

Dr Günter Stummvoll (Austria): Chairman, Ladies and Gentlemen. First of all, many thanks to the German Presidency for continuing what we Austrians began a year ago during our Presidency, namely not allowing this circle comprising the Presidents of Finance Committees to peter out, but carrying it on. And I very much hope that our friends in Portugal and Slovenia will continue this - soon to be - tradition. I believe it is a sign of the increasing self-confidence of parliamentarians that we are not leaving everything to the government. Mr de Maizière, I believe you will understand that. And we also know that particularly when it comes to financial matters we have a very powerful organ at EU level, namely ECOFIN, and I believe it is important that national parliaments and especially Finance Committees have opportunities to shape the future. I am also grateful that we have chosen this topic, since there is no doubt that it is one of the very big social policy challenges of our time, just like preserving an environment worth living in. Indeed, I would like to congratulate the Head of the Federal Chancellery, Mr de Maizière. I think he summarised the entire dimension of the problem extremely well. What I believe is very important, I would like to perhaps highlight just two points: Firstly, in two days we will be adopting a double budget for 2007/2008 in Austria in the new grand coalition. Reducing public debt in the interests of a sustainable and long-term financial policy is, I believe, essential. By running up debts we are wasting our future and we must do all we can so that, given the shrinking population and increasingly ageing society, we do not simply place the burdens on future generations. Secondly, the big field of pension insurance. The minister pointed out - and we in Austria have already had some experience of this - that pension reforms are naturally not something that voters will want to cheer about. I also believe that we have to be very careful here about how we put out the message. A message like "You will all have to work for longer" is not a very sensibly formulated message. Rather, the message should be: "We - the politicians - we will do all we can to enable you to work for longer". What are we going to say to 60-year-olds who say they would like to carry on working for longer, but who cannot because their health is failing? What are we going to say to 55-year-olds who say they would like to work for longer, but

their qualifications are no longer required on the job market? What do we say to those 60-year-olds who say they would like to work for longer, but 35-year-olds are 30 per cent cheaper and companies will hire them and not the older ones. That means we are faced with an incredibly wide-ranging challenge which pensions experts will not be able to solve on their own; this is a challenge for health policy, education policy, income policy and labour market policy. And I believe it is important - I will say this again - how we put out the message. We cannot say: "You will all have to work longer", but that we politicians will do all we can - in terms of health policy, education policy, income policy, labour market policy - to enable you to work for longer. I believe that is extremely important, because it will be no use to us if we reach the right conclusions and then those who implement them lose the next election.

Giorgio Benvenuto (Italy): Chairman, Ladies and Gentlemen. At this meeting we are concentrating on two separate issues, which partly complement one another: Sustainability of public finances and stability of the financial markets, based on the big changes Europe is currently undergoing, particularly as regards population structure. I am one of those who are not scared of change. Only, however, under one condition, namely that in Europe we uphold the rights and characteristics of a big democracy in a state that protects economic development, that can link the protection of rights and of the environment, and that reforms its own political and economic institutions in order to increase its efficiency, also in order to expand its productivity. My contribution will concentrate on the stability of the financial markets, which only appears to be a technical aspect that is detached from demographic changes, but raises questions concerning the rights of the individual saver. The dynamic consolidation of financial services and the ever greater integration of the markets are key goals. Indeed, the efficiency of financial services is increasingly a result of integration. That view in particular applies to the pan-European markets for long-term investment products for the financing of the pension deficit, as well as for individual services on the internal market. At the same time - and I say this with the necessary clarity - the legislator must

undertake to enact better laws based on the advice which the European Commission has given on numerous occasions. I endorse the goals of the European Commission, which seeks to implement and subsequently evaluate applicable legislation, strictly adhering to its duty to improve legislation based on the following methods: asking interested groups prior to harmonisation; evaluating the consequences, something which should be done after each of the Commission's proposals; rapid and precise implementation of Community legislation in national laws with the aim that legislative implementation and technical implementation run parallel to each other; improving transparency and comparability of financial services, with the goal of helping consumers to get to know the financial products and thereby, for example, promoting suitable investment decisions in the field of pensions; strengthening synergies between financial services and other areas in which the Commission takes legislative action, such as the protection of competition, consumer protection; abolishing tax distortions arising from the contradictions which exist between various national tax laws. In this sense the European Commission's commendable goal is to strengthen the so-called Lamfalussy procedure, which is to be developed so that it develops its full potential sometime over the next five years. The joint regulation of the additional pension funds needs to be tackled as quickly as possible to enable those European citizens who have less pension provision than was the case in the past to invest in stable and high-yielding instruments which are on offer across the whole of the EU and to which the same terms and conditions apply. Indeed, as a result of the level of prosperity our societies have achieved and increasing life expectancy we need to think about the financial stability of the welfare system. We need to link the reform of methods of calculation for public pensions with the full implementation of additional, optional instruments for employees, which will have to be accompanied by tax breaks during an initial phase. Over the coming years the Italian government and the parliament will be closely observing political developments within the EU whose primary objectives are the following: consolidation of progress made towards an integrated, efficient European financial market; promotion of a market in which financial services and capital can circulate

freely and as cost-effectively as possible throughout the whole of the EU, although the appropriate level of monitoring, stability and consumer protection will have to be maintained; implementing and observing regulations applicable in this area. The process of integration of the European markets for financial services has reached a satisfactory level in numerous areas. Big markets, stock exchanges, financial market infrastructures - we need only consider budget balancing and regulation systems. We need to move forward on this by eliminating those economic barriers that are important so that capital and financial services can move freely. One of the basic criteria against which the usefulness of new legal provisions must be measured could be whether they facilitate cross-border operations and improve the competitiveness of European financial markets and at the same time protect internal stability. The legislative regulations adopted must take the principles of subsidiarity and proportionality into account and must promote competition. Other important elements of the Commission's work are in converging supervisory systems in Europe in synergy with other policy areas, in particular those for protecting competition and consumers, in the debate on controlling mechanisms in financing and the political responsibility of those bodies that are responsible for international harmonisation. Finally, I would like to say how pleased I am with this conference and I would like to thank Mr Oswald, our chairman, as I believe that the members of the national parliaments should know each other, and that is an actual driving force for the EU's policy areas. We are all aware of the importance of ongoing changes on the international stage in these times of economic globalisation. Europe cannot shirk away from taking decisions to integrate further, which will strengthen its role vis-à-vis the rising superpowers. Thank you.

Mário Patinha Antão (Portugal): Thank you, Mr Oswald. First of all I would like to congratulate our German colleagues and hosts for selecting this theme for this conference. Indeed the issue of the ageing population is the major problem of financial sustainability in the long term. In the very interesting presentations by Dr Linssen and Mr de Maizière we

noted that the challenge we are facing as regards the far-off horizon of 2050 is financial sustainability, which is a very challenging issue for all European countries. The models and projections that are done generally describe a very upsetting situation and it has been said that carrying on as if it were business as usual is not the proper way to tackle this difficult issue. I would like also to congratulate our colleague from Austria because you took the initiative to organise these meetings of representatives of national parliaments and Finance Committees and I am very pleased to formally announce that Portugal wants to join the team and that we will be organising a meeting in Lisbon on 5 and 6 November. And we really would be very happy if you were able to take part in the meeting to continue these very relevant discussions. And now to our topic: I would like to add a little comment based on the Portuguese experience of the reform of the pension system. I would like to say first - and this is also my point of departure - that we have the Lisbon Strategy, in its redesigned form, which is more practical. We are developing a way of comparing best practices in policy which are very, very important for helping national governments and national parliaments to present to the people so-called unpopular reforms, the pension system reforms. So this chance to share policies and decisions is very good for everybody, in my opinion, because it allays fears about these difficult policies. Regarding the reforms of the pension system I would like to make a few comments about our experience. But, I think that first of all we have to put this reform in the overall context of other related reforms, we should not only think about a paradigmatic reform of the pension system or establish an equity-based fund or a capital part of the pension system reform. We should also deal with other areas of public policy. We should encourage families to raise more children. And that is also something that has been mentioned here, that the kind of life as we live it today creates an incentive for young couples to have a very limited number of children - one, two at the most. But there are other options, there are other preferences. If we can create proper economic incentives directed at bigger families, we can turn around the drop in the birth rate. Some are simple issues, for example cheaper electricity or water supply for these families or better educational incentives in the very early years and things

like that. I think we should work on that. And also immigration policy is another challenge. And countries should look to a sharper increase in immigration from outside of the European Union as a way to create balance at global level, I would say. In economic terms, the challenge of increasing productivity as the key to sustainable growth is also something we should pay attention to. Regarding the pension system: In Portugal we have been able to resolve most of the nasty trend beyond 2050, because we are one of a group of countries which had the worst structural deficit arising on account of the pension system. And the Portuguese government took some difficult steps, and was successful. And a study by the Bank of Portugal which will be published in a couple of days proves that the reforms we initiated have been able to create a balance at least to 2035, which is already a good result. The measure taken was to apply the so-called sustainability factor to the definition of the age when a person gets their full pension. And there were a number of other measures regarding reducing the composition of the average pension which would mean a reduction of around 20 per cent long term of the average in 20 or 30 years from now. The point I would like to make is that it is possible to do it, it is possible to do it in this European context in which we share best practices. We have not yet created the so-called second pillar (capitalisation, equity-based), but we are, on a voluntary basis, as we are told you are doing in Germany, getting more incentives for companies and private individuals to save and own these financial vehicles. And I would like also to share the visions of our Italian colleague regarding the financial capital market and means of having instruments that would be invested in European facilities and markets, I think this also would be very useful for increasing or having higher rates of return on these instruments. And finally, I would like to say it would also be very interesting if we could use these kinds of meetings to create a method of circulating information, and contributions and basic studies that would help us in the process of improving our knowledge and our decisions regarding these topics concerning financial reform that will, I am sure, be on our agenda in the years to come, especially this very challenging issue of the ageing population. A question which

our German colleagues raised at a very good time at this conference. Thank you very much.

Klaus Haekkerup (Denmark): Many thanks, first of all, for allowing me to speak and also many thanks for the two excellent contributions we have heard this morning. Allow me to say two things about what we did in Denmark: The problem concerning the wave of new pensioners will hit us too. In 2001 we decided to reduce public debt in order to reduce interest payments so that this is, as it were, released for pensions, for pensioners. And how does that work? Quite well, actually. If we continue our current financial policy, we will be debt-free by October 2011. Then Denmark's net debt will be zero. And that is a policy we consciously adopted. The other measure I would like to mention here today is that we have linked the age of retirement to a person's age. The older someone is the higher the retirement age - automatically linked or indexed, however you want to put it. And that means that for us increasing life expectancy is not a problem in itself, so that we can always get a good relation between pension expenditure and the labour market. One of the problems we are facing in Europe today is the tax issue. Many Danes, when they retire, decide to live in southern Europe. And, given the tax system, that means they will also usually pay tax in southern Europe. However, we also have situations in which they need to go into hospital, need medication and then they come back home. And that is starting to be a growing burden for us. And that is why, sooner or later, we will have to discuss the tax issue and how we can solve this problem. Thank you.

Laurent Mosar (Luxembourg): Thank you, Chairman. I would also like to endorse the thanks expressed by various colleagues to the German EU Presidency, naturally also the Austrian Presidency, which first took the initiative to set up a meeting of the chairpersons of the Finance Committees. But I would also like to thank you for choosing this topic for today and also for the very good introduction by Mr Linssen and Mr de Maizière. Allow me to first make a few preliminary remarks before going on to the three points I would like to

make. First my preliminary remarks: There is much talk at the moment of demographic change. It seems to me that this demographic change is at least as important as another change of which there is also much talk at present, namely climate change. Nevertheless, I get the feeling that people have not really accepted that demographic change is a fact and we still have a lot to do as regards opinion-formation so that EU citizens are also aware of the issue of demographic change, since this is essentially also a problem at the EU level. And now I would first like to address the problem of pension systems that has already been mentioned. Mr de Maizière, you talked about raising the age of retirement. Of course, that is one initiative. However, I would be interested in another issue, namely lowering pensions. I am aware that that is, of course, not a topic which the population will greet with enthusiasm for politicians. On the other hand, however, I am convinced that in the medium term we will not be able to avoid thinking about lowering pensions, too. I also believe that we will have to look at special pension systems. In particular, of course, pension systems for public administration. I believe that we will have to create one single pension system in that area as well. And then in Luxembourg, for example, we currently have the problem which is perhaps a typical problem for Luxembourg that perhaps other EU countries will be facing in the medium term, that is the export of certain financial services, specifically pension systems. We have very many - thank goodness - foreign citizens who move to Luxembourg, work there, but who then go back home after they have taken their well-earned retirement. And then, as I have said, all these pension services are exported, are paid somewhere else in the EU, which naturally gives rise to a number of problems. And I would also be interested to hear the two speakers' views on that problem. Secondly, regulation of the financial markets was mentioned earlier. I am also of the opinion that in the medium term we will not be able to avoid that, but it was mainly the regulation of hedge funds that was addressed. We have to realise that of course the huge success of hedge funds must mean a certain amount of non-regulation. One must naturally now be aware when one wants to attempt regulation, that is one must find the right balance that does not risk damaging the dynamics of these funds. And then my main

problem, when one is speaking about the regulation of financial markets, is that it only makes sense if you naturally also concentrate on finding a regulation with the United States because that will be of no use only at the EU level, specifically since we know that the big hedge funds are all based in the US, so that we cannot do everything at the EU level. Thirdly, mention has been made of immigration, migration. I also agree with my colleague from Portugal. This is a very important issue for me. Nevertheless, I get the feeling that many EU Member States tend to oppose immigration. And something which time and again disturbs me - also in my own country - is that if one, for example permits immigration, including from outside of the EU, then people insist that it is only single people who immigrate. However, if we are now talking about demographic change I also believe that it is important that we allow entire families to immigrate, and do not limit it only to individuals. Fine, Mr Chairman, those were the various points I wanted to make on this issue. Many thanks.

Pierre Heriaud (France): Many thanks, Chairman. We were lucky enough to hear some extremely interesting contributions this morning which could indeed worry us, but worry is a bad advisor and gets you nowhere. But we should not be worried, but wide-awake and prepared to react in each of our countries. The global population was an issue, it will increase by 50 per cent by 2050, whilst if the conditions stay the same the population in Europe could drop by 50 per cent. Where Europe goes to make up 8 per cent of the world's population, it could drop to 4 per cent when it will be nine billion. That is the situation right now. What will European GDP be in the world then, and what economic and financial weight will Europe have in the world? We will have to discuss this question against the background of the situation in each of our home countries. What can be done to increase GDP? Mr Linssen addressed this question earlier and also provided the answer: In order to increase GDP we need research, innovation, education and investment in private enterprise. There is a vicious circle of growth over consumption if this only occurs via consumption and does not take into account the current conditions between

individual countries if the only judge is the balance of trade. The virtuous circle of growth begins with companies creating gross capital, by creating new products, gaining ground on new markets and value added which enables wages to be paid, that is new purchasing power to be created, which in turn speeds up the economic cycle. That, in my opinion, is the virtuous circle. Now, in my country we have the paradox - certainly not the only one - that the country has the least hours worked per week, the least weeks worked per year and the least years worked per working life. Under these conditions it is a little difficult to nominate this country specifically as a candidate for the Economic Growth Olympics. And that is exactly what has to happen. France believes in the future, particularly since France has a more favourable rate of reproduction than other countries. After all each woman gives birth to an average of two children and we have had population growth for I don't know how many years. However, that also means we are under an obligation to the future, that means our policy must be such that families who believe in the future are well-placed. And now to budget matters: I believe our countries are too much influenced by the fact that budgets have a one-year term. That is not enough and does not enable problems to be viewed with the necessary distance. We are all bound too much by short-term arguments and nevertheless we are dealing with problems that only seem to be discovered when they arise. In the area of demography we have been able to see them coming for a long time. We have no reason to be surprised about what is happening. Demography enables us to look much further into the future and it is precisely that which hasn't been done sufficiently. I have taken note of the excellent contributions our colleagues made concerning financial and other problems. Before I became a member of parliament I was a banker. I was only very recently appointed Chairman of the Supervisory Board of the *Caisse des Dépôts et Consignations*, an important institution in France. I would say that, along with private banks, it is the only public bank whose task is to protect French people's investments by means of government guarantees. At the same time it is our task to supervise listed companies. In France we have a personal savings ratio of 15 per cent of dispensable income, of which 7 per cent constitute financial savings. That is a considerable figure in

France and is brought together at the *Caisse des Dépôts et Consignations*, which in return finances state-subsidised accommodation. That is 3 to 4 per cent of total private savings. I mention this because, as well as what we have to do for pension provision, we have funds, but the necessary financial yield of these funds - this was very rightly underlined earlier - is much too high for things to continue as they are. We must incorporate the function time and incorporate all our planning processes and therefore take on board more long-term arguments. And now allow me to address my last point. Those responsible for economic policies and financial policies always raise the argument of productivity and similar ideas. But, we must also take other conditions into consideration which are not included in our calculations. In the 17th century Physiocrats defined land, capital and labour as production factors. Land is hardly of any significance in comparison to the other factors nowadays. But nature - the factor nature - for which land only represented a means of producing food, has now gained in importance. We must now begin to think about that and the European Commission is doing so. The *Caisse des Dépôts et Consignations* has already been commissioned with setting up carbon funds. We must, therefore, I have already said this, incorporate the factor nature into our calculations so that we not only raise the argument of social and economic yield, but also think about to what extent production processes are compromising the factor nature or, by contrast, increasing its value. These are some of the things we have been thinking about. And I believe that after the contributions we have heard here we are in a better position to assess what lies ahead and to find the ways and means to face the challenges. Thank you for your attention.

Gratiela Denisa Iordache (Romania): Thank you very much, Chairman. First of all, allow me to say thank you for the opportunity to meet and debate such an important matter. And thank you for organising the conference and for all your efforts. I completely agree with what Mr de Maizière said regarding the need for greater transparency and efficiency of the financial markets. So when we are talking about increasing transparency and increasing investor protection, in fact we are speaking about corporate governance. I would say that

could be the subject for debate. We could also co-operate in this area with the European Commission, because as far as I am aware the EU Commission already has a Corporate Governance Action Plan. I believe you already have very good legislation in this field in Germany. At the European level, let's say, the subject is not well treated, not so many people are concerned about it. In my opinion, increasing transparency and increasing investor protection could be one good solution for increasing efficiency of financial markets and therefore increasing productivity of equity-based pension funds, which are, whether we like it or not, part of the solution to the problem we are discussing here today. Thank you.

Dr Thomas de Maizière (Germany): Mr Oswald, I will be happy to do that [a summary]. Also because - according to the programme - you deserve a break and because I then have to get back to my desk. Naturally I cannot and I do not want to comment on all the questions and comments and ideas. However, I found that these were all ideas and contributions which are very valuable also for German ears, which we will be happy to take on board and take into account. That is why I will only make a few very brief comments. First the question of working in old age. Mr Stummvoll put forward the arguments. Of course that is true. Especially since life expectancy has increased, the gap between the age of retirement and death is 30 years, whilst in the past it was 10 years. And we can see that - we call them the young old - are extremely active. They take up studies - incidentally they have great spending power - they travel the world. They also help raise their children's children if these are working full-time and have children. And so many young old people are, *de facto*, substitute parents and substitute carers as well as grandparents. But of course they also want to earn money. And I believe that is also necessary in new jobs. I believe we will not be able to solve our problems concerning the ageing society and the associated care problems without younger old people caring for older old people. Including when there are no family structures. The only alternative is that we get cheap labour from somewhere else to do the job. And in many respects I believe that young old people - and

now I am going to say something that is perhaps unusual, that you are not going to be expecting me to say - but I believe that the young old are also a substitute for the lost family structures. If there is no-one there to read fairy-tales because the grandmother lives a long way away, then the young old can read fairy-tales in kindergartens, even if they are not the real grandparents; talk about the past and deal with children in certain ways which are only the privilege of grandparents and not of parents. And thereby giving back some form of humanity in a world in which the division of labour applies. I believe that is a very central task of the young, namely finding different ways of living together, with several generations under one roof again. Not just old people sharing a flat, but bringing together the old and young again. I believe there are great opportunities in doing that, which nevertheless mean all those involved have to rethink a lot of their attitudes. The second thing I would like to say is this: Much has been said about financial markets and their regulation and transparency. I understand that naturally Luxembourg does not want to destroy the opportunities associated with that. I understand that especially Luxembourg and London have different views on that. That is clear. And it is also true that there can be over-regulation. But, I would like to raise one point in this context which has not been mentioned yet, but which seems very important to me. Regulation, transparency, protecting competition, which my colleague from Italy mentioned, cannot lead to the reversal of risk distribution. We cannot have private institutions earning money when people set up private pension facilities and the state takes on all the risks when things go awry. That cannot be allowed to happen. No-one can finance that. That is why it will also be very important - and we also have that, for instance, in the German banking system - that we make sure - and that is also a task for the government - that safety mechanisms are established amongst the various pension provision systems. Naturally we must ensure that the generation which is looking forward to retiring does not lose its savings on account of financial transactions. But I cannot imagine - as I have already said - dividing things up so that if things go well the financial institutions get the profits but if things go badly the state has to reimburse old people. The third comment I would like to make concerns

lowering pensions. Yes, presumably that will happen. And of course we have debated the question in Germany of what it means to increase the number of years people work. It also means lowering pensions. Because if someone does not manage to work until they are 67, for example because they cannot find a job or are discharged earlier, then that means deductions, i.e. the whole truth is also that we have to say that only those who retire at 67 will get their full pension. Those who leave earlier will unfortunately have deductions made. We have also incorporated in our system - which will be introduced in 2010 - as, I believe, the Danes and Portuguese have also done - a kind of sustainability, a sustainability factor. This is sometimes called the demography factor, sometimes the sustainability factor, the terms applied aren't the issue. But there must be a fixed relation between what those capable of working have saved and what the pensioner is paid - with a sustainability factor applied to make adjustments. And that can also mean lowering pensions. The fact that a lot can only be done in terms of regulation together with the United States - or let's say in terms of the regulation of financial systems - is true and that is also a core element of what is hopefully being agreed today in Washington. Allow me to say one more thing to France before the break - and it is not meant to be taken all that seriously: France does indeed have a birth rate of around 2.0 children for each woman. And that is still not enough. We would need, I believe, 2.1 to 2.2. But France is still for all of us - be it in films or novels or in our imagination - the country of love. And perhaps there is also a link - and this is also not meant entirely seriously - that in a country in which people work less, there is more time to have children. Many thanks.

Dr Helmut Linssen (Germany): Many thanks, Mr Oswald. I merely wanted to perhaps raise three points. We have variously emphasised how important the consolidation of public finances is in order to get a grip on this demographic problem. For me this is directly linked to the fact that in this consolidation policy there is naturally hardly any room to simultaneously expand public investments to any great extent. Which in turn means that we will naturally also have to forget everything Keynes taught us. That means, here in

Germany we are already considering things that were incorporated into our constitution in the 1960s, namely the possibility of declaring that the economy is out of balance, so that debts can be made exceeding what the provisions of the constitution allow. I believe that Keynes's idea is that one can rev up public financing in difficult times and then slow it down again when things are going well. The first part works very well, but not the second. That is the first thing I wanted to say. The second is this: I believe that we cannot give Mr Mosar from Luxembourg many tips. You asked what happens when you export pensions and demand decreases back home. I do not have an easy answer. If anyone here does, then they should speak up immediately. Something I would also like to say to Mr Heriaud: In your brief contribution you raised the problem that one-year budgets are too short, particularly as regards the problem we are discussing today. I completely share your opinion. I believe that the cameralistics we apply in government budgets is not the model of the future for correctly representing degenerating values, the depletion of resources, as well as pensions and pension burdens and other things. And that is why I believe that it is right, many federal *Länder* in Germany are doing it, that they apply general accounting principles, which nevertheless also leads to certain problems with the German Federal Administration, because it is still entirely convinced about doing that, but we are working on that. Many thanks.

Stefan Attefall (Sweden): Thank you Chairman and thank you Dr Hendricks for your interesting speech. Both Dr Hendricks and Dr de Maizière spoke about how we shouldn't see older people as a problem. I would like to underline that. It is very important how we express ourselves in the public debate, so we don't give the impression that older people are a problem for society. Every human being is an asset to society, a possibility to solve problems. I think it is very important that we bear that in mind. Of course, we have to organise the political system and society in line with demographic developments, and I would like to share some experience from Sweden: Ten years ago we changed our pension system. Now we have a system which creates a very strong connection between

economic growth and the pensions that are paid. For each person there is a close link between how much they work and what they are paid as a pension. That is very important, I think, to get sustainable public finances in the long term. We also have agreements - 85 per cent of the seats in the parliament are behind the reform - that this is also very important for the long term. I would also like to stress the importance of strong public finances. We have a surplus in public finance in Sweden now of 2 to 3 per cent of GDP, every year from now until 2010. Public debt will decrease to 27 per cent of GDP by 2010. It is very important to see that, because more and more people are getting older, need more healthcare. And we need the economic muscle to support older people. We are now introducing an independent advisory board in Sweden to scrutinise and overlook our economic policy and the economic goals which the government is pursuing. That also has an important role to play, because we are trying to shape things so that we have a long-term economic policy. It is also important that Sweden is creating more incentives for older people to be able to work for longer if they can and want to. I think it is important that we should use these economic good times in Europe, which we have at the moment, to carry out structural reforms, to improve the economic situation in the long term and prepare ourselves for changes in demographic structures in the future. Thank you.

Antonio Gutiérrez Vegara (Spain): Many thanks, and hello. We are discussing the challenges we are facing on account of demographic change, and this morning we heard a great deal about that, and we know that there are no simple answers. There are no simple solutions, because the situation is complex, the forecasts are complex. However, on the one hand we cannot let ourselves get depressed about the catastrophe and only feel negative about everything or only see the negative aspects. I believe the demographic changes should not be seen independently of developments over the past few decades in the world of work and national economies. Spain, this has already been mentioned, is experiencing a very high risk as regards the birth rate. This has risen slightly over the past few years. In the 1990s, the mid-1990s, despite the difficult situation, we tried to implement

reforms. We attempted to anticipate future developments, in order to achieve stability. The reforms were, however, drastic, for example, a different pension system, as regards funding we made quite a few changes. We also had to restructure the social insurance system. We carried out a study, which was commissioned by what was then the Labour Ministry. And that also provided the basis for the reforms. Detailed studies were made in order to get the data. And we saw that scenarios which we need to keep an eye on for the future will certainly not make us feel optimistic. In 2030 we will have 2.5 per cent growth as regards the birth rate, and the birth rate will still be lower than current figures. That means that in 2030 our pension expenditure will be 12 per cent higher than today. Those were the results of the study I just mentioned on which the policies we launched in the mid-1990s are based. Over time governments have actually tried to approach the problems with the appropriate means in order to actually find solutions. It was always important to us that we avoided idealising the results of this study or to stir up panic among the public. Acting in concert was therefore called for, also as regards the reforms. Many reforms naturally had a drastic impact. However, we did not want to bring about a massive deterioration of the social situation, tried to take a rational approach in order to ensure that existing systems worked better or to improve them, always keeping an eye on medium- to long-term developments. Sustainability was the key word. For example, in the course of social reforms we made available loans or developed other assistance systems which provided financial relief to certain people in difficult situations. We also tried to find a balance between autonomous provinces, municipalities, tried to make a real contribution towards ensuring it was possible to get access to government benefits or pensions and what was paid in terms of pensions, roughly equivalent to former income. We are, of course, in a difficult position, because on the one hand employees have paid contributions over many years which they want to have paid out later on as a pensions, but we know that social insurance is also an additional burden on public finances. We must ensure that we can create reserves, as it were, for eventualities, which in our case is to be 4 per cent of GDP, we think, so that it actually provides a good basis and so that it is possible for the

government to capitalise or invest in a socially acceptable manner. It is also important that we have recently had a great many immigrants arriving. Many immigrants are coming to Spain. And at the beginning the process that was happening was not understood for what it is. We were not aware of the fact that we are in the same position as many other countries. This has now been understood and we know that we also have to act responsibly. And of course we also have to view migration in connection with population development. It is right that we naturally cannot trust that migration alone will help us to overcome demographic problems. But it is at the same time a chance to once again point out that there are many fears, which are unnecessary, as regards immigration, because it does in fact also have a positive impact. The additional costs that accrue and have to be covered by further contributions that are paid by the population are an important factor here, because revenues from contributions paid by immigrants working in the country rose by 70 per cent, that is a drastic contribution they are making. And this money is needed to cover costs. We cannot cover everything from tax revenues alone. We must think about how we can approach this, so that we can cope with the future. We also have to consider, when we are speaking about immigration, that many pensioners move to Spain from other countries and make their home there, but do not work there and they have not paid contributions there. From 2050 we will have a large number of pensioners in Spain who have moved there from many other countries, i.e. from accession candidates and other countries, people also come to Spain from Latin America. Also many people have left Spain, for example, to go to Germany, they worked there for a time and then returned to Spain. Of course they all contributed to the wealth of that country. And that is also an aspect that will have a role to play in the future. And I will say this again: We must see the cultural and social and economic aspects in context. There are some that are often overlooked. But we cannot do that. In times in which we are confronted with these challenges, we need to co-operate. Naturally we are different countries, we have had different experience, have different histories, different ideas. But the market unites us. We must also acknowledge that - regardless of the political structure of our country - we must,

by necessity, work together. There are a great many ideas and solutions and roots in various countries. We must try to create a balance in Europe. We must, incidentally, also create a balance at European level between economics and policies or between the market and policies. I believe a great deal still needs to be done there. The sustainability of our systems, the social systems, systems shaped by competition, of economic systems means it is necessary for us to try to create a balance at European level. We have to put that on the agenda, just as we have to put the sustainability of our systems on the agenda. We need employment. We need education and training for those who are and will be entering the labour market. Many have been thrown back onto precarious labour markets and on the other hand we have future pensioners who are being replaced by people in their job who will, ultimately though, pay fewer contributions today. That is also a part of the problem. And so we also have to ensure we have a certain level of education and training as those working in the industrial nations, in the developed world. On the other hand there are very many who can only find work on the precarious markets. At the same time we have a whole series of reforms going on in many countries which are also unavoidable. We must ensure that we keep our eyes on a more supranational approach when it comes to reforms. In the long-term, I believe, there is no avoiding that. Otherwise it will have a very negative impact on Europe in the long run. Thank you.

Frans de Nerée Tot Babberich (The Netherlands): Thank you so much. I would like to join the others and thank the German Presidency for having us here. It is a very good initiative and very useful. I was happy to hear Dr Hendricks tell us that we should not dramatise the problem of ageing. We have the problem in the Netherlands that people over 65 are starting to complain. They are saying, they are blaming us for all the problems that are arising. It is not a problem, it is a challenge. We had five top economic scientists, they said that ageing is a blessing. People are further than we think. Because they are saving a lot. They have real property. And what we forget and what is not taken into account is the state duty that it will intervene after a time. We have to be very careful not to

dramatise or over-dramatise the problem, because then we create a political problem for ourselves. In the Netherlands we have a very well-funded pension system. We have assets of almost 1 trillion [euros] and so we are a little bit concerned but not as worried as other countries, but that could cause tension between those countries that have a funded pension scheme and those countries that have to pay it from their central budget. We have the same problem as regards productivity, we have the same problem with the labour participation of women. What I heard from Dr Hendricks is that in a few years you will tax pension interest. But leave deductions of payments before you retire. That is in my view a kind of double taxation. I wonder whether that is acceptable for a lot of people here in Germany? In the Netherlands the Labour Party lost nine seats mainly because of this. As to the labour participation of women, I mentioned that already. That is also a problem of childcare systems. We are coping with that but we don't have the right solution yet and we are very curious to know what experience Germany has had, whether they have changed the system. We would like to learn from that. We have a budget scheme for four years. We are aiming for a surplus of 1.1 per cent effective surplus and 1 per cent structural surplus in 2011. And we will probably make it. There is one problem we cannot cope with at the moment, that is the healthcare system. We are trying to get a more efficient healthcare system. We hope that we will manage that in a few years. Thank you.

Petar Dimitrov (Bulgaria): Mr Oswald, Ms Hendricks, Colleagues. Allow me also to thank the organisers for the perfect organisation of this forum. I would like to express my particular thanks for your choice of location. It is symbolic. I understand that the Berlin Wall stood directly behind us. It is good to see that we are sitting at a round table and I am not on the other side of the Wall and you are not in this room without me. The symbol is very nice, very nicely chosen. I thank you. I also thank Austria and Germany for organising this financial parliament. It is very important that we listen to one another. You all know that the executive meets regularly. Unfortunately, the executive is more powerful than the legislative. For that reason it is very important that we parliamentarians meet and that we

shape our legislative policies together. Let me begin. I represent a young EU Member State and do not share the pessimism as regards demographic change. I tend to agree more with Dr Hendricks that there is no drama and that we should not dramatise things, that age is an advantage, not a disadvantage for Europe. You understand, countries that recently joined the EU spend a great deal on childcare, on education. An older Europe can perhaps save some of this expenditure. It is important that people work for longer and that that has an impact on the economy. In this context I would like to remind you of what Pope John Paul II famously said. He was asked whether he would step down because he could no longer walk. He answered: "I govern the Church with my head, not with my legs and feet." And I believe it is very important that Europe is governed by the head, not only as regards what happens in Europe, but in a large part of the world. I also have objections to raise against making the direct link between financial stability and demographic change, since we have heard here that if we get financial stability, then we will also have a good demographic structure. I do not agree. My country is an example of that. We have heard that Denmark wants to get its public debt down to zero. Our debt is 16 per cent of GDP. We have paid off our loans from the International Monetary Fund and the European Bank. We have a fiscal reserve of 18 per cent of GDP. Direct domestic investments go to make up 16 per cent of GDP. Economic growth is more than 6 per cent. I understand that budget surplus is a problem in many countries. Our budget surplus is 3.6 per cent of GDP. We have financial stability. But that does not mean that we are well placed in terms of demography. I would like to say only two things on that matter: Our population is falling. Pre-1989 we had 9 million, now only 7.5 million, and we expect that by the middle of this century the population will be around 5 million. 1.5 million Bulgarians have emigrated, and I believe it is high time, and I am very grateful to my colleague from Spain for saying this, I would like to say, migration is useful to those who accept immigrants and not for countries from where people emigrate. Where people emigrate it is usually the old people and very young children who are left behind. In Bulgaria the ratio between pensioners and those working is one to one. In Germany it is wonderful, at one to four. In Bulgaria this is a

consequence of those immigrants, of the young people of working age who have emigrated. Yes, I agree with you. Yes, you transfer around 2 billion euros each year to Bulgaria. That is good money for the national economy. But I believe it would be very interesting to see the link between standard of living and birth rates. There is no direct, linear correlation. The higher the standard of living, the lower the birth rate. I believe that is not so linear. It is like a sinus curve. And it is also not true that the birth rate is high if the standard of living is high. We also have poor Roma families who have 10, 12 children. But the situation is hopeless. These children do not go to school. They do not get jobs. They go straight into unemployment, and are a burden on the social system. I acknowledge that I have no solution. We had a measure which was called "working soldiers, working army". Instead of military service the Roma children did work service. But people in our country said that it was not democratic. But these children were socialised during this work service. It was abolished and the situation is getting worse. There is one highlight. The families' standard of living is rising. Roma families have two or three children and that is where we should help out and we are now supporting a model of two or three children per family. They get the most child benefit. Most child benefit goes to families with two or three children. Roma children, we are trying here to change the model. We are investing in the children. The children receive clothing, food, education for free. If we give the money to the children they do not allow the children to go to school but keep the money and so the most important thing we can do for the Roma children is to invest in the children. Let me say two things about the ageing population. And then I will finish. At the moment older people over 65 make up 17 per cent of the population of Bulgaria. By 2050 we expect that share to grow to 50 per cent. The average age in Bulgaria is 42 years. And so Bulgaria is the oldest country. In Turkey the average age is 27 years, in Bulgaria 42. At the same time a pension is expensive for public finances. And at the same something has become distorted: Men are capable of working until 61 and retire at 63; women are capable of working until 65 and have to retire at 63. The question is being discussed of whether men should not do more to raise children, so that the main job of raising children does not fall to the mother, but

also to the father, so that fathers take a more active role and are included. I welcome Mr Linssen's proposal of extending working life so that the young old people can also do social service in new jobs. They can also adopt children, get child benefit, the grandparents instead of the parents. There are big reserves which we should draw on. The main mechanism is naturally life-long learning, why not also retraining, particularly after the age of retiring. And I have one request of future organisers: Please, in the age of the internet, it would be nice if you could send us the materials beforehand so that we can work in a more concentrated manner, so that we could prepare and thus find a solution for our problems. It would be more productive if we had the materials ahead of time. I would again like to thank the organisers of this financial parliament.

Mário Patinha Antão (Portugal): Thank you, Chairman. Just very briefly three points. Firstly, I would like to express my total agreement with what Dr Hendricks said about the principle regarding the consolidation of public finances. You said that we currently have additional revenues because the economic situation is improving and you said these additional revenues should not be used to finance extra expenditure or tax revenue collection. I entirely agree with you because it is very important in order to better consolidate the current financial situation. I fully agree with the objective of paying more attention to the ratio between public debt and GDP in order to reduce it as much as possible. The reasons are clear. We know that, regarding the pension system, we will be facing extra pressure on public finances in the long term. Regarding what I already mentioned, namely the Portuguese reforms. We are pleased that last year, for the first time in five years or so, we had a modest surplus on the social security accounts. We are increasing the capitalisation of our reserve fund and the objective is to have at least two years of full pension payments in a few years. And so the situation has improved, but still needs to be carefully analysed and scrutinised in the years to come. One further comment concerning the issue of health, which previous speakers have already addressed. I believe that over the next 10 or 20 years health expenditure will increase for all of us more quickly

than GDP rate of growth, and for good reasons, because health has a peculiar, or perhaps unique feature. Innovation does not come in the form of a reduction of average or marginal production costs, in this case medical treatment, but rather comes with an increase in these costs. Now we all defend the social value that older people will be needing more complex medical treatment and deserve that kind of treatment, although the question is who will pay for that. It will either be public finances or private savings. I am not in favour of the latter. Because the social value of having public support for older people especially those who need long-term care or complex treatment should be a duty for society. But that puts extra pressure on public finance management. And I would expect perhaps the Commission to start to study, in the same way it did for pension system reform, what could be the forecast regarding health in European countries. As far as I am aware, such a study has not been done yet, at least not to the extent it would be necessary so that we can get an idea of what to expect. I would link this to a new problem, which is mobility. We are increasing student mobility, mobility of workers, as well as of retirees and also patient mobility. It's one of the recent goals of the European Union. I think it is a very good idea to think about it and I have a question regarding precisely this, extra mobility of jobs and patients. In my view we have to improve the portability of our, let us say, social security systems, our health system in order to help young people find jobs in Germany, Spain, or in Bulgaria or wherever. We have been told that youngsters will have several jobs during their lifetime and quite probably in different European countries. The social insurance systems must keep up and not penalise those who chose the different options for having a career in other European countries. The same applies to patients. Our Danish colleague said, if I understood him correctly, that there are many Danish pensioners who spend longer periods at their second home, for example in southern Europe. But when they need hospital treatment they go back to Denmark to have the treatment. I think that is bad for them, it's bad for national systems. I think it is better if we provide better treatments in these countries or better links between national health systems and we find a way to

provide better treatment where they are living when they need the treatment so they don't have to travel abroad. Thank you very much.

Nicolas Papadopoulos (Cyprus): Thank you. Let me also join my colleagues in thanking you for taking the initiative to organise this conference. I would also like to thank our Austrian colleagues for coming up with the idea in the first place. I am glad we are not alone in facing these issues. They seem to be very important issues which most if not all of the states in the European Union are faced with right now. And certainly the discussion today is very valuable to us to have some kind of input, which will help us deal with these issues when we face the problems which we have in my country. We all have to accept that we are undergoing demographic change, as we have more pensioners, it means we will be spending more on pensions. And therefore the big question is where do we get the additional money from? We need to increase revenue (and I think the suggestions put forward are very important), reduce public debt, certainly increase productivity and also increase efficiency of budgetary spending. As Dr Hendricks mentioned earlier, Cyprus is one of six EU Member States that has been placed in the high-risk category. Maybe this is not a well-known fact but I would like to tell you that we have had the third biggest decrease in birth rates of all Member States since the 1980s. That is adding to this problem. We have attempted to meet this significant reduction in our workforce mainly by importing workers. That has been suggested as one of the main ways to combat the reduction in the workforce due to demographic changes. But we have to bear in mind that we are talking about legal workers. Now in my country we are facing a considerable problem with illegal workers. That has added social and economic detrimental effects. Maybe it's not part of today's discussion, but this is one issue which should be examined in this context. Although over the past few years we have made considerable inroads and progress when it comes to reducing our public debt, especially our budget deficit, and hopefully we will join the Eurozone and adopt the Euro on 1 January 2008. We cannot claim to have made the same progress when it comes to welfare reform or combating

under-population. Therefore, when it comes to the second issue, under-population, falling birth rates, we are turning to public policy suggestions and examples from countries like France. Who better to give us advice on how to make more babies than the French? We are currently examining how to provide significantly increased benefits to families that wish to have more than two children and hopefully these proposals will go through and we will keep you informed on whether they succeed. Now when it comes to the reform of the welfare system, and the reform of the pension schemes in my country, we are currently having very difficult discussions between all the social groups involved, the trade unions and employers, to find ways to reform a scheme that is essentially going to go bankrupt by 2018 unless something drastic is done. We have already increased the pension age. But of course we are talking about further raising it. Nobody is yet talking about raising the age of retirement to 67. We had a very hard time convincing everybody that we had to increase it to 63. Now we are talking about 65. We have not yet started discussions regarding raising the age of retirement to 67, but for those of us who know the data, know the economic facts, we know that this is coming, it is on the horizon. It is becoming increasingly obvious to us that simply speaking about reforming the top-up scheme that we are currently using by increasing contributions and raising the age of retirement, is not going to be enough. We need something more and I think - many of my colleagues have mentioned it today - we are talking about investment in all these welfare, pension schemes. But of course the big question is how do we proceed with these investments, keeping significant and useful returns in a secure environment. And this is certainly one of the main areas that we would like to hear more discussion on in the European Union. How to regulate financial markets. How to safeguard investments in hedge funds that would be part of the welfare system of the states. As was said before, there are no simple answers. Of course, I agree, there are no simple answers. On the other hand, even though the answers are hard or complicated, they are out there. I think it is our duty to find them and enforce them in our countries for the greater benefit of the population of the European Union. Thank you very much.

Dr Günter Stummvoll (Austria): Mr Oswald, Ladies and Gentlemen. I have asked to speak again for one reason. Dr Hendricks, in her excellent speech, said and some speakers have underlined that, namely that we should not dramatise the issue. That is entirely correct, and I can fully subscribe to that, since it is true that no-one wants to grow old, but we all want to live longer. That is basically a positive thing. It is entirely correct to say that, but I would like to point out that the statement is not without its dangers. Why? If we are honest, politics and we, as politicians, tend to think of the next election in one, two or three years' time and spend less time thinking about 2030 or 2050. That means we undoubtedly create tension. And if I may tell you about the pension reforms in Austria, all the experts said "you are not intervening enough in the pension system". And the opposition said "you are intervening too much in the pension system". That is, politics is tempted to say it isn't that dramatic anyway, let's slacken our hold on the reins a bit, that temptation is undoubtedly always there in politics. All the more reason why I am emphasising that because we here, I believe we have all seen that, have an incredible range of reform measures. There is hardly an area which is not affected. Health policy, educational policy, labour market policy, financial and budget policy. There is hardly an area that cannot be addressed to help find a solution to the problem. And we all know that these structural reforms are not fast motorboats, but rather more heavy tankers that find it hard to change course. My message would be this: Yes, do not dramatise, but massively increase awareness of the problem. We all know that politicians cannot initiate measures if voters are not aware of the problem. Now I hardly believe there is anyone in Europe who will not accept the problem of the ageing society. People know about that. But I fear that they massively underestimate the extent of the challenges, we saw that in Austria too with the pension reform. Everyone knew that the pension reform was necessary. But the extent to which each person would then be affected was, of course, a different matter altogether. That is why I agree that we should not dramatise, but at the same time I say yes to presenting those data and facts which increase awareness of the problem, since without

an awareness of the problem we will not be able to tackle many of the challenges. I would like to say again that we must be honest enough to say that we might not be thinking about 2030 and 2050 but about the next election. That is what I'd like to say in conclusion.

Dr Barbara Hendricks (Germany): Yes, Chairman, many thanks. Mr Stummvoll, you are probably well aware that I am a Social Democrat and we also had our experiences during the last election. That is entirely independent of one's political orientation. That is the responsibility one has and one generally has that responsibility as part of the government. However, I believe you are probably right. Not to dramatise and nevertheless get people used to the idea that there will have to be changes, moreover that there is a need to make changes and that they will be the ones to live through these changes and to have to learn to live with them. Nevertheless, I believe that it is not entirely correct to say that people only ever think of the next election. Mr de Nerée Tot Babberich from the Netherlands asked me what we are doing as regards taxing pensions. Well, we addressed that issue during the last legislative term and we organised a very long-term transition period, namely up until 2025 all compulsory contributions towards the statutory pension scheme will be made entirely tax free, step by step, and from 2040, when a person reaches retiring age, the pension will be taxed in its entirety. That has been increasing to between 50 to 100 per cent since 2005. And so, liability to tax will increase over a period of 25 years for those who retire, until in 2040 pensions will be 100 per cent liable to tax. And in 2025 all the compulsory contributions will be tax free. That has also been increasing since 2005, naturally. Incidentally, this year we also agreed, just recently in the German Bundestag, to increase the age of retirement to 67. We also agreed a transitional period for that, from 2012 to 2029, that is in 2007. Starting in 2012, that is five years after a transitional period until 2029, the age of retirement will increase from 65 to 67, naturally with the risk that some feel they are affected although they are, objectively, not affected. And that is what I have experienced for many years, and that follows on from what our colleague from Portugal said. You will find people over 65 years of age who are angry because they say

you are pretending we are to blame for everything that is causing the problem. For many years I have been giving speeches on sustainable financial policy and have always - there are always older people in the room who have already retired - and then I always said to them that I am not even talking about you. The "mountain of pensioners" will consist of those - at least in western Europe - who were born between 1950 and 1970. The situation is different in other countries. The birth rate naturally dropped much later there, as for example in Poland. But for the sake of comparison, that is the case in the Netherlands and Germany and France and Western Europe. Roughly similar birth rates from 1950 to 1970 and then a significant drop in the birth rate. I myself was born in 1955, and so I am one of those who will be part of the mountain of pensioners, yes, that will be those who were born between 1950 and 1970. But when you talk about this, then all those who have already retired feel affected, that is those who are already 65, although they are not even affected. That still only affects relatively few people. We just talked about that. That is why I also think, Mr Stummvoll, that you are right to point out what is necessary and what we can expect which will not only affect financial policy, but rather also social policy and other policies. But it is not true to say that one is always thinking about the next election. We do perhaps tend to do that, for sure. But the examples that I have just given you from German politics, that is increasing taxation of pension income and tax-exempted contributions with these long transitional periods, speak against that. Or in the last but one legislative term we also agreed on revenue sharing between and among the Federation, federal *Länder* and local authorities in favour of the federal *Länder*, that is after German reunification, the new federal *Länder*, until 2019. We decided that in 2001 with effect from 2005 to 2019. And so, and I am incidentally personally very proud of that, there are indeed examples of government favour which is not just short-winded. Thank you very much.

Chairman Eduard Oswald: We have had valuable discussions. It is clear that we must indeed meet, that it is necessary for financial politicians from our countries to meet. It is important for us to exchange opinions. And, my dear colleagues, we should do one thing,

we should not only do that at the next conference, but when an issue arises in one national parliament and people say we could now do with some information from another country, then we should not be too shy to say to each other, please, we have this reciprocal material, to say that we will now approach the relevant colleague in the Finance Committee in this or that country from whom we heard such and such, and ask for the information. I believe that is a very important point in order to stay in dialogue, as it were. It is great that we have already been told about 5/6 November, and I would like to extend my thanks to our Portuguese colleague who made the announcement. We know that he will present us with an excellent and rich programme. And I think we will send out the minutes and will then also analyse them - each for themselves - naturally in order also to draw the necessary conclusions. We have a responsibility. I believe that should be a reminder and obligation to us all, never to see our remit only with a view to the next election. That is how I understand it, indeed it is an obligation that goes further, ultimately in the overall responsibility of our actions. I hope you all have a safe journey home. Thank you for attending, thank you for the good and collegial co-operation, thanks also to my deputy and my colleagues in the Bundestag's Finance Committee for their support during this conference and I wish us all the very best, valuable insights from our work and naturally good co-operation in the interests of our countries and our Europe. Thank you very much indeed.