

## Demographic Jigsaw: Puzzling Out a Resilient EU

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*This policy brief outlines the complexities and implications of Europe's demographic shifts and highlights the need for multifaceted policy interventions to address these challenges effectively.*

*It draws from the three workshops organised in the fall 2023 by the Egmont Institute on the impacts of an aging population and shifting demographics. These workshops delved into the nuances of demographic shifts, covering human capital, territorial approaches, and global perspectives. Key areas of intervention are analysed for the way ahead and include flexible education, gender equality, policies for territorial development, and technological innovation.*

In December 2019, for the first time, the President of the European Commission Ursula von der Leyen assigned a portfolio containing demography as a policy area to Vice-President Dubravka Suiča. As the predictions for the European Union are currently looking at a continent whose population median age is rising increasingly fast, the mission letter tasked the Vice-President to lead the response to the challenges presented by the demographic shift. The modus operandi indicated was to be supporting all the groups concerned - especially the children, the old and those living in rural areas.

However, this portfolio's objectives were not supported by an EU-specific competence to act on demography, nor a dedicated budget or service in the Commission. Also at Member States level, this matter remains scattered around different national ministries dealing with health,

territorial planning, regional, interior, among others. Nonetheless, the different areas and groups of the population impacted by demographic changes have presented in the past four years multiple entry-points for the European Commission to promote initiatives such as: the care strategy, the child guarantee and lastly the demography toolbox.

This multi-faceted approach has also guided a series of three workshops on the consequences of the EU's demographic shift at the Egmont Institute. Informed by expert insights, three workshops taking place during the fall 2023 provided the base for identifying key points of action to tackle the consequences of demographic change, dealing more specifically with **human capital** and **territorial approaches**, as well as the global and **geopolitical perspective**. Other areas of interest such as the impact of demographic change on the budget of Member States, their fiscal capability to adapt to changing needs related to age, as well as the interlinkages with climate change are extremely important elements to be taken into consideration, and discussed in depth, yet they are not in focus within the scope of this brief.

### EGMONT WORKSHOPS: PREPARING THE EU FOR DEMOGRAPHIC SHIFT

The inaugural workshop discussed Europe's changing demographic trends in the context of human capital and their future impact on the labour market. The increased longevity of citizens allows for a re-evaluation of the approach to the education cycle and professional training. The skills available to the workforce vary across generations as younger people tend to be more

updated with digital skills, while older workers hold long and precious experience in their fields. This brings up questions of life-long learning and re- and upskilling throughout the career span of individuals. Furthermore, it pushes policymakers towards reconsidering the use of old-age dependency ratio - namely the share of citizens above the age of 65 relative to the working age population - to reflect the changing productivity brought on by improved longevity. Finally, the workshop had a focus on the long-term care (LTC) workforce and the current and future difficulties of this sector, as well as citizens' concerns regarding their care needs.

The second workshop in this series focused on exploring the impact of ageing and depopulation on both small villages and big cities, highlighting how EU citizens are affected by demographic changes at the smallest geographical scale in their daily lives. The discussion emphasized the adaptation of territories to demographic shifts and the diverse tools developed at the local level. A variety of approaches, from age-friendly city networks<sup>1</sup> to on-site initiatives like one-stop shops and mobile clinics, showcased how local actors can and do respond to phenomena like the ageing of the population or the depopulation of remote areas. Local responses range from trivializing the consequences of demographic change to generalizing the responses, but in some cases, they also aim at fostering the overall resilience. Most interestingly, they prompt new developments that could inspire future policymaking.

The final workshop delved into the historical overview of population changes, placing the European context into the rest of the world's. As the continent is confronted with a decreasing fertility rate, and eventually an overall shrinkage, EU and Member States' policymakers need to focus on how this impacts the EU and its geopolitical might. As the direction in which the EU population changes is a new course of history, the success of this longevity should not be underestimated and feed the new perspectives on how to harness it. An expert global survey revealed the different approaches that different parts of the world adopt on population policies, where diverging visions are often linked to contrasting fertility rates.

## KEY AREAS OF INTERVENTION

Along the discussions summarised above, several key domains emerged as being important to be acted upon at all levels of government and policymaking. An adaptive education system, inclusive labour policies, care, regional policies, and structural interventions to prepare the citizens, businesses, and government to harness the potential of technological developments appeared to be crucial domains of intervention for the EU and its Member States to adapt society and economic models to face the challenges of the demographic shift.

### *Flexible education and inclusive workplaces*

**Education** will play a fundamental role in the adaptation. In fact, when thinking about how our workforce comes into shape in current societies, we know that we have a period of full-time compulsory education that has an average length of 10-11 years in the EU-27 and lasts until 15-16 years of age.<sup>2</sup> The duration of the working life expectancy is calculated starting from 15 years old and is now on average 36 years.<sup>3</sup> As data shows, the expected duration of the working life has not ceased to grow for men and women steadily for the past 20 years. The reflection made is that the existing career cycle was shaped when life expectancy was on average 65-70 years and encouraged individuals and companies alike to make the most of their healthiest and most productive years.

The increase of life expectancy, and most interestingly the improvement of the health and cognition conditions for EU citizens during a longer period of their lives,<sup>4</sup> allows to rethink this paradigm and create a **more flexible and adaptive work life span**. On a longer period, the workers can express different skills at various stages of their careers, and at different ages. Several companies, in adapting to both the ageing of the workforce and the widespread shortages in certain sectors, have taken steps towards re-training employees to match both the new unmet needs, and the desire of employees to learn new skills.<sup>5</sup> In addition, they have started the adaptation of their management

by thinking holistically about having a workforce composed by 3+ generations at the same time. This latter is called **'generation mix'** and includes activities of re-and up-skilling for different skills levels, as well as and equally important, activities of motivation for senior workers. They further include bi-directional activities of mentoring: it is not just about teaching a 60+ year old colleague how to convert a document into PDF format, but also helping young workers improve their sense of belonging to companies, as the retention of younger workers is often more uncertain.

### ***Gender equality and care needs***

Along with others, the above-mentioned approaches fed into the concept of **'diversity management'**. This process is intended as a combination of strategies aimed at achieving a better representation of all population groups in the workforce<sup>6</sup> and it is essential to shape workplaces for their users and not the other way around. In addition, as an increased **participation of women to the labour market** is seen as another part of the solution to the shrinking workforce, these strategies as part of investment on the preparedness of the human capital cannot be gender blind.

Although women are expected to live longer years, their career expectation is on average shorter than for men. **Gender disparities** related to employment, pay, and pension gaps, as well as old age poverty, remain a dire reality, and the EU is not on track for halving its gender employment gap narrowed by 2030.<sup>7</sup> Although the pay gap has steadily decreased in the past years, in EU Member States women still earn 12.7% less than men on the hourly earnings. This is often explained through the lenses of occupational segregation: women form the overwhelming majority in jobs that are historically low paid. A key example is in the care sector, where according to a recent study OECD on the LTC sector, women represent 88% of all personal care workers but they earn on average only 70% of the economy-wide average wage.<sup>8</sup> If the increased participation of women to the workforce is seen as one tool at hand to adapt to the demographic shift, then it is of essence to keep

closing the pay gap and the persistent low earnings in sectors in which women are the majority.

Another necessary step is to look these gaps on the longer-term perspective of how they contribute to the **pension gap**. This latter for OECD countries results double than the pay gap, accounting for an average pension of 25% less than for men. With an ageing population and life-expectancy that is higher for women than for men, the risk of old age poverty increases for this segment of the population. The pension gap is not only the byproduct of having worked in lower paying jobs but also of reducing working hours or taking career breaks to perform unpaid and informal care work. Most women in the EU provide at least one form of unpaid work several days a week, and 82% provide daily care. In comparison, 48% of men provide daily care. Moreover, a study conducted to examine differences in access to care services between different social risk groups and social classes – specifically regarding childcare and home care for people with an illness or disability – has shown that in countries where the care needs are not met, the employment gap between women and men is significantly higher.<sup>9</sup> Looking at the women with part-time jobs in the EU, 29% declared that it was due to unpaid care work.<sup>10</sup>

**Care remains a key concern** of EU citizens, particularly of older generations, as they worry about the certainty of access to good-quality care. When looking at the data on the shortages in this field, not only, but especially after the COVID-19 pandemic, their concerns seem well founded. National health systems have been under strain for several years, as much as impacted by the pandemic they have suffered for longer of shortages in the workforce, and projections indicate that the situation will not improve.<sup>11</sup>

The EU has carved a certain margin of manoeuvre in this area of mostly national competence and could go further especially for what concern the guarantees of high level of human health protection to be defined in the policies of the Union, as well as ensuring gender equality as provided by the Charter of Fundamental Rights.<sup>12</sup>



An important final caveat to be brought forward when working on ageing societies is shifting the perspective on old citizens who are portrayed as frail and in need. Care needs remain of great importance; however, this must be complemented with the reality of healthier old citizens, who can be active and whose potential should find better frameworks to be accommodated. In fact, in France for example, only 10% of the 60+ citizens report to have lost their autonomy in daily tasks.<sup>13</sup> The independence and the active participation of old people to social and cultural life is also promoted by the European Charter of Fundamental Rights.<sup>14</sup>

### ***The territories***

The local perspective and more specifically **regional policies** prove to be an extremely interesting place to look when it comes to examining how the daily lives of citizens are impacted at the sub-national scale by the demographic change, as well as to seek novel and creative ways to respond.

The total of the population in the EU will not undergo a striking variation at national level, the change will mostly impact the lower levels. Projections from the latest cohesion policy report indicate that the share of people in the EU living in a shrinking region will increase from 34% in 2020 to 45% in 2030 and 51% in 2040.<sup>15</sup> These population changes can profoundly affect regional and local development and engender a vicious cycle in terms of economic consequences: shrinking workforce and fewer opportunities in remote areas often result in more outmigration and brain drain, which results in an even smaller workforce and a reduced tax revenue for the region. This can also impact the price of essential services per capita in these areas and lead to a reduced accessibility or lower quality which will eventually contribute to a further population loss. In parallel, the higher costs of services impact public budget considerably, fuelling polarising sentiment between generations, where the sustainability of the state finances plays at the detriment of the intergenerational solidarity, especially in presence of Pay as You Go systems.

At the level of the **local governance** the lack of services or reduced capacity to deliver can trigger sentiments of distrust vis à vis the governing entities, often limited in their margin of manoeuvre by the lack of trained personnel or resources. Nonetheless, approaches that aim at improving the life of the citizens who stayed, as well as trying to achieve more with less resources should be encouraged and facilitated. In education, for example, the reconversion of schools in polyfunctional centres for a wider portion of the population to use them, has been an interesting model to follow. Furthermore, other local initiatives that can facilitate adaptation include leveraging on the digitalisation of essential services, including telemedicine, and adapting the provision of services to the needs of citizens, for example through introducing mobile clinics or specific lines of public transport that are more in demand.

### ***Digital transition***

A theme that often resurfaces within the conversations on solutions to address working force shrinkage, shortages in the care sector and local accessibility to basic services, was that of **technology** and its potential to support government in the abovementioned challenges.

One year after the worldwide popularisation of ChatGPT, the new wave of technological changes is coming mostly from developments in robotics and AI. However, whether these will be the trump card for the EU to continue to be a competitive market and to fulfil all the most essential needs of the citizens at the level of the services and the personal care, remains to be accurately and realistically assessed. In the field of long-term care, clear examples of countries that have embraced technology as an ally for more than a decade, still encounter problems related to regulations and privacy standards, the cost of these technologies as well as personnel and patients' digital skills, which still prove insufficient.<sup>16</sup>

For the remaining essential services likely to be provided digitally in the coming decade, questions arise in terms of **digital literacy of EU population across the board** (users and professionals) as well as for quality and a sound

connectivity infrastructure: three out of four EU citizens in a recent Eurobarometer have stressed the need for a better connectivity for both speed and accessibility in terms of prices.<sup>17</sup>

## THE WAY AHEAD

Demography and the ageing population are long-standing concerns of EU policymakers: the European Council Conclusion of Helsinki 1999<sup>18</sup> were already warning that the demographic changes would require policies on active ageing and increased efficiency in the public and private sectors to manage the economic burden of such changes. Fast forward to June 2023, the European Council invited the Commission to present a toolbox to address ‘demographic challenges and notably their impact on Europe’s competitive edge’.<sup>19</sup> The same European Council of June 2023 asked for an independent High-Level report looking at the future of the Single Market, to be presented in March 2024 under the aegis of the Belgian Presidency.

The Single Market has represented for the past three decades a cornerstone of the Union’s geopolitical might. Looking at these two initiatives in silos would mean to overlook that population and economic size play an important role in global power dynamics. The demography toolbox, presented by the European Commission in October 2023 is a comprehensive approach to support Member States to address their demographic challenges. It is structured around four pillars: supporting parents through quality childcare and work-life balance, facilitating younger generations’ access to the labour market (skills) and affordable housing, empowering older generations through welfare, labour market, and workplace policy reforms, and addressing labour shortages through legal migration management complementary to harnessing EU talents.

The toolbox lists instruments available to Member States to that address the consequences of demographic change, and Egmont’s workshops were occasions to explore some areas of intervention. The publication of the single market report should provide the momentum for all these policy tools to be mobilized in view of consolidating EU’s competitiveness.

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