



Council of the
European Union

Brussels, 25 July 2017
(OR. en)

11510/17

SOC 543
EMPL 414
ECOFIN 667
EDUC 318
JEUN 95
FISC 170

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	17 July 2017
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2017) 265 final PART 1/9
Subject:	COMMISSION STAFF WORKING DOCUMENT Employment and Social Developments in Europe 2017 Executive Summary

Delegations will find attached document SWD(2017) 265 final PART 1/9.

Encl.: SWD(2017) 265 final PART 1/9



Brussels, 17.7.2017
SWD(2017) 265 final

PART 1/9

COMMISSION STAFF WORKING DOCUMENT

Employment and Social Developments in Europe 2017

Executive Summary

Executive Summary

This seventh edition of the annual Employment and Social Developments in Europe (ESDE) Review presents a detailed analysis of key employment and social issues and concerns for the European Union and its Member States as they pursue the EU 2020 employment and social goals.

It feeds into the European Semester and the 2017 flagship initiative of the European Pillar of Social Rights ⁽¹⁾. The main findings of ESDE 2017 corroborate the rationale and the objectives of follow-up initiatives of the Pillar, such as the proposal for a 'New Start Initiative to support work-life balance for parents and carers' and the social partner consultations on Access to Social Protection and the revision of the 'Written Statement Directive'. As in previous years, the opening section of the ESDE review provides an overview of the most recent developments, trends and challenges in the employment and social fields. This year's edition focuses on the topic of "**Intergenerational fairness and solidarity in Europe**".

The choice of topic reflects a growing perception that the impact of the crisis, as well as structural changes in the labour market including technological progress, are changing the world of work and may be putting younger generations in the EU today and in the future at a disadvantage relative to older people who are less exposed to these developments. If not addressed, these changes may undermine social cohesion, support for reforms and trust in the economic system and institutions.

At the same time, intensifying demographic change will result in a growing number of older people and a shrinking working age population. This raises important questions about the implications for future economic growth and its sustainability, the fair distribution of the resources it produces between generations and the potential need for corresponding changes in the welfare state which facilitates intergenerational solidarity.

Against this background, while the first chapter provides an overview of recent employment and social trends, dedicated chapters analyse:

Chapter 2 - Intergenerational fairness and solidarity today and challenges ahead

Chapter 3 - Working lives: the foundation of prosperity for all generations;

Chapter 4 - Securing good living standards in retirement also in the future;

⁽¹⁾ <http://ec.europa.eu/european-pillar-social-rights>

Chapter 5 - Fostering intergenerational fairness through social dialogue.

1. MAIN EMPLOYMENT AND SOCIAL DEVELOPMENTS

In 2016 and early 2017, the EU economy continued to perform well despite internal and external challenges. It recorded continued, albeit slightly slower, real GDP growth (1.9 % in the EU and 1.8 % in the euro area in 2016), which was accompanied by further job creation and a continued decrease in unemployment. During the four years of recovery following the recent crisis, economic growth has been moderate but steady. It has mostly been driven by consumption, while investment has so far failed to recover significantly.

Moderate economic growth has been accompanied by relatively strong employment growth

234.2 million

people were in employment in the EU in Q1 2017, the highest number on record

This economic growth has brought about solid net job creation since mid-2013. Employment growth has been strong relative to the pace of GDP growth over the last two years. In the first quarter of

2017, 234.2 million people were in employment in the EU. This relatively strong employment growth is accompanied by a lower expansion of hours worked per person employed.

The relatively strong employment expansion in conjunction with the modest GDP growth has resulted in only subdued productivity growth, with productivity per person having risen by 0.6 % in 2016. Together with the slightly higher but still slow growth in nominal compensation per employee, this led to a modest increase in nominal labour cost.

Labour market participation in the EU continued to increase in 2016, in line with the observed longer-term trend. In 2015 the EU reached a higher rate of participation in the labour market than the US. This was the result principally of older workers delaying their retirement and women's increased labour force participation. Employment demand in the EU also became more dynamic in 2016.

Labour market participation continues to increase...

Consequently, the employment rate in the EU reached its highest value on record in 2016, although the dynamics differed strongly across Member States. As a result of the latest increases, the 75 % employment rate set as the "Europe 2020" target is still achievable, assuming that the recent trend continues. At the same time the crisis and the recovery have changed the structure of employment in the EU, particularly through a shift of employment towards service activities and an increase in part-time jobs, including a rise in involuntary part-time work.

...and, in the light of recent progress, the Europe 2020 employment target is within reach

46%

of the unemployed have been so for more than a year

Despite recent improvements in the labour market, unemployment and very long-term unemployment remain among the most important challenges in the EU. In 2016 the

unemployment rate fell by 0.9 percentage point (pp), the biggest reduction since the beginning of the recovery, and decreased further to 7.8 % of the labour force or around 19.1 million people in May

Despite the recent decline, unemployment remains a key challenge...

2017. However, despite the steady decline since 2014, long-term unemployment still stood at 4 % of the labour force in 2016, almost half of total unemployment. Disparities across Member States remain significant, with unemployment rates and supplementary indicators pointing to substantial remaining slack in some labour markets while tightening is evident in others.

The employment rate of women reached another record high in 2016. Despite this, and although half of the Member States have succeeded in further closing the gap with employment rates for men, the gender employment gap at the EU level remained unchanged, at close to 12 pps. Alongside that, strong gender differences in pay persist across EU Member States.

...as do gender gaps in the labour market.

The labour market situation of young people aged 15 - 24 has continued to improve in 2016; the unemployment rate and the numbers of those who are not in education, employment or training (NEETs) are decreasing and the proportion of young people in employment continues to increase. Developments in education have been encouraging, as higher rates of enrolment stabilise and the 2020 educational attainment goals for reducing early school leaving and more widespread third level education appear within reach. Similarly, older workers' (aged 55 - 64) participation in the labour market continued to increase in 2016.

The labour market situation of youth keeps improving

Clearer signs of a general improvement in the social situation have emerged. Economic growth overall has benefited EU households over the last three years. Disposable household income reached the level of 2008 by 2015 in the EU and in 2016 in the euro area and its growth continued to strengthen in 2016. Higher income from work (wages and profits of the self-employed), supported by the improved labour market conditions, continued to play a key role in strengthening household incomes. Social protection also continued to support income growth, mainly due to increases in old-age pensions and in health-related expenditure.

The social situation is improving with stronger income growth and decreasing albeit still high poverty while inequality is stabilising after recent increases

4.8 million

fewer people at risk of poverty and social exclusion in 2015 than in 2012

The job-rich recovery has helped to reduce significantly the number of people at risk of poverty and social exclusion in the EU, by 4.8 million between 2012 and 2015. Improvements

have mainly been reflected in the decline in severe material deprivation and fewer jobless households. Still the number of people at risk of poverty, at almost 119 million in 2015, remained well above the Europe2020 target. Income inequality stopped rising only in 2015 and around ten Member States registered a notable increase in inequality between 2012 and 2015.

Table 1

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP (annual growth)	3,1	0,4	-4,4	2,1	1,7	-0,5	0,2	1,7	2,2	1,9
Employment										
annual growth	1,9	1,0	-1,7	-0,7	0,1	-0,4	-0,3	1,0	1,1	1,2
number of employed (000)	228891	231217	227227	225679	225990	225127	224542	226770	229239	232092
Employment rate (total, 20-64)	69,8	70,3	69,0	68,6	68,6	68,4	68,4	69,2	70,1	71,1
rate (men, 20-64)	77,6	77,8	75,7	75,1	75,0	74,6	74,3	75,0	75,9	76,9
rate (women, 20-64)	62,1	62,8	62,3	62,1	62,2	62,4	62,6	63,5	64,3	65,3
Labour productivity (annual growth)										
per person employed	1,2	-0,6	-2,7	2,8	1,5	-0,1	0,5	0,7	1,1	0,6
per hour worked	1,0	-0,4	-1,4	3,1	1,4	0,9	1,0	0,6	1,2	0,8
Unemployment										
rate (total, 15-74)	7,2	7,0	9,0	9,6	9,7	10,5	10,9	10,2	9,4	8,5
rate (men, 15-74)	6,6	6,6	9,0	9,7	9,6	10,4	10,8	10,1	9,3	8,4
rate (women, 15-74)	7,9	7,5	8,9	9,6	9,8	10,5	10,9	10,3	9,5	8,7
rate youth (15-24)	15,9	15,9	20,3	21,4	21,7	23,3	23,7	22,2	20,3	18,7
long-term unemployment rate	3,0	2,6	3,0	3,8	4,1	4,6	5,1	5,0	4,5	4,0
very long-term unemployment rate	1,8	1,5	1,5	1,8	2,2	2,5	2,9	3,0	2,8	2,5
number of unemployed (000)	16987	16751	21360	22989	23124	25266	26301	24807	22879	20908
Real Gross Household Disposable income per capita growth	0,0	-0,5	-0,3	-1,0	0,7	0,0	0,3	1,3	1,9	
At-risk-of-poverty or exclusion rate	24,5	23,7	23,3	23,7	24,3	24,7	24,6	24,4	23,7	
Inequality: GINI coefficient of disposable income	30,6	30,9	30,5	30,5	30,8	30,5	30,5	30,9	31,0	

Source: Eurostat

[Click here to download table.](#)

2. INTERGENERATIONAL FAIRNESS AND SOLIDARITY TODAY AND CHALLENGES AHEAD

Considerations of intergenerational fairness underlie a long-standing implicit societal contract under which every generation during its prime age has a responsibility to provide for both the elderly and the young. In addition, there is a certain expectation that every generation will provide its successors with an improved starting position.

Steady improvements in living standards underpinned the acceptance of the intergenerational social contract...

Decades of economic growth have indeed brought steady improvements in living standards in the EU. However, there are increasing concerns that today's young people and their children may end up worse off than their parents. These concerns are linked to long-term demographic as well as economic trends and technological change, which have been compounded by more acute crisis-related challenges. This underlines the importance of policy efforts to improve the collective prospects of society.

...but structural changes and the legacy of the crisis are giving rise to concerns

Over the past decade, the income position of older people has improved when compared with the total population in the EU. Data from several Member States suggest that this is in line with a longer-term trend. However, the more recent improvement in the income position of older people was to a large extent relative: working age adults (and indirectly their children) experienced a stagnation of incomes during the crisis years. In contrast, old age pensions were relatively well protected during the recession. The economic recovery may thus bring renewed opportunities for greater income growth among the younger age groups while potentially also benefiting older people in Member States where old age poverty remains a challenge.

The income situation of older people has improved relative to the total population...

There has been a gradual shift in the patterns of age-related social protection spending since the 2000s, which is not fully explained by the effect of changes in the size of age groups. Old age pensions and healthcare constitute a growing proportion of social expenditure, while the proportion devoted to family and unemployment benefits, which benefit younger age groups more, has tended to decrease. Even if young adults and children in multigenerational households have been (indirect) co-beneficiaries of old age pensions, particularly in certain Southern European countries, this raises questions about intergenerational fairness. Improving the fairness and efficiency of tax systems can also play a role in supporting intergenerational fairness.

...and there has been a shift in social protection spending benefiting the old

13 %
expected decline in the EU
working age population by
2060

Looking forward, population ageing has the potential to change the relative situation of generations significantly and poses major challenges to intergenerational fairness,

A shrinking work force due to population ageing is set to dampen economic growth...

unless policy measures are taken to counterbalance some of these effects. Updated demographic projections for the EU until 2060 show that the working-age population (aged 20 - 64) is expected to decline by an average annual rate of 0.3 %, while the number of people aged 65 and older is projected to increase by 1 % annually. These EU level figures hide considerable differences among Member

States. Some will be under more pressure than others. With a broadly unchanged total population but more older people and fewer younger people in all Member States, it will be more difficult to distribute societal income fairly, given that society's income (GDP) depends on the size of the population producing it and its productivity.

Given projected demographic trends, productivity growth will become the EU's main source of economic expansion in the long run. If productivity growth failed to compensate for the lower employment growth which results from the shrinking working age population over the long run, GDP growth would be lower in the future. Lower GDP growth would make redistribution from one group in society to another more controversial and would inevitably complicate the task of achieving intergenerational fairness. Achieving higher productivity growth requires more investment in both physical and human capital, which may be more difficult to generate in an ageing society because older age groups may be less willing to invest in innovation.

... which brings major challenges for intergenerational fairness

An ageing Europe may thus face new challenges to all generations' welfare, unless (1) the impact of a shrinking working-age population is cushioned by helping a higher percentage of potential workers into employment and the length of working lives is extended, (2) increased net immigration and higher fertility help sustain population growth and (3) sustained investment is made, notably in people to increase productivity.

Simulations show that efforts to increase labour market participation further, especially that of older workers and women, together with continued educational progress which has a positive impact on activity rates, can postpone the dampening effect of shrinking employment on economic growth. If the EU makes effective use of all its human resources also by better incorporating underrepresented groups, positive employment growth could continue for another decade. Measures such as proper incentives for second earners through tax and benefit systems, minimum wage policies as well as comprehensive integration strategies could improve the employment rate.

Upholding growth requires better utilising the existing labour reserves...

Raising effective retirement ages by 2030 would not reverse the trend towards a declining workforce in the long run. However, in addition to being crucial for ensuring the sustainability of pension systems it would help safeguard higher potential employment growth through the next decade. Policies ensuring that people can effectively work longer are an important complement to raising retirement ages. This includes ensuring adequate working conditions in terms of health and safety at work.

... which includes longer working lives...

Moreover, increased fertility and efficient immigration management can make a difference to the size of the working-age population in the medium to long run. This highlights the importance of corresponding policy action (including the reconciliation of family and work responsibilities, childcare, etc.).

...while higher immigration and fertility can also help

At the same time, fostering productivity growth is vital for improving the collective prospects of society and productivity-enhancing reforms are thus imperative. This means supporting innovation and

But higher productivity will be the main driver of growth in the future

major efficient spending on investment in young and old people's skills, in line with the EU's social investment strategy and Principle 1 of the proposed European Pillar of Social Rights. In addition to fostering social mobility and supporting living conditions, these policies improve people's employment prospects across generations, thus contributing to better utilising the existing workforce, *and* to generating higher productivity growth. This complementarity would thus underpin productivity as a main driver of economic growth also in the long run and help sustain income growth as well as welfare systems embodying inter-generational solidarity.

3. WORKING LIVES: THE FOUNDATION OF PROSPERITY FOR ALL GENERATIONS

Enabling all people to be active in the labour market while fully using their skills and realising their potential is not only in the interest of working age people but of the whole society across generations: the income produced by people of working age sustains social protection, healthcare and educational systems - benefiting also older people and children - and thereby facilitates social mobility and intergenerational solidarity.

All generations benefit from working age people being active in the labour market

However, the labour market today seems to be increasingly characterised by a generational divide. Today's younger generations face significant challenges in the labour market which reflect both structural changes, including those related to the increasing importance of atypical forms of employment, and the legacy of the crisis. The unemployment gap between younger workers aged 25-39 and prime-age and older workers (aged 40-64), after reducing in the 1990s, increased again in the context of the crisis when the unemployment of younger workers increased substantially. Employment of younger workers has stagnated over the last decade, while prime-age and older workers have experienced a rapid rise in their employment rates. Finding a job after graduation has become more difficult. More generally, younger generations have been hit harder than older ones by unemployment over the last decade. The crisis has contributed to these findings and problems may therefore be partly mitigated by the ongoing recovery, but structural factors discussed below also play a role and may make some of these effects persist.

Still, younger people are more likely to be unemployed...

Overqualification, the state of being skilled or educated beyond what is necessary for the job in which one is employed, implies an inefficient use of available human resources, and has increased moderately in the EU over the last two decades. Younger workers are comparatively more often overqualified than other age groups, although there has been some convergence in this respect between the different age groups over time.

Job security has been declining for the past two decades with the increased use of non-standard contracts (i.e. contracts which are not both permanent and full-time) in the EU's labour markets. While the share of non-standard work among employees has increased for all age groups, this shift has affected the newer generation of younger workers more than the prime-age and older ones. Similarly, working for the same firm for a long period is gradually becoming less common, especially for younger workers.

...or in non-standard work

The expansion of non-standard work among younger employees over the last decade has been spread equally among the three types of non-standard work examined here (permanent part-time, temporary full-time and temporary part-time), while for prime-age and older employees the expansion centred mostly on permanent part-time work. Other new forms of work such as those related to platforms and the collaborative economy, which tend to be associated with lower rights and social security coverage and where younger people are likely to be disproportionately represented, are

not considered here due to data limitations. While the overall employment rate of young workers has remained stable over time, the increasing amount of part-time employment means that total hours worked by the young have not yet regained their pre-crisis level. Much of this increase in part-time work is involuntary as more than one in three of today's younger part-time workers have taken that work because they could not find full-time work.

16 % vs. 8 %

of younger vs. older workers
have temporary contracts

Temporary contracts are increasingly common. Younger workers are twice as likely to be in temporary work as older age groups and this gap has widened since the early 2000s.

Younger workers are more frequently affected by temporary contracts...

While increasing use of non-standard work may be a response to the rising need for flexibility on the part of both the employer and the worker, the increasingly widespread use of temporary work and reduction of job security in the labour market could be a cause for concern, in terms of both its impact on individuals and indications that it may harm productivity growth.

Social protection coverage may be negatively affected by frequent unemployment spells and certain forms of non-standard work may also be associated with no or insufficient access to social protection and related employment (and activation) services. If difficulties in initial integration into the labour market lead to persistently lower work intensity, the resulting poorer pension contribution records, as well as lower labour market income, may negatively affect the eligibility of younger people for benefits as well as the amount and duration of those benefits. Statistics for all age groups show that young people are the most likely to be in precarious employment - here defined as the combination of non-standard contracts and low wages earned. Women, immigrants, low skilled and blue-collar workers are also relatively likely to end up in precarious jobs.

... and precarious employment, and they may also face less social protection coverage

The challenges for the younger generation are also reflected in the distribution of income from work between age groups. Most countries have seen a decline in the corresponding income share of younger workers since the onset of the crisis. While this is partly due to demographic changes, in a large number of Member States it also reflects a relative decrease in income per younger worker, possibly partly explained by education lasting longer and resulting in later labour market entry. Conversely, the observed rise in the income share of older workers has been driven not only by demographic changes but also by increases in income per older worker and in their relative employment rate.

The income share from work of younger people has decreased over time

Younger generations appear to be less exposed to the risk of poverty than older ones when they are unemployed or in precarious jobs. However, this is partly a reflection of the impact of the above-mentioned changes in the EU labour market on household decisions across generations. In particular, poorer employment prospects for younger people after the economic crisis appear to have had a negative impact on their economic independence and capacity to establish independent households. For instance, young people face greater credit constraints and job insecurity than older age groups and have increasingly postponed household formation and home ownership. High shares of non-standard work as well as the particularly strong effects of the crisis on some Member States' labour markets appear to be related to delaying parenthood. Postponing household formation, home ownership and parenthood may in turn have intergenerationally adverse consequences on fertility rates and, consequently, also on the sustainability of pension systems and growth as well as on perspectives in general.

Younger people's labour market situation is affecting their household decisions, including as regards parenthood and house ownership

Qualifications and skills are becoming ever more important for employment. Yet, this does not seem to fully explain the generational divide in the labour market as, partly in response to rising demand for skills in the labour market, younger generations are becoming progressively better endowed with human capital. Efficient education and training spending is crucial to equip workers from the start and throughout their careers with the set of skills that will help them thrive in continuously changing societies and labour markets. In some Member States, however, the share of young low-qualified adults remains very high. While educational attainment has expanded significantly over the last 15 years, the corresponding increase in basic numeracy skills seems rather limited in view of the strong rise in jobs' skills requirements. There are also significant gaps in digital skills, which are also crucial for labour market and social inclusion.

Educational attainment has improved over time and parental background has become slightly less important for it

An issue of key concern for social mobility across generations, particularly from an equality of opportunities perspective, is the impact of parental background on education and skills outcomes. While dynamics differ substantially across Member States, on average in the EU, the impact of parental background on mathematics skills remains significant although it has slightly declined over the last decade. Likewise, tertiary attainment also depends marginally less on parental background for younger generations in the EU than for older ones.

The generational labour market divide implies that overall older generations are less likely to be unemployed compared to younger ones, and in general enjoy greater stability and protection in the labour market. On the policy side, this finding suggests that, in line with the key priorities of the European Pillar of Social Rights⁽²⁾ proposed in April 2017, it is important to ensure that an appropriate framework is in place that allows the labour market to function properly and adapt to new challenges, while providing employees with the necessary safety nets and support to face these new challenges, also taking into account the intergenerational fairness dimension.

The European Pillar of Social Rights provides a framework for adapting labour markets to new challenges while promoting intergenerational fairness

4. SECURING GOOD LIVING STANDARDS IN RETIREMENT ALSO IN THE FUTURE

Pensions are the main income source for those aged 65 and over. Increases in real median pensions have contributed to the improvement in older people's relative income over the last decade. Overall, the welfare of people aged 65 and over in the EU compares favourably with that of people of working age in terms of income, wealth and access to services. There has also been a shift in public social expenditure towards pensions and other categories benefiting primarily older people. Nevertheless, the risk of poverty for older people, particularly older women, remains substantial in some Member States, and living standards in the EU-28 are somewhat lower for those aged 75 and older, again mainly reflecting the less favourable situation of women.

Overall, older people fare relatively well in the EU today...

⁽²⁾ COM(2017)250 final.

7 %

of GDP by 2060 – expected
impact of ageing on annual
public pension expenditure in
the absence of reforms

Despite the overall favourable situation of the older generations, significant challenges lie ahead. First, demographic change will bring about increasing dependency ratios in all EU countries. This

means that a smaller number of contributors will pay into pension systems while more pensioners will depend on them, raising important questions of sustainability and intergenerational fairness. Second, while younger generations will reap the benefits of further technological progress, if initial difficulties in integration in the labour market lead to persistently low work intensity, precariousness and fragmented working careers, the generational divide analysed in other parts of the report may have a detrimental impact on the pension entitlements of today's younger generations and thus on their welfare in old age.

The social contract foreseeing transfers from the working population to the inactive generation of pensioners, which has had intergenerational fairness as its main principle for decades, may be seriously challenged by these changes. Today's young workers and future generations seem to face a double burden stemming from demographic change. On the one hand, they are likely to be confronted with rising rates of contribution to social security. These will reduce their take-home pay while the resulting increase in labour costs may reduce their employment possibilities. On the other hand, today's young workers and future generations are likely to have lower pensions, relative to wages, than today's pensioners as cost-containing measures in the pension systems seem inevitable in response to population ageing. Indeed, much cost-containing reform seems to affect future cohorts rather than today's pensioners. The double burden (higher contribution rates while active and lower pensions once retired) will persist as long as population ageing continues. The effects of increasingly fragmented working careers (also as a legacy of the crisis) will eat further into future pension entitlements, adding to the burden.

...but demographic change results in a double burden on younger cohorts that challenges the social contract between generations

The last 20 years have seen substantial reform activity in the EU that is expected to keep pension expenditure levels relative to GDP in 2060 from rising above today's, despite steeply increasing demographic dependency. These reforms will not only reduce pension entitlements, but also limit coverage beyond the age of 65, especially by raising retirement ages. To a large extent, the very gradual planned increases in statutory retirement ages will affect future pensioners (today's young and future workers). However, much of the reform activity has successfully been targeting better labour market prospects for older workers, combined with higher statutory retirement ages. This has resulted in a significant increase in the employment rate of older workers over the last two decades.

There has been progress in reforming pension systems in the EU...

While progress has thus been made, further reform efforts are likely to be needed to cope with the consequences of demographic change in an intergenerationally fair way. Model simulations presented below show the long-term impact of three major reform options on older people and on the economy at large, with different implications for intergenerational fairness and burden sharing. The three broad types

... but more efforts may be needed to balance burdens between generations in a fair way

of reforms exemplified are (1) linking indexation and pensionable ages to life expectancy, (2) investment in older people to support their labour market integration and (3) to the same end, targeted tax cuts for older workers and firms employing them.

Model simulations of the Finnish system provide an example of the effects of linking both the retirement age and the annual pension indexation to expected increases in life expectancy. Higher retirement ages typically relieve the pension system of costs, as people either postpone retirement or accept actuarial deductions in their pension entitlement if they do not postpone. As a result, the contribution rate can be lowered, which both benefits workers' net wages and reduces firms' labour costs. The resulting increase in labour demand and supply across all ages supports economic growth to the benefit of all generations.

Linking retirement age and pension indexation to higher life expectancy reduces pressure on the pension system

On the other hand, linking indexation to longevity will lower pension dynamics and hence pension levels in the long run, so that pensioners contribute directly to solidarity with younger generations. Here too, as a result of the financial relief to the pension system, contribution rates can be lowered and net wages increase while labour costs decline. Both labour supply and demand are supported and all this again helps to sustain growth.

Intense individualised training and counselling, as exemplified by a German programme, will improve the labour market integration of older unemployed workers by increasing their chances of finding a match among the vacancies that firms post. In the corresponding model simulations, employment of older workers increases significantly, contributing to the sustainability of the pension system. Costs are shared between the generations.

Fostering older workers' employment would benefit them while contributing to burden sharing

In Sweden, comprehensive tax incentives are granted to both older workers (wage tax credits) and firms employing them (payroll tax credits). The first measure focuses on incentives to participate in the labour market while the second focuses on incentives for firms to hire older workers. Model simulations illustrate how both measures increase the employment of older workers, which also allows them to contribute to the burden sharing.

In the long run, all reform options examined lead to higher overall employment levels (largely driven by lower labour costs), higher investment by firms and an expansion of GDP. All this will create better labour market opportunities for workers as labour demand strengthens. Their improved labour market situation will in turn put future workers in a better position to bear the double burden imposed by demographic change. And higher growth will make more resources be available to be shared across generations, facilitating intergenerational solidarity.

Reform options improving labour market prospects and sustaining growth facilitate intergenerational solidarity

5. FOSTERING INTERGENERATIONAL FAIRNESS THROUGH SOCIAL DIALOGUE

Workers' and employers' representatives can make a major contribution to intergenerational fairness and solidarity by finding a balance between the interests of employers and workers of all ages. The proposal for establishing a European Pillar of Social Rights

Social partners have an important role in promoting intergenerational fairness...

highlights the central role of social partners and social dialogue in contributing to better governance and more effective social and economic reforms. To do this, strong and representative trade unions and employers' organisations need to engage in a consensus-oriented dialogue. Sometimes, the dialogue can benefit from active support by public authorities.

In many Member States, there are clear age-related differences in the membership of trade unions, the coverage of collective agreements and - to a different degree - self-employment and the membership of employers' organisations, which imply challenges to social partners' ability to contribute to the intergenerational balance of interests.

...although age-related differences including in social partners' membership and collective bargaining coverage are a challenge

In several countries, pensioners make up a substantial proportion of trade union members, while union membership among younger workers is low. Moreover, younger workers are less likely to have their working conditions set by collective bargaining. This partly reflects a composition effect regarding differences in coverage in the sectors and types of firms where younger vs. older people tend to work. Younger generations may thus be less likely to benefit from solutions promoted jointly by workers' and employers' representatives.

Another challenge is that on some age-related issues, there are crucial disagreements between the two sides of industry. Employers may favour specific (minimum) wages or working conditions for younger workers to facilitate their labour market integration while trade unions tend to oppose such differentiation, including on grounds of equality.

Despite the existence of controversial issues ...

Notwithstanding these challenges, intergenerational issues have been tackled through social dialogue, where social partners have used three key approaches. In the *replacement approach* commonly followed in the 1970s, older workers were encouraged to retire early to 'make space' for younger workers. In practice, these schemes tended to generate large welfare costs, while the expected job opportunities for youth failed to materialise. More recently, social partners have paid more attention to the *synergies* between younger and older workers. Where their skills are complementary, both groups of workers - as well as their employers - benefit from mutual learning via apprenticeships, mentoring or tutorship programmes. Finally, social partners may approach bargaining from a *life course perspective*; with the aim of enabling workers of all ages to extend their working lives in good health.

...social partners have used key approaches to tackling intergenerational concerns

There are many examples of social partners jointly making a positive contribution to intergenerational fairness. These include joint actions or agreements to promote lifelong learning. Social partners are active in the provision of social protection benefits, such as old age pensions and unemployment benefits. They may also play a role in the design and implementation of employment protection legislation and active labour market policies. Workers' and employers' representatives have reached agreements on working conditions, to promote occupational health and safety, or a better work-life balance.

Social partners have been jointly addressing a broad range of issues ...

Examples of social partners contributing to intergenerational fairness can be found at the European cross-industry level, where social partners recently signed the autonomous framework agreement on 'active ageing and the inter-generational approach'. In addition, European sectoral social partners, for example in the domains of insurance, cleaning, commerce, post, hospitals, gas, electricity, textiles and clothing, were active, notably by issuing joint statements, guidelines and recommendations for practical toolkits. Social partners have also played an important role in fostering intergenerational fairness within the Member States, contributing to numerous concrete initiatives at the national, sectoral and firm level.

...at European and national, cross-industry as well as sectoral and firm level

Overall, the evidence presented shows that social partners can make a major contribution to bridging the gap between younger and older workers and to promoting a fairer labour market for both. Further strengthening social dialogue in certain Member States would help to fulfil this potential.

CONCLUSIONS

The analysis presented in this report provides insights into intergenerational fairness from a number of different angles. While the economic situation of older people relative to the working age population has overall improved over time, recent developments may partly reflect the impact of the crisis and could thus be reversed as the recovery continues. At the same time, challenges faced by younger generations in the labour market, which may also have implications for parenthood, access to housing, wealth accumulation and the acquisition of pension entitlements, are likely to persist given that they result not only from cyclical effects but also from structural changes such as technological change and new skills requirements. The emergence of an apparent generational divide in the labour market implies an increasingly pressing intergenerational fairness dimension to providing an adequate framework for the changing labour market realities and for ensuring that social protection systems are still fit for purpose in the face of new challenges. Moreover, the rising scarcities resulting from population ageing put even stronger emphasis on the need to invest in younger generations' employability and productivity to uphold economic growth while allowing younger workers to reap fully the benefits of technological change. Faced with population ageing, many Member States have already made progress in ensuring the sustainability of pension systems, which supports intergenerational solidarity. However, further efforts are needed to improve adequacy and intergenerational fairness and secure a positive perspective for younger generations. Addressing the multiple burdens on today's younger generations resulting from the labour market challenges facing them today in conjunction with the need to sustain a growing number of pensioners may thus be key to ensuring the fairness and hence continued acceptance of the societal contract between generations. This also underlines the importance of continuing to move towards a social welfare model that supports citizens throughout their life course.