should be supplemented by an age-oriented working hours policy, age-oriented management measures, and last but not least, age-independent remuneration. One of the reasons for the current high levels of unemployment amongst older members of the workforce are salaries which no longer correspond to their productivity. The seniority principle is particularly marked in Germany compared to other countries.

Policy makers must supplement these measures with a consistent concept for promoting the employment of older people. It remains to be seen whether the “Initiative 50 plus” – which foresees the implementation of dual-salaries and integration grants for older people, and getting rid of early retirement – is the best way. Only when a means of improving the employment of older members of the workforce is in place will it be possible for a measure like the agreed step-by-step rise in official retirement age to 67 years to make a relevant contribution to generational equality.

Note that all of these measures will only be successful if the working population is aware that they also share responsibility throughout their whole working lives for not only maintaining their ability to work, but also upgrading their professional qualifications. This insight does not currently appear to be adequately widespread.

To be able to harness the potential of the female workforce better, more work is required to force ahead measures to improve the means of combining job and family. Industry and society also need to work together closely here: industry, e.g. by increasing its endeavours to establish family-friendly working hours structures; society, e.g. by doing more to set up childcare facilities. The new “Parents grant” (Elterngeld) as a family and employment measure will only be able to achieve the desired effects if it is accompanied by an extensive childcare infrastructure. Because we lack experience with this “Elterngeld” model in Germany, it seems prudent to review its effectiveness after a few years.

Qualifying and motivating youngsters better

Large sections of the up and coming generation, today’s children and youth, are not receiving the qualifications and motivation required in Germany to meet the high demands facing our economy in the increasingly intense global competition. Around one third of the younger generation will probably not be capable of earning a proper livelihood because of their meagre qualifications and inadequate motivation.

The proportion of the workforce without vocational training is higher amongst the under 35-year-olds than the 35 to 49-year-olds. This is significant because it means that unlike the situation in the past, the qualifications of the working population are no longer growing automatically as would be expected, but are declining. This is a consequence of many years of misdirected education policy. The price of this failed policy is paid by industry – which has to increasingly coach school leavers to give them the qualifications they should have got at school – and society overall which suffers serious tangible and intangible losses as a result. The state education system has to bear the main responsibility for this dire situation. One only has to look at the studies to see that investment in education generates high macrosocial and personal returns.

Areas of corporate responsibility – for example:

- Demographically-oriented human resource recruitment, i.e. counteracting shortages in skilled labour early on and endeavouring to achieve a balanced age mix
- Actively participate in modernising vocational training and make as many training positions available as possible
- Co-operate with schools, vocational colleges, universities and applied science universities to increase the application-relevance of school education and vocational training.
- Increase company loyalty by personal career planning and regular staff development meetings

The justified complaints have been around for years: Germany spends much less on education than most early-industrialised countries. The proportion of gross domestic product spent on education is well below the OECD average. We are also suffering from structural problems e.g. too little competition between educational organisations. This trend must be broken if Germany is to maintain its competitiveness in the long term. Training and education,

and teaching people to be independent, take personal responsibility, personal-initiative and commitment to hard work, must again achieve the high status they deserve in Germany.

Controlled migration

Because Germany and Europe require migrants in the future, and these will also increasingly seek this region out, agreement must be reached in the European Union for regulated migration. Although the responsibility and legislative competence of each of the member states on their own is indisputable, it is just as important to consider the EU in its entirety. There will be no way forward without a joint strategy.

Germany lacks a categorical expression of support for a consequent immigration and integration policy: this is a matter which we think needs to be clarified urgently. It is the platform for properly functioning social cohesion. As in every immigration country, care must be taken to ensure that the immigrants are willing and capable of being integrated, and that the legislature creates the appropriate framework. This is one of the main prerequisites for integration within the job market. The employment figure for foreigners in Germany is currently only 80 per cent of the employment figure for Germans. This means that only slightly more than one in two foreigners of working age are actually in gainful employment.

Germany and the European Union need highly qualified and motivated immigrants. The strategy should therefore be to attract the best brains world-wide and to entice highly qualified Germans currently working overseas to return home. Although it is already possible for particularly highly qualified workers to get an immediate permanent residents permit, the barriers are very high: dependent employees must prove that they have an annual income of at least Euro 86,000. The self-employed must put up a starting capital of at least Euro one million. These criteria are very difficult to fulfil.

Areas of corporate responsibility – for example:

- Internationalisation of management
- Deliberate building of culturally mixed teams, promoting inter-cultural skills
- Mentoring programmes to enable employees with long company employment records to assist new immigrants
- Develop integration management systems to optimise the integration of new immigrants within companies, as well as outside the company environment

Create more productive capital

A population which is quantitatively shrinking and rapidly ageing is also more greatly dependent on the creation of real capital to prevent it suffering a significant lowering of its living standards. The absence of “human capital”, i.e. shortage of children, can be partially replaced by this real capital in a highly developed economy such as Germany. The capital that Germans have built up so far is inadequate to ameliorate the economic consequences of the demographic change. This applies particularly to the creation of risk capital which is in short supply in Germany compared to similarly structured countries.

Areas of corporate responsibility – for example:

- Promote the creation of capital by the workforce
- Improve access to risk capital for start-ups and spin-offs

To promote the creation of capital, the social security systems must be converted in part at least to a capital base. The first steps in this direction have already been taken.

They must now be rigorously continued. In addition, the state must stop raking in too high a share of the savings of private households for its own purposes. Why? Because its capital utilisation is often not very productive. The regulations covering the German financial markets must be internationally competitive. It is also essential to raise the awareness of the general public that increasing the creation of capital is one of the answers to the challenges of demographic change.

Aim for balanced public sector budgets

Because there is a tendency for the state to expand continuously in rapidly ageing societies, it is important to implement targeted measures to counteract this trend. Failure to do so could threaten to destabilise the equilibrium between the state and its citizens. One of the most important measures includes containing public sector debt and reducing it in the medium term. Healthy state finances are an indispensable instrument for tackling demographic change. Public sector debts are a burden for young expanding populations – they are a serious threat to shrinking and rapidly ageing populations.

This means that there must be a balance between state revenues and spending. This can only be achieved in the medium term by slashing government spending. A means of achieving this is a further cut back in subsidies. This in turn requires a further restriction in state involvement.

Make social security systems resistant to demographic change

The current social security system in Germany is less suitable than others to withstand the challenges of demographic change. The pay-as-you-go financing on which it is predominantly based makes it extremely sensitive to demographic changes. Capital-funded systems are less sensitive and also have the advantage of raising the capital base and intensity of an economy, and generating higher returns.

It is therefore absolutely essential to convert the system at least in part. What is needed here is a balanced combination of pay-as-you-go financed basic cover via the social security system, and private capital-funded additional social security cover. The medium term target for pensions should be to reduce today’s pay-as-you-go financed proportion of around 80 to 75 per cent, to a maximum of two thirds. The other third should be provided by building up appropriate assets. With respect to medical and care insurance, a capital-based cover outside of the pay-as-you-go financed system should be built up to cover the imminent rise in the number of old people and the associated above average proportion of

the sick and care-dependent in the population. The same applies to company pensions which will become more important in future. Care is also needed here to ensure that this is also capital-funded as largely as possible.

Areas of corporate responsibility – for example:

- Regularly check that company pensions are demographic-proof
- Provide more personal advice on the company models for private pensions

The German version of this paper contains several good practice examples.

