L.E.C.E. E.L.E.C.

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President's message

In a world where geopolitical balances are disrupted by globalisation and financial markets are affected by the uncertainty about what the future may hold, European Union (EU) member states are no longer able to measure up with industry, finance or internet giants or even compete with emerging countries such as China. An inward-looking attitude will not help them face the four major challenges that made the headlines in 2015 and will continue do so in 2016. How to come out of the economic and financial crises and consolidate the Economic and Monetary Union (EMU)? How to respond to the new conflicts in Europe's neighbourhood and especially to the threat from ISIS and terrorism? How to manage the flow of migrants at the gates of Europe? And, finally, how to avoid the exit of the United Kingdom from the EU (the so-called Brexit) and the potential unravelling of European integration it could generate? The League has always supported the idea that we need not only more Europe but also a better Europe if we want to make our common future fairer, safer and more prosperous. This means that the EU should implement policies that are more appropriate and more efficient, so that everyone can see how useful European integration can be.

It is precisely the usefulness of the European construction and more particularly the euro which has been called into question by the sovereign debt crisis in the Eurozone countries. Despite many improvements in the regulatory framework and significant institutional strengthening, the EMU is still highly vulnerable over the long term due to weak growth, high debt levels and low investment levels. Besides, the region is also facing growing divergences in economic performance and in the capacity and willingness to implement the necessary structural reforms.

- A first task would be to improve convergence by focusing not only on the deficit and public debt criteria set out in the Maastricht Treaty and the Stability and Growth Pact but also on structural reforms (e.g. regarding ageing population), enhanced competition, improved competitiveness (especially through R&D activity) and balances of payments (avoiding excessive surpluses and deficits). Important in this respect is that the implementation of Greece's third economic assistance programme takes all these dimensions into account and does not focus exclusively on the fiscal dimension.

- A second task would be to reinforce the internal market, especially with regard to services, labour mobility, portability of pension rights, mutual recognition of professional qualifications, cooperation of employment agencies and national reforms enhancing price and wage adjustments.

- The European Stability Mechanism, founded in 2012, should become a genuine European Monetary Fund managed by a European Finance Minister, who would replace the Eurogroup president and would report to a Eurozone Parliament made up of the members of the European Parliament who were elected in the Eurozone countries. The European Monetary Fund's assistance would be subject to conditions, with transfers of sovereignty becoming more and more significant depending on the amounts lent and the risk of insolvency.

- The completion of the European Banking Union is another big challenge: the Single Supervisory Mechanism and the Single Resolution Mechanism are already operational, even though the Single Resolution Fund still has limited capacity. The introduction of a common deposit insurance scheme, which could play a key role in a new crisis, remains the missing link. The Capital Markets Union project would be an essential complement to the Banking Union.

- A fiscal capacity, with its own resources (a carbon tax and a financial transaction tax for instance) and a partial and conditional mutualisation of member states' sovereign debt (eurobonds), should be created at Eurozone level. This capacity could be used to grant loans to member states hit by an asymmetric shock and/or implementing structural reforms whose positive impact may take years to become visible. Also, the revision of EU's multiannual financial perspectives should be taken as an opportunity for a significant increase in the European budget.

- To support this ambitious program, the ECB's monetary policy should remain accommodative and prevent the fragmentation of the Eurozone as well as deflation while promoting bank lending, especially to SME's. However, it is clear that the ECB alone will not be able to revive growth and ensure the sustainability of the Eurozone in the long term. Governments will also have to take measures to stimulate growth through investment and structural reforms.

As one of the founders of the European Movement, ELEC has more than ever a role to play as a debating forum for innovative ideas, as a platform to propose creative proposals and as an efficient network reaching out to both Euro-sceptics and Euro-enthusiasts, to old and new Member States, as well as to close or distant non-EU European countries.

Our Economic and Social Commission convened in 2015 on the topic of "toward tax harmonisation in Europe?" (Paris, May 5th). The question mark proved to be crucial. During the lengthy debate it surfaced that tax harmonisation is a noble endeavour, but not easy to achieve. Harmful competition between member states should be avoided, but competition in itself is not a bad thing. The discussion resulted in a resolution that was later approved by the Central Council.

Another resolution, containing five conclusions and six different policy recommendations, emanated from the meeting of the Economic and Social Commission in Brussels on December 3rd on "population ageing and its economic and social consequences in Europe". One of the main conclusions of the debate was that the reforms in pension systems that have been realised up until now, do not go far enough. More will have to be done to deal with this multifaceted challenged.

The Monetary Commission focused on the Capital Markets Union that is under construction in Europe (Amsterdam, June 26th). The speakers and participants were confronted by the provocative question: will the shift from bank financing to market financing result in a world without banks? The outcome was mixed. Of course banks will be affected, but the CMU will also bring new intermediation opportunities to reconquer market activities. Banks will not disappear, they will change.

ELEC no longer has an active UK section, but in organising our so-called "London dinners" we try to keep in close contact with the European agenda in the UK. Inevitably, the ELEC London dinner that took place on October 12th was devoted to the imminent UK referendum on a "Brexit". The outcome of the referendum is of extreme importance not only to the UK (Conservative party, Scotland) but also to the rest of the EU (euro sceptics in other countries, migration crisis, euro zone) and even to Russia.

As for the financial situation, ELEC's balance sheet finally showed a surplus in 2015, the first one in more than ten years. We owe this drastic reversal to running the international secretariat in Brussels no longer on a paid but on a voluntary basis. The challenge for the coming years will of course consist in continuing this momentum so as to take ELEC into a new future 70 years after its birth.

Baron Bernard SNOY
International president

Meetings of the Central Council

Paris - June 5th, 2015

The summer Central Council was hosted by ELEC France and was held at the premises of the Banque de France in Paris. At the Central Council meeting itself, Bulgaria was admitted as the newest ELEC member. The Bulgarian section grew out the Vrana Economic Council of pro-European businessmen. The Central Council held a broad discussion on Switzerland, notably the position of the franc, the vote against mass immigration and the shrinking platform of ELEC members. To support the yes campaign in the upcoming UK referendum, ELEC is ready to work together with Belgian-British businessman Guy de Selliers to create some kind of "European friend of Britain" movement.

The meeting was followed by two special roundtables, attended by some 60 participants. The first one was devoted to the economic situation in the EU and the euro area. In the second roundtable on the new financial regulation in Europe, former IMF director general de Larosière, proved why indeed he earned the reputation of a "wise man". In the evening, ELEC members were invited to a dinner at the headquarters of BNP Paribas. In his after-dinner speech bank president Jean Lemierre focused on the challenges facing the EU and the euro area.

The day after, the summer Central Council concluded with a guided visit of the Versailles Palace.

Brussels - December 4^{h}, 2015

At the year-end Central Council a broad debate on European integration was held, taking as a starting point the keynote dinner speech given by Frans van Daele, the Belgian-European top diplomat who is now the head of cabinet of the Belgian king. van Daele did not hide that Europe is now on the defensive, but European federalists should not give up. Both EMU and Schengen were designed for fair weather, but now that the weather has turned bad, their weaknesses have been revealed.

As for the internal situation of the national sections, the Central Council approved the replacement of ELEC Switzerland by "Association La Suisse en Europe" to represent ELEC in Switzerland. A solution is also sought for ELEC Belgium that is confronted by a receding number of active members. Efforts continue to revive the sections in Italy, Armenia and the UK. In view of the UK referendum, national sections were asked to supply input for the yes debate in the form of studies and statistics that illustrate the benefits for their countries of the EU membership.

ACTIVITIES of the NATIONAL SECTIONS

and

MEETINGS of the COMMISSIONS

25 January – Madrid – Spanish section
Conference: "Las conclusiones de la Presidencia Italiana del Consejo de la UE"; Sr. Pietro Sebastiani, Embajador de Italia en España; Ángel Saz-Carranza, Director de ESADEgeo.

5 February – Paris – French section
Lunch debate with Mme Susane WASUM-RAINER, Ambassadeur d'Allemagne à Paris, "La coopération franco-allemande peut-elle permettre une relance de la construction européenne?"

12 February – Vienna – Austrian section
Luncheon Conference by Mr. Mag. Wilhelm Molterer, vice-president of the European Investment Bank on "Aktuelle Entwicklungen in der Europäischen Investitionsbank."

17 February – Barcelona – Spanish section
Lunch debate – The Spanish economy and the EU, Sr. Joaquim Gay de Montellà, President de Foment del Treball.

27 February – Polish section
Patronage of the conference for young people "Future is coming."

3 March – Paris – French section
Lunch debate, Mr. Jean-François SERVAL, Président de SERVAL et Associés ; Mr. Jean-Pascal TRANIE, co-fondateur d'ALOE Private Equity.

25 March – Madrid – Spanish section
Conference on the Latvian presidency of the EU, presidida por el Embajador de la República de Letonia en España, Excmo. Sr. D. Janis Eichmanis.

4 April – Paris – French section
Lunch debate with Jean PISANNI-FERRY, Commissaire général de France-Stratégie, "L'Europe : que faire?"

21 April – Barcelona – Spanish section
Luncheon conference "El sistema de pensions espanyol en el marc de la Unió Europea", Sr. Valeriano Gómez, Ministre de Treball i Immigració (2010-2011), Investigador del "Centro de Estudios Laborales de la Fundación Ortega Marañón".

23 April – Vienna – Austrian section
Luncheon conference on lessons from the Hypo Bank crisis, Frau Präsident a.D. Dr. Irmgard Griss.

05 May - Paris– <u>Economic & Social Commission</u>
"Towards tax harmonisation in the European Union?"

11 May – Barcelona – Spanish section
Conference on the European recovery, Sra. Elena Flores, Directora, Estratègia Política i Coordinació, Direcció General per Assumptes Econòmics i Financers, Comissió Europea.

19 & 21 May – Polish section
Patronage of the TriMUN conference for young people.

26 May – Vienna – Austrian section
Luncheon conference on the Austrian-Chinese relations, Botschafters der Volksrepublik China, S.E. Herrn Botschafter Bin ZHAO.

5 & 6 June – Paris – <u>Central Council</u>
Resolution: "Towards tax harmonisation in the European Union?"
Round tables.

9 June – Bern – Swiss section
Conference: Der Grundsatz der Nichtdiskriminierung im Europa- und Wirtschaftsvölkerrecht, Prof. Dr. Thomas Cottier.

16 June – Barcelona – Spanish section
Conference "30è aniversario de la firma del Tratado de Adhesión del Reino de España a la Comunidad Económica Europea", Excmo. Sr. Iñigo Méndez de Vigo, Secretario de Estado per la UE; Sr. Josep Oliu, Vicepresidente de la LECE i del Cercle d'Economia; Sr. Joan Josep Bruguera, Presidente del Consejo Universitario de la URL.

19 June – Bern – Swiss section
General Assembly of the Swiss section, with Jean Zwahlen : "L'échiquier économico-stratégique mondial à la lumière des développements asiatiques."

26 June – Amsterdam – <u>Monetary Commission</u>
Meeting on the consequences of the planned Capital Markets Union in Europe: "A world without banks?"

6 July – Barcelona – Spanish section
Conference with Mr Joaquin Almunia, European Commissioner responsible for economic and monetary affairs (2004-2010), European Commissioner for Competition (2010-2014).

7 September – Vienna – Austrian section
Luncheon Conference on Artificial Intelligence, Herrn Prof. Robert Trappl, Leiter des Österreichischen Instituts für Artificial Intelligence (OFAI).

12 September – Bern – Swiss section
Conference: "Switzerland in Europe."

17 September – Lisbon – Portuguese section
Conference 30th anniversary EU membership Spain & Portugal.

29 September – Paris – French section
Lunch debate with Michel CAMDESSUS, ancien Gouverneur de la Banque de France, ancien Directeur général du FMI, sur "L'Europe, les migrants et l'Afrique."

29 September – Barcelona – Spanish section
Conference 30th anniversary EU membership Spain & Portugal.

5 October – Barcelona – Spanish section
Luncheon Conference by Commissioner for Climate Action and Energy, Miguel Arias Cañete.

7 October – Barcelona – Spanish section
Conference Philippe Maystadt (EIB): "Financing long term investment in the European Union."

12 October – London – London Dinner
UK referendum on "Brexit".

21 October – Vienna – Austrian section
Luncheon Conference on the IMF, Herrn Dr. Johann Prader, Langjähriger Vertreter Österreichs beim IWF, zuletzt Exekutivdirektor Constituency.

3 November – Madrid – Spanish section
Conference on the Luxemburg presidency of the EU Council, Sr. Jean Graff, ambassador of the Grand Duchy of Luxembourg in Spain.

3 December - Brussels – <u>Economic & Social Commission</u>
Resolution: "Population ageing and its economic and social consequences in Europe."

4 December – Brussels – <u>Central Council</u>

RESOLUTION

"Towards tax harmonisation in Europe?"

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Resolution of the Economic and Social Commission
endorsed by the Central Council on June 5th 2015

I. The Economic and Social Commission of the European League for Economic Cooperation, which met in Paris on 5 May 2015, discussed the question "Towards tax harmonisation in Europe?" with a number of experts in the field: Robert BACONNIER, former Director-General for Taxation at the French Ministry of Finance; Jacques LE CACHEUX, Professor of Economics at the University of Pau, member of the French Economic Observatory (OFCE); Matias de SAINTE LORETTE, Head of Bureau E1 at the Tax Legislation Department, French Ministry of Finance, and Guillaume ROTY, member of the European Commission's permanent representation in Paris).

It reached the following **conclusions**:

1. The proper functioning of the single European market is hampered by widely varying levels of taxation in different Member States, in the areas of consumption (VAT),[1] income (especially corporate taxation) and savings. Such variations distort price levels across the European Union. Such levels should be established by free competition; the variations lead to a "race to the lowest tax rate", which gradually deprives States of resources and impinges on fairness without a lasting increase in their competitiveness. Excessive tax competition can be detrimental on a microeconomic scale as it introduces severe distortion between companies operating in the same market.

2. Such variations have a visible effect on tax *rates*; several European countries would benefit from a move towards the average rate for VAT, while vigorously tackling fraud. However the variations have an even more damaging effect on the tax *base*. The growth in special tax arrangements, exemptions and loopholes creates confusion for economic stakeholders and makes comparisons between countries problematical; it involves compliance-related costs for companies operating in several Member States and can impede the free movement of capital and people within the European Union. The opacity of a tax system undeniably impedes rational decision-making and the proper allocation of factors of production.

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[1] One country raising the VAT rate is tantamount to "competitive devaluation", which explains why many EU countries have increased this rate since the start of the crisis. The corporate tax rate works in the opposite way - lowering it boosts competitiveness – hence the general tendency to lower it in many EU countries.

3. The growing number of ad hoc arrangements (tax rulings)[2] in favour of certain companies or individuals makes comparisons between countries very difficult. Besides statutory and effective tax rates, we also need to find out the rates actually applying based on these tax rulings, which are generally discreet and virtually impossible to pin down. Such practices encourage "avoidance" behaviour on the part of taxpayers and lead to less than optimal allocation of the factors of production; the European Commission has also launched an initiative aimed at increasing transparency and identifying and tackling cases of "damaging competition".

4. Over and above the tax optimisation strategies pursued by major companies, the vast scale of VAT fraud in Europe also calls for consideration of the matter of limiting the number of special rates and authorised exceptions, accompanied by the implementation of more effective checks.

5. In view of this, many initiatives have been taken to further tax convergence between EU Member States, since harmonisation is not the enemy of competition, but on the contrary a prerequisite for healthy, transparent competition. Significant progress has been made in the area of taxation of savings. Initiatives taken by the European Commission have enabled a – still very wide – band of VAT rates to be defined. A draft Council Directive on a Common Consolidated[3] Corporate Tax Base (CCCTB) was proposed in 2011[4], based on article 115 of the TFEU "for the approximation of such laws, regulations or administrative provisions of the Member States as directly affect the establishment or functioning of the internal market". However, progress remains slow, particularly since this is an area in which a unanimous decision is required. A bilateral Franco-German initiative has therefore recently been launched and renewed in an attempt to speed up negotiations surrounding the CCCTB Directive, starting with the harmonisation of the corporate tax base[5].

6. Certain countries and stakeholders are reluctant to pursue harmonisation, believing that competitively seeking the lowest levels of corporate taxation is sure to benefit any economy by reducing the burden on the productive sector. However, this approach ignores the major economic contribution – often demanded by public opinion in democratic countries – made by high-quality public services, which obviously does not negate the need to seek to make them more cost-effective. Several studies (Cepii, Bruegel) have also shown that there is evidence of more blatant tax competition for corporate taxation than for individual taxation. More recently, in a joint communiqué issued on 31 March 2015, Germany and France "stress the importance of an ambitious agenda to combat abusive tax optimisation and damaging tax competition within the EU".

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[2] Such "tax rulings" should be distinguished from the "rescrits fiscaux" (tax "rescripts") applying in France, which have the advantage of informing a company in advance of the arrangements that will apply to it in case of an audit; however, they should not normally involve special arrangements regarding tax rates. On the other hand, tax agreements exist with major companies in all countries on the strategic matter of *transfer pricing* between subsidiaries and with the parent company.

[3] An initial stage focussing on closer alignment of tax bases would be planned, prior to the complete consolidation of the system.

[4] The first draft legislation on the CCCTB actually dates from 2002.

[5] Progress has been made in these discussions surrounding matters such as the carrying forward of losses or taking into account financing costs.

7. Since the emergence of the financial crisis in 2008, the G20 and the OECD have also affirmed their intention to halt the erosion of the tax base and profit shifting by companies operating in more than one country. To this end, they adopted the BEPS (*Base Erosion and Profit Shifting*) project, for which the 2014-2015 Action Plan has already led to the adoption of a number of provisions, including a *Common Reporting Standard* for confidential country-by-country reporting. At its meeting in Brisbane on 16 November 2014, the G20 adopted this standard and decided to begin to exchange information automatically between its members and, by 2017 or 2018, with other countries and financial centres. As members of the G20, Germany, France, Italy and the UK, along with the EU, are stakeholders in this declaration. Twenty-one EU Member States also participate in the BEPS project through the OECD. The EU has also managed to establish a uniform basis of assessment for VAT (6^{th} Directive), which was intended to form the basis of an EU own resource, but has only been used as such to a very limited extent.

8. Significant progress has also been made in the area of taxation of savings, where uniform rules for taxation and exchange of information have been put in place to end "damaging competition". The second package of measures under the Savings Directive now requires the mutual exchange of information about the distribution of income within member countries[6] from 2017 (or 2018 for late adopters)[7].

II. With a view to the completion of the internal market and to further the aim of reducing structural differences between Member States which threaten the cohesion of the euro area, the League's Economic and Social Commission makes the following **recommendations**:

1. Tax harmonisation must progress in Europe, with the support of public opinion directly affected, on a number of parallel levels. It would be a mistake to neglect the approximation of corporate tax arrangements because progress is being made on the basis of assessment for VAT or the harmonisation of taxation of savings.

2. On the contrary, the erosion of the corporate tax base and profit shifting must be tackled as a priority. This involves the implementation between all Member States of an **automatic reporting system** compatible with the *Common Reporting Standard* produced jointly by the G20 and the OECD, as well as pressing ahead with **defining a common EU tax base**[8]; to this end, a group of experts duly authorised by the European Commission and by Member States should be charged on an ongoing basis with clarifying differences in treatment between countries, shedding light on the legal, economic and social reasons for this, and proposing solutions. In particular, it is important to advance towards the adoption of uniform European accounting standards, and the widespread establishment of companies incorporated under EU law.

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[6] This progress has been facilitated greatly by FATCA, a US federal law passed in 2010 requiring the reporting of information by countries which are not EU Member States, such as Switzerland, removing the excuse of reluctance based on the risk of an outflow of savings to such countries.

[7] This law will apply to income distributed to US taxpayers as from 2015.

[8] Progress in this area in terms of corporation tax will very probably also require progress on the matter of the approximation of company law within Europe.

3. The EU must set itself ambitious goals. The interesting concept of a **European "tax snake"** for tax rates (VAT and corporation tax), based on the model of the "currency snake" in the early days of the ECU, has been put forward by numerous experts and is mentioned in a recent book by Valéry GISCARD d'ESTAING, "Europa, la dernière chance" [*Europa, the last chance*]. Others have suggested the idea of a Business Plan or Roadmap setting out the steps in the process of gradual harmonisation. For tax rates, for instance, the approach of defining a band with upper and lower limits, then gradually tightening this band – over a period of 10 years for example – incorporating lower rates, would appear to be most logical. As regards the tax base, in view of the difficulty of harmonising tax systems whose basis of assessment is defined according to cultural factors and national objectives – as is the case for corporation tax in Germany and France – the idea has been suggested of unifying rather than harmonising the basis for the taxation of company profits, by introducing a single **European Corporate Income Tax** applying on top of current national taxes initially – offset by a reduction in national contributions to the EU budget – at a low rate and with a broad, uniform base.

4. Current tax policy in Europe appears to overlook environmental taxation: contrary to common belief, this is constantly declining as a percentage of GDP. The matter of a **European carbon-added tax** (own resource) must be taken further as, provided that it is accompanied by a rigorous system of controls, this appears to be the most effective mechanism for steering decentralised corporate decisions in an eco-friendly direction. As with corporation tax, this additional EU resource should be offset by a reduction in national contributions to the EU budget.

5. The institutional obstacle of the requirement for a unanimous decision on tax matters requires addressing. To avoid deadlock, it would be advisable to initiate **enhanced cooperation** in this area (involving, for the record, at least 9 countries, but requiring the "nihil obstat" from the others), comprising only the most highly motivated countries initially[9]. Such cooperations should be opened up to other States participating in the single market at the earliest possible stage. Eventually, the issue of institutional reform to allow qualified majority voting, necessitating a revision of the Treaties, will have to be raised; public opinion must be prepared for this through a dedicated information campaign – bearing in mind that, in any case, States should still be able to adapt to economic changes. This reform should also lay the groundwork for making harmonised European taxation a major factor in financing the EU from its own resources.

6. Requiring **multinational corporations to publish the amount of tax they actually pay in each country** would appear to be a good idea. The OECD has already worked on setting up a system for reporting internal transactions within major groups[10], but this remains unpublished. The draft EU legislation in this area needs to be underpinned and finalised.

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[9] This enhanced cooperation approach has already been adopted with regard to the devising and future implementation of a financial transaction tax (inspired by the "Tobin tax").

[10] An EU directive already requires the banking sector to publish its results and taxation country by country. Another directive in the pipeline will cover the mining sector.

"Population ageing and its economic and social consequences in Europe"

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Resolution of the Economic and Social Commission endorsed by the Central Council on January 11th 2016

I. The Economic and Social Commission of the European League for Economic Cooperation (ELEC), which met in Brussels on 3 December 2015, discussed the topic **"Population ageing and its economic and social consequences in Europe",** with a number of experts in the field: Mr Didier Blanchet, Chief Editor of *Economie et Statistique* (Economy and Statistics), INSEE (French National Institute for Statistics and Economic Research); Ms Stéphanie Pamies, DG ECFIN, European Commission; Professor Heinz Rothgang, Socium Research Center on Inequality and Social Policy, University of Bremen; Mr Christian Sautter, former French Minister for Finance, Chairman of France Active; Mr Jean Hindriks, Professor at the Catholic University of Louvain.

It reached the following conclusions:

1. Population "decline" in Europe is a fact, admittedly often regretted but undeniable. While declining fertility is more prevalent in some European Union member countries - the fertility rate ranges from 1.3 (Poland) and 1.4 (Germany, Italy) to 2 (Ireland, France) and 1.9 (Great Britain), with other countries in the middle at 1.8 (Sweden, The Netherlands etc.) - there is no guarantee of simple generational renewal anywhere. The population pyramids are shaped like a millstone. In several countries, the population has started to decrease, with this natural reduction being partially offset only by immigration.

2. At the same time, the rise in life expectancy (80 on average in the EU), which is an indisputable sign of progress, has significant consequences:
   - Increase in the proportion of the elderly population: the median age will exceed 50 in several EU countries before 2040; the proportion of older people (65 and over) in the total population of the EU will go up from 18.9% in 2015 to an estimated 28.8% in 2060 and could by then exceed 32% in several countries (Germany, Poland, Portugal, Slovakia).
   - The dependency ratio (people aged 65 and over compared to the working-age population in the broadest sense, between 15 and 64)[1] in the EU soared from less than 20% twenty years ago to 28.8% in 2015 and may, it is estimated, reach more than 50% in 2060; it could even exceed 60% by then in the countries mentioned above.

Worldwide, only Japan and South Korea will face a more worrying situation: the estimated dependency ratio will exceed 70% in these countries. In the United States, on the other hand, it will remain under 40%. Of the emerging countries, only China, which is ageing quickly, will face a situation similar to that of the EU. While such a situation is also developing in Brazil and Russia, for example, other countries, such as India and the majority of Sub-Saharan African countries, will see a population boom.

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[1] According to Eurostat, in 2014 this ratio stood at 31.5 for Germany (as against 29.4 in 2007) and 28.4 for France (as against 25.1 in 2007). it is 27.0 in the United Kingdom, 33.1 in Italy, 27.2 in Spain, but only 21.2 in Poland. According to the UN, this same ratio went up from 16.3 in 1970 to 24.6 in 2015, i.e. an increase of a half.

3. This population ageing, metaphorically called the "pappy or oldie boom", is already having serious consequences on the balance of pension schemes and will have even greater consequences in the future[2]. In particular, the number of working-age people compared to the number of retired people in Europe will go from 4 at the present time to 2 by the middle of this century[3]. Even though significant reforms have already been undertaken in most European Union countries (increase in the retirement age, increase in contributions and the freezing of, or even a reduction in, certain benefits, readjustment of special arrangements or special benefits, automatic links between retirement age and life expectancy, etc.), there is still a long way to go and new unpopular reforms will be necessary. These reforms are particularly necessary in countries where the retirement age is still much lower than the European average; a recent OECD study shows that there is a five-year difference between countries where the retirement age is the lowest and those where it is the highest[4].

4. Population ageing has many consequences other than its direct effects on our pension schemes. In particular, due to the fact that older people have more recourse to medical services, it is already compromising the balance of health insurance schemes and will do so even more in the future. Furthermore, healthcare services will have to adapt to different types of use, with greater emphasis on chronic illnesses, such as diabetes and hypertension. Finally, even though the rise in life expectancy primarily concerns "healthy life expectancy", the number of people in a situation of dependency will increase substantially: for example, current projections in Germany indicate that the number of dependent people could increase by 80% to reach 4.5 million by 2050. This will result in additional costs (according to a recent OECD report, the cost of managing dependent people is expected to double or even triple by 2025[5]) and will require the large-scale creation of suitable facilities to deal with such numbers[6].

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[2] In fact, some of the demographic consequences of the rise in life expectancy have been concealed by the initial increase in the number of people actively working due to the "baby boom".

[3]In a country like France, the ratio of the number of *individuals actually paying social contributions* to the number of retired people has already gone from four in 1960 to less than two today; it will be fewer than 1.5 in a generation; the outcome is that, without reforms, the proportion of pensions in GDP is expected to increase by a half (to 19% instead of 12.5% currently) within fifteen years.

[4] This age is 66 in Ireland, as in the United States, 65 in Germany and the United Kingdom, 62.5 in Italy, 62 in Greece, 61.2 in France, 58.7 in Slovenia and so on. French pensioners enjoy five more years in retirement than the OECD average: 27.2 years for women, 23 years for men, versus 23 years and 20 years respectively in Germany, for example.

[5] According to the OECD, it is estimated that 10% of the population of its member countries will be over 80 in 2025, versus only 4% today.

[6] In Germany, the number of people in this sector will need to be doubled (doctors, nurses, specialised carers) because the proportion of dependent people looked after by their families will probably continue to decline. This represents at least 500,000 jobs!

5. Changing needs and types of use will also have an impact on the production system, which will have to adapt: economic sectors that are profitable for an elderly population are not the same as those for a young population[7]. Furthermore, since the propensity to save is greater for older people (except for those who are very elderly), there is a risk of a slowdown in growth if this additional saving is not invested effectively. The issue as to whether population ageing negatively affects the ability to innovate and the productivity of an economy is less clear; some economists focus, on the contrary, on the opportunities offered by the "*Silver economy*[8]", as the example of Japan shows; Activities, such as leisure and travel, residential facilities (potentially care-assisted), personal services, robotics, etc., come to mind. Even so, econometric studies show a weak correlation between population ageing and global productivity gains in the economy.

II. In the desire to contribute to the development of policies that enable Europe to deal with this multifaceted challenge, our Commission makes the following recommendations:

1. Although it is difficult to measure accurately the direct effects of a policy intended to stimulate the birth rate, it seems clear that **suitable family policies** are one of the key areas in the fight against population decline and ageing. Every attempt should therefore be made to avoid child allowances being affected at times of budget cuts; it is also necessary to develop as far as possible childcare facilities for young children in crèches and nursery schools; some EU countries are very behind in this regard. It is also necessary, contrary to what some people believe, that mothers not be encouraged to stay at home (there are still some incentives for this just about everywhere). Young mothers should be helped to stay in or return to work. Countless studies show that this is a decisive factor in encouraging fertility. Along the same lines, measures to assist in equal sharing of family tasks (and in reconciling working and family time), in addition to equal salaries and pensions for men and women are necessary.

2. **Immigration plays a vital role** in slowing down the effects of population ageing and filling the gaps in the labour market (as seen, for example, in the medical field). **However, it must be reasonable, controlled and managed at European level** - particularly through agreements on people staying in their countries of origin and readmission agreements with said countries, but above all thanks to development aid. Beyond the indispensable showing of solidarity as regards welcoming refugees, whose lives are endangered in their country of origin (which requires a revision of the Dublin agreements), economic immigration must be supervised and organised at European level, taking the host countries into account. In this regard, consideration could be given either to a system of quotas by profession (similar to Canada, for example) or a considerable bolstering of the language and occupational training systems, with new arrivals being strongly encouraged to move towards sectors

[7] An INSEE survey on the budgets of French families shows, for example, that the proportion of expenditure on food and housing increases by more than a half for older people, while the proportion of spending on clothing, leisure and transport drops significantly.

[8] See the report of December 2013 of the Commissariat général à la stratégie et à la prospective (Office of the General Commissioner for Strategy and Forecasting): "The Silver Economy: a growth opportunity for France". Activities, such as leisure and travel, residential facilities (potentially care-assisted), personal services, robotics etc. come to mind.

and geographical areas that need them most. Family reunification abuses should, on the other hand, be avoided.

3. **Pension scheme reforms have been too little too late** in a certain number of EU member countries, especially as they were based on assumptions of economic growth and inflation rises that were too high. Public authorities must have the courage to tackle the necessity of a later retirement age or of an extension of the duration of necessary contributions; contrary to what has been done up till now, they must also prioritise earnings in relation to pensions, while endeavouring to take hardship into account and to stabilise benefit ratios as far as possible. The reform currently being discussed in The Netherlands which consists, in the interests of intergenerational fairness, of adjusting contributions according to the age of the employees, with the youngest therefore paying less, is also an interesting approach. Furthermore, in order to guarantee the future, capitalisation schemes, which allow the amounts paid to be adjusted according to the financial situation of the schemes, must be encouraged. Such capitalisation schemes must also allow, through pension funds, savings to be made available, which can in turn be placed in long-term investments[9]. It is also essential that public and private occupational training systems provide a real possibility of redeployment throughout an individual's working life. Simultaneously, companies for their part must ensure that work positions are adapted.

4. **Social security policies must be readjusted** taking into account new needs, particularly those linked to dependency[10]. It will only be possible to finance them if, on the one hand, a great deal of emphasis is placed on innovation in healthcare and technological progress (which poses the problem of speeding up procedures for authorising innovative treatments) and if, on the other hand, certain taboos are broken, such as the lack of a personal contribution for access to healthcare, meeting 100% of the costs of chronic illnesses or the relationship between the reimbursement rate and the earnings level of those concerned. Even though, as a result of huge differences between the social welfare systems of EU countries[11], they do not lend themselves easily to an EU-wide harmonisation. Great benefit could be gained from developing exchanges of experiences and from joint discussions on these issues, particularly with social partners.

5. **As regards savings**, ELEC recalls that it is essential to guide them more towards risk-taking and innovation. Certain prudential regulations must be revised to allow for long-term creative investments: lending for infrastructural projects, shares, unlisted securities (private equity); tax incentives for cash savings, which continue to exist in some countries, should be replaced with incentives for long-term risky savings, and arrangements penalising share investments should be removed. In general terms, a general review of public

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[9]The same applies for point-based pension systems, which a country such as Belgium is in the process of implementing, with a benefit ratio objective, which is a fixed ratio between contributions and benefits, while the German system is a defined contribution system and the French system is a defined benefit system.

[10] The high cost of managing dependency has resulted up to now in this problem being handled differently. The solution will inevitably involve those families, who have the means to do so, taking on responsibility and public intervention for the less well off, the latter being offset by savings in other areas.

[11] Entirely State-controlled system in Britain, mixed system in France with private health care and reimbursement, which is partly public, partly entrusted to private mutual health insurance companies, a mixed but also highly regionalised system in Germany with calls for tenders for care packages, etc.

policies encouraging "risk aversion" should be conducted in order rather to facilitate risk-taking by those who can take on such risk and innovation, particularly by revising prudential regulations that are too discouraging. It will also be necessary to facilitate the creation and development of funds specialising in the "silver economy".

6. **The attitude to older people working must change**: in Japan and the United States, it is not unusual to be working at 70 and over; the presence of a larger, experienced and healthy elderly population must be perceived as an opportunity for the European Union; It is necessary to spread the practice of living together. However, this involves accepting a greater flexibility and realising that earnings cannot continue to increase indefinitely with age, but that their trend may follow a "bell curve" taking into account relative productivity levels and the possibility of exploiting modulated working time. Furthermore, the creation of new activities, whether voluntary or not[12], by older people offers real opportunities; it must be supported and encouraged.

[12] An example being "France active". In 2014, this initiative led to the creation of almost a thousand companies and 5,800 new jobs, a large proportion of which for older people.

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What is ELEC?

Created in 1946, the European League for Economic Cooperation (ELEC) is a non-governmental and non-party organization that aims to promote the economic integration and socio-cultural identity of Europe, and to enhance its role in the world.

ELEC consists of a network of national sections, whose members mainly come from the economic and financial world. Its membership also includes senior national and European officials as well as politicians and academics.

Its field of action materializes within international working commissions which meet regularly and leads to various types of publications (working documents, resolutions, series "Cahier Comte Boël", etc.).

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