DEMOGRAPHIC CHANGES IN EUROPE
– NEW CHALLENGES FOR THE
EUROPEAN LABOUR MARKET

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Abstract


The EU is about to face a significant changes in the demographic structure of its labour force. The main causes are the reduction in fertility rates, ageing of population and increasing immigration flows. According to the projections, already in the years 2013–2014 should the share of the EU's working population start to decline. The number of people aged over 60 is increasing about two million every year. Shrinking working population and a higher amount of retired people will place additional strains on public sector finance.

How to adopt the economy and other policies to this new situation? How to maintain European global competitiveness and strong position in the world? This paper discuss the main demographic changes in Europe and how to deal with them, it presents and discuss solutions how to make from a challenge an opportunity.

demographic change, ageing, economic growth, labour market

The EU's demographic picture is changing. All this can be defined as the result of significant economic, social and medical progress on the European continent, connected with the ideology of the welfare state, expansion of the middle class, social opportunities and the struggle for equalities unprecedented in our history.

As the result of the European progress we are confronting now significant changes in the demographic structure which constitute new conditions and new reality for the European economic power. It is projected, that the impacts of this changes will affect significantly the European economy, economic growth, labour market, as well the social structure and many other aspects and spheres of live of individuals.

Economic and demographic growth is shifting in the developing world. BRICS countries¹ are getting stronger and more economic a political importance. By 2050 they are supposed to become the world's leading economies, replacing the current position of the Western world represented by the USA and Europe. One should consider the fact, that this part of the world represents different values, varying beliefs and economic attitudes as well sometimes ambivalent or even negative position towards the West (e.g. China, Russia, Venezuela, Muslim countries).

If Europe wants to maintain its strong position in the world economy,² it has to adopt its policies, labour market, intitutions etc. to the changing demographic reality. Without an action, Europe is

¹ BRICS is a grouping acronym that refers to the leading emerging market economies consisting of Brazil, Russia, India, the People's Republic of China and South Africa.
² The European economy is already facing many internal problems and economic crisis had wiped out years of progress. Despite these facts, in absolute term, Europe still remains an economic power.
about to risk a significant slow down of its economic growth and to weaken its position in the global governance.

This article highlights the most significant demographic changes in Europe and presents solutions of how to face these challenges and to transform them to an opportunity.

**MATERIALS AND METHODS**

The paper is based on statistical data obtained from Eurostat projections and the Reports from the European Commission (especially from Directorat General Economic and Financial Affairs and Directorat General Employment and Social Affairs). It also highlights the new EU economic strategy – EU 2020. The main materials and methods used are the analyses of the statistical data and primary and secondary documents.

**RESULTS AND DISCUSSION**

**Main changes in the EU demographic structure**

1. **The decline in fertility rate**

Fertility has slightly increased in recent years, but is still low, at 1.6 children for EU 27, well below the replacement rate of 2.1 required to maintain the population size in the absence of immigration. The modest increase in fertility results from kind of new family building patterns: countries with fewer marriage, more cohabitation, more divorces and an older age of woman at childbirth tent to have higher fertility rates. Changing social perceptions of the role of marriage and greater fragility of relationships result in more extramarital births, lone parents or childlessness.

2. **Ageing of population**

The reduction in fertility in recent years is followed by the post-war baby boom generation which is today causing the rise of the population aged 45 to 65 years. The gradual progress of the baby-boomers’ generation towards retirement age will lead to a substantial increase in the proportion of old people, who will need to be supported financially by a significantly reduced working-age population. This phenomenon will disappear, but not for several decades. The increase in life expectancy is proposed to growth by additional 5 years. In 2060, the number of elderly would more than double the number of children in EU. Those aged 65 and over would account for a much larger share in 2060 (30% of the population), and among the elderly, those aged 80 and over would account for 12% and become almost as numerous as the children (14%). It means that the new generation is supposed to spend even several decades in retirement and in a period charaterised by health problems, disability and higher dependency.

The decline in working-age population and the increase in seniors pose difficulties for public expenditures, especially retirement, health care, housing or urban planning. Ageing will affect also other spheres of economy like transport or tourism services. Demographic change is also accompanied by profound social changes affecting the composition of families, particularly evident in the growing number of elderly persons living alone. The increase in the number of very old dependent persons also raises new problems of an economic, social or even ethical nature.

The ageing of the European population is recommended to be consider together with the global population growth, which from 95% appears in the developing states. Especially the population of the 50 least developed countries is proposed to double. The population increase from 2 billion in 1950 to 7 billion today is projected to continue to reach 9 billion by 2050. The proportion of the EU's share on the world population is thereby accounted to decrease. Additional risks can be expected with the population growth occuring in the developing states - e.g. increase of migration pressures, pressure on resources and on enviroment, security and humanitarian risks, pressure on redefinition of Western values of democracy and liberal market economy.

3. **Immigration flows**

The EU is a popular destination for migrants. It has an inflow of migrants from third countries even higher then USA relative to the total population. Eurostat projects that between now and 2050 around 40 million people will emigrate to the European Union. Many of them are young people at working age and this help to bring down the average age of the population. Positive net migration will be also since 2015 the only factor driving population growth. The role of migration in population growth

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3 Lowest-low fertility – below 1.3 children per woman has ended in all Member States.
is already predominant today: in many Member States, the size of net migration determines whether the country has a growing population or has entered a stage of population decline. Assuming zero net migration, the EU labor force would gradually fall, in 2030 by 10%.8

Migration flows have serious repercussions for the countries of destination and origin. For the EU is important above all managed integration and effort to increase their employment rate, which is still significantly lower than that of non migrants. Immigration could temporally also help to reduce financial impact of ageing and lack of working force, legally employed migrants pay contributions to public pension schemes, however, economically active immigrants are also accumulating their own pension rights. For the countries of origin, emigration to the EU can be beneficial, specifically through the reduction of pressure on the labour market, transfers of funds and the contribution of migrants returning to their countries with new skills and capital. However, the emigration of a large number of the young educated population give rise to a “brain drain” with its negative impacts on the economy and development of the country of origin. Remedies on this issues are nowadays discussed, like temporary or circular migration and the voluntary return of migrants to their countries of origin.9

As a result of these trends, the population of EU 27 will slightly fall down, whereas will become much older and diverse. 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.10

**Effects of demographic changes on the labour market, GDP and productivity**

In the next years, the number of working-age population in Europe will start to decline, whereas large baby-boom generation retire. However the effects firstly will not be negative, the unemployment rates are supposed to decrease and the total work force will grow till 2017. This firstly positive development will constitute an opportunity for the necessary implementation of reforms before the full weight of population ageing and other demographic changes appear. Even if the objective of 75% employment rate as set out in the Europe 2020 Strategy is reached, the total number of persons in work is set to decrease by 30 million between the end of the decade and 2050.11

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Economic growth rates are set to decline with the ageing of the population, mainly owing to the reduction in the working-age population. The projections show that, if current trends and policies remain unaltered, the average potential GDP growth for EU-27 will fall systematically from 2.4% in the period 2007–2020 to 1.6% in the period 2021–2030 and then 1.3% in the period 2041–2060. Over the whole period 2007–2060, output growth rates in the euro area are very close to those in the EU27, as the former represents more than 2/3 of the EU27 total output.

Over time, Europe will increasingly have to rely on its productivity gains as a major source of economic growth, whereas older workers will constitute an increasing proportion of economic production resources. However, many countries still employ only a relatively small number of older workers owing to excessive recourse to early retirement, insufficient financial incentives to work offered by tax and social security systems, and poor management of age-related issues in the workplace. This is in particular reflected by insufficient access to work, training, or even discrimination against older workers.

Coping with the European demographic prospects

To cope with these new trends with a view towards safeguarding economic welfare, the EU and its Member States have to develop and utilise appropriate tools in at least five policy areas:

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1. Promoting demographic renewal/better support for the families

Surveys and analyses show that in all EU countries couples would like to have more children and international comparisons underline the effectiveness of family and other policies implemented by some countries over several decades to create supportive conditions for those who wish to have children.¹⁴

There are differences in these policies, however they all have certain aspects in common: they aim to (i) reduce the inequality of opportunities offered to citizens with and without children, (ii) offer universal access to assistance services for parents, in particular for education and care for young children, and (iii) manage working hours to offer both men and women better opportunities for balancing their private and working lives.¹⁵

Analyses show that the trend to postpone childbirth is interconnected with uncertainties accompanying the entry of young adults into the labour market. As a response, effective gender equality policies have to be ensured. Reforms focused on facilitation of access to quality childcare, parental leave, accommodation facilities for young couples, improvement of the work-life balance through flexible work arrangements, making use of new technologies are essentials. Also the remaining child poverty and deterioration of the situation of families with children are very worrying.¹⁶

2. Promoting high – employment inclusive economy

Coping with the declining labour force, Europe has to make full use of its labour potential. The employment rate of the population aged 20–64 should increase from the current 69% to at least 75%.¹⁷ Demographic ageing gives a strategic importance to be given to increase the rate of participation of older workers (men and women aged over 55), women and immigrants.

Employment and retirement reforms should be focused on greater social inclusion of diverse labour force, elimination of discriminatory prejudices against old workers, women a migrants, incentives for employment of senior citizens, migrants and social vulnerable, creating specific job opportunities for older workers. Policies and reforms should contain flexicurity principles – guidelines aimed on facilitation of transition between different stages of the life, enhancing flexibility on the labour market.¹⁸

A new approach to ageing has to be launched. “Active ageing” refers to support live-long learning, new types of flexible work, flexible retirement schemes, further improvement of health care etc. The ban on age and other types of discrimination has to be enforced.

Continuing to work after the age of 60 should no longer be, as it is today, the prerogative of high income earners and the highly qualified. The participation of people aged over 65, including those who are officially retired, in the economic and social environment must be regarded as an opportunity and not presented as a constraint.¹⁹

Increasing the active population will be achieved partly by improving public health. The structure of health systems has to be rationalised,²⁰ further effective preventive measures to tackle obesity, smoking, alcoholism and mental illnesses are supposed to have a broad impact on Europeans' state of health and, therefore, on productivity at work and future healthcare costs. The increased use of new technologies, such as telemedicine and personalised healthcare systems, can also help to control healthcare expenditure and improve the wellbeing of citizens.²¹

3. Raising productivity

An older labour force does not mean inevitably less productivity. The available data show, that decline in physical and mental capacity occur

¹⁴ For example “The Demographic Future of Europe – Facts, Figures, Policies: Results of the Population Policy Acceptance Study (PPAS)” published by the German Federal Institute for Population Research and the Robert Bosch Foundation; Eurobarometer No 253 produced in 2006, for which an analysis of the results is to be published shortly.
¹⁶ At the Barcelona European Council in 2002, Member States made a clear commitment to put in place childcare facilities available to at least 90% of children between 3 and 6 years old, and at least 33% of children under 3 years of age, in: EUROPEAN COMMISSION, 2009: Dealing with the impact of an ageing population in the EU, Brussels: Official Journal of the EU.
¹⁸ EUROPEAN COMMISSION, 2009: Dealing with the impact of an ageing population in the EU, Brussels: Official Journal of the EU.
¹⁹ At the Stockholm European Council in 2001 the Member States made commitment to raise employment rates for workers over 55 to over 50%. Member States also implemented the Directive on equal treatment in employment and occupation (Council Directive 2000/78/EC).
²⁰ E.g. through free movement of health services or cross-border mobility for patients. For details see EUROPEAN COMMISSION, 2009: Dealing with the impact of an ageing population in the EU, Brussels: Official Journal of the EU.
²¹ EUROPEAN COMMISSION, 2009: Dealing with the impact of an ageing population in the EU, Brussels: Official Journal of the EU.
gradually, at an older age and is very variable depending on each individual. The physical and mental capacity can be increased by preventive health care policies, changing of work organisation, using of modern technologies, life-long learning concept, training etc.

Reforms aiming on deepening internal market, adjustment of the labour market for all age groups, combatting the generation gap and promoting intergeneration solidarity are indispensable. The ageing population offer a good opportunity to enhance the competitiveness of the European economy. European companies can take advantage to grasp the opportunities offered by the demographic change in terms of creating new markets for goods and services which respond to the needs of an older clientele. Companies should be encourage to incorporate the ageing phenomenon into their innovation strategies. This concerns a number of areas such as financial services, information and communication technologies, transport, tourism energy and infrastructures and local services.

4. Redefining immigration and integration policies

Immigration is wealth for the economy, just if it is properly managed. The current immigraion strategies have to focus on maximization of benefits for the economy and to enhance migration effectiveness. However, family reunification and migration based on other then economical reasons still substantially prevails, in the same time employment rates of migrants are still very low. Reforms have to examine links between existing and target structure. To prevent the brain drain and negative impacts of skilled immigration, new types of immigration are discussed. Europe needs not only qualified but also unskilled labour force. Partnership and cooperation with countries of origin are also of vital importance.

Europe needs migrants, on the other hand ineffectively managed immigration present a danger and security risk. This is already obvious in many Member States who are confronted with often failed or unmanaged integration of migrants. Considering immigrants’ birth rates together with insufficient integration schemes create another internal problem of the EU and presents a serious challenge for redefining common and national immigration policies.

Management of migration flows can only succeed, if in accordance with the priority 3th of the EU 2020 strategy, the new economic growth will be inclusive as well. Only a successful social integration of third country workers accompanied with nondiscriminatory attitude of locals and employers will be synonymous with the successful immigration strategy.

5. Sustainable public finances – guaranteeing adequate social security and equity between the generations

In most Member States, public finances risk to become unsustainable under current policies, thereby undermining the equilibrium of pension and social security systems. For EU-27, it is projected that age-related public spending will rise by 3–4

3: Gross old-age and other public pension expenditure in 2007 and 2060 (% of GDP)

GDP points between 2004 and 2050, representing an increase of 10% in public spending.23

Allowing to create budget deficits would lead to an intolerable spiral of debt. Such consequences would undermine the potential for economic growth and compromise the functioning of the single currency. The burden of ageing can’t be carried solely by the young population, delaying reforms on public spending would be missing an opportunity to ensure that every generation, including the baby-boomers, contribute to the necessary process of adjustment.

Sustained reforms towards budgetary consolidation in the Member States like rasing the age of definitive retirement, offering older people incentives (financial or others) to stay in the labour market, establish better balance between individuals’ contributions and benefits, promote transparent and stable private savings and funded systems together with communication and education in financial matters for the individuals are urgent.

Ageing will also bring about sharp rises in public spending on health and long-term care, however much will depend on the future improvement in the state of health of the elderly. If the gains to be made in terms of life expectancy were generally acquired in good health and without disability, the projected increase in public spending on health and dependency care due to ageing would be reduced by half.24

CONCLUSION
Europe stands before the gateways of breaking changes. As the result of its development, Europe is changing profoundly, both demographically and socioeconomically. The main worries include its ageing population together with low fertility and a high migration level. These trends interact together and pose concerns about the changing labour structure in Europe. These changes do not necessarily represent something bad. It will be crucial to prepare and consider these changes in time. Even in these times when the economic crisis has struck and Europe finds itself dealing with serious internal economic problems, we should not forget to insist on implementation of those reforms which are essential for long-term sustainability. However analyses showed that when the recession struck the first groups to be affected were younger people and immigrants. Governments face increasing difficulties in balancing support for families, consolidation of budgets, assistance for young people and immigrants, and funding for retirement schemes. However missing to meet crucial reforms now can lead to irremediable damages. Europe risks to end up with a permanent loss in wealth, a sluggish growth rate possible leading to social distress, intolerable spiral of public debt and a relative decline on world scene.

SUMMARY
Demographic structure of the EU is changing. The population of EU-27 is projected to fall slightly down, whereas is becoming much more older and diverse. The working age-population will decrease by 48 million between now and 2050, and the dependency ratio is set to double and reach 51% by 2050. Meanwhile immigration flows to EU continue and the world is moving fast, the population and economic growth is shifting to other parts of the world. The paper presents the main European demographic changes and solutions how to face them. Essential is to carry out the reforms, before the fully burden of ageing will be felt. Proposed reforms focused on rasing productivity by active ageing and employment of seniors, enhancing inter-generation solidarity, phasing in flexicurity principles, promoting budgetary consolidation, reviewing migration and integration policies or aim on greater social inclusion and support for family policies.

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