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Article — Published Version

## Europe's demographic challenge

Intereconomics

*Suggested Citation:* Kwasniewski, Klaus (2005) : Europe's demographic challenge, Intereconomics, ISSN 0020-5346, Springer, Heidelberg, Vol. 40, Iss. 2, pp. 54-55, <https://doi.org/10.1007/s10272-005-0137-4>

This Version is available at:

<https://hdl.handle.net/10419/41879>

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# Europe's Demographic Challenge

The European Union is facing unparalleled demographic changes that will have major implications for prosperity, living standards and relations between the generations. In mid-March, the Commissioner responsible for Employment, Social Affairs and Equal Opportunities, Vladimir Špidla, presented the Green Paper "Confronting demographic change: a new solidarity between the generations". The paper states that by 2030 the working-age population of the EU will have shrunk by 20.8 million (6.8%) compared to today. Roughly speaking, this means that two workers (aged between 15 and 64) will have to provide for one non-worker. The over-65 age group will increase by 52.3% or 40 million people by 2030, and the ratio of dependent persons (young and old) to the working population will grow from 49% in 2005 to 66% in the same period.

These demographic changes will not only represent a problem for social pension schemes, but also for the social community as a whole – right down to the local authority level. According to a report by the Lisbon Strategy High Level Group chaired by Wim Kok, the demographic challenge could mean that ageing may cause potential annual GNP growth in Europe to fall from 2-2.25% today to 1.25% in 2040. This could also have a negative impact on entrepreneurship and initiative in society. An employment rate of 79% would be required in order to offset the decreasing size of the working population – considerably more than the 70% employment rate target laid down in the Lisbon Strategy.

At present – and as will be the case up to the year 2025 – the size of the population in the EU as a whole is being maintained by immigration. Yet in spite of immigration, the population in 55 of the 211 regions that make up the EU-15 has been declining since the second half of the 1990s. And in 35 of 55 regions in the new member states the population is falling in number as a result of lower birth rates and emigration. Common to all the member states is that the increase in life expectancy will continue, as has already been the case in the past. Since 1960, for example, the average life expectancy of 60-year old women has increased by five years, and that of men of the same age by almost four years. The only population group in the EU that will grow in absolute terms is that of older people, with the number of people aged over 80, for example, rising by 180% by the year 2050.

A further common factor shared by the EU member states is that, for a number of years now, no state has achieved the fertility rate threshold of 2.1 children per woman that is necessary to replace the population. In 2003, the EU average stood at just 1.48 children per woman, although the fertility rate varied from 1.98 (Ireland) to 1.17 (Slovakia). In general, particularly low fertility rates of 1.17 to 1.30 are found in the accession countries of eastern Europe, followed by the southern European countries of Italy and Spain (both 1.29), then Germany (1.34) and Austria (1.39) as well as Greece and Portugal (1.35 and 1.44 respectively). In Belgium, the UK and the Netherlands, the fertility rates are between 1.61 and 1.75 children per woman. France has a particularly high rate of 1.89 children per woman, as do the Scandinavian countries of Denmark, Sweden and Finland with 1.71 to 1.76 children per woman. These figures demonstrate that the population problem will affect the individual EU member states to differing degrees.

What can be done to soften the impact of demographic change? What role can immigration policy play? And family policy? And what can the member states with the lowest fertility rates learn from those in a more favourable situation?

It will not be possible to maintain the population level of the EU by means of immigration. This option would imply immigration into countries such as Germany having to reach a dimension that would be politically insupportable and that would lead to social integration costs far in excess of the related benefits. In recent years, moreover, there has been a sea change in European public opinion concerning the ability to integrate large numbers of aliens, and great fear of parallel societies abounds. As a consequence, carefully dosed immigration based on a clearly defined immigration policy can only help to cover labour market demand for skilled workers, but will be unable to solve the problems related to the shrinking population. Moreover, any immigration policy involves a risk that immigrants will later return to their home countries. When applying this kind of policy it is also important to avoid a situation in which rich member states, such as Germany for example, endeavour to solve their population problem at the cost, for example, of the accession countries of eastern Europe, where fertility rates are the lowest in the EU.

Since a policy of extensive immigration is likely to entail substantial costs without any guarantee of its long-term success, funds should be invested immediately in population policy measures, the effects of which will not be felt on the labour market for at least 15 to 20 years. All kinds of incentives should be considered here – expenditures for children and families, child-care structures and the safeguarding of mothers' employment opportunities. When devising family policy measures, countries with lower fertility rates could look to those with the highest rates – such as France and the Scandinavian countries – for inspiration. These countries are characterised by a high employment rate among the female population (the traditional exception being Catholic Ireland), a low level of child poverty and a high ratio of child care in the 3-5 age range and even for infants aged 0-2 years. In the Scandinavian countries, moreover, social expenditures for families amount to between 3.0 and 3.9% of GDP – compared for example to 1.0% in Italy and 0.5% in Spain. With 3.1% of GDP, Germany has a higher quota than France's 2.7% although France has a very much higher fertility rate. This is an indication that Germany operates a relatively ill-defined family policy, in contrast to which a family policy geared to population growth is characterised by a stronger focus of expenditures on children and young families.

In those countries where the decline in the fertility rate has been most dramatic, the measures referred to above can only help to maintain the size of the population at a considerably reduced level, since of course the number of female children (potential mothers) has also fallen sharply. Consequently, further measures must be implemented in order to maintain wealth and prosperity in the future. Such measures include a substantial increase in female employment, which in some countries is not yet very pronounced; greater expenditure on education so as to increase productivity and, in turn, economic growth in the future, even with a smaller population; and raising the retirement age in order to take pressure off pension schemes.

What role can the European Union play? Many of the issues associated with demographic change fall within the competence of the member states or their regional authorities. Nevertheless there are also issues of common interest in which the EU could provide assistance. For example, it could support member states' national policies with uniform rules on immigration, and it could implement measures to foster the compatibility of female employment with the task of raising families. The conference organised by the Commission for July 2005, and the period of public consultation on these issues which has already begun, provide a much-needed forum for the development of solutions to a problem that will be a major concern in Europe for several decades to come.

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