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## The Newsletter of the French Council of Economic Analysis

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### EDITORIAL

*Between 2005 and 2050, the population of the European Union is set to undergo major structural transformations in terms of age.*

*The first reason behind this, which is inherently positive, is the significant increase in life expectancy. The second factor is the gradual ageing of those born between the 1940s and up to the 1960s-70s. The relative weighting of the elderly will increase, which will generate unbalanced redistribution processes and care services. At the economic level, commercial, industrial and services activities will undergo major changes, due to the handover of a large number of companies to a new generation.*

*Proper forecasting of practices and behaviour is necessary to shed light on what will become customary in terms of consumption, travel and choice of residence, etc.*

*Housing and care services are amongst concerns expressed in the different scenarios. More generally, how will the jobs freed up or created over the next decade be filled, as a result of retirement?*

*The report unveils a few original theories, including that of the 'presence-based economy'. This is where demographic and sociological forecasts meet local development strategies.*

**Christian de Boissieu**  
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**Pierre Mirabaud**  
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## Ageing, Activities and Territories: Looking Ahead to 2030

Report by Michel Godet and Marc Mousli

A major study on the consequences of ageing on the development of production, commercial and service activities across territories was launched in 2004 as part of the '2030 Territories' programme by the Délégation interministérielle à l'aménagement et à la compétitivité des territoires (DIACT, inter-ministerial delegation for regional development and competitiveness). This report details the analyses and conclusions. It was produced following a collective two-year project carried out by the Forecasts Group chaired by Michel Godet, member of the CAE. It was co-published by the DIACT and the CAE.

Ageing is often considered in terms of public finance or growth, whereas it has consequences on all aspects of economic and social life. Sending the over 55-year olds back to work, responding to new labour requirements, in particular in the care services sector, taking responsibility for a dependent, ensuring the takeover of a small family business, adapting town planning and housing to the elderly and avoiding generation conflicts, are part of the new challenges we must face. The report explores all these factors and suggests action to be taken. It concludes on the need to develop poles of quality of life at regional level.

The report was discussed at the plenary session of 27 April 2006, and presented to the Prime Minister on 8 June. This letter, released by the Permanent Committee, reviews the authors' main conclusions.

Firstly, the authors recall that ageing reflects a double phenomenon: increased life expectancy and a lower fertility rate. The good news is that populations are living longer, but the fertility rate is too low to ensure the renewal of generations. The equilibrium of our societies is therefore at stake. The consequences of this trend on growth and the financing of retirement schemes have been clearly identified and evaluated on numerous occasions. But all aspects of economic and social life are involved: town planning, property, public services, human resources, firms and SMEs, relationships between generations.

The report considers all of these aspects, highlighting the consequences of these phenomena in play at local level, and particularly on activities across territories: which services (public or private) will develop or disappear? What does the future hold for small-and medium-sized companies and very small companies? What strategy can territories

pursue to adapt to these changes? The report highlights the importance of the 'presence-based economy'. In fact, at local level, the revenue- and consumer-related economy is often more important than that related to goods manufacturing, which should prompt territories to take more account of quality of life and services offered in preparing their policies.

### Ageing and territories: trends and uncertainties

The ageing of the population is inevitable, and is already in effect. The numerous trends related to it are set to intensify, while uncertainties linger.

Ageing from the top is positive, because it reflects increased life expectancy in good health. And, although the fall in the fertility rate precludes generation renewal, the figures do not show a demographic collapse, at

least not in France. Thus, the population was 53 million in 1975 and will be 69 million in 2030, according to INSEE's core scenario based on a constant fertility rate (1.9) and immigration at the current level (100,000 per year). These forecasts are nonetheless fragile because they are very sensitive to assumptions, particularly the fertility rate, as shown in the scenarios outlined below.

Loneliness is becoming more frequent—for several reasons, the most important of which is ageing. A high percentage of the elderly live alone, notably due to widowhood. This has consequences on territories, which will face increased demand for care services, housing, with households growing faster than the population, due to the fall in their average size.

There are a lot of uncertainties surrounding the change in the average income for pensioners. The continued increase in qualification levels during the second half of the twentieth century is a favourable factor, but the Balladur reform of 1993 and Raffarin reform of 2003, and any future reforms, will hit hard. Overall, we can expect a positive trend until 2020; after which, the downturn seems inevitable. Moreover, fears of disparities between pensioners will heighten. In fact, the new rules will have a greater impact on households with single adults or mono-active couples. Moreover, reversion pensions for future widows are at risk and could be jeopardised due to the difficulties of the pension systems.

In any event, it is certain that pensioners will see their income decline compared to the active population. Pensioners with significant capital and low income will therefore be tempted to monetise their possessions, notably property, through mortgaged loans for a life annuity, which a new law has facilitated. Although the principle of the mechanism is good, its success is not guaranteed, because it will have an unfavourable impact on the transmission of family inheritance.

It is a known fact that the elderly are becoming dependent much later on in life. The cost of dependency will however increase. For example, the personalised allowance for autonomy (*allocation*

*personnalisée à l'autonomie: APA*), that covers part of the costs, should increase from €3 billion to €7 billion in 2030, based on a reasonable assumption of indexation on wages. Compared to other European countries, France is behind in terms of care for dependent elderly people in specialised institutions. Nonetheless, it would be best to restrict this type of dependency to the worst cases, and emphasise keeping the elderly at home, which is a more efficient and less expensive solution.

While most pensioners grow old in their place of residence, the wealthiest tend to leave large cities to move to more attractive regions. At first, the regions benefit from new arrivals that generate activity and employment. Later, they have to assume dependency costs, because APA is paid by the *Conseil général* (French Departmental Council). In general, they seem to come out on top.

Ageing will increase tensions between generations. These tensions will be aggravated by the fact that children will have fewer chances of climbing up the social ladder, family inheritance will be passed down later (or in some cases, what is left of family inheritance), increased competition for housing—especially in pleasant areas where the elderly settle, driving property prices up to the detriment of local residents—and the predominance of older politicians.

### **From the golden age of grey hair to the black scenario, three contrasting scenarios**

The authors present three scenarios that combine these different trends within the limits of possibility. These scenarios are differentiated by more or less favourable demographic changes and the degree of adjustment to the inevitable ageing of the population.

The grey scenario is the median scenario. It is based on INSEE's core scenario outlined above (69 million inhabitants in 2030). In this scenario, institutions change little. The functioning of the labour market do not improve, national solidarity mechanisms fall apart, control over immigration (arrival of less qualified workforce) fails, the role of the nation-state in providing standards is weakened under the in-

fluence of globalisation players (transnational companies, NGOs, etc.), the European Union limits its action to economic integration and is non-existent on the social front and the population's distrust of politicians and administration increases. There would be numerous negative consequences. Relationships between generations would deteriorate significantly due to the difficulties in sharing a lower national income, the problems encountered by young people on the labour market and the specific demands from the increasingly higher portion of older voters. Disparities between pensioners would widen; especially as the financing of dependency would only partly be covered by national solidarity, which would increase average earners' burden further. Pensioners living alone would become the most vulnerable, especially women, whose number will increase. The worst-off would monetise their assets and leave little or no inheritance. Finding accommodation would become a worry because the multiplication of family break-ups leads to an increase in housing demand, in addition to the demand associated with ageing. Companies would struggle to hire, due to the shortage of skills to meet demand, and they would be confronted with the new problem of managing elderly staff. A lot of very small companies and small-to medium-sized companies would disappear with their founders and be replaced by large franchised groups interested in 'residential economics', and by e-commerce. Finally, gaps would widen between the pleasant, dynamic areas that attract wealthy pensioners and executives and the other areas that fail to overcome their lesser natural appeal due to lack of adequate policies.

In the second scenario, the rosy scenario, the impracticable trends do not differ from those of the previous scenario, but behaviours adapt, which means that the future can be seen in a favourable light. The number of births would increase thanks to measures in favour of the family, whilst immigration would remain high, but under control and in line with specific needs. The population in 2030 would be 72 million inhabitants, with demographic buoyancy producing growth of 3.5% per year. The situation of

the labour market would improve: with the unemployment rate declining to 4.5% and the length of unemployment cut thanks to improved job-seeking services, the employment rate of 55-65 year olds would improve as the average retirement age would increase from 58 to 63. Growth would enable the financing of the welfare systems, which would be under significant pressure. The disparities between pensioners would not deteriorate. The flow of pensioners from large cities to more pleasant areas would be well-regulated by the regions welcoming pensioners, which would deter them from living in isolated areas, by offering local services. In particular, high demand for care service, after a few difficulties, would enjoy rapid development thanks to the implementation of attractive care-oriented courses. Competition between territories based on 'presence-based economics' would develop and be controlled by providing assistance to deprived areas. Finally the European Union would reach a good economic and social balance and would make itself heard. This general situation combined with fewer uncertainties, the possibility of remaining active without age limit, the proper renewal of politicians thanks to demographic buoyancy will ease tensions between generations.

In the final scenario, which is the black scenario, the fertility rate is sharply reduced (from 1.9 to 1.5), immigration is limited to regrouping families and the skilled foreign workforce turns away from France. The population in 2030 would reach 59 million, i.e. 2 million less than today. Such demographic changes would generate major economic difficulties. Our social security and welfare system would fall apart, individual insurance schemes would develop for the wealthiest, a lot of young people in vulnerable situations would have no social security cover (and therefore no hope for a future pension), the revenue of pensioners would decrease, unemployment would increase and inflation would be high (energy price hikes, shortage), which would plunge many French people into poverty. Our health system would not invest enough in prevention which, in turn, would reduce life expectancy. We would move towards a two-tier society. The

most modest pensioners, hit first by the fall in income, would move away from their usual place of residence to more distant areas, whereas the wealthiest would live in protected areas. There would be an increase in the number of problem areas abandoned by the authorities, in which law and order would break down. Property prices would collapse in isolated areas and remain high in attractive areas. Finding somewhere to live would become more difficult as construction activity would remain flat (due to shortages of human resources). Service-related activities and small- and medium-sized companies would be subject to fierce competition from black labour market. Europe would remain confined to a single market and would lose all political ambitions. Agricultural subsidies would disappear and agriculture would fall apart.

### Consequences for employment and activity

Ageing and related phenomena have consequences for institutions and companies which will have to adapt.

Firstly, an increase in the employment rate of over sixty year-olds will be necessary to ensure the balance of the pension systems and meet new needs in the labour market. This assumes that companies pursue a true management of their human resources, that experience acquired is valued, and that employees are unequivocally allowed to work and enjoy pension benefits. The inevitable use of immigrant labour would not suffice.

The decline in the active population will generate a labour shortage in specific businesses and skills, which, far from reducing unemployment, will create new obstacles to full employment. Companies would focus on young employees and try to retain them (leading to a loss of interest in higher education). 15% of young people who do not have the basic education skills could end up being marginalised, which reflects the difficulty in reforming our education system.

The most urgent needs will be the provision of care services, mainly home help services, nurses and nursing auxiliaries. By 2015,

there should be some 900,000 positions to be filled in these three business lines (in net terms). Therefore, the authorities, with the help of companies, must set up attractive courses specialising in these careers, in particular by providing grants for apprenticeships and studies combined with job contracts and by facilitating job changes. Companies should be able to organise the relevant services on a large scale, by a structured framework and the use of technologies to meet demand in real time. Several measures are recommended to encourage the development of this solidarity-based economy, and more generally the local economy: creating a local company status, subsidising demand (rather than the supply, in order to avoid distortions of competition), favouring the allocation of savings to the locally based economy, encouraging the population to use communication and information technologies.

In the next ten years, around 500,000 managing directors of small- and medium-sized companies (including very small companies) will retire. A lot of these companies will not be taken over, because they have no asset value. In fact, the handover is not the main problem, even though it should be made easier, when possible, by implementing efficient tools, which already exist in some regions, but could be developed and made more widespread. The real difficulty is in creating companies. Those taking over companies or creating new ones have management expertise, but in order to develop their activities (construction, etc.), they require skilled professionals and bigger structures than those of traditional craft businesses. Furthermore, the source of potential entrepreneurs, aged between 30 and 49 years old, will run dry with the decline of this age group in the population, which reinforces the need to encourage work and reward risk. In all, we should witness a concentration of activities, which will gather speed with the development of new distribution processes and the services offered by chains and franchisors.

Although companies are adapting gradually to the increase in the number of senior citizens by developing marketing targeted at this age group, the public autho-

rities, town planners and architects have not yet factored in this dimension. Town planning, public buildings and housing will have to be adapted. For example, local authorities will have to avoid towns spreading out (source of costs) and make it easier for the elderly to move around in the town and the architects to build accommodation at street-level, with easy access to electric switches and communication terminals.

### Choice of lifestyle and presence-based economy

Action taken by companies and the public should be governed by two major issues.

Firstly, it is important for each and everyone to choose their lifestyle, regardless of age. Problems posed by the contradictory needs of the young and not so young must at least be discussed. The fact that generations need each other must become more ingrained in people's minds. Moreover, two important concepts must be activated. The first is the need to develop and professionalise home care, which will be increasingly needed with the ageing of the population. The second involves town planning and housing which must be adapted to the elderly.

Secondly, territories will have to maintain and stimulate activities by implementing presence-based economic strategies. These strategies, and the inevitable competition involved, should create poles of quality of life and services, by playing on the characteristic atmosphere of a place. Such strategies must take account of the needs of the elderly, while trying to avoid generation conflicts. Regional strategies all too often focus exclusively on attracting production centres. In doing this, they take little account of the local revenue-related consumer economy, even though redistribution through social and tax transfers at national level leads to a relative disconnection between GDP and revenue available at local level. To this end, territories must be encouraged to organise a forecast watchdog system and make sure the public is aware of and values their strategy.

### Comment

**Béatrice Majnoni d'Intignano** praises the quality of this work and the importance of issues raised. This report will be very useful for local politicians, who will find ideas for their development projects. In particular, the report should encourage them to take better account of one essential factor: the importance of sales and services activities, that choose to set up their business where people live, which is highlighted by the authors and too often overlooked. Béatrice Majnoni d'Intignano stresses that the grey scenario is already in progress and recalls the very negative influence of ageing on growth as well as the intolerable aspect of massive redistribution operated from the three most creative and wealthiest regions to the twenty two other regions. She also agrees with the authors on the existence of significant labour needs, both at macroeconomic and regional level, and the need to put 55-65 year olds back to work. She believes that the rosy scenario, in which growth reaches 3.5% is unrealistic: this rate was only reached during the economic upsurge of the "Glorious Thirties". She also pointed out that mass unemployment, contrary to what was stated in the report, is not a European phenomenon, because only large countries are concerned: small countries have an unemployment trend of under 5%. In a centralised country like France, local or regional employment services are likely to be more efficient than a national one. The issue of the political power of pensioners is important. When will pensioners have an electoral majority? Béatrice Majnoni d'Intignano insists on a longstanding recommendation which consists in giving a higher electoral weighting to parents for their children, in order to take account of the future generations' preoccupations.