

Shaping the Future of Europe

Hungary's Vision for the 2024 Presidency



Shaping the Future of Europe

Hungary's Vision for the 2024 Presidency

© Hungarian Institute of International Affairs

Editor: Lillian Zsófia Aronson

Cover: Dóra Szabó-Thalmeiner

Layout: Tamás Lévárt

The present analysis and its conclusions reflect the authors' opinions and cannot be considered the official position of the Hungarian Institute of International Affairs, the Ministry of Foreign Affairs and Trade, or the Government of Hungary.

hia.hu

Budapest, 2024

ADDRESSING DEMOGRAPHIC CHALLENGES

Gladden Pappin & Lillian Zsófia Aronson

Europe is currently dominated by two main demographic trends. First, Europeans are living longer, healthier lives. Life expectancies have risen significantly thanks to social and economic programs and advancements in health care and medicine. At the same time, however, the proportion of young people is shrinking as families have fewer children and choose to have children at later ages. In the last few years, the resulting demographic challenge has entered more firmly into international discourse, moving from a “fringe” issue—spoken about on the margins of political discourse—to one that occupies the thoughts of many global decision-makers. The challenge posed by aging societies with low rates of family formation now clearly has several aspects. As security concerns have returned to the continent, it has become evident that an aging or declining society is less able to fulfill its defense needs than one that maintains a healthy growth. Second, as the long-term effects of European decisions on migration in 2015 and 2016 have become more apparent—with greater stress put on increasingly divided societies—voters, as well as politicians, have questioned whether immigration can make up for demographic decline. Finally, aging also poses a challenge to European competitiveness. Taken together, these problems require a robust response, and Hungary’s 2024 presidency aims to put them in the spotlight.

The challenge of an aging society was perceived differently as recently as ten years ago. At that time, declines in rates of family formation were thought to be an inevitable consequence of long-term trends in modernization, and the solution for European economies was to be found in migration. Liberalism was seen as a solvent of intercultural differences that would harmonize new arrivals with native populations. Though discussion of the resulting problems is still sometimes taboo on the European stage, a broad social awareness has set in, reflected in shifting political trends at the European level. It has also become clear that

family formation rates are an indicator of overall societal health. Economic crisis, subdued growth expectations and defense concerns all have negative impacts on family formation and birth rates and indicate the need for a strong public response. Unfortunately, that response has generally been too little, too late. Europe needs public discussion on its demographic future, with all the options on the table.

To be sure, much of demographic policy falls within the competencies of individual member states, which means that EU institutions have limited capacity to make change. This is a good thing, because European societies are extremely heterogenous, and national governments are best equipped to deal with their own specific circumstances. Still, the EU can support members in developing policies to address looming issues and create opportunities for critical discussion. Resources like the October 2023 demographic toolbox can provide some of this support, and the Hungarian presidency has identified it as the key starting point for addressing Europe's demographic challenges. The toolbox, which was created in response to a request by the Commission, focuses on four key pillars: supporting families, young people and older generations, as well as tackling labor shortages. At the same time, the EU must also make sure its policies do not exacerbate demographic issues, particularly when it comes to policies related to migration and the green transition.

Tackling looming demographic issues was already a priority for Hungary during its previous 2011 presidency. During this period, the country organized "Europe for Families, Families for Europe—Population Issues and Policies Awareness Week," the "Family Fiesta with Europe" festival, and other public events and international conferences to increase awareness of demographic issues and spark dialogue (Fűrész & Molnár, 2023). Internally, it asked the European Economic and Social Committee to publish proposals for supporting family formation and organized a meeting of EU ministers responsible for demographics and family affairs in Gödöllő to coordinate policies and discuss best practices. This presidency will provide an opportunity for further public and private events and discussions.

Hungary also has experience hosting the Budapest Demographic Summit, an international forum that it has hosted five times. It could use this experience to try to revive the European Demographic Forum, which was held regularly from 2006 until 2013.

THE ACCELERATING AGING OF EUROPEAN SOCIETIES

In many ways, aging societies have become a sign of modern success—but it is increasingly clear that they pose challenges for modernization itself. Modern food quality, as well as new medical techniques, are able to help people live longer, healthier lives. At the same time, however, economic and technological advances have led to a decline in family formation and birth rates, endangering economic advance as well as the social support systems that modern societies rely on. The trend puts pressure on young people and existing social systems, fueling tensions and severely impacting intergenerational solidarity.

By 2050, the number of people aged 65 and older is expected to nearly triple and already there are large cohorts of baby boomers retiring (Lovász, 2023). These individuals will need care and social support. Normally, an aging population would be able to obtain support for elder care through tax increases on young workers. But declining fertility impacts this dynamic as working-age population growth begins to slow.

The 2024 Ageing Report projects that the EU's population will peak in 2026 (European Commission, 2024). The EU's natural population change, however, which refers to the difference between live births and deaths, has been negative since 2012. Between 2002 and 2022, the median age increased from 38.7 years to 44.4 years, with a rapid increase expected in the coming years. Of course, at a national level, there is a great amount of heterogeneity, with some countries experiencing more drastic fertility rates than others—Italy had the fewest births according to the most recent 2021 data, with just 6.8 live births per thousand people (Eurostat, 2023). Fewer births will likely mean labor scarcity, and labor scarcity requires large tax increases, while also putting young workers in a stronger bargaining position in terms of wages and benefits. The result is inflationary pressure on the economy (Goodhart & Pradhan, 2020).

Why this is the case is intuitive. An elderly population consumes without producing. Therefore, younger people of working age must provide for their own consumption and for that of the elderly citizens. As the number of those in the working-age population shrinks relative to the elderly population, the workers find themselves in higher “demand.” This results in an increase in the “price” of these workers—that is, their wages. Since wages are the largest cost in the production process, this higher cost is



passed on to consumers in the form of price increases: inflation. The more elderly people relative to workers, the more price pressures build and the more dramatic the inflation. This is bad news for Europe, as the continent has already seen the impact of rapid inflation in recent years.

This shift would not merely be another ho-hum change in overall economic balance. For much of the last thirty years, the world economy has benefited from a large increase in labor supply through China's modernization, as well as from the initial postwar increase in women's labor force participation, which has now declined. Deflationary pressures have easily stayed below central bank targets, the prices of manufactured goods have fallen, and interest rates have fallen to historic lows. While the last thirty years have also been a period of worsening inequality and, recently, of rising populism, most policymakers do not take account of the underlying demographic structure that has enabled recent political economy to function at all. Changing demographic structures will hinder the EU's overall competitiveness on the global stage, especially as population growth continues in other parts of the world and youth bulges prevail in many societies in Africa, southern Asia, and the Middle East.

The solution will require reforms to European pension systems in order to ensure their sustainability in the long term. Despite the considerable efforts by previous presidencies, there has been little progress on the revision of social security coordination regulations in recent years, and the Hungarian presidency has set out to change that. The new Aging Report provides economic and budgetary projections for EU members and Norway until 2070 in order to assess the long-term sustainability of public finances in member states, based on new data from Eurostat, which will prove useful. Older generations also need nonfinancial support to ensure their care, enable their continued participation in labor markets if they so choose, and prevent their isolation in society, particularly given declining intergenerational solidarity.

In terms of specific finance strategies, EU members will need to find a way to finance necessary social spending to maintain a functioning society. Revenues from the taxation of wages may no longer be enough, and new approaches will need to be employed, such as increased taxation of capital or other, newer forms of taxation. Cutting low-priority spending could also help the EU improve the efficiency of its spending and ability to better address issues. Of course, this will require much deliberation before major changes can be implemented.

BUILDING FAMILY-FRIENDLY EUROPEAN SOCIETIES

While the trend of having fewer children is primarily determined by individuals' life choices, EU-wide and national policies can help ensure that those citizens who wish to have children are able to do so. Hungary is already leading the way. When Viktor Orbán's Fidesz party came to power in 2010, Hungary's birth rate had fallen every year since the mid-1970s, and the country was losing overall population at a significant rate every year. Since then, the total fertility rate in Hungary has increased 21 percent (Hungarian Central Statistical Office, 2024). Rather than viewing national spending on families as something to be minimized, or rationalized as a mutual insurance scheme, the government made it its stated goal to increase family expenditure each year. Social benefits like housing allowances and tax breaks for families have enabled Hungarians to build families, increasing fertility rates significantly. Besides these benefits, governments can create policies to help families reconcile work with raising a family.

Childbearing at later ages has brought its own set of problems. The share of births to women over forty years old more than doubled between 2001 and 2021, although age-related fertility issues often make childbearing more difficult in these cases. Medical advancements and access to affordable fertility treatments can help ensure that these older mothers are able to bear healthy children. The Hungarian government recognized the "strategic importance" of fertility treatments in 2020, making otherwise expensive in vitro fertilization treatments free at state-run clinics (Kató, 2020).

The empowerment of younger generations is needed to help them succeed, especially as they face increasing pressures from a rapidly aging population in Europe. In 2022, around one in ten young people between the ages of fifteen and twenty-nine were neither employed nor pursuing further education, which limiting their long-term prospects (European Commission, 2023). In many cases, young people are struggling to access affordable housing and achieve decent living standards, so a comprehensive EU approach must address these challenges.

THE CHANGING WORLD OF WORK

Employment is another area within demographic and social policy that must be addressed. In 2022—the most recent year for which Eurostat data is available—labor shortages reached a historic high. A third of companies



reported labor shortages, and nearly three quarters of small and medium-sized enterprises reported facing a shortage of skilled workers. Meanwhile, the EU has plenty of untapped labor market potential, with many economically inactive individuals, especially among women and young people (European Commission, 2023). Tapping into these human capital reserves is crucial.

Ensuring equal access to opportunities for those with families, people with disabilities, and vulnerable populations can help improve their integration into the labor market and economic success. For families, for instance, flexible forms of work and atypical employment can allow parents to reconcile work life with raising children. Similarly, older workers should be able to remain in the labor market if they wish and take on a job to supplement their pensions. Access to training programs to update their skills can help enable this. At the same time, for young people, global opportunities and more opportunities for entry-level positions and traineeships are important, and the traineeships package will be a huge step forward. In particular, there need to be opportunities outside of urban centers in order to combat rural depopulation.

Part of supporting workers involves improving the quality of employment in Europe so that firms can harness the full potential of the labor market while workers remain satisfied with their employment and maintain a healthy work-life balance. Again, as population declines and labor markets face increasing shortages, workers will have increasing bargaining power, and it will be important to present them with favorable employment opportunities. Occupational health and safety is one area in which the presidency is planning to make progress on working conditions in Europe. The presidency plans to make progress on publishing the sixth revision package of the directive on safety limits for carcinogenic, mutagenic, and reprotoxic substances, which is currently expected in September, and support the implementation of the European Occupational Health and Safety Framework Strategy for 2021–2027. The presidency will also contribute to the evaluation of the implementation of the European Labour Authority (ELA), following the Commission's review due by August.

In the future, enlargement will also bring new workers into the EU, which will help combat labor shortages throughout the Union. Attracting highly skilled workers and educators from abroad can also help fill niche positions, to an extent, and increase the skills of EU citizens to better meet the needs of changing work environments and fill these positions in the future.

The European workforce as a whole will need to adapt to changes in the work environment. New technologies like artificial intelligence, for instance, may replace some jobs while creating new ones, and EU policies will need to effectively support the creation of a workforce to meet those needs. A skilled workforce at the forefront of technological advancement can help drive innovation and R&D, which will be necessary to maintain European competitiveness and avoid losing skilled European workers to markets abroad. In addition to adapting to new technologies, there is also a need to build workforce resilience in face of challenges like the COVID-19 pandemic, which forced many Europeans into remote work. Concluding negotiations on the right to disconnect and on telework is identified as a related priority in the presidency program.

The areas for progress during the six-month term identified by the presidency program include the finalization of the amendment of the directive on European Works Councils, the continued discussion of the March 2024 traineeships package, and the conclusion of negotiations on new legislative initiatives (“Programme of the Presidency,” 2024).

CONCLUSION

In sum, the European Union faces a range of demographic problems, and it is increasingly clear that Europe’s success will depend on solving them. While classical models of family formation have typically been analyzed in conservative vs. liberal terms, a strong demographic basis is necessary for countries to have economic success, social cohesion and security. Though the demographic situation in each country is different, it is important to build a broader public framework through which demographic problems can be discussed and addressed. All too often, this strategic mindset has been missing, with the result that Europe’s current demographic situation reflects not so much a coherent plan as the outcome of a long series of reactive, short-sighted decisions. National governments, as well as the EU itself, have a strong role to play in formulating a path forward for socially strong, well integrated countries that support family, national identity and the hope for a brighter economic future. This year’s Hungarian presidency of the Council of the EU is an important milestone in enabling strategic thinking about Europe’s demographic future.

REFERENCES

- European Commission. (2023, October 11). *Demographic change in Europe: a toolbox for action*. https://commission.europa.eu/publications/communication-demographic-change-europe-toolbox-action_en
- European Commission. (2024, April 18). *2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070)*. https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en
- Eurostat. (2023). *Demography of Europe*. <https://ec.europa.eu/eurostat/web/interactive-publications/demography-2023>
- Fűrész, T., & Molnár, B. P. (2023). Addressing Europe's Demographic Challenges by Supporting Families Instead of Encouraging Migration. In T. Navracsics, L. Schmidt, & B. Tárnok (Eds.), *On the Way to the Hungarian EU Presidency* (pp. 35-45). Ludovika University Press.
- Goodhart, C., & Pradhan, M. (2020). *The Great Demographic Reversal: Ageing Societies, Waning Inequality, and an Inflation Revival*. Palgrave Macmillan.
- Hungarian Central Statistical Office. (2024, March 28). *Live births, total fertility rate*. https://www.ksh.hu/stadat_files/nep/en/nep0006.html
- Kató, A. (2020, March 10). *IVF treatments are now more freely available in Hungary*. Daily News Hungary. <https://dailynewshungary.com/ivf-treatments-are-now-more-freely-available-in-hungary/>
- Lovász, L. G. (2023). The Challenges of EU Social Policy in the Clutter of Human Rights – What Will the (Bio)technological Singularity of the 21st Century Bring by 2030? In T. Navracsics & B. Tárnok (Eds.), *The 2024 Hungarian EU Presidency* (pp. 379-403). Ludovika University Press.
- Programme of the Hungarian Presidency of the Council of the European Union in the Second Half of 2024*. (2024). Consilium. <https://hungarian-presidency.consilium.europa.eu/en/programme/programme/>