

## ECONOMIC ASPECTS AND CHARACTERISTICS OF AGE INEQUALITY IN THE NEW REALITY

Yulia Nedelcheva<sup>1</sup>

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### Abstract

*The aim of article is to present the contemporary development of society and related economic inequality. Emphasis is place on age inequality due to its economic aspects and characteristics. The direction of article is to the new reality, in which the economic indicators decrease and have a negative impact on another contemporary trend - increasing the number of retired persons.*

*The results of article outline a trend similar to most EU countries - population aging and inequality for retired people. Unlike other countries, there are additional factors in Bulgaria that affect the inequality studied - the transitional nature of economy and a series of social reforms, incl. the EU integration processes.*

**Keywords:** economic inequality, aging populations, social reforms

**JEL Codes:** H31, I32, J14, J26

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### 1. Introduction

The effects of global financial crisis have posed a number of challenges for all humanity. Most economies report a lower growth in their production capacity, which may delay the rise in living standards in the future (Blagrave & Furceri, 2015, p. 22). The modern economy is entering a stage of development, which is define as a "new reality". Its characteristics are reduction of potential output growth; an impact of aging population on the economic downturn; lower capital growth and productivity.

The current stage of social development is distinguish by the existence of large and multiple inequalities in the different social groups that manifest to varying degrees for each particular country. This determines the need for policy changes in this area, the guidelines of which are the subject of wide-ranging discussions not only in academic circles but also among the public. The focus is

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<sup>1</sup> Faculty of Economics, Sofia University "St. Kliment Ohridski", Sofia, Bulgaria, yulia.nedelcheva@abv.bg

on only one of the existing inequalities - by age, which is characteristic of all economies, regardless of their stage of development.

The sources of economic inequality are related to the development of technologies, to improvement of living standard and to improvement of quality of health services (Zahariev, 2010, p. 102). These external factors lead to an advanced age, while retaining their ability to lead an active, healthy, dynamic and productive lifestyle. The cumulative situation of a sustained increase in life expectancy, lasting tendencies of birth reduction and the population aging are related to economic, budgetary and social challenges (Ministerski savet, 2012, p. 5). Aging has a significant impact on economic growth and leads to an increase in public spending on pensions, healthcare, social assistance, education, housing and infrastructure.

In line with the trends of the new reality, we formulate the following research hypotheses:

*Hypothesis 1: The economic aspects of age inequality are similar across countries;*

*Hypothesis 2: The economic characteristics of age inequality are characteristic of each country.*

The structure of this article consists of two parts. In the first part, we present the economic aspects of age inequalities and their reflection in the economic characteristics of age inequalities discussed in the second part.

## **2. Economic aspects of age inequality**

At the heart of most research on inequality issues is the question of discrimination. In order to prevent and protect against discrimination in the legal framework of most countries, measures are foreseen, the non-compliance of which has legal consequences and are sanctioned by the respective legislations.

The types of economic actors whose rights may be violated determine different forms of discrimination. This also defines the wide range of stakeholders who offer their own interpretations of the content of term "discrimination". Regardless of the results achieved, however, due to the morally outdated and often misleading terminology in this field, modern researchers often encounter justified difficulties.

The aging trend of population leads to changes in its basic age structure - below, at and over working age. Impact on population aggregates at and above

working age is due both to population aging and to legislative changes in the determination of retirement age limits (Natsionalen statisticheski institut, 2017b, p. 2).

In the first decade of the 21st century, social phenomena are transform into economic effects, with the greatest importance being the social structure. Changes in the economy are reflect in various forms of diversity, the provision of innovative products and the use of complex social resources (Nedelcheva, 2017, p. 57).

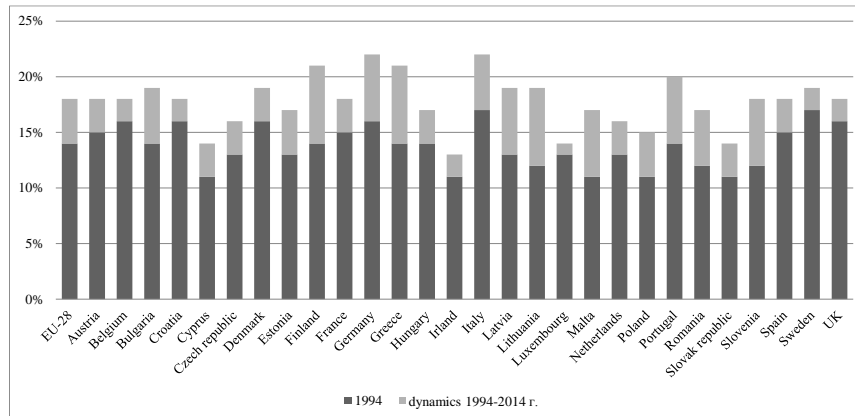
Nowadays, cultural traditions and religious views of equality are increasingly being combine with the requirements of a multicultural environment in which national borders are abolish. Therefore, over the past 30 years, the issue of inequitable treatment of people based on their age has become particularly relevant, which, unlike discrimination, can be curtailed by voluntary initiatives and but resulting in legal but economic and social consequences.

The positive outcomes of introducing innovation (e.g. new methods of diagnosis and treatment in medicine, as well as innovation in other sectors such as the environment and education) cause radical changes in the age structure of society. Between 1994 and 2014 the share of elderly people increased by 4.0 percentage points in the EU (Eurostat, 2015a, p. 10). The figures for Bulgaria (5%) are similar to those from other Eastern European countries (see Figure 1). This also determines the leading role of age in research related to the issue of inequality.<sup>1</sup>

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<sup>1</sup> For the most part, the inequality as a social phenomenon arises from the social status (primarily from education as a form and orientation), which affects the balance of income and economic indicators of living standards.

Figure 1. Population of 65 and over (percentage of total population)



Source: Eurostat, 2015a

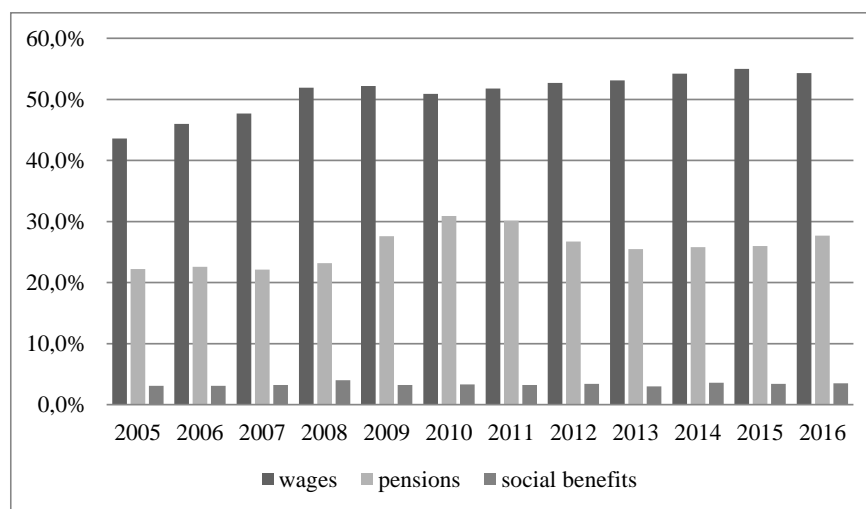
Major changes in society contribute to the emergence of inequalities. For the countries of Eastern Europe, incl. for Bulgaria, socio-demographic changes are added to the adoption of market principles in the economy that have led to social inequality (Hubenova, 2010, p. 68). Negative changes in the status of older population are perceived because of changes in social norms and underestimation of contribution of older people to development (Mihova, 2012, p. 92). These inequalities are reflected in situations where GDP growth is below 6% per year.

Due to globalization and integration processes, age inequality crosses national borders. As a result, as well as recent large-scale movements of people around the world, there is a convergence of state policies in this area. They focus on offsetting and encouraging corporate initiatives to reduce age inequality, with the main tool being the use of material incentives to sustain economic growth.

The new reality in Bulgaria's social development determines modern inequalities. The relative share of wages in total income in 2016 increases by 10.7 percentage points compared to 2005 (Natsionalen statisticheski institut, 2017a, p. 17). In 2016, the income from social transfers (pensions, family allowances for children, social benefits, scholarships and unemployment benefits) increased in nominal terms by 2.6 times compared to 2005 and their

relative share in total income increased by 5.9 percentage points (see Figure 2). Income from all social transfers accounted for 31.2% of total household income.<sup>1</sup>

*Figure 2. Relative share of income from wages, pensions and social benefits in the total income of households*



Source: Natsionalen statisticheski institut, 2017a

### 3. Economic characteristics of age inequality

The aspects of age inequality discussed in the previous part of the article have a real impact both in society and in the economy. Unlike economic

<sup>1</sup> Research interest for economists is the period after the accession of Bulgaria as a full member of the European Union in 2007. Over the last ten years, Bulgaria's aging 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 borne in mind that the same period, 2007-2017, apart from EU membership, coincides with the effects of the global financial crisis.

aspects, the economic characteristics of age inequality are characteristic of each country.

Age inequalities are manifest not only in the workplace (similar challenge for humanity is ecology and measures to tackle climate change by the end of the twentieth century). It is relate to a number of sectors of the economy - education, health, ecology, taxes and public spending. To reduce age-related inequalities, new market niches, particularly in the field of medicine and education, are of great importance. Public pressure to increase public spending (as a percentage of GDP) for pensions, healthcare, infrastructure and education increases. It should be note, however, that due to differences in statutory definitions of age, individual countries do not maintain the same levels of cost to deal with this problem.

The definition of a demographic group according to the age characteristics of its members has its specificity not only for the specific economic sector but also for each country (similar problems have been observed in the 1970s baby boom). When analyzing age inequalities, account should be taken of the fact that besides increasing life expectancy, there is another determinant: birth reduction (United Nations, 2009, p. 4). This, along with the characteristic imagination, inertia, and resistance in conducting interviews and surveys, leads to difficulties in measuring the effects of age inequality.

The problem of aging is complement by an ever-widening emigration wave. The unfavorable demographic situation (resembling the post-war periods and the time of the Great Depression of the 1930s) leads to a reduction in labor force and productivity. There is a new type of immigration - to countries (so-called "oases") where there are more favorable conditions for tackling the problem of age inequality, higher social costs for health care and a better pension system.<sup>1</sup>

A number of difficulties accompanies establishing age inequality and determining the effects of it. Unlike the other types of inequality, there are no clear-cut motives for the unequal treatment of people, such as inequalities in

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<sup>1</sup> The most attractive are the countries that have implemented the Beveridge pension system (where the time and retirement amount is determined by the employer who maintains his own pension fund and conducts a social program for pensioners), unlike those, incl. Bulgaria, using the Bismarck system (the state regulates the retirement age, including minimum wage and pension rates).

education and nationality.<sup>1</sup> The magnitude of age inequality is mostly determined by the existing stereotypes in workplace perceptions and the age limit of individual occupations (for example shorthand typists or typists, golfers and gymnasts, ballet and opera artists, miners and sailors). Permanent expectations of state initiatives and statist attitudes define age inequality as the newest type of all inequalities in the society. Leading experts (Pavlov, 2007, p. 266) recommend adapting the state system to changes in society through systematic reform (radical changes in the basic structure, financial and social strategies of the social security system, adhering to the principles of diversity and diversification of sources of funding social protection, personal responsibility, freedom, entrepreneurial activity and initiative) instead of through a parametric reform (conservative modification of the most important parameters of the scope, the amount of payments, streamline processes and procedures in system to maintain relative financial balance).

Addressing the problem of age inequality requires complex measures in the social system. The modern macroeconomic environment provides opportunities for maintaining high levels of employment and for the participation of more disadvantaged social groups in the labor market. At the same time, the rapid pace of technological change creates conditions for building a society where learning can last throughout life. This is a prerequisite for placing the generations in the same position, incl. for the reintegration of older employees. Finally yet importantly, the modern society has the real opportunity to modernize the infrastructure according to the socio-demographic situation, incl. by providing personalized services (care) tailored to individual needs and people's preferences. Unfortunately, however, in most countries, incl. in Bulgaria, the problem of age inequality is solved by exogenous actions - for example, the cost of new drugs on an individual basis is approved, where innovation is not high enough and returns are below average (Kamusheva et al., 2017, p. 8).

Age inequality affects the budget and hampers economic growth (World Bank, 2013, p. 22). Real GDP growth may slow down to 0.7% per year, with

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<sup>1</sup> Account should also be taken of the fact that adult voters are often more conservative in their views and are more active in exercising their right to vote, give guidance to changes in the political map (for example, BREXIT is provoked by the votes of Britain's retired population).

the labor force shrinking by nearly 40% by 2050. These processes will in the end increase public spending as a share of GDP, with the result that Bulgaria's debt-to-GDP ratio is expected to grow from 18% to 51%.

The aging of the population leads to dependence on the working population. The total age dependency ratio<sup>1</sup> in Bulgaria at the end of 2016 is 53.4%, or for every person in the dependent ages (under 15 and over 65) there are fewer than two persons in active age (compared, in 2005 this ratio was 44.5%). The overall age-dependency ratio in the EU-28 is 51.8%, equivalent to about two people in working-age dependent. The lowest ratio of age dependency was Slovakia (40.6%), and the highest - France (57.6%).

Aging populations and related inequalities lead to increased costs. For Bulgaria, the age-related economic costs (for pensions, social and medical care and education) are expected to increase by about 2% of the annual national product by 2060. At the same time, the forecast is an average annual increase of about 1.4% (Eurostat, 2015b, p. 8).

The population aging process 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 individually or locally addressing globally generated problems.

The role of the state in the distribution of social expenditures and the effects of social policy does not bring about the desired outcome in terms of reducing inequality (Hristov, 2013, p. 11). The reforms in the healthcare and pension system do not meet promises and expectations. Other countries, such as Slovenia, report successes with a lower scale of income taxation for the population. In these countries, the emphasis of social policy is greater efficiency in the allocation of funds rather than an increase in their size.

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<sup>1</sup> The age dependency ratio shows the number of people in the "dependent" ages (population aged under 15 and over 65 and over) per 100 individuals of the "independent" population (aged 15 to 64).



#### **4. Conclusion and Recommendations**

The age inequality is the first inequality in historical aspect and least analyze due to inertia of social views. So far, this issue has been addressed mainly in post-war periods and in future initiatives such as "Economy 4.0". There are no major research on the subject by professional experts with the participation of leading universities and scientific organizations. Dependence on past and historic inertia, as well as significant social pressures, predetermine the greater interest and attention of researchers towards gender inequalities. The lack of research on age inequality provides opportunities for manipulations and manifestations of populism. Most studies are related to discrimination and are initiated by specific projects without having a solid basis for comparison with previous results, determining dynamics and outlining the trend.

Our results partially support the first hypothesis (*Hypothesis 1*) - individual countries have similar economic aspects of age inequality. Regardless of the degree of economic development, the inequality by age is analogous to most countries. A determinant factor for the economic aspects of age inequality is the society and, in particular, the dependence on the path and the degree of achievement in society. In order to reduce 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).

Survey data show different 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 economic aspects are common to individual countries, economic characteristics are country specific. For the completeness of the analysis, it is advisable to conduct a qualitative meta-analysis to determine the economic impact of age inequalities for a specific country, for example for Bulgaria.

In the new reality, policy actions are aimed at increasing productivity, promoting capital growth and offsetting the effects of aging. In modern society, there is no correlation between age and wealth, although unlike other forms, age inequality is reflected in a decline in life status.

Modern social dimensions are the result of a combination of an aging population and low birth rates. An additional factor for the challenges is the global financial crisis. As a way out of the situation, a coordinated response and

concerted efforts to overcome the recession and implement reforms to sustainably manage age-related expenditure (Commission of the European Communities, 2009, p. 2) are recommended. 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.

To dissipate the results of the analysis of age inequalities further contribute to the differences in legislation affecting this issue as well as the different conditions in the individual national economies. Issues of age inequality are not relevant in societies in which the acquisition of tangible goods is mainly about the physiological qualities of economic subjects.

Unlike research into other forms of inequality, the age is here as the basis for inequality not from cabinets but from field studies. The application of cabinet studies in the real environment reduces the importance of the individual economic entity, focusing mainly on a specific sector of the economy.

In connection with the this presentation, one basic recommendation is also possible - in conducting research on inequality issues, it is important to first analyze the inequality of age and then the other forms of inequality.

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