

## Chapter 6


# Population Aging and Economic Growth in EU Member States

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### ABSTRACT

*The improvements in economic development, living standards, and the health sector have raised the life expectancy on the world. The rising life expectancy together with decreasing fertility rates have led to population aging. The population aging phenomenon has led the researchers to explore the social and economic implications of population aging in different countries and country groups. In the chapter, the authors explore the causality between population aging and economic growth in EU member states during the period of 1996-2019 through causality analysis and revealed a reciprocal causality between population aging and economic growth.*

### INTRODUCTION

The condireable developments in the healthcare sector and the living standards have been experienced in the world and in turn life expextancy has been increased heterogeneouslyand fertility rates have also begun to decrease heterogeneously in many countries. The increasing life expectancy and decreasing fertility rates have caused the many countries to experience the population aging phenomena. In other words, during the population aging, the share of child and youth in total population decreases and the number of old persons in total population increases and thus the age structure of the population changes. The share of the children in the world population decreased to 26% in 2019 from 38% in 1966 and the share of people higher than 64 age old raised 9% from 5% during the same period. On the other side, the dependency ratio in the EU (European Union) member states increased 55.5% in 2019 from 49%

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in 2000. It is also projected that the population aging exists in the following years (UNCTAD, 2021). Therefore, countries have tried to overcome the economic and social problems resulted from the population aging. In this context, the researchers have explored the social, economic, and cultural effects of the population aging.

The change in the age structure of the population may be effective in raising the output per capita through age-specific differences such as productivity, labor force participation, savings and consumption, and raising the average employee productivity by improving the industry (Zhang et al., 2015). However, the population aging can lead to the various problems such as increased social security expenditures and cost of care services, decreases in active population and production. Furthermore, the population aging may create the new economic opportunities together with the aforementioned problems. The designing and conducting policies for the needs of the elder people is important to raise the life quality of the elder population and contribute the elder population to participate to the economic activities. In this context, the concept of Silver Economy emerged in the last decade depending on the population aging. The Silver Economy can be defined as the economic opportunities resulting from public and consumer expenditures depending on the special needs of the population over 50 years old (European Commission, 2015). The Silver Economy aims to improve the life quality of the population aged 55-64 through introducing the opportunities in social security, lifelong learning, preventive health policies and employment opportunities (Eatock, 2015). In this context, employment opportunities can be increased with the contribution of the incentives for the elder people and in turn economic growth can be supported.

In this study, we focus on the growth effect of population aging in sample of EU member states. The population aging can affect the economic growth through the channels of productivity, employment structure, wage income, savings, production and consumption (Bloom et al., 2011; Lee et al., 2011). The aging population may lead to the increases in government expenditures and decreases in government revenues through raising the retirement and health expenditures in case the working-age population size in a country is insufficient (Tosun, 2003). The labor force participation, productivity, saving and consumption vary depending on the age structure of the population, because the economic behaviours of the individuals constantly change throughout their lives.

The countries with relatively higher rate of young population may produce more goods and services with help of higher active labor force. Therefore, the countries with older workers can be less productive when compared with the countries having young workers and in turn relatively older population may have a negative impact on the production capacity (Tang ve Macleod, 2006). Consequently, the population aging may negatively affect the production in the future. However, some scholars revealed that population aging did not have a significant impact on economic growth (Bloom et al., 2008; Prettnner, 2013; Acemoğlu & Restrepo, 2017). The countries try to combat with the negative economic effects of population aging through encouraging the technological development and making the physical and human capital investments, and importing the qualified immigrants (Hsu, 2017; Kim et al., 2020).

In this study, we focus on the growth effect of population aging in sample of EU member states. The employment participation rate of the population aged 55-64 in the EU increased from 36.9% in 2000 to 60% in 2019. In the same period, the labor force participation rate of the population has increased for both males and females in this age group. In addition, the employment rate in the 55-64 age group in the EU increased from 39.6% in 2000 to 63% in 2019. In the same period, the increase in employment among women in this age group was higher than that of men (OECD, 2020). The study investigates the causality between population aging and economic growth in sample of EU member states for the period of 1996-2019 through causality analysis. The next section sums up the relevant literature and Section

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