Demographic future of Europe

2007/2156(INI) - 12/10/2006 - Non-legislative basic document

PURPOSE: an analysis of the demographic future of Europe and the presentation of an overall strategy on transforming demographic challenge into demographic opportunity.

CONTENT: the purpose of this Communication is to examine how Europe can confront demographic change. It underlines how the EU can support the Member States as part of a long-term strategy. In so doing the Communication sets out the main factors involved in the demographic process and evaluates the main course of action at national, regional and local levels – as well as at a European level.

The ageing of the EU's population is the result of four interactive demographic trends:

1. The average number of children per woman (the current fertility rate) is low at 1.5 children for the EU-25, well below the replacement rate of 2.1 required to stabilise the population size in the absence of immigration. A limited increase of 1.6 is projected for the EU-25 by 2030.
2. The decline in fertility in recent decades followed the post-war baby boom which is causing the bulge in the size of the population aged 45-65 years. The gradual progress of the baby-boomers towards retirement age will lead to a substantial increase in the proportion of old people, who will need to be supported financially by a reduced working-age population. This phenomenon will disappear, but not for several decades.
3. After increasing by eight years since 1960, life expectancy at birth could continue to rise by at least a further five years by 2050. The projected increase would have its greatest impact on the older generations, so that Europeans reaching the age of 65 in 2050 can expect to live, on average, between four and five years longer than those reaching 65 today. This will lead to a spectacular increase in the number of people surviving to the ages of 80 and 90.
4. Europe is already the recipient of major inflows of net migration from third countries. In 2004, the EU registered 1.8 million immigrants, i.e. an influx greater than that of the United States relative to the total population. Eurostat's conservative projection is that around 40 million people will emigrate to the EU between now and 2050. Despite current flows, immigration can only partially compensate for the effects of low fertility and extended life expectancy on the age distribution of the European population.

As a result of these trends, the total population of the EU-25 will fall slightly, but will become much older. In economic terms, the main change will involve the size of the working-age population (15-64 years), which will decrease by 48 million between now and 2050. The dependency ratio (the number of people aged 65 years and above relative to those aged from 15 to 64) is set to double and reach 51% by 2050, which means that the EU will change from having four to only two persons of working age for each citizen aged 65 and above.

Impact of the ageing population: The impact of demographic change on the labour market, on productivity and on economic growth, will be considerable. Economic growth rates are set to decline with the ageing of the population, owing to a reduced working-age population. Projections indicate that, if current trends and policies remain unaltered, the average annual growth rate in GDP for the EU-25 will fall systematically from 2.4% (between 2004-2010) to only 1.2% between 2030 and 2050. Further, on the basis of current policies, ageing will lead to ever greater pressures on public spending, although the situation varies widely from one country to another. For the EU-25, it is estimated that age-related public spending will rise by 3-4 GDP points between 2004 and 2050, representing an increase of 10% in public

spending. These upward pressures will be felt from 2010 onwards and will become particularly pronounced between 2020 and 2040. They relate particularly to pensions, health and services for the elderly.

Bearing all of the above in mind, an overall strategy is essential. Both an EU and national response will be needed that reviews existing policies and determines whether they need to be adjusted to take account of the EU's changing demography.

The Commission is proposing five core policy directions:

1. Promoting demographic renewal in Europe: The EU Member States can prevent demographic decline. Currently, there are many different policies to tackle demographic decline but they generally have three aspects in common: i) to reduce inequalities in opportunities with and without children; ii) to offer universal access to assistance services for parents, such as education and care for young children and iii) to manage working hours in order to offer both men and women better lifelong learning opportunities and the option of balancing their private and working lives. To recall, the European Council, meeting in Barcelona in 2002, made a clear commitment to step up provisions of childcare. By 2010 childcare should be available to at least 90% of children aged between 3 and 6 years and at least 33% of children under 3 years of age. The Commission will, therefore, consult with the social partners on measures relating to parental leave, more flexible work arrangements etc. in order to improve the balance between work, private and family lives. The needs of the family will be given due consideration.

2) Promoting employment in Europe: more jobs and longer working lives: Some success has already been seen vis-à-vis increases rates of employment – a vital objective of the Lisbon strategy. Yet, demographic ageing calls for a strategic response that encourages employment amongst those aged 55 and over. This will require far-reaching reforms including removing incentives for early retirement and actively encouraging the employment of senior citizens. Public employment policies, as a whole, should create more job opportunities for older workers. In a bid to address these challenges, the Commission invites the Member States to respect commitments they entered into at the Stockholm European Council in 2001, to raise employment rates for workers over 55 by 50%. The Member States are also invited to fully implement the Directive on equal treatment in employment and education. For its part, the Commission will consult interested parties on establishing a Community framework to improve the supply of cross-border health services and patient mobility.

3) A more productive and dynamic Europe: A third response to the demographic challenge is to improve the productivity of Europeans at work. The ageing population offers the chance to enhance the competitiveness of the European economy. For example, the European service industry could benefit from the needs of an older client base. A first step could be to encourage companies to factor in the ageing phenomenon into their innovation strategies. This would apply, for example, to information and communication technologies, financial services, transport, energy, tourism infrastructure and local services. In response to this the Commission will adopt a Communication on how to take account of the needs of an ageing population. Special attention will be given to the conditions and potential role of the Structural Funds for developing elderly care provisions.

4) Receiving and integrating immigrants in Europe: Current national policies on immigration from third countries are not uniform. That is why the EU is working with the Member States to develop elements of a common policy on legal immigration. Particular focus is given to immigration in relation to satisfying labour market requirements. To recall, the 2004 Hague programme led to a "Policy Plan on legal migration" that inspired the establishment of the European Integration Fund. Such measures can support further action at all levels to help the integration of legal migrants. In the course of 2009, the Commission will consider the need to propose new measures relating to economic immigration and to take stock of progress on internal mobility.

5) Sustainable public finances in Europe: In most Member States, public finances are no longer sustainable under existing policies. Increasing the participation rate in employment is an effective tool for increasing revenue. New challenges are also emerging, frequently linked to the development of private savings. Within this context it is important that governments develop efficient, functioning financial markets and to create stable and secure conditions for individuals to save and invest. Building up private savings and capital should be promoted so that individuals can have more autonomy in determining the level of income they wish to have at their disposal during their retirements. Indeed, the commission is adopting a report analysing the long-term sustainability of public finances, based on population projections up to 2050 and on the financial strategies presented by the Member States in their 2005 Convergence and Stability Programmes.

Conclusion: Current policies are no longer viable in the long term, in that they do not address the expected decrease in the active population combined with decreasing public finances. The source of the problem is not higher life expectancy as such, rather it is the inability of current policies to adopt to the new demographic order and the reluctance of businesses and citizens to change their expectations and attitude – particularly within the context of labour market modernisation. The reforms set out in this Communication are part of a European response to these challenges.