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Healthy Old Europe

Nicholas Eberstadt and Hans Groth

The population of western Europe is aging steadily, and the region's birthrate is well below the replacement level, but Europe's elderly are exceptionally healthy. That means they could be more productive for longer than their predecessors were. If western European governments learn to tap this potential, healthy aging could become the region's next great economic asset.

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Healthy Old Europe

Nicholas Eberstadt and Hans Groth

AN UNTAPPED ASSET

OVER THE past generation, western Europe has fallen behind in its long-term economic competition with the United States. Since 1980, the United States' total GDP growth has outpaced that of the EU-15 (the 15 states that belonged to the European Union then) by an average of 0.8 percent per year. Social and economic policies are, of course, partly responsible for western Europe's economic deceleration. But demographic trends have also had a major influence. As is widely recognized and commonly bemoaned, the population of western Europe is steadily aging, and the region's birthrate, looking ever more anemic, is well below the replacement level. The specter haunting western Europe today is the prospect of inexorable demographic decline.

But whatever the demographic challenges, the economic implications of western Europe's population outlook are by no means unremittingly bleak. Western Europe's aging population is exceptionally healthy. As a result, western Europeans are more capable of remaining productive into their advanced years now than they used to be, and perhaps even more so than their American counterparts.

Western Europe could reap economic benefits from the healthy aging of its population. But to capitalize on these incipient opportunities, western Europeans will have to change the way they choose to live and work today. If they hope to remain economically

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competitive in the years ahead—and wish to enjoy continuing improvements in living standards—western Europeans must face the continent's new demographic realities squarely. Otherwise, they will in fact be resigning themselves to slow growth, stagnation, or even long-term relative decline.

BABY BUST

IN 2005, the population of western Europe was larger than that of the United States by nearly 100 million people; by 2030, it is expected to be greater by just 35 million. Whereas the U.S. population is anticipated to grow by over 65 million during that period (implying a robust rate of increase of about 0.8 percent per year), western Europe's population is expected to remain virtually stagnant (growing by less than one percent over the entire 25-year period). A divergence in the structures of these populations is also under way. In 2005, western Europeans outnumbered Americans in virtually every age group, exceeding Americans by 37 percent among people of prime working age, between 35 and 49 years old. By 2030, however, there will be nearly as many Americans as western Europeans in the 35-to-49-year-old category and many more Americans under the age of 30.

Western Europe beats the United States only in the 80-year-plus age group. In 2005, western Europe's population was already grayer than the United States': its median age was about 40, compared with 36 in the United States. And while the median age of western Europeans is expected to rise by an average of two days every week between now and 2030, reaching close to 47 years by 2030, the median age of Americans is projected to be just 39 years by then—still less than that of western Europeans today. By 2030, one-fourth of western Europeans will be 65 years old or older, and the population of senior citizens will be close to twice the size of that of children under 15. In the United States, on the other hand, older citizens will account for less than one-fifth of the total population in 2030, and children will continue to outnumber them.

Equally noteworthy are trends within the work force. In western Europe, the population of those in the "economically active ages"—conventionally defined as 15 through 64—is set to shrink over the coming generation. According to projections by the U.S. Census Bureau, western Europe's economically active population will decline by over 20 million people—over eight percent—between 2010 and 2030. In the United States, by contrast, although the share of economically active people in the overall population is also slated to decline, that group is projected to increase by over 20 million people over those same two decades. Partly as a result, the ratio of working-age people to senior citizens in western Europe is set to drop from about 3.8 to 1 today to just 2.4 to 1 in 2030, compared with 5.4 to 1 in the United States today and 3.1 to 1 in 2030.

To make matters worse, the demographic structure within the working-age population of western Europe is changing in ways that augur poorly for the region's productivity. In every society, innovations, inventions, and breakthroughs occur disproportionately among people between 30 and 44. According to the Northwestern University economist Benjamin Jones, the overwhelming majority of Nobel laureates in physics, chemistry, medicine, and economics and of inventors granted major patents over the past century accomplished their most memorable achievements at some point between those ages. And the 30-to-44-year-old cohort in western Europe is set to shrink by 20 percent by 2030, from 91 million to 72 million. By contrast, that pool is expected to grow, albeit modestly, in the United States, in the years ahead, from about 64 million in 2005 to around 69 million in 2030. Even though the physical location of knowledge creators arguably counts less in the Internet-connected world economy than ever before, it continues to matter because everyday on-site innovations are still needed in the workplace.

Another problem, portentous but seldom discussed, is the shrinking pool of young adults—a population critical to improving productivity because it tends to embody the newest, cutting-edge training. In Germany, the number of 15- to 24-year-olds is expected to drop by over 40 percent between 1980 and 2030. In 2030, western Europe will count 71 people between 15 and 24 years old for every 100 people between 55 and 64 years old. (In the United States, the ratio will be about 120 to 100.) It will become less and less possible to improve the labor force in terms of overall technical ability by replacing elderly workers with better-trained youthful ones.

TO BE YOUNG AGAIN

EACH OF these impending demographic developments will complicate western Europe's quest to maintain economic growth. Wishing for things to be otherwise will not alter this outlook—nor, for that matter, will taking more practical steps today. Indeed, even if there were a concerted policy effort, the prospects for reversing, or even curbing, the trends seem slim.

In 2005, according to the EU statistical service Eurostat, western Europe's death toll almost matched its birthrate. The point at which the number of deaths will exceed the number of births in western Europe, making the continent a "net-mortality society," is close—perhaps as close as 2007, according to some estimates. The U.S. Census Bureau projects that by 2030 there will be four deaths for every three births in western Europe (compared with two deaths for every three births in the United States). Most projections today suggest that immigration will keep western Europe's net population in rough balance over the coming generation. Official numbers from both the United States and the EU currently envision the net inflow of immigrants into western Europe being around 700,000 a year by the year 2030 (down slightly from levels over the past decade). But with the widening imbalance between births and deaths, even this continuing stream of newcomers would merely postpone the region's inevitable population decline. Even with the projected immigration, western Europe's population will be shrinking by 2030—by about half a million people a year according to the U.S. Census Bureau and by somewhat less according to Eurostat.

Although these projections are just that—projections, to be quibbled with and challenged—they reveal just how unyielding some of the demographic trends are likely to be over the coming generation. Consider the prospects of western Europe's birthrate. Low as they are, the U.S. Census Bureau's projections might be described as optimistic since they posit that there will be a limited increase (rather than a continuing decline) in childbearing, from current levels of roughly 1.5 births per woman to a notional 1.6 births per woman in 2030. Admittedly, these figures are what demographers call "period" fertility rates—a snapshot of childbearing patterns for all women in a given calendar year—rather than "cohort" fertility rates, which measure the fertility of the cohort of women at the end of their childbearing years. In 2004, the fertility rate across women of all childbearing ages in the EU-15 was 12 percent lower than that of the cohort of women born in 1965, who were reaching 40 years of age. The disparity might indicate that western European women are just postponing having babies—but then again, it might not. Thanks to a dramatic drop over the past generation in the percentage of women under 50 who marry and an equally dramatic rise in the percentage of married women who divorce, there is more downward pressure on family size in western Europe today than a decade or two ago. Moreover, achieving sustained and significant increases in fertility through government policy is extraordinarily difficult and expensive. Pro-natalist measures have been surprisingly ineffective over the long term. Two French economists recently concluded that spending tens of billions of euros in subsidies might raise fertility rates in France by just 0.1 birth per woman per lifetime.

Western Europe also has fewer options in terms of immigration than might first be assumed. On the one hand, significantly reducing the net inflow of newcomers to western Europe could be economic folly since immigration slows down population decline and overall aging. According to Eurostat's calculations, with no immigration at all between 2004 and 2030, the EU-15's total population in 2030 would be about 27 million smaller than according to current projections, and almost 20 million of that loss would be among those of working age. On the other hand, increasing immigration could also be problematic since western Europe has not yet devised a workable general formula for turning newcomers from overseas into loyal and productive citizens. This is not to deny the many success stories in recent waves of immigration into western Europe. Much of what one does not hear about in the media today is how most newcomers are working hard to fit in. But with Islamic radicalism and other less extreme problems, such as criminality, welfare dependence, and the difficulties of social inclusion, already in evidence among various immigrant communities in the region, more immigration into western Europe could challenge social cohesion and perhaps even domestic security. Counting on young immigrants to stoke western Europe's economic engines assumes that they will join the work forces of their host countries, which might not be the case for particular waves of new entrants to western Europe.

Furthermore, young and educated western Europeans might leave Europe in the future if they believe that stability and economic prospects at home are threatened—perhaps by poorly assimilated immigrants themselves. According to some estimates, the Netherlands, which registered a net inflow of immigrants in 2003, was experiencing net out-migration by 2005, the year after the widely followed murder of the filmmaker Theo van Gogh by an Islamist. Given the complex interrelationship between immigration and emigration, western European governments might find themselves struggling fruitlessly to fine-tune population flows over the coming generation. Immigration law is a prerogative of the state, but governments may have scarcely more latitude in altering local migration flows than local birthrates.

HALE AND HEARTY

WESTERN EUROPE does possess one clear demographic advantage over the United States: its population, while relatively old, is also unusually healthy. And this factor is critical to economic competitiveness, since growth today is driven more by human resources than by natural ones. Good health not only improves the physical capabilities of workers, it also facilitates the learning and retention of skills that bring such high returns in the information age. Health equals wealth.

Although mortality rates are not inherently a measure of ill health among the living, a population's longevity is typically an excellent proxy for both its general health and its economic potential. In fact, every additional year of life expectancy is associated with roughly a seven percent increase in GDP per capita. This relationship between health and economic potential is subtle and complex, but the positive correlation between them has been observed both across countries at any point in time and within the same countries over time.

Fortunately for the people of western Europe, longevity and good health are precisely the areas in which the region enjoys an edge over most of the rest of the world, including the United States. Overall life expectancy in the United States is a year or so shorter than in western Europe and three to four years shorter than in western Europe's healthiest (and wealthiest) countries, such as Norway and Switzerland. In 2003, life expectancy at birth for American men was 74.8 years, compared with 76.0 years for men in the EU-15; for women, life expectancy at birth was 80.1 years in the United States, compared with 81.7 years in the EU-15. Within the EU-15, only Portuguese men and Danish women live shorter lives than their American counterparts. The United States fares less well, too, according to the "health-adjusted life expectancy" standard now favored by the World Health Organization, which estimates the number of years one lives free from disability and debilitating illness. By that yardstick, the populations of the EU-15 live healthily an average of two years longer than do Americans. Some western Europeans—such as the Swiss—do so for an average of four years longer.

Such favorable health conditions bring contemporary western Europe competitive advantages. For example, western Europeans have distinctly better odds of surviving their working years than do Americans. In 2002, according to the most recent available data, a 20-year-old American faced an 18 percent risk of dying before turning 65, compared with 14 percent for a German and 12 percent for an Italian at that age. Such a difference in prospects affects a country's economic potential, not least because longevity shifts people's cost-benefit calculus about whether to pursue higher education: the prospect of living longer generally encourages investment in learning and skills and thus facilitates higher productivity.

Another economic benefit of healthy aging is that longer and healthier lifespans mean more vigorous senior citizens. The payoff would come not from putting great-grandparents to work but mainly from greater productive activity among people in their 50s and 60s. The generation of western Europeans currently 50 to 74 years old is more physically robust, and better educated and trained, than any before in that age group in the continent's history. The health and education of similarly aged cohorts in the future can be expected to increase further over the next quarter century—even as ordinary working conditions in western Europe's knowledge-based and service-driven economy continue to become less arduous. All of this could make for an upsurge in economic activity among older western Europeans.

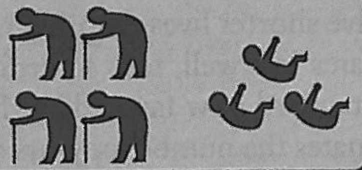
Ronald Lee, a professor of demography and economics at the University of California, Berkeley, has found that in 2000 only Americans

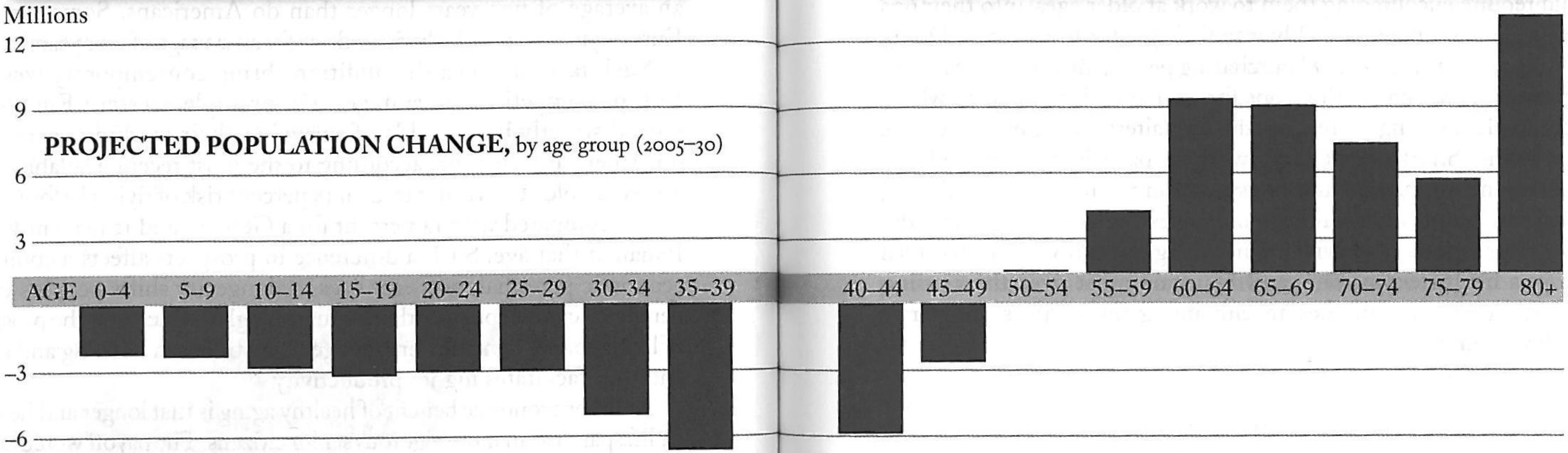
Aging Well in Western Europe

1 FEWER YOUNG

An anemic birthrate means that the pool of western European workers will shrink significantly by 2030—by nearly 16 percent for the cohort aged 15–49.

In 2030, there will be 4 deaths for every 3 births





2 MORE ELDERLY

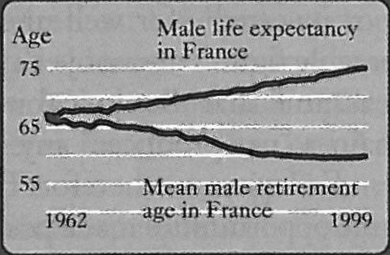
Meanwhile, the pool of older people will increase massively because they are expected to live longer. But they will also be healthier, and more productive senior citizens could bring an economic upsurge.

Healthy Life Expectancy, 2005

U.S.	69.3
France	72.0
Italy	72.7
Switzerland	73.2

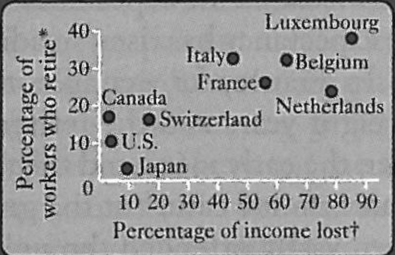
3 LESS WORK

So far, however, western Europeans have translated their increased longevity into more leisure time. Throughout the region, especially in France, the average age of retirement has fallen over the past generation.



4 ONE SOLUTION

A larger percentage of older people leave the work force in western Europe than in other rich societies because of various financial penalties. Changing those incentives could stem the tide.



KARL GUDE

SOURCES: U.S. Census Bureau, International Data Base, 2006; OECD, 2002, 2004, and 2005; Human Mortality Database.

*Among male workers aged 50–59 in 2004.
†Income lost to taxes and lost pension payments, for example.

between the ages of 25 and 58 generated more in labor earnings than they consumed (through private and state spending); in other words, Americans were producing a surplus—which could then be spent, saved, or invested—for well under half of their expected lifespans. Comparable figures are not yet available for western Europe, but it is fair to assume that the typical western European citizen is unlikely to remain a "net producer" any longer than the average American. Western Europe must therefore figure out how to capture some of the economic opportunities made possible by healthy aging by lengthening the time during which western Europeans are net producers. This would require encouraging them to work at older ages, into their 60s for this generation and possibly into their 70s for future ones. Doing so would raise average overall purchasing power, making society more prosperous, and increase the scope for savings and investment, which could accelerate long-term growth. The alternatives, moreover, are unappealing. Short of extending workers' participation in the labor force, balancing income and consumption would require reducing either consumption or savings and investment—or reducing the elderly's prospects of survival. Unlocking the full value of western Europe's health explosion—and maintaining it over the coming generation—is thus the key to enhancing the region's prosperity and development.

LA DOLCE VITA

YET, OVER the last generation, western Europeans have translated all of their increased life expectancy—and then some—into leisure time. As life expectancy has risen steadily, the average age of retirement has fallen. In France, for example, the life expectancy of men rose by about eight years and the retirement age fell by about seven years between the early 1960s and the turn of the century. France is admittedly an extreme case, but the great final vacation that is retirement has been vastly extended throughout western Europe. Never before have older Europeans been so healthy, and yet never before have they worked so little. According to the Organization for Economic Cooperation and Development (OECD), between 1970 and 2004, the expected average length of retirement increased by about nine years in Germany and by about ten years in Spain. Over that period, the length of pensioned life for men and women in some western European countries fully doubled.

This massive extension of paid retirement has been accompanied by a headlong flight from paid work at older ages. In 2005, according to the International Labor Organization, only about half of Greeks in their late 50s were economically active; in 2004, less than one Austrian in eight worked into his or her 60s. The government in Denmark no longer even bothers to collect labor data on people over the age of 66. (One partial exception to this western European trend seems to be Switzerland, where gains in health and longevity appear not to have automatically translated into more leisure.) Throughout western Europe, the radical extension of life as a pensioner has been caused not only by improvements in the elderly's health but also by aging workers' early retreat from the labor force.

Contrast these developments with patterns in other affluent OECD societies. Although in the United States, Japan, and South Korea labor-force participation at older ages has also declined as prosperity has increased, a major gap now separates these countries from prosperous western European ones. The labor-force participation rate for people in their late 50s is fully 30 percentage points higher in the United States than in Italy. The participation rate for people in their early 60s is over three times as high in Japan as in France, even though the per capita incomes of the two countries are roughly comparable, and over seven times as high in South Korea as in Germany.

The trend in western Europe is particularly ill timed. Projections by the OECD suggest that if other current trends continue, the European Union's labor force will shrink by about 0.2 percent a year between 2000 and 2030, and the 50-year-plus cohort will be the region's only growing pool of potential manpower over the coming generation. Indeed, while the number of western Europeans between the ages of 15 and 49 is projected to decline by nearly 16 percent between 2005 and 2030, the cohort aged 55–64 is projected to grow by almost 25 percent, and the cohort aged 65–74 by just under 40 percent. If only western Europe managed to welcome some of its older citizens back into the work force in the future, the decline in its labor supply could be not only fully halted but actually reversed. If western Europeans over 50 years old were persuaded to work as long as their most economically active peers already do in OECD countries such as Japan, Europe's labor force would actually grow through 2030. In fact, by 2030 it would be as much as 26 percent larger than currently expected.

This little-understood fact is absolutely central to the task of enhancing western European prosperity and competitiveness. Such an expansion of the western European labor pool would have a tremendous impact on economic growth in the region over the coming generation; it could mean the difference between prolonged stagnation and steady progress. To be sure, the capabilities of some older workers might not match those of their younger colleagues, especially in jobs involving problem solving, quick learning, and technological savvy. Even so, senior citizens could make substantial contributions to western Europe's prosperity and competitiveness in the decades ahead. By translating their improved health into additional wealth, older Europeans would enrich themselves, younger Europeans, and Europeans yet unborn.

LIVE LONG AND PROSPER

ENCOURAGING OLDER people to work is an obvious and necessary step to unlocking the economic potential of good health in western Europe over the next generation. But it is only one step on a much longer and more tortuous path. Making fuller economic use of this comparative advantage will require nothing less than a fundamental reexamination of many basic policies, especially regarding labor markets, education, and health.

The structural problems of contemporary western European labor markets are not exactly a secret. Western European economies are characterized by strikingly high levels of unemployment and remarkably long spells of idleness for the jobless. (As of 2005, the percentage of the unemployed who had been out of work for over one year was less than ten percent for Canada but nearly 44 percent for the EU-15.) And these problems have resulted from policies of design. Most western European governments have made it expensive for employers to hire new workers and difficult to fire existing ones. The situation is especially hard for would-be older workers: they are seen as profit killers because customary seniority rules mean they are entitled to benefit packages whose value often exceeds that of their productivity. In fact, part of the reason older Europeans have fled the work force is the hostile tax regimes and other government disincentives they face. In much of western Europe, workers who elect to stay in the labor force after the age of 50 face steep financial penalties. In Portugal, pension taxes and lost pension payments can amount to 50 percent of one's income; in France, to over 50 percent; in Belgium, to over 60 percent; and in Luxembourg, to an astonishing 85 percent. Not surprisingly, the attendant drop-off in labor-force participation rates is sharp. In Luxembourg, less than 47 percent of 55- to 59-year-old men work, compared with about 76 percent in the United States and Japan, which place minimal penalties on continued work.

Furthermore, thanks to a sort of zero-sum thinking, many western Europeans believe that a job offered to an older worker is a slot taken away from a younger one. Although that reasoning overlooks the fact that any productive work generates more wealth, more demand, and more jobs, it is no less prevalent for its manifest illogic. If western Europe hopes to benefit from its growing pool of older workers, its labor markets must become far more flexible, and economically rational, than they are today. Less cumbersome regulations and less costly obligations would make it more attractive and less risky for potential employers to hire all prospective workers, including older ones. As part of a greater rationalization of western European labor markets, some orderly transition to a pension system with a greater measure of direct personal responsibility in the financing of retirement would also be in order.

In education, western European societies face a qualitatively new challenge: effecting a steady rise in technical attainment despite the population's aging. Although the future promises to bring the best-qualified cohort of senior workers that western Europe has ever seen, skills and training cannot be allowed to stagnate in a rapidly changing knowledge-based economy. Some on-the-job training will always take place, but a more deliberate strategy for constantly upgrading the capabilities of all workers, including older ones, would be beneficial. At the moment, "lifelong learning" is a slogan, not a practice, in western Europe. To support real continued education, the continent needs to undergo a systematic shift not just in its policies but also in its underlying culture.

And then there is the question of health care. Medical and health services already absorb a substantial share of total expenditures in modern western European economies. With pronounced aging expected, those outlays promise to rise in the years ahead, possibly even more rapidly than they have in the recent past. Still, widespread apprehension that the cost of health care will soon become unmanageable is misplaced: after all, in economies powered primarily by human resources and human capital, the cost of medical care must be seen as an investment and assessed in terms of the economic value of health.

The medical sector and the life-science industries should be seen as undergirding an increasingly health-dependent, and health-intensive, economy; and to capitalize on its edge in health matters, western Europe must continue to support them. (Does anyone worry that fixed investments in machinery and equipment account for a much higher percentage of national output today than they did a century ago?)

Furthermore, in the medical realm, as in other economic sectors, promoting research and innovation now could improve quality at a lower cost later. Advocating greater investment in health is no automatic endorsement of any given health-care policy, life-science project, or proposed outlay; each must be assessed and justified in its own right. But it does mean recognizing that with new economic opportunities arising from the healthy aging of western Europe's population, the economic returns of investing in health could be very high indeed.

Is western Europe doomed to steadily lose ground to emerging competitors a generation from now? Its demographic pressures are undoubtedly heavy, and without a creative response they will weigh down on the continent's future. But relative economic decline is by no means inevitable for western Europe. Although its population is aging, the continent need not become a glorious rest home or a genteel but fading open-air museum. There is another way.