

The 6th Munich Economic Summit

Ageing Europe Confronts Demographic Timebomb

The Times: 22nd June 2007

From opening national borders to millions of foreign migrant workers, to compelling citizens to work longer and save more, to encouraging couples to have many more children, Europe's leaders were urged this week to consider the far-reaching action needed to cope with a rapidly ageing population.

Europe is getting old, and fast. The entire continent is in the throes of fundamental and unprecedented changes in its population. The "demographic turning point" poses political, social and economic challenges that are as daunting in their scale as they are pervasive. The repercussions are set to alter every aspect of our lives.

As the so-called "ticking time bomb" of this demographic change ticks ever louder, this week saw some of the world's leading experts on these issues gather with top decision-makers from governments, business and finance at the sixth annual Munich Economic Summit to grapple with the implications.

The summit, organised by Germany's prestigious CESifo economics think-tank and backed by the BMW Herbert Quandt Foundation, mapped out the high stakes of the changes on which Europe is embarked, and debated hard choices.

Europe is not, of course, alone in the developed world in facing the problem of population ageing. Before the end of this decade, for the first time in human history, the proportion of people aged 60 or over in the West will exceed the proportion of those aged under five. Yet much of Europe is set to be engulfed by this wave of change more completely and earlier than other parts of the West, turning it into an experimental test-bed for the phenomenon.

The driving forces of ageing were laid out by Hans-Werner Sinn, president of the Ifo Institute, and by Lans Bovenberg, of Tilburg University. Underlying the demographic crisis are two factors: not merely that we are all living longer but also that, at the same time, birth rates have plunged to levels below those necessary to replace the older people as they die. In Europe, the average age of the population has already climbed to reach 40 as healthier living, improved medical care and innovations in pharmaceuticals stretch longevity. By 2050, the average is set to rise to 50. And by mid-century, there will be 40 million Europeans aged 65 or over.

At the same time, there will be steadily fewer people of working age to support the elderly, thanks to falling birth rates. The average European woman now has fewer than 1.5 children. Within 25 years, there will be roughly 21 million fewer working Europeans.

As Jürgen Chrobog, chairman of the BMW Foundation, noted, the negative consequences for Europe's economic output and competitiveness, as well as for social security systems, are as urgent as they are immense.

Yet there is no ready panacea for Europe's leaders to seize upon. While potential measures are a political hard sell, governments face an ever-narrowing window of opportunity in which to act. As Mr Bovenberg spelt out: "The older voters are going to block the necessary reforms to make ageing an opportunity and not a threat."

There was a broad consensus at the summit that reforms must imply some mixture of later retirement and longer working lives, less generous social security and increased saving by those at work to provide for their own financial security, as well as personal care. Speakers emphasised, too, that far-reaching cultural changes are required among employers, so that older people can carry on working and do so in flexible circumstances.

Two solutions that seemed less promising were promoting a higher birth rate and opening borders to younger migrant workers.

François Héran, of Paris's National Institute for Demographic Studies, argued that since the key dynamic behind ageing was greater longevity, initiatives to increase the fertility rate could "never overcome the unavoidable part of population ageing".

Nevertheless, Mr Héran and others agreed that, in some countries at least, measures to encourage people to have more children could at least help to maintain the active population. Mr Héran argued that financial incentives to women to have children were not successful. Pro-child policies in the workplace, schools, housing sector and planning were all required.

Professor Sinn cast doubt on resorting to a policy of increased immigration to bolster national workforces and cut dependency ratios. He cited calculations showing that 194 million immigrants would be required in the 15 nations of the pre-enlargement European Union by 2035 to keep the proportion of workers to retirees constant – even if migrants did not age. United Nations data suggested that 701 million immigrants would be required over the period 1995 to 2050.

However, although the challenges of an ageing Europe are immense, there was also much optimism. Not only were people living longer, but they remained fit and healthy for more of their lives.