

New CER pamphlet

## **OLD EUROPE? DEMOGRAPHIC CHANGE AND PENSION REFORM**

By David Willetts MP

US Defence Secretary Donald Rumsfeld was onto something when he classified the current EU countries as 'old Europe'. Germany, France and Italy together will have more than 70 million people over 60 in 2040. The fact that Europeans are leading longer, healthier lives is to be welcomed. The problem is that they are not producing enough babies, so that the ratio of workers to pensioners is rising relentlessly.

David Willetts, in this highly original and thoroughly researched pamphlet, addresses a number of common fallacies in the ageing debate. Many people believe that it is only the tax-financed pension systems of continental Europe that are heading for trouble, and that the UK need not worry. Willetts warns against complacency, however. Italy may have an unsustainable state pension system, but Britain has bankrupt company pension schemes. British people save less than the French and the Germans. And UK figures for age-related public spending are artificially low because UK pensioners get much of their income from social benefits.

The sustainability of pension systems is not the only challenge for ageing societies. 'Old Europe' will be less dynamic and less productive. The US, meanwhile, has a young and growing population. The economic gap between the two continents will continue to widen. The answers to these problems go well beyond fixing pension systems.

- ★ Make people work more. European countries will have to raise the retirement age and draw more people, especially women, into the labour force. This will require much more flexible labour markets.
- ★ Let in more immigrants. But this is only part of the answer. If Germany were to rely on immigrants to keep its ratio of workers to pensioners constant, its population would consist of 80 per cent foreigners by 2050.
- ★ Have more babies. This does not mean traditional roles for women. Italy, where few women work, has one of the lowest birth rates in the world. Feminism is the new natalism.

Notes for editors:

1. David Willetts is shadow secretary of state for work and pensions, we will launch this pamphlet at a seminar in London on September 23<sup>rd</sup> 2003.

2. For further information, please contact Alasdair Murray at the CER on 00 44 20 7233 1199.