

MIGRATION: A NEGLECTED CHALLENGE FOR SAVING THE EUROPEAN WELFARE STATE

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SUMMARY

The consequences of the future demographics of Europe can have a deep impact on the “European way of life” – in particular as the strains on financing the European welfare state occur as the large baby-boomer generations goes into retirement at the same time as the lowest fertility rate experienced since the 1960s means fewer people to pay into the system.

Reforms are needed, and the question is whether migration can help address these issues. It can, but only if the European economies are capable of growing enough to create the jobs, meaning that migrants can be integrated into the labour market and thus contribute to financing the welfare system. This will pose challenges as the countries with a population surplus are also those countries which have revealed to be difficult to integrate. This calls for a change – and a drastic improvement – in Europe’s integration policies, including not only a public debate about the benefits, or necessity, of migration and integration, but also a series of Europe-wide initiatives.

This Policy Paper is part of a series entitled “[How can Europeans address their demographic challenge through a comprehensive migration strategy?](#)” which also includes contributions by Sergio Carrera (CEPS, Brussels), Joanna Parkin (CEPS, Brussels) and Leonhard den Hertog (for CEPS, Brussels); Carmen González (Real Instituto Elcano, Madrid), Roderick Parkes (for SWP, Berlin), Alicia Sorroza (Real Instituto Elcano, Madrid) and Andreas Ette (for SWP, Berlin); Ruby Gropas (Eliamep, Athens); Thanos Maroukis (Eliamep, Athens) and Anna Triandafyllidou (Eliamep, Athens); and Ruby Gropas (Eliamep, Athens).

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Carnegie Europe, CCEIA, CER, CEPS, demosEUROPA, ECFR, EGMONT, EPC, Real Instituto Elcano, Eliamep, Europeum, FRIDE, IAI, Notre Europe – Jacques Delors Institute, SIEPS, SWP.

Four other series of Policy Papers deal with key challenges on defence, EU neighbourhood, strategic resources and economic policy. The final report presenting the key recommendations of the think tanks will be published in March 2013, under the direction of Elvire Fabry (*Notre Europe – Jacques Delors Institute, Paris*).

Introduction

Europe's demographic future is well described and well known, but analyses of the consequences are imprecise and lack any real convergence between pinpointing essential consequences and the policies that are needed.

Some say the main issue will be a lack of people on the labour market. It is true that the number of working-age Europeans (aged 15 to 64) will be reduced in absolute terms. It is also true that demand for certain services, including care for the dramatically growing number of elderly people in our societies, will certainly rise. But will we really eliminate unemployment and have a shortage of workers on labour markets in 20-40 years?

The answer depends on many things. Will economic growth, for example, return to levels seen in the good years, prior to the economic and financial crises? Will productivity grow more rapidly, with more work being done without human involvement? Will anybody - including the public sector - be able to pay for the extra care needed by the elderly, or will the latter be left with poorer care? What percentage of labour market reserves, including women in countries with low rates of female participation on the labour market, will we be able to mobilise, and how will that fit into the equation of labour market shortages? What role will migration play?¹

There are many unanswered questions, but the conclusion is simple: we are moving into a difficult demographic situation in terms of unemployment, and this will make things worse than they would otherwise have been.

1. Consequences for the European welfare state

The consequences may be most dramatic for the European way of life - for the European social model, or simply for European welfare states.

The large baby boomer generation born in Europe after the Second World War has made it possible to expand the welfare state considerably. This generation is better educated, has had better employment opportunities, and earned more money than any generation before it. As a result, baby boomers have been able to pay large amounts of taxes into the system.

Now baby boomers are either retired or close, and can look forward to a long period of retirement, as life expectancy has increased at an unprecedented rate. When pensions were introduced in Europe over 100 years ago, people were expected to live only a few years after reaching retirement age. Now we are approaching a life expectancy of 90 years.

At the same time, birth rates have dropped, leaving far fewer people to pay for public services, including public pensions, of course. This is reflected in so-called dependency rates, which classify the working population as those between the ages of 15 and 65. This may be problematic, as we cannot expect the majority of 15 year olds to be ready to enter the labour market, especially as we are expecting people to be better educated in the future.

1. For a discussion of these issues, see Rainer Munz, "The future of Europe's labour force - with and without international migration", in *Moving Beyond Demographics*, Global Utmaning, November 2011.

Table 1 - Total age dependency ratio in some EU Member States (as a percentage)

	BELGIUM	GERMANY	GREECE	SPAIN	ITALY	POLAND	FRANCE	IRELAND	UK
2010	51.54	51.55	49.67	46.41	52.34	39.94	54.20	47.07	50.90
2060	72.87	81.94	80.46	82.66	81.36	90.63	74.26	72.89	70.35

Source: Eurostat, "Ageing characterises the demographic perspectives of the European societies", Statistics in focus 72/2008.

If dependency rates approach 100, the tax burden will be unbearable for most people, and might provide a strong incentive for some to emigrate from Europe, thus making the situation even worse. Clearly, reforms are needed, but which ones will work?

IF DEPENDENCY RATES

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Possible solutions

Already built into the reform package on Euro governance, a first step would be to link retirement age to life expectancy. Obviously some people, whose jobs involved hard physical work, will not be able to work longer, but they will be a clear minority in our societies.

So people have to work longer, perhaps in a second career,² but will they then take jobs away from younger generations? This is what the majority of labour theorists would say, but most economists have discarded that type of reasoning, and instead point to the fact that more elderly people will maintain an income of a certain level, which will enable them to spend more and therefore contribute more to the economy. At the same time, these seniors will reduce pressure on the younger generations, because they do not collect public pensions.

The main problem is that Europeans obviously do not want to reform their pension systems; there is a strong political barrier to overcome, and even if governments manage to introduce reforms, it may be costly in terms of political credit.

Productivity improvements in the public sector would help: if the same or a better service could be provided with a smaller input, more welfare services could be maintained. This would require a new look at the public sector - moving the focus from input (costs) to output (quality of services), and possibly also new wage systems where innovative behaviour is rewarded rather than pay scales being set according to the number of years someone has been in a job. Is this a politically feasible way forward? It's not an easy one, for sure.

2. Can migration help?

What about immigration? Immigration is often presented as *the* solution to our demographic problems, but as long as we concentrate on the economic issues and the future of the welfare state it is worth noting that immigration only helps if immigrants can be integrated into the labour market. This means that jobs must exist for immigrants, but also that European societies must be willing to relax their attitudes towards immigrants and be more tolerant where cultural integration is concerned.³ As integration is crucial, perhaps this would be a good time for Europeans to start learning from one another by establishing a benchmarking system at the European level in order to identify best practices. It is likely that no real good practices exist in Europe, but efforts could be launched to improve the practices, and - when the focus is on integration - perhaps also look to other systems to see if a well-developed points system for the selection of (economic) migrants would be

2. EPC is currently working on a project with the Bertelsmann Foundation to develop the concept of Second Careers in Europe. Developments can be followed on the [EPC website](#).
3. See for example Alessandra Venturini, "Should Europe speed up integration strategies?", in *Moving Beyond Demographics*, Global Utmaning, November 2011.

useful. Another issue that should be carefully considered is whether Europe is actually investing enough in the people who arrive here from abroad to best benefit from what they can offer – or even making it attractive for them to select Europe in the future.

3. Potential immigration sources

Table 2 – Countries with the largest population increase (2000-2050) (in millions)

COUNTRY	INDIA	PAKISTAN	NIGERIA	USA	CHINA	BANGLADESH	ETHIOPIA	DR CONGO	INDONESIA	UGANDA
Pop. growth	514.5	206.0	143.7	123.7	120.0	116.6	105.4	103.2	82.2	79.8

Source: United Nations, *World population to 2300*, New York, 2004.

These figures reflect not only population growth, but also population size. If seen from a relative perspective, other countries have the largest growth.

Table 3 – Countries with the largest population increase (2000-2050) (as a percentage)

COUNTRY	NIGER	YEMEN	SOMALIA	UGANDA	MALI	BURKINA FASO	PALESTINE	ANGOLA	GUINEA-BISSAU	LIBERIA
Pop. growth	3.19	3.09	3.03	2.96	2.70	2.54	2.50	2.50	2.48	2.41

Source: United Nations, *World population to 2300*, New York, 2004.

The good news is that there will be areas of the world with strong population growth and from where people would like to emigrate. The bad news is that these people will come from areas that are already creating integration problems in Europe: Africa, Muslim parts of Asia, the Middle East and North Africa. Can and will Europe accept a solution along those lines?

The logical answer is yes, if the question is about maintaining the European way of life that we love so much, but in reality, we may only discover the need for more massive immigration and a new approach to integration when it is too late. There is a tendency to postpone decisions about “unpleasant” choices as long as possible, in the world of politics. Paradoxically, however, Europeans are also generally unwilling to let immigrants into their welfare systems, despite the fact that in the longer run this is a way of preserving those very systems.

“EUROPEANS ARE UNWILLING TO LET MIGRANTS IN THEIR WELFARE SYSTEMS, DESPITE IN THE LONG RUN THIS IS A WAY OF PRESERVING THEM”

Obviously these problems are related to whether one focuses on the cost or the benefits of immigration. Many Europeans engage in short-term thinking and focus exclusively on the (short term) cost side. But surveys show that in general, Europeans don’t think their governments have done a good job handling integration, so if we want integration to play a bigger role in overcoming the problems caused by demography, we also need to learn quickly how to be better at integration.⁴

4. *Ibid.*

Possible solutions

There is no silver bullet that can solve all the problems caused by demographic developments, and no solution can stand alone. One thing is clear, however: Europeans will have to accept reforms in one or more areas. It is also clear that when it comes to the migration issue, the attitude of many Europeans, including some political parties, is not helpful in this respect.

Thus a debate which looks at migration in relation to current problems with our welfare states is necessary. That discussion should also have a European dimension. If there is no Europe-wide solution, resources and problems alike are certain to be misallocated. It would also be desirable to establish a system whereby EU Member States could exchange best practices for integration, so that if common approaches to integration are not possible, at least we can highlight the best practices and emulate them.

The EU will also be in a better position to negotiate strong and inclusive partnerships with third countries to manage migration. Such partnerships will work to prevent “brain drain” and other undesired consequences while regulating migration flows and preventing Europeans from weakening their positions by competing with each other via different policies in third countries – amongst other things in the competition for talent.

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