Ageing, macroeconomic implications, and financing social policies in Europe

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United Nations, Department of Economic and Social Affairs
(1) Diversity in ageing across Europe – role of migration

(2) Ageing constitutes a challenge for the welfare state

(3) Increasing intergenerational inequality
Fact 1: Europe is aging

Graph I.1.9: Population by age group and gender, 2019-2070 (thousands)

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2019</th>
<th>2070</th>
</tr>
</thead>
<tbody>
<tr>
<td>65+ / (20-64)</td>
<td>34.4</td>
<td>59.2</td>
</tr>
<tr>
<td>80+ / (20-64)</td>
<td>9.9</td>
<td>25.7</td>
</tr>
</tbody>
</table>

Dependency Ratio (%)

Source: The 2021 Ageing Report
Fact 1a: Diversity in population change across Europe

East-West division in relative population change (in %) 1990-2017

Countries with fastest population decline globally (%), 1989-2019; comparison with EU-28 and Austria

Note: Only countries with population > 1 million in 2019 ranked

Source: European Demographic Data Sheet 2018; www.populationeurope.org
Fact 1b: Migration is the most important driver of population change

Population growth/decline in Europe, 1990-2017

→ East-West migration divide

→ w/in Central and Eastern Europe high diversity in migration

→ Reasons of outmigration:
  (a) opportunity to leave and work abroad
  (b) persistent economic disparities
  (c) violent conflicts and upheavals

Source: European Demographic Data Sheet 2018; www.populationeurope.org
The impact of emigration on economic growth

- Direct effect: less workers -> lower GDP
- “Brain Drain”: Emigrants from CESEE (Central, Eastern and SouthEastern Europe) tend to have a higher education than the general population.
- Emigration therefore lowers average productivity.
- Emigration of younger, more educated people poses a major challenge for healthcare, social security and pension systems in CESEE countries (IMF 2019).
- Without skilled emigration, productivity growth could have been significantly higher in some CESEE countries.

Vicious cycle of demographic, social and economic decline!
Fact 2a: Role of public sector in old-age provision in OECD

Public Pension Spending, % of GDP, 2019 or latest available

Fact 2b: Increasing expenditures on long-term care & health

Long-term care & health care spending are important drivers of age related expenditures in the future.

Pension reforms (reducing benefit ratio, increasing retirement age) relieve the burden on pension systems.

OECD – average effective age of retirement, 1970-2017

Source: Boeri and van Ours (2021)

Source: The 2021 Ageing Report

Income of the **young** decreased relative to income of the **older population** (except in Eastern Europe).

Source: European Demographic Data Sheet 2018; www.populationeurope.org
Fact 3b: The role of employment, wages and social transfers for age-specific income trends (2008-2017), Austria

Decomposition of income changes by age and gender 2008-2017 in %

→ Stagnating income for the young
→ Increasing per capita pensions and higher employment for the older population

Diversity in ageing implies diversity of challenges.

Role of public sector in old-age provision shaped by reforms & changing age structure.

Decreasing income of young and increasing employment & benefits for old
AGENTA Dataexplorer http://dataexplorer.wittgensteincentre.org/nta/


