

## CHAPTER 3

# ***RESPONSES TO THE NEW DEMOGRAPHICS: PRESENT AND FUTURE STRATEGIES FOR THE EUROPEAN UNION***

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As a policy maker working for the European Commission, it is a great pleasure for me to share with you a review of our present policies in view of European population trends and some visions for policy responses yet to be developed.

Let me start by thanking the United Nations Economic Commission for Europe (UNECE) and United Nations Population Fund (UNFPA) for having organised this timely and stimulating event and the Swiss Federal Government for hosting it. Also thanks to the UNECE for inviting me to deliver a keynote address at gathering with so many distinguished and eloquent experts on population change.

This paper will focus on the policy responses of the European Commission to the new demographics in the European Union – that is the present EU 15 and the soon-to-be EU 25.

Given the geographical reach of the UNECE and my audience, I should probably also highlight that EU policies primarily are developed to facilitate and support the *national* efforts of our member states. It is member states who bear the responsibility for establishing and implementing the actual measures that address or indirectly influence population changes. National competences have not been shifted to the EU in this area.

Our current policies focus on possible *responses to the accelerating ageing* of the EU population. In the first part of this paper I will review the background and content of these policies. Clearly they are comprehensive and potentially very effective.

But – as I shall demonstrate in the second part – they also have important limitations. Generally, they take population changes as given. That is they concentrate on devising measures that – in the short to medium term – will allow us to adjust to the inertia of population developments resulting from past changes in fertility, mortality and migration. Measures rightly focus on improving our ability to mobilise our existing population resources. But although this approach is necessary, it is not sufficient, and policy makers are therefore also

beginning to look at the contribution which could come from more pro-active and efficient immigration policies.

However, even successful immigration policies cannot prevent the EU from being faced with a fall in the population of working age and thus with a syndrome of slow growth.

In the third part of this paper I will therefore argue that we need to complement existing and emerging strategies with a more *prospective* approach; one that can help us to acquire a better balance in population structures in the medium to long term.

*Fertility* is the variable that we need to think more about.

For obvious historical and current reasons the idea of influencing fertility through public policy is rather sensitive and contentious in a European context. I shall therefore devote some time to discussing what I think would be an appropriate and constructive way of addressing fertility and family issues at the EU level.

### **A coordinated policy response to demographic ageing**

#### **European's growing concern about ageing**

Since the beginning of the 1990s, demographers and economists have frequently alerted the public to the strength of the parameters at the root of demographic ageing in European societies: increasing life expectancy, together with low to very low fertility rates and the prospect of the baby-boomers retiring from the labour force. This has had a tremendous and ambiguous impact on policy making.

European institutions, and the European Commission in particular, have worked on ageing issues since the late 1980s, but for a long while cooperation between EU member states was sparse and fairly non-committal. However, despite the variations in timing of the shift from baby boom to baby bust across the EU, awareness that the challenges ahead in many ways are common increased rapidly in the second half of the

1990s, and recent years have seen major developments in collaboration at EU level.

Member states have committed themselves to close cooperation on ageing issues in the context of sound public finance, employment, social protection and sustainable development while, at the same time, maintaining these as national policies and taking into account the diversity of ageing situations.

### The EU's integrated approach to ageing

Since 2000 the heads of state and governments of the EU have promoted 'active ageing' as a strategic concept in all European Council meetings. Tackling ageing is an integral part of our efforts to secure sustainable development, and is a driver for the integration of macroeconomic, employment and social policies, the so-called 'Lisbon triangle'.

In what sense is it a strategic concept? It is strategic in the sense that it attempts to balance the conflicting expectations vis-à-vis ageing:

- On the one hand people want to avoid the additional collective cost of ageing;
- On the other, they wish to benefit fully from longer life expectancy and keep their social protection rights.

The balancing nature of our policy response is reflected in the three main aspects of this active ageing strategy.

**Firstly**, it is an *integrated* one.

The European Union's response to ageing is being developed as part of the *overall strategy of mutually reinforcing policies* launched at the European Council meeting at Lisbon and confirmed at subsequent European Council meetings in Nice, Stockholm, Gothenburg and Laeken. As set out in the Economic Policy Coordination programme and the European Social Agenda, it encompasses the economic, employment and social implications of ageing.

The *Broad Economic Policy Guidelines*, which are the key instrument for economic policy coordination and which provide the framework for policy recommendations and for monitoring the implementation of these recommendations, call for member states to develop comprehensive strategies for addressing the economic challenge posed by ageing populations.

The *Social Policy Agenda*, which lists EU policy priorities in employment and social affairs, outlines how member states, through mutually reinforcing employment, social protection and economic policies can deal with the wider social and work-life related implications of ageing.

**Secondly**, the strategic response to ageing builds on labour force and employment as inputs to economic

growth. The EU approach to ageing aims at *mobilising the full potential of people of all ages*. The basic assumption is that adequate responses to ageing must go beyond attention to those currently old. Adjusting well to population ageing is an issue for people of all ages, and a life course approach can help the development of adequate policy responses, taking account of the related age and gender specific issues.

This results in an *orientation towards active ageing policies and practices*.

Core active ageing practices include lifelong learning, working for more years, retiring later and more gradually, being physically and mentally active after retirement and engaging in health sustaining activities. Such practices aim to raise the average quality of individual lives and, at the same time, at societal level, contribute to increased growth, lower dependency burdens and substantial savings in pensions and health costs. They therefore represent win-win strategies for people of all ages.

The **third** strategic aspect lies in the involvement of all stakeholders in a spirit of dialogue and partnership. In its various initiatives to improve and modernise the EU Social Model, in particular in the area of social protection, social inclusion and employment, the Commission therefore encourages the cooperation of all the relevant actors, including NGOs, social partners, and local and regional authorities.

How does this work in practice?

### Coordination of structural policies

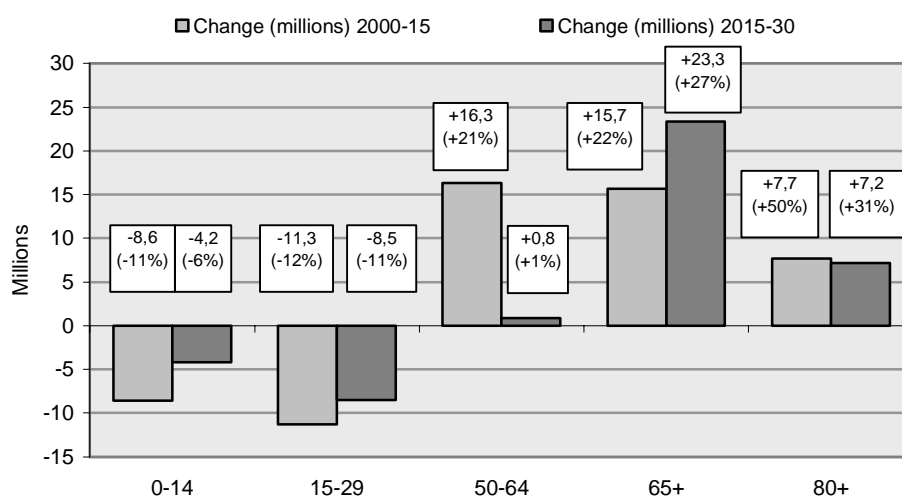
Based on the model of coordination in the field of economic and monetary policies, the EU has set up a specific framework for coordination of national policies – the so-called Open Method of Coordination – through which employment and social protection concerns are integrated into the "Broad Economic Policy Guidelines" at each Spring Summit. Securing the sustainability of public finances, promoting higher employment rates for all of working age and modernising social protection are the key components of our integrated response to population ageing.

Let us have a look at the four main strands of EU policy coordination that are part of the active ageing strategy. Integration means that those four strands will play complementary roles, while at the same time taking on board common concerns.

**I. Finance Ministers** have been given the task of implementing a three-pronged strategy to anticipate and manage the budgetary challenges of ageing. They will:

1. Increase the revenue base and reduce the cost of transfers by raising the employment rates.

FIGURE 1  
Change in certain age groups between 2000 and 2015 and between 2015 and 2030, EU 25



Source: Eurostat 2000 Demographic Projections, Baseline Scenario.

- Run down public debt at a fast pace so that lower interest payments can offset some of the projected increase in spending on pensions and health care.
- Reform pension systems to maintain them on a sound financial footing.

**II. Employment Ministers** have been given the task of raising overall employment rates and securing the conditions for longer and more effective working lives.

The EU is faced with the prospect of an ageing and shrinking workforce, as shown in figure 1.

But, when we look at current employment rates for older workers and the average age at which people stop working it becomes clear that the policy challenge does not just concern the impact of future ageing (figure 2).

On the contrary it is very much related to the weaknesses of our present practices of age management.

If current patterns of premature exit and retirement are continued by the big cohorts of baby boomers, this would greatly increase the demographically determined shrinkage of the work force, and thereby escalate labour shortages and the resulting problems of wage drift and inflation.

Against that background the EU has set itself two important objectives by 2010:

- to increase the employment rate of older workers to 50 per cent (Stockholm)
- to delay by five years the age at which people stop working (Barcelona)

These complementary goals are being pursued through a set of policies aimed at combating age discrimination, securing the employability of older workers, establishing good age management in work places and changing tax/benefit structures to make working longer more financially beneficial.

**III. Social Affairs Ministers** are responsible for securing the social and economic sustainability of pension systems along 3 principles:

- Safeguarding the capacity of systems to meet their *social objectives*;
- Maintaining their *financial sustainability*;
- Adapting* them to changing societal needs.

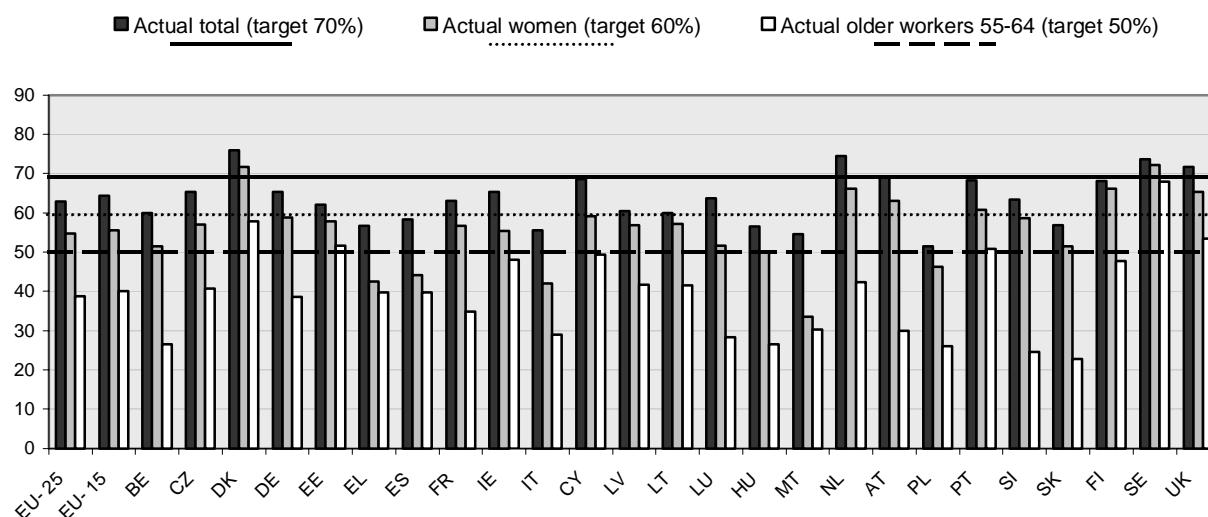
Building on these three principles, member states have adopted 11 common objectives which will guide their efforts to make adequate pensions sustainable even at the height of ageing. The aim is to reconcile social, economic and labour market concerns in relation to pensions.

These common objectives are not a blueprint for a common pension scheme design. They are compatible with a wide range of pension schemes, and there is no intention to harmonise pension systems across the EU.

**IV. Health Ministers** of the 25 EU member states are likely, during the course of 2006, to receive a mandate to coordinate health and long-term care policies, also along three lines of common objectives:

- Maintaining *universal access* for all, health being a key element of an inclusive society

FIGURE 2  
Employment rates and the Lisbon and Stockholm targets (2002)



Source: Eurostat

2. Ensuring *financial sustainability* of the health-care systems
3. Upgrading *quality* of health care in a broad sense, so as to prevent disease and promote new patient rights

This overall picture of how Ministers in different policy areas are harnessing their efforts together would not be complete if I did not also underline that this active ageing strategy is positively correlated with one of our most well established, cross-cutting policies: the gender equality agenda.

### Active ageing and the gender dimension

Because 'active ageing' implies the mobilisation of the full potential of human resources, its agenda is also linked to a strong driver of democratic and social change in Europe, namely the gender dimension.

As highlighted by my Commissioner, Anna Diamantopoulou, in speeches to the World Assembly on Ageing in Madrid and the European follow-up at the Ministerial meeting in Berlin:

"The gender dimension of ageing is particularly important, because women have a vital role to play in all policy responses to ageing.

In most countries, women represent the major part of the potential additional labour reserve that could be mobilised in the face of the shrinking, ageing, work force.

At the same time, women also provide the bulk of care for children and dependent older people.

With women, on average, living six years longer than men, older women account for two-thirds of the European Union's population over 60, and four-fifths of those over 80. Thus our ability to prevent poor health and poverty among older women will determine future health costs.

But ageing is not just about longevity. It is about family formation and fertility. And we need to look closely at the causes and consequences of falling fertility rates, and work to reverse recent trends.

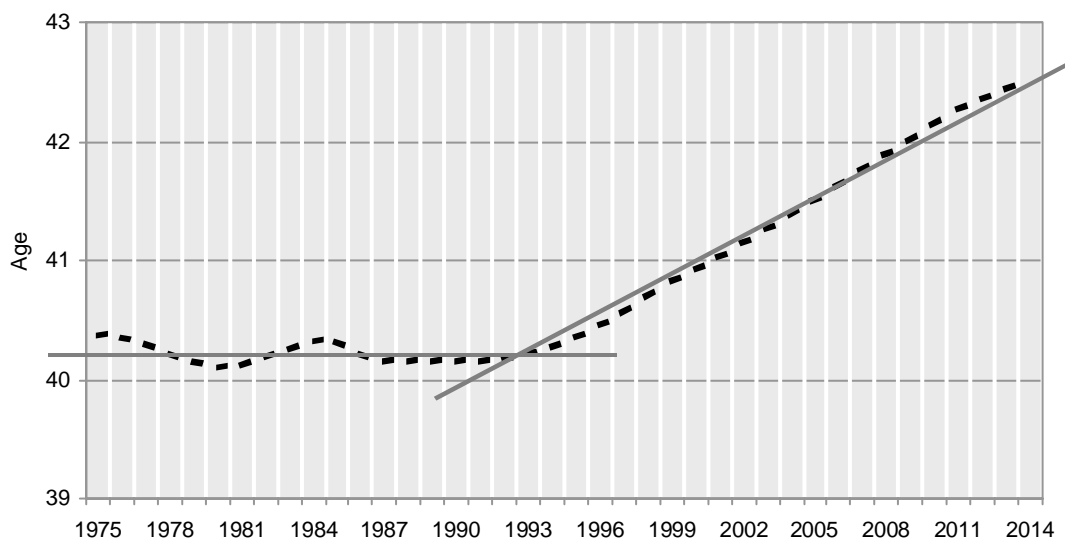
Therefore combining work with family responsibilities *and* improving the conditions for family formation, childbearing and childrearing has already been made a full part of the EU agenda. By making it financially possible for people to raise children, we can establish a sustainable replacement of our populations.

### Limits to adjustment – new European views on immigration policies

#### Public concern shifts towards the future scarcity of human resources

The concerns of economists and finance ministers about long-term public finance sustainability have extended the time horizon of policy makers and business leaders. Demographic projections, at the heart of the coordination mechanisms, also refocus attention from finance to the human resources perspective. The shrinkage of the working age population will constrain our efforts to raise the volume of employment.

FIGURE 3  
Change in the average age of working-age population (age 20-64), EU 15



Source: Eurostat Demographic Projections, Baseline scenario.

The Lisbon strategy covers the first decade of this century. It seeks to use the so-called window of opportunity to prepare member states for the ageing to come in subsequent decades. But it will need to take into account a more precise view on how ageing will unfold. One aspect of that is the increasing speed of ageing (figure 3).

Accelerated population ageing is certain to be a dominant trend in demographic developments of the EU-25 in the coming decade 2010-2020. It is furthermore set to intensify and continue over the subsequent two decades. Only after 2040 is this wave expected to subside. The radical swing from baby boom to baby bust in post-war fertility levels will cause ageing to become particularly intense (figure 4).

The speed and magnitude of the shift towards an older population during this period, when the bulk of the baby-boomers pass from active life to retirement, old age and death, will alter the premises for many of our present policies and will lead to calls for *changes* in these as well as for a *widening of their scope*.

The sustained exit of large cohorts of baby-boomers and their replacement by chronically smaller cohorts is likely to lead to labour shortages and skill mismatches, even if the Lisbon goals of mobilising 70 per cent of the working age population into employment is achieved and maintained.

The contraction of the working age population will soon make it impossible to counteract the impact on labour supply solely through higher activity rates.

Economic growth will therefore increasingly depend on productivity gains (figure 5).

But as the “active ageing” part of the Lisbon strategy primarily is focused on adjusting to the effects of the ageing process (rather than responding to its causes), through a higher mobilisation and better utilisation of existing endogenous human resources, the strategy will be increasingly less likely to be a sufficient response to demographic imbalances (figure 6).

This leads us to the need for a new stance on immigration into the EU.

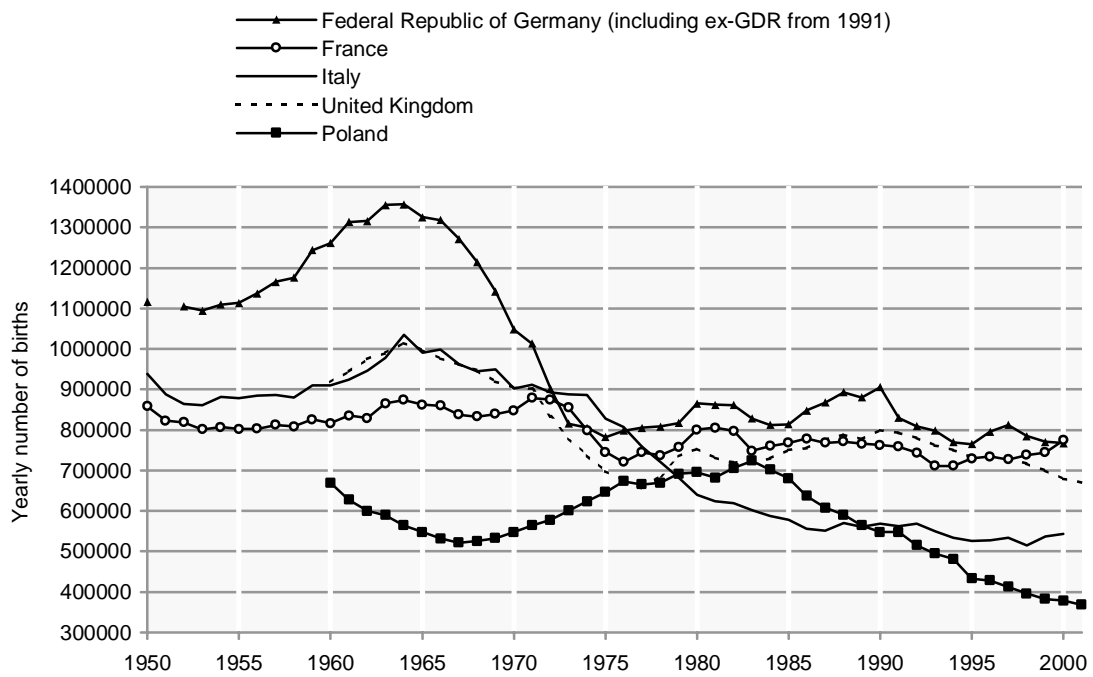
### A new approach to immigration is developing

Because of regional demographic heterogeneity, the progressive application of ‘active ageing’ policies falls short of solving the human resource gap. Already some regions (Northern Italy for example) as well as whole countries in the EU (e.g. the United Kingdom, Germany and the Nordic states) are developing new policies to influence and manage migration flows.

If we take seriously the issue of immigration from the EU angle, together with the long-term outlook predicted by demographic analysis, a number of rationally convincing points emerge.

1. Immigration into the EU has increased markedly over the last decade and has now become the main source of population growth in many member states.

FIGURE 4  
The swing from baby-boom to baby-bust in 5 EU states



Source: Eurostat, New Chronos.

FIGURE 5  
EU 15 Total population trends at regional level  
When does the working age population start declining?

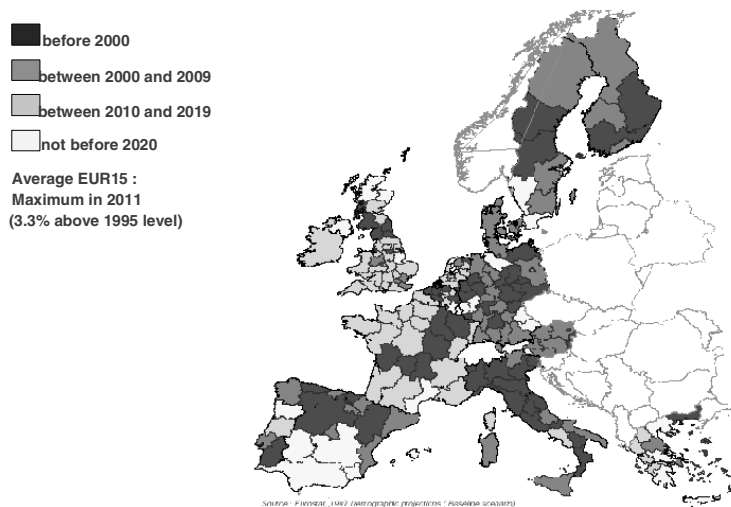
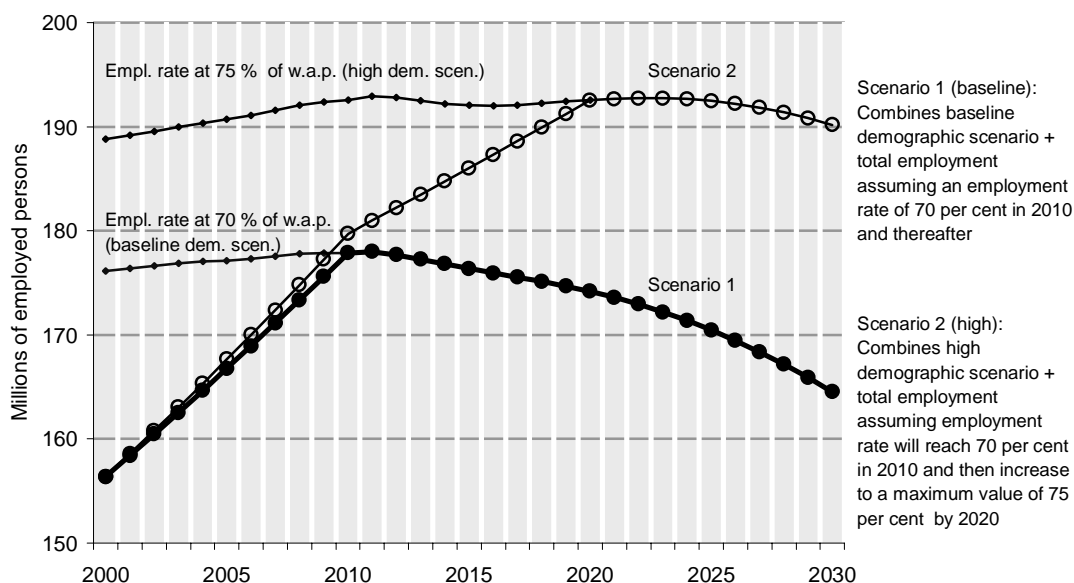


FIGURE 6

## Lisbon employment objectives and potential for employment growth, EU 15



Source: Eurostat.

2. The insufficient ability of member states to secure the integration of immigrants into economic and social life has barred the EU from reaping the full benefit from this increase in immigration. Integration failures have also contributed to popular unease about immigration.
3. National immigration policies have an impact on one another: immigration is an issue for the EU as whole.
4. Immigration inflows are likely to increase, both as a result of external 'push' factors and the internal 'pull' factors of the ageing and shrinkage of the working age population.
5. Increased immigration can make important contributions to labour supply and fertility levels in the EU, and thereby to overall growth and well-being, which will be direly needed.
6. 'Zero immigration' is therefore not option.
7. However, to benefit sufficiently from increased immigration, member states must ensure the economic and social integration of immigrants and achieve a fairer sharing of the costs and benefits of immigration, both within the EU and with their countries of origin.
8. The EU needs a holistic approach to integration, encompassing access to the labour market, education and language skills, housing

and urban issues, health and social services, social and cultural environment, as well as civil and political rights.

Because the matter is already of common interest, in parallel with the Lisbon strategy, the EU has set up a comprehensive agenda (Helsinki, December 1999) aimed at:

- Strengthening border controls for preserving internal security;
- Improving their common framework for the integration of third country nationals.

However, the implementation of that framework agenda, elaborated by Commissioners Vittorino and Diamantopoulou, is moving forwards only very slowly.

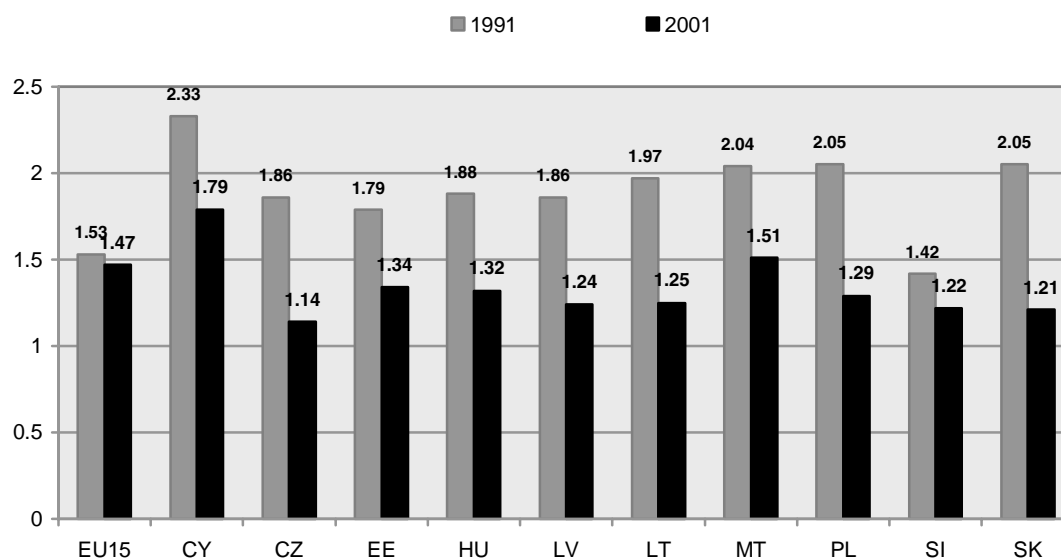
The challenge for member states is to convince their public that the only way of fighting against illegal immigration is to accept and manage legal immigration flows and pay the price for the integration of immigrants.

### Increased fertility as an explicit aim of European policies?

#### **Ambitious immigration and integration policies will not be sufficient to shield the EU against the risk of a sharp fall in growth potential**

The drop in fertility rates across Europe has been so strong and sustained that it will be impossible to avoid a significant drop in the labour force and subsequently in

FIGURE 7  
Total fertility rates EU 15 and new member states, 1991-2001



Source: Eurostat.

the EU's economic growth potential. Active immigration policies can only moderate and postpone this drop. Therefore, public opinion and policy makers will be faced with the need to reconsider public policies in relation to fertility and families.

Enlargement will only accentuate this overall picture (figure 7).

Even if we are successful in our efforts to counter the impact of the changing demography through "active ageing" and well managed, higher immigration, the demographic prospects of the EU are still rather challenging (figure 8).

Therefore, with a view to a better balance in the longer term, we need to broaden the scope of social policy responses to include the promotion of proactive policies to support basic human capital formation.

*Chronically low fertility levels* represent a critical issue. Childbearing and child rearing, education and training and a better reconciliation of work and family life are areas that should be given higher priority in future social policy.

### **Old and new trends in society should facilitate a new stance towards fertility and families**

How can politicians take the lead in an enlarged EU in promoting actions and policies conducive to higher fertility and better conditions for families? Stemming from both older and somewhat outmoded ideas, together with new perspectives in European societies, the two approaches being proposed are "Choice enabling" and "Investing in basic human capital".

In the near future, policy makers in the EU will need to address their low fertility levels. If they are to be effective, they must be able to combine and reconcile economic with social and ethical concerns.

To that end what really matters is not so much policy-making as *policy framing*.

This is about setting the scene for a new vision of European citizens about their own future. Therefore language matters. It should have a broad appeal and to the largest extent possible be non-contentious.

Building upon existing, or sometimes old viewpoints, in the mindsets of European citizens, I see two constructive ways to frame the issue of counteracting depressed fertility levels:

In the first instance it would be about

#### ***Overcoming barriers to choice and preference (in relation to childbearing)***

In the second it would concern the economic and social necessity of

#### ***Securing basic human capital formation (at reasonably sustainable levels)***

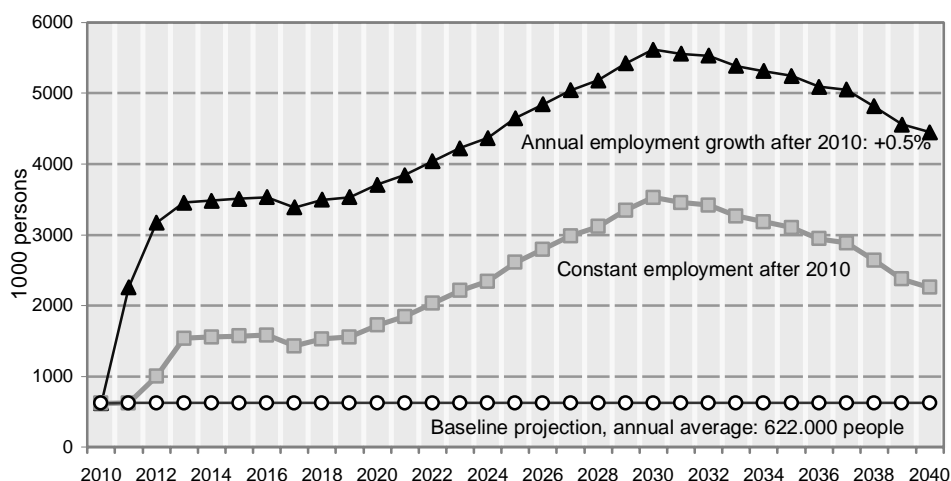
#### ***Enabling choice and preference***

In my view policy makers generally have no right to interfere in the decisions of citizens about when they have children and how many they elect to have.



FIGURE 8

Annual increase of migrant stock needed after having fulfilled the Lisbon target of 70 per cent employment rate by 2010  
(maximum employment rate), EU 15  
Migrant employment rate equals domestic employment rate



Source: Eurostat and internal calculations.

But if people to a large extent – as surveys of their preferences indicate – are barred from realising their choice and preferences, then policy makers have an obvious duty to seek to improve the conditions for family formation, childbearing and child rearing (figure 9).

The agenda of necessary policy responses, which can be inferred, is primarily of a social policy nature. But policies to secure a weighty contribution to the reconciliation of work and family life from the social partners would also be very important.

The list of important policies is a long one: access to affordable housing, quality health care during pregnancy and infancy, quality childcare, good schools, community environments suited to the needs of children and parents, social services in support of families, jobs that can be combined with family obligations, affordable access to further education etc.

The aim is to secure an environment that enables people to realise their preferences about the number of children they have and family size.

### *Investing in basic human capital formation and development*

The productivity and size of the future work force depend on a wider range of policies than those related to employment and adult education. All labour derives from human beings that have to be born, raised and

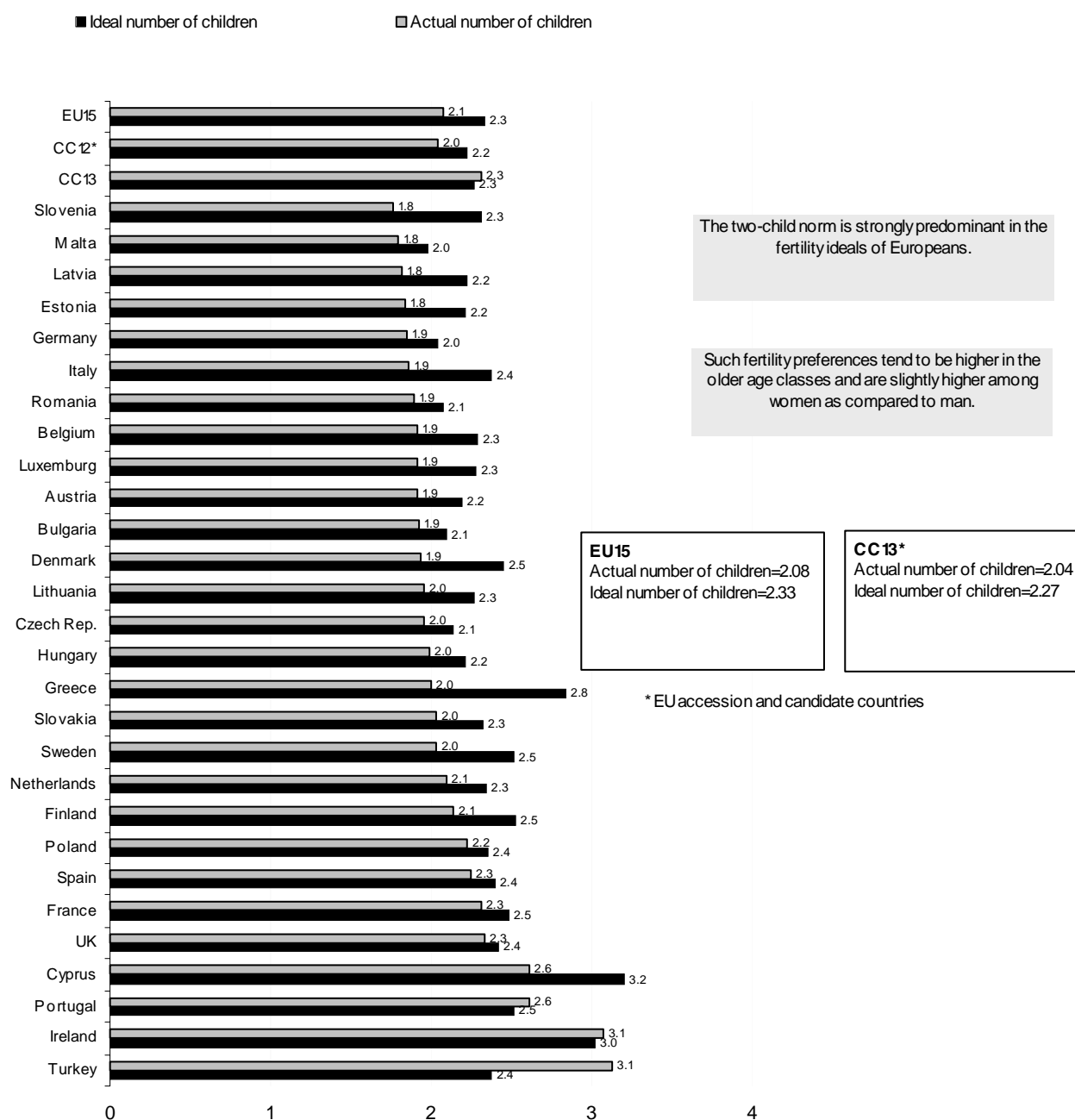
educated over a 20-25 year period. Indeed, a substantial part of vital human capital investment consists of the cost to parents in time and money and of public expenditure on families and children.

The conditions for the welfare of children and the quality of family life are very important for the efficiency of formal education as well as for the decision of men and women to have children. Family and other policies that affect childbearing, child rearing and the cognitive development of children may have significant implications on the size and quality of future labour supply.

Hence, family policies should be treated as an integral part of future-oriented strategies for investment in human capital. By nature the main return on policies affecting the reproduction and basic development of human capital accrues decades after initial investment. That is why we, in a rapidly ageing Europe, need to give much more emphasis to such policies.

The extent to which fertility levels will increase as a result of policies that create better conditions for exercising one's preferences as to family formation and children, and which invest in protecting and developing our basic human capital resources, is unknown – of course. But if the effect is only slight or if we refrain from improving the conditions for family formation, then the objective pressure will only increase to develop

FIGURE 9  
Ideal and actual number of children among women with completed fertility (age 40-64)



Source: Eurobarometer 2002.

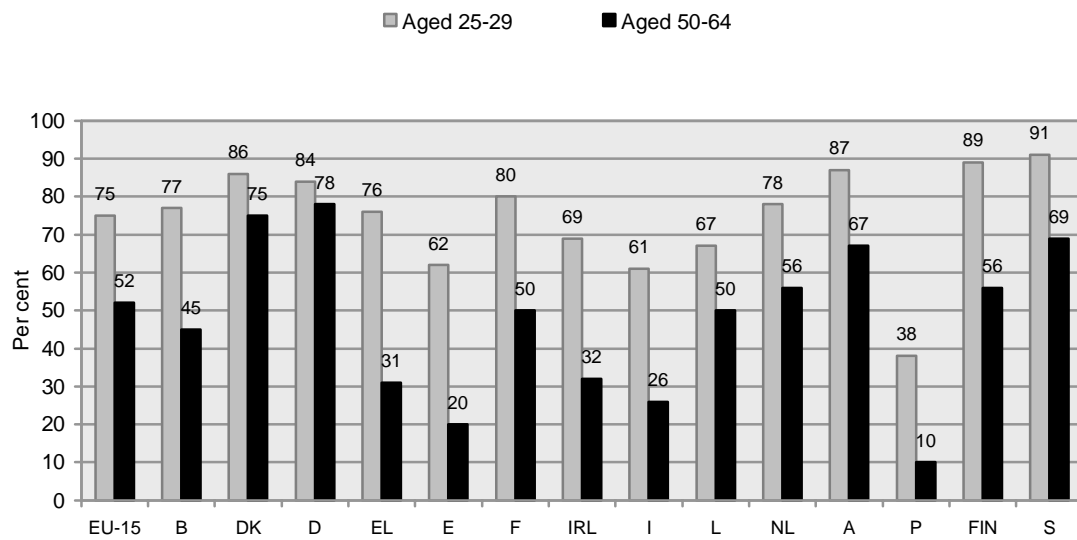
programmes offering a higher quality and success rate in the raising of children and the development of their cognitive potential.

With as scarce a base for human capital reproduction as the one set by current depressed levels of fertility, we can no longer afford to allow 20-30 per cent of a cohort to end up without a labour market education.

Human capital concerns, and efforts to improve the stock we are left with, will only intensify (figure 10).

It should be underlined that progress in gender equality and reconciliation between family and working life is our starting point for discussions about policies in and around fertility issues. We absolutely refuse and

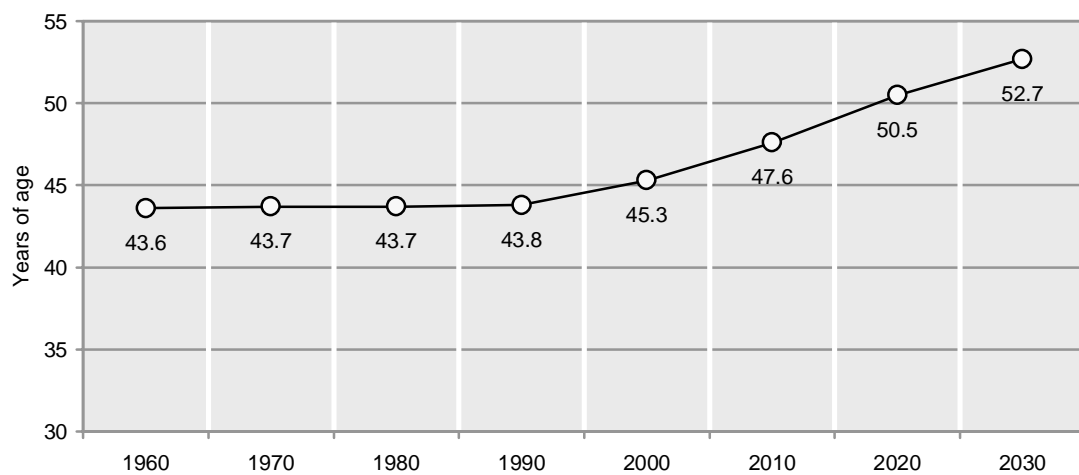
FIGURE 10  
 Percentage of population that has completed at least upper secondary education, by age-group, 2001



Source: Eurostat - European Union Labour Force Survey.

Notes: IRL 1997 data. UK - Data not shown. A definition of 'upper secondary attainment' has still to be agreed.

FIGURE 11  
 Median age of population aged 18+, EU 25



Source: Eurostat.

refute the idea of a need for a roll back to the days of “a woman’s place is in the home”.

Improved fertility rates will, of course, only begin to affect the relative size of the working age population after a couple of decades. But that could provide important help precisely at the time when present ageing trends are forecast to peak. Moreover – and very importantly – it could help stabilise population developments in the longer term and moderate the long echoes of baby boom and baby bust (figure 11).

## **Conclusion**

Having been brought to this conclusion by our analysis we are faced with the practical dilemma of generating support for extending of EU policies to address fertility as a fundamental cause of population changes.

In the face of increasing pressure from a population of ageing voters, the challenge for politicians will be to find ways to drive home the message that securing access to pensions and health care – and indeed to well-being for all – will require larger investments in removing barriers to reproductive choice and in our young people.

The good news that policy makers must imprint on the minds of politicians is that it is not too late to act and that changes in the policy environment will have an impact. Indeed, considering the extremely low fertility levels which some of our member states have, even small upward changes in fertility levels will be of great importance.