Address by Pat COX to the Conference on  "The economic and budgetary implications of global ageing"

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I would like to thank Commissioner Solbes for organising this conference on one the most important public policy challenges confronting us in Europe. It is significant that this event is co-organised with the Centre for Strategic International Studies which underlines the fact that ageing is a global phenomenon and will have major repercussions on both industrialised and developing countries alike. My focus will be mainly on the EU.

Very often the debate on ageing populations is presented as a doomsday scenario. We are all now familiar with references to pension timebombs and crisis in health care systems.

But we should not lose sight of the fact that ageing populations is to a large extent driven by increased life expectancy, and for most people these twilight years will be spent in reasonably good health. This is a positive development that should be welcomed. Ageing populations will only become a problem for our societies if policy makers fail to take sensible but achievable measures to adapt public policies to a changed world.

I have come here today as a politician and not a technician. The time has come to go to war. It is time for European leaders to shift from rhetoric to reform - there is a large gap today between what is said and what is done. Secondly, it is time to go for growth. The third dimension I would like to raise is that sound public finances matters. We need will, not wobble.

The Spring Summit will demonstrate whether European leaders are capable and willing to take the necessary decisions to meet the long-term challenges. All these issues are inter-linked. The goals of higher growth and higher employment rates of the Lisbon strategy cannot be achieved without ambitious reforms of pension systems and the running of sound public finances.

Messages for the forthcoming European Council

Go for Growth!

My message to Heads of State and Government is first and foremost- and here I agree with Commissioner Solbes- that the key challenge is to raise the economic growth potential in Europe. We have a simple choice – growth or bust! The debate on ageing populations cannot be limited to a technical matter on the best means to finance retirement income.

Our ability to pay for pension and health care systems, and therefore to meet the needs and expectations of citizens, will depend on future levels of economic output. European leaders need to go for broke and raise growth. If they don't they risk increased public spending of between 4% to 8% of GDP due to the effects of ageing populations.

There is evidence of a two-speed Europe emerging. Countries like Spain, the Scandinavian countries, Ireland, the Netherlands and UK have performed very well in recent years, even during the current recessions. They share a number of common characteristics. They have run...
sound public finances, cut taxes, introduced reforms in labour markets to make work pay and liberalised key sectors of their economies.

This contrasts with slow growing countries such as Germany, Italy and France which have failed to get public finances fully under control and introduced half-hearted reforms to labour markets and other sub-sectors of the economy.

As France, Germany and Italy together make up 71% of the eurozone GDP, it is easy to see what an important impact these three countries could have if they stopped applying the brakes to reform and started hitting the accelerator in order to move the Lisbon agenda forward.

The "go for growth"-option is a critical part of the eurozone equation as we move forward. and it is in the self-interest of these countries, because if they don't hit the accelerator they are in the frontline of getting hit.

**Shift from rhetoric to reform!**

Secondly - The rhetoric on reform in not being matched by corresponding measures. Talk is cheap but action counts for much more. Let me quote from a recent speech to heads of state "If the current debate teaches us anything it exposes a gap between our aspirations and our capacity to act. At a time when we are debating the future of Europe, we have to realise that constitutions and institutions will be merely empty vessels, if not animated by determined political vision and will." If this is true for foreign policy which is classically intergovernmental then how much more is it the case in the domain of economic policy which is such a central part of today's European Union.

This gap between aspirations and capacity has to be breached. Let me tell you an anecdote about Mayor Richard Daily of Chicago. He did not always read through scripts before he delivered speeches. On this occasion it said in the script that "we must reach ever higher plateau's in our performance", but he managed to say "we must achieve ever higher platitudes...."

**We need attitude, not platitudes, in Europe.**

The Commission's synthesis report clearly states that without additional efforts, the EU will miss its goals, and especially employment targets by a wide margin. The main reason for this is a failure by Member States to ensure that agreed policies are effectively implemented and applied. The growing implementation gap is stifling growth and depriving European citizens of jobs. Lack of reform also risks undermining the role and credibility of European institutions in bringing about change.

Europe can provide a useful external pillar which supports reform at national level. The open method of co-ordination provides a potentially useful way to share experiences and views in policy domains where responsibility rests in the Member State, such as pensions. Setting common policy objectives at EU level with clear benchmarks and deadlines can have a powerful dynamic and give an impetus to reform.

But we must not confuse policy objectives like raising employment rates, with actual measures that are needed to achieve them.

While we might agree on the need to raise the average retirement age - are we willing to contemplate the measures needed to bring this about?
The main responsibility for implementing the Lisbon agenda lies with the Council and the Member States. The problem is not with the Commission, nor the European Parliament. The EP is ready to do its part. We have a solid record as a reliable partner in economic reform. At the Barcelona Summit last year, I was pleased to be able to report to the Heads of State that the EP was up to speed with its legislative work. However a list of important reform proposals were stuck in Council. Taking stock one year later, the situation has not really changed.

Unfortunately too often on reform it is a case of too little and too late. Am I pleased that there finally is agreement about an EU patent? Yes, but it was overdue and will only take effect after a long transition period. Am I pleased that there was a decision on liberalising energy? Yes, but again it was way overdue and was only a moderate first cousin of what we would have liked to see. It will only open up markets at a very slow pace, postponing benefits for households.

I believe that the impetus for reform would be enhanced by the setting up of a small but competent task force or monitoring group which could specify national targets and help get the Member states focussed on not letting the Lisbon agenda slip.

**The Economic Dependency Ratio**

Europe's problem is that this economic dependency ratio is threatened from both sides. We are living longer and simultaneously working less. On the one hand life expectancy is projected to continue to increase. When most social security systems were established or revamped after WWII, life expectancy was much lower than today. I actually think our retirement age was set in the time of Bismarck. However, the statutory retirement age of 65 has not moved to take account of developments: had it done so, the statutory retirement age would be somewhere around 70 or 72 today. The ratio of years in employment to years in retirement is set to decrease further with a five year increase in life expectancy in coming decades.

The effects of increased longevity are compounded in the EU by shorter worker lives, at least for men. The effective retirement age for men is closer to 60 than 65, and the employment rates of older men has fallen considerably. For example, only 35% of men aged 55-64 in Belgium are employed, compared with 50% 20 years ago.

Fiscal and other incentives make "rationalists" leave early rather than late. The OECD recently published a study examining the economic incentives facing older workers to stay in active employment. It concluded that even after recent reforms to tighten up access to early retirement schemes, older workers in Europe face marked disincentives to stay working and that these increase the close one approached to the statutory retirement age. In other words, the implicit tax on staying in employment mean that work doesn't pay for older workers. This situation is crazy and acts as a triple whammy for the economy in the form of less output, less contribution to tax revenues and a drain on public resources in the form of early retirement pensions.

Urgent action is needed to remove these disincentives and to limit access to early retirement and especially disability schemes to cases where it is really deserved.

We must start viewing older people as a resource and not a burden, and to recognise that people can and in many cases strongly wish to remain economically active up to and even well after the age of 65. I agree with Commission Diamantopoulou that this is not only a question of incentives and supply side measures. There is also an issue of demand so that meaningful job opportunities are available to older workers. This will require life long training so that people retain the skills
needed for a fast evolving labour market, but more importantly it will require a fundamental shift in employers attitudes to older workers.

**Sound public finances matters- we need will, not wobble**

The litmus test for Governments of their willingness to face up to the challenge of ageing populations will be their decisions on the Stability and Growth Pact. Commissioner Solbes and the Commission in November last year made a number of important proposals to strengthen both the economic logic and implementation of budgetary surveillance. I support the efforts of the Commission.

These proposals are a judicious mix combining greater flexibility with better implementation and stricter enforcement of obligations. If properly implemented, reforms of this type could strengthen not only the EU's fiscal rules, but also the whole approach of Community surveillance based on peer pressure.

In two weeks Europe's leaders will have the opportunity to reconfirm their commitment to the Stability and Growth Pact. Based on the recent budgetary performance and the comments of some Finance Ministers, the omens are not good.

Why? Because I see very little indication that Member States are willing to tackle what the Commission has diagnosed as the most fundamental weakness of the Stability and Growth Pact, namely that Member States themselves must assume political ownership of the Pact. We cannot continue "buck-passing".

The need to achieve budget positions of 'close to balance or in surplus' is often presented as an unwarranted constraint imposed by an unthinking bureaucracy based in Brussels.

In fact, it is a commitment which Heads of States signed up to in Amsterdam in 1997, and is a policy goal which is in the economic interest of the countries themselves. We appear to be forgetting the salutary lessons of the past when high deficits and debt contributed to undermine macroeconomic stability and imposed an enormous costs in terms of lost output and high unemployment.

In some Member States there is a tendency to blame all budgetary difficulties on the Pact. Rising deficits are not the fault of the Pact and are only partly due to the economic cycle. They are to a large extent due to unfunded tax cuts and a lack of control of public expenditure. Those countries who face the greatest difficulty in complying with Pact requirements find themselves in this position because they failed to continue the process of budgetary consolidation in 1999 and 2000 when robust growth conditions prevailed.

I am also concerned about the spurious arguments put forward that all that is required to make the Pact work is a revision of Eurostat's national accounting rules.

There have been calls from various quarters to remove spending items such as on R&D, public investment, education and defence from the measure of deficit used to assess compliance with treaty requirements.

We must move beyond accounting tricks and gimmick. If such expenditures were excluded from deficits, this would amount to a dramatic loosening of the commitment to sound public finances. Spending on these items account for up to 8% of GDP, and deficits of this level would reverse all
the gains made as part of the Maastricht convergence process. It is perverse in its economic logic.

**Conclusion**

Let us be clear about this. If we do not go for growth we will break the backs of future generations. A complacent wait-and-see-attitude is not acceptable. The costs of dealing with the issue mount exponentially with delay, to the detriment of both current and future generations. We cannot pass our burden onto our grandchildren. The wait and see approach is a disaster.

How much proof do we need? A study presented at the World Economic Forum shows that the EU is not getting nearer to the goal of becoming the world's most competitive and dynamic economic area. In seven out of eight criteria defined in Lisbon the EU states are lagging behind the USA and other OECD countries. The only dimension in which the EU is ahead is "social inclusion". The largest differences between the EU and the US are in the business climate, network industries, R&D and innovation and financial services.

Today European industrialists issue the warning that their companies will shift research and investment outside the EU unless the business climate improves. That was another wake-up call from the real world.

However, there are some grounds for optimism. Europe in the past has shown a remarkable capacity to adapt to changing circumstances, and to meet what appear to be unrealistic goals. This was demonstrated with the 1992 single market programme and the launch of the euro in 1999.

The time to get tough has come again!