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affecting European regions and cities

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Deliverable 9
Report on Policy Implications

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Table of Contents

1	Policy in context	1
1.1	Demographic Policy Considerations in the European Territorial Development Context	2
1.1.1	Considering policy on multi-levels.....	2
1.1.2	European territorial development and demographic considerations ...	2
1.1.3	Demographic challenges and EU policy	4
2	Policies accommodating demographic challenges in different types of regions	9
2.1	Retaining favourable trends.....	9
2.2	Dealing with population decline	9
2.3	Challenging the disparities.....	10
2.4	Demographic trends and the matter of scale	11
3	Policy bundles affecting changes in demographic and migratory developments	12
3.1	Policy scenario implications for mortality	12
3.2	Policy scenario implications for fertility	12
3.3	Policy scenario implications for migration.....	13
3.4	Policy scenario implications for the labour force	13
4	In conclusion: Combining policy considerations	15
	References	17
1	Annex: Policy considerations and DEMIFER Dissemination.....	19

1 Policy in context

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 should consider various 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.*
- *Policies aimed at accommodating demographic challenges and policies aimed at changing demographic and migratory trends should be combined. Decision makers in all domains at both the national and regional level should co-operate.*
- *Demographic challenges differ by type of region. Thus the typology of regions is needed to assess the optimal mix of policy measures to cope with demographic challenges in order to attain the normative European goals of territorial cohesion and regional competitiveness for each type of region.*
- *The “shrinking” regions of Europe need policy interventions to make these 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*

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 and puts various policy considerations into context.

A distinction is made between two types of policies considerations. First this deliverable describes the policy considerations to accommodate the consequences of demographic challenges for each of the six main types of regions as delineated in the demographic typology in Deliverable 3. Second, it explores policy options aimed at changing demographic and migratory developments. The DEMIFER scenarios in Deliverable 6 chronicle the implication of various bundles or combinations of policies on future demographic and migratory trends. A comparison of the scenarios shows to what extent policies affecting demographic and migration flows alleviate ageing and the decline in the labour force. But first the following section puts policy-making considerations, economic growth and territorial development into context.

This Deliverable discusses policy considerations or implications rather than direct recommendations. Across the board policy recommendations for demographic development are notoriously hard to make as they often imply changes to specific national priorities and social behaviour. The best recommendation would be for policy makers to read the report and choose the policy means and activities that are best suited for their own country or region.

1.1 Demographic Policy Considerations 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 (see Deliverable 2). 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 this report (Deliverable 6), 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.

Considerations for policy should 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).

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. As such they mirror to some extent the "Distribution-Fairness" dimension of the policy scenarios.

1.1.2 *European territorial development 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.

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.

1.1.3 Demographic challenges and EU policy

Various questions with regard to demographic and migratory trends are high on the European agendas and encompass several areas of EU policy- migration/immigration and integration policy, employment and social policy, including the debates on pension reforms, maternity (and paternity) leave, and enabling the absorption of older and younger workers in the labour force. The Commission Communication of 2006, "The demographic future of Europe – from challenge to opportunity" (COM(2006) 571 final) calls for an overall strategy to deal with the challenge of ageing and outlines five directions that could be taken to meet these challenges; 1) promoting an improved balance between professional and working life, 2) promoting employment, more jobs and longer working lives, 3) working towards a more productive and dynamic Europe in light of the renewed Lisbon strategy, 4) receiving and integrating immigrants in Europe, and 5) sustainable public finance. In an updated Ageing Report from 2009, "Dealing with the impact of an ageing population in the EU" (CEC 2009 (COM 2998) 180 final) it is reinstated that priority to be given to these directions but with a new sense of urgency in light of the financial crisis and the priority given to the European Economic Recovery Plan.

Thus many important questions are raised concerning how Europe can deal with the current and future demographic and migratory trends. While the research produced in the DEMIFER project is not always explicit in providing evidence to address these questions, results do shed some implicit light on the policy considerations that are relevant in specific territories.

One major policy-related question resulting from the current and anticipated trends in demography and migratory movements, as shown from the DEMIFER results, is:

How can European nations and regions compensate the decline of the labour force due to ageing of the population and declining fertility rates?

Policy considerations to change and accommodate this trend tend to take a three-pronged approach, by *increasing labour productivity, increasing labour participation rates and/or by boosting the rate of external immigration to the EU.*

Policy considerations for increasing labour productivity, according to the Lisbon strategy, includes not just capital investments, but also investments in human capital, training and capacity-building. Europe 2020 asserts that the growth rate in Europe was waned due to, among other things, the widening productivity gaps due to insufficient investments in R&D, innovation and ICT. One of the flagship initiatives to raise labour productivity is thus through a focus on new skills and jobs.

Some studies claim that increasing *labour productivity* may, over time, actually become the key driver of growth and a link between demography and economic performance in the EU (Carone et al 2010, Rauhat & Kahila 2008)). In Deliverable 6 the DEMIFER results point out that rising labour productivity may help to mitigate unfavourable trends in GDP per capita. In all four of the scenarios presented, negative growth will be tempered by a

rise in labour productivity. Conversely, if labour productivity does not improved there is the risk that growth rates (in GDP per capita) will be negative in all four policy scenarios.

The role that technology plays in increasing labour productivity should be emphasised, in accordance with the renewed Lisbon strategy. This includes in light of climate change adaptation and mitigation, new green technologies increasing energy efficiency, as proposed in Europe 2020.

One of the possible trade-offs implicit in dealing with the effects of ageing on economic growth is that which exists between making necessary changes to boost labour productivity and the need for replacement migration. But in regions with low economic growth a focus on higher labour productivity rather than migration may have the effect of leading to a dwindling labour force compared to the non-working population, particularly in the parts of Europe dominated by labour-intensive sectors, such as southern Europe. This may lead to greater territorial disparities among European regions.

Policy considerations for increasing labour participation include policies to keep older workers on the labour market for longer periods of time and policies to absorb greater numbers of younger people (especially women) into the labour market. In the first case policy considerations include reform of pension systems and retraining of older workers to increase the number of years they are active on labour markets. But important policies also encompass healthcare concerns to maintain an older, but vital workforce. In the second case absorption of younger people into the labour markets will depend on education and training, but also importantly on family-friendly policies that enable men and women of childbearing age to manage their work-life balance. These include policies to promote gender equality at the workplace, high quality child care, and extension of maternal and parental leave, all of which help to encourage an increase in fertility rates and help to ensure that especially women remain connected to the labour market even in their childbearing and child-raising years.

DEMIFER results with regard to labour force participation show growth in the labour force deviates greatly among the four policy scenarios presented. While many regions will experience dwindling labour forces, the percentage of regions with shrinking labour forces (labour force change of more than -10%) is lowest in the Expanding Market Europe (35%), slightly more in the Growing Social Europe scenario (40%), 55% in the Challenged Market Scenario and all of 70% in the Limited Social Europe scenario. In the "best" scenario, the Expanding Market Europe, regions with growing labour forces are located in northern, western and the southern parts of the ESPON space and particularly within the large cities in these areas. Within all scenarios, the EU-12 Member States will see enduring declines in the labour force.

Measures are already being taken at EU and national level to address the challenge of compensating the decline of the labour force. Legislation is now being enacted to raise the minimum period of parental leave to 20 weeks, recent and expected reforms of public finances are being considered in most Member States in accordance with the Stability and Growth Pact, use of the "flexicurity" system within the context of the European Employment Strategy is opening up a more fluid labour market in several countries, and a focus on capacity building for more and better jobs within is being taken in all Member States with the rigorous implementation of the renewed Lisbon Strategy and National Reform Programmes. Training and adaptability of workers is part of the European Employment Strategy's long-term goals to increase competitiveness of the territory. A focus on life-long learning to promote employability, adaptability of workers and inclusion of all social groups and a priority of the European Social Fund.

A related question concerns the impact of ageing on the sustainability of public finances. The ageing population will have impacts on several aspects of public spending – public pension expenditure, healthcare and education. As the dependency ratio increase,

pressure is put on the provision of age-related transfers and services. The demographic transition of an older population is the main driver behind the projected increases in Member States public pension expenditure (Carone et al 2010). To date almost all member states have tightened eligibility requirements for receiving public pensions or instigated supplementary pension schemes (COM (2009) 180 final) and real progress has been made, so long as the reforms are remain in place (Carone et al 2010). Pension reforms and complementary structural reforms in healthcare transfers and services and education/training should be instigated in the coming period of ten years, where a “window of opportunity exists” in which labour forces will continue to strengthen somewhat before dependency ratios rise drastically (Carone et al 2010, COM (2009) 180 final). Delayed action in implementing these policies will mean that even more drastic measures may be needed.

Policy considerations for increasing extra-EU immigration include a common European Union immigration policy (now in legislation) as well as coordinated efforts to fight illegal immigration. Better management of migration flows by coordinated actions on behalf of the Member States will facilitate migration into the EU as a means to increase economic and demographic development of the Union. While immigration can only partly compensate the impacts of ageing and low fertility, it may be an important force for territorial cohesion. At the same time extra-European migration must be complemented by integration policies to avoid further labour market segmentation. Changing attitudes towards migration from being a burden to a benefit of the European territory is an important part of this.

DEMIFER results from the scenarios case studies show that the most dynamic regions generally satisfied their labour force demands through immigration. Urban areas are more able to attract international immigrants, particularly those with institutions of higher education (attracting younger people) and those that are physically attractive (mountains or coastal areas) to older people. As seen in the examples given in the case studies (Deliverable 12), this ability of major cities and agglomerations to attract working age population can counterbalance a shrinking and ageing working age population. At the same time the case studies which show a significant presence of foreign immigrants underline the importance of integration of this population and preparation for their future ageing.

Measures already being taken to capitalise on extra-European immigration as a means of addressing gaps in the labour market are seen in the discussions towards a common European Union immigration policy which recognises that the EU needs migration in certain sectors and regions to deal with the specific economic and demographic needs of the territory. The “Stockholm Programme – An open and secure Europe serving and protecting the citizens” from 2009 discusses how a well-managed migration can be beneficial to all stakeholders, particularly within the context of the long-term demographic challenges and the demand for labour that the Union is facing. But the programme also asserts that the interconnection between migration and integration remains crucial. Likewise the European Neighbourhood Policy, while originally mainly interested in helping to strengthen the capacity of Europe’s neighbours to deal with migratory flows into their countries and concerted efforts through partnerships to fight illegal immigration, has discussed the possibility of opening up labour market, where mutually advantageous, between the EU and its neighbours to respond to gaps in national labour markets (CEC 2007 COM (2007) 774 final).

A second question arises with regard to increased labour market mobility of persons between European regions:

What is the role of inter-regional and inter-EU migration in achieving territorial cohesion?

In which regions does labour market mobility present a challenge to population dynamics and in which is it an opportunity to foster employment and growth? The DEMIFER project has examined the relationship between migration and population change with the result that migration in general will tend to benefit the already affluent regions by helping to address the problems of ageing, but that migration out of the poorer regions will only increase regional disparities. The DEMIFER results show unequivocally that migration, both extra-European and intra-European, will have a significant impact of demographic and labour force development in regions. What more, migration will benefit the richer regions, as migrants move to regions that enjoy affluence, accessibility and a nice climate. Results from the case studies show that areas with a well-performing R&D sector are better able to attract more migrants. In general Eastern Europe will suffer from a loss of migration (except in the larger agglomerates). As Deliverable 5 states, the only way to prevent the growth of regional disparities due to migration would be by policies to reduce incentives to emigrate from poor regions and policies that encourage poorer regions to attract more extra-European migration.

EU strategies and policies to promote territorial cohesion certainly help to address some of these challenges. In the light of demographic and labour market challenges, increasing the attractiveness of regions falling behind is just as important, or more important, than boosting the competitiveness of already vibrant regions, that benefit from migration. The Territorial Agenda (2007) particularly points how the need for new forms of urban-rural partnerships and promotion of regional clusters of innovation as goals for the European territory. Regional policy instruments such as the Structural Funds, Cohesion Funds and the Territorial Cooperation objective should be directed towards measures attracting and retaining younger persons in these areas and redressing the exodus from shrinking areas. The Green Paper on Territorial Cohesion (2008) recommends addressing these challenges in coordination with other EU policies such as transport, environmental and energy policy and in the CAP.

A third question concerns the impact that climate change will have on migratory patterns into and within the EU. Thus the pertinent question becomes:

How are global climate change and its regional impacts expected to affect migratory trends in specific territories?

The DEMIFER scenarios do not explicitly compute the likely number of migrants due to climate change, but rather discuss the potential actions of the affected populations which involve either migration away from climate change affected regions or mitigation of and adaptation to the effects of climate change. The majority of the people expected to flee the negative effects of a changing climate will presumably stay in their own countries. Thus DEMIFER examined intra-European migration in connection with climate change. Compared to migration for other reasons, climate change migration is expected to be very slight. While regions may be presented with additional territorial challenges, ie in the Mediterranean regions may experience water shortages, winter sport regions may lose revenues due to reduced tourism, and coastal areas may see changes in fisheries and aquaculture sectors, these challenges can partially be mitigated by a focus on new technologies. More affluent persons will be able to adapt better to extreme climates through seasonal migration and more affluent regions will have the means to restructure certain sectors that are affected by climate change. Thus climate change impacts will be

an additional burden on the regions that are already affected by a diminishing labour force and an ageing population.

Policy actions to help relieve affected regions from the challenges imposed by climate change and thus discourage migration away from these areas include, as Europe 2020 recounts, a focus on “green energy” technologies to help regions solve their energy needs, boost innovation and provide both low-skilled and high-skilled job opportunities. The EU White Paper on Adapting to Climate Change (2009) discusses how regions can become more resilient to climate change through coordinated EU action in certain sectors (e.g. agriculture, water, biodiversity, fisheries, and energy networks) that are closely integrated at EU level through the single market and common policies.

2 Policies accommodating demographic challenges in different types of regions

The DEMIFER typology in chapter 3 is based on current data (2005) and reflects the present differences in the ESPON area. 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 considerations are most applicable to a set of regions. Thus typologies help to design and prioritise policy measures to accommodate the challenges and potentials in Europe. This in turn provides the basis for intervention developments for improving European competitiveness and cohesion

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.

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, and growth rates are above average. The share of migrants as well as labour force participation is also below average. In most of these regions 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.

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 and construction (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 by 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).

2.4 Demographic trends and the matter of scale

The typology of the demographic status in 2005 sheds light on the prevailing demographic pluralism across Europe. The regional classification reveals many territorial similarities as well as territorial diversity. The European Union has identified the ongoing demographic changes, in particular the ageing of the population, as one of the main challenges in the context of territorial cohesion. This is a significant challenge considering the diversity of challenges and policies in the European regions. In order to obtain a common point of departure for territorial policy considerations, a regional classification in terms of clustering does make sense as it enables the identification of similar challenges and territorial potentials. However scale certainly matters when trying to understand diverse and/or similar trends. This diversity at regional/local level has been further explored within a series of in-depth case studies from “typical” cases of each type of region exemplified in the DEMIFER project. These case studies are highlighted in Deliverable 12.

3 Policy bundles affecting changes in demographic and migratory developments

The previous section has detailed policy considerations that could be taken to accommodate or deal with changes in demographic and migratory developments. This section discusses the role of policy and policy bundles in impacting or changing demographic trends over time, as shown in the DEMIFER scenarios. The scenarios developed within the DEMIFER project show how various policy bundles can lead to 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.

The overall framework for policy choices within the scenarios 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 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.

3.1 Policy scenario implications for mortality

There is a European-wide aim to decrease mortality rates and raise life expectancy through investment in healthcare services, research into disease control and through promoting healthy lifestyles. The policy bundles considered when looking at future paths for mortality include policies that intervene with lifestyle choices, such as smoking, drinking and drug use or diet/obesity behaviour. While national regulation can have an impact on the prevalence of practices such as smoking or drinking, they also require behavioural changes to have an impact on the population. Also included in the qualitative aspects of the mortality scenarios are the nature of medical advances and the national/regional health inequalities are crucial for modelling mortality.

Scenario results for mortality for the Challenged Market Europe scenario display very large disparities between disadvantaged regions in the East and the longevity in 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.

3.2 Policy scenario implications for fertility

Increased fertility will help to mitigate the effects of ageing, at least in the long-run. The qualitative policy bundles considered in fertility scenarios include the degree of family vs

individually oriented goals in society, the impact of family-friendly policies such as subsidized day care or paid parental leave, but also legal regulations on assisted conception and abortion laws. The policy bundles also includes the impact of extra-European migration (especially from cultures that have a tradition of high fertility), as well as the inequalities of national/regional 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 as seen in the Northern countries, also in other parts of Europe.

3.3 Policy scenario implications for migration

While internal migration is positively related to economic growth and high economic growth increases job-related mobility, there are hardly any political actions to explicitly stimulate migration to other regions within a country. The Schengen Agreement, of course facilitates inter-state mobility and some incentive schemes (Erasmus, Marie Curie), encourage the migration of young academics, but in general there are few European-wide policy actions for this. Thus the scenario bundles for migration include adjustments to relative attractiveness of each destination.

The policy scenarios show fairly little difference in internal migration (at least as calculated as destination attractiveness ratio, 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.

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 to 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 of 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.

3.4 Policy scenario implications for the labour force

The qualitative policy bundles implied in the labour force scenarios include trends in participation, the participation of young persons and older persons as well as female participation and policies and attitudes towards full time, part time and self-employment. National family policy can have a fundamental influence on the labour supply of women. For example in the Nordic countries, family and labour market policies are largely

organised to facilitate the reconciliation of employment and parental responsibilities for both parents, helping to solve the work-life balance.

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. It will be essential to reduce the number of inactive people on the labour market in order to mitigate the effects of ageing. Thus pursuing policies that can help implement the Lisbon agenda and the sustainable development strategy will have positive implications on labour market dynamics.

In conclusion, if policies are adopted that solve the current economic crisis, address long term climate change and resource depletion challenges (the Growing Social Europe and Expanding Market Europe scenarios), then the population of Europe will grow by nearly a fifth in the period to 2050.

4 In conclusion: Combining policy considerations

The growth rate of labour supply depends on both changes in the size and age structure of the working age population and the level of labour force participation rates. Thus the growth of labour supply can be raised by policies aimed at affecting changes in the size and age structure of the population and policies aimed at improving the dynamics of the labour market. The size and age structure of the population depend on the levels of fertility and - to a lesser extent - of mortality and on the size and direction of migration flows. Thus policies affecting demographic and migratory flows will have an effect on the growth of the labour force.

One of the main causes of the decline in the growth of the working age population is the low level of fertility. If policies aimed at increasing the level of fertility would lead to a decrease in the labour supply of women, for instance due to a reduction in the number of working hours per week or due to an increase in maternity and parental leave, the immediate effect on the size of the labour force would be negative. Thus policies should aim at improving facilities for women to combine having a paid job and the raising of children. However, providing facilities may not be enough since the level of fertility depends on the general economic situation as well. If young couples do not have faith in the future, for instance if the level of unemployment is high and income levels are low, they tend to have only a small number of children. Therefore policies aiming to raise the level of fertility will not be effective if the general economic situation will not improve. Moreover, disparities in the level of fertility across regions and countries will not be reduced if economic differences are persistent. Obviously policies affecting the level of fertility will have effects on the growth of the working age population in the long run only. These policies will not help in reducing labour shortages in the next two decades or so.

All across Europe life expectancy has been increasing during the last decades. In most countries, mortality rates at higher ages have been declining. To the extent that the additional years are spent in good health, this trend makes it possible to increase the statutory age of retirement. An increasing number of European governments has already decided or is considering raising the retirement age. There are sharp differences in the level of mortality across European regions. Especially in eastern parts of Europe there are regions where the level of premature deaths is very high. However, in western countries there are big differences between rich and poor regions as well. Reduction of premature mortality will have a positive impact on the size of the working age population. However, in order to have an impact on labour supply, it is not sufficient to increase life expectancy. The additional years alive should be spent in good health. One of the main causes of differences in life expectancy and in health are life style factors, such as smoking, unhealthy diets and lack of exercise. Thus in order to reduce inequalities, policies aimed at increasing the age of retirement should be combined with policies stimulating healthy behaviour.

If migrants move from regions with high unemployment to regions with shortages in the labour market, that may help in solving labour market problems in the affluent regions. However, outflow of young migrants may cause a negative vicious circle in poor regions, as population size may shrink, the working age population may age strongly and the number of young families may drop which may cause a decline in economic growth and as a consequence unemployment may increase further which in turn may increase the outflow of young adults. Thus migration between regions may increase rather than decrease regional disparities. The same applies to migration between ESPON countries, as migrants tend to move from poor to rich countries. Thus policies aimed at increasing

mobility between European regions and countries may reduce rather than increase cohesion. They tend not to result in win-win outcomes but rather in zero-sum results: gains for some regions imply losses for others. Policies aimed to stimulate migration should not be developed in isolation but can be effective only if they are part of policy bundles aimed to improve living conditions in poor regions, for example by improving the availability of jobs, housing, schools and the quality of the environment.

Migration from outside Europe may increase the size of the working age population without leading to decreases in labour supply in other European regions. Even though governments of many European countries have a restrictive immigration policy, shortages in the labour market due to ageing may lead to an increase in immigration from outside Europe. The European Commission has suggested that policies should be developed for allowing economic migration in order to meet the needs of the labour market. However, past experiences have shown that massive streams of migrants may cause social problems as the current cultural abilities to integrate migrants are inappropriate. There is a tension between preserving the national identity and developing multiculturalism. Thus immigration policies may be beneficial only if integration policies are successful. Furthermore, as migrants tend to move to economically healthy regions, regional disparities may increase, particularly as regions with a healthy economy tend to be better able to attract higher skilled migrants.

In addition to influencing the size of the working age population, policies may be aimed to accommodate demographic developments. One policy option is to take measures to raise labour force participation. Since in poor regions labour force participation rates tend to be lower than in affluent regions, raising labour force participation rates may be helpful in decreasing disparities across regions. However, increases in labour force participation will be effective only if the labour market performs well, otherwise it may lead to an increase in unemployment. In several regions labour force participation of women can be increased strongly. This requires policies to improve the compatibility of work and childcare and actions aimed at reducing gender discrimination in the area of career development. An increasing number of countries has been introducing policies to increase the retirement age. However, this will be effective only if employers are prepared to employ older employees, if the aged will remain healthy and if employees are able to attempt career changes. Thus policies to raise the statutory age of retirement are not sufficient.

Economic growth is not just determined by the volume of labour supply, but by labour productivity as well. Growth in labour productivity may be raised by technological progress and by investments in education and training. Increases in labour productivity are one main cause of improvements in living standards. To the extent that policies aimed to increase the size of the labour force would not be effective, increases in labour productivity will be needed to compensate for the effects of demographic ageing rather than to contribute to further improving living standards.

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1 Annex: Policy considerations and DEMIFER Dissemination

Nordregio has been responsible for the DEMIFER dissemination strategy and implementation. Dissemination of DEMIFER results has been largely linked to policy considerations. Thus the dissemination strategy of policy relevant results rests on four legs: 1) Production of DEMIFER Policy Briefs, which present specific results of DEMIFER in a 4-page policy relevant document geared towards policy makers on all levels, 2) the organisation of a Policy lunch seminar in Brussels, 3) Presentation of DEMIFER results and policy considerations at various venues around Europe and 4) Academic publications.

1) Thus far, the project partners have produced a draft of one Policy Brief based on the policy considerations of the DEMIFER typology of regions. This Brief should be released shortly after the final report. A few other DEMIFER Policy Briefs will be produced, based on the results of the case studies, the migration analysis and the scenario exercise.

2) Nordregio and is currently planning a Policy Lunch for decision-makers on all levels in Brussels on November 9th, 2010. The target audience is decision-makers based in Brussels – Representatives from DG Regio and other relevant DGs, regional and national representations, EU Parliamentarians and other interested actors. The interactive Lunch seminar will be held on November 9th, at 11-13 in Swedish Representation's auditorium (Square de Meeüs 30). The preliminary programme is:

Preliminary Programme

1. Opening and introduction to the seminar (Peter Melhbye, ESPON Coordinating Unit) **10 min**
2. Main project results
 - Demographic trends in Europe, its regions and cities (Joop de Beer, NIDI) **10 min**
 - Demographic profiles–challenges and potentials for European regions (Roman Bauer, University of Vienna) **15 min**
 - Demographic development towards Europe 2050 - Policy Scenarios (Phil Rees, University of Leeds) **15 min**
3. Use of DEMIFER results in a policy context (Lewis Dijkstra, DG Regio) **15 min**
4. Open discussion: Potential policy implications of the DEMIFER-project (Chair: Mats Johansson, KTH) **40 min**
5. DEMIFER policy briefs (to be published on meeting) (Lisa Van Well, Nordregio) **5 min**

Light lunch and informal discussion will follow

3) DEMIFER results have been presented at several forums within Europe, most recently at the VASAB (Visions and Strategies around the Baltic) Expert and Stakeholder meeting on Demographic Trends and Labour Market Development on 8 June 2010 in Kaunas, LT and at the ESPON ECP Cooperation workshop Development Trends of Latvia and other EU Regions in ESPON studies, in Riga, Latvia on 10 September 2010. Nordregio is putting together an inventory of all DEMIFER outside presentations

4) Several academic articles featuring the DEMIFER results are planned.