Ageing in Europe: policies in harmony or discord?

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The rest of the European Union (EU) shares with the UK the experience of population ageing and for the same reasons. However, the rates at which ageing is taking place differ considerably between the Member States and, especially, between regions of the EU. In a large number of European regions the population had already stopped growing by the end of the last century. This will extend to the majority of EU regions, which will see their population levelling off or declining before 2015. The younger generation, the 0–24 age group, represented 31.1% of the population in 1995, and this will decline to 27% in 2015 (some 11 million less). The older generation (65+) will increase, significantly and unevenly, throughout the EU. In some regions of France, Italy and Spain the 80 plus generation will represent between 7% and 9% of the population (compared with an average 3.9% in 1995). As a consequence the average age of the population will increase from 38.3 years in 1995 to 41.8 in 2015. The additional impact of migration means that, in some regions in eastern Germany, northern Italy, central France and northern Spain, the average age will be between 44 and 50 years.

The growth of the very old (80+) will be the strongest, in terms of intensity. A large share of the total increase in this cohort over the next 25 years (plus 62% between 1995 and 2025) is taking place within the 5-year period 2000–2005. Within those 5 years the increase will be above 25% in Belgium and France, and almost as much in Italy and Austria. The average increase in the EU will be 18.6%. Italy leads the way (yet again in demographic terms): in 2025, 7.1% or one in every 14 Italians, will be over 80. Germany comes next, due to the pre-war baby boom, and Denmark, Sweden and Ireland will follow after 2020.

The eastern European countries are also experiencing demographic ageing. All of them, except Poland, will see a decline in the total population (and that of working age) before 2010. The EU shares demographic ageing with other world regions though, with Japan, it has the most pronounced trend over the next 20 years.

Usually at this point in a demographic narrative some data showing age dependency ratios is presented. However, at best, such data are misleadingly crude and simplistic and, at worst, they may be harmful to the cause of rational policy debate. The policy implications of demographic change are not just a matter of the absolute numbers in different age groups.

Firstly, it must be remembered that increasing longevity is an indicator of social and economic progress: a great triumph of civilization and, specifically, of science and public policy over many of the causes of premature death which truncated lives in earlier times. Therefore we should not bemoan the emergence of more balanced age structures but recognise that this unique phenomenon is one of the great achievements of the 20th century. At the same time it presents challenges to policy and practice in all sectors of society.

Secondly, there is not a simple linear relationship between demographic change and the demand for spending on social protection, still less with the levels of such spending. For example, with regard to health and social care, the level of need for formal care depends on health status, marriage patterns, household composition and living arrangements. It is predicted that the number of disability-free years will increase in the next century but the evidence so far is inconclusive. Other population trends provide a more certain picture. Older people living alone tend to make greater use of formal services than those living with others (partly because of the correlation between advanced old age and living alone) and, in the EU, there is an increasing proportion living alone. Given the primacy of family care it is likely that the growth in family breakdown and divorce among both older people and their children will have an impact on the demand for formal care but, again, the evidence is inconclusive. Similarly the increased participation of women in the labour force is likely to have affected the ability of the family to provide care; certainly it has increased the strains experienced by the primary carers who are invariably women. Although more older people in the EU today have children than in previous generations family size has declined dramatically over the course of this century and, therefore, the pool of potential family carers has shrunk.

Declining fertility is a global phenomenon and is closely connected with economic development. The EU as a whole was already below the replacement rate 20 years ago and Europe as a whole was equal to the rate. One indicator of the implications for social care of these changes in fertility, in combination with the universal increase in longevity, is the parent support ratio (PSR)—the population aged over 80 divided by the population aged 50–64. Because Europe aged earlier than other regions its PSR is the highest in the world and is likely to remain so for the next 25 years.

Turning to pensions, crude age dependency ratios would suggest increasing tax burdens on the working population. However that pessimistic scenario rests on the classic economic obfuscation ceteris paribus (other things being equal) which freezes present trends regardless of how far into the future the projections are being made. In fact the main issue for pension funding is not population ageing in itself but its combination with changes in birth rates, the structure of employment and the practice of retirement. In a very short space of time there has been a major restructuring of the life cycle in most EU countries resulting from the truncation of employment prior to pension ages. In some EU countries this was a trend openly
encouraged by public policy. Thus, paradoxically, as longevity has increased, the age at which people exit from economic activity has fallen. Since the 1950s there has been an average increase in longevity in the EU of around 10 years and a parallel decline in the age of final labour force exit of the same magnitude. As Esping-Andersen has put it, Europe has ‘doubled pension benefit years and cut contribution years by around 25%.

Thus, arguably, it is not demography that is the main issue for social policy, and social protection in particular, but the growing insecurity of labour markets, the decline in the ‘standard worker’ on which most pension systems were based, and the changing nature of the family (especially the rise in divorce and the decline in fertility). In other words the EU’s social protection systems were constructed in a different era and they need to be adjusted to take account of the transformations that have taken place in recent decades—such as globalization, the changing nature of work, the reconstruction of the life course, changing family structures and behaviour and so on. Population ageing by itself is not a major problem but, in combination with these other huge social and economic changes, it creates a big challenge for established social protection systems.

The possibility for policy
In addition to the message that population ageing is not the main issue for welfare and social protection systems it is important to emphasize the possibilities for action in order to avoid the popular ‘apocalyptic demography’. We must start from the fact that population ageing is a social process. This is not to deny the biological reality of ageing (which is itself a continuous process and is changing from age cohort to age cohort) but that tells us very little indeed about the societal consequences or the policy implications of population ageing. Here sociology is more helpful than biology: age is a social construction and social policy plays a crucial role in that process—for example by defining the age at which people are excluded from employment or enter pension systems and, therefore, become ‘old’ in social and economic terms. Because the meaning of age in different societies is determined by social processes—micro and macro—the impact of population ageing is subject to the influence of social policy. For example, if we look back over the last 30 years at the reasons for the growth of pensions expenditure, in all OECD countries, demography played a minor role compared to policy decisions. In other words, there is nothing inevitable about the impact of ageing on different societies, but rather it is the policy process that will determine whether or not countries age successfully.

The policy challenges of population ageing
It is important to emphasize the uniqueness of the institutional structure within which ageing is taking place in the EU. Most of the world’s developed welfare states are to be found in the EU and all of the countries that devote the highest proportions of their national income to social expenditure. For example in 1997, the EU as a whole spent around 12% of its GDP on pensions, compared with 4% in the Americas and the western Pacific. Within that average, however, are significant variations between the Member States of the EU, particularly on a north-south axis. Thus while the EU contains fully developed welfare states (mainly in the north) there are also other countries (mainly in the south) whose welfare systems are still at an early stage of development. For example Austria and Finland spend twice as much of their national incomes on pensions as Greece and Ireland. Nonetheless even the most under-developed welfare systems of southern Europe are at least twice as effective in relieving poverty as that of the US. In other words the EU is in a much better position than other world regions to deal with population ageing.

There are five main policy challenges posed by the ageing populations of the EU: ensuring economic security in old age; maintaining intergenerational solidarity; combating the social exclusion caused by age discrimination; providing long-term care in the context of changes in the family and residence patterns; and enabling older people to participate as full citizens. In view of the shortage of space I will illustrate the nature of the policy challenges with reference to two of these topics.

Ensuring economic security
Despite the remarkable record of the EU countries in promoting economic security in old age there are two major problems with the EU’s pension systems and a question about their future sustainability. The first problem is that there are big variations between countries in the levels of pensions and the extent of relative poverty (as measured by reference to average incomes and national social assistance schemes). These variations are reflected in the subjective opinions of older people themselves. While a large majority of older people in Europe describe themselves as financially secure—the range stretches from 89% in Scandinavia to 40% in Greece.

Secondly, regardless of a nation’s success in reducing poverty in old age there are continuing differences in living standards among pensioners and in some cases these are widening. The primary inequalities are based on age and gender and, of course, the interaction between the two. On the one hand there are inequalities in income between the recently retired and older age groups, the third and fourth ages. On the other hand women are more likely to live longer and are less likely to have full pension contribution records in employment and, therefore, are more likely than men to be poor in old age. This finding is consistent across all EU countries except the Scandinavian ones—older women represent some of the poorest and most socially excluded groups in the EU—both north and south. These generational and gender inequalities represent serious fault lines in the pensions and social protection systems of the majority of Member States. They seem to be indicative not simply of the lack of adequate protection given to certain groups of older people from bearing a disproportionate share of deprivation and the need for additional policy measures but, more fundamentally, they suggest that some of the pension systems themselves have contributed to the problem by excluding some groups, such as female part-time workers.

These differences within and between Member States represent a considerable challenge for the EU which has set itself the goal of achieving economic security in old age. It is facing this challenge at precisely the time when international agencies such as the Organization for Economic Co-operation and Development (OECD) and World Bank are warning against the economic costs of population ageing. Sometimes these warnings have been expressed in alarmist terms and the EU has seen a
certain amount of such rhetoric. But, for the most part, the debate in Europe has been calmer than that in the US and some other parts of the world, and the measures taken, or currently in train, to contain pension costs have been considered and modest—such as curtailing early retirement and raising pension ages.

No other EU country followed the UK government's example in the 1980s and early 1990s in making substantial cuts in state pension levels and in encouraging the rapid growth of the private sector.

The UK experience provides warning signs against the dangers of an unbalanced approach to pension provision and the risks involved in trying to change the institutional structure of a pension regime. Two main lessons may be learnt from the recent pension reforms in the UK. On the one hand there is the need for open public debate about the proposed direction of change. This was completely absent in the UK and, instead, what occurred was the ideological assertion that pay-as-you-go (PAYG) is unsustainable and that private is best. There was no discussion of the advantages of PAYG—for example their superiority with regard to the alleviation of poverty and creating social inclusion.

Nor were the disadvantages of funding ever discussed—including their low coverage (the much vaunted Chilean scheme covers only 52% of the workforce), inefficiency, high costs, high risks and double taxation in the transition from PAYG to funding. On the other hand there is the failure to adapt the British pension system to changing times and to enlist the support of younger generations. Ironically the UK pension system may have been more secure from political interference or more keenly defended if its rights had been more individualized.

Thus the UK experience provides some negative lessons for countries undertaking major pension reform. Of course private funded schemes have a role to play, but dangers arise when they are given a central role where they can act as an engine of social exclusion. These problems are likely to increase rather than decrease as the ‘post-modern’ working life is characterized by economic insecurity for a majority and gross insecurity for up to 40% of the working population. Many UK women in particular will be unable to accrue adequate pension rights through private funded schemes. In contrast the principle of risk-pooling under social insurance—modernized to minimize exclusions and to maximise individual ownership—seems even better suited to today’s labour market than it was when such schemes were first introduced in Europe. This seems to be the conclusion of the majority of EU countries which, despite widespread reforms, have retained the basic social insurance and PAYG features of their systems. For example, the new Swedish pension scheme represents a compromise between PAYG and pre-funding (or defined contributions) with 2.5% of the total 18.5% of employer and employee contributions being saved in a premium reserve. However, in central and eastern Europe, under pressure from the World Bank, privatization and pre-funding are the dominant approaches.

**The provision of long-term care**

Increased longevity is a sign of social and economic progress, including the successful intervention in death and disease by mainly public health measures. However, this means that there are more and more people who are likely to need some level of personal care or support. This realization sometimes leads to the conclusion that all older people require care. Of course nothing could be further from the truth. The reality in Europe is that most older people are relatively fit, healthy and able to look after themselves or to do so with only minimal assistance. Moreover if help is required it usually comes first from the family (female kin in particular). In the majority of EU countries the state plays a minor role in the care of older people, either as a direct provider or as a funder of care. But the need for care is rising and various changes in family composition and behaviour are restricting the supply of informal carers. This raises a number of crucial policy challenges.

Chief among them is the extent to which the family will remain the primary source of care for older people. As I have noted, all of the evidence shows the crucial role of the family in the care of older people but, nonetheless a perception has arisen that the family is less willing to care for its relatives than it used to be. In our EU-wide research in the early 1990s we found that this view was prevalent among older people themselves: one-third agreed strongly and one-third slightly that families are less willing to care for older relatives than they used to be. This finding is of the utmost importance because it points to a worrying perception among senior citizens, even if there is no objective evidence to support it. Or, at least, there is no evidence of a reduction in willingness to care but, as a result of the changes taking place in family structure and composition, it is less able to care in some circumstances.

The objective evidence about social contacts between older people and their families shows that there are frequent face-to-face interactions. In the EU, on average, nearly four out of five older people see a member of their family at least once a week. Nearly three out of four see a friend at least once a week. So the idea that older people have been abandoned by their families is a myth. However an increasing proportion of older people are living alone—varying from a low of 17.5% in Ireland to a high of 49.3% in Denmark. Some older people have no surviving relatives and there is a significant minority who suffer from loneliness. In fact, in Europe, there is a preference on the part of older people for separate dwellings, coupled with continued family interaction—intimacy at a distance.

The main policy challenge in Europe with regard to long-term care is how to fill the care gap left by the unique late 20th century combination of increased longevity and declining fertility. It is not realistic to expect the family to shoulder the sole responsibility for care, even in the still family-based care systems of southern Europe. The fear that providing support to families will weaken their commitment to care and result in a massive burden on the public finances has led some policy-makers to ignore the obvious fact that the family is changing rapidly and requires new forms of support if it is to continue to provide the bulk of care to older people. At the moment in the EU there are major variations between countries in their provision for long-term care, for example in the field of home care.

What is required then is an expansion of long term care support in the community, to enable care to be shared between the family and the formal sector. The most effective form of support is likely to be multi-skilled community workers who are capable of both basic nursing and social care tasks, thereby overcoming the common barrier between health and social care. Methods of paying for this expansion of long-term care are likely to be country specific. Thus, there are different models based on taxation (Scandinavia) and social insurance (Germany).
The German long term care insurance system and the proposals from the Royal Commission in the UK are designed to share the costs between the individual and society.

Policies in harmony or discord?

As these two case studies illustrate, there are considerable institutional and policy differences within what is commonly referred to as the ‘European social model’. On the pensions front, the UK is clearly demarcated from the rest as a result of the privatization policies pursued in the 1980s and 1990s. With regard to long-term care there are variations between the two extremes of the Scandinavian high quality public service model and the southern European family-based one. This suggests discord rather than harmony. That conclusion would be premature however, for two reasons. First, as noted previously, there are big differences between the EU and other parts of the world in terms of the quality of social protection. Second, although it is often a painfully slow process, the EU does have common goals and, in recent years, a process designed to ensure greater harmony in Member State’s policies.

The goal of economic security in retirement has been a commonly agreed part of EU law since the adoption of the Charter of the Fundamental Social Rights of Workers, in 1989, by all Member States apart from the UK. However, it was not until recently that a mechanism existed to assess progress towards common goals such as these (The European Observatories were early attempts at harmonization). Since 1998 however, the method of ‘open coordination’ is promising to become a successful way of encouraging policy convergence. The process starts with plans agreed between the Member States that are translated into guidelines and then the Member States report annually on progress. The method was first used in the employment field, for example, and appears to be resulting in a convergence of policies on older workers. It has been extended this year to social protection and there are common guidelines concerning social exclusion. Thus there is some prospect of greater harmony in the areas of employment, pensions and policies on social exclusion but not, as yet, of long-term care. Also the European Commission has been promoting a broad concept of active ageing, one which extends beyond the labour market towards a general life course strategy, and this has been picked up in several Member States, including the UK. Active ageing could provide the basis for the convergence of European policies on ageing.

There is also a concerted attempt taking place to ensure greater collaboration in research on ageing within the EU. Under the Fifth Framework Programme a new Forum for Research on Ageing has been created and this aims to bring together the key funding agencies and research centres in an attempt to co-ordinate research efforts and gain greater European added value. Extending quality life will be a key theme for this Forum (http://www.shef.ac.uk/uni/projects/gop/index.htm).

Conclusion

This brief review illustrates significant variations within the EU in the objective conditions of older people, subjective opinions, and in policy responses to population ageing. At the same time there are some shared goals and what appears to be a successful mechanism for creating greater harmony, at least in some policy areas. Unfortunately the political climate is not assisting the process of policy development in this field. There are very strong pressures for fundamental changes to the European social protection systems coming from international economic agencies, such as the World Bank and International Monetary Fund (IMF), and vested interests in the private pensions field. There is a conventional wisdom around that Europe cannot afford to age. I have argued that this is nonsense and that what is required are some adjustments to existing social protection systems to reflect changed circumstances. A policy portfolio consisting of extended working lives, healthy ageing and other preventative strategies designed to extend quality life would remove the need for any fundamental changes in social protection systems. If further changes are required it is imperative that these are debated openly and calmly and not in a climate of panic and alarm about the ‘burden’ of population ageing. Scientists have a key role to play in helping to create a climate conducive to rational policy debate and we must all do better at broadcasting the evidence about ageing.

References