



By: Giles Merritt

How can Europe deal with disastrous demographics?



Long dismissed as speculative and alarmist, population studies by a slew of think tanks have rightly **warned** that Europe will confront unaffordable costs and social pressures from an aging society by 2050.

European officials have responded with silence. Political parties across the continent have studiously avoided the topic, fearing the electoral consequences of necessary reforms.

The crux of the aging crisis is intergenerational inequity. People aged 60 and over own more than three-quarters of financial **assets** and property in Europe.

And at one-quarter of the European **population** (rising to one-third in a decade or so), this age cohort will comprise the largest voting bloc in national elections for the foreseeable future.

Moreover, increasing longevity has prevented much of this wealth from being passed on. As a result, people aged 35 and under hold only 5% of assets in Europe.

Pensioners will undoubtedly resist reforms aimed at redistributing some of their wealth.

In my book *Timebomb: When Ageing Explodes*, I call this the “silver stranglehold,” and it lies at the heart of Europe’s dilemma over intergenerational fairness.

Older people who have earned a comfortable retirement understandably defend their savings to the hilt.

But they do so at the expense of underprivileged younger generations, who struggle to get on the property ladder and may have to wait until their 70s or even 80s to receive a pension.

Boardrooms could offer a solution

The scale of Europe’s demographic challenges is obscured by population shifts at the global

level.

Dire warnings of an overcrowded planet have given way to concerns about falling birth rates in rich countries and high fertility in Africa and the Arab world.

But Europe’s population decline is especially significant because its waning economic, geopolitical, and cultural importance has international implications.

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The private sector cannot escape the grim arithmetic: The European Union’s ratio of tax-paying workers to benefit-receiving pensioners has already **fallen** from its post-World War II norm of four-to-one to three-to-one, and is set to **drop** below two-to-one.

This will require changes to jobs, skills, wages, and, above all, taxes. As employers, corporate leaders will be key players in this process and must think carefully about priorities and pitfalls.

Notwithstanding AI’s as-yet-unknown **effects** on labor markets and economies, it is clear that employers will have to balance shrinking workforces and growing skills shortages with the need for larger tax contributions.

Tougher tax regimes will become unavoidable

Governments can impose new rules and conditions only to a limited degree, making the private sector essential to building consensus on new policies.

But business groups and industrial associations have also avoided the topic, probably for fear of turning the political spotlight on corporate taxation levels.

How much more tax revenue can be levied, and from whom, is anyone's guess: increasingly volatile politics have upended forecasting models.

But it is possible to project EU countries' spending needs. Nearly 20 years ago, the International Monetary Fund **estimated** that health-care costs in Europe would double, to an average 15% of GDP, by 2050, at which point the OECD **predicts** that social-security payments and state pensions will reach 12% of GDP.

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Factor in bigger defense budgets, industrial policies, and the need to overhaul education and build more housing, and tougher tax regimes will become unavoidable.

These countries already have limited fiscal space, and demographic decline risks exacerbating debt crises to the point of financial collapse.

But from the EU myopic perspective, these socioeconomic problems are national concerns.

As a result, the bloc has produced little in the way of "common" policymaking on an issue that poses a serious threat to its integrity, and perhaps even its survival.

For example, the populations of newer member states in Central and Eastern Europe and the Baltics are shrinking fast because of

aging, low birth rates, and economic emigration to wealthier EU countries.

The sharp declines expected in some of these countries will either end the bloc's cherished "cohesion" or require significantly larger financial transfers.

Between a more vibrant multiracial Europe and an "Old Continent"

Some policymakers argue that Europe will just have to learn to grow old gracefully, but this overlooks the sheer scale of demographic upheaval.

By 2070, the EU's workforce will have **shrunk** by up to one-quarter, and that trend will only accelerate.



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Today, there are 80 million people **aged** 30 and under – the core of future growth – in the EU and the United Kingdom; by 2080, they are expected to number 50 million at most.

There are no examples of a thriving economy with a shrinking workforce. Some optimists hold out hope that AI will create a productivity bonanza, even though the digital revolution has so far failed to do this.

Instead, it has widened the gap between knowledge workers and less-skilled labor. As

matters stand, 90 million of the EU's 220 million workers **reportedly** need to be re-skilled.

These gloomy statistics aren't new. Major international institutions, including the European Commission, have published detailed reports highlighting demographic decline since the turn of the century, but to no avail.

There has been hardly any public debate about how to address the consequences of aging.

European politicians' silence may reflect their fear of having not only to raise taxes, but also to undertake a massive and carefully planned U-turn on immigration.

Eventually, voters will have to choose between a more vibrant multiracial Europe, or an "Old Continent" culturally faithful to its roots but quietly dying of old age.

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