



## EUROPE'S COMING DEMOGRAPHIC CHALLENGE: UNLOCKING THE VALUE OF HEALTH

By Nicholas Eberstadt and Hans Groth

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As Western Europe's fertility rates stagnate and its citizens age, the region's working-age population will soon peak, and could decline by as much as 8 percent by 2030. If Europeans wish to remain economically competitive and enjoy continuing improvements in living standards, they must act now to avoid this demographic recession. In *Europe's Coming Demographic Challenge: Unlocking the Value of Health* (AEI Press, December 2007), demographer Nicholas Eberstadt and health scholar Hans Groth, M.D., present an innovative solution which, if implemented, could slow—and even reverse—Western Europe's pending economic problems by taking advantage of the healthy aging of its population, as its workers exhibit great potential to remain productive at advanced ages.

In today's economy, human capital has come to replace natural resources as the driving force behind economic growth—and health may be the most critical component of that resource. The present generation of Western Europeans aged fifty to seventy-four is more physically robust and mentally alert than any preceding generation, not to mention the most highly educated and best-trained such cohort the continent has ever seen.

Unfortunately, there are social and economic policies driving these workers away from the labor force, most notably disincentives for working at older ages in the form of perverse and hostile tax regimes. Ending this discouragement of work is an obvious and necessary step to unlocking the value of health over the coming generation for the people of the region.

Through rigorous statistical analysis, Eberstadt and Groth describe Western Europe's current demographic trajectory:

- In the very near future, deaths in Western Europe will equal and then surpass births. Expensive pronatalist policies have not succeeded; although immigration may help bolster the workforce, it too is no panacea for the region's demographic woes.

- Western Europe's population of thirty- to forty-five-year-olds—a group often associated with invention and innovation—stands to decline in size by 18 percent by 2030. The group with the most training, those between fifteen and twenty-four, is projected to shrink by 40 percent over those same years.
- While Western Europe's life expectancy grows and its health profile improves, on the whole, citizens have been devoting *all* of their increased life expectancy to leisure time. Time spent in retirement by Western Europeans has increased steadily over the past forty-five years; today, retired life expectancy exceeds twenty years for men and twenty-five years for women in some European states.

The authors demonstrate that Western Europe must reverse its current retreat from paid work at older ages if it is to capitalize upon the advantages offered by a healthy older working population in a human capital-intensive economy.

- Western Europe must revise tax and pension policies that punish workers who opt for later retirement. In much of Western Europe, citizens who elect to work beyond the age of fifty face steep financial penalties. Italy, France, Belgium, and Luxembourg all have an “implicit tax” on continuing work into one's late fifties (in the form of foregone pension payments and additional pension taxes) that is upward of 45 percent. Not surprisingly, labor-force participation rates drop accordingly.
- Europeans must also address employment policies responsible for labor force inflexibility, low skill use and insufficient skill maintenance, and a health care system focused on containing the costs of expenditures rather than minimizing the cost of illness and disease through investment in medical research and innovation.
- If labor-force participation rates for people over fifty were even to match the highest prevailing levels in other developed nations, Western Europe's workforce would actually *grow* by more than 0.5 percent.

In *Europe's Coming Demographic Challenge: Unlocking the Value of Health*, the authors thoroughly examine the region's demographic transition, the phenomenon of the “underworked European,” as well as the current policies that prevent the region from benefiting from its health advantage. Eberstadt and Groth lay out an important framework for social and economic policy changes that could guarantee Western Europe's economic vigor for decades to come.

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