

Boosting the Participation of Both Young and Older People

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Summary

Increasing work participation among both younger and older populations is crucial for sustaining Europe’s welfare systems and improving competitiveness. The ‘radical change’ Europe requires, according to Mario Draghi, includes achieving higher participation rates. Reducing the number of young people neither in employment nor in education or training cannot come solely through reliance on current Youth Guarantee policies; educational systems need reforms that prioritise investment, inclusion and lifelong learning. Additionally, with rising longevity, pension systems face growing pressure. While increasing the retirement age seems politically difficult, a promising solution lies in the introduction of flexible pension schemes, allowing individuals to work longer if desired while ensuring equitable protection for those opting to retire at the statutory age. A key point here is that these policy challenges have emerged gradually over decades and will have enduring consequences: the required long-term policy reforms must be removed from the short-term political cycles, as future generations will need to be able to rely on stable policies, no matter which political party is in office.

Keywords Youth participation – Ageing and retirement – Policy cycle

Introduction

European welfare systems were established during a time when Europe’s demographic landscape was vastly different from that of today. Fertility rates were significantly higher, and life expectancy was lower, which made the pay-as-you-go pension system more sustainable. However, populations across Europe are now ageing, as individuals live longer and healthier lives, while fertility rates continue to decline.

To address this demographic shift, increasing labour market participation is essential as a means to compensate for the growing number of retirees and persistently low birth rates. The available policy levers are well known, though not all will provide immediate solutions to the ageing population challenge. There is no single solution: the issue must be tackled through a range of policy responses, including those on migration, enhanced productivity through technological innovation and—though not effective in the short term—efforts to raise fertility rates.

Additionally, one crucial policy direction has the potential for a significant impact if properly focused and implemented. The EU has vast untapped potential in both its youth and older age groups. This paper outlines strategies to enhance participation among these demographics, identifies the policy challenges and suggests potential solutions.

Youth participation

As highlighted in Mario Draghi’s recent report, the future competitiveness of Europe will, in part, depend on achieving significant advancements in technological innovation, which must be translated into job creation and the development of industries capable of competing on the global stage.¹

¹ M. Draghi, *The Future of European Competitiveness. Part A: A Competitive Strategy for Europe* (September 2024).

The demographic profile of the EU presents significant challenges.² For the first time in human history, the traditional age-pyramid of Europe is no longer a pyramid. Rather, it has turned upside down to resemble a mushroom shape: the proportion of older individuals has increased dramatically—outnumbering the youth cohorts. In other words, in the inverted age-pyramid of 2024, there are few young people and an abundance of baby boomers nearing retirement: European pension systems will be put under tremendous strain.

But perhaps even more worrying is that among the shrinking cohort of young people aged 15 to 29, the number of those neither in employment nor in education or training (NEET) stood at 11.2% in 2023. This represents a dramatic number of inactive people. There are, however, substantial variations across EU member states. The NEET rate in 2023 ranged from 4.8% in the Netherlands to 19.3% in Romania. Significant regional disparities also exist within countries. For example, in 2020, the NEET rate in the Italian region of Trentino was 13.5%, while in Sicily it reached a peak of 37.5%.

The concept of NEET gained prominence following the 2008 economic recession. In response, significant policy initiatives were implemented, most notably through the Youth Guarantee, which was further strengthened in 2020.³ However, despite these efforts, the financial burden of NEETs remains substantial. Eurofound has estimated,⁴ for the year 2021 alone, the cost of foregone earnings and excess welfare transfers to be a staggering €141 billion. Moreover, despite the introduction of the Youth Guarantee, the estimated cost over the past decade has not seen a significant decline.

Despite declining since 2008, the persistence of NEETs is not favourable for European competitiveness. Becoming a NEET significantly compromises an individual's chances of gaining a foothold in the labour market, hinders economic independence, and has long-term scarring effects over the course of their lives, including in old age.⁵ The fundamental issue is that NEETs do not participate as productive citizens. On the contrary, they often depend on support from family members or the state. What, then, are the potential policy levers to address this situation?

Do our school systems play a role in helping young adults become productive citizens? There are certainly stark differences across Europe.⁶ The Nordic education system is inclusive, with low dropout rates and an extremely low NEET rate. Notably, a high percentage of students in these countries enter tertiary education, ensuring a highly educated younger generation. Conversely, in regions where the NEET rate is high, enrolment in tertiary education is significantly lower. Although establishing causality is challenging, the evidence suggests that where schools prioritise inclusion, dropout rates and NEET rates tend to be lower, which means that a larger proportion of youth contributes to our economies.

Do schools provide young adults with appropriate training? This is, of course, a complex issue, and the body of literature addressing it is extensive.⁷ Even without an examination of curricular specifics, it is clear that given the revised pension systems (where contributions are becoming more significant), the rise of private healthcare provision and the fact that people live longer, young adults need to be better equipped to plan for the whole course of their life. Moreover, with rapid technological advancements, the educational needs of today's youth differ substantially from those of previous generations. Ultimately, an effective school system should help young individuals develop resilience, preparing them to navigate both present and future challenges.

² European Commission, *The Impact of Demographic Change in a Changing Environment* (2023).

³ Council Recommendation of 30 October 2020 on A Bridge to Jobs – Reinforcing the Youth Guarantee and replacing the Council Recommendation of 22 April 2013 on establishing a Youth Guarantee, OJ C372 (4 November 2020), 1.

⁴ Eurofound, *Becoming Adults: Young People in a Post-Pandemic World* (Luxembourg, 2024).

⁵ K. Ralston et al., 'Economic Inactivity, Not in Employment, Education or Training (NEET) and Scarring: The Importance of NEET as a Marker of Long-Term Disadvantage', *Work, Employment and Society* 36/1 (2022).

⁶ L. van Vugt et al., 'The Role of Education Systems in Preventing NEETs', in M. Levels et al. (eds.), *The Dynamics of Marginalized Youth Not in Education, Employment, or Training Around the World* (London: Routledge, 2022).

⁷ OECD, 'How School Systems Prepare Students for Their Future', in OECD (ed.), *PISA 2018 Results (Volume II): Where All Students Can Succeed* (Paris: OECD Publishing, 2019).

Female labour force participation represents another significant area of untapped potential in addressing the challenges of an ageing society.⁸ In 2023 the female employment rate in the EU stood at 70.2%, with a gender employment gap of 10.2 percentage points. However, there are considerable disparities across EU member states. For instance, the female employment rate in Sweden reached 80.2%, while in Greece it was significantly lower, at 57.6%. Increasing female labour force participation would not only capitalise on otherwise under-utilised capacity but, as multiple studies suggest, closing this gender participation gap would also significantly boost GDP growth and help alleviate the pressure from the ageing population.

Increasing participation among the older population

The increased longevity in Europe is a remarkable success story. It means that today, a 65-year-old can expect to enjoy 20 years of healthy retirement. Only a few decades ago, such an extended retirement period would have been unimaginable. However, sustained low fertility rates have turned increased longevity into a challenge. Today, the choice is clear: either retirees must accept lower pension payments or they will need to extend their working lives.⁹

Is raising the statutory retirement age a realistic policy option? If we look to France, the answer seems to be a resounding ‘No’. The increase in the statutory retirement age from 62 to 64 sparked nationwide violent protests.

Several arguments are commonly raised against increasing the retirement age. First, individuals with physically demanding jobs understandably resist the idea of working beyond the normal 40-year contribution period. If their work has caused health issues or prolonged strain, this argument is reasonable and deserving of consideration. Another frequently raised concern, particularly among younger people, is that if older workers remain in the labour market longer, they will occupy jobs that should go to those in the younger generations. This, it is argued, is unfair and hinders the younger generation’s ability to transition into adulthood and contribute to the workforce.

While these concerns are strongly held by many, neither is valid. The latter argument assumes a static labour market in which the number of jobs is fixed and the employment of older individuals reduces opportunities for younger workers.¹⁰ However, labour markets are far from static; they are evolving rapidly. Many jobs currently held by older workers will disappear due to technological advancements. The key lies in job creation: as the economy progresses through technological change, new jobs will emerge that require skill sets which younger workers are often better equipped to handle.

Is raising the statutory retirement age politically tenable? While France’s 2023 pension reform, which raised the retirement age from 62 to 64, was met with fierce protests, there are examples of successful reforms elsewhere.¹¹ Norway recently raised its retirement age to 72. However, the Norwegian approach differs significantly. Such an estimated increase is achieved by allowing individuals to choose how long they wish to work beyond the statutory retirement age. It is not unreasonable to think that many would prefer to work longer if given the opportunity. This may be true in many European countries, including France. If individuals were allowed to

⁸ J. Fluchtmann, M. Keese and W. Adema (eds.), *Gender Equality and Economic Growth: Past Progress and Future Potential*, OECD Social, Employment and Migration Working Paper no. 304 (Paris, 2024).

⁹ European Commission, *2024 Ageing Report: Economic and Budgetary Projections for the EU Member States (2022–2070)*, European Economy Institutional Paper 279 (Luxembourg, Publications Office of the European Union, 2024); European Commission, Directorate-General for Employment, Social Affairs and Inclusion, *The 2024 Pension Adequacy Report – Current and Future Income Adequacy in Old Age in the EU* (vol. 1) (Luxembourg, Publications Office of the European Union, 2024).

¹⁰ R. Böheim and T. Nice, ‘The Effect of Early Retirement Schemes on Youth Employment’, *IZA World of Labor* 70 (2019).

¹¹ A. P. Fouejieu et al., *Pension Reforms in Europe: How Far Have We Come and Gone?*, International Monetary Fund, Departmental Paper no. 2021/016 (Washington, DC, 2021).

choose their retirement age, the average retirement age would likely be higher, even in France. There are several lessons to be learned from this flexible approach to retirement:

- Long-term policy reforms should be insulated from short-term political cycles. The reform in Norway is grounded in solid demographic projections, which, unsurprisingly, show that people are living longer and healthier lives.
- Reforms with significant ramifications require broad political consensus and support. The underlying principles must be agreed upon before consultations begin.
- A flexible retirement system must carefully incorporate equity and incentive structures. Those unable to work beyond the minimum statutory age should not be disadvantaged in a system where others can continue working.

Lifelong learning 2.0

The increasing longevity and extended working lives of individuals have significant implications for how we approach education. Traditionally, education is completed with secondary or tertiary schooling, after which young adults are expected to have acquired the necessary skills for their chosen careers and then work until retirement. However, with the rapid pace of technological change, as exemplified by the rise of artificial intelligence, labour markets are evolving swiftly. The challenge is that beyond acquiring relevant education for their initial jobs, people have to face the fact that technological advancements will render many current occupations obsolete. Therefore, educational systems must adapt to a new reality in which people will remain in the workforce for much longer before retiring.¹²

While flexibility in retirement is a positive step, it becomes less beneficial if individuals lose their jobs well before their planned retirement age. In the future, it will be more practical for individuals to attend college multiple times during their working lives.¹³ For instance, after obtaining a college degree at the age of 23, they should have the opportunity to return to college at age 40, and again at age 55. This would allow people to retrain and acquire new skills in response to technological advancements and innovation. Moreover, this system would likely encourage older individuals to remain in the workforce longer.

Implementing such a system would require a significant rethinking of how tertiary education is designed, particularly with regard to funding. A system that allows adults to return to study for additional degrees would place financial burdens not only on the state but also on individuals and families, especially those with young children. One potential solution could involve expanding the current system of pension contributions. In addition to contributions toward future retirement payments, individuals could make fixed contributions towards a retraining sabbatical period, starting from the moment they enter the labour market in their early twenties.

The overall cost of such a system would be substantial. However, if one compares the cost of a worker being excluded from the workforce at age 50 with that of an individual who continues to contribute until a retirement age of 75, the net benefit would likely be significant.

¹² P. Fidalgo and J. Thormann, 'The Future of Lifelong Learning: The Role of Artificial Intelligence and Distance Education' in F. Gomez Paloma (ed.), *Lifelong Learning – Education for the Future World* (IntechOpen, 2024).

¹³ OECD, *Back to the Future of Education: Four OECD Scenarios for Schooling*, Educational Research and Innovation (Paris, 2020).

Short-term remedies

Digital skills and public–private partnerships

Long-term strategies must align with short- and medium-term goals. While the educational systems of the future will require comprehensive reform, some actions can be taken immediately.¹⁴ One such step is to integrate digital technologies into school curricula alongside traditional subjects. Currently, much of the older generation is excluded from the benefits of digitalisation due to limited or no prior training, as they grew up in a time when digital technology was not prevalent.

The digitalisation process now profoundly impacts public and private services, both of which increasingly require basic knowledge of information technology. A lack of digital literacy poses a risk to older workers, as more jobs demand digital competency.

The public sector plays a key role, but because this issue affects the private sector too, policymakers should prioritise partnerships with private firms. Private companies, in collaboration with governments, should be incentivised to retrain and support workers nearing the end of their careers. Retraining workers, rather than laying them off, is a more effective use of resources, and public–private partnerships will be essential for successful implementation.¹⁵

Even with broad improvements in digital skills, many people will still struggle to navigate institutions due to the complexities of the digital transformation and cybersecurity requirements. A neglected factor here is user-friendliness. Bureaucratic procedures are often overly complicated, making it difficult for older citizens—who were not exposed to digital technology during their education—to navigate these systems effectively.¹⁶

Increasing the workforce in long-term care

As working lives extend and lifelong learning becomes key to promoting active ageing, the demand for care work is expected to rise sharply. With increased life expectancy, the nature of elderly care is evolving, with conditions such as dementia becoming more prevalent.

To address this growing need for care, immigration could play a crucial role. However, proper training and qualifications for immigrants are essential. Currently, approximately 34 million people in the EU were born outside its borders (around 8% of the population), and 10% of young people (age 15–34) have at least one foreign-born parent. While the healthcare sector urgently requires more workers, only a limited number of immigrants possess qualifications that meet EU standards.

The European Commission's 2021 Long-Term Care Report stresses the need for action.¹⁷ Immigrants offer valuable skills, with over a quarter being highly educated. However, about 40% of them are over-qualified for their jobs, while nearly 20% have only primary education and need additional support. Many domestic workers, often women with migrant backgrounds, face poor working conditions, frequently working undeclared or as bogus self-employed, and receive low wages and inadequate labour rights. The International Labour Organization's Convention 189 sets standards for decent working conditions for domestic workers, but only eight EU member states have ratified it.

Migrant care workers frequently operate in precarious, informal employment. To meet the demand for care,

¹⁴ European Commission, 'Digital Education Action Plan 2021–2027: Resetting Education and Training for the Digital Age'.

¹⁵ H. A. Patrinos and F. Barrera-Osorio, *The Role and Impact of Public–Private Partnerships in Education (English)*, World Bank (Washington, DC, 2009).

¹⁶ S. J. Czaja et al., 'Factors Predicting the Use of Technology: Findings From the Center for Research and Education on Aging and Technology Enhancement (CREATE)', *Psychology and Aging* 21/2 (2006) 333–52.

¹⁷ Council Recommendation of 8 December 2022 on access to affordable high-quality long-term care, OJ C476 (15 December 2022), 1.

sustainable and legal migration pathways must be developed to provide opportunities for migrant workers and address labour shortages in the care sector.¹⁸

	Programme 1	Programme 2	Programme 3
	Facilitating longer working lives	Increasing labour force participation through education and training	Investing in the digitalisation of public services
Project 1	Increase the state pension age. Norway is one country with a general agreement to increase the retirement age to 72, though with important elements of flexibility.	Expand and facilitate training in care-related occupations, in particular for those with an immigrant background. EU institutions could play a role in establishing educational or training standards that would lead to an EU certification. This would help open up access to professions that can be over-protected by domestic rules.	Expand training and education to improve citizens' digital competency and their preparedness for the digital age.
Project 2	Develop flexible retirement schemes. Flexibility should offer not only a choice in terms of the number of additional years worked, but also whether those years are taken as part-time work. Such a system may require collaboration between the private sector and the state.	Reform education with the aim of reducing the share of young people who leave school without basic skills and addressing youth unemployment. This will require changes to long-established educational systems, but will make education more inclusive	Simplify and make digital services in the public sector more accessible and user-friendly, particularly for older people. Avoid older people needing to be dependent on younger family members for assistance.
Project 3	Expand schooling and retraining for the older age strata of the population. Universities should enable individuals in their 40s, 50s and 60s to re-enter education and gain new qualifications to ensure longer and more meaningful working lives.	Make educational reforms to respond to the technological developments that are leading to jobs, professions and occupations changing or disappearing. The modern education system needs to provide opportunities to upgrade one's education or retrain, as opposed to ending up inactive and becoming dependent upon state welfare benefits or family support.	Expand and develop existing training facilities to improve the digital competency of the older generations.

¹⁸ European Commission, *Action Plan on Integration and Inclusion 2021–2027*, Communication, COM (2020) 758 final (24 November 2020).

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