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### The Ageing Population of the European Union: Challenges and Prospects

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# The Ageing Population of the European Union: Challenges and Prospects<sup>1</sup>

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## Abstract

During the last few decades, the shape of Europe's population pyramid has transformed substantially, due to a considerably older population structure, with fewer working-age people and more pensioners. This paper examines the EU's demographic problem which involves an increasing ageing population as a result of low birth rates and longer life expectancies, leading to the so called "greying of Europe". Therefore, certain recommendations are suggested in order to mitigate the negative economic, social and geopolitical effects of this demographic phenomenon. It is concluded that the EU's ageing population should not be regarded solely as a threat, as it has also the potential to provide opportunities for societies through intergenerational solidarity and the rapidly emerging silver economy.

**Keywords:** Ageing population; fertility rates; life expectancy; silver economy; intergenerational solidarity.

## Introduction

Demographic trends differ among regions, within regions and within countries (The World Bank, 2021). Over the last few decades there has been an increase in the population of the EU-27 Member-States. It has been increased from approximately 350 million in 1960 to 450 million in 2019. However, this figure only represented a shrinking proportion of the global population, which has been growing sharply (United Nations, 2019).

Even though Europeans accounted for around 15% of the global population in the 19th century, it is predicted that by 2050 they will only make up 5% (European Parliament, 2008). On the contrary, in 2070 the population of Sub-Saharan Africa is predicted to be seven times that of Europe. It is evident that such trends will have a profound impact on shaping the world of tomorrow. Nonetheless, demographic projects with a 50-year horizon can prove to be inaccurate due to unexpected factors such as diseases, migration flows and conflicts (Borell, 2020).

It should be noted that the rise in the EU population is mainly the result of an increase in the life expectancy, rather than higher birth rates (European Parliament, 2021). Throughout most of human history, populations were young, and lives were short, whereas nowadays people are living longer than ever before, and the population's average age is increasing. The consequences of this trend on

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people's daily lives are significant, influencing the economic, social and health sector (European Commission, 2021). Active policies, with a special focus on employment and health are required in order to better support the older people, lessen the burden on the working-age population, and eliminate inequalities across the Union's most affected regions.

### **The problem: A strongly ageing population**

Even though population ageing constitutes a global issue, the EU presents a distinctive picture, since the process is more advanced here. Birth rates are declining, and family sizes are reducing rapidly throughout Europe (Grant et al., 2005). In other words, its population is getting older, making a substantial portion of European citizens reliant on others. According to Eurostat, some of the highest old-age dependency ratios are observed in rural and remote areas of southern Europe, such as Greece, Italy, Spain and Portugal, but also Germany and Finland. In fact, the EU's ageing population is projected to increase even further within the next few decades, indicating that the old-age dependency ratio will rise as well. For instance, in 2050 people aged over 65 are expected to comprise around one third of Europe's population (Eurostat, 2020). By that time, Europe will have the highest proportion of elderly people in the world, indicating that the region is in the midst of a severe demographic crisis (ISSA, 2022).

### **Key drivers of population ageing in the EU**

#### **Declining fertility rates<sup>3</sup>**

A country's fertility rate needs to be at least 2.1 to maintain its population size without immigration. In other words, it establishes a threshold that enables population replacement. However, the EU's average fertility rate is currently 1.50 (Eurostat, 2020). This means that the births are fewer than required to prevent population decline. In fact, according to statistical evidence, the number of people who have died in the EU-27 since 2012 has outnumbered those who have been born. The lowest fertility rates were mostly observed in the southern EU countries, while the highest in the North (Eurostat, 2021).

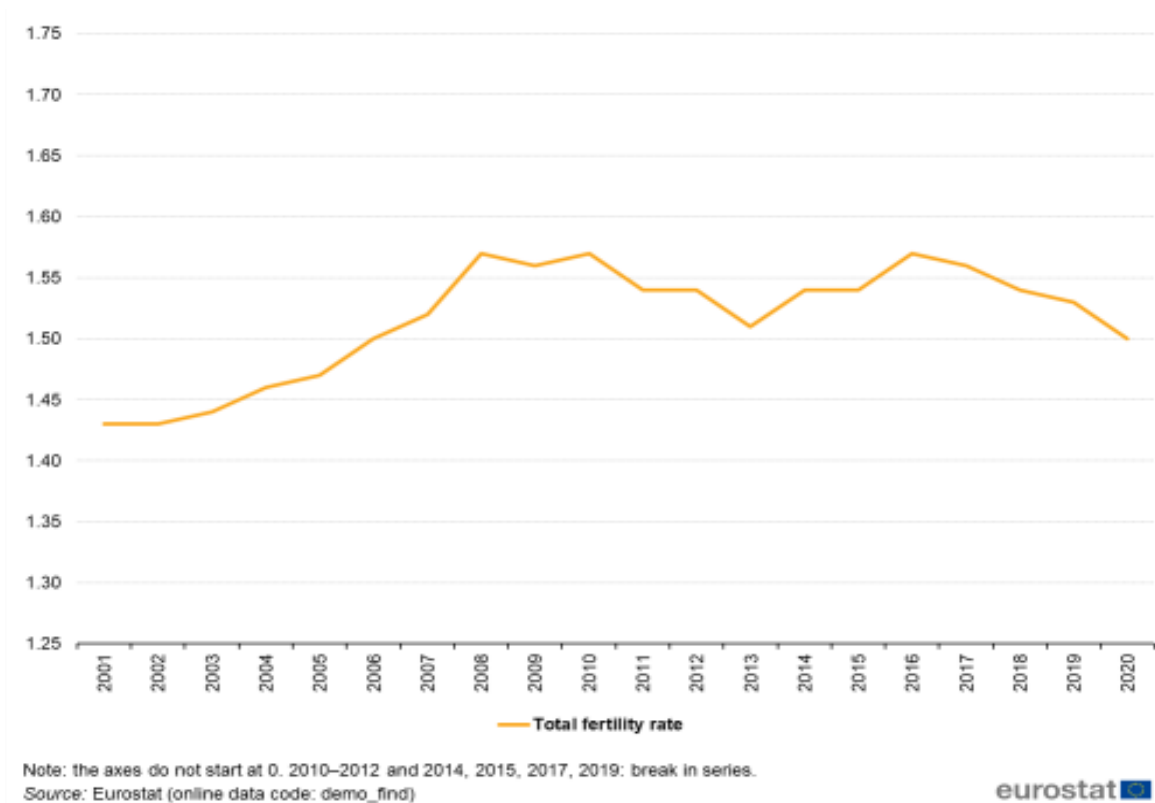
Generally, Europe's demographic decline is more profound than in other parts of the world. Such reduced fertility rates comprise the outcome of long-standing socio-economic developments in European societies (Strategic Comments, 2020). The main reason for such a decline over time is the

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<sup>3</sup> A country's fertility rate is the average number of children to which women give birth (World Population Review).

desire of women to have fewer children, as well as several incentives to delay childbearing, such as the increase of women in higher education and their respective participation in the labour force. In other words, nowadays, more and more couples choose not to have children after their first or second child, and many women decide not to have any children at all. On parallel, pandemic accelerated this trend, as a result of the job losses and the economic insecurity, which prevented family enlargement (Walker, 2021).

**Figure 1: Total fertility rate, EU, 2001-2020**



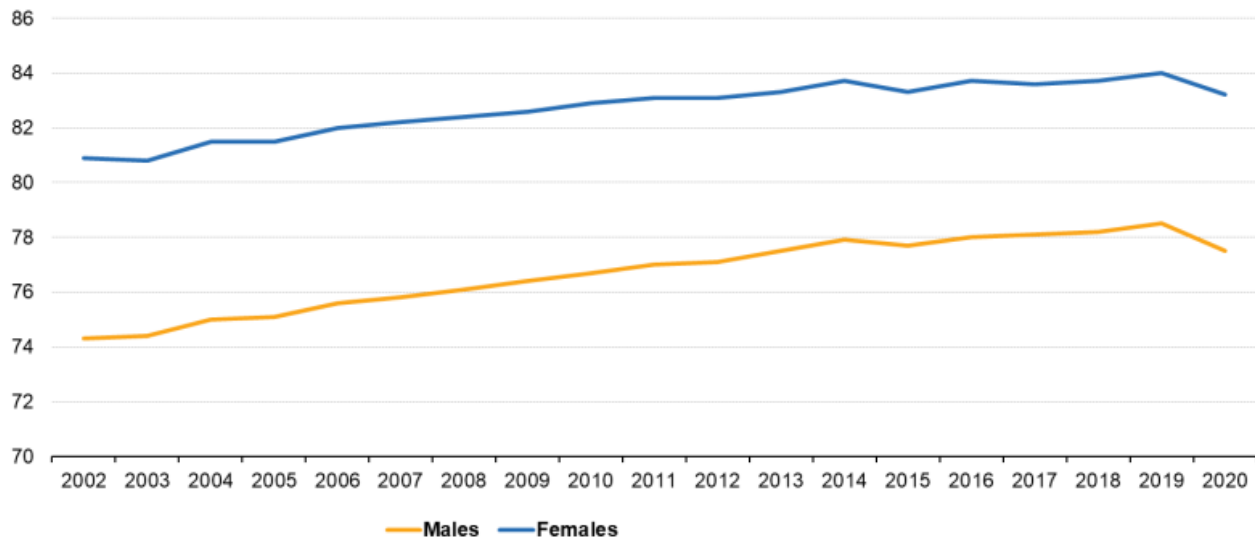
### Increasing life expectancy

The average European is living longer than ever. Women can expect 64.2 years of healthy life and men 63.7. This is due to the fact that the welfare and healthcare systems of Europe are the most developed globally. Infant mortality has clearly decreased over the years, while disease treatment has substantially improved. On parallel, more and more people tend to adopt a healthy lifestyle, while the number of those occupied in heavy labour is diminishing (Eurostat 2022).

As a result, across Europe, life expectancy at birth has increased substantially in recent years, rising to 80.4 years in 2020 from 77.6 years in 2002, and is projected to grow even further in the future. It should be noted that life expectancy varies throughout the EU. For instance, while the French island

of Corsica, Spain’s Balearic Islands and Greece’s Epirus region all have an average age of 84 years, the trend is different in countries like Bulgaria with around 75 years (Eurostat, 2020).

**Figure 2: Life expectancy at birth in the EU, 2002-2020 (in years)**



Note: The y-axis is broken. 2010, 2011, 2012, 2014, 2015, 2017 and 2019: breaks in series. 2018, 2019 and 2020: estimate, provisional.

Source: Eurostat (online data code: demo\_mlexpec)



## Consequences

### I. Labour Market

The employment rate of older workers in the EU remains below average, owing to challenges in recruitment, training opportunities and job transitions. As a result of demographic ageing, the EU’s working-age population, which is vital for the generation of tax revenue, is shrinking. Thus, this demographic trend will result in reduced government revenues. On parallel, a supply shortage of qualified workers will lead to lower productivity, inadequate service provision, delayed corporate expansion and decreased international competitiveness. Consequently, the overall prosperity and well-being of European societies will be questioned (European Commission, 2021).

### II. Healthcare and Pensions Systems

As the population of the elderly increases, so does the cost of the health system, and the number of pensioners. Chronic physical and mental health problems are more common within an ageing population, which will require more healthcare and long-term care services (European Commission, 2021). If healthcare and social costs rise significantly, government expenditure will increase and a relatively small working population will be forced to contribute more funds through the tax system,

while also taking care of each pensioner (Council of Europe Development Bank, 2020). Notably, this issue raises questions of intergenerational fairness.

### *III. EU's position in the world*

Even though the importance of a political entity is not solely determined by its demographic weight, it is evident that the EU's demographic change influences its position in the world. This is due to the fact that population and economic size play a significant role in the world's power structures. To be more specific, population size matters as much as it has always mattered in international politics, if not more, given the growing role of economic statecraft. Interestingly, according to "offensive realism" the size of population and wealth of a state constitute the most significant elements for the creation of a military power (Mearsheimer, 2007). Fortunately, a country's power is no longer primarily determined by its ability to line up vast numbers of troops on the battlefields (Borell, 2020).

### **Recommendations**

Even though demographic issues used to be neglected by politicians, and despite the fact that Member States have primary responsibility for dealing with the effects of ageing, the European Commission has recently put demography high on the EU policy agenda. In 2019, it assigned to Dubravka Suica, one of its incoming vice-presidents, a new portfolio focusing on "democracy and demography". However, decisive steps should be taken in order to reduce the negative impact of the aforementioned demographic trend (ECR group, 2020).

#### *i. Work longer and start receiving pension later*

It is apparent that as people live longer, they have to work more years before retiring. Thus, several EU member states are raising the state pension age in order to improve the financial well-being of their older workers, while also reducing the total financial burden of state pensions (Eurostat, 2020). However, this is generally not acceptable by the working population. For instance, in 2019, French President Emmanuel Macron proposed a raise of the retirement age from 62 to 64 years in order to reduce future tax burdens, but this sparked protests and harsh criticism from the French public.

#### *ii. Labour-force participation of the native population*

The EU member-states can provide incentives to bring more people onto the labour market. Different ways to do so is by boosting the employment rate of women, opening up the labour market to people with disabilities and investing in the qualifications of people with low educational levels. When it comes to older employees, emphasis should be given on senior entrepreneurship, as it would reduce significantly old-age unemployment and improve social inclusion while also increasing innovation

through start-ups. Thus, public policy can assist senior entrepreneurs by offering well-targeted guidance and assuring access to funding (European Commission, 2021).

### *iii. Replacement migration<sup>4</sup>*

Between 2000 and 2018, immigration contributed for 80 percent of population growth in Europe (Peri, 2020). As the EU's working-age population grows, immigration will provide a solution to skill shortages, and thus contribute to the countries' economic growth. However, immigrants will reverse the trend of the lack of labour supply, only if they are employed and integrated to the labour market (Muysken, 2008). In short, if integration is successful, immigration will boost the economy's potential in the short term (Segendorf & Theobald, 2019). On the other hand, high immigration numbers combined with inadequate education and integration will exacerbate economic dependency (Marois et al., 2020).

### *iv. Affordable childcare and support to working mothers*

Policies for child support will increase the number of working mothers. It is true that even though women's participation into the labour market has increased significantly, they continue to do more in terms of childcare work compared to men (Doepke & Kindermann, 2016). As a result, the number of women working part-time is almost fourfold than that of men, while women receive a lower pay than men for the same amount of work. Consequently, women face difficulties in reconciling work and family life, a problem that should be dealt at the EU level by providing more flexible working opportunities to women, as well as better availability of quality and affordable childcare (European Commission, 2020). The EU Gender Equality Strategy 2020-2025 has already set out a number of important steps in this direction.

### *v. New birth policies*

Several European countries provide financial incentives to couples in order to have more children. This is mostly observed in Central European countries, which highlight that family policies should be under national jurisdiction, and that immigration will not solve the demographic problem (REUTERS, 2021). For instance, over the last few years, Hungary has offered a package of incentives to improve the national birth rates. These include, among other measures, a three-year parental leave, subsidized childcare and housing subsidies per child up to tens of thousands of euros. However, it

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<sup>4</sup> It refers to the international migration that a country requires in order to counteract population decline and ageing caused by fertility rates that are below the replacement level (United Nations).

appears that such policies do not mitigate the demographic problem in the long run. On the contrary, extensive social policies are needed, following the example of Scandinavian countries.

## **Turning ageing into an opportunity**

### *Silver Economy*

Ageing can open up new possibilities, such as the creation of new jobs and enhanced social fairness and prosperity. In other words, there can be a significant growth in the EU through the emphasis on the “Silver Economy”. This refers to a shift in demand for products and services that cater to the requirements and preferences of the older people. Thus, new job opportunities could emerge, particularly in the fields of tourism, assistive technology, service robotics, wellness, cosmetics and fashion, personal and automated mobility and banking. Furthermore, technology developers as well as highly skilled health workers and caretakers will be required in order to achieve scientific and medical innovation. As a result of a developed market of products and services for healthy and active ageing, the overall efficiency of health and social care systems will significantly increase (European Commission, 2021). In this regard, ESPON (European Spatial Planning Observation Network) has proposed a “Silver Deal” similar to the “Green Deal” in order to make European cities more agefriendly and promote healthy and inclusive ageing (ESPON, 2021).

### *Intergenerational solidarity*

Older people can provide mentoring and experience sharing to younger generations, contributing to intergenerational learning. Transmitting their cognitive skills is beneficial not only to their mental health, but it also constitutes an opportunity for the community. In addition, a good idea would be the promotion of multigenerational workforces, since inclusive companies not only provide positive workplace experiences, but also business growth. In fact, synergies between older and younger employees can improve productivity, through mentoring and institutional knowledge transfer (AARP, 2020). It should be also mentioned that many older people, particularly women, help the workingage generation balance employment and family life by acting as unpaid carers, such as in the case of looking after grandchildren. Finally, retirees’ contribution in voluntary services is significant, leading to increased self-esteem and societal economic value.

## **Conclusions**

Although EU’s demographic ageing is unavoidable, the negative consequences of this trend can be mitigated by a variety of methods. Working longer and retiring later, increased labour-force



participation, particularly among vulnerable social groups, legal migration, as well as incentives to childbirths, such as affordable childcare, are just a few of the policy instruments recommended to minimize the negative effects of an ageing population.

It is obvious that these measures should complement one another since none of them can tackle the demographic problem on their own. On parallel, what works in one country might not work in another. Policies' impact is also driven by social, economic, and political settings. Handling the opportunities and challenges of ageing constitutes therefore both an individual and a collective responsibility.

However, it is important to stress that reducing the consequences of ageing on our societies and improving social protection for the elderly should not come at the expense of the shrinking workingage population; thus, intergenerational fairness should be at the heart of any policy responses. Lastly, since population policies take a long time to pay dividends, they are generally politically unattractive, and their implementation is avoided. As a result, a solution will necessitate long-term planning and political courage (Grant et al, 2005).

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