Population ageing and its economic and social consequences in Europe

Recommendation of the Economic and Social Commission
of December 3rd 2015, endorsed by the Central Council (January 11th 2016)

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

It reached the following conclusions:

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

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

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

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

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

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

5. Changing needs and types of use will also have an impact on the production system, which will have to adapt: economic sectors that are profitable for an elderly population are not the same as those for a young population[7]. Furthermore, since the propensity to save is greater for older people (except for those who are very elderly), there is a risk of a slowdown in growth if this additional saving is not invested effectively. The issue as to whether population ageing negatively affects the ability to innovate and the productivity of an economy is less clear; some economists focus, on the contrary, on the

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

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

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

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

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

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

opportunities offered by the "*Silver economy*[8]", as the example of Japan shows; Activities, such as leisure and travel, residential facilities (potentially care-assisted), personal services, robotics, etc., come to mind. Even so, econometric studies show a weak correlation between population ageing and global productivity gains in the economy.

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

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

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

3. **Pension scheme reforms have been too little too late** in a certain number of EU member countries, especially as they were based on assumptions of economic growth and inflation rises that were too high. Public authorities must have the courage to tackle the necessity of a later retirement age or of an extension of the duration of necessary contributions; contrary to what has been done up till now, they must also prioritise earnings in relation to pensions, while endeavouring to take hardship into account and to stabilise benefit ratios as far as possible. The reform currently being discussed in The Netherlands which consists, in the interests of intergenerational fairness, of adjusting contributions according to the age of the employees, with the youngest therefore paying less, is also an interesting approach. Furthermore, in order to guarantee the future, capitalisation schemes, which allow the amounts paid to be adjusted according to the financial situation of the schemes, must be encouraged. Such capitalisation schemes must also allow, through pension funds, savings to be made available, which can in turn

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

be placed in long-term investments[9]. It is also essential that public and private occupational training systems provide a real possibility of redeployment throughout an individual's working life. Simultaneously, companies for their part must ensure that work positions are adapted.

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

5. **As regards savings**, ELEC recalls that it is essential to guide them more towards risk-taking and innovation. Certain prudential regulations must be revised to allow for long-term creative investments: lending for infrastructural projects, shares, unlisted securities (private equity); tax incentives for cash savings, which continue to exist in some countries, should be replaced with incentives for long-term risky savings, and arrangements penalising share investments should be removed. In general terms, a general review of public policies encouraging "risk aversion" should be conducted in order rather to facilitate risk-taking by those who can take on such risk and innovation, particularly by revising prudential regulations that are too discouraging. It will also be necessary to facilitate the creation and development of funds specialising in the "silver economy".

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

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

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

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

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