Eastern Europe's Demographic Crisis

by Niamh Howley
Junior Sophister

In this essay, Niamh Howley argues that Eastern Europe's demographic trends point towards a looming economic crisis. Howley diagnoses Eastern Europe's demographic crisis as being caused by low fertility rates, high emigration rates, and an increasingly high dependency ratio. It is argued that demographics are an issue of immediate political and economic concern in Eastern Europe as current demographic trends in Eastern Europe will increasingly lead to adverse economic effects if not addressed. Howley ultimately argues that by increasing female labour force participation and by limiting the push-effects encouraging outward migration, Eastern Europe can stem a looming demographic and economic crisis.

I. Introduction

While the focus of debates on European migration has primarily centred on its impact on wages and unemployment, a more discrete yet dramatic crisis that is inextricably linked to migration has been brewing. Higher life expectancy coupled with lower fertility rates has led to considerable ageing of the European population. While the European population is still growing in most member states, it is doing so at slower rates and some member states are beginning to experience a decline in their population levels. By extension, this will have critical impacts on the future of the labour force and economic growth in Europe. In particular, in several Eastern European nations, high levels of emigration has not only led to population ageing, but also to population decline. This essay will discuss inter-EU migration with regard to its effects on the demographic and economic prospects of Eastern European countries in the European Union.

II. Demographic trends in Eastern Europe

Higher life expectancy, low fertility and emigration have led to the ageing of the Eastern European population. While old-age dependency ratios were mostly at or below the EU average of 29.9% in 2017, the projected average old-age

dependency ratio for the European Union is expected to reach 57% by 2100, with projections for many Eastern European countries above this average (Eurostat). This highlights the drastic change in demographic structures that will occur unevenly throughout the EU during the current century. The effect of a rise in the old-age dependency ratio, however, is considerable. Higher ratios indicate a lower number of workers supporting the economically inactive elderly population, diminishing tax revenues, increased pressures on health systems and larger pension payments as a % of GDP.

In many Eastern European countries, the population is not only ageing, but it is shrinking. Indeed, the world's ten fastest declining populations are all located in Central and Eastern Europe. The populations of Bulgaria, Romania and Poland are expected to decline by 24%, 18% and 15% respectively by 2050 (UNDESA, World Population Prospects, 2017). In addition to negative net migration levels, Eastern European countries have had declining fertility rates well below the 2.1 replacement level. This decline is largely due to the rise of postmodern values, economic austerity, unemployment, and the withdrawal of numerous social welfare mechanisms (Fihel and Okólski, 2019). Declining fertility rates alongside constant mortality rates have thus resulted in a negative natural change in populations. This, however, is a challenge currently faced by many European states. What makes Eastern Europe more vulnerable to population decline is the additional pressure caused by negative net migration.

III. Emigration: Eastern Europe's empty nest

Asymmetrical migration flows

Before the end of communist regimes, migration from Eastern European countries was rigorously controlled and movement from East to West was limited. After 1989, migration to the EU-11 countries increased, driven by a search for work opportunities and higher living standards. As Eastern European nationals formed communities abroad, migration towards these locations became increasingly attractive (Fihel & Okólski, 2019). The ascension of Eastern European countries to the EU in 2004, Romania in 2007 and Croatia in 2013, significantly increased migration flows towards western member states. By the end of 2012, it is estimated that 16% of the 1990 South-Eastern European population had emigrated abroad (Atoyan et al, 2016). Migration flows have essentially been one-directional with a large amount of emigration from Eastern European states to Western Europe, and very little in the other direction. The share of non-nationals from other EU member states in Romania is 0.3%, 0.1% in Poland and 0.1% in Bulgaria compared to 5.2%, 8.1% and 7.9% in Germany, Austria and Belgium respectively, illustrating the largely asymmetrical migration flows in the EU (Eurostat). Similarly, the share of non-nationals from non-EU countries is equally low relative to western member states. As a result, several Eastern European countries in the European Union are experiencing negative net migration. Other countries, particularly in Central Europe, such as the Czech Republic, Hungary or Slovenia have experienced positive

net migration flows which can be explained by the inflow of migrants from neighbouring countries in Eastern Europe (Atoyan et al, 2016).

"Go West, Young Man"

Emigration from East to West is largely driven by both cyclical and structural factors. Differences in income per capita levels, work opportunities and institutional quality are the main "push" factors in relation to westward migration (Atoyan et al, 2016). A recent survey in Bulgaria revealed that the main motivations for emigration were higher wages and better health and social systems abroad (Kalfin, 2018). Indeed, the majority of migration flows are comprised of young workers in the working-age population (15-64). In Eastern Europe, the majority of emigrants are males, with fewer women leaving to work abroad (Eurostat, 2018). Typically, those seeking work opportunities abroad are also highly educated and highly skilled. In 2010, the proportion of emigrants with third-level education in Hungary, Latvia and Poland was higher than the proportion of nationals with third-level education in their respective countries of origin (Atoyan et al, 2016).

A looming economic catastrophe

The loss of highly educated and skilled workers is detrimental to the economy. Poland, Bulgaria and Latvia are forecast to lose over 30% of their labour force by 2050 with several other Eastern European states forecast to lose around 20% of their labour force (Ilyana et al, 2019). In economic terms, this amounts to a significant loss of human capital which is necessary for productivity and growth. Total factor productivity is expected to decline significantly as a result of the changing demographic structure. Indeed, an increase in the share of workers in their 40s is correlated with a rise in aggregate productivity while an increase in the share of older workers is negatively correlated with the latter (Ilyana et al, 2019). Innovation and the capacity to adapt to new technologies is associated with younger workers compared to older workers who may find it more difficult to adapt (OECD, 1998 as cited in Ilyana et al, 2019).

The estimated impact of this "brain drain" on economic growth in the Central and Eastern European region is significant. Central and Eastern European real GDP is projected to decrease by 1.4 percentage points on average every year over the next three decades if total factor productivity and labour forces continue to shrink. As such, the level of output in the region may be 35% lower in 2050, with labour shortage accounting for 60% of this reduction. Average real GDP per capita as a proportion of the Western European average is expected to increase from 52% in 2020 to 60% in 2050. As such, convergence will continue but at a slower rate (Ilyana et al, 2019).

One positive aspect of emigration may be the inflow of remittances. This may increase purchasing power, demand and consumption, benefitting the overall economy. In Bulgaria, the sum of remittances exceeds foreign direct investment flows in the country and as such, represent an important source of finance and income (Kalfin, 2018). In particular, remittances may remove some

positive effects, these are outweighed by the negative economy-wide impact of emigration.

IV. A "silver" lining for Eastern Europe?

Boosting fertility rates are tackling the symptoms, not the cause.
Much of the debate over the policies required to remedy the current change in demographic structures have focused on increasing fertility rates. Hungary has introduced measures such as free IVF treatments or loans for couples promising to have a child in the future. Similarly, Poland's "Family 500+" offered a monthly benefit (worth 12% of the average gross wage) to encourage an increase in fertility rates. According to the Polish Central Statistics Office, there has been a 13-15% increase in birth rates since the implementation of the policy (European Commission, 2018).

However, these policies can also have counterproductive effects. According to Magda et al (2018), the participation rate of potential mothers would have been between 2.5 and 3% higher in the absence of the "Family 500+" policy. These policies are also extremely costly and occupy a proportion of the budget which should be used to tackle the causes and not the symptoms of emigration. Indeed, if no significant changes are made to the cyclical and structural issues that lead to emigration, emigration is likely to continue, and increased fertility may amount to more emigrants looking for work elsewhere (UNFPA, 2018). Even if such policies offset the negative natural rate of change, the main cause of population decline and ageing in Eastern Europe will be left unaddressed.

Increasing labour force participation

Western countries in the EU have often aimed to fill labour shortages through both EU and non-EU immigration. Nevertheless, whether immigration helps provide a solution to the unsustainable future dependency ratio is conditional on labour participation and integration into society and the workforce. Indeed, while immigration can increase the working population, it can also increase the non-working population (Joint Research Centre, 2019). On average, the participation rate of male immigrants is only slightly lower than that of the native population. This is not the case for female immigrants whose participation rates remain much lower. In addition, immigration characterized by low levels of human capital will be problematic as automation and technological processes increase. Unless immigrants participate highly and are integrated into the labour force, the dependency ratio will not change (or may rise). This counterproductive effect can be avoided by selective immigration policies targeting highly skilled immigrants who may contribute more to the system while also alleviating a shrinking labour force (Serban, 2012). In any event, immigration may not have the same impact in Eastern Europe as in Western European member states. Indeed, some Eastern European countries have exhibited a less welcoming attitude towards immigration and due to lower wages and poorer institutional quality, have remained less sought after as a destination for economic migration.

As long as emigration flows increase from East to West and unless policies are successful at retaining workers, a shrinking population in Eastern Europe will remain an inevitability for the near future. However, increasing labour force participation may help mitigate the effects of a shrinking labour force and ease fiscal pressures. In particular, policies should aim at increasing the labour force participation of women which is often less than that of the male population. The lower participation of women in the labour force is a lost opportunity to increase GDP and to ease the fiscal burden of an ageing population (Pignatti, 2020). While many of the factors influencing participation in the labour force such as education levels, cultural attitudes to working mothers and poor labour conditions cannot be overcome quickly, a significant number of policies can still have a considerable effect on female participation. Such policies include the provision of childcare subsidies, financial support for the care of the elderly, and parental leave (OECD, 2004). Furthermore, the implementation of flexible labour market measures such as allowing for mobility, or temporary work contracts may help reconcile the need to work and the desire to have a family. Indeed, increasing female participation in the workforce would benefit the economy widely. Swedish policies in this regard (generous parental leave benefits, state-funded childcare services and paid "child sick days") have favoured female participation rates and have enabled Sweden to have one of the highest fertility rates in the European Union. In addition, the removal or modification of joint taxation schemes in which second earners (most often women) are taxed more heavily than single earners may remove yet another obstacle in the way of female participation in the labour force. These policies would lower the opportunity cost of women entering the workforce.

Ultimately, education policies will be key to enhancing labour force participation. Professional development and training will be necessary to adapt to changing job requirements in the face of the technology revolution. Investing in high levels of human capital have also been found to encourage workers to participate in the workforce as a return on their investment and delay retirement (Serban, 2012).

In the long run, policies should be aimed at creating employment and attracting foreign direct investment. This may include the pursuit of policies aiming to attract service industries such as remote IT servicing, technology or service centres to remotely serve Western European based companies and markets. In addition, policies aimed at increasing job satisfaction, career advancement and generating higher salaries will be especially important. Institutional reform will also play a key role in retaining workers as well as potentially attracting those who have made the decision to emigrate back to their home countries. In recent years, return migration has increased in Eastern Europe in part thanks to government programs. Expanding these programs may not only benefit the demographic structure of the country but may also generate beneficial knowledge spillovers throughout the economy. Return migration received a significant boost as remote working became possible during the pandemic. While this may be temporary, being re-acquainted with the homeland may encourage a stronger flow of return migration in the future.

V. Conclusion

Eastern Europe will likely face considerable demographic and economic challenges in the face of population decline and ageing driven by natural change and emigration. This will have negative repercussions on growth and development. Eastern European countries must focus on retaining their skilled workforce and on increasing labour force participation, particularly that of women, in order to mitigate these effects.

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