

**New responses to the New Demographics in Europe
- Present and future strategies for the European Union**

by

Jerome Vignon

Director, Social Protection and Social Integration
DG Employment and Social Affairs
European Commission

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New responses to the New Demographics in Europe

Present and Future strategies for the European Union

Jérôme Vignon

*Director, Social Protection and Social Integration
DG Employment and Social Affairs
European Commission*

Ladies & Gentlemen, as a policymaker 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 UNECE and United Nation Population Fund for having organised this timely and stimulating event and the Government of Switzerland 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 changes.

Commissioner Nelson already spoke to you about our policies on global population issues in the context of development, with particular attention to the follow-up of the Cairo conference as we celebrate the tenth anniversary. My speech will focus on our policy responses to the new demographics in the European Union – that is the present EU of 15 and the soon to be EU of 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. There are no hard-core competences at EU level in this area.

Our current policies understand themselves as *responses to the accelerating ageing* of the EU population. In the first part of my presentation I will review the background and content of these policies. Clearly they are comprehensive and potentially very effective.

But - as I shall demonstrate in a second part - they also have important limits. 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 just as this is necessary it is

also insufficient and policy makers are therefore also looking to the contribution from active and more efficient migration policies.

Policy responses to the New Demographics in Europe	
Present and Future strategies for the European Union	
Part 1	– Coordinated adjustment to demographic ageing
Part 2	– Limits to adjustments, new European Policies towards Migration
Part 3	– Fertility, as an explicit aim of EU policies on population change?

Yet, even successful migration policies cannot prevent the EU from being faced with a syndrome of slow growth.

In the third part of the presentation 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 affecting fertility through public policy is rather sensitive and contentious in a European context. I shall therefore devote some time to indicate what I think would be an appropriate and constructive way to address fertility and family issues at EU level.

PART 1: A COORDINATED ADJUSTMENT TO DEMOGRAPHIC AGEING

EUROPEAN'S GROWING CONCERN ABOUT AGEING

During the 90's, demographers and economists regularly informed the public about the strength of the parameters at the roots of demographic ageing in European societies: Baby-boomers retiring from the labour force, increasing life expectancies, low to very low fertility ratios. 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 1980's, but for a long while co-operation between EU Member States was sparse and fairly non-committal. However, despite the differences in the 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 2nd half of the 1990's 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 finances, 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.

FROM 2000 ONWARDS, EU'S INTEGRATED APPROACH TO AGEING

Since 2000 heads of state and governments of the EU have promoted "active ageing" as a strategic concept, whenever they met in the European Council. Tackling ageing is an integral part of our efforts secure sustainable development, and 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 a vis ageing:

- One 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 the policy response is reflected in the 3 main aspects of this active ageing strategy. Firstly, it is an *integrated* one.

The European Union's response to ageing is therefore 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 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 co-ordination and 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 upon labour force and employment as input to growth development. 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 the presently 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.

Core active ageing practices include life long learning, working longer, retiring later and more gradually, being active after retirement and engaging in capacity enhancing and health sustaining activities. Such practices aim to raise the average quality of individual lives and at the same time, at societal level, contribute to larger growth, lower dependency burdens and substantial cost savings in pensions and health. 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 co-operation of all the relevant actors, including NGOs, Social Partners, and local and regional authorities

How does this work in practice?

AN OPEN FRAMEWORK FOR COORDINATION OF STRUCTURAL POLICIES

Based upon the model of coordination in the field of economic and monetary policies, the EU has set up a specific and open framework of coordination of national policies, through which employment and social protection concerns are integrated into the "Broad Economic Policy Guidelines" at each Spring Summit. Securing sustainable public and private resources, promoting the full participation to employment of the labour force and modernising social protection are key components of this "active ageing strategy".

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

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, when at the same time taking on board common concerns.

Part 1 - Coordinated adjustment to demographic ageing

-EU's integrated approach to ageing

Common key challenges for EU Member States:

Finance Ministers: managing the economic implications of ageing in order to maintain growth and sound public finances;

Employment Ministers: adjusting well to an ageing and shrinking workforce;

Social Affairs Ministers: ensuring adequate, sustainable and adaptable pensions;

Health Ministers: achieving access to high quality health care for all while ensuring the financial viability of health care systems.

I. Finance Ministers have been tasked to implement a three-pronged strategy to anticipate and manage the budgetary challenges of ageing. They will:

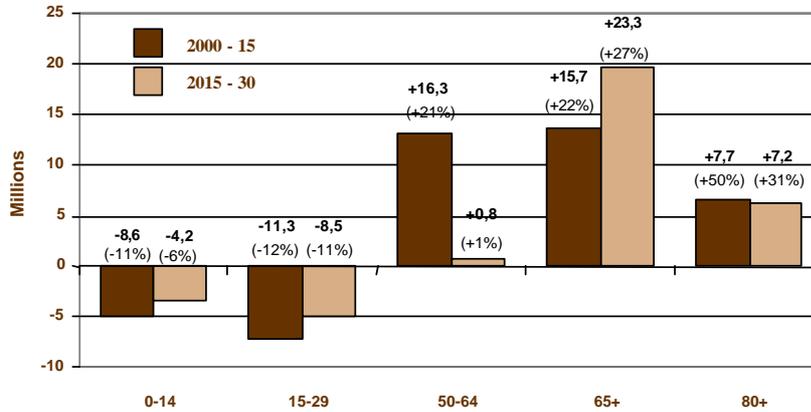
1. increase the revenue base and reduce the cost of transfers by raising the employment rates.
2. run down public debt at a fast pace so that lower interest payments can offset some of the projected increase in spending on pensions and health care.
3. reform pensions systems to maintain them on a sound financial footing.

II. Employment Ministers have been given the task of securing the conditions for longer and more effective working lives.

The EU is faced with the prospect of an ageing and shrinking workforce.

Part 1 - Coordinated adjustment to demographic ageing

Change in certain age groups between 2000-2015 and 2015-2030 - EU25

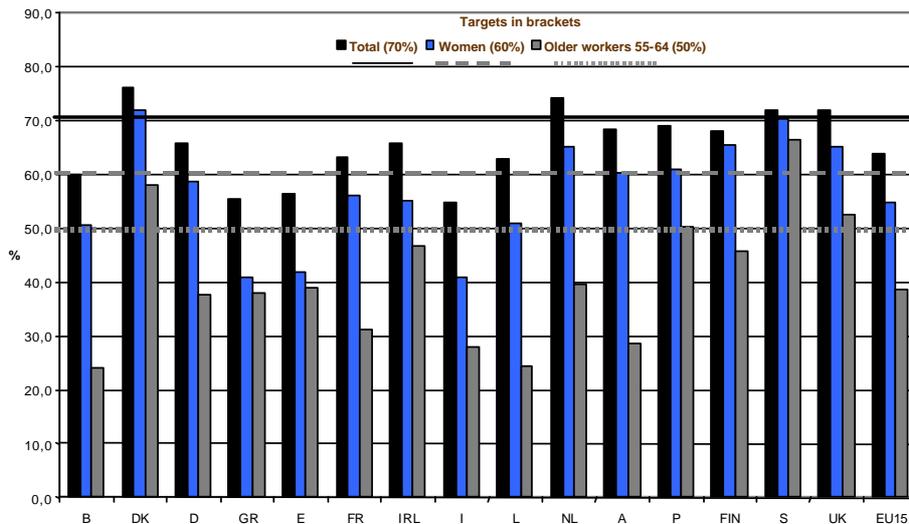


Source: Eurostat 2000 Demographic Projections, Baseline Scenario

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

Part 1 - Coordinated adjustment to demographic ageing

EMPLOYMENT RATES AND THE LISBON AND STOCKHOLM TARGETS (2001)



On the contrary it is very much related to the poverty 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 shrinking of the work force, and thereby escalate labour shortages and 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% (Stockholm)
- to delay by five years the age at which people stop working (Barcelona)

These complementary goals are 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 pay.

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

1. Safeguarding the capacity of systems to meet their *social objectives*;
2. maintaining their *financial sustainability*;
3. and *adapting* them to changing societal needs.

Building on these 3 principles MS have adopted 11 common objectives, which guide their policy 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 the mandate of coordinating health and long care policies, also along 3 lines of common objectives.

1. Maintaining *universal access* for all, health being a key element of an inclusive society
2. Ensuring *financial sustainability* of the health care systems;
3. Upgrading the *quality* in a broad sense, so as to prevent diseases and promote new patient rights

This overall picture of how Ministers in different policy areas are harnessing 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 with 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 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, child bearing and child rearing 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."

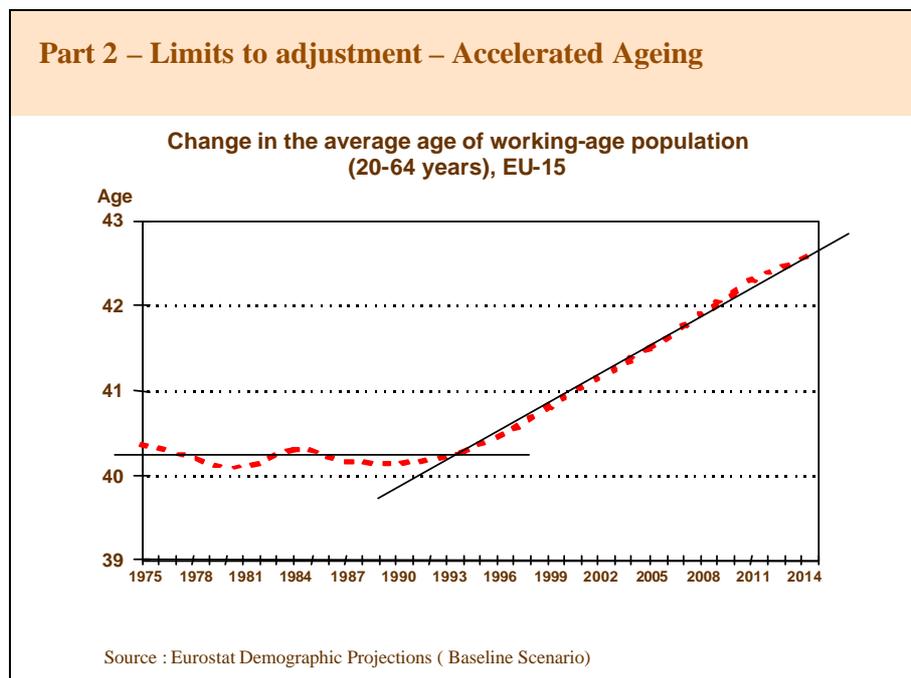
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PART 2: LIMITS TO ADJUSTMENT – NEW EUROPEAN VIEWS ON MIGRATION POLICIES

PUBLIC CONCERNS SHIFT TOWARDS THE FUTURE SCARCITY OF HUMAN RESOURCES

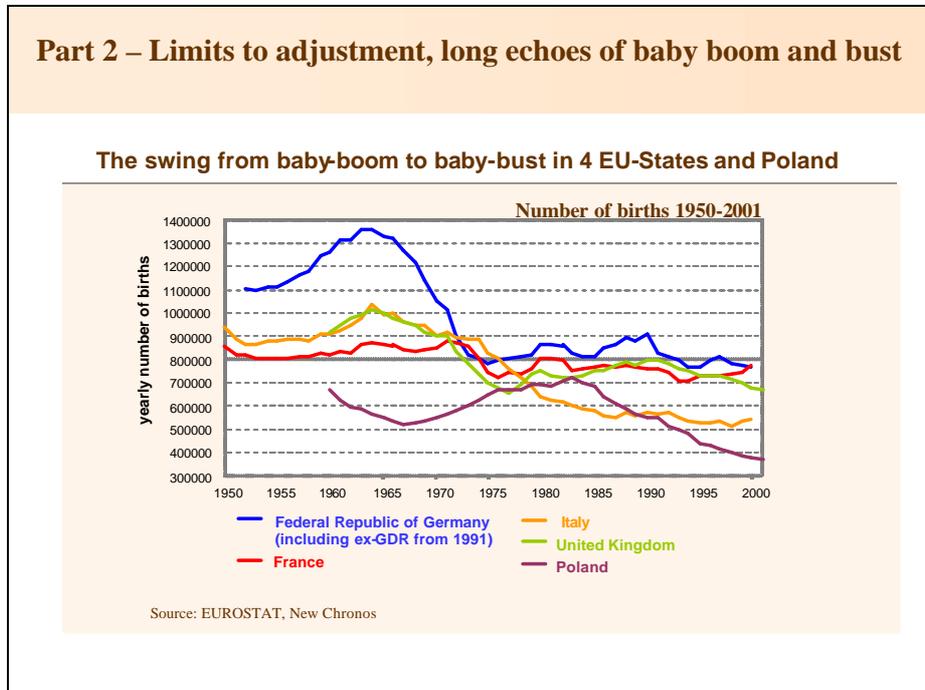
The concerns of economists and finance ministers about long-term public finance sustainability have extended the time horizon of policy makers and business. Demographic projections, at the heart of the coordination mechanisms, also divert attention from finance to the human resources perspective. The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

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



Accelerating 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 2 decades. Only after 2040 is this wave expected to subside. The radical swings from baby-boom to baby-bust in post war fertility levels will cause ageing to become particularly intense.



The speed and magnitude of the shift towards an older population during this period, where 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 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 skills mis-matches even if the Lisbon goals of mobilising 70% of the working age population into employment is achieved and retained.

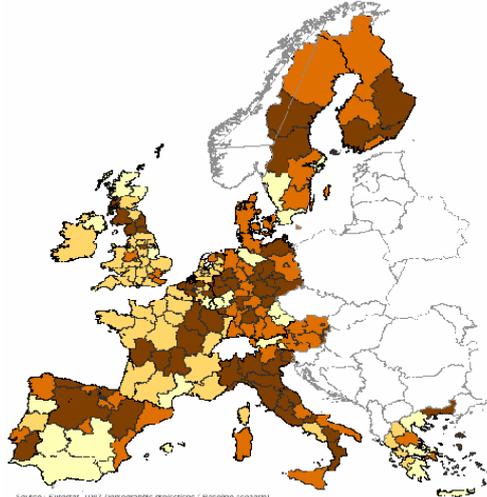
The contraction of the working age population will soon make it impossible to counteract the impact on labour supply only through higher activity rates. Economic growth will therefore increasingly depend on productivity gains.

Part 2 – Limits to adjustment, new EU policies on Migration

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

- before 2000
- between 2000 and 2009
- between 2010 and 2019
- not before 2020

Average EUR15 :
Maximum in 2011
(3.3% above 1995 level)

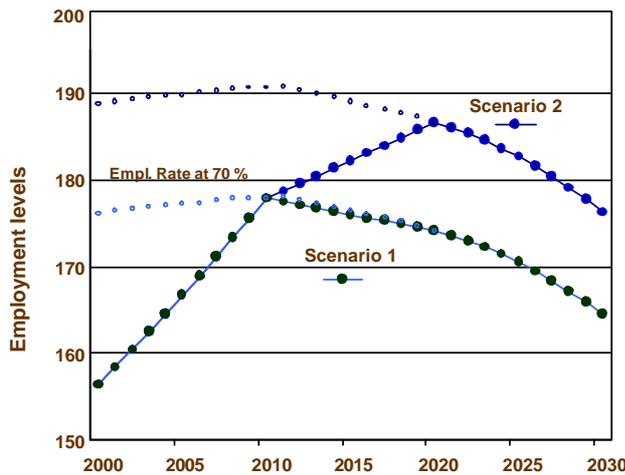


Source: Eurostat, 1997 demographic projections (Assumptions scenario)

But as the active ageing part of the Lisbon strategy primarily is focussed on adjusting to the effects of the ageing process (rather

Part 2 – Limits to adjustment, new EU policies on Migration

Lisbon employment objectives and potential for employment growth, EU15



Scenario 1 (baseline) —●—
Total employment assuming an employment rate of 70 % in 2010 and thereafter.

Scenario 2 (high): —●—
Total employment assuming employment rate will reach 70% in 2010 and then increase progressively to a maximum value of 75 % by 2020.

Source: Eurostat

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 the demographic imbalances.

This leads us to a new stand on immigration in the EU.

A NEW APPROACH TO IMMIGRATION IS DEVELOPING

Because of regional demographic heterogeneity, the progressive adjustment process of "active ageing" comes short of avoiding the human resource gap. Already some regions (Northern Italy for example) but also countries in the EU (e.g. UK, 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, and in the long term perspective suggested by demographic analysis, a number of rationally convincing points emerge, which the debate of this morning has highlighted even more.

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.
2. The insufficient ability of MS to secure the integration of immigrants into economic and social life has barred the EU from reaping the full dividend from the increase in immigration. Integration failures have also contributed to popular unease about immigration.
3. National immigration policies 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" from the ageing and shrinking of the working age population.

5. Larger immigration can make important contributions to labour supply and fertility levels in the EU and thereby to overall growth & well-being and it will be direly needed.
6. « Zero immigration » is therefore not option.
7. Yet, to benefit sufficiently from larger immigration, MS must secure the economic and social integration of immigrants and achieve a fairer sharing of the costs and benefits of immigration, within the EU and with 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 but also civic and political rights.

Because the matter is already a matter of common interest, in parallel with the Lisbon strategy, the EU has set up in Helsinki an overall comprehensive agenda aiming at:

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

But the implementation of that framework agenda elaborated by Commissioners Vittorino and Diamantopoulou is coming forward only very slowly.

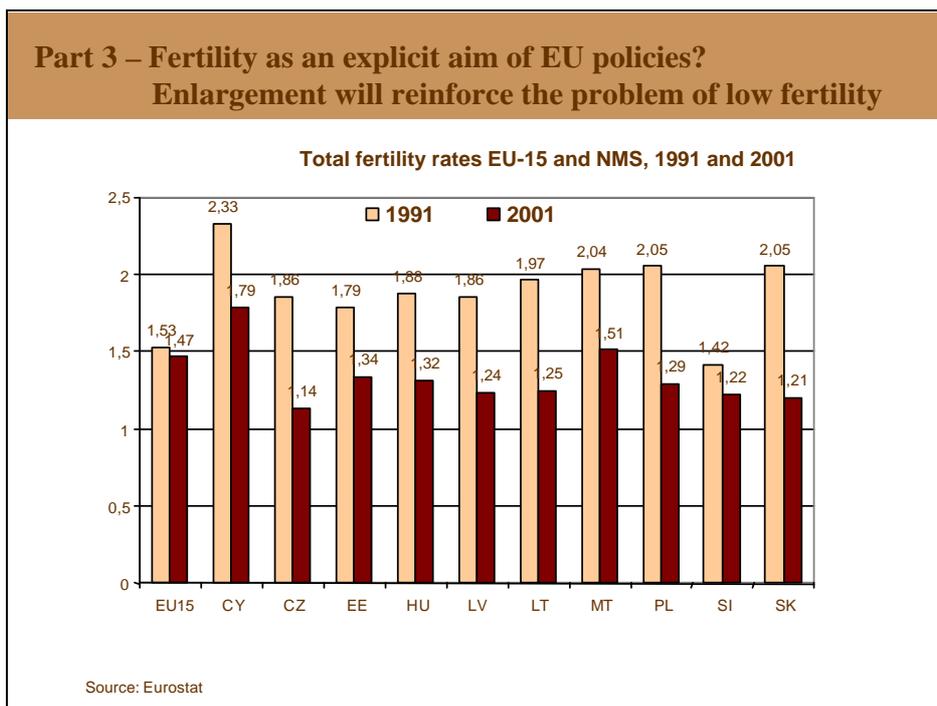
Member States must convince their public that the only way of fighting against illegal immigration is to accept and manage immigration flows and pay the price for their integration.

PART 3: 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 THE GROWTH POTENTIAL

The drop in fertility ratios 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 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 of reconsidering public policies in relation to fertility and families.

Enlargement will only confirm this overall picture.



Even when we are successful in our efforts to counter the impact through active ageing and well managed, higher immigration the demographic prospect of the EU will be rather challenging.

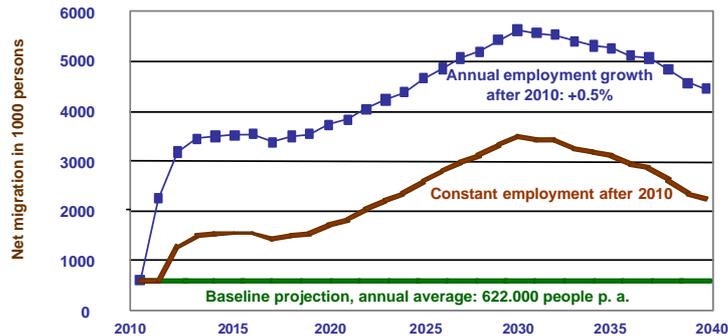
Part 3

Fertility, as an explicit aim of EU policies on population change?

Long-term needs of human resources, EU15

Levels of net annual migration inflows needed:

- After having fulfilled the Lisbon target of 70 % employment rate by 2010 (maximum employment rate);
- Migrant employment rate equals domestic employment rate.



Source: Eurostat and Internal Calculations

Therefore it calls for a broadening of the scope of social policy responses to include - with a view to a better balance in the longer term – proactive policies in support of a sustainable development of human capital should be promoted.

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

OLD AND NEW TRENDS IN THE SOCIETY SHOULD FACILITATE A NEW STANCE TOWARDS FERTILITY AND FAMILIES

How could politicians take the lead in an enlarged Union in legitimating actions and policies conducive to higher fertility and better conditions for families? According to old (but disregarded) and new trends in European societies, two possible drivers are "Choice enabling" and "Investing in basic human capital".

In a near future, policy makers in the EU will need to address the depression of 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.

It 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 sometimes old trends 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 the second it would concern the economic and social necessity of

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

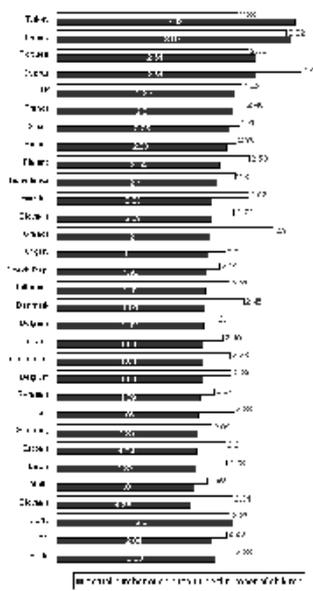
Enabling choice and preference

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.

But if people to large extent – as indicated by surveys of their preferences indicate - are barred from realising their choice and preferences policy makers have an obvious duty to seek to improve the conditions for family formation, child bearing and childrearing.

Part 3

Fertility, as an explicit aim of EU policies on population change?



The ideal number of children among women with completed fertility (ages 40-64) Eurobarometer 56.2 (2002).

The two-child norm is strongly predominant in the fertility ideals of Europeans.

Such fertility preferences tend to be higher in the older age classes and are slightly higher among women as compared to men.

EU15
Actual number of children=2.08
Ideal number of children= 2.33

CC13
Actual number of children=2.04
Ideal number of children= 2.27

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

The list of important policies is a long: 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. etc.

The aim is to secure an environment that enable people to realise their preferences about children and family size.

Investing in basic human capital formation & 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 necessary human capital investment consists of 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 child bearing, child rearing and the cognitive development of children may have significant implications for 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 once 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 will be slight or if we refrain from improving the conditions for family formation the objective pressure for a higher quality and success rate in the raising of children and the development of their cognitive potential will only be greater.

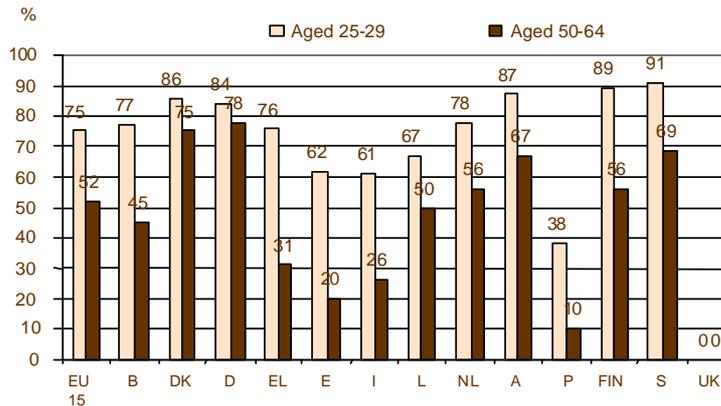
With as scarce a basis for human capital reproduction as the one set by current depressed levels of fertility we can no longer afford to allow 20-30% of a cohort to end up without a labour market education. Human capital concerns and efforts to improve the stock we are left with will only intensify.

Part 3

Fertility, as an explicit aim of EU policies on population change?

Educational achievement by age group

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



Source: Eurostat. IRL 1997 data. UK data not shown. A definition of upper secondary attainment has still to be agreed

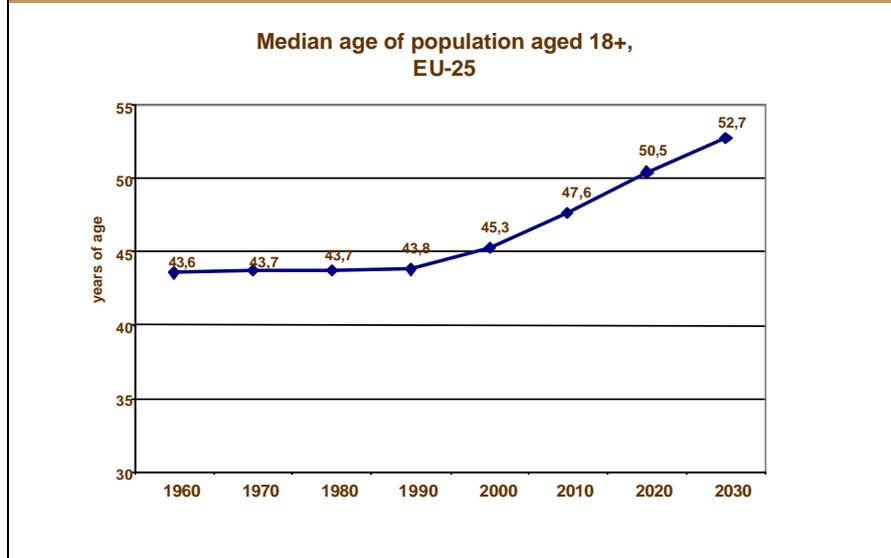
It should be underlined that progress in gender equality and reconciliation between family and working life already provides a basis for discussions about policies in and around fertility issues. We absolutely refuse and refute the ideas of a need for a roll back.

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.

Part 3

Fertility, as an explicit aim of EU policies on population change?



Conclusion: The practical dilemma of generating support for this extension of our policies to address population changes in the EU

In the face of an 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 children and 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 matter. Indeed at the fertility levels, which some of our MS have, even small upward changes in fertility levels will be of great importance.

Thank You for your attention