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DEMIFER

Demographic and migratory flows
affecting European regions and cities

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Deliverable 9
Report on Policy Implications

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1 Policy Considerations

Key findings

- *The normative European goals of territorial cohesion and regional competitiveness have a great bearing on how regions can deal with demographic challenges*
- *The various types of regions in Europe with regard to demographic trends can largely rely on policy interventions to make regions more attractive to potential immigrants and family-friendly social policies that encourage higher fertility rates and longer careers for women on the labour market*
- *Both principle-based policy considerations and capacity-based considerations should be explored.*

This deliverable sketches the policy considerations resulting from the DEMIFER analyses. It places demographic and migratory flows into perspective with regard to their potential contributions to economic growth, sustainable development and EU policy goals of regional competitiveness and territorial cohesion.

The aim of this Deliverable is two-fold. First it provides some general policy “recommendations” or implications for each of the six main types of regions as delineated in the demographic typology in Deliverable 3. The DEMIFER scenarios in Deliverables 6 and 7 chronicle the implication of various bundles or combinations of policies on future demographic and migratory trends. Implications from the scenario work are recapped as the second aim of this chapter. Thus it will answer the question of what current policies can do respond to alleviate the negative aspects of demographic and migratory trends, capitalise on the positive aspects or work to turn trends where desired. Prior to this the first section in this deliverable on policy considerations puts policy-making, economic growth and territorial development into the context of European social and economic visions. Most of the policy implications described here are medium to long-term in nature. Addressing the challenges posed demographic trends in the short term hardly makes sense as many of the social policies designed to tackle the challenges of low natural population growth, labour market gaps and migration needs are sensitive political decisions that cannot be solved by technical or administrative stop-gap measures.

1.1 Policy Implications for the Demography in the European Territorial Development Context

1.1.1 Considering policy on multi-levels

Demographic developments in Europe are multi-faceted and no one size fits all with regard to the relationship between economic performance and demography and migratory flows. Making policy recommendations to deal with demographic developments or considering policy implications of such developments is extremely difficult. For instance there is no clear-cut causality between a change in age structure and its economic effects. Rather it is also the institutional and organisational structural changes that take place concurrently which determine if age structure change has a negative or positive effect on economic performance. Neither is the relationship between economic performance and migration straightforward. Much has to do with the absence of homogeneous migration data in Europe and the variety of definitions used to classify an

immigrant/emigrant. Even rigorous scientific exercises which informed by established theory, such as the DEMIFER policy scenarios elaborated in Deliverables 6 and 7, cannot make definite statements about the impact of various bundles of policies on demographic and migratory trends. The scenarios, however, are important intellectual devices for thinking about alternative futures.

Thus considerations for policy should also be made in accordance with the territorial diversity of the ESPON space and with consideration to scale, or the level on which policy is most viable. The multi-level, intersectoral nature of various policy options can give rise to both synergistic policies as well as conflicting policy goals. In the ESPON 2006 programme the ESPON project on Enlargement of the European Union (ESPON 1.1.3) discussed the idea of policy combinations to describe the processes of coordinating coherent combinations of policies as a way to bridge the gap between policies oriented towards competitiveness of the European territory and cohesion of the territory at all levels. These *principle-based* (goal oriented, normative or top-down) policy combinations as well as capacity-based (action oriented or bottom-up) were delineated (ESPON 1.1.3 final report 2006, Persson and Van Well 2005). Principle based combinations strive to achieve concrete sector-driven measures with a focus on the substance of what is to be achieved. Capacity-based combinations are also goal-seeking, but provide organisation, or governance aspects of policymaking as tools to meet goals.

Both of these types of policy combinations can address the goals of regional competitiveness and territorial cohesion, but principle-based orientations tend to be more focused on achieving regional competitiveness through market-based mechanisms and structural measures while capacity-based orientations often rely on cohesion-based policies that stress the social capacity and institutional learning aspects. These two orientations can thus be useful in patterning the different types of implications of the DEMIFER conclusions. As such they mirror to some extent the "Distribution-Fairness" dimension of the policy scenarios that represent policy bundles that are either socially oriented or market oriented.

1.1.2 European territorial development debate and demographic considerations

The European territorial development debate is framed within several seminal strategies and agendas to achieve regional competitiveness and territorial cohesion. These include the Lisbon Strategy, the Territorial Agenda, the Commission's Green Paper on Territorial Cohesion and most recently the Europe 2020 discussions for smart, sustainable and inclusive growth. The European policy territorial debate, while not specifically assuming that demographic changes result in altered economic performance, does repeatedly discuss how demographic changes (at least at the regional level - NUTS2) hinder development. Thus demographic and migratory developments are discussed within these broad policy contexts as challenges to be overcome.

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The **Lisbon Agenda** from 2000 and the renewed Lisbon strategy from 2005 focus on growth and the provision of jobs to ensure that Europe becomes a more attractive place to invest and work, that growth is knowledge-driven and innovative and that not only more, but better jobs are created (COM 2005:24). Demography and migration are particularly implied in the goal of creating more and better jobs. The Lisbon strategy encourages member states to increase efforts to boost employment levels, especially those of young people and the provide incentives for ageing population to remain in work. The Lisbon Agenda recognises that social policies such as affordable child care are vital to induce young men and especially women to stay on the labour force, even during their child-bearing years and that pension and health care schemes play a role in retaining older workers in the workforce. It also recommends a well-developed approach to legal migration and mobility of the workforce to help avoid shortages of specific skills and a potential mismatch of supply and demand in various labour market segments. The Renewed Social Agenda of the EU (COM 2008) also complements the Lisbon Agenda with its focus on social policies as a tool to help respond to demographic changes, such as meeting the needs of an ageing population or fighting discrimination on the labour force. In the same vein the Third Annual Report on Migration and Integration (2007) makes reference to the key role that integrating immigrants into the labour market plays in helping to attain the Lisbon targets.

The **Territorial Agenda of the European Union** (2007) is a normative document, building upon the European Development Perspective (ESDP) and highlighting Europe's territorial and cultural diversity. It outlines six priority areas for spatial development measures: 1) strengthening polycentric development and innovation via city and regional networking, 2) New forms of urban-rural governance and partnerships, 3) promotion of regional clusters of competition and innovation, 4) strengthening the trans-European networks, 5) promoting trans-European risk management, including the impacts of climate change, and 6) strengthening ecological and cultural resources as assets in development. The key challenges to be overcome are regional disparities at EU and national level; especially highlighted are those regions with special geographic challenges such as peripheral location and those facing demographic change such as decline in natural population growth, shrinking labour markets or ageing.

The **Green Paper on Territorial Cohesion** (2008) forwards the territorial perspective on economic and social cohesion as it propounds to deepen the understanding of the concept of territorial cohesion. Specifically the focus is on settlement patterns across Europe - regional concentration, connectivity and cooperation of regions. Regions with special development challenges due to their geographical features are pointed out. These include sparsely populated, mountain and island regions as well as coastal regions, regions which are impacted by demographic change to a greater degree than other types of regions. While the Green Paper on Territorial Cohesion points out territorial challenges across Europe the recommendations it gives for addressing these challenges are crouched in coordination with other EU policies such as transport, environmental and energy policy and in the CAP and in new types of partnerships for territorial development.

Europe 2020 (2010) is a European vision for "smart, sustainable and inclusive growth". AS such the strategy is not solely directed towards territorial matters, but addresses a broader array of challenges to the EU brought about by the current financial crisis but also long-terms trends such as globalisation, pressure on resources and an ageing society. Five interrelated targets to be reached by 2020 are enumerated: 1) 75% of the population aged 20-64 in employment, 3% of the EU GDP invested in R&D, 3) the "20/20/20" climate/energy goals should be met, 4) early school leavers should be under 10% and at least 40% of the youngsters should have a tertiary degree, and 5) 20 million less people should be at risk of poverty. These are to be implemented by seven flagship initiatives including greater digitalisation, switch to a low carbon economy, support so

that businesses and industries can compete globally, capacity building for new skills to increase labour participation and a fight against poverty and social exclusion.

Demographic concerns are highlighted in the vision as a reason why structural weaknesses in Europe have been exposed: Ageing and reduced labour market participation of older workers (55-64) and shrinking populations. This all puts an obvious strain on European welfare systems.

1.2 Typology of Demographic Status and policy implications

Three DEMIFER typologies in chapter 3 were based on current data (2005) and reflect the present, short-term trend of ESPON. They thus depict a snapshot of demographic, labour market and migratory developments in a generalised fashion. One of the values that spatial typologies provide is that they help to suggest what types of policy interventions are most applicable to a set of regions. Thus typologies help to design and prioritise policy measures to cope with the challenges and potentials in Europe. This in turn helps provide the basis for intervention developments for improving European competitiveness and cohesion

1.2.1 *Retaining favourable trends*

The **Euro Standard type** of region has a fairly positive population development and an age structure predominantly focused on the age group 35-55 years. The total fertility rate is above the ESPON average and life expectancy is overall average. The net migration rate into the regions is largely positive, thus contributing to an overall positive population development. Low fertility is not a major problem, although ageing could be.

The **Family Potentials** type has a strong population development, with a good balance between younger and older age groups. Because of high birth rates and moderate in-migration, the share of elderly is below the ESPON average, despite the relatively high life expectancy.

The EU-LFS 2007 data patterns show that the Euro Standard and Family Potentials types have above average GDP-PPP per capita and below average GDP-PPP growth rates. The share of migrants is above average. The education level is high as is labour force participation. Unemployment is below average.

These regions are doing well by both socio-economic and demographic standards. The *principle-based* goal for these regions would then be to retain the favourable trends and focus on competitive regional development and continued pursuance of the Lisbon agenda goals and “smart growth” as advocated by Europe 2020. If greater convergence within the regions is desired, cohesion oriented measures to ensure that intra-regional or urban-rural disparities do not become a problem should also be encouraged. Capacity-based measures such as building of social capital and networks within the INTERREG or LEADER programmes are examples. Particularly projects that strive towards greater social inclusion such as integrating immigrants, youth and/ or women into local labour markets, would help to ensure a favourable regional development.

1.2.2 Dealing with population decline

The **Challenge of Labour Force** type of region is characterised by a rather high share of young people, but the challenge is to bring them into the labour force. Despite a large “potential” work force, this type of region is losing population, both through a negative natural population balance and through migration. A low total fertility rate exacerbates the out-migration population decline.

The **Challenge of Decline** type of regions have a negative population development, due both to low total fertility rates and negative net migration. These are some of the “shrinking” regions of Europe. The proportion of older workers (above 55 years) is significantly higher than in the rest of the ESPON space and the share of younger adults (20-39 years) is below average, thus leading to a potential problem in maintaining sufficient workforce to uphold social welfare schemes.

These types of regions are distinctive to many of the EU-12 and the eastern part of Europe, as well as shrinking regions peripheral areas of Scandinavia, Southern Europe and in Germany. In general the GDP-PPP per capita is below average, as are growth rates. The share of migrants as well as labour force participation is also below average. In most of these regions (especially the Challenge of the Labour Force) the share of highly educated people is lower than the ESPON space average.

Many of the regions are lagging behind and population decline may be a major reason for this together with unemployment rates. The peripheral location of these regions in relation to the “Pentagon” may also be a contributing factor. These are the regions that the Territorial Agenda and the Green Paper on Territorial Cohesion specifically point out as challenged for territorial development. Policy goals for these regions will mainly be focused on retaining population and boosting natural population growth, attracting immigrants (both international and non-EU) and increasing opportunities for the labour force. Due to the territorial challenges it is important to coordinate, as the Green Paper on Territorial Cohesion recommends, various *principle-based* EU policies – transport and ICT infrastructure, energy and environmental policy in order to make the regions attractive for industrial location, improve the nearness to markets and increase regional competitiveness.

At the same time *capacity-based* measures are also needed to make the regions attractive places to live and work. Family-friendly policies such as subsidized childcare and generous parental leave (for both mothers and fathers) are expected to help increase fertility rates and keep a large share of women in their fertile years in employment and at the same time providing them with incentives to remain in the region. This is an important precondition in dealing with declining populations, but alone is not sufficient as witnessed by the Swedish and Finnish regions which fall into this category, despite the renowned social welfare systems in these countries. The targets of Europe 2020 are particularly important for these regions and many of the Europe 2020 flagship initiatives are pertinent, especially more digitalisation, energy efficiency initiatives, support so that businesses and industries can compete globally capacity building for new skills to increase labour participation. These types of interventions can help attract migrants from within and without Europe.

1.2.3 Challenging the disparities

The **Challenge of Ageing** type regions are experiencing positive population development driven by a positive net migration rate, but the proportion of the older age groups is significantly higher than it is in the ESPON space age structure. Life expectancy is high and the share of elderly is significant. Birth rates are low, but migration, especially from non-EU countries can partly mitigate the low fertility and ageing population to some extent. Education levels are low, but so are unemployment rates (although the gender gap is the widest in Europe).

The **Young Potentials** type regions have a young age structure and positive population development due to both national population balance and positive net migration. This is partly due to the strong inflow of migrants from non-EU countries. Disparities in education are apparent in these regions as they have simultaneously a high share of people with tertiary education and a high share with only basic education. There is also a considerable gender gap in labour market participation.

These types of regions are found mainly in the Mediterranean regions, English coastal areas, in the former Cohesion country of Ireland and in some urban enclaves (such as Vienna). They constitute demographic growth regions with above average GDP-PPP per capita and average labour force participation (which does exhibit great gender and educational disparities). In the Young Potential regions the GDP-PPP growth rates are above average, but in the Challenge of Ageing regions they are below average. The unifying factors for these regions are strong net migration gains and population increases. The labour force in these regions is over-represented (relative to the ESPON space average) by fairly low-qualified, low-wage sectors such as agriculture, hotel and restaurants, construction and fishing (the Challenge of Ageing regions). Tourism is an important industry in many of these regions and attracts non-EU immigrants and young people into low-qualified, often seasonal work.

The first challenge that these regions face is orienting their economies towards more Lisbon-flavoured goals, such as the knowledge economy and innovation to create not just more, but *better* jobs in the regions. The second challenge of these types of regions is to ensure sustainable economic, social and development in light of the increasing pressure that the growing population exerts on natural and cultural resources. *Principle-based* policy options could thus be based on achieving sustainable and smart growth, as advocated by the Lisbon Agenda and Europe 2020 in developing synergies between economic growth, high quality job creation, environmental technologies and renewable energy provision – synergies that can be applied in the traditional sectors like agriculture, fishing, tourism and construction. This also meshes well with patterns of how regions in these countries already utilise 2007-2013 Cohesion Policy instruments in light of the Lisbon and Göteborg agendas (Nordregio 2009).

Capacity-based policy options in these regions would help to absorb migrant workers into the labour market and aid in their integration into society. This can be done policy interventions at the national level to raise education levels, build capacity for learning new skills, and fight pockets of poverty and social exclusion, as Europe 2020 stresses in its flagship initiatives. Family-friendly policies are also essential in these regions to narrow the gender-gap and reduce disparities. Local and regional level projects within EU programmes such as INTERREG or LEADER can be useful in creating social networks, and learning from experience how to change attitudes, especially for excluded groups in labour market segments (integration or women or immigrants).

1.3 Policy scenario implications

The scenarios developed within the DEMIFER project use various policy bundles as the basis for different trajectories of demographic and migratory development. The basic hypothesis is that specific policies relating directly to health, family and migration incentives and barriers, as well as social and welfare policies will have significant impacts on demographic behaviour, at least in the short-term. However as the scenarios warn, it is difficult to be precise about the impacts of a set of policies on demography, as there may be other context-specific variables that intervene in the meantime.

The overall framework for policy choices are depicted on two axes: Economy/Environment where the strategic choices in Europe are either based on sluggish growth that is linked to the existing resource base and current patterns of energy use, or growth that is de-coupled from the use of environmental assets, and has solved the coming energy needs in an innovative and sustainable way. The other strategic choice of policies is made by focusing on either European competitiveness driven largely by market forces, or territorial cohesion driven to a greater degree by social equity concerns. The four scenarios resulting from the combination of these concerns are *Growing Social Europe* (successful economy-environment policies; effective cohesion policies), *Expanding Market Europe* (successful economy-environment policies; policies favouring successful regions that neglect the also-ran regions), *Limited Social Europe* (unsuccessful economy-environment policies; effective cohesion policies) and *Challenged Market Europe* (unsuccessful economy-environment policies; policies favouring successful regions that neglect the also-ran regions). These four policy scenarios show what may be expected to happen if certain policy combinations are followed within the drivers of mortality, fertility, migration and labour markets.

1.3.1 Policy scenario implications for mortality

Scenario results for mortality for the SMR for the Challenged Market Europe scenario display very large disparities between disadvantaged regions in the East and the longevity advantaged regions in the west and north. The disparities are less pronounced in the Growing Social Europe scenario, the Limited Social Europe Scenario and somewhat in the Expanding Market Scenario. In this regard mortality rates may be more influenced by cohesion policy interventions than by market-oriented growth interventions. Yet in addition to changing trends in mortality through better healthcare etc, it is also important to be able to meet the challenges of an ageing population and this could better be achieved through a focus on cost-effective growth in the Growing Social Europe and the Expanding Market Europe scenarios.

1.3.2 Policy scenario implications for fertility

According to the scenarios, fertility rates will be highest in the Expanding Market Europe scenario, even higher than in the Growing Social Europe scenario as might be expected. This is because in the Expanding Market Europe there are pockets of regions with very high total fertility rates in the Northern and Western European countries and very low fertility rates in the southern, central and eastern regions. Within the Growing Social Europe scenario these disparities narrow, making it, from a European point of view, vital to pursue family-friendly social welfare policies that boost fertility rates in the Northern countries, also in other parts of Europe.

1.3.3 Policy scenario implications for migration

The policy scenarios show fairly little difference in internal migration (at least as calculated as destination attractiveness ration, DAR) between the four scenarios. Also the evidence for many European countries suggests stability in the internal migration system: the same regions continue to be attractive and the same regions continue to be unattractive for decades and European internal migration levels are fairly low compared with North America or Australian where migration is much more responsive to regional economic change.

International migration scenarios indicate that total migration is moderate in the Growing Social Europe and Challenged Market Europe, high in the Expanding Market Europe scenario and low in the Limited Social Europe scenario. Thus if high economic growth in certain areas of Europe is not checked by territorial cohesion policies the result may be greater movement of job seekers from lagging regions of Europe into the already affluent regions. If the goal is to retain people and workers in countries with higher emigration rates, such as the Eastern European countries, then territorial cohesion considerations, as expounded in the Territorial agenda are appropriate.

Extra-European migration will become increasingly important help deal with the ageing population of the European space. In the Expanding Market Europe scenario extra-European immigration is expected to be very high, especially in major cities such as Madrid or Paris. This pattern is also seen, although not quite as strong in the Growing Social Europe scenario and is faintest in the Limited Social Europe scenario. While a great influx off extra-European Immigration will help many regions address demographic and labour market challenges, it will also require social policies to integrate a large group of immigrants into society as well as greater inter-state coordination in immigration policy.

1.3.4 Policy scenario implications for the labour market

A shrinking labour force will be a problem for many regions in the future, but this will affect fewer regions under the Expanding Market Europe scenario and to a slightly lesser extent the Growing Social Europe scenario more than in the other scenarios. Thus the labour market is expected to be much more vital in more regions of Europe under a general policy scenario axis where resources are used in such a sustainable and cost-efficient manner that the post-carbon economy as a whole continues to grow. Thus pursuing policies that can help implement the Lisbon agenda and the sustainable development strategy will have positive implications on labour market dynamics.

1.4 Conclusions

Results from developing a typology for demography and policy scenarios within the DEMIFER project show that there is a complex interrelationship between implications of one policy and another and that policy makers may be required to make difficult trade-offs between goals. The scenarios indicate that demographic developments may be highly influenced by strategic, normative policy decisions such whether to pursue a competitive-oriented policy or a cohesion-oriented policy. Demographic developments are also influenced by the long-term growth rates in the economy and therefore expanding but sustainable growth will generally be better attuned to dealing with demographic problems than sluggish growth fuelled by a carbon and traditional energy sources.

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