
ECONOMIC ASPECTS AND CHARACTERISTICS OF AGE INEQUALITY IN THE NEW REALITY

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Abstract: The aim of article is to present the contemporary development of society and related economic inequality. Emphasis is placed on age inequality due to its economic aspects and characteristics. The main focus of the article is on the new reality of economic slowdown and its adverse effect on another contemporary trend – the growing number of retired persons.

The results of the study identified a trend which is similar across most EU member states - population aging and inequality of the retired people. Unlike the other member states, old-age inequality in Bulgaria is affected by additional factors, such as the ongoing economic transition, social reforms, and European integration processes.

Keywords: economic inequality, population ageing, social reforms.

JEL: H31, I32, J14, J26.

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Introduction

The effects of the global financial crisis posed various challenges for the economies worldwide. Many economies have faced lower growth in their productive capacity, which may slow the rise of living standards in the future (Blagrove & Furceri, 2015, p. 22). Countries may have to adjust to a “new reality” of decline of their potential output growth. The decline reflects impact of aging; lower capital and productivity growth.

The current stage of social development is characterized by a number of significant inequalities among various social groups, which exist to varying degrees in each country. This situation requires policy changes, which are subject to widespread discussions not only in the academic circles but also

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among the general public. Yet they focus on only one of the existing inequalities – age inequality, which is characteristic of all economies regardless of their stage of development.

Economic inequality is caused mainly by technological advancements, rising standards of living, better healthcare. (Zahariev, 2010, p. 102). These external factors result in population ageing, which means that people remain active, healthy, and productive for longer periods. The combined effect of a steadily increasing in life expectancy and decreasing birth rates known as population ageing poses various economic, budgetary, and social challenges. (Council of Ministers, 2012, p. 5). Population ageing has a significant impact on economic growth and leads to an increase in public spending on pensions, healthcare, social services, education, housing and infrastructure.

In consideration of these contemporary trends, we formulated the following research hypotheses:

Hypothesis 1: Age inequality has the same economic implications in each country;

Hypothesis 2: Age inequality has specific economic implications in each country.

The article is structured as follows: Section One presents the economic aspects of age inequality and Section Two discusses their effects on the economic characteristics age inequality.

Economic aspects of age inequality

Most inequality studies focus on discrimination. Most countries have adopted regulations for prevention of and protection against discrimination, the non-compliance of which has certain legal implications and is penalized by law.

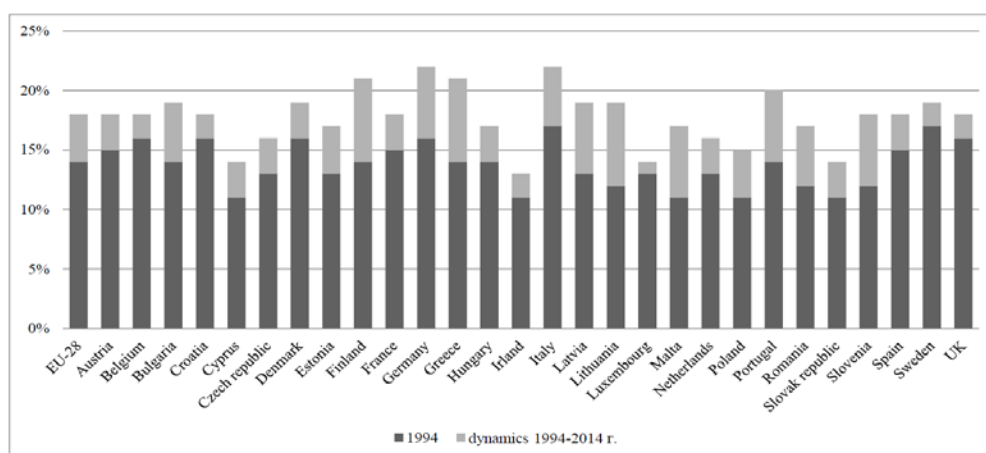
The various forms of discrimination are determined by the type of economic agent whose rights may be violated. This is why there are many different types of stakeholders with their own interpretation of the term “discrimination”. However, regardless of the achieved results, researches often face objective difficulties due to the obsolete and often misleading terminology in this field.

The tendency of population ageing influences the distribution of population under, at and over working age. The last are influenced not only by the population aging, but also by legislative changes concerning the retirement age. (National Statistical Institute, 2017b, p. 2).

In the first decade of the 21st century, social changes resulted in economic effects, the most important of which was the change of the social structure. Economic changes led to greater diversity, innovations, and utilization of complex social resources (Nedelcheva, 2017, p. 57).

Nowadays, cultural traditions and religious views of equality are increasingly being combined with requirements for a multicultural environment which goes beyond national borders. Therefore, over the past 30 years, the issue of inequitable treatment of people based on their age has become particularly relevant, and unlike discrimination, can be curtailed by voluntary initiatives since its consequences are social and economic rather than legal.

The positive effects of innovation (e.g. new methods of diagnosis and treatment in medicine, as well as innovations in environment protection and education) lead to radical changes in the age structure of society. From 1994 to 2014, the share of elderly people in the EU increased by 4.0 percentage points (Eurostat, 2015a, p. 10). The figures for Bulgaria (5%) are similar to those of the other Eastern European countries (see Figure 1). This puts ageing in the focus of research related to the issue of inequality.²



Source: Eurostat, 2015a.

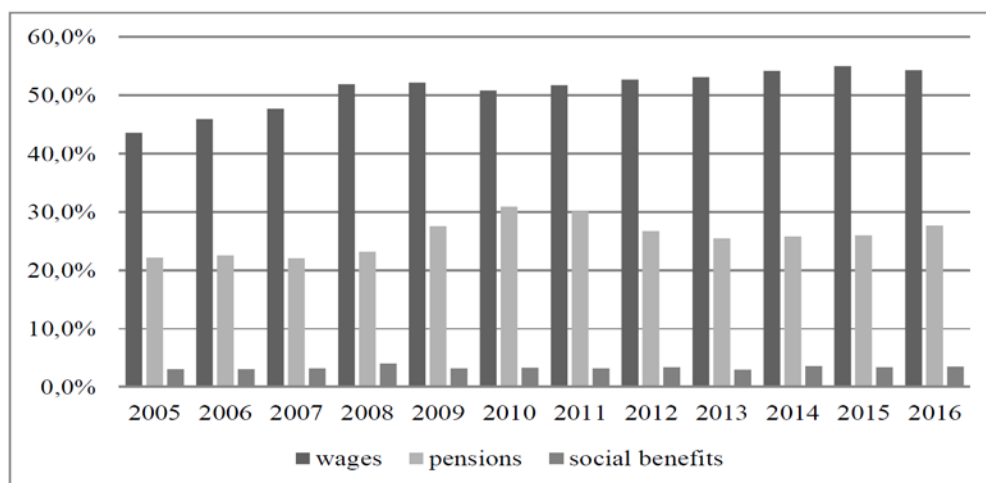
Figure 1. Share of population aged 65 and more for EU-28

Major changes in society contribute to the emergence of inequalities. The socio-demographic changes in the East European countries (including Bulgaria) were boosted by their transition to free-market economy, and resulted in social inequality (Hubenova, 2010, p. 68). The negative effects on the status of elderly population are caused by changes in the social norms and underestimation of elderly people's contribution to development (Mihova, 2012, p. 92). These inequalities are observed in economies with annual GDP growth rates below 6%.

² As a social phenomenon, inequality arises mostly from the social status (mainly in terms of education type and level), which affects the equality-to-income ratio and the economic indicators of the living standard.

Due to the processes of globalization and integration, age inequality goes beyond national borders. This, and the large-scale migration worldwide in recent years, are the reasons for convergence of national policies in this field. They are intended to provide support and financial incentives to companies which have undertaken initiatives to reduce age inequality, with the main tool being the financial incentive to support their economic growth.

The new reality of Bulgaria's social development determines modern inequalities. The relative share of income from wages and salaries within the total income in 2016 increased by 10.7 percentage points compared to 2005. (National Statistical Institute, 2017a, c. 17). Social transfers (pensions, family allowances, social benefits, scholarships and unemployment benefits) in 2016 increase nominally 2.6 times and their relative share within the total income increases by 5.9 percentage points compared to 2005 (Figure 2). Income from social transfers form 31.2% within the total household income.³



Source: National Statistical Institute, 2017a.

Figure 2. Relative share of income from wages and salaries within the total household income

³ The period after Bulgaria's accession to the European Union in 2007 is especially interesting to research in the field of economics. Over the last ten years, Bulgaria's ageing population has increased by 3.8 percentage points, while the relative share of income from pensions in the household budget - by 5.5 percentage points. In addition to the gap between the aging population and the pensions, there is a decline in household income from entrepreneurship, with its relative share in total household income decreasing by 0.9 percentage points. When carrying out future research on the chosen topic, it should be noted that the same period, 2007-2017, apart from EU membership, coincides with the effects of the global financial crisis.

Economic characteristics of age inequality

The aspects of age inequality discussed in the previous part of the article have a direct effect both on society and the economy. Unlike its economic aspects, the economic characteristics of age inequality are the same in each country.

Age inequality is not only work-related (similar challenges for humanity were the protection of the environment and the measures to deal with the climate change at the end of the twentieth century). It is present in many other sectors of the economy, such as education, healthcare, ecology, taxation, and public spending. The emerging market segments in the field of medicine and education are very important for reducing age inequality outside the workplace. There is a growing public pressure for increase of the public spending (as a percentage of GDP) on pensions, healthcare services, infrastructure, and education. It should be noted, however, that due to differences in the statutory definitions of age, the shares of government spending on these public goods vary widely among the countries.

Although demographic groups are defined in terms of age thresholds, these thresholds are different not only for the given economic sector but also for each country (similar problems were experienced with the baby boom in the 1970s). The analysis of age inequality should take into account the fact that the increase of life expectancy is combined with another determinant – the decreasing birth rates (United Nations, 2009, p. 4). This, along with the imaginarity, bias, and resilience as typical characteristics of all interviews and surveys, poses certain difficulties in measuring the effects of age inequality.

Population ageing is complemented by the constantly growing emigration flows. This negative demographic trend (which is similar to the post-war period and the Great Depression in the 1930s) is characterized by a decrease of labour force and productivity. Thus a new type of immigration was established - to countries (so-called "havens") with less age inequality, higher public spending on healthcare, and better pension systems.⁴

There is a number of difficulties related to measuring the level of age inequality and its effects. Unlike other types of inequality, such as education and nationality-related inequality, the unfair treatment of people due to their

⁴ Countries which have adopted the Beveridge pension system (a fixed benefit plan, where the retirement age and the amount of the pension are determined by the employers, who maintain their own pension funds and retirement social policies) are more attractive than those, including Bulgaria, which have adopted the Bismarck system (a fixed contribution plan, where the retirement age and the minimal wage and pension rates are determined by the state).

age is not based on clear-cut motives.⁵ The level of importance of age inequality is determined mostly by the existing social stereotypes regarding job relations and occupational age thresholds (e.g. the retirement age for typists, golfers and gymnasts, ballet dancers and opera singers, miners, sailors, etc.) Permanent expectations regarding state initiatives and étatist attitudes define age inequality as the newest type of all social inequalities. Some leading experts (Pavlov, 2007, p. 266) believe that the system of governance should adapt to these social changes through systematic reforms (radical changes of its basic structure, the financial and social strategies of the social security system following the principles of diversity and diversification of the sources of funding for social services, personal responsibility, freedom, entrepreneurial activity and initiative) rather than parametric reforms (conservative modification of the most important parameters, such as its scope, the size and sources of financing of the social benefits, modification of the processes and procedures of the one-tier wealth-distribution system to maintain its relative financial stability).

The problem of age inequality requires complex measures in the social sphere. Nowadays the macroeconomic environment provides opportunities for maintaining high levels of employment and greater participation of disadvantaged social groups on the labour market. At the same time, the rapid technological advancements create conditions for life-long learning, which can reduce age inequality by reintegrating the elderly employees. Last but not least, society today is perfectly capable of adapting its infrastructure to the socio-demographic situation by providing personalized services (care) tailored to people's individual needs and preferences. Unfortunately, however, most countries, including Bulgaria, are trying to solve the problem of age inequality by means of exogenous actions (e.g. investments in new drugs with insufficient innovativeness and below-average returns) (Kamusheva et al., 2017, p. 8).

Age inequality affects the budget and hampers the economic growth (World Bank, 2013, p. 22). As labor shrinks by close to 40 percent till 2050, real GDP growth is projected to slow down to 0.7 percent per year by the end of the projection horizon. These processes will increase public spending as a share of GDP, resulting in an increase in Bulgaria's debt-to-GDP ratio from 18 percent to 51 percent by the end of the projection horizon.

Population ageing increases the age dependency ratio. The general age dependency ratio⁶ in Bulgaria at the end of 2016 was 53.4%, which means that

⁵ Note that the elderly voters are often more conservative and more active in exercising their right to vote, and thus are more likely to initiate political changes (for example, the BREXIT decision was taken with the votes of Britain's retired population).

⁶ The *age dependency ratio* is a measure of the number of dependents aged zero to 15 and over the age of 65 divided by the number of working age people (people aged between 15 and 64).

for each dependant person (aged under 15 or over 65) there were less than two working-age persons (in comparison, in 2005 the ratio was 44.5%). The EU-28 average dependency ratio is 51.8%, which means that for each dependant person there are almost two working-age persons. The lowest ratio is reported for Slovakia (40.6%) and the highest – for France (57.6%).

Population ageing and the related inequality the increase government spending on social services. The age-related public spending (on pensions, social and healthcare services, and education) are expected to increase by about 2% of the annual national product by 2060. At the same time, the forecast is for an average annual increase of about 1.4% (Eurostat, 2015b, p. 8).

Population ageing tends to shift the solutions of social welfare problems from the state to individuals as responsible for failing to deal with the risks at a later age (Zlatanova, 2015, p. 9). Transnational financial organizations are the main agents that promote the idea of individual or local solutions of globally generated problems.

The social spending policy of the government is not efficient in terms of reducing inequality (Hristov, 2013, p. 11). The reforms in the healthcare and pension systems did not meet people's needs and expectations. Other countries, such as Slovenia, are quite successful in these fields albeit at lower personal income tax rates. Their social policies are focused mainly on the better efficiency of the public spending rather than on increasing its size.

Conclusion and Recommendations

Age inequality is historically the oldest type of inequality and yet the least studied one due to social biases. So far, this issue has been addressed mainly in post-war periods and in future initiatives such as Economy 4.0. There aren't any large-scale research projects in this field conducted by professional experts from leading universities and scientific organizations. Due to certain historical biases and social attitudes, researchers focus their attention mostly on studying gender inequalities. The lack of research on age inequality provides opportunities for manipulations and populism. Most studies on discrimination are initiated by specific stakeholders and are not based on sound empirical data for comparative analysis of the underlined dynamics and identification of trends.

The results from the analysis partially confirm *Hypothesis 1 (Age inequality has the same economic implications in each country)*. Regardless of the degree of economic development, age inequality is similar in most countries. A key determinant for the economic aspects of age inequality is the society and, in particular, the relationship between its history and degree of development. In

order to mitigate the effects of age inequality, it is advisable to take measures prior to their accumulation over time (Organisation for Economic Co-operation and Development, 2017, p. 4).

The results of the survey reveal various economic characteristics of age inequality. An essential element supporting the second hypothesis (*Hypothesis 2*) is the overlapping of new factors such as European integration processes and post-crisis effects on the society and economy. While the economic aspects are common for all countries, economic characteristics are country-specific. The study could be developed further with a qualitative meta-analysis to determine the economic impact of age inequality in a given country, e.g. Bulgaria.

In the new reality, policies aim to increase productivity, promote capital growth and offset the effects of aging. In today's society, there is no correlation between age and wealth, although, unlike other types of inequality, age inequality leads to a decline in the living standard.

Modern social dimensions are the result of a combination of an aging population and a low birth rate. These factors are aggravated by the effects of the global financial crisis. A possible solution to these problems is a combination of concerted efforts to overcome the recession and through reforms putting age-related spending on a sustainable path (Commission of the European Communities, 2009, p. 2). The short-term guidelines are investing in the training and development of human capital that will help to cope with the impact of the crisis in long run. Investment to boost training and human capital will help address the impact of the crisis in the short run and contribute to preparing for an ageing society.

To results of the analysis of age inequality by country are distorted due to differences in the national legislations as well as the specific characteristics of the individual national economies. Age inequality is not relevant in societies in which the acquisition of tangible goods is mainly related to the physiological qualities of economic subjects.

Unlike research into other forms of inequality, age inequality cannot be measured theoretically but only through field studies. The application of theoretical studies in the real environment reduces the importance of the individual economic entity, focusing mainly on a specific sector of the economy.

On the grounds of the study discussed above, we can put forward the following basic recommendation - in conducting research on inequality issues, it is important to first analyse age inequality and then the other forms of inequality.

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ISSN 0323-9004

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