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Demographic time bomb

Can EU politicians deal with population decline and the welfare state?

By Richard Laming
The Prague Post
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The latest report on Europe's population trends from the Population Research Bureau in Washington, D.C., makes for challenging reading. Challenging, but not grim. I will explain.

The report looks at trends in such things as birthrates and death rates to try and picture what Europe will look like in 50 years. Specifically, the report asks who will be living here. How many Europeans will there be?

The answer is that there will be fewer than today, perhaps 9 percent fewer: 668 million will live where 728 million do today. The Czech Republic is a typical example, as today's 10.2 million Czechs will be succeeded by only 9.2 million in 2050. By comparison, the population of the United States is set to grow by 43 percent from 294 million to 420 million.

Go back 100 years and the size of a country's population was intimately linked to its military strength, and military strength was what mattered above all else.

We live in a better and more civilized world now, and while a fall in the population no longer leads to military vulnerability, it still matters. It may not challenge a nation's physical survival anymore, but a population decline brings into question another aspect of European nationhood. The issue now is the possible survival of the welfare state.

In many eyes, the welfare state lies at the core of modern European nationhood, when citizens provide collectively for the bad times -- unemployment, ill health -- that they all might expect to face at some point. The European social model, as it is sometimes called, is what distinguishes Europe from America. We Europeans believe that everyone is entitled to a decent life.

This has been the basis for the development of the states of Western Europe since World War II, and emulating it has been a goal of Central European countries since the fall of the Berlin Wall. It was possible, it seemed, to marry comprehensive social protection with an efficient and growing economy. But is it possible now? This is the question posed by the new trends in population.

The problem is that the welfare state depends on a bargain between generations. Those people currently employed pay for the education of their children and also for the pensions and health care of their parents in retirement, as their parents paid for their education and as their children will care for them in retirement in due course. At any one moment, one sector of society is paying out and other sectors are receiving. Over time, it all evens out.

But the prospect of a future fall in population brings all this into question. For as the population falls, there will be fewer people in work for each person in retirement. Rather than there being perhaps four workers to pay for each pensioner, there may be in the future be only two. This change will be seen even in those countries where the population does not actually fall, for the simple reason that today's pensioners are living longer than ever before. Life expectancy is now near 80 and still rising.

The business sector is now complaining about high taxes, which make it uncompetitive compared with businesses in the Far East. Is there any scope to increase the demands on today's workers still further?

The prospect is alarming. Do we abandon our dreams of a prosperous and happy retirement and hope instead simply to get through? I think not. There are three reasons why.

First, those of us still in work should expect to have to make provision now for our retirement on a scale that our parents' generation did not. Not only must we pay for our parents' generation in their retirement right now, but we also have to save for our own. Our children's generation cannot be expected to be pay enough from their own tax revenue. Pensions and health care are going to experience an element of privatization in place of the cradle-to-grave state provision of the past.

Uniting Europe

This turns out to be an issue that unites Europe. The difference made by 50 years of communist misrule matters less because the West European welfare states have made

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little provision for future pension needs themselves. They have paid for pensions so far out of current income, sustaining by growing populations and rapidly growing economies. Neither of those two will ever be true again: The population question we have already considered; economic growth is likely to slow as the age of cheap fossil fuels comes to an end. (Our smaller European population will also be living through the experiences of the greenhouse effect and climate change.)

Second, there is the prospect of increased immigration. The Population Research Bureau's population estimates are based on current policies and trends, but there is no reason these policies cannot be changed. Immigration into Europe is already rising on an unmanaged basis as the cost of traveling here falls. A managed policy of immigration might make a lot of sense.

Third, there is the question of solidarity. Maybe it will be possible for the workers of the future to devote a greater proportion of their income to pensions and health-care costs to maintain the basic glue of society and to cover for the weaknesses of private savings (some people will be the victims of inevitable business failures and bankruptcies). Inspiring leadership and a reinvigoration of the political process will help maintain the European dream.

These are three tasks for the whole of Europe. Some countries such as England and France might expect to see their populations rise slightly rather than fall, but they cannot escape the overall consequences of the ageing population. So, if these are common European problems, what can the European Union do to help?

First, there is the development of the European single market in financial services. To get the best return on our private savings, we will need to be able to look for the best investments wherever in Europe they might be. This means effective regulation of the financial services industry at a European level: a crucial task for the EU in the future. Incidentally, it also points toward more-effective regulation of capital flows globally, so the EU will have to be a successful negotiator with the United States and the rest of the world, too. The creation of the post of European foreign minister as a member of the European Commission, as proposed by the new European constitution, will make the EU a more effective player on the world stage.

Second, immigration. The European constitution envisages a better system for taking decisions on this issue at the European level -- crucially, the directly elected European Parliament will be placed at the center of decision-making. The prospect of far-reaching decisions on this issue being taken without the support of the public does not bear thinking about.

The first two problems find steps toward a solution in the European constitution. They are two good reasons to ratify it. But the third problem, that of leadership, is different.

The constitution allows for the creation of an active European parliamentary democracy, an open political space. That much it can do. But it cannot create European leadership and political parties to fill that space, and the constitution cannot create active politics. Only politicians themselves can do this, from the Czech Republic and from the rest of Europe. The question is: Are they ready?

-- The writer is the director of Federal Union, the British federalist campaigning organization, and works in public affairs for commercial interests in London and Brussels. He writes here in a personal capacity.

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