

3

CHAPTER 3

Today's world: an ageing society on the move

3.1. Graphs with an international flavour

Spain is now facing unprecedented demographic change. By 2050 it is forecast to have the oldest population in Europe, with an average age of 55³. Moreover, the political, economic and social changes of the last 30 years have changed the customs, values and consumption patterns of old people.

Spain has one of the world's highest life expectancies at birth. In 2002, the average baby boy could expect to live to 77 while for females the figures is over 83. Six years later, the National Statistics Institute (Instituto Nacional de Estadística or INE) now offers a series of hypotheses (with two scenarios) for life expectancy at birth over the next 20 years.

Year	Hypothesis 1			Hypothesis 2		
	Males	Females	Deaths	Males	Females	Deaths
2002	76.63	83.36	364,931	76.62	83.34	364,939
2005	77.43	84.03	369,192	77.38	83.90	372,517
2010	78.34	84.79	390,130	78.25	84.51	393,871
2015	79.23	85.54	413,184	79.09	85.08	418,312
2020	79.84	86.04	442,386	79.65	85.44	446,113
2025	80.37	86.48	472,535	80.15	85.75	472,366

³ Source: United Nations, World Population Ageing 1950-2050. Taken from J.L. Nuño y J. Villanueva: *El mercado de los seniors en España: ¿oportunidad o burbuja de negocio?*, AECOC.

Table 1. Hypothesis on life expectancy at birth.
Source: INE.

In both hypotheses, by 2025 females would have a life expectancy of around 86 and males of around 80. There are other factors that might impact these rates—for example if some of the scientific discoveries currently under development succeed in extending the human lifespan or in the event of a major global phenomenon—but the scenarios shown here are the most likely ones.

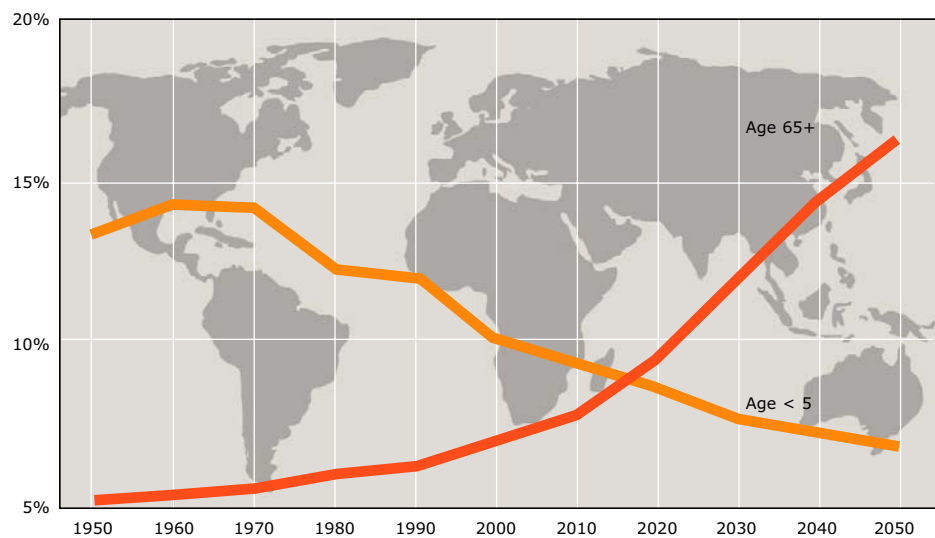


Illustration 2. Proportion of over-65s and under-5s to global population (1950-2050).

Source: United Nations Department of Economic and Social Affairs, Population Division, *World Population Prospects. The 2004 Revision*, New York, United Nations, 2005.

What we can be quite sure of is that the total number of deaths will grow apace with the increase in the level of ageing. Deaths will rise from 365,000 in 2002 to over 472,000 in 2025, i.e. an increase of 108,000.

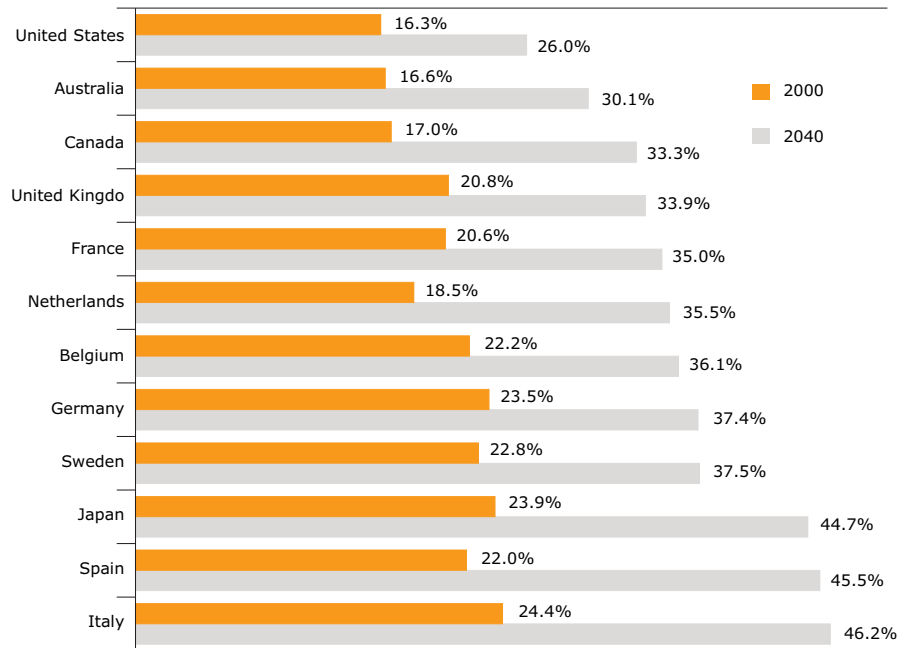


Illustration 3. Growth in population over 60 between 2000 and 2040.

Source: Center for Strategic and International Studies
 (www.csis.org/media/isis/pubs/ageing_index.pdf).

The increase in life expectancy, combined with a steady birth rate (which since the mid-1990s has stood at around 1.3-1.5 children per couple), tends to distort certain tiers of the population pyramid with somewhat alarming economic implications for the country as a whole. The number of people over 65, over 75 and over 80 will increase; the trend will be for the senior population to get even older. According to the INE, whereas in 2002 there were 1.6 million octogenarians (representing 4% of the Spanish population), in 2025 there will be 3.2 million (6.5%).

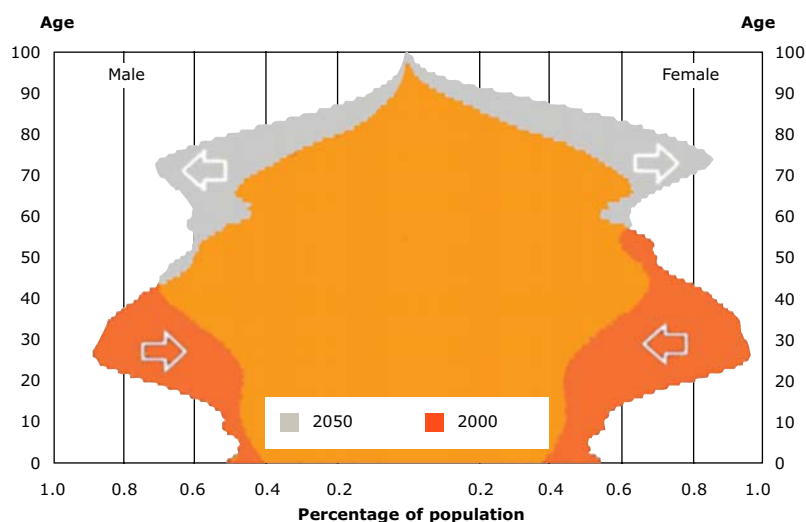


Illustration 4. Population pyramid: demographic trends in Spain in the 21st century.
Source: INE.

The fact that people are living longer and have better living conditions should certainly be considered a positive social achievement. However, the fact that such a large percentage of the population is now living so long is not viewed as a privilege, but as a problem, creating new issues and costs. Ageing is an expensive phenomenon, not only because of spending on pensions, but for other reasons too, including the cost of healthcare.

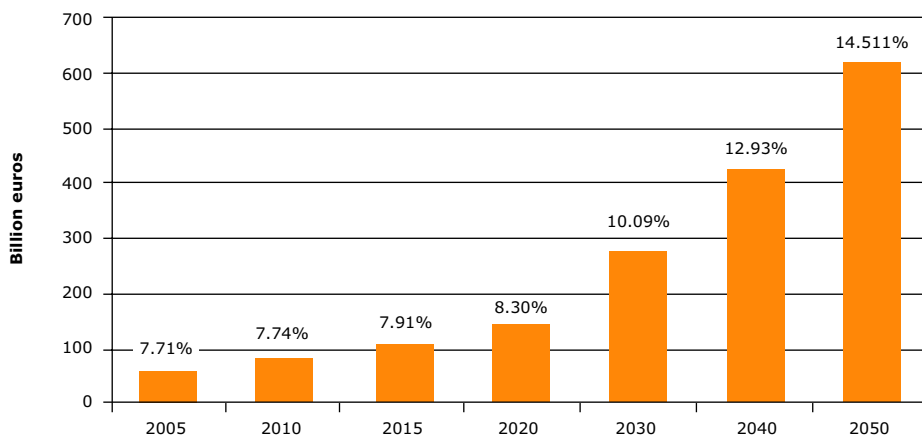


Illustration 5. Proportion of GDP allocated to pensions in Spain.
Source: INE.

The increase in the birth rate (thanks to immigrants, who account for 15% of all births) and immigration itself may offset the effects of ageing, but not prevent it. We need to learn to live with the phenomenon, accept it and adapt to its demands and needs. Further intensification of the phenomenon will require new obligations from the powers that be. Nonetheless, this is not exclusively an economic issue; we need to design imaginative formulae to make several generations socially useful and not to miss out on their knowledge and their talent.

The challenges of the ageing process will impact public finances, economic structure (in terms of investment, savings and consumption) and even household finances. To meet this challenge, policies, economic (and pensions) systems and social and family relations will need to be restructured. This process is not circumstantial; it has already passed the point of no return.

The INE forecasts that the demographic situation will get more complicated as the century develops due to the impact of the low birth rate. The critical point will come in 2059, when according to official predictions, there will be 309,128 births, as against 713,840 deaths, an extremely high number if we compare it to the current figure of 350,000 deaths per year, but consistent with the predicted ageing of the population.

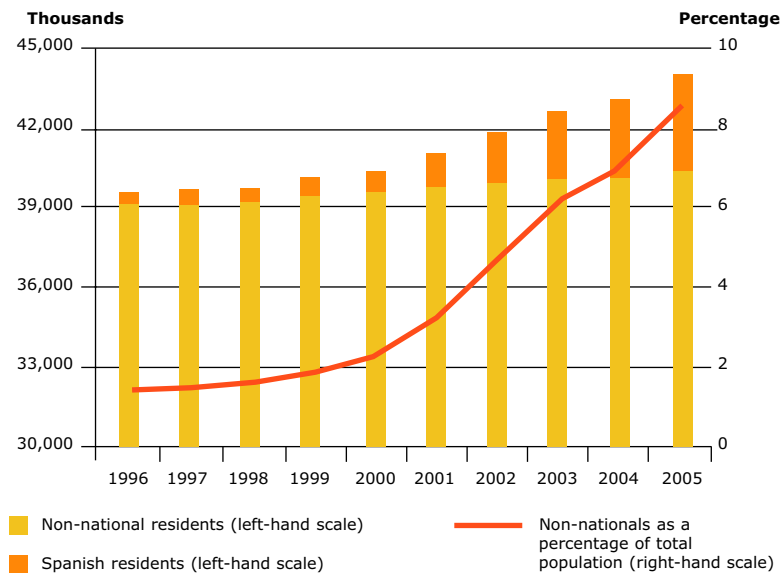
According to Eurostat data, the Spanish population will have a dependency ratio (defined as being the ratio of the population over 65 to the population aged between 16 and 64 years) of 65% in 2050, even higher than the European Union average (55%). The dependency ratio is most certainly the most relevant demographic variable from an economic point of view, since it reflects a population's level of ageing and thus the number of people in working age and of an age to receive public social benefits.

Based on the INE data, there are only two instruments that might change the long-term demographic trend, if population figures are not to fall: an increase in the birth rate or an increase in immigration.

Immigration is growing in parallel with ageing and, although in principle the two phenomena are unrelated in terms of causes and consequences, the fact that they have occurred simultaneously and their relative relevance have meant that they are closely associated.

The non-national population has doubled in four years

Total number of residents in Spain



4 The statistic does not include:

- Non-nationals currently renewing their residency document.
- Non-nationals in Spain with a short-term authorisation to stay (maximum of three months, with the possibility of extending it for a further three-month period).
- Non-nationals who are in Spain with a short-term authorisation for the purposes of taking courses, studies, research or training (where the duration of the permit is equal to that of the course for which they have enrolled or the research work they are conducting).
- Non-nationals who are in Spain only with a work permit (temporary workers on a quota).
- Border workers.
- Asylum seekers and those who have obtained the status of refugees or stateless persons.
- European Union nationals who have not yet applied to be entered in the central registry of non-nationals (compulsory from 2 April 2007), who under the previous regulation were not required to carry a residency card.

Illustration 6. Non-national population in Spain (1996-2005).
Source: INE and La ^aCaixa, *Informe mensual*, February 2006.

On 30 June 2007 there were 4,482,000 registered non-nationals in Spain, accounting for 9.93% of the country's population, 3,536,000 of whom were residents⁴. 4.78% (168,923) of the foreigners had been born in Spain.

Total: 3,536,347

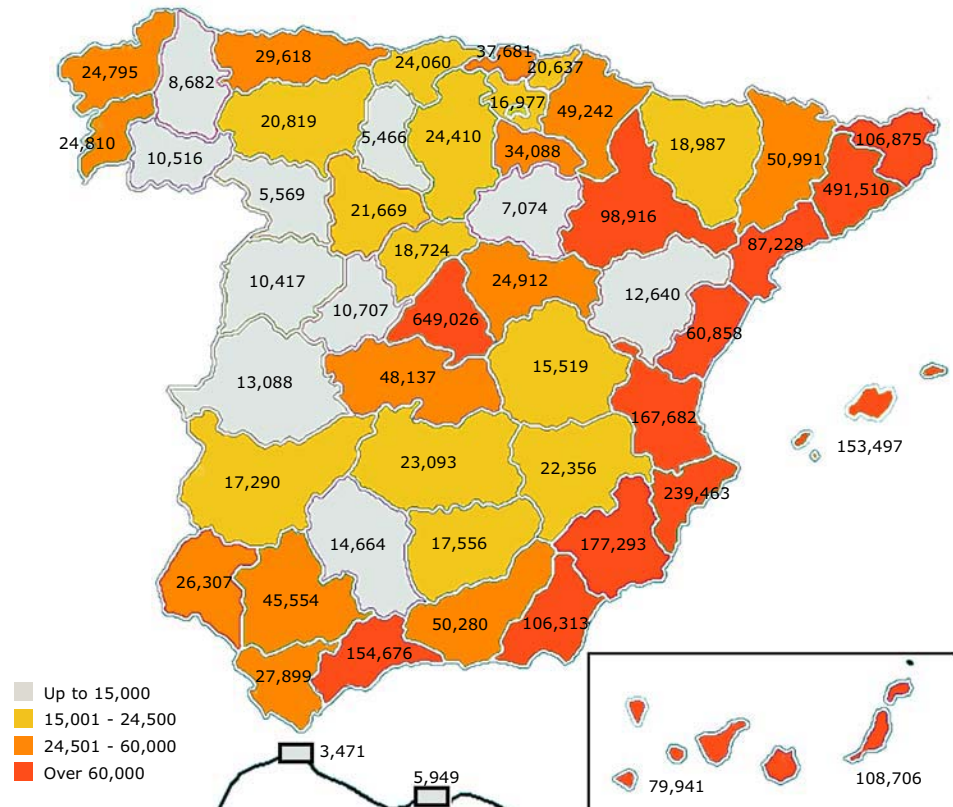


Illustration 7. Distribution by province of non-nationals resident in Spain (December 2007).
Source: INE.

When the first waves of immigrants arrived, it was widely predicted that the high birth rate common to their home countries might help alleviate the fall in the birth rate in Spain. However, to judge from the previous experience of other countries, and the trend now beginning to be seen, it is easy to see that, as immigrants integrate into the host society, they also take on its behavioural patterns. Thus, although they have birth rates that are considerably higher than among local people, they are not high enough to invert the process, or even to slow it down.

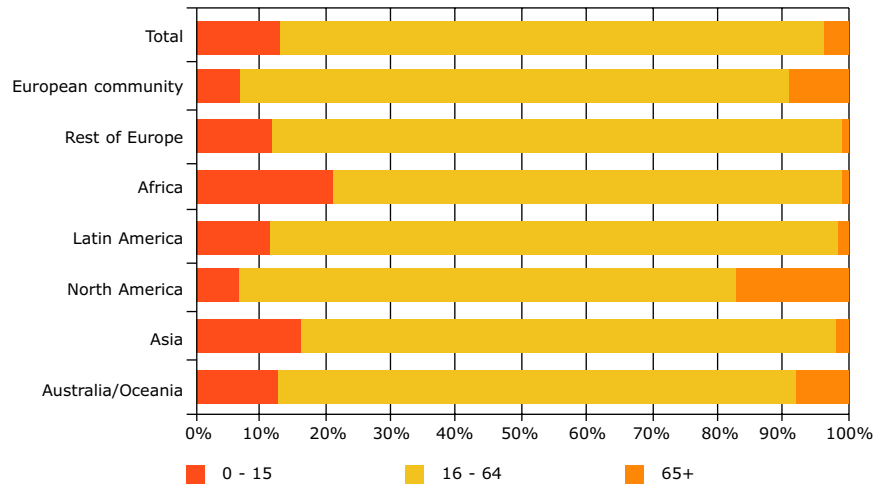


Illustration 8. Non-national residents in Spain, by continent of origin and age group.
Source: INE, June 2007.

Over the next 50 years up to 14.6 million immigrants will enter Spain, according to predictions from the INE, whose latest population forecasts (2007-2059) place the foreign population at the centre of Spanish demographic growth. The study is quite clear: the future of the Spanish population depends on immigration, since the vegetative balance (the ratio between births and deaths) is—and will continue to be—incapable of maintaining the Spanish population at its current levels.

3.2. The tsunami of the baby boomers and pensions

The baby boomer generation is now reaching retirement age and has become big business: they have more time and greater purchasing power, they feel fit and they refuse to get old or use products and services for “old people”. And there are more of them all the time... However, this continuous ageing of the population is causing real headaches for politicians, who are tying themselves in knots trying to keep pension systems sustainable under current conditions.

The 'baby-boom' generation in relief

- 450 million baby boomers in the world, born between 1946 and 1964 (MIT AgeLab).
- Over 50s are the fastest-growing age group in the world.
- Each decade, life expectancy rises one year (UN).
- Every seven seconds, an American reaches 50 (U.S. Census Bureau).
- In 2030, there will be more retired people than workers (Eurostat.).
- 80% of the UK's wealth is in the hands of the over-50s (BBC).
- In a few years' time, 50% of the EU population will be over 65 (Eurostat).
- In Spain, 25% of the population is now over 65 (INE).
- In 2050, the Spanish population will have an average age of 55, the oldest in Europe (Eurostat).

A study⁵ conducted by La Caixa studies service into the personal and social consequences of population ageing, shows that most people aged between 50 and 70 are not in favour of working beyond 60.

One of the most striking results of the study relates to work. Most Spaniards in this age group would prefer to take retirement at an early age. Despite government initiatives to delay retirement, the people most directly affected do not share the idea of retiring later than 60. The study showed that only 25% of the workers over 50s would consider retiring after 64.

However, the study also shows that a fifth of Spanish families close to retirement have still not managed to pay of the mortgage on their first home. This situation affects people between 50 and 65 years in particular, of whom between 20% and 27% are still paying their mortgages. Among 65 to 70 year olds, this percentage falls to 7%.

The report also shows that the transition from employment to retirement involves a significant drop in income. The average monthly income of a high-income household fell by 19%, while in the case of people on medium and low incomes, there was a drop of over 26%.

3.2.1. Europe

At the beginning of the twenty-first century, the proportion of over 65s stood at around 15%. The considerable yearly increase in these population segments is the result not only of an improvement in quality of life, but also of a reduction in the birth rate, which has now fallen well below the rate that would be required to ensure population regeneration.

An increase in this percentage would have very serious implications for social spending in EU member states. Although the social system does not function identically in all member states, to some extent or other they all based on recov-

⁵ *La generación de la transición: entre el trabajo y la jubilación*, by Víctor Pérez-Días and Juan Carlos Rodríguez, professor and lecturer in Sociology at the UCM, respectively. Colección de Estudios Económicos (35), Servicio de Estudios, La Caixa.

ering this spending through taxes, which will help meet spending on pensions, social security, unemployment benefit, incapacity benefit, etc. The greatest guarantee for measures of social projection is that related to the payment of benefits to old people and the sick and social security, which accounted for two thirds of spending on social projection in the 25 European Union member states in 2003.

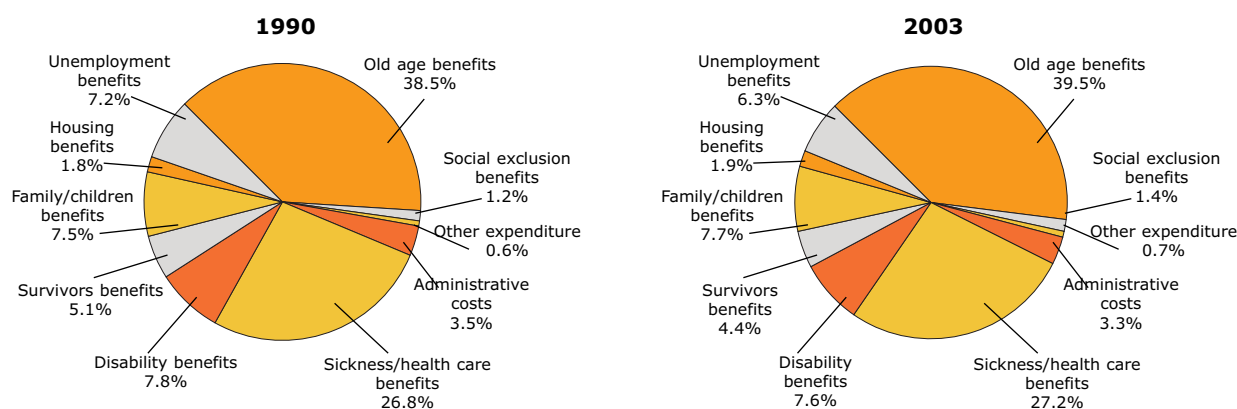


Illustration 9. Distribution of European budgetary expenditure on social protection¹.

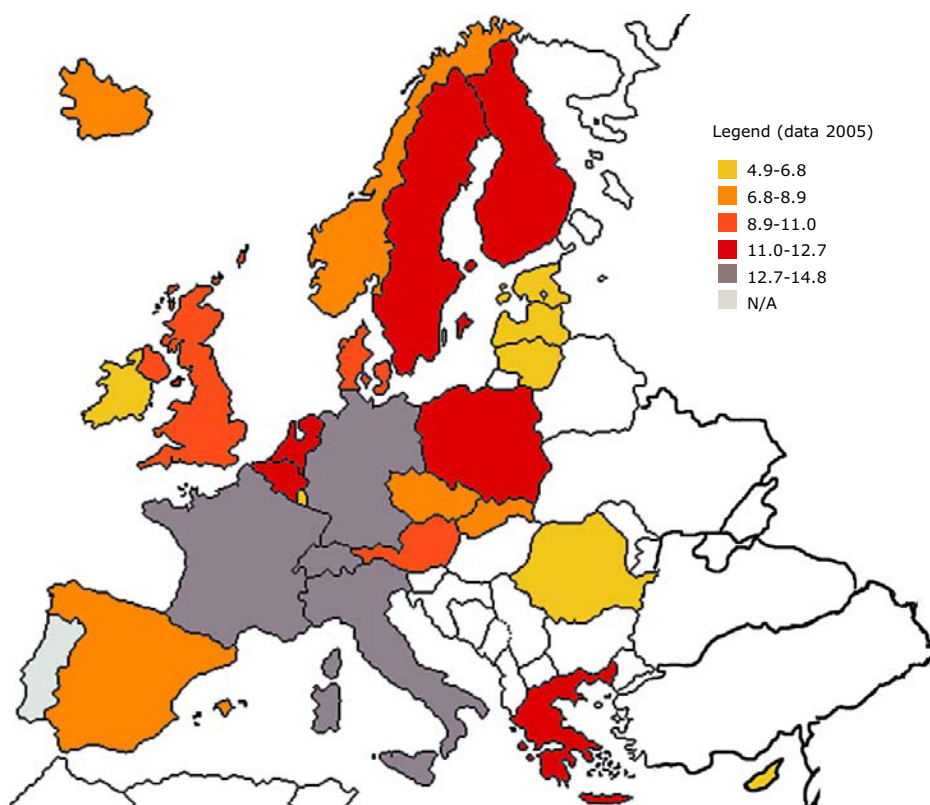
¹ EU-15 in 1990; EU-25 in 2003.

Source: Eurostat (http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-76-06-276/EN/KS-76-06-276-EN.PDF).

The increase in social expenditure and the trend in its distribution come from part of an ongoing attempt to ensure the sustainability of the pensions system common to most developed states, known as *Pay-As-You-Go* (PAYG). At this time, most social spending in European Union member states goes on pensions.

Expenditure on pensions

Current prices (percentage of GDP)



Minimum value: 4.9; maximum value: 14.8; EU-25: 12.2; EU-15: 12.3.

Illustration 10. Percentage of GDP of European Union member states spent on pensions.

Source: Eurostat (http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136184,0_45572595&_dad=portal&_schema=PORTAL).

What do we mean by PAYG? The PAYG pensions system is defined as being the formula whereby people in work (of working age) pay for spending on pensions. Currently, this ratio stands at around 4:1 in EU-15⁶ (including Spain), whereas the forecast for 2050 is close to 2:1. The Spanish case is even more disturbing, since there will be just 1.5 workers per person over 65. With this scarcity of

⁶ Includes only the first 15 members states of the European Union, not the 27 current members.

labour forecast for coming years—very slightly offset by immigration—the crisis in the PAYG system is not far off.

	Old-Age Support Ratio	
	2000	2050
Belgium	3.8	2.2
Denmark	4.5	2.8
Germany	4.2	2.0
Greece	3.8	1.9
Spain	4.0	1.7
France	4.2	2.2
Ireland	5.9	2.5
Italy	3.7	1.6
Luxembourg	4.8	2.6
Netherlands	5.0	2.4
Austria	4.3	1.9
Portugal	4.3	2.2
Finland	4.5	2.3
Sweden	3.7	2.4
United Kingdom	4.2	2.4
EU-15	4.2	2.4

Note: Old age support ratio is number of persons aged 15 to 64 for each person aged 65+.

Table 2. Projected rate of sustainability of PAYG system (2000-2050).
Source: Economic Policy Committee (2001), table 3.4, p. 21, and Annex 7, pp. 109-110.

The PAYG pensions system transfers productivity from the current workforce to those who are now retired. In addition, contributors trust that by paying their taxes, the state will guarantee them a certain level of comfort in their retirement years. However, in a few years time, this central tenet of the welfare state will become unsustainable, since there will not be enough contributors, leading to a crisis in the system.

From a financial point of view, the accumulation of assets (shares and obligations) in the hands of retired people who will want to sell them and a fall in demand for them resulting from the shortage of workers, makes it easy to understand why the value of such assets would fall. As a result, the market will also be

very severely affected and the values of pension funds will fall. In short, pensions will not go as far as contributors had presumed throughout their working life.

Governments will thus be directly involved in "dealing in old people's pensions". The financial sustainability of this system depends on management by governments and the performance of the financial markets.

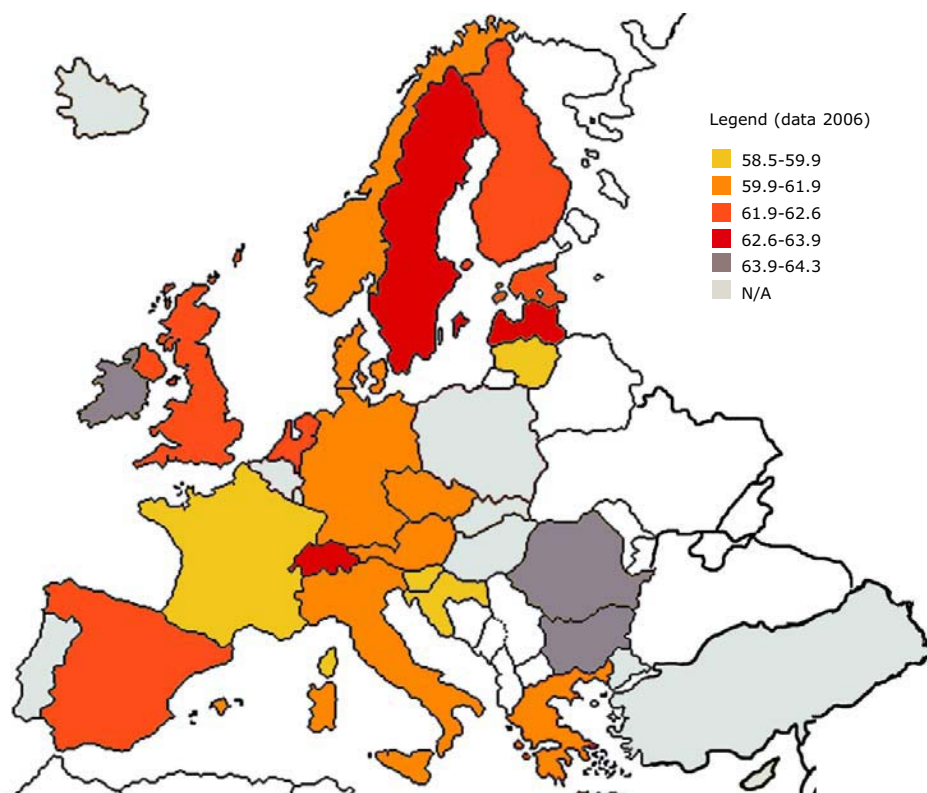
There are just three ways to alleviate or slow down the effects of a crisis in the PAYG pensions system:

- Increase in the workforce, with a constant influx of immigrants and an increase in the number of women on the labour market. However, these variables will not be enough to "make up" the PAYG pensions system.
- Reducing the segments that benefit from these funds, by promoting late retirement (as opposed to early retirement).
- Considering a mixed public and private pensions system.

Nonetheless, it is clear that none of these measures has taken root in the societies of modern Europe, looking forward as they are to early retirement, with better health and greater financial stability.

Average exit age from the labour force - total

Exit age weighted by the probability of withdrawal from the labour market



Minimum value: 58.5; maximum value: 64.3; EU-25: 61.0; EU-15: 61.4.

Illustration 11. Map of average retirement age by country.
Source: Eurostat (*Survey*. http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,1&_dad=portal&_schema=PORTAL).

Although the number of inhabitants in Europe is barely going to change, there will be a change in the age structure, with a considerable increase in the proportion of people at retirement age. By 2050, there will be 58 million retired people as opposed to 48 million fewer people in working age (15 to 64), due to lower fertility rates, an increase in life expectancy and the retirement of the baby-boom generation. As we have already seen, this will all mean that whereas there are currently four workers per retired person in the EU, by 2050 there will only be two; or to put it in economic terms, the dependency ratio will double, from 24.5% to 51.4%.

As a result of the drop in the population at working age, despite an increase in employment and productivity rates, employment will fall from 2017 on and pro-

ductivity will not increase as much as forecast. This means that potential growth will be lessened and the impact on pensions will be greater.

The European Union predicts a 2.2% increase in the weight of pensions on GDP, with notable differences between countries, ranging from a 12.9% increase in Cyprus and 9.7% in Portugal to rates of increase in countries such as Poland, where the weight will actually be reduced through the current process of privatisation of the pension system. An increase of 7.1% is forecast for Spain, making it one of the countries most affected.

The pension generosity rate (average pension/average salary) will fall progressively in Europe as many pension systems are restructured: there is a move from a system based on a wage index to one based on the consumer price index, which is applied in Spain. The result is that an increase in productivity leads to an increase in salaries, but not in pensions, which rise only in line with inflation. Another factor that will contribute to reducing the generosity rate is the planned introduction of a private system alongside the public one in several countries.

In an attempt to examine the current situation in Europe, the European Commission drew up a very thorough report on the minimum objectives that need to be guaranteed by all member states to ensure the good health of the welfare system with regard to senior citizens.

This document, the *Joint report by the Commission and the Council on Adequate and Sustainable Pensions*⁷, sets out the following objectives which are common to all pension systems in the European Union:

1. Prevention of social exclusion and ensuring that older people are not placed at risk of poverty.
2. Enabling people to maintain living standards and share in the public, social and cultural life of their country.
3. Promoting solidarity within and between generations.
4. Raising employment levels. Where necessary, labour market reforms will be used to increase the workforce.
5. Extending working lives. In order to make the pensions system sustainable, reforms will be introduced and incentives will be proposed to slow down the rate of early retirement. In addition, pensions systems must adapt to facilitate the option of gradual or partial retirement.
6. Making pension systems sustainable in a context of sound public finances.
7. Maintaining a fair balance between the active and the retired by not overburdening the former and by maintaining adequate pensions for the latter.

⁷ Website:
http://ec.europa.eu/employment_social/news/2002/dec/joint_pensions_report_en.pdf.

8. Ensuring that private pension provision is adequate and financially sound. Ensuring, through appropriate regulatory frameworks that pension schemes can provide pensions with the required efficiency, affordability, portability and security.
9. Adapting to more flexible employment and career patterns.
10. Meeting the aspirations for greater equality of women and men in the pensions system.
11. Working to make pension systems more sustainable, transparent and adaptable to changing circumstances, so that citizens can continue to have their rights as contributors assured after retirement.

In conclusion, it is worth noting the importance of European governments' providing citizens with information in this area and offering alternatives to offset the effects of mass ageing. Here, the clearest method would be to promote measures that delay the retirement age or at least do not encourage early retirement in companies that want to renew their workforce and replace high-salary contracts with the more modest ones characteristic of younger generations.

3.2.2. Spain

On average, Spaniards retire at age 62, in line with the European average. Nonetheless, in recent years there has been a slight trend towards delaying retirement. Among the main factors behind this postponement are a loss of purchasing power and a general improvement in health. This would lead us to presume that in the near future the older population will be more active and will have the same purchasing power for longer.

Population projections by Eurostat for Spain forecast a 1.5% growth rate in total population during the period from 2004 to 2050, together with a 21% reduction in the population at working age (16-64). As a result, the dependency ratio (ratio of population over to the productive population) will increase from 24.6% to 65.6%, placing the country well above the European average (51.4%). The fertility rate, which now stands at 1.3, is expected to increase progressively to 1.4 by 2020, and to remain at this level until 2050. This will be the lowest rate in Europe, together with Italy.

Assumptions on immigration indicate a reduction in net inflow from 508,000 people per year at present to 112,000 in 2010 and a slow reduction after that, to 102,000 in 2050.

An increase in the employment rate is expected, especially among women and over-55s, around 2018. This will partly offset the fall in the population in working age until 2020, but thereafter will be insufficient, and total employment will fall up to the final period in the projection's timescale.

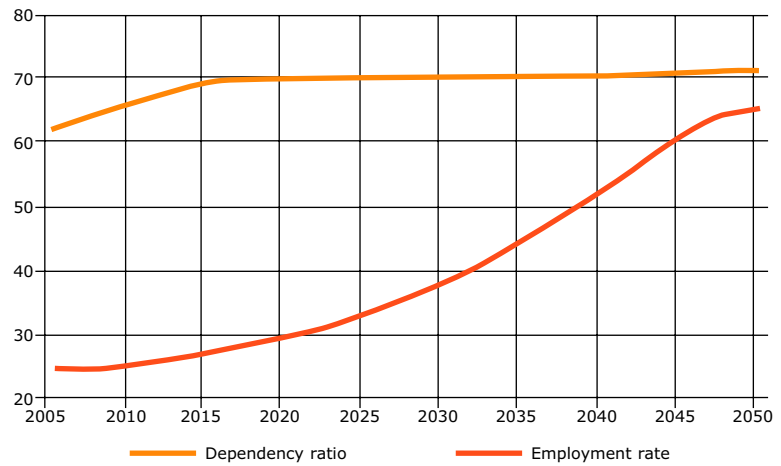


Illustration 12. Projected employment rate and dependency ratio (2005-2050).
Source: Eurostat.

Projections for productivity indicate a slow increase, from the miniscule growth rate at present of just 0.6% per annum to 2.1% in 2018, and a subsequent drop to 1.7% in 2030, a long-term figure which is identical for all EU countries.

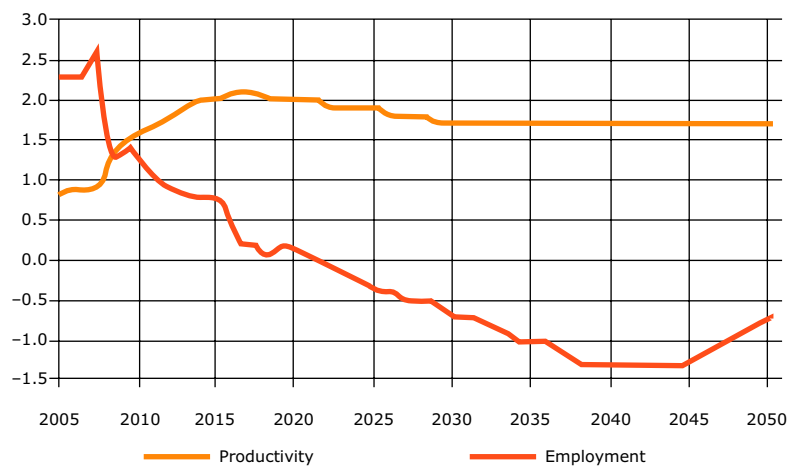


Illustration 13. Projected employment and productivity rates (2005-2050).
Source: Eurostat.

The projections for expenditure on pensions⁸ in Spain, according to the EU's Economic and Financial Affairs Council (ECOFIN)⁹, include all parameters in the present system and feed them with the aforementioned projections on employment, life expectancy and average salary. The result is growing expenditure on pensions as a proportion of GDP: from 8.6% in 2004 to 15.7% in 2050. The most important effect on pensions comes from the increase (more than double) in the dependency ratio, based on demographic projections.

⁸ Economic Policy Committee and European Commission (2006): "The 2005 EPC projections of age related expenditure", Special Report 2006/1.

⁹ ECOFIN, based on Eurostat forecasts. The INE has conducted its own population projections for Spain, with quite different results. The discrepancies with the Eurostat figures come mostly in two areas: firstly, the INE assumes an average fertility rate for the period one tenth higher (1.5 compared to 1.4) and, secondly, it anticipates substantially more immigration than Eurostat. These two differences explain why the INE estimates a growth in the Spanish population of nearly 10 million to 2050 (as opposed to the stagnation predicted by Eurostat) and, even more importantly, why the dependency ratio remains at 55% (ten points lower than that forecast by Eurostat and in line with the European Union average). These ten points are crucial, given that of the four ratios that can be extracted from the spending on pensions as a proportion of GDP, this is the most important.

The important thing is that these increases will not be very significant until 2020, giving a grace period of over a decade to take the necessary measures.

	2004	2010	2020	2030	2040	2050
Social Security	7.7	8.1	8.5	11.0	14.4	15.2
MUFACE	0.9	0.8	0.8	0.8	0.7	0.5
total	8.6	8.9	9.3	11.8	15.1	15.7

Table 3. Projection of spending on pensions (percentage of national GDP).
Source: MUFACE (Mutualidad General de Funcionarios Civiles del Estado).

For all of these reasons, population ageing in Spain poses major problems for the sustainability of public finances in general and for spending on pensions in particular. In the case of Spain, an increase of seven points in GDP is required, which would mean increasing the tax burden by the same amount, from the current level of 38% to 45%. While this is not an excessive figure in an EU context, the general trend is to reduce this burden, making it necessary to seek other alternatives.

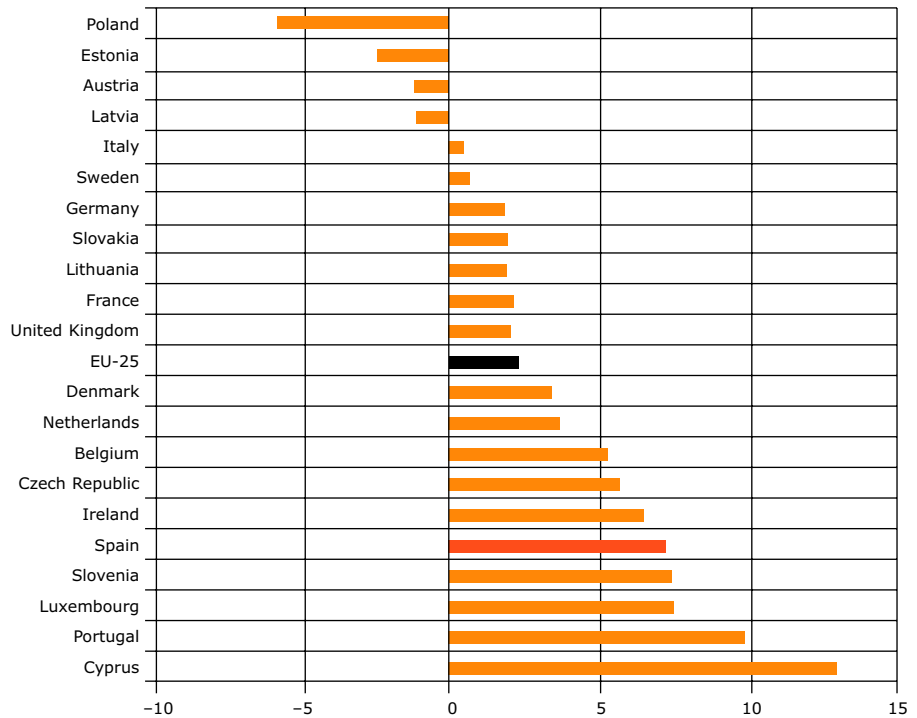


Illustration 14. Projection of pensions ratio in relation to GDP from 2004 to 2050. Source: ECOFIN, based on Eurostat forecasts.

Some of the recommendations from the governments of EU members states include:

- Increasing the effective age of retirement. This can be interpreted in two ways:
 - Increasing the effective age to the legal age (in Spain, for example, the average retirement age is below the 65 year mark set by law).
 - Increasing the legal age. Spain has not yet considered this option, but in other countries agreements of this kind have already been reached. Recent examples include Germany and the UK, both countries in where the forecast impact will be less than in Spain. Germany has announced a freeze on pensions until 2009, a gradual increase in the retirement age (one month per year) to 67, a raft of measures to increase the effective retirement age (which is just over 60 at present) and other measures to increase the employment rate among over 55s (which now stands at 42%). Britain is about to approve a negotiated reform which will raise the retirement age from 65 to 68, although this change will take place gradually from 2024 and will not become fully effective until 2044. They are also re-

forming various aspects to make public pensions more generous (at present they are much lower than in Spain) and foster the private pensions system.

- Working towards greater participation by women and over 55s in order at least to reach the employment rate set out in the projection.
- Productivity must be increased as much as possible, through education, R&D, an increase in the competitiveness of domestic markets and on international ones (reform of the Common Agricultural Policy), etc.
- It is important to integrate immigrants, since part of the short-term solution lies with them. In addition, experience shows that if they do not enjoy real equality of opportunity, the second and subsequent generations will demand it by any means at their disposal.

For all of these reasons, reforms in the pension system must not be studied without considering other issues that have a direct impact: incorporation of women into the workforce with equal opportunities, acceptance of immigrants as a compensatory workforce in the population pyramid, incentives for older workers to work longer and the provision of alternative retirement formulas, such as partial or gradual retirement.

The FTF experts confirm that although immigration will slow global population ageing, they will not be the solution, essentially for three reasons: firstly, in one and a half generations, immigrants take on the fertility rate of the local population; secondly, they generate an increase in general state expenditure; and, finally, the rate of growth in migratory rates in the most developed countries will not remain at the levels of recent years. This will contribute to offsetting the pace of ageing, but it will not stop it. Here, 60% of the experts consider that immigration will not in any way help maintain the PAYG pensions system.

3.3. A new employment scenario

The coming of a new phase of globalisation, characterised by multiple poles of economic power and unprecedented levels of interdependence, means that the business of the future, wherever it is located, will be very different to the present model.

What do we mean by a "multipolar world"?

The emergence of a world characterised by multiple centres of economic power and activity. It can be defined as a new and more profound phase of globalisation.

A study¹⁰ published by Accenture's Centro de Alto Rendimiento [High Performance Centre] (CAR) describes the driving forces behind this multipolar world:

- **The Technology:** the increased power of the information and communications technologies (ICT) allows business functions to be geographically desegregated.
- **Transparency:** levels of economic interdependence are increasing, thanks to government policies, free trade and access by some key emerging economies, such as China.
- **Business strategies:** the range of international business is expanding, which is increasing its presence in emerging countries.

In the same report, Accenture analyses the five dimensions that shape this multipolar world, and the results are plausible, especially in terms of employment (see Illustration 15).

¹⁰ The rise of the multi-polar world. Centro de Alto Rendimiento (CAR) de Accenture.

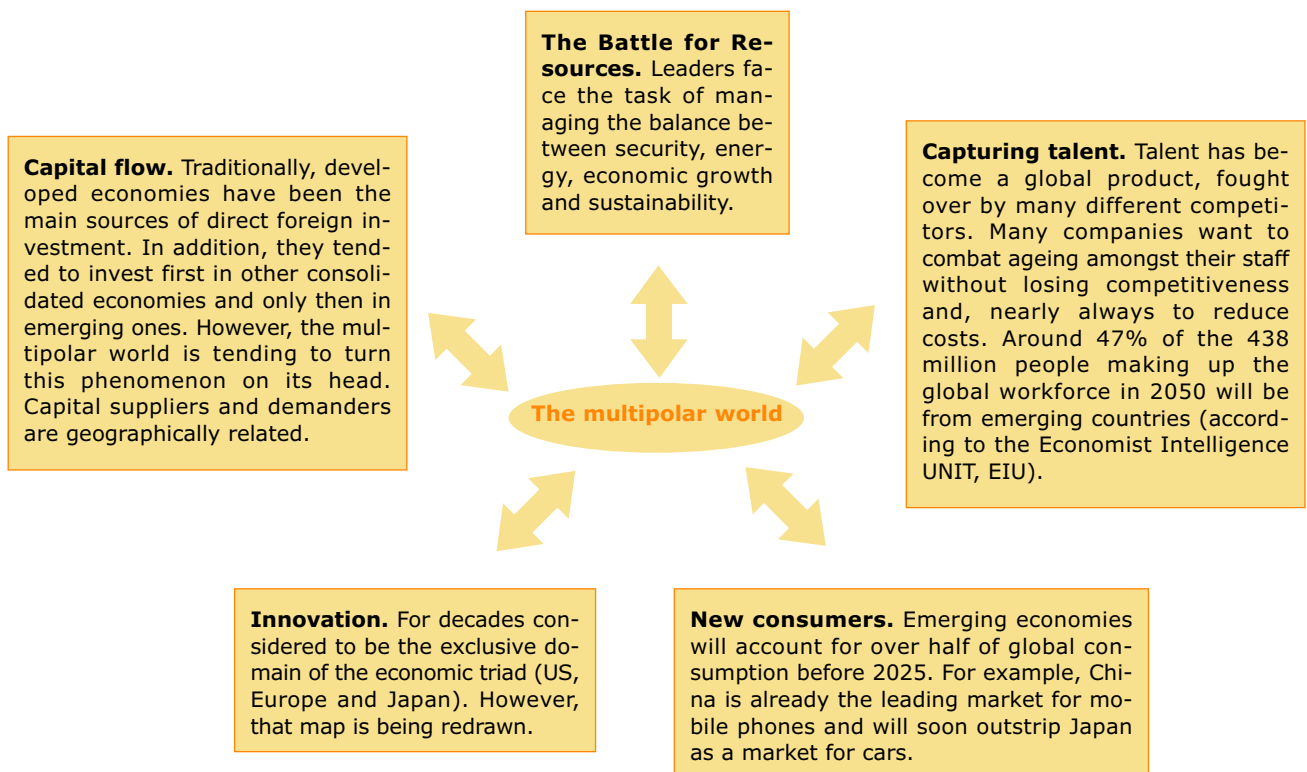


Illustration 15. Features of a multipolar world.
Source: The rise of the multi-polar world, Accenture, Centro de Alto Rendimiento (CAR).

High performance of companies will depend on their capacity to adapt to new markets and constant changes in the location of the sources of competitive advantage. National and regional divisions will become increasingly less important as companies begin to organise themselves around value creation rather than geography.

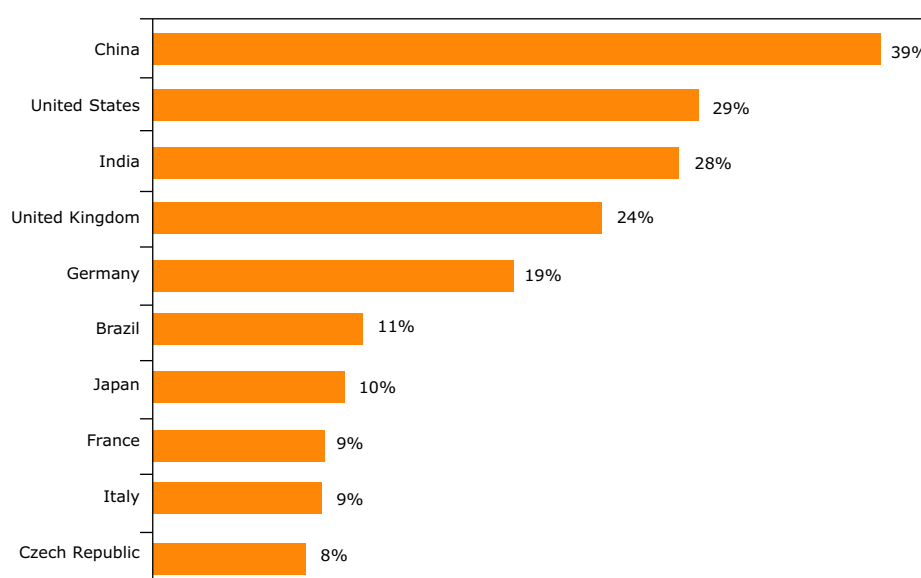


Illustration 16. Leading destinations of R&D investment, 2004-2007. Survey of 104 top management staff, who were asked to identify the three most appealing destinations for spending on R&D between 2004 and 2007. Source: Economist Intelligence Unit, "Scattering the Seeds of Invention. The Globalization of Research and the Development", 2004, p.3.

One of the handicaps that most conditions the mobility of skilled labour is the issue of contributions and the subsequent impact on pensions or the possible management of unemployment benefits. Here, the FTF members considered the possible creation of an international contributions system, but optimists and sceptics were evenly divided on this point. In any case, it does not appear to be a viable short-term option.

3.3.1. Talent flows and knowledge management

Large companies are trying to promote the idea that employees are their most valued asset and their main source of competitive advantage. However, in reality, most of them continued to be just as unprepared to attract and retain the talent as they were a decade ago. While in the 1980s the greatest concern was controlling costs and, in the 1990s, it was increasing the quality of products and services, in the first decade of the twenty-first century, managing talent and

knowledge are the banner of leading global companies, and CEOs are working hard to develop strategies, improvised or not, to correctly manage their staff's know-how.

Talent and knowledge have become a real headache for business managers, who have reinforced their human resources policies to try to improve the selection and retention processes. In any case, despite the fact that some steps have been taken over the last decade to make progress in this area, these efforts have largely been insufficient or misguided.

The five main obstacles to good talent management (according to a survey of 98 heads of human resources departments from 46 reference companies):

1. Executives do not invest quality time in managing talent: 59%.
2. The company does not encourage collaboration by not sharing resources: 48%.
3. Department heads are not oriented towards developing people's careers and capacities: 45%.
4. Department heads are not oriented towards identifying workers on the basis of *top/average/low* performance: 40%.
5. Delegate and executive directors are not sufficiently involved in defining talent management as a strategic issue: 39%.

Table 4. Main obstacles to good talent management (based on a survey of 98 heads of human resources departments from 46 companies of reference).

Source: interviews; McKinsey Analysis
(http://www.mckinseyquarterly.com/article_page.aspx?ar=2092#top).

Experience shows that HR departments and company management are mostly taken up with day-to-day work and constantly put off the talent management that would guarantee stability and work saving for the future.

The conclusion of the study *The War for Talent*, by McKinsey¹¹, is that many companies continue to see talent management as a tactical issue rather than as a comprehensive problem, closely linked to a long term business strategy. This all requires the direct attention of the company's management and numerous resources of all kinds.

This report indicates that both human resources directors and department heads recognise that they dedicate little time to managing talent and even less to retaining it, for two reasons: on the one hand, because they do not see it as a priority; And on the other, because the different departments share hardly any information and there is no unity in the internal management of talent.

¹¹ The complete study, entitled "The War for Talent", was begun in 1997. The authors subsequently published a book under the same title, which updated the information to 2000. See Ed. Michaels, Helen Handfield-Jones and Beth Axelrod: *The War for Talent*, Boston, Harvard Business School Press, 2001.

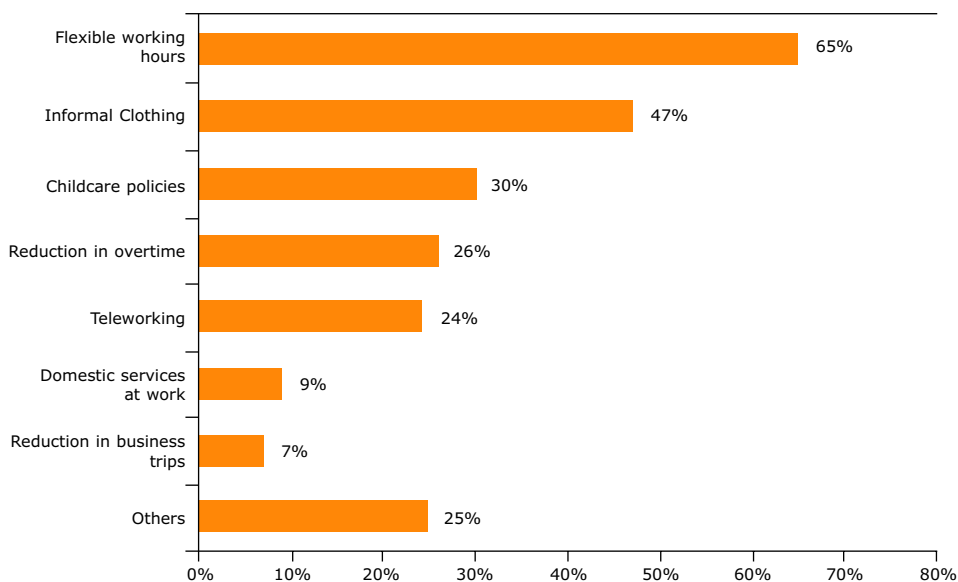


Illustration 17. Actions that companies need to take in order to retain young talent.
Source: Ignasi Buyreu, *Estudio sobre el capital humano*, IBM, 2005.

The directors of the recruitment departments themselves admit that some of the policies they follow in this area are inadequate; that they do not assess the department for its effectiveness in managing talent; and that in general, the department's decisions have little or no influence on the leadership of people.

According to consultants, talent management must be tackled as a comprehensive strategy. Moreover, management must assume that professionals, depending on their nationality, speciality and age, have different motivations for working in the company and, indeed, it is these reasons that will determine their desire to remain in their post or look for opportunities to change.

This precarious situation in talent management is being made all the worse with globalisation and the withdrawal of the baby boomers from the labour market, forcing global companies to hire young professionals from emerging countries, such as India, China and Eastern Europe.

For every 100 graduates with the corresponding qualifications, what percentage would you employ if you had vacancies for them all? (Based on 83 interviews of human resource executives)			
	Engineering	Accounting	General
Hungary	50	50	30
Czech Republic	50	40	20
Poland	50	30	15
Russia	10	20	10
Malaysia	35	25	20
India	25	15	10
Philippines	20	30	25
China	10	15	3
Mexico	20	25	11
Brazil	13	13	8

Table 5. Percentage of non-national graduates who the departments of human resources would employ to cover their vacancies.
Source: McKinsey Global Institute Analysis
(http://www.mckinseyquarterly.com/article_page.aspx?ar=2092#top).

According to the report *The rise of the multi-polar world* by Accenture's High Performance Centre, developed economies, such as the US and the UK, have traditionally been seen as producers of top scientists and engineers, and attractive destinations for professionals from other countries. This has contributed significantly to their capacity to innovate. The "brain drain", typical of developing countries, has cut the ranks of talented professionals in emerging economies. However, we are now seeing a turning point in the distribution of skills and talent on three different fronts:

- The return home of young people who have had an opportunity to study abroad. Previously, they tended to stay in the countries where they had spent their university years.
- A greater proportion of graduates with technical and engineering degrees in the most developed countries.
- Lower labour costs for the same qualifications.

All of these factors are helping boost the innovative capacity of emerging markets.

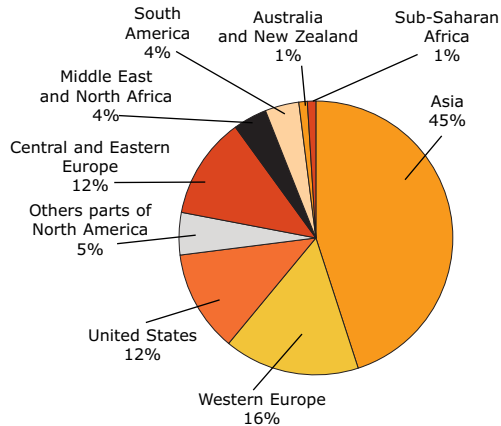


Illustration 18. Geographical origin of science, technology and engineering graduates in 2006.

Source: Centro de Alto Rendimiento (CAR) de Accenture, *Indicadores de Ciencia e Ingeniería*, National Science Foundation, 2006.

In parallel, the new international labour scenario means that the same game of cards is being played with different rules: those of the baby boomers and those of Generation Y. One of the greatest challenges in talent management is how to combine both ways of understanding work under the same umbrella. As this report by Accenture highlights, young professionals have been born into the digital era, what has immersed them in the Internet, technology and blogging.

Generation Y (see glossary) represents over 12% of the labour force in the US, while the retirement of the baby-boom generation means that 500 top companies in the country could lose up to half of their most experienced managers over the next five years. Nonetheless, the industry that will be most affected will be the aerospace industry, which faces the retirement of 40% of its staff over the next five years¹².

In addition, unlike previous generations, the members of Generation Y do not accept the concept of lifelong company loyalty, but instead design their careers as a series of short, intense chapters to climb from one organisation to another, which makes it even more difficult to retain this young talent.

These highly trained young people demand greater flexibility, work that has "meaning" for their lives, freedom, professional independence, high salaries, work-life balance, etc. In short, Generation Y does not want to work long hours in an office, performing monotonous work, always surrounded by the same people; more than a job, what they are looking for is continuous experience.

¹² "Turning boomers into boomerangs", *The Economist*, February 2006.

In short, ten years after it was first identified in the 1990s, talent retention continues to be the great challenge facing companies in addressing young twenty-first century professionals, alongside knowledge management, with the baby boomers rapidly approaching retirement.

Knowledge management is a concept used in organisations involving the transfer of the knowledge and experience of its members in such a way that it can be used as an available resource for other people working in the organisation.

Knowledge management means managing the intellectual capital of an organisation, in order to add value to the products and services it offers on the market and giving them a competitive edge.

Two factors have facilitated the emergence of the concept of knowledge management. On the one hand, technological development, which has enormously facilitated the management of intellectual capital and made it feasible from a financial point of view; and on the other, a growing awareness among the business world (and even in the most economically developed nations) that knowledge is a key resource in societies and organisations in which information is abundant—largely thanks to the Internet.

But what is knowledge? Ikujiro Nonaka¹³, a doctor at the University of Berkeley, draws a distinction between ¹⁴ two types of knowledge:

- Explicit knowledge: knowledge that can be structured, stored and distributed.
- Tacit knowledge: knowledge that forms part of each individual's personal learning experience, and which is therefore extremely complicated, if not impossible, to structure, store in repositories or transmit.

According to this distinction, ICT can only be used to store and distribute explicit knowledge. Nonetheless, it is also important to be aware that ICT has helped extend the range of what might be considered explicit knowledge: some forms of knowledge which were previously considered to be tacit are now seen as explicit thanks to the possibilities offered by communication networks, multimedia files and audiovisual technologies.

Clearly, then, it is both possible and desirable to store explicit knowledge in databases, document bases and intranets/extranets. However, as we have seen, it is not feasible to structure and store tacit knowledge, and therefore the best strategy for managing it would be to encourage the creation of collaboration networks among the people in the organisation (sharing networks), and even with external people, and to prepare a knowledge map accessible to all, setting out the knowledge held by each member of the organisation¹⁵.

In November 2003, the IESE Business Management School and the consultancy service, Capgemini Ernst & Young presented the second edition of their *Study of*

¹³ Ikujiro Nonaka has a PhD in business from the University of Berkeley and has lectured at universities such as the Hitotsubashi University Graduate School of International Corporate Strategy (Japan), Berkeley and the National Defence Academy of Japan. He was the dean of the Graduate School of Knowledge Science at JAIST (Japan Advanced Institute of Science and Technology). He is an expert in knowledge management and has authored some highly relevant reports and articles on the subject. More information at <http://www.dialogonleadership.org/Nonaka-1996cp.html>.

¹⁴ Nonaka, I.: *The knowledge creating company*, Oxford University Press, 1995.

¹⁵ Yasar F. Jarr: "Knowledge management: learning for organisational experience", *Managerial Auditing Journal*, vol. 17, Num. 6, pp. 322-328.



*Knowledge Management and Competitiveness in Spain*¹⁶. According to the study, 67% of Spanish companies are currently developing initiatives related to knowledge management (with a growth of 40% over the last two years). In addition, a further 38% say they plan to set up projects of this type shortly—this percentage has also doubled over the last two years.

According to the study, “people, innovation and economic results are the concepts that Spanish management staff associate with knowledge management”. This means that the aims go beyond the individual and his or her training and centre more on “results”, to a large extent through people’s contribution to the innovation process. Perhaps for this reason, in 30% of the companies analysed it was the general management that headed up initiatives in the area of knowledge management.

For the authors of the study, Rafael Andreu, lecturer at the IESE, and Joan Baiget, director of knowledge themes at Capgemini, knowledge management is “the set of practices that exist in a company which are used to try to develop and get the most out of employees and the organisation”.

The study concludes that the most important initiatives in the world of knowledge are being implemented through technology and particularly the Intranet, a portal to which only the members of the organisation have access, and which can be developed to very different extents. Other tools used to transmit knowledge include manuals, lectures, Internet forums for workers and training courses.

Unión Fenosa offers an example of good practice, managing knowledge through its corporate university. “70% of the university’s activity is run by internal experts”, says José Ángel Fernández-Izard, director of the training centre. The power utility has been investing in knowledge management for the last ten years and has 800 people working in processes of knowledge transfer.

“In addition, the Intranet: means that we have a specific portal on knowledge targeted at employees. That means that a manager in Nicaragua doesn’t have to call us any time he has a query, but can instead check the problem using the portal—explains Fernández-Izard. We don’t want knowledge to be locked away in drawers, but to be easily accessible”. Employees also have a place in the intranet: where they can share their knowledge: a forum known as the “community of practices”.

The FTF experts agree that companies must find suitable formulae so that their most experienced workers will not want to leave their jobs entirely when they reach retirement age and take their knowledge with them. To achieve this, companies must adapt to the new needs of senior employees. Some of the best measures include: flexibility in working hours and workplace location; payment not only in economic terms, but also perquisites in the form of goods and services; and assignment of high-value tasks that do not require physical effort, such as mentoring, guidance, motivation and training, among others.

¹⁶ Study based on surveys and personal interviews of over a hundred medium and large-sized companies.

Some companies have already anticipated this trend, designing formulas to facilitate baby boomers to see retirement not so much as a "yes" or "no" decision, but a "how". The Lincoln National financial group has created a division for its most senior employees. The pharmaceutical firm CVS offers *snowbird* programmes, which allow baby boomers to work in their usual office in the summer and in the winter move to warmer and sunnier locations such as Arizona and Florida. IBM is looking for retired people to work on projects where they are needed to share their knowledge and experience with younger workers. This demonstrates that there are companies that have anticipated the trend and will benefit from their far-sightedness.

Going one step further, some of these pioneers in human resource management for seniors have created complete business lines staffed entirely by baby boomers, integrated in a secure and comfortable environment, which generates trust among the company's customers from the same age group. For example, the financial firm UBS has handed its pension plans and retirement advice divisions over entirely to older staff, because it has been found to be very positive to have seniors offering advice to other seniors, with whom they probably share similar concerns.

The value of knowledge and its management are now beginning to be seen as the keystones to the very management of organisations. It is therefore important to remember that the senior workers in companies have the most experience and the most knowledge. Although some of their functional capacities may be in decline, the way they perform certain types of tasks can improve, especially tasks that require a high degree of skill, experience and decision-making. Companies cannot do without their "experience capital", which must be encouraged by the workers themselves or by creating mechanisms that allow it to be transferred to other younger workers.

3.3.2. Analysis of the role of the immigrant in the Spanish labour market

Immigrants have now become an essential part of the Spanish labour market. Indeed, in 2007 a new high was reached in the hiring of immigrants, who accounted for 14.10%¹⁷ of the entire Spanish workforce, one point up on the previous year and twice the European average. Moreover, in 2006, two out of every three new jobs were occupied by non-nationals.

The very low birth rate means that the workforce is not growing at the same rate as the economy, which also drives Spaniards to be more interested in better jobs. Full employment is a reality in many parts of the country and as a result hiring immigrants is a must.

The FTF identified a number of different immigrant profiles. The initial division among new arrivals is between "skilled" and "unskilled" workers; According to the experts, in social and economic terms, the number of unskilled immigrants will be greater than skilled ones, although the latter will lead the investment and

¹⁷ INE: *Encuesta de la población activa*.

the creation of new companies. Remittances will reduce the wealth generated by part of this segment in Spain; however, these remittances will not contribute definitively to the enrichment of the countries to which they are sent. Some of the categories considered include: skilled workers looking for professional improvement/consolidation, skilled workers in search of new experiences, unskilled workers in search of improvements in quality of life, unskilled emigrants driven by necessity and refugees.

Each year, Adecco¹⁸ brings out a report entitled *Profile of the Immigrant (Perfil del Inmigrante)*. The seventh edition, written in 2007, assesses the results for the previous year. This gives a very reliable snapshot of the real situation of the immigrants in Spain and makes it possible to predict the trends over coming years.

According to the latest of these reports, the situation of near-full employment in Spain is beginning to attract not only unskilled immigrants, but also skilled ones in certain fields, such as IT, healthcare and manual trades. Under these conditions, companies are beginning to bring in this type of skilled worker from other countries. According to Eloy Capellán, Director of Immigration Affairs at Adecco, "the answer to the deficit in skilled workers is to cover these vacancies with skilled labour. Since there are no Spanish candidates for certain positions, they are taken by immigrants, who bring their training and experience to the industry and thus increase their productivity".

Adecco noted an increasing tendency among several companies to hire labour at source. Adecco works actively on hiring immigrants already living in Spain. An analysis shows that the services industry is the sector that hires most immigrants in Spain, accounting for 44.28% of the immigrants hired by Adecco in 2006. Next in line comes heavy industry, followed by the hospitality industry and more residually, agriculture.

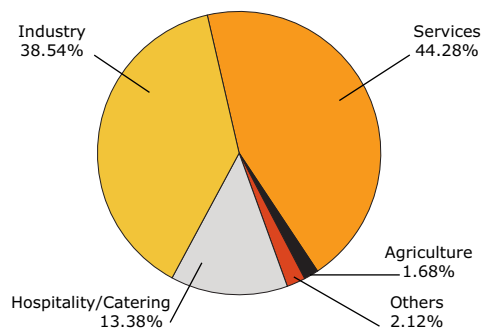


Illustration 19. Proportion of immigrants hired in Spain by industry.
Source: Adecco, séptimo informe *Perfil del Inmigrante*, 2007.

¹⁸ Adecco is a leading human resource management firm.

As for their countries of origin, the principal change is that intra-EU immigration has grown as various new countries have joined the union in recent years. Nonetheless, Latin America workers continue to be the most numerous, accounting for 40.84% of the total. The second largest group is from North Africa, accounting for 18.61%. Sub-Saharan Africans are the third-largest immigrant labour group at 15.05%. EU citizens represent 10.94%. Finally, 9.97% of foreign workers in Spain now come from Eastern Europe.

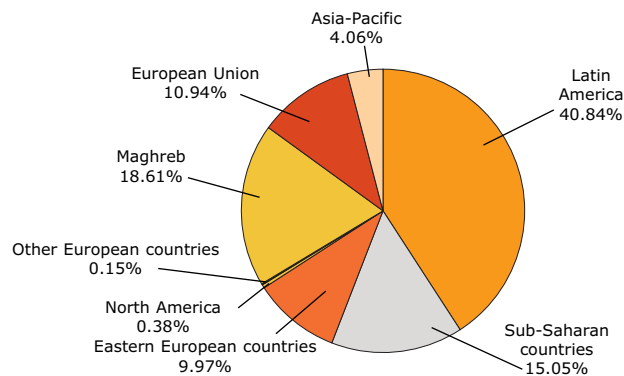


Illustration 20. Proportion of immigrants hired in Spain by origin.
Source: Adecco, seventh report *Perfil del Inmigrante*, 2007.

Nearly half of all immigrants who found employment in this country (48.97%) are aged between 26 and 35, with 16% between 18 and 25. This should be grounds for optimism as to the sustainability of the current model of pensions system.

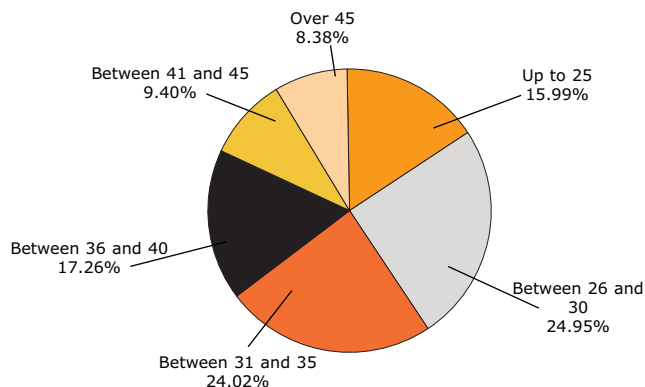


Illustration 21. Proportion of immigrants hired in Spain by age groups.
Source: Adecco, séptimo informe *Perfil del Inmigrante*, 2007.

Turning to regional differences Catalonia and Madrid are the two autonomous communities that employ most non-nationals. In 2006, these two regions alone hired nearly 60% of all immigrant workers recruited by Adecco: Catalonia 31.6% and Madrid 26.5%. Indeed, the number of foreign employees continues to increase in both communities at above the national average.

The FTF's panel of experts looked at the option of hiring at source, concluding that several companies are already using this formula to recruit personnel when necessary, and that it will gradually become more common practise. However, they also felt that the risks and legal and logistical complexities involved prevent recruitment at source if the companies can do it locally.

Moreover, when it comes to considering the need for certain profiles of skilled personnel in developed countries, such as nurses in the United Kingdom and Japan for example, nearly all the experts felt that the option of hiring at source was valid to cover these needs, especially in the area of healthcare and care for the elderly.

The experts set out a series of risks inherent to hiring non-nationals in organisations, offset by the opportunities they create. The risks mentioned included the possibility of discrimination, non-recognition of academic credentials, barriers to communication, lack of cultural identity, generation of more expenses and little knowledge of the business culture of the target country. However, given the opportunities presented by hiring foreigners, many companies see this phenomenon as being highly positive. Among these opportunities are an increase in remuneration and employment conditions, the diversification of knowledge and skills, the creation of synergies and commercial ties with other countries and the input of fresh ideas.

Best practice: VIPS group

The VIPS group has seen truly spectacular growth in recent years, not only in the number of new restaurants opened, but more particularly in the remarkable increase in staff numbers. In 1999, the group proposed a highly ambitious expansion plan: to create 1,000 net jobs a year as long as economic growth allowed. Since then, the targets have been met and the workforce has now grown from 2,800 employees at that time to over 10,000.

The trick to this development has been to hire at source. The company has set an example for others as to how to incorporate foreign workers, using a method that has earned it the plaudits of many associations. The staff of 10,000 people now includes nationals from 87 countries, and not only at the bottom of the professional ladder: 50% of the managerial staff is foreign.

Miguel Ángel García, director of human resources of the VIPS Group, sees himself as an employment salesman. "To assume that growth we needed a workforce which we couldn't find in Spain. So in 1999 we decided to stop whinging

and go out and look for workers abroad. At the time 9% of our staff were immigrants; now the figure is 63%; in some divisions they account for over 70% [...]. Immigration is not a question of 'yes' or 'no', but of 'how'¹⁹.

The first option was the contingency quota, in other words the number of jobs available by industry and province for non-resident foreigners as published by the government. This is the system that the VIPS group has used at some time in Ecuador, the Dominican Republic, Colombia, Morocco, Bulgaria, Rumania, Senegal, Chile and Peru. García says that after an application has been made to the Directorate General for Immigration, they start up the process and the workers are recruited either by the company or through the Employment Ministry.

As well as the contingency quota, the organisation has used another two formulas to recruit workers abroad: the catalogue of "positions of difficult coverage" and the registered contingency quota. In the first case, the Employment Ministry publishes these positions by province, and they are subject to review every three months. "If the positions demanded are in the catalogue—in Madrid there are around 160—you can make the selection in any country in the world and choose the candidate".

As for the registered contingency quota, the company has to have working operations in the country of recruitment; in this case, there is the possibility of bringing workers "nominatively" (on a registered bases) and with a definitive move. Staff turnover rates are very low too; in any case, much lower than other companies in the industry. "Less than 6% of immigrant workers leave during the first year, as compared to a turnover rate of 3.3% per *month* among Spaniards", says García.

Perhaps the secret of this loyalty lies in the reception and integration programmes the company has designed. Amongst the most important of these are the *Brazos Abiertos* (Open Arms) programme and the *Plan de Familiares* (Relatives Plan). In the first case, workers from the company volunteer to facilitate the integration of the new workers in their jobs and also in the country. The Relatives Plan, which began in mid-2006, allows family members of company employees to be hired in their countries of origin. Anyone interested only has to provide the contact information of their family member and when a significant number of applications has accumulated, the company travels to the country to conduct the selection process, by means of personal interviews with the possible candidates. Nine hundred people have been hired under this plan, and in 2007 the VIPS group received more than 40,000 applications for interviews.

¹⁹ Article "Reclutamiento y formación de inmigrantes, una necesidad para el Grupo VIPS", *Expansión y Empleo*, 17 September, 2007.

X-ray of the VIPS group

- The group VIPS opened its first outlet in Madrid in 1969.
- Brands: 16 (VIPS, Ginos, The Wok, Starbucks Coffee, TGI Friday's, Tío Pepe Restaurants, Paparazzi, Lucca, Tattaglia, Rugantino, Iroco, Bice, Teatríz, El Bodegón, Root and Mood).
- Workforce: 10,029 (63% non-Spanish).
- Nationalities: 87.
- 97.5% of staff have open-ended work contracts.
- 50% of management are non-Spanish.

Women immigrants: the link between immigration and ageing

In Spain, population ageing, the reduced capacity to combine work and family life, the absence of a public care network and the globalisation of the labour market have led to an increase in the hiring of domestic employees, who are mostly immigrants and women. The 2005 legalisation process helped increase the number of immigrants hired. The supply now remains steady.

According to the INE, of the 20 million people making up the workforce in Spain, around 400,000 immigrants work in domestic service or caring for elderly people. Domestic employees operate under the Social Security's Special Regime for Home Employees, whereby they cannot pay contributions in order to benefit subsequently from unemployment benefit, or collect temporary sickness benefit in certain situations. According to data from the Labour Ministry²⁰, 67% of the people operating in this Special Regime are foreign.

According to AESCO (América España Solidaridad Cooperación), most of these women are educated, but lack any other work opportunities. However, the home care sector is seen by most foreign women as the first step in their career in Spain.

Here, immigration and ageing meet. The foreign community, especially immigrant women, look after dependent elderly people as a first step on the employment ladder. Elderly people in turn benefit from extra care at a price that is more affordable than that offered by local workers.

²⁰ Social Security contributor figures (June 2006).

15,731 new immigrants by 2008

This year, Spanish employers will be able to hire 15,731 non-community foreign workers at source, under measures approved by the government in December 2007. The figure, which could be amended over the year depending on the needs of the labour market, is 41% lower than the quota of foreign workers established for 2007, which came to 27,034. The regions that will be allowed to hire the largest number of non-resident foreign workers are Catalonia (6,171), Madrid (4,282) and Galicia (1,345), while at the opposite end of the scale stand Extremadura (100), the Balearic Islands (67) and Asturias (34). By industries, catering and hospitality (4,267), commerce (2,570), the metallurgical industry (2,445) and services (2,277) are most affected by the "positions of difficult coverage" and the ones that hire the most workers at source.

Source: *Dossier empresarial*, No. 1, Year III, 14-20 March, 2008.

3.4. The impact of the new social jigsaw

The many studies of demographic trends conducted in recent decades and more specifically, on population ageing in industrialised countries have concentrated particularly on the dysfunctions this situation causes in public pensions managed using the distribution system. However, for some years now, the issue has been posed in much broader terms; At the same time as analysing the conditions required to ensure the functioning of the pensions system, studies also assess the economic and social advantages of keeping older people who are in full use of their physical and intellectual faculties, on the payroll. For the knowledge society, managing human capital (which involves recruiting and retaining people who throughout their professional life have accumulated a unique capital of experience and knowledge) can give a competitive edge which is difficult to achieve by other procedures.

The ageing of the European population is an inevitable consequence of some essentially positive changes: a growth in life expectancy, in many cases good health, and greater ease in deciding whether or not to have children (and when) among women with an increasingly high level of education, who find it easier to



access the labour market. Nonetheless, these profound demographic and socio-economic changes make it necessary to reform existing institutions, for reasons of economic effectiveness and social equality. Current economic policies are not viable in the long term, since they do not address the anticipated reduction in the workforce and the prospect of public finances spiralling out of control.

The source of the problem is not the increase in life expectancy per se, but rather the inability of current policies to adapt to the new demographic situation and the reluctance among companies and citizens to modify their expectations and their behaviour, in particular in the face of the modernisation of the labour market. In short, member states increasingly face a problem of pensions rather than of ageing. There can be no doubt that specific responses to the demographic challenge are above all a matter for individual member states.

Those reforms must also come within a suitable and strongly committed European framework, through the renewed 2005 Lisbon Strategy for growth and employment, the agreement on stability and growth, a strategy of sustainable development, cohesion policies and the open method of coordination on social protection and inclusion.

Similarly, with regard to the economic growth of nations, ageing is leading to a slow-down in the creation of wealth. While the more senior generations are moderating their rate of saving as a result of the new situation in which they find themselves and their new needs, younger generations save a smaller proportion of their income. If measures are not taken, a financial slow-down is forecast that will limit investment and cause the economic growth of nations to stagnate. The only solution that currently seems viable involves increasing the rate of saving, reducing public deficit and increasing the yield on financial assets to encourage investment.

3.4.1. Impact on the job market

When the population was pyramid-shaped, people in the 15-to-64 age group (working age) met production requirements in developed countries. Since they were generally in suitable physical, psychological and intellectual condition for performing the different jobs, the demand from companies centred on them.

	Total population			Up to 15			Working age (14 - 64)		
	2004	2050	Percentage	2004	2050	Percentage	2004	2050	Percentage
Spain	42,3	43	1	6.2	5	-19	29.1	22.9	-21
EU-25			-1			-18			-16
EU-15			1			-15			-13
Euro			0			-17			-16
EU-10			-12			-30			-27
	Total population			Elderly (over 65)			Very Elderly (over 80)		
	2004	2050	Percentage	2004	2050	Percentage	2004	2050	Percentage
Spain	42.3	43	1	7.1	15	111	1.8	5.3	199
EU-25			-1			77			174
EU-15			1			75			172
Euro			0			75			180
EU-10			-12			88			193

Table 6. Projected change in population structure in Spain and the European Union
Source: European Commission, 2006, p. 30.

To encourage and justify the withdrawal from the workforce of people close to retirement age, considered to be the least necessary, and in line with the feeling of a majority of workers who wanted to be freed of their obligations, the pensions system ensured that the income of retired people was not reduced too excessively. Quite often, when a company had to downsize its workforce, it used early retirement of workers aged between 50 and 55, for which it established an attractive system of payments. In this way, the habit of leaving work on reaching a certain age has been developed, with the corresponding release from employment obligations and the beginning of a new more attractive type of life.

Males	In work	Retired	Unem- ployed	Part- time	Situation at age 65		
					In work	Retired	Unem- ployed
59 years old	66.2		19.5	4.6	16.2	69.7	1.5
60 years old	56.6	16.1	10.2	4.5	18.6	70.5	1.7
61 years old	53.9	21.1	8.1	4.4	21.0	70.9	1.9
62 years old	49.1	24.7	7.4	4.0	23.5	71.6	2.1
63 years old	45.0	28.3	7.8	3.5	26.4	69.6	2.0
64 years old	38.6	33.5	8.5	3.1	31.6	65.8	1.5
65 years old	12.8	70.7	1.7	1.7			
66 years old	37.5	46.1	1.1				
67 years old	30.6	56.6	1.4				
68 years old	25.6	65.1	1.6				
69 years old	21.1	72.5	1.0				
70 years old	13.0	81.8	1.1				

Table 7. Employment situation of workers aged between 59 and 70 in 2004 (percentage of population of that age).
Source: Central bank of Spain, "La situación laboral en las edades próximas a la jubilación", *Boletín Económico*, April 2007, pp. 88 and 90.

Population ageing in most developed countries and an increase in life expectancy in normally healthy conditions calls for new approaches, however. Among others causes, this reduction in the group of working age means that the supply of workers is no longer sufficient to meet the demand required by the economy. It has been necessary to import labour from other less developed countries, but immigration flows are not enough to cover all the new needs caused by ageing. As a result, it is not only the problems of the pensions systems themselves that make changes in the labour supply necessary. In order to increase the population of working age, studies have been made of the labour conditions of 55-to-71 year-olds to see whether, despite their age, they might be capable of making a positive contribution in different industries. This has led instruments to be proposed that would help companies to know how their workforce could gain from an increase in the relative proportion of people of that age.

Analogously—and this is the most complicated part of the process—it is recognised that it is necessary to persuade people in this age group that their contribution to the economy could be very valuable and that a new perspective is needed whereby it is normal to postpone retirement. To do this, it will be necessary to modify payment systems so that people in this age group (55-71) have

incentives to extend their working life, because in the long term, this will increase the pension they receive. It is easy to imagine what a change of this nature would mean. The issue therefore needs to be debated so that it is brought to the attention of the general public, facilitating a change that will take a long time to achieve.

The incorporation of immigrants into the workforce poses certain problems that may discourage employers considering hiring foreign staff. Most FTF experts felt that the difficulties of integration, differences in work cultures and barriers to communication were the main causes for this fear. Legal impediments and lack of qualifications were clearly ranked lower.

3.4.2. Impact on the economy

The world population is going grey and the balance sheets of the world's leading national banks show how the growth to which we had become accustomed in recent years is stagnating. One of the primary reasons is that the population of Japan, the US and Western Europe, which constitute the vast majority of the wealth creators, is getting older. Over the next two decades, the average age in Italy will rise to 51 (from 42 at present) and in Japan to 50 (from 43 at present)²¹. Given that people generally save less after retirement and younger generations are traditionally not great savers, the rate of savings in developed countries is plummeting.

In just twenty years, household wealth in the world's leading economies will have fallen substantially²². The fall in saving rates will impact investments and halt economic growth in these countries. Nowhere will be safe from this phenomenon. For example, in the United States, the population is relatively young, the birth rate is comparatively high, the migratory flow remains stable and positive, and the trend towards ageing is somewhat lower. Even so, the savings rate has been decelerating, starting even before the baby boomers began to retire. To finance this deficit, the US has placed its trust in capital flows from Europe and Japan, but these are also suffering from the ageing phenomenon, and to an even greater extent. What is even more alarming is that not even developing countries, such as China, will generate enough savings to offset these differences.

The solutions are not simple, because we need to look at the roots of the problem and not at its manifestations: delaying retirement age, providing incentives for families to have more children and reducing restrictions on immigration would help lessen the impact. Nonetheless, stimulating economic growth is not a solution in itself, and nor will the imminent production and technological revolution. To bridge the gap between overall savings and financial wealth, households and governments will have to increase their reserves in order to generate more yield on the assets they already have. These changes may involve options that are painful today, but necessary for tomorrow.

²¹ Source: United Nations, *World Population: the 2002 Revision Population Database*.

²² Source: study *The Coming Demographic Deficit: How aging populations will reduce Global Savings*, McKinsey publication.

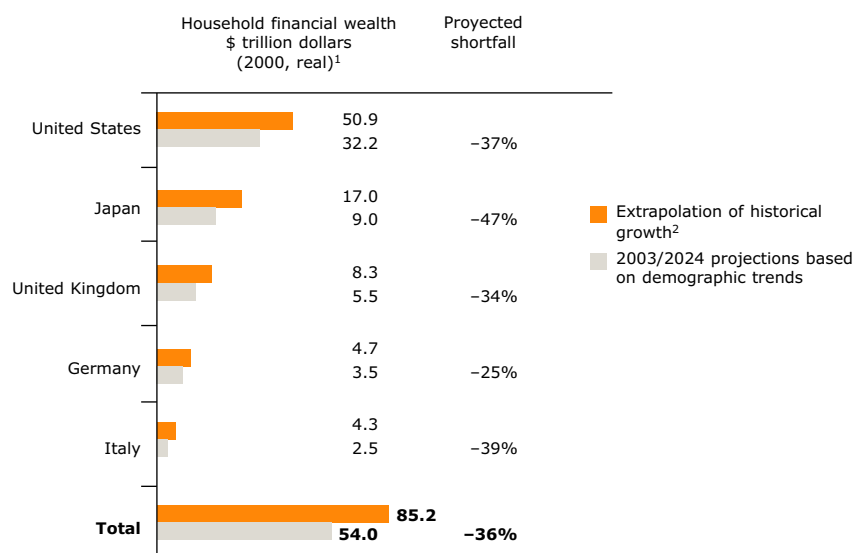


Illustration 22. Projection of savings in the world's leading economies.

¹ Figures do not sum to total, because of rounding.

² For Germany (1991-2003); Italy (1986-2003); Japan (1989-2003); United Kingdom and United States (1973-2003).

Source: Xe.com and McKinsey Global Institute household-financial-wealth model (McKinsey Analysis).

The FTF members agreed that the over-50s must take more active control of their economy, not stashing their savings under the mattress, but investing it to enjoy a stable retirement. The most logical ways of doing this include pension plans and the acquisition of real estate. However, governments will need to stimulate investment by private individuals: the greater the volume of investment, the more stable will be the economy; and the more secure the economy is, the more investment will grow. It is not clear which of the two premises needs to occur first, but it is clear that investment is indispensable for the sustainability of economies.

In just two decades, there will be two and a half times more people aged over 80 than there are today. Following in this line, the proportion of old people rises and savings fall. If most of a nation's savings comes from the population aged between 30 and 50 (the *first savers*), savings will fall. As a result, households not only begin not to save, but they even begin to eat into the assets they have accumulated.

The ratio of first savers has decreased considerably in Japan and Italy in recent years. The Japanese case is paradigmatic, given that it has always been considered an austere and "saving" country; however, the saving rate in the country has fallen from 25% in 1975 to 5% in 2005. This trend is mirrored in countries

such as the US, Germany and the UK, where savings rates are falling or holding steady at a very low level.

Yet to what extent will the reduction in first savers affect the saving rate of developed countries? These countries show a hump-backed curve in the savings life cycle. As a result, an increase in old people will lead to a clear reduction in the country's wealth. Moreover, the situation is made worse by the increasing tendency among young people not to save. This trend is motivated by three convictions²³:

- Trust in inheritance.
- Belief that economic difficulties can always be resolved.
- Availability of consumer loans and mortgages.

Most of the studies and discussions on ageing have centred on the rapid growth in spending on pensions and medical care. However, very little attention has been paid to the repercussion this phenomenon might have on savings, wealth and economic welfare. In countries such as the US, where concern over ageing is not yet so severe, the reduction in the rate of savings is a result of the lower percentage of their incomes young people allocate to saving, either because it is not one of their priorities or because they are on low incomes.

Attempts have been made to apply different policies to offset these effects, such as encouraging immigration, delaying retirement, having more children, stimulating the economy, etc. However, all these measures do is patch over the problem, not solve it. Given that the members of households do not form part of the first savers group until they are well into their maturity, all of these policies are insignificant.

²³ Source: "The demographic deficit: how aging will reduce global wealth", *McKinsey Quarterly*, March 2005.

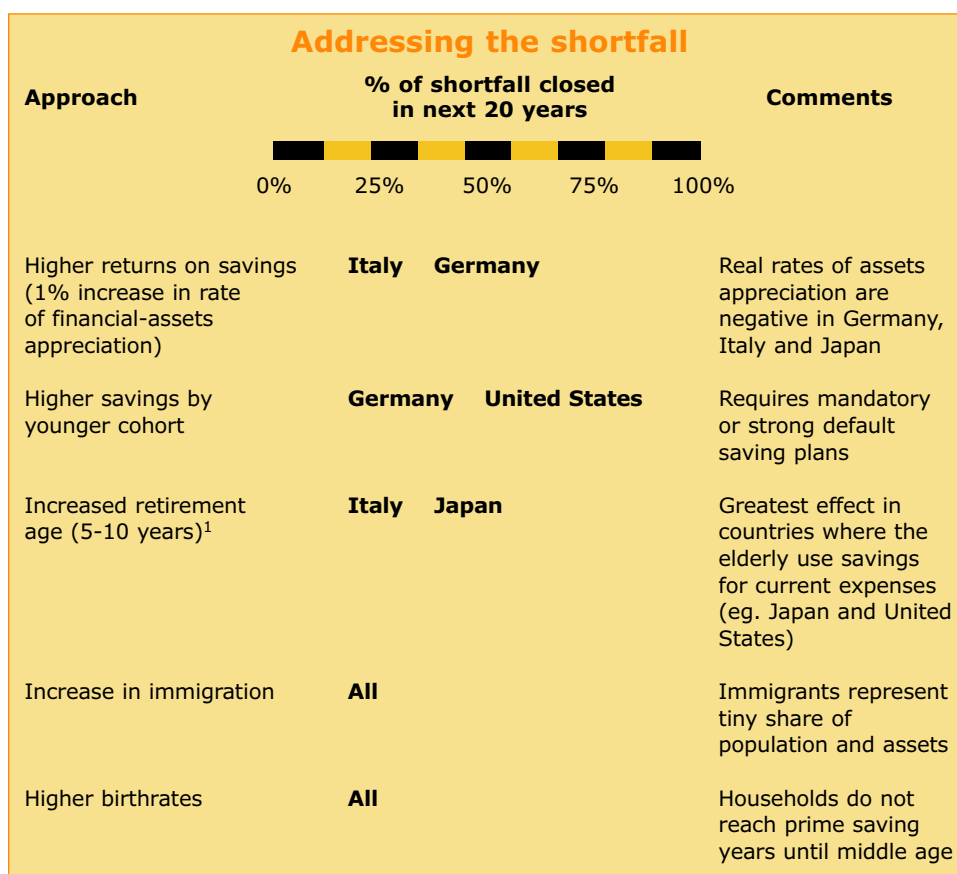


Illustration 23. Effectiveness of measures taken to mitigate the financial effects of the deficit on global wealth.

¹ Estimated by prolonging peak saving years by 5-10 years.

Source: McKinsey Institute household-financial-wealth model (McKinsey Analysis).

Finally, the future of less developed economies may also be in danger. Turning this trend around might require working to increase the efficiency of capital, stimulating savings among the young and reducing government deficit. These measures could be the first steps towards preventing very serious consequences on a global scale.

3.4.3. Impact on social care and public finances

Population ageing in the European Union, resulting from an increase in life expectancy and a low fertility rate, pose important economic and social challenges. In particular, its impact on increasing public spending conditions the long-term sustainability of public finances and pensions systems.

In the EU-25, the greatest increase in spending is on pensions (2.2 percentage points of GDP), followed by healthcare (1.6 percentage points) and dependency care (0.6 percentage points), whereas there was a slight fall in spending on unemployment benefit (–0.3 percentage points) and education (–0.6 percentage points) to give a total impact of a 3.5 point increase in public spending measured against GDP to 2050. As we have already seen, this increase is essentially due to a major forecast fall in the population in working age, which will not be fully offset by the increase in productivity, with a duplication in the dependency ratio in EU-25.

	Pensions			Healthcare spending			Dependency			Unemployment			Education			Total		
	2004 level	Variation 2004-2030 (percentage points)	Variation 2004-2050 (percentage points)	2004 level	Variation 2004-2030 (percentage points)	Variation 2004-2050 (percentage points)	2004 level	Variation 2004-2030 (percentage points)	Variation 2004-2050 (percentage points)	2004 level	Variation 2004-2030 (percentage points)	Variation 2004-2050 (percentage points)	2004 level	Variation 2004-2030 (percentage points)	Variation 2004-2050 (percentage points)	Level 2004	Variation 2004-2030 (percentage points)	Variation 2004-2050 (percentage points)
Germany	11.4	0.9	1.7	6.0	0.9	1.2	1.0	0.4	1.0	1.3	–0.4	–0.4	4.0	–0.8	–0.9	23.7	1.0	2.7
Austria	13.4	0.6	–1.2	5.3	1.0	1.6	0.6	0.3	0.9	0.8	–0.1	–0.1	5.1	–0.9	–1.0	25.2	0.9	0.2
Spain	8.6	3.3	7.1	6.1	1.2	2.2	0.5	0.0	0.2	1.1	–0.4	–0.4	3.7	–0.7	–0.6	20.1	3.3	8.5
France	12.8	1.5	2.0	7.7	1.2	1.8				1.2	–0.3	–0.3	5.0	–0.5	–0.5	26.7	1.9	2.9
Italy	14.2	0.8	0.4	5.8	0.9	1.3	1.5	0.2	0.7	0.4	–0.1	–0.1	4.3	–0.8	–0.6	26.2	1.0	1.7
Portugal	11.1	4.9	9.7	6.7	–0.1	0.5				1.0	–0.1	–0.1	5.1	–0.6	–0.4	23.8	4.1	9.7
United Kingdom	6.6	1.3	2.0	7.0	1.1	1.9	1.0	0.3	0.8	0.4	0.0	0.0	4.6	–0.5	–0.6	19.6	2.2	4.0
UE-25	10.6	1.3	2.2	6.4	1.0	1.6	0.9	0.2	0.6	0.9	–0.3	–0.3	4.6	–0.7	–0.6	23.4	1.6	3.4
UE-15	10.6	1.5	2.3	6.4	1.0	1.6	0.9	0.3	0.7	0.9	–0.2	–0.2	4.6	–0.6	–0.6	23.5	1.9	3.7
Eurozone	11.5	1.6	2.6	6.3	1.0	1.5	0.7	0.2	0.5	1.0	–0.3	–0.3	4.4	–0.7	–0.6	24.0	1.9	3.7
UE-10	10.9	–1.0	0.3	4.9	0.9	1.3	0.2	0.1	0.2	0.4	–0.2	–0.2	4.7	–1.5	–1.3	21.1	–1.8	0.2

TABLE 8. Projected variations in public spending associated with aging between 2004 and 2050 (percentage of GDP).
Source: Informe de Envejecimiento 2006 CPE/Comisión.



In the case of Spain, the projections show an increase in ageing-related public spending of 8.5 percentage points of GDP between 2004 and 2050, the second highest in EU-15 after Portugal, and one of the highest in EU-25. This increase is due mainly to a greater increase in spending on public pensions measured against GDP (7.1% between 2004 and 2050: it will rise from 8.6% of GDP in 2004 to 15.7% in 2050), representing the third largest increase in the EU-15, after Portugal and Luxembourg. Healthcare spending will increase 2.2 percentage points and spending on dependency care will rise by 0.2 percentage points, offset to a limited extent by a fall in spending on unemployment benefit (-0.4%) and education (-0.6%).

Under current policies, ageing will increase spending by between 3 and 4 percentage points of GDP between 2004 and 2050, representing an increase of 10% in public spending²⁴. These upward pressures will be evident from 2010 and will be particularly strong between 2020 and 2040. They will affect pensions, health and the services for the elderly. Overall public finances could become unsustainable in many countries and even jeopardise the future balance of the pensions system and social benefits in general. Allowing ageing-related public expenditure to push the budget deficit up in this way would lead to an unsupportable spiral of debt. Such results would put an end to economic growth potential, jeopardise the workings of the single currency and would subsequently require a dramatic reappraisal of pensions and health benefits, with major negative consequences for the future welfare of retired people and social security contributors.

Postponing reforms to a future date, when there is an increase in public spending related to pensions and health, would mean missing an opportunity to ensure that all generations, including the baby boomers, contribute to the necessary process of adjustment. In general terms, however, the governments of EU countries have not been inactive and recent reforms, specifically in the area of public pensions systems, health, the labour market and education, have begun to yield results, which are particularly evident in employment rates among older workers, which have grown quickly since 2000. Another aim of these reforms is to transfer responsibilities from governments and companies to individuals. As a result, citizens will be encouraged to adopt a much more active role, in terms of saving money for their retirement and in deciding when to retire.

Ageing will also result in a major increase in public spending on health and long-term care, albeit the future improvement in the health of the elderly will play an important role. For this improvement to occur, it will be necessary to adapt the health services better and introduce a preventative approach to chronic illness, which could be based on the use of new technologies. If future increases in life expectancy were combined with a situation of good health and an absence of disability, the forecast increase in public spending on ageing-related health and dependency care would be cut by half.

In most EU member states, public finances cannot be sustained with current policies. A lasting effort of budgetary consolidation is needed. Increasing the

²⁴ Communication from the Commission, *Viabilité à long terme de finances publiques dans l'UE* [COM (2006) 574, 12 October 2006].

rate of participation in employment is an effective measure available to governments to increase revenue and meet the expenses associated with ageing without raising tax rates.

Recent reforms in the pension systems of several countries will considerably reduce the financial imbalance in such systems. Nonetheless, additional changes may be necessary in some countries; in particular, to prevent early departure from the labour market, increase the age of final retirement, offer financial stimuli to older people to remain on the labour market and allow people to back up their retirement pensions with complementary pensions, at the same time guaranteeing greater balance between benefits and individual contributions.

New challenges are emerging related to the development of private saving and capitalisation systems, caused, for example, by the degree of coverage offered by these systems, the level of contributions and the increasingly important role of pension funds, which in turn pose problems of transparency and supervision quality. In this context, promoting effective financial markets and conditions of stability and security that will allow individuals to save and invest is crucially important.

Governments must also encourage the creation of a sufficiently wide and varied range of financial instruments. It is also necessary to facilitate the accumulation of saving and private capital, to allow people greater freedom in determining the volume of income they want to have when they retire. Major communication and financial training will also be required to help people adapt to the new circumstances.

The FTF experts analysed the capacity of the PAYG pensions system to remain sustainable in the medium to long term and concluded that governments must implement major reforms throughout the system: it is essential for the generations that have not yet reached 50 to accept that they cannot retire before 70, and that they must take responsibility for their future pensions, making provisions for a pension fund or other financial assets that will ensure their future stability.

The relationship between ageing and migratory movements is not a theoretically complex one: the labour deficit in developed (i.e. ageing) countries is partially offset by the influx of foreign workers, so that economic growth is not affected by the lack of a sufficient local population of working age. However, everything gets more complicated when we take into account the fact that emigration, as well as having evident benefits for the host country, also generates costs. The demand on public assets, especially those related to social protection, rises. This can lead in either of the following directions:

- An increase in the supply of these goods and thus in taxes.
- An increase in the demand for goods whose supply does not grow. The result would be the expulsion of certain segments of population who cannot access these goods.

In principle, these costs can be seen as a long-term investment which ultimately benefits everyone. The type of relationship the emigrant has with his or her "family unit" then becomes decisive. Immigrant workers can only be a (partial) solution to ageing if they are planning to stay.

3.4.4. Impact on business

As previously analysed, life expectancy is increasing, as the health and purchasing power of older people improves. This means that seniors have now become active consumers for a longer time.

Old people go through different phases within this segment, with the result that their consumption patterns change. The first phase is the "empty nest" stage (55 to 65-70), when children have already left home and for the first time the couple or individual can think selfishly about themselves. The next stage is retirement (over 70), with a more restricted budget.

Lifestyles have changed greatly over recent decades and with them the supply of high-turnover products, principally food. With more people working, the amount of available time has fallen. The incorporation of women into the workforce and the new structure of households (more one-person households and households with fewer children) have filled the shelves of supermarkets with products to "make life easier".

On the contrary, older consumers appear not to have changed so much their consumption patterns during this same period. This is a fundamental observation for predicting the development of brands and studying new lines of products and services, new distribution and labelling patterns, and new commercial strategies.

"The change is radical: people used to stop consuming at a certain age, but old people today enjoy better health, better education and greater purchasing power; As a result, they form a large proportion of the thinking heads in business", explains Jorge Alavedra, vicepresident of the Bassat-Ogilvy advertising agency.

Nonetheless, when it comes to marketing, are "old people" the same as "seniors"? No. Their mortgages are paid off, the kids have left home and there are ever more of them. They have retired and have tons of free time. This is why they've become the new consumption kings and why the multinationals have been falling over themselves to invent products and services for a sector of the population they had almost forgotten about. In the market world, "older people", an age group no-one wants to belong to, comprise people aged over 55, a group which by becoming good consumers, have escaped the epithet of "senior citizens" to instead rise to the more elegant-sounding classification of "seniors".

The president of the cosmetics group L'Oréal in Spain, Luis del Valle, feels this is the third recent revolution in consumption: "First came men; then, *singletons*

(people living alone); and, now, in the western world, we have seen the rise of the seniors, a group with resources who know what they want". This phenomenon has its ambassadors in advertising, such as veteran actress Jane Fonda, who promotes an entire L'Oréal range, and the mature models that the Dove brand has dared to present without their clothes on to promote their creams.

No business has escaped this revolution, not even the financial sector. Never before has there been so much talk of inverse mortgages. "After 60, the mortgage burden falls off and there is greater capacity for saving for new products". People travel and buy luxury products they've never had before. For example, the press chief at Mercedes Spain, Juan Baneres, explains that "although the customer base has dropped in age, the habitual buyer of these vehicles is still someone who has recently retired".

By 2050, Spain will have the oldest population in Europe, with an average age of 55: the number of people aged over 65 will have tripled and the number over 55 will have doubled. José Luis Nueno and Julián Villanueva, lecturers at the IESE business school, analyse these trends and give these figures in their report *El mercado de los seniors en España: ¿oportunidad o burbuja de negocio?* (The seniors market in Spain: business opportunity or bubble?), prepared for AECOC²⁵, which highlights the change in the profile of the new mature consumer. "We will probably see senior consumers being more demanding about what they purchase, more eager to consume contents, culture and entertainment and more interested in travelling – they explain. We will also see retired people going back to college or trying to learn that profession that for one reason or another they were unable to before". In short, they will be doing all the things they couldn't do before. The moment they retire, they normally go on a spending spree—which usually means travel and other indulgences. After that, the euphoria wears off.

²⁵ AECOC: Asociación Española de Codificación Comercial (Spanish Association for Commercial Coding).