Economics Aspects of Ageing Population

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Abstract

The share of the population aged 60 and over is projected to increase in nearly every country in the world during 2015-2080. Population ageing will tend to lower both labour-force participation and savings rates, thereby raising concerns about a future slowing of economic growth. The aim of this paper is describe the development of the healthcare expenditure in the context of ageing population. Firstly, the demographic development and trends in the European Union is presented. Secondly, expenditure on health services for seniors is discussed and finally, expected health expenditures with regard to the demographic trend in the EU are analysed. The article explores potential of the investment in innovation in health care due to the ageing population.

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1. Introduction

In some developed countries the number of older people will be twice the number of children. The impact of this transformation will be felt in every area of life, including economic growth, labour markets, taxation, the transfer of property, health, family composition, housing and migration (Laurance, 2002). This phenomenon is caused by a number of factors.

In the twentieth century is a dramatic rise in life expectancy. Increased life expectancy combined with declining birth rates have caused many to worry about the cost of an ageing population. Health care and health awareness both

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continue to improve, with new breakthroughs and knowledge that allow people to live longer and remain healthy. There have been improvements in housing and living standards too. It’s become increasingly possible for the elderly to heat their homes (because of increased energy efficiency) and to continue living independently for longer thanks to the improved layout of houses. Another contributory factor relates to the number of babies born after World War Two, in the ‘baby boom’ period. These people are now reaching retirement age, causing a great surge in the numbers (European Commission, 2006).

2. Ageing population in Europe

In the coming decades, the size and age-structure of Europe’s population will undergo dramatic changes due to low fertility rates, continuous increases in life expectancy and the retirement of baby-boom generation. Countries in the EU11 are more vulnerable to the negative impacts of an ageing population than other regions in Europe. In the absence of reform, labour force participation, skills and education, vulnerable populations – in particular women – will be negatively impacted by these demographic shifts (European Commission, 2006).

In a century (1950-2050), the demographic weight of Europe in the world will have diminished by more than two thirds. As for the population of the 27 member EU, today, at 492.3 million, it represents 7.4% of the world population (6,624 millions). Whilst the demographic importance of Europe may seem to be decreasing ineluctably, bearing in mind its low birth rate, one of the biggest challenges facing the Union today is not this decline in numbers but the aging of its population.

Growth in productivity depends essentially on technological development and on the accumulation of the factors of production which complement work, i.e. “physical capital” (equipment) and “human capital” (levels of education and training), or the level of investment in the broad sense. Reflecting on economic matters does not tell us clearly how the ageing of the population could influence these two variables. As far as technological development is concerned, some people would have it that an ageing population will be less dynamic and receptive to technological progress and to the adaptations it calls for. Others assert that the growing sparseness of the population and young labour will provide the means to increase the quantity and quality of its “human capital”, which will make it more receptive to progress (European Association of Teachers, 2007).

3. Impacts of an Ageing population

The changes in the age-structure bring about not only negative economic impacts but also new opportunities. People have longer, healthier lives, resulting in extended working years, and different capacities and needs. The key is adaptation on all levels: individual, organizational, and societal.

Among frequently quoted negative economic impacts belong the following ones (Pettinger, 2013; Jowit, 2013; WHO, 2012):

- higher savings for pensions may reduce capital investment,
- shortage of workers,
- chronic and degenerative diseases,
- higher taxes,
- increased government spending on health care and pensions.

These negative impacts are related to the changing size of labour force, ageing associated diseases and the consequent higher dependence on support and care.

3.1. The size and quality of the workforce

Economic prosperity depends crucially on the size and quality of the workforce. As people pass through their 50s and beyond, their likelihood of participating in the labour force tends to decrease. The stock of assets could also decrease as the elderly increasingly rely on their savings to finance their spending. The combination of possible labor market tightening and dissaving raises concerns that the steeply ageing countries
