Berlin Institute for Population and Development

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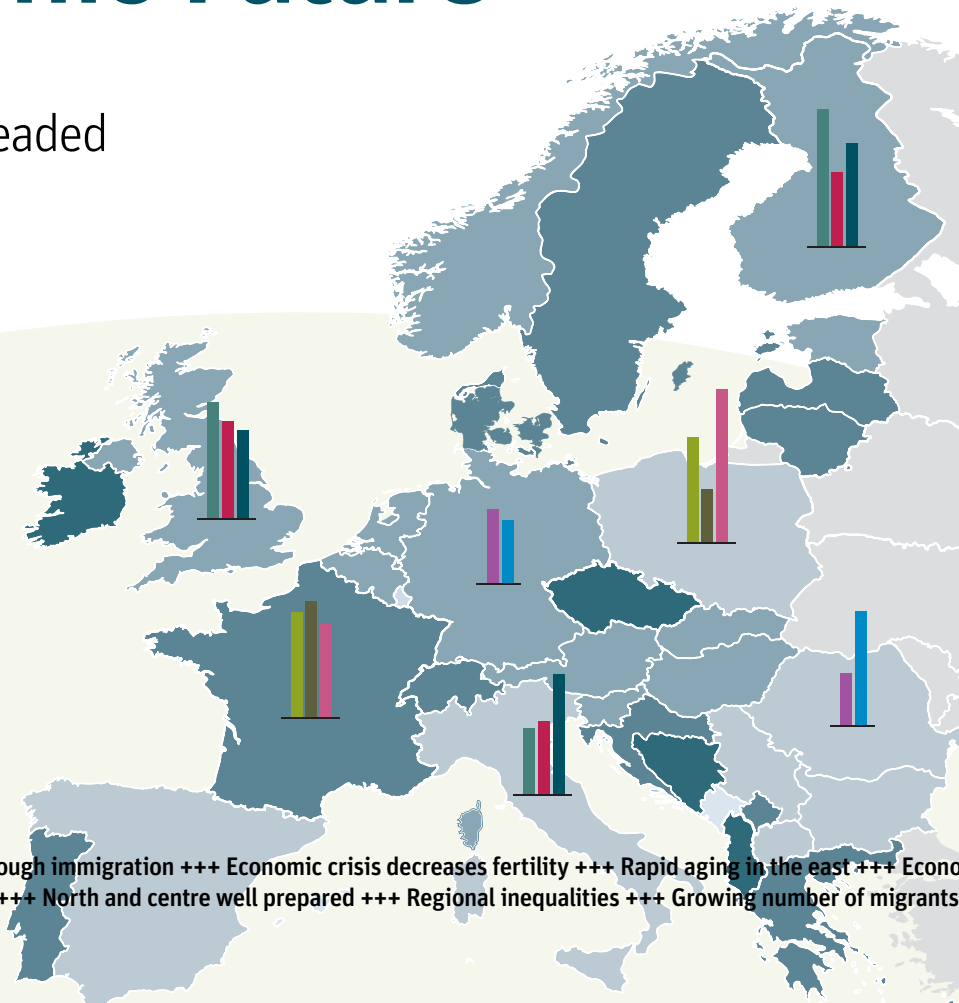
Europe's Demographic Future

Where the Regions are headed after a Decade of Crises



rope +++ East-West migration +++ Population growth only through immigration +++ Economic crisis decreases fertility +++ Rapid aging in the east +++ Econo
aphic consequences of latest recession +++ Aging everywhere +++ North and centre well prepared +++ Regional inequalities +++ Growing number of migrants

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Berlin Institute for Population and Development

GfK Verein

Europe's Demographic Future

Where the Regions Are Heading after a Decade of Crises

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CONTENTS

OLD AND ABOUT TO SHRINK – BUT NOT TO BE UNDERESTIMATED

People often like to refer to Europe as the "Old World", even though this term was originally used to mean all the regions and countries known to Europeans before the discovery of America in 1492 – in other words, large parts of Asia and Africa as well as Europe itself. Nowadays, however, the epithet can be applied for a completely different reason, because in a demographic sense Europe is indeed now the old continent, the one where the change in the population structure is most advanced. Fertility rates in Europe are among the lowest in the world, and in no other major region of the globe can people expect to live so long. In the coming years, the baby boomer generation will gradually retire from working life and the cohorts that will follow them on the labour market will be significantly smaller. The Europeans' share of the world population is falling continuously and apparently unstoppably.

The aging population is also used to explain Europe's current crisis. The continent is relying on its accumulated assets, so the argument goes, has been slow to reform and is therefore unable to keep up economically with the young and dynamic regions elsewhere in the world. Is the old continent an obsolete model?

Home-made crises

In fact, Europe in general and the European Union in particular are facing a series of problems: since the financial and economic crisis, debt has exploded in most countries, while large numbers of young people still have no work. In countries like Portugal and Greece, and even in Italy and France a generation is growing up that is already being described as "lost". Some of these countries as well as large parts of Eastern Europe are losing people, because many, especially the young, are migrating elsewhere or are unable for economic reasons to start families.

Given the lofty visions of the Lisbon Strategy, which back in 2000 sought to turn the EU into the most competitive and dynamic economy in the world with more and better jobs and greater social cohesion, this is a poor showing. Back then, the declared goal was "cohesion", that is, bringing weaker regions more onto a par with stronger ones. But in fact the disparity between regions has not noticeably declined since then. All in all, the EU has fallen far short of achieving the central goals of the Lisbon Strategy. What is more, the Union is showing serious signs of falling apart. The United Kingdom's declared intention to leave the EU robs the Union of one of its key members. Were the 15 smallest EU members to leave, it would have the same effect in terms of the number of inhabitants.

At the same time, citizens' faith in the willingness of EU politicians to reform and in their ability to find solutions has taken a battering. A common European line exists no more on debt policy than it does on immigration and asylum policy. The existing disenchantment with Europe as an over-regulating bureaucracy has now become a mood of real rejection, reflected in the growing strength of populist, nationalist and anti-European parties. Indeed, the EU is currently suffering from far more than just a mid-life crisis.

The EU has never been good at solving major problems, partly because in the early decades of its existence there were comparatively few difficulties. It absorbed one country after another into its ranks and for a long time was buoyed by a wave of success. The Europe project seemed unstoppable. Whether Moldova, Ukraine, Georgia or Turkey, all were supposed to board the boom train in the long-run and become part of a kind of United States of Europe. With the benefit of hindsight, this idea seems naive.

No alternative to the EU

Nonetheless, the EU remains a successful model. It has overcome centuries-old West European conflicts and later the Cold War and the division of Europe. It has reunited the continent. Almost all states that have joined the EU have benefited enormously, and those that leave may well at some point look back nostalgically at their time as members. The EU is better than anything that came before it, and it is better than a Europe of new borders and isolationism, which the continent now threatens to become.

Europe needs to focus on its key tasks, above all the common internal market. And adopting a new, sober view, it needs to realise that which is possible. But at the same time it must tackle issues of global significance. In terms of population, the EU is three times the size of Russia and more than one-and-a-half times the size of the United States, but it is not really an international player. The EU's size ought to give it more self-confidence. The crises on the continent can be solved only through joint efforts; and the global

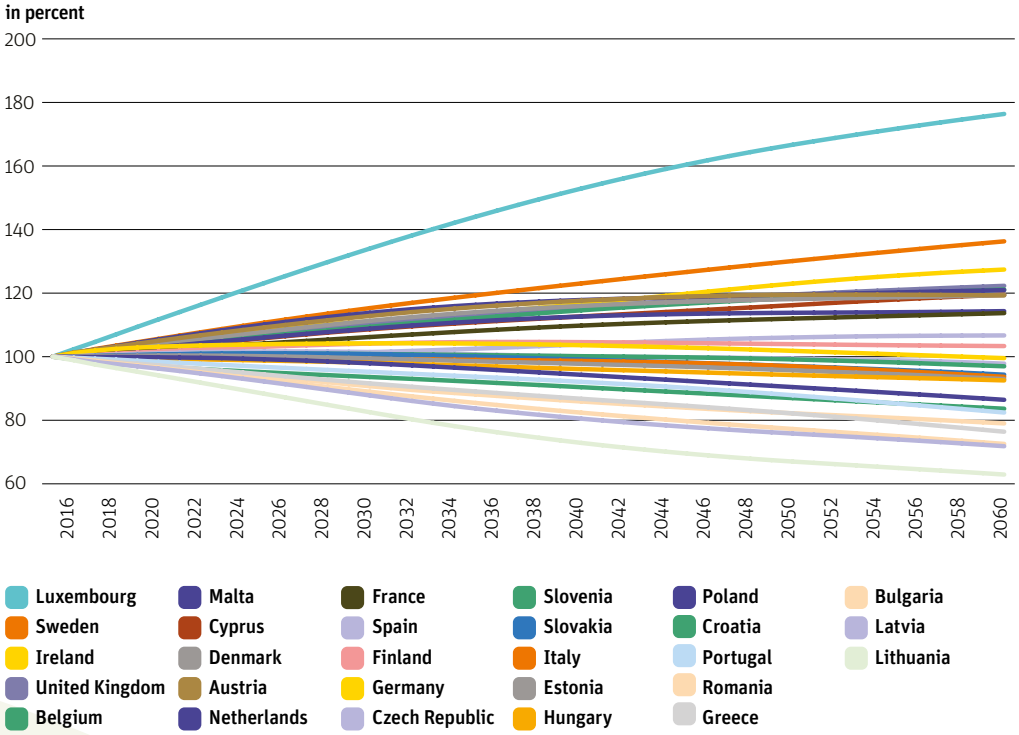
crises, which are hardly in short supply, can be tackled only via a common European foreign policy, because individual European countries carry too little weight on the world stage. Major projects that cannot be regulated at the level of nation states – such as combatting climate change, providing security in times of terror and flight and the regulation of the financial markets – need large decision-making entities. Europe has to become more involved in these tasks.

Even if Europe is being overtaken by the rest of the world demographically, it must maintain its innovative power. Doing this requires young people with new ideas. A shrinking population is not a problem as long as the younger generation is well qualified and can look forward to good job opportunities in the future. Possible gaps can be bridged with immigrants; however, the latter must be well integrated. This is possible only if both sides accept the rules of co-existence, if migrants have the chance to receive an education and find work and if they make use of this opportunity. A strong Europe in a globalised world must be an open and international Europe, but it is one that still needs to find a common platform. The alternative would be a shrinking old people's home with a nationalist identity – an old Europe that would eventually become history.

Europe could become a model for sustainable development, for peace and for coping with demographic change. Other regions of the world face all of these tasks, too – some of them today, others within a few years or decades. Everywhere fertility rates have fallen and societies are aging; in emerging countries these developments are taking place somewhat later, albeit all the more rapidly than in Europe. Europe's social systems will experience some problems, but to date they are in better shape than those in the US, China and India. If the Europeans manage to do their homework properly, other regions of the world will be able to benefit from their experience. That alone would be reason enough to stand together as a united Europe and develop a blueprint for the co-existence of societies in the 21st century.

Berlin, August 2017

Reiner Klingholz
Director, Berlin Institute for Population and Development



A Europe of diversity

All European states are aging, but not all of them are shrinking. Countries like Luxembourg, Sweden and Ireland look set to go on growing. Even Germany could gain inhabitants in the short term. The reason for future growth will increasingly be immigration, since many countries already have death surpluses. Those countries suffering from emigration and where comparatively few children are born are likely to shrink especially radically. This is particularly the case in Eastern and Southern Europe.

Projected population development in EU countries in percent, 2015–2060 (2015 = 100 percent)
(Data source: Eurostat[1])

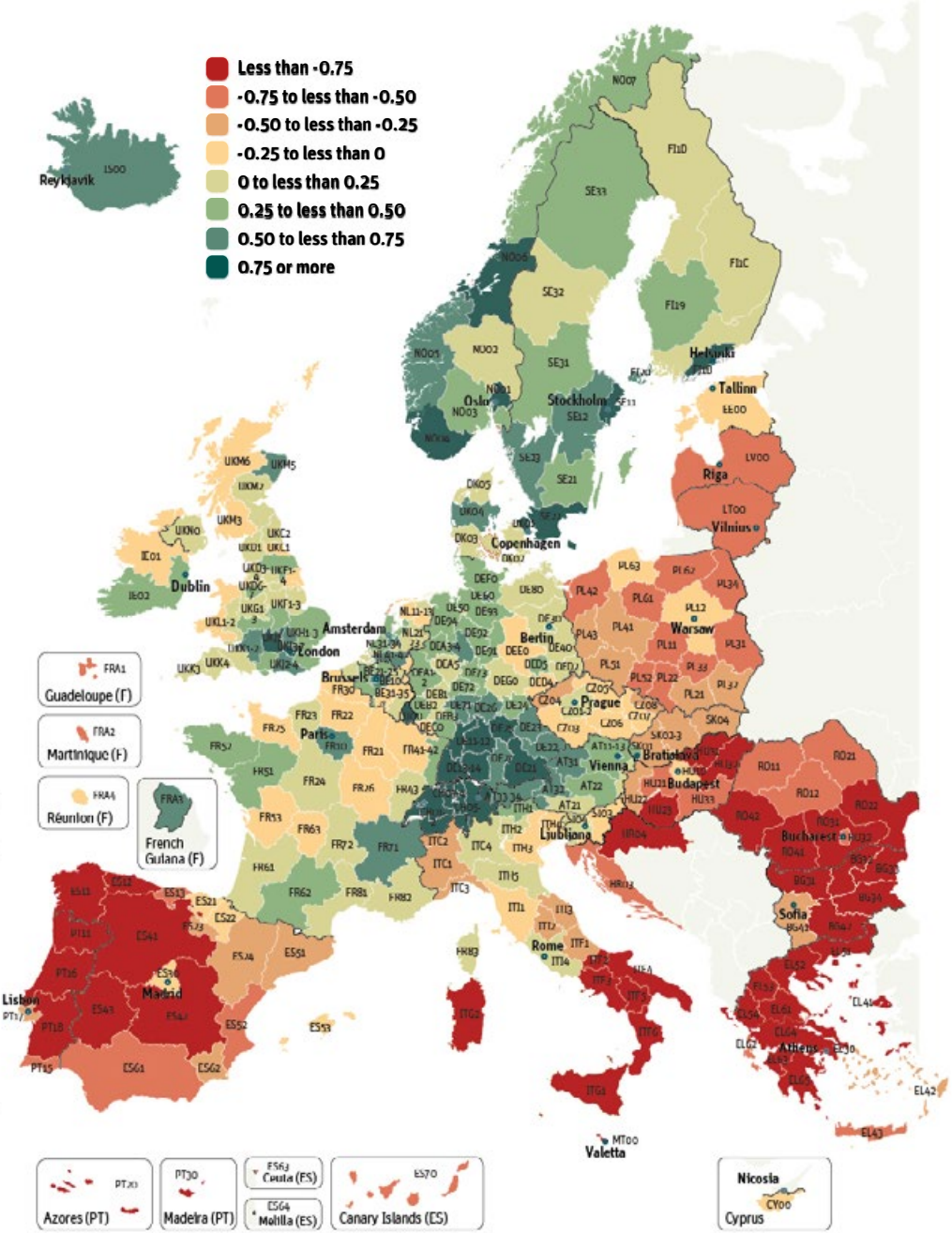
OVERVIEW

North and Centre on Top

In the economy of the 21st century, the most important resources are no longer large industrial plants, farmland or mineral deposits but rather the knowledge and skills of human beings. Those countries and regions that succeed in constantly developing the sum of their inhabitants' skills – which is often referred to as human capital – can look forward to growing prosperity. The others can become losers in today's services and knowledge society.

This poses a serious problem for Europe. Because of persistently low fertility rates, the populations of many countries are shrinking. Almost everywhere, a growing number of people are retiring while ever fewer are entering the job market. Under these conditions, prosperity can be maintained or developed only if the reduced workforce becomes more productive – that is, produces more goods and services in the same amount of time. But since this group simultaneously has to help provide for more old people, the demographic transformation is likely to lead to increased redistribution. This means that each individual in employment will be left with a smaller share of his/her income than was previously the case. The need for adjustment is greatest in public healthcare, pension and old-age care systems, towards which ever fewer are contributing but which at the same time are having to provide more and more benefits.

Adapting to the aging of the population without losing the capacity for economic renewal is a task facing all European countries. At the same time, these states can try to deal with the consequences of the demographic transformation by attacking its roots – that is, fighting against the

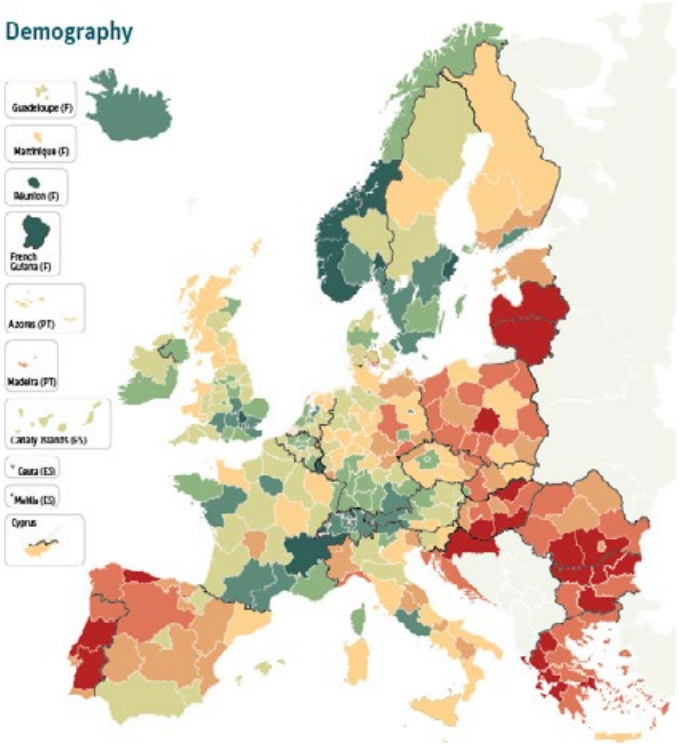


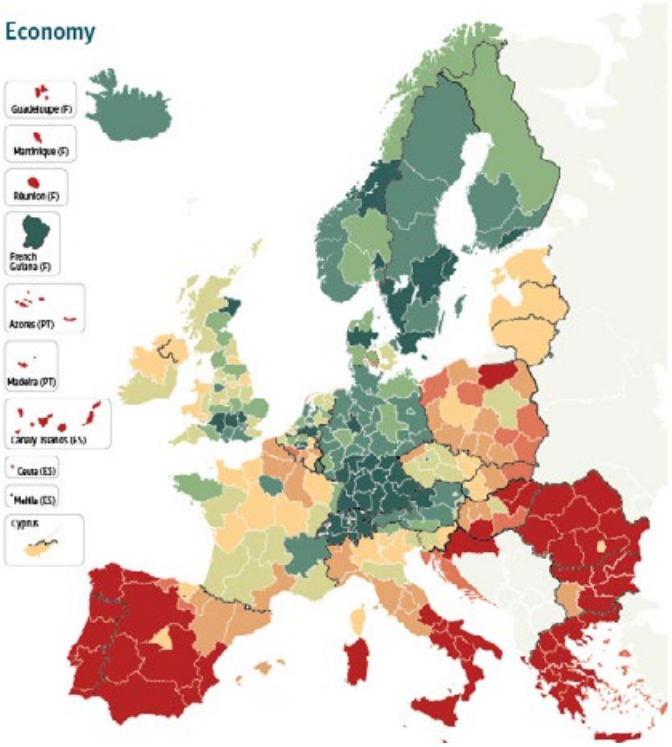
shifting importance of different age groups. One means of doing this is through immigration. Because immigrants are on average younger than the native population, they can – if successfully integrated – counteract the aging of society. However, they have only limited influence, since immigrants, too, get older and the need for new immigration thus arises. To keep age ratios more or less constant, European countries would need unrealistically large numbers of immigrants. This would make integration impossible and would meet with considerable opposition from the populations of those states. Thus other strategies are required. They include better integrating groups that have long been disadvantaged on the job market – women, the low-skilled and immigrants already living in the country.

On the other hand, a policy that promotes parenthood – for example, by making it easier to combine family and career, which is necessary for other reasons – cannot lead to success in the short term. Tomorrow's workforce has already been born, and by the time the children born today can start contributing to the economy, a large part of the so-called baby boomer generation will already have long retired. Moreover, family policy measures have an impact as a rule only over the longer term and seldom lead to rapid turnarounds in demographic trends.

Back in 2008, the Berlin Institute carried out research into how well the European regions were adapting to the demographic changes. At that time, it concluded that the north and west of the continent had coped better with the challenges than the southern and eastern parts of Europe. Less than a decade later, the present study provides an urgently needed update. Urgently needed because the general environment for a controlled and far-sighted policy has changed dramatically and in many cases worsened. First, the global financial crisis, which quickly developed into a full-fledged economic crisis, pushed various European states to the brink of insolvency. Mass unemployment of mainly younger people came in tow. The influx of many East Europeans into Germany, the United Kingdom and other West European countries stoked fears of prosperity being eroded; in German-speaking parts of Europe, the term "poverty immigration" was coined. And finally, the more than one million refugees who have flooded into Europe in recent years pose an acid test for the EU states, which have very different ideas about how to respond to the numerous crises in Europe's neighbourhood.

All these crises and upheavals have a direct impact on demographic trends. In 2015, the influx of asylum seekers into Germany helped the country achieve its biggest population gain in decades. But at the same time, it has set an enormous task for the German authorities – namely, to ensure the successful





integration of the new arrivals. The economic crisis triggered a new wave of south-north migration within Europe: while this has eased pressure on the labour markets in the Mediterranean countries, it could prove a problem for these states in the long term. Even the fertility rates were not spared. Having risen in the 2000s, they quickly fell again in many places as a result of the economic uncertainty during the recession. These developments highlight the fact that population development cannot be viewed in terms of family and social policy measures only; rather, it is determined by the economic and social environment. This applies all the more to a Europe in which national borders have become less important.

The European nations are all in the same boat as regards many of today's challenges – for example, how to deal with both the refugee crisis and the debt crisis. Failure would be equally dangerous for all – there is talk about the ultimate collapse of the euro or even the European Union. But in other areas, they are competitors – for example, in migration within Europe. Here one country's gain is another country's loss. To have the edge in this competition, states must offer attractive conditions – above all, in relation to job prospects.

Well-equipped Switzerland

So where do the various regions of Europe stand today? What has changed compared with 2008? The map on page 6 shows how the European regions performed in 2016 in the areas of demography and the economy (see the chapter titled "Methodology" on p. 143). All 290 NUTS 2 regions of the European Union, Iceland, Norway and Switzerland were studied. Comparable data were not available for the remaining European countries. The darker the shade of green used for a given region, the better its prospects.

The frontrunners are Stockholm, Northwestern Switzerland and Zurich. Inner London – West, Upper Bavaria, Vorarlberg, Central Switzerland, Luxembourg and the Lake Geneva Region all perform similarly well. Above all, they earn points for their economic and innovative strength, which attracts numerous immigrants. Immigration, in turn, decelerates aging and ensures that these regions number among the younger ones on the continent, despite having fertility rates that tend to be lower than average and a rather high life expectancy. The other regions of Switzerland and large parts of southern Germany are in good shape, too, both in demographic and economic terms.

Because it excels across the board, Switzerland is an exception. Everywhere else on the continent, there are divides within countries. A total of nine nations are represented in the group of the best-performing regions. Besides Switzerland, only Germany and the United Kingdom have more than three regions in this group. This reflects the fact that compared with other countries, Germany, in particular, has so far better managed to overcome the numerous crises on the European continent. However, a clear south-north divide and a west-east divide continue to be evident in this country, even though the latter is by no means as pronounced today – more than 25 years after reunification – as it was just several years ago. The best indicator of this is that in 2013, net migration between the "old" and "new" federal states was almost balanced for the first time since reunification; earlier, the eastern part of the country had recorded a net loss of around two million people to the west.[1] Leipzig symbolises the upswing in the east. Of all German regions, the city has the second-highest immigration gains – after Berlin – and is one of the best performers compared with 2008, just like the capital city.

Serious differences between north and south are to be found in other countries, too. In Italy, the decades-long division between the rich north and the poor south persists to this day. And if anything, it has only grown deeper: the regions in southern Italy number among those in Europe that have the lowest fertility rates and, at the same time, the labour markets that are least able to absorb new workers. Less serious but nonetheless striking are the north-south divides in the United Kingdom as well as in Scandinavia and Finland. Many regions in the far north suffer on account of migration to Oslo, Stockholm and Helsinki. In Scotland, meanwhile, women have significantly fewer children than in the rest of the United Kingdom; moreover, life expectancy is lower here, too.

Occupying the middle ground are numerous French regions, large parts of Central Italy as well as regions of the formerly socialist Czech Republic and Slovenia. In 2016, the Czech Republic had the lowest unemployment rate in the EU. One reason for this is the well-educated population: nearly all those working have either completed vocational training, obtained a high school degree that allows them to study at universities or graduated from university or college. This makes the Czech Republic attractive to foreign investors – especially in the strong industrial sector. The capital city of Prague – like Bratislava, the capital of neighbouring Slovakia – has long succeeded in catching up with Western Europe.

The situation worsens in the countries that lie in the southeastern part of the continent. Romania and Bulgaria remain the poorest member states of the EU. Because of the huge prosperity divide between these countries and Western Europe, the former have recorded large emigration losses year after year. The same is true of the Baltic states, even though they have recently undergone a huge economic transformation and, following what was initially a dramatic downturn, have since more or less recovered from the economic crisis. That the outlook has improved can be seen, not least, from the fertility rate. Latvia has recorded the highest fertility rate growth in absolute terms in Europe for the period from 2000 onwards, while Lithuania is the frontrunner for the period since 2008.

Many regions of southern Europe are a long way from overcoming the economic crisis. In Greece, Spain and southern Italy, youth unemployment remains at around 50 percent. Many youths and young adults do not have a job, nor are they undergoing training. For these so-called NEETs – not in education, employment or training – the economic crisis could have huge negative long-term consequences. These consequences are not just economic in nature. Today it is already evident that women in southern Europe are having even fewer children than before. Thus, Portugal currently has the lowest fertility rate among the EU countries: 1.31 children per woman. Moreover, eleven of the regions with the fewest births per woman are in Spain, Italy and Portugal; here the "leader" is the north Spanish Principality of Asturias, with just 1.01 children per woman. This trend will likely lead to the societies of southern Europe becoming by far the oldest on the continent by the middle of the century.

Demography: the hinterland crisis

So far, we have examined the demographic situation of the regions of Europe alongside their economic potential to deal with it. If we take demography on its own, the overall picture changes only marginally. This shows the large extent to which Europe's demographic and economic development goes hand in hand. People move to where the economy and the labour market are strong and where they can enjoy good social protection, which means, in turn, that they live longer. Moreover, if the future is secure, it is less risky to have children. And it is often the case that in prosperous regions with modern economies, public day-care for children is well developed, allowing parents to easily combine family and career.

When the focus is on demography, the familiar picture emerges of many regions in good shape in southern Germany, Switzerland, the Southeast and Midlands regions of the United Kingdom as well as in Norway. Many parts of Portugal and Eastern Europe have been

1	SE11	Stockholm
2	CH03	Northwestern Switzerland
3	CH04	Zurich
4	UKI3	Inner London – West
5	DE21	Upper Bavaria
6	AT34	Vorarlberg
7	CH06	Central Switzerland
8	LU00	Luxembourg
9	CH01	Lake Geneva Region
10	CH05	Eastern Switzerland
11	DE11	Stuttgart
12	NO01	Oslo and Akershus
13	FI1B	Helsinki-Uusimaa
14	UKI4	Inner London – East
15	CH02	Espace Mittelland
16	NO04	Agder and Rogaland
17	DE14	Tübingen
18	UKJ1	Berkshire, Buckinghamshire and Oxfordshire
19	SE22	Southern Sweden
20	DE25	Central Franconia
21	UKI7	Outer London – West and North West
22	NO06	Trøndelag
23	UKI6	Outer London – South
24	DE13	Freiburg
25	CH07	Ticino
26	DE12	Karlsruhe
27	DK01	Capital Region
28	NO05	Western Norway
29	UKI5	Outer London – East and North East
30	UKH2	Bedfordshire and Hertfordshire
31	DE23	Upper Palatinate
32	SE23	Western Sweden
33	DE27	Swabia
34	DE71	Darmstadt
35	NL41	North Brabant
36	FR10	Île de France
37	DE60	Hamburg
38	FR71	Rhône-Alpes
39	IS00	Iceland
40	UKK1	Gloucestershire, Wiltshire and Bristol/Bath area
41	SE12	East-Central Sweden
42	FRA3	Guiana
43	AT31	Upper Austria
44	UKM5	North Eastern Scotland
45	AT33	Tyrol
46	FI20	Åland Islands
47	UKJ2	Surrey, East and West Sussex
48	BE24	Province of Flemish Brabant
49	DK04	Central Jutland
50	DE30	Berlin
51	BE31	Province of Walloon Brabant
52	AT32	Salzburg
53	NL31	Utrecht
54	DE26	Lower Franconia
55	DE22	Lower Bavaria
56	AT13	Vienna
57	DEA4	Detmold
58	DEB3	Rhenish Hesse-Palatinate
59	SE21	Småland with islands
60	UKJ3	Hampshire and Isle of Wight
61	DEA2	Cologne
62	UKH1	East Anglia
63	NO03	Southeastern Norway
64	UKF2	Leicestershire, Rutland and Northamptonshire
65	NL32	North Holland
66	DED5	Leipzig
67	SK01	Bratislava Region
68	ITH1	Autonomous Province of Bolzano/Bozen
69	AT22	Styria
70	UKJ4	Kent
71	BE10	Brussels Capital Region
72	NO07	Northern Norway
73	NL23	Flevoland
74	UKD6	Cheshire
75	AT12	Lower Austria
76	FR51	Pays de la Loire
77	FR62	Midi-Pyrénées
78	SE33	Upper Norrland
79	IE02	Southern and Eastern Ireland
80	BE21	Province of Antwerp
81	UKH3	Essex
82	DEB2	Trier
83	FI19	Western Finland
84	DEA1	Düsseldorf
85	DE94	Weser-Ems
86	NL33	South Holland
87	DE72	Gießen
88	DEA3	Münster
89	CZ01	Prague
90	DE92	Hanover
91	SE31	North-Central Sweden
92	FR42	Alsace
93	UKE2	North Yorkshire
94	DEF0	Schleswig-Holstein
95	DE93	Luneburg

left behind. And the east of the continent is suffering not only from comparatively low fertility rates and emigration but also from a life expectancy that remains much lower than that in Western Europe and the southern part of the continent.

Somewhat surprising is that many regions in France, once the model country in terms of demography, achieve only mid-range scores. Especially in the interior – in Limousin, in the Auvergne and in Burgundy – the persistently high fertility rates compared with elsewhere on the continent can no longer conceal the fact that there are demographic challenges. For example, the aging of society is already far advanced here, partly because many young people move to the coastal regions in the south and the west and pensioners immigrate from neighbouring states. Other regions of France that are losing young people are Lorraine and Picardy in the north, where there are few jobs owing to the economic transformation away from heavy industry.

Almost everywhere, the capital city scores better than the rest of the country. It is, in particular, the peripheral regions – frequently to be found in the interior far away from the coast – that struggle to counter the emigration of young people and the resulting aging of society. This is the case in Spain – for example, in La Rioja and Aragon as well as in Castile and León. Elsewhere – and above all in Germany – huge numbers of immigrants from other parts of Europe as well as the Middle East obscure the fact that rural regions such as Trier, Chemnitz and Arnsberg are losing young people to the major urban centres.[2]

Another surprise is that southern Italy scores better in demographic terms than in the overall evaluation. While some of the regions with the lowest fertility rates on the continent are to be found here, the picture is somewhat deceptive, because those same regions benefit from a high life expectancy as well as from large numbers of immigrants. However, this immigration is due not to strong labour markets but rather to the fact that many

96	DE73	Kassel
97	FR52	Brittany
98	DE91	Braunschweig
99	BE23	Province of East Flanders
100	DE24	Upper Franconia
101	UKG1	Herefordshire, Worcestershire and Warwickshire
102	DE50	Bremen
103	DK03	Southern Denmark
104	UKF1	Derbyshire and Nottinghamshire
105	SE32	Central Norrland
106	UKK2	Dorset and Somerset
107	DED2	Dresden
108	FR61	Aquitaine
109	CZ02	Central Bohemia
110	NO02	Hedmark and Oppland
111	DE40	Brandenburg
112	NL22	Gelderland
113	UKF3	Lincolnshire
114	UKK3	Cornwall and Isles of Scilly
115	NL21	Overijssel
116	DEB1	Koblenz
117	SI04	Western Slovenia
118	UKD3	Greater Manchester
119	UKK4	Devon
120	UKG3	West Midlands
121	BE34	Province of Luxembourg
122	UKG2	Shropshire and Staffordshire
123	DK05	North Jutland
124	UKE4	West Yorkshire
125	DEA5	Arnsberg
126	UKM2	Eastern Scotland
127	AT21	Carinthia
128	UKL2	East Wales
129	FR82	Provence-Alpes-Côte d'Azur
130	UKN0	Northern Ireland
131	FR43	Franche-Comté
132	FI1C	Southern Finland
133	BE25	Province of West Flanders
134	FI1D	Northern and Eastern Finland
135	ITH2	Autonomous Province of Trento
136	DEG0	Thuringia
137	AT11	Burgenland
138	BE22	Province of Limburg
139	DK02	Zealand
140	FR72	Auvergne
141	NL34	Zeeland
142	ITH5	Emilia-Romagna
143	FR24	Centre
144	UKD4	Lancashire
145	FR81	Languedoc-Roussillon
146	ITI4	Lazio
147	UKD1	Cumbria
148	UKE3	South Yorkshire
149	ITC4	Lombardy
150	FR23	Upper Normandy
151	FR83	Corsica
152	NL11	Groningen
153	UKC2	Northumberland and Tyne and Wear
154	ES64	Autonomous City of Melilla
155	DE80	Mecklenburg-Western Pomerania
156	NL12	Friesland
157	CZ06	Southeast
158	NL42	Limburg
159	IE01	Border, Midland and Western
160	UKD7	Merseyside
161	DEC0	Saarland
162	UKE1	East Yorkshire and North Lincolnshire
163	DED4	Chemnitz
164	FR53	Poitou-Charentes
165	PL12	Mazovia
166	ES30	Autonomous Community of Madrid
167	UKL1	West Wales and The Valleys
168	CZ03	Southwest
169	UKC1	Tees Valley and Durham
170	UKM6	Highlands and Islands
171	UKM3	Southwestern Scotland
172	FR26	Burgundy
173	BE35	Province of Namur
174	FR30	Nord – Pas-de-Calais
175	FR22	Picardy
176	NL13	Drenthe
177	CZ05	Northeast
178	HU10	Central Hungary
179	FR25	Lower Normandy
180	ES53	Balearic Islands
181	ES22	Navarre
182	ITH4	Friuli-Venezia Giulia
183	FR63	Limousin
184	ITH3	Veneto
185	BE33	Province of Liège
186	DEE0	Saxony-Anhalt
187	FR41	Lorraine
188	SI03	Eastern Slovenia
189	FR21	Champagne-Ardenne
190	CZ07	Central Moravia
191	FRA4	La Réunion
192	CY00	Cyprus

refugees who reach Europe by crossing the Mediterranean arrive in these parts. The successful integration of this group will be one of the main challenges in the future – and not just in southern Italy. It is precisely many of the demographic boom regions of the continent that are faced with the same task, and how they deal with it is likely to be decisive in determining how harmonious the coexistence of the native population and the new arrivals will be.

Economy: national differences stand out

The economic indicators show what human capital the regions of Europe have, how they are using it and what level of prosperity they achieve with it. Demographic challenges weigh particularly heavily in those regions where a large part of the population lives in poverty, where unemployment makes it difficult to adjust to the aging of society and where low levels of education cloud the future outlook. While the picture derived from a focus on the economy barely differs from that of the demographic situation – namely, strong northern, western and central parts of the continent contrasting with weaker southern and eastern ones – national borders stand out more in the economic analysis than in the demographic one: all regions of Germany, Sweden and Finland score above average, while in Spain, for example, there are huge challenges almost everywhere, with the exception of Madrid. The main reasons for this are the low employment rate and the comparatively high share of the low-skilled in the working-age population. Spain shares both of these characteristics with other parts of the Mediterranean region, including Greece, southern Italy as well as neighbouring Portugal. Nonetheless, there is an upwards trend in the educational level of the younger generations. What has been lacking so far are jobs that would allow a smooth transition from studying to working life.

193	ES21	Basque Country
194	ITI1	Tuscany
195	PL63	Pomerania
196	EE00	Estonia
197	PL21	Lesser Poland
198	PL41	Greater Poland
199	RO32	Bucharest-Ilfov
200	ITC1	Piedmont
201	ES51	Catalonia
202	ES63	Autonomous City of Ceuta
203	BE32	Province of Hainaut
204	SK02	Western Slovakia
205	MT00	Malta
206	CZ08	Moravia-Silesia
207	ITC2	Valle d'Aosta/Vallée d'Aoste
208	CZ04	Northwestern
209	HU22	Western Transdanubia
210	ITI3	Marche
211	ITI2	Umbria
212	ES24	Aragon
213	PL51	Lower Silesia
214	SK04	Eastern Slovakia
215	SK03	Central Slovakia
216	PT17	Metropolitan area of Lisbon
217	PL32	Subcarpathian
218	BG41	Southwest
219	ITF1	Abruzzo
220	ITC3	Liguria
221	PL43	Lubusz
222	ES23	La Rioja
223	ES62	Region of Murcia
224	EL42	Southern Aegean
225	ES70	Canary Islands
226	PL22	Silesia
227	PL61	Kuyavian-Pomerania
228	PL34	Podlasie
229	LT00	Lithuania
230	PL11	Lodz region
231	FRA2	Martinique
232	PL42	West Pomerania
233	HU21	Central Transdanubia
234	EL43	Crete
235	PL52	Opole region
236	ES13	Cantabria
237	LV00	Latvia
238	PL31	Lublin Province
239	ES52	Valencian Community
240	FRA1	Guadeloupe
241	PL33	Swietokrzyskie
242	PL62	Warmia-Masuria
243	HR03	Adriatic Croatia
244	RO21	Northeastern Romania
245	PT15	Algarve
246	RO12	Central Romania
247	ES61	Andalusia
248	RO11	Northwestern Romania
249	HU33	Southern Great Plain
250	EL62	Ionian Islands
251	HU32	Northern Great Plain
252	ES41	Castile and León
253	EL41	Northern Aegean
254	HR04	Continental Croatia
255	EL30	Attica
256	ES42	Castile-La Mancha
257	ITF5	Basilicata
258	RO42	Western Romania
259	ITF2	Molise
260	ES11	Galicia
261	BG34	Southeastern Bulgaria
262	EL65	Peloponnese
263	ITG2	Sardinia
264	ITF3	Campania
265	ES12	Principality of Asturias
266	HU31	Northern Hungary
267	HU23	South Transdanubia
268	EL52	Central Macedonia
269	PT11	North
270	PT16	Centro
271	RO31	South Romania (Muntenia)
272	ITF4	Apulia
273	ITG1	Sicily
274	EL64	Central Greece
275	BG33	Northeastern Bulgaria
276	RO22	Southeastern Romania
277	PT20	Autonomous Region of the Azores
278	ITF6	Calabria
279	EL51	East Macedonia and Thrace
280	BG42	South-central Bulgaria
281	ES43	Extremadura
282	EL61	Thessaly
283	RO41	Southwest Romania (Oltenia)
284	PT18	Alentejo
285	EL54	Epirus
286	EL63	Western Greece
287	EL53	Western Macedonia
288	PT30	Autonomous Region of Madeira
289	BG32	North-central Bulgaria
290	BG31	North-west Bulgaria

1 POPULATION DEVELOPMENT
Stability Only Through Immigration

In 2015, more people died than were born in the 28 countries of the EU for the first time since the end of the Second World War. The trend for the coming years is thus a foregone conclusion. Until 2080 – the end of the time range of the latest projections – there is unlikely to be a single year in which births will be sufficient to balance out the number of deaths, even though researchers predict gradually rising fertility rates in the long term.[1]

In spite of this, the EU is likely to go on growing for the time being – from its current population of 510 million to almost 529 million by mid-century. Only thereafter is a slight decrease expected. This predicted growth will, however, be due entirely to immigration. Demographers assume that the EU will continue to attract people from other regions of the world over the long run. They predict that by mid-century, all 28 EU states as well as Iceland, Norway and Switzerland will record positive net migration – in other words, more people will arrive than will leave.[2] This immigration will of necessity be from non-EU countries and, indeed, mainly from non-European countries. For within Europe, one country's gain is another's loss.

Should immigration be lower than expected, Europe's population growth story will probably end even before mid-century. New questions, some of which are already being posed today, would then gain in urgency: How can social systems be financed in aging and shrinking societies? And how can public services continue to be provided in rural areas, which suffer disproportionately from demographic change?

The extremely broad spectrum of demographic projections is demonstrated by a model calculation of 2013 that assumes no immigration at all. According to this – admittedly extremely unlikely – scenario, the population of the EU would fall by 2050 to just 466 million. That is 59 million people fewer than in the main scenario of the time and 44 million people fewer than today.[3]

Growing migration potential

It is not only what happens in Europe itself but also what happens around us that will be increasingly important for demographic development. In a world in which countries are growing ever closer together, a crisis on one continent can quickly unleash crises on other continents – as was strikingly illustrated by the refugee crisis of 2015. In particular, Europe's neighbours have in recent years forfeited much of their – in some cases only apparent – stability. It is therefore highly probable that Europe will receive more immigrants in future than it has to date. Perhaps even more than has been assumed until now.

In such a case, a number of questions would become ever more pressing: Which are the most promising strategies for dealing with immigration? Will immigration mean ever-greater urbanisation or will it contribute to a more even population growth between city and country? And how can the growing polarisation between those with an open-minded attitude to immigration and those who fear a mingling of cultures be counteracted?

EU-wide population statistics and projections conceal major regional differences. Even today, populations are shrinking most rapidly in the rural regions of Central, Eastern and Southern Europe. Here fertility rates are low, emigration high and the rest of the population in many places considerably advanced in years. By contrast, the demographic boom regions are those where fertility rates are almost two children per woman (in Scandinavia, France, the United Kingdom and Ireland) and in those regions where immigration makes up for death surpluses, above all densely populated metropolitan regions. Currently, there is little to suggest that the gap between demographic winner and loser regions will close in the future.

The pill generation follows the baby boomers

Regional imbalances are nothing new for Europe. Back in the 1950s, large parts of the former GDR declined in population as people headed west. Many of the Irish, too, sought their fortunes abroad, leading to population losses throughout that country. By contrast, Poland and the states of the former Yugoslavia and Czechoslovakia made significant gains thanks to the large numbers of children born. Indeed, in nearly all regions of the continent ravaged by the Second World War, fertility rates rose in the post-war years. Until the mid-1960s, this so-called baby boom produced large cohorts, the members of which today hold leading positions in the economy, politics and civil society. This boom came at a time when people were looking more optimistically towards the future again, when they married more frequently and at a younger age and when the economy was growing rapidly in many places.[4]

The baby and economic boom was also a time of state-organised recruitment of foreign workers. Because it was particularly in low-skilled sectors like construction, agriculture and catering that northern and Western European countries were experiencing labour shortages, states like Germany, the Netherlands and Belgium recruited mainly young men of working age from southern Europe, Turkey and North Africa. Not least the rural areas of these regions had a labour surplus at this time, which the governments willingly passed on to countries located further north.[5] The result was rapid population growth north of the Alps and simultaneously losses in many regions of Spain, Italy and Greece.[6]

The 1960s saw a sudden – and for many, completely unexpected – drop in the fertility rate, particularly in northern and Western Europe. The baby boom was followed by a period of social change, which strengthened the position of women and brought with it many new family trends and lifestyles. More and more women went out to work and many of them decided not to have children. The contraceptive pill, introduced in Europe in 1961, offered women an effective method of family planning. In the Netherlands, the total fertility rate plummeted during a period of 16 years from 3.22 children per woman on average in 1961 to 1.58 in 1977; in Finland, the rate fell from 2.72 to 1.68 over the same period. In southern European states like Spain and Portugal, where dictatorships limited personal and economic freedom, this development was initially suppressed. But with political liberalisation, change reached these countries, too, roughly a decade later.[7] The result of these developments was ever slower population growth: while today's EU member states were still seeing annual population growth of eight percent in the 1960s, it slipped to five percent during the 1970s and to just three percent in the 1980s. By 2015, it was less than half a percent.[8]

The East European exodus of the 1990s

In Eastern Europe, population development had been largely independent of West European trends for a long time. Planned economies and closed borders meant minimal migration. A well-developed childcare system combined in some places with financial incentives to start families ensured for many years that more children were born than in the West.[9] With the exception of Slovenia and Croatia, all post-socialist countries still had fertility rates of at least 1.8 shortly before the collapse of socialism.[10]

However, with the fall of the Iron Curtain, both the low level of international migration and the high fertility rates were reversed overnight. Because living standards were much lower than in Western Europe and many jobs were lost following the introduction of market economies, millions of people left their home countries.[11] With the collapse of whole industries, state-decreed full employment was quickly replaced by mass unemployment and gloomy prospects. The disintegration of former Yugoslavia through its wars of independence further fuelled migration in the form of refugees.

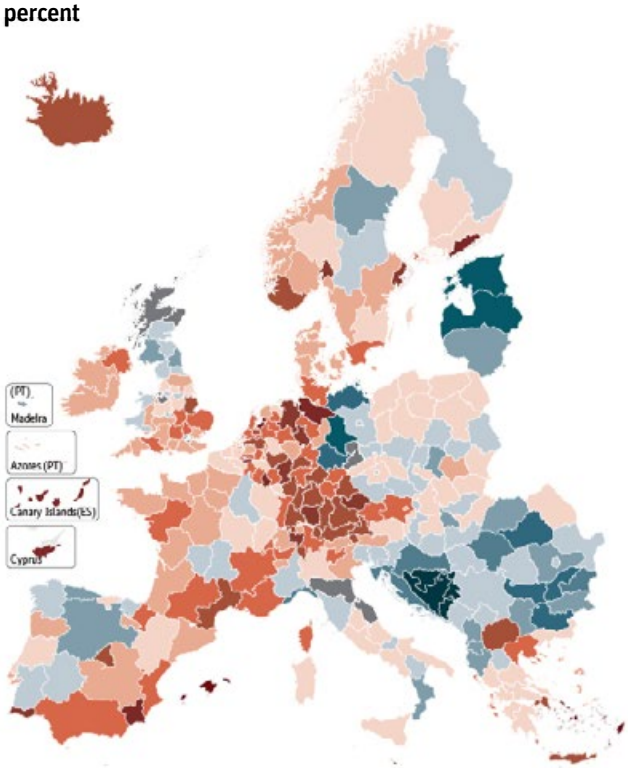
On the other side of the former Iron Curtain, some countries registered record levels of immigration. In 1992, 782,000 more people arrived in Germany than left.[12] While they included people fleeing the civil wars in the Balkans, the bulk of migrants were so-called "(Spät-)Aussiedler", ethnic Germans whose ancestors had migrated east and now had the opportunity to "return home" to Germany. As a long-term result of their accession to the EU, traditional emigration countries like Spain and Portugal experienced an economic upswing and for the first time in many years were able to record significant immigration surpluses.[13]

In post-socialist countries, the painful transition period not only led to mass emigration, but also to people having fewer children. In the Baltic states, fertility rates fell from roughly 2.0 to 1.3 or even lower between 1990 and 2000.[14] In 1993 and 1994, women in East Germany had just 0.77 children on average.[15] The impact of these developments was quickly felt. In the 1990s alone, the ten post-socialist states that were later to join the EU lost around four percent of their population on average. Hardest hit was Estonia, with a population loss of nearly 11 percent, while northern Bulgaria lost more than a tenth of its population, too. Only Poland and Slovakia were able to report slight gains during this period.[16] Today, the post-socialist countries are threatened with further losses as the generation now of childbearing age is smaller.

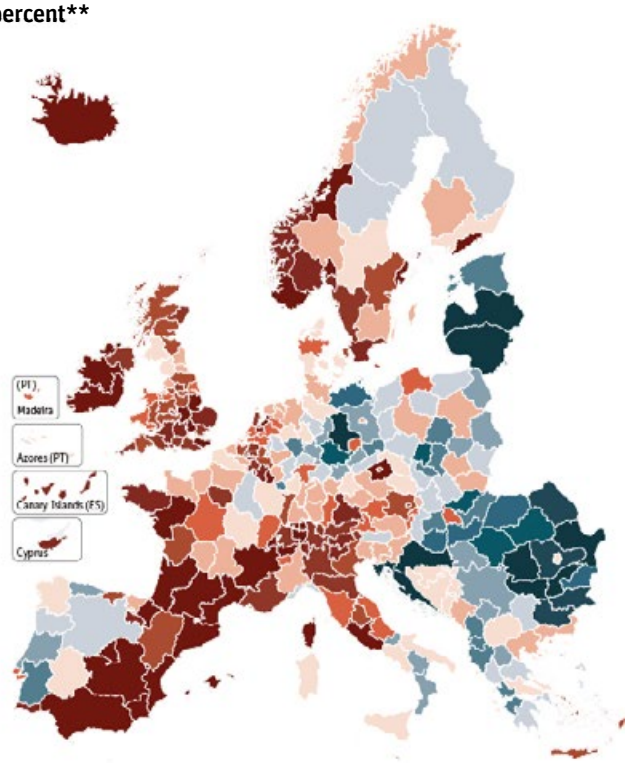
East to west, south to north

Following the turn of the millennium, fertility rates began to rise again somewhat in many places as women who had delayed having children finally started families. East-west migration continued, however, and even increased after many post-socialist states joined the EU in 2004. The United Kingdom, Ireland and Sweden all registered near-record immigration surpluses, having decided, unlike the other countries of the EU, not to restrict the free movement of labour from the new member states for a transitional period. Spain, too, recorded immigration surpluses year after year, which accounted for more than 1.5 percent of the total population.[17] The main reason was the building boom, particularly near the coast.

Population development 1990-2000 in percent



Population development 2000-2016 in percent**



* Because of territorial changes in some areas and the uneven availability of data, regional data caould not be obtained for every region. For this reason, Slovenia, Denmark, Serbia, Albania, Bosnia-Herzegovina and Croatia are considered only in their entirety. In some cases, there are no data for 1990 and thus the starting year is always the first year available. This is the case for Eastern Macedonia and Thrace, Central Macedonia, Western Macedonia, Epirus, Thessaly, the Ionian Islands, Western Greece, Central Greece, the Peloponnes, Poland, Switzerland, Algarve, Azores, Madeira (1991), the Czech Republic, Centro, the Metropolitan Region of Lisbon, Alentejo, Cornwall and the Isles of Scilly, Devon, West Wales and The Valleys, East Wales (1992), Eastern Scotland, South Western Scotland (1993), Dresden (1995), Slovakia (1996), Ireland (1997).

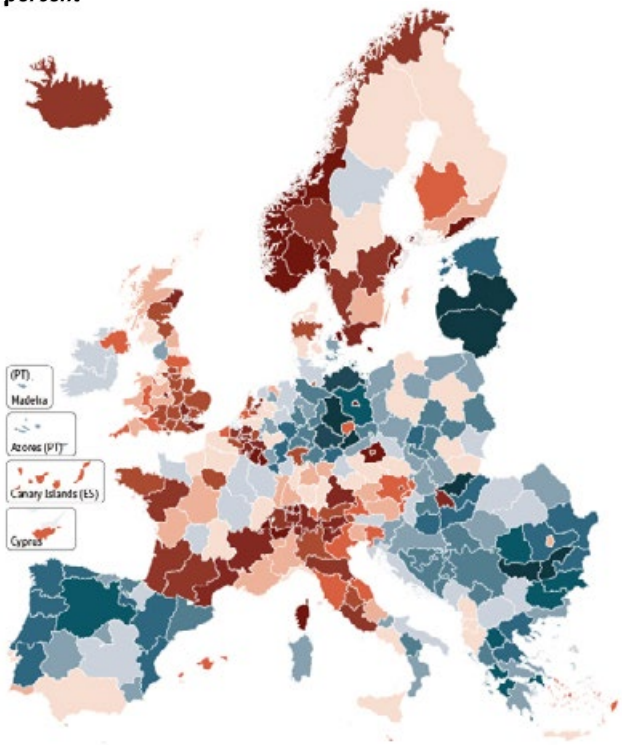
** Because of territorial changes in some areas and the uneven availability of data, regional data could not be obtained for all regions. For this reason, Slovenia, Denmark, Serbia, Albania, Bosnia-Herzegovina and Croatia are considered only in their entirety. In some cases, no data is available for 2000 and thus the starting year is the first available year: Adriatic and Continental Croatia, Emilia-Romagna, Marche, Cheshire, Merseyside (2001), Dresden, Leipzig, Guadeloupe, Mayotte, London (2014).

Even when the economic crisis engulfed large parts of Europe in the late 2000s, the population shift from east to west continued. But this was now complemented by a movement of people from south to north. In Greece and Spain, where youth unemployment climbed to more than 50 percent, young adults in particular left their homeland in droves.[18] In many cases the destination was Germany, enabling the latter to reverse its demographic balance temporarily. In 2003, the German population had begun to shrink, and this trend was predicted to increase every year. Since 2013, however, Germany has once again recorded larger population growth – triggered by the 1.5 million asylum seekers from Syria, Iraq, Iran, Afghanistan and other countries.[19] Other central and northern European countries like Sweden, Denmark, the Netherlands and Austria unexpectedly increased their populations, too, through the influx of asylum seekers, especially in 2015.[20]

Competition for people

As Europe grows closer together, the regions find themselves permanently competing for people. Which regions will emerge from this competition as winners and which as losers will depend heavily on their economic development. Wealthier regions have a head start here and the poorer ones are unlikely to catch them up even in the long term. The former are located in the west and north of the continent and benefit demographically and economically from migrant labour. The old demographic wisdom that says a fertility rate of 2.1 children per woman is necessary to ensure a stable population in the long term no longer holds true for them.

Projected population development 2015-2030 in percent



- Less than -15
- -15 to less than -12.5
- -12.5 to less than -10
- -10 to less than -7.5
- -7.5 to less than -5
- -5 to less than -2.5
- -2.5 to less than 0
- 0 to less than 2.5
- 2.5 to less than 5
- 5 to less than 7.5
- 7.5 to less than 10
- 10 to less than 12.5
- 12.5 to less than 15
- 15 and more

(Data sources for the map: Eurostat, United Nations[23])

The situation is quite different in regions with net emigration, which also frequently suffer from death surpluses. Most of these regions lie on the outer edges of the continent – in Portugal, Spain, southern Italy, Greece, Bulgaria, Romania, Poland and the Baltic states. In these countries, it is often only the capital and other major cities along with their environs that are able to buck the general trend of emigration thanks to their knowledge-based economies. Given the poor infrastructure and backward economic structures of rural areas, this situation is unlikely to change. While many Romanians, Bulgarians and Poles would be able to return home in the event of an economic upswing, they would fill only some of the gaps created in the past. In order to also attract foreign migrants, many places lack not only the economic potential but also the political will. In particular, immigrants from non-EU states are viewed very sceptically in many countries of Eastern Europe that have little experience with migrants from different cultures.

Thus there is much to suggest that in demographic terms, Europe is continuing to drift apart: on the one hand, there are the English-speaking regions, large parts of France, parts of the Benelux states and Scandinavia, where births and deaths more or less balance each other out and immigration ensures population growth; on the other hand, there are the southern and eastern extremities of the continent, which suffer doubly from death surpluses and emigration. The worst-affected region is Northwestern Bulgaria, which could lose almost half its inhabitants by 2050. Meanwhile, the largest growth – 67 percent – is expected by Luxembourg.[21,*] The German-speaking regions and northern Italy are special cases: their aging societies with relatively few children are confronted with major immigration. This situation will ensure growth in the short term, but the already rapidly aging process is likely to lead to population decline in the long term. Thus the trend of demographic shrinkage is likely to spread gradually to ever more parts of the continent, such as other regions of western Germany and areas on the periphery of Denmark and Finland – even northeastern France could begin losing people from 2030 onwards.[22,**]

[*] The Spanish exclave Mellila and French Guiana may grow even more strongly, but are not mentioned here, since although they officially belong to Europe, they are located on other continents.

[**] The most recent population projections at regional level are from the year 2013. The latest projections published in 2017 are only available at national level.

2 CHILDREN AND FAMILIES
The Two Halves of Europe

In all European countries women are today having fewer children than would be necessary to keep the size of the population stable in the long term without immigration.* Fertility rates of roughly 2.1 children per woman would be necessary to achieve this goal.** However, the average for the 28 EU states is currently only 1.58.[1] And among the 291 NUTS 2 statistical regions of the EU as well as of Iceland, Liechtenstein, Norway and Switzerland, there are only five that exceed the 2.1 mark: the four French overseas regions of Mayotte, Guadeloupe, French Guiana and La Réunion, and the Spanish exclave Melilla.[2] If European women were to continue having about 1.5 children on average in the long term, the population of the Old World would halve within just 65 years – assuming zero immigration and unchanged life expectancy.[3]

Since the latter assumptions are unrealistic, demographers emphasise time and again that modern societies will be able to maintain stable populations with fertility rates of between 1.6 and 1.8. Currently, Europe is quite close to achieving these values. However, there are major differences between northern and western Europe, where children are relatively abundant, and the southern, central and eastern regions, where there are comparatively few children. France leads the EU in this respect, with a total fertility rate of 1.96. And in Ireland, Sweden, the United Kingdom and Denmark, too, a sufficient number of children are being born to make continued population growth likely in the foreseeable future. The picture is completely different in Portugal, Spain, Italy, Cyprus and Greece, which have the lowest fertility rates in Europe – around 1.3 children per woman.[4] This division of the continent is not a snapshot of a particular moment in time; rather, it has remained relatively constant for almost three decades. And it is unlikely to disappear overnight, since although many countries are trying to create incentives to have more children, past experience shows that if family policies have any effect, it is only in the medium to long term.[5]

The fact that their populations are shrinking overall is by no means the biggest problem for many European states. After all, in the past they were able to organise their societies well with fewer people. Much more significant is the aging of societies. This means that throughout Europe there are more people leaving the labour market to retire than young people entering it to replace them. In countries with low fertility rates this process is happening more quickly and abruptly than elsewhere. These countries will have to learn in a short period how to deal with the effects of an aging society, not least that there are fewer workers available to drive the economy and that social transfers are more difficult to finance. In particular, traditional pay-as-you-go financed pension schemes are susceptible to demographic changes. And statutory health insurance funds suffer, too, from an increasing number of older people, who incur significantly higher costs on average.

The Second Demographic Transition

In the second half of the 20th century, Europe experienced enormous upheavals in family life, as it did in many other areas of society. Whereas during the war the fertility rate was low, peace and the economic upswing associated with it in many places triggered a baby boom. In West Germany, women were still having on average more than 2.5 children in the 1960s.[6] In the Netherlands, France, Belgium and Denmark the figures were even somewhat higher. The fertility rate was highest of all in Ireland, then still economically backward, where women had four children on average.[7] But in the late 1960s, fertility rates in central and northern Europe began to fall. By the beginning of the following decade, the first countries recorded fertility rates of below two children per woman. This trend was led by Scandinavia: Sweden and Finland were the first countries on the continent where fertility rates fell to fewer than two. Germany soon followed suit, and by the mid-1970s women in Belgium, the Netherlands, Norway, Denmark, France, the United Kingdom, Austria and Switzerland were having on average fewer than two children.[8]

* Eurostat has no data for Kosovo. Other sources assume a total fertility rate of 2.3. (Population Reference Bureau (2016). 2016 World Population Data Sheet. Washington D.C.)

** The total fertility rate – referred to here simply as the fertility rate – denotes the number of children a woman can expect to have in the course of her life if the probability of having a child in any particular age group does not change over her lifetime. The fertility rate is hence a hypothetical measure. A better measure is cohort fertility, which denotes the actual number of children women have on average. This figure, however, becomes available only once women have finished having their families and is therefore unsuitable for showing current trends.

But what triggered this development? There is no single explanation. The introduction of the pill would not have had an impact had women (and their partners) not wanted to have more control over family planning. And the desire for improved family planning would not have been as strong had women not benefited from an ever better education and growing participation in the labour market. To classify this complex web of social changes, demographers coined the term "Second Demographic Transition".[9] It describes a process of profound social change rooted in greater personal freedom and hence more opportunities for individuals to plan their lives. The symptoms of this change are various: young couples cohabiting and having children (or not) without being married, a higher divorce rate and greater social acceptance in many places of people choosing to remain childless. It is not surprising that changes of this kind did not reach southern European countries like Spain and Portugal until the late 1970s and Eastern Europe ten years after that: only with the advent of democracy were societies able to become freer and more diverse.

One important consequence of the newly won freedom was that an increasing number of people decided to start a family later in life. Whereas in Denmark, for example, the average age at which women had their first child in 1960 was 23.8, by 1985 that figure had risen to 25.6 and by 2015 to 29.5. Italy is now the country with the oldest average age for women having their first child – 30.8.[10] And the trend of postponing having children continues, although – in Western Europe at least – it is slower today than it was a few decades ago.

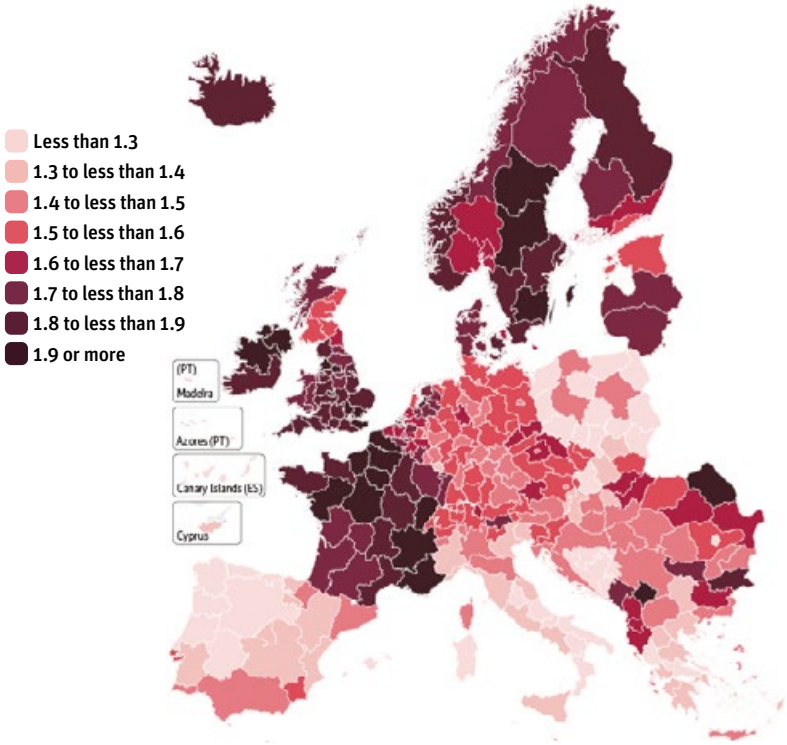
An abundance of children thanks to gender equality

The changes of the 1960s and 1970s meant that the fertility rates were particularly low in those places where modern lifestyles became established very quickly and women gained more equality. This relationship has in the meantime been reversed: in the 21st century, it is precisely in those countries in which there is more gender equality and a high employment rate among women that fertility rates are highest.[11] Sweden, Denmark and Norway are all examples of this, as is, to some extent, France. These countries were the first to recognise the dilemma in which women increasingly found themselves – namely, having to decide between family and career. They responded by investing in expanding state childcare facilities. Moreover, the Scandinavian countries in particular

More children in the north and west

Although nowhere in Europe are women having sufficient numbers of children to keep the population stable in the long term without immigration, there are nevertheless marked regional differences: there is a relative abundance of children in the north and west, while in the German-speaking regions and in southern and Eastern Europe the fertility rates are below 1.6 children per woman almost everywhere. There are historical reasons for these differences: particularly in Scandinavia and France, politicians recognised early on that in order to encourage people to have families, they would have to take measures to make having a family and a career more compatible.

Total fertility rates in NUTS 2 statistical regions of Europe, 2015
*(Data source: Eurostat[26])**

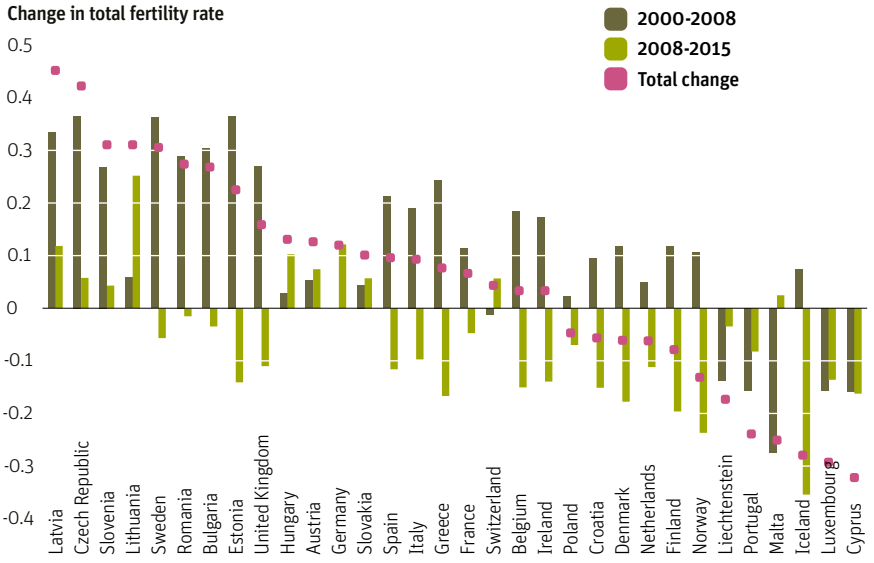


* Only national data are available for Serbia, Bosnia-Herzegovina and Albania. The data for Bosnia-Herzegovina are taken from the UN World Population Prospects Database, the 2015 Revision. The data for Kosovo are from the Population Reference Bureau (2016). 2016 World Population Data Sheet. Washington D.C.

Fertility upswing halted by crisis

Since the beginning of the new millennium, the number of children being born has once again risen in many parts of Europe. Particularly in the early 2000s fertility rates rose almost everywhere. This may be attributed partly to the fact that fewer women delayed having children than had earlier been the case. In some countries, immigrants, too, contributed to a rise in the total fertility rate. These are good signs for the future, as is the fact that many countries are now pursuing a family policy designed to make it easier for parents to combine having a family with a career. But there is no guarantee that the fertility rate will remain higher in the long run. Not least, this was demonstrated by the economic crisis from 2007 onwards, which in many countries partly or totally reversed the gains of the previous years.

Absolute change in the total fertility rate in European countries, 2000–2015
*(Data source: Eurostat[25])**



* Since there are no data for Croatia for the year 2000, the period for this country begins in 2001.

sought to divide childcare responsibilities more equally between women and men. They are reaping the fruits of these endeavours in the form of comparatively high fertility rates – especially among highly qualified women – to this day.[12]

In other places, above all in the German-speaking countries in the middle of the continent as well as in southern Europe, it was usually the woman's job to look after the children. Since there were few possibilities for having children looked after by the state and this was in any case socially taboo in many places, fertility rates fell to, and remained at, a very low level. When Spain and Italy first recorded fertility rates below the level of 1.3 children per woman in the early 1990s, demographers coined the term "lowest-low fertility" to describe the situation in these countries.[13]

The limits of family policy

But if it is so easy to encourage people to have more children by pursuing the right family policy, why does not every country follow the Scandinavian example? The answer is because it is not as easy as it sounds. The decision whether or not to have children is influenced by a host of different factors, and not all of them have to do with the mother's economic situation. Many have their roots in socialisation and vary from country to country. The German image of the "bad mother" who entrusts her children to the care of the state at an early age in order to promote her own development has persisted into the 21st century. Thus the changes in German family policy introducing universal state childcare and incentives for higher earners to start families have so far had only limited success: social norms simply cannot be changed from one day to the next.

At the same time, the fact that variations in fertility in Europe seem to run, above all, along national lines demonstrates that national policy can indeed have an impact. But it must be long term and, most important, consistent.[14] There is little point, for example, in relying on financial incentives to persuade people to have children if at the same time the taxation system strongly favours families without children. Fundamentally, arrangements that make everyday life with children easier, such as better conditions for part-time work, parental leave and state childcare, are more effective than "birth premiums" and other purely financial incentives to start families.[15] A good example of this is the United Kingdom, where in the late 1990s the Labour government initiated a number of political measures that were originally designed mainly to improve children's quality of life. The government sought to make it possible for more women to go out to work in order to help disadvantaged children. Ultimately these measures have contributed to British women having more children again.[16]

However, national particularities mean that measures of this kind cannot simply be transplanted from one country to another. In Spain very few young couples are in a financial position to move into a flat of their own and to set up their own households before the age of 30. This means that starting a family is almost automatically delayed. And in Eastern Europe no family policy, however finely tuned, could have prevented the sud-

den fall in the fertility rate in the 1990s. The rapid political, economic and social changes and the new experience of unemployment created such uncertainty that many people decided not to have children – even though a well-developed state childcare system remained in place.[17]

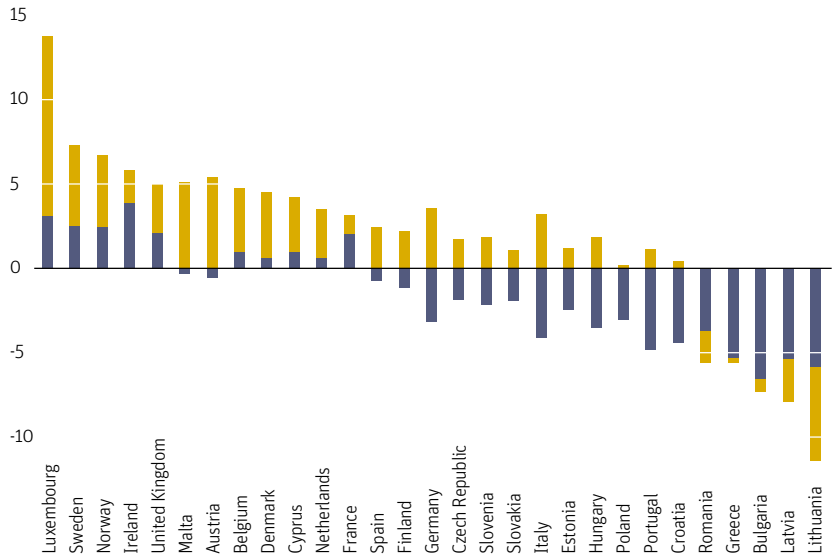
A new baby boom?

Nevertheless, European countries do seem to have been on the right track since the turn of the millennium: if the total fertility rate among the 28 EU states was just 1.46 in 2001, by 2008 it had risen again to 1.61.[18] Only the economic crisis and the resulting unemployment halted this upward trend, so that by 2015 the figure had fallen again to 1.58.[19] In a total of 24 of the 28 EU countries, fertility rates rose in the first eight years of the new millennium. Only the small states of Luxembourg, Malta and Cyprus as well as crisis-ridden Portugal recorded slight declines.[20]

Researchers disagree about the extent to which family policy has played a role in this development. More important than policy seems to be the fact that ever fewer women are now postponing having children until they are older. This applies in particular to women under 30. And because at the same time women over 30 who delayed starting a family are now having children, fertility rates are rising.[21] Immigrants have contributed to this rise in the total fertility rate to a small extent – at least in some countries like Greece, Italy or, very recently, Germany.[22] Immigrants increase the fertility rate because in most European countries they have more children on average than do the natives of those countries. If their share of the population rises, as was the case during the 2000s, fertility rates increase too.* The immigration figures in Europe are, however, not high enough for immigrants to have a decisive influence on the fertility rates of their countries of destination. Moreover, the longer they have lived in their new homeland, the more they adapt their behaviour to local conditions. It has been estimated that they contributed fewer than 0.1 percentage points to the national fertility rates.[23] This may change in the future if the trend towards more immigration from non-European countries continues.

What developments can we expect in the future? Will the rising fertility rates spell the end of "lowest-low fertility", i.e. total fertility rates below 1.3? There seems to be some indication that they will – at least as long as there are no new prolonged economic crises. In addition, most countries have recognised low fertility rates as a problem and have taken various kinds of measures to raise them. All this does not mean, however, that in the foreseeable future enough children will be born to keep populations stable without immigration. But even fertility rates of 1.6 or 1.7, instead of 1.3 or 1.4, would make it much easier for policymakers to plan for the future.

* In Germany, immigrants raised the fertility rate not only because their share of the population as a whole increased but also because immigrant women had more children on average than previously. The total fertility rate for foreign women rose within one year from 1.86 to 1.95. (Statistisches Bundesamt 2016). Geburtenziffer 2015: Erstmals seit 33 Jahren bei 1,50 Kindern je Frau. Press release of 17 October 2016 – 373/16. Wiesbaden.



The consequences of low birth rates

In its population projections the European statistics agency Eurostat assumes that in the years up to 2050, the number of births will be sufficient to compensate for the number of deaths in less than a third of EU states. The majority of EU states will need to rely on immigration to maintain demographic stability. Moreover, most immigrants will have to come from non-European countries, since migration within Europe is a zero-sum game.

Projected annual net migration per 1,000 inhabitants and the difference between births and deaths per 1,000 inhabitants (natural balance) in the EU states and Norway, 2015-2050
(Data source: Eurostat[26])

Natural balance
Net migration

3 INTERNAL EUROPEAN MIGRATION

Stay-at-Home Europeans

Europeans value the freedoms that they have gained from their continent growing closer together. A Eurobarometer survey revealed that EU citizens regard the free movement of people, services and goods as the second-most important achievement of the Union after peace.[1] However, comparatively few people make use of the opportunity to move freely between states. In early 2016, the number of people living in an EU country other than the one in which they were born was 19.3 million. That was only just over half as many as the number of immigrants from non-EU states. The latter made up 6.9 percent of EU inhabitants at that point in time, while so-called internal migrants accounted for only 3.8 percent.[2] In comparison with other "common migration areas" like the United States, the mobility of Europeans is low.[3]

At first glance this may seem surprising. After all, it is possible for EU citizens to settle in another EU country without having to apply for a residence or work permit in advance. Nor are they obliged to take integration courses. The only conditions for obtaining residence abroad are having health insurance and sufficient financial means not to be a burden on the state in question.[4] In practice, the free movement of people has been facilitated by the Schengen agreement, under which most internal European borders can be passed without border controls.

From the EU's point of view, it is explicitly desirable that people should go wherever they see the best future prospects for themselves. This is the only way in which the European Single market can function. Originally, the free movement of people in the EU was restricted to employees, the self-employed and entrepreneurs and hence followed a purely economic logic. But at least since 1993, the general freedom of movement is supposed to reflect the EU's aspiration to be more than just an economic community.

Mobility barriers remain

The fact that the Europeans nonetheless tend to stay put is due partly to the many "soft" barriers to migration that distinguish the European Economic Area and Switzerland from countries like the United States. Such barriers include, above all, the many different languages spoken. But differences in educational systems and labour market regulations also make it difficult to move from one European state to another in practice.[5]

Nevertheless, the Europeans are not quite as sedentary as the figures suggest, since the comparison between the number of EU internal migrants and non-EU migrants is somewhat misleading. Migration within the EU is often limited to a few months or years – for example, to work on a specific project, to carry out seasonal work or to study for a short period. So the fact that a person lives in his or her home country does not necessarily mean that he or she does not make use of the freedom of movement. Thus, in 2014, for example, the total of 2.2 million EU internal migrants included 870,000 citizens of the respective countries of destination, alongside 1.3 million foreigners. These were people returning from abroad or who had been born abroad.[6] Many Europeans move back and forth several times between various countries in the course of their lives.[7]

In search of a better life

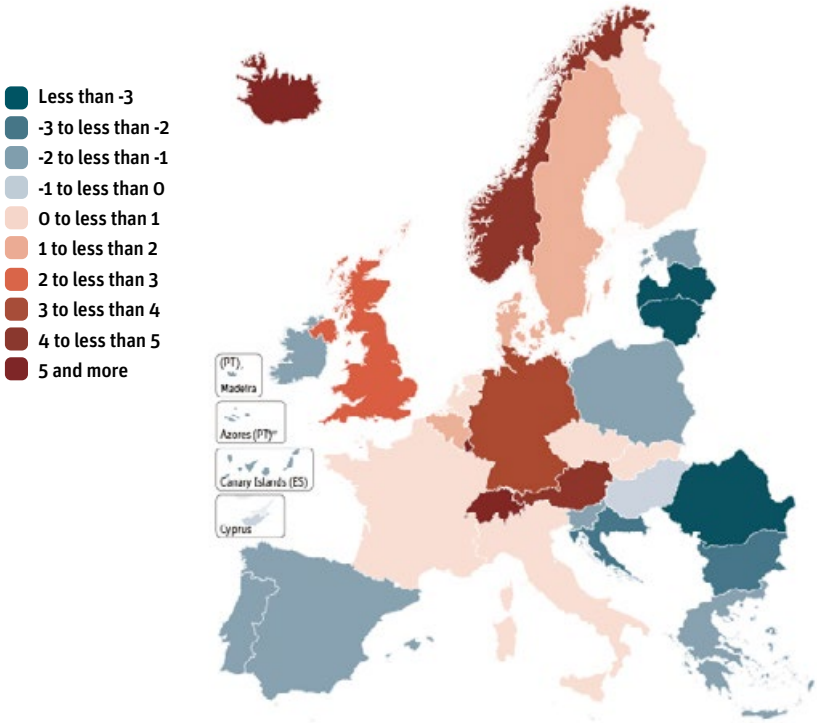
The reason most frequently given by internal migrants for moving elsewhere is to work. This is followed, in second and third place, by family reasons and education.[8] Thus, it is not surprising that internal European migration is often from poorer to richer countries – mainly from the eastern part of the continent to the western part. Germany and the United Kingdom have recorded by far the largest (absolute) population gains in recent years on account of this phenomenon. But France, Austria, Belgium, Sweden and the Netherlands have benefited, too, from internal European migration. By contrast, Romania, Poland and Spain have experienced major losses of people in the recent past.[9]

Spain has not always been one of the losers in the migration process. As recently as the 2000s, the building boom brought droves of Eastern Europeans to the Iberian Peninsula. But with the onset of the economic crisis, the country suddenly experienced mass unemployment, and workers either moved on or returned to their home countries.[10] How popular Spain once was for migrants is evident from its still being included on the list of states hosting the most inhabitants born in another EU state. This list also includes Germany, the United Kingdom, France and Italy. Between one and a half and four million EU internal migrants live in each

From southeast to northwest

Migration within the EU is mainly from poorer to richer states. Thus, the eastern part of the continent – and, since the economic crisis, the southern part as well – is losing population, while the northern and the central parts are gaining. Lately, Germany, in particular, has benefited from migration. Here statisticians have recorded annual migration surpluses of nearly 300,000 people in recent years. That is roughly twice as many as in the country with the second-highest migration, the United Kingdom. Relative to the total population, the largest migration gains are in Luxembourg, Switzerland and Iceland.

Annual net migration of EU citizens per 1,000 inhabitants whose last or next place of residence is another EU or EFTA country, mean value 2013–2015
*(Data source: Eurostat[35])**



* Because of a lack of data migration of citizens of the EFTA states, Switzerland, Norway, Iceland and Liechtenstein is not included in the figures. Nor are citizens of the respective country in question.

of these countries. This can be explained not just in terms of their attractiveness but also by the fact that these five countries are the most populous in the EU. If the number of EU migrants is taken as a share of the total population, smaller countries are more popular: at the top of the list is Luxembourg, where 34 percent of the population are EU internal migrants. It is followed by Cyprus, Ireland, Austria and Belgium with shares of between 7 and 13 percent. The four EFTA states – Switzerland, Norway, Liechtenstein and Iceland – are very popular, too, among EU citizens. In Switzerland, one inhabitant in six was born in an EU state.[11]

Important reasons for people to leave their homelands are the low level of prosperity and the lack of job prospects in those countries. So why is it that the source countries for migration include Germany – one of the wealthiest states in Europe and, moreover, the country with the second-lowest unemployment in the EU? The answer is that migration in Europe also takes place between countries with a similar level of wealth. Particularly for the highly qualified, the labour market has become much more international – for example, for German medical doctors needed in Switzerland, for bankers who go to London and for academics who teach and conduct research abroad. In choosing their country of destination, citizens of the EU-15 countries – that is, the "old", mainly West European member states – have different priorities from those of the "new" member states. Whereas among the latter, job prospects are the most important factor, Western Europeans cite the culture and way of life in their favoured country of destination as the most important motives for migration.[12] This may play a role in choosing a place to study abroad or somewhere to retire. Large numbers of British people, for example, have chosen to spend their retirement in more southerly climes.[13]

Eastern enlargement as a trigger of migration

Over the years, migration within Europe has changed radically. If the early years of the European community are recalled, it can be seen that mobility during the so-called "guest worker" era of the 1960s was at a similar level to that of today, despite the different legal framework conditions. The migrants, however, were mainly unskilled workers whom the northern and Central European states actively recruited from southern Europe. By contrast, today's internal migrants – especially those from the "old" EU states – include many highly qualified workers.[14]

When recruitment ground to a halt in the wake of the first oil crisis in the early 1970s, migration in Europe declined rapidly and remained at a low level until the turn of the millennium, despite regulations that were increasingly liberal. The only exception was the war in the disintegrating Yugoslavia, which brought many refugees to Western Europe. From the mid-2000s onwards, migration within Europe started to increase again.[15] This can be explained primarily by the two waves of eastern enlargement of the EU. During the period 2007 – 2012, the mobility of the working age population rose by a quarter. That is twice as much as in the period from 2000 to 2006.[16] People left Romania and Poland, in particular, in droves.[17] Romanians sought their fortunes mainly in Spain and Italy, whereas Poles went mainly to Ireland and the UK. The two last-named countries were so popular because, unlike the majority of EU countries, they did not restrict freedom of movement from the new member states for a transitional period.[18]

When Europe was plunged into economic crisis, the ever-growing discrepancies between unemployment rates in different countries changed the European migration routes once again. Germany, especially, became more attractive – mainly at the expense of Spain and Greece.[19] For some years now, Germany has had annual net gains of around 300,000 people from other EU states alone – altogether now more than 1.5 million people.[20] The fact that Germany has become so popular in the 2010s can be explained not only by its strong economy but also by the fact that in 2011, the restrictions on the free movement of citizens of the countries that joined the EU in 2004 came to an end.[21] And since 2014, Bulgarians and Romanians have benefited, too, from the unrestricted mobility within the EU.

Crisis decreases mobility

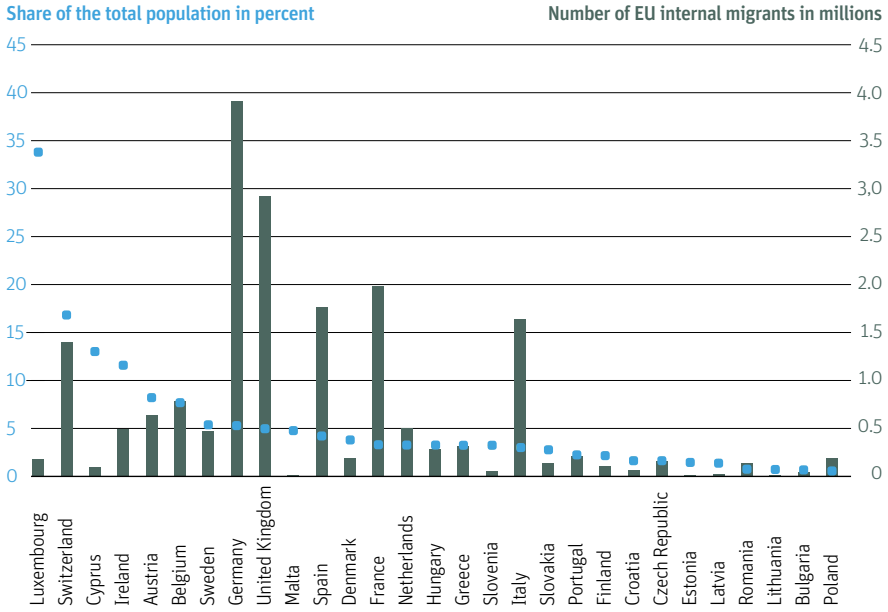
Migration from the crisis states of southern Europe has taken some pressure off the labour markets in these countries. However, the extent of migration has been less than what many experts predicted. This is because, despite the crisis, many migrants have remained in the country to which they had originally migrated.[22] At the peak of the crisis, the absolute number of people moving to another EU country was lower than either before or after.[23] The OECD estimates that internal European migration could reduce unemployment in the EU and the EFTA states by no more than six percent.[24] So from an economic point of view, more mobility – especially in times of crisis – would be desirable.[25]

But how can Europeans be encouraged to move to other countries of the continent in search of work and educational opportunities? First, something would need to be done about the legal difficulties, for example in getting qualifications recognised abroad or transferring entitlements from one social security system to another. The EU has already done much to remove these obstacles – witness the Bologna process in higher educa-

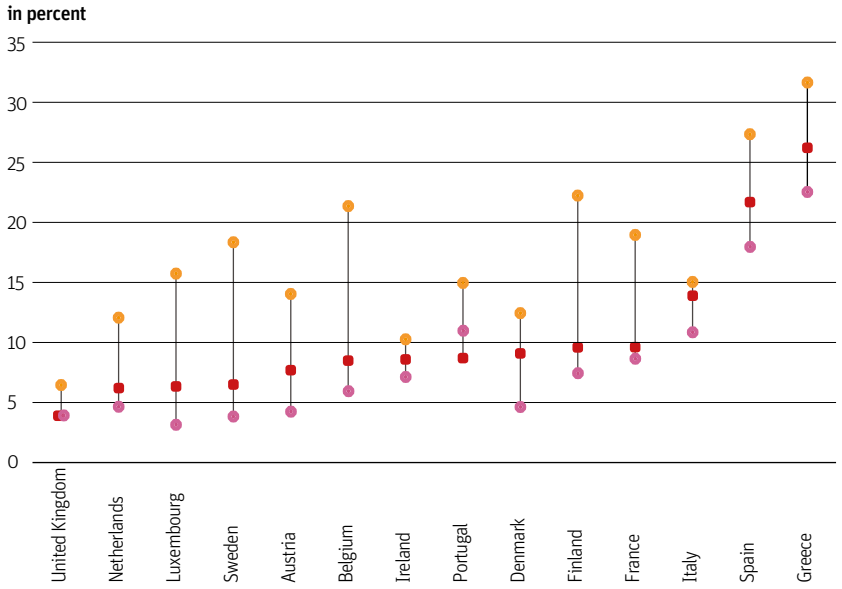
Many inhabitants – many migrants

Luxembourg has the largest share of EU internal migrants relative to the total population. As an international finance centre, the city-state attracts citizens from all over the EU. In absolute numbers, however, migration to Luxembourg is of course much lower than to populous states like Germany, the United Kingdom, France, Spain and Italy. These five countries alone are home to 70 percent of all internal migrants.

Number of EU internal migrants in millions and their share of the total population in percent in the EU-28 countries, 2016
(Data source: Eurostat[34])



Share of the total population
Number of EU internal migrants



EU migrants better integrated

Everywhere EU migrants do better on the labour markets of Western Europe than other immigrants. In some cases they are scarcely more often unemployed than the native population, in the United Kingdom, Ireland and France, for example. Elsewhere the discrepancy is significantly larger, for example, in Luxembourg, Scandinavia, Spain and Greece. But even here EU migrants tend to be more on a par with the native population than other immigrants are.

Unemployment rate among 20–64 year olds in the EU-15 states, by country of birth, 2016
(Data source: Eurostat[36])

- **Non-EU states**
- **Natives**
- **EU states**

tion. At the same time, the member states keep erecting new barriers, for example by introducing minimum wages or limiting the number of foreign students.[26] Other major obstacles, not least the variety of languages and cultural differences, can scarcely be removed by political means and are likely to ensure that Europe continues to lag behind other migration areas like the United States.

Whether legal obstacles can be removed by harmonising different taxation, education, social and health systems, for example, is closely connected with the question of whether Europe's societies are prepared to give up further elements of national sovereignty and grow even closer together. While this was the case for a long time, in recent years there have been increasing signs that many Europeans reject further integration. Instead, nationalist parties and groupings are attracting growing support all over Europe. So far, Brexit is the most visible manifestation of this trend.

One of the reasons the United Kingdom is planning to leave the EU has directly to do with European freedom of movement. Many British feared that migrants from poorer countries would come to their country as "welfare tourists".[27] In Germany, too, there has been a broad discussion on this subject under the heading of "poverty migration". A central concern was that migrants from poorer countries such as Romania and Bulgaria – among them many Roma who had suffered discrimination at home – would depress wages or come merely to claim social benefits, including child benefit. But, above all, municipalities complained that migration was resulting in considerable additional expenditures and social tensions fuelled by prostitution, begging and discrimination, among other things.[28]

In reality, the extent of "welfare tourism" is rather small.[29] If anything, it is the countries of origin of the migrants – that is, Poland, Romania and Bulgaria – that suffer from migration in the long term because they stand to lose not only unskilled workers but also well-qualified people who could provide valuable services in modernising their societies.[30] The goal of these countries should therefore be to persuade migrants to return home eventually by making conditions more attractive.

For Europe as a whole, internal migration promises additional prosperity and higher state revenues. Many studies on this subject have proved that, on balance, EU migrants generate additional public revenues – in other words, they pay more tax and social contributions than they receive in the form of transfer payments.[31] One of the main political tasks of the near future will be to explain this to citizens. The fact that most Europeans see freedom of movement as an achievement worth defending and expanding is likely to facilitate this task.[32] But to maintain a generally positive attitude to freedom of movement, it will be necessary to draw up clear regulations on who is entitled to social benefits and under what circumstances. Only in this way can future abuse be prevented. Germany recently took a step in this direction when the government passed a law stipulating that EU citizens in Germany who do not work or have not worked will have the right to basic provisions and social welfare only after being resident for five years.[33]

4 EXTERNAL MIGRATION
The Big Unknown

In 2015, 2.6 million people from non-EU states received permits allowing them to relocate to Europe. This was the highest number since 2008, when Eurostat, the statistical office of the EU, began providing access to comparative data. But many of the more than one million asylum seekers who came to Europe in 2015 were not included in that figure. This is because at that time they were still waiting for a decision to be made about their asylum application – or for an opportunity to file such an application – and thus did not yet have an official residence permit.[1]

The continued wave of immigrants from non-EU countries has consequences for the population structure of Europe. Eleven percent of inhabitants of the EU countries as well as of Iceland, Liechtenstein, Norway and Switzerland were born abroad; and of these, some two-thirds were born outside the EU. But the distribution of these immigrants across European territory is extremely unequal. The largest share – 64 percent – is to be found in the small principality of Liechtenstein. In Luxembourg, almost half of the population was born in another country. Among the larger states, Switzerland is the frontrunner: 28 percent of its inhabitants are immigrants. It is, above all, in the Central and East European countries such as Poland, Romania, Bulgaria and the Czech Republic that the share of immigrants is particularly small – just one to four percent.[2]

From a demographic perspective, immigration is to be welcomed. It slows down the aging of society and the emergence of the associated challenges for the economy and the social systems. But if the economy is to gain from immigrants, they have to find work. In the past, the European states have not been very successful in helping them to do so. Thus throughout Europe immigrants are more often unemployed than are native inhabitants. This imbalance can be seen most clearly in Norway and Sweden, where immigrants are three and a half times more likely to be looking for a job than those who were born in the country. Generally, the differences in the unemployment rates are large in those countries to which people have been immigrating for years: in Belgium, Denmark, Austria, Luxembourg, Switzerland and Finland, the ratio is more than two to one.[3]

Limited controls

Integration succeeds when it can be planned. But it has always been the demographic factor whose development can be least accurately estimated. At the beginning of the 1980s, there could hardly have been a scientist or politician in Germany who anticipated the huge influx of ethnic Germans whose ancestors emigrated hundreds of years ago to the former Russian Empire or Eastern Europe. Nor could demographers have predicted the wars in the crumbling Yugoslav Federation and the waves of refugees that those conflicts triggered. And the same applies to the significant increase in asylum seekers coming to Europe in the past few years.

The main destination of those seeking refuge today are the rich states in the heart and the north of the continent – Germany, Sweden and Austria. But Italy, which many people reach by crossing the Mediterranean, as well as Greece and Hungary, the first EU states on the so-called Balkan route, have recorded rapidly growing numbers of asylum applications in recent years, too. However, in 2015 and 2016 by far the largest number of asylum applications were filed in Germany: here the responsible authorities received more than 1.2 million requests for protection. This was almost half of all applications submitted in the EU during this period. Meanwhile, in terms of the number of inhabitants, Hungary led the field: more than 10 asylum applications were filed here per 1,000 inhabitants. The corresponding figure for Sweden was 9.8 and for Germany and Austria 7.5.[4]

That so many asylum applications were filed in Hungary – despite the country being far from among the richest on the continent – has to do with the so-called Dublin Regulation of the EU, which in essence states that it is the member state in which the asylum seeker first sets foot that is responsible for processing the application.[5] If that person nonetheless submits an application in another country, the responsible authorities can send him or her back to the country that is, in fact, responsible. But in its present form, this system does not always work in practice. From as early as 2011 onwards, some EU states stopped sending asylum seekers back to Greece because that country's asylum system failed to meet various minimum standards.[6] Later, it was repeatedly reported that Italy was allowing refugees to continue to travel to the north because it could not cope with the number of refugees who arrived in that country via the Mediterranean between 2013 and 2015.[7] When, in mid-2015, hundreds of thousands heading for the wealthy northern and Central European countries were allowed to cross several EU member states unhindered, the system collapsed completely. But because there is still no better system to this day, the EU countries have recently reverted to applying the Dublin Regulation.

What, in fact, would be the alternatives to a system that is pushing the countries on the EU's external borders to the limit? An obvious one appears to be a quota system that would distribute asylum seekers throughout the Union according to various criteria. Within Germany, the so-called Königstein quota system is fulfilling this function. Alongside the size of the population of the various German states, it takes into account the strength of the local economy and thus the potential of the states to meet the challenges posed by integration. Until now, a similar mechanism at EU level has not proved feasible. All attempts to date to distribute refugees took place in emergency situations in the face of enormous opposition and with no prospect of permanency. Thus, between 2011 and 2012, some 500 refugees in Malta – which at the time had the highest number of asylum seekers in the EU – were sent to other EU countries under the EUREMA I and II pilot projects. In 2015, the EU states reached a majority decision to relocate from Greece and Italy a total of 160,000 refugees.[8] But there has been only slow progress towards implementing that plan: just 16,340 people had been relocated under the programme by April 2017.[9] Only recently did the European Commission launch investigations against Hungary, Poland and the Czech Republic, because these countries refused to accept their share of refugees. Moreover, there are reports that some states are giving preference to young and well-qualified people who, it is presumed, will be easy to integrate.[10]

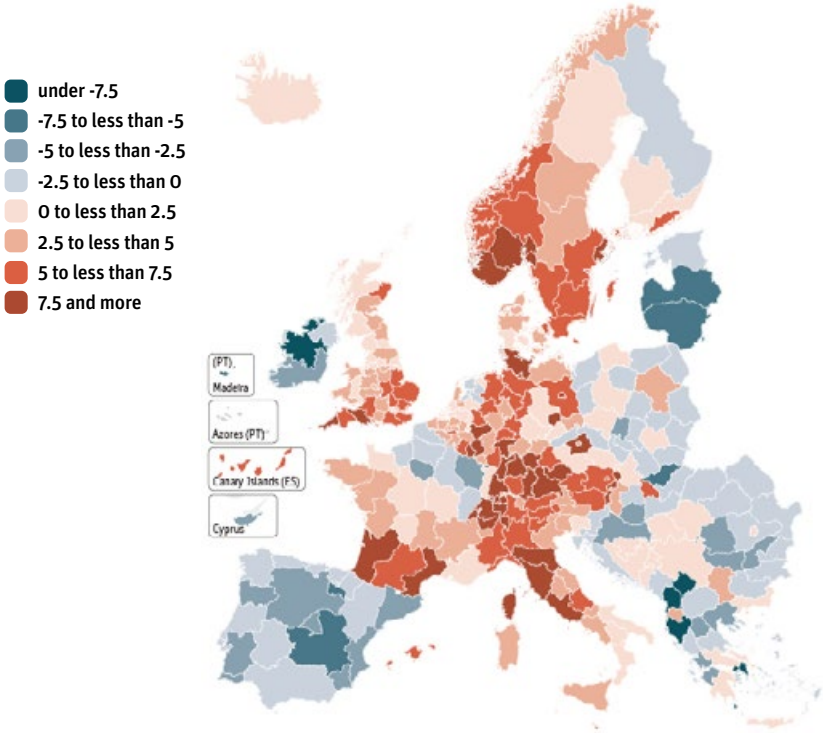
Publics divided

That the European states cannot agree on more coordination and solidarity in dealing with asylum seekers – beyond the issue of minimum standards – has to do with the fact that the degree of openness towards immigrants from non-European states differs considerably from nation to nation. In the 2014 European Social Survey, citizens from various states were questioned about their attitude towards immigration. One question asked if Europe should take many, some, only a few or no immigrants from poorer states. Of all the nationalities that took part in the survey, it was the Swedes who showed themselves to be the most willing in this respect: 39 percent said that many immigrants from poorer states should come to Europe and

Immigration reflects state of the economy

The most popular immigration destinations in Europe in recent years have been the regions along the Alps, Central Italy, Southern France, the United Kingdom and Scandinavia. Many of these regions number among the richest on the continent. By contrast, in the emigration regions of southern and Eastern Europe, only the areas including and surrounding the capital cities have been able – if at all – to achieve stability through migration. This is mainly because of internal migrants. However, the large number of refugees has played a decisive role in the fact that two thirds of all European NUTS 2 regions have recorded migration gains over the past five years.

Annual net migration (external and internal migration) per 1,000 inhabitants by NUTS 2 region, mean value 2011–2015*
(Data source: Eurostat[19])

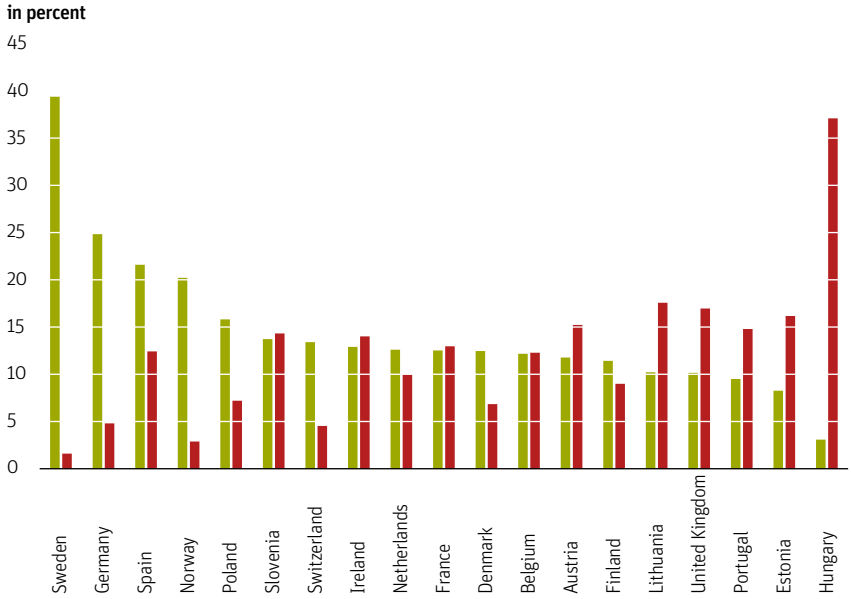


* The data include EU internal migration. For Serbia and Bosnia-Herzegovina only national data are available. The data for Bosnia-Herzegovina refer to the years 2011-2014, the data for Albania, Slovenia and Guadeloupe to the years 2013-2015, the data for Kosovo to the years 2011, 2012, 2014 and 2015 and the data for Martinique, French Guiana and La Réunion to the years 2012-2015.

Europe divided over migrants

Europe is divided over the issue of immigration from so-called third countries, which are often poorer countries. In Sweden, Germany and Norway as well as Spain, people are quite open to the idea: many think that their countries should take in large numbers of people from these states in the future. The situation is rather different in many post-socialist countries. In Hungary, which is least in favour of an open immigration policy, more than one third of the population is of the opinion that the country should take in no immigrants from poorer countries whatsoever.

Percentage share of inhabitants of European countries who gave the answer of either "many" or "none" to the question of how many immigrants from poorer countries should be allowed to come to Europe – the other possible answers in the survey were "some" and "a few ", 2014
(Data source: European Social Survey[20])



Allow many immigrants from poorer countries
Allow no immigrants from poorer countries

another 49 percent were in favour of some immigrants. Just two percent of Swedes totally rejected any such immigration. In Hungary, the picture was completely different: just three percent of the population were for many immigrants from poorer countries and 37 percent were for none.[11]

Border security provides for minimal consensus

Despite all the controversy over the internal distribution of asylum seekers, there is a consensus among the EU states that the external borders of the Union must be made more secure and the number of asylum seekers reduced. By making the borders more secure the EU states also want to put a stop to the activities of human traffickers, who are earning huge amounts of money by smuggling people. Furthermore, they want to reduce the number of those who die while making the dangerous crossing of the Mediterranean or the Aegean.

The best-known initiative to protect the EU external borders is the agreement concluded with Turkey in March 2016. In essence, it provides for Turkey to step up its border controls and prevent irregular crossings into the EU. In return, the country is receiving EU financial aid. Refugees who nonetheless make it to one of the Greek islands and have no claim to refuge in the EU are to be sent back immediately to Turkey. The EU has undertaken to accept one Syrian asylum seeker from Turkey for each returned refugee. One year after the agreement was reached, the result is somewhat mixed. While it is positive that the number of border crossings has declined significantly,[12] it remains unclear if this is due to the agreement or other factors. For example, various European countries have strengthened their borders with neighbouring states and built fences to block the refugee route within the EU. What is not working well is the rapid return of rejected asylum seekers from Greece to Turkey. Despite EU support, the Greek asylum authorities do not have sufficient personnel to cope with the large number of asylum seekers, which is why many refugees continue holding out between hope and fear on the Greek islands.[13]

EU-Turkey Agreement as a role model

Nonetheless, the EU-Turkey agreement is likely to serve as a blueprint for further such accords with countries in Europe's neighbourhood. In February 2017, Italy signed an agreement with Libya under which the North African country is to prevent refugees from fleeing to Europe across the Mediterranean.

The big unanswered question concerning ever more secure borders is how to protect those who need protection but cannot make it to Europe – for example, the politically persecuted. The proposals range from external asylum centres, perhaps in embassies, to the expansion of regular ways of immigration, such as taking up employment. The latter suggestion appears to make sense against the background of the demographic trend in

Europe. However, it will not solve the problem as a whole. This is because by no means all refugees would be considered for these other immigration channels. Especially the old and the weak would slip through the net.

Viewed realistically, it is state-organised reception programmes that will gain in significance. Under such programmes, countries agree to take in a certain number of refugees either temporarily (humanitarian reception programmes) or permanently (resettlement) and to bring them in directly by plane from refugee camps in conflict regions. The advantages are obvious: the number of refugees could be controlled, human trafficking would be stopped, refugees would avoid making the dangerous journey to Europe and both the weak and the sick could be brought to safety. At the EU level, there has been a resettlement programme since 2015 under which, among other things, the EU-Turkey agreement is being realised. In total, it has brought around 15,000 people to Europe over the past two years.[14] At the same time, some European countries have launched their own humanitarian reception programmes. For example, the German government brought at least 150,000 Syrian asylum seekers to the country during the period 2011–15.[15]

Managed migration

Compared with humanitarian migration, states have more leverage over the number of immigrants who leave their native countries for family reasons, over those who come to study and, above all, over those who arrive to take up employment. For these types of immigration, they are able, largely independently of developments in other regions of the world, to define the criteria that decide who can enter the country and who cannot. Because immigration policy is mostly determined by the individual EU member states, there are numerous different criteria. And this is especially true of employment-related migration – the form of immigration that can most directly help cushion the economic repercussions of the aging of society.

Almost everywhere in Europe, a job offer is a prerequisite for a residence permit. This makes sense since it means that one of the most important conditions for successful integration is met – namely, the ability to earn one's own living. The disadvantage is that it can be difficult to find employment in Europe from a non-European country. For this reason, Germany and Austria, for example, give university graduates the opportunity to have a temporary residence permit while they are looking for a job.

Some traditional immigration countries, such as Canada, go one step further and offer permanent residence to immigrants who do not have a job. To select immigrants, they use so-called points systems, which award points for qualifications, language skills and other abilities and determine who can and who cannot enter the country. These countries thereby rely on people with the desired attributes finding their own way. But since this does not always happen, Canada has departed somewhat from its model and now makes it very difficult for people to obtain a residence permit without a job offer. It is thus in good company with many industrial states that combine a points system with the criterion of a job offer. In Europe, the United Kingdom has had a comprehensive points system since 2008 – one that governs all types of immigrants, from investors to students.

Trend towards hybrid systems

For a long time, points systems were regarded as especially liberal. This has changed recently. By requiring both a job offer and various attributes, they can significantly limit the pool of potential immigrants. Today the system regarded as most liberal compared with that of other countries is the Swedish one, which does not award points. The only condition it stipulates is a job offer. So whoever can find employment in Sweden (assuming that employment conforms with Swedish wage and social standards) is allowed to enter the country regardless of what level of education he/she has attained.[16] But many other countries have opened their borders to foreign workers in recent years, too. Here the EU has played a role – for example, through the so-called Blue Card Directive, under which member states have to issue residence permits to highly qualified individuals who have a job offer and meet certain salary thresholds.[17] To date, the Blue Card is used mainly in Germany; of the 17,106 Blue Cards approved throughout the EU in 2015, Germany alone accounted for no fewer than 14,620.[18]

To what extent those member states that tend to be critical of immigration will develop opportunities for employment-related immigration is likely to depend significantly on how much their economies are affected by labour shortages that result from demographic trends. The rapid aging of society in many Central and East European countries could lead in the long term to a rethink of immigration policy.

5 AGING AND THE SOCIAL SYSTEM
The Costs of Demographic Change

The peoples of Europe are becoming ever older. In 1990, the EU-27 median age – which divides a population into a younger and an older half – was still 35 years or just over. Since then, it has risen to just under 43 years. According to various projections, it could continue to increase until the beginning of the 2040s and then level off at around 47 years.[1] The aging of societies, which affects the entire continent to varying degrees, can be attributed to two separate developments: on the one hand, people are living ever longer; on the other, fewer and fewer children are being born.

Increasing longevity can easily be seen from how life expectancy has changed. In developed countries it has increased by two to three years each decade.[2] According to figures for 2015, the average for EU countries is just under 81 years. What stands out in this context is that it was not until 2000 that Switzerland became the first European country in which the expected lifespan reached 80 years. To this day, the Swiss Confederation remains well ahead of most other countries on the continent – in the meantime, life expectancy there has climbed to 83 years. Spain has reached the same level and Italy is following closely on its heels.[3] The economic crisis, which continues to cause problems above all for the south European countries, has had just a minimal impact in this area. Whether it will have long-term effects – for example, because citizens have less money to spend on preventive healthcare, including screenings for which they themselves have to pay, or a healthy diet – will become clear only over time.

That economic crises can have a short-term impact on how long people live is demonstrated by the experience of the East European countries that underwent the transition from socialism to capitalism in the 1990s – not least that of the Baltic successor states to the Soviet Union. For example, life expectancy in Estonia fell from around 70 to less than 67 years between 1990 and 1995.[4] The reason for this was a lifestyle that became increasingly unhealthy as tobacco and, above all, alcohol consumption rose to high levels. And the latter causes deaths not only through long-term damage to essential organs but also frequently through acute intoxication, accidents and violent crimes.[5]

The other side of the coin

It is one of humanity's main achievements that people are living increasingly longer. But longevity presents growing social challenges: age-related illnesses such as dementia and diabetes are becoming more widespread, limited mobility makes social participation difficult and the pension system has to find new ways to provide financial security for an ever-longer retirement. The main burden of meeting these challenges falls directly on the state because throughout Europe, the family is losing its significance as a source of care, support and security. To organise all of this costs money. From an economic perspective, the number of the elderly is less important in itself than the ratio of this demographic group to the working-age population – since it is the latter who has to foot the bill for the care costs. EU-wide, this ratio is currently 32 people aged 65 or over to 100 between 20 and 64 years old – so roughly one to three. But because the so-called baby boomers will retire from the mid-2020s onwards, this ratio is likely to worsen to about one to two by 2040.[6] At that point, an average of two working-age people will have to help provide for one older person.

However, the dependency ratio varies considerably from country to country and region to region. While the aging of society is most advanced in Italy – there are 37 potential pensioners to 100 potential workers in that country – Ireland, Luxembourg and Slovakia have the youngest populations in the EU. The oldest region in the Union is Liguria in Italy, where the ratio today is precisely one to two. At the other end of the scale is East London, where the ratio is almost one to ten.[7,*] This is because London attracts mostly young working people thanks to its economic strength.

There will be further demographic shifts in the coming decades. Today's rather young societies in Eastern Europe are aging more rapidly than those in the rest of the continent. On the one hand, this can be explained by the emigration of young people; on the other hand, it has to do with the fact that during the democratic transition period of the 1990s, these countries had to contend with sharp declines in the birth rate that were evident almost everywhere. What are, in numerical terms, small cohorts are now slowly approaching the age of entering working life and starting a family and as a group will have significantly fewer children than the larger generations before them. Indeed, it is for this reason that in 2030, Lithuania is likely to have the worst ratio of pensioners to working-age people.[8]

[*] Even fewer older people than in East London are to be found in the French overseas territories of Guiana and Mayotte, where there are just nine and six people aged 65 or over, respectively, to every 100 people aged 20–64.

The pressure on the state coffers is growing

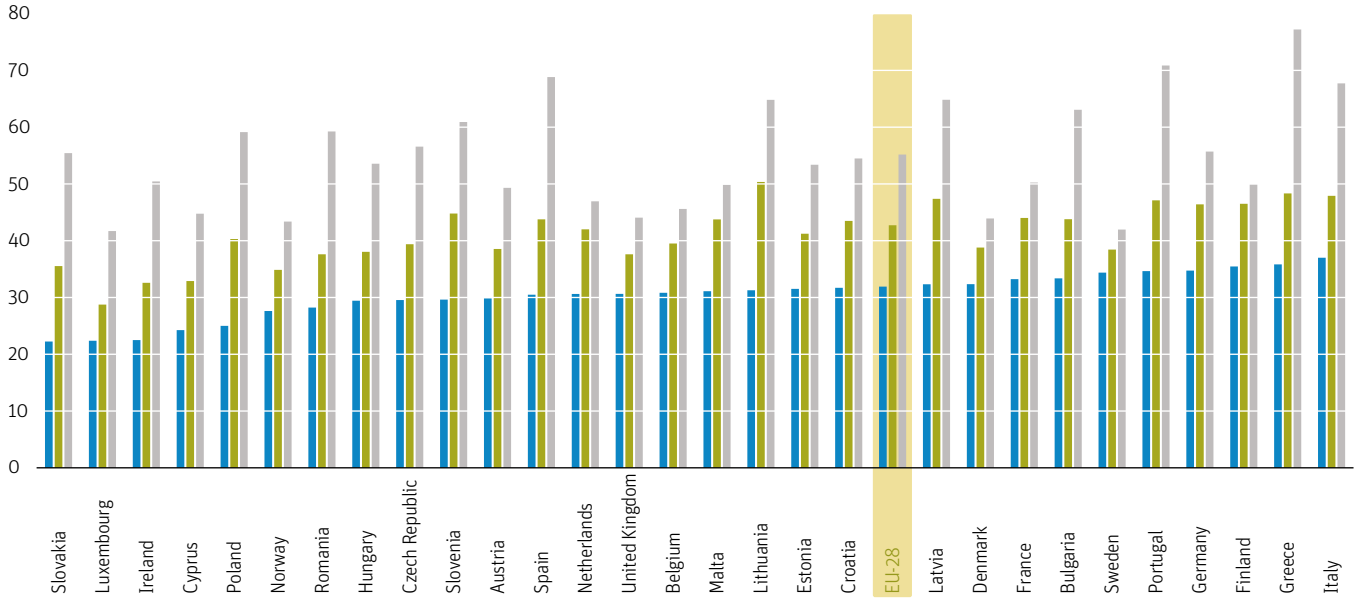
Next to the task of meeting the costs of an aging society, a large number of the European states are faced with the challenge of steering their finances back onto a sustainable path. The crises of the past and the accompanying weak economic growth have taken their toll on the public balance sheets. The debt burden has risen dramatically within a very short period. While in 2007, only nine of the 28 EU states had a public debt level of more than 60 percent of GDP and were thereby failing to meet the Maastricht criteria, agreed in 1992, that figure had risen to 16 by 2016.[9] In addition to the debt that has already piled up, there could now be further "unsecured" expenses – for example, in the provision of healthcare or in the state pension system – owing to the ever-worsening ratio of workers to social security beneficiaries in many countries. The social systems could thereby run into major difficulties.

Just how high are the financial burdens caused by the aging of populations? A rough picture is provided by long-term calculations for cost trends in those areas of expenditure where demographic changes have a strong influence. According to the calculations, the EU member states will have to spend a larger share of annual GDP on pensions, health, nursing care and education in the future. For all 28 countries combined, the increase will be 1.8 percent over the period from 2013 to 2060. However, there are considerable differences between the individual countries. While seven of the 28 countries – including Denmark, Cyprus and Latvia – can even hope for the burden to ease by 2060, the costs calculated in annual GDP terms are likely to rise by five to seven percentage points in Germany, Belgium, Luxembourg, Malta and Slovenia during the same period.[10]

The east is aging more rapidly

In Eastern Europe, the share of pensioners is relatively small. On the one hand, this has to do with the lower life expectancy; on the other hand, it can also be attributed to the fact that until the fall of the Iron Curtain, the birth rate was comparatively high in these countries. Owing to the collapse in the birth rate in the 1990s, the East European states are likely to witness a rapid aging of society in the future. Only the southern European states of Greece, Portugal, Spain and Italy are likely to have a larger share of older people by the middle of the century than Latvia, Lithuania, Bulgaria, Slovenia, Romania and Poland.

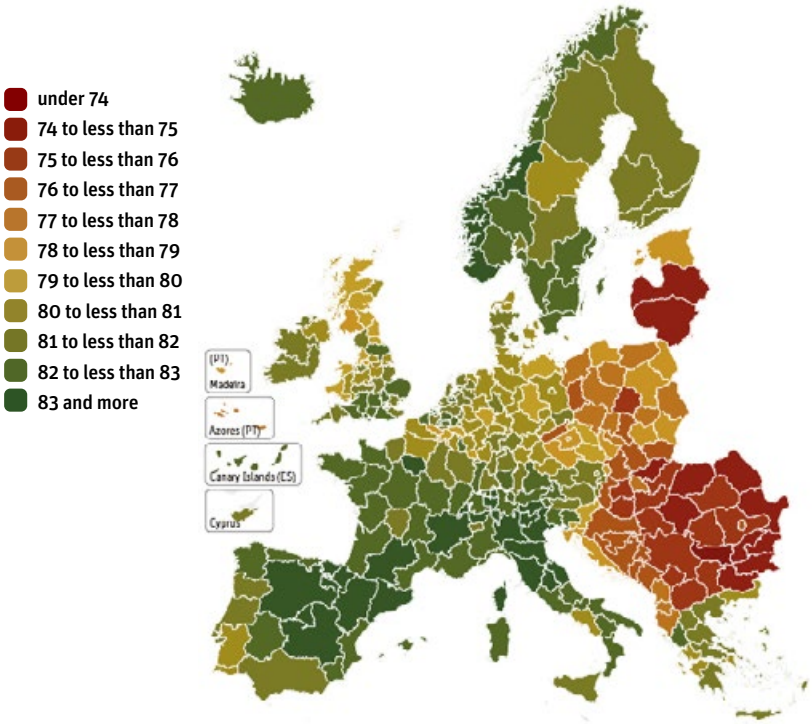
Number of those 65 and over per 100 people aged 20–64 (dependency ratio) in Europe, 2016, 2030 and 2050
(Data source: Eurostat[20])



A longer life in the South and a shorter one in Eastern Europe

There is a clear west-east divide in life expectancy in Europe. People live longest in northern Italy, northern Spain, the French coastal regions and Switzerland but also in parts of Norway. They have the shortest lives on average in Lithuania and Bulgaria. That the East European states are lagging behind the West is a legacy of the socialist regimes: although they attached considerable importance to maintaining the health of the work force, they did too little to combat chronic diseases and typical age-related illnesses, such as cardiovascular ones. In Germany the harmonisation of life expectancy in the eastern and western parts of the country has more or less been achieved; today the divide is more between south and north. Nevertheless, men in the former GDR still live on average 1.3 years less than those in former West Germany.

Life expectancy at birth in the NUTS 2 regions in Europe, 2015*
(Data source: Eurostat[21])



* For Serbia, Bosnia-Herzegovina and Albania only national data are available. No separate data is available for Kosovo, which is depicted as a part of Serbia here.

Several factors can explain why the financial burden caused by the aging of society has increased significantly in some countries and not in others. First, the extent to which populations have aged varies from country to country and, accordingly, the extent of future changes in the age structure will vary too. Second, social systems respond in differing degrees to aging – especially the pension systems. In this area, some countries have already carried out structural reforms – for example, they have raised the official retirement age, increased contributions or reduced benefits. As a result of such reforms, it is only in Luxembourg that pensions are likely to increase compared with wages until 2060, while in all other EU countries the likelihood is that they will decrease. And that decline is likely to be particularly marked in Cyprus, Portugal and Spain. In these countries, the average pension is projected to fall by some 20 percentage points by 2060 compared with the average wage.[11]

The pension system – a major issue

There are frequent public discussions about whether the public social security systems – especially the statutory pension system – are financially sustainable. This is understandable given that 40 percent of all social expenditure in the EU goes towards pensions and all European states rely mostly on pay-as-you-go schemes, which depend directly on demographic trends.[12] But the need to focus on financial sustainability is debatable, since the pay-as-you-go system can, by definition, always be financed; what remains unclear, however, is how much the beneficiaries receive in the end and how much those contributing to the system should pay.

Since the level of pensions will fall almost everywhere in the future, there is likely to be a growing risk of old-age poverty in many countries. Avoiding poverty among the elderly will thus become one of the elementary tasks of European societies. Europe's governments are aware of this and are trying – in their own different ways – to avert it. Most focus on the idea of increasing revenues through higher employment levels. One obvious solution is to raise the official retirement age – that is, the age at which people can normally retire on a full pension. More than half of the EU states have raised the official retirement age over the past decade.[13] In most countries, the threshold is now 65 years or over. Not least for reasons related to their recent history, the East European states are lagging behind somewhat in this respect. Some of these countries continue to have a separate, lower threshold for women, which is often 60 years. At the same time, many governments have launched reforms in recent years that are intended to eradicate gender inequality in the medium term.[14]

Some states are not content simply to raise the official retirement age and are imple-

menting more far-reaching reforms. Denmark has taken an innovative approach: in the future, the official retirement age in this country will be directly determined by the development of the life expectancy of those who are 60 years old. More precisely, the government is pursuing the goal that from now onwards the average retirement will last 14.5 years.[15] Thus, as long as the remaining life expectancy of 60 year olds stays at today's level, the current official retirement age of 67 years will continue to apply too. But if life expectancy increases, the retirement age will increase too; similarly, if it falls, the threshold for retiring will fall too.

But why do we need a clearly defined retirement age in the first place? Some EU states have replaced the fixed threshold with an age range because almost everywhere in the Union it is in any case possible to retire earlier on a smaller state pension or later on a larger one. For example, Finland introduced a flexible retirement age of 63–68 years in 2005 and Norway abolished its official threshold in 2011 and replaced it with an age range of 62 to 75 years. The United Kingdom has gone one step further. It did away entirely with official retirement age and introduced instead the pension age, which stipulates the earliest age at which it is possible to draw a state pension.[16]

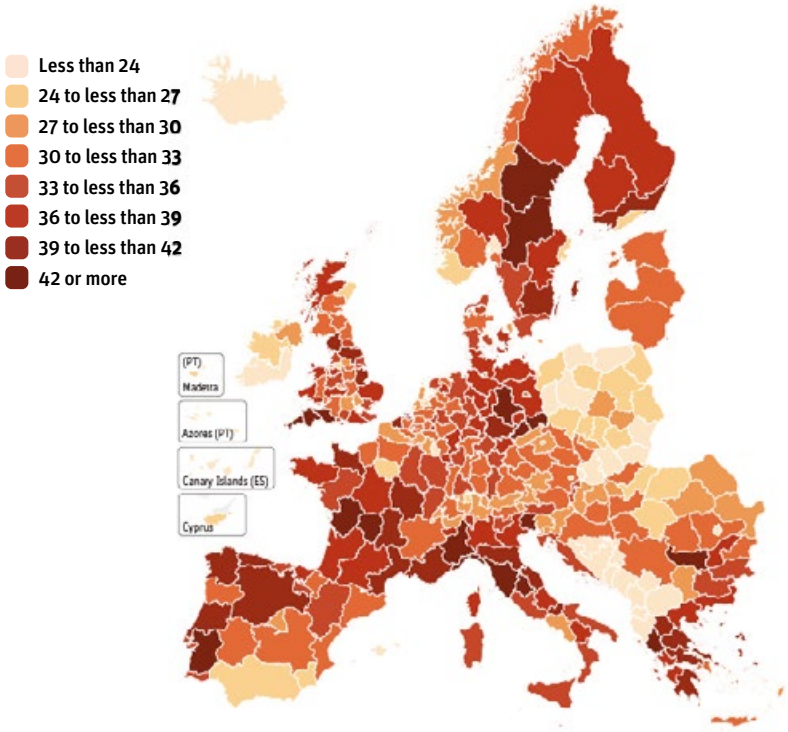
How long older people remain active on the labour market does not depend solely on the official retirement age, however. In many countries, there are legal provisions for early retirement or partial retirement. To establish where in Europe people retire relatively early and where they tend to do so later, it is worth taking a look at figures related to the exit age from the labour market. This is particularly high in Iceland – 69.4 years for men and 68.0 for women. At the other end of the scale is France, where the working life of both men and women ends on average before they reach their 60th birthday.[17]

A long working life can make an essential contribution to easing the burden on the pension funds. But it cannot resolve that issue by itself. Against this background, the European states are focusing increasingly on the fully funded pillars of the pension system – for example, the so-called Riester pension in Germany. In contrast with the pay-as-you-go system, each citizen saves towards his/her own retirement in return for some tax relief. While the risk of demographic changes causing difficulties is thus averted, it is replaced by that of lower returns on the capital market. Many countries are combining both systems, thereby intending to spread the respective risks so as to prevent high volatility and losses. The fully funded pillars of the pension system play an especially important role in the Netherlands: almost half of the pension income of retired Dutch people comes from this source.[18]

Old versus young

Europe-wide, there are some 32 people of retirement age for every 100 people of working age (20–64 years old). Thus, on average, three potential members of the workforce have to help provide for every pensioner. However, the situation varies significantly from region to region. In eastern Germany, the ratio is already much worse owing to the low birth rate of the 1990s and the internal migration of young people of working age, which stopped only recently. The remote regions of Sweden and Finland are suffering, too, owing to the migration of young people, as is all of Greece. There are also comparatively large numbers of older people in northern Italy, northern Spain and Portugal. These parts of Europe have low birth rates and a high life expectancy.

Number of those 65 or over per 100 people aged 20–64 (dependency ratio) in the NUTS 2 regions in Europe, 2016*
(Data source: Eurostat[19])



* There are no national data available for Serbia, Bosnia-Herzegovina or Albania. The data source for Bosnia-Herzegovina is: United Nations (2017). World Population Prospects, the 2015 Revision. New York.

6 ECONOMY

Europe's Engine Room Lies in the Heartland

The economic crisis has taken a lasting toll on Europe. In 9 of the 28 EU states, economic output was lower in 2016 than in 2008. But the crisis has hit hardest the countries along Europe's southern border. Greece, Spain, Italy, Croatia, Portugal and Cyprus all number among those states that are faring worse today than in the mid-2000s. The picture improves in the eastern part of the continent: following a short-lived but sharp downturn at the start of the crisis, most of the post-socialist countries have been able to continue the upward trend on which they embarked in the 1990s.[1]

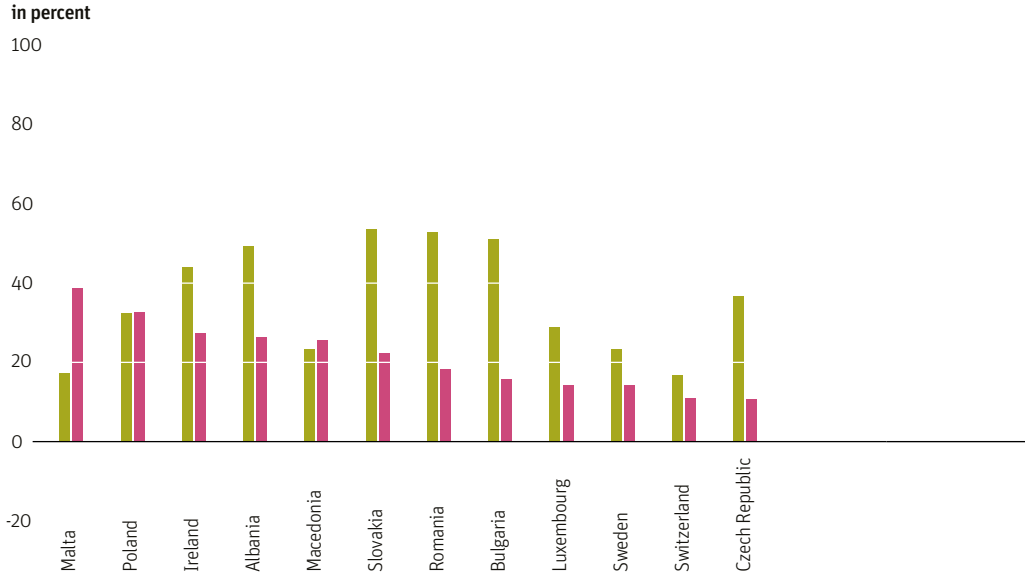
Does this mean that "old Europe" is now "weak Europe" and the new EU states are the economic high-flyers? Absolutely not. The modest growth rates recorded from Estonia to Bulgaria and from the Czech Republic to Romania cannot conceal the fact that the inhabitants of these countries continue having to make do with significantly less wealth than the rest of Europe. On average, each Bulgarian generates just 6,600 euros a year. That is less than a quarter of the EU average. Even if the lower prices in Bulgaria are taken into account, its inhabitants still have to exist on less than half the EU mean. At the other end of the European wealth scale are Luxembourg, Switzerland and Norway with an annual GDP per capita of significantly more than 50,000 euros.[2]

Even if the combined economic output of the EU states is higher today than before the crisis, the recession has left a mark that is likely to be felt by the nations of Europe for a long time yet. Unemployment – especially among young people – remains sky-high and the crisis-ridden countries of the Mediterranean region have mountains of debt. The "Maastricht criterion" whereby the level of public debt must not exceed 60 percent of GDP is being met by less than half of the member states of the Union. Meanwhile, Greece, Italy, Cyprus, Portugal and even Belgium have recorded levels that are more than – and, in some cases, significantly more than – 100 percent.[3] This means that none of these countries could any longer pay its debt within one year even if all revenues generated during that period were to go directly to its creditors.

Where the crisis can still be felt

Many European states continue to produce fewer goods and services today than before the economic crisis of 2007. This applies, above all, to the Mediterranean and Baltic states – but also to Finland. Nonetheless, the Baltic states have got to grips with the problem of unemployment; and what is more, they had been growing at a very fast rate before the crisis. By contrast, Portugal and Italy have been mired in depression for more than one-and-a-half decades. At the other end of the scale, countries like Malta, Poland and Ireland have been able to continue their upward trend following a short-lived downturn.

Percentage change in real GDP in the European states, 2000-2007 and 2007-2016*
(Data source: Eurostat[24])



* The data for Luxembourg refer to the period 2001 – 2015 and those for Ireland, Albania, Switzerland, Norway, Iceland and Finland to the period 2000 to 2015.

All of this poses a challenge not only to the affected countries but also to the rest of the Union – above all, to the countries that belong to the eurozone. Through the European Stability Mechanism, established in 2012, they share liability for over-indebted eurozone states, to which in the event of insolvency they must make credit lines and guarantees available. Against this background, the aim of the so-called Lisbon Strategy, which was to turn the EU into the "most competitive and dynamic knowledge-based economic region of the world" by 2010, can only be seen as having failed. Similarly, the success of the somewhat less ambitiously formulated successor strategy, "Europe 2020", appears doubtful two-thirds of the way into its implementation.

It's worth being an EU member

For the countries of Europe, EU membership has always held the promise of more prosperity and the gradual equalisation of living conditions on the continent. Especially for the poorer states, the Union is enormously attractive. The logic behind this is simple. Access to the Single Market means that larger sales markets open up for the member states; but, above all, those countries become attractive for foreign investors. In the long term, this could lead to their catching up in the race for prosperity on the continent since they themselves do not have to produce innovations – a process that can be both expensive and protracted – but instead can simply import technologies from abroad. Moreover, the EU offers direct structural aid for poor regions through its cohesion policy. From 2014 to 2020 it intends to provide funding worth around 450 billion euros for this purpose.[4]

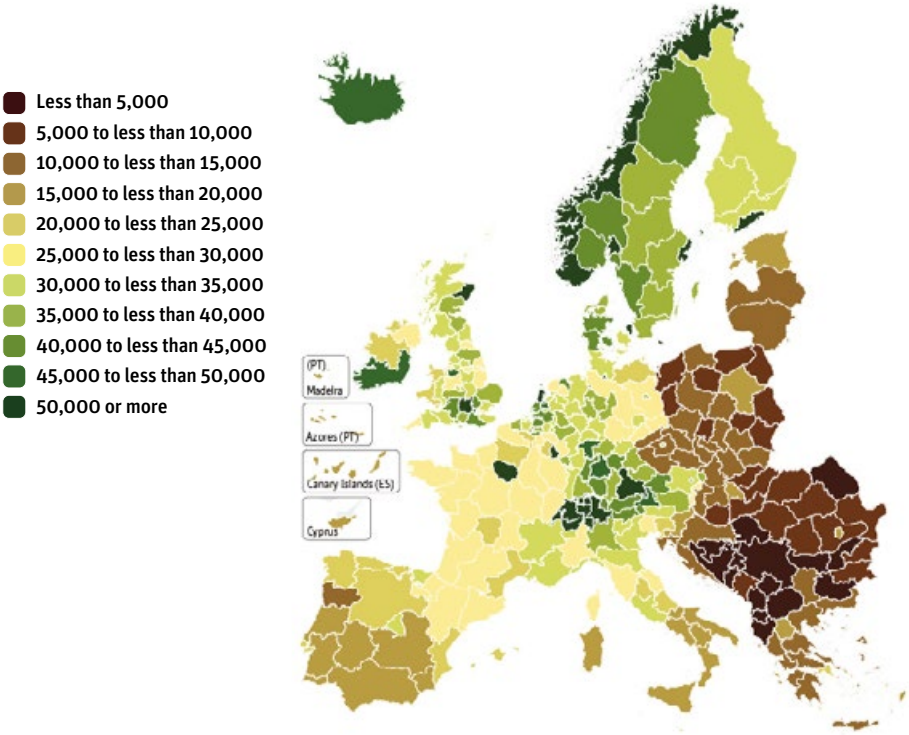
Recently, however, support for the EU has been crumbling all around. This has partly to do with the Union being unable to dispel the perception of a continent divided into winners and losers. Many consider European integration and, above all, the euro to be the main reasons for the crisis. But are the countries and regions of Europe really growing apart? Or can the EU live up to its claim to contribute to more equality? Is it worth anything at all to be a member of the EU? Most studies on this subject answer the last question in the affirmative.[5] According to the latest research, GDP in those countries that have joined the EU since 1973 would be on average 12 percentage points lower if they had not become EU members. However, the extent to which countries have profited varies considerably from state to state. Greece, for example, has been unable to derive any benefit whatsoever from its EU membership.[6]

As for the question about whether the EU states' economies are growing together, here the answer is less clear. While on average the poorer countries of the EU have higher growth rates than the richer ones,[7] this by no means signifies that the absolute differences in wealth are shrinking.[8] For example, an economic growth rate of one percent in Germany corresponds to a much higher amount of money than growth of two percent in Romania. Even the trend whereby poorer regions were closing the gap with richer ones at least in relative terms has become weaker since the economic crisis. It was precisely in "old Europe" – that is, the countries in the western part of the continent – that the downturn not only halted the closing of the gap that could be observed during the first few years of the new century but, in fact, had the reverse effect of making that gap even wider.[9]

East-West divide

The richest regions of Europe lie in the central and northern parts of the continent. It is here that evolved economic structures are complemented by qualified labour forces and often good infrastructure. On the peripheries of the continent, however, the economy is performing less well. Eastern Europe, in particular, is significantly lagging behind the rest of the continent, despite the successful transformation from a planned to a market economy in many parts of the region. But those parts of Europe located between Estonia and Bulgaria have overcome the crisis faster than have the Mediterranean states, which continue to suffer from high unemployment and a large debt burden.

GDP per capita in euros by NUTS 2 region, 2015*
(Data source: Eurostat[23])



* The data for Ireland and Albania refer to the year 2014. Only national data are available for Bosnia-Herzegovina and Serbia. Kosovo is included under Serbia here. The data source for Montenegro and Bosnia-Herzegovina is the International Monetary Fund (2017). World Economic Outlook Database April 2017. Washington D.C. The figures for both of these countries have been converted from USD to EUR.

It is no accident that Europe is finding it difficult to distribute wealth evenly over the continent. For the economy to grow in today's knowledge and services societies, different conditions are needed from those that were required by the heavily industry-based economies of the second half of the 20th century. An increasingly important foundation for technical progress is the knowledge and abilities of the people – so-called human capital. They offer fertile ground for the creativity that generates the ideas for new products and services. Where such abilities can be found is not a question of chance; rather, it is the result of a series of local factors such as the extent to which a region is endowed with educational institutions, infrastructure and services providers and suppliers. This is how growth clusters can emerge – zones that often differ markedly from other regions within a country. It is one of the reasons why metropolitan areas are among the richest regions of Europe. Indeed, the top ten such regions include West and East London, the city-states Liechtenstein and Luxembourg as well as Zurich, Stockholm and Oslo. Closely following on their heels are Brussels, Hamburg, Greater Copenhagen and the Île de France, of which Paris is part.[10]

Europe's economic heartland

Besides the capital city regions, Scandinavia and the United Kingdom, the heart of the European economy lies in the middle of the continent. Prosperity and innovative strength are concentrated mainly in southern Germany, the Netherlands, northern Italy, several regions in France and, above all, in Switzerland. The importance of the last-named country is underscored by the number of registered patents per 1,000 inhabitants, a frequently used indicator for the innovativeness and sustainability of regional economic structures. Six of the ten most innovative regions in Europe are to be found in Germany – Upper Bavaria, Stuttgart, Düsseldorf, Karlsruhe, Darmstadt and Cologne. The other four are the Île de France, the Rhône-Alpes region, North Brabant in the Netherlands and Lombardy in Italy.[11]

So what is the secret of these regions' success? And can it be replicated elsewhere? The answer to the second question is: certainly not within a short period. Europe's economic centres often benefit from evolved structures in which large industrial enterprises are to be found alongside supplier companies and providers of business-oriented services so that integrated value chains have emerged at the local level. Such is the case in Munich and Stuttgart with their large auto manufacturers BMW and Daimler and in the city of Eindhoven in North Brabant, which is the birthplace of the electronics giant Philips. While the company headquarters is to be found today in Amsterdam, Philips has bequeathed the region numerous high-tech firms – such as the semiconductor manufacturer ASML – which have chosen this location not least because of the presence of the pioneering Philips company.

Evolved structures offer many regions competitive advantages. But to remain sustainable in the future, it is equally important to be able to respond flexibly to a changing environment. Many regions in northeastern France along with Wallonia in Belgium and the most western part of Germany have had to learn this lesson the hard way: to this day, they have been unable to compensate sufficiently for the decline of coal mining and heavy industry with new economic sectors. Similarly, the regions of Eastern Europe have had to undergo a rapid structural transformation; following the fall of the Iron Curtain, East European companies were exposed to market forces for the first time, and many – especially in industry – went bankrupt and had to close. In the three Baltic states, industrial production halved in the first half of the 1990s alone. The old industries were replaced, on the one hand, by new industrial enterprises that were able to withstand market forces thanks to their being privately owned and having foreign capital and, on the other hand, by a growing services sector. In Estonia, Latvia and Lithuania as well as in Bulgaria and Romania, the structural transformation was particularly rapid.[12]

Despite their rapid transformation, Bulgaria and Romania continue to bear some of the hallmarks of less developed countries. For example, the share of agriculture, forestry and fishing in total value added in these countries is – at four percent – the highest in the EU. And in northern and northwestern Bulgaria, these economic sectors account for significantly more than one tenth of value added, highlighting just how rural parts of these regions remain. Accordingly, scientific and technical services are available only to a limited extent in both countries. But EU-wide, it is this sector that, on average, is growing most rapidly and now accounts for almost one tenth of GDP. Well ahead of the pack is the Netherlands with a share of 13.5 percent. Information and communications technology is another industry that is becoming increasingly important for promoting prosperity. All these developments come at the expense of industrial manufacturing: while on average the sector still accounted for 21 percent of GDP in the EU in 1995, this figure had fallen to 17 percent by 2016.[13]

However, there are exceptions to this trend, too. In the Czech Republic and Hungary, industry has grown in importance since the mid-1990s.[14] This is partly because in 1995 industrial enterprises in many parts of Eastern Europe were ailing; but it is also because new capital flowed into these countries following their opening up to the West. For example, VW's Czech subsidiary, Skoda, has made record sales year after year, while the Audi plant in Györ in western Hungary has invested some eight billion euros since 1993 and created thousands of new jobs.[15] Meanwhile, the importance of the manufacturing industry has remained more or less constant in Germany.[16] Interestingly, the Czech Republic and Germany are the two EU countries with the lowest unemployment. This shows that despite the clear continued trend towards more services in the 21st century, there is no one way in which countries can best create wealth.

The megatrend of digitalisation

Every region in Europe will have to get used to the fact that in the future, machines will be able to undertake more and more activities. Digitalisation has the potential to change the global economy forever. Under the slogan "Industry 4.0", the specialist community has long been discussing how production systems can be increasingly linked and controlled by computers. This often raises concerns that soon there will not be enough work for human beings. For the first time, it appears that even the jobs of the highly qualified are threatened with becoming expendable through the increased use of machines. Whether it will really come to this remains unclear.[17]

But what is clear is that digitalisation can compensate at least partly for the general decline in productivity. Indeed, productivity gains from the increased use of information and communications technologies already accounted for some 25 percent of the productivity upturn before the crisis.[18] This represents an opportunity for Europe since many of its economic problems can be attributed to sluggish productivity growth.[19]

But in order to switch to a digital economy, more innovation and thus more investment is needed. And the latter is also required to replace obsolete capital stock in many sectors.[20] But from where should the investments in Europe come? The state coffers of many countries are now so far into minus territory that the debt burdens can no longer be serviced without external creditors like the EU, the European Central Bank and the International Monetary Fund. Nonetheless, some investments can be made only by the state – for example, the development of an extensive network infrastructure – while others need more input from the private sector. Such funds are doubtless available: the companies in the eurozone alone generate annual current account surpluses that far exceed 100 billion euros and could be used for investments.[21] The total savings of private households and companies are even higher than that amount. But how can these funds be drawn into the economic system in the form of investments? This is the question that occupies many economists and to which there is no easy answer. Improved competition (for example, through the completion of the European Single Market), additional tax incentives or even an EU-wide investment fund targeted directly at small and medium-sized enterprises are just some of the proposals for a new push for growth.[22] However, the eventual outcome is far from certain.

7 LABOUR MARKET
What to Do about Unemployment?

In 1997, the EU introduced the European Employment Strategy, which was intended to help create more and better jobs. Since then, the document has been incorporated into the "Europa 2020" growth strategy – and the challenges facing Europe have become bigger rather than smaller.[1] In the growth strategy, the European Commission formulates the goal of achieving 75 percent employment among 20-64 year olds by the end of the decade.[2] In 2016, the share was 71 percent.[3]

In total, there are around 214 million people in employment in the EU. That is roughly the same number as at the beginning of the economic and financial crisis in 2008. For unemployment, the picture is somewhat worse: the share of jobseekers in the labour force is 8.5 percent. That is almost two-and-a-half percentage points fewer than at the peak of the crisis in 2013 but still two percentage points more than in 2008. And the economic crisis had particularly grave consequences for long-term unemployment – that is, for those who have been looking for work for more than twelve months. Their share stood at just 2.8 percent in 2008 but had risen to 4.0 percent in 2016.[4] For the affected, this poses special dangers. Being without work for a long period not only leads to a loss of earnings and an increased risk of poverty; it also takes its toll in other ways: knowledge and skills are wasted and both physical and mental health is impaired.[5]

The aggregate labour market figures conceal considerable regional differences. While unemployment is lowest in the Czech Republic and Germany – at about four percent – it is around five times as high in Greece and Spain. Beyond the borders of the EU, Iceland stands out with its unemployment rate of just three percent.[6] And there are significant differences within countries, too. For example, a west-east divide remains in Germany and a north-south one in Italy. Nor is there a uniform trend among the areas around and including the capital cities. While unemployment is lowest in Prague and Bratislava compared with the rest of the country, it is highest in Berlin, Vienna and Brussels.[7]

In view of the widespread high unemployment figures, it appears paradoxical that many companies in the EU cannot fill vacant positions and complain about the lack of skilled workers. One of the reasons for this is that skilled labour does not always find itself where it is most urgently needed. Moreover, qualifications that are lacking cannot be acquired from one day to the next. In the longer term, the labour shortage is likely to have an even bigger impact since all European countries are affected by the aging of society.

Economic crisis leads to more inequality

Up to 2007, there were still only marginal differences between the individual European countries as regards the issue of unemployment. Only in one country – Slovakia – were more than one in ten of those active on the labour market seeking work without any success. All other states had unemployment rates of between 3.9 percent (Cyprus) and 9.9 percent (Croatia). The crisis that evolved over the next two years hit, above all, the East and Southeast European countries. In Estonia, Latvia and Lithuania, the unemployment rate tripled, although on the Baltic labour markets the crisis disappeared again as quickly as it had come. By contrast, in the southern part of Europe the outlook worsened visibly. In 2013, almost 28 percent of the labour force were looking for a job in Greece, 26 percent in Spain, 17 percent in Croatia and 16 percent in Portugal and Cyprus each.[8]

However, the economic crisis not only hit individual regions particuarly hard; it also led to more inequality between social groups. For example, people with low qualifications often have difficulty finding a job. Across the EU, more than 16 percent of those who have only an intermediate school-leaving certificate (the equivalent of GCSEs in the UK) are looking for work, while the corresponding figure for those who have graduated from university or college is just five percent.[9] Both groups have suffered under the economic crisis, but the first has done so to a greater extent.[10] That the latest economic upturn has disproportionately favoured those with a higher education can be seen from the economic sectors in which new jobs are currently being created. They include, above all, the services sector but also public administration, education and healthcare. In industry, meanwhile, the number of jobs continues to stagnate, while in the construction sector jobs are being lost across Europe even to this day.[11]

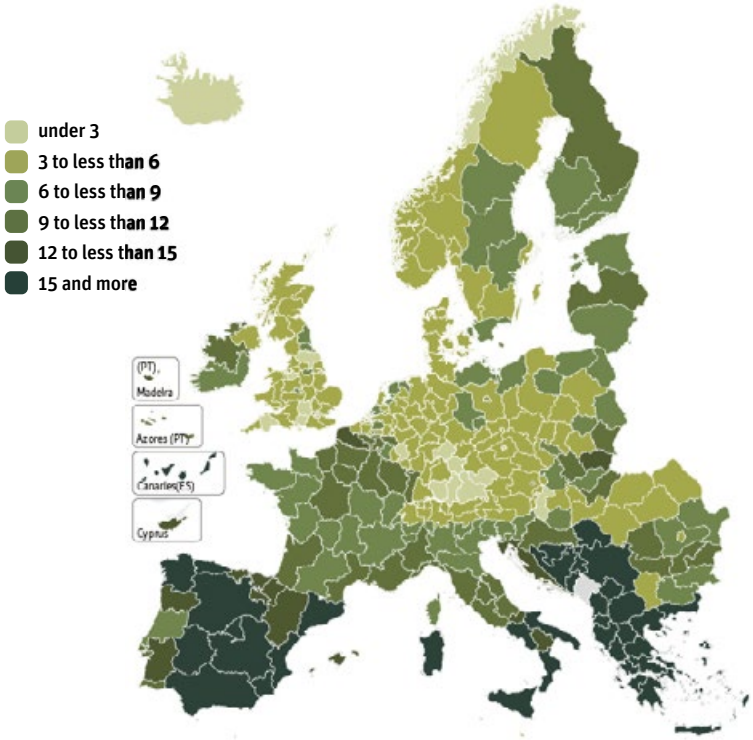
Young people disadvantaged

Young people have been hit hardest by the crisis. In Greece and Spain, only half of those aged 15-24 who are active on the labour market do, in fact, end up finding a job. By contrast, unemployment among first-time jobseekers in Germany is just seven percent: the national and European frontrunner is Lower Bavaria with just 2.1 percent unemployed.[12] Thus, youths are experiencing difficulties, above all, where there are few jobs

Unemployment: Highest in the south, lowest in the centre

Unemployment in Europe is concentrated, above all, in the Mediterranean region. Greece, Spain, Italy and the Balkan states have the highest unemployment rates. Strong labour markets are to be found in the Czech Republic, Germany, Austria, the United Kingdom, Norway and Switzerland. However, not all regions fit into the national-level template, and thus there are considerable differences within countries. While the unemployment rate is less than 10 percent in northern Italy, it exceeds 15 percent in the south of the country. In Germany, unemployment is higher in the eastern part of the country than the western, and in Hungary and Romania, too, there are big differences between the individual regions.

Percentage share of the unemployed in the labour force (20 to 64 year olds) by NUTS 2 region, 2016*
(Data source: Eurostat[38])



* There are no data available for Montenegro. For Serbia, Bosnia-Herzegovina and Albania, only national data are available. The figures for Serbia include Kosovo. Source for these countries: International Monetary Fund (2017). World Economic Outlook Database April 2017. Washington DC.

in the first place. Compared with the rest of the population, they find themselves disadvantaged in Romania, Italy, Luxembourg and Poland. In these countries, the unemployment rate among this group is around three times as high as among others.[13]

A more telling indicator of the career chances of young people is the so-called NEET rate,** which refers to the share of those aged 15-24 who are neither working, nor studying nor undergoing training – in other words, they are not making any progress in their professional careers. The NEET rate better indicates the future prospects of young people than does either unemployment or labour market participation because in the EU around two-thirds of those aged 15-24 are either in education or undergoing training – meaning that they have no interest at all in "regular" employment.[14] Here a rather different picture emerges: in Europe, the highest share of people with poor prospects are to be found in Macedonia, followed by Italy and the Balkan states of Bulgaria, Romania and Croatia.[15]

Youth unemployment is such a major problem because it worsens the chances of those affected finding work in the long term and can also have a negative impact on other spheres of life – for example, having a family. Just why the younger generation should be so hard hit by unemployment is difficult to comprehend. Experts repeatedly point to the fact that in many places training is not sufficiently tailored to the needs of the labour market or that rigid legal protection against dismissal leads to young people being hired mainly on fixed-term contracts and employees being divided into a two-class society.[16]

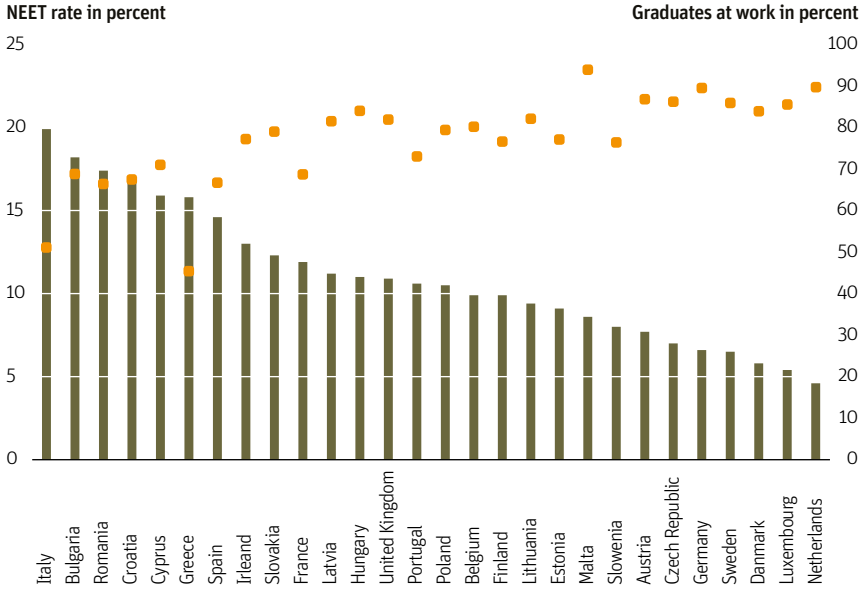
But what can be done to resolve this problem? In 2013, the EU states agreed on the so-called youth guarantee, the aim of which is to offer all young people under 25 a suitable job, training, internship or further training no later than four months after they become unemployed or leave school.[17] The EU states have launched numerous projects intended to bring especially the so-called NEETs closer to getting a job. For this to happen, the guarantee must first be publicised and young people registered at local employment agencies. This is how the Bulgarian programme "Activating the Inactive" was launched: it targeted those who had already become discouraged about their situation and were running the danger of becoming out of touch with the job market in the long term. In a second step, measures such as the closer networking of schools, employment agencies and companies should help to ensure that they receive concrete offers.[18] Across the EU, a total of some nine million people have so far made use of the youth guarantee. And since 2013 the number of unemployed 15 to 24 year olds has declined by 1.3 million.[19] However, it remains unclear to what extent this improvement is a result of the youth guarantee or other things.

** The abbreviation NEET stands for "not in education, employment or training."

Difficult entry into the working world

In Europe, the outlook is bleakest for young Italians: every fifth person aged 15-24 is neither employed, nor studying, nor undergoing training. This poses the risk of being shut out from the regular labour market in the long term. What stands out is that even young people in Italy and Greece who have completed vocational training or graduated from university/college find it much more difficult to stand on their own two feet than do their counterparts elsewhere. In 2016, only about half of all those who had graduated in the two Mediterranean countries in the previous three years were working. Those who are most successful at entering the job market are young people in central and northern Europe.

Percentage share of 15 to 24 year olds who are neither employed, nor studying, nor undergoing training (NEETs) as well as the share of graduates* with jobs among all graduates aged 15-34, 2016
(Data source: Eurostat[37])



NEET rate
Graduates at work

* "Graduate" here means anyone who in the past three years has completed vocational training, passed the secondary-school final leaving examination, graduated from university/college or received a doctorate.

The difficulties of living in another country

Another group that has suffered in particular during the latest crisis are immigrants. Across the EU, the employment rate among those people born in another country stood at 94 percent of that of native inhabitants in 2007; but that figure had slipped to around 92 percent by 2016. And while the likelihood of unemployment was a third higher among immigrants than among native inhabitants in 2007, they were more than 1.5 times as likely to be unemployed in 2015.[20] Here, too, an already existing inequality has been further deepened. An explanation for this development is to be found in the professional structure of both groups. Immigrants are often disproportionately employed in professions that require only low qualifications and are particularly vulnerable to crises – for example, in the construction sector.[21] Moreover, immigrants are frequently competing with new arrivals for precisely these jobs.[22] The imbalance between natives and immigrants is particularly striking in Sweden, Norway, Switzerland, Belgium and Luxembourg – all of which are countries with a strong immigration tradition.[23] Here, the failure to integrate the so-called guest workers in the second half of the 20th century is catching up with these countries. What is decisive, however, is who goes to those respective countries. One of the reasons why employment among immigrants in Sweden is so low, for example, could be because the country took in so many refugees in the past, and these people often find it especially difficult to gain a foothold in the job market.

Women are catching up

Not all inequalities on the labour market have increased in recent years. For example, the difference between male and female employment has narrowed: if, at the beginning of the millennium, only 58 percent of women of working age were pursuing employment in those countries that belonged to the EU at the time, that figure has since risen to 65 percent. By contrast, the share of men – 77 percent – is only slightly higher today than in 2000. The frontrunners in the trend towards more equality of the sexes are to be found in the north of the continent. In Lithuania, Latvia, Finland, Sweden and Norway, the difference between women and men is just some five percent. In France and Germany, too, the share of working women is above average, although there are significant regional

differences within France, for example. While the island of Corsica and the central French regions of Limousin and Burgundy number among those parts of Europe with the most equality of the sexes on the job market, the industrial regions in the north of the country – such as Picardy and Normandy – are in the lower middle ranks.[24]

It is no accident that women in Scandinavia are relatively often in employment. In their own ways, the countries of this region pursue a family policy that promotes combining a career and family and thereby makes it easier for mothers to return to work. There is, however, another reason why women are catching up with men in most countries: in many places, the economic crisis has destroyed jobs mainly in the typical male domains like industry, finance and construction.[25]

Magic word "Flexicurity"

To offer financial support to the unemployed, all EU states have social insurance systems that pay benefits to those who are entitled. The level of benefits paid under this "passive labour market policy" varies significantly, however; in most countries, it depends on the last earnings. Across the EU, Belgium pays out the largest annual benefit per jobseeker – just under 9,400 euros – and Romania the smallest – 332 euros.[26] The inequality can be explained only in part by the different wage levels within the EU. Together with the huge differences in the level of unemployment, this inequality in benefits has contributed to the growing number of discussions in recent years about whether at least part of unemployment insurance should be raised to the European level.[27] All countries with high unemployment would benefit from such an approach since other states would have to assume part of the cost of providing money for jobseekers. Such an insurance system would have the potential to strengthen solidarity within Europe – but it could also have the opposite effect if it were not formulated correctly.

The counterpart to the passive labour market policy is the active one. Above all, it comprises measures to reintegrate the jobless persons into working life – either through further training or via direct placements. Denmark, Sweden and Finland have allocated larger shares of GDP to this form of support than have other countries.[28] But in most cases, it is a combination of passive and active labour market policy that best helps the unemployed. The "flexicurity" model, which was originally introduced in Denmark, became known in this context. Under that model, the state offers unemployed people security through unemployment benefits and support in the search for a new job; but at the same time, it expects flexibility from them – for example, changing jobs more frequently or, if needs be, retraining or undergoing further training at short notice. Such a policy often includes regulations on protection against dismissal that are rather employer-friendly. To overcome the crisis on the European labour markets, the European Commission, among others, is seeking the introduction of aspects of "flexicurity" in the member states.[29]

Minimum wage ever more popular

However, employment does not always guarantee an adequate income. Across the EU-28, more than every tenth working person over 18 was threatened with poverty in 2015. Ten years earlier, it had only been every twelfth in the EU-27.[30] This development has to do, among other things, with the growth of so-called atypical employment contracts, such as those offering temporary or part-time work. The latter is a double-edged sword: it can help people to combine family life and career and thereby improve their quality of life; but it can also happen involuntarily and involve undesired wage losses – something that was evident during the economic crisis. Between 2007 and 2016, the share of those on part-time contracts in total employment rose from 16.8 percent to 18.9 percent. At the same time, the share of those who had not voluntarily chosen this form of employment increased from 23.1 percent to 28.5 percent. In some countries particularly hard hit by the crisis – like Greece, Cyprus, Italy and Spain – more than half of all part-time workers are looking for full-time employment.[31]

The fact that a growing number of employees in Europe are underemployed means that the risk of poverty for those on part-time contracts has risen considerably in most European countries. In many states, there is no difference as regards the poverty risk whether a person is unemployed or involuntarily part-time employed.[32]

To prevent in-work poverty, a series of political measures have been taken in the European states. They include the state topping up wages to a certain threshold. But the main instrument to avoid in-work poverty is the minimum wage. Today, 22 out of the 28 EU states have established a wage floor; in 2016, this was highest in Luxembourg (1,613 euros) and lowest in Bulgaria (460 euros).* Only Denmark, Finland, Italy, Austria, Sweden and Cyprus have not yet introduced a miminum wage.[33] The main question regarding the minimum wage is whether it reduces jobs. This can happen when companies that previously maintained wages below the minimum level have to do away with jobs because they can no longer pay employees. There is no definitive answer to the question. Especially for the low qualified, there are negative effects in many countries.[34] But in Germany, the minimum wage, which was introduced in 2015, has not yet had any negative impact. On the contrary, it ensured that in 2015, the wages of low-earners increased more than the average.[35] Independent of the German example, it is clear that the level of the minimum wage determines what impact it has. In East European states, the wage floor is so low that there is no danger of job destruction.[36]

* The numbers refer to the monthly minimum wage for a full-time worker at purchasing power parity.

8 EDUCATION
Life-long Learning

How many people live in a country is less decisive for its well-being than the skills, knowledge and experience they have – in other words, how educated they are. Education is a prerequisite for the complex organisation of societies; it creates wealth and serves the causes of freedom and justice. Moreover, for the individual it furthers good health and improves career opportunities.[1]

The trend towards an ever higher level of education is one of Europe's success factors. In 2016, 31 percent of the 25–64 year olds in the EU states had tertiary education – at the beginning of the millennium it had only been around 20 percent.[2] At the same time, the share of people with a low level of education, at most lower secondary education (ten years of schooling), has fallen from almost 36 percent to around 23 percent.[3]

The expansion in education reflects the increased demand by employers for a highly qualified workforce in an ever more knowledge-based society and economy. This demand is generated mainly by technological advancements and by the increasing digitalisation of nearly all spheres of life. The international division of labour driven by globalisation is another contributor to the fact that in Europe highly qualified occupations are gaining in significance and human capital has come to be regarded as the continent's most important resource.[4] Nowadays, unlike in the past, acquisition of knowledge and skills does not end with the completion of professional training or graduation from university or college; rather, it continues throughout adult life in so-called life-long learning. Because the knowledge required for many occupations is changing ever more rapidly, adults, too, need to continuously update their knowledge and skills – through further training programmes, for instance.

From day-care to early childhood education

Education also begins earlier nowadays than it used to. The expansion of facilities for taking care of small children is intended, among other things, to lay the foundations for education and equal opportunities for children.[5] Studies have shown that especially children from under-privileged families can benefit from this: they stay at school longer and obtain better marks.[6] In addition, day-care provision for small children can enable women in particular to combine a career and family. For this reason, many countries provide child-care facilities from the end of infancy onwards. In Germany, a legal right to a public day-care place for all children over the age of one has existed since 2013. Nevertheless, at 26 percent, the share of the under-threes who are cared for in such facilities is still below the EU average of 30 percent. The leader in terms of day-care facilities for small children is Denmark, with a share of 77 percent. In Slovakia, by contrast, only one percent of the under-threes are cared for and encouraged to learn outside the home for at least part of the day.[7]

In 2002, the Council of Europe set the official goal of expanding day-care. The aim was to make day-care places available to at least 90 percent of all children over the age of three and to 33 percent of the under-threes by 2010.[8] However, only seven of the 28 EU states had achieved this target. In particular the countries outside the eurozone, many of which are in Eastern Europe, have fallen well short of the mark.[9]

How effective public day-care is depends very much on the quality of the facility.[10] Simply expanding the infrastructure provides no guarantee that early childhood education will reduce the number of children who drop out of school or who are threatened by poverty, as is hoped.[11] Rather, the aim is to promote learning according to individual needs – in small groups, for example. The European leader in the ratio of caregivers to children is Sweden, where in 2014, one teacher looked after an average of 5.8 children between the age of three and school entry, while the EU average was 13.7 children.[12] It is no coincidence that Sweden also spends the largest share of GDP on training kindergarten teachers, namely 1.3 percent.[13]

Ever fewer lowly qualified

Most children in Europe start primary school at the age of six and generally spend four years there. Compulsory education usually ends at the age of 16.[14] In Germany, young people have by that time usually completed one of two types of lower secondary school (Hauptschule or Realschule) or – depending on the kind of school they have attended – have qualified for upper secondary school, known as Gymnasium, where they are prepared for Abitur (the A-level or baccalaureate equivalent). Such differentiated education also exists in Austria, Luxembourg, the Netherlands, Lithuania and Switzerland – and in a slightly modified form in the Eastern European countries of the EU. In the remainder of the EU, children and youths are taught together until the end of compulsory education.[15] Which of these systems is better has been a matter of controversy among education specialists for a long time. And a

definitive answer to this question has yet to be found – even though several studies have shown that separating children by ability early on can increase differences determined by family background.[16]

In recent years, the share of those leaving education when compulsory education ends has fallen almost everywhere. That is a good thing, because this group is particularly threatened by unemployment later on.[17] By 2015, 17 of the 28 EU countries had achieved the goal set out in the Europe 2020 Strategy to reduce the share of 18–24 year olds not in further education and with lower secondary education at most to under ten percent.[18] Those furthest from achieving this goal were Spain, Malta and Romania, where around 20 percent of young adults fell into this category.[19] Malta is at the same time the EU state in which the adult population has the lowest level of education: more than half of 25–64 year olds there have completed only lower secondary education. In Portugal it is a similar proportion. At the other end of the scale are Lithuania and the Czech Republic, with about seven percent.[20] Generally speaking, the share of the poorly qualified is low in those countries in which vocational training has a big role to play – in Germany and Austria, but also in Poland, Slovakia and the Czech Republic.[21]

The school-leaving certificate obtained does not tell the whole story about the individual's educational success, however. Just how different the level of knowledge and skills is among pupils of the same age is shown by the results of the latest PISA study, which was published in 2015. This study measures the competences of 15 year olds in science, mathematics and reading. Of the 22 EU countries that participated, Finland and Estonia had the best results, Greece and Slovakia the worst.[22,*]

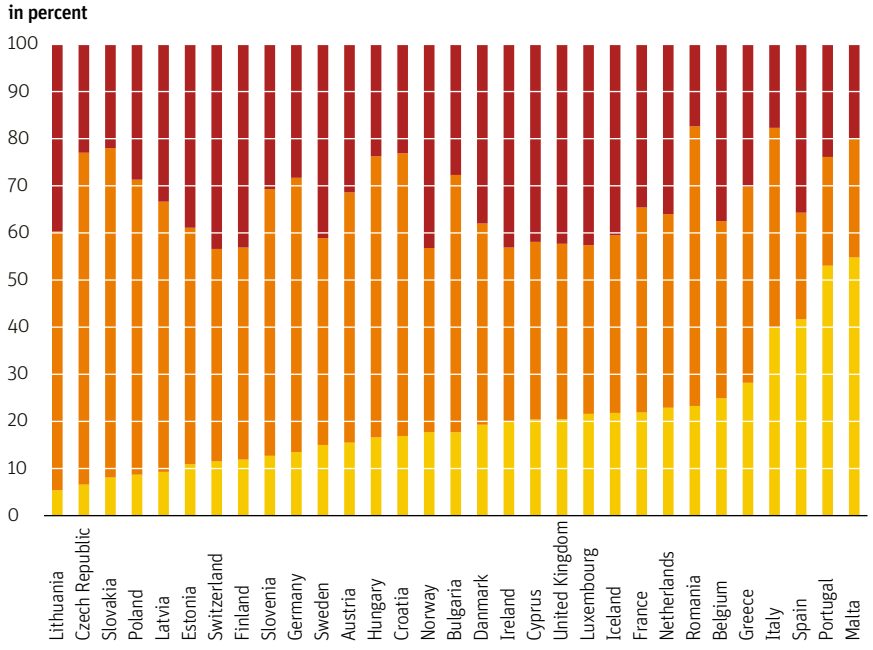
How can these differences be explained? Studies have shown that funding is not necessarily the key factor in high educational achievement; rather, competition between schools has a significant role to play as well as how much freedom schools have to determine how they are run.[23] Right at the top of the list of success factors are teachers and teaching methods.[24] Nevertheless, what makes a good or bad teacher remains a matter of controversy. While some studies indicate that purely for imparting knowledge, traditional teaching methods like direct instruction by the teacher are more effective than modern, often group-based methods, the latter may promote other important skills, such as the ability to argue logically.[25]

* Those EU countries that are not part of the OECD (Bulgaria, Croatia, Lithuania, Malta, Romania and Cyprus) did not participate in the assessments.

Well-educated Eastern and Central Europeans

In most EU countries less than a third of 25–64 year olds have a low level of educational attainment. The exceptions are the Southern European countries of Italy, Spain, Portugal and Malta. In the two last-named more than half are considered to have a low level of formal education. The picture is completely different in Eastern and Central Europe, where almost everyone has completed upper secondary school, obtained a vocational qualification or even had tertiary education. Particularly in those places where vocational training is popular, people are seldom poorly qualified. This applies to the Czech Republic, Slovakia and Germany, among others. At the same time, these countries have fewer highly qualified people – i.e., graduates. Their share of the population is particularly high in Anglo-Saxon countries like Ireland and the United Kingdom, but also in Scandinavia.

Population aged 25–64 by ISCED educational attainment level, 2016
(Data source: Eurostat[39])



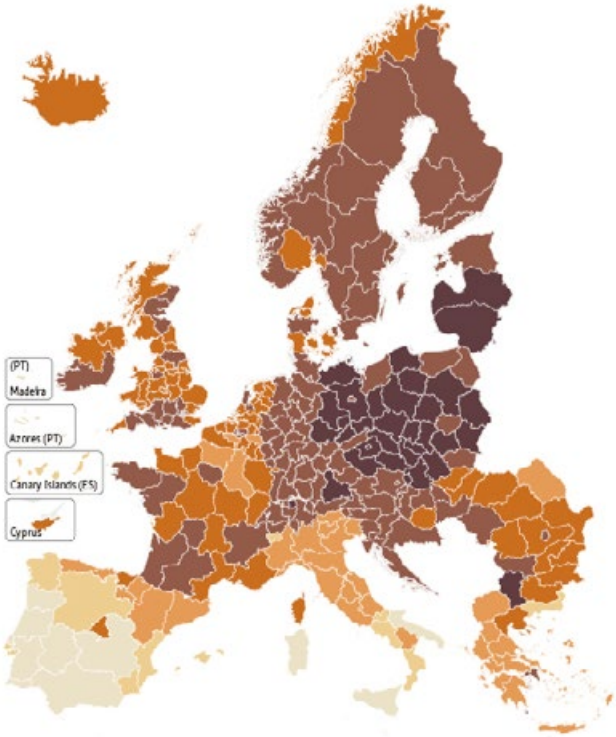
- Low (ISCED levels 0–2)
- Middle (ISCED levels 3–4)
- High (ISCED levels 5–8)

Regional differences in education

There are major differences in educational levels not only between European states but also within those countries. In Germany there is an east-west divide, in Bulgaria and Romania a west-east one, in France a southwest-northeast divide and in Spain and Italy a north-south one. The differences are smallest in Sweden and Finland, where in all regions 80 to 90 percent of the population have at least a middle-level education.

Share of population aged 25–64 with upper secondary education or higher (at least ISCED 3), 2015
(Data source: Eurostat[40])

- under 50
- 50 to less than 60
- 60 to less than 70
- 70 to less than 80
- 80 to less than 90
- 90 and more



Dual training as export good

After completing compulsory schooling, young people can either attend upper secondary school for another two or three years and take the Abitur, baccalaureate, matura or another A-level equivalent or attend a vocational training establishment. Certificates from these institutions are generally regarded as a middle-level qualifications. In the EU around half of 25–64 year olds have a certificate of this kind but no tertiary education. Particularly those states with an extensive vocational training system are ahead here. In the Czech Republic, for instance, 70 percent of adults have a middle-level education.[26]

Many countries in which the dual vocational training system plays a big role have lower unemployment figures – particularly among young people. One explanation frequently given for this is that the dual training system allows employers to be in close contact with the education system and thus have a channel through which to communicate their needs and requirements directly and even have them introduced into the school curricula. The combination of gaining theoretical knowledge at school and practical skills in the workplace is considered a successful means of paving the way to employment. The German system in particular is now regarded as a blueprint for the successful integration of young people into the labour market.[27] In 2012, the German Ministry of Education concluded a memorandum on cooperation in vocational training with representatives from Greece, Italy, Latvia, Portugal and Slovakia. Besides exchanges, the agreement includes cooperation measures designed to modernise the vocational training systems of the partner countries on the basis of the dual training model.[28] At EU level, there has already been closer cooperation with respect to vocational training since 2002, the core of which provides for transparency and the recognition of qualifications as well as quality control.[29]

However, other countries often find it difficult to get a grip on unemployment by means of "imported" training systems. One of the reasons for this it that national and cultural features as well as sectoral structures differ and training systems therefore have to be correspondingly adapted, which often takes time.[30] Thus there can be no general blueprint for an education system that rapidly leads to employment.

Tertiary education – the basis for innovation

Whatever the advantages of vocational education, it should not be forgotten that it serves the workforce requirements of existing sectors and companies. But to generate innovation, to translate new knowledge into practice and to perform existing highly complex tasks, tertiary education is required. Graduates from university or college are regarded as highly qualified – and their success on the labour market confirms this. They earn more than groups with other qualifications and are less often unemployed.[31]

In Europe graduates live mainly in cities. This is not surprising given that this is not only where the universities are but also the majority of jobs. The leader in this area is London, where more than half the population between the ages of 25 and 64 are graduates. It is followed by Oslo and Zurich and other urban metropolitan regions. At the other end of the scale are regions like Northeastern and Southeastern Romania and the two south Italian regions of Sicily and Puglia. Here only just over ten percent of 25–64 year olds have attended university or college.[32]

Irrespective of how high the absolute share of graduates is, it is above all women who enjoy a higher level of education. Women between the ages of 30 and 34 are on average 12 percentage points ahead of men on this indicator in the EU and EFTA countries.[33]

Since the Bologna process began in 1999, the EU states have tried to standardise their tertiary education systems in order to meet the demands of the common labour market. All EU countries now have a three-tier system consisting of bachelor's, master's and doctorate. But they still have not quite achieved their goal, since despite the apparently standardised system not all certificates are automatically recognised as equal by other EU countries.[34] They urgently need to be, however, if these countries are to achieve their aim of further mobility within Europe.[35] Only in this way can students not only use the successful Erasmus programme, which allows them to study temporarily abroad (2.7 million students have participated in the Erasmus programme in the first 25 years of its existence since 1987), but also pursue their main course of study anywhere in Europe.[36]

Room for improvement in adult education

A university degree used to mark the end of education. Nowadays, however, the ever-more rapidly changing digital world and the longer working life mean that people continue to expand their skills and knowledge during adulthood. So-called life-long learning is thus a central issue in EU education policy.[37] But to what extent are opportunities for life-long learning used? In order to find out, participants in EU labor force surveys were asked to state whether they had attended a programme aimed at increasing their knowledge, skills and competences in the past four weeks. In 2016, this question was answered in the affirmative by 10.8 percent of all EU citizens aged between 25 and 64. The survey revealed major regional differences, however. Sweden came top of the survey in the EU with 29.6 percent and in Switzerland, which is not an EU member, the figure was even 32.9 percent. By contrast, fewer than five percent of respondents in Romania, Bulgaria, Croatia, Poland, Greece and Slovakia had participated in such programmes.

One hope associated with life-long learning is that it will contribute to greater equality within the population and enable people who originally had only low qualifications to educate themselves further as adults and thus improve their future prospects. In reality, however, the opposite is the case: the higher the original educational qualification, the more likely people are to go on learning as adults.[38] Getting to grips with the problem of educational differences that often begin with the qualifications of the parents and become reinforced during the school career remains Europe's biggest challenge on the road to equal opportunities.

IRELAND

Population size in million (2016)	4.7	Median age (2016)	36,.6
Projected population size in million (2030)	5.1	Life expectancy (2015)	81.5
Projected population size in million (2050)	5.7	GDP per capita in euros (2016)	56,800
Total fertility rate (2015)	1.92	GDP per capita at PPP (2016)	51,300
Annual net migration per 1,000 inhabitants (2011-2015)	-2.1	Unemployment rate (2016)	7.9

European Champion in Growth

In no other European country does the birth rate exceed the death rate by such a wide margin as in Ireland. And nowhere else in Europe is the economy growing faster than on the "Emerald Isle". Each year, the Irish population increases by roughly one percent through birth surpluses alone – that is more than ten times the EU average. What is more, Ireland's economy grew by more than a quarter in 2015 alone.[1] While that figure is to be viewed with caution since it reflects the contribution of foreign companies that have moved their headquarters to Ireland to profit from low tax rates, it is a fact that, even without this special effect, growth was higher in Ireland in both 2014 and 2016 than in any other EU state.[2,*]

Above all, Ireland's high population growth is due to its population still being very young on average: the median age, which splits the population into equal halves, is just 36.6 years – by far the lowest in the EU.[3] Thus there are, on the one hand, a large number of young people in Ireland who are at an age when most couples start a family and, on the other hand, comparatively few people of pensionable age. This situation came about because the number of births on the western-most periphery of the continent remained at almost four children per woman – significantly higher than anywhere else in the West – until the 1970s.[4] Today, the baby boomers are of prime working age and are contributing to the country's economic prosperity. After the 1970s, the number of births per woman fell, but never much below the "magic" threshold of 2.1, which ensures that in the medium term the size of a population remains stable without immigration. Currently, within the EU, it is only women in France who have somewhat more offspring than those in Ireland with their 1.92 children.[5]

So what is the secret of Ireland's abundance of children? From a historical perspective, the strongly Catholic character of the country ensured that the traditional large family persisted longer than elsewhere. It compensated for the fact that comparatively few people had the opportunity to marry – partly because many women emigrated from this poor country.[6] When couples did marry, they frequently had many children. Whether this was invariably the wish of the parents remains unclear: to this day, women in Ireland who unintentionally become pregnant are allowed to have an abortion only if the life of the mother is endangered.[7] Marriage became a mass phenomenon in Ireland only when it lost appeal in other European countries. At the same time, Ireland came close to achieving the ideal of the two-child family only some 60 years after the other West European states.[8]

From emigration to immigration country

Despite the high fertility rate, Ireland's population barely grew for many decades. This was due to the lack of prospects in the former "poorhouse of Europe", which led to people in their masses seeking their fortune in other countries – especially in the United States and later in the United Kingdom – during the 19th and 20th centuries. It was not until the 1960s that this situation slowly began to change and Ireland gradually developed into a country that, depending on the state of the economy, recorded either immigration or emigration.[9] In the 1990s, Ireland finally numbered among the countries of immigration when an economic boom characterised by unprecedented growth rates heralded the era of the "Celtic Tiger".[10] Despite the additional labour that streamed into the country, Ireland enjoyed virtually full employment in 2001 with an unemployment rate of just 3.9 percent.[11] The reason for the boom was that Ireland had become a popular destination

* In 2016, the non-EU country Iceland registered economic growth of 7.2 percent – slightly more than Ireland's 5.2 percent.

for foreign investors, not least multinationals. Those companies found a well-educated English-speaking labour force, as well as adequate infrastructure, and benefited from the lowest corporate tax within the EU. Since then, Ireland's economic growth has been closely linked to its role as an export nation.[12]

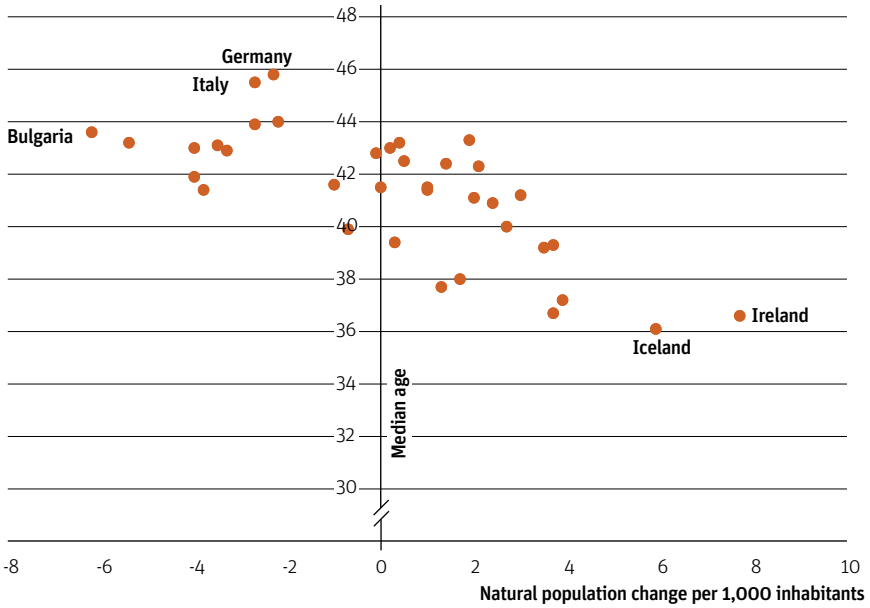
In the mid-2000s, immigration to Ireland skyrocketed once again, mainly owing to the eastern enlargement of the EU and Ireland's immediately opening its labour market to citizens of the new member states. Besides Ireland, it was only the United Kingdom and Sweden that dared to take that step. In 2006, net migration peaked at around 95,000 people or 22 immigrants per 1,000 inhabitants.[13] To achieve the same ratio, Germany would have to take in around 1.7 million people in one year.

In September 2008, Ireland was the first EU country to slip into recession in the wake of the financial crisis. This was due, above all, to the oversized construction and banking sectors that had emerged during the boom years and the long over-heated real estate market.[14] The collapse was so devastating that in 2010 the country had to seek to be rescued by the EU and IMF and thereby joined the group of crisis states comprising Greece, Cyprus, Spain and Portugal. As a share of GDP, the public debt increased fivefold between 2007 and 2012 from 25 percent to almost 120 percent.[15] Immigration morphed into emigration en masse – both by the Irish themselves and by those who had moved to the country earlier.[16] In the long term, the country could suffer in particular from the exodus of highly qualified people in the years that followed the crisis.[17]

"Leprechaun economics"

Unlike many southern European states, however, Ireland very quickly recovered from the crisis. On the one hand, this was due to the courageous consolidation policy of the Irish government, which slashed expenditures on wages and investment but left those on social security virtually intact.[18] On the other hand, it can be attributed to those factors that had made Ireland attractive to foreign investors in the 1990s – for example, the high level of education – not simply vanishing overnight. At 43 percent, Ireland, along with Luxembourg, has the highest share of university graduates among the 25–64 age group within the EU.[19] At the same time, the tax rate remained low and the workforce became even more affordable as a result of the crisis. For these reasons, exports quickly started to grow again.[20] Moreover, as mentioned above, Ireland has recorded the highest economic growth within the Union since 2014 – a development that peaked in 2015 in growth of an almost unbelievable 26 percent.[21]

However, these economic fluctuations have led to criticism of the Irish prosperity model. Nobel Prize winner Paul Krugman went so far as to describe the miraculous increase in prosperity as "Leprechaun economics".[22] Indeed, that increase does not reflect what is actually happening in the country: with its low tax rates, Ireland continues to attract foreign companies, but those firms frequently move only their headquarters, not their operations there. A popular model is to buy a much smaller Irish firm and in this way become de facto Irish. For example, the medical technology firm Medtronic, the world's largest manufacturer of cardiac pacemakers, moved its headquarters from Minneapolis to Dublin in 2015.[23] To what extent Ireland is doing itself a favour with this policy remains



Ireland: Children galore and a young population

Nowhere in the EU does the number of newborns exceed the number of deaths by such a wide margin as in Ireland. Each year the population of the island state increases by almost one percent that way. Along with the comparatively high fertility rate (1.92), this is a result of the Irish population being very young. The median age, which divides the population into equal halves, is just 36.6 years. Nowhere within the EU is it lower and Europe-wide only in Iceland.

Median age and difference between the number of births and number of deaths (natural population change) per 1,000 inhabitants in the 28 EU states, the EFTA states and Montenegro, Macedonia, Albania and Serbia, 2015/2016
(Data source: Eurostat[31])

to be seen. The high growth rates draw public attention to the much-criticised Irish tax model. Moreover, the higher level of economic performance recorded in the accounts can lead to additional expenditures – for example, on contributions to the EU budget.

However, it cannnot be disputed that Ireland has emerged from deep recession to once again find itself in the economic fast lane. This is demonstrated by falling unemployment as well as by the renewed attraction of the country for immigrants. Moreover, the public debt has fallen to below 100 percent of GDP.[24] Amid the upturn, the export-oriented economy is profiting, like Germany, from the continued weakness of the euro. In terms of economic performance, it is only Luxembourg among the EU states that in recent years has recorded a higher export surplus.[25] In the communications and software industries as well as in pharma and medicine, the Irish export industry numbers among the international leaders.[26]

Nonetheless, the outlook for Ireland is not all rosy. New challenges are already emerging – above all, the impending exit of the United Kingdom from the EU. Ireland's economy is closely entwined with that of its eastern neighbour and new trade barriers could leave the island state vulnerable. Similarly, the threatened failure of the negotiations on the transatlantic free-trade agreement TTIP is hardly in Ireland's interests. Half of Irish exports to countries outside the EU go to the United States and a quarter of foreign direct investment flows into the country from the other side of the Atlantic.[27] A successfully concluded agreement would further strengthen those ties.

The country also faces new challenges on the domestic policy front. For example, immigration has permanently changed the composition of the Irish population. The share of those born in another country has risen since 2000 from 7 percent to 17 percent – the fifth-highest in the EU.[28] For this reason, integration policy is ever more important, but there is considerable room for improvement here. Compared with other West European countries, Ireland is not performing well in this area: especially for non-EU immigrants, it is very difficult to reckon with remaining in Ireland long term or arrange for relatives back home to join them in their new country of residence.[29]

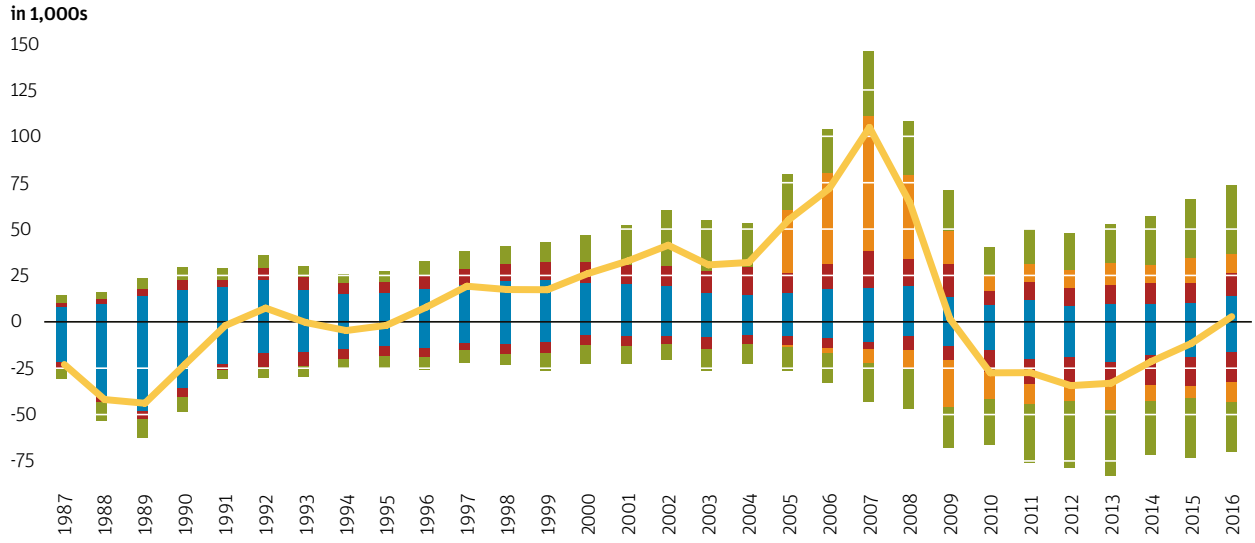
Migration fluctuations

For a long time, Ireland was the classic emigration country. That did not change until the early 1990s, when the number of immigrants began to gradually increase. Most new arrivals were from Great Britain. Following the eastern enlargement of the EU, more and more people from Eastern and Central European countries moved from 2005 onwards to Ireland, which without hesitation had opened its labour market to all new EU member states. Those inflows were halted only by the financial and economic crisis, while at the same time ever more people – including many former immigrants – left the country. There followed a period of net emigration until recently, when the country was able to record immigration gains once again.

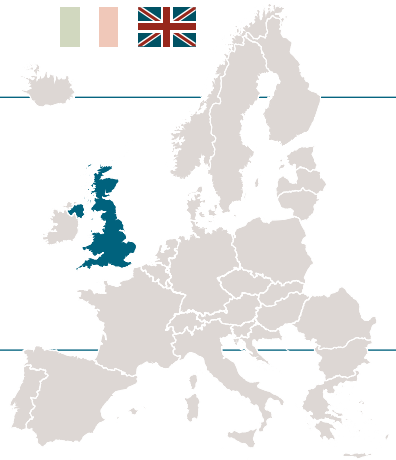
Immigration to/emigration from Ireland by country of origin/destination and migration balance with other countries, per 1000 people, 1987–2016*
(Data source: Central Statistics Office of Ireland[30])

- United Kingdom
- EU-15 excluding Ireland and United Kingdom
- EU-13
- Other
- Migration balance

* The figures refer to the period from May of the previous year to April of the respective year under review. EU-15 refers to the composition of the EU before the first eastern enlargement of 2004. EU-13 comprises the countries that acceded to the Union during the first and second eastern enlargements of 2004 and 2007, respectively, as well as Croatia, which joined in 2013. Until 2005 the values for the EU-13 states are included in the "Other" category.



UNITED KINGDOM



Population size in million (2016)	65.4	Median age (2016)	40.0
Projected population size in million (2030)	71.6	Life expectancy (2015)	81.0
Projected population size in million (2050)	77.6	GDP per capita in euros (2016)	36,100
Total fertility rate (2015)	1.80	GDP per capita at PPP (2016)	31,200
Annual net migration per 1,000 inhabitants (2011-2015)	4.0	Unemployment rate (2016)	4.8

Uncertain Future

In summer 2016, the people of Great Britain and Northern Ireland voted by a small majority for the United Kingdom to leave the EU. Less than one year later, Prime Minister Theresa May formally launched Brexit by submitting the letter that triggered the UK's departure from the EU to Brussels. Beforehand, the British government had presented a White Paper outlining 12 principles that are intended to serve as a guide during the exit process. Among other things, it stipulates that London would like to end the jurisdiction of the Court of Justice of the European Union in the UK, control the number of immigrants from EU countries and replace the country's current membership of the EU internal market and customs union with a new strategic partnership with the Union.[1] The United Kingdom now has two years in which to leave the European Union. During this period, all details of the separation and its costs are to be negotiated, but also future relations between the UK and the EU.[2] This process will certainly not be an easy one: not only because it is the first of its kind until now, but also because the remaining EU member states are hardly happy about the UK's leaving. With the departure of the United Kingdom, the EU loses its second-largest economy and, in terms of number of inhabitants (well over 65 million), its third-largest state.[3]

But even before the Brexit vote, the United Kingdom had played a special role within the EU. After the country had joined the then European Economic Community (EEC) in 1973, the British government sought to secure, above all, the economic advantages such as the common internal market and free trade agreements with third countries. In other areas, the country insisted on its national sovereignty and, of all member states, negotiated the largest number of opt-outs. For example, the United Kingdom held on resolutely to its own currency and did not join the Schengen area.

Little chance of asylum

Around the turn of the millennium, the kingdom that comprises Great Britain and Northern Ireland was the most popular destination in the EU for asylum seekers. The constantly growing wave of refugee immigrants peaked in 2002, when more than 100,000 people applied for asylum.[4] However, they were hardly welcomed with open arms; rather, from the outset it was concern about the "scrounging" asylum seekers that defined at least some of the media coverage.[5] The British government responded to public pressure with numerous measures aimed at deterring potential asylum seekers. It reduced social benefits, accelerated asylum procedures so that "unfounded" applications could quickly be rejected and the applicants expelled. It even designated airports as international zones so that arrivals could no longer request asylum there.[6] Indeed, the number of asylum seekers quickly fell: fewer than 30,000 people applied for asylum in 2007.[7]

In more recent years, too, there have been comparatively few refugees arriving in the United Kingdom. In 2015, only 40,000 people applied for asylum in the United Kingdom. That corresponded to 0.6 applications per 1,000 inhabitants, compared with an EU average of 2.6 applications.[8]

Labour market attracts other Europeans

While immigration to the United Kingdom became ever more difficult for refugees, it was above all people from other European countries who immigrated there in the 2000s and 2010s.[9] In 2015, net immigration to the UK exceeded 330,000 people, the highest level so far in the migration history of the country.[10] Half of these immigrants were passport holders of another EU member state.[11]

It is above all the EU eastward enlargement that has given a significant boost to immigration to the United Kingdom. While other EU states initially limited labour market access

for the new EU citizens from Central and East European States, the UK allowed full freedom of movement from the beginning. Poles in particular took advantage of the new situation and moved to work in the United Kingdom. Today, they account for almost ten percent of all inhabitants who were born in another country – the largest migrant group in the UK.[12] When Romania and Bulgaria joined the EU in 2007, the UK did the same as other EU states had already done and limited labour market access for a transitional period. When this ended at the beginning of 2014, the number of Romanians and Bulgarians settling in the United Kingdom doubled within a year.[13]

Growing immigration, together with the widespread feeling that the country has lost control over its borders because of its membership of the EU, is seen as the main reason for the positive Brexit vote. Consequently, the Conservative Party, which is currently pushing forward with leaving the EU, wants to significantly limit immigration and abolish freedom of movement for EU citizens.[14] What the fate of the estimated 3.2 million immigrants from other EU states already living in the United Kingdom will be following the country's exit from the Union remains uncertain.[15]

It is conceivable that the government might extend the points system for non-EU citizens, which was introduced in 2008, to all new immigrants, including EU citizens.[16] People who would like to immigrate to the United Kingdom receive a certain number of points based on their qualifications and the demand for their skills on the labour market. Those who are allowed to immigrate are, above all, the highly qualified and members of specific professions for which there is demand in the country, such as carers, teachers and engineers. Another way of immigrating is to study at one of the numerous universities in the United Kingdom.[17] Indeed, this is the immigration route followed most often by non-EU citizens: in 2015, some 110,000 new students flocked to the country. But since 2012, it has been more difficult to obtain a work permit after having finished studying, and for this reason there have been fewer and fewer new international students in the United Kingdom each year.[18]

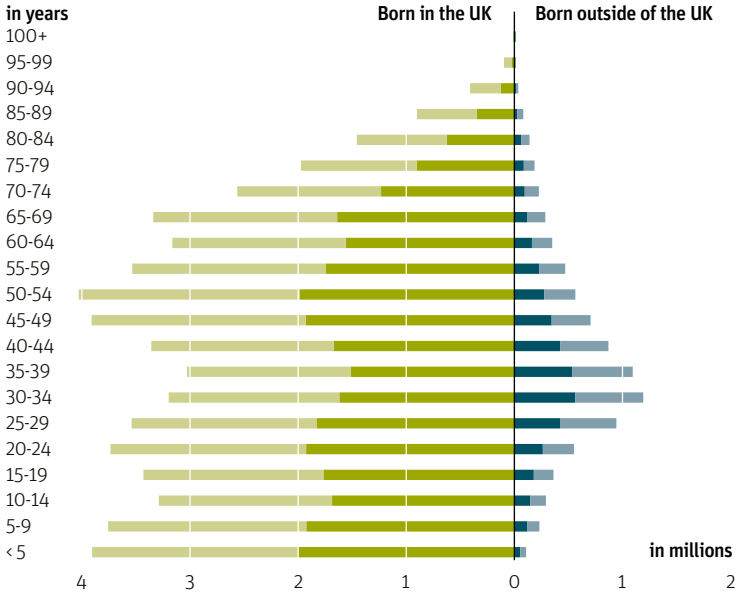
A growing and still young population

In terms of the number of inhabitants, the United Kingdom is one of the fastest-growing countries in the EU. Between 2006 and 2016, the population grew by 7.9 percent to 65.4 million. Only Luxembourg, Cyprus, Ireland and Sweden witnessed a sharper increase in the number of inhabitants during this period.[19] And there is currently no end in sight to the population growth. The latest projections suggest that the population of the United Kingdom could increase to around 72 million by 2030 and to almost 80 million by 2060; at that point, the country could overtake France as Europe's second-largest nation.[20] A side-effect of the population growth is that as a group, UK inhabitants are not aging as quickly as those of other countries. At present, the median age is 40, while the EU-28 average is already 42.6.[21] Moreover, some of the youngest regions in Europe are to be found in the

Immigrants make the British population younger

In recent years, immigration has made the population of the United Kingdom significantly younger. In numerical terms, the largest cohorts born outside the country are formed by those who today are between 30 and 40 years old. By contrast, among those born in the UK, the 45 to 54 year olds make up the biggest group. Around every fourth child living in the UK has a mother who was born abroad.[45]

Population of the United Kingdom by age, sex and country of birth, 2016
(Data source: Eurostat[44])

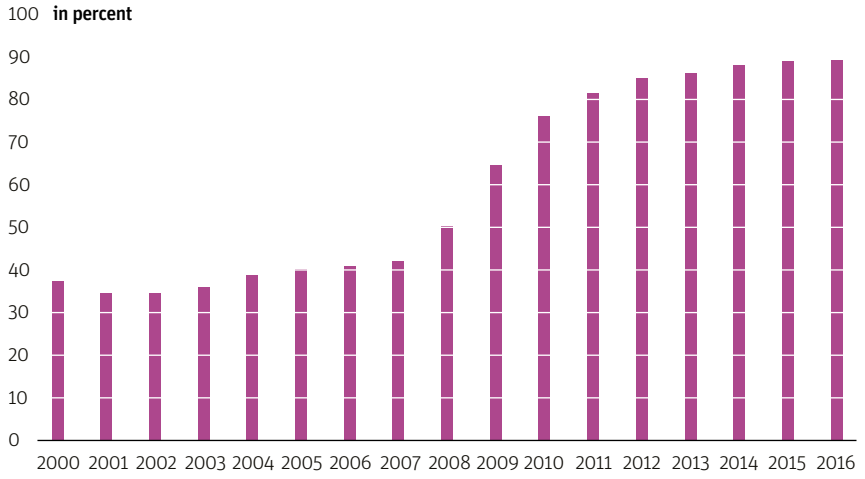


Crisis leaves behind mountain of debt

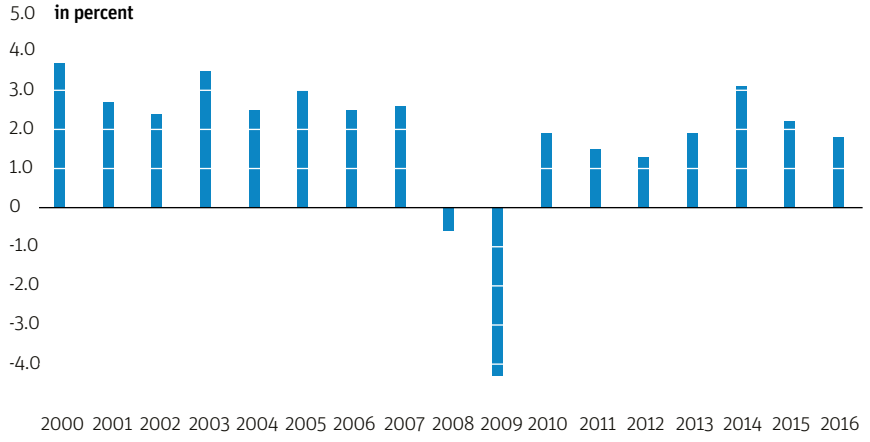
The United Kingdom began the new millennium with a flourishing economy. GDP was growing by an average of three percent year on year, the public debt was well under 60 percent and the number of employed was constantly increasing. As a result of the financial and economic crisis, the growth spurt ground to a halt after 2007. While both GDP and employment have been growing again since 2010, the level of public debt has continued on its upward trajectory.

Public debt as percentage of GDP and yearly GDP growth in percent in the United Kingdom, 2000-2016
(Data source: Eurostat[46])

Gross public debt



GDP growth rate



United Kingdom. Of the 24 regions throughout the EU that have a median age of less than 35, 18 are to be found in Great Britain and Northern Ireland alone.[22]

On the one hand, population growth in the United Kingdom can be attributed to immigration. On the other hand, the UK has a fertility rate of 1.80 children per woman, which is relatively high compared with other European countries. Only France, Ireland and Sweden currently have higher fertility rates.[23] However, there are regional differences. While a relatively large number of children are born in England, Wales and Northern Ireland, women in Scotland have on average just 1.56 children.[24]

The fertility rate in the United Kingdom rose significantly in the 2000s and peaked at 1.92 in 2010. Observers believe that the measures introduced by the "New Labour" government of Tony Blair, which came to power in the United Kingdom in 1997, are among the reasons for this increase. The introduction of negative income tax for families with low earnings was aimed at reducing child poverty and improving the living conditions of such families. An almost unintended consequence of this financial support from the state was an increase in the number of births.[25] Viewed objectively, the United Kingdom is otherwise not a particularly attractive country for those wanting to start a family. While the number of day-care facilities is growing, parents in the UK have to foot the bill for a considerable part of the day-care costs, unlike, for example, in the Scandinavian countries, where attendance at a kindergarten or nursery is largely financed by the state.[26]

Services instead of industry

In the United Kingdom – the country in which the Industrial Revolution began – the manufacturing and industrial sector plays only a secondary role today: combined, industry and the manufacturing and processing of goods generate just one fifth of GDP – the EU average is almost one third.[27] Correspondingly, services, especially in the financial sector, are very significant. After New York, London is

the world's second-most important financial centre. That status attracts young and highly qualified people from around the globe. The British capital has Europe's highest share of people who have graduated from university or college.[28] Accounting for 6.4 percent of GDP and making an enormous contribution to tax revenues, financial and insurance services are important economic sectors in the United Kingdom.[29]

However, this supposed advantage proved to be the country's downfall during the global economic crisis at the end of the 2000s and led to the worst recession since the Second World War.[30] In 2008, GDP contracted by 0.6 percent and in 2009 it sank by 4.3 percent.[31] The plight of British banks demanded a bailout by the state, which cost the taxpayer the equivalent of several hundred billion euros.[32] Between 2007 and 2011 alone, the level of public debt almost doubled from 42 to 82 percent.[33] To prevent the situation from worsening, the government of Prime Minister David Cameron, which was elected in 2010, introduced a comprehensive and painful austerity programme and thereby earned praise from many. However, critical voices feared that austerity could jeopardise the economic recovery.[34]

Rapid recovery from the big crash

So far, these fears have proved unfounded. Since 2010, after just two years of recession, the United Kingdom has recorded positive annual economic growth of two percent on average; and by 2013, the losses incurred by the crisis had all been recouped.[35] However, the government has failed to achieve the goal of keeping the annual public deficit below one percent of GDP: in 2016, it was still three percent.[36]

Similarly, concerns about the labour market that arose following the announcement of the state austerity programme have not been confirmed. An important part of the programme was intended to cut costs in the public sector, including doing away with half a million jobs.[37] But the unemployment rate, which rose to seven percent in the first years of the crisis, has since returned to a level comparable to that before the crisis – 4.3 percent in 2016. Across Europe, only Iceland, Switzerland, the Czech Republic and Germany currently have a smaller share of unemployed people aged 20–64.[38] The upturn on the labour market has benefited, above all, poorer families.[39]

At the same time, the employment rate among the 20–64 year olds has skyrocketed in recent years and in 2016 reached its highest level to

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
IRELAND									
IE01	Border, Midland and Western	2.12	-9.3	25.2	81.6	24,600	67.9	123.5	75.7
IE02	Southern and Eastern Ireland	1.87	-3.0	21.6	81.5	48,100	71.1	108.8	81.6
UNITED KINGDOM									
UKC1	Tees Valley and Durham	1.79	1.3	33.3	79.6	27,000	72.4	76.3	75.5
UKC2	Northumberland and Tyne and Wear	1.64	2.8	32.5	79.9	31,200	74.0	118.9	76.3
UKD1	Cumbria	1.86	0.2	41.7	81.4	34,800	79.6	70.3	79.2
UKD3	Greater Manchester	1.87	1.9	26.5	79.5	33,500	74.7	73.4	76.9
UKD4	Lancashire	1.90	1.1	34.3	79.8	30,400	77.0	44.8	79.0
UKD6	Cheshire	1.88	2.6	36.4	81.5	46,600	79.8	117.1	84.0
UKD7	Merseyside	1.76	1.5	31.5	79.4	29,900	74.1	102.7	74.6
UKE1	East Yorkshire and North Lincolnshire	1.85	1.2	35.4	80.4	29,800	75.5	34.2	74.6
UKE2	North Yorkshire	1.73	3.8	39.1	82.4	35,600	82.7	104.0	82.0
UKE3	South Yorkshire	1.74	3.3	30.2	80.0	27,400	72.1	55.9	77.6
UKE4	West Yorkshire	1.90	1.3	27.7	80.0	33,200	75.2	82.2	73.4
UKF1	Derbyshire and Nottinghamshire	1.79	3.8	32.2	80.6	31,600	78.0	134.0	78.4
UKF2	Leicestershire, Rutland and Northamptonshire	1.89	5.3	30.0	81.4	34,700	78.8	109.8	79.2
UKF3	Lincolnshire	1.89	7.1	41.3	81.2	29,100	78.0	138.3	77.4
UKG1	Herefordshire, Worcestershire and Warwickshire	1.85	3.6	38.1	81.8	36,100	80.0	115.5	78.4
UKG2	Shropshire and Staffordshire	1.82	2.7	35.7	80.8	28,700	80.7	96.7	79.1
UKG3	West Midlands	1.94	2.9	27.0	80.1	32,400	70.6	136.4	70.3
UKH1	East Anglia	1.89	5.5	37.7	82.3	37,400	80.2	249.0	77.4
UKH2	Bedfordshire and Hertfordshire	1.94	6.5	27.8	82.3	40,700	81.3	167.4	81.3
UKH3	Essex	1.94	5.6	34.5	81.6	33,000	79.5	73.1	75.5

date – 77.6 percent. Among the EU countries, only Sweden and Germany had a larger share of people in employment.[40] Furthermore, the share of those inhabitants who were born in a country other than the United Kingdom and had a job was similarly high; indeed, the employment rate for intra-EU immigrants is higher even than that for the native population. According to estimates by the OECD, immigrants account for almost half of economic growth since 2005: they have filled 2.2 million of the 2.5 million jobs that have been created over the last decade. Even though many immigrants from within the EU are able to claim social benefits, until now they have made a positive contribution on balance to the UK's public finances.[41]

Post-Brexit uncertainty

How the United Kingdom will fare once it has left the EU can only be surmised at present. Much depends on which conditions are negotiated with the EU in the areas of trade, migration and capital flows. In addition, trade relations with 53 non-EU countries have to be newly regulated. All of this will have far-reaching consequences for the British economy and will also affect the remaining EU countries to some extent or other.

It is possible that in the short to medium term, the uncertainty caused by Brexit will curb investment and employment and limit the financing options of companies, households and the state. According to various estimates, Brexit could mean that by around 2020, GDP in the United Kingdom will be 1.3 to 5.5 percent lower than if the country remained in the EU. In the long term, British trade with the EU, foreign direct investment and immigration to the United Kingdom could all decrease markedly. This would likely have an impact on both the development of labour force potential and productivity. The resulting weaker economic growth could weigh heavier than the easing of the fiscal burden owing to the country no longer having to contribute to the EU budget.[42] To contain the negative consequences, the British government envisages infrastructure projects, investment in research and development as well as future-oriented industries, a devaluation of the pound and the relaxation of budgetary discipline.[43]

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
UKI3	Inner London - West	1.30	3.9	16.4	83.2	212,800	78.8		91.0
UKI4	Inner London - East	1.58	6.1	11.5	80.8	64,300	74.4		85.0
UKI5	Outer London - East and North East	2.02	3.5	21.4	81.6	28,600	77.5		80.8
UKI6	Outer London - South	1.89	2.6	23.8	82.8	34,500	80.9		86.2
UKI7	Outer London - West and North West	1.86	2.0	20.9	82.8	46,300	77.1		85.1
UKJ1	Berkshire, Buckinghamshire and Oxfordshire	1.89	3.6	27.7	82.8	55,000	83.4	294.9	85.0
UKJ2	Surrey, East and West Sussex	1.81	6.8	36.1	82.5	42,200	81.0	246.6	83.9
UKJ3	Hampshire and Isle of Wight	1.81	4.4	34.1	82.5	39,800	80.7	180.5	81.1
UKJ4	Kent	1.91	7.2	33.8	81.4	32,500	79.8	58.1	78.2
UKK1	Gloucestershire, Wiltshire and Bristol/ Bath area	1.82	5.9	32.1	82.0	41,300	81.9	316.7	83.6
UKK2	Dorset and Somerset	1.85	7.6	44.1	82.2	33,000	78.3	91.6	80.5
UKK3	Cornwall and Isles of Scilly	1.89	8.1	44.4	81.6	27,800	80.5	64.9	79.9
UKK4	Devon	1.80	7.3	42.0	81.8	30,600	78.4	46.5	81.1
UKL1	West Wales and The Valleys	1.77	2.5	37.7	79.9	24,900	75.9	69.3	77.1
UKL2	East Wales	1.74	2.1	32.5	80.9	33,000	76.4	80.4	79.4
UKM2	Eastern Scotland	1.51	4.7	30.7	79.8	35,900	76.1	108.6	82.9
UKM3	Southwestern Scotland	1.58	1.4	30.2	78.3	33,700	75.7	47.0	77.6
UKM5	Northeastern Scotland	1.56	6.6	26.6	80.0	56,900	81.8	290.6	82.9
UKM6	Highlands and Islands	1.74	2.4	38.4	79.9	33,700	74.6	55.0	76.3
UKN0	Northern Ireland	1.96	-0.1	27.4	80.5	28,800	73.5	80.4	73.8

DENMARK

Population size in million (2016)	5.7	Median age (2016)	41.5
Projected population size in million (2030)	6,.3	Life expectancy (2015)	80.8
Projected population size in million (2050)	6,.7	GDP per capita in euros (2016)	48,300
Total fertility rate (2015)	1.71	GDP per capita at PPP (2016)	36,400
Annual net migration per 1,000 inhabitants (2011-2015)	4.3	Unemployment rate (2016)	6.2

Defending the Welfare State

Denmark is a long way from Europe's external borders in the Mediterranean region. Nonetheless, many of those fleeing the civil war in Syria in 2015 made the lengthy journey to the northern part of the continent. This was no surprise since Denmark offers better living conditions than many other countries thanks to its high living standards and well-developed social system. In all, almost 21,000 people sought refuge and protection in this small country with about 5.7 million inhabitants. That share was considerably higher than the EU average – but lower than in neighbouring Sweden and Germany.[1]

Yet many Danes felt that the figure was still too high. As early as June 2015, a centre-right alliance overthrew by a tiny minority the incumbent social-liberal coalition formed by the Social Democrats and the Green party. Immediately after taking office, the new government under Prime Minister Lars Løkke Rasmussen took measures to curb the continued flow of migrants. It slashed social benefits for newcomers by half and extended to three years the period that must elapse before family members can follow. In addition, it required migrants to pay for their accommodation to the extent they have the means to do so. To this end, the authorities can strip them of cash and other valuables; asylum seekers are allowed to keep only those things whose value does not exceed some 1,350 euros or that are of personal significance.[2] Through all these measures, the government may well be seeking to deter migrants from coming to Denmark: many Danes fear that immigration from non-Western countries will endanger the welfare state.[3]

At the same time, the fear of further immigration is by no means limited to asylum seekers. In recent years, Denmark has once again become more isolationist with respect to internal European migration, having already sought to revert to border controls in 2011, despite the Schengen agreement. When it drafted a law stipulating that foreigners would receive the maximum child benefits only after having worked for two years in the country, the Danish government received a warning from the European Commission.[4] All these developments took place against the background of a steadily growing migrant population. The share of immigrants and their direct descendants in the overall population has more than doubled in the past 20 years. While it stood at just over 5 percent in 1995, it had risen to 12 percent by 2016.[5]

Happy Danes

On those occasions in recent years when Denmark was not making headlines because of its asylum policy, there was frequently another reason for reporting from the tiny kingdom: according to the World Happiness Report, the Danes have numbered for many years among the happiest people in the world. In the latest report, Denmark occupies second place among 155 states.[6] The data used to calculate the level of happiness include subjective assessments of among others material welfare, social support and health. Thus the Danes' happiness is partly determined by the high quality of life, including social standards and well-developed social protection systems.[7] The inhabitants of many states can only dream about the level of income that is achieved in Denmark: with average earnings of almost 28 euros per hour, the Danes were the highest paid within the European Union in 2014.* And at more than 20 euros per hour, even the wages of low-skilled workers far exceed those of qualified graduates in many other European countries.[8]

* The figures refer to private enterprises with at least ten employees.

But on what is the welfare state based? First and foremost, high taxes. Danes pay higher income taxes than almost any other nation in the world.[9] State revenues from taxes and social security contributions accounted for almost 47 percent of GDP in 2015. That was the highest amount of all OECD countries.[10] In exchange, the population enjoys numerous public services financed by taxes. Be it places at nurseries, schools or universities, medical treatment or care for the elderly, many public services are universally available free of charge. At the same time, the state uses tax revenues to pay child benefits and a basic pension and to finance measures aimed at getting the jobless back to work.[11]

Employment levels remain high, but not among immigrants

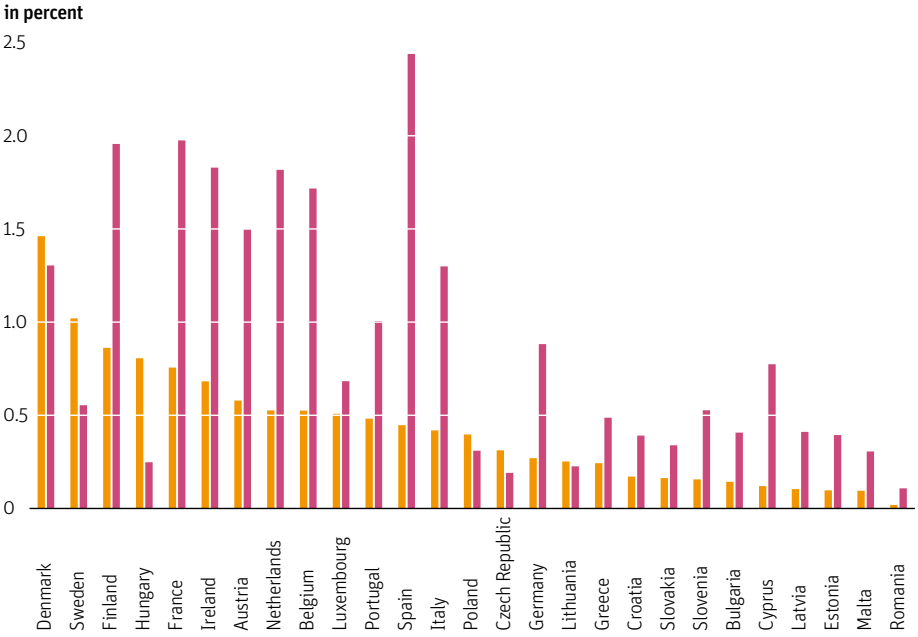
The Danish state has high tax revenues not simply because of the high tax rates but also because most residents have regular work. With its employment rate of 76.5 percent, Denmark occupies fourth position within the European Union.[12] And at 6.2 percent, its unemployment rate is below the average – albeit very high still by Danish standards. Not long ago, the country enjoyed almost full employment. Until shortly before the recession in 2008, the Danish economy was booming and as a result unemployment fell to 3.4 percent – at the time the lowest rate of any EU country. The economic crisis hit Denmark hard. Numerous jobs were lost, and in just two years the unemployment rate more than doubled.[13] While the job market in neighbouring countries such as Sweden and Germany quickly recovered, the effects can be still felt to this day in Denmark. Particularly hard hit are the migrants. In 2015, the unemployment rate among those born in another country was almost double that among the native population. The situation is worse only in three other EU countries – Belgium, Sweden and Austria.[14]

But even if unemployment currently remains higher than before the economic crisis, it seldom lasts long. Indeed, long-term unemployment is far below the EU average.[15] The reason is to be found in Denmark's special approach to economic and labour policy. The magic word is "flexicurity" – a composite of flexibility and security. Low protection against dismissals allows companies to lay off workers with relative ease at times of falling demand. Once orders pick up, people will

Money galore for jobs

Denmark not only invests a disproportionately large share of GDP in labour market policy; it also makes more use of so-called activation instruments than does any other EU state. These include, above all, further education and retraining but also concrete help in finding a few job. In most countries, the largest share of expenditures goes towards financial support for the unemployed – for example, unemployment benefits.

Expenditure on measures related to labour market policy in the EU member states as a percentage of GDP, 2015*
(Data source: Eurostat[26])

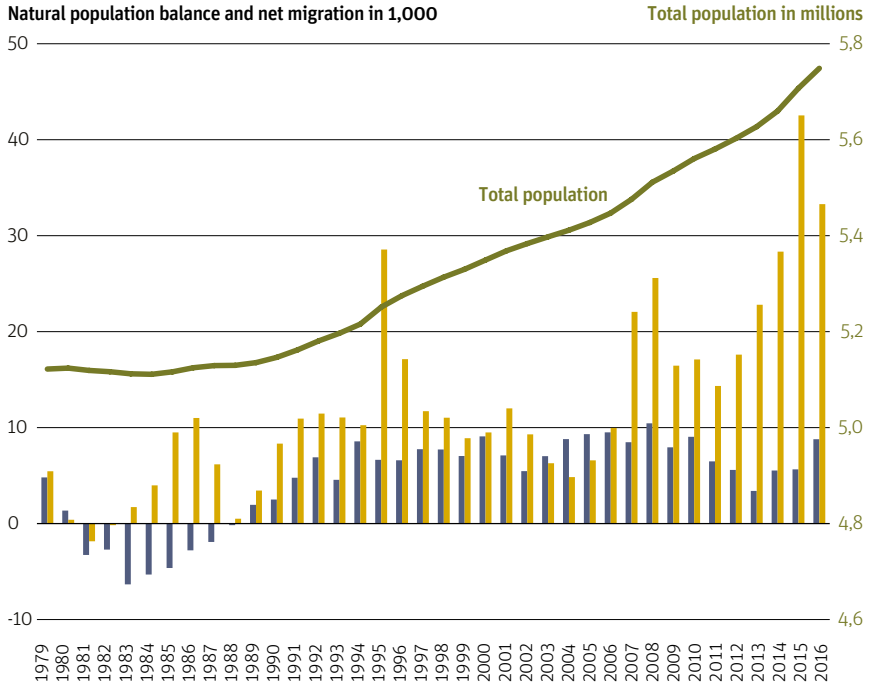


* No data are available for the United Kingdom. The data on Ireland, Spain, Poland, Croatia, Estonia and Malta are for 2014.

Continued growth

The number of inhabitants of Denmark has continued to grow since the beginning of the 1990s. Two factors are behind this trend – the annual gains due to immigration and the continued birth surplus. However, the latter is likely to fall in the long term and disappear altogether at the end of the 2030s as the population ages. At that point, population growth will no longer be possible without immigration.

Natural population change (births minus deaths), net migration and total population in Denmark, 1979–2016
(Data source: Danmarks Statistik[27])



be rapidly hired again. The practice enjoys widespread acceptance, even among the labour unions. This is because when jobs are lost, the trusted social security system kicks in and all kinds of tricks are used to create new ones. Denmark spends more on measures related to labour market policy than do most other EU countries – around three percent of GDP in 2015. Half of that amount is used for so-called activation measures, such as further education and retraining, as well as for targeted assistance aimed at getting people back to work quickly.[16] And this policy works: on average, the Danish unemployed start a new job within just four months.[17]

As a result, compared with other nations, Danes do not need to worry that much about losing their job. On the contrary: it is part of normal working life to frequently change jobs. On average, a Dane stays in one position barely longer than eight years. This is one of the shortest periods within the European Union. In Germany, the figure is more than 11 years and in Greece – the undisputed leader – it is more than 13.[18]

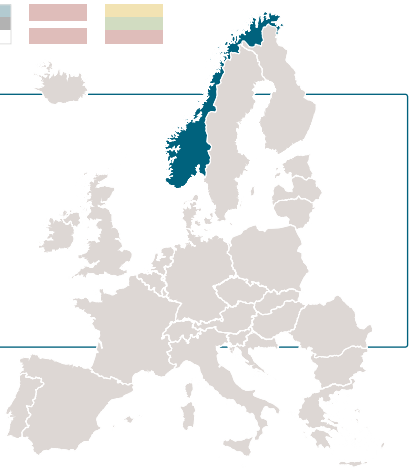
Mothers go out to work too

Women make an important contribution to Denmark's prosperity. In almost no other EU state are they better integrated into the labour market: just shy of 73 percent of all women between the ages of 20 and 64 are employed.[19] Above all, the role of mothers stands out compared with other European countries. Three out of four women with a child under the age of three have regular work – in no other state is this figure higher. And while in most countries the employment rate among women sinks with the number of children, in Denmark there is virtually no difference if a woman has one, two or three children. Furthermore, almost 80 percent of mothers with three or more children go out to work.[20] Thus it is no wonder that the term "housewife" already disappeared from Danish statistics in the 1980s.[21]

The high employment rate is possible thanks to a very well-developed childcare infrastructure. Attending nursery becomes part of a Danish child's life at an early age.[22] As soon as the child is six months old, parents are entitled to a place at a creche for their child, while nine out of ten two year olds are regularly looked after outside the family.[23] The European average is not even one child in three for the under-threes.[24] All this encourages the Danes to have children. In 2015, with an average of 1.71 children per woman, the Danish fertility rate exceeded the EU average of 1.58. However, the economic crisis has had an impact here, too: until the end of the 2000s, women in Denmark had on average had 1.88 children.[25]

According to the latest projections, Denmark can reckon with a population of growth of more than 18 percent during the period to 2050. This will increasingly be fuelled by immigration since the fertility rate is well below medium-term replacement level. To ensure that the Danish welfare state survives, many residents must continue to pursue employment and pay taxes. But this will happen only if immigrants from non-Western countries are better integrated into the labour market. In future, they are likely to account for an ever larger share of the Danish population.

NORWAY



Population size in million (2016)	5.2	Median age (2016)	36.6
Projected population size in million (2030)	5,.9	Life expectancy (2015)	81.5
Projected population size in million (2050)	6.6	GDP per capita in euros (2016)	56,800
Total fertility rate (2015)	1.72	GDP per capita at PPP (2016)	51,300
Annual net migration per 1,000 inhabitants (2011-2015)	7.9	Unemployment rate (2016)	7.9

Prosperity Thanks to Oil and Gas

The Norwegians are doing well. In its latest "Inclusive Growth and Development Report", the World Economic Forum identifies the Scandinavian kingdom as having the highest living standard in the world. One of the reasons is that the inequality of income after tax and transfers is the lowest among the highly developed countries.[1] Furthermore, economists believe that the very low unemployment rate – just 4.7 percent in 2016 – together with high employment among women is responsible for the Norwegians being able to live the good life more than most.[2] Three out of four women aged 20–64 were employed in 2016; across Europe, the country ranks fourth on this indicator – the average for the EU states is 65 percent.[3] Thus a large share of the population generates the country's wealth, from which they benefit at the same time in the form of generous state services such as child day-care facilities and public healthcare. And social mobility is high, too. Parental income level and social status play a relatively small role in the financial and professional opportunities that Norwegians enjoy later in life.[4]

The prosperity of the Norwegians is based, first and foremost, on natural resources. The discovery of oil and gas resources in the North Sea in the 1960s and the production of crude oil from 1971 onwards transformed the relatively poor country that until then had depended largely on agriculture and fishing into one of the richest countries in the world. Today, Norway is the largest crude oil producer in Europe and the third-largest supplier of gas in the world.[5] In 2015, almost every sixth Norwegian krone was earned in the oil and gas industry. The same year, crude oil and natural gas accounted for just under 40 percent of all exports.[6]

The Norwegians themselves make little use of their own fossil fuels. This is because the country is also rich in renewable energy sources. Thanks to the mountainous landscape and high level of precipitation, almost 70 percent of national demand can be covered by climate-friendly, regenerative sources – one of the highest figures among all European countries. The electricity consumed in Norway comes almost exclusively from hydropower.[7] The EU average for the share of energy consumption covered by wind, sun, water and biomass is just 17 percent.[8]

The country's third source of wealth is fish. To this day, Norwegian fishermen catch by far the most fish and other sea products in Europe – more than two million tonnes a year. And in aquaculture breeding, too, Norway ranks well ahead. With more than 1.3 million tonnes of fish products a year bred at so-called aqua farms, the country produces more than all EU member states combined. Although just two percent of all working Norwegians continue to work in fishing and agriculture, this sector plays an important role in the country's national identity.[9] The desire to retain the independence of both Norwegian fishing and agriculture was one of the reasons why a slim majority of Norwegians voted against membership of the European Union in two referendums.

Providing for a rainy day

The oil and gas business has amply filled the Norwegian state coffers, and the aim is to allow future generations to profit from this wealth too. To this end, the state founded the so-called Government Pension Fund Global in 1996. The largest sovereign wealth fund in the world totalled some 840 billion euros in March 2017, which corresponds to 160,000 euros per inhabitant. In the last ten years, the state's reserve assets, which, among other things, ensure funds are available for future pensions, have increased more than fourfold.[10]

That things can change for the worse at almost anytime was demonstrated most recently in 2014. Owing to the rapid fall in the oil price and plummeting state and company revenues, Norway had to tap into its sovereign wealth fund for the first time ever, taking almost three percent.[11] In this way, it was able to continue to finance state expenditures and the fund fulfilled its purpose of safeguarding the Norwegian welfare state.

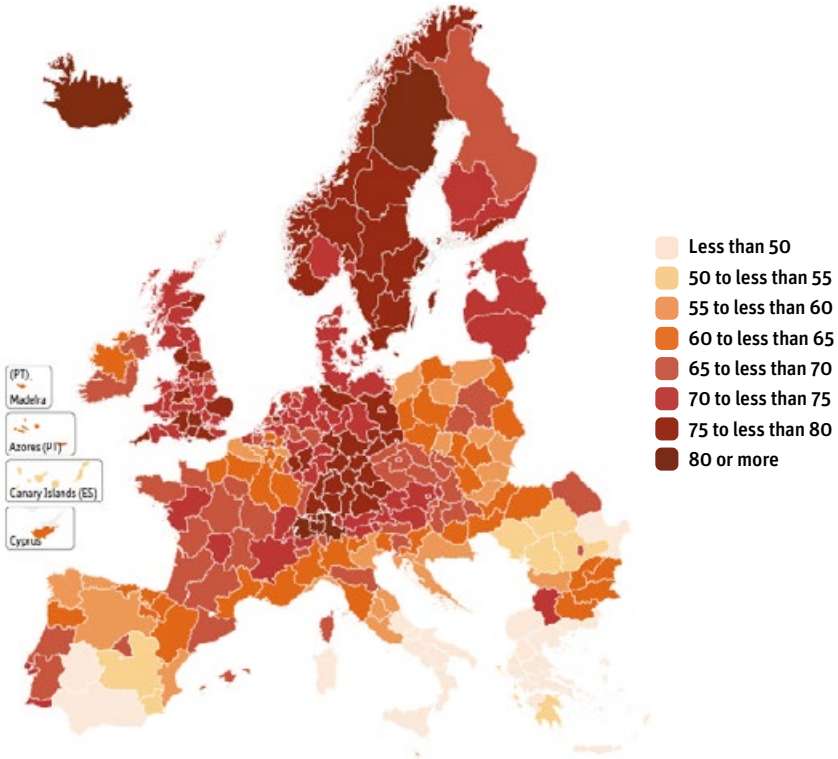
Norway's belief that it could live the good life forever was shaken by the so-called oil price shock. For many decades, it had been taken for granted that the economy would continue to grow for a long time. The end of crude oil and natural gas revenues seemed a far-off prospect. But between 2014 and 2016 alone, a total of 36,000 people lost their jobs – a rather large number for this country of 5.2 million inhabitants. The last time Norway had witnessed such a steep increase in unemployment was back in the late 1980s.[12]

However, compared with what happened in other European countries, the economic downturn was not that dramatic. With an employment rate of just under 80 percent, Norway ranks fourth in Europe. Only in Iceland, Switzerland and Sweden are there more people in employment. And those who work earn a sufficient amount to be able to afford the high living costs in Norway. The median gross wage for someone in full-time employment – 4,800 euros – is exceeded only in Switzerland; the EU average is 2,300 euros.[13]

But to ensure that prosperity continues in the future, Norway must respond to the changes on the raw materials market and at the same time develop other economic pillars. According to the OECD, it is important to boost the international competitiveness, innovative strength and productivity of the so-called mainland economy.[14]

Jobs attract new inhabitants

Appealing wages and a high standard of living continue to attract numerous people from outside Norway. Especially from the mid-2000s onwards, Norway recorded growing immigration gains each year. While net migration – the difference between the number of immigrants and emigrants – was just 13,000 people in 2004, it was more than 47,000 people in 2012. Since then, the figures have fallen somewhat: in 2016, Norway gained some 26,000 inhabitants through immigration.[15] As a result, the population structure has changed significantly during the past decade. In 2006, just nine percent of the population had immigrated or had parents who had immigrated to the country. Ten years later, just under 17 percent of the 5.2 million inhabitants had their own immigration history or came from a family with such a background.[16] At the same time, the large immigration gains have led to an increase in the number of inhabitants. There are 12 percent more people living in the country of the fjords today than ten years ago. Across Europe, only Luxembourg and Cyprus have witnessed a sharper population increase during this period.[17]



Female employment highest in the north

Across Europe, the extent to which women are integrated into the labour market varies significantly. While in the north European states – such as Norway, Sweden and Iceland – and Switzerland more than three quarters of all women aged 20–64 are employed, in most countries in the south and east of the continent it is often not even two thirds. A large number of working women is a sign of gender equality. At the same time, the countries with the highest share of working women number among those that are most successful economically and most prosperous. Compared with their counterparts elsewhere in Europe, women in these countries frequently have more children than the average. Thanks to good day-care provision and various kinds of support for families, women are not forced to choose between career and family.

Employment rate among women aged 20–64 in the European NUTS 2 regions, 2016
(Data source: Eurostat[31])

The enlargement of the European Union to the east and southeast of the continent has played an important role in immigration. While Norway is not a member of the Union, it does belong to the European Economic Area (EEA). One of the provisions of the EEA agreement concluded by the EU member states and Norway, Iceland and Liechtenstein in 1994 is the free movement of labour between these countries. Many inhabitants of the new member states make use of this opportunity to be able to work in Norway. By far the largest group of immigrants are Poles – around 100,000 of them are living in the country today. And under the European freedom of movement, many Lithuanians have immigrated to Norway too – 41,000 in total.[18]

Welcome for refugees is limited

In recent years, immigration has slowed down. Despite the growing influx of refugees, which has led to sharp increases in the number of immigrants in the Nordic neighbours of Sweden and Denmark, immigration in Norway is, on balance, declining. The main reason is fewer migrant workers, since in Norway, too, the number of refugees has increased markedly: in 2015, 31,000 people applied for asylum, which was 20,000 more than in the previous year. In per capita terms, it was only in Sweden, Hungary and Austria that more people sought refuge.[19]

Even Norway – the country that each year awards the Nobel Peace Prize and strictly takes into account ethical and humanitarian criteria when investing its oil revenues – resorted to measures to curb the growing stream of refugees. In the autumn of 2015, it introduced border controls, despite belonging to Schengen, and since that time has been checking everyone who enters the country by ferry or overland. Moreover, it tightened its asylum law: anyone who cannot prove to be in need of refuge or can find a safe haven in a third country or even another region of his/her homeland can now be deported more quickly. Furthermore, even older people will be obliged to take language and integration courses in the future. For certain groups of refugees, the qualifying period for permanent residence has been prolonged from four to six years. And for people who have subsidiary protection, it will be more difficult to have their family members join them.[20] An information campaign and a specially dedicated website provide information for potential asylum seekers – even before they arrive in the country – about the new regulations; where appropriate, they are intended to dissuade them from setting out for Norway.[21]

To what extent the decline in refugee immigration in 2016 alone has to do with the new legislation is difficult to say. In that year, significantly fewer refugees made it to northern Europe. Only 3,500 people filed an asylum application in 2016 – the lowest number since 1997.[22]

Still young and having babies

Besides immigration, birth surpluses are contributing reliably to the growth of the Norwegian population. One of the reasons is that Norway's inhabitants are still quite young compared with those of other European countries. While the median age in the EEA is currently 42.6, it is less than 40 in Norway. In Germany – the country with the highest median age in Europe – half of the population is already older than 45.8.[23]

At the same time, women in Norway have more children – 1.73 – than the European average.[24] For a long time, the Norwegian fertility rate exceeded that of the country's immediate neighbours, Denmark and Sweden.[25] But Norway recently lost this lead: since 2010, fewer children per woman have been born each year. So far there has been no precise explanation for why this has happened. While Norwegian women are having children ever later in life and rarely more than two,[26] the same applies to the neighbouring countries. For this reason, it is difficult to predict at this time if the sinking fertility rate is a long-term trend. As a matter of fact, the conditions for starting a family are good in Norway. For example, like in the other Scandinavian states, there are comprehensive parental leave arrangements that provide generous financial support for mothers and fathers in the first year after the birth. If parents choose to stop working to stay at home with their children, the state finances 100 percent of their former income for a total of 49 weeks and 80 percent after that up to an annual maximum of 60,000 euros at present.[27] Moreover, Norway was the first Nordic country to introduce the so-called paternity months. Ten weeks of parental leave must be taken by the other partner – as a rule, the father – otherwise the family is entitled neither to the leave nor to the money associated with it.[28]

Once the state-sponsored baby break is over, children have the right to a publicly funded day-care place. While it has long been taken for granted in the neighbouring Scandinavian countries that even small children can be looked after outside the home, Norway is lagging behind in this respect. In 1990, only eleven percent of the under threes were attending nursery school; in Denmark, the corresponding figure was almost every second child and in Sweden every third. Today, more than half of the children in this age group in Norway go to nursery school.[29] The country thereby ranks third in Europe, after Denmark and Sweden.[30]

ICELAND – Frontrunner in the Far North

Until recently, women in Iceland had the most children in Europe. With a total fertility rate of 2.23 in 2009, the number of children per woman even exceeded the level that is required for a positive natural population development in the long term.[1] However, in recent years, ever fewer children have been born. In 2016, the fertility rate – at 1.75 children per woman – reached its lowest recorded level to date.[2] France, Ireland and Sweden have all reported higher fertility rates.[3]

The declining fertility rate could slow the growth of the population in the long term. Today, there are more than twice as many inhabitants on the volcanic island in the Atlantic than at the end of the 1950s. Above all, the increase to more than 330,000 people currently living in Iceland is to be attributed to the country's fertility rate. This is because immigration has had an impact on the population history of the island state only for a decade or so. While the share of foreigners living in the country was less than four percent in 2005, it had risen to eight percent by 2016.[4] The biggest immigration group by far is that of the Poles; more than 12,000 of them are now living in Iceland.[5]

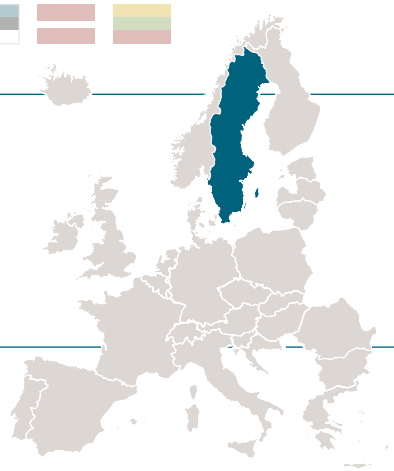
The main reason why the island is attracting immigrants is that it offers good work opportunities. Immigration is high when the Icelandic economy is performing well. And at the moment, it is performing very well. In 2016 alone, GDP grew by seven percent – the fastest rate among all European states.[6] To this day, the island earns a large part of its money from its natural assets: water, volcanoes, fish and breathtaking landscapes are all to be found in abundance. The pillars of the economy are thus renewable energy and energy-intensive industries, such as aluminium and silicon production, along with fishing and tourism, which is constantly growing.[7] In 2016, almost 1.8 million foreigners visited the country. In the last ten years, the number of visitors has increased fourfold and, as a result, the tourist business has become the island's largest economic sector.[8]

Unlike other European countries, Iceland has completely recovered from the economic and financial collapse that followed the global financial crisis of 2008. The bank crash hit the country hard and left numerous companies and private individuals in debt. Subsequently, unemployment more than doubled from three percent in 2008 to more than seven percent in 2009. But the trend has since reversed. In no other European country was the 2016 unemployment rate as low as in Iceland – just three percent.[9] What is more, a large share of Iceland's population is in employment. Almost 88 percent of those aged 20–64 are working – the highest employment rate in Europe as a whole. And women, too, are well ahead on this indicator and are almost as frequently employed as men. A female employment rate of more than 84 percent is not recorded by any other European country.[10]

Women's close integration into the labour market is a reason why Iceland is seen as a model for the equality of women and men. In the 2016 "Global Gender Gap Report", Iceland occupied first place among 144 countries.[11] The island state is not only the first country in the world to have had a female president as head of state; women account today for almost half of all members of the executive boards of major enterprises. No other north European country has achieved that, despite all the progress made to date towards the equality of the sexes.[12] However, Iceland has not succeeded in achieving all its goals. Women regularly take to the streets to protest against the gender pay gap. But Iceland could soon be a frontrunner in this area too. On Women's Day in March 2017, the government announced that it would soon push through a law obliging companies to give women and men equal pay.[13]

SWEDEN

Population size in million (2016)	9.9	Median age (2016)	36.6
Projected population size in million (2030)	11.2	Life expectancy (2015)	81.5
Projected population size in million (2050)	12.7	GDP per capita in euros (2016)	56,800
Total fertility rate (2015)	1.85	GDP per capita at PPP (2016)	51,300
Annual net migration per 1,000 inhabitants (2011-2015)	6.7	Unemployment rate (2016)	7.9



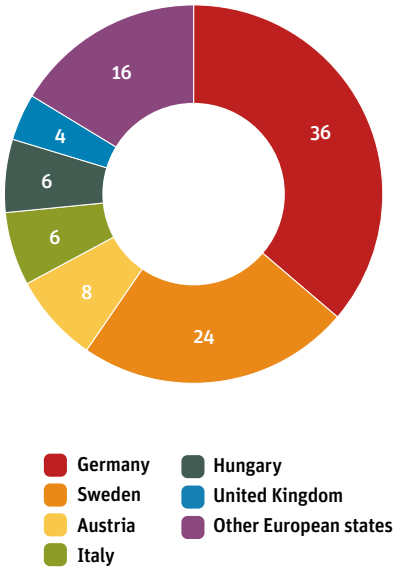
Generosity Pushed to the Limit

In 2015, more than 160,000 people applied for asylum in Sweden. For the country with its population of just under 10 million, this corresponded to a ratio of more than 16 asylum seekers per 1,000 inhabitants.[1] Only Hungary – the first EU country at the point where the so-called Balkan route ends – recorded more asylum seekers per inhabitant. But many sought to quickly move on from that country, while Sweden was the sought-after final destination for many of those who had made the long journey to Europe. That is because gaining admission to the Scandinavian kingdom means having more opportunities and possibilities than are to be found in other countries.

From model immigration country to minimum European standards

Sweden is considered to have one of the most generous immigration and integration policies in the world. In the latest Migrant Integration Policy Index, which appeared in 2015, it occupies first place among 38 states. The index compares the integration policies of the EU states and selected other countries in terms of access to the labour market and education, the likelihood of obtaining permanent residence, the options for gaining citizenship and anti-discrimination measures, among other factors.[2]

Sweden's modern immigration history began in the 1950s, when foreign workers started to arrive in that country. In contrast with other European countries, the political establishment assumed at an early stage that many of these people would remain in the country not just for a while but permanently. Immigrants who entered the country as workers received permanent residence from the outset.[3] For the next few decades, Sweden's immigration policy continued to be characterised by comparatively generous regulations on new arrivals. For example, following the EU eastern enlargements in 2004 and 2007, Sweden imposed no limits whatsoever on the free movement of residents of the new member states.[4] And to this day migrant workers need only a work contract with a Swedish firm to obtain a residence permit – which is unheard of elsewhere in Europe.[5]



Popular safe haven among the youngest refugees

Among the refugees who came to Europe in 2015 and 2016 were numerous unaccompanied minors. Of the 160,000 children and youths under 18, almost a quarter ended up in Sweden. Thus the country has the second-largest share of such refugees – after Germany – who require special attention and care. This is not just because these young people have to fend for themselves; it is also because many have been traumatised by the events they experienced back in their home countries and while fleeing.

Breakdown of asylum applications from putative unaccompanied minors in EU and Efta states, 2015–2016*
(Data source: Eurostat[35])

* For some countries, there are still no data available for 2016. This applies exclusively to countries included in the category "Other European states", which admitted only a small percentage of unaccompanied minors in 2015.

Until recently, Sweden's asylum legislation was considered extremely attractive, too, compared with that of other EU states. As a rule, recognised asylum seekers received permanent residence. After just one year of legal residence in the country, all migrants and recognised asylum seekers were eligible for general social benefits. And many asylum seekers lived in regular apartments rather than in large reception centres.[6] But owing to the ever-larger flows of refugees, Sweden was pushed to the limit. There was no longer enough suitable accommodation for new arrivals, and asylum procedures became ever more protracted.

For these reasons, the minority government of Prime Minister Stefan Löfven, formed by Löfven's Social Democratic Party and the Green Party, decided to tighten asylum regulations. In July 2016, a law imposing restrictions on the right of residence entered into force for three years. For asylum seekers arriving in Sweden from this time onwards, family reunification was also made much more difficult.[7] Moreover, in early 2016, Sweden reintroduced temporary border controls. By bringing its own asylum policy closer into line with the minimum standards laid down in European and international guidelines, the Swedish government is aiming for a more even distribution of refugees within the European Union.[8] Nonetheless, asylum seekers continue to have access to the labour market from the outset, and even rejected asylum seekers have the opportunity to apply for residence for work purposes.[9]

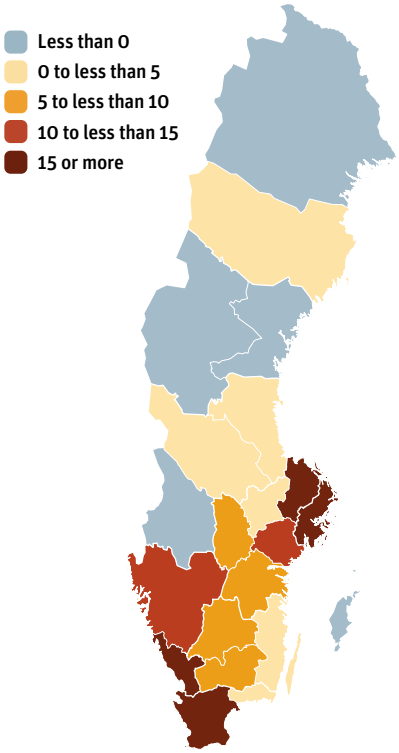
Constant population growth

To what extent the current restrictions will curb immigration in the long run is extremely difficult to predict at this point. What is certain is that the liberal immigration legislation of the past few decades has already left its mark on Swedish society. In 2016, 17 percent of Sweden's inhabitants were born in another country. If all those with at least one parent born outside Sweden are included, almost every third Swedish inhabitant has a migration background.[10]

Thus immigration has made a large contribution to Sweden's population growth. But the second prerequisite for growth also exists in Sweden: each year more children are born than people die.[11] With a fertility rate of 1.85, Sweden's women bring a large number of children into the world – not only compared with other European countries: they surpass even their counterparts elsewhere in Scandinavia.[12] This is noteworthy because right up until the start of the new millennium, Sweden had by far the lowest fertility rate – 1.55 births per woman – of all the Nordic countries.[13] The reason was the recession at the beginning of the 1990s: as unemployment soared, ever fewer children were born.[14]

Almost equal opportunities for men and women

Even though the number of births dropped in the 1990s, Sweden's family policy is still considered exemplary by international standards. As early as the 1970s, its general aim was to promote equal opportunities for women and men. This policy includes individual taxation, a well-developed and state-subsidised childcare system as well as a generous parental leave policy under which the parent on leave receives almost 80 percent of his/her previous income up to a daily maximum equivalent of 100 euros.[15] Sweden was the first country in the world that (from 1974 onwards) made it possible for fathers to take paid parental leave and thereby promoted a more equal division of family responsibilities between men and women.[16] The share of fathers in the total parental leave granted in 2015 was almost 27 percent – a spectacular result. The corresponding figure in Norway was just 21 percent and in Denmark and Finland less than 10 percent.[17]



Uneven growth

Sweden's population is growing constantly. It is very likely that in 2017, there will be more than 10 million people living in the country for the first time ever. And according to current projections, the population will continue to grow: by 2040, 12 million people could be living there.[37] However, growth is concentrated in the southern regions and, above all, in the three biggest cities – Stockholm, Gothenburg and Malmö – and their environs. Most of the country's territory consists of thinly populated areas where the number of inhabitants is stagnating or even falling.

Population growth in Sweden's individual government districts (län) in percent, 2000-2016
(Data source: Eurostat[36])

That the family policy measures are having an impact is also evident from the high level of employment among Swedish women. Compared with other European countries, they not only have more than the average number of children; they are also most strongly integrated into the labour market – in 2016, some 79 percent of women aged 20–64 had a job.[18] Moreover, in no other EU state are there more working mothers with children under 15.[19]

On a firm economic footing...

It is also a fact that the employment rate among Sweden's total population is the highest of all EU member states.[20] This is due to an innovative, diverse and competitive economy that overcame the 2008 global financial crisis better than did many other countries.[21] In 2015, GDP grew by 4.1 percent and in 2016 by another 3.3 percent.[22] An important pillar of economic development is strong domestic demand, a driver of which is high wages. With an average net income of 28,500 euros in 2015, Swedish households have a lot of money at their disposal for private consumption compared with other Europeans. Only in four other European countries – including the Nordic neighbours Norway and Denmark – do the inhabitants have more left in their pockets after paying taxes and social security contributions.[23]

However, the Swedish economy has also experienced hard times. Several years before the global recession, Sweden had been struggling with its own financial crisis. Rapid credit growth and higher-than-average inflation led to a property and stock market bubble; when the economy began to wobble at the beginning of the 1990s, the bubble burst and left behind floundering banks, some of which had to be saved by the state. But even before that, the growing expenditures of the welfare state had gouged an ever larger hole in the public finances.[24]

In the wake of the crisis, the state began taking measures to consolidate the budget. Besides tax hikes, these included repeated cuts in the generous social system during the years that followed – for example, sickness benefits fell, pensions and child benefits stopped rising and the welfare-state services sector was increasingly privatised.[25] The most fundamental reform was that of the pension system, which placed more responsibility on the individual to provide for his/her old age but continued to guarantee a basic level of universal support. When precisely the "third" stage of life should begin is up to each individual; those opting to work longer ultimately receive a bigger pension.[26]

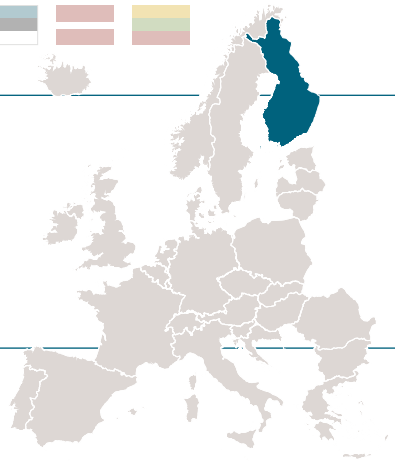
... but not all are benefiting equally

As a result of the policy of saving and liberalising that has been pursued for almost three decades, Sweden's public debt is low compared with that of other countries in Europe and around the world. At 44 percent of GDP, it is just half the EU average.[27]

But this policy has been to the detriment of the all-caring welfare state that Sweden was long considered to be. Critics point out that in the past decades, inequalities have increased and, among other things, the quality of education received has become ever more dependent on the level of individual income.[28] Furthermore, over the past two decades, the differences in take-home pay have grown.[29] At the same time, Sweden has forfeited its status as educational role model. In international surveys of academic performance, such as PISA and TIMSS, the country has slid below average from time to time since the start of the new millennium.[30] But compared with other European countries, there is no real sign that the principle of equality is about to disappear from Sweden. Just 16 percent of Swedish inhabitants were threatened with poverty in 2015 – the second-lowest share within the EU.[31] One reason for this is undoubtedly that despite all the optimisation and savings measures, the state continues to spend almost a third of GDP on social protection.[32]

At the same time, inequality is becoming more evident on the labour market. While just 4.0 percent of native Swedes of working age did not have a job in 2016, the corresponding figure for those born in another country was more than ten percentage points higher. In no other EU state is the difference so large.[33] The admission of an above-average number of migrants, even before the huge inflows of the 2010s, is certainly one reason for this difference. Many migrants who were granted refuge in Sweden on humanitarian grounds were poorly qualified and, accordingly, have found it difficult to secure a job.[34]

FINLAND



Population size in million (2016)	5.5	Median age (2016)	42.5
Projected population size in million (2030)	5.7	Life expectancy (2015)	81.6
Projected population size in million (2050)	5.7	GDP per capita in euros (2016)	39,000
Total fertility rate (2015)	1.65	GDP per capita at PPP (2016)	31,500
Annual net migration per 1,000 inhabitants (2011-2015)	3.0	Unemployment rate (2016)	8.8

On the Way to Becoming a Country of Immigration

Necessity is the mother of invention. And that applies to refugees too. Because crossing the Mediterranean is so dangerous, and because one country after another along the Balkan route has closed its borders, some refugees in late 2015 chose the Arctic Circle on the Russian-Finnish and Russian-Norwegian borders as the gateway to Europe. Moreover, they came on bicycles because Russia does not allow people to cross its border on foot, while Finland and Norway do not accept people in cars if they do not have documents. Around 700 asylum seekers managed to enter Finland by bicycle via the so-called Arctic or Polar route before the country banned this unusual practice.[1] In 2015, a total of 32,500 people applied for asylum in the land of a thousand lakes. That was nine or ten times as many as in previous years or 5.9 asylum applications per 1,000 inhabitants. The only countries in the EU that recorded a higher ratio were Hungary, Sweden and Austria.[2]

Immigration on any scale is a very new phenomenon in Finland. For a long time, more people left this isolated country in the far north of Europe than arrived from elsewhere.[3] In 1990, only just over one percent of the population had been born abroad.[4] This changed when the Soviet Union disintegrated. Ethnic Finns, in particular, returned to the land of their forefathers; and at least until 2010, they automatically received a residence permit.[5] Later, with the accession of many eastern European states to the EU from 2004 onwards, foreigners for the first time began to arrive in Finland in larger numbers. Thus, for the past ten years, Finland has recorded annual net immigration of more than 10,000 people.[6]

As a result, six percent of Finland's population today was born abroad.[7] That is still very few compared with other countries in the EU.[8] And most foreigners residing in Finland come from neighbouring Russia, Estonia and Sweden.[9] Thus, the rising immigration from non-EU states, particularly in the wake of the conflicts in the Middle East, means that Finland is now treading new territory. Integration questions are likely to move up the agenda – not least because so far Finland has not been particularly successful in offering its immigrants new opportunities. Unemployment among migrants is 17.5 percent, twice as high as among native Finns – the EU average is only a factor of 1.5 times higher.[10]

Nevertheless, compared with other countries, Finland receives good marks for its integration policy, even if access to healthcare and education is still in need of improvement.[11] The Finnish government has recognised this and in its "Future of Migration 2020 Strategy" has charted ways of improving integration and strengthening social diversity. One measure, for example, has been to offer more language courses, while another has been to organise leisure activities for migrant children.[12]

Through immigration, Finland is able to count on a growing population, although this is not the only driver of its population growth, since more people are still being born than are dying. In 2015, however, the birth surplus was just below 3,000 persons, having regularly exceeded 10,000 until 2010. The reason for the birth surpluses is the fertility rate of 1.65 children per woman, which is rather high by European standards.[13] It is made possible by a generous family policy based on a system of state day care even for very small children. More than a third of children under the age of three are cared for by the state. Nevertheless, the fertility rate has fallen markedly in recent years, which have been economically difficult ones for Finland; in 2010, it was still 1.87 children per woman.[14]

In spite of this, the Finnish population is likely to grow by 2050 from the current 5.5 million to 5.7 million. Nonetheless, Finland

will not be able to prevent its population from aging. Even today, one inhabitant in five is 65 or older. Finland's population is thus one of the oldest in the EU. This aging trend may slow down somewhat; but as early as 2030, almost one person in four will be at least 65 years of age.[15] To mitigate the consequences of this development, Finland's migration strategy is to make the country more attractive for new immigrants.[16] In addition, Finns will have to work for longer in future. Just recently the government introduced a pension reform tying pension age to life expectancy.[17] If the latter rises, so will the age at which Finns are able to draw their pension; but if it falls, Finns will be able to retire earlier.

Human capital and timber are the main resources

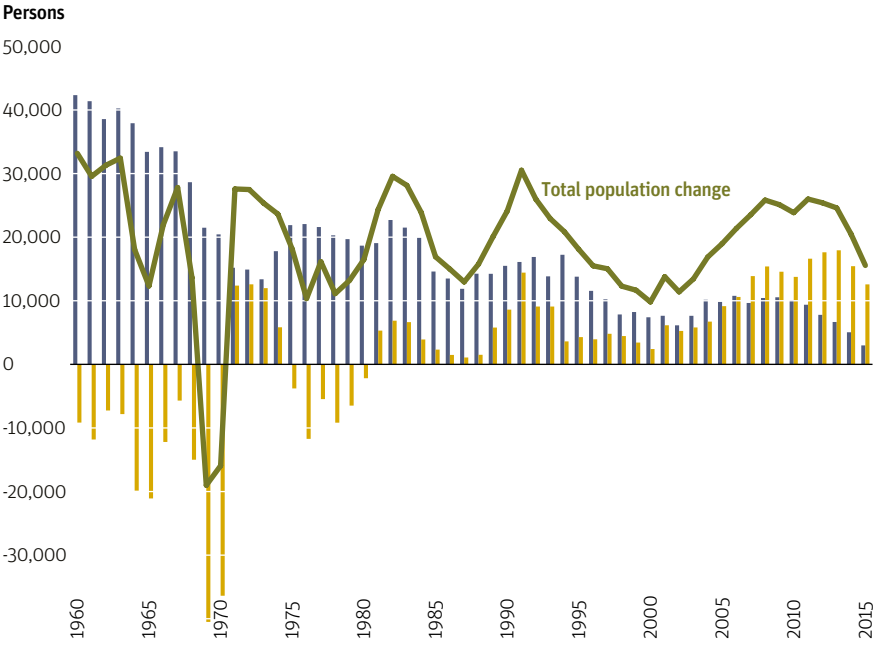
Purely in terms of living standards, Finland is undoubtedly an attractive country. With annual per capita GDP of 39,000 euros, it is one of the wealthiest countries in the EU.[18] What is more, it is well known for its high standards in the fields of education, social security and environmental protection as well as for its low level of inequality. These high living standards have been made possible by the strong performance of the economy over the past decades and by a very high level of political stability, rule of law and control over corruption.[19] Finland has existed as an independent state only for 100 years and in this period has developed unusually fast from a poor agricultural society with a low level of education into a modern services economy. Today, two employees out of three work in services. Nevertheless, industry continues to play a major role, since it produces the majority of Finnish exports.[20]

Because of the country's large forests, the timber industry is important for the Finnish economy. In 2011, it accounted for four percent of GDP, the highest percentage of any industrialised country in the world.[21] The contribution of the timber industry to Finland's overall industrial production was almost 19 percent in 2014; as a result, timber is the country's third-largest industrial product, despite being a raw material in reality. Finland's leading industry is the metal industry, with a share of 39 percent.[22] At first glance, this may seem surprising, but it is explained by the fact that the entire electronics industry comes under the heading of metal in Finland. And it is in telecommunications that Finland has seen its greatest export success stories. The companies in this sector benefit from Finland's highly qualified labour force, which is the Finnish economy's most important resource ahead of timber.[23] Some 42 percent of adults have a tertiary education, one of the highest rates in the world and even higher than in the other Nordic countries of Denmark and Sweden.[24] Among the key factors frequently identified as responsible for Finnish pupils' outstanding results in the PISA study of educational achievement are the fact that pupils of all abilities learn together for a long time, the high level of teaching and the autonomy enjoyed by schools.[25] In addition, at 6.1 percent of GDP, Finland's expenditure on education is one of the highest in the OECD.[26]

From emigration to immigration

Until the 1980s, Finland was more often than not a country of net emigration. But since the collapse of the Soviet Union in 1991, immigration has been increasing steadily and for some years now has been the main factor responsible for population growth in Finland. This is due both to the larger numbers of EU migrants and asylum seekers and to the fact that the fertility rate has recently fallen from 1.87 to 1.65 children per woman. The natural population balance – i.e., the difference between births and deaths – thus threatens to turn negative in the years to come.

Population development in Finland, 1960–2015
(Data source: Eurostat[35])



Natural population change (births minus deaths)
Net migration

More recently, however, some educational indicators have revealed a slight deterioration.[27] Finland has responded by overhauling its education system. Particularly with respect to the curriculum, the country is seeking to play a pioneering role in adapting education to the ever more closely networked world. In future, alongside traditional subjects like mathematics, physics and music, pupils are to be taught interdisciplinary subjects focusing on cross-cutting issues. Thus, instead of history, the curriculum might include a teaching unit on the European Union considered from a political, historical and economic point of view. This approach, called "phenomenon-based or problem-oriented learning", has so far been successfully used at various European universities.

Economy in crisis

In recent years, the Finnish economy has been faltering. In the crisis year 2009, GDP declined by 8.3 percent. After that, it recovered somewhat thanks to a short-term economic stimulus programme but shrank again between 2012 and 2014.[28] At the same time, unemployment rose until 2015, particularly among young people. Despite modest improvements in 2016, 20.1 percent of the labour force under 25 were still seeking jobs – more than the EU mean.[29] Because the public debt has almost doubled since 2008 (from 33 to 63 percent of GDP),[30] even the country's own finance minister recently described Finland as the new "sick man of Europe".[31]

How did this happen? Because it is specialised in capital goods and is export-oriented, the Finnish economy is highly dependent on the global economy. In particular, demand from its biggest trading partners – Germany, Russia and Sweden – determines the well-being of the Finns. The major downturn during the crisis was thus only to be expected. In addition, both the timber and paper industries and the metal and electronics industries have become less competitive in recent years. Demand for Finnish paper products has declined markedly with the spread of digital media and because of increased foreign competition. The electronics industry, moreover, has been badly hit by the fact that the telecommunications supplier Nokia – known for its prominent role in the Finnish economy – largely missed the boat in the so-called Smartphone revolution.[32]

In the coming years, the success of the Finnish economy will therefore depend on how exports develop. Given low income growth, the general mood of uncertainty and cuts in public expenditure, observers are not predicting a reversal of the downward trend in domestic demand.[33] To increase its exports, Finland would need to become more competitive again. In the past, the country's strategy was to devalue its currency and thus make its goods cheaper abroad. But this has no longer been an option since Finland introduced the euro. Instead, the government is trying to get a grip on high wage costs and in this way lower the cost of export goods.[34]

Among the front runners

Finland regularly occupies a top place in international studies of educational achievement like PISA. Although the number of points it has scored has fallen slightly in recent years, it still manages to be among the top ten in science and reading and to come twelfth in mathematics. In order to sustain this high level of achievement, the country recently introduced educational reforms whereby some subjects will be taught using an interdisciplinary approach. This is designed to enable pupils to analyse problems – such as that of global water supply – from different perspectives, instead of examining the economic, hydraulic and social components separately.

Ranking of the OECD countries with the best PISA results, 2015*
(Data source: OECD[36])

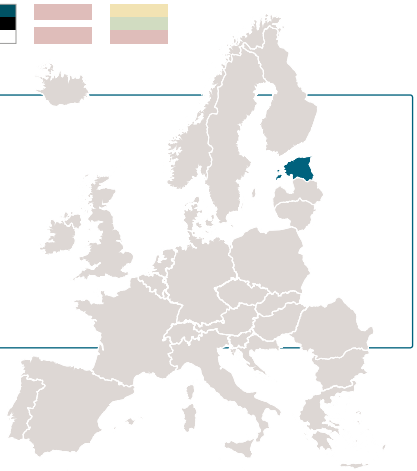
SCIENCE		
1.	Singapore	556
2.	Japan	538
3.	Estonia	534
4.	Chinese Taipei	532
5.	Finland	531
6.	Macao	529
7.	Canada	528
8.	Vietnam	525
9.	Hong Kong	523
10.	China	518

READING		
1.	Singapore	535
2.	Canada	527
3.	Hong Kong	527
4.	Finland	526
5.	Ireland	521
6.	Estonia	519
7.	South Korea	517
8.	Japan	516
9.	Norway	513
10.	Germany, Macao, New Zealand	509

MATHEMATICS		
1.	Singapore	564
2.	Hong Kong	548
3.	Macao	544
4.	Taiwan	542
5.	Japan	532
6.	B-S-J-G (China)	531
7.	South Korea	524
8.	Switzerland	521
9.	Estonia	520
10.	Canada	516
...		
12.	Finland	511

* China only comprises the cities of Beijing and Shanghai as well as the provinces of Jiangsu and Guangdong.

ESTONIA



Population size in million (2016)	1.3	Median age (2016)	41.6
Projected population size in million (2030)	1.3	Life expectancy (2015)	78.0
Projected population size in million (2050)	1.3	GDP per capita in euros (2016)	15,900
Total fertility rate (2015)	1.58	GDP per capita at PPP (2016)	21,500
Annual net migration per 1,000 inhabitants (2011-2015)	-1.3	Unemployment rate (2016)	6.8

Modern Services, Obsolete Industry

Estonia is one of the more successful of the 11 post-socialist EU states and has the third-largest per capita income – 15,900 euros – in this group, after Slovenia and the Czech Republic.* While the impact of the economic and financial crisis was more devastating in this Baltic republic than in almost any other country in the EU, Estonia, like its neighbours, has since got back on its feet. Today economic output in the state with 1.3 million inhabitants is at about the same level as before the crisis, and unemployment – at 6.8 percent – is even below the EU average of 8.5 percent.[1]

Many observers attribute this resilience to the country's long-term development plan. Shortly after the fall of communism, the then Estonian president, Mart Laar, invested in developing a modern infrastructure for information and communications technologies (ICT). In this way, Estonia transformed itself into "E-stonia", a forerunner in e-governance and the digital economy. Estonians elect their parliament via mobile phone, carry out 97 percent of all bank transactions online and opt to sign important contracts digitally using their ID cards.[2, 3] Anyone from anywhere in the world – whether Estonian or not – can obtain e-residency in the Baltic republic and thereby acquire the right to use all the electronic services available to Estonian citizens – for example, in order to establish a company in Estonia from the other side of the globe.[4] For this reason, Estonia is also regarded as one of the most business-friendly countries worldwide.[5] Various statistics underscore this: for example, 16 companies per 1,000 people of working age were founded in Estonia in 2014 – the OECD average for the same year was 5 and that of the EU 6.[6] The main beneficiary is the ICT sector, which is playing an ever more important role in the Estonian economy.[7] Since 2010, it has created several thousand new jobs.[8]

Smart pupils

Salaries in the ICT sector are significantly higher than the national average wage.[9] And the chances of being able to enjoy this advantage are good, especially for the young generation. This is because the decision-makers of the 1990s strengthened the sector not just by establishing a good infrastructure; they also ensured that the country's population is among the world leaders in terms of human capital. By 1998, all schools were already connected to the internet.[10] Programming has long been part of the curriculum at secondary schools and is currently being introduced at primary schools as well.[11] And as far as school education is concerned, the Estonians are well prepared for the future in other ways, too. In the PISA international survey, they are among the best performers in all three test subjects: Estonia occupies third place in science, leaving all other European countries behind. In 2015, it came sixth in reading and ninth in mathematics.[12]

It is important that the good school education be put to use not just in the ICT sector but in the economy as a whole. Industry, in particular, continues to be regarded as backward. For example, according to the OECD, innovation is weak at industrial enterprises, which produce mainly simple goods.[13] As a result, around one-fifth of all employees earn their living as unskilled labour.[14] However, if Estonia wants to become a European leader in manufacturing as well, the number of jobs for those without skills is likely to shrink in the medium term.[15]

Unevenly distributed wealth and few offspring

The gap between wages earned in unskilled jobs in industry and in qualified positions in

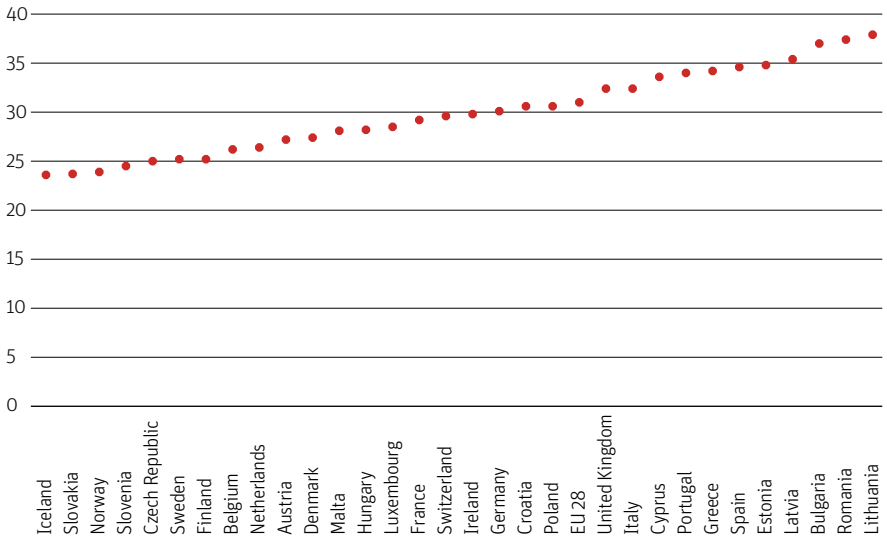
* The post-socialist EU states are Estonia, Latvia, Lithuania, Bulgaria, Romania, Poland, Hungary, the Czech Republic, Slovakia, Slovenia and Croatia.

the services sector has led to considerable income inequality in Estonia. The one-fifth of society with the highest income has 6.2 times as much money at its disposal as the one-fifth with the lowest income – the EU average is five times. This huge income disparity can be attributed, among other things, to the fact that relative to GDP, Estonia spends only about half as much on social security as do other EU countries on average.[16] While this contributes to Estonia having the lowest public debt in the Union, it also means that one quarter of the population is threatened with poverty.[17]

Despite the inequality, the share of those who find it extremely difficult to provide for themselves and purchase even basic consumer goods is smaller than in most other EU countries. One reason for this is that four out of every five Estonian households own their flat and thus do not have to pay rent. At the end of socialism, the property market was almost completely privatised, during the course of which many Estonians acquired flats at knock-down prices. For this reason, only a small percentage of real estate is mortgaged.[18]

At the upper end of the income spectrum, the situation is so good that many highly qualified people saw no reason to leave the country even after the borders were opened following EU accession. In contrast with other East European countries, which lost many highly educated young people, along with thousands of low-skilled workers, to wealthier neighbouring countries through the opening of the Single Market, it is, above all, socially and economically weaker individuals who have so far emigrated from Estonia.[19] Since EU accession in 2004, the country has lost a total of around 30,000 inhabitants to other countries.[20] Many of them have gone to Finland, where they work in jobs requiring no or few qualifications.[21] Thus, to date immigration has contributed primarily to relieving strains on the job market. In future, this situation could change, however: recent figures suggest that in the past few years, the highly qualified have been leaving for abroad, too, along with their families.[22]

This is a painful loss for the Estonians. It is currently estimated that the number of inhabitants of working age (between 20 and 64) will decrease by 8 percent by 2030 and by as much as 18 percent by 2050.[23] Emigration is not the only reason; the fact that Estonians do not have very many children is another factor. Until independence, the number of children per woman remained at around two for many decades and thus was approximately at the level required to keep the size of the population stable. But thereafter, the fertility rate sank to its lowest level of less than 1.3 in 1998. It went on to recover to 1.58 but has fallen again following the latest economic crisis. Owing to this decline, the number of deaths has regularly exceeded that of births in Estonia. While the increase in life expectancy has stemmed the demographic decline to a small extent, it has contributed, along with the emigration of mostly young people, to the rapid aging of society: if today there are only 31 pensioners per 100 people of working age, by 2050 it is likely to be as many as 54.[24]

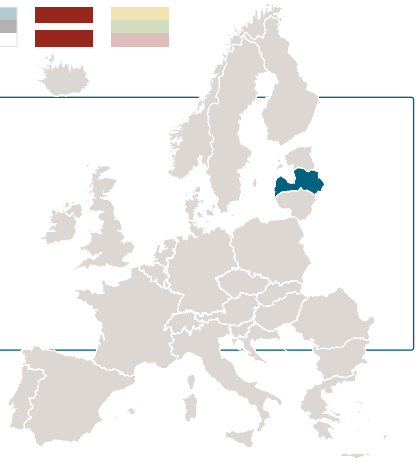


Baltic inequality

In only a handful of other EU countries is income even more unequally distributed than in Estonia. This can be seen from the Gini coefficient: a score of 100 means that one person earns the entire national income and everyone else comes away empty-handed; at the other end of the spectrum, a score of 0 means that everyone earns the same. With its considerable income inequality, Estonia resembles its Baltic neighbours. But the situation has recently improved in the northern-most Baltic state: in 2014, Estonia still had the biggest income gap of any EU country and an even higher Gini coefficient.

Gini index on income distribution (0 = total equality in income distribution, 100 = total inequality), 2015
(Data source: Eurostat[25])

LATVIA



Population size in million (2016)	2.0	Median age (2016)	42.9
Projected population size in million (2030)	1.7	Life expectancy (2015)	77.5
Projected population size in million (2050)	1.5	GDP per capita in euros (2016)	12,800
Total fertility rate (2015)	1.70	GDP per capita at PPP 82016)	19,000
Annual net migration per 1,000 inhabitants (2011-2015)	-6.5	Unemployment rate (2016)	9.6

Back to the West

Many Latvians think the fact that their country was part of the Soviet Union for more than half a century was an accident of history. Having been consigned to the Soviet sphere of influence in the wake of the German-Soviet Non-Aggression Pact of 1939 and officially integrated into the Soviet Union a year later, their country has been intent on achieving rapid rapprochement with the West since gaining independence in 1991. And, indeed, Latvia, the smallest of the three Baltic states, has been remarkably successful in doing so – the pinnacles of this achievement so far having been the introduction of the euro in 2014 and accession to the OECD two years later.

But the many goals that Latvia has attained since the fall of the Iron Curtain have not only been political. Living standards are now considerably higher than they were in the 1990s. Even just since 1995, real per capita GDP has tripled – to 12,800 euros in 2016.[1] At the same time, Latvia boasts a public debt that is just 40 percent of GDP, making it one of the 12 states in the EU that actually fufill the terms of the Stability and Growth Pact, which limits public debt to a maximum of 60 percent of GDP.[2]

Only a few years ago, it would have been difficult to predict that Latvia would be in such a good position 25 years after independence: no other country suffered such a loss in wealth following the financial and economic crisis of the late 2000s. Within three years, GDP fell by more than 20 percent, bringing Latvia to the brink of national bankruptcy.[3] Paradoxically, the rapid boom of the early 2000s was partly responsible for the sudden economic dive the country took at the end of that decade. Particularly in the years immediately before and after EU accession, in 2004, the country benefited from cheap loans and was the target of many investors who were attracted by low wage costs and access to the EU internal market. Believing that their incomes would continue to rise, many Latvians began living beyond their means on borrowed money. When the crisis hit, unemployment rapidly soared from 5 percent to almost 20 percent, and people were no longer able to service their debts.[4] In many cases, they were forced to sell houses that had been bought with large mortgages, and property prices fell by around half.[5]

Austerity as a way out of the crisis

Despite the economic collapse, Latvia was still able to ward off insolvency and quickly regain its former level of prosperity thanks to rapid and far-reaching adjustment programmes. These were partly the result of pressure applied by lenders like the EU, the World Bank and the International Monetary Fund, which shored up the faltering state budget with loans worth billions. The main focus of the reforms was public administration as well as health and education. The government under then President Valdis Dombrovskis dismissed almost a third of public officials and then cut the salaries of those who remained in their jobs by a quarter. Throughout the country, hospitals and schools were closed.[6] In addition, the government raised VAT and curbed social expenditure such as unemployment, child and sickness benefits.[7] As a long-term measure it also decided to raise the legal retirement age, first to 62 and then incrementally to 65.[8]

Unlike in Greece, for example, where public life has been dominated by domestic political crises and strikes provoked by austerity, in Latvia there were few protests. This is all the more surprising given that the country remains among the poorest quarter of EU member states and has a high level of income inequality.[9] Thus, around one-third of Latvia's population of almost two million is threatened by poverty and social exclusion. And despite drastic improvements in recent years, 16 percent of the population still has dif-

ficulty purchasing everyday consumer goods – the EU average is just half that level.[10]

Double loss

Standards of living are low by comparison with Western Europe, and this is one of the main reasons why Latvia, despite all its economic successes, is still losing large numbers of people to emigration. Since the founding of the Latvian state in 1991, the country has experienced net emigration of 424,000 inhabitants: each year more people have left the country than have moved there from abroad.[11] But this was not simply because of the economic situation. Especially during the 1990s, many members of the Russian minority, who still account for around a quarter of the total population, left Latvia for reasons of open or covert discrimination.[12] For example, until 1994, the Latvian state denied citizenship to anyone of Russian origin. As a result, many of those affected became de facto stateless or were deemed "non-citizens". Only after international pressure and as a precondition for membership of the EU did the government abolish this regulation.[13]

In recent years, however, the majority of those emigrating have been not Russians but Latvians.[14] What is more, in 2003 the EU member states replaced the successor states to the former Soviet Union as the most popular migration destinations. Particularly the "old" member states of the EU-15 saw steady immigration from Latvia – by both Latvians and ethnic Russians.[15] Latvia is currently losing around 10,000 people to emigration every year – about the same level as immediately before the economic crisis.[16]

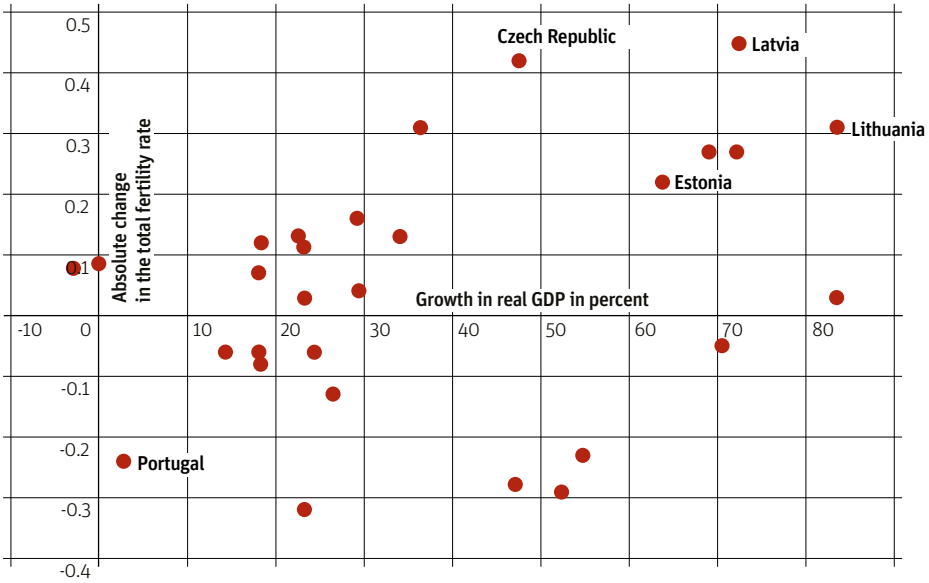
Thus, in demographic terms, the future can hardly be considered rosy if people are leaving the country even in economically good times. Moreover, during the 1990s, Latvia, like most central and eastern European countries, experienced a drop in the fertility rate and is shedding additional population for this reason. Every year, more people in Latvia die than are born – since 2000, the average gap has been about 10,000. Only in recent years have the death surpluses levelled off somewhat, so that emigration is once again the main reason for population losses. The slightly better balance between births and deaths is due not only to the fact that on average woman are having more children again – currently 1.7 per woman – but also to the large number of women currently of childbearing age – i.e., between 20 and 40.[17] This situation is likely to change soon, however, as the smaller cohorts of the 1990s and 2000s become the ones mainly responsible for producing offspring.

The result of all these developments will be further population losses: whereas between 1991 and 2015, the population fell from 2.7 million to 2.0 million people, it is currently predicted that there will be just 1.5 million people living in Latvia in 2050. Relative to the current size of the population, Lithuania is the only country in the EU that is likely to suffer a greater population loss.[18]

Baltic boom

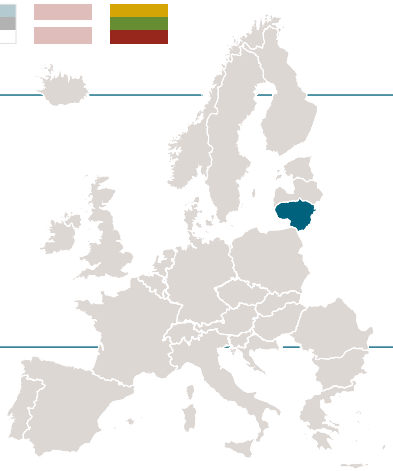
Since the turn of the millennium, Latvia has succeeded in increasing GDP by more than two-thirds. At the same time, the fertility rate has risen by more than 0.4 children per woman – more than in any other European country. Nevertheless, Latvia's population is likely to shrink in the future because far too few children were born during the 1990s. What is more, the aggregate figures for the entire period 2000–2015 conceal the temporary slumps in the economy and the average fertility rate during the economic crisis. These show how closely economy and demography are linked – not only in Latvia.

Changes in the total fertility rate and percentage growth in real GDP in various European countries, 2000-2015
(Data source: Eurostat[19])



LITHUANIA

Population size in million (2016)	2.9	Median age (2016)	43.1
Projected population size in million (2030)	2.4	Life expectancy (2015)	74.6
Projected population size in million (2050)	2.0	GDP per capita in euros (2016)	13,500
Total fertility rate (2015)	1.70	GDP per capita at PPP (2016)	21,900
Annual net migration per 1,000 inhabitants (2011-2015)	-7.5	Unemployment rate (2016)	7.9



None Is Shrinking Faster

"New Social Model" is the name of a comprehensive reform programme through which the Lithuanian government intends to modernise the labour market, make Lithuanians more employable and close holes in the social security net. Among other things, a more flexible labour law and improved training and further education programmes are to contribute towards achieving these goals. Moreover, the linking of the official retirement age to the future development of life expectancy is intended to put the pension system on a sustainable footing.[1] International organisations such as the OECD and the IMF praised the initiative even before the government had submitted the corresponding legislative package to the parliament.[2] But the project has come under fire during the domestic political debate.

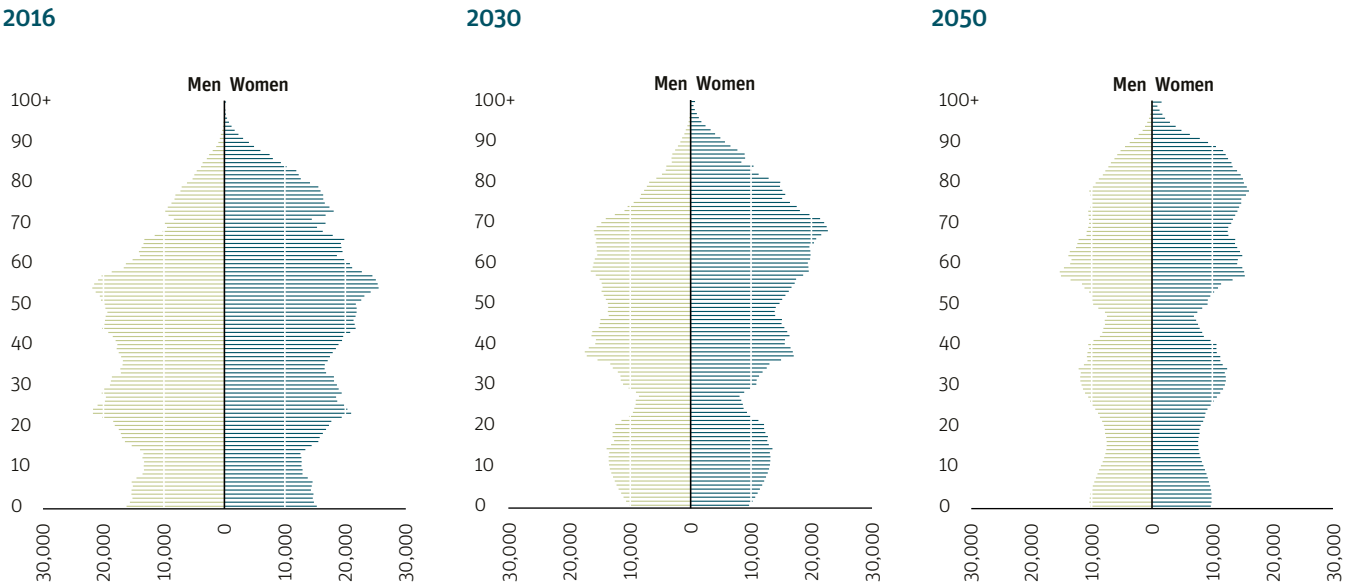
From a demographic perspective, reforms are urgently needed. Since Lithuania joined the EU in 2004, it has lost more than half a million of what at that time was a population of 3.4 million.[3] A mass emigration wave accounts for more than half of this loss.[4] The remainder is due to death surpluses over births, which are likely to continue in the future owing to the long-standing low fertility rates. These developments are driving a rapid aging of society, which is likely to peak in the middle of the century, at which point Lithuania will have one of the oldest populations in the EU. At the same time, no EU country is likely to lose as large a share of its inhabitants as Lithuania – namely, one third of the population or just under one million people.[5]

Meagre innovation, widespread illness, little know-how

To create a reliable safety net for the growing number of pensioners, a strong economy is needed. In the future, more will have to be done to increase productivity, since the labour force potential is diminishing owing to the demographic changes and thus can hardly serve as a growth engine any longer. Especially the services sector, whose output and organisational structures are considered outdated, must become more efficient.[6] But until now the private sector has invested little in the research and development required to increase efficiency – not least because the state does little to promote such investment.[7] Similarly, the arrival of foreign companies could contribute to bringing new know-how to the country. Indeed, the environment is favourable for such a development. In the World Bank's Ease of Doing Business report, Lithuania comes twentieth out of 189 countries and thus is also one of the most investment-friendly economies in the EU.[8] However, net capital inflows from abroad accounted for just 1.5 percent of GDP in 2015. The EU average for the same year was twice as high.[9] Poor infrastructure and rigid labour laws frighten off many investors.[10] And there is also the bad reputation of Lithuanian workers.[11] Two-thirds of all Lithuanian companies complain about the difficulty of finding qualified employees – 20 percentage points more than the EU average.[12]

The dissatisfaction among Lithuanian employers is rooted in two particular features that characterise much of the country's workforce. First, many Lithuanian workers do not have the special skills that are needed on the labour market, even though, at 55 percent, the country has the second-highest share of university/college graduates among those aged 25-34 in the EU after Cyprus.[13] The problem is that many students opt to study the humanities or social sciences, despite the fact that demand for scientists and engineers on the labour market is much higher.[14] Moreover, in-house training and further training, which generally imparts practice-relevant knowledge, play only a small role in the country.[15]

The second special characteristic of the Lithuanian workforce is its poor state of health. Although life expectancy has risen by three years since the country gained



independence in 1990, it remains low – 74.6 years – compared with other European countries.[16] The risk of becoming seriously ill at an early age is also relatively high: based on the results of surveys of how Lithuanians perceive their own state of health, statisticians suggest that Lithuanian men aged 50 can expect to live just another 17.6 years – which, alongside that of Croatia, is the lowest figure in the EU.[17] One of reasons for this is that many Lithuanians have a very unhealthy lifestyle. The excessive consumption of tobacco and alcohol is much more widespread in Lithuania than in most other industrial states.[18] Furthermore, remaining largely true to socialist tradition, the country's medical infrastructure focuses on hospitals but not on general physicians and nurses; and for this reason, illnesses are often recognised too late.[19] Owing to severe physical disabilities, many Lithuanians start claiming social benefits at a young age or stop working altogether; they then receive a disability pension and thereby burden the already under-funded pension system.[20]

Pension system in crisis

The outflow of many young people, the dramatic fall in the number of births in the 1990s and growing life expectancy are all accelerating the aging of the Lithuanian population. According to current projections, it is likely that in 2050, 100 people of working age will have to provide for 65 people of pensionable age – at present, the figure is just 31.[21] This means that in the traditional pay-as-you-go pension system, the number of recipients will grow while the number of those contributing to the system will fall. Given that Lithuania has one of the highest poverty rates among older people in the EU, the pressure to take action in this area is already intense today.[22]

To cushion the socio-political impact of future aging, the official retirement age is being raised incrementally – the first increase was made back in 2012 – and is intended to reach the previously approved threshold of 65 years by 2026. While this is significantly

Rapid transformation of the population structure

Following the collapse of the Soviet Union, the fertility rate plummeted in Lithuania. The post-socialist generations are thus significantly smaller than those that preceded them. This manifests itself in what will be the biggest population decline up to 2050 across Europe. Moreover, since life expectancy is increasing and many young Lithuanians are emigrating, society is aging more rapidly in Lithuania than in most other EU countries. As a result, Lithuania has many problems to contend with. Among others, it will have to provide for more pensioners with fewer contributors to the pension system.

Number of inhabitants of Lithuania by age and sex, 2016, 2030 and 2050
(Data source: Eurostat[26])

higher than the earlier threshold of 62.5 for men and 60 for women, it remains low compared with other European countries. This is one of the reasons why the Lithuanian government sees raising the official retirement age as a first step only – one that it wants to follow with the linking of the retirement age to life expectancy under the "New Social Model" reform programme. A positive factor is that in Lithuania, the share of women taking part in the country's economic life is already almost as high as that of men. The employment rate among the latter is 76.2 percent and among the former 74.3 percent – just 2.5 percent lower. That is the smallest such gap in the EU.[23]

That the population is generally prepared to allow such disagreeable measures as the ones described above – despite all the controversy surrounding the social model – can be seen from the sober way in which the country responded to the economic and financial crisis. The Lithuanians accepted sweeping cuts in social benefits and thereby paved the way for economic stabilisation, which led to entry to the eurozone in 2015.[24] The crisis did not even have a negative impact on the fertility rate: since 2008, it has risen by 0.25 children per woman to reach 1.7 once again – the biggest increase in the EU during this period.[25]

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
DENMARK									
DK01	Capital Region	1.63	7.3	27.4	80.6	61,600	79.6	439.1	85.2
DK02	Zealand	1.82	4.1	38.6	80.2	32,900	75.7	155.7	76.9
DK03	Southern Denmark	1.79	2.1	35.8	81.1	43,400	75.5	266.0	77.0
DK04	Central Jutland	1.77	3.1	31.2	81.3	42,900	77.9	488.0	81.3
DK05	North Jutland	1.77	2.7	35.6	80.6	39,600	75.2	199.7	77.4
NORWAY									
NO01	Oslo and Akershus	1.64	11.3	21.8	81.3	78,500	80.5	221.1	84.3
NO02	Hedmark and Oppland	1.65	5.1	36.4	82.0	42,500	78.2	26.6	80.0
NO03	Southeastern Norway	1.67	8.4	31.4	82.3	43,900	75.4	110.3	79.2
NO04	Agder and Rogaland	1.85	7.7	24.8	83.0	60,900	77.8	204.4	81.5
NO05	Western Norway	1.82	6.6	28.7	83.1	60,100	79.5	90.9	84.7
NO06	Trøndelag	1.74	7.0	28.3	83.1	52,300	80.2	275.6	85.9
NO07	Northern Norway	1.74	4.0	31.0	82.3	50,300	78.0	32.0	78.8
ICELAND									
IS00	Iceland	1.80	1.6	23.3	82.5	45,700	87.8	115.6	78.2
SWEDEN									
SE11	Stockholm	1.81	10.2	26.2	82.7	64,300	83.4	699.1	87.3
SE12	East-Central Sweden	1.86	6.9	36.4	82.4	39,100	79.6	414.9	83.8
SE21	Småland with islands	1.96	5.1	39.9	82.4	38,300	82.0	223.5	82.0
SE22	Southern Sweden	1.83	6.4	34.8	82.4	38,500	78.5	705.4	85.3
SE23	Western Sweden	1.82	6.3	34.0	82.5	44,700	81.9	343.4	84.5
SE31	North-Central Sweden	1.91	4.3	42.7	81.2	36,400	80.1	225.2	83.0
SE32	Central Norrland	1.94	3.0	42.5	80.9	39,000	81.4	108.5	84.5
SE33	Upper Norrland	1.79	2.4	38.4	81.4	41,000	81.0	181.1	88.3
FINLAND									
FI1	Western Finland	1.72	2.1	38.6	81.8	34,200	72.3	466.9	88.5
FI1B	Helsinki-Uusimaa	1.51	7.0	26.9	81.9	50,200	77.7	746.9	88.3
FI1C	Southern Finland	1.62	1.8	41.0	81.5	33,800	71.7	347.8	87.1
FI1D	Northern and Eastern Finland	1.81	-0.1	38.9	81.1	31,300	69.7	295.6	88.4
FI20	Åland Islands	1.69	6.7	36.1	82.5	46,500	86.2	219.2	82.4
ESTONIA									
EE00	Estonia	1.58	-1.3	31.5	78.0	15,400	76.6	25.5	89.1
LATVIA									
LV00	Latvia	1.70	-6.5	32.3	74.8	12,300	73.2	23.8	90.7
LITHUANIA									
LT00	Lihuania	1.70	-7.5	31.3	74.6	12,900	75.2	17.7	94.6

FRANCE

Population size in million (2016)	66.8	Median age (2016)	41.2
Projected population size in million (2030)	70.5	Life expectancy (2015)	82.4
Projected population size in million (2050)	74.4	GDP per capita in euros (2016)	33,300
Total fertility rate (2015)	1.96	GDP per capita at PPP (2016)	30,300
Annual net migration per 1,000 inhabitants (2011-2015)	1.0	Unemployment rate (2016)	10.1

Strong-Weak State

Liberty, equality, fraternity – the slogan of the French Revolution continues to inform the understanding of statehood to the west of the Rhine. To achieve these ideals, the French government is prepared to dig deep into the state coffers. France spends more on social protection for the population than any other EU country: around one third of GDP is used for pensions, unemployment and child benefits as well as numerous other payments.[1] This is the reason why income inequality is relatively limited in France and the country's fertility rate has been among the highest on the continent for decades. In 2015, women in France had 1.96 children on average and were thus the EU leaders on this indicator.[2]

But the social model of a strong, centralised state that takes comprehensive care of its citizens is increasingly hanging in the balance as it becomes more and more evident that there is a yawning gap between aspirations and reality: the social insurance funds are running deficits, large parts of the population feel they have been left behind, and the coexistence of native French and immigrants harbours numerous conflicts. Popular discontent is vented time and again through demonstrations or even violent confrontations – for example, in the notorious Paris suburbs, the so-called banlieues. Reforms of the social system are urgently needed but have often failed owing to popular opposition.

Social reform – the bone of contention

At 82.4 years, life expectancy in France is one of the highest in Europe. But the share of those 65 and over in the total population is not particularly high – 18 percent.[3] This is because of the abundance of children, which ensures that the base of the population pyramid remains more or less stable. But not even France will be able to prevent its population from aging. In the next two decades, numerically large cohorts will reach retirement age – a consequence of the baby boom after the Second World War.[4]

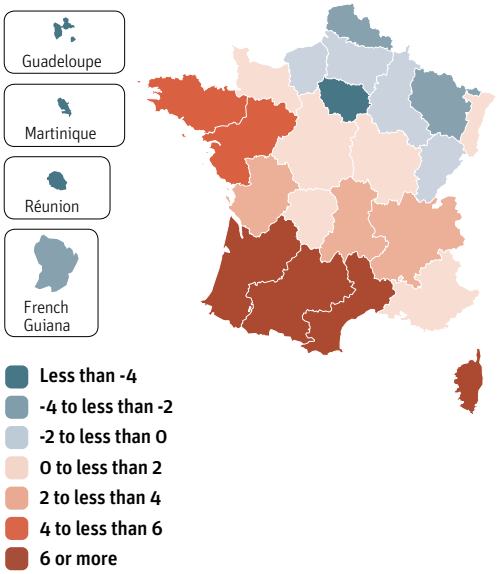
Thus it is all the more worrying that France's pension funds – by far the most important pillar of the social system – are already in the red. The focus of reform could be the retirement age, the level of contributions and the level of benefits paid. Indeed, France's official retirement age remains very low despite the most recent reform efforts. Currently, those who have paid contributions for 41 years can retire on a full state pension at the age of 62. For those who have not paid contributions for a sufficient number of years, the official retirement age is somewhat over 66 at present and is expected to rise to 67 by 2022.[5] These regulations are almost identical to those of most other industrial nations. But in France there are numerous other opportunities for early retirement. As a result, French men and women stop working at a younger age than do the citizens of any other OECD country – on average at 59.4.[6]

The current age thresholds are products of a relatively large-scale pension reform undertaken in France in 2010. Previously, the earliest age at which someone could retire on a full pension was just 60. And although France was one of the last countries to raise the official retirement age, the reform package triggered demonstrations and strikes that lasted for months. Similar protests in 2016 against a labour market reform initiated by then President François Hollande brought the country to a standstill once again. Above all, that reform was designed to give companies more scope to negotiate overtime and remuneration directly with their employees and independently of sectoral collective wage agreements and to make it easier to lay off workers in hard times.[7]

High unemployment forms the backdrop to the labour market reform. In 2016, more than 10 percent of the economically active population were unemployed, while among those 25 or under every fourth labour force participant was without work.[8] France has been grappling with this problem for decades and there is still no solution in sight. Even the most

From northeast to southwest

For years, the industrial regions of northern France have seen population declines owing to internal migration. High unemployment is prompting many to leave for the economically thriving regions of southern France along the Atlantic and the Mediterranean. Even rural areas are able to profit from this development. Interestingly, Paris numbers among the losers from migration. On balance, the capital city is losing more people than any other part of the country. This is because of the shortage of living accommodation and the correspondingly high rents and property prices.



Annual net migration per 1,000 inhabitants in France's NUTS 2 regions, average for the period 2011-2015
(Data source: own calculations based on Eurostat[32])

recent reform avoids addressing the most difficult issues: how can the authorities do away with the stark division between those who have a permanent job and those who go from one temporary contract to the next? And how can the obstacles to young people entering the labour market be removed? One such obstacle is the high non-wage labour costs, which make it unattractive for employers to hire new workers – not least open-ended ones. Almost 50 percent of the total costs for employers in France go directly to the state in the form of taxes and social insurance contributions – the OECD average is just 36 percent.[9]

Paris – the economic mainstay

Many French people question the rationale for far-reaching reforms because they themselves are not doing too badly. GDP per capita in 2016 was 33,400 euros, which is roughly as high as the average of all "old" EU member states. While growth is weak, it does exist.[10]

The backbone of the French economy is formed by the numerous large enterprises, many of which receive strategic support from the state. Companies such as the insurer Axa, the financial services provider BNP Paribas and the retail chain Carrefour number among the world's leading concerns. On the other hand, France does not have a broad stratum of small and medium-sized companies, such as can be found in Germany, for example.[11] Most large companies are headquartered in Paris or its immediate environs. This is no coincidence: in France, there are many things that have always been concentrated in the economic, political and cultural centre of the country. On the Île de France, which comprises the capital city and the surrounding Départements, residents generate on average 54,600 euros each year. In all other regions of the country, that figure is between 24,000 and 33,000 euros.[12, *]

However, Paris's dominant position is crumbling, as other large and medium-sized cities become increasingly attractive for the French. Not least Lyon and Marseille are magnets for numerous people thanks to the up and coming service providers and industrial companies in the southern parts of the country.[13] And even the rural areas of the South of France are benefiting, as new technology centres emerge and pensioners from other parts of France as well as from the United Kingdom and the Netherlands move there.[14] All these developments have consequences for internal migration in France. For several years, it has been, above all, the southern regions along the Atlantic and Mediterranean coastlines that have seen population growth owing to migration. In recent years, the island of Corsica has been the frontrunner: its population has been growing at around one percent annually owing to migration alone. But in the north of the country, the picture is rather different. Among the losers from migration are the old industrial regions such as Lorraine and Picardy.[15, **] The decline of both the coal and steel industry and the textile sector in these regions has so far not been compensated for by the emergence of new industries.

This uneven development is reflected in changes in the country's demography. Lorraine, Burgundy, Champagne and Normandy are all likely to buck the national trend of population growth in the near future by recording population losses. Meanwhile, the demographic boom regions include Aquitaine and its capital, Bordeaux, the Rhône-Alpes region and the metropolitan area of Lyon, and the Midi-Pyrénées region around Toulouse. By the middle of this century, these regions are likely to see their populations grow by well over 20 percent in some cases.[16]

The model family policy is crumbling

The population of France as a whole is likely to increase by around eight million people

* The French Overseas Territories are not included here. GDP per capita is lower in some of these regions.

** Some French regions have been merged in a reform in 2016. In this study we use the administrative regions of 2015.

by 2050 to 74.4 million inhabitants.[17] The main reason for France's population growth is that each year more people are born there than die. In the recent past, the difference between the numbers of births and deaths was more than 200,000.[18]

For many years, various countries have been trying to emulate France's demographic success. But to what precisely can the high fertility rate be attributed? One of the main reasons is family policy.[19] For decades, the French state has been pursuing the goal of encouraging its population to start families or have more children. Historically, it did so, above all, out of fear of its mighty neighbour, Germany, where in the first half of the 20th century significantly more children were born than on French territory.[20]

At the heart of France's family policy is not only financial support for young families but also public day-care for even very young children. The latter is provided either in one of the numerous crèches or through childminders, who in France are trained at state institutions. From the age of three onwards, almost every child attends the so-called écoles maternelles, all-day facilities for which there is no charge and which are similar to the kindergartens in other countries.[23] Thus France's family policy does not fit the frequently used format of either financial incentives or investments in public child-care facilities. Many observers consider one of the secrets of its success to be that young families can, in principle, rely on receiving support of some kind or other from the state.[22]

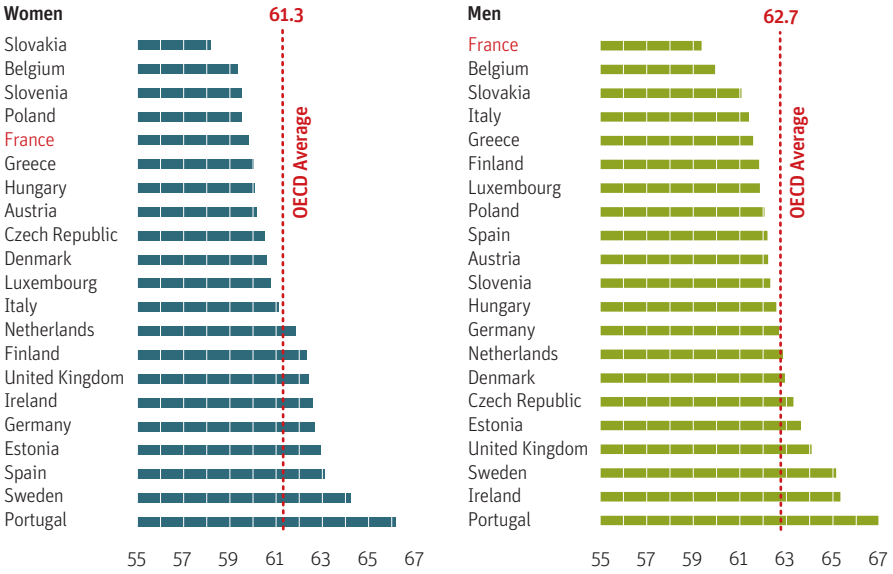
It was precisely its comprehensive care facilities for which France came to be recognised as a successful pioneer in the area of family policy – above all, because the country promoted having both a family and a career and allowed women to play an active role in its economic life. But initially that was not the aim of the policy. The idea behind the écoles maternelles was to do away with social inequality among children, not to get women into jobs. And it is because of this focus that there are still practical hurdles in France to combining a family and a career. In particular, little progress has been made towards encouraging fathers to assume the responsibility of caring for their children at home – the number of those doing so remains negligible.[23] Thus women have to bear a double burden that is made worse by the fact that there are very few part-time jobs available.[24] Frequently, one parent is forced to give up working for a time – and that is usually the mother. One reason for this is that in France parental benefit is paid as a fixed amount independent of income, and the loss of earnings is usually lower for couples if the woman stays at home, because in most cases she earns less than her partner.[25] In a bid to change this situation, France recently created an incentive for fathers to stay at home and take care of the children by enabling young couples to draw parental benefit for an extra six months if fathers take parental leave too.[26]

However, there are other factors preventing many people from making use of public childcare. For example, care for the under-twos is often very expensive, so it is almost exclusively used by higher earners.[27] Moreover, the availability of childcare places varies significantly from region to region. In rural areas, the supply network is sparse, not least because the profession of the childminder has become much less well respected in recent years and only a small number of

Retiring early

The French retire earlier than any other OECD nation. On average, both women and men in France stop working before their 60th birthday. This is not only owing to the very low official retirement age; it is also because of the numerous regulations that permit early retirement. It is only recently that this policy has begun to be revised, because, despite the high fertility rate, the French population will grow older in the future, and the pension funds are already running a deficit.

Average retirement age in European countries by sex, 2014*
(Data source: OECD[33])

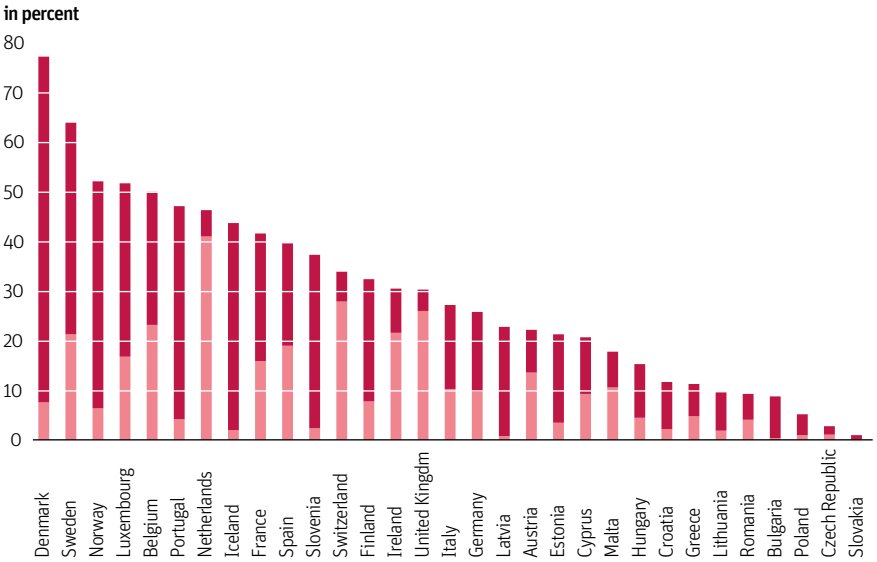


* Figures show the average for the period 2009 – 2014.

No longer the pioneer

For a long time, France was regarded as a pioneer in the area of family policy. But more recently, the Scandinavian countries have overtaken the former model – at least as far as combining a career and a family is concerned. Thus while in France just 42 percent of the under threes attend public day-care centres, in Denmark the figure is close to 80 percent. Among other things, this has to do with the fact that many cannot afford day-care and that the day-care network is insufficiently developed in rural areas.

Share of the under threes in day-care by number of hours cared for each week, in percent, 2015*
(Data source: Eurostat[34])



* Figures for Switzerland refer to the year 2014.

women undergo the relevant training – male childminders are in any case few and far between.[28] As a result of all this, France has lost its status as the family-policy pioneer: while the share of the under-threes being cared for at public facilities – 42 percent – remains higher than the EU average of 30 percent, the figure for some other countries such as Denmark, Sweden and the Netherlands is significantly higher.[29]

Difficult relations with Islam

Although other countries have caught up and overtaken France in the area of family policy, the fertility rate remains high for the time being – both among women born in France and among those who have immigrated to that country. The latter have more children than do French women – on average 2.6. But because they account for a relatively small share of all women at an age when most start a family, the fertility rate in France would be only marginally lower – by about 0.1 children per woman – without the young female immigrants.[30]

If immigration continues, however, this could play a more important role in the fertility rate in future. Many French people have mixed feelings about immigration, not least because many migrants are Muslims and attitudes to and coexistence with Islam is more difficult in secular France than in almost any other European country. Fears of being overrun by foreigners had already taken root among broad swathes of the French population before the terrorist attacks in recent years. The best evidence for this is the continued political success of the National Front, which in 2017 once again made it to the second round of the presidential elections under the leadership of Marine Le Pen with her anti-immigration platform.

Dissatisfaction among all segments of the population is the consequence of a failed integration policy, which in the banlieues has led to parallel societies characterised by high unemployment, a lack of prospects, low levels of educational attainment and widespread violence. The core of the problem is that as far as possible, immigrants are supposed to adapt to the French way of life and assimilate, but at the same time the principle of equality demands that "positive discrimination" of immigrants must be largely avoided. Only recently have there been signs that an attempt is being made to improve integration through a large number of legal initiatives. For example, the "Law on Equal Opportunities" is intended to tackle discrimination and strengthen programmes promoting education and employment. Furthermore, France now enters into a so-called integration contract with every new immigrant, a document that specifies not only the benefits to which the new arrivals are entitled but also the courses and training in which they must participate in order to receive those benefits.[31] All this may prove successful in isolated cases and help new immigrants in particular. But if the tensions between the native population and immigrants are to be reduced, more will be needed than just individual laws – above all, time, suitable jobs and political sensitivity. A big challenge, indeed, for the new young president, Emmanuel Macron.

NETHERLANDS

Population size in million (2016)	17.0	Median age (2016)	42.4
Projected population size in million (2030)	18.4	Life expectancy (2015)	81.6
Projected population size in million (2050)	19.2	GDP per capita in euros (2016)	41,300
Total fertility rate (2015)	1.66	GDP per capita at PPP (2016)	37,500
Annual net migration per 1,000 inhabitants (2011-2015)	1.8	Unemployment rate (2016)	6.0

Divided Country

The Netherlands is the sixth-largest economy and the seventh-most populous state in the EU. It is also one of the most deeply divided countries when it comes to immigration. On the one hand, the Netherlands is regarded as a traditionally liberal and outward-looking country with deeply rooted diverse lifestyles and cultures. On the other hand, right-wing populist politicians have been particularly successful here – not least because the integration of immigrants has not been handled as well as in other countries.

The shortcomings of integration can be seen, above all, in the widely diverging labour-market achievements of natives and immigrants. For example, in 2016 the unemployment rate of those members of the population born abroad was approximately twice as high as that of those born in the country. Moreover, the employment rate of immigrants aged 20–64 was just 62.9 percent while that of natives stood at 79.5 percent. While employment among immigrants was thus lower than the EU average, natives achieved the third-highest ranking within the Union after Sweden and Germany.[1]

In search of a better integration policy

For a long time, the Netherlands – like many other European countries – did not have any integration policy worth mentioning. Because the policymaking establishment and society assumed that the so-called guest workers who had been recruited during the economic boom of the 1950s and 1960s would eventually return to their native countries, they simply ignored the cultural and religious differences between immigrants and the majority population. The reasoning was that non-integration would make it easier for immigrants to go back home.[2] However, many so-called guest workers stayed and over time brought over their family members, and the worlds of natives and immigrants grew increasingly apart. It was not only the immigrants themselves who suffered from this development, but also, and indeed especially, their children, who lagged behind the natives both at school and on the labour market.[3]

It was not until the 1990s that the Netherlands switched to an active integration policy that was intended, above all, to improve equal opportunities on the job market. At the same time, this new policy required immigrants to fulfil certain civic obligations, such as learning Dutch.[4] Nonetheless, after the terrorist attack on 11 September 2001, xenophobic sentiment and attacks on foreigners increased.[5] It was around this time that politician Pim Fortuyn, a critic of Islam, began to garner major support among some parts of the population, as many people were unhappy about the situation with the so-called allochthonen – people with a migration background.[6] The role played by Fortuyn highlights, in an exemplary manner, the division within Dutch society: according to various surveys, some Netherlanders continue to this day to believe that he was one of the most important people the country has ever produced, while large parts of the population favour equal rights for immigrants and natives in all areas of life more strongly than do inhabitants of other countries.[7]

As a result of the increasing polarisation of society, the Netherlands introduced stricter criteria for immigrants and asylum seekers at the beginning of the 2000s.[8] This quickly led to fewer new arrivals. Between 2004 and 2007, there were on balance more people leaving the Netherlands than immigrating to the country.[9,*] Following a short period in

[*] The negative balance can be partly explained by the fact that owing to an overhaul of the population register, additional "emigrants" appeared in the statistics.

which immigration figures increased, the economic crisis saw to it that the number of immigrants fell again at the end of the 2000s.[10] At the same time, under pressure from the political right wing, the country increasingly turned its back from 2010 onwards on its proactive and supportive integration policy. While immigrants are expected to learn the language and adopt Dutch civic norms, assistance from the policymaking establishment is increasingly dwindling.[11] Compared with Germany, which has considerably expanded integration opportunities in recent years, the Netherlands has been treading its own special path – one that has been less than successful to date.

Positive outlook despite the economic crisis

With an average GDP per capita of 40,900 euros, the Netherlands is the fourth-richest country in the EU. However, in the wake of the economic crisis of 2008–2009, both public and private debt has risen sharply. While the level of public debt – at 62 percent of GDP – is still quite low compared with that of other European countries, the picture is rather different for private households: in 2015, they had debt equivalent to 219 percent of their gross income, which is more than double the average for the eurozone.[12]

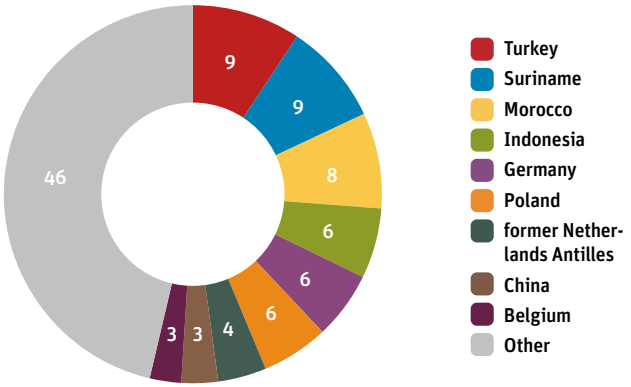
The main reason for this is that many Dutch people buy their own homes at an early age. In the two decades before the economic crisis, it was especially attractive to do so because real estate prices were rising constantly. However, shortly thereafter prices suddenly collapsed, leading to the loss of wealth among local inhabitants and marking the start of the crisis in the Netherlands. Declining demand for real estate quickly had an impact on the construction industry and, sector by sector, on the whole economy.[13] Moreover, shrinking demand from abroad inflicted further damage on the economy: the volume of all goods and services produced in the Netherlands plummeted by 3.8 percent in the main crisis year of 2009. While that was more than half a percentage point less than in the EU overall and almost two percentage points fewer than in Germany, the Dutch economy shrank anew in 2012 and 2013 – like many others in the EU – following two years of growth before.[14]

It is only since 2014 that the economic outlook has improved once again in the country that has the biggest port in Europe and numbers among the largest export nations in the world. If the export sector was long the most important pillar of the Dutch economy, recent growth is to be attributed, above all, to growing domestic demand and the recovery of the real estate market.[15] Moreover, both unemployment and private household debt are slowly declining.[16] In the most recent Global Competitiveness Index, which compares the ability of countries around the world to compete against one another, the densely populated country on the North Sea was able to push Germany out of fourth place and thereby lay claim to the best long-term prospects for prosperity in the EU; at the global level, it was surpassed only by Switzerland, Singapore and the United States.[17] The Netherlands' high productivity in agriculture is particularly evident. While the sector contributes just two percent to Dutch GDP, the Netherlands is the second-largest exporter of agricultural products in the world after the United States, whose total land area is many times larger.[18]

Multi-cultural mix of migrants

Immigrants in the Netherlands come from the most diverse countries. This reflects the country's multifaceted immigration history. The majority of migrants from Turkey and Morocco came under bilateral labour recruitment agreements. Many Surinamese settled in the Netherlands after the former colony gained independence in 1975 because they feared plummeting living standards and political instability. Immigration from Indonesia began right after the country won its independence in 1945.[23]

Main countries of origin of those inhabitants born outside the Netherlands, 2016
(Data source: Eurostat[22])



Part-time work facilitates combining career and family

A peculiarity of the Dutch labour market is the large share of part-time workers. Originally conceived in response to the huge job losses during the economic crisis of the 1980s, the shorter working week has since developed into a model that appeals to many Dutch people. In 2016, the share of those working part-time accounted for some 47 percent of all employed people – by far the largest proportion in the EU. At the same time, a gender gap is clearly evident: while three in four women are part-time employed, the corresponding ratio for men is less than every fourth.* According to estimates by the OECD, some 90 percent of those employed part-time in the Netherlands have themselves chosen not to work more and thus to earn less.[19]

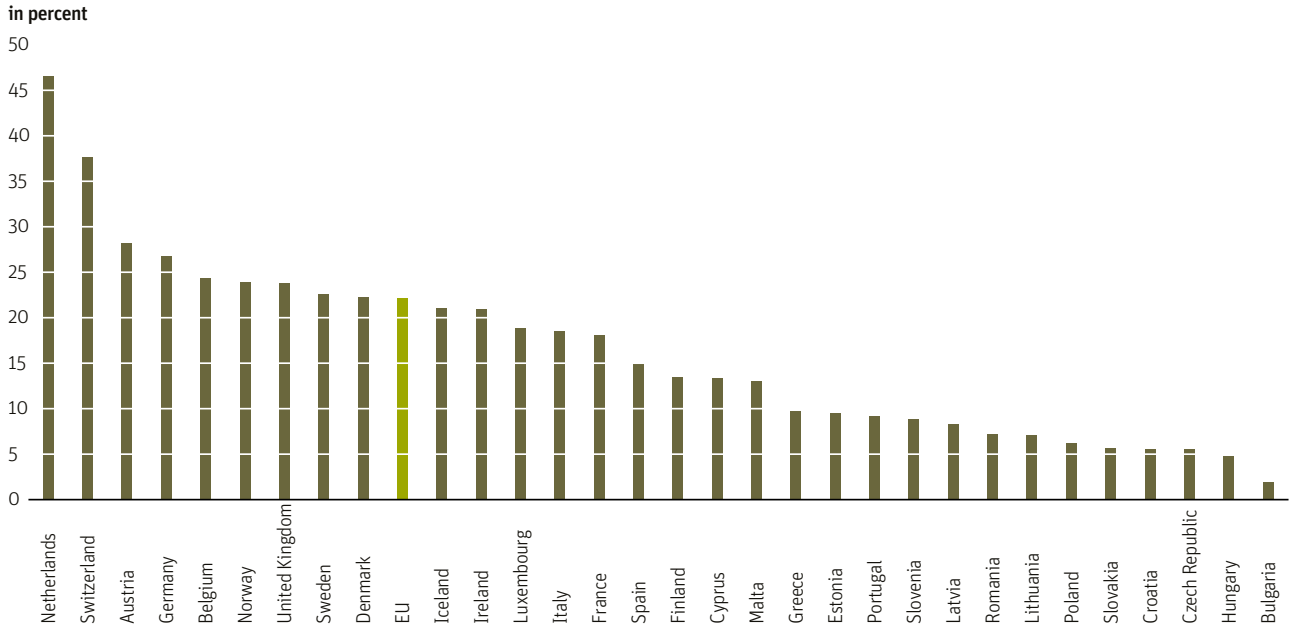
Regardless of whether it is the father or the mother who works fewer hours, part-time employment makes it easier to combine career and family. In the Netherlands, having a family is also facilitated by the many public child day-care centres.[20] The share of the under threes attending those facilities is 46 percent – across the EU, that figure is higher only in Denmark, Sweden, Luxembourg, Belgium and Portugal. Against this background, it comes as no surprise that the Dutch fertility rate – 1.66 children per woman – is above the EU average. And that despite Dutch women having their first child relatively late, at 29.7 years on average. Thanks to the relatively high fertility rate – and to further immigration –, the Netherlands can continue to rely on a growing population in the future. By the middle of the century, the number of inhabitants is likely to grow from the current level of 17 million to 19.2 million – an increase of around 13 percent.[21]

* In surveys, whether someone is categorised as part- or full-time employed is based on the information supplied by that individual. However, there is a threshold in the Netherlands of 35 hours a week. Whoever works less than that qualifies as part-time employed.

Leading the pack in part-time employment

In no other European country does part-time employment account for such a large share of all employment as in the Netherlands. Moreover, 90 percent of those with part-time work voluntarily choose this form of employment and not because there are no full-time jobs. Like in other EU countries, it is, above all, women who work part-time. Despite the increasing equality of the sexes, they continue to play the main role in performing household chores and bringing up the children.

Percentage share of part-time employment in overall employment in European countries, 2016
(Data source: Eurostat[24])



BELGIUM

Population size in million (2016)	11.3	Median age (2016)	41.4
Projected population size in million (2030)	12.3	Life expectancy (2015)	81.1
Projected population size in million (2050)	13.3	GDP per capita in euros (2016)	37,400
Total fertility rate (2015)	1.70	GDP per capita at PPP (2016)	34,200
Annual net migration per 1,000 inhabitants (2011-2015)	4.3	Unemployment rate (2016)	7.8

Growing Heart of Europe

Belgium is one of Europe's fastest-growing states. Between 2006 and 2016, the number of inhabitants of this country on the North Sea coast grew by 7.4 percent overall and statisticians expect further growth of around 18 percent by 2050. In the EU, only the small states of Luxembourg and Malta as well as Ireland, Sweden, the United Kingdom and Austria can expect higher population growth.[1]

Immigration accounts for almost three quarters of the growth over the past ten years. The remaining quarter is due to the fact that more people continue to be born than die in Belgium.[2] The high immigration figures and the relatively high fertility rate are responsible for the aging of society so far having had comparatively little impact; and in the future this process is likely to take place rather slowly too. In 2050, there will probably be just under 46 pensioners to 100 people of working age – for the EU as a whole the ratio is likely to be 55 to 100 at that point.[3] A bigger challenge for Belgium than its aging society is the integration of the numerous newcomers. Although Brussels, as the seat of many EU institutions, attracts highly qualified people, migrants fare comparatively badly on the labour market overall.[4]

Immigration magnet with problems

Immigration has a long history in Belgium. Whether from the former colonies – especially the Congo – from other European countries or from North Africa, the population of the country is very diverse. Today, around one inhabitant in six was not born in Belgium. Thus this country is in the first third on this indicator among the EU states.[5]

At first glance, it seems surprising that Belgium has not been more successful at integrating its immigrants. After all, many of those immigrating to Belgium are from France, the Netherlands, Italy and Germany; fewer in number are Romanians, Poles or Bulgarians, who often have only low qualifications and in other countries fuel the debate about whether the EU freedom of movement makes sense.[6] In fact, EU migrants do relatively well on the Belgian labour market. The situation is different for migrants from non-EU countries: they are the main reason why the employment rate among those born abroad is almost 14 percentage points lower than that of those born in Belgium.[7] If these migrants do manage to find work, it is usually in worse and poorly paid jobs. Their social disadvantage is also reflected in the comparatively poor level of educational achievement among their children.[8]

Two of the leading countries of origin for immigrants from outside the EU are Morocco and Turkey – Belgium concluded labour recruitment agreements with both countries in 1964.[9] Like in Germany, the disadvantaged situation of migrants results from, among other things, the migration policies of the past, which sought to attract mainly lowly qualified workers and offered them few opportunities to integrate. The latter is no longer the case, which raises hopes that integration will run more smoothly in the future. Labour market integration, in particular, has been the focus of increasing attention in recent years and has included measures such as additional language courses. And with respect to anti-discrimination measures and access to permanent residence, Belgian legislation is now considered exemplary internationally. In a study on quality of integration policy, Belgium ranked seventh of 38 states in 2014 – performing well alongside traditional immigration countries like Canada and Australia.[10]

One reason why it is important for integration to be more successful is that an ever greater share of offspring in Belgium are born to foreign women. In 2015, there were four children born for every 100 women born abroad – more than double the number born to Belgian women.[11] The difference can

be partly explained by the fact that foreign women are younger and thus more frequently of the age when they would normally start a family – between 20 and 45. But it also has to do with the fact that they have more children.[12] Overall, Belgium has a relatively high fertility rate by European standards – 1.7 children per woman – despite a marked drop over the past five years.[13] Observers often cite Belgian family policy as one of the main reasons for the relatively high fertility rate.[14] A key feature of that policy is the widespread availability of public day-care facilities, including all-day care for very small children, which enjoys acceptance among the broader population.[15] Another factor could be that men in Belgium take responsibility for a relatively large share of childcare.[16]

More jobs through savings or investment?

With GDP per capita at 37,400 euros, Belgium is among the EU's ten richest states. Over the past five years, however, growth has been below average.[17] This is why the OECD describes the future prospects of the Belgian economy as "fragile".[18] One reason for this judgement is the rising public debt, which has exceeded 100 percent of GDP since 2011. Only the Southern European crisis states – Greece, Italy and Portugal, together with Cyprus – are in a worse position within the EU.[19] To benefit economically from a growing and increasingly diverse population, Belgium must, according to the OECD, modernise its education system and labour market. In the past, jobs failed to be created because wages grew too quickly relative to productivity.[20] Wage restraints could create new jobs and strengthen the country's competitiveness, which, in turn, should have a positive effect on exports. In order to get the economy into shape, Prime Minister Charles Michel has proposed a national investment pact worth several billion euros, despite the already high level of public debt. The intention is to provide financial support, in cooperation with the private sector, to projects in the fields of mobility, renewable energy, security and the digital economy with a view to modernising the country.[21]

Regional inequality

At the regional level Belgium has three very different faces. The Flemish region in the north has a larger population, a higher life expectancy and more immigration than the Wallonian region in the south. GDP per capita is significantly higher and the unemployment rate significantly lower than that in the south. At the same time, the small region around and including the capital Brussels is very different from the two larger regions. Here more children are born on average and GDP per capita is roughly twice as high as in the rest of the country; however, the unemployment rate is higher too.

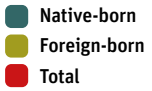
Key indicators for the NUTS 1 regions of Belgium
(Data source: Eurostat[27])

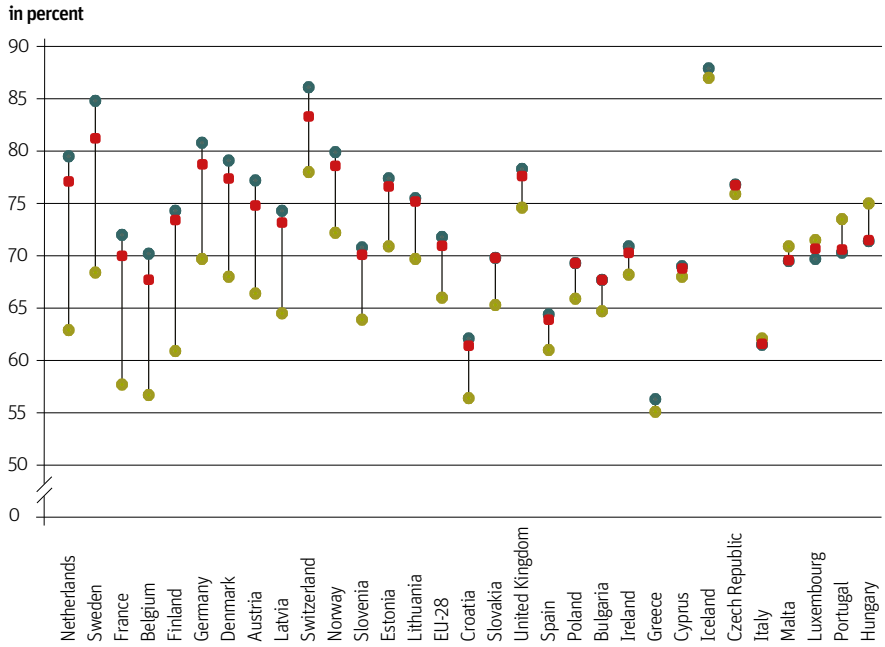
	Brussels-Capital Region	Flemish Region	Walloon Region
Inhabitants (2016)	1.2 million	6.5 million	3.6 million
Total fertility rate (2015)	1.87	1.67	1.9
Life expectancy (2015)	80.9	82.1	79.4
Net migration per 1,000 inhabitants (2015)	6.9	5.5	5.1
GDP per capita (2015)	63,300	37,300	26,400
Unemployment rate (2016)	16.8	4.7	10.4

Jobless migrants

In Belgium, just over one inhabitant of foreign origin in two has paid work; within the EU, employment is lower for this group only in Croatia and Greece. The difference between this group and those born in Belgium – almost 14 percentage points – is a cause for concern. Only in the Netherlands and Sweden do migrants fare even worse on the labour market compared with the natives of those countries. That this does not have to be the case is demonstrated by countries like Iceland, Italy, Luxembourg and Portugal, in which migrants tend to be employed more often than natives.

Employment rate among the population as a whole and among inhabitants born in the country and abroad aged 20–64 in various European countries in percent, 2016
(Data source: Eurostat[28])





One country, three faces

Belgium can hardly be regarded as one entity, however; rather, it has at least two, if not three, different faces. Above all, there are major differences between Flanders, the Flemish-speaking part of the country in the north, and French-speaking Wallonia in the south – and not just linguistic ones. Different paths of development in the past have led to a situation in which the two regions diverge economically and politically as well. Once known for its heavy industry, Wallonia is finding it difficult to restructure into a knowledge and services society, whereas Flanders with its good infrastructure functions as an important logistics centre. Antwerp is currently Europe's second-biggest port.[22] As a result of this uneven development, GDP per capita in Flanders, at 37,300 euros, is rather high in European comparison, while in Wallonia it is just 26,400 euros. At the same time, the unemployment rate in Wallonia is more than twice as high as in Flanders.[23]

Besides the differences between Flanders and Wallonia, there is a big gap between the region around and including the capital, Brussels, and the rest of the country. With its GDP per capita of 63,300 euros, Brussels is by far the wealthiest region.[24] In addition, more children are born in Brussels than anywhere else in Belgium. However, the unemployment rate there is higher than in the rest of the country – a sign of a divided country even within the capital.[25] Particularly young people and migrants have problems finding a job in Brussels, as they do in other Belgian cities such as Antwerp and Ghent. One reason for this is the geographical separation of "good" and "bad" neighbourhoods, which not only entrenches existing inequalities but reinforces them.[26] The district of Molenbeek has become a symbol throughout Europe for a failed integration policy.

LUXEMBOURG

Population size in million (2016)	0.6	Median age (2016)	39.3
Projected population size in million (2030)	0.8	Life expectancy (2015)	82.4
Projected population size in million (2050)	0.9	GDP per capita in euros (2016)	92,900
Total fertility rate (2015)	1.47	GDP per capita at PPP (2016)	77,400
Annual net migration per 1,000 inhabitants (2011-2015)	20.0	Unemployment rate (2016)	6.3

Magnet for immigrants and commuters

With its 576,000 inhabitants, the Grand Duchy of Luxembourg is the second-smallest country in the EU after Malta and roughly as large as Bremen or Leipzig. At the same time, it is the fastest-growing country in the EU. Between 2006 and 2016, the population increased by more than a fifth, and statisticians have calculated that it is likely to grow by another 34 percent by 2030 and by as much as 67 percent by 2050.[1]

Around 80 percent of Luxembourg's population growth is due to immigration. The country has seen average annual population growth of 1.7 percent since 2006 – the highest rate by far in the EU. And since many of the new arrivals are of prime age for starting families, the country has received a double demographic boost. Although on average women in Luxembourg do not have more children than women in other EU countries, many of them are aged between 20 and 45, so that every year far more children are born than people die.[2]

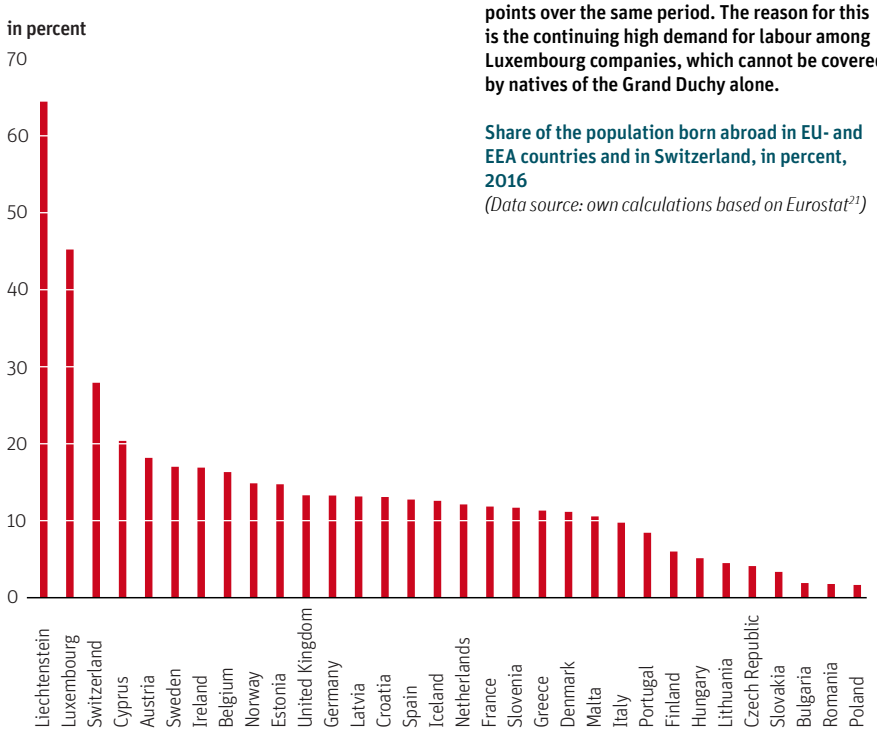
Economy attracts labour

In the past, immigration to Luxembourg was closely connected with the country's economic rise. In the second half of the 19th century, the new iron and steel industry attracted the first wave of immigrants. Later, after the Second World War, the Luxembourg government started recruitment campaigns in Italy, Portugal and Yugoslavia.[3] In particular, many Portuguese settled with their families in the Grand Duchy, and today they make up one-third of all foreigners.[4]

International Luxembourg

No other country in the EU has a larger share of the population born abroad than does Luxembourg. Europe-wide, the only country where the share is higher is the tiny Principality of Liechtenstein. And the gap between Luxembourg and the rest of the EU is growing wider: the percentage of foreigners living in Luxembourg has increased by 13 percentage points since 2010; in the rest of the EU the largest such increase was three percentage points over the same period. The reason for this is the continuing high demand for labour among Luxembourg companies, which cannot be covered by natives of the Grand Duchy alone.

Share of the population born abroad in EU- and EEA countries and in Switzerland, in percent, 2016
(Data source: own calculations based on Eurostat[21])



Since the late 1980s, increasing numbers of highly qualified workers have been coming to Luxembourg as well. The reason for this is that the country has become an important financial centre and has benefited from important EU institutions locating there, such as the European Court of Justice and the European Investment Bank.[5]

As a result of this immigration history, the share of inhabitants who were born abroad is larger in Luxembourg than in any other EU country – 45 percent of the total population.[6] Yet immigration alone does not account for Luxembourg's international character. The Grand Duchy also has close links with the surrounding areas, and many people from Germany, France and Belgium cross the border every day to work in Luxembourg. In 2015, the number of commuters was roughly 171,000, and they accounted for almost half of all employees.[7] All of them benefit from the attractive Luxembourg salaries without having to pay the country's rapidly rising rents and property prices.

Prosperity based on the financial sector and trade

Today Luxembourg is the wealthiest country in Europe with per capita GDP of 92,900 euros.[8] This has partly to do with the large number of commuters, who contribute to Luxembourg's wealth but do not count as inhabitants. But even if they did all live in Luxembourg, the country would still enjoy a level of prosperity similar to Switzerland's.[9]

A large share of the wealth – 27 percent – is generated by financial and insurance services.[10] This sector recently came under fire, however, for giving foreign companies opportunities to avoid paying taxes. This culminated in late 2014 in the so-called Luxembourg Leaks, which revealed the extent of international tax evasion. In a bid to shed its image as a tax haven, Luxembourg abolished banking secrecy in early 2015.

Because Luxembourg is so small, foreign trade has always played a major role. Year after year, Luxembourg-based companies have reported the largest export surpluses in the EU. In 2016, the difference between the import and export of goods and services alone accounted for more than a third of GDP.[11] However, this figure conceals some important distinctions. Luxembourg imports roughly the same value of goods as it exports, so the huge surpluses are generated almost entirely by international services and flows of capital.[12]

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
FRANCE									
FR10	Île de France	2.01	-4.5	24.0	84.0	54,600	72.8	411.8	80.2
FR21	Champagne-Ardenne	1.88	-1.3	35.3	81.4	27,600	64.9	145.4	69.5
FR22	Picardy	2.01	-1.7	30.9	80.7	24,500	66.3	120.1	69.9
FR23	Upper Normandy	1.97	-1.2	32.4	81.2	28,300	67.4	199.3	73.4
FR24	Centre	1.93	0.7	38.5	82.4	27,000	69.6	185.5	78.1
FR25	Lower Normandy	1.88	0.0	40.0	82.1	26,100	70.9	83.3	74.0
FR26	Burgundy	1.88	0.2	41.9	82.0	27,600	70.0	141.8	76.5
FR30	Nord-Pas-de-Calais	2.00	-2.4	28.7	80.3	26,700	63.0	89.3	75.1
FR41	Lorraine	1.75	-3.0	33.5	81.6	25,000	66.5	129.6	77.6
FR42	Alsace	1.79	0.1	30.1	82.4	30,400	71.0	286.9	81.4
FR43	Frenche-Comté	1.92	-1.6	35.4	82.3	25,300	73.5	227.3	78.4
FR51	Pays de la Loire	1.96	4.3	35.1	82.8	29,300	74.1	132.2	81.9
FR52	Brittany	1.86	4.7	38.2	82.0	27,800	72.5	259.7	83.8
FR53	Poitou-Charentes	1.79	3.8	43.1	82.6	27,000	70.0	81.4	78.1
FR61	Aquitaine	1.73	8.2	38.3	82.9	28,500	70.8	118.3	80.6
FR62	Midi-Pyrénées	1.77	6.7	37.0	83.4	29,300	71.7	210.6	82.8
FR63	Limousin	1.77	0.8	46.2	81.8	24,800	75.1	112.2	81.1
FR71	Rhône-Alpes	1.97	3.7	31.8	83.6	32,700	73.8	465.5	82.1
FR72	Auvergne	1.80	3.4	41.5	82.1	26,800	72.5	223.8	79.7
FR81	Languedoc-Roussillon	1.88	9.1	40.1	82.5	24,500	64.9	113.2	72.5
FR82	Provence-Alpes-Côte d'Azur	2.03	1.4	39.5	82.8	30,500	68.2	214.1	77.1
FR83	Corsica	1.42	9.6	38.3	83.2	26,300	68.6	30.2	79.4
FRA1	Guadeloupe	2.20	-7.7	30.6		21,200	53.4		57.7
FRA2	Martinique	1.98	-11.9	33.0	82.7	24,000	59.8	3.0	63.7
FRA3	Guiana	3.54	-3.5	9.4		16,400	51.0		45.5
FRA4	La Réunion	2.46	-7.6	18.1	80.9	21,900	53.8	5.8	55.7

But who benefits from all this wealth? Apparently quite a lot of people. At 6.3 percent, the unemployment rate was very low in 2016. At the same time, the proportion of the population threatened by poverty was well below the European average. Only two percent of the population did not have sufficient income to afford the items they consider necessary or desirable in order to have a reasonable lifestyle. Within the EU, only Sweden has a lower material deprivation rate.[13]

Economic crisis quickly overcome

As an important financial centre, however, Luxembourg was significantly affected by the most recent economic crisis. In 2009, GDP shrank by 5.4 percent over the previous year, and immigration declined noticeably.[14] The Luxembourg economy began growing again after a brief interruption in 2012 – most recently by around four percent annually. This is the fourth-highest growth rate in the EU after Ireland, Malta and Romania.[15]

This rapid economic recovery meant that in 2010 net migration had returned to its 2008 level. Since 2011, Luxembourg has recorded immigration surpluses of around 11,000 people each year – the highest levels in the last 50 years.[16] Those coming to Luxembourg are still mainly French, Portuguese, Italians, Belgians, Spanish and Germans, rather than East Europeans, who tend to migrate to other West European countries.[17] Besides high youth unemployment caused by the crisis in some of the countries of origin of these migrants, the relatively good situation on the Luxembourg labour market and contacts to compatriots already living in Luxembourg probably explain this rise in immigration.[18] In addition, salaries are so high that Luxembourg is also attractive for many well-qualified Western Europeans.

How Luxembourg is likely to develop economically in the future depends primarily on the financial sector. Its major significance not only offers an opportunity but also poses a risk since the wide range of trading and financial relations Luxembourg has abroad means that the country is always dependent on European and global trends. For this reason experts predict that "Brexit" will hit Luxembourg harder than many other countries.[19] The OECD has therefore advised the country to diversify its economy more.[20] Nevertheless, the country's success story is unlikely to end in the foreseeable future, since even the weak euro is having little impact on its economy.

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
NETHERLANDS									
NL11	Groningen	1.52	1.4	30.4	80.7	44,800	71.5	72.5	77.1
NL12	Friesla	1.78	-1.1	35.0	81.5	28,200	77.2	73.0	75.5
NL13	Drenthe	1.73	-0.2	38.4	81.3	28,200	75.9	86.9	75.2
NL21	Overijssel	1.79	-0.6	31.3	81.5	32,600	77.1	195.8	77.0
NL22	Gelderland	1.73	1.7	32.4	81.7	33,400	77.1	183.8	75.8
NL23	Flevoland	1.82	-0.7	20.3	81.9	30,600	76.9	119.0	75.3
NL31	Utrecht	1.70	2.7	26.4	82.1	46,800	80.2	189.5	81.7
NL32	North Holland	1.57	4.0	28.0	81.6	51,100	79.3	149.6	80.2
NL33	South Holland	1.67	2.2	28.8	81.8	40,000	75.1	230.9	76.8
NL34	Zeeland	1.87	0.1	39.5	82.3	31,100	79.2	110.4	73.7
NL41	North Brabant	1.64	2.2	32.0	81.5	41,000	78.7	927.7	75.3
NL42	Limburg	1.49	0.7	36.9	81.0	33,700	74.2	350.7	74.2
BELGIUM									
BE10	Brussels Capital Region	1.85	5.1	21.1	80.9	63,300	59.8	216.1	70.9
BE21	Province of Antwerp	1.73	4.2	31.7	82.0	43,200	69.2	331.4	76.1
BE22	Province of Limburg	1.58	3.1	31.1	82.5	30,600	69.7	155.5	74.9
BE23	Province of East Flanders	1.65	4.6	32.4	81.5	33,700	74.0	277.9	76.8
BE24	Province of Flemish Brabant	1.66	5.0	32.1	82.5	39,800	73.9	503.4	83.3
BE25	Province of West Flanders	1.65	3.9	39.0	82.0	35,500	74.0	210.8	76.6
BE31	Province of Walloon Brabant	1.71	6.1	30.8	81.7	40,000	69.3	514.1	83.7
BE32	Province of Hainaut	1.71	3.6	30.3	78.6	23,600	60.0	94.6	68.8
BE33	Province of Liège	1.68	3.9	30.4	79.4	26,400	61.1	207.1	69.9
BE34	Province of Luxembourg	1.79	5.2	27.5	80.1	23,300	68.2	253.0	75.1
BE35	Province of Namur	1.66	5.0	29.7	79.3	25,100	64.2	99.0	76.6
LUXEMBOURG									
LU00	Luxembourg	1.47	20.0	22.4	82.4	89,900	70.7	232.4	78.4

GERMANY

Population size in million (2016)	82.2	Median age (2016)	45.8
Projected population size in million (2030)	84.6	Life expectancy (2015)	80.7
Projected population size in million (2050)	82.7	GDP per capita in euros (2016)	38,000
Total fertility rate (2015)	1.50	GDP per capita at PPP (2016)	35,700
Annual net migration per 1,000 inhabitants (2011-2015)	7.2	Unemployment rate (2016)	4.1

Turn for the Better

For a long time, Germans found it difficult to acknowledge that they live in an immigration country. However, by the start of the 2010s, most had probably come to this realisation. In the past four years, 1.5 million refugees have sought shelter in Europe's most populous country.[1] This has directly to do with the fact that in mid-2015, Germany suspended applying the rules of the Dublin System, which stipulates that refugees must submit their asylum applications in the EU country in which they first set foot, and opened its borders to those seeking a safe haven.

But there is another, less immediate reason: the German economy is booming, making the country attractive not only for asylum seekers but also for numerous other immigrants. In recent years, hundreds of thousands of people have arrived from other EU states along with hundreds of thousands from so-called third countries in order to work, study or join relatives.[2] Many of them see their long-term future in the country that in 2016 had just 4.1 percent unemployment – the second-lowest rate in the EU after the Czech Republic.[3]

Around the turn of the millennium, such a figure seemed all but unattainable. The economy was limping along, every fifth person in eastern Germany was unemployed and the costs of unification had amounted to just under two trillion euros.[4] The British weekly journal The Economist dubbed Germany the "sick man of Europe".[5] This situation had consequences: many people – both native inhabitants and foreigners – left the country because of the poor economic climate. Germany was still recording negative net migration in 2009.[6]

There are various reasons why Germany has been able to remain so resolutely on course after turning the corner. They include the so-called Hartz Reforms of 2002 and 2003, which liberalised the job market and made it more efficient. Other reasons are to be found in external factors, such as the weak euro, which made the export of German goods cheaper.[7] And finally, wage negotiations are largely decentralised in Germany, which means they are conducted between the employer and the individual employee, at the company level or through collective wage agreements with the trade unions. This enabled industry to respond quickly to a lack of competitiveness.[8]

However, Germany's new attractiveness for immigants also carries risks: if most of the new arrivals are not integrated into society and the job market, the result will inevitably be popular dissatisfaction and tensions. Even today, German society appears significantly more divided over this issue than it was in the 2000s. The emergence of the right-wing populist party "Alternative for Germany" is only the most obvious manifestation of that division.

The rapid integration of new arrivals into the job market would be to everyone's advantage: earning their own money would have a socially inclusive effect on migrants and Germany would gain additions to the workforce. The country depends on the latter because of the low fertility rates that have prevailed for more than four decades. Owing to the lack of children, the ratio between workers and pensioners is steadily worsening: if today there are three people of working age to every person aged 65 or over, that ratio is likely to fall to around two to one by 2050. At the same time, the number of people of working age could contract by some eight million.[9] These developments will make it more difficult to finance social security. They may also have a

negative impact on companies – for example, by preventing them from filling vacant positions or realising projects owing to a lack of personnel.

Sound integration law but difficult practice

The number of asylum seekers arriving in Germany reached its peak to date in 2015: almost 900,000 made it to the borders of the federal republic either via the so-called Balkan route or by crossing the Mediterranean and the Alps.[10] That year, the country with a population of around 82 million registered the sixth-largest number of asylum applications per capita in Europe, after Hungary, Sweden, Austria, Norway and Finland. However, this did not reflect the real extent of immigration since many refugees were unable to submit their asylum application until 2016. As a result, Germany had by far the highest rate of asylum applications in Europe in 2016.[11]

Not all the asylum seekers will remain long term in Germany. In 2016, the Federal Office for Migration and Refugees granted just under two-thirds of all asylum applications.[12] However, this has no immediate bearing on integration, which in Germany begins even before the asylum procedure has been completed – the rationale being that because the procedure can be protracted, valuable time may be lost. For this reason, integration courses aimed at imparting the German language and culture often begin shortly after refugees have arrived in Germany. However, they are offered only to people who are considered to have a good chance of remaining in the country, which means all those who come from a country from which more than half of asylum applicants receive a positive decision. Currently, those countries are Syria, Iraq, Iran, Eritrea and Somalia.[13] But meanwhile, all asylum seekers – independent of their country of origin and the stage that their asylum application has reached – have access to the job market after spending three months in the country.

In practice, integration is proving difficult, despite many legal initiatives aimed at facilitating the process. For example, at the end of 2016 the number of people from countries at war or undergoing some other crisis who had found employment was just 60,000 more than in the previous year, while the overall size of this group had grown by more than 600,000.[14] These figures reflect one of the main challenges of Germany's integration policy: many migrants do not have the abilities or skills that are in demand on the German labour market – this means that they neither have a sufficient knowledge of German (or other relevant languages), nor a school education, nor qualifications that can be used on the job market.[15] For this reason, the road to employment is a long one for many. Along the way they are helped not only by the state with its ever more comprehensive integration policy but also by numerous volunteers, who in recent years have contributed significantly to relieving the authorities of some pressure.[16]

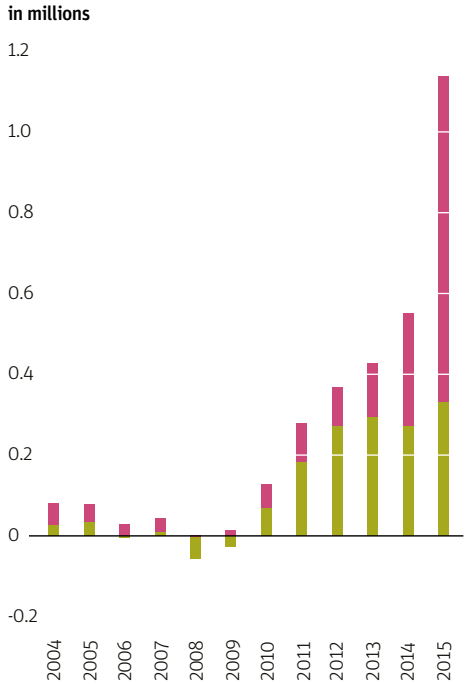
With its comprehensive integration policy, Germany appears to have learned from its past mistakes. During the so-called guest-worker immigration of the 1950s–1970s, the country refrained from promoting integration because the immigrants were supposed to return to their home countries when their contracts expired. But this did not happen. Instead, many brought their families to Germany and thereby settled down there.[17] As a result, there are now 10.7 million people living in Germany who were born in another country. Among the industrial nations, only the United States reports a higher figure.[18,*]

* There are no current data for Russia. In 2011, 11.2 million people who had been born outside of Russia were living in the country.

Ever more immigrants – from near and far

For some years now, the number of new immigrants in Germany has been growing rapidly. If there were more emigrants from Germany in 2009 than immigrants to that country, statistics show a surplus of more than one million people in 2015. And while at the beginning of the 2010s the growth in immigration was driven mainly by the increasing number of immigrants from other EU countries – above all, from the new member states of Poland, Romania and Bulgaria as well as from southern Europe – in recent years asylum seekers from the Middle East have formed the largest group of immigrants. There are still no figures available for 2016. However, they will be significantly lower than those for 2015.

Germany's net immigration by citizenship of immigrants, 2004-2015
(Data source: Federal Statistical Office[37])



Country of engineers

One of the reasons why the migrants find it so hard to find a job in Germany is that companies want to have qualified workers – either university graduates or those who have completed dual-track vocational training. Only some 10 percent of the labour force has neither undergone training nor passed the Abitur (the final school-leaving examination similar to A levels or the Baccalaureate) nor graduated from university – the EU average is 17 percent.[19] Despite the continued importance of in-company training, the number of university graduates has increased significantly, by around 50 percent over the last decade; in 2014, there were 314,000 new graduates. More than one-third of them had studied the MINT subjects, namely mathematics, information science, natural sciences and technology. This is one of the highest figures in the world.[20]

Which subjects are chosen by students indicates which skills are in demand on the German labour market. Industry plays a bigger role in the economy in Germany than in almost any other EU state, accounting for some 23 percent of GDP. One of its strengths has always been automobile manufacturing; in this sector, it can boast three giant concerns – Volkswagen, BMW and Daimler. Each year the German auto industry produces goods worth well over 100 billion euros. That is more than half of all automobiles and auto components made in the EU as a whole. A similarly prominent role is played by German mechanical engineering.[21]

But it is not just the large concerns that are responsible for Germany's economic strength. Compared with other countries around the world, Germany has an extremely well-developed sector of small and medium-sized companies (SMEs), many of which are run by one family. They account for a considerable share of German wealth and are often world leaders in certain niche markets – so-called hidden champions. In 2016, the combination of strong industry and SMEs oriented towards the global market resulted in Germany once again recording the largest export surplus in the world: all in all, it recorded a positive balance of goods and services totalling 297 billion USD or 8.6 percent of GDP.[22]

Strong south and urban areas

The core regions of German industry are the two southern federal states Bavaria and Baden-Württemberg: no fewer than 12 of the 30 DAX-listed companies have their headquarters in one or the other. These economic hubs serve as immigration magnets. Of the ten regions of Germany that recorded the highest per capita net immigration during the period 2011–2015, five are to be found in the southern part of the country. Similarly, the ten richest regions in Germany include five that are located either in Bavaria or Baden-Württemberg.[23]

However, the immigration frontrunners do not include any region in the south; rather, they are the capital, Berlin, and the Saxon city of Leipzig.[24] Berlin has been scoring well for years thanks to its dynamic environment for young entrepreneurs, its three large universities and still low living costs.[25] Meanwhile, in Leipzig it is the trade fair, the university, the airport and not least industrial manufacturing – for example, in automobile construction – that give the city a supraregional appeal. Leipzig's success is symbolic of the end of mass migration from eastern to western Germany: in the first 25 years after the fall of the wall, a total of some 1.8 million people left the former GDR. It was only in 2013 that a migration balance was achieved between the two parts of the country.[26, *]

Unsurprisingly, those regions that have always attracted immigrants on account of their economic strength are also Germany's demographic growth regions. Berlin leads the field by a wide margin: its population is expected to grow by almost one third. It is followed by Upper Bavaria (which includes Munich), Hamburg, Darmstadt (which includes the financial centre Frankfurt am Main), Leipzig, Middle Franconia, Stuttgart and Leipzig.[27]

Gentle increase in the fertility rate

Especially in the case of Germany, population projections are often rather imprecise because of rapid changes in the number of immigrants. For example, in 2013 Eurostat was still expecting the country to record a loss of 2.5 million people by 2030 and as many as 7.5 million by 2050. According to its latest forecasts, there will be modest growth until 2030, after which the population is likely to begin to shrink somewhat; and at mid-century, the number of people living in Germany should be about the same as now – namely, just over 82 million.[28] Rather more sceptical is the Federal Statistical Office, which reckons with a loss of 3 million people by 2050.[29]

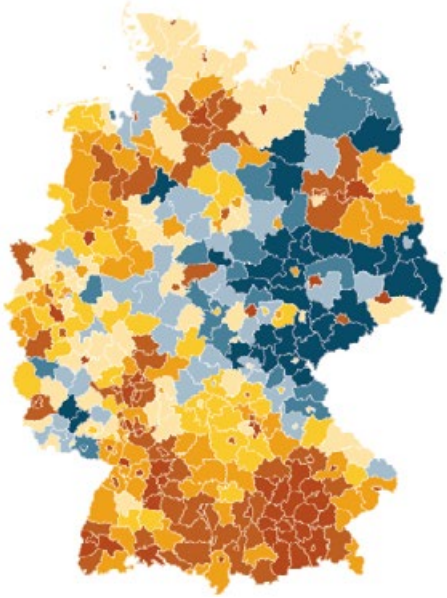
What is certain is that the German population will continue to age. At the beginning of the 1970s, Germany was one of the first countries in which the total fertility rate fell permanently below two children per woman. In the following four-and-a-half decades, it has usually fluctuated between 1.3 and 1.5 children. This means that the aging of German society is already well advanced: around 21 percent of people in Germany are over 64 – in Europe this figure is higher only in Italy and Greece.[30] And because the aging process is ongoing, the difference between the birth rate and the death rate – the natural population balance – is likely to continue to

[*] Berlin is considered part of East Germany here.

grow even if the number of children increases. Currently, the annual deficit is just under 200,000 people; according to the latest projections, it could approach 400,000 by 2050.[31]

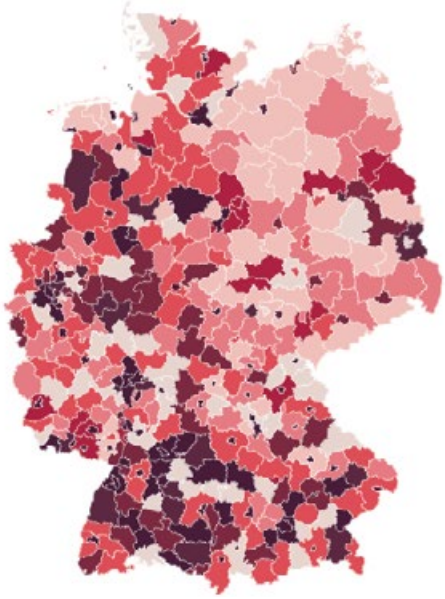
In the long term, it would be to Germany's advantage if the fertility rate rose again. Indeed, in the past few years there have been some signs that this could, in fact, happen: in 2015, women in Germany had an average of 1.5 children for the first time in 33 years – six years earlier, the figure was just 1.36 children.[32] Expressed in absolute terms, this means that German couples had almost 738,000 babies in 2015 compared with 665,000 in 2009.[33] Many observers attribute this increase to a turning point in Germany's family policy, which since the mid-2000s has put growing emphasis on enabling parents to combine a career and family life. For example, in 2013 the legal right to a public day-care place for children over the age of one was introduced. And as regards parental benefit, parents now receive from the state two thirds of their net wage for up to 14 months if they interrupt their career in order to take care of their children. Compared with the previous regulation, which provided for a (rather lower) fixed amount, today's benefit is intended to make it more attractive for those with successful careers to have children too.

To what extent the new family policy is, in fact, responsible for the higher fertility rates continues to be contested within the specialist community. Empirical studies devoted to this subject do not draw any firm conclusions.[34] One factor could be that young couples are not postponing having a family for as long as they used to do; whether they will end up having more children or are just having them at a younger age remains unclear. Moreover, high immigration is contributing to the increase in the number of children: women from other countries living in Germany have significantly more children than do German women – 1.95 compared with 1.43.[35] However, what studies do prove beyond doubt is that women are going back to work sooner after the birth of their children.[36] This shows that the new parental benefit is achieving one of its main goals and is helping to alleviate the decline in Germany's workforce potential.



Population development, in percent, 2011-2015

- Below than -2
- -2 to less than -1
- -1 to less than 0
- 0 to less than 1
- 1 to less than 2
- 2 to less than 3
- 3 to less than 4
- 4 and above



GDP per capita, in euros, 2014

- Less than 20,000
- 20,000 to less than 23,000
- 23,000 to less than 26,000
- 26,000 to less than 29,000
- 29,000 to less than 32,000
- 32,000 to less than 35,000
- 35,000 to less than 38,000
- 38,000 or more

Population development mirrors wealth gap

Germany's population development varies significantly from region to region. While almost all of southern Germany is witnessing population growth, the rural regions of eastern Germany continue to lose inhabitants. Indeed, in eastern Germany it is only large cities like Berlin, Dresden, Leipzig and Erfurt where the number of inhabitants has stabilised. Thus, Germany's population development mirrors economic performance. People move to where there are jobs and the opportunity to earn a good wage. In this way, they further increase the regional divide, because it is mainly older people who remain in the economically weaker regions – as a result of which, ever fewer children are born there.

Population development in Germany's districts and independent municipalities, in percent, 2011 – 2015; GDP per capita in euros, 2014
(Data source: Statistical offices at the federal and state level[38])

SWITZERLAND

Population size in million (2016)	8.3	Median age (2016)	42.3
Projected population size in million (2030)	9.5	Life expectancy (2015)	83.0
Projected population size in million (2050)	11.0	GDP per capita in euros (2016)	73,000
Total fertility rate (2015)	1.54	GDP per capita at PPP (2015)	46,700
Annual net migration per 1,000 inhabitants (2011-2015)	9.0	Unemployment rate (2016)	3.3

Europe's Most International Country

Around a quarter of the Swiss resident population owns a foreign passport.[1] Across Europe, only the small states of Luxembourg and Liechtenstein have a higher share of foreign citizens.[2] More than one third of people aged 15 or over living in Switzerland have a migration background – that is, they either immigrated themselves or have at least one parent who immigrated.[3] In Germany, the corresponding figure is around one fifth of the population.[4] From 2005 to 2015, the number of those immigrating to Switzerland each year exceeded those emigrating by some 65,000 on average. During this period, only populous countries like Italy, Spain, the United Kingdom and Germany had higher net migration in absolute terms.[5]

So far, this mass immigration has largely benefited Switzerland – both demographically and economically – but more recently, it has caused some problems: there is a sense of unease that is expressed through the use of phrases such as "population density pressures" and "being overrun by foreigners" and has led to the strengthening of right-wing populists. Yet nationalist policies would jeopardise the economic prosperity of the country, which is not only an important international financial centre but also the home of global companies – ranging from the world's largest food concerns to pharma and chemical firms and manufacturers of precision instruments.

From emigration country to immigration magnet

For almost three centuries, demographic pressures, poverty and too few jobs meant that the region that today is Switzerland constantly experienced negative net migration. It was only in 1890 that this situation changed. In the course of industrialisation and the construction of the railway network, Switzerland hired foreign workers, above all from Italy.[6] After the Second World War, it once again drew on "foreign labourers" and "seasonal workers" from its Southern neighbour and later from other countries in southern and south-eastern Europe as well. But Switzerland was unable to adhere for long to the principle of taking in migrant labour only for a limited period. Since the 1960s, the share of foreigners has increased almost continuously, not least owing to immigrants being followed by their family members.[7] From the 1990s onwards, refugees increasingly poured into the country. In response to both of these developments, the laws on aliens and asylum seekers were tightened. EU citizens are exempt from the restrictive immigration policy. Since 2002, under the Agreement on the Free Movement of Persons, they have been able to freely choose to live and work in the non-EU state of Switzerland.[8]

Without immigration, the population of Switzerland would shrink: since the 1970s, the average number of children per woman has fluctuated between 1.4 and 1.6; in 2015, the figure was 1.54. In this respect, Switzerland resembles its German-speaking neighbours Germany and Austria.[9] But thanks to immigration, since 2007 the population has grown on average by around one percent annually.[10] And since 1985 it has increased by 1.8 million to its current level of 8.3 million. During this period, the number of foreign residents has risen by a good one million.[11]

Switzerland's attractiveness for those willing to emigrate can be attributed, above all, to the wage levels in the country at the heart of Europe, which are the highest on the continent, and to the excellent quality of life.[12] The economic situation is stable, although various crises have shaken the nation: the rejection in 1992 of its accession to the European Economic Area, followed by a period of stagnation and then the insol-

vency of the national air carrier, Swissair, the near collapse of the major bank UBS and the lifting of bank secrecy under pressure from abroad.[13] And since the beginning of 2015, the increase in the value of the franc against the euro has made life difficult for export-oriented industry and tourism. Nonetheless, with GDP per capita of some 73,000 euros, Switzerland ranks second within Europe, after the banking centre of Luxembourg.[14] Moreover, it occupies first place in the Global Competitiveness Index.[15]

Switzerland owes these economic strengths to the innovative power of its companies, the flexible labour market – and immigration. The demand for skilled workers, engineers and managers increased significantly from the end of the 1990s onwards because many firms focused on knowledge-intensive activities with high value added instead of shifting towards jobs for low-qualified labour abroad.[16] With the free movement agreement of 2002, it became easier for Swiss companies to recruit skilled workers from the EU and the EFTA states. Within ten years, the share of immigrants from these countries rose from close to zero to almost two thirds of all newcomers. The ratio of highly to lowly qualified immigrants has almost reversed since the 1980s. Today, more than half of new immigrants have graduated from university and another quarter or so have a secondary education.[17] According to the Swiss Medical Association, the country would no longer be able to provide medical care without immigration: around one third of working medical doctors in Switzerland are foreigners; of these, Germans alone account for half.[18] Hospitals have been able to increase the number of nurses only thanks to foreign labour.[19]

Not even the free movement agreement has changed the fact that since the 1990s unemployment has remained uninterruptedly low. Strong immigration has not displaced those who have worked for many years in Switzerland.[20] On the contrary, new jobs are constantly being created in the country. Since the turn of the millennium alone, the number of working people has risen from four to five million.[21] This is an advantage when it comes to dealing with the consequences of aging, which include, above all, the growing number of pensioners. Immigration can slow down the demographic aging of Switzerland at least to a certain extent: while the share of the over 64s in the total population – at some 18 percent – is still just below the EU-28 average, the Swiss, together with the Spaniards, are the longest-living Europeans with an average life expectancy of 83 years.[22]

Increasingly crowded in the Mittelland, empty in the mountains

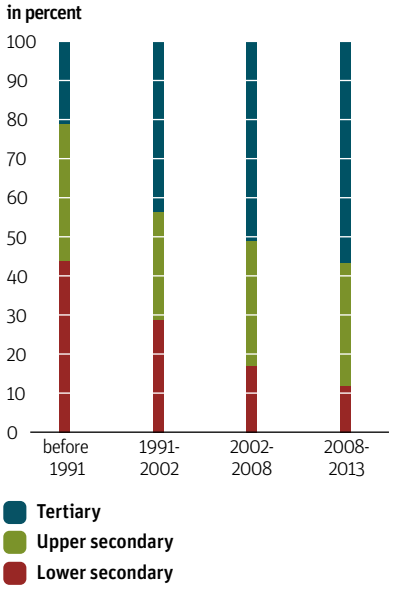
However, unfavourable consequences of the population growth are becoming increasingly evident: today, more than two-thirds of the Swiss population is already concentrated on just under one third of the total land area – in the so-called Mittelland, located between the Jura mountain range and the Alps, which includes the business centres of Geneva, Basel and Zurich. Those living in the Mittelland have been drawn to this region since industrialisation, and it is here that most immigrants settle. In the cities of the Mittelland, housing is in short supply and expensive. For this reason, many employees commute from the suburbs, the more rural areas and the neighbouring regions on the other side of the border, bringing roads and rail networks almost to breaking point. Overcrowded trains and traffic jams are becoming ever more frequent. Owing to the continued demand for housing, the Mittelland is being rapidly overdeveloped, while natural and recreational areas are disappearing.

At the same time, areas at higher altitude, which have always been less densely populated, are losing jobs and residents. The strong franc and the mild winters are causing a collapse in tourism, which for many mountain regions is the most important economic sector. Construction, too, is making losses because the demand for holiday homes has declined, while hydropower is no longer as

More workers thanks to free movement

Switzerland's companies and healthcare system are in urgent need of skilled workers. While the Swiss education and training system is good, the country is unable for demographic reasons to meet this demand from its own resources. Since 2002, when the freedom of movement between Switzerland and the European Economic Area entered into force, it has become easier to hire qualified workers from the EU and the EFTA states. These have flocked in increasing numbers to high-wage Switzerland – and the share of those who are highly qualified has significantly grown. The educational level of this group of the population exceeds the average for Switzerland as a whole.[31]

Qualifications of the working foreign population from the EU-27 and the EFTA states in Switzerland by period of immigration, in percent, 2014*
(Data source: Staatssekretariat für Wirtschaft[30])

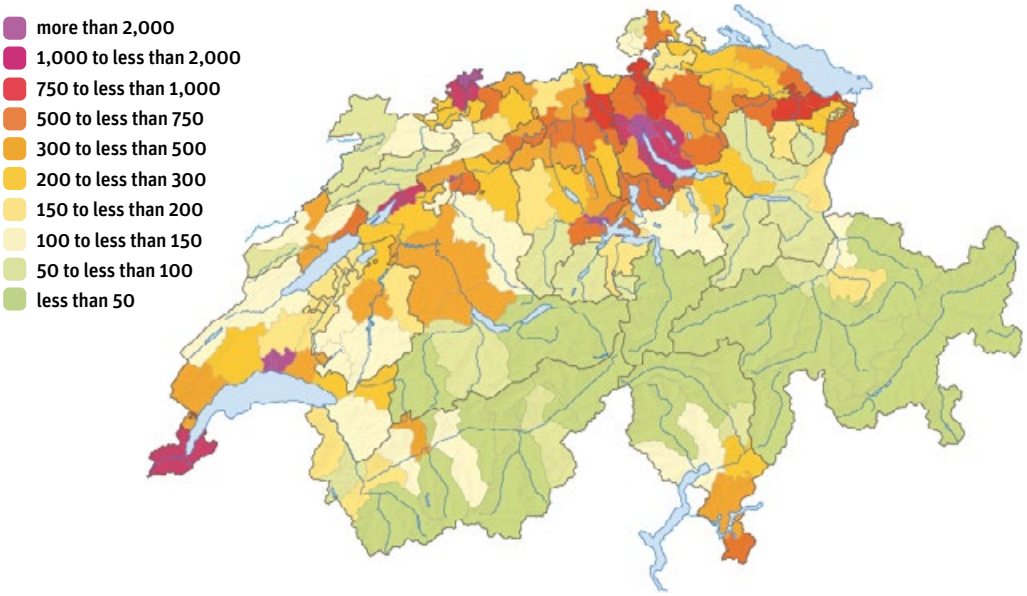


* The figures refer in each case to the period from June to May.

Densely populated Mittelland

On average, Switzerland is less densely populated than, for example, the Netherlands, Belgium, the United Kingdom or Germany. However, more than two-thirds of the Swiss population are concentrated in the Mittelland, a narrow strip of land that stretches from Lake Constance in the northeast to Lake Geneva in the southwest and accounts for some 30 percent of Switzerland's total land area. The Alps cover 60 percent of the total land area but are home to just 11 percent of the population.[33]

Inhabitants per square kilometre by district in Switzerland, 2015
(Data source: BFS/ThemaKart[32])



important owing to the energy revolution and lower electricity prices.[23] Above all, it is people of working age who are leaving the mountain regions.

Take the Val Calanca: just 800 people continue to live in this deeply gouged valley in the south of Grisons Canton.[24] The sole large employer in the valley is a quarry; otherwise, it is only the timber industry and tourism that offer employment. Other jobs for the valley residents can be found only outside the valley – for example, in nearby Ticino. For every 100 people of working age (20-64) in the Val Calanca, there are 50 who are older than 64; thus, the share of older people in the total population is more than one-and-a-half times the Swiss average.[25] In the 1980s and, again, in 2015, communities were merged to make the valley administration more efficient.[26] Within the framework of the "New Regional Policy", which came into force in 2008, the confederation is seeking, together with the affected cantons, to halt the depletion of the mountain regions and promote the structural reform of the economy and tourism. Thus, from time to time, funds have been pumped into the region surrounding the Val Calanca as well; that money was intended for "Preserving the Cultural Landscape " and the planning of a national park, which, however, did not materialise.[27]

How to limit immigration without incurring losses?

If immigration were to continue, the resident population of Switzerland could surge from today's 8.3 million to 9.5 million by 2030 and even 11 million by 2045.[28] Even now, population growth is causing discomfort. Among the established population, there is concern about the alleged loss of traditions and a fear of "being overrun by foreigners". Right-wing populists – above all, the Swiss People's Party (SVP), which since 2003 has had the largest representation in the larger of the two chambers of the parliament – are further fomenting such fears.

Indeed, through the passage of its new law on aliens back in 2006, Switzerland had already restricted residence and access to the labour market for foreigners to whom the free movement agreement did not apply. At the same time, a popular initiative led to the tightening of the law on asylum seekers, which had once been regarded as particularly liberal. Since then, the authorities no longer accept in principle any asylum applications from those who do not have valid legal documents.[29]

In 2014, the popular initiative "Against Mass Immigration" launched by the SVP succeeded in gaining the support of a narrow majority of 50.3 percent of those eligible to vote. It demanded that policymakers limit immigration through annual maximum levels and quotas that take into account the economic situation in Switzerland. The government must now perform a balancing act between reducing immigration from the EU and not violating the free movement agreement – which is coupled to the so-called Bilateral Contracts between Switzerland and the EU. Without these, it would become more difficult for the Swiss export sector to continue to trade with its most important sales market. For the time being, it seems that the parliament has understood this and, accordingly, has passed a moderate law without explicit quotas.

AUSTRIA

Population size in million (2016)	8.7	Median age (2016)	43.0
Projected population size in million (2030)	9.7	Life expectancy (2015)	81.3
Projected population size in million (2050)	10.2	GDP per capita in euros (2016)	40,000
Total fertility rate (2015)	1.49	GDP per capita at PPP (2016)	36,700
Annual net migration per 1,000 inhabitants (2011-2015)	7.3	Unemployment rate (2016)	6.0

The Immigration Sceptic

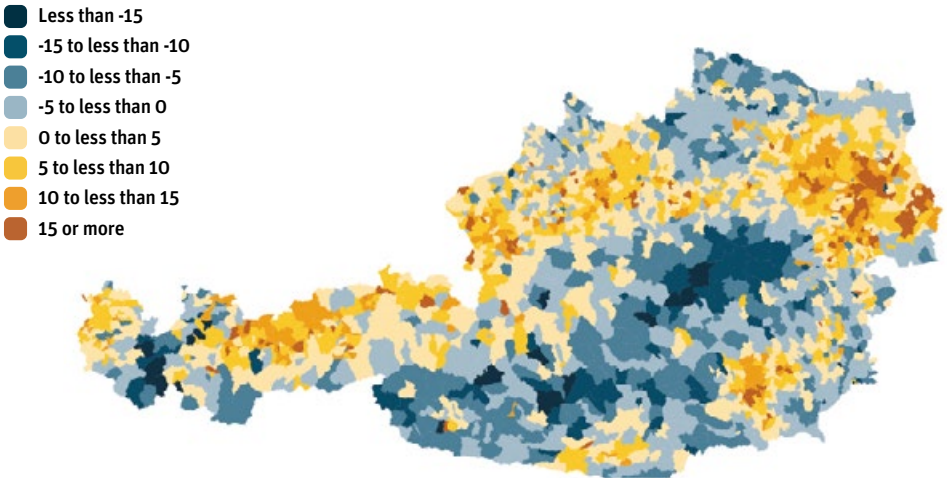
Austria is familiar to many people primarily as a tourist destination. Yet more and more people are travelling there not to spend their holidays but to live and work. In 2015, around 113,000 more people arrived in Austria than left, resulting in a net migration rate of 13 migrants per 1,000 inhabitants.[1] In Europe, only Luxembourg and Germany had higher such rates. Austria's attractiveness is based, above all, on its high standard of living and its still very low unemployment rate. But the country's geographical location on the so-called Balkan route no doubt contributed to the dramatic rise in immigration that the country saw in 2015, for the majority of recent immigrants have been refugees. In response to this flow of people seeking protection, Austria was one of the first countries in Europe to take restrictive measures to try to curb immigration.

Eastern opening as a driver of growth

Austria is one of Europe's most prosperous countries. At 40,000 euros, its per capita GDP is higher than that of its northern neighbour Germany.[2] This is all the more surprising if one recalls that in the 1960s, it was only around four-fifths of the corresponding figure for Germany.[3] In terms of employment, too, Austria is in a good position: at six percent, its unemployment rate is one of the lowest in the EU.[4] This economic upswing has been due in part to Austria's benefiting from the geopolitical shifts that came in the wake of the fall of the Iron Curtain. As the "link" between Eastern and Western Europe, Austria welcomed the EU eastern enlargement in 2004 following the end of socialism and its own accession to the EU in 1995. According to various studies, annual economic growth was as much as one percentage point higher than it would have been without these political changes.[5] Most of this additional growth can be explained by trade. Exports to Hungary, Slovenia, the Czech Republic, Slovakia

Urban regions as centres of growth

The population of Austria grew between 2006 and 2016 by around 400,000 people, thanks almost entirely to immigration. Growth is strongly concentrated in cities and their environs – the areas that traditionally attract migrants. The metropolitan area of Vienna grew the most. By contrast, the centre of the Alpine state, especially northern Styria where mining plays a key role, is losing population. But in some tourist regions of the Austrian Alps the population is shrinking, too; the municipality of Ischgl, a popular ski resort, has seen the biggest losses.



Change in population size in percent, 2006–2016
(Data source: ÖROK[33])

and Poland have more than quadrupled since 1995.[6] Overall, more than 20 percent of Austrian exports in 2016 were to East European countries.[7] In addition, Austrian banks and companies are today important investors in Central and East European countries. Indeed, the Alpine state is the leading investor in Bosnia-Herzegovina, Croatia, Slovenia and Serbia.[8]

Although Austria survived the global financial crisis relatively well, economic development has lost momentum since then and the country has increasingly fallen behind its European neighbours in terms of growth since 2013; in addition, unemployment has continued to rise in recent years, bucking the general European trend.[9] According to the Austrian Institute of Economic Research, this is due mainly to the large number of immigrants seeking work on the Austrian labour market.[10]

A magnet for internal EU migration

High immigration figures are nothing new in Austria. Even though politicians and the media long persisted in defining it as a "country of non-immigration", Austria – especially Vienna – has a strong tradition of immigration. Since the 1960s, when the arrival of the first so-called guest workers resulted in high immigration figures, Austria's net migration has mostly been positive. Today, around 18 percent of the population were born abroad. Thus on this indicator, Austria occupies second place in the EU behind Luxembourg.[11]

A large proportion of the immigration gains of recent years can be accounted for by citizens of other EU countries. Since the EU's eastern enlargement, Romanians and Hungarians in particular have emigrated to Austria,[12] attracted, like other migrants from Eastern Europe, by high wages and a higher standard of living than at home. Many of them find employment as seasonal workers in the tourism sector.[13] Alongside workers, a growing number of people are coming to Austria to study. In the 2014–15 winter semester, Austria had more than 88,700 foreign students. The Alpine state is a particularly popular place to study among Germans, who made up around 40 percent of the foreign students in 2014–15.[14] In general, immigrants are very heavily concentrated in the capital, Vienna – much more so than in the case of Berlin with respect to immigrants to Germany. In 2015, for example, around seven times as many people from other countries went to Vienna than to the next-smaller cities of Graz, Linz and Salzburg.[15]

The "upper limit" and an integration policy with room for improvement

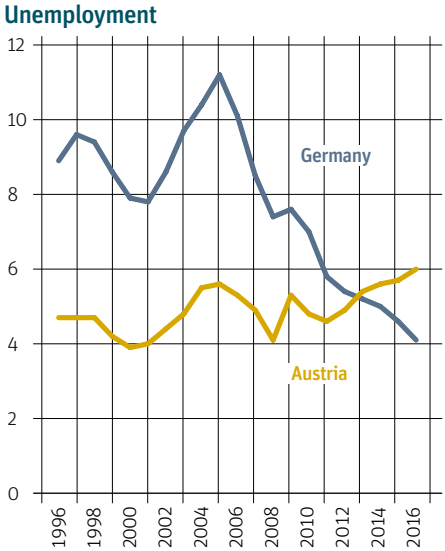
The number of those seeking refuge in Austria increased sharply following the conflicts in the Middle East. The number of applications for asylum rose in 2015 to more than 88,000. This figure was much higher than in earlier periods when there were major influxes of refugees into Austria, such as during the wars in the former Yugoslavia, especially that in Kosovo.[16] Altogether, the number of applications for asylum rose almost fivefold between 2013 and 2015. Relative to the number of inhabitants, Sweden and Hungary were the only EU countries in 2015 in which more such applications were submitted.[17] In summer 2015, Austria reached its limits in accommodating and taking care of refugees. Many makeshift reception centres became hopelessly overcrowded, and the federal states and municipalities provided only limited funds for allocating people to alternative accommodation.[18]

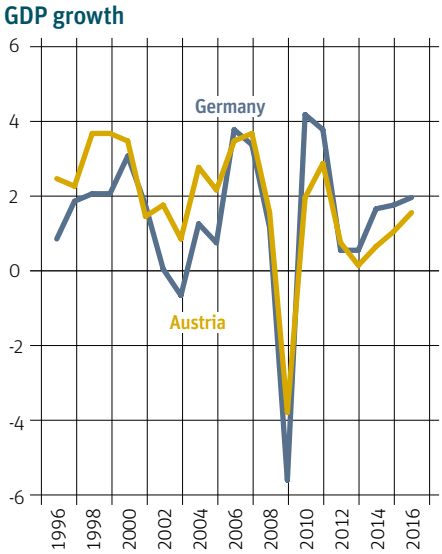
The government reacted with restrictive measures. It began in 2015 by tightening border controls and erecting a fence along its border with Slovenia. In January 2016, Austria became the first European country to introduce a threshold for the number of asylum applications. According to this controversial "upper limit", a maximum of 37,500 applications per year will be accepted from

Germany is catching up

Following the country's accession to the EU, the Austrian economy experienced a boom and until recently was doing better than the German economy in many respects. But now it seems to have run out of steam: in 2013, the unemployment rate in Austria exceeded that in Germany for the first time in years; and it has since continued to rise. Germany has overtaken Austria in terms of economic growth, too.

Unemployment rate and GDP growth in percent, 1996–2016
(Data source: Eurostat[34])





now on – indeed, the number of applications in 2016 was just 42,000.[19] Finally, in April 2016, the government tightened the law on asylum, reducing the period in which protection would be guaranteed from five to three years and making it more difficult for family members to join people granted asylum.[20] The more stringent regulations affected those entitled to subsidiary protection in particular. They will now have to wait three years rather than one before their families can join them.[21]

Even before these recent changes in the law, Austria's immigration regulations were regarded as some of the most restrictive in Europe. The fact that asylum seekers are not allowed to work until they have received a positive response to their asylum application delays their integration by months, if not years, in many cases. Until now, their only hope was to obtain one of the limited number of Austrian work permits in order to gain a foothold in the Austrian labour market more quickly.[22] And whereas immigrants to Sweden, France or the Netherlands can normally apply for citizenship after five years of permanent residence, in Austria they have to wait twice as long.[23] Not least for this reason, Austria had one of the EU's lowest naturalisation rates in 2014, along with Slovakia and Latvia.[24] This has a detrimental effect on migrants' opportunities for political participation – around a quarter of Viennese of voting age are unable to exercise this right because they do not hold Austrian citizenship.[25]

Like in other European countries, the debate on migration by refugees has had an impact on the political situation in the Alpine state. This was clearly illustrated by the presidential election in 2016, in which neither the candidate of the conservative ÖVP nor that of the Social Democrat SPÖ polled enough votes to stand in the run-off. Instead, Norbert Hofer, the candidate of the right-wing populist Freedom Party (FPÖ) won over 35 percent of the vote in the first round, more than the two ruling parties put together. In the end, it was the Green candidate, Alexander van der Bellen, who won the election by a small majority.[26]

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
GERMANY									
DE11	Stuttgart	1,53	8,4	32,3	81,9	48.400	82,1	841,4	85,6
DE12	Karlsruhe	1,46	8,7	32,6	81,4	41.600	80,4	716,7	85,4
DE13	Freiburg	1,51	8,7	33,1	81,9	36.000	82,3	695,1	86,5
DE14	Tübingen	1,53	7,5	31,9	82,0	40.100	82,9	690,5	87,0
DE21	Upper Bavaria	1,49	11,6	31,3	82,1	53.200	83,1	862,8	90,1
DE22	Lower Bavaria	1,49	9,2	32,2	80,4	36.400	81,7	300,7	88,2
DE23	Upper Palatinate	1,46	6,4	31,6	80,5	38.600	79,9	783,9	86,5
DE24	Upper Franconia	1,41	3,4	36,1	80,1	34.200	80,6	399,1	88,0
DE25	Central Franconia	1,48	8,8	33,0	80,6	40.500	80,3	887,0	86,1
DE26	Lower Franconia	1,47	3,2	34,2	81,3	37.200	81,1	617,4	87,3
DE27	Swabia	1,54	9,0	33,5	81,6	36.900	82,3	514,2	86,7
DE30	Berlin	1,46	13,4	30,5	80,5	35.600	75,3	328,3	86,3
DE40	Brandenburg	1,53	6,2	38,6	80,3	26.500	80,4	168,2	93,6
DE50	Bremen	1,51	8,7	34,9	79,8	47.500	74,8	175,5	81,6
DE60	Hamburg	1,45	8,7	29,6	80,9	61.700	78,9	396,4	86,2
DE71	Darmstadt	1,51	10,4	32,1	81,3	48.800	78,4	475,5	84,2
DE72	Gießen	1,42	5,3	33,3	80,6	31.400	77,7	387,3	86,5
DE73	Kassel	1,52	5,0	37,5	80,4	34.300	79,7	304,5	88,3
DE80	Mecklenburg-Western Pomerania	1,54	3,8	37,9	79,9	24.900	75,6	77,0	92,5
DE91	Braunschweig	1,48	6,5	37,2	80,2	39.100	75,3	362,9	85,9
DE92	Hanover	1,48	7,2	36,9	80,3	35.100	76,5	402,2	84,6
DE93	Luneburg	1,59	7,0	37,5	80,7	25.300	80,2	249,4	86,7
DE94	Weser-Ems	1,55	7,0	33,4	80,4	32.200	79,2	219,2	84,9
DEA1	Düsseldorf	1,51	6,8	35,4	80,1	39.800	74,7	461,7	81,1
DEA2	Cologne	1,48	7,7	32,2	80,8	39.300	76,9	423,9	82,8
DEA3	Münster	1,55	5,9	32,6	80,6	31.300	76,3	305,2	84,2
DEA4	Detmold	1,60	4,6	33,9	81,1	35.200	78,7	547,3	83,3
DEA5	Arnsberg	1,50	4,8	35,4	79,7	32.600	74,4	386,6	80,7
DEB1	Koblenz	1,54	4,4	36,6	80,6	31.400	79,5	261,7	83,1
DEB2	Trier	1,46	8,3	32,4	80,8	28.500	80,4	165,8	86,4
DEB3	Rhenish Hesse-Palatinate	1,51	6,7	33,8	80,9	34.900	77,4	574,8	82,4
DEC0	Saarland	1,38	4,3	37,7	79,7	35.400	75,7		84,3
DED2	Dresden	1,61	4,1	42,6	81,0	27.900	80,5	234,1	95,4
DED4	Chemnitz	1,66	1,1	47,6	80,4	25.900	79,9	152,3	96,0
DED5	Leipzig	1,51	12,7	37,2	80,5	30.100	78,5	145,2	95,0
DEE0	Saxony-Anhalt	1,54	1,6	42,4	79,2	25.100	76,9	69,9	93,2
DEF0	Schleswig-Holstein	1,52	7,7	38,5	80,5	30.200	78,5	294,6	87,7
DEG0	Thuringia	1,56	2,3	40,6	80,0	26.300	79,1	223,7	95,2

Pay-as-you-go pension system

Continuing immigration is responsible for the fact that the population of Austria is likely to grow in the future. Whereas almost half of the present member states of the EU will probably have fewer inhabitants by mid-century than they do today, the population of Austria is likely to grow from 8.7 to 10.2 million. This is significant, given that at 1.49 children per woman the Austrian fertility rate is way below the replacement level of 2.1 children necessary to keep the size of the population stable in the long term without immigration.[27]

In 2015, around half of foreign migrants were aged between 20 and 35 and were hence much younger than the average age of the native population – 42.[28] The new arrivals are thus helping to slow down the aging of the population. Without them, the number of people of working age having to provide for an ever-increasing number of pensioners would fall even faster than it is already. This is a key factor in financing the Austrian pension system. Unlike that in Germany, the Austrian system is built almost entirely on a pay-as-you-go state pension scheme. Private and occupational pensions scarcely have a role to play. In addition, paying into the state pension system is mandatory for almost all of those in employment, including the self-employed and civil servants. People with low pensions also receive a tax-financed "compensatory allowance" designed to protect people from poverty in old age.[29] All of this reduces some of the risks to which fully funded pension systems are exposed, but it also makes the Austrian system vulnerable to demographic shifts and relatively expensive: in 2014, expenditures on pensions were almost 15 percent of GDP and thus the fifth highest in the EU.[30]

Nevertheless, the prospects for old-age provision are not bad, partly as a result of immigration. While in Austria too, expenditures on the pensions system will rise in future, the increase will be manageable, according to the Ageing Report of the EU Commission. Calculations for the period up to 2060 suggest that the cost of pensions is likely to rise by 0.5 percent of GDP over the 2013 level – the figure for Germany will be between two and three percent.[31] However, immigrants will be able to cushion the effects of Austria's demographic burden only if they are successfully integrated into the labour market – and certainly better than they are to date. At 66 percent, the employment rate among foreigners was ten percentage points below that of native Austrians in 2015.[32]

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
SWITZERLAND									
CH01	Lake Geneva Region	1.53	10.9	27.3	83.4	62.889	78.8	491.1	84.6
CH02	Espace-Mittelland	1.55	8.6	31.1	82.6	59.939	85.2	411.7	88.7
CH03	Northwestern Switzerland	1.50	8.9	29.9	82.8	67.469	83.5	952.6	89.7
CH04	Zurich	1.53	9.3	26.6	83.2	80.424	85.0	641.4	90.9
CH05	Eastern Switzerland	1.59	7.1	29.3	82.9	57.625	84.6	509.6	88.7
CH06	Central Switzerland	1.57	7.6	27.3	83.1	63.674	85.9	456.3	89.8
CH07	Ticino	1.44	11.0	36.5	83.7	68.723	75.8	520.0	86.2
AUSTRIA									
AT11	Burgenland	1.37	7.8	34.2	81.2	27.500	73.1	127.2	83.5
AT12	Lower Austria	1.53	6.7	32.6	81.0	32.500	76.5	285.4	85.3
AT13	Vienna	1.42	13.9	26.1	80.4	47.700	68.0	259.5	83.1
AT21	Carinthia	1.43	3.1	34.4	81.4	33.300	73.0	209.8	89.4
AT22	Styria	1.44	5.3	31.9	81.3	35.400	74.6	431.0	86.0
AT31	Upper Austria	1.61	5.1	29.2	81.5	40.300	78.8	479.4	84.3
AT32	Salzburg	1.55	4.8	29.3	82.4	46.100	78.3	270.5	86.2
AT33	Tyrol	1.52	6.7	27.9	82.4	42.000	77.8	353.0	82.1
AT34	Vorarlberg	1.64	4.7	27.5	82.4	42.300	80.1	1.124.1	80.4

HUNGARY

Population size in million (2016)	9.8	Median age (2016)	41.9
Projected population size in million (2030)	9.7	Life expectancy (2015)	75.7
Projected population size in million (2050)	9.3	GDP per capita in euros (2016)	11,500
Total fertility rate (2015)	1.45	GDP per capita at PPP (2016)	19,500
Annual net migration per 1,000 inhabitants (2011-2015)	1.2	Unemployment rate (2016)	5.1

Discontent among Citizens and Poverty in the Puszta

The Hungarian economy has been through hard times since the budget crisis of 2006 and the global financial crisis that followed it. Far-reaching reforms have, however, helped the economy to slowly recover. Nevertheless, Hungary is one of the poorest countries in the EU. In 2016, GDP per capita was the equivalent of 11,500 euros, barely 40 percent of the EU average. Only in Bulgaria, Romania, Croatia and Poland is the economy weaker.[1] Not least for this reason, Hungarians are less satisfied with their lives than the citizens of most other EU countries. The number of Hungarians seeking their fortunes abroad continues to rise. Yet the issue that dominates political discourse in Hungary is not increasing emigration but the large number of refugees immigrating to Hungary.

Stabilising investments

In 2008, Hungary became the first EU country to apply for financial assistance from the International Monetary Fund (IMF). Unlike in the EU's other crisis states, the economy had already begun to go downhill in Hungary in 2006. For more than half a decade, the Hungarian government had been spending large amounts of money in a bid to stimulate the domestic economy. On the eve of the global financial crisis, this culminated in a national budget crisis.[2] In 2008, the EU, the IMF and the World Bank came to the rescue with a package totalling 25 billion US dollars.[3] Now, almost a decade after the crisis began, the Hungarian economy finally seems to be getting back on its feet. With growth rates of between two and four percent, Hungary has been surpassing the EU average in recent years. State-sponsored job-creation schemes have helped to slash unemployment from 11.2 percent in 2010 to 5.1 percent in 2016.[4]

The moderate growth of the Hungarian economy is due mainly to the significant increase in exports, a higher level of private consumption and more foreign direct investment. In 2016, the country exported goods and services worth more than 100 billion euros and had a trade surplus of 11.6 billion euros.[5] Eighty percent of those exports went to other EU countries, more than a quarter to Germany – Hungary's most important trading partner.[6] Moreover, direct investment comes mainly from Germany.[7] The main actors are German automobile companies, above all Audi, Daimler and Opel. Since 1993, Audi has invested more than eight billion euros and created more than 11,400 jobs in Györ, the centre of the Hungarian automobile and machine-building industry in the northwest of the country.[8] In March 2016, ThyssenKrupp announced plans to invest around 100 million euros in a new automobile supplier factory 70 kilometres east of Budapest.[9] Thanks to the comparatively low level of wages, Hungary is an attractive production location for foreign concerns. Average monthly earnings were less than 780 euros in 2014, which is even lower than in either Poland, the Czech Republic or Slovakia – all of which are popular target countries for foreign investors, too.[10]

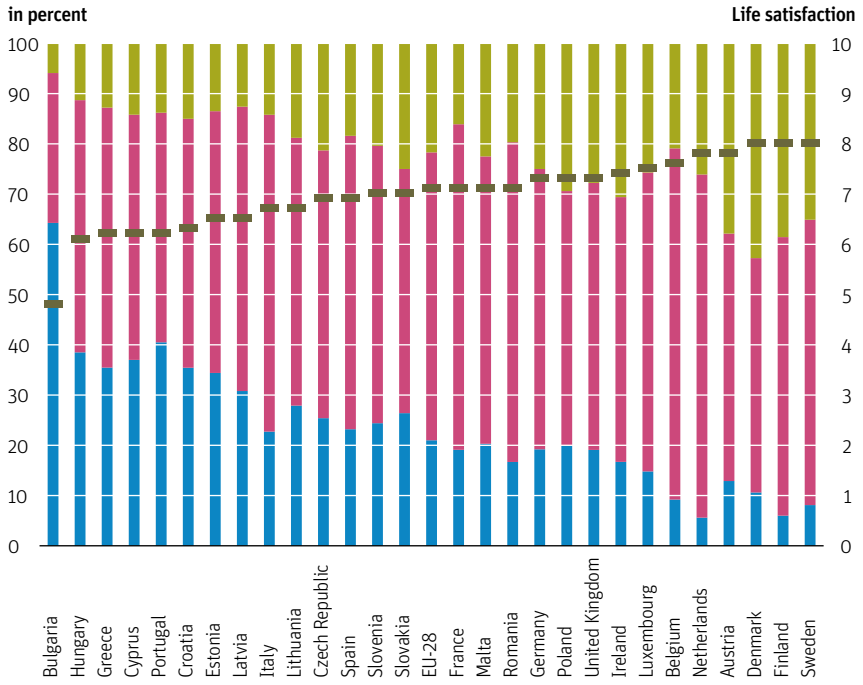
In addition, money from the EU has helped to stabilise the Hungarian economy. Contrary to what the frequently EU-critical rhetoric of the Orbán government would suggest, Hungary is, in GDP terms, the biggest net recipient of EU financial assistance after Bulgaria.[11] The EU's structural funds have pinpointed infrastructure projects in less developed regions far from the capital and the wealthier western part of the country. The fact that Hungary is dependent, at least to some extent, on this EU assistance is evident from the EU's influence on economic growth. As the OECD had predicted, economic growth was lower in 2016 than in the two previous years because when the EU regional policy programmes came to an end, the money to realise many projects ran out.[12]

Dissatisfied losers from the crisis

How satisfied EU inhabitants are with their lives varies considerably from state to state. Alongside Hungary, it is mainly countries that have suffered most from the global economic crisis – Greece, Cyprus and Portugal – whose populations tend to be dissatisfied. In the wealthier EU countries in northern and Western Europe, people are generally more satisfied with their lives. The Scandinavians are the most satisfied of all. On average, they rate their satisfaction with their general living conditions 3.2 points higher than the Bulgarians, who are the most dissatisfied Europeans.

General satisfaction with life (from 0 to 10) and percentage share of people who rate their satisfaction as high, medium, or low, 2013
(Data source: Eurostat[38])

- low (9-10)
- medium (6-8)
- high (0-5)
- average value



Declining competitiveness

Despite the major importance of foreign concerns for Hungary's economy, the government introduced special taxes for international investors in 2010. These were designed to make companies in the financial, energy and telecommunications sectors contribute to reducing Hungary's state debt. At the same time, the government is trying to support manufacturing and domestic small and medium-sized enterprises (SMEs).[13] To this end, it lowered the tax rates for SMEs.[14] To strengthen these companies and encourage their productivity, the Hungarian National Bank set up a "Funding for Growth Scheme" in 2013 to give them easier access to affordable loans.[15]

The reforms implemented and the current upward trend cannot, however, disguise the fact that the Hungarian economy suffers from grave structural problems. Hungary has now fallen behind all other East European EU member states in terms of competitiveness. Analysts at the World Economic Forum rate the uncertain political environment and corruption as the biggest obstacles for business.[16] Real labour productivity per employed person, which in 2009 exceeded that in the Czech Republic and Slovakia, is now lower than in these countries.[17]

A low level of satisfaction and regional differences

The Hungarians are among those EU citizens who are least satisfied with their lives. More than 38 percent of the population rated their satisfaction with their general living conditions as "low" in 2013. Within the EU, only the Bulgarians were more dissatisfied. Particularly bad is how the Hungarians evaluated their financial situation.[18] Indeed, their disposable income for private consumption is one of the lowest in the EU. Around 30 percent of the population cannot afford essential expenditures on living accommodation and everyday goods.[19]

Poverty and prosperity are very unevenly distributed in Hungary. In the north and on the Great Hungarian Plain, across which the extensive steppe known as the Puszta stretches, the risk of poverty – at almost 20 percent – is almost double that in the region around the capital, in central Hungary and in Transdanubia, located in the west of the country.[20] Wealthiest of all are the inhabitants of Budapest, where per capita GDP is 1.5 times higher than the national average and three times higher than in the poorer regions of northern Hungary and the Plain. For this reason, people are increasingly leaving the economically weak regions east of the Danube. With the exception of central Hungary and west Transdanubia, net migration in the past five years has been negative in all regions.[21] Budapest is a magnet for many Hungarians, as are other member states of the EU, above all the United Kingdom, Germany and Austria.[22]

Following its accession to the EU in 2004, Hungary initially experienced only a low level of emigration. But in the crisis years from 2007 onwards, the number of those leaving their homeland increased.[23] When the transitional arrangements for access to the labour market in Germany and Austria came to an end in 2011, emigration increased further. While Hungary's net migration is still positive overall, owing to the fact that ethnic Hungarian minorities from neighbouring countries are still settling in Hungary,[24] in recent years more than 40,000 people have left the country – almost ten times as many as in 2006. Those emigrating include, above all, young, well-qualified people, of whom there are likely to be a shortage in the long term in this strongly-industrialised country.[25]

Only central Hungary, which incorporates the capital Budapest, has gained population since 2009. Indeed, the country's only major city is likely to grow by almost half a million people by mid-century, whereas the Hungarian population as a whole looks set to shrink by about the same number over the same period. The population divide between the region around the capital, where a third of the total population already lives today, and the rest of the country is hence likely to grow even larger.[26]

A shrinking population is nothing new in Hungary: between 1980 and 2016, the size of the population fell from 10.7 to 9.8 million people. As in most former Eastern bloc states, the low fertility rate is the main reason for this shrinkage. Whereas in 1990, 1.87 children were born per woman, today the figure is just 1.45. The fact that since 2007 especially young men and women of childbearing age have been leaving Hungary is likely to have a noticeable negative impact in the future.[27] Recently, the government has taken more measures to address this dearth of children – for example, via the "CSOK" programmelaunched in 2015, which provides state housing assistance. Every family that already has or promises to have at least three children receives state assistance of up to 10 million forint, the equivalent of 32,000 euros, to build or purchase their own home. In addition, they are offered the option of taking out a loan of another 10 million forint. A positive side effect is that not only Hungary's families benefit from this programme but also the Hungarian construction industry.[28]

A hard line against refugees

It seems unlikely that the shrinking of the Hungarian population will be cushioned by immigration, as in the case of Austria, for example. For unlike its western neighbour, Hungary has little experience with immigration. At barely five percent, the share of foreigners in the total Hungarian population is at a similarly low level to that in all other East European countries and well below the EU average of eleven percent.[29] However, in 2015, Hungary became one of the main destinations for refugees arriving via the Balkan route and trying to get to other EU states. The number of asylum applications rose in 2015 to 177,000 – four times as many as in 2014. Relative to the size of the population, no EU country received more applications in 2015 than Hungary.[30]

Prime Minister Victor Orbán's government has set itself the goal of stopping this "irregular" immigration and has taken some tough measures to this end. In 2015, Hungary erected a fence along its borders with Serbia and Croatia. According to Amnesty International, the Hungarian government spent three times as much on this fence as on accommodating and caring for refugees.[31] In another measure designed to keep immigrants out, the government decided in autumn 2015 to amend the law on asylum so that irregular border crossings and damaging the border fence became punishable offences.[32] In January 2017, the government announced that on account of the increased danger of terrorism, it intended to take asylum seekers generally into "protective custody". This meant that they were no longer allowed to move freely within the country until their asylum applications had been processed but instead were confined to transit zones on the border.[33] In March, the law on asylum was correspondingly tightened, and the government began accommodating asylum seekers in container villages on the border with Serbia. Recently, the European Court of Human Rights issued an injunction to stop eight teenagers and a pregnant woman being transferred to such a camp.[34]

The EU, among others, has repeatedly criticised Hungary's tough immigration policy. But the government has recently received significant support from the Hungarian population, which tends to mistrust foreigners.[35] However, the situation is not as clear as it might seem at first glance: in a referendum on EU quotas for redistributing refugees, 95 percent of voters opposed the redistribution plans; however, the turnout was so low that the result had to be declared null and void.[36]

POLAND

Population size in million (2016)	38.0	Median age (2016)	39.9
Projected population size in million (2030)	37.2	Life expectancy (2015)	77.5
Projected population size in million (2050)	34.4	GDP per capita in euros (2016)	11,000
Total fertility rate (2015)	1.32	GDP per capita at PPP (2016)	20.,00
Annual net migration per 1,000 inhabitants (2011-2015)	-0.3	Unemployment rate (2016)	6.2

500 Zloty in Return for More Children

In 2015, the national-conservative "Law and Justice" party turned demography into one of the main issues of the Polish parliamentary election campaign. Pointing to the low fertility rate and the continued high levels of emigration, particularly of young people, it made the campaign promise that each month, families would receive 500 zloty – just under 120 euros – per child for the second and subsequent children.[1] This was well received by the population: in both the Sejm and the Senate (the two chambers of the national parliament), Law and Justice won an absolute majority and immediately set about implementing its plans. Just a few months after the elections, the first payments were made within the framework of the 500+ child allowance programme.

Many experts regard the programme as one of the most far-reaching reforms of the Polish social system since the end of socialism.[2] Indeed, the costs are likely to run to some one percent of GDP.[3] The government wants to meet those costs through the sale of mobile phone frequencies as well as through tax reforms in the financial and retail sectors.[4] Nonetheless, critics note that 500+ will put an unduly large burden on the budget and could contribute to Poland failing to meet the EU stability criteria.[5] But for Polish families, the additional funds are likely to prove a big financial help: it is estimated that the benefit could increase the disposable income of middle-class families by around one tenth and that of the poorest stratum by as much as one third.[6]

No country for children

In Poland, a reversal of the fertility rate trend is urgently needed. Since the end of socialism, the country has witnessed a dramatic fall in the number of children being born: while it still had one of the highest fertility rates in Europe at the beginning of the 1990s – some 2.1 children per woman – today women in Poland are having on average 1.32 children, which is fewer than in almost any other European country.[7] Whether the additional financial support for young families will suffice to reverse this trend at least temporarily appears questionable, however.[8] The danger of the new measure is that it will have a so-called deadweight effect – in this case, young couples who had anyway planned to have children will simply do so sooner in order to enjoy the handout.

In order to turn around the low fertility rate, experience says that a more comprehensive programme will be necessary – one that also takes into account other areas of life such as the possibility of better combining career and family.[9] Indeed, it is here that Poland is performing badly. In 2015, less than half of three to six year olds were attending a public day-care centre – compared with the EU-28 average of more than four-fifths. Moreover, the share of the under threes being looked after at such facilities is just five percent, which is significantly below the EU average of 30 percent.[10]

The lack of child day-care facilities outside the family affects, above all, women in this conservative and predominantly Catholic country. Because looking after the children traditionally belongs to their sphere of responsibility, having a family often spells the end of any professional career. On the labour market, mothers are frequently seen as not very flexible on account of their family obligations and for this reason are often discriminated.[11] Overall, the labour market participation of women aged 20-64 is five percentage points lower than the EU average of 71 percent.[12] Particularly low is the share of women aged 55 and over, but in younger age groups, too, Polish women are comparatively seldom in formal employment or looking for a job.[13]

On the move

Poland is likely to lose some 3.6 million of its 38 million inhabitants by 2050.[14] This is not only because of the small number of children being born, but also the result of thousands of inhabitants turning their back on the country each year. Between 2004, when the country joined the EU, and 2015, a total of around half a million people have emigrated.[15,*] The main reason for their leaving is the large wealth gap between the post-socialist state and the "old" EU countries. Across the Union, Poland has the fourth-lowest GDP per capita – some 11,000 euros, which is less than a third of the average among the 15 countries that comprised the EU before the eastern enlargement of 2004.[16]

At the same time, there are also large differences within the country. Nine of the sixteen voivodships number among the 35 poorest regions in Europe. While Masovia – the region that includes and surrounds the capital – can bear comparison with many German regions, it is, above all, the regions along the border with Belarus and Ukraine that remain left behind.[17] In Warsaw, the share of those working in the high technology sector is as high as that in Berlin, one of Europe's major start-up hubs.[18] But in most regions in eastern Poland, almost one quarter of the working population is employed in the lowly productive agricultural sector.[19] Infrastructure is poor in this part of the country: there are hardly any motorways and only a sparse railway network.[20]

Emigration from eastern Poland is particularly strong.[21] For a long time, it was not easy for Poles to seek their fortune abroad since those countries included in the 2004 EU enlargement did not enjoy full free movement of labour during the first years of their membership. Only Sweden, the United Kingdom and Ireland immediately opened up their labour markets. Out of fear of being overrun by cheap labour, the other old member states initially sealed themselves off – most of them until 2009 but Germany and Austria

* The Eurostat figures on migration are unclear here. The figure cited above is the per hand calculated difference between immigration and emigration. The indicator "net migration including statistical adjustments" suggests a much lower figure, which, however, appears less realistic on account of the immigration figures for Poles in other countries.

No change in the East

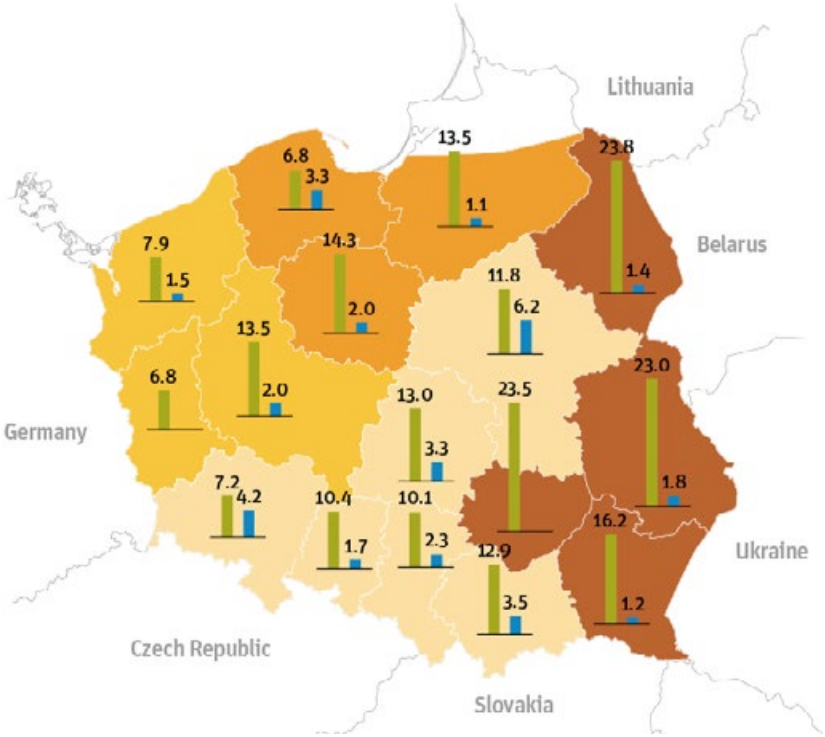
Agriculture continues to play an important role in many regions of Poland – above all, in the eastern part of the country, where it provides almost a quarter of all jobs. But in the knowledge-intensive and high technology sectors, jobs are few and far between. The eastern voivodships are a long way from enjoying the level of prosperity of central and western Poland. The risk of slipping into poverty among those living in the east is correspondingly high.

Percentage of the working population by economic sector and poverty risk in the Polish NUTS 2 regions, 2015*
(Data source: Eurostat[35])

- **Share of the working population in agriculture**
- **Share of the working population in high technology and the knowledge-intensive sector**

Poverty risk

- **Less than 22**
- **22 to less than 24**
- **24 to less than 26**
- **26 or more**



* No data on employment in the high-tech sector are available for the Swietokrzyskie and Lubusz regions.

until 2011. While many Poles moved to the United Kingdom right after EU accession, the large emigration waves began later. On average, Poland has lost between 40,000 and 60,000 people annually to other countries since 2009; and in 2011 alone, it haemorrhaged almost 110,000.[22]

For the time being, emigration has eased the situation on the Polish labour market. This is one of the reasons why the unemployment rate – 6.2 percent – is lower than the EU average.[23] Furthermore, remittances to relatives back home are an important source of income for many families. However, emigration also has its drawbacks because it accelerates demographic change. Most emigrants are relatively young and the average age of the Polish population has increased through the loss of them. Often, they start not only new jobs abroad but also families. For this reason, the number of potential parents is declining in Poland and poses another demographic problem – alongside the already low fertility rate.

Economic upswing but no security

However, EU accession has not only led to the loss of population in Poland; it has also opened up new economic prospects. Of all the post-socialist countries, none has attracted more foreign investment since 2004 than Poland. Indeed, Poland was the only EU country in which GDP continued to grow even in the economic crisis year of 2008. And that meant more jobs: today Poland has 2.2 million more employed people than in 2004.[24] However, more than half of the newly created jobs are temporary. Nowhere in the EU are temporary work contracts as widespread as in Poland; they account for no less than 27 percent of all work contracts.[25] Women and young people are employed on a temporary basis disproportionately often.[26] In these jobs, they not only earn less money; they seldom have social security.[27] Until recently, almost half of all temporary work contracts required no social security contributions and some not even health insurance.[28]

The government is striving to change this situation. Since the beginning of 2016, temporary contracts have come under the law on the minimum wage and contributions to the social system have been increased.[29] Such a reform was long overdue, especially to protect employees from the consequences of illness and unemployment and prevent them from falling into poverty in old age. Moreover, the goal is to have as many people as possible contributing to the pay-as-you-go pension system in order to keep it functioning in the long term. This is necessary, above all, because of the aging of society. While only 15 percent of the Polish population is currently 65 or older – which is well below the EU average – this share will rise rapidly owing to a fertility rate that was once relatively high but is now low: 23 percent of the population is likely to be at least 65 years old in 2030 and 31 percent by the middle of the century. If that proves to be the case, Poland will number among the ten oldest EU states.[30]

In 2013, in order to take some pressure off the pension system, the previous government approved raising the official retirement age to 67 for both sexes. For men, this goal was to be achieved by 2020 and for women by 2040.[31] However, the current government quickly overturned that reform.[32] Now, women will continue to start to receive their state pensions at 60 and men at 65.[33] Experts warn that as a result, the size of the pensions could fall within a short period from just under 50 percent of the wage to around 25 percent and thereby significantly increase the risk of old-age poverty.[34]

For the time being, the government remains convinced that it can slow down demographic change through its pro-birth policy. But even if it were successful, the number of people of working age would increase only in the next two to three decades. For this reason, the government must also succeed in persuading Polish emigrants to return home. Brexit could make a contribution here, since many Poles continue to live in the United Kingdom. However, there is a danger that they will move to other EU countries instead of returning to Poland. Despite the current favourable economic situation in Poland, the wealth gap with Western Europe cannot be closed in the short term.

SLOVAKIA

Population size in million (2016)	5.4	Median age (2016)	39.4
Projected population size in million (2030)	5.5	Life expectancy (2015)	76.7
Projected population size in million (2050)	5.3	GDP per capita in euros (2016)	14,900
Total fertility rate (2015)	1.40	GDP per capita at PPP (2016)	22,400
Annual net migration per 1,000 inhabitants (2011-2015)	0.5	Unemployment rate (2016)	9.6

Rapid Aging

Slovakia is the third-youngest country in the EU, after Ireland and Luxembourg – as measured in terms of the share of inhabitants who are over 64. In 2016, they accounted for just 14.4 percent of the population and thus for fewer than every seventh inhabitant. By comparison, in Italy, the EU leader when it comes to aging, more than 22 percent of the population is already 65 or over.[1]

Nonetheless, Slovakia, too, will be unable to avert the aging of its society. Indeed, that process is likely to be more rapid here than in any other EU country. The reason is the fertility rate, which for a long time was relatively high but in recent years has been very low, as well as limited immigration. Furthermore, life expectancy in Slovakia – which, like in many other East European countries, is rather low – is likely to increase in the future. Thus the population is aging in two ways simultaneously: from "bottom up" owing to the lack of children and from "top down" thanks to people living longer. As a result, the share of the over 64s is likely to rise to almost 30 percent by 2050, at which point Slovakia will probably number among the older EU states.[2]

But the main cause of the looming demographic imbalance remains the low fertility rate. In 2015, women in Slovakia had on average 1.4 children, which means the country came seventh from bottom within the EU. However, that has not always been the case: in 1990, the Slovak fertility rate stood at just under 2.1 children per woman and thus was higher than in most countries that today belong to the EU. Following the breakup of the former Czechoslovakia, the fertility rate plummeted and in 2002 reached the historical low in Slovakia of 1.19. Since 2005, Slovak women have had fewer children on average than Czech women – for decades, it was the other way round.[3] If there are no dramatic changes in the near future, Slovakia with its current population of 5.4 million is likely not only to age but also to shrink. Indeed, it has been calculated that the size of the population could sink below the five million mark after 2050.[4]

Immigration is still no solution

Besides Slovak women having more children, the imminent demographic shifts could be cushioned by immigration. However, just as in the neighbouring Czech Republic, both the government and large parts of the population are hostile towards immigration from non-EU countries, and this is reflected in the country's immigration policy. Like Hungary, Slovakia has lodged a complaint with the European Court of Justice against the planned quota system for relocating refugees among all EU states and very rarely grants residence permits to anyone from outside the EU.[5] In 2014, only Luxembourg, Croatia and Estonia recorded fewer regular immigrants from non-EU states than did Slovakia. In 2015, the number of residence permits granted nonetheless rose by two-thirds to around 9,000. But this had little to do with the influx of refugees: just 475 asylum applications were made in Slovakia in 2015 and 2016 combined.[6]

That Slovakia has such a negative attitude towards immigration can be attributed, among other things, to the fact that the country has very little experience of migration and the share of migrants in the population is correspondingly small. Just three percent of the population was born in another country; within the EU, the share is smaller only in Bulgaria, Poland and Romania. And the foreigners who do live in Slovakia come mostly from similar cultures: no less than half of them are from the Czech Republic and another 10 percent from Hungary.[7]

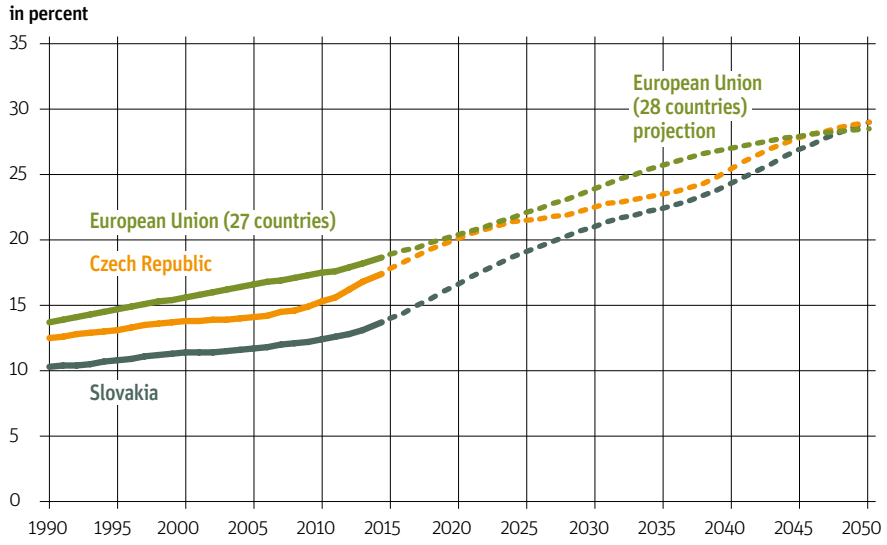
Economic boom after teething problems

That Slovakia has recorded small migration surpluses almost every year since 2007 – all the reservations about immigrants notwith-

Aging quickly

To this day, the share of those 65 or over in the Slovak population remains two to three percentage points below that of the neighbouring Czech Republic. However, it is projected that this gap will close around 2050, although the Czech Republic, too, is likely to witness a rapid aging of its population. By mid-century, both states will probably have populations older than the EU average.

Percentage share of the over 64s in the total population of Slovakia, the Czech Republic and the EU, 1990–2050
(Data source: Eurostat[24])



standing – is a reflection of the improving economic situation. Indeed, the country's economic potential would favour more migration. For a long time, this could not have been foreseen. At the beginning of the millennium, the level of economic prosperity was still some 30 percent lower than in the neighbouring Czech Republic.[8] The reason for this was that Slovakia suffered more than the Czech Republic from the transition to a free market economy. Above all, the still largely agricultural economy lacked industrial goods that could also be sold on international markets. Improvement came only with the market-oriented reform course of Prime Minister Mikuláš Dzurinda, owing to which Slovakia recorded high growth rates after the turn of the millennium and became known as the "Tatra Tiger". The Slovak economy grew even faster than the similarly successful Czech economy so that the wealth gap between the two neighbouring countries has since narrowed to less than 10 percent. Slovakia's economy grew by more than 10 percent in 2007 alone.[9]

But how did this success story come about? Like the Czech Republic, Slovakia has succeeded in attracting foreign investors. An important factor in this achievement is likely to have been the attractive flat tax rate of 19 percent levied in Slovakia from 2004 to 2013, and the introduction of the euro in 2009 made Slovakia even more attractive.[10] The investors included a large number of auto manufacturers: today, PSA Peugeot-Citroën and Hyundai-Kia both have production sites in Slovakia, as does the Volkswagen concern with its VW, Audi, Porsche and Skoda brands.[11] In 2015, the value of foreign direct investment stocks in Slovakia amounted to 54 percent of national GDP. While that was still lower than in the neighbouring Czech Republic, it was nonetheless the eighth highest in the OECD.[12]

Through the economic boom, industry has transformed itself into the country's most important economic sector: its share of GDP stood at just under 26 percent in 2016. Across the EU, it is only in the Czech Republic and Ireland that industry occupies a more important position.[13] In recent years, auto manufacturers in Slovakia have built more than one million automobiles, making the country the world leader in terms of the number of motor vehicles produced per capita. Other important sectors are electronics, metal processing and mechanical engineering.[14]

However, concentration on a relatively small number of sectors carries risks, since fluctuating demand from abroad can quickly have devastating effects.[15] Slovakia found this out at the end of the 2000s during the economic crisis: within one year, the value of all produced goods and services plummeted by 5.5 percent and the public debt doubled between 2008 and 2013.[16] Nonetheless, Slovakia

came through the crisis relatively unscathed, managing to recover from the demand shock faster than other countries.[17] Meanwhile, the growing prosperity has trickled down to the population: in 2015 and 2016, the economy grew by more than three percent annually thanks to rising consumer spending. At this point in time, an end to this trend is nowhere in sight.[18]

Unemployment and regional inequality

This positive development conceals the fact that economic strength is very unevenly distributed across the country and many production sites – and thus jobs – are concentrated in and around Bratislava. Regional economic inequality in Slovakia is among the highest in the OECD and increased significantly between 1995 and 2010.[19] In 2015, GDP per capita in the Bratislava region in the west of the country stood at 35,400 euros while in the far northeast of the country it amounted to less than 10,000 euros.[20] Above all, insufficient infrastructure has hindered development in the latter region. At the same time, the lack of housing in Bratislava and its environs makes it difficult for labour to move to the flourishing economic centre. It is precisely poorly qualified jobseekers who frequently do not find themselves where they are needed. As a result, Slovakia has the lowest level of internal migration in the OECD, even though unemployment remains rather high – at 9.7 percent – and varies considerably from region to region.[21]

The large number of unemployed – despite the economic boom – distinguishes Slovakia from its western neighbour, the Czech Republic. Above all, those under 25 often fail to find work. And it is generally the case that once someone is unemployed, he/she remains so for some time: in 2016, around 60 percent of all unemployed had been looking for a job for more than a year – across the EU, that share was higher only in Greece.[22] But unlike in Greece or Spain, long-term unemployment is not a new phenomenon in Slovakia; rather, it has become entrenched over many years.[23] This means that it is likely to be all the more difficult to curb it. However, the issue must be resolved so that the ever-growing imbalance in future between the working population and pensioners can be at least partly contained.

Rich in the west, poor in the east

Slovakia's economic strength is very unevenly distributed across the country. The region around and including Bratislava, which borders on Austria, has by far the highest GDP per capita – 35,400 euros. In all other regions, the figure lies between 15,600 euros (Trnava Region, east of the area around and including the capital city) and 8,600 euros (Presov Region, in the far northeast of the country). Overall, there is a sharp west-east divide: the farther east – and thus the farther from Bratislava – the region is located, the poorer it is.

GDP per capita in Slovakia's NUTS 3 regions, in euros, 2015
(Data source: Eurostat[25])

CZECH REPUBLIC

Population size in million (2016)	10.6	Median age (2016)	41.5
Projected population size in million (2030)	10.7	Life expectancy (2015)	78.7
Projected population size in million (2050)	10.5	GDP per capita in euros (2016)	16,500
Total fertility rate (2015)	1.57	GDP per capita at PPP (2016)	25,400
Annual net migration per 1,000 inhabitants (2011-2015)	1.2	Unemployment rate (2016)	4.0

Model State with Demographic Problems

The Czech Republic – along with Slovakia – has existed for a shorter period than any other EU state. It is also one of the more successful socio-economically. Having emerged from the division of the former Czechoslovakia on 1 January 1993, the Czech Republic today is a model for many former Eastern bloc states. At around 16,500 euros, GDP per capita is higher than in any other post-socialist country, while both unemployment and the risk of poverty are lower than in any other EU country.[1]

It is above all in industry that the Czech Republic has made a name for itself. International automobile manufacturers and electronics companies have production sites in the country from which they export throughout the world. For years, growing demand from abroad has been creating new jobs and giving a boost to the economy.[2] Moreover, the Czech Republic came through the economic crisis with less loss of wealth than most other central and East European countries.[3]

On the one hand, the positive development of the economy in recent years has to do with an advantageous environment that includes low-cost raw materials and EU funds, which the government has invested in expanding infrastructure.[4] On the other hand, the Czech Republic's success is closely linked to its attractiveness for international investors. The total value of foreign direct investment in 2016 was some 60 percent of GDP and thus higher than in any other post-socialist OECD state with the exception of Hungary and Estonia.[5] Investors opt for the Czech Republic mainly because the country has a very well-educated labour force but at the same time continues to score points on account of its rather low wage levels.[6] Almost every person in employment has undergone training or completed upper secondary or tertiary education – there are only a very small number of lowly qualified workers.[7] This is because professional training has traditionally been highly valued on the territory known today as the Czech Republic and stands for high quality thanks to its combination of education and work practice.[8]

As a result of the growing prosperity in the Czech Republic, unemployment has returned to the very low levels of the pre-crisis period. In 2016, it was lower than in any other EU state – four percent; across Europe, only Iceland and Switzerland performed slightly better on this indicator. The share of 20–64 year olds in employment was just under 77 percent – more than five percentage points higher than the EU average and the sixth-highest figure in the EU. Compared with other EU countries, women, immigrants and older people are all well represented on the labour market. However, they are lagging far behind the population group for which, typically, employment figures are the highest – middle-aged native men.[9] The European Commission has responded by calling for more measures aimed at promoting employment among women with children, the lowly qualified and Roma.[10]

Sinking fertility in the 1990s

It is essential to make better use of the potential of these groups because the Czech population is aging and employers are already complaining about labour shortages.[11] With the over 64s accounting for 18.3 percent of the total population, the Czech Republic numbers today among the younger EU countries; but it is projected that this share will rise to 22.5 percent by 2030 and 29 percent by 2050, at which point the Czech Republic will be one of the older EU states.[12]

The reason for this rapid aging is be found in the 1990s, when fewer children were born: after having remained at around two children per woman until 1991 – when the country was still part of Czechoslovakia – the fertility rate plummeted in the years that followed

and reached a historical low of 1.13 in 1999. This decline ran parallel to the opening of the country to the West and the transition from socialism to capitalism. Accordingly, there is no single reason to explain this demographic development: the difficult economic conditions that led to unemployment played just as much a role as did the new freedoms and a growing acceptance of alternative lifestyles and attitudes towards having a family. Both resulted in young couples initially postponing starting a family and later making up for the delay in many – but not all – cases.[13]

Meanwhile, the total fertility rate has risen to 1.57 children per woman and is thus close to the EU average. However, the low fertility rates of the 1990s continue to have ripple effects. For example, for the first time, more people died than were born in 2013. Further population losses through death surpluses are inevitable. Only immigration will be able to ensure stability or, indeed, economic growth. And the Czech Republic has proved attractive for immigrants in the recent past. Since 2007, the country has gained on average 2.4 people per 1,000 inhabitants each year through immigration. The Czech Republic is thereby the only former socialist country, together with Slovenia and neighbouring Slovakia, whose population is regularly boosted by immigration.[14]

From where do the new arrivals to the Czech Republic come? In the 1990s, the country benefited from the flow of large numbers of East Europeans to Western Europe. Many of them used the Czech Republic as a transit state and some of them ended up staying there. Thus the fall of the Iron Curtain did not lead to mass net emigration from the Czech Republic to Western Europe, as was the case elsewhere.[15] In 2003, when the Czech Republic was just about to join the EU, the net immigration gains rose significantly and in 2007 and 2008 peaked at some 84,000 and 57,000 people, respectively.[16] Many of the new arrivals came from Slovakia; but since the mid-2000s, the Czech Republic has been a popular immigration destination for people from countries farther to the east such as Ukraine, Russia and even Vietnam.[17]

Nonetheless, immigration remains a relatively recent phenomenon for the Czech Republic, whose territory was in the past among one of the main emigration regions of Europe.[18] Just four percent of the country's 10.6 million inhabitants recorded at the beginning of 2016 were born abroad. This is the fifth-lowest share in the EU – only Bulgaria, Poland, Romania and Slovakia had even lower shares.[19]

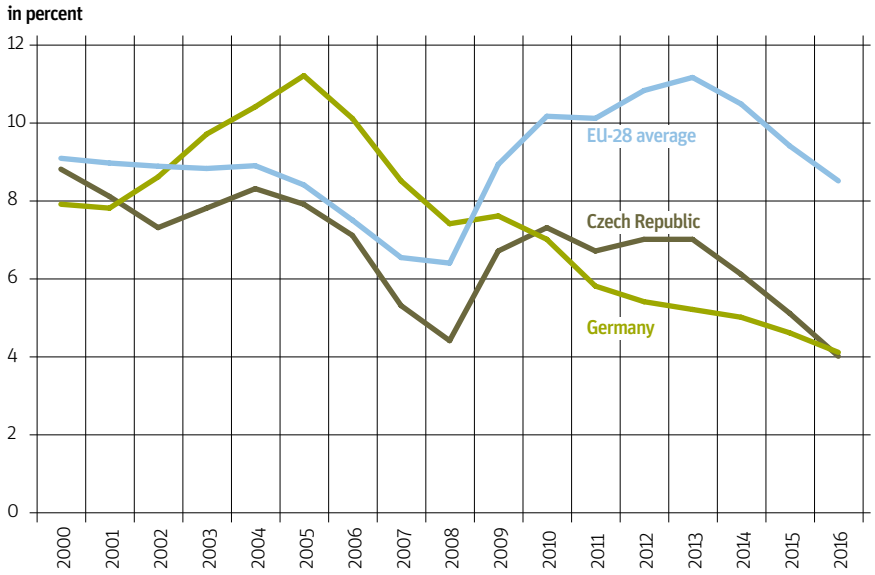
Scepticism towards immigrants

With the exception of Hungary, no former Eastern bloc country registered a significant number of asylum seekers during the recent refugee immigration to Europe. In 2015 and 2016, just 2,900 applications for asylum were filed with the relevant authorities in the Czech Republic.[20] On the one hand, the low number is due to the Dublin Process, which to some extent "protects" the Czech Republic from humanitarian immigration, since the country has no external EU border. On the other hand, compared with many wealthier

Jobs galore in the Czech Republic

The Czech Republic has the lowest unemployment rate in the EU. Even Germany recorded a larger share of job-seekers in 2016. One of the reasons for the healthy labour market is the strong industrial sector, which can draw on a pool of well-educated skilled workers. Unlike in Germany, the economic crisis at the end of the 2000s led to the loss of numerous jobs. However, that loss could be offset quite quickly in due course.

Unemployment rate in the Czech Republic and Germany plus the EU average, 2000–2016
(Data source: Eurostat[24])



West European countries, the Czech Republic remains less attractive for refugees, despite the healthy state of its economy. Moreover, another factor is that the Czech government has a very negative attitude towards taking in refugees. This attitude, which is shared by the other so-called Visegrad countries (Slovakia, Poland and Hungary), was particularly evident when, in 2015, the European Commission proposed that all member states be obliged to relocate refugees within the Union and to share the cost of taking in and integrating them. The Czech Republic, Slovakia, Hungary and Romania all voted against the plan but ultimately had to bow to the majority of the other member states.[21]

That the government opposes taking in refugees is, above all, a reflection of prevailing public opinion, which is not only against asylum seekers; large parts of the population have reservations about immigrants from non-EU states and – albeit to a lesser extent – from EU member states as well.[22] Given the foreseeable demographic development of the country, this attitude could become an issue. The low fertility rate coupled with the aging of society, on the one hand, and almost full employment, on the other hand, could prompt companies to increasingly look abroad for new employees in future. While the government is not opposed in principle to migrant workers, it is reluctant to talk about the advantages of such labour in public.[23] Such a discussion is necessary, however, to reduce the social tensions that would likely result from more foreign workers in the Czech Republic.

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
HUNGARY									
HU10	Central Hungary	1.30	7.0	29.2	77.0	17,200	75.5	83.3	89.9
HU21	Central Transdanubia	1.46	-0.3	28.7	75.2	10,400	73.3	19.6	82.6
HU22	Western Transdanubia	1.33	4.3	29.1	76.5	12,100	73.7	17.1	85.2
HU23	South Transdanubia	1.46	-2.7	31.4	75.2	7,300	66.9	14.9	78.7
HU31	Northern Hungary	1.66	-5.2	30.3	74.5	7,300	67.2	7.6	78.8
HU32	Northern Great Plain	1.60	-1.7	26.9	75.0	7,000	67.5	14.3	75.9
HU33	Southern Great Plain	1.42	-0.9	31.7	75.4	7,800	70.7	37.7	82.9
POLAND									
PL11	Lodz Region	1.27	-0.8	28.0	75.9	10,500	71.3	35.7	90.6
PL12	Mazovia	1.42	2.6	25.8	78.1	17,800	73.9	44.1	92.8
PL21	Lesser Poland	1.35	0.8	24.4	78.8	10,100	69.9	42.2	92.5
PL22	Silesia	1.28	-1.6	26.1	76.7	11,600	66.9	17.4	93.9
PL31	Lublin Province	1.28	-2.5	26.1	77.8	7,700	67.2	6.1	90.3
PL32	Subcarpathian	1.25	-0.9	23.7	78.7	7,900	66.6	13.1	92.8
PL33	Swietokrzyskie	1.21	-1.8	27.3	77.4	8,100	66.9	7.5	89.8
PL34	Podlasie	1.28	-1.9	25.8	78.2	7,900	70.3	2.4	89.2
PL41	Greater Poland	1.40	0.0	23.0	77.4	12,200	71.5	19.4	91.7
PL42	West Pomerania	1.25	-0.9	24.1	77.4	9,500	64.8	21.4	87.7
PL43	Lubusz	1.28	-1.2	23.1	76.9	9,300	68.7	36.5	90.3
PL51	Lower Silesia	1.24	0.3	25.3	77.2	12,500	70.0	26.5	91.3
PL52	Opole Region	1.21	-2.6	26.3	77.5	9,000	69.1	20.8	91.7
PL61	Kuyavian-Pomerania	1.27	-1.2	24.2	77.6	9,100	66.7	14.0	90.1
PL62	Warmia-Masuria	1.27	-2.3	22.0	77.1	7,900	63.4	5.6	84.0
PL63	Pomerania	1.44	0.8	23.4	78.0	10,700	70.6	19.0	91.1
SLOVAKIA									
SK01	Bratislava Region	1.52	7.9	23.7	78.5	35,400	78.7	17.1	95.7
SK02	Western Slowakia	1.23	0.4	23.5	76.9	13,400	71.9	13.7	93.5
SK03	Central Slovakia	1.33	-0.8	22.1	76.3	11,600	68.9	3.8	90.8
SK04	Eastern Slovakia	1.54	-1.1	20.3	76.3	10,100	64.5	8.8	89.1
CZECH REPUBLIC									
CZ01	Prague	1.47	3.7	29.2	80.3	32,300	80.1	56.7	97.2
CZ02	Central Bohemia	1.64	8.2	27.8	78.8	14,600	78.0	26.5	94.3
CZ03	Southwest	1.58	1.6	30.1	78.5	14,000	77.6	13.0	93.4
CZ04	Northwestern	1.56	-1.1	28.7	76.9	11,800	74.2	14.5	87.0
CZ05	Northeast	1.60	-0.1	30.8	79.1	13,000	77.2	55.1	92.8
CZ06	Southeast	1.59	0.5	30.1	79.5	14,800	76.8	55.2	95.4
CZ07	Central Moravia	1.55	-0.8	30.3	78.6	13,200	75.4	21.9	93.9
CZ08	Moravia-Silesia	1.50	-2.3	28.9	77.5	13,100	73.8	13.7	91.8

SLOVENIA

Population size in million (2016)	2.1	Median age (2016)	43.2
Projected population size in million (2030)	2.1	Life expectancy (2015)	80.9
Projected population size in million (2050)	2.0	GDP per capita in euros (2016)	19,300
Total fertility rate (2015)	1.57	GDP per capita at PPP (2016)	24,100
Annual net migration per 1,000 inhabitants (2011-2015)	0.3	Unemployment rate (2016)	8.0

First past the post to a market economy

In 1991, Slovenia was the first state to declare its independence from the former Yugoslavia, whereupon it quickly developed into a model country. Its sound economy, its historical ties to Western Europe and its stable democracy have helped the country negotiate the transition from a planned economy to a market one. Slovenia is the wealthiest post-socialist country.[1] Its population is well educated and its infrastructure is considered outstanding. In 2004, Slovenia became the first country in transition to switch from being a World Bank recipient country to a donor one.[2] And of the eight central and East European countries that joined the EU in 2004, Slovenia was the first to introduce the euro (in 2007).

All of these achievements were founded on an economic upturn that between 2000 and 2008 resulted in annual average growth rates of four percent. During this period, unemployment was less than six percent and thus below the EU average.[3] However, the upswing also had its drawbacks. Like in many other states, a property and credit bubble emerged in Slovenia. As a result, companies and banks were particularly vulnerable when the financial crisis broke out.[4] In 2008, economic growth slowed down; the following year, GDP shrank by almost eight percent – only the Baltic states and Finland were harder hit, as was – with some delay – Greece.[5] After recovering for a short period, the recession returned with a vengeance in 2012 and many banks – including the large state-owned Nova Ljubljanska banka – were pushed to the verge of insolvency. In some quarters, it was already expected that Slovenia would be the next candidate for being rescued by the other eurozone countries.[6] However, it turned out rather differently. Through enormous efforts estimated to have cost more than three billion euros, Slovenia succeeded in saving its banks on its own.[7] Many observers criticised the government for involving shareholders and creditors in the bank recovery; but three years later, the European Court of Justice declared this approach to have been legitimate.[8]

Since 2014, things have been looking up for the country with a population of two million. The economy is growing at more than two percent annually and the situation on the labour market has improved.[9] Above all, strong exports – for example, of machinery, chemicals and food – have contributed to the recovery. Even private consumption is growing slowly once again. Here, the country benefits from low energy prices and one of the lowest ratios of household debt in the EU.[10]

Aging puts pressure on public finances

Meanwhile, Slovenia's public debt grew continuously up to 2015. Currently, it stands at 80 percent of GDP, which compared with other EU countries is still moderate. But the debt has more than doubled since 2010, and it is likely to become even more difficult in future to keep the budget deficit in check. This is because the population of the country is aging faster than in other EU countries: while currently there are still 30 people aged 65 or over (EU average = 32 people) for every 100 people aged 20-64, by 2050 there are likely to be just under 61 (EU average = 55).[11] As a result of this development, age-related state expenditures are likely to soar.

To contain the cost increase, the Slovene government approved a pension reform in 2013 that allows the official retirement age to rise to 65 by 2020. But many consider this measure to be insufficient in itself. The OECD, for example, recommends further raising the age threshold and linking it to the future development of life expectancy. Furthermore, the size of pensions should be more closely tied to the level of personal contributions. In Slovenia, the calculation of

pension payments is based solely on the 24 years in which the recipient had the highest earnings, not the average value of earnings for all years.[12]

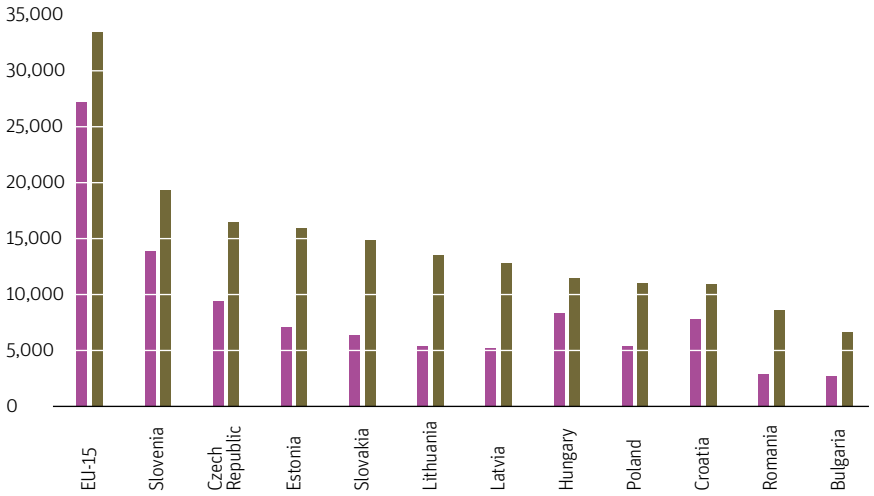
Moreover, Slovenia's population will not only age but also shrink. Thus, it will follow its neighbours Hungary and Croatia, whose populations are already declining. While on average women in Slovenia have more children than women in other post-socialist EU states, the total fertility rate of 1.57 will by no means suffice to ensure the size of the population remains stable in the long term.[13] This notwithstanding, the country's family policy is rather children-friendly. Back in 1986, Slovenia had already introduced parental leave that lasted for one year and came with generous benefits. Child day-care exists and is strongly subsidised by the state.[14]

The main problem as regards the number of children appears to be that Slovene women are having their first child increasingly later in life and thus fewer children are being born overall. If families and especially women, for many of whom children currently represent a double burden, are to increasingly opt for children, new social norms are needed – starting with men and women sharing domestic tasks.[15]

Foreigners come, Slovenes go

The population growth of recent years is due mainly to the fact that more people are still being born than are dying.[16] Net migration, however, has remained close to zero since the beginning of the economic crisis. Gone are the early years of the 21st century, when the booming economy on the Adriatic was an attractive immigration destination not least for citizens of other Balkan states – primarily Bosnia-Herzegovina.[17] While every year there are still more foreigners coming to Slovenia than leaving, this gain is cancelled out by Slovene emigration.[18] Even well-qualified Slovenes with jobs are frequently moving abroad in the hope of finding better paid employment there.[19] This is a thorn in the flesh of the government, which is seeking – in line with its migration strategy – to be more in touch with the needs of Slovene emigrants alongside trying to attract highly qualified immigrants.[20]

While Slovenia, as a Balkan state, was directly affected by the influx of asylum seekers into Europe, there was no noteworthy increase in the number of immigrants to that country. This is because those seeking refuge regarded Slovenia mainly as a transit country en route to Western Europe. Thus in 2015, the authorities registered just 275 asylum seekers, although in the winter of 2015–2016 alone, some 480,000 refugees poured into the country after Hungary had closed its border.[21] Even then, the number of asylum seekers was just 1,310 in 2016.[22] Nevertheless, the Slovene government has repeatedly tightened the entry regulations for refugees. Currently, only those who want to apply for asylum in Slovenia or for whom special humanitarian grounds apply are allowed to enter the country.[23] Moreover, at the beginning of 2017, the government approved a law under which the border can be closed completely in the event of another wave of mass refugee immigration.[24]



The wealthiest post-socialist country

Slovenia is the wealthiest of the post-socialist states. This was the case at the time of its accession to the EU in 2004 and it remains so to this day. But in 2016, annual GDP per capita – at just under 20,000 euros – was less than two thirds of that of the "old" member states (EU-15). Compared with 2004, it is, above all, the Baltic states that have grown: all three were able to more than double GDP per capita.

GDP per capita in euros, central and East European EU countries as well as the EU-15 ("old" member states), 2004 and 2016
(Data source: Eurostat[25])

2004
2016

CROATIA

Population size in million (2016)	4,2	Median age (2016)	43,0
Projected population size in million (2030)	4,0	Life expectancy (2015)	77,5
Projected population size in million (2050)	3,7	GDP per capita in euros (2016)	11.000
Total fertility rate (2015)	1,40	GDP per capita at PPP (2016)	17.300
Annual net migration per 1,000 inhabitants (2011-2015)	-1,9	Unemployment rate (2016)	13,3

The Last New Member of the EU – for the Time Being

Croatia is the latest country to join the European Union. Not until 2013 did this new country – one of the successor states to the former Yugoslavia – accede. The hope of a better life that many Croats associated with this step has yet to be fulfilled, however. With a GDP per capita of the equivalent of 10,900 euros, the Balkan state is the third-poorest country in the EU, after Bulgaria and Romania. In 2016, economic output was almost ten percent lower than it was when the global economic crisis began in 2008. Among the EU states, it is only in Greece and Italy that the negative effects of the crisis have persisted longer than in Croatia.[1]

Disappointed by economic developments at home and in search of a better life in the West, many Croats have used the freedom of movement conferred by EU accession and left their home country. They are thus exacerbating the demographic challenges that Croatia was already facing: a fertility rate of 1.4 children per woman, which is well below the EU average, and an annually declining population. By 2030, Croatia is likely to lose 270,000 of its current population of 4.2 million and by 2050, more than half a million.[2]

Since those going abroad are mainly the young and well educated, society is aging at an increasingly rapid rate.[3]

Emigration of the younger generation is a problem Croatia shares with many other countries in the region, especially Romania and Bulgaria. And in other respects, too, Croatia has much in common with these and other post-socialist states. Besides the small number of births, this is, above all, the fact that women still tend to have their children when they are quite young. The average age for Croatian women to have their first child is 28. This means they start a family when they are on average roughly two-and-a half-years younger than women in other Catholic Mediterranean countries like Spain or Italy but about the same age as their Hungarian and Czech counterparts. Unlike in the two last-named countries, however, marriage is still important in Croatia. Only 18 percent of children are born outside wedlock, a lower figure than in all other EU states except Greece. By comparison, around half of all infants in Spain and Italy have parents who are not married.[4]

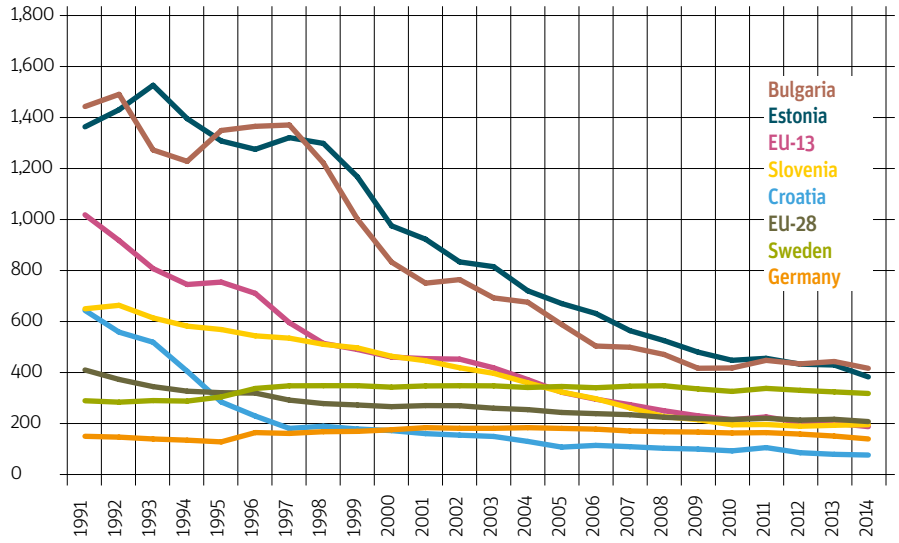
Early marriage is a sign that conservative family values remain widespread in Croatia. The strong influence of the Catholic Church undoubtedly plays a role here, as illustrated by the issue of abortion. In the former Yugoslavia abortion used to be a customary method of birth control, as indeed it was in almost all other socialist states. In 1985, a total of 52,000 Croatian women had abortions, which meant one pregnancy in two was terminated.[5] But since then, the number has fallen rapidly: figures for 2015 show only 3,002 abortions.[6] This decrease can be attributed, on the one hand, to the improved access to contraceptives and on the other, to the fact that an increasing number of doctors are making use of their legal right to refuse to perform abortions out of personal conviction. In some areas of the country, it has become difficult to terminate a pregnancy, which has led some women to seek illegal abortions.[7] Pro-life groups have repeatedly called for a complete ban on abortion.

Historically, the territory that is now Croatia has belonged to a number of different countries. For a long time, the population therefore tended to be ethnically mixed. The

Steep decline in abortions

When Croatia gained independence in 1991, one pregnancy in three was still being terminated prematurely – in the 1980s, that figure had been even higher. Like in many other socialist states, abortion was a means of birth control in the former Yugoslavia. Since the founding of the Croatian state, the number of abortions in Croatia has fallen well below the EU average. Besides the increased availability of modern forms of contraception, this has to do with the strengthening of conservative religious values.

Number of pregnancies terminated per 1,000 live births in selected countries, 1991-2014*
(Data source: WHO[24])



* The EU-13 comprises those members who have joined since 2004. There are no data available for Sweden for 2013. The line has been smoothed to reflect this.

Croats have shared their country with Serbs, Bosniaks and Slovenes, among others. But with the disintegration of Yugoslavia and the wars of the 1990s, this changed, and the states of the Western Balkans became ethnically increasingly homogenous. In the case of Croatia, this was mainly due to the fact that Serbs and other minorities were expelled from the eastern territories of Krajina and East Slavonia.[8] At the turn of the millennium, almost 90 percent of the inhabitants of Croatia gave their ethnicity as Croatian. Ten years previously, when Croatia gained independence in 1991, the figure had only been 78 percent. And although some Serbs subsequently made use of their right to return to Croatia, the share of ethnic Croats continued to rise.[9] One explanation for this increase is that many Croats returned to their country. These were not just refugees from the war but also people who had gone to other countries as "guest workers" in the 1960s and 1970s and now wished to spend their retirement in Croatia.[10] The return of these migrants led to immigration surpluses in the second half of the 1990s and throughout most of the 2000s.[11]

This was actively promoted by the government. Indeed, migration policy in Croatia is still mainly directed at the Croatian diaspora.[12] The idea is to increase the population without having to integrate a large number of foreign migrants. Like in many other post-socialist states, large parts of the Croatian population have a sceptical attitude towards migrants from other cultures.[13] This probably also has to do with the fact that apart from Serbs, most of whom have Croatian citizenship, there are hardly any minorities in Croatia. According to the 2011 census, 99.4 percent of the population has Croatian citizenship.[14]

Unemployment and debts

In 2009, Croatia's net migration turned negative for the first time. Since then, more people have left the country every year than have arrived – and the trend is increasing. The reason for this is the poor economic situation. In 2016, around 13 percent of the labour force did not have a job – more than half of them had been looking for work for more than a year. After Greece and Spain, Croatia has the third-highest unemployment in the EU. And like in many of the other countries that were particularly hard hit by the economic crisis in the late 2000s and early 2010s, in Croatia it is young people who have borne the brunt. Despite mass emigration, unemployment among the under-25s was still as high as almost 31 percent in 2016.[15] Moreover, it seems doubtful that economic recovery would put an end to emigration, since EU membership allows Croats to seek work in the much wealthier states of Western Europe without having to overcome any legal obstacles.[16]

The ongoing economic crisis has also taken its toll on Croatia's state finances. This makes it difficult to give an impetus to growth and cushion the social effects of unemployment. Between 2009 and 2014, new debt amounted to more than five percent of GDP each year and was hence well above the EU convergence criterion of three percent laid down in Maastricht. More recently, the level of debt has fallen slightly.[17] Since 2013, the Croatian budget has been permanently moni-

tored by the EU under the so-called corrective arm of the Stability and Growth Pact. As part of that monitoring, the European Council requires the Croatian government to reform the public administration, to take measures against the shadow economy and tax evasion and to revoke early retirement schemes.[18]

Low competitiveness

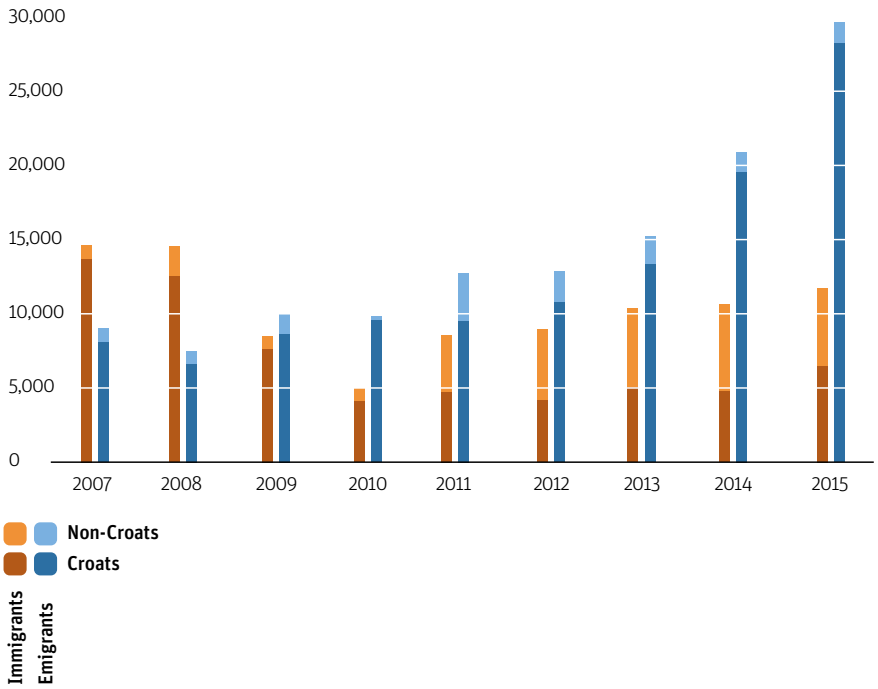
Around 70 percent of the Croatian economy is based on services.[19] Here, tourism, concentrated mainly in the west of the country along the Adriatic coast, plays an important role. In 2015, more than 65 million overnight stays in hotels, holiday apartments and camping sites were booked by foreigners alone.[20] On the contrary, Croatian industry, of which food production and shipbuilding form the backbone, is considered unproductive and expensive compared with other countries. Exports are suffering as a consequence.[21] Many experts believe that in order to become more competitive internationally and to attract foreign investment, Croatia, will either have to devalue its currency, the kuna, or try to reduce domestic prices and wages through a restrictive fiscal policy.[22]

Both measures would be unpopular, however, and in any case would treat the symptoms of the economy's structural weakness rather than the cause. In the medium term, Croatia will need to raise productivity – that is, the average output of each individual. This can happen only gradually, however. One approach would be to make the education system more efficient and tailor it more to the demands of the economy. In the past, Croatia has rarely succeeded in equipping young people about to embark on their careers with the skills, qualifications and knowledge required to be an asset for employers. Thus there are very few graduates in the so-called MINT subjects. On the other hand, vocational training in industry and trade is regarded as lacking practical relevance and more than half of those who have undergone such training fail to find a job in the profession they have learned. This is partly because there are very few companies offering apprenticeships, so that vocational training takes place mainly at school rather than on the job. All of this means that young people regard it as very unattractive. Across the EU, only in Italy do company apprenticeships have an even worse reputation.[23]

Croats dominate migration

Croatia's migration policy is designed primarily to encourage ethnic Croats to return home from abroad. In the mid-2000s, Croats accounted for more than 90 percent of all immigrants, and today the figure remains as high as 55 percent. By comparison, Germans make up only ten percent of immigrants to Germany.* Since Croatia's accession to the EU, however, emigration has risen sharply. In 2015, Croatia lost around 18,000 people to emigration. In all, the population of Croatia has declined by about 35,000 people, since for some years more people have died than have been born.

Number of immigrants to and emigrants from Croatia by nationality, 2007-2015
(Data source: Croatian Bureau of Statistics[25])



* This figure refers to the period before the mass immigration of asylum seekers in 2015. Owing to the much higher overall level of immigration, the share of Germans is at present significantly lower.

ROMANIA

Population size in million (2016)	19.8	Median age (2016)	41.4
Projected population size in million (2030)	18.0	Life expectancy (2015)	75.0
Projected population size in million (2050)	16.3	GDP per capita in euros (2016)	8,600
Total fertility rate (2015)	1.58	GDP per capita at PPP (2016)	17,200
Annual net migration per 1,000 inhabitants (2011-2015)	-1.5	Unemployment rate (2016)	5.9

Between High-Tech Country and Subsistence Economy

When Romania joined the European Union on 1 January 2007, Bucharest, with its population of just under 1.9 million, became the sixth-largest city within the union.[1] Yet apart from its large population, the Romanian capital had little else in common with other European metropolises such as London, Berlin or Paris. The old buildings in the historical city centre were in a wretched state of decay and the many new buildings that had sprung up under the socialist regime of former President Nicolai Ceausescu were in need of thorough renovation. Besides the crumbling buildings, the urban landscape was dominated by traffic gridlocks in the woefully inadequate road network. Thousands of Dacia 1300s – the Romanian equivalent of the East German Trabant, almost two million of which had rolled off the production line between 1969 and 2004 – polluted the air and their engines contributed to a background din punctuated only by the constant hooting of impatient commuters.

A good ten years later, Bucharest has become a symbol of a modern, aspiring Romania – a country whose GDP per capita, even in the wake of the crisis, rose by an average of 4.1 percent annually between 2007 and 2016. After Malta (5.4 percent), Bulgaria (4.9 percent) and Lithuania (4.6 percent), this was the highest growth rate in Europe.[2] The heart of Bucharest's old city has now been almost entirely restored and, to some extent, is once again living up to its old reputation as the Paris of the East. Although many Romanians have remained loyal to the domestic car industry and still drive Dacias, most of them have switched to the more economical new models. Many young people now use the city's growing network of cycle paths.[3]

Cities on the data highway

In Bucharest, almost one citizen in ten now works in the creative and IT sectors.[4] As in Romania's other major cities – Timisoara, Cluj-Napoca and Constanta – a lively start-up scene with incubators and co-working spaces has emerged.[5] At six percent, the proportion of students registered as studying information science was higher than in almost any other country in the EU in 2015. Only in Estonia and Finland was the share higher – eight and nine percent, respectively.[6] What is more, future graduates will have a good chance of being well prepared to meet the demands of the labour market. In terms of the quality of education in mathematics and science, Romania occupies 32nd place out of 138 countries worldwide in the World Economic Forum's Global Competitiveness Index (GCI) – scoring the same number of points as high-tech countries like the United States, Israel and South Korea.[7] Moreover, the Romanian government is making an effort to encourage IT personnel to stay in Romania by offering tax incentives for investors and entrepreneurs in this field.[8]

The IT sector is a success story in a country that has lost many jobs as a result of the transformation to a market economy and the global economic crisis. The number of people over the age of 15 working in the IT industry rose by almost 50,000 between 2008 and 2016, a period in which a total of 920,000 jobs were lost overall.[9] The IT industry now generates 5.5 percent of GDP – the fifth-highest share in the European Union after Ireland (7.5 percent), Luxembourg (6.5 percent), Malta (6 percent) and the United Kingdom (6 percent).[10] The boom in this sector has been made possible not only by well-educated personnel but also by the good infrastructure. When Romania upgraded its Internet system, it invested straight away in state-of-the-art technology. In recent years,

the average Internet speed in Romania has been one of the highest in Europe.[11]

Villages without road links

But a visit to a major Romanian city with a booming economy and a technically versed middle class tells only half the truth about Romania's economic and social situation: some 11 million people, roughly half of the Romanian population, live in the countryside and many of them have no Internet access at all.[12] Here it is agriculture rather than IT that dominates. With the exception of Bucharest-Ilfov, at least a fifth – in some cases as much as a third – of the working population, is employed in agriculture in every region of the country.[13] Overall, just under a quarter of the Romanian working population over the age of 15 are employed in agriculture – around 20 percent more than the average for the 28 EU states.[14] A third of the EU's agricultural enterprises are in Romania – a total of 3.6 million;[15] but they contribute only 3.4 percent of the total value generated by this sector in Europe as a whole.[16] Many enterprises are very small farms with fewer than five hectares of land.[17] Nine out of ten operate at subsistence level.[18] Of the almost two million people employed in agriculture, just under 45 percent are unpaid labour on the family farm.[19] As a result, although the Romanian agricultural sector does provide employment, it does not offer sufficient paid work. Adjusted for purchasing power, GDP per capita in rural regions is not even a third of that in the cities. In Germany, rural inhabitants generate two-thirds of the GDP per capita of their urban counterparts; in Italy the figure is almost 90 percent.[20]

The standard of living among the Romanian rural population is correspondingly low. In the thinly populated northeast of the country, around a quarter of the population have major problems covering basic expenses.[21] Many people in the country live in cramped, often ramshackle accommodation.[22] Whereas in the capital region of Bucharest-Ilfov, nine out of ten households have an Internet connection, many villages are not even connected to the mains water system.[23] The roads to the villages are not asphalted, and many of them are not even reachable by road.[24] Although Romania has invested heavily in expanding its infrastructure since joining the EU, the GCI evaluates the quality of Romanian roads as on a par with that of developing countries like Chad and Nigeria.[25]

Only if Romanian villages succeed in becoming physically connected to the rest of the country will they have a chance of securing their economic existence in the long term. Moreover, agricultural enterprises will need to be restructured if they are to be able not only to cover their own needs but also to grow produce that they can market for a profit. In the meantime, the government has launched consultation and further-education programmes for those running agricultural enterprises.[26] In addition, it plans to help enterprises to modernise farms and support young people starting farming businesses.[27] Beyond the agricultural sector itself, there are plans for major infrastructure projects that would generate 27,000 jobs in rural regions.[28]

As well as boosting the rural economy, it is important to help the young rural population get a good start in life. To date, pupils in the country not only do worse in comparative tests than their counterparts attending school in the cities;[29] they also frequently leave the education system earlier. Whereas in the thinly populated regions of central, northern and southeastern Romania around a quarter of 18- to 24-year-olds have only a lower secondary education, the same applies to only a tenth of this age group in the economically strong city of Timisoara and the capital region, Bucharest-Ilfov.[30]

In future, the government plans to help children from low-income families by providing school materials, subsidising the purchase of a computer and offering educational grants to prevent their parents from terminating their education prematurely.[31] The government provides buses for the many children who live a long way from school or compensates families for travel expenses.[32] In a pilot project, teams of social and health assistants, mediators and educational consultants have been sent to 100 disadvantaged municipalities.[33] Their task is to help improve labour market outcomes among the rural population. If the project is successful, it will be expanded to another 500 municipalities.[34]

EU accession triggers wave of emigration

Despite all these efforts, many rural inhabitants are likely to leave their home villages because of the difficult living conditions. If they do, they will be following a trend that has persisted for some years now. Today, 1.2 million fewer people live in rural areas of Romania than in 2007. Only 250,000 of that loss can be attributed to death surpluses.[35] Overall, Romania's population has shrunk during the country's first ten years of EU membership from 21.5 million to 19.9 million inhabitants.[36] Two-thirds of this loss was accounted for by migration.[37] After Latvia and Lithuania, no EU country lost a greater share of its population between 2007 and 2015 than did Romania.[38]

Emigration not only reduces the population; it also accelerates demographic change, since the migrants tend to be mainly young people at the start of their working lives.[39] Their departure both raises the average age and deprives the country of potential future parents. In terms of median age, Romania is likely to be one of the EU's oldest societies by 2040.[40]

Young emigrants

In 2014, 184,000 Romanians left their home country for at least a year. The share of those aged between 15 and 34 who did so was roughly double that in the population as a whole. As a result, the economy and the state will be deprived of potential members of the workforce, tax payers and pension contributors as well as young people to support their elderly parents. What is more, the country may be deprived of potential future parents. Given its already low fertility rate, Romania seems to heading for rapid demographic change.

Composition of the overall population and of the emigrants by age group, in percent, 2014
(Data source: Institutul National de Statistica[50])

Currently, however, Romania is one of the youngest EU member states in terms of population because it is still benefiting from the effects of the Ceausescu regime's rigid demographic policy, which banned abortion and severely limited access to contraceptives.[41] In the year of the revolution, 1989, the fertility rate was 2.2 children per woman and thus higher than in most other socialist countries in Europe.[42] The generation born in the 1980s was therefore large. But only a few weeks after the bloody end to the Ceausescu era, the government overturned the law on abortion and in the years that followed increasingly facilitated access to contraceptives.[43] The demand for them was certainly high and combined with the major political and economic uncertainty of the post-socialist era, led to a drop in the average number of children per woman to 1.8 in the first twelve months after the change of regime.[44] This trend has continued, albeit at a more moderate tempo, for many years. The fertility rate reached the record low of 1.2 children per woman in 2002.[45] Since then, it has risen again; but at just under 1.6, it is still far from the level needed to keep the size of the population stable without immigration.[46]

Rural regions as pioneers of demographic change

What the reduction in fertility combined with the strong emigration trend means for Romania is already evident today in the rural regions. For every 100 people between the age of 20 and 64 there are 30 people over 65; in the cities the ratio is 100 to 23.[47] Until recently, the custom in the countryside was for children to look after their elderly parents. Now parents and children live far away from one another, and the state does not provide any comprehensive or viable alternative to the traditional model of care within the family. Throughout Romania the health and care systems are regarded as poor – and in the countryside these structures are much worse.[48]

In cities, by contrast, the effects of demographic change can scarcely be felt and will start to have an impact only in the coming years. Currently, Romania's urban centres still have a broad stratum of young people between the age of 25 and 39. This is the first generation to have experienced only the tail end of the Ceausescu regime, and it has come to take democratic rights for granted and make use of them. Romania has seen several protest movements in recent years – most recently, in the winter of 2016–2017 when Prime Minister Sorin Grindeanu tried by decree to liberalise corruption legislation – a step that would have legally favoured some of his political cronies. According to media reports, the last time that so many people took to the streets was during the Romanian revolution of December 1989.[49] And the recent protests opposing the decree were successful: just a few days later, the government withdrew the draft legislation. The young urban middle class seem to have become fully-fledged citizens of the EU and are prepared to defend the rule of law and democracy actively. Now the task is to enable the rural population to take part in the successful course on which Romania has embarked.

BULGARIA

Population size in million (2016)	7.2	Median age (2016)	43.6
Projected population size in million (2030)	6.4	Life expectancy (2015)	74.7
Projected population size in million (2050)	5.6	GDP per capita in euros (2016)	6,600
Total fertility rate (2015)	1.53	GDP per capita at PPP (2016)	13,900
Annual net migration per 1,000 inhabitants (2011-2015)	-0.4	Unemployment rate (2016)	7.6

The EU's Worst Performer

When Bulgaria joined the European Union in 2007, the country had the lowest standard of living of any of the 27 countries that belonged to the Union at that time. On average, Bulgarians had the equivalent of just 4,300 euros at their disposal each year. The average amount within the EU was more than six times as high.[1] Nonetheless, many Bulgarians were optimistic about the future because there had been significant improvements in previous years. Since the turn of the millennium, GDP had grown by around 50 percent.[2] The number of those working in the formal economy had increased by almost half a million and unemployment had fallen from almost 20 percent (2001) to around seven percent.[3] The promise of prosperity offered by the political transformation of the 1990s seemed to have been fulfilled, and accession to the European Union signalled recognition of that success.

However, with the outbreak of the global economic crisis, Bulgaria suffered a major setback. From 2008 to 2009, GDP plummeted by almost four percent.[4] Thousands of jobs were lost, above all in sectors that had previously enjoyed success – construction, trade, textiles and tourism. The number of those employed in Bulgaria today is 330,000 fewer than in 2008 and some 40 percent of the population is threatened with poverty and social exclusion. Bulgaria remains the poorest EU country.[5]

Demographic change spoils chances of prosperity

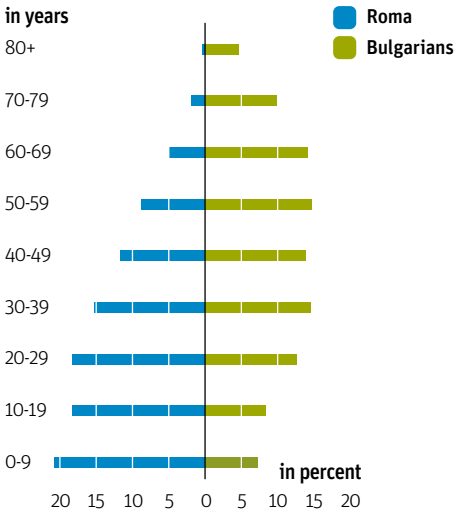
The country's demographic development makes it both more difficult and more urgent to close the wealth gap with the rest of the EU. This is because Bulgaria is currently undergoing an unusually rapid demographic transformation. Not only are women in Bulgaria – like almost everywhere else in the EU – having only a small number of children; the health system is so dilapidated that Bulgaria has the second-lowest life expectancy in Europe – only Lithuania scores worse on this indicator. On average, Bulgarians live just 74.7 years.[6] During the first ten years of its EU membership, Bulgaria has lost 4.4 percent of its population through death surpluses – more than any other EU-28 country.[7]

In addition, thousands of people emigrate each year in search of a better life abroad –

Young minority

Because members of the Roma minority have more children than the Bulgarian majority population, the former have a significantly younger age structure. As a result, their share in the total population is growing. It is estimated that they account for around 19 percent of each year's newcomers to the job market. But at the moment, many Roma live in poverty. On average, they are much less educated than the rest of the population and for that reason have only a small chance of finding work.

Bulgaria's population by ethnic group and age, in percent of the relevant ethnic group, 2011
(Data source: National Statistical Institute of the Republic of Bulgaria[42])



above all, from the poor northern part of the country. Because many of those emigrating are young people, both the shrinking of the population and the aging of society are accelerating.[8] With a current median age of 43.6, Bulgaria is already the fifth-oldest nation in the EU. It is projected that as a result of all these developments, just 5.6 million people will be living in the country in 2050 – more than 1.5 million fewer than today — in which case, there will be only 1.5 people of working age for each person over 64; the current ratio is still three to one.[9] These figures suggest that the aging will be even more pronounced in Bulgaria than in Germany, which at present has the highest median age in the EU.[10] What is more, Bulgaria is likely to be harder hit by this development than Germany because the latter's population can expect much more financial security in old age. The situation is different in Bulgaria. Today, the country already has the highest risk of poverty in old age among all EU countries – 46 percent.[11]

In view of these developments, it is all the more important to quickly close the wealth gap with other European states. Here the key is productivity – that is, the average output of each employed person. It is estimated that productivity will have to increase annually by four percent until 2040 for Bulgaria to achieve the EU average for GDP.[12] However, between 2010 and 2015, it grew annually by just 2.5 percent.[13] To boost the growth of productivity in the future, the Bulgarian economy must be modernised. Currently, the country produces mainly simple goods at the lower end of the value chain. In almost no other EU state is the share of high-technology exports as low as in Bulgaria.[14] In order to kick-start structural transformation, Bulgaria needs foreign investors. But owing to poor infrastructure, the red tape associated with founding companies and widespread corruption, Bulgaria has little pulling power among international investors.[15]

Education as a major issue

In order to raise productivity to the desired level, Bulgaria will have to take measures to ensure that the population is better able to meet the needs of the job market. Companies that aim to design and manufacture complex products require qualified skilled workers, such as managers, engineers and computer scientists. Bulgaria has too few such workers.[16] This is because of an education system that struggles to equip schoolchildren with even the most rudimentary skills and knowledge. In the 2015 PISA international educational assessment, 40 percent of 15 year olds tested were unable to read simple texts, do easy arithmetic or understand basic scientific concepts.[17]

One of the reasons for these weaknesses is the peculiar structure of the Bulgarian school system. For around one-fifth of pupils, general education ends after six or seven years – that is, long before they reach the minimum school-leaving age of 16.[18] At that point, they switch to a vocational school.[19] The curricula of these vocational schools are scarcely oriented towards the needs of the job market.[20] To this day, there is virtually no cooperation between employers, policymakers and educational institutions when it comes to drawing up educational programmes that would adequately prepare school-leavers for the tasks to be performed at the workplace.[21] Moreover, there is insufficient practice orientation and a lack of clearly defined standards on training content.[22] Despite a large number of initiatives and reform programmes in recent years, this situation has barely changed.[23]

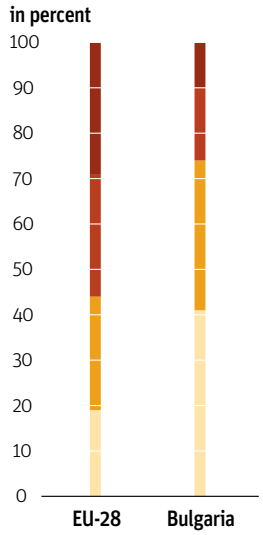
Similarly, higher education has to date contributed far too little to modernising the country's economy. Not only is the quality of research and teaching worse than in other European states;[24] many students choose subjects that are seldom required – for example, the humanities.[25] For this reason, an unusually large number of graduates later work in professions that are below their level of qualification.[26] In its National Strategy for the Development of Higher Education, Bulgaria is pursuing the goal of encouraging more students to opt for future-oriented subjects – for example, engineering, biotechnology and computer science – and promoting the development of these areas in particular.[27]

Because it will inevitably be several years before such efforts yield positive results, the skills of today's workforce should be developed through further training. Just how great the need is can be seen from an EU survey

Internet is terra incognita for many

Two-thirds of all Bulgarians have at most minimal skills in using computers and the Internet. Across the EU, it is only in Romania that the level of proficiency is somewhat lower. To what extent Bulgaria must still catch up on the road to a digital society is underscored by the fact that 44 percent of those surveyed had no IT skills whatsoever.

Digital skills of the population, in percent, 2015
(Data source: Eurostat[43])



- More than basic skills
- Basic skills
- Minimal skills
- No skills

according to which more than two-thirds of Bulgarians aged 25-64 do not know how to properly use a computer or the Internet. Each month, just 2 percent of the working-age population are registered as taking part in further training courses. The EU average is just under 11 percent.[28]

Another potential resource for overcoming the consequences of the demographic transformation is to be found in those who currently neither work nor are looking for a job. Almost one quarter of the population aged 25-64 belongs to this so-called silent reserve.[29] Many women do not work. As is the case all over the world, family commitments are among the main reasons for this. But in Bulgaria there is a special reason: the country offers the longest statutory maternity leave in the world – 410 days. During this period, women receive 90 percent of their original wage. Thereafter, mothers or fathers can take paid parental leave of 320 days. For this reason, young women sometimes leave the job market for years.[30] At the same time, those who belong to the current grandmother generation frequently give up working before retirement age in order to help bring up the children or to take care of older family members.[31]

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
SLOVENIA									
SI03	Eastern Slovenia	1.58	-0.7	29.7	79.8	15,500	68.4		86.1
SI04	Western Slovenia	1.57	0.8	29.5	82.3	22,300	72.0		88.7
CROATIA									
HR03	Adriatic Croatia	1.40	-0.4	34.2	78.6	10,000	59.8	3.4	87.9
HR04	Continental Croatia	1.40	-2.7	30.5	76.9	10,600	62.2	4.6	80.8
ROMANIA									
RO11	Northwestern Romania	1.54	0.0	26.1	74.6	7,100	68.9	3.3	75.5
RO12	Central Romania	1.69	-0.6	27.2	75.5	7,400	63.2	4.3	76.8
RO21	Northeastern Romania	1.93	-0.7	29.4	74.3	4,900	74.9	3.1	69.3
RO22	Southeastern Romania	1.68	-2.4	29.7	74.7	7,200	61.1	2.0	71.8
RO31	South Romania (Muntenia)	1.58	-2.1	31.9	75.1	6,700	64.7	3.6	76.2
RO32	Bucharest-Ilfov	1.24	1.5	22.6	76.7	19,300	71.3	28.4	87.0
RO41	Southwest Romania (Oltenia)	1.48	-3.0	31.6	75.0	5,700	60.2	0.7	79.2
RO42	Western Romania	1.43	0.3	26.5	74.5	8,100	61.4	7.6	81.2
BULGARIA									
BG31	Northwestern Bulgaria	1.71	-4.5	44.5	73.5	3,900	59.1	3.6	80.4
BG32	North-central Bulgaria	1.42	-2.8	38.0	74.1	4,400	65.4	8.2	79.6
BG33	Northeastern Bulgaria	1.47	-0.2	31.1	74.4	5,200	67.0	3.4	77.8
BG34	Southeastern Bulgaria	1.84	-0.4	33.1	74.3	5,200	66.7	0.5	77.6
BG41	Southwest Bulgaria	1.34	2.5	29.3	75.6	10,200	73.1	18.7	91.1
BG42	South-central Bulgaria	1.63	-1.1	33.2	74.8	4,400	66.1	6.0	77.6

Disadvantaged in every respect

Poverty is a big problem in Bulgaria. However, it does not affect all segments of the population to the same extent. Roma, who make up five to ten percent of the population, are particularly threatened.[32] In 2011, three-quarters of them were living in accommodation without such basic facilities as a toilet, kitchen, shower and electricity.[33] Only half have health insurance and their average life expectancy is around ten years below that of the rest of the population.[34] And because they often have received hardly any education, Roma are frequently unemployed or, at best, work in low-skilled jobs.[35] Only ten percent finish secondary school and, at just one percent, their share of graduates is insignificant.[36] Just under two-thirds of Roma aged 16-24 are neither undergoing training nor working.[37]

A large number of state-sponsored and civil society initiatives are intended to help improve the situation of the Roma. Here, education plays an important role. Alongside informal projects such as summer schools and advisory programmes for parents, reforms of the educational system are aimed at helping to keep children at school for as long as possible. To this end, the government introduced a two-year mandatory pre-school education as well as all-day schools.[38] Moreover, needy families receive certain social benefits only if their children regularly attend school.[39] To a much greater extent than was previously the case, the private sector is taking part in organising mentoring, training and internship programmes to make Roma fit for the job market.[40] Such efforts are not without an ulterior motive. Roma account for up to 19 percent of newcomers to the job market.[41] Just how well or poorly the minority is integrated into society will therefore be crucial in determining the future of the country.

PORTUGAL

Population size in million (2016)	10.3	Median age (2016)	44.0
Projected population size in million (2030)	9.9	Life expectancy (2015)	81.3
Projected population size in million (2050)	9.2	GDP per capita in euros (2016)	17,900
Total fertility rate (2015)	1.31	GDP per capita at PPP (2016)	22,400
Annual net migration per 1,000 inhabitants (2011-2015)	-2.6	Unemployment rate (2016)	11.2

A Lost Decade and a Half

The once proud imperial world power Portugal has been losing inhabitants for many years now, as Portuguese migrate to the economically stronger regions of Central and Northern Europe. In 2011, the country saw net out-migration of almost 140,000 people.[1] The reason for this is a sustained period of economic stagnation. To make the country more attractive again for immigrants, in 2012, the government came up with the idea of a "Golden Visa" as a new way of persuading people from other countries to come to Portugal. The Golden Visa was designed to attract foreign capital by rewarding those who invested in the country with fast-track Portuguese citizenship.[2]

In the first three years after their introduction, the Portuguese immigration authorities issued a total of 2,502 Golden Visas, bringing around 1.5 billion euros into the country.[3] Almost all of this money was used to buy property, however, rather than to found new companies as many had hoped. Nevertheless, the government judges the programme to have been a success and sees the fact that other countries like Greece and Spain are following its example with "golden" residency visas of their own as confirmation of this.[*] Critics of the visa, on the other hand, maintain that it is only attracting investors because it buys them an entry ticket into the EU.[4] They may have a point, since the conditions that visa applicants have to fulfil are not particularly tough: investors do not even have to shift their place of residence to Portugal. They only need to spend seven days a year there.

Portugal's fundamental problem is its desperate economic situation. A few figures may serve to demonstrate just how serious the situation is: between 2010 and 2013, the economy of the Iberian state shrank by 2.5 percent per year, on average. And because the previous decades had likewise seen little growth GDP is only marginally higher than at the turn of the millennium.[5] During the crisis, unemployment stood at 16.4 percent, and among 15–24-year-olds the rate was twice as high.[6]

Economic crisis aggravates demographic problems

Having more people leave the country than arrive is not a new phenomenon for this country on the south-western edge of Europe. Until the 1970s, the decade that saw the end of Portugal's military dictatorship with the Carnation Revolution of 1974, the country had been steadily losing people to its colonies and the United States. Its accession to the EU in 1986 likewise initially triggered a wave of emigration. This was followed, however, by a long phase of rising immigration and growing prosperity.[7] Whereas previously immigrants had almost exclusively been Portuguese-speakers from the former colonies, now Eastern Europeans, especially Ukrainians, began to arrive to work in construction, the care industry and retail, benefitting from rising wages. Portugal's migrant structure thus began to change, and by 2002, the 62,000 Ukrainians made up the biggest contingent – ahead of the more traditional Brazilian and Cape Verdean migrants.[8, **]

Since the financial crisis, not only have many of these migrants left the country, but many young Portuguese as well. Superficially this

[*] Requirements are much more attractive in these countries. This is likely one reason for the fact that Portugal, too, eased some requirements in 2015.

[**] New studies come to the conclusion that the number of Ukrainians has since dropped to 44,000 - partly a result of the recession at the beginning of the new millennium. As a result, Brazilians have once more become the largest group of immigrants. (Fonseca, M.L., Pereira, S. & Estevez, A. (2014). Migration of Ukrainian Nationals to Portugal: Changing Flows and the Critical Role of Social Networks. Central and Eastern European Migration Review, 3, 115 – 130.)

would appear to have the beneficial effect of taking the pressure off the job market, which offers far fewer opportunities than there are jobseekers. But in the long term it may have grave consequences, for the emigration of mainly young people will aggravate the major demographic challenges that Portugal is already facing. Relative to the population of working age, Portugal is likely to have more people over the age of 65 than any other EU state except Greece by the middle of the century.[9] The reason for this is the rapid social change that occurred in the years just before and after Portugal's accession to the EU, which had a major impact on the fertility rate. Whereas in 1982, Portuguese women had 2.1 children on average, by 1995, the figure had fallen to 1.4. In 2013, partly conditioned by the economic crisis, the figure was only 1.2, the lowest anywhere in the EU. Today's fertility rate of 1.31 is still the lowest in the Union.[10]

Should the economic situation improve in the foreseeable future, then some of those women who decided not to have children may change their minds. But even postponing having children has a negative effect on demographic trends, since the children born later will also enter employment later and have families later themselves, spelling an unavoidable and significant fall in the population. By 2050, the current population of 10.4 million is likely to have fallen to 9.1 million; only in Lithuania, Latvia, Bulgaria, Romania and Croatia are the losses projected to be greater.[11] Moreover, this assumes that it will be possible to halt emigration from 2019 onward. Future immigration together with internal migration will mean that a few areas of the country will buck the trend and grow – particularly the tourism region Algarve and the metropolitan region of Lisbon.[12]

Whether Portugal will be able to stop emigration in the foreseeable future and make the country more attractive for young families depends on how quickly it manages to get the economy back on track. Although there have been signs of recovery since 2014, with real economic growth of 1.4 percent most recently,[13] in the long term, profound change will be required not just to make up for lost ground but to close the wealth gap to other EU states. After all, with its current per capita GDP of 17,900 euros, Portugal is still well below the EU average of 29,000 euros.[14]

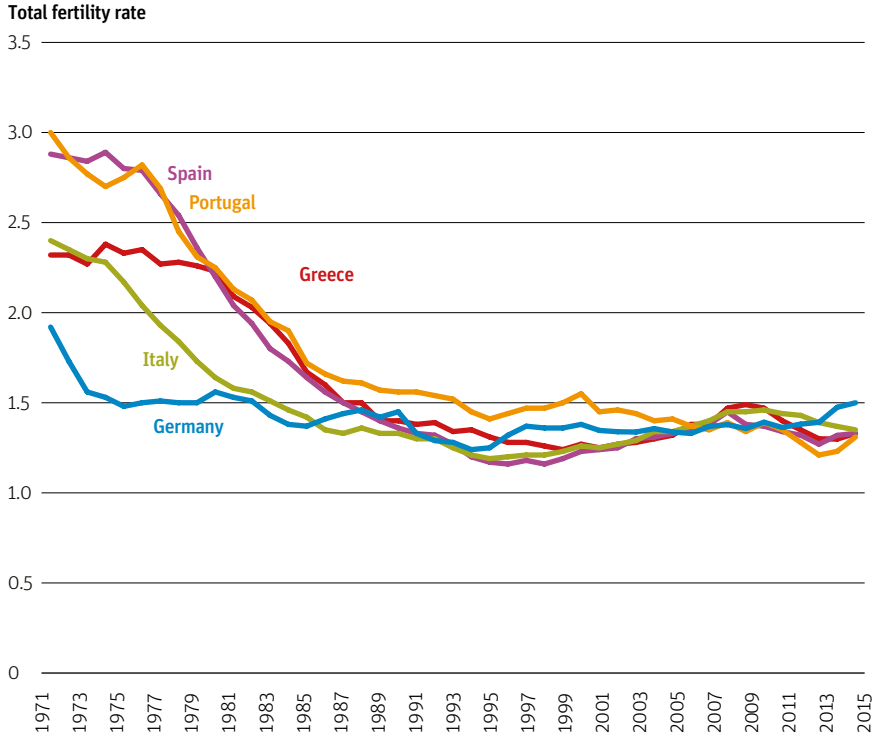
The debt trap

A traditionally weak sector in Portugal is education. In competence studies like PISA, IGLU and TIMSS, Portugal regularly came bottom of the European rankings for a long

From frontrunner to bottom of the table

In the early 1970s, women in Portugal were still giving birth to more than three children on average. Only after the end of the dictatorship in the mid-1970s and the rapprochement with the West that culminated in Portugal joining the EU in 1986 did the country embark on social modernisation, resulting in a fall in the total fertility rate to 1.5 children per woman by the mid-1990s. Portugal thus followed a similar pattern to other Southern European countries, where fertility rates dipped below the replacement level of 2.1 children per woman relatively late. But whereas in other parts of Southern Europe fertility rates began to rise again in the new millennium, Portuguese women continued to have ever fewer children. And today, nowhere else in the EU are so few children born as in Portugal.

Total fertility rate in selected Southern European countries and in Germany, 1971-2015*
(Data source: Eurostat; Statistisches Bundesamt[23])

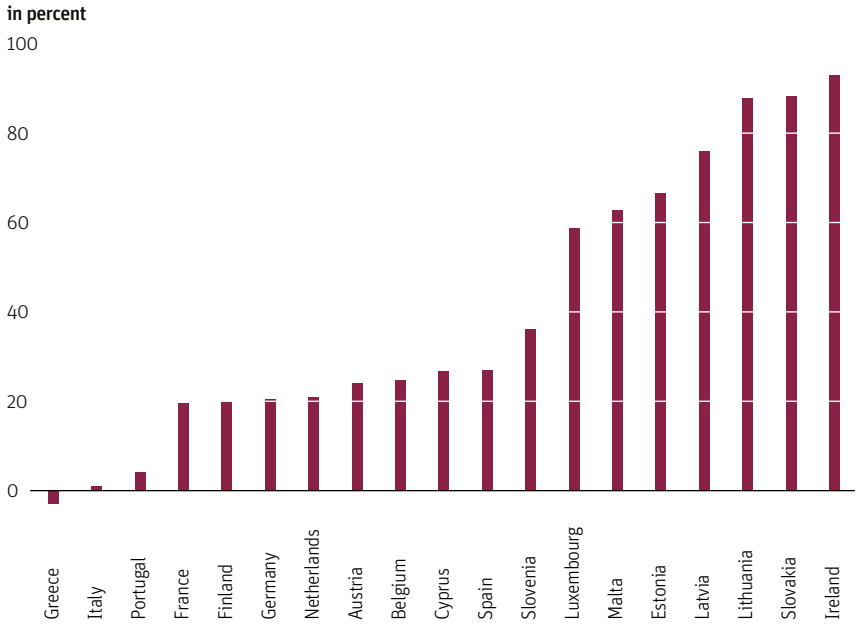


* Before 1991, German data refer only to West Germany.

Portugal stagnates

The first sixteen years of the new millennium have hardly brought any economic progress in Portugal. In terms of GDP, the country is at almost exactly the same level as in 2000. These one and a half decades of stagnation distinguish Portugal from countries like Greece and Spain that slid into crisis only towards the end of the first decade of the new century.

Percentage change in GDP in the countries of the Eurozone, 2000 to 2016
(Data source: International Monetary Fund[24])



time. Only in recent years has it succeeded in catching up with other countries.[15] But the neglect of this sector in the past is still continuing to have an impact today: 54 percent of 25–64-year-olds still have not completed more than lower secondary education (ISCED 2) – whereas the EU average is 23 percent.[16] The level of education is also reflected in industry, which was long dominated by sectors that require only low qualifications, such as textiles, timber or cork. Other industrial sectors, such as financial services, research and oil refining, are only gradually beginning to gain ground.[17]

One precondition for new jobs is investment. But it is precisely here that Portugal has the least latitude, since both the private sector and the state are deeply in debt. Public debt has now reached a staggering 129 percent of GDP – Greece and Italy are the only EU states where it is higher.[18] After three years under the euro stabilisation package and continuing austerity Portugal has at least managed to reduce its newly acquired debt from 11.2 to 2.0 percent of GDP and to regain access to international credit markets.[19] However, economic recovery is still on very shaky feet, for any unexpected crisis on the financial markets would hit Portugal hard. Only sustained recovery will enable the country gradually to reduce its debts. And according to the IMF, the latter will only succeed if the government pursues a rigorous austerity policy over several decades – which is not easy to do without stifling its meagre growth before it has even got off the ground.[20]

Austerity is also increasingly losing the support of the population – probably also because, according to a report from the European Court of Auditors, the conditions of the rescue package were much tougher for Portugal than for other comparable EU countries.[21] How little room for manoeuvre the state has is also demonstrated by the fact that in terms of per capita expenditure social security is already at a pretty low level. At the same time – and partly as a result of this – inequality and the risk of poverty are relatively high, as they are everywhere in Southern Europe.[22] There is a danger that Portugal's remarkable political stability will fall victim to this, which would further worsen the country's prospects in the long term. The first signs of this were evident in the results of the parliamentary elections of October 2015, which following long coalition negotiations ended with a minority Socialist Party government assuming power.

SPAIN

Population size in million (2016)	46.5	Median age (2016)	42.8
Projected population size in million (2030)	47.1	Life expectancy (2015)	83.0
Projected population size in million (2050)	49.3	GDP per capita in euros (2016)	24,000
Total fertility rate (2015)	1.33	GDP per capita at PPP (2016)	26,500
Annual net migration per 1,000 inhabitants (2011-2015)	-1.8	Unemployment rate (2016)	19.6

From Economic Miracle to Crisis

Spain was hit relatively late by the global financial and economic crisis, but when the impact came, it was all the harder. After 2007, the EU's fifth-largest economy, with a GDP of slightly more than one trillion euros, swiftly plunged into recession. By 2009, inflation-adjusted annual growth had fallen from plus 3.8 percent to minus 3.6 percent. So great was the budgetary pressure that Spain immediately exceeded the EU government deficit threshold by a factor of 3.5, running up a budget deficit of minus 11 percent.[1]

At the beginning of the new millennium, Spain had still been able to look optimistically towards the future thanks to economic growth rates that were scarcely paralleled in Europe. The privatisation of state enterprises had flooded billions into the public purse, while more money flowed into the country via the EU's structural and regional funds.[2] A modern machine-building and automobile industry, a highly specialised and export-oriented agricultural sector and a blossoming textiles and clothing industry generating fashion chains like Zara, Mango and Desigual were regarded as the main pillars of Spain's solid industrial development. As wages rose, so did consumer spending, giving a further boost to the economy. What is more, this sun-blessed southern European country became ever more popular as a tourist destination. In the ten years prior to the crisis, the number of foreign visitors more than doubled.[3] Municipalities could hardly keep up with requests for planning permissions to build new holiday accommodation along the coast. Despite growing criticism of the ecological and social risks posed by such development, countless new hotels and holiday apartment complexes sprang up, from the Costa Brava in northeastern Catalonia to the Costa de la Luz in southwestern Andalusia. In the second half of the 2000s, more than 18 percent of GDP was accounted for by the construction and property sector.[4]

But it was not just tourism that fuelled the building boom. Home ownership became another favourite form of investment among the Spanish. With tax breaks for those who wished to purchase their own homes and banks offering mortgages on favourable conditions, rapidly rising property prices seemed to promise a quick return on investment.[5] In 2008, 87 percent of Spanish adults lived within their own four walls – in Germany the figure was just 65 percent for that year, while the EU average was 75 percent.[6]

When the property bubble burst in the wake of the global financial crisis, the structural weaknesses of the Spanish economic boom were laid bare. The Spanish economy is based on small and very small companies; indeed, half of all registered companies in 2009 were one-person businesses, while 95 percent of companies employed fewer than 20 people.[7] Because their productivity is often low, mini-companies are particularly susceptible to crises. Moreover, the two sectors mainly responsible for the boom – construction and tourism – tend to offer only seasonal contracts. One third of all employees were working on a temporary contract when the crisis struck.[8] As the economy began to slow down, many employers did not renew these contracts, and unemployment rose. Whereas only 8.2 percent of the labour force did not have a job in 2007, that figure had more than doubled by 2009. In 2013, unemployment peaked at 26.1 percent. Only in Greece at the height of the crisis was the unemployment figure higher – while the EU average at the same point in time was just under 11 percent.[9]

Against this background and under pressure from its European partners, the Spanish government under then Prime Minister José Rodríguez Zapatero, a Social Democrat, decided to make a U-turn. Having only just raised the minimum wage and pensions at the end of 2009 as a way of cushioning the population from the effects of the crisis, it introduced far-reaching austerity measures in 2010. Not only did it postpone planned public investments, it also raised VAT by two percentage points to 18 percent, froze pensions, reduced the minimum wage and cut the salaries of civil servants. As a result, many Spaniards could no longer service their loans and mortages, which until shortly before had been considered so lucrative. The banks faced liquidity problems and were ultimately able to refinance themselves only thanks to the European rescue package, while Spanish state debt continued to skyrocket despite the government's austerity policy.[10]

No country for young people

It is, above all, young people who have suffered from the impact of the Spanish debt crisis. Youth unemployment rose rapidly from 18 percent in 2007 to more than 50 percent, and it is only since 2015 that it has gradually fallen below this level.[11] In fact, currently only just over a third of Spaniards aged 15–24 are available to the labour market, far less than the EU average.[12] The remainder either put off looking for a job by acquiring further education in a bid to improve their chances or come under the so-called NEET category (Not in Education, Employment or Training). At 19.4 percent, the share of NEETs in the 15–29 age group is five percentage points higher than the EU average. Particularly worrying is that most of the NEETs in Spain have only a lower secondary education.[13] Experience has shown that many of these teenagers and young adults scarcely have a chance of gaining access to the regular job market in the future and are therefore particularly threatened by poverty and social exclusion.[14]

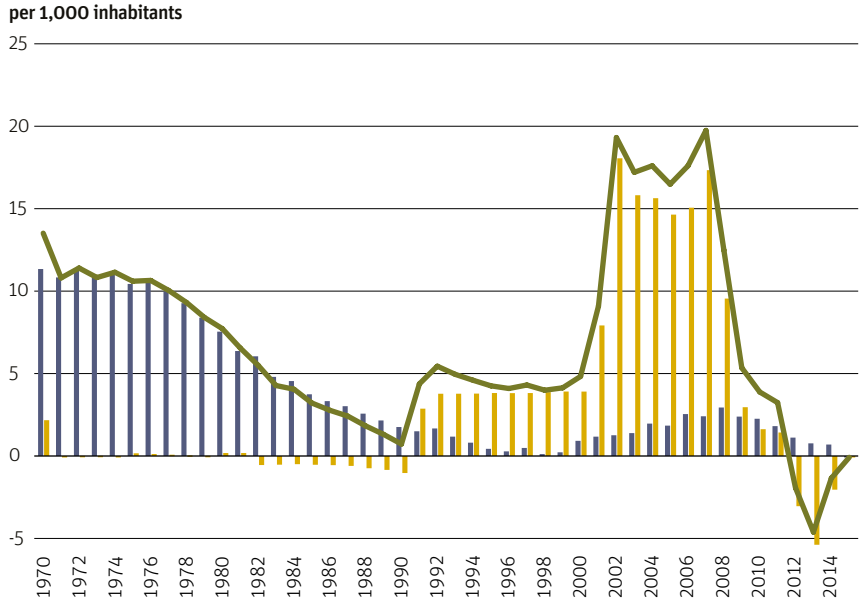
But even those young Spaniards with a good education and a work contract face numerous other problems. For one thing, more than half of employees under the age of 30 are in a job for which they are over-qualified. What is more, 55 percent are on limited contracts – of which 46 percent for a period of less than a year – while another 36 percent do not know even how long their contract will last. Another exacerbating factor is that salaries are often not sufficient to cover basic living expenses. One young employee in four earns so little that he or she is under the national poverty line despite having an income.[15]

Under these conditions it is not surprising that hardly anywhere in the EU is it more difficult for young people to establish an independent existence than in Spain. It is not only traditional family ties that keep young people at home – many of them simply cannot afford to move out. Housing remains expensive even after the bursting of the property bubble.[16] A young employee earning

Demographic Downturn Follows on Heels of Economic Crisis

Only in the early 1980s, which was relatively late by European standards, did the fertility rate fall in Spain below the replacement level of 2.1 children per woman. Because the country also has one of the world's highest life expectancies, it was not until 2015 that more Spanish were dying than were being born. Since net migration has recently turned negative again after a longer period of net immigration, the Spanish population has been shrinking since 2012. The gap between deaths and births is likely to increase further in the future, meaning that Spain's population will be able to grow only through immigration.

Birth Surplus/Deficit, Net Migration and Total Population Change in Spain per 1,000 inhabitants, 1970-2015
(Data source: Eurostat[32])



an average wage will need to set aside just under 60 percent for rent. For most young people, obtaining a loan to buy their own home will be impossible in the foreseeable future. Thus four out of five of those under 30 have no choice but to go on living with their parents. While they may appreciate their family's support in times of crisis, many young adults suffer from their forced lack of independence.[17]

Fast-track demographic change

The poor prospects of young Spaniards to be able to live a self-determined existence are having an effect on demographic developments. Even before the crisis, Spanish women tended to have children conspicuously late by European standards. In the early 2000s, the average age at which women gave birth to their first child was already just over 29. During the economic crisis, that figure rose further and by 2015 had reached 30.7. At the same time, the proportion of children born to unmarried mothers has risen: from 17.7 percent in 2000 to 30.2 percent in 2007 and 44.5 percent in 2015.[18] Both developments indicate that young Spaniards find traditional family structures ever less desirable.

For some years now, the proportion of women having any children at all has been declining too. Of Spanish women currently aged 35–40, around a quarter to a third will probably remain childless. Only a small proportion of them are unable to have children for biological reasons or have decided voluntarily not to have them. More than 90 percent of childless women would like to have their own children but postpone doing so for personal or economic reasons until they reach an age when this wish becomes ever less likely to be realised.[19] As a result, the Spanish fertility rate of 1.33 children per woman is one of the lowest in Europe. Until the late 1970s, Spain, with a fertility rate of well over two children per woman, numbered among those countries in Europe with the most children. Only with the social modernisation that came after the dictatorship had ended did the number of births fall. The fact that up to and including 2013 more people were being born than were dying every year was due to the much higher fertility rates of the past, which for a long time ensured a large number of potential parents.

Yet, not only are there relatively few babies in Spain nowadays, the people are also growing very old on average. Spaniards born today can expect to live for an average of 83.0 years. Together with Switzerland, Spain has the highest life expectancy in Europe.[20] The flipside of the coin is a population that – owing to the relatively late and rapid fall in the fertility rate – is aging very quickly. Even today, 19 percent of Spaniards are at least 65 years of age; by 2050, that figure could well be 32 percent. Together with Greece, Italy and Portugal, Spain is thus likely to have overtaken Germany in terms of an aging population by mid-century and will then probably have one of the oldest populations in the world. By then, one person over the age of 64 will be supported not by three people of working age, as today, but by just roughly one-and-a-half.[21]

The growing imbalance between the size of the working-age population and that of the population dependent on it is likely to have an impact not only on the performance potential of the Spanish economy but also on its social systems in their current form. In particular, the relatively generous pay-as-you-go pensions system is likely to be pushed to its limits. Old-age poverty may become a problem. The adjustments introduced in 2011 and 2013 consist of an incremental rise in the pension age to 67, more stringent requirements for a full pension entitlement and a sustainability factor that links monthly payments both to rising life expectancy and to the state of the economy.[22]

The main scenarios for population development are based on the assumption that until 2050 far more people will be immigrating to Spain than emigrating.[23] However, while in the boom years prior to the recession the country benefited from immigration surpluses of around 700,000 people per year, there has been net out-migration since 2010. The record year for out-migration to date was 2013, when 250,000 more people left the crisis-ridden state than arrived.[24] These included many East European and North African labourers who had been working in the catering and hospitality sectors or in agriculture and were the first to be pushed out of the labour market when the economy slumped.[25] But many young Spaniards left, too, in order to seek their fortunes abroad, in economically stable Germany, for example, or in the United Kingdom, France and the United States. Although net out-migration declined sharply in 2015 to just under 2,000 people,[26] this development was mainly due to a renewed rise in the number of foreigners immigrating to Spain, especially from Italy, Venezuela, Ukraine and Honduras. Among Spanish citizens, however, the emigration trend continues.[27]

Between modest recovery and political gridlock

The fall in emigration coincides with a period of modest economic recovery. Recently, the Spanish economy has begun to grow again – by 3.2 percent in 2015 and 2016.[28] One reason for the recovery is the increase in the number of foreign tourists, who, frightened by the terrorist attacks in Turkey and Tunisia, are tending to spend their holidays in Europe once again. Income from tourism accounted for 11.1 percent of GDP in 2015, while employment in this sector rose too.[29] Since 2014, the labour market has become less tight, even if the number of unemployed remains very high: in 2016, the unemployment

rate was "only" 19.6 percent.[30] Together with low inflation, this means that people once again have more money at their disposal and are consuming more.[31]

But if this positive trend is to be sustained, stable political leadership is required. However, the country's two established parties – the conservative People's Party (PP) and the social-democratic Spanish Socialist Workers' Party (PSOE) – spend much of their time engaged in political in-fighting. This paralyses the country's ability to act, as demonstrated by the many months spent in 2016 trying to form a government. What is more, repeated corruption scandals have undermined the population's trust in their elected representatives. This puts more wind in the sails of the emerging left-wing populist party Podemos, whose goal is to challenge the entrenched political system. What the outcome will be remains uncertain.

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
SPAIN									
ES11	Galicia	1,10	-0,1	40,6	82,9	20,500	63,5	22,8	56,5
ES12	Principality of Asturias	1,01	-0,9	40,0	82,4	20,400	60,4	20,1	64,3
ES13	Cantabria	1,15	-1,2	33,6	82,9	20,900	65,3	35,1	63,5
ES21	Basque Country	1,39	-1,5	36,3	83,5	30,800	69,6	131,5	70,5
ES22	Navarre	1,44	-1,3	32,2	84,1	29,100	69,3	122,0	67,9
ES23	La Rioja	1,34	-5,1	33,7	83,7	25,200	70,4	26,2	60,3
ES24	Aragon	1,35	-2,4	35,2	83,0	25,500	69,6	108,1	63,7
ES30	Autonomous Community of Madrid	1,37	-2,8	27,6	84,5	31,700	70,4	71,1	71,1
ES41	Castile and León	1,18	-3,4	41,0	83,9	21,700	66,0	26,2	58,1
ES42	Castile-La Mancha	1,33	-5,1	30,3	83,1	18,000	59,9	16,7	49,1
ES43	Extremadura	1,28	-1,5	32,6	82,3	15,900	54,6	3,0	42,2
ES51	Catalonia	1,40	-3,9	30,7	83,4	27,600	70,1	109,6	60,4
ES52	Valencian Community	1,32	-3,4	30,7	82,5	20,600	63,4	43,3	56,7
ES53	Balearic Islands	1,24	5,3	23,8	82,7	24,100	71,4	16,4	57,7
ES61	Andalusia	1,40	-0,2	26,4	81,6	17,100	54,1	20,8	49,2
ES62	Region of Murcia	1,57	-3,1	24,9	82,5	18,800	61,8	40,3	50,1
ES63	Autonomous City of Ceuta	1,85	-0,2	18,5	81,2	18,800	53,9		48,1
ES64	Autonomous City of Melilla	2,53	1,7	16,9	80,1	17,100	49,9		49,8
ES70	Canary Islands	1,05	5,6	23,3	82,3	19,200	57,7	9,5	53,9
PORTUGAL									
PT11	North	1,17	-3,6	30,7	81,7	14,600	68,1	13,9	40,7
PT15	Algarve	1,49	-2,7	35,5	80,8	17,800	73,9	7,2	47,5
PT16	Centro	1,19	-1,9	39,7	81,5	15,000	73,0	22,5	45,4
PT17	Metropolitan area of Lisbon	1,56	-1,6	35,9	81,6	23,200	72,6	17,3	59,6
PT18	Alentejo	1,34	-3,0	43,2	80,2	15,700	69,8	16,2	43,3
PT20	Autonomous Region of the Azores	1,25	-1,2	21,4	77,8	15,400	66,7		32,2
PT30	Autonomous Region of Madeira	1,10	-6,6	24,6	78,3	16,100	66,4		37,5

ITALY

Population size in million (2016)	60.7	Median age (2016)	45.5
Projected population size in million (2030)	60.4	Life expectancy (2015)	82.7
Projected population size in million (2050)	59.0	GDP per capita in euros (2016)	27,600
Total fertility rate (2015)	1.35	GDP per capita at PPP (2016)	27,900
Annual net migration per 1,000 inhabitants (2011-2015)	5.9	Unemployment rate (2016)	11.7

North-South Divide

Italy is one of the countries that has suffered the most as a result of the economic crisis that began in the late 2000s. In 2016, real GDP was still around seven percent lower than it had been in 2007, prior to the crisis.[1] The International Monetary Fund (IMF) estimates that it may take until the mid-2020s for Italy to regain the level of prosperity it enjoyed in the pre-crisis years. For many other EU states the IMF is predicting a level of welfare of 20-25 percent higher than the pre-crisis level over the same period.[2]

The problems of what is still the EU's fourth-largest economy are mainly home-made and their causes date back to before the crisis. For many years, the country delayed implementing important reforms that might have made the economy competitive, the public administration efficient and the state budget stable.[3] Italy places behind most other European countries in the World Bank's Ease-of-Doing-Business-Index, which measures framework conditions for business.[4] In addition, corruption and nepotism, in extreme cases coupled with organised crime, have weakened the country. Only recently did the former government of Prime Minister Matteo Renzi introduce urgently needed reforms, such as the liberalisation of various economic sectors and tax breaks for investors.[5] If these reforms do not have a rapid effect, Italy will be in trouble – not least because the aging of the population is already more advanced here than in any other European country.

These gloomy prospects do not, however, apply to the whole of Italy. Particularly in the north, there are some regions that count among the continent's most innovative. Each year, companies in Lombardy, Piedmont, Emilia-Romagna and the Veneto register more patents, relative to the size of the labour force, than is the case in Hamburg, Vienna or Oslo, for example.[6] The south, by contrast, is lagging behind and has done for centuries. Average regional GDP is around 12,000 euros lower here than in the north and people are leaving in droves; moreover, there is no region in the entire EU where the employment rate is lower than in Calabria, Campania and Sicily. If that were not enough, of the ten EU regions with the lowest fertility rates, four are in southern Italy.[7]

Low productivity

Italy is the EU's second-most important industrial country after Germany.[8] The Italians are particularly successful at making luxury goods: Prada, Dolce & Gabbana, Lamborghini and Ferrari are just a few examples of Italian companies that produce articles that symbolise the lifestyle of the rich and famous. But besides these giants, industry is highly fragmented and dominated by small- and medium-sized companies (SMEs), which as a rule are family-run. The SMEs illustrate a central problem in Italy: in absolute terms, their contribution to value added is above the EU average, but at the same time, they are around ten percent less productive than SMEs in other countries.[9]

Productivity – economic output per hour worked – has scarcely risen in Italy in recent years. If in the 1990s it was only marginally below that of Germany and France, the gap has now grown to more than 20 percent.[10] This stagnation is one of the main reasons why even before the crisis, Italy's economy was growing much more slowly than most other EU countries.[11] The fact that productivity is almost at a standstill may also have to do with the relatively low level of education in Italy. Compared with other European countries, it is still below average in international competence studies like PISA.[12] And despite recent improvements, Italy has the smallest

share of graduates among those aged 25-64 – just 18 percent – after Romania. At the same time, the share of this age group who have attained only a lower secondary education is conspicuously high, at 40 percent.[13] Nor does this situation look likely to improve significantly in the future: at 4.3 percent of GDP, public expenditure on education was below the EU average in 2013; countries like Finland and Sweden spend more than seven percent of GDP on qualifying the next generation.[14]

Europe's oldest country

Italy's ailing productivity is especially worrying in view of the enormous demographic challenges that the country faces. The age dependency ratio is already the highest in the Europe, with 37 people over the age of 64 to every hundred people aged 20–64. By 2050, 100 people of working age (according to today's definition) will probably be providing for 68 people aged 64 and over – a ratio of less than 1.5 to 1.[15] The task of providing for pensioners would become much easier if productivity, and hence incomes, were to rise again in the future.

The main reason for the advanced aging process is the fertility rate, which has been low for decades. Together with Germany, Denmark and Luxembourg, Italy is one of the first European countries where, in the mid-1980s, the fertility rate reached the very low level of fewer than 1.5 children per woman. But unlike that of central and north European countries, the fertility rate in Italy had still been quite high just ten years earlier – at around 2.2 children per woman.[16] Owing to this rapid drop to a level from which it has still not recovered, Italy today is characterised by a very uneven age distribution. Currently, women in Italy have 1.35 children on average.[17] And unlike in many other countries, there are few signs that the situation is likely to improve – which has set alarm bells ringing among those responsible for social policy within the Italian government. Health Minister Beatrice Lorenzin, for example, tried to introduce a "fertility day" in late summer 2016. To this end, she ran a poster campaign designed to rekindle people's enthusiasm for having children. The campaign certainly attracted a lot of attention, but not of the kind the government had intended. The population's response to what they saw as the government telling them what to do ranged from irritation to outrage – in their view, it was not the women (and men) who did not want to have children who were to blame, but

Many housewives, no children

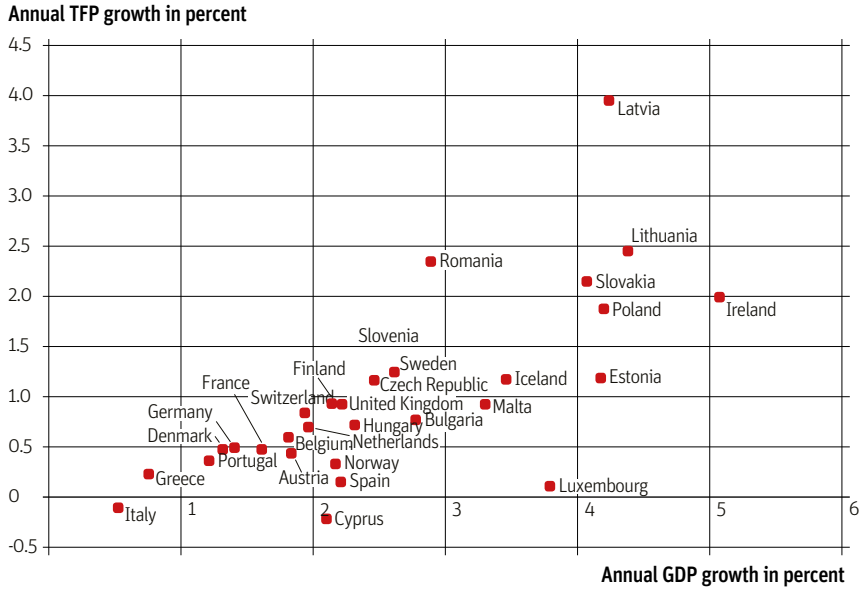
Employment rates in southern Italy are among the lowest in Europe, and the rate among women is especially low. As housewives they do not, however, have an especially large number of children, as was customary in the past. On the contrary: in Molise, Basilicata and Sardinia, the fertility rate is lower than in almost all other regions of Europe. This presumably has to do with the difficult economic situation.

Employment rate of persons aged 25-64 by gender (2016) and total fertility rate (2015) in the NUTS 2 regions of Italy
(Data source: Eurostat[39])

Declining productivity

A country's economic output can rise either if more hours are worked or if more is produced with the same inputs. The latter is measured in terms of productivity. In most European countries, the productivity rose slightly between 1995 and 2016. However, in Italy it fell. This is the main reason why the country's economic output has been stagnating for around two decades. In fact, Italy urgently needs to increase its productivity to compensate for the costs associated with its aging population.

Annual GDP growth in percent and total factor productivity (TFP) in European countries, 1995-2016
(Data source: European Commission[37])



the state itself, which they saw as offering too little support to couples who wanted to start a family.[18]

Italian women are no longer prepared or able – owing to low wages and high living expenses – to espouse the traditional division of gender roles, whereby women give up work and stay at home to look after their children.[19] Provisions to allow parents to combine a career with having a family are still not very advanced in Italy. Although the legal provisions protecting working parents and pregnant women are quite far-reaching by European standards, many companies resort to using tricks to get round them. Cases have been reported of women having to sign work contracts that allow them to be fired if they become pregnant.[20] State-financed day-care places are hard to come by and hardly anyone can afford to have their children looked after privately.[21] Women are therefore often faced with the choice of either foregoing children or giving up work. Against this background, it is not surprising that the rate of female employment in Italy, at 52 percent, is the second lowest in the EU after Greece.[22] But women in the workforce are an important resource that has been neglected to date by Italy and could serve to cushion at least some of the effects of the pending decline in potential labour.

Problem region Mezzogiorno

Not every region is equally affected by these economic and demographic challenges, however. On the contrary, the regional distribution is extremely uneven. Whereas almost all innovative industrial and service companies are located in the northern half of the country around the metropolitan regions of Milan, Rome and Florence, the Mezzogiorno – as southern Italy is known – is regarded as underdeveloped. The gap between north and south has existed for more than a century, but it has become even larger in the wake of the European economic crisis.[23] While for some years now the north has been recording very modest economic growth again, the south witnessed only minimal such growth in 2015 – and that was the first time it had recorded any growth since 2007. Unemployment among those aged 20–64 is only 8.2 percent on average in the northern regions, while in the south the corresponding figure is 17.4 percent. Similarly, the share of people threatened by poverty or social exclusion is more than twice as high in the Mezzogiorno as in the northern regions.[24]

The economic malaise has an effect on demography too. Calabria, Basilicata and Molise are among the regions in Europe where the fewest children are born.[25] "One child is a luxury, two children, wow", the well-known Italian author Roberto Saviano wrote in an open letter to Prime Minister Matteo Renzi in 2015, in which he decried the decline of southern Italy. Even the Mafia was now looking for more lucrative opportunities and had stopped investing in its country of origin, he wrote.[26] The lower fertility rates are exacerbated by the fact that young Italians without prospects are heading north. Southern Italy is thus suffering a double population loss. According to current projections, the region of Basilicata, for example, will lose another 16 percent of its population by 2050.[27]

Challenge of the refugee crisis

The reason why population losses have not been even higher is that many people are

arriving in southern Italy from abroad – especially refugees from North Africa and the Middle East, who are prepared to make the dangerous journey across the Mediterranean. In 2015 and 2016 alone, a total of almost 300,000 people landed on the coasts of southern Italy, above all in Lampedusa and Sicily.[28] Especially in 2015, the Italian state was unable to cope with such a huge influx and therefore sent on many new arrivals northwards without even fingerprinting them – even though the European asylum system stipulates that asylum applications must be submitted in the country in which refugees first set foot.[29] In the meantime there have been improvements in the infrastructure, and Italy has the capacity to accommodate well over 100,000 people in its reception centres and so-called hotspots.[30]

That does not meant that the task of integration has been solved, however. On the contrary, the question of what happens to the new arrivals after their initial reception has become ever more pressing. Will the refugees be distributed throughout the country, as is the case in Germany? And how are they to earn their living? The first question is highly controversial, and especially the richer regions of the north are resisting the idea of hosting refugees. With respect to labour market integration, the preconditions are good in purely legal terms: two months after arriving, refugees are allowed to take up employment even while their cases are still being processed.[31] That is one month sooner than in Germany, for example. But practical assistance in finding a job and learning Italian still leaves something to be desired. Companies and civil society have yet to become sufficiently involved, and new challenges are waiting just around the corner: since early 2016, increasing numbers of unaccompanied minors have been arriving in Italy from across the sea – around 17,000 in the first nine months of that year alone.[32]

Italy is having to rely on assistance from the EU to cope with the influx of refugees, but this is proving effective only in part. The European Commission did recently refrain from initiating legal proceedings against Italy, even though the country's public debt is running at 133 percent of GDP – Greece is the only country in the EU to exceed this level.[33] Another important measure would be to implement the decision to relocate refugees among other European countries. Yet in April 2017, fewer than 5,000 of the refugees who originally arrived in Italy had found a new home in another state.[34]

It is hardly surprising that Italy is pressing for a European distribution formula that would take effect as soon as refugees arrive. In mid-2016, the government put forward a proposal that would considerably expand cooperation with European neighbouring states along similar lines to the EU's agreement with Turkey.[35]

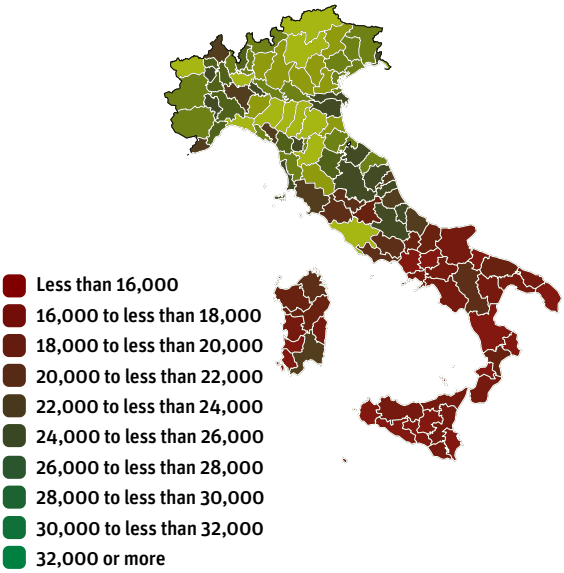
Scepticism towards Europe

But at precisely the moment when Italy most urgently needs the help of the EU, faith in the European project is crumbling from South Tyrol to Sicily, and EU-sceptical parties like the so-called Five Star Movement, led by former comedian Beppe Grillo, are gaining support. This dissatisfaction stems not only from European policy but from the country's political instability combined with economic stagnation. Since 1945, not a single Italian leader has managed to stay in office for the entire length of the regular five-year term. Italy has experienced 64 changes of government in the post-war era, and not a few governments have lasted less than a year. Since the beginning of the crisis in 2007, there have been five different governments in which the Italians have placed their hopes, only to be disappointed. The future of the country's federalist structure is a particularly divisive issue. After the failed referendum at the end of 2016, the division of competencies between the central government and the regions remains unclear.[36]

Gap between north and south

In Italy there is an enormous gap between north and south. Many northern regions – like Lombardy, Piedmont and Emilia-Romagna – have a modern economic infrastructure and a correspondingly high value added. In the south, by contrast, the economy is much weaker and a disproportionately large number of people are threatened by poverty. This division of the country was already evident when the Italian state was founded, in 1861, but has been exacerbated more recently not least as a result of the economic crisis.

GDP per capita in euros in the NUTS 3 regions of Italy, 2014
(Data source: Eurostat[38])



MALTA

Population size in million (2016)	0.4	Median age (2016)	41.1
Projected population size in million (2030)	0.5	Life expectancy (2015)	81.9
Projected population size in million (2050)	0.5	GDP per capita in euros (2016)	22,700
Total fertility rate (2015)	1.45	GDP per capita at PPP (2016)	27,600
Annual net migration per 1,000 inhabitants (2011-2015)	7.2	Unemployment rate (2016)	4.7

Testing Ground in the Refugee Crisis

Malta discovered, sooner than other EU countries, the challenges posed by a sudden influx of asylum seekers. Between 2008 and 2013, more asylum applications per capita were filed on the small Mediterranean island than in any other EU member state.[1] For this reason, Malta had to test many of the methods of dealing with refugees at a time when most EU countries had yet to address the nuts and bolts of the issue. It was thus able to demonstrate which measures do not work. Its approach was basically to immediately detain anyone who entered the island state without a valid visa in one of two prisons especially adapted for this purpose. Only at those facilities was it possible for asylum seekers to file an application.[2] The European Court of Human Rights repeatedly classified this practice as illegal.[3] And in its public pronouncements on immigration, the government frequently shied away from practical solutions, opting to speak instead of the situation as a "state of emergency" and a "national crisis".[4]

What it did succeed in doing, however, was reducing the number of asylum seekers. By presenting itself as a very unattractive destination, the EU country with the smallest number of inhabitants was able to significantly cut the number of refugees.[5] But this meant that other routes to Europe gained in importance. The Maltese government has since recognised that simply passing on the problem from one European country to another is not a long-term solution. In mid-2015, it did a turnaround on its policy and stopped automatically detaining new arrivals. Moreover, it agreed to take its share of the 160,000 asylum seekers in Greece and Italy whom the EU planned to relocate among other member states.

Integration follows immigration

One of the reasons why Malta did not cope well with the influx of refugees is that it has little experience of immigration and is ethnically largely homogeneous. The attitude of the Maltese to the new arrivals therefore tended to be sceptical. The capital, Valletta, is one of the most negative in the EU when it comes to foreigners. In a 2012 survey, just 58 percent of respondents agreed with the statement that foreigners are good for the city – the average for all EU capitals was 73 percent.[6] This result may also have had to do with the fact that in Malta, some 430,000 people live together in an extremely confined space: on average, there are 1,375 people crowded onto each square kilometre.[7] Malta thereby numbers among the most densely populated territorial states in the world.[8] Immigrants and native inhabitants come into direct contact with one another almost automatically and the influx of several thousand new immigrants can be directly observed on the city streets.

Since many asylum seekers remain on the island, the issue of how best to integrate them into society is becoming increasingly important for Malta. From a purely economic perspective, the outlook is not inauspicious: since Malta joined the EU in 2004, its economy has enjoyed a steady upturn with average annual growth rates of 3.6 percent; and in each of the past three years, it has registered more than 5 percent growth. Of the EU countries, only Ireland can match that achievement. In terms of GDP per capita, Malta remains below the EU average but is the richest of the 13 countries that have joined the Union since 2004.[9] The upturn in Malta is founded on a modern economy whose main pillars are tourism, financial services, information technology and pharmaceuticals.[10]

In fact, Malta has succeeded in ensuring that those born outside the country are not left behind on the job market by the native population.[11] However, this has not been the result of an especially broad-based integration policy; rather, it has to do with the fact that in the past, Britons were the only ones who immigrated to Malta in significant numbers, either to work or to retire.[12] More recent efforts by the state to integrate migrants, on the other hand, have been very limited, which is why Malta has repeatedly performed poorly in international comparisons of integration policies.[13]

Imploding fertility rates in the late 1990s

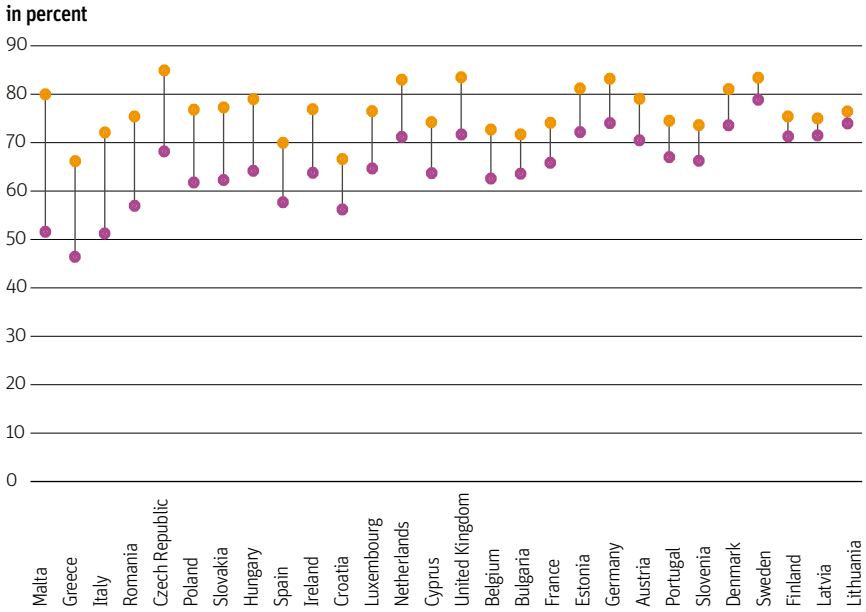
Immigration is likely to become an important issue in Malta for demographic reasons, too. The country is currently experiencing a rapid transformation of society; which above all has resulted in plummeting fertility rates: the average number of children per woman fell from 2.0 to 1.5 within the six years from 1996 to 2001. Since then, it has bottomed out at 1.4 – one of the lowest rates in the EU. In addition, Maltese women are having children much later in life than was the case just a few years ago.[14] That Malta can nonetheless continue to rely on a growing population is due to the fact that the fertility rate began to fall relatively late – within the EU, only Cyprus was able to boast a higher rate at the beginning of the 1990s.[15] This is the reason why there are many people still of an age when most couples start a family and – despite the high life expectancy – a relatively small elderly population. The number of deaths is unlikely to exceed the number of births until the end of the 2020s – and then for the first time ever.[16] Only when the small cohort of those born in the late 1990s and in the 2000s reaches working age is the ratio of the labour force to pensioners likely to shift rapidly towards the side of the latter. No later than at this point should the discussion about a controlled immigration policy for workers get under way in earnest; currently, the country still has difficulty debating this issue.[17]

Meanwhile, it remains questionable whether Malta will be able to grow demographically of its own accord. Although Maltese society is changing, the country remains far removed from having a modern family policy that promotes combining a career and a family.[18] In 2000, only one woman in three aged 20–64 had a job – the average of the EU countries was just under 60 percent at that time. While employment among women has since risen significantly to 56 percent, it remains lower than in any other EU state with the exception of Italy and Greece. The gender comparison shows that in Malta women are more underrepresented on the job market than anywhere else in the EU – they lag behind men by no fewer than 28 percentage points.[19] Just how conservative the overwhelmingly Catholic Maltese society remains is best demonstrated by the fact that Malta is the only country in the EU in which abortion is officially prohibited even in cases where the life of the mother is endangered.[20]

Huge gender gap

In no other EU country is the gap between the share of men and women in employment so large as in Malta. Although significantly more women work today than was the case at the turn of the millennium, the rate of employment is 28 percentage points lower for women than for men. Across the EU, it is striking that women in southern European countries tend not to work while those in Scandinavia and the Baltic states are almost as likely to have a job as are men.

Employment rate of men and women aged 20–64 in the EU member states, 2016
(Data source: Eurostat[21])



Men
Women

GREECE

Population size in million (2016)	10.8	Median age (2016)	43.9
Projected population size in million (2030)	9.9	Life expectancy (2015)	81.1
Projected population size in million (2050)	8.9	GDP per capita in euros (2016)	16,300
Total fertility rate (2015)	1.33	GDP per capita at PPP (2016)	19,500
Annual net migration per 1,000 inhabitants (2011-2015)	-4.5	Unemployment rate (2016)	23.6

Glimmer of Hope after a Deep Crisis

In December 2016, Greek Prime Minister Alexis Tsipras wanted to give impoverished pensioners, who on average have less than 800 euros a month to live on, a Christmas present. He earmarked around 600 million euros of additional budget revenues from the previous year to distribute among needy pensioners. What could have been interpreted not just as a gesture of goodwill but also as a sign that Greece was doing a little better soon backfired, however. The international donor organizations, with which this move had not been discussed in advance, criticised Greece for violating the conditions of the latest rescue package.

The Christmas bonus debacle is a good illustration of where Greece stands almost a decade after plunging into a deep economic crisis: no longer on the edge of the abyss but still far from safety. Compared with 2008, economic output has shrunk by more than a quarter. With GDP per capita of 16,300 euros, Greece is now more or less on a par with the Czech Republic or Estonia, even though in the mid-2000s it had still had an eye on catching up with other Mediterranean states like Spain or Italy.[1]

The good news is that after years of recession and stagnation in Greece, the European Commission is predicting significant economic growth of 2.7 percent in 2017.[2] According to newspaper reports, the government is anticipating a higher budget surplus before interest payments than the year before and a decrease in the public debt and unemployment. Privatisations are expected to raise around two billion euros for the state coffers.[3] And since 2016, the inflation rate has been above zero again; the creeping decline in prices that dominated the previous years and made the mountain of debt seem even higher may now have stopped.[4]

Despite these encouraging signs, the country still faces enormous challenges: the public debt was at a dizzying 179 percent of GDP in 2016. Almost one person in four was looking in vain for a job – among those under the age of 25, the figure was almost one in two. And in 2015, well over a third of the population was threatened by poverty or social exclusion.[5]

Growth on borrowed money

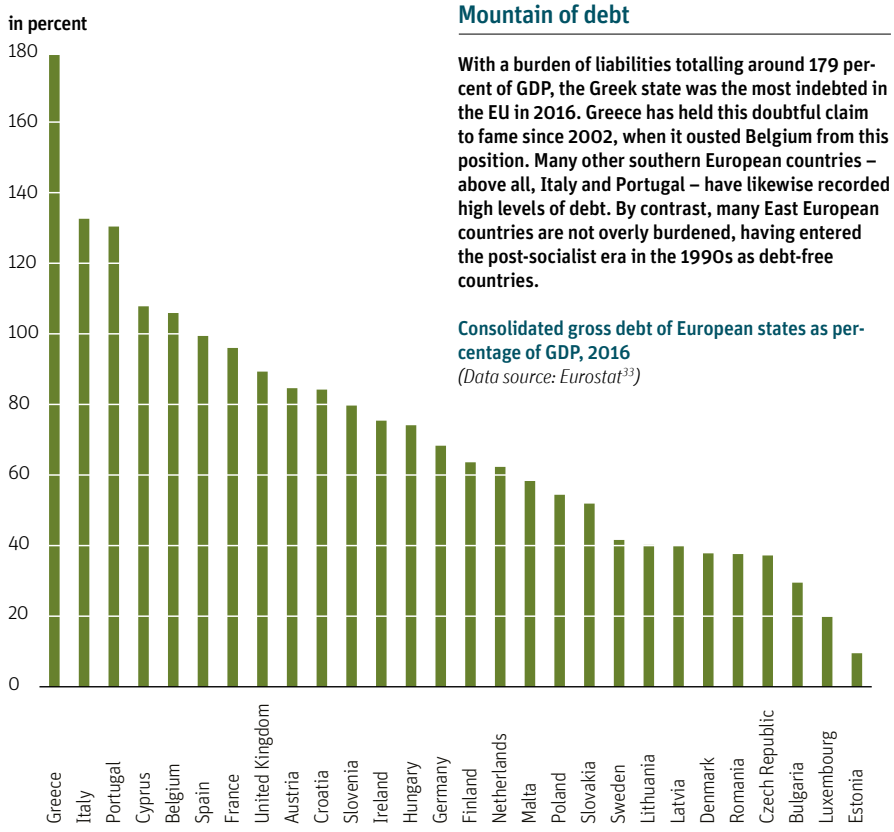
But how did Greece – a country whose economy grew on average 3.7 percent annually between 1995 and 2007 – get into such a mess?[6] One of the main reasons is that for decades, Greece imported more than it exported and thus consumed more goods than it produced. This trade deficit was financed largely through foreign loans. When Greece joined the eurozone in 2001, the interest rates on these loans fell further, making them more affordable.[7] But even without consumption financed by borrowed money, the structural problems of the Greek economy made it much more vulnerable when the subsequent crisis struck. Thus, to this day, the country has few innovative industries producing goods for export that would bring money into the country. This situation is exacerbated by the corruption and nepotism in which the country is mired, not to mention the ever-vaster bureaucracy and inefficient state apparatus. All of this deters foreign investors. The fact that there are numerous small companies but hardly any major concerns, combined with the existence of a significant shadow economy, only makes matters worse.[8]

In the wake of the financial crisis in 2008, foreign capital increasingly stayed away and the economy took a dive. This led to an explosion in both the public debt and the yields on Greek government bonds.[9] In spring 2010, the country acknowledged that is was on the brink of insolvency. The members of the eurozone and the International Monetary Fund came to the rescue with three packages worth billions and in return demanded far-reaching reforms. The Greek government responded by embarking on reforms of the

pensions and taxation systems and revising its labour market policy. It privatised state enterprises and cut expenditure. It also set about dismantling the bureaucracy and tried to create a better climate for business.[10] Since these measures involved major cuts in wages, salaries and pensions, disposable private income – and hence consumption – took a further plunge, prompting many demonstrations and unrest. The tense social atmosphere had a negative effect on tourism, too.[11] The first signs of a turnaround came only several years later, when new jobs emerged in precisely this sector.[12] But to what extent this will lead to a sustained improvement in living conditions remains to be seen.

Mass arrival of refugees exposes weaknesses of the asylum system

Alongside its economic problems, Greece has had to cope with another major challenge for some years now – the arrival of hundreds of thousands of people from the Middle East seeking refuge. Around 850,000 of them landed on the Greek islands in 2015 alone.[13] The Greek state found itself completely unable to cope with this huge number – among other reasons because the asylum system was revealed to have serious weaknesses. Greece was criticised, in particular, for detaining some asylum seekers under inhuman conditions. Other causes for complaint were that the refugees received hardly any information about their case and that the processing of asylum applications was entrusted to people not trained for this purpose.[14] Because of these shortcomings, some EU states refrained from sending any more refugees back to Greece until recently, even though according to the Dublin system, they should have submitted their applications there. Both the economic crisis and the precarious conditions under which refugees in Greece live have led the majority of them to regard Greece merely as a transit country.[15] This explains why only one percent of all asylum applications in the EU were filed in Greece in 2015.[16]



Mountain of debt

With a burden of liabilities totalling around 179 percent of GDP, the Greek state was the most indebted in the EU in 2016. Greece has held this doubtful claim to fame since 2002, when it ousted Belgium from this position. Many other southern European countries – above all, Italy and Portugal – have likewise recorded high levels of debt. By contrast, many East European countries are not overly burdened, having entered the post-socialist era in the 1990s as debt-free countries.

Consolidated gross debt of European states as percentage of GDP, 2016
(Data source: Eurostat[33])

In fact, the Greek government has been trying to bring the asylum system up to European standards for some years now.[17] Assistance comes mainly from the EU, which since 2015 has been setting up central registration centres, so-called hotspots in Greece – as it has been doing in Italy. These are supposed to make the initial registration of refugees more efficient. Since they offer only 7,450 places, however, they cannot solve the problems of overcrowding. According to official figures, at the end of 2016, there were 11,500 persons at these centres, which exceeded the number for which they were intended by more than 50 percent – despite the fact that there were significantly fewer refugees arriving in 2016.[18] Overall, in September 2016, there were almost twice as many refugees on the Aegean Islands as beds to accommodate them.[19]

One of the reasons for the fall in the number of new arrivals is likely to be the so-called EU-Turkey Agreement. Concluded in March 2016, it was designed to stop irregular migration to the EU by allowing Greece to send irregular migrants back to Turkey; in return, the EU promised to take one Syrian refugee from Turkey for every refugee sent back to Turkey from Greece.[20] In practice, however, only a very small number of refugees have been "exchanged" between Turkey and Greece.[21] Like the now numerous border controls and fences in Europe, the real effect of the agreement has been to deter asylum seekers from crossing over to Greece.

Economic crisis increases demographic pressure

It is not only refugees who want to leave Greece as quickly as possible and head northwest. Greek citizens, too, are increasingly leaving their country for other parts of the EU to escape the continuing woes on the labour market. As a result, in 2010, the net migration balance was negative for the first time in 35 years.[22] From the end of the war until the mid-1970s, Greece had been one of Europe's countries of emigration. But thereafter, Greeks returning home and migrants – some of them ethnic Greeks – from neighbouring countries like Albania, Bulgaria and the former Soviet Union ensured migration surpluses.[23]

Through the new wave of emigration, Greece is losing not only inhabitants but also knowledge and skills. For unlike in the era of the so-called guest workers, it is now, above all, highly qualified young people who are going west.[24] And unlike in the 1970s, today Greece can no longer make up the losses with high fertility rates. At 1.33 children per woman, the fertility rate in Greece is lower than in almost any other state in the EU. The slight upward trend of the 2000s came to an abrupt end with the economic crisis. Owing to the combination of lower fertility rates and emigration, Greece has been shedding inhabitants year after year: between 2011 and 2016, it lost just under three percent of its population; and it is estimated that by 2050, the population could decline by another 18 percent from the current 10.9 million to 8.9 million.[25]

The pensions system as a major issue

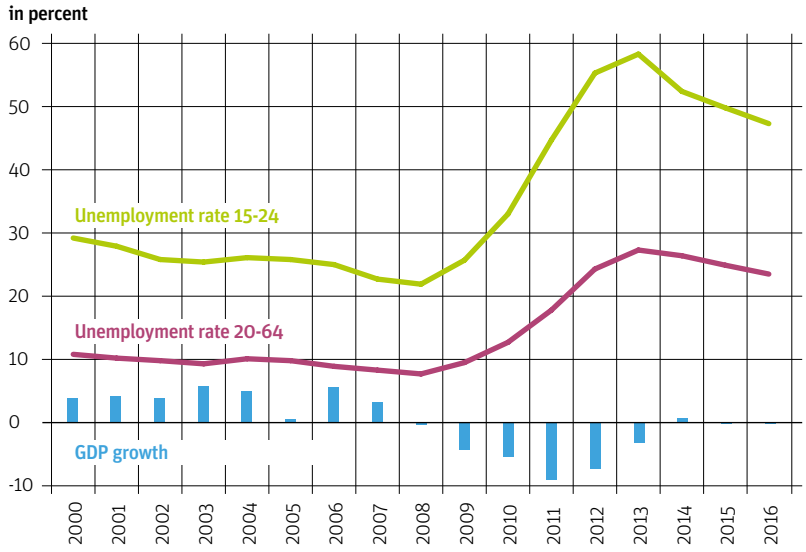
Because of the small number of children born, among other factors, Greece now has one of the oldest populations in Europe. More than 21 percent of inhabitants are at least 65 years old. Only in Italy is the percentage higher. According to current projections, Greece is likely to have the worst ratio of people of working age to pensioners in the whole of Europe by 2050.[26] This is one reason why the Greek pensions system – one of the most expensive in the world[27] – has repeatedly been the focus of discussions between Greece and the international donor organizations. Greece currently spends an annual 17 percent of GDP on payments to pensioners, invalids and surviving dependents – more than any other EU country.[28]

Although since 2010 the government has launched various reforms that prolong working life, reduce pension payments and link them to prices,[29] the system is still far from healthy. The state is continually having to prop up what is, in fact, a pay-as-you-go system with injections of large sums from tax revenues; this is made more difficult by the fact that tax evasion has been a problem in Greece for decades.[30] Whether the pensions system will succeed in future in providing an effective safety net against poverty in old age depends entirely on how many potential contributors can be got back into work.[31]

Young and jobless

From 1995 to 2007, GDP rose by an annual average of 3.7 percent. The following years saw a downward trend, which reached a low point in 2011 with minus 9.1 percent. From 2009 onwards, unemployment began to rise and had climbed to well over 27 percent by 2013. Thus more than one in four people in the labour force between the ages of 20 and 64 was without a job – in 2008, the figure had been just one in thirteen. And the situation was even more dramatic among young people aged 15-24. Only since 2014 has the job market begun to recover somewhat.

GDP growth and unemployment rate of 20- to 64-year-olds and 15- to 24-year-olds in Greece, in percent, 2000-2016
(Data source: Eurostat[32])



CYPRUS

Population size in million (2016)	0.8	Median age (2016)	37.2
Projected population size in million (2030)	0.9	Life expectancy (2015)	81.8
Projected population size in million (2050)	1.0	GDP per capita in euros (2016)	21,000
Total fertility rate (2015)	1.32	GDP per capita at PPP (2016)	23,600
Annual net migration per 1,000 inhabitants (2011-2015)	-2.7	Unemployment rate (2016)	13.1

Growth Despite Low Birth Numbers

The Mediterranean island of Cyprus has been divided territorially and politically since the Turkish invasion in 1974. The northern part is Turkish, the southern part Greek. The Republic of Cyprus, which joined the EU in 2004, theoretically encompasses the entire island but de facto only the south.[1] The government is not recognised by the north, which is occupied by the Turkish military. Despite the partition, the southern part of the island is one of Europe's fastest-growing states. In 2016, some 848,000 people lived in the Republic of Cyprus, 14 percent more than in 2006.[2] By 2050, the population could increase to almost a million.[3]

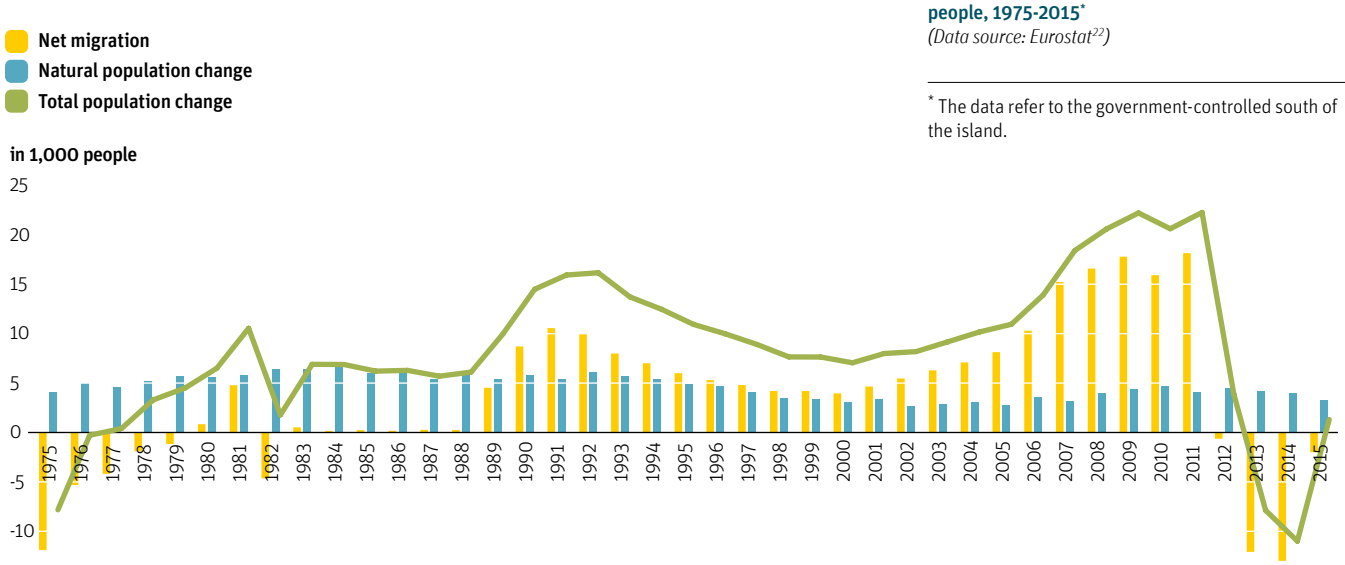
The rapid growth in the population is due both to migration surpluses and to the fact that every year more people are born than die. Relative to the population as a whole, the Republic of Cyprus has the second-highest annual birth surplus in the EU, after Ireland. At first glance this seems surprising, given that the fertility rate of 1.32 children per

Immigration country for two decades

When the Cyprus conflict broke out in the mid-1970s, there was mass emigration from the southern part of the island. This changed in the early 1990s, when the country opened its labour market for foreign workers. Net migration began to rise even before Cyprus joined the EU in 2004 and was boosted further by the EU accession of Romania and Bulgaria in 2007. This trend came to an abrupt halt only in 2012 in the wake of the global economic crisis. How immigration develops in the future will determine whether Cyprus can maintain its population growth in the long term. This is because by the mid-2030s, the number of deaths is likely to exceed the number of births owing to the currently low fertility rate.[23]

Natural population change, net migration and population balance for the Republic of Cyprus, in 1,000 people, 1975-2015*
(Data source: Eurostat[22])

* The data refer to the government-controlled south of the island.



woman is the second-lowest in the EU, after that of Portugal.[4] But the Cypriot population is very young, which means that many Cypriots are currently of an age when people normally start a family. This is because women in Cyprus still had rather a large number of children until a short time ago: even as recently as 1995, the average number of children per woman was more than two – higher than in any current EU country.[5] Many attribute the dramatic drop in the fertility rate since then to the difficulty of combining a family and a career. Many women work, but there are few day-care places available for small children. Help from the family – for example, from grandmothers – can only partly compensate for this. The poor transport infrastructure and the financial burden of kindergarten fees make having a family even more difficult for working people.[6]

Foreign workers bring about economic miracle

But even more important for population growth than the high number of births is immigration. In the first eleven years of the new millennium, the island state grew by well over one percent annually solely as a result of more people moving to Cyprus than leaving.[7] This mass immigration was based on an economic boom that began in the 1980s, which led the previously isolationist state to cautiously open its labour market to foreign labour from the 1990s onwards and to issue temporary work permits. In particular, the steady rise in mass tourism and the growth of other service sectors were responsible for average annual growth rates of more than four percent in the late 1990s and early 2000s.[8] Cyprus was able to benefit from its migrants in two ways. On the one hand, especially Lebanese fleeing the civil war in that country provided the capital for economic expansion; on the other hand, the demand for labour had risen to a level that could not have been covered by the native population alone.[9] Currently, one inhabitant in five was born abroad – a higher share than anywhere else in the EU apart from Luxembourg.[10] Most migrants come from the United Kingdom, the island's former colonial power. Other important countries of origin are Romania and Bulgaria as well as Greece, Georgia and Russia.[11]

After two decades, the immigration trend ground to a halt in 2012 in the wake of the global financial and economic crisis. The oversized and unstable financial sector as well as the country's strong economic ties with Greece were among the main reasons why Cyprus suffered badly and was forced to ask for financial assistance from the other countries of the eurozone and the IMF.[12] The country's economy shrank by 3.2 percent in 2012 and by almost 3 percent in 2013.[13] Cyprus was able to avoid bankruptcy only by pursuing a strict austerity policy and with the help of a rescue package worth 6.5 billion euro that it received between 2013 and

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
ITALY									
ITC1	Piedmont	1.36	5.2	42.7	82.5	28,900	69.0	201.3	60.9
ITC2	Vall d'Aosta/Vallée d'Aosta	1.40	2.6	38.8	81.6	34,200	71.3	109.4	58.2
ITC3	Liguria	1.30	6.3	50.2	82.7	30,200	67.1	133.5	63.8
ITC4	Lombardy	1.44	7.4	36.9	83.2	35,700	71.1	201.5	63.2
ITH1	Autonomous Province of Bolzano/Bozen	1.70	5.0	32.3	83.6	41,300	78.2	249.0	67.2
ITH2	Autonomous Province of Trento	1.56	5.4	35.8	84.0	34,600	71.4	118.6	69.2
ITH3	Veneto	1.38	3.5	37.0	83.3	30,800	69.5	220.2	62.4
ITH4	Friuli-Venezia Giulia	1.32	4.0	44.0	82.8	29,100	69.2	492.6	66.5
ITH5	Emilia-Romagna	1.42	7.8	40.2	83.2	33,600	73.0	279.4	66.4
ITI1	Tuscany	1.30	7.6	42.9	83.1	29,400	69.9	143.3	63.7
ITI2	Umbria	1.27	5.0	42.7	83.2	24,000	67.2	75.6	67.9
ITI3	Marche	1.33	3.0	41.1	83.3	26,200	66.7	129.1	63.6
ITI4	Lazio	1.32	15.1	34.5	82.7	31,000	64.2	52.4	69.1
ITF1	Abruzzo	1.28	5.8	38.4	82.7	24,500	59.7	45.6	63.5
ITF2	Molise	1.17	2.9	39.4	82.6	19,300	55.7	7.7	59.0
ITF3	Campania	1.34	2.9	29.2	80.8	17,200	44.9	28.6	52.0
ITF4	Apulia	1.24	1.9	34.9	82.8	17,700	48.0	26.3	48.9
ITF5	Basilicata	1.17	1.1	36.2	82.4	19,900	54.3	27.9	60.0
ITF6	Calabria	1.29	2.0	33.9	82.3	16,600	42.9	26.2	53.3
ITG1	Sicily	1.35	3.8	33.6	81.7	17,200	43.5	12.7	49.7
ITG2	Sardinia	1.09	4.2	35.8	82.8	19,600	53.6	13.5	49.7

2016. As part of the rescue deal, the country overhauled its banking system, imposing a compulsory levy on large deposits and introducing capital controls designed to prevent large amounts of money flowing out of the country. After three years of recession, the turning point came in 2015. Since then, the Cypriot economy has been growing again and unemployment has fallen. The migration deficit, which had risen to 15,000 people by 2014, is falling once again, too.[14]

Even if the Republic of Cyprus is today in a better position than its neighbour Greece, much still needs to be done. At 21,000 euros, GDP per capita is still well below the 2008 level of 24,200 euros.[15] The services sector, especially tourism, finance and trade, is still of major importance for the Cypriot economy. This makes the country vulnerable to external developments, since a global economic crisis quickly makes itself felt in these sectors. Relative to the share of GDP, the financial sector is larger in Cyprus than anywhere else in the EU except Luxembourg.[16] The banking system is still not considered to have entirely recovered and some private households remain seriously in debt.[17]

Restrictive asylum policy

Cyprus also has some catching up to do when it comes to asylum policy, since despite high immigration figures, the population is still not particularly open to foreign immigration. Moreover, Cypriot migration policy for people from outside the EU is still very restrictive[18] – and not least as it applies to refugees. In the past, the government repeatedly detained asylum seekers.[19] And it has tightened up the asylum laws to prevent refugees with subsidiary protection status, which Syrians regularly receive, from later bringing their families to Cyprus.[20] Together with the fact that the Mediterranean island is difficult to reach and to leave and is not part of the Schengen area, this explains why, despite its proximity to civil-war-ridden Syria, Cyprus's role as a transit country for refugees from the Middle East is negligible. In 2015, only 2.7 asylum applications per 1,000 inhabitants were filed – roughly the average for all 28 EU countries. In 2008, at a time when the total number of asylum applications in the EU was only around a fifth of the 2015 level, the figure was five applications per 1,000 inhabitants.[21]

		DEMOGRAPHY				ECONOMY			
		Total fertility rate, 2015	Net migration per 1,000 inhabitants, mean 2011-2015	Old-age dependency ratio, 2016 (65+/20-64 year olds*100)	Life expectancy in years, 2015	GDP per capita in euros, 2015	Employment, 2016 (Percentage of those aged 20-64)	Patent applications per 1 million labour force participants, 2012	Education, 2016 (Percentage of those with at least ISCED 3 among 25-64 year olds)
MALTA									
MT00	Malta	1.45	7.2	31.1	81.9	21,400	69.6	22.0	45.2
GREECE									
EL51	East Macedonia and Thrace	1.40	0.7	38.6	80.5	11,300	56.9		59.6
EL52	Central Macedonia	1.31	-2.8	36.6	81.0	12,500	55.4		70.8
EL53	Western Macedonia	1.32	-5.0	39.7	81.5	15,000	50.4		61.2
EL54	Epirus	1.28	-2.2	45.9	82.9	11,500	54.5		65.0
EL61	Thessaly	1.35	-2.0	41.6	81.7	12,100	54.8		67.8
EL62	Ionian Islands	1.45	-0.1	38.1	80.8	15,100	62.0		62.1
EL63	Western Greece	1.33	-4.1	36.7	80.9	11,900	51.0		61.2
EL64	Central Greece	1.23	1.7	40.1	81.7	13,800	55.2		61.4
EL65	Peloponnese	1.32	1.4	41.5	81.3	13,200	60.6		65.1
EL30	Attica	1.30	-10.3	32.3	80.7	22,100	56.4	27.2	82.0
EL41	Northern Aegean	1.44	-0.7	40.7	81.8	12,400	59.0		69.5
EL42	Southern Aegean	1.38	-1.0	29.0	81.7	18,100	62.2		63.0
EL43	Crete	1.47	0.3	31.7	81.7	13,900	58.2	24.7	67.6
CYPRUS									
CY00	Cyprus	1.32	-2.7	24.3	81.8	20,800	68.8	5.7	79.6

WESTERN BALKANS

Poor, Depopulating, Aging

The Balkans provide the best illustration within Europe of a mentality that causes larger entities to break up into a patchwork of tiny states. In the western part of the Balkan Peninsula, the territory formerly covered by the socialist states of Yugoslavia and Albania has split step by step into eight independent nation states since the early 1990s. For many centuries, the region's population has comprised numerous ethnic groups with different religious affiliations and languages whose coexistence has not always been conflict-free. The wars that took place as the multi-ethnic state of Yugoslavia disintegrated are only the latest testimony to this reality.

Albania and the Yugoslav successor states of Bosnia-Herzegovina, Kosovo, Macedonia, Montenegro and Serbia are today home to a total of more than 18 million people.[1] Slovenia and Croatia, whose combined population well exceeds six million, were likewise part of the former Yugoslavia and are now members of the EU.* In the other states, much of the population lives in poverty and the level of prosperity is low in comparison with the rest of Europe. In Montenegro, the wealthiest country in the region, GDP per capita in 2015 was only 42 percent of the EU average.[2] The global economic and financial crisis dealt a further blow to the six economies: whereas between 2000 and 2008, their annual growth rates averaged more than 5 percent, since 2008 the figure has been just some 1.5 percent.[3] Against this background, it seems unlikely that the Western Balkans will be able to catch up with the EU states economically in the foreseeable future.

Unemployment and informal employment are widespread in the region. In Serbia and Macedonia around 20 percent and in Albania as many as 63 percent of people of working age earn their living in the informal sector and have no social security.[4] This has led to large numbers of people seeking their fortunes far from home. The United Nations estimates that during the period 2010–2015, net emigration from the Western Balkans amounted to 200,000 people.[5] Many of these migrants, who are predominantly young and well qualified, went to the EU.[6]

Emigration is not a new phenomenon in the Western Balkans: back in the 1960s, many young workers left their home countries under recruitment agreements with Western European countries; they were followed in the 1990s by hundreds of thousands of people fleeing war and violence. Although many returned after the war, some stayed in the countries where they had found temporary refuge. The share of citizens of the Balkan states living abroad is therefore large: the six states of the Western Balkans have a diaspora of 4.5 million people, which is the equivalent of a quarter of the region's current total population.[7]

Since 1990, the six countries – among which only Kosovo is not an EU accession candidate – have lost around a tenth of their populations.[8] They could lose another 14 percent of their current populations by 2050, not least because of emigration, especially of young people.[9] The low fertility rates of around 1.3 children per woman are another contributor to the rapid shrinkage of the populations of the West Balkan states. At the same time, those populations are aging rapidly: while today around 15 percent of inhabitants are at least 65, this figure will probably rise to 26 percent by mid-century.[10] In future, providing adequately for the growing number of old people is likely to pose a major challenge for the comparatively poor countries of the Western Balkans.

ALBANIA

No other country in the Western Balkans has experienced such a rapid fall in the fertility rate in recent decades as Albania. In the 1960s, women were still having an average of six or seven children – the highest number in Europe.[11] But although the former socialist regime pursued family-friendly policies and sought in a targeted manner to encourage people to have children, the average number of births per woman had halved by 1990.[12] In 2015, the fertility rate of 1.67 children was only slightly above the EU average of 1.58.[13]

The dwindling number of births has contributed to a fundamental change in the structure of the Albanian population within just two

* These two countries are analysed in separate chapters.

decades: between 1989 and 2011, the number of children and youths under the age of 15 almost halved, while the number of people aged 64 and over practically doubled. After decades of growth, the Albanian population is now shrinking. But this is not just because of the small number of children; it is also due to the high rate of emigration.[14] Owing to the policy of political and economic isolation pursued for many years by former leader Enver Hoxha, Albania, unlike its neighbours, experienced no emigration during the 1970s. That changed after the toppling of the regime in 1990. Although Albania was unscathed by the wars raging in Yugoslavia, around 450,000 people turned their backs on the economically ruined country between 1990 and 1995 alone.[15] Many went to Greece and Italy, where most of the Albanian diaspora still lives. The emigration trend continues today, although the numbers of people leaving are smaller.[16]

Thanks to the high population growth of the past, Albania today has a favourable age structure, meaning that the number of people of working age in the population is greater than the number of children and older people who need to be provided for. In theory, this could boost the country's economic development, but only if employment opportunities for the working age population can be created and a good education for the next generations can be provided.[17] Currently, however, there is little to suggest that Albania is in a position to benefit from this demographic bonus. The labour market is still a long way off from being able to offer adequate employment to everybody of working age. More than 40 percent of employees work in agriculture, many of them in jobs requiring few or no qualifications and are in an informal employment relationship.[18] The unemployment rate is around 17 percent – and is even higher among young people. Almost half of the 15- to 24-year-olds are neither employed nor in education.[19]

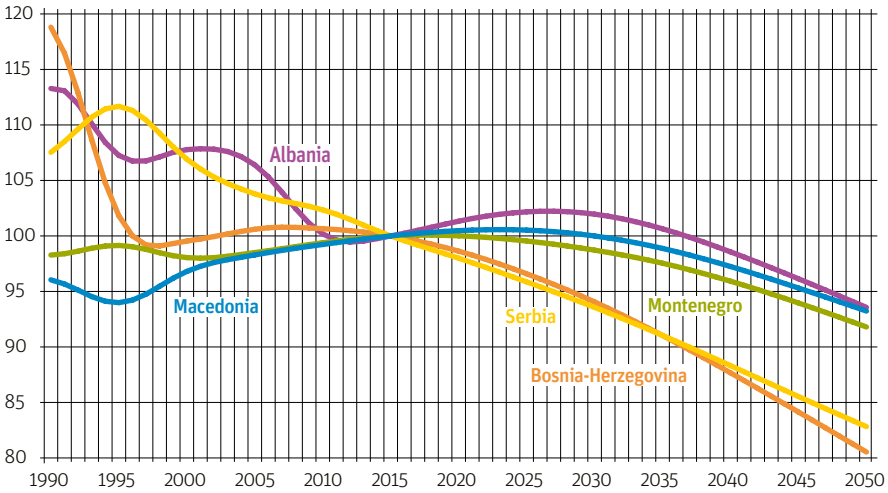
BOSNIA-HERZEGOVINA

The difficulty of running a state with a high level of ethnic and religious diversity is illustrated nowhere better in Europe than in Bosnia-Herzegovina. At roughly 3.8 million, the population is scarcely bigger than that of Berlin, yet it has three presidents and three official languages.[20] The only overwhelmingly Muslim country among the successor states to former Yugoslavia is, moreover, divided into a number of separate entities: the Republika Srpska, the Federation of Bosnia-Herzegovina and the District of Brko. This complex composition is the result of the Dayton Agreement, which ended the civil war in Bosnia-Herzegovina in 1995 and aimed to secure the long-term peaceful coexistence of the various parties to the conflict. This included dividing political jurisdiction equally between the different ethnicities. However,

Fewer and older

The population of most of the Western Balkans has shrunk considerably since 1990. To date, Bosnia-Herzegovina has lost almost a fifth of its population. According to estimates by the United Nations, it is likely to lose the same share again by 2050; and the picture looks similar in Serbia. Albania, Montenegro and Macedonia are likely to lose almost a tenth of their populations by mid-century. At the same time, the low fertility rate and the emigration of many people of working age will mean that the share of older people in the population will rise. By 2050, around a quarter of the population of the Western Balkans will probably be older than 64.

(Projected) population development in the Western Balkans, 1990–2050 (Index: 2015=100 percent, projections from 2015 onwards)*
(Data source: United Nations[70])



* Kosovo is included in the projections for Serbia.

what at first sight looked like a just resolution to the conflict between Muslim Bosniaks, Orthodox Serbs and Catholic Croatians is, in practice, still proving to be an obstacle to economic development and social reconciliation.[21]

The unwieldy political structure is also reflected in education. The Federation of Bosnia-Herzegovina and the Republika Srpska each organise their education system in their own way, which includes having different curricula. In subjects like history or politics the curriculum often varies according to the region's main ethnicity.[22] This continues to fuel tensions between different ethnic groups.[23] The non-standard education system seems to be frustrating for pupils, too: at more than 26 percent, the school drop-out rate in Bosnia-Herzegovina is the highest of any country in the Western Balkans.[24]

Young people also have a hard time finding jobs in Bosnia-Herzegovina. At 62 percent, youth unemployment is higher than in any other country in the region.[25] Alongside the poor economic situation – in 2015, GDP per capita was only 28 percent of the EU average – and the inadequate education system, the low level of labour market mobility makes life difficult for job-seekers.[26] Differences in labour and tax law between the various administrative entities mean that it is hard for them to find suitable employment in another part of the country. Thus, despite high unemployment, many posts remain open.[27] For this reason, it is the young and well qualified, in particular, who tend to go abroad in search of employment: nine out of ten Bosnians between the age of 16 and 25 say they would be willing to leave their country and seek work elsewhere in order to improve their standard of living.[28]

KOSOVO

The 2018 World Cup could have been Kosovo's big chance: ten years after gaining independence from Serbia, Kosovo was given the opportunity to participate in the world's largest football tournament for the first time, despite the fact that a number of countries (including some in the EU) still do not recognise the new state as independent. In October 2016, Kosovo played its first home game in the qualifying round (in which it ultimately failed to qualify) not in Kosovo but in the Albanian city of Shkodra.[29] It did so because the youngest and poorest of the West Balkan states does not have a suitable stadium.

Even while still part of Yugoslavia, Kosovo was the poorest region of the country. After the war with Serbia in 1998–99, which came to an end only after the intervention of NATO, the partly destroyed country was reliant on foreign aid. Between 1999 and 2005, more than three billion euros flowed into Kosovo from international organisations like the United Nations and the EU.[30] While post-war humanitarian aid led to high growth rates, other money plays a more important role today – namely, remittances from Kosovars living abroad. In 2015, they accounted for around 17 percent of GDP – the highest share in the Western Balkans.[31] However, as in other countries, this money tends to fuel mainly private consumption rather than promoting strategic investment.[32] Thus, GDP per capita in 2014 was only around a tenth of the EU average.[33]

In terms of demography, one feature fundamentally distinguishes Kosovo from its neighbours: it is the only country in the region where the fertility rate is still higher than two children per woman. The average of 2.2 children born to Kosovar women in the course of their lives is a record in Europe.[34] The large numbers of children mean that the population was still growing rapidly until the outbreak of the war. Since the war, in which thousands were killed or forced to flee, this growth has been much lower.[35] In 2015 and 2016, the population even shrank as more and more people emigrated.[36]

In Kosovo, as in the West Balkans generally, unemployment, corruption and poverty are among the main reasons why many people seek their fortunes abroad. Most recently, emigrants from Kosovo have gone to Germany, where the equivalent of around ten percent of the Kosovan population live.[37] Relative to the population as a whole, Kosovo lost more people to emigration in 2015 than any other country in the world – three percent.[38] Many went to the EU, where they sought the right to residence by applying for asylum. The number of asylum applications to the EU from Kosovo rose to more than 72,000 in 2015 – five times as many as in 2010.[39] More than half of these applications were submitted in Germany. For Kosovars, as for other inhabitants of the Western Balkans, the chance of having their claim to asylum recognised is extremely small: in 2015, the percentage of asylum seekers from Kosovo, Albania and Serbia receiving shelter in Germany was almost zero.[40] Kosovo as well as Albania, Montenegro, Bosnia-Herzegovina, Macedonia and Serbia are now regarded by Germany as safe countries of origin.

MONTENEGRO

With just 622,000 inhabitants, Montenegro is the smallest of the six West Balkan countries in terms of population. Even Kosovo, whose territory is smaller, has a population three times the size. However, Montenegro, which did not gain independence from Serbia until 2006, is the most prosperous of the six countries in the region. Annual GDP per capita is 5,400 euros, which exceeds that of the five other West Balkan states by 1,000–2,000 euros. But even then, it is lower than in the poorest EU countries, Romania and Bulgaria.[41]

But Montenegro's economy is growing – by 3.4 percent in 2015.[42] The main reasons for this are investment in infrastructure and tourism. The latter is playing a growing economic role, as the small state on the Adriatic becomes an ever more popular holiday destination during the summer months. In 2015, Montenegro had a record number of visitors, 1.7 million, mainly from abroad.[43]

This rosy situation compared with that of other West Balkan countries is probably the reason why Montenegro, unlike its neighbours, has become a migration destination for foreign workers. The small country has a relatively high share of workers from abroad – eight percent. In Serbia, Macedonia and Bosnia-Herzegovina, the corresponding figure is less than half a percent.[44] Serbians and Bosnian-Herzegovinians, in particular, find seasonal work in Montenegro in tourism, construction and agriculture.[45] All in all, though, more Montenegrins are leaving their country than foreigners are arriving.[46] So although immigration is high for the region, it will be unable to stop Montenegro's population shrinking in future. In addition, at 1.74 children per woman, the fertility rate is only slightly above the level of most other West Balkan states.[47]

MACEDONIA

Macedonia is plagued by the same demographic problem as many other countries in Europe: too few children are being born. At 1.46, the fertility rate in Macedonia is well below the EU average.[48] The Macedonian government is therefore trying to create incentives for couples to have more children. Since 2008, families who have a third child receive 120 euros a month for ten years.[49] In fact, the fertility rate in Montenegro has risen slightly from its 2008 level of 1.40 children per woman.[50] Whether this is a result of the government's programme is unclear. In addition, the increase is very unevenly distributed among the regions: in the capital, Skopje, the fertility rate has risen from 1.6 to 1.8 since the programme was introduced; but in the rest of the country, where women have fewer children on average, it has remained largely unchanged.[51]

It is likely that the question of future demographic development and the challenges associated with it remains on the back-burner in political discussions in Macedonia. Since the phone-tapping scandal in 2015, in which the corrupt practices of governing politicians were exposed, the country has been mired in a political crisis. For three years it proved impossible to form a new government after the parliamentary elections in 2014 because of conflicts of interest between the country's various ethnic groups.[52] The latest census, conducted in 2002, revealed an ethnic composition of 64 percent Macedonian, 25 percent ethnic Albanian and six percent Turkish, Roma and other minorities.[53]

The political unrest and continuing demonstrations are problematic for the EU, too, not least because of Macedonia's significance as a transit country for refugees heading for the EU. The UN estimates that in 2015, around 750,000 refugees crossed Macedonia en route to Serbia.[54] Since Macedonia declared a state of emergency in August 2015 and closed the border to Greece in spring 2016, the situation has calmed down. At the end of February 2017, there were officially only 95 refugees left in Macedonia.[55]

SERBIA

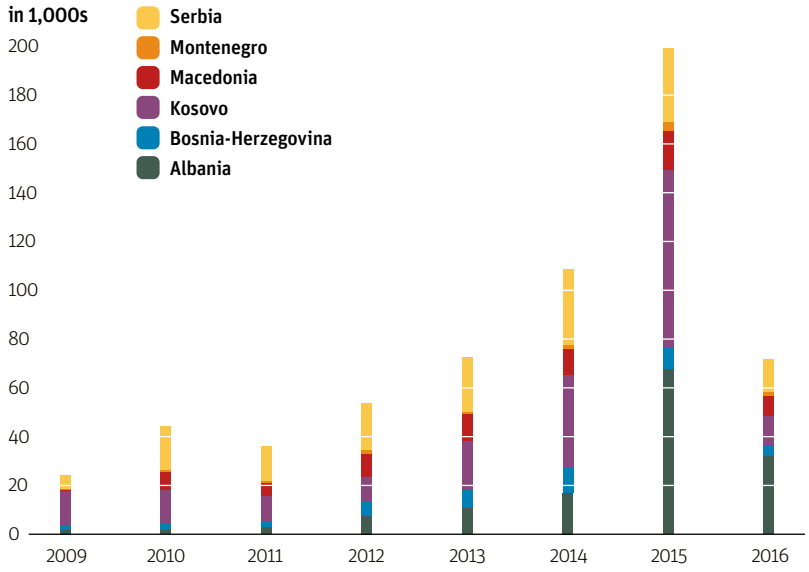
At the turn of the millennium, Serbia was still ravaged by war, bombings and economic sanctions. In 2000, GDP was only half that of 1989.[56] Although the Serbian economy began to boom once the war had ended – recording average growth rates of 6.5 percent between 2000 and 2005[57] – the global financial and economic crisis acted as a brake on economic recovery. Within a short time, thousands of jobs were lost: in 2012, Serbia had 600,000 fewer formal employment relationships than in 2008; and even in 2015 the level of employment was still lower than before the crisis.[58]

The end of socialism ushered in a period of structural transformation that continued after the crisis. In 1990, the region was the centre of Yugoslav machine-building, but today this once thriving industry has become obsolete and barely competitive and hence is declining in significance. Instead, the services sector has replaced industry as the main engine of the economy.[59] From 2000 to 2015, the sector's contribution to the gross value added increased by 14 percentage points to more than 60 percent.[60] The growing significance of the services sector means that different skills are now called for.[61] And because many members of the better-educated younger generation are leaving Serbia, the country is increasingly experiencing a shortage of skilled labour. Around 15 percent of export-oriented companies in Serbia say that this shortage poses an obstacle to their commercial success.[62]

Another reason for the lack of skilled labour is the low quality of education. Formally, Serbia has a relatively good level of education compared with other West Balkan countries – one young person in four has completed tertiary education and one in two has finished secondary school.[63] However, the skills acquired often leave much to be desired. Both employers and the school leavers themselves are of the opinion that the Serbian education system does not equip pupils with the personal and social competencies they require for the labour market.[64] At 33 percent, unemployment even among graduates is comparatively high.[65] One reason for this is that many students choose subjects for which there is little demand on the job market, such as social sciences, arts and administration sciences. The poor prospects for those with higher education often mean that graduates work in professions for which they are overqualified. In Serbia, this applies to around 19 percent of graduates.[66]

More liberal visa arrangements encourage asylum applications

Since 2009, the EU has allowed citizens of Macedonia, Montenegro and Serbia to move within the Schengen area for up to 90 days without a visa. The same liberal provision was extended to Albania and Bosnia-Herzegovina in 2010. Since the new regulations make it easier to enter the EU, the number of asylum applications from citizens of the Western Balkans has risen since they were introduced.[72] Although Kosovo is the only country to be excluded from this arrangement, more Kosovars submitted applications for asylum in the EU in 2015 than in previous years. As part of the process of normalising relations between Serbia and Kosovo, Serbia does not require a visa from Kosovars entering the country, which is why at the beginning of 2015, tens of thousands of people crossed the still open Serbian-Hungarian border into the EU.[73]



Number of asylum applications made in the EU (in thousands), 2009-2015
(Data source: Eurostat[71])

As in the rest of Europe, jobs for those with higher qualifications are to be found, if at all, mainly in the cities. The country's urban centres, especially Belgrade, therefore act as magnets. The rural regions in the south and east, on the other hand, are rapidly depopulating.[67] And it is precisely in those places that the population is becoming older, which not only weakens the economy but also leads to problems in providing care and amenities. The aging of the population poses a bigger problem in Serbia than in the rest of the Western Balkans because it already has more people over the age of 64 who need to be provided for than it has young people under 15. Elsewhere in the Western Balkans, the ratio is still the opposite.[68] The burden of having to provide for older people is likely to increase considerably in the future: whereas today there are four people of working age for every potential pensioner, by 2050 there are likely to be only two.[69]

INDICATORS AND METHOD

What is the demographic state of Europe's regions? What are their prospects for the future? And what kind of economic foundations do they have for coping with foreseeable demographic challenges?

To answer these questions the Berlin Institute for Population and Development chose eight indicators from the fields of demography and the economy and calculated an index composed of two sub-indices for each of these two fields. The results show clearly how closely demographic and economic developments in Europe are linked. They also illustrate which regions are better placed than others or have greater potential to deal with the challenges facing them. The statistical analysis assumes a mainly economic perspective, since the effects on economic strength and social systems are among the most often publicly discussed consequences of demographic developments and are easy to measure. But each of the chapters in this study is also devoted to other consequences of demographic change, such as the issue of integrating immigrants and their children or providing basic services in rural regions.

Europe's 290 NUTS 2 regions for which the European statistical office, Eurostat, has comparative data formed the basis for the analysis. These comprise all the regions of the EU plus those of Norway, Iceland and Switzerland.[1] The abbreviation NUTS stands for *Nomenclature des unités territoriales statistiques*; and the NUTS system divides the continent into territorial units. The uppermost level, NUTS 0, denotes the various countries. NUTS 1 is the largest sub-national unit; in Germany, for example, it comprises the sixteen federal states (*Bundesländer*). The NUTS 2 level, which is under study here, comprises 38 regions in Germany. Finally, the NUTS 3 level denotes the smallest territorial unit and in Germany is equivalent to county level. The analysis refers to the current NUTS 2013 classification, valid since the beginning of 2015.

The indicators were selected on the basis of theoretical knowledge about demography and the economy. In each case, the most recent available figures were used. In the area of demography the total fertility rate for 2015, life expectancy at birth for the same year, net migration per 1,000 inhabitants (as an average of the years 2011–2015 in order to exclude unusual effects such as the major migration of refugees in 2015) and the number of people aged 65 and over per 100 people of working age (20–64) for 2016. The first three indicators are the main demographic parameters and the information they contain forms the basis for any demographic projection. The age structure of the population, here the share of older people, provides additional information about past developments, such as dramatic falls in the fertility rate, and about the ratio between age groups within a region. This allows predictions to be made about the future burden on the social systems.

In the field of the economy we chose GDP per capita in 2015 as the most important indicator of economic strength and prosperity. This was measured logarithmically in euros. We did not convert it into purchasing power, which would have meant that existing disparities resulting from different price levels would have been ilevelled out in some cases. This would have made sense in a study on quality of life in various regions, but not in a study of economic strength. A second indicator in the field of economy was the employment rate among 20- to 64-year-olds in 2016. This denotes how successful a region has been in enabling its population to participate in working life or how effectively it is using the available labour force potential.

A third indicator, the educational level of the population in 2016, denotes the skills and knowledge of the workforce. It is a reflection of the status quo and at the same time a future indicator, since the educational level of a population plays a key role in determining which future prospects an economy has. We are aware that education is far more than just the sum of qualifications that are of economic utility, but in the current analysis, education comes under the heading of the economy, since it is of special interest against the background of demographic change. The education indicator denotes the share of the population aged 25 to 64 that has an educational qualification equivalent to at least ISCED 3. In Germany this is the equivalent of vocational training, the Abitur final school-leaving examination or a university or college

degree. Finally, in the field of the economy, the number of patents registered with the European Patent Office per million economically active people is used to measure how innovative an economy is; thus, it, too, is a future indicator. The most recent available data on patent registrations are from 2012. We used them nonetheless, since in this area there were no rapid fluctuations in the past.

For some regions figures for the various indicators were not available for the year in question. In these cases we used the most recent available data.

The index was calculated as follows. First, all indicators were normalised using the so-called z-standardisation. This yielded a common scale and eliminated different weightings arising from different degrees of variation within the indicators. The normalised value denotes the number of standard deviations a given region scores above or below the average for all regions for a given indicator. A higher value reflects a better state of affairs than does a lower value. In order to depict this for all indicators, the indicator on aging was multiplied by -1. In a second step, the mean value of the standardised indicator values was calculated – both for all indicators and separately for the fields of demography and the economy. These values allow the regions studied to be ranked in an index.

The index gives the reader a tool with which to classify demographic and economic developments in Europe and to compare them with one another. It shows which regions face greater demographic challenges than others as well as what kind of economic potential they have to cope with these challenges. It is by no means the only way to study the demographic situation in Europe's regions. Other indicators – just like a different methodology – could have produced slightly different findings. But the overall trends visible on the continent would have remained the same. In order to take account of the fact that it is sometimes difficult to say whether an individual region is in a better or worse position than other regions, we depicted the regions as groups in the graphs. Here we used the average standard deviation value as a guideline and divided the groups into measures of 0.25. The best group comprises all the regions with an index value of 0.75 or more, the worst group all regions with a value of -0.75 or less.

Information boxes

The information boxes at the beginning of each country chapter provide basic information about the demographic and economic situation of the respective country. All the data included in the boxes are based on information from the Eurostat database. The only exception is Switzerland. In the Swiss case, both the population projections as well as the data on unemployment are supplied by the Swiss National Statistical Office. For that reason, the data are not directly comparable with those of other countries.

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