Europe's demographic challenge

Nearly all European nations are experiencing long-term downtrends in fertility, and consequently, ageing of their populations. Fertility rates are now below replacement level (2.1 children per couple) in nearly all countries. As a result, natural population growth rates are entering periods of declining growth or outright decrease. At the same time, the proportion of elderly dependants continues to grow while the working-age population declines as a share of the overall population. Moreover, net immigration, which potentially could offset declines in working-age population, remains generally low in most European countries.

Taken as a whole, these demographic trends could have potentially damaging consequences for European economies. For example:

- as the working-age population decreases, countries experience declines in human capital, which potentially reduces productivity;
- pension and social insurance systems can become heavily burdened;
- the ability to care for the growing elderly population declines as household sizes decrease;
- the elderly face sharply-increased health care needs and costs.

In turn, these developments are likely to pose significant barriers to achieving the goals of the European Union (EU) Social Agenda: full employment, economic growth, and social cohesion.

Concern over these trends has sparked intense debate over the most effective policies to reverse them, or at least mitigate their consequences. Three broad policy approaches have been considered:

(1) encourage marriage or cohabitation and more childbearing among younger couples;
(2) increase immigration of working-age people into countries that need them; and
(3) reform social policy more generally, in order to ameliorate the negative consequences of these trends – measures could include raising the retirement age or encouraging more women to enter the workforce.

However, research-based information to inform this debate remains sketchy. Many aspects of the relationship between national policies and demographic trends are still not well understood, and it remains difficult to disentangle the effects of specific policy initiatives from the effects of broader social, political, and economic conditions.

Study purpose and approach

This study is intended to improve understanding of the interrelations between policy and demographic change. It examines the interrelations between European government policies and demographic trends and behaviour, and assesses which policies can prevent or mitigate the adverse consequences of current low fertility and population ageing.

To conduct this inquiry, the research team created a framework that highlights the interrelationships among government policies, macro-level conditions (such as economic trends, medical advances, and technological progress) and household-level demographic behaviour, all of which combine to influence population factors, such as migration and population age structure.

Guided by this framework, three research tasks were carried out:

(1) the research literature on relationship between policies was reviewed, particularly at the national level, with macro-level demographic trends on the one hand and micro-level household behaviours on the other;
(2) data were examined on European demographic trends; and
(3) case studies of five particular countries of interest were conducted: France, Germany, Poland, Spain, and Sweden.

Conclusions and implications for policy

The study reached five main conclusions.

(1) Replacement immigration cannot prevent population ageing or its consequences.
(2) National policies can slow fertility declines under the right circumstances.
(3) No single type of policy intervention will necessarily slow fertility declines.
(4) What works in one country may not work in another. Social, economic, and political contexts influence policy impacts. Therefore, policies indirectly aimed at fertility which target improvements in broader conditions may have beneficial fertility effects.
(5) Population policies take effect slowly, and therefore may be politically less attractive.

We discuss below each of these conclusions in more depth and explore their implications for policy. This discussion needs to be seen in the context of the complex political debate that is associated with policies that aim to affect demographic behaviour. It is a legitimate question to ask whether the state has a right to intervene and influence the private discussion of individuals and their partners in making decisions about their own fertility and family formation.

Population ageing cannot be remedied through replacement immigration

Replacement immigration does not offer a feasible solution to the problem of population ageing. The sheer numbers of immigrants required to offset population ageing in the EU and its Member States would be unacceptable in Europe's current sociopolitical climate. A record number of annual immigrants would be needed to offset ageing – at a time when

the EU and its Member States are actively trying to prevent immigration. Thus the debate is more appropriately on whether immigration may be effectively used to *slow* as opposed to *prevent* population ageing.

Here it should be noted that even if large numbers of working-age immigrants were permitted to enter EU nations, it remains unclear whether this would slow population ageing in the short term by simply postpone the problem in the long term. These immigrants would themselves age, so producing the same imbalances in national age structures.

However, replacement migration is not necessarily a closed topic. Important questions remain unanswered. For example, United States and European immigration policies have diverged since the 1980s. The US has adopted a more open stance toward the immigration of skilled workers compared with the relatively closed approach taken by Member States. Over this same period, there has been a higher rate of productivity increases in the US, which have contributed to rates of economic growth higher than in the EU. Thus, it would be valuable to understand whether the more open US immigration policy helps to explain its higher rate of economic growth.

Government policies can slow declines in fertility rates

Government policies *can* have an impact on fertility. For example, our case studies showed instances where countries that experienced a relaxation of pronatalist policies saw declines in fertility. Two former "Iron Curtain" nations – Poland and the German Democratic Republic (GDR) – witnessed declines in fertility after pronatalist policies were eased. The GDR provides examples of the introduction of several family policy packages, with varying success. The 1986 policy package in the GDR had little impact, while the 1972 measures helped to reduce fertility. The purely economic incentives of the East German 1976 family policy package appear to have had an immediate impact on the number of births. The total fertility rate increased from 1.54 in 1975 to 1.94 in 1980. However, the longer-term effects of this policy package are less visible, perhaps because they affect the timing more than the overall number of births.

In Poland, the introduction of pronatalist policies in the 1970s reversed decreasing fertility until the mid-1980s. While fertility did decrease again in the late 1980s, during the 1990s the decrease in fertility occurred even faster with the onset of economic transformation, and its accompanying social, economic, and policy changes.

Currently, Spain has the second lowest rate of fertility of the EU Member States (behind Italy), and lacks a clear population policy. However, a generation ago (in 1971) Spain had the second highest European fertility rate. The dramatic decline in fertility since then is associated with a shift from the pronatalist Franco regime – prohibiting contraception, honouring large families, etc. – to a democratic regime with a passive population policy.

In contrast with Spain, France currently has the second highest rate of fertility in Europe (behind Ireland) and has one of the most interventionist set of policies aimed at encouraging families to have children. Some people might find the relatively high

fertility rate in France surprising, since it was the first country in Europe to witness a fertility decline. However, the long-term fertility decline has prompted a deep and ongoing concern about population, resulting in the drafting of the Family Code in 1939. Family policy has been high on the political agenda ever since, resulting in relatively high fertility rates.

In most countries, policies that affect fertility typically have other objectives. For example, in Sweden, family policy and employment policies are linked to the primary objective of allowing couples to combine family formation with work. Thus, it would be wrong to describe the primary aim of policies such as parental leave, public childcare, etc. as increasing fertility (or preventing its further fall). The impact on fertility is secondary.

In turn, fertility declines, and subsequent reverses, may be attributable less to policy changes than to the social and economic environment. In Spain, for example, low fertility rates have been explained by (among other things) high unemployment rates for people under 30, high housing costs, and the tendency of young adults to live with their parents for more years than in other European countries. Thus, an indirect policy that stimulates economic growth may reduce unemployment, increase disposable incomes, and allow young couples to set up home. Making housing more affordable could have a similar effect.

No single policy works

No single policy intervention by itself will reverse low fertility in all cases. Historically, governments have had success in slowing fertility declines through a variety of interventions. For example, in recent decades France has had success by focusing on the birth of the third or subsequent child. However, the literature suggests that this is less attributable to a single policy mechanism than to its ability to create an environment which encourages childbearing. This environment is created by a combination of policies that jointly serve this aim.

Sweden has been successful in reversing fertility declines through a different set of policies. Its policy of parental leave during the 1980s allowed many women to raise children and remain in the workforce. In Sweden, neither high-quality childcare nor extensive parental leave on reasonable economic terms appears to be individually responsible for the high fertility rates in the late 1980s. It appears that the *combination* of policies targeted at equal responsibilities for men and women as wage earner and care provider, and at the welfare of children, were essential for supporting family formation and the quality of family life.

In the former GDR, the introduction of a family policy scheme in 1976, including prolonged maternity leave, paid educational leave, interest-free loans to newly-wed couples, substantially raised birth grants, increased monthly family allowances, and improved day care, had a subsequent impact on fertility. Again, it was not a single

measure, but the generosity of the whole package that had an effect on family formation. However, a similar package that was introduced in 1986 did not have the desired effect.

Finally, what works in one country may not work in another. The literature showed that a correlation between the magnitude of social transfers to the family, and fertility levels exists in several countries while this correlation is absent in others, although it should be stressed that this in itself does not imply causality. Therefore, family policies may be necessary, but not sufficient, for affecting fertility levels.

While the countries above employed a "suite" of policies, there is no evidence that such an approach was coordinated or intended to affect fertility per se. However, if the EU wishes to prevent (as opposed to mitigate) population ageing and the decline in human capital over the next generation, it will be necessary to acknowledge – and "mainstream" – population policy. This will still mean that governments can use either direct or indirect policy interventions, but the primary and secondary consequences of those interventions will be openly explicit.

Political, economic, and social contexts influence policy impacts

Different interventions have varying effects because of the complex and shifting political, economic, and social contexts within which they are implemented. This is perhaps best illustrated with the political transitions of the GDR, Poland, and Spain. The fertility decline in the former GDR after unification cannot be attributed to specific policy, but rather to a changing social environment. Women who faced the unification with concerns about their personal economic situation were less likely to have children in the following months. Similarly, the transition to a free market economy in Poland changed the economic environment and incentives for childbearing and also diffused Western ideas and values to broad segments of the public. In Spain, a dramatic decline in fertility was associated with the democratic rule that emerged following the dissolution of Franco's regime.

France has demonstrated a long-term concern that declining fertility poses a threat to its economy. As a result, the French have been more open to state intervention in family life than their counterparts in some other European countries, such as Spain. Although we did not identify any studies that focus on the degree to which the general public's acceptance of family policy enhances the effectiveness of that policy, we conjecture that openness to state intervention in family life might improve the effectiveness of policies to affect fertility.

In Sweden, the economic context is an important determinant of fertility. There, levels of (female) earnings are positively related to levels of childbearing. Thus, policies to encourage female labour force participation help to promote economic growth, but they will ultimately reduce fertility *unless* they are accompanied by family-friendly policies that enable women to combine childbearing and rearing with work.

Population policies take effect slowly

Government policies that are intended to reverse fertility declines, whether directly or indirectly, tend to have a long-term focus and require many years to implement. For this reason, they tend to lack political appeal as well as political champions. Some population policies may have an immediate impact (for example, abortion policy), but these are exceptions. The final stage in the cycle for population policies to affect fertility takes a generation before they affect the number of new entrants to the labour force.

This has two implications. First, there is a disconnection between electoral cycles (typically 4–5 years) and the longer cycle of population policy. This means that politicians have limited incentive to advocate such policies, especially when political capital could be expended needlessly in entering a contentious policy domain. Second, partly as a result of the latter point, politicians tend to focus on policies that have shorter time horizons. These include, for example, social security reforms that aim to reduce the economic burden that states face with declining contributions to "pay-as-you-go" welfare systems. There is a considerable debate in the literature about the desirability, feasibility, and effectiveness of these policies. Related to this is the need for cost containment of welfare as the population ages, notably through the rationing of health care. Third, one way to mitigate the adverse consequences of low fertility and population ageing is to increase human capital by encouraging people to work longer. This can mean promoting a longer working life and encouraging new entrants into the workforce, such as women. Related to this is the need to develop "pro-elderly" policies that encourage elderly people to be active and productive members of the workforce.

Finally, employment policies that encourage women to enter the workforce can have a perverse effect on fertility if women choose a career over family. However, Sweden provides a counter to this generalisation: employment policy and family policy have gone hand-in-hand. During the 1970s and 1980s, Sweden created the conditions in which the adverse effects of family formation from labour participation were minimised and equally shared between both parents. These conditions enabled relatively high fertility and high female labour participation to coincide, which was unique in Europe. However, from the Sweden case study it appears that this equilibrium may be unstable, since it seems to depend on a thriving economic environment.

Areas for further research

The study identified several areas where gaps in knowledge exist and where improved understanding could provide a sounder basis for policy decisions. To address these gaps, the study proposes a short research agenda.

- Examine the relationship between open immigration and high economic growth in the US and closed immigration policy and relatively lower economic growth in Europe.
- Identify natural experiments that can shed light on the impact of particular policy changes and collect data to enable "before/after" comparisons.

- Study the role of contextual factors in demographic change. It is important to understand the magnitude of the effects of different population policy interventions in different contexts, and at a regional as well as country level.
- Review the existence and quality of data for studying the relationship between demographic change and policy, and provide a standard taxonomy for direct and indirect policies.
- Assess the sustainability of efforts to mitigate the adverse socio-economic consequences of population ageing.

Concluding observation

In conclusion, replacement migration and policies to increase fertility are unlikely to stop the ageing of Europe's population, although they may slow it down. Thus, it is important for the European Commission, Member States and Applicant Countries to consider other ways to pursue the Social Agenda of full employment, economic growth, and social cohesion.