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The Impact of Population Aging on the French Economy

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Abstract: In the face of the formidable challenge of population aging in the 21st century, France, as a typical aging society, is experiencing significant strains on its labor market structure and public finances. With the continually rising proportion of the elderly population, the French government has continuously adjusted the pension system by gradually increasing the statutory retirement age, aiming to alleviate the pressure on pension payments and maintain sustainable economic development. However, while this measure has somewhat slowed down the growth rate of financial burdens, it has been unable to fundamentally reverse the issues arising from aging, such as labor shortages and weakened economic growth momentum. In the future, France may need to adopt a more comprehensive strategy, including optimizing labor market policies, promoting employment and re-employment of the elderly, strengthening the construction of medical and health service systems, and so on, to comprehensively address the complex challenges of an aging society and ensure stable socio-economic development.

Keywords: Population Aging, Retirement Policy, France, Macroeconomics.

1. Introduction

The population aging is caused by two factors. First, the post-war baby boomers have already reached or will soon reach retirement age, and advances in modern medical technologies have further increased the average lifespan of the population. Second, a rise in the average age of childbearing and a fall in the fertility rate were caused by the longer school life expectancy and the altered conception of childbearing, which gradually reduced the young population. The problem of population aging is gradually becoming apparent as the ratio of young people to older people changes. As a developed country, France is facing changes in the economic environment due to population aging [1].

First, France's working-to-retired population ratio is dropping as the country's population ages. The main component of France's pension system is a pay-as-you-go framework, where companies and employees are required to pay payroll taxes, which are then utilized to finance retiree pensions. Generations of people have been able to retire with a guaranteed pension because to that system. The disparity between the number of individuals receiving pensions and those paying taxes will cause the pension system's revenue and expense gaps to increase. To ensure that pensions are paid on time, the French government must fund the pension system. This puts additional strain on the French treasury.

Second, France's budget deficit and public debt have remained high. The main reason for this is the low economic growth after the economic crisis, which created multiple challenges and constraints for the government to balance the budget deficit. On the other hand, to promote economic recovery,

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the French government has been stimulating economic growth by reducing taxes and increasing public spending. Inevitably, this has complicated efforts to reduce the budget deficit. One of the goals of the French pension reform in 2023 is to cut public spending and relieve budgetary strain, which aligns with the requirement for risk management capacity.

Population aging can diminish labor supply, lower labor productivity, and drive out investment, all of which can limit future economic growth from the standpoint of economic aggregation. According to certain theories, an aging population may benefit from investments in human capital and technology, which would lessen the pressure from prospective growth that is likely to decline and encourage industrial upgrading. However, research to date typically tends to indicate that population aging will exert deflationary pressure and drive a downward trend in long-term interest rates from the standpoint of the natural rate of interest.

The social and economic problems posed by the aging of the French population have become unavoidable, and France needs to adapt to these changes [2]. On January 10, 2023, the French government announced its intention to reform the pension scheme. These moves provoked discontent among the public and trade unions, which eventually developed into a large-scale strike, causing great losses to French society and the economy, and once leading to the paralysis of public services. Without the National Assembly's approval, French Prime Minister Elisabeth Borne signed the pension reform bill into law on March 11, 2024, in accordance with Article 49.3 of the French Constitution. Given that France is one of the developed nations in Europe, it is important to examine and assess how it manages the aging of its people. Thus, the purpose of this essay is to analyze the effects of population aging on the French economy and offer recommendations for the future direction of French economic policy.

2. Current Situation of Population Aging in France

2.1. Data on Population Aging in France

Population structure is usually in dynamic equilibrium. However, in developed countries, the aging of the population has become an increasingly visible and inevitable trend. This trend has far-reaching consequences for French society, in particular the change in the ratio between the working population and the dependent population (mainly the elderly and children), which is profoundly reshaping the way society functions. The purpose of this subsection is to analyze the specific current situation of population aging in France.

According to the data, the elderly population in France has been growing steadily and at a significantly faster rate since 2011. By January 1, 2023, 21.3% of the French population will be 65 years or older. This percentage has been increasing for more than three decades. Since 2010, the process of population aging has accelerated significantly as the baby boom generation moves into old age [3]. In contrast, the percentage of young people under 20 in the total population has fallen by 1.9 percentage points to 23.7% in 2020, and the proportion of individuals in the 20-59 age group has fallen by 4.4 percentage points in 20 years [4].

According to a population projection model published in 2016 by the Institut National de la Statistique et des Etudes Economiques (INSEE), the total population of France will reach 76.4 million on January 1, 2070. The population of those 65 and over will grow significantly. One in four people will be 65 years of age or older by 2040. The proportion of under-20s will drop to 21.3% in 2070. Lastly, the percentage of people between the ages of 20 and 64 will likewise decrease, reaching 50.0% in 2070 [5].

According to current projections, France will face a serious situation of population aging if no future event occurs that has a significant impact on the population.

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2.2. Imbalanced Ratio of Retirees to Workers

According to projections published in September 2022 by the Conseil d'Orientation des Retraites, the number of taxpayers will rise from 28.8 million in 2021 to 30.8 million in 2040. That is an increase of almost 2 million, assuming a long-term unemployment rate of 4.5%. However, the number of "baby boomers" retiring and receiving direct pensions will increase from 16.8 million in 2020 to 20.3 million in 2040, growing much faster than the number of taxpayers.

Furthermore, France boasts one of the longest average pension durations in Europe (26.7 years for women and 22.2 years for men), due to a combination of lower retirement ages and higher life expectancy. In France, the percentage of individuals aged 60 to 64 who are employed is only 33 percent, while the average for EU countries is approximately 45 percent [6].

The increasing aging of the population has not been accompanied by a significant increase in the employment rate of older people, which implies weak economic growth dynamics and a serious shortage of resources for public finances. As a result, the burden of old age will continue to grow and increasingly fall on the working population. And the working population itself will shrink as the birth rate declines. This burden is likely to become unsustainable, putting increasing pressure on the country's economy.

3. Effects of Population Aging on the French Economy

3.1. Social Security System

France's lengthy history of social welfare policies has progressively complicated the dual objectives of economic advancement and social governance. Since the 1973 energy crisis, France has consistently recorded budget deficits. Furthermore, the country's public debt has increased significantly, reaching 1,833.8 billion euros, or 90.2% of France's GDP, by the end of 2012 [7]. Following the advent of the European debt crisis, the French state's financial resources have proven inadequate to sustain the country's extensive welfare system. The mounting public debt has placed the French economy in a precarious position, threatening the stability of the social security system.

The concurrent rise in the percentage of the population that is elderly only serves to exacerbate this predicament. Changes in the labor market's demographics directly affect the balance between supply and demand. The number of people who work for a living and make contributions to pension funds is directly impacted by the decrease in the working-age population and the rise in the retired population, as well as changes in work habits and variations in the unemployment rate. Labor productivity, an essential indicator of economic efficiency, not only determines the overall wage level but also indirectly affects the country's tax revenues, which serve as a crucial source of funding for social security systems such as pensions. A direct consequence of population aging is an increasingly significant imbalance between the number of pensioners and the number of individuals who continue to contribute to pensions.

Concurrently, the repercussions of occurrences such as the global spread of the COVID-19 virus and the armed conflicts around the world have prompted numerous countries to gravitate towards more traditional economic strategies. The influence of external economic forces has rendered it challenging to reach a higher average salary in France. Over an extended period, the deficit of the French pension system will persist in its upward trajectory.

3.2. Economic Growth and Consumption Structure

Of all the nations that make up the Organization for Economic Co-operation and Development (OECD), France today has the greatest tax burden: more than 300 taxes in total. France's tax-to-GDP ratio in 2022 was 46.1%, much higher than the 34.0% average for the OECD [8]. The current heavy

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tax burden and complex tax structure in France represent a significant constraint on the country's economic efficiency. In comparison to the EU average, France's corporate tax rate is relatively high, resulting in a significant tax burden for enterprises. However, the government has repeatedly increased the minimum wage, leading to a rise in labor costs for enterprises. The combined effect of these factors has been an increase in operating costs for enterprises, a reduction in France's attractiveness as an investment location, and the loss of the competitive advantage of low-cost production in the international market for French enterprises.

Emmanuel Macron has proposed a distinctive approach to economic policy development. In his 2017 election platform, the slogan "Emancipation of Work and Entrepreneurship" articulated a vision for reducing unemployment and increasing the purchasing power of the French. To achieve this objective, Macron intends to implement comprehensive reforms to the French economy, both domestically and in terms of how France is perceived by foreign investors. Since assuming office in 2017, President Macron has pursued economic liberalization and foreign investment, implementing reforms that include labor market deregulation, reduced labor costs, and streamlined business procedures. These reforms are designed to modernize the economy and foster a more business-friendly environment.

3.3. The Contradiction between an Aging Workforce and Industrial Development

As the population continues to age, the capacity of the older workforce to adapt to the demands of technological advancement and industrial modernization has emerged as a significant practical challenge. From a realistic perspective, although numerous European governments endorse delayed retirement as a means of alleviating the financial burden associated with pension payments, a considerable number of elderly individuals are still opting to retire prematurely in practice. As forecast, the discrepancy between the average actual retirement age and the statutory retirement age is expected to persist in most European countries from 2022 to 2070. By 2070, it is projected that only Hungarian men and Polish women will continue to work beyond the statutory retirement age [9].

The reasons for the early retirement of the older labor force may be closely related to the fact that the aging of the labor force reduces the labor force participation rate and labor productivity, thereby slowing down the adjustment and upgrading of the industrial structure. If the older labor force is unable to adapt to the requirements of the job market following industrial upgrading, it may choose to retire early due to a perceived lack of personal working ability and an unfavorable working environment. Consequently, the ability of the aging labor force to adapt to the needs of industrial development represents a significant challenge facing aging societies.

4. Policy Recommendations

The French government has enacted reforms, principally by delaying the retirement age, to address the issues brought about by the aging of the population. However, this decision was met with a series of resistance, including strikes and protests. Ultimately, the French government was compelled to invoke Article 49.3 to secure the passage of the legislation. This episode underscores the necessity for the government to enhance publicity before the introduction of the retirement policy reform in France. This should include the utilization of media platforms to conduct public education and provide a comprehensive explanation of the necessity and long-term significance of the reform. This will facilitate enhanced understanding and support among the public.

The pay-as-you-go pension system, which is based on intergenerational transfers, is facing challenges due to the growing phenomenon of an aging population in France. While raising the retirement age has mitigated the economic impact of population aging to a degree, it is not a comprehensive solution. Continuous improvements are still necessary. In the case of France, the

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existing pension system can be enhanced through reforms to the structure and level of pension payments, as well as the establishment of a flexible retirement mechanism. This would entail an increase in the pension contribution rate and a reduction in the pension replacement rate.

In terms of economic development, France has the potential to further develop the Silver Economy, improve supporting measures for the elderly, and collaborate to improve the social security system. The French government should support the creation of complementary businesses to raise older people's appetite for consumption and ultimately spur economic growth in order to boost the participation of older people in the economic cycle.

5. Conclusion

France is confronted with the challenge of an aging population, characterized by a significant shift in the ratio of working to retired individuals and a decline in the dynamism of the labor market. The shortage of labor has a multitude of implications, and the French government is facing mounting fiscal pressure due to the high cost of public welfare programs as the population ages. Concurrently, the pension system of inter-generational transfer payments is unsustainable, and the mounting deficit has compelled the French government to maintain ongoing subsidies. A further cause for concern is the increase in France's public debt, which is placing increasing pressure on the government's finances. This, in turn, raises questions about the ability of the social security system to function effectively. The resulting impact on consumption levels and industrial upgrading is also a cause for concern, as it makes it more challenging to achieve substantial economic growth. This, in turn, affects the overall assessment of the French economy.

In order to mitigate the negative social and economic effects of an aging population, France raised the retirement age from 62 to 64 years old with the 2023 pension reform. Raising the retirement age will help reduce the deficit by helping to balance the pension system's income and expenses. Consequently, the French government will be required to provide fewer subsidies, thereby reducing the burden on public debt. Nevertheless, parametric reforms can enhance the economic development environment for a limited duration; however, they are not a comprehensive solution to the issue. In the future, France must continue to explore additional policy development avenues and identify new economic growth opportunities to more effectively address the impact of population aging.

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