The Green Paper on demographic change and the challenge of ageing for Europe’s welfare states

Introduction

The Green Paper published by the Commission in March 2005, with the title “Confronting demographic change: a new solidarity between the generations”, has been the source of an open debate about the present and future impact of demographic trends on the sustainability of the European social model.

The comparison of both the Commission’s paper and the stakeholders’ replies allows us to address some questions about the plausibility of the “ageing alarm”. In the following contribution, we make reference to the key “messages” from the Commission about ageing, fertility trends, immigration, and activation of young, female and older workers. The second section focuses on the contribution to the debate by some of the European actors having a stake in the policy fields affected by demography. In particular, we focus on comments from the European Trade Union Confederation (ETUC), the European Federation of Older People and Pensioners (FERPA), as well as from the Union of Industrial and Employers’ Confederations of Europe (UNICE). In section three, we briefly summarise the response from the European Older People’s Platform (AGE), one of the civil society actors in the field. Sections four and five will propose some further investigations into the nature of the “demographic crisis’ and its potential impact on welfare institutions.

This article aims to contribute to a richer and more complex approach to the vulnerability of European welfare programmes. While ageing will certainly affect socio-economic institutions, the comparison of statistics
about past experience and future projections shows a less radical and more manageable impact. The need for reforms will be consistent with innovations to quantitative and qualitative aspects of social programmes that affect both their financial viability and social adequacy. A further underestimated complication is that, while the European population will face major changes in the future, these will be unevenly distributed between countries and regions, and welfare institutions as well. Decision-makers need to take such differences into account to define effective strategies for reform.

1. The Green Paper on demographic change

The Green Paper aimed to launch a wide-ranging debate on demographic change and the strategies to meet that challenge. In this section, we briefly look at the key messages from the Commission about both problems and solutions related to population trends.

1.1 The challenge: economic growth without a “demographic motor”?

According to the Commission, demographic changes are the result of three basic phenomena. The first dynamic concerns the progressive increase in longevity as a result of progress made in the average standards of healthcare and quality of life in European countries. On the one hand, it is an historic success of the European welfare states. But, on the other, it will probably lead to a new (problematic) balance between generations, with a growth in the number of elderly people and hence in the non-active population. The demographic dependency ratio, that is the ratio of the population aged 0-14 and over 65 to the population aged between 15 and 64 years, will rise from 49% in 2005 to 66% in 2030. In particular, in the period 2005-2050, the age group between 55 and 65 (older workers) will increase by 8.7%, while the number of individuals aged between 65 and 79 (elderly people) will grow by 44.1%, and very elderly people (aged 80 and over) will rise by about 180% (CEC, 2005a: 3-4) (Table 1).

The second factor which contributes to the “demographic crisis” is the continuing growth in the number of workers over 60 (at least until 2030) when the so-called “baby-boom” generation will become elderly. That generation is particularly numerous and when it reaches...
retirement, the balance between the active and non-active population will be adversely affected.

**Table 1: European demography in the next decades in EU-25**

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<tbody>
<tr>
<td>Total population</td>
<td>-2.1%</td>
<td>+1.2%</td>
<td>+1.1%</td>
<td>-4.3%</td>
</tr>
<tr>
<td>Children (0-14)</td>
<td>-19.4%</td>
<td>-3.2%</td>
<td>-8.9%</td>
<td>-8.6%</td>
</tr>
<tr>
<td>Young people (15-24)</td>
<td>-25.0%</td>
<td>-4.3%</td>
<td>-12.3%</td>
<td>-10.6%</td>
</tr>
<tr>
<td>Young adults (25-39)</td>
<td>-25.8%</td>
<td>-4.1%</td>
<td>-16.0%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>Adults (40-54)</td>
<td>-19.5%</td>
<td>+4.2%</td>
<td>-10.0%</td>
<td>-14.1%</td>
</tr>
<tr>
<td>Older workers (55-64)</td>
<td>+8.7%</td>
<td>+9.6%</td>
<td>+15.5%</td>
<td>-14.1%</td>
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Thirdly, low birth rates will further impact on population trends. A number of elements, such as difficulties in finding jobs, housing costs, new study, working and family life choices have all contributed to decreasing fertility well below the population replacement level (equal to 2.1 children per woman). The worst situation is that of southern European countries, where the replacement level is around 1.3 children per woman, while the average level in the EU countries is 1.5. On that basis, it is possible to foresee, in the period 2005-2050, a decrease of 19.4% in the number of children between 0 and 14 years, parallel to an even more negative trend of people aged between 14 and 24 (-25%) and young adults between 25 and 39 (-25.8%). Consequently, total EU population will grow slightly until 2025 before starting to decrease. The active population (between 15 and 64) will diminish by about 20 million between 2005 and 2030. As a consequence, the potential GDP growth per year in EU countries would fall from 2-2.25% to an estimated 1.25% in 2040. The Green Paper refers to similar trends for the new Member States (1).

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1 The last communication from the Commission on the Social Situation in the European Union (CEC, 2005b) gives information about demographic trends in new EU members.
According to the Green Paper, the combined effect of these dynamics will produce a huge challenge to the European social model as we know it. The Union no longer has a “demographic motor’, and “never in history, has there been economic growth without population growth” (CEC, 2005: 5).

1.2 The solution: a new solidarity between the generations

For the Commission, in order to cope with that source of problems, the European Union has “(…) to invent new ways of liberating the potential of young people and older citizens’ (CEC, 2005: 6). In the introductory notes, the paper focuses on the Lisbon Strategy as a way to meet these challenges. Reforms should be introduced to get people into jobs (especially women, younger and older people), to improve innovation and productivity, and to modernise social protection programmes. Moreover, the role of the family, the institution having a decisive role in promoting solidarity between generations, is important to improve fertility and to encourage the reconciliation of life and work.

New policies to increase fertility are the first measure envisaged by the Green Paper. While fertility in Europe is particularly low and insufficient to replace the present population, surveys prove the gap between the number of children Europeans want and those they actually have. Thus, new measures should favour a rise in birth rates through: incentives to earlier access to employment, more job stability, reduced housing costs, and more benefits for families (e.g. parental leave, childcare, etc.) (2).

Immigration from outside the EU could further help to mitigate the effects of negative demographic trends, the key goals being to boost the population in general, and more particularly to supply manpower. At the Thessaloniki European Council of 2003, the EU proposed a common integration policy for immigrants to meet economic challenges through an effective and transparent administration of the admission mechanisms for third country nationals, and took a decision on the inclusion of migrants in host societies.

According to the Commission, the third strategy is that of a “better integration of young people’. Despite the increase in the level of education and training potentially leading to productivity growth, youth

2 The Commission put huge emphasis on this point, see also Vignon (2005).
is an underestimated resource of Europe. Some indicators reveal the present limits: unemployment rates for people under 25 in 2004 were above 17%, compared to 7% of people aged 25 and over. The risk of poverty was 19% for people between 16 and 24, compared to 12% for people aged 25-94 and 17% for people over 65. To eradicate these forms of exclusion, education systems are expected to raise the level of training and education, reduce the number of young people who leave school with no qualifications or drop out of school early. More efforts are therefore proposed to alternate education and work and professional training to meet the changing needs of the economy. Social partners, public authorities and local players have the task of improving the integration of all these measures for the inclusion of young people.

The rapid transformation of the labour force, with a growing role for experience and skills of older workers, should favour a new approach to the ‘working life cycle’. For the Commission, the increase of employment rates for people over 55 is thus a key target. This can be implemented through a number of strategies: more flexible organisation of working time, and new technological developments to improve the quality of jobs and the working environment. At the same time, the definition of lifelong learning strategies and raising the retirement age are promoted as potential solutions. This is what the European Foundation for the Improvement of Living and Working Conditions (2005) has called a new ‘life course’ approach to social and employment policy.

The increasing number of elderly people is expected to represent both an opportunity and a burden. The former corresponds to the better health of elderly people (especially those between 65 and 79). This is consistent with growing consumption of goods and services and greater mobility across Europe, and new opportunities to provide services to help younger generations (children and grandchildren). The reform of pension programmes is proposed to define more favourable and flexible ‘bridges’ between work and retirement. According to this argument, the employment rate of people aged between 65 and 74 (in 2003 at 5.6% in the EU, compared to 18.5% in the US) should increase through new opportunities to combine part-time work and pension revenues. On the other hand, the projected burden of ageing is related to the rising number of very elderly persons (aged 80 and over): from 18.8 million to about 35
million in 2030. This portion of the European population will need appropriate care, especially high intensity care. Families will not on their own be able to provide the services needed; they will need support from networks of solidarity within local communities.

Having indicated the key policy measures to be implemented, the Commission then refers to the key instruments the EU can activate. New legislative measures but also financial instruments like the Structural Funds, and social dialogue, civil society dialogue, and the open method of coordination (OMC) are expected to play a strategic role.

At present, the Broad Economic Policy Guidelines (BEPG) and the Stability and Growth Pact have already focused on the impact of ageing on public finances. The European Employment Strategy (EES) and educational and vocational training policy are already mobilised to combat school drop-out and to raise the level of young people’s initial training, to promote active ageing and to improve job quality. The OMC on social protection and social inclusion have set key objectives for the reform of pension systems and of policies to eradicate family poverty and tackling child poverty. Gender mainstreaming has informed different policy initiatives, to respect equality between men and women: the social dialogue, for instance, has concluded agreements on parental leave and part-time working, subsequently implemented through directives. In a broader perspective, since 2000, a legislative framework has covered all discrimination in employment. Finally, the Social Fund has supported the EES and the Regional Development Fund has promoted the development of childcare and better “age management” in companies. And the research framework programme is aiding projects associated with ageing, like clinical research, and studies on demographic trends.

2. Contributions to the debate: the position of Europe’s social partners

The Green Paper has represented the opportunity for a wide consultation of key actors having a stake in the impact of population ageing. It proposed, in fact, 35 open-ended questions on all the issues briefly introduced above. The Commission then organised a conference (with the same title as the Green Paper) in July. We refer below to some
of the key responses from the European social partners and civil society (Table 2). They have contributed to enriching the analysis of demographic change, through quite varied arguments, some in contrast to those of the Commission.

Table 2: European social partners' and civil society contributions on demographic trends

<table>
<thead>
<tr>
<th>ETUC</th>
<th>FERPA</th>
<th>UNICE</th>
<th>AGE</th>
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<tbody>
<tr>
<td>Key reference</td>
<td>Lisbon Strategy</td>
<td>EU, UN and UNECE reports</td>
<td>Kok reports</td>
</tr>
<tr>
<td>Issues</td>
<td>Demographic cycle rather than crisis (no need for exaggeration)</td>
<td>Challenges and opportunities related to demographic trends</td>
<td>Demographic ageing as one of the biggest challenges for Europe; high spending on pensions and health-care</td>
</tr>
<tr>
<td>Solutions</td>
<td>- More and better jobs; - Reforms to welfare state financing; - Better employment for women; - Youth initiatives; - Immigration (partial solution)</td>
<td>- Better social integration for young and older people; - Full employment; - More investment in social policy; - Lifelong learning; - Active role of elderly in a context of work-life balance; - Support for families; - Immigration (a resource but not a solution)</td>
<td>- Sound public finances; - More efficient education and training; - More favourable context for entrepreneurs; - Modernising social protection and labour markets; - Increase employment rates of older workers; - Immigration (partial solution)</td>
</tr>
<tr>
<td>EU role and instruments</td>
<td>Key EU role: Lisbon Strategy; Structural Funds; social dialogue</td>
<td>Key EU role: OMC; Structural Funds; social dialogue and civil society dialogue</td>
<td>EU role as a catalyst for action Key role of the State Key role of social dialogue</td>
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</table>
2.1 The response from ETUC: a demographic cycle rather than a demographic crisis

The ETUC Executive Committee adopted a contribution to the debate in June. The first remarks concerned the risk of exaggerating the demographic challenge. More than a crisis, it is defined a foreseeable cycle related to problems and opportunities as well. What is more, projections from the Commission do not consist of realities and thus cannot be used to justify overarching policy solutions (ETUC, 2005). While the Green Paper addresses some of the key determinants and outcomes of demographic trends (such as social protection policies, reconciling work and family etc.), other issues are under-analysed (for example housing conditions).

For the ETUC, a first concern on demographic change is related to the need for new labour market policies. Measures like those allowing for a combination of retirement and employment, more innovative work organisation, more limited obstacles to regional mobility and better working conditions can be pursued through legislative intervention, the activation of resources from the Structural Funds but especially social dialogue (Table 2).

A second issue consists of the impact of ageing on social protection programmes. Here the approach proposed by the ETUC contrasts with those of many other influential actors. Financial strains on pensions and other social policies are defined as the consequence of recent measures introduced in many countries to reduce social contributions, rather than the effect of demographic trends. Moreover, the low employment rates of both young and older generations contribute to reduce financial resources for social protection. The main strategy thus consists of the revision of methods for financing welfare programmes with more focus on profits made by companies rather than on labour. This is with a view to achieving the key social goals of social protection systems, that are to improve social cohesion and solidarity.

A further policy tool is immigration. Policy-makers at national and European level should interact with social partners to develop more pro-active policies on the entry, residence and protection of migrant workers. This is to deal with potential problems of migration flows. Gender inequalities are another central issue to cope with in addressing
negative demographic trends. Women, in fact, are an “under-utilised pool of labour”, a crucial source of formal and informal care for children and the elderly, and at the same time are expected to give birth to more children and take their share in active ageing. The solution proposed by the European trade unions is to boost female employment in parallel with high-quality services and infrastructures encouraging coordination between work and family life. The Scandinavian countries prove that these factors are correlated to high fertility rates. New shared care responsibility between partners within the family unit should be improved through parental leave and care provision, the availability of negotiated flexible working arrangements and more universal forms of access to care infrastructures.

The ETUC also identifies some priorities for achieving a fair inter-generational contract. The issues of security, stability and quality of jobs are among the most urgent. As its contribution states, for two thirds of young Europeans employment means short-term, part-time, seasonal, or undeclared work. And all this has important consequences on their daily lives: financial dependency on the state and/or their parents, living with a partner and starting a family later, etc. Encouraging young people to become independent means implementing measures to prevent them from dropping out of school, improved opportunities for better jobs, and access to social protection. Older people represent a source of opportunity to develop new and better jobs (related to the provision of care services), given the impossibility for families to give all the care needed.

At the EU level, the Lisbon Strategy (with its emphasis on growth, employment, social cohesion and sustainable development) is defined as the key agenda to deal with all the dimensions of the new demographic cycle. It can be pursued through different instruments. Specific reference is made to the need to optimise the Structural Funds and the EURES network (the European Job Mobility Programme), the renewed European Employment Strategy, and social dialogue.

2.2 The response from FERPA: “a society for all ages”

Among the key stakeholders having an interest in demographic trends, the European Federation of Retired and Older People (FERPA) is one
of those participating in the recent debate (3). The communication adopted in July demanded a “society for all” in a changing demographic context and opposed any form of exclusion for both workers and pensioners.

The first and broader critique of the Green Paper concerns the lack of emphasis on the opportunity, rather than the risk, of population ageing. Rather than the uni-dimensional understanding of demography as a problem of low fertility and an increased elderly population, a multi-dimensional perspective is proposed (see Table 2 above). Life expectancy gains are in fact a major change with a potential for better integration of aged persons in social and economic activities. In that respect, FERPA has stressed the key contribution made by the Second World Assembly on Ageing in April 2002 and the United Nations Economic Commission for Europe (UNECE) conference in Berlin in the same year. As its document puts it: “retired and older people are a resource for society, not a burden to be borne and blamed” (FERPA, 2005: 3).

FERPA fixes some key objectives: to create a society for all ages, to increase inter-generational solidarities, to promote a high quality of life and high standard of health, and full employment. These goals are defined as “mainstreaming”, in that they should be implemented through consistent policy measures on social protection systems, but also on employment, work organisation, health and safety at work, lifelong learning, etc.

To achieve a fairer distribution of family and domestic responsibilities, a number of actors should work together. The family is recognised as a key provider of elderly and child care, but needs the support of a broader system of care services. To provide a continuum of care and support is a social duty. In that context “any attempt to restore the traditional role of the family and women would be hugely misguided, because that kind of family no longer exists” (FERPA, 2005: 5). By contrast, a constructive dialogue

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3 FERPA is a member of the European Trade Union Confederation (ETUC). It was founded in 1993 and has a 10 million membership. It coordinates its policy with that of the ETUC, especially on social security and social protection, with a strong focus on pensions, healthcare, and action against social exclusion and poverty.
between institutions, social service providers, patients’ associations, and family associations at local, regional, and national level would be vital for an effective care and services policy. Public authorities are asked to support families that are willing to provide care for their members. Financial support for family carers, the extension of pension rights for caring activities, and specific training should be given. In this document, the establishment of a whole system of social services is defined as an investment (more than a cost) that will grant universal social rights for people in need of care, and a source of good quality jobs for younger cohorts.

The European Federation of Pensioners and Older People proposes a more pro-active role for the elderly in planning social assistance and care. The elderly population is expected to be a resource. They have a key role as buyers of good and services. Hence, pensioners’ income should be safeguarded especially through tax incentives for innovative technologies (e.g. telemedicine) to improve the quality of their lives. They are particularly active in voluntary activities, within the family (especially childcare) and in the broader social context (in not-for-profit organisations). In line with the need to safeguard universal access to social protection, the public pension and health systems should be improved, with a special focus on combating poverty, and to develop disease prevention and palliative care. What is more, public authorities at all levels should reinforce opportunities for the participation of the elderly in social life: voluntary activities to give care, but also non-formal education schemes and life-long training, are examples of a broader social (rather than just economic) activation. Schools could therefore promote joint training activities while retired teachers could be made tutors for young students. Social dialogue and new forms of civil society dialogue should be implemented to increase labour force participation for people aged 55 and over, to invest in human resources, and to introduce flexible retirement arrangements enabling part-time work with partial pensions.

Regarding the present and future role of the EU, FERPA concentrates on some main lines of action. The first consists of tax incentives and especially a reduced rate of VAT (an area of EU competence) to help families to provide care and to boost solidarity between generations.
Secondly, the Structural Funds should support lifelong learning, the use of new technologies and help combat old and new forms of social exclusion. A wide-ranging process of exchange of good practices is another issue to be dealt with by the EU: especially through the URBAN action plan for the organisation of social services at local level. The Commission is asked to establish specific forms of civil society and social dialogue, as a vital asset for the economic and social development of Europe. The open method of coordination is proposed to improve learning on minimum quality standards, especially in healthcare and long-term care.

2.3 The response from UNICE: accounting for company needs

While FERPA has based its comments on the arguments of the United Nations on demographic changes, UNICE has made explicit reference to the report of the High-level Group on Mid-term Review of the Lisbon Strategy (or Kok group) (UNICE, 2005).

The response from Europe’s employers firstly consists of a critical assessment of the Green Paper in two main respects. UNICE expressed its deepest concern about the fact that the Commission approached the challenge exclusively from the point of view of individuals and thus lacked a sufficient account of companies’ needs. This leads to the lack of a proper identification of responsibilities of all the actors concerned: not only employers, but also public authorities, individuals and social partners in general. Then, the paper is defined as a source of bias towards emphasising work-life balance policies to the detriment of other dimensions of the problem: especially the long-term sustainability of pensions and healthcare systems, and labour market reforms (Table 2).

In terms of the challenge to be confronted, the first reference is to the growing strains on public finances that will lead to increased taxation and labour costs if no reforms are carried out. This, in turn, is related to the alarming dependency ratio that will affect some countries more than others (e.g. Italy shows the highest level for the next decades). Consequently, decreased labour market participation will further affect the EU. A second source of concern is declining productivity rates, often not reflected in wage formation. This element is indicated as one of the reasons for the lack of competitiveness in Europe. Third, the
aggravation of the skills gap of the workforce and the lack of effective lifelong learning and training activities.

An appropriate response to these challenges should consist of a number of measures consistent with two key lines of argument: the need for an inter-generational approach to ageing, and the revision of the working-life cycle perspective. The former is to inform reforms of public finances, with the progressive removal of public deficits to avoid shifting the burden to future generations, improving the efficiency of education and training, as well as that of labour-markets (to improve employment rates in the older population), and offering a more favourable economic and social context to young and older entrepreneurs. An explicit focus is on the innovation of social protection with a twofold goal: reduce its impact on the state budget, and remove unemployment and poverty traps.

As for the revision of key aspects of the working life-cycle, this is defined through three key issues. Life-long learning is defined as a necessity for individuals who have to improve their skills to adapt to labour market changes. Making learning more attractive and flexible should be a priority for each Member State. The second aspect is the reconciliation of family life and work. Here UNICE criticises the key reference in the Green Paper to the development of parental leave as the main solution. By contrast, measures to further increase the role of childcare facilities and “all-day’ schools are identified as more promising instruments to favour new balances without negative effects on social policy and labour-market costs.

As for the role of the European Union, UNICE’s view seems more cautious than those of the other social partners. The EU should act as “a catalyst for action in the context of the European strategy for growth and jobs” and promote a genuine debate based on the exchange of experiences on solutions found in different countries. Yet, the “ingredients” of the policy mix to cope with that challenge can only be decided by Member States (Table 2). The key focus is thus on the Lisbon Strategy to improve synergies between policy areas and processes. The new Integrated Guidelines for growth and jobs (IGs) together with the open method of coordination on social protection and on education and training are explicitly defined as an important instruments for the
monitoring and evaluation of progress made in national implementation and as a source of inspiration for effective solutions. Explicit reference is made to the role of the European social dialogue to tackle the issue, as proved by the framework of actions on gender equality adopted in March 2005 (UNICE, 2005: 6). More flexible working arrangements are to be mutually acceptable for both companies and employees.

3. Proposals from civil society: the response from AGE

The European Older People's Platform, AGE, is one of the most active social policy NGOs with a specific mandate concerning the conditions of the elderly. In 2005, that organisation contributed to the debate through a consultation of its national members and the organisation of a seminar at the European Parliament with the participation of the Inter-group on Ageing and of other relevant NGOs, such as the European Youth Forum and the European Women's Lobby. All these efforts fed into its response to the Green Paper.

AGE firstly made some preliminary critical remarks on the Commission's approach. First, the response to demographic challenges should be realistic without implicit alarmism. Like the FERPA document, AGE defined ageing as “one of the proudest achievements of recent social and economic development in Europe” (AGE, 2005: 1). A broader approach to demographic trends is needed, through both attention to the quantitative effects (increased social protection expenditure, etc.) and qualitative outcomes (the transformation of social institutions, etc.). This must be combined with a more subtle analysis of the changing nature and diversity among the elderly, for example through a clearer distinction between old (between 65 and 79) and very old persons (aged 80 and above).

As far as longer life expectancy is concerned, for AGE this is not a problem in itself, in that it is the effect of better living and working conditions, and medical progress. Demographic projections by the Commission do not take on board the foreseeable impact of stress and environmental pollution, and of new lifestyle-related risks for today's young generation (e.g. obesity, cancer, abuse of drugs, alcohol and tobacco). This means that projections vary depending on the assumptions they are based on. Another critical remark concerns the
most effective response to population ageing. Here the European Older People’s Platform stresses the importance of two concepts: choice and confidence. On the one hand, citizens should have a real opportunity to choose how to reconcile work and family life through appropriate employment and social policies. On the other, this is possible through building widespread confidence in welfare programmes to secure their old-age. Explicit reference is made to some measures: increased childcare and eldercare facilities, financial compensation for care duties (e.g. care credits and pension rights for informal carers), as well as support and training for informal carers, development of elderly care structures to promote employment in this field, etc.

The document then gives a particular emphasis to the problematic nature of immigration. Migrants are not to be considered just an economic factor. Rather, the social dimension of the phenomenon and the consideration of needs of individuals and their families should be addressed by policy-makers to avoid risks of creating ‘second class citizens’. In that respect, a common policy on migration must provide the same level of social protection to migrant populations and to EU nationals, and deal with two key issues: the exploitation of migrant labour (through low pay, low status, unsociable working conditions), and the risk of the brain drain and economic loss in the countries of origin (Table 2).

Different strategies are thus identified for building inter-generational solidarity. The first line of action is related to the social and economic integration of younger generations. The best way to avoid poverty in old age is to be engaged in well-paid work throughout working life, in good working conditions, and in good health. The second issue is about making training accessible to those most in need of it (e.g. young, older and female workers) in parallel with more flexible arrangements able to meet the wishes of employees (e.g. mentorship, gradual retirement, etc.). AGE proposes the raising of the average retirement age through incentives rather than a mandatory retirement age. A significant number of older people (and especially women) face poverty and social exclusion. And this problem will be even more alarming in the future because of more fragmented careers and recent reforms shifting the
method of calculation of old-age benefits now increasingly based on average earnings of the entire career rather than on the “best years”.

As for the role of the European institutions, AGE’s response has stressed the need to discuss demographic change and inter-generational solidarity at the EU level because all these issues have a tremendous impact on policies under the competency of the Union. AGE has asked for more coordination between economic, employment and social policies and migration, transport, housing, research and education as well. “EQUAL-like’ initiatives could also contribute to innovative approaches to extending working lives, with a parallel focus on both young and older workers. “Making work pay’ is judged to be not enough to face up to labour market changes. The EU should increase efforts for more quality jobs.

AGE finally recommends that the Commission publish an annual report on the European response to demographic change, with a summary of what individual members and EU institutions are doing about the issue. The annual report should be debated in a yearly roundtable on demographic change with the active participation of stakeholders and national policy-makers and the European Parliament. All this will help prepare the post-Lisbon Agenda.

4. Nature of the demographic challenge: some critical remarks

The comparison of the Green Paper and some of the contributions to the European discussion on demographic trends shows varied perceptions of present and foreseeable changes. Hence, a more precise definition of the challenge and strategies to deal with it seems necessary. Will future population ageing consist of a “demographic crisis’ or a less alarming “demographic cycle’? And what will be the impact on the European welfare states? Some recent scientific contributions help us to carry out a more in-depth analysis (see Castles, 2004; Jepsen, 2005; Morley et al., 2005).

Firstly, as argued by some of the stakeholders involved in the debate, long-term projections are highly fluid and questionable. It is almost impossible to forecast accurately what society will look like in 30 or 40 years. These efforts are usually based, in fact, on a huge number of assumptions about: productivity, technological development, but also
employment, fertility rates, etc. (Jepsen, 2005). While the European Union is clearly entering a new demographic era, the precise degree of alarm has still to be defined.

A second issue is related to the misuse of the old-age dependency ratio to express the demographic threat to socio-economic institutions. As shown by the ETUC communication and De Swert (2005: 25-27), ageing (in relation to the baby-boom generation) is a transition more than a long-standing shock. Once the ‘baby-boom’ wave comes to an end, our population will be more balanced. What is more, the old-age dependency ratio, that is a simple measure of ageing, does not refer to the proportion of the population that is productive. It ignores the number of people of working age who do not work. Taking account of the population actually in work can provide a more useful indicator that reflects more fully the productivity capacity of a given population. This is the economic dependency ratio: the number of those who are out of work to those who are in work (regardless of age). According to recent calculations from the DG for Economic and Financial Affairs (Ecfin), the old-age dependency ratio is expected to worsen in the period 2003-2025 and 2025-2050 (Table 3).

Table 3: Dependency ratios in EU-15 and EU-10

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<tr>
<th></th>
<th>Economy dependency ratio</th>
<th>Old-age dependency ratio</th>
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<tbody>
<tr>
<td></td>
<td>2003</td>
<td>2025</td>
</tr>
<tr>
<td>EU-15</td>
<td>132</td>
<td>126</td>
</tr>
<tr>
<td>EU-10</td>
<td>159</td>
<td>124</td>
</tr>
<tr>
<td>EU-25</td>
<td>136</td>
<td>125</td>
</tr>
</tbody>
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Source: Carone (2005).

Yet the economic dependency ratio will improve between 2003-2025 and will then (rapidly) decrease in the following decades (Carone, 2005). The two projections are thus not consistent with each other, the first one about the old-age ratio being much more alarming. Moreover, while all of Europe is undergoing radical changes in the age composition of its population, many important differences still exist. The comparison between Old and New Member States already adds complexity to the
analysis (Carone, 2005: 2-3). The New Member States (EU-10) did not experience a “baby-boom” after WWII like western Europe did. Fertility and death rates shows different trends as well. It was only in the 1980s that fertility started to decrease in the new countries, while life expectancy is lower than in western European countries and has decreased in the last 15 years of economic transition (Jepsen, 2005). As a result, recent data reveal differences between individual parts of the EU. In 2003, life expectancy at birth, for instance, was 76 years in the EU-15 and 70.5 years in the EU-10. Total fertility rates were 1.52 in EU-15 and 1.29 in EU-10, while the old-age dependency ratio was 25.2 in the former and 19.4 in the latter (Eurostat, 2005; Carone, 2005).

At the national level, the variation in each of the indicators is even bigger. In 2003, the proportion of the population aged 65 and over to the total population varied from 11.1% in Ireland to 19% in Italy. Life expectancy at birth varies as well: from 77.9 years in Sweden to 65.7 years in Latvia. In terms of fertility, while in Ireland it was 1.98 in 2003, it was 1.18 in the Czech Republic. Hence, even if the broader trends are similar, present and future variations persist (Table 3).

A further difference is related to welfare spending (and implicitly to social conditions) in the different parts of the EU. In 2003, the average public spending on social protection was about 28% of GDP in the EU-15 and 18% in EU-10 (Eurostat, 2005). That wide variation allows us to introduce a further dimension of the demographic issue. Social protection programmes are not the same across Europe. Their generosity, the level of protection, but also their methods of financing, institutional instruments and other traits differ from one country to another, as well as their interaction with employment and labour market policies. The impact of new demographic trends on each individual model will consequently vary. For the countries providing a lower degree of protection, therefore, ageing will have consequences on the financial sustainability of welfare programmes (like pensions and healthcare) but also on the adequacy and effectiveness of welfare programmes, benefits and services.
5. Impact on European welfare states: some lessons from the past

International organisations like the World Bank (1994) and the OECD (1996) have contributed hugely to the depiction of ageing as a massive challenge for economic growth and for the financial viability of welfare programmes in particular. Whereas a widespread consensus has emerged around the need to face that challenge, and consequently to reform economic, employment and social institutions, it seems interesting to propose here a somewhat less alarming viewpoint. We refer to the recent contribution by Castles (2004) on the future of the welfare state and the concrete (and hypothetical) source of its crisis.

The argument usually put forward by international organisations is that a “greying” population leads to increased budget constraints, with a direct impact on income maintenance expenditures. In particular, costs related to pensions but also health spending and care services are expected to grow rapidly.

Castles tells us a different story. He has adopted a peculiar approach: instead of using predictions based on economic models and assumptions, he has examined evidence from the past to assess what has been the impact of demographic trends on welfare and public spending in the three decades between 1965 and 1995. In that period, in fact, the elderly population (aged 65 and over) in OECD countries increased by about 4.3% points. Even if past growth was more limited than that expected in the near future, it represents a good case for assessing the true financial impact of ageing.

In actual fact, parallel to that growth in the elderly population, the average increase in public pensions spending was about 1.9% of GDP, equal to 16% of the change in total social spending. If we assume that the ratio of pensions spending change to population ageing will remain constant, in the period 2000-30 the average level of pensions in the OECD countries should go up of around 3.8% of GDP. Precisely 50% of the variation in public spending between 1965 and 1995 was due to ageing, while the remaining part was the effect of both coverage and generosity of public programmes. In other words, decisions about the type of institutions, their financing mechanisms and entitlements are
decisive as well as ageing. This seems to prove a strong relationship between population change and pensions spending, but it is a long way from demonstrating the extremely alarming effects of ageing in future decades (4).

Recent statistics about the future evolution of public pensions in the EU countries, moreover, confirm the ability of national policy-makers to introduce reforms and to contain future expenditure. Italy is a paradigmatic example of effective reforms. As Schludi (2005) puts it, OECD calculations at the end of the 1980s projected for that country a pensions spending increase up to 35% of GDP in 2040. However, more recent projections by the EPC (2003) show a top level of spending at 15.7% of GDP in 2030 with a subsequent decline. Reforms implemented in Italy in the last decade at least partly explain this less worrying scenario.

As proved by Castles (2004), apart from old-age programmes, other social schemes have revealed a lack of correspondence between population changes and welfare spending (that is the case of healthcare) or a weak positive correlation (in the case of services for the elderly). To sum up, data about total social spending suggests that the age effects were relatively modest, and inversely the room for manoeuvre and the incidence of policy decisions remained quite important.

Morely et al. (2005), have recently proposed some data consistent with that general conclusion. As far as pensions are concerned, success in raising the EU average level of employment according to the Lisbon objectives would reduce public outlays by about 30% in the period to 2050. At the same time, the raising of the effective retirement age by one year would decrease public pensions spending by a further 20% by 2050.

Conclusions

The Commission’s Green Paper and the contributions summarised in this chapter all refer to future demographic trends as a challenge to the socio-economic institutions of Europe. The combined effect of low fertility, increased longevity, and the exit of the “baby-boom” generation

4 The same argument is put forward by De Swert (2005) in his recent work on the “forged” political messages on ageing.
from the labour market will put present institutions under stress. Yet the magnitude and intensity of the challenge is still open to question. While the Green Paper stresses the "demographic crisis" and the need for a wide-ranging renewal of the rules affecting the labour market, social protection programmes, education, training and several other policy fields, European social partners and civil society organisations have stressed different dimensions of the issue. For ETUC and FERPA, more than a demographic crisis we will face a new demographic cycle entailing both constraints and opportunities for our society. For both these organisations, population ageing is the result of the big success of the European Social Model, its institutions and values. They thus put at the top of the agenda the need to update social, labour and economic institutions rather than to radically revise (and reduce) their ambition. European trade unions and the European Older People’s Platform propose implementing the same lines of action in the near future: more and better jobs, a more inclusive labour market (especially for young, female and older workers), efficient training and education, as well as a more inclusive society for all. The multi-dimensionality of the challenge leads to the need for a comprehensive approach based on the interaction of policy domains and levels of governance.

As regards social protection programmes, all these actors agree on the parallel need for their rationalisation and improvement. Social expenditures are defined as an investment rather than a cost or a burden on economic competitiveness. AGE, for example, proposes raising the retirement age but also improving the social adequacy of public pension schemes, while FERPA regards elderly people as a resource to provide support and caring and to implement a more cohesive society. ETUC for its part clearly identifies a strategy to cope with future financial strains on old-age and healthcare systems: to diversify financial resources more (with a shift from labour to company profits) and to increase employment rates among the female and young population.

In the view of UNICE, by contrast, demographic changes are synonymous with a key source of constraints for public budgets and social protection schemes. European countries have to introduce
pension and healthcare reforms, especially to discourage early exit from
the labour market, to support more flexible working arrangements in
the interests of employees and employers as well, and to reinforce the
financial sustainability of welfare states.

Recent works in the scientific literature also help to enrich the debate. 
As for the assessment of the ageing trend, some contributions prove
that there is no unequivocal evidence of a massive financial crisis
confronting welfare programmes. First of all, negative trends affecting
the old-age dependency ratio will not be paralleled by the equivalent
negative impact on the economic dependency ratio. At least in the
medium term (until 2025) the ratio between the active and non-active
population will improve rather than worsen. Secondly, common
broader trends at the EU level mask big differences at both national and
supra-national level (especially as concerns the divide between EU-15
and EU-10). Present and future challenges vary in many different
respects: fertility, life expectancy, and especially the adequacy of social
policies. In some countries, where social protection schemes are not
well developed, the risk is to face huge problems of social cohesion
rather than in respect of the financial viability of their welfare budget.

Moreover, if we look at the past evolution of welfare outlays (rather
than making predictions about the future), population ageing trends did
not have a dramatic impact on social spending. Data gathered on the
period 1965-1995 proves that some of the most alarming projections
may be exaggerated, while some reasons for scepticism arise.
Demography did directly impact on pensions. Yet other social spending
(e.g. healthcare) did not show such explicit effects. Any concern
therefore has to be contextualised. Recent innovations introduced in
some Member States (e.g. on pensions) should reinforce the awareness
that managing the new demographic regime is possible and policy-
makers can devise effective reforms.
The Green Paper on demographic change

References


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