

CAN WE SLOW DOWN THE ALARMING RATE OF EUROPE'S AGEING?

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ABSTRACT

In this report I call attention to the ageing of Europe's community and the disadvantageous effect of ageing. I list methods that could be applied to moderate this process and propose some alternative solution laying much more stress upon the replacement of population.

KEY WORDS

Ageing, population, Europe

CLASSIFICATION

JEL: J11

INTRODUCTION

The demographic processes are among the most important factors influencing a particular region's growth opportunities. Demographic processes are dependent on typically slowly changing but basic factors such as the values and habits of strata and individuals, or the institutional framework and interests in a society. The impacts of demographic processes become visible only in the very long run, often reflecting decade- or even century-long tendencies hence their huge inertia. Consequently, they can be predicted with a high level of certainty, and if adverse changes are prognosticated, only a concerted and strong series of acts can yield favourable results.

When discussing the subject, we may not ignore the fact that countries coping with population fall are characterised by the exaggerated and prodigal consumption, the consumerism, thus a disproportionately high value of "ecological footprint"¹, compared to the global average. Consequently, a population rise in these regions would work towards unsustainability, or in other words, towards the more or less well-grounded vision of a global disaster [1] more intensively than it would in the developing countries. From this aspect we may regard population decrease as a favourable process in these areas, for this is one of the preconditions for the society to avoid bumping into its own ecological limits. However, in the following decades a no less exciting issue will be how to handle problems triggered by population decrease, and this is what I wish to deal with in my writing.

Even today, the explosive increase in population defines the limitations of sustainability and balance in many "developing" countries. Nevertheless, despite the fact that this is likely to remain the core problem in the future as well, by today the situation has changed in many aspects. As is shown in Figure 1, there was a turning point in the growth of the world's population in the 90s. Up to that time, the world's population grew at an accelerating pace, while in the 90s the tendency took the opposite direction, i.e. the population growth was decelerating. This change took place earlier in the developed countries, so that in Europe and Japan the aging of the population has posed an ever-increasing challenge for society for quite some time.

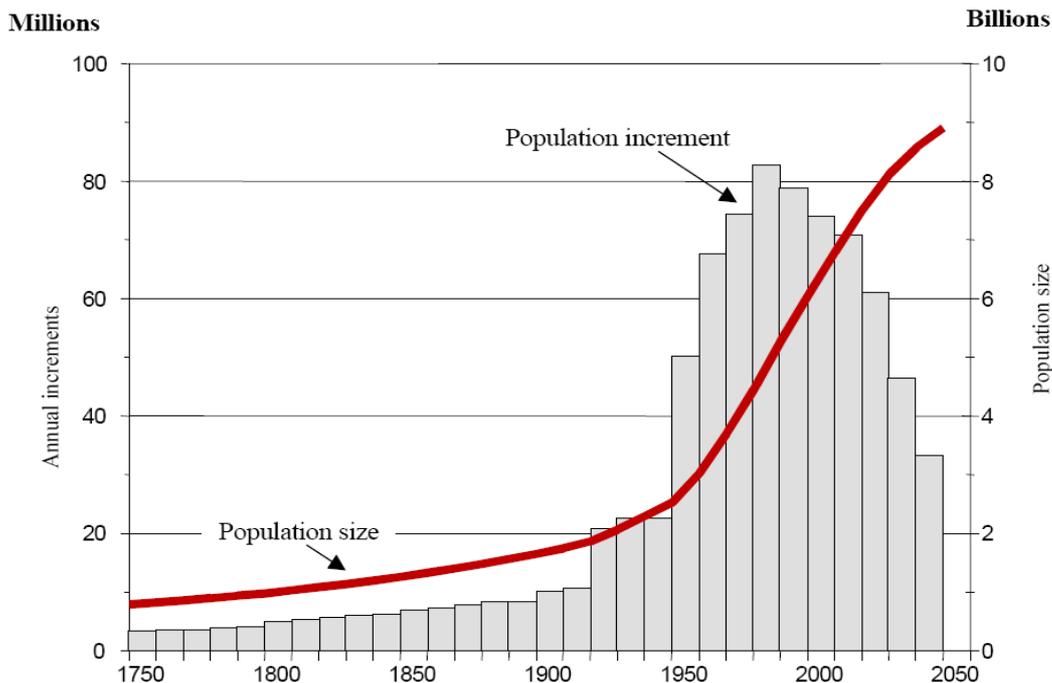


Figure 1. Long-term world population growth, 1750 to 2050 (source UNDP).

PROBLEM DESCRIPTION

The problem is not only that people live longer in the developed world, which changes the age composition of the population. The major cause of aging is the extremely low fertility rate, which is about 1,4 in the European countries, well below the replacement level, 2,1. In most European countries the number of new-borns remains well below that observed in earlier generations, so that without immigrants the population of European countries would go down by nearly 1 million each year.

What is more, according to forecasts, Europe has not touched the bottom yet [2]. By 2050 several countries in Europe will face a considerable population fall. For example, the decrease in Ukraine's population will reach 20 million (40 %), in Belarus or Bulgaria 30 %, while in some Eastern and Middle European countries a 15-25 % population drop is projected. The problem is not confined to the former socialist countries. Europe at large is also facing the problem of decreasing population, even though to a lesser extent. In 2050, the number of Italians and Spaniards will be 16 million and 9 million less, respectively, than it was at the time of the millennium.

The problem is not that some regions or countries will be less populous tomorrow: in areas with high environmental load population decrease may even be interpreted as a favourable process. Notwithstanding their decreasing population, most of the countries in Europe will still be among the most densely populated areas of the world. The problem is rather represented by the decline in population itself, and all its consequences. Due to a lower fertility rate and increased life expectancy, the median age of the population rises at an outstandingly fast pace, growing by 10 years in the first half of the 21st century, and probably exceeding 47 years by 2050, that is, at that time over the half of the population will be older than² 47. Even more frightening is the outlook that the proportion of those over 85 will be nearly tripled to a value over 11 %, while the proportion of children under 14 will fall by nearly one-fifth, hardly exceeding the percentage of over 85.

According to predictions (EPC and EC (2005)), even counting with a slight increase in the proportion of working population by 2050, the number of working population will fall by some 9 million, mainly due to a 16 % (48 million) drop in the working age population. Meanwhile, the number of over-65s is projected to increase by 58 million (77 %), doubling the old-age dependency ratio to 54,5 % from the present 24,5 %. The so-called effective old-age dependency ratio (meaning the ratio of over-65, non-active and working people) will rise to a similar extent, from 37 % to 70 % between 2003 and 2050. At present, the ratio between working age people and over-65s is 4:1. This proportion will change to less than 2:1.

Figure 2 demonstrates the above discussed changes in age composition. In my view, these changes affect economy in two ways. On the one hand, the elderly population is generally less dynamic, innovative and adaptive, which will have a slowing-down effect on the increase in productivity. Most probably, this factor already has a significant influence on European economy, as the European population is already the oldest in the world, and the pace of increase in productivity has been decreasing for decades in the region [3].

On the other hand, the above changes also result in a rise in the expenses and the emergence of financing issues. The problem is already present, as we find it increasingly hard to finance the rising costs of old-age health care and other related services. According to EU estimations [4], the related extra expenses reach 3-4 % of the GDP. As in Europe the health care and pension systems are almost exclusively financed by the state, the new situation may force governments to increase related spending by at least 10 %, providing the present structure of financing remains.

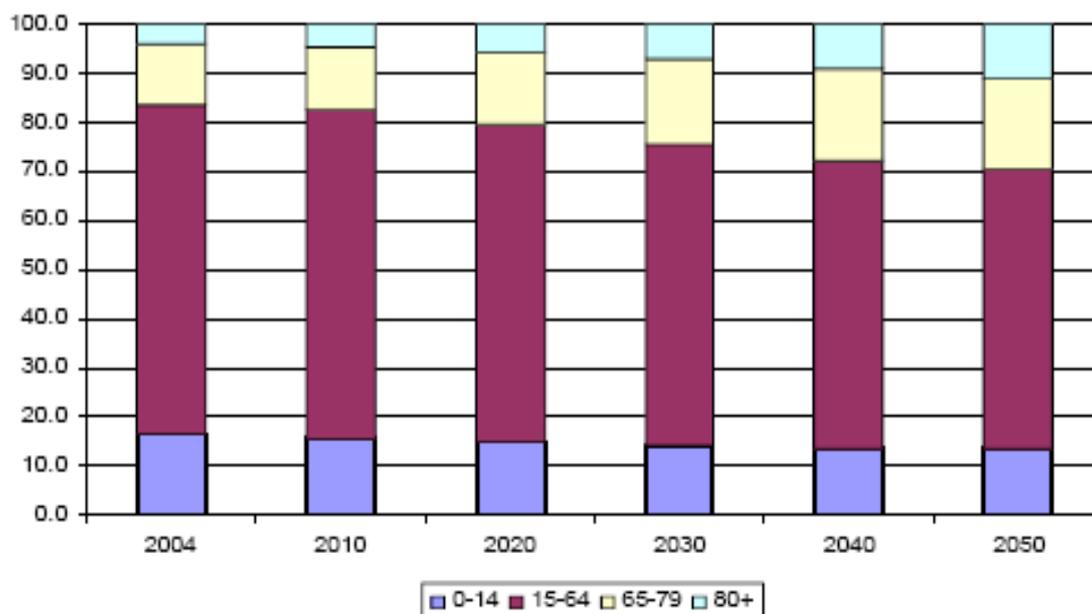


Figure 2. Changes in the age structure of the EU25 population [4].

However, I think that these predictions roughly underestimate the expected extra costs, because, as shown above, the number of over-65s will rise by nearly 80 %, and even if we look only at the number of pensioners, and take a higher age of retirement into consideration, the number of pensioners will still be at least one and a half times higher. Within this group the proportion of over-80s will show a more pronounced increase. This fact suggests a sharp rise in health-care and pension-related expenses. As far as the other end of the scale is concerned, a lower number of younger people, consequently lower educational and dependency-related expenses, but longer educational periods and thus higher relative costs as well should be taken into consideration. However, in general, a major increase in the expenses spent on the inactive population should be expected.

It seems even more true if, stepping beyond a general consideration of the likely increase in expenses, we examine the cost rises in comparison with the dropping number of working population, who practically finance inactive people. From this aspect, the burden on the working population will gradually increase in the form of growing social security expenses and taxes. These are strongly discouraging factors in terms of producing income.

The set of problems outlined above basically stems from the fact that Europe's population does not reproduce itself, European women do not give birth to enough children to maintain the population. Meanwhile, an ever-longer life expectancy is added to the situation. Is there a way to ease the above problems?

DISCUSSION

I see three major ways of solving the problem: First, we may increase immigration [5, 6] from areas outside Europe. At present, the net volume of the increase is 0,3 % per year, which is almost enough to counter-balance the natural decline of the population, but is far from being enough to stop unfavourable changes in age composition and the ageing process³. Nevertheless, migration plays an important role in the reproduction of Europe's population. Unfortunately, European societies do not seem to have realised the significance of migration in an area where the working age population is gradually shrinking and the elderly population is massively growing. This realisation must be the first step toward a more open society and labour market, and the integration of migrants and acceptance of cultural diversity. However,

fertility is highly culture-dependent, so there may be a real concern that migrants, providing that they adopt local cultural attitudes, will soon prefer having only one or two children.

On the other hand, we can encourage people to work longer and retire at a later age, and this is exactly what European governments and OECD [7] appear to aim at. Its significance is highlighted by the fact that life expectancy of both women and men is predicted to grow by an average of 5-6 years in the EU in the first half of the 21st century [4]. If longer life expectancy will not be accompanied by an increasing number of years at work, the age of retirement will not get higher and the elderly dependency ratio will worsen. As a consequence, the financiability and sustainability of pension systems will become questionable. By contrast, if longer life expectancy does not result in longer time spent in the pension system, i.e. higher overall amount of pension paid, but rather increases the length of the period throughout which people pay contributions, the burden on the population will altogether ease. In fact, it is quite logical that longer life should mean a longer period spent at work, which is to improve the ratio of the active and inactive periods of life.

From a different point of view, the number of active years is limited by the labour market situation, which is likely to be even more influential in this sense than demographical processes [8]. If the amount of pension would be more directly dependent on the actual value of the contribution paid by people and people's expected life length, it is likely that instead of seeking to retire as early as possible, people would rather stay at work for as long as they can. Governments could support this option by a progressive decrease in the amount of contributions to be paid in the last quarter of the expected life length. Of course, business actors might also facilitate the process by concluding contracts in which the amount of pension is established to correlate with contribution payments over a whole life, not just with the income received in the last few years, and also by accepting to a larger extent the possibility of declining wages in the last years of life⁴.

Efforts to promote retirement at a later age as well as other ways to increase employment in Europe seems even more arguable if we consider that the main reason for Europe's lagging behind the US is the lower number of years spent at work, though in recent decades the US significantly outstripped Europe both in terms of productivity and its growth rate. This solution could, in spite of the unfavourable changes in age composition, counter-balance the worsening dependency ratio to a certain extent and increase growth pace (or at least decrease the rate of slowing down). Furthermore, a higher level of employment is likely to decrease dramatically income discrepancies in the society, and the level of income redistribution required for the decrease of this discrepancy.

The above two directions are very important in terms of taming the aging process and improving the dependency ratio. However, on the long run, a significant improvement of the fertility rate should also be targeted, that is, we should urge people to raise more children. Long-term results may only be provided by a better fertility rate, even if the rising number of new-borns will increase youth dependency first, and working age population only decades later.

I think that the fertility rate is hard to influence on the long run. This is why more radical and consistent social and welfare policies should be introduced by European governments, instead of the existing methods. At present, governments in Europe try to increase fertility rate by providing benefits and allowances. However, this method is hardly successful (because the fertility rates are so low and their mitigating effects on the income inequalities are insufficient [9]), and drives up state expenses and decelerates economic growth. Despite the redistribution system, the major factor resulting in per capita income disparities between families is the number of children. It is quite logical, as the income provided to children is far below the income level of working parents, consequently, raising children means a significantly lower livings

standard. The existing income structure is especially responsible for decreasing fertility rates in the countries of Europe. For the causes of the low fertility rates in Europe see [9 – 12].

Financing the benefits provided to families with children from extra taxes paid by those without children, instead of the general pot of taxes and social contributions, would encourage people to raise children in two ways: first, it would put an extra burden on those not contributing to social reproduction, thus making the idea of living without children less desirable; and second, it would allow governments to provide higher allowances to families with children. Not only would this solution encourage people more effectively to have children, but it would also help balance the relative income levels⁵.

A society can be considered healthy only if it is able to reproduce itself. If the individuals in a society fail to perform in line with this, it is the government's task to establish criteria that make living without children less desirable, and encourage people to contribute to the social reproduction.

REMARKS

¹The concept was introduced in the ecological literature by William Rees [13].

²The data relate to the European Union, not the whole of Europe.

³One of the United Nation's forecasts dealing with demographical and migration trends [14] provides a calculation as to how many immigrants should move to Europe in the first half of the century to maintain population (96 million people), or to keep the ratio between the number of those between 15 and 64 and over 65s (more than 1350 million people).

⁴The role of the resilience of the labour market and wages is highlighted by, for example, studies written by the world bank's authors [15, 16].

⁵An alternative or supplementary solution of the problem may be to let parents have a share in the human capital of their natives.

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MOŽEMO LI USPORITI ALARMANTNU STOPU STARENJA EUROPE?

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Odsjek za ekonomiju – Sveučilište za tehnologiju i ekonomiju u Budimpešti
Budimpešta, Mađarska

SAŽETAK

U ovom radu ističem starenje Europskog društva i nedostatke koje donosi opće starenje. Navodim metode koje se može primijeniti radi usporavanja tog procesa i predlažem alternativno rješenje koja postavlja znatno veće zahtjeve na zamjenu stanovništva.

KLJUČNE RIJEČI

Starenje, stanovništvo, Europa