

CENTRE=FORUM

From boom to bust? Fertility, ageing and demographic change

Wednesday 18th April 11.30 – 13.00

Hinton Room, One Birdcage Walk

Lord Adair Turner of Ecchinswell

There seems to be a popular belief that the EU is facing a demographic crisis, a loss of geopolitical power. We need to debunk these myths, as this pamphlet does so well. There certainly are challenges, but we can meet them – this is not a crisis.

What do we need to do? We need to distinguish between two separate effects: that of an ageing population and that of a one-off fall in fertility.

The increase in life expectancy we are experiencing may well be inexorable. However, it is manageable. Concerns have been expressed over healthcare costs, but in general we see that healthcare is most needed for the last 18 – 24 months of one's life – no matter what one's life expectancy. Ageing simply delays healthcare, not increasing it. Regarding pensions, there is a very simple solution. We need to raise the retirement age in line with life expectancy. If ageing was the only challenge, there would not be a problem.

However, we also need to consider the issue of fertility. Across Europe, fertility rates have been declining from 3 – 4 to below replacement over the last half-century. If this decline is not offset by immigration, then we will see a falling population. This is a more difficult challenge, as raising the retirement age is not sufficient. Nevertheless, it is a one-off effect, and the fertility rate is stabilising. Furthermore, the economic costs of lower fertility are at least

partially offset by economic benefits, such as a lower youth dependency ratio, a greater inheritance of capital and falling population density, easing the strains on the housing market.

Turning to immigration, it seems certain that Europe will not face a population decline. If one considers the total population rate, i.e. the fertility rate plus the immigration rate, then we get a figure of 2.12, above the replacement rate. This is why we are seeing a significant increase in aggregate population.

David Willetts MP

Although these claims of a demographic crisis are indeed a myth, it is important not to underestimate the challenges. We seem to be taking a “muddle through” approach, but that will not be enough, and it is not clear how one should go about this. Alasdair’s excellent paper, *From boom to bust?*, claims that there is significant underemployment present in the labour market, which can be utilised to increase the labour supply. However, many of these ‘underemployed’ represent the most valuable elements of society, such as homemakers, charities and voluntary workers.

In terms of public policy, it is important to look at the reasons behind this fall in the fertility rate. If it is simply a choice, if people are having as many children as they like, then we have no right to intervene. However, if people would like to have more children, but don’t because of socio-economic factors, then we should step in to help. It is becoming harder and more expensive for the next generation to enter the housing market and start families. We have an intergenerational contract with the next generation, and we need to fulfil it.

It is probably true that the next generation will be better off financially. The economy is growing and incomes are rising. However, we still have an obligation to provide; the previous generation were poorer than the current one, yet they managed to provide for us. We have a duty to do the same for the next generation.