



Europe's demography and what to do about it

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journals.sagepub.com/home/euv**Vít Novotný**

Wilfried Martens Centre for European Studies, Brussels, Belgium

Abstract

Among the EU's challenges, demography is probably the least conspicuous. This does not, however, mean that it is unimportant—quite the contrary. While in the past, it was visible only in population statistics, in the 2020s the lack of a labour force has become obvious to anyone with an interest in the European welfare state and the EU's competitiveness. Population ageing, caused by increasing longevity and persistently low birth rates, cannot be addressed by encouraging women to have more children or by bringing in non-EU migrants. These methods are ineffective, and often resented. Instead, the key to improving the state of the EU's demographic and economic prospects lies in increasing labour participation rates. This can be done by pushing up the statutory retirement age and creating the right conditions for older people, women, minority groups and diasporas to enter the world of work. While the latter measures are also not easy to implement, they are still more politically and socially viable than boosting immigration and birth rates.

Keywords

Demography, Population ageing, Fertility rates, Longevity, Pensions, Migration

Introduction

Demography, or the study of demographics, has never been the concern solely of demographers. Up until the 1970s, overpopulation was considered one of the chief global problems (Grunstein 2023). In the twenty-first century, worries about population ageing and the concomitant slowness of population growth have replaced fear of overpopulation as

Corresponding author:

Vít Novotný, Wilfried Martens Centre for European Studies, 20 Rue du Commerce, Brussels, B-1000, Belgium.

Email: vn@martenscentre.eu

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the main demographic worry in Europe, most of Asia, the Americas and Australia. The causes of these long-term processes are well known: rising life expectancies and falling or stagnating fertility rates. Today, the world's largest 15 countries (measured by total GDP) all have fertility rates below the replacement rate of 2.1 (*The Economist* 2023).¹ The Covid-19 pandemic led to a sudden decrease in life expectancy in the EU of more than a year and halted population growth (European Commission 2023b, 7). These were, however, likely only temporary phenomena.

The consequences of ageing societies are too multiple to be listed here, but they include a decreasing working-age population, pressures on public budgets and lower rates of innovation (*The Economist* 2023). In a way, this trend is the result of global economic development: it is no longer necessary for parents to have multiple children to sustain them in their old age. Europe is, by far, the oldest continent as a result of high life expectancy—the increase of which was only briefly interrupted by the Covid-19 pandemic—and very low fertility rates (Tragaki 2014).

The slowing population growth, in Europe and elsewhere, might be a good thing. A fixed, or slowly growing, population ensures that economic output can be distributed among a limited number of individuals. It also decreases the pressure on the environment (see Schöttli 2023). The decline in mortality rates is a major achievement (Tragaki 2014). The current consensus, however, is that population ageing and slow population growth constitute disadvantages. Ratios of workers to non-workers are declining across the EU. In many countries, social security systems lack sustainable funding. The generation of people born between 1946 and 1964 will retire within the next 10 years, aggravating the lack of a qualified workforce. In addition, some countries in Southern and Eastern Europe have witnessed sharp population declines due to emigration.

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Mitigation and adaptation measures

Policymakers can consider two principal methods to address the problem of population ageing: mitigation and adaptation. Adopting terminology from the environmental sciences, mitigation means to prevent, reduce or control the adverse effects of a phenomenon, whereas adaptation is about adjusting to the phenomenon.²

With regard to demographics, increasing fertility rates would count as a mitigation measure. But the viable options are adaptation policies. These include increasing the state pension age, immigration and boosting labour participation. Whatever the method, changing demographic trends is a complicated and long-term undertaking. With climate change, humankind's objective is to slow down the increase in global temperatures. With population ageing, the objective is to slow down the

decrease in the labour-force-dependency ratio, which is the average number of economically dependent people per 100 economically productive people.

Fertility rates

The prevailing opinion is that pro-natality policies in Europe have had a limited or non-existent impact on fertility. Rather than public policies, total fertility tends to be driven by the number of women of child-bearing age in the population. Strong population cohorts result in higher numbers of children being born, and vice versa.

Countries in Europe and elsewhere are increasingly finding themselves in a ‘low fertility trap’ as the structure of the population shifts towards increasing proportions of the elderly (Jóźwiak and Kotowska 2008). At the same time, total fertility rates by country vary over time. In 2006 it was France and the Nordic states that had the highest fertility rates in Europe (between 1.83 and 2.08; Aassve 2008, quoting Eurostat data). In 2021 it was France, Czechia, Iceland, Romania and Montenegro that had the highest rates (1.78 to 1.84; Eurostat 2023b). Although Aassve (2008) has suggested that generous, universal welfare support plays a role in encouraging fertility, a look at the current national fertility rates in the EU calls that finding into question. In the current ranking, countries with higher welfare provision and lower welfare provision display a variety of fertility rates without visible causality. Somewhat surprisingly, in 2021 the EU’s aggregate fertility rate was 1.53, up a decimal point from 1.43 in 2001 (Eurostat 2023b).

Can public policy reverse the stagnating total fertility rates in Europe? There are no indications that such policies have measurable effects. As an extreme example, a ban on contraception and abortion, as implemented in socialist Romania between 1966 and 1989, resulted in only a temporary increase in births. The longer-term effects were extreme maternal mortality due to illegal abortions and record numbers of orphans (Lataianu 2002). Even when governments provide monetary incentives for couples to have more children, these have practically no impact on fertility rates (Sobotka et al, 2019, 78). Whether in democracies or in repressive regimes, decisions on child bearing are ‘the most personal decisions that human beings make during their lifetimes’ (Schöttli 2023). Or, as *The Economist* (2023) puts it, no one owes it to others to bring up children.

Immigration

Moving to adaptation strategies, immigration has often been suggested as a way out of Europe’s demographic troubles. There is some foundation for this claim. Without migration, the European population would have decreased by half a million in 2019: 4.2 million children were born and 4.7 million people died in the EU in that year. And in 2020 and 2021, the EU population actually shrank, due to a combination of fewer births, more deaths and less net migration (European Commission 2023a).

The fact that non-EU immigration is the only factor supporting EU population growth does not, however, mean that immigration is the solution to the problem of demographic ageing. UN demographic projections published in 2000 put the hopes that some have for the role of immigration into stark perspective. In order to maintain the potential support ratio, that is, the ratio of the working-age population (15 to 64 years) to the old-age population (65 years or older) that existed in 1995, the EU (of 15 member countries) would have needed 700 million immigrants between 1995 and 2050. This translates to 12.7 million non-EU immigrants annually for 55 years (UN Population Division 2000, 24, table IV.4). With the current rate of around 2 million non-EU immigrants to the EU of 27 countries, the political and logistical infeasibility of immigration as the solution is plain to see.

A recent report prepared for the European Commission (Lutz et al. 2019) also concluded that immigration cannot be the answer to demographic ageing. Although high volumes of non-EU immigration would increase the size of the EU labour force, the effect would be short-lived. The characteristics of immigration so far indicate that the participation rate of immigrants in the work force is lower than that of the native-born population. In the long run, high volumes of immigration would increase the population of non-workers, as immigrants, too, age, leave the labour force and require social assistance (Lutz et al. 2019, 42). The same insight led de Beek et al. in their recent book (2013, 22) to liken the immigration solution to demographic ageing to a Ponzi scheme. As well as the reasons listed above, de Beek et al. point out that over time, immigrants from high-fertility groups adjust their fertility to the level of the native population.

This argument is not an argument against immigration per se. Skilled immigration has persistently been linked to higher levels of innovation and entrepreneurship (Goldin et al. 2012; Lutz et al. 2019, 43; de Beek et al. 2023). However, a study that focused on the Netherlands found that in contrast to the positive net financial contribution of labour migration, family and asylum immigration incurred far more costs than benefits for the public purse (de Beek et al. 2023). The member states should therefore try to improve the structure of immigration flows, without expecting this to provide a boost to the declining labour-force-dependency ratios across the EU.

Labour participation³

Due to the infeasibility of other measures for mitigating or adapting to the effects of population ageing, reforms to employment and social security policies become the viable route forward. This holds in particular for reforms aimed at increasing the labour participation rate among different groups of the population. Education (broadly understood) and investing in human capital could be the common denominators of the efforts to increase labour participation (Lutz et al. 2019).

Increasing the state pension age as well as bringing more older workers into the labour market are obvious ways to push down the labour-force-dependency ratio. Until about

2000, led at least in part by the ‘lump of labour’ theory, governments were encouraging early retirement. The prevailing belief was that there was a fixed amount of work to be done and that therefore older workers had to leave the labour market to make space for younger ones. With this fallacy now discredited, over the past two decades EU countries have steadily been increasing statutory pension ages, as OECD data demonstrates (Bodnár and Nerlich 2020, chart 6). This (almost uniform) trend has led to working lives of ever-increasing duration across the euro area and the EU.

The steady efforts to increase the statutory pension age have been coupled with active labour market policies. Between 2011 and 2021, the average employment rate of workers aged between 55 and 64 rose from 41% to 60.5% (European Commission 2023b, 11). In addition to increases in the statutory pension age, recent pension reforms have included flexible arrangements. These arrangements allow individuals to combine work and retirement. They also offer financial incentives for working longer. According to Bodnár and Nerlich (2020), since 2000

the age limits for receiving a full pension increased by on average more than two years for men and almost four years for women in the euro area countries. Increases of 5 years or more were implemented . . . in France and Slovenia, both for men and women, and in six countries, namely Germany, Estonia, Italy, Greece, Latvia and Lithuania, only for women.

More effort is needed on this front. There are huge differences between the individual member states’ statutory pension ages.

An increase in the labour participation and employment of women is another area of potential gains for European societies. According to Eurostat data for 2021, the gender employment gap in the EU was 10.8%: the proportion of men of working age in employment exceeded that of women. As with the participation of older people (men and women), the employment rate of working-age women has been increasing in the EU. However, it still remains lower than the male rate across the EU. In 2021, Lithuania recorded the lowest employment gap (a mere 1.4%), followed by Estonia. At the other end of the scale, Romania had the highest employment gap (20.1%), followed by Greece (Eurostat 2023a). The experience so far has demonstrated that the provision of institutional childcare (public and private), creating flexible contracts, increasing the opening hours of schools and creating the legal conditions for men to parent all allow women both to have children and to pursue their careers, thus eliminating the need to choose between the two.

Finally, bringing minority ethnic groups and diasporas into the labour market is another avenue to depressing the labour-force-dependency ratio. Partly caused by a lack of social capital and ethnic discrimination, and partly by cultural factors, non-EU immigrants in the EU have consistently lower employment rates than the native population. In 2018, the average employment rate for non-EU immigrants was 64%, whereas it was 68% for the native-born population (OECD 2018, 72). In addition, across the EU, gaps

in employment rates between non-EU and EU migrants were wider among the low-educated (11 percentage points) than among the highly educated (8 percentage points). Furthermore, a recent book by Ruud Koopmans (2023, chapter 3) revealed stark differences in Germany among the employment rates of natives and refugees coming from various Asian and African countries. Refugees from Syria, Iraq and Afghanistan displayed much lower employment rates than the average among the German population. Only around 10% of refugee women originating from these countries were in employment in 2021, compared to around 40% of the men. As the EU's immigration structure shows an unfortunate prevalence of unproductive family migration, as well as the much less numerically significant but even more unproductive asylum migration, public policy needs to focus on incentivising existing migrants, and especially migrant women, to enter the labour market. In the long run, and as already pointed out, the labour participation and employment of immigrant groups and diasporas will only improve if the bloc's migration policy is purposely managed in favour of high- and low-skilled migrants who can benefit the EU. This includes limiting the overly generous family reunification schemes and implementing selective recruitment policies based on job offers from domestic employers.

Conclusions

Demographic change happens slowly. And although it is easy to see it coming, it is not easy to change through policy. The current degree of population ageing is without historical precedent. It is also practically irreversible (Tragaki 2014). The emotional charge of these trends has proved irresistible to the continent's assorted national populists and extreme-right movements. Railing against the elites that are portrayed as responsible for these demographic trends has become the mainstay of national-populist language. The conspiracy theory of 'the great replacement', according to which 'globalising elites' are replacing native, white European and Christian populations with non-white people, has taken root even among the adherents of mainstream parties, not excluding the centre-right.

Reforms such as increasing the state pension age and implementing stricter unemployment insurance schemes are sometimes resented by working-class voters, who then turn to these national-populist parties as a result. In Germany, the celebrated 'Hartz reforms' of the 2000s ushered in the growth of employment but also caused lasting damage to the then-ruling Social Democratic Party (*Sozialdemokratische Partei Deutschlands*). The political difficulties of conducting the required economic reforms have led some to speculate that the European welfare state of the second half of the twentieth century was, in fact, a temporary arrangement that was only possible due to the existing demographic structure (Vartiainen 2017).

As outlined above, adaptation to the new demographic picture is possible. But dealing with the social and political fallout from the necessary reforms is the biggest challenge for EU governments. For policymakers and politicians, this means not only gaining an

understanding of the present challenges, but also developing positive, appealing and fact-based narratives that create voter support for measures that would otherwise be unpopular. Investing in people, education, personal development and self-realisation could all feature as elements of such narratives.

Notes

1. According to IMF data, in 2023, these were the US, China, Japan, Germany, India, the UK, France, Russia, Canada, Italy, Brazil, Australia, South Korea, Mexico and Spain.
2. With thanks to Peter Hefele, Policy Director at the Martens Centre, for this analogy.
3. I would like to thank Rainer Münz, Visiting Professor at the Central European University, for an exchange that contributed to this section.

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Author biography



Vít Novotný is a senior researcher and an expert on migration, asylum, border control and migrant integration at the Wilfried Martens Centre for European Studies.