

SUSTAINABLE LABOUR FORCE: CHALLENGES AHEAD

Higher longevity and low fertility rates jeopardize the sustainability of welfare systems and particularly of public pension schemes across Europe. There is now widespread recognition, not only amongst policy makers or politicians but also amongst the wider population, that current systems will not be able to ensure enough income for the increasing share of retired population. Nonetheless, most European systems have not adapted to the shifting demographics, with changes consisting mostly of minor increases to the statutory retirement age.

These shifts in trends cannot be tackled purely from the angle of welfare systems. Declining labour force participation rates trigger other dynamics beyond the decrease of the taxable population for pension schemes. **Labour shortages** are already a reality in Europe, though there is a lack of research about the phenomenon. The major investment constraint on firms, as per European Investment Bank surveys, is the lack of skilled staff. The constraint is present across the EU28, but it aggravates in Central and Eastern Europe (CEE). For the most affected countries, the free movement of workers in the single market has accentuated the issue, with workers emigrating to other countries in search of better wages and superior working conditions. The rigidity of European education, particularly on the higher education level, is partly to blame. There is a large proportion of employers who do not consider graduates skilled enough for the roles they need to fill. **Partnerships between private companies and universities** must be facilitated to address the labour shortage.

Skills mismatch, particularly for low-skilled jobs, is yet another issue for EU-based firms. The causes for this are cultural and generational. Younger European individuals are not willing to take on jobs which do not provide security and good income, therefore preferences from lower-skilled jobs shift and create challenges in filling positions in relevant sectors. Moreover, the 'cycle of work' for younger generations is radically different, with frequent job changes throughout life and a blurrier division between work and private life, potentially reflecting a **shift in preference for higher income and more leisure**.

Targeted policies on migration can be a piece of the puzzle although it remains politically sensitive (especially in the CEE region) and cannot be a permanent solution. On one hand, such policies shall aim to fill gaps in identified sectors with only minimal training required. On the other hand, however, the challenge lies in keeping and integrating such workers to achieve long-term stability.

Higher participation of women in the labour force is a necessary element to combat labour shortages. A large share of NEETs (individuals not in employment, education or training) are women who cannot find affordable day-care. Cultural undertones affect the division of labour (and housework) between men and women and can influence policy-making.

Heterogenous policies, from gender-neutral parental leave to income tax deductions for mothers, or child-related welfare benefits being transferrable to grandparents, are therefore needed and can help improve the rate of female labour force participation as well as gender equality more broadly.

Several European countries perceive that economic competition based on low wages is not beneficial for the workers or for the companies. Indeed, **labour productivity might be a more sustainable competitive advantage** to strive for. In case of Hungary, new policies reflecting this notion have been put in place. There are **financial incentives** available for companies which introduce automation of certain jobs, since this might provide **gains in productivity** and allows some of the labour force to move to jobs with higher unemployment rates.

Automation can indeed be a part of the broader transformation of job design. Alongside other technologies, automation can be used to remove the less-stimulating tasks from jobs. Moreover, by reducing the physical burden of certain activities, it can also play a role in the vital task of reactivation of older people.

A highly ambitious **active ageing package** is necessary. It should provide learning and training throughout one's lifetime and, importantly, create flexible work arrangements. Returning to the work force should not be disincentivized, e.g., pensions should not be suspended. The challenge is likely to be how to create incentives beyond income to promote participation in active aging packages.

In conclusion:

- ▶ **Partnerships between private companies and universities** must be facilitated to tackle labour shortages effectively.
- ▶ **Targeted migration**, although not a permanent solution on its own, can help address skills mismatch in the labour market.
- ▶ Lessons learned from existing schemes of top employers should be applied in a broader market, including **flexible working arrangements**, such as integrated day-care, remote working, and having a more holistic view of work-life balance.
- ▶ **Heterogenous policies** including gender-neutral parental leave, income tax deductions for mothers, or child-related welfare benefits transferrable to grandparents must be an integral part of policies in order to increase female labour market participation.
- ▶ **Labour productivity gives competitive advantage to companies - this must be encouraged with policy incentives** to automate work and move workers to under-supplied markets.
- ▶ **Automation** can be used to remove the less-stimulating tasks from jobs.
- ▶ **Active aging packages** to be put in place.