

The Impending Clash of Generations And some Strategies Against it.

Vincent Venus
i6003702
Pigeonhole: 729
Faultlines take-home
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Introduction

A faultline is originally a geological concept (Gabriels, 2010, p. 4). However in this paper it describes a schism between distinct groups of society. There are many faultlines within Europe: Between Dutch and German students in Maastricht (Janssen, 2010), the poor and the rich, migrants and natives, parents and childless persons, man and women, to name but a few. But the most urgent one, that might disunite Europe socially in the upcoming decades, is the clash between Young and Old: In 2050 the old-age dependency ratio is projected to be 0.52¹, equal to a doubling of the financial burden of the middle age-group (Brig, 2009, p. 5). The demands for the European pension funds and healthcare systems will increase exponentially, as there are more, longer living elderly, while meanwhile there are less younger ones to pay the welfare.

This paper first gives an overview over the demographic change in Europe until 2050 and second an introduction of policies recommended to solve, or better attenuate, its effects. Thereby it incorporates the following lecture topics: Firstly the European social model (lecture 9), highly endangered through the ageing society, secondly gender equality (lecture 10), because a relief of women is necessary to gain a higher fertility rate and thirdly an integrating migration policy (lecture 4) to soften Europe's projected loss of population and stabilise society.

¹ All numbers are taken from ("Eurostat," 2010), if not otherwise stated. All illustrations likewise, except figure 4 and 5. The latter are made by the author. Explanation of old-age dependency ratio: This indicator is defined as the projected number of persons aged 65 over the projected number of persons aged between 15 and 64.

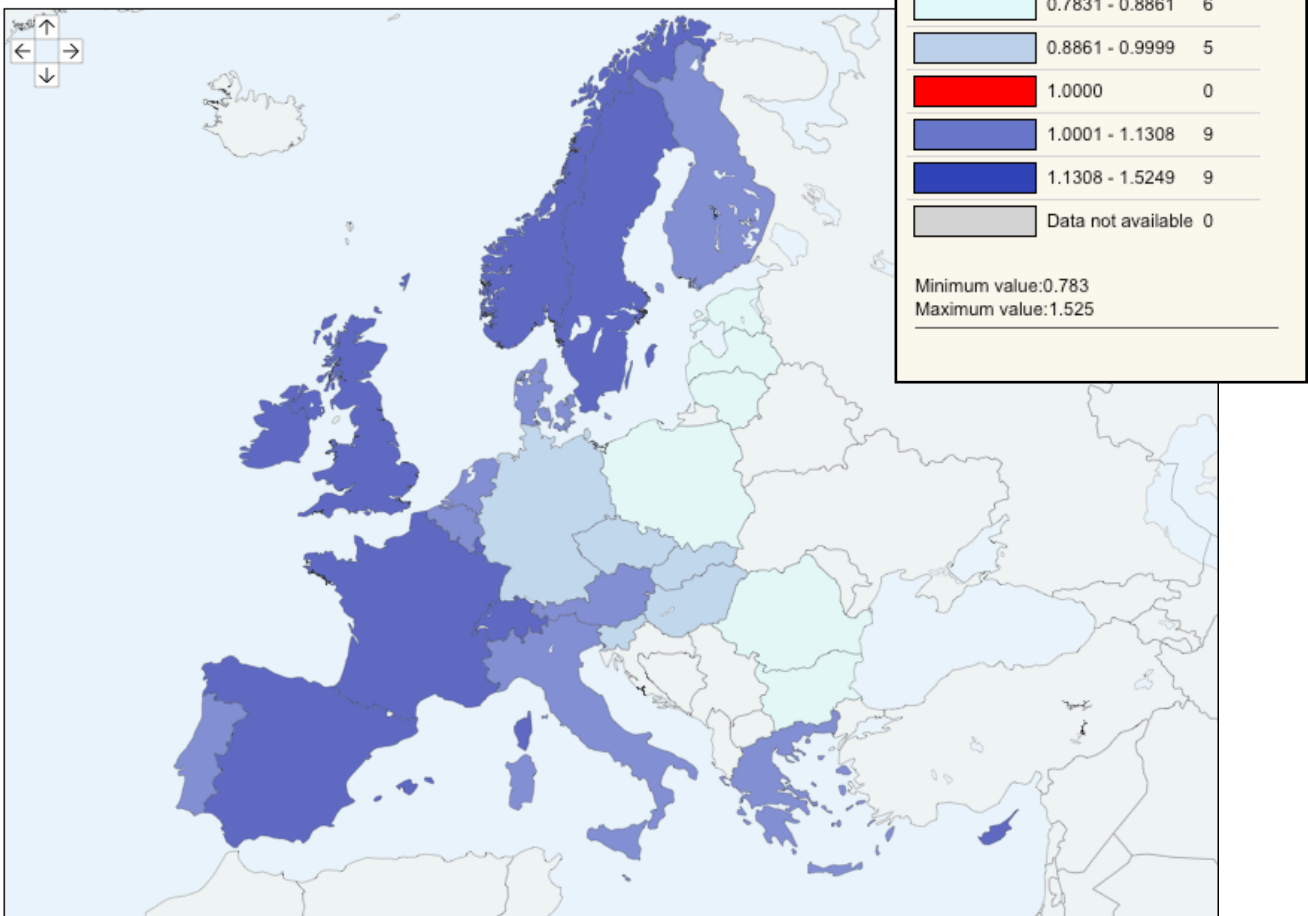
1.1 The Demographic Change

The world population will grow to approximately 9.1 billion people in 2050, but the increase is unequally distributed (UN, 2009). While Africa's population will nearly double, the EU² grows only slightly with about 3.2 percent, whereas Europe as a whole loses around 5.7 percent³. This projected development does not only endanger Europe's economic position, but because its population ages that fast, it furthermore leads to many problems within European society. In this section the following demographic indicators are discussed: First, the **projected population growth** of the different EU member states, to provide an overview and show the differences within Europe, second the **old-age dependency ratio** to demonstrate how urgent the development is, third the **fertility rates**, as those serve as the basis for the policy recommendations in the second part.

Map 1: Projection 2050

Population projections - [tps00002]

Population projections are what-if scenarios that aim to provide information about the ... [more](#)



Source: Eurostat

² EU=EU27, if not otherwise stated.

³ Comparison year 2010 to 2050; source: UN

As you can see in map 1 the population growth until 2050 compared with 2010 differs remarkably from state to state within Europe: eleven countries will have a negative, eighteen a positive growth. Figure 1 in comparison shows the absolute change in population per state. Remarkable is the fact that the population of some great states like Germany and Poland will decrease, whereas in France, Spain, Italy and especially the United Kingdom it increases. The two illustrations draw the following conclusions: First the power proportion within the EU will shift from Germany and the east towards the UK and the west and second that one has to acknowledge that major differences within the EU regarding demographic change exist. Therefore all statements concerning an EU average have to be handled carefully.

Let us now turn to the statistics that alarm demographers the most and paved the way for the clash of generations assumption: the projected old-age dependency ratio. This ratio indicates how many people of society are above the classical working-force age, that is above sixty-four years, in relation to the people between five-teen and under sixty-five years. In the year 2010 the EU average ratio is expected to be 0.259 (25.9 percent). In other words and broadly speaking four working people have to pay for one elderly⁴. Within the last decade it increased 2.7 points, which is already a remarkable growth. But in the upcoming decades this development will accelerate. Figure 2 shows the projected increase of the EU average, Bulgaria, Germany and Ireland.

⁴ This is a generalisation, as not all pension systems are based upon pay-as-you-go financing and furthermore not working people are included in the working-force age.

Population projections

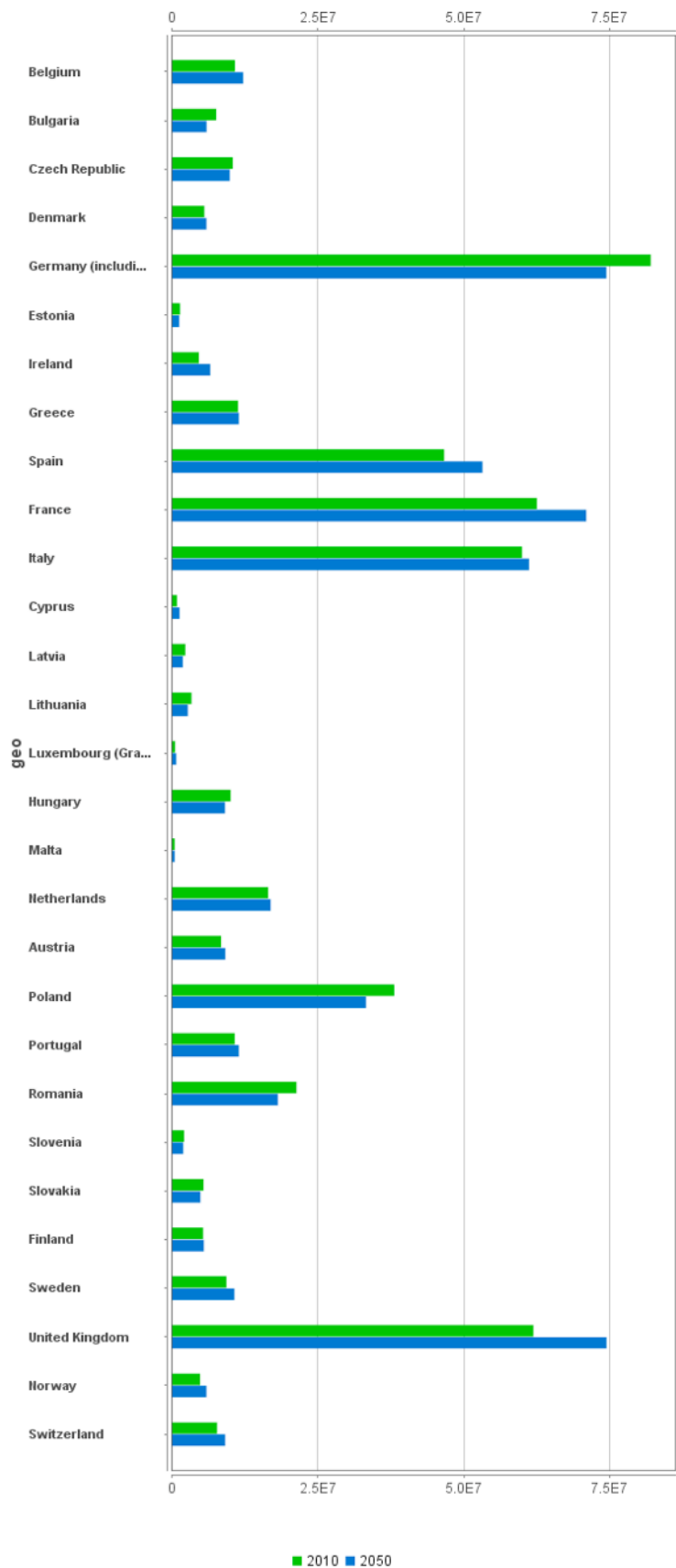
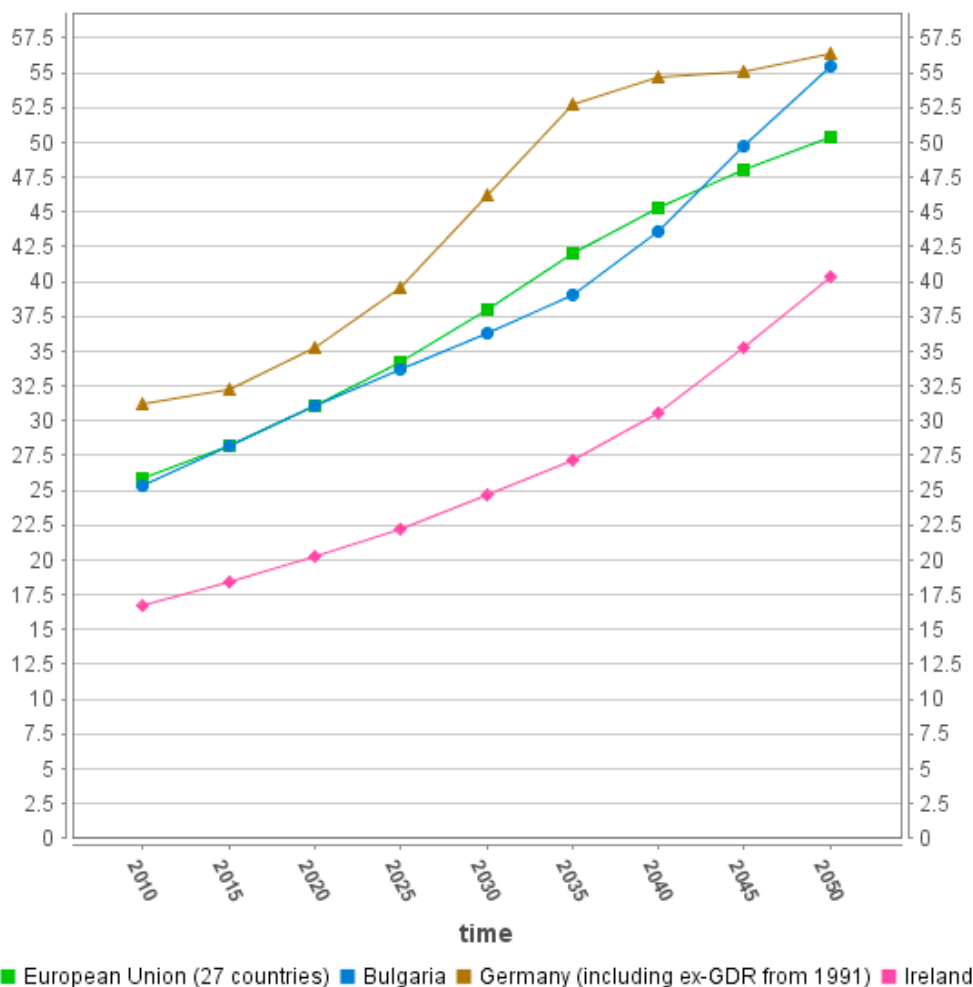


Figure 1: Popluation projections per state

Source of Data: Eurostat
 Last update: 25.01.2010
 Date of extraction: 28 Mar 2010 13:53:01 MEST
 Hyperlink to the graph: <http://epp.eurostat.ec.europa.eu/tgm/drawGraph.do?init=1&plugin=1&language=en&pcode=tps00002&toolbox=legend>
 Disclaimer: This graph has been created automatically by Eurostat software according to external user specifications for which Eurostat is not responsible.
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 Short Description: Population projections are what-if scenarios that aim to provide information about the likely future size and structure of the population. Eurostat's population projections is one of several possible population change scenarios based on assumptions for fertility, mortality and migration. The method used for population projections is the "cohort-component" method. Population refers to 1st January population for the respective years.

In 2050 the EU average will be approximately 0.50. In Germany it will be 0.56 and Bulgaria 0.55, as the one extreme, in contrast to Ireland, where the ratio will be just above 0.40. To put it differently: within the next four decades the burden of the working population will nearly double in most EU states. Why is the ratio's development so extreme? The simple answer is that the group of old people is increasing, conversely the one of young people is decreasing, because the fertility rate⁵ of most EU countries is below the developed country average minimum to achieve stagnation in population of 2.1, respectively 1.7 if one takes moderate migration into account (Iris Hoßmann, 2008, pp. 26-27)⁶.

Figure 2:
Projected old-age dependency ratio
%



Source: Eurostat

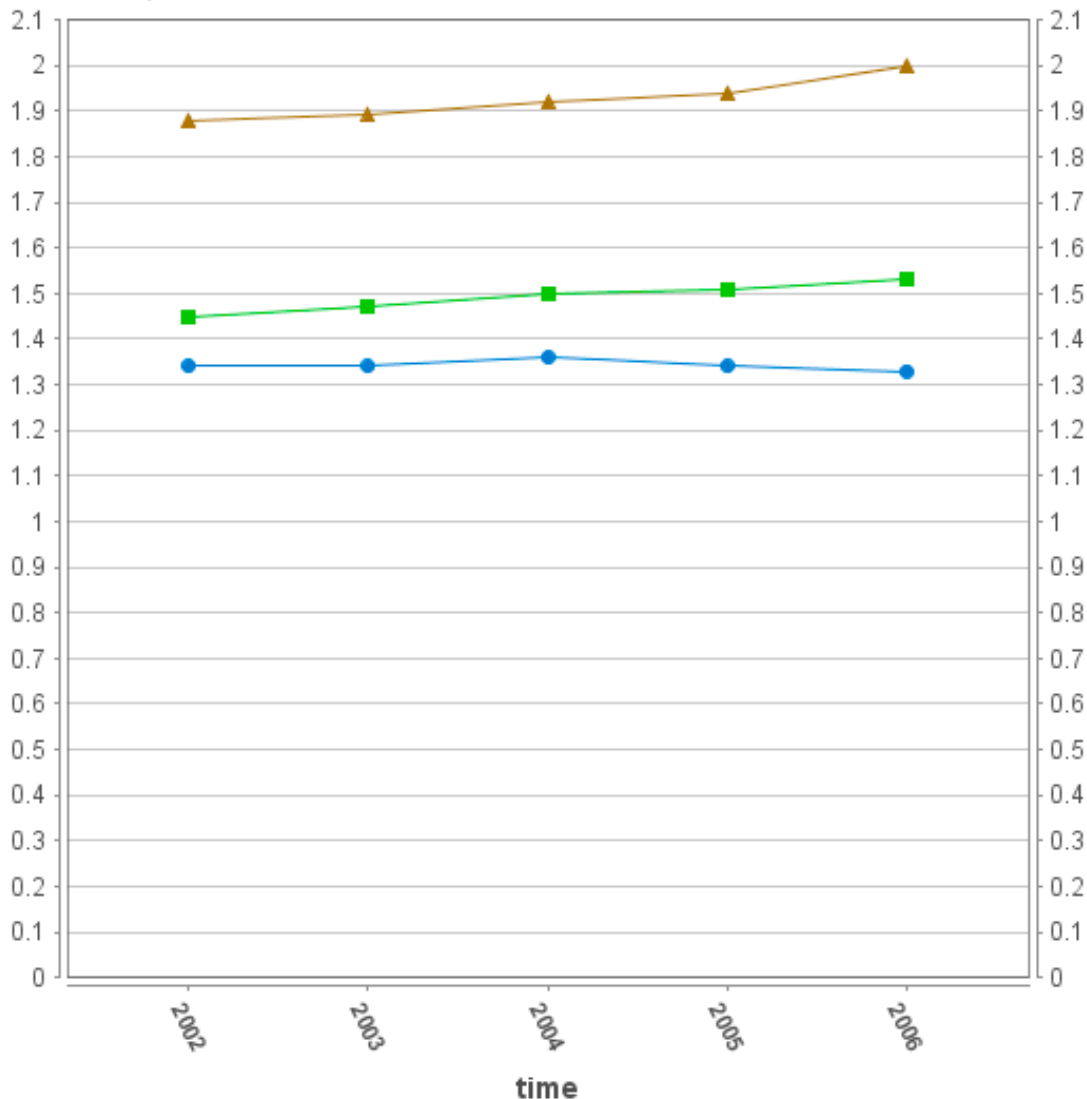
⁵ "The mean number of children that would be born alive to a woman during her lifetime if she were to pass through her childbearing years conforming to the fertility rates by age of a given year. This rate is therefore the completed fertility of a hypothetical generation, computed by adding the fertility rates by age for women in a given year (the number of women at each age is assumed to be the same). The total fertility rate is also used to indicate the replacement level fertility; in more highly developed countries, a rate of 2.1 is considered to be the replacement level fertility rate." Eurostat

⁶ Book in German. English translation by the author.

"Fertility is the most influential of the . . . demographic components under a longer time horizon. Changes in fertility have not only an impact on the number of children, but also on the number of the grandchildren, etc." (Lutz, 2003, p. 2). Figure 3 illustrates the fertility rate from 2002 to 2006 in Germany, France and of the EU average. It reveals first that the rate is definitely below the required minimum and second, once more, that big differences between states do exist. According to Eurostat the fertility rate of Germany will slightly increase to 1.49 in 2050, whereas France's rate will stagnate. Even though this is only an estimation, it nevertheless demonstrates that countries like Germany will be far from achieving the necessary 1.7 rate.

Figure 3:

Total fertility rate
number of children per woman



■ European Union (27 countries) ■ Germany (including ex-GDR from 1991) ■ France

Source: Eurostat

1.2 Social-economic Implications

There are at least two reasons why the EU has to counter the current development in demographics. The first one is to maintain its international standing of about seven percent of the world population and thirty-five percent of economic performance⁷, the second is the union needs more younger people who pay into the welfare systems, such as pension, healthcare and unemployment insurance.

The *Berlin-Institut für Bevölkerung und Entwicklung*⁸ foresees the "end of the traditional social policy", when "people have to work longer for less pension" (Iris Hoßmann, 2008, p. 41). Accordingly they must invest more in private financial security. Especially single parents are seriously affected, as they spend a lot of their income on their children and have therefore less to pay into their pension. These changes are not problems of a future far away but middle-term, if at all:

Around the year 2045 Europe will witness the climax of the ageing of society. Not before the people of the baby-boom time of the 1980s have left the ageing pyramid, begins a new demographic calculation of time. For the time until then the social systems have to be adjusted towards an increasing number of elderly, otherwise serious conflicts between young and old are most likely to come.
(Iris Hoßmann, 2008, p. 39)

That means the heyday of the demographic change is just thirty-five years away. After all it should be clear that Europe wide reforms of the welfare systems are desperately necessary (cf. Sapir, 2006). But until now, the topic did not obtain top priority by politicians, simply because "social reforms are not popular" (Hoßmann, 2008, p. 41).

Despite this unpopularity a social master plan would be able to approach many of the current problems while thereby soften the demographic change. In the following section I examine some of the possible policies.

⁷ Measured in gross domestic product in current prices 2009, U.S. dollars; according to the IMF ("World statistics," 2010)

⁸ Berlin Institute for Population and Development

2.1 An Introduction to Counter-action Policies

The three "most obvious strategies" according to Rainer Muenz (2007, pp. 8-9) are:

- "Higher labour force participation rates"
- "Higher retirement age"
- "Pro-active economic migration policy"

In this paper I focus on the first and third policy, because they match best with my multi-lecture topic approach. Nevertheless, the second is also very effective. In short: "Even an enhancement of only two years of the age of retirement reliefs the pension funds of four years, because it leads to two years longer payment plus two years less payout" (Iris Hoßmann, 2008, p. 41). The 2008 average exit age from the labour force within the EU was 61.4 years⁹, meaning that the aimed age of 65 years is not even reached and that there is need to adjust upwards the exit age.

Regarding the labour force participation rate it is interesting to note that 70.5 percent of men and only 56.8 percent of women are active¹⁰ in the labour market. This statistics reveals one great potential the European Union has: women. Because people who are not active in economic terms, do not pay into the social systems. If the EU increases the size of the labour force, social systems will gain more financial security. But to achieve this, the union has to make the labour market more parent friendly and invest in child care, like kindergarten or all-day schools. Such a policy would not only increase the fertility rate, it would furthermore lead to a better gender equality, as Hoßmann et al notice:

Despite the fact that women are better at school and university they receive lower income. Furthermore insufficient child care and old role perceptions make it harder for them to make a career. This does not only waste economic but moreover demographic potential, as women decide against children in favour of career, even though they want both (2008, p. 54).

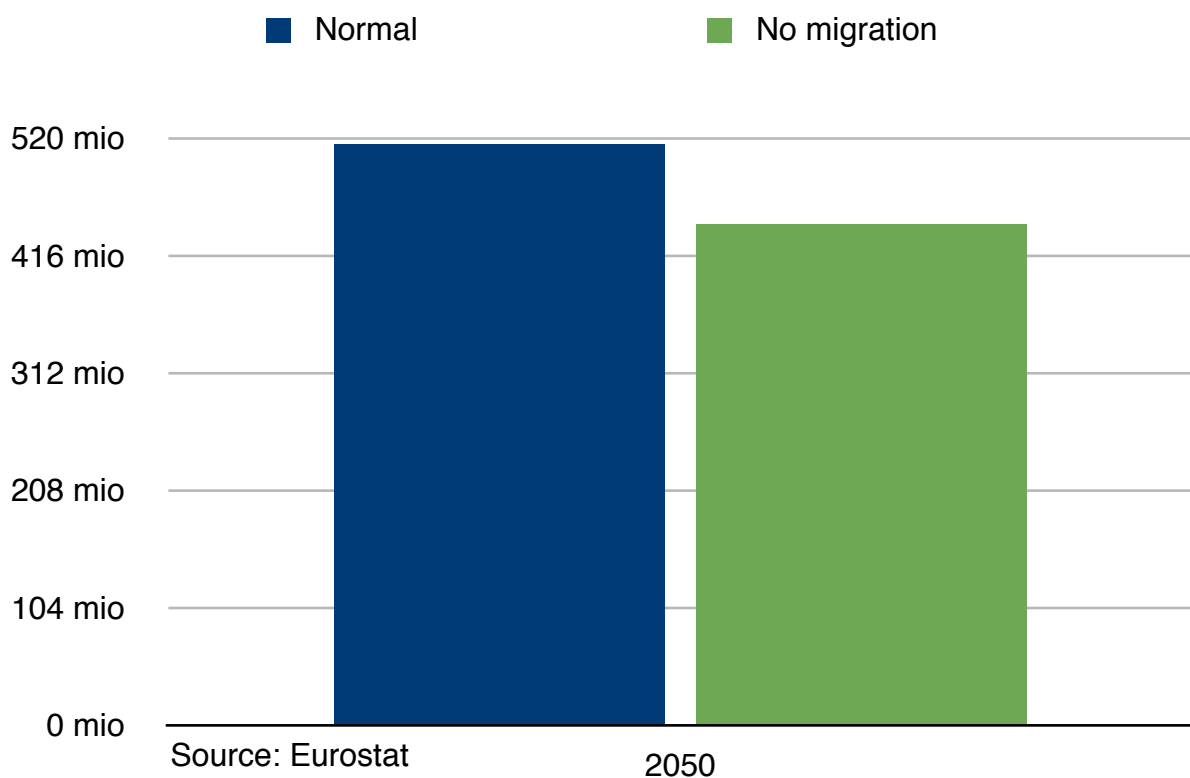
In fact, those states which provide a good framework for children have the highest women participation and fertility rate. In contrast the traditional demographic-economic paradox, which stated that there is a negative relationship between the ratio of working women and fertility is outdated: "Those of the rich European countries have the highest fertility rate, which did the most in modernising the economic structure, employment market and gender equality" (p. 28).

⁹ estimated by Eurostat

¹⁰ Of people officially living within the EU, age 15-74 years; 3rd quartal 2009

Let us now turn to the importance of migration. Figure 4 demonstrates that without migration, the EU population would be about 72 million less in 2050. In respect to the discussed world population estimation and its implications, it is clear that immigration is essential for the EU. Immigration can be used to attenuate the low fertility rate: "100,000 additional immigrants per year corresponds to that of an increase in the TFR [total fertility rate] of 0.1." (Lutz, 2003, p. 12)¹¹.

Figure 4: Projected EU population with and without migration

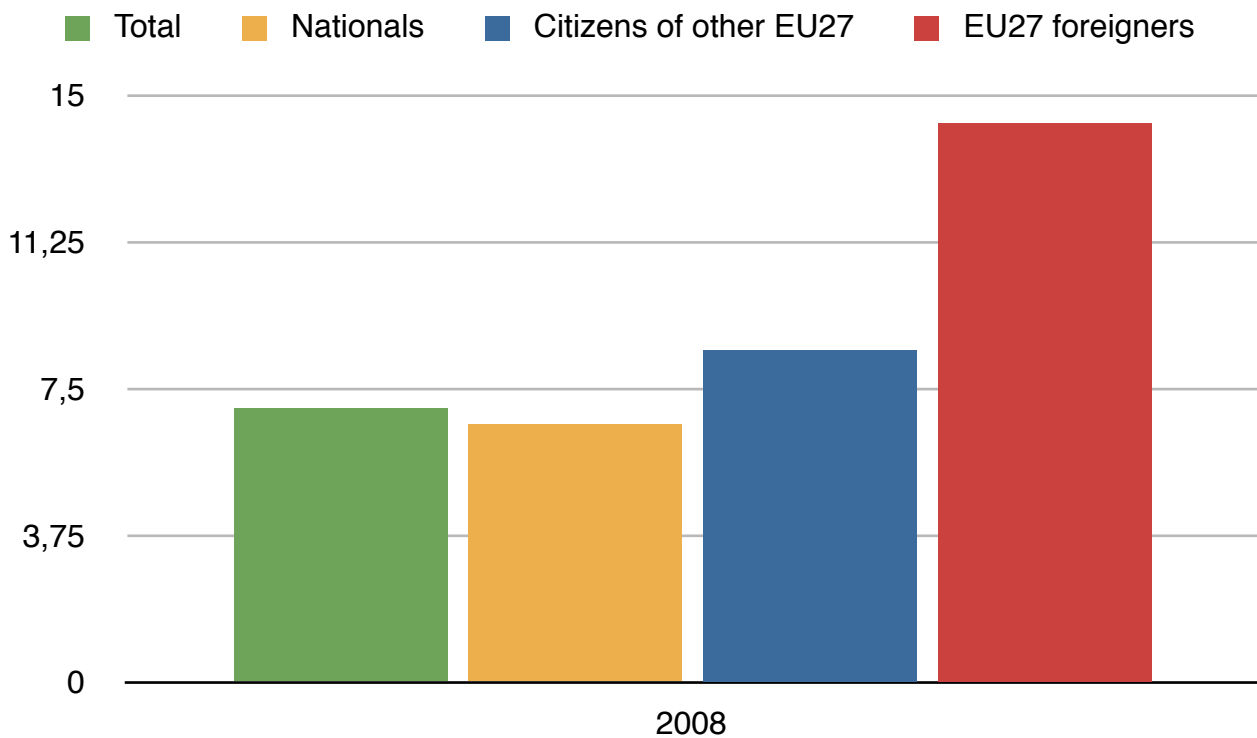


Hence there is no doubt that the EU needs immigrants. But migrants only contribute to the EU social systems if they are integrated into the employment market. Otherwise, just like every native, they only strain welfare: "The long life cost of a not in the labour market integrated person is approximately € 500,000" (Iris Hoßmann, 2008, p. 46). And here lies one of the big problems: Immigrants are badly integrated. As figure 5 illustrates, EU foreigners are more than twice as much unemployed as nationals, 14.3 compared to 6.6 percent, and the immigrants of the first and second generation, already nationalised, do not even count into this statistics. According to the *Berlin-Institut für Bevölkerung und Entwicklung* the main reason for this is a lack of education.

¹¹ Lutz analysed the situation of the EU15 in 2003. Nevertheless it can be assumed that the findings of an EU27 analysis do not differ completely.

The institute sees a dual-migration problem: "Millions of immigrants are badly integrated, and they pass their deficits down to their children" (Iris Hoßmann, 2008, p. 44). One suggested measure against this is the implementation of all-day schools, that do not only credit parents, but moreover are often able to compensate individual deficits, resulting from an undereducated family. In fact, in those countries where the access to education is unequal for foreigners (according to the "Migrant integration Policy Index," 2006), the second generation of immigrants is often even worse educated than the first (Iris Hoßmann, 2008, pp. 44-48). Additionally to efforts for a better integration the European Union has to become more attractive to good and high skilled foreigners (ibid.).

Figure 5: EU unemployment rates



EU: Unemployment rates by nationality (%), 15-74 years, source: Eurostat

Conclusion

The demographic change is a great danger for the European Union and the biggest faultline to come. However, a strategy against it also offers the chance to solve other deficits. Improvements in child-care would lead to higher fertility rates and better gender equality, a pro-active economic integration policy for migrants would soften the ageing of society and ease the situation between natives and migrants. Despite the limitations of this work an need for further in-depth analysis of all variables, my results show that there will be many changes in the upcoming decades. Politics has to act quickly in order to allay the negative effects as good as possible.

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