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Ageing and the European pension schemes

Europe must face unprecedented demographic changes in terms of size and significance. Its natural population growth has dropped to historic lows: it practically equals zero, and in several countries immigration has become the most important, if not the only source of population growth.

Productivity has dropped below the level needed to replace the population – 2.1 children per woman – in every country. In fact, this ratio is lower than 1.5 children in many member states. Strangely enough, this indicator is the smallest in the southern member states (Italy, Greece and Spain) that are said to be more family centred.

By the middle of the century the population of Europe will have drastically declined. Population drop means ageing, and ageing means the reduction of the growth potential of the EU!

Due to the growth in the ratio of pension-age citizens, the GDP growth capacity of the EU may shrink form the current 2–2.25 per cent to 1.25 per cent by 2040.

Europe has a tough task ahead: it must increase its natural population growth, it must find the social balance and justice between the different generations, and it must find resources commensurate to the rapidly growing pension and healthcare costs.

DEMOGRAPHY

The population of the European Union is expected to slightly grow until 2025 due to immigration, but then it will start to shrink: in 2005 the population totalled 458 million, in 2025 it will total (not counting with the effect of enlargements) 469.5 million (+2 per cent), and it will equal 468.7 million by 2030. Between 2000 and 2030, the ratio of the European population to the rest of the world will decline from 12 per cent to 6 per cent. The setback is even faster and more significant among the working age citizens (from 15 to 64 years): between 2005 and 2030, the number of working age people will drop by 21 million.

Life expectancy, including healthy life expectancy is continuously rising due to improved healthcare services and the quality of life in Europe. This process is expected to continue in the future, too. The difference in life expectancy between men and women will shrink, and the birth-rate will remain permanently low. The baby-boomer generation has had fewer children than previous generations. The low birth-rate can be attributed to several factors: the difficulties in finding a job, lack and cost of housing, the older age of parents at the birth of their first child, or the change in attitude to higher education, career and family life. The EU has lost its demographic engines: member states in which the population is not expected to shrink by the year 2050 represent an extremely small portion of the entire European population. From among the five most populous member states, only the population of Britain and France is expected to grow between 2005 and 2050 (by 8 per cent and 9.6 per cent, respectively). In certain member states, population decline will set in as early as before 2015, and in some cases it will exceed 10 per cent or even 15 per cent by 2050. Recently, immigration has mitigated the consequences of the low birth-rate in several countries, but it has also raised serious social problems. The situation of the two new member states (Bulgaria and Romania) further increases the demographic differences, and the forecasts pertaining to them also reinforce the negative tendencies (a population drop of 21 per cent and 11 per cent, respectively by 2030), just like the statistics of the UN and EU candidate, Croatia (-19 per cent). On the other hand, the population of Turkey is expected to grow by more than 19 million between 2005 and 2030 (+25 per cent).

However, the real problem is caused not by the decline in the total population of the EU-25, but rather by the significant changes in the age structure. In the 40-year period beginning in 2010, the working age population (15 to 64 year-old citizens) will decline by 48 million, i.e. by 16 per cent, while the number of people over 65 will increase by 77 per cent. Thus, the number of people over 65 will double, and by 2050 they will account for 51 per cent of the population. If we do not count with young people below the working age, a dreadful and dangerous trend is evolving in terms of economic and social development: while currently there is one elderly person for every four workers, by 2050 there would be one elderly person for every two workers, i.e. the old-age dependency rate will double. Clearly speaking, this means that today four workers provide for one pensioner, and by the middle of the century only two workers will do the same!

The population decline has benefits, too: fewer people occupy a smaller area, and there is less fight for food and resources. The ageing of the population also means that people live longer, mostly due to their good state of health. The population drop is the consequence of prosperity, as well as the social relations that have changed due to prosperity. However, prosperity means much more than high living standards. Today's western society with its concept of "everything is possible, so I want everything" is entrapped in many aspects due to its own level of development. Many women refuse to bear children so that they could continue their careers, but the loosening of family ties, and the "general life feeling" attached to the age of turbo-globalisation also result in the fact that much fewer people decide to have children than a couple of decades ago. This means that in the European society a declining number of people will live for a longer time. In other words, we are getting older.

Ageing is a multiple challenge. First, it weakens the performance of the economy, the potential for growth. Second, it puts astronomical costs on the state due to soaring pension and healthcare expenditures, and thus jeopardises the fundability of the national economies. Third, it leads to the significant restructuring of social relations, and may even cause serious tension between the generations, since the diminishing younger generations must undertake an increasing burden for older generations that are getting more and more populous.

How can Europe handle these enormous demographic changes? By the middle of the century the population of Europe will decline so dramatically that the ageing trend can only be partially offset by the increasing number of immigrants. Population decline equals ageing, and ageing means the decline in the EU's growth potential! Due to ageing, or the rise in the share of pension-age people, the EU's GDP growth capacity may drop from the current 2 to 2.25 per cent to 1.25 per cent by 2040, which will lead to the marginalisation of Europe. If the growth rate of the global competitors exceeds ours by several fold, we can easily see that the lag between them and us is growing steadily and increasingly rapidly.

Most people already clearly understand that the ageing population of Europe severely jeopardises the public finances of most EU member states. At the same time, we do not pay sufficient attention to the economic impacts of ageing. According to the forecasts, the EU's employment rate will grow from 63 per cent in 2003 to 67 per cent in 2010, and in 2020 it will reach the rate of 70 per cent earmarked in the Lisbon objectives. This growth will be the result of the higher employment rate of women, which will grow from the current 55 per cent to 65 per cent. The employment of older job seekers will also rise. While today 40 per cent of the 55–64 age cohort remains on the labour market, this ratio is expected to rise to 50 per cent by 2025. Naturally, this can be regarded as a positive development, but at the same time these changes result in a decrease in Europe's growth potential. In the EU-15, the current average annual GDP growth potential will decline from 2.3 per cent to 1.8 per cent between 2010 and 2030, and then to 1.3 per cent by 2050. The decline will be even more prominent in the ten new member states: it will drop from the current 4.3 per cent to 3 per cent between 2011 and 2030, and then to 0.9 per cent between 2031 and 2050. All these projected changes make the EU face significant economic and budgetary challenges.

Immigration will be the key tool for population replacement. However, it will play a less significant role in labour replacement, since unemployment, in general, is much higher among immigrants than the average unemployment rate. Therefore, in addition to social tensions, immigration also puts financial burdens on the governments. The growth in female activity also represents a considerable potential resource: the working age population will decline as early as in 2010, yet the actual employment rate will grow until 2017. Two thirds of this growth will be attributed to women entering the labour market. In this relation Europe needs to find out how the female employment rate can be increased without a further decline in birth rates. Due to the changing European lifestyle women decide to have children later in life. Often they wait until it is too late, and having children is becoming less important in a growing number of relationships. Only in Great Britain as many as 90,000 – otherwise wanted – children are not born because the mothers decide to postpone giving birth and decide to continue with their careers, primarily for financial reasons. One in every three British women who have had children in their early twenties can only find less well-paying jobs after returning to the world of work. According to the estimates, a woman who has a child at the age of 24, suffers a financial loss of nearly 560,000 during her lifetime compared to a woman with similar qualifications and no children.

At the same time, however, the EU should make people aware that young people are becoming a rare treasure that is not sufficiently acknowledged. In December 2004, the unemployment rate among people under 25 equalled 17.9, while the same ratio was 7.7 per cent among citizens over 25. Young people are especially exposed to the risk of poverty, i.e. to an income level below 60 per cent of the average income. As many as 19 per cent of the 16–24 age cohort belongs to this category, compared to 12 per cent of the 25–64 age cohort. This rate exceeds even the poverty rate of elderly people over 65 years of age (17 per cent).

The growth of intergenerational tension is by no means a negligible social problem. Western European baby-boomers, i.e. the generation born in the wake of World War II, grew up in an environment of unprecedented economic growth, won the revolution of 1968, and can expect generous pensions. They represent the generation of the Golden Age of Europe, which in the midst of material growth "forgot" to have a sufficient number of children. Therefore, the subsequent generation, much smaller in number, must provide pensions for the well-off ancestors. However, the tension is caused not only by the imbalance of the intergenerational income transfer, but also by the fact that while the prosperity declines, the older generation prevents the new middle-class generation from gaining dominance. The intergenerational problem is the gravest in France, where the current 20 to 40 year-olds represent the first generation in modern-time history that needs to prepare for lower living standards than their parents had. In 1973, only one in every 15 young graduates was unemployed, while today it is one in every four! Salaries have been far from keeping pace with real estate prices that have doubled or tripled in the past two decades, which makes it extremely difficult for young people to solve their housing problems. In addition to deteriorating the welfare conditions, this leads to rigid social relations, freezes intergenerational mobility and increases the disappointment of the younger generations. *Denis Jeambar,* the well-known French journalist – a baby-boomer himself – admitted ruthlessly bluntly in his famous article: "our children will hate us."

Furthermore, ageing considerably increases healthcare and nursing costs. An ageing society represents a great economic challenge not only to the budget, but also to corporate pension funds and life insurance companies. Since these companies manage contracts of huge sums, i.e. they promise the payment of enormous amounts to their clients, demographic changes have very significant financial implications. For instance, when a space technology company called BAE reviewed the prospects of its corporate pension fund in 2005, ten years after the previous review, it increased its forecasts for the expected expenditure of the pension fund by GBP 2.1 billion (EUR 3.7 billion!) having calculated the predicted demographic changes. On the London stock exchange, from among the top 100 companies Rentokill was the first to announce at the end of 2005 the closure of its corporate pension fund that had offered fix pensions to members, since it was struggling with a deficit of nearly 0.5 billion. According to estimates made by Deloitte and Touche, the deficit of the pension funds of the top 100 British firms totals more than GBP 100 billion!

Despite the deteriorating demographic trends, the employment rate will be high enough to save Europe's economic growth from a fatal blow. The precondition for this is to reverse the unemployment trends and start the reforms in time. Due to the shrinking labour base, Europe's only opportunity for economic growth is the improvement of economic efficiency, i.e. competitiveness. Ageing will slash the growth potential of European countries by half in a few decades. Central and Eastern European countries will be hit the hardest, since their current growth rate of 4.5 will drop below 1 per cent by 2030. *(See Table 1)* Maybe the biggest source of danger associated with the ageing society is the unsustainability of the European pension schemes, wherefore one of the biggest tasks of the near future is the execution of the pension reform.

THE "PENSION BOMB"

Europe is sitting on a ticking pension bomb, i.e. the current European pension schemes cannot be sustained. The ratio of people in need of

Table 1

EUROPEAN DEMOGRAPHIC TRENDS (EU-25)

(changes in percentages)

	2005–2050	2005–2010	2010–2030	2030–2050
Total population	–1.9	1.2	1.1	– 4.2
Children (0–14 years)	–18.6	–3.1	–8.5	–8.2
Young people (15–24 years)	–24.3	–4.1	–12.0	–10.2
Young adults (25–39 years)	–25.0	–3.9	–15.6	–7.5
Adults (40–54 years)	–19.0	4.1	–9.8	–13.8
Older workers (55–64 years)	9.1	9.5	15.3	–13.6
Elderly people (65–79 years)	44.5	3.4	37.3	1.8
Very elderly people (80+ years)	171.6	16.5	54.0	50.8

Source: EUROSTAT. 2004

care is rapidly growing, especially in the oldest age cohort (which is a great challenge for insurance companies and private pension funds, too). This can be explained with several factors: baby-boomers, i.e. people that were born after World War II, are reaching the retirement age around these times. At the same time, the population of Europe is sharply declining, and life expectancy rises thanks to the ever improving healthcare services, which will double the old-age dependency ratio by 2050 (50 per cent compared to the current 24 per cent).

The fast ageing of the population threatens European public finances with a disaster, too, unless the member states implement radical reforms in their welfare systems. Ageing will increase public expenses by 3 to 7 per cent relative to the GDP by 2050. From 2010 on, the rise in pensions will be mostly responsible for the increase in public expenses. Without fundamental reforms, the costs of providing for the elderly population will put such financial burdens on the developed industrialized countries that in a few decades the currently AAA credit rating of even the biggest countries may plunge into the speculative grade – states the Standard & Poor's survey conducted at the beginning of 2005. According to the credit rating company's calculations, which project the current pace of growth in costs onto the next decades, assuming that there would be no significant change in the pension funding systems, by 2050, state debts will rise from the current GDP relative 65 per cent to 239 per cent in the US, from 66 per cent to 235 per cent in France, and from 68 per cent to 221 per cent in Germany. If the trends really prevail, the current AAA credit rating of the four leading industrial powers will plunge into the speculative grade below BBB by 2035.

By 2030, as much as 25 per cent of the population in the five biggest EU member states (United Kingdom, France, Germany, Italy and Spain) will be over 65 years of age. In Germany, for example, pension expenditures will absorb 18.5 per cent of the GDP in 2035, when 36 per cent of the population will be older than 60. Based on this recognition, market based pension schemes were started to be developed even by those member states in which such schemes were previously non-existent. The German government is trying to defuse the demographic time bomb by reducing the guaranteed level of annuities paid from public finances, as well as with certain tax allowances, and by the introduction of an optional capital coverage pillar, which is reinforced by state support.

The situation of European decision-makers is even more complicated by the Stability and Growth Pact, which maximises the public finance deficit of the member states at 3 per cent of the GDP for the security of the common currency, and thus limits the indebtedness of the pension systems, too. The problem is rooted in the fact that the current pension systems of the member states are mostly based on state pension (which finance current pensions from the contributions paid by working citizens). From among the current member states, the private pension segment is sufficiently well developed only Britain and in the Netherlands. British pension funds have for a long time favoured share investments, while the Dutch have only recently parted with bonds that are regarded more secure. (The ratio of share investments reached 40 per cent in 2003.) These countries propose the further liberalisation of private pension fund investments at EU level, but the spectacular bursting of the stock exchange bubble at the millennium, i.e. the devaluation of stock exchange investments makes many people cautious.

There exist two types of pensions: one of them accumulates assets, i.e. generates interest on the individual's savings, while the other is the traditional state pension scheme, which is based on tax revenues, i.e. the pension contributions paid by the employees and employers. In the traditional pension scheme the state imposes a tax on labour in order to be able to pay pensions to retired people. As the ratio of pensioners grows, the funds available for them decrease, or contributions paid by the workers rise, or both at the same time. If contributions are low, people experience poverty, if they are too high, the social costs are too big. We are wrong if we believe that accumulating pensions, i.e. pensions accumulated for ourselves on separate accounts and invested by the pension funds are not detrimentally affected by general ageing. With the fall in the number of active and demand generating employees the number of people ready to purchase and increase the market value of assets planned to be invested by the pension funds (i.e. the securities embodying the pensioners' pensions) will drop accordingly. This means that the cake is shrinking no matter what, although accumulative pensions are much more immune to ageing. If we also take into consideration that the pension problem is present especially in the high income countries, which cannot allow themselves to further raise their taxes – including pension contributions – due to the emergence of new and fearful competitors, we will understand that we need to look for the real long-term solution on the other side of the formula: retirement age must be raised.

▪ Germany started to reform the oldest pension system of Europe, i.e. the one established by *Bismarck* 130 years ago already in 2001. However, the demographic forecasts are so grim (by 2050, the ratio of citizens above 80 years of age will rise from the current 4 per cent to 12 per cent) that these measures have proved to be far from sufficient. The introduction of the pension reform has recently provoked elemental social resistance in France and Austria, too. If the current demographic trends prevail, traditional pension schemes can only be sustained by raising contributions, by reducing pensions, or by increasing the retirement age. In other words, it is impossible to find a simple and popular solution. The replacement of the missing workforce is also a thorny problem, which is also indicated by the fact that after the enlargement almost every old member state closed its labour market to the new member states for years. It is obvious that for the time being the current political approach and strategic thinking based on the analysis of long-term demographic trends do not get along. However, the situation is so grim that the reform mechanism has been started everywhere, albeit with jolts and jerks.

▪ Just like anywhere else in Europe, generations of the demographic wave following World War II have started to retire in Britain, too. In

1950, there were five working age people for each pensioner. However, by 2050 there will be only two active earners for each pensioner. In accordance with this – and despite the developed, market based pension pillar – the pension crisis is regarded as one of the biggest economic and social problems in Britain, too. Several reform concepts have developed and have fallen into oblivion for handing this issue. In 2005, the pension committee composed of renowned experts published its long-awaited reform proposal, which would gradually raise and unify the retirement age, which currently stands at 65 and 63 years. From 2030 and 2050 on, workers could retire at the age of 66 and 68, respectively. The new proposal will be more sensitive socially, since it will introduce the basic pension available for all. This will increase the pension related costs of the Treasury, yet the British Government will spend only half of the amount spent on pensions by the continental social market economies, like Germany (8 per cent of the GDP in 2050). By the way, apart from the US and Mexico Britain is the most tight-fisted country in terms of pension and healthcare costs. In the long run this, as well as the fact that it has the most developed market based pension funds – and knowing that the British care system is more modest than those of the continental countries in many aspects – is an important token of the sustainability of the budget. The British corporate and private pension schemes are struggling with serious funding problems, too, since their success basically depends on the stock exchange rates, i.e. they are hit hard by poor stock exchange performance. Corporate pension funds have accumulated a considerable deficit, wherefore they were compelled to cut back on promises to the members. In 1995, the membership of corporate pension funds promising fix pensions totalled over five million as opposed to the two million members in 2005.

The German society faces a similar problem: unless the trend changes, one in every three German citizens will be a pensioner in 2030. One may expect severe intergenerational conflicts, since the sacrifice for the social reforms, i.e. for tightening the purse-strings, will first of all have to be made by young people. The great coalition of the Christian Democrats and the Social Democrats will gradually raise the retirement age from the current 65 years to 67 years, which is expected to affect the generation born after 1970 first. The reform will freeze pensions and will raise the pension contribution by 0.5 per cent, which will serve as a temporary solution for the problems of the pension budget managing an astronomical amount (EUR 230 billion per year). These problems were further aggravated by the fact that after the reunification, the empty pension budget of East Germany also had to be filled by the west. The Bismarckian pension system has been continuously reformed lately: the most significant change – as I mentioned before – was effected in 2001, when the multi-pillar pension system was introduced. The most important pillar is still the one based on mandatory pension contribution. However, the supplementary pillar, which is called Riester pension after finance minister *Walter Riester*, and is composed of payments made by the employees and the state, is becoming more and more popular. In addition, there exist several private pension funds supported mainly by tax credits.

In the spring of 2003, the streets of Paris were again filled with demonstrators protesting against the pension reform under preparation. Yet, the reform, which raises the retirement age and pushes the system towards self-support, was passed. However, in accordance with the French traditions, the French act specifies a minimum pension, which shall be mandatorily disbursed to the retired citizen. People living on wages, farmers, self-employed handicraftsmen, as well as traders must receive minimum EUR 534 provided they have accumulated a service time of 40 years. The situation is similar in the case of civil servants and public employees. Senior officials, people working in the private sector, entrepreneurs and managers may be eligible for the minimum pension of EUR 945 already for a service time of 25 years. At the same time, pursuant to the act, the pension is also linked to the minimum wage in force: according to this, from 2008 on, each citizen must receive minimum 85 per cent of the minimum wage in effect. The retirement age will be raised to 65 years, however one can retire as early as at 60 years in case he can prove that he spent 40 qualifying years in activity. The pension system is a multi-pillar system in France, too. Therefore, contribution can also be paid on a voluntary basis in hope of a higher pension, however such contribution cannot exceed 50 per cent of one's income. The huge state managed pension fund, the FRR, which was introduced amidst great ovation in 1999 to support the traditional state pension system, will presumably able to accumulate only half of the planned capital of EUR 150 billion. The fund is fattened practically by state subsidies financed from taxes and privatisation revenues. The failure makes it clear again that the size of the cake is not growing but shrinking, and it is impossible to yield new revenues by merely renaming the resources.

■ By 2015, one fourth of the Italian population will be older than 65 years, while the life expectancy of men and women alike will start to exceed 80 years. This means, that the need for a pension reform is beyond all doubts. Based on the reform that will take effect in 2008, the retirement age will be 65 years or 40 years in active employment, but those who remain in employment even beyond that age, may receive a net surplus wage of 32 per cent. The reforms are needed badly, since the Italian pension funds are on the verge of collapse and the prospects of the state budget are not rosy either. Yet, the elderly are not poor, in fact the current 60 to 70 year-olds still have the highest living standards. In contrast with today's young people, their generation had secure jobs, they could save money and buy flats/houses: following the “dolce vita” of the 1970s and 1980s they receive stable and considerable pensions.

■ The Portuguese government adopted the pension reform, which is unparalleled in terms of depth in Europe, in the spring of 2006. This reform also stipulates that families with fewer than two children must pay higher pension contributions to the state under the principle of intergenerational solidarity. Employees may choose: they either work longer or pay more pension contribution. The new system will also include a so called “sustainability coefficient”, the essence of which is that the amount of the pension may change on a continuous basis, in accordance with the expected rise in life expectancy. For instance, if during the next ten years life expectancy will grow by one year, the pension of people who will retire in ten years' time will decrease by 5 per cent. The reforms were badly needed, since the pension system was so generous (occasionally, some people's pensions were higher than their last earnings) that it would have financially collapsed by 2015. In addition, the birth-rate has also drastically decreased in the past 30 years (by 35 per cent). For the time being, citizens over 65 account for 7 per cent of the population, but in 2050 one in every three Portuguese citizens will belong to this age cohort.

■ Yet, there are some people who deny the existence of the pension bomb, and do not see any problem in the ageing of the society. According to a study prepared by a British research institute called Tomorrow's Company, the increasing productivity counterbalances the negative effects of the ageing society. They believe that instead of comparing the number of senior (65+) citizens and that of the working age population, much deeper consequences can be derived from the comparison of the number of active and inactive citizens.

I acknowledge that this methodology is valid in certain respect, however I find this optimistic approach false and dangerous. The governments do need to take the problem of ageing seriously, and must implement profound reforms in the pension systems as well as in other fields of the supply system. And this is valid not only for Europe. China is also rushing to strengthen its pension system, which is still in an embryonic state. The traditional pension system based on state administration and companies has fallen apart, and for the time being there is no alternative. The old system was a disbursing, allocating system without actual contribution payment. Efforts are now being made to replace this system with a contribution-disbursement type system. The system of personal pension accounts has also been introduced. Self-employed people, migrant workers and farmers are being driven into this scheme, however, most things exist only at the level of intentions so far. The pension system of Japan is also undergoing great changes: private pension funds based on fix payments were introduced in 2001 following the US example. In four years as many as 1.5 million employees joined such funds.

POSSIBLE SOLUTIONS

It is extremely important for the EU member states to combat the challenges of ageing. To this end, the governments must improve their budgetary positions, significantly decrease their state debts, and must inevitably implement the comprehensive reform of their pension and health insurance systems. During the labour market reforms it must be taken into account that the average life expectancy will rise (from 61.5 years in 2003 to 62.4 years by 2050). Therefore, one must move away from the static retirement age, and determine dynamically how long employees should stay economically active. This, of course, requires measures against discrimination by age, an appropriate wage and tax system, as well as the promotion of life-long learning.

The presence of people over 55 on the labour market will continuously grow, wherefore companies will have to increasingly rely on the employment, retainment and further training of "ageing" employees. During the development of the innovative corporate strategies the ageing of the society will become an increasingly important factor in the transport, tourist and financial service sectors alike. The significant rise in the ratio of the elderly population will entail a change in the structure of social consumption, which may bring certain products and services to the forefront. One of the most important objectives is to allow elderly people continue with their work or work part-time while receiving old-age pension, as it is shown by the trend developing in the US. While the employment rate in the 65 to 74 age cohort was only 5.6 per cent in the EU (in 2003), it was 18.5 per cent in the US.

The key word in the labour market reform must be flexibility, also in relation to young employees. It may happen that young workers would like to spend more time with their children; however, at a later stage in their lives they may wish to work more, wherefore jobs and employment must be organised in a new, more flexible manner. This is all the more so since the length of education is increasing. However, the most important task is to improve the employment willingness and opportunities of people over 55 years of age. This will only be possible if the member states change the current rules that make early retirement more desirable than staying on the labour market, e.g. by the adjusting their taxation, further training and wage policy concepts to the ageing society. It is also important to significantly improve the quality of healthcare services designed to serve the physical and mental health of the elderly. A key tool for this could be the creation of a really single European healthcare market. This would mean that people could use the services of any healthcare system, just like they have been buying foreign consumption goods and using foreign services for decades. It is inevitable to raise the retirement age by several years, and probably, instead of setting a fix retirement age, a flexible system should be introduced that would take into account changes in the average age, i.e. the continuous rise thereof.

During the transformation of the pension system it must also be taken into account that in the traditional societies children took care of their old parents, i.e. having grown up, the young generations re-channelled resources to their parents who have lost their working abilities. The modern pay-as-you-go systems actually build on the same principle with the important difference that family relations no longer play a role in the system. This does not change the fact that the more young people are in the system, the more resources can be made available for the elderly. Naturally, it would make no sense to return to the intergenerational transfer based on large families, however, when calculating pension eligibility, taking into account the number of children with which a parent contributes to the social workforce, is far from being a thought from the devil. We could see that Portugal did introduce this logic during its own pension reform.

In the case of private pension schemes a shift must be made from contracts promising fix pensions to contracts specifying fix contributions, since it is impossible to guarantee fix payments due to the extremely extended years in retirement. The relevance of corporate pension funds must be reconsidered, too, in a world in which the employees no longer spend their entire active life at one company, but rather, adjusting to the conditions of the fast pace and ever changing world, they swap workplaces several times even within a decade. Corporate care about retired employees is an obsolete concept, and cases like that of Enron warn us: it is not sure that our pension is in good hands when trusted to our bosses.

Europe has got a tough job: it must increase its natural fertility, it must find the intergenerational social balance and justice, and must find the resources to be able to cover the rampant pension and healthcare related costs. Increasing costs may not lead to overspending, because it would jeopardise not only the common European currency, but also the balance of the national economies, and through this, social peace. The most important tools of the “escape forward” are encouraging childbirths, enhancing the efficiency of European work, i.e. the European workforce, keeping people at work as long as possible by modernising labour market and other rules, as well as by implementing the reform of the pension systems. Demographic policy should assume a new, horizontal approach that takes into account ageing and the declining birth-rate. Countries hit by the negative demographic trends are trying to mitigate the situation with different tools. In Japan, the growth of marriages is fostered by government sponsored dating and excursion services for single adults. In 2005, France announced that it would provide a “financial reward” to mothers that undertake to raise a third child. The Scandinavian countries are engaged in a somewhat more sophisticated policy, and are developing childcare services, as well as the system of maternity and child rearing leaves. There are countries in which the “demographic” reforms face a tougher fate, e.g. in Spain and in Germany because of the lingering memory of Franco's system and the Nazi past, respectively, or in England due to the fact that the state's interference with private life has been a political taboo for centuries.

Immigration from outside Europe may offset the population decline until 2025, however, this itself does not provide a complete solution for the problems caused by ageing, and cannot substitute economic reforms either. At any rate, it will be thanks to immigrants that the European society will not decline in number in the coming decades. This also means that by 2050, Europe will need to find the recipe for peaceful coexistence with a Muslim minority of 70 to 80 million, which will probably not be an easy task.

The promotion of the willingness to work, i.e. encouraging participation in the world of work is another way of ensuring economic growth. According to the calculations, the economic benefits of raising the employment rate by 7 per cent are at par with that of Europe taking in 1.3 million immigrants.

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