

## Younger and younger

Someone turning any given age today is much younger, in body and in mind, than someone who turned that same age sometime in the past. Despite having lived for the same number of years, the person turning that age today is generally in better physical and mental shape, and they will also live longer. We are getting younger and younger!

Yet, depending on how you look at it, we are also getting increasingly older. Improvements in life expectancy, combined with the decline in the birth rate, mean that the average age of the population is rising. In Europe, it is expected that the portion of the population aged over 65 will increase from the current level of 20% to 30% by 2050. For every 100 people between the ages of 16 and 64, today there are 30 people aged over 65, while in 2050, there will be 50. The proportion of the population over 80 years of age, meanwhile, will be more than double the current level, making it very similar to that of the population under the age of 14.

Clearly, population ageing poses an enormous challenge for the next few decades, undoubtedly of the same scale as the challenges posed by technological change and climate change. In particular, this demographic change will exert significant pressure on the public accounts, both due to expenditure on existing programmes and due to new social demands. At the same time, it could also hinder economic growth and, therefore, general government revenues.

Expenditure on pensions, healthcare and dependency will clearly need to increase in the medium and long term. To make this possible, within a framework of sustainable public accounts, we will have to reassess priorities in expenditure and identify sources of savings (including through efficiency improvements, for instance, obtained from a radical digital transformation in the general government). Reducing public debt must also play an important role in cutting costs (interest charges, in this case). As for the revenue side, there is ample scope for improving efficiency, for example, by reducing the complexity of the tax system and combating fraud.

On the other hand, all the current projections point towards the need to review the public pension programmes in order to ensure their sustainability. Many measures will be needed to achieve this, including the introduction of incentives to prolong people's working lives and mechanisms that incorporate a long-term view when setting the initial level of pensions, as well as the adjustments over time. It will also be essential to adopt a comprehensive approach. This would involve measures such as encouraging greater participation in the labour market at all ages, as well as reducing the rate of structural unemployment (a topic that is particularly relevant in the case of Spain); designing an immigration policy that helps to mitigate the effects of the ageing of the population; and promoting growth in productivity, which, at the end of the day, is what determines wage growth.

The scale of the challenge requires us to act now. Unfortunately, its complexity and its perception as a distant problem lead to the debate and the solutions being postponed. Worse still, there is a risk that the debate will be taken over by populist approaches, which tend to offer diagnoses that lack rigour and supposed solutions that are not only ineffective but can exacerbate the scale of the challenge. The longer we wait to tackle this issue thoroughly, the more costly the necessary adjustments will be and, therefore, the more difficult they will be to assume politically.

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