

THE DEMOGRAPHIC FUTURE OF EUROPE – CURSE OR OPPORTUNITY? ON THE EXAMPLE OF GERMANY

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Abstract

This paper examines the current state and the projection of demographic development with its effects on the working generation. Population development in Europe varies from country to country. Overall Europe's share of the world population will continue to decline. The average age of people in Europe is the highest of all continents, and the trend is upward. As a result, less employed people will have to earn the pensions of more elder people. This paper expounds how these challenges can be met and what solutions can be pursued, whereby the focus is on the aspects (1) job market, (2) immigration and (3) pensions. Especially against the background that the financial burdens for the younger people are already high today and are unlikely to decrease. A look to several countries and their interesting approaches to this are mandatory. The question therefore arises if the demographic future of Europe is a curse or perhaps an opportunity. Because there may also be good news for younger generations - demographic change means increasing possibilities on the job market.

Key words: demographic; population ageing; labor economics

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Introduction

Demographic change is according to Statistisches Bundesamt (2017) a multi-faceted challenge for our society. Since the mid-1960s, i.e. after the generation of the so-called "baby boomers," fewer and fewer children have been born, while at the same time life expectancy is rising.

It is precisely because of these "baby boomers" that we are currently still experiencing a demographic prime. This is because they are now at an age when the highest lifetime incomes are generally achieved. On the other hand, they are also the first generation that did not provide enough children. In economic terms, this is still having a favorable effect at present, because

society has never had so few children to care for. In addition, more and more working people are currently filling the social security and state pension funds with their contributions.

In the medium term, however, this development presents us with the problem that a declining number of working people will have to pay the pensions and social benefits of an increasing number of older people.

Migration has also increased not only within Europe but also within Germany. This leads to different effects, as Wolff et al. (2018) have pointed out. In Germany, for example, centers in metropolitan regions such as Berlin or Hamburg are growing, while population figures are falling in more remote regions. In terms of population, however, there is a larger range of future developments. Assuming a moderate development in birth rates and life expectancy, the population would decline from 2040 at the latest, even if the net immigration remains permanently high. However, if, in addition to permanently high net immigration, birth rates continue to rise, the population would stabilize after the increase. According to Statistisches Bundesamt (2018) in 2060, Germany would have between 74 and 84 million people, depending on the development of demographic factors.

Even a rising birth rate and permanently high immigration will only be able to slow down the aging of the population and not prevent it. The number of people of working age between 20 and 66 is expected to decline by 4 to 6 million by 2035. Every tenth inhabitant will be at least 80 years old in thirty years (ibid).

According to Schwentke et al. (2014) in 2000, for example, there were 5,937 centenarians living in Germany; in 2010, there were already 13,198. The number of centenarians doubles approximately every eight years.

The age structure of the population has changed dramatically over the past 100 years. Around 13 million of the "baby boomers" will retire from the working life in Germany by 2031. This represents around 36% of the workforce. By 2030, almost a third of the population will be 65 and older. This will change the face of society. In an international comparison, Germany is the second oldest country in the world after Japan. In Japan, the average age in 2015 was 46.5 years, in Germany 46.2 years, followed by Italy with 45.9 years (United Nations 2016).

However, this development in population figures does not only affect Germany or Europe. It is almost typical for many developed countries in the World. As vividly described by Cajkova et al. (2021) even China, which has had tremendous growth in recent decades, currently faces many serious demographic challenges that pose a potential risk to the country's socio-economic development and stability. Comparable to Europe, the current demographic development and trend is characterized by a change in the reproductive behavior of the population,

characterized by a decline in birth rates, a change in family behavior, and a shift in the value system.

In fact, this century will be marked by enormous demographic transformations - worldwide. In an international comparison, the continent is an exception: While the population will increase in all regions of the world, especially in Africa, by the year 2100, it will more or less stagnate in Europe. However, this does not mean that Europe's population is aging and declining at the same rate everywhere. On the contrary, the consequences of demographic change are unevenly distributed, and a meaningful distinction can only be made between individual regions.

Europe's share of the world population fell from 13.3 percent to 7.5 percent between 1960 and 2005. This trend will continue. By 2050, only one in 20 people is expected to come from Europe, which corresponds to a share of five percent (ibid).

People's life expectancy has been increasing for decades, mainly as a result of economic, social and medical progress. In the European Union, a girl born in 2020 will have an average life expectancy of 84 years, a boy of 78 years (Rudnicka 2020).

1. Job market

Can the outlined problems be put into perspective, because rising productivity and immigration from abroad are available as solutions?

1.1. Issue

Increasing labor productivity, according to which an ever larger gross domestic product can be created with an ever smaller workforce, could be a helping factor in providing for the growing group of the older generation. As Kaltenbach (2017) claims the example of agriculture, which is repeatedly used to support the productivity thesis, according to which the 600.000 people employed in agriculture produce more food than the 5 million farmers of 1950, is based on a reduction of complexity: The value creation of the modern farmer is dependent on hundreds of helpers based on the division of labor - from seed producers, the chemical industry for fertilizers, agricultural machinery manufacturers, the slaughter industry, intermediaries, supermarket chains, etc. - whose statistics are reflected in other sectors of the national economy (manufacturing industry, trade, services, etc.). If the employees of these industries are added, the calculation can no longer be maintained in this way.

However, it is questionable whether productivity is going to increase with an aging workforce. In addition, an aging society not only needs more money to provide for the older generation, but especially needs employees in the areas of health care, nursing and disability. However, only partial productivity gains can be achieved in these personal services.

1.2 Upside

However, the fact that there are fewer people of working age in this country also means positive perspectives and increasing opportunities on the labor market. For example, the younger generation will most likely benefit from falling unemployment in the coming decades, as well as from a family-friendly working environment. This is because demographic change also brings with it greater competition for qualified workers. Qualified specialists are in high demand in most companies. Prospective engineers, IT experts, mathematicians, computer scientists, natural scientists and technicians, doctors and other health and nursing staff, as well as specialists in the hotel and catering industry are all in demand. Anyone who can complete a good education in these areas will probably have little to worry about in the near future.

Young families in particular will also benefit from demographic change. It has long been recognized that the valuable workforce of mostly well-educated women can only be won and retained if they can combine children and a career. With the introduction of parental allowance and the partnership bonus in Germany, fathers have many more opportunities to participate in the care and upbringing of their children. Women, on the other hand, will find it easier to return to work, at least part-time, as soon as possible after the birth of their children.

It is also crucial for the promotion of professional specialists that studying with a child should be easier in the future. At the same time, it is driving forward the expansion of publicly funded daycare facilities. Since August 2013, parents in Germany have had a legal right to a daycare place for their one and two-year-old children.

It can be noticed that the introduction of flexible working time models is progressing in company practice. Among other things, those involved have "full-time part-time models" in mind, in which women and men can better reconcile their professional careers and also the exercise of management positions with responsibility for their families.

Many companies have also realized that they can only retain their best employees if they accommodate them when it comes to working hours. The IT company SAP, for example, offers all employees a working time account. Employees can save up time there and take time off at a later date - so that they can perhaps devote themselves fully to their families for a while or fulfill other personal wishes.

The issue of productivity in itself has many facets: If more goods and services can be created with fewer people, this could indeed have a positive effect on a society with few young people. However, this would no longer be compatible with the outdated social security model - social security would then have to be uncoupled from the ever decreasing number of jobs requiring insurance and linked to a new assessment basis.

2. Immigration

2.1 Issue

A more family-friendly working environment is not the only opportunity that demographic change holds for young people. Because it's already clear: The population is not only getting older and fewer - it is also becoming more diverse. In order to avert the looming shortage of skilled workers, the focus is increasingly on immigration from abroad.

Immigration from EU countries to take up employment in Germany has certainly taken place in the years since the outbreak of the financial crisis and has also contributed to the employment boom in jobs subject to compulsory insurance (Olejárová et al. 2016). However, it is already foreseeable that many of these workers will move back to their home country once the economic situation there has improved. It is also doubtful whether the influx of qualified workers from Eastern Europe will continue, as these countries themselves have had a low birth rate for years and are already suffering from a shortage of skilled workers. A great Example is Slovakia, which has an increasing business activity for the last several years and the highest representation of micro-enterprises in the business sector in comparison to other EU countries (Mura et al. 2021). The question therefore arises as to whether immigration from non-EU member states can solve the problems of an aging society. However, a clear distinction must be made between qualified migrants, whom the host country itself selects according to certain criteria, and refugees who apply for asylum in Germany or seek protection status under the Geneva Refugee Convention.

According to the Degler et al. (2017), however, the professional integration of refugees is associated with considerable challenges, and research findings from European and non-European OECD countries show that the labor market integration of refugees is often a lengthy process. While employment rates of refugees increase relatively rapidly in the first five years - starting from a very low level - this process then slows down considerably until an upper limit is reached after 10 to 15 years, often well below the corresponding figure for the native-born population. This is consistent with the estimates of the Institute for Employment Research. As Bähr et al. (2017) estimate, in terms of qualifications, a wide spread is noticeable among the

refugees of 2015/16: On the one hand, a high proportion (64%) of them have no vocational qualification, but on the other hand, 27 percent have a (technical) university degree. In addition to the lack of language skills (77%), the employment rate of women is significantly lower than that of men.

Continuous moderate immigration of qualified foreigners would therefore be beneficial. But it is precisely these immigrants who are very difficult to attract, because they tend to opt for Anglo-Saxon countries - not only because of the language, but also because the costs of the welfare state are not so high there. Incidentally, immigration has very little influence on the age structure of the population, because migrants themselves also age and their initially higher birth rate quickly adjusts to the average in the host country.

2.2 Upside

Migration cannot stop demographic change, but the influx of skilled workers who are integrated into our society eases the negative consequences and can become an enrichment. Migration would basically help if the immigrants perform at least as well on the labor market as the native population.

If migration is to be viewed in terms of its contribution to social apportionment procedures, then continuous moderate immigration of qualified foreigners would certainly be beneficial.

But how would a classification as "professional" be made?

As a solution model for a classification of qualified immigration, a point system could be suggested according to the model of Canada.

In Canada, potential immigrants can create a profile with information about their qualifications, school education, language skills and age. Based on this information, a maximum of points is awarded. For example, interested persons between the ages of 20 and 29 receive 100 points, while a 39-year-old receives only 50 points.

This creates a "pool" of potential immigrants from which candidates are invited at regular intervals to formally apply for one of the immigration programs according to their qualifications. Of particular interest from a European and German perspective is the "Federal Skilled Workers" program for skilled workers. In this second stage, a points system is again applied, depending on the program. A maximum of 100 points can be achieved, but at least 67 points are required. For example, a maximum of 28 points is awarded for language skills, and up to

25 points for training. Further criteria are adaptability, work experience, age and prospective jobs (Braune 2018).

Immigration of these foreign professionals can only take place successfully if this group of people is offered appropriate incentives. This must not be limited to the monetary aspect. Rather, qualified immigration should be promoted through less bureaucracy in the integration process, through advertising with attractive pension models, through outstanding educational concepts for children, and through integration that is lived and not by exclusion.

More tolerance toward work colleagues from other nations would thus be another possible positive consequence of demographic change.

3. Pensions

3.1 Issue

The average age of people in Europe is the highest of all continents, and the trend is upward. As a result, less employed people will have to earn the pensions of more elder people. The financial burdens for the younger people are already high today. There is talk of a growing generation gap and sometimes also of the old exploiting the young and enjoying themselves at their expense.

But does this really mean dark future for the younger generation?

It is clear that demographic change will pose challenges for the younger generation. Today's society will change. Major changes are taking place in the area of pensions. Most people will probably find it difficult to maintain their accustomed standard of living in old age on the basis of the statutory pension alone, even after a 35- to 40-year working life. Those in work today have therefore long been expected not only to pay the pensions of those who are already enjoying their twilight years, but also to save for their old age and make private provision for long-term care insurance. According to Belyakov et al. (2021) the effect will occur, that in contrast to an unanticipated rise of longevity, consumers increase their savings and reduce their consumption long before the rise of longevity actually happens. This implies that individuals save more in anticipation of aging, which puts downward pressure on the interest rate and raises economic growth through an increase in R&D incentives. Irrespective of the anticipation effect, the economic change at impact is not smooth but still features a kink in consumption.

3.2 Upside

The big question is how to solve the problem that less employed people will have to earn the pensions of more elder people.

The most obvious solution to this problem is based on the known three possibilities:

Increase taxes

Increase the retirement age

Reduce pension payments

However, these three options are not very satisfactory. Especially since it must be assumed that these measures alone will probably not be sufficient to meet the current high standard of living against the backdrop of demographic change.

Up to now, the pension system (in Germany) has been based on three pillars: the state pension, a company pension and private provision.

The focus should therefore be on a fourth pillar - along the lines of the Scandinavian model:

Pension provision with equity investments.

For example, Sweden also holds equity funds with a high long-term return.

The Swedish model includes a basic state pension supplemented by a company pension and a private pension. Swedes must pay 2.5 percent of their gross income into pension funds. The fund products invest a high proportion of their income in global stock markets. According to the fund rating agency Morningstar, the AP7 fund is one of the best equity funds in Europe and has extremely low costs with annual fees of 0.11 percent. Over the past ten years, it has achieved an average annual return of more than 14 percent (Clement 2017).

Norway uses oil funds for basic security.

In Norway, too, the stock market plays an important role in providing security for the population. Here, a state stock fund ensures that Norwegians receive a guaranteed pension of currently the equivalent of 1,600 euros per month. The fund, which is fed by the country's oil revenues, is currently one of the largest sovereign wealth funds in the world, with a volume of one trillion dollars. In addition to the regular state pension, which is linked to salary, the Norwegians can also fall back on a second pension plan that is oriented to the capital market. Employers must invest at least two percent of employees' wages in this mandatory pension. As a rule, this is done via fund products managed by banks. These funds usually match the returns

of the global stock markets and achieve average annual returns of five to six percent; the best pension product has even achieved annual returns of around eight percent since 2005 (ibid).

4. The steps for successfully dealing with demographic change

The firm establishment of a strong "age strategy" is necessary in order to face demographic change head-on. But what measures are already necessary today?

Create framework conditions: for an age-appropriate working environment, especially for women and older people.

Integration management: The inclusion of migrants offers a good opportunity to strengthen the labor market with new qualifications. In addition, this facilitates integration into everyday life and new contacts are made.

Optimized working time models: This point not only concerns flexible working hours during the day. Flexible retirement and the option of regular time off such as parental leave or sabbaticals are also welcomed by employees. Today's world offers many opportunities for working time models to suit individual life phases.

Make hiring conditions age-independent: When hiring, the focus should be on qualifications, not age. This can also prevent a shortage of skilled workers in the company.

Adapt pension components: Fund products can be established as another pillar to ease the financial burden on the younger generation without having to resort to tax increases, pension deductions or an increase in the retirement age.

Conclusion

Longer lives and fewer children do not make pensions unaffordable. Whether the demographic burden is sustainable depends largely on the economic performance of an economy. This fundamental economic connection is systematically ignored by most 'pension experts'. If productivity per employee were to grow by only one percent per year, the gross domestic product per capita in 2060 would be one third higher than today. This means that productivity growth would have offset the estimated decline in the working population. Productivity beats demographics. Of course, the greater scope for distribution must also be exploited. If wages rise in line with

productivity, the contribution income of the pension insurance system bubbles up. The pension issue is therefore always also a distribution issue.

The decisive factor is not the ratio of young to old. After all, it is irrelevant for the generation of corporate earnings whether there is a birth rate in the population that will maintain the workforce. The decisive factor is whether the labor needs of companies on the domestic and European labor markets are currently being covered and will be covered in the next economic period. For this purpose, it is not important whether the labor force consists of domestic citizens, persons from EU member states or from other countries. What matters is whether the economy is willing and able to employ a sufficient number of (qualified and flexible) workers for an adequate insured wage or income (and thus at a cost to the company), if possible on a permanent basis.

In this context, the frequent blanket statement that a state "cannot be financed on a sustainable basis if the working population shrinks" is not accurate. Rather, the decisive factor is the "productive economic power" and the total amount of income reflected in it that is subject to contributions - and by no means only the absolute number of people who earn it.

For this reason, demographic change should not be seen as a nightmare to be prevented, but as an opportunity for the younger generation.

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