DEMONET

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The Multiple Impacts of the Crisis

An Additional Challenge for Policy to Address European Population Issues

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1. Introduction

From the 3rd quarter of 2008 Europe has entered into a deep economic recession which was triggered by the global financial and economic crisis. The crisis has hit hard and deep and its impacts are manifold, both in the short term as in the longer run. The crisis may very well be the largest economic and financial challenge the European Union has had to deal with so far. The crisis did not only cost Europe a substantive share of its economic growth as measured in GDP. In addition to this direct economic damage, it also forced Member States to introduce massive support measures to finance economic stabilizing policies. These measures were needed to prevent an even deeper crisis, which would have caused even more damage. These crisis intervention measures were very costly, delved deeply into the budgets of Member States budgets and created large debts. Total government debt could rise from around 60% of GDP in 2007 to a staggering 84% in 2011. In fact the crisis obliterated some 20 years of budget consolidation efforts[1].

In the beginning of 2010 the first signs of an economic recovery became visible. GDP started to increase and some financial funds, in particular pension funds, regained some of the heavy losses of 2008. On the other hand, employment has continued to lose ground, although there are signs of stabilization. Following up on the efforts of Member States and the European Union to counteract the recession under the European Economic Recovery Plan, attention is now shifting to coordinated "crisis exit" strategies. Here the main issues will be how to phase out the temporary crisis measures and how to restore sound and sustainable public finances. To avoid the risk of a so-called "double dip" recession, crisis measures can only be discontinued when economic recovery is robust. Consolidating public finances undoubtedly will be a long term effort. According to the Commission it may well take two decades to reduce public debt to the 2007 level of 60% of GDP. This effort must be balanced against safeguarding the long-term growth potential. Continuing investments in education, active inclusion, family support, but also in research, infrastructure and the shift to a sustainable low-energy economy is vital. Cutbacks in these domains would reduce deficits now, but this would come at a high price for future generations.

Against the backdrop of the crisis and despite its far-reaching impacts, now and in the coming decades, the Commission remains fully committed to address the demographic challenges that are a result of population ageing of. The strategy that was outlined in "The demographic future of Europe. From challenge to opportunity" (European Commission 2006) indicates the following five key areas for action:

- Promoting demographic renewal
- Promoting employment: more jobs and longer working lives of better quality
- A more productive and dynamic Europe
- Receiving and integrating migrants

[1] Opening address by EU Commissioner Andor at the seminar "The impact of the crisis on Member States' ability to respond to the challenges of demographic change", Brussels, 22 February 2010.

- Sustainable public finances: guaranteeing adequate social security and equity between generations

Investments in these areas would not only enhance the ability of Member States to address the demographic challenge; they would also support the longer term economic growth potential. In recent years Member States started to address the demographic challenge in the key areas that were outlined by the Commission. The crisis has made this task even more challenging.

This Research Note tries to assess how the crisis has affected the ability of Member States to respond to the demographic challenge. In particular, it aims to address the following questions:

- To what extent were population-related policies of Member States influenced by the crisis? Was there a direct influence and to what extent will this be the case in the longer run?
- Will these policies have to be revamped in view of the crisis? Do these policies run the risk of being downscaled or even abolished?
- Did the crisis reinforce the need for population-related policies and thus provide an extra stimulus to address the ongoing demographic challenge? Did the crisis increase the urgency to respond to the demographic challenge? Or has the crisis taken away this urgency?
- Can population-related policies be instrumental in addressing the short and longer term consequences of the crisis?

For each of the five key areas that the Commission distinguished in its 2006 Communication as crucial dimensions of the demographic challenge, specific policy issues can be identified against the backdrop of the crisis:

- to promote demographic renewal, will it, for instance, be possible to step up the support for families and help both mothers and fathers to reconcile the responsibilities of work and family? Here it must be taken into account that the recession may well have exacerbated the economic uncertainty of families and the financial position of prospective parents;
- improving the work-life balance is also crucial to promote employment. How can employment rates be raised further, more jobs for young people be created and how can older workers be retained on the labour market? While there are signs that older workers were less affected by the crisis, unemployment rates for the young have risen.
- to foster a more productive and dynamic Europe a major policy issue is how to increase the productivity of the ageing European workforce? Investments in education and research seem to be vital in this respect.
- to receive and integrate migrants, the crisis may have (temporarily) reduced the immediate need for migrant workers but the integration of migrants and their children remains an urgent policy challenge, also in view of the need to increase employment rates.

- to promote sustainable finances and equity it will be a major challenge how to share the burden of the crisis evenly across all generations? Also it will be a challenge to offer adequate social protection to the elderly while consolidating healthy public finances at the same time. Here the promotion of active ageing and making better use of the potentials of older people will be a key issue.

A final question is whether the combined challenges of disastrous public finances due to the crisis and a rapidly ageing population can be taken up? Or should the ambition to address the demographic challenge be regarded as obsolete? Here it is clear that the crisis did not change the commitment of Member States to take up the demographic challenge. Also the Commission is currently designing the EU 2020 strategy as a follow up to the Lisbon Strategy. In this new strategy promoting economic growth based on knowledge and innovation, an inclusive society with high employment and a greener economy is aimed at. The strategy to address demographic change seems to clearly dovetail with the overall thrust of the new Europe 2020 strategy. In the wake of the crisis and despite the bleak outlook on public finances, the European Commission holds the view that demographic challenges should be properly reflected in the so-called crisis exit strategies of the Member States and should also be integrated in the work on the new Europe 2020 strategy.

2. Impacts of the crisis on demographic trends and the ability of Member States to cope with demographic challenges

2.1 Impacts of the crisis on families and fertility[2]

In Europe, most countries experienced an economic set-back, which expanded into a recession towards the beginning of 2009. The recession brought significant rises in unemployment, stalled and in some cases falling incomes, plummeting consumer confidence and rising uncertainty about the future. Research on economic recessions in the past shows they can affect the dynamics of family formation, fertility, mortality, and migration. During the present economic downturn, the media coverage, especially in the United States, frequently suggests that the present crisis and uncertainty will result in a baby bust. Thus, the link between the downturn in the business cycle and declining birth rates is frequently assumed by the media, politicians and the lay public. However, hardly any systematic research has been done on this issue. Our contribution aims to bridge this gap.

A review of the literature discusses how recessions affect fertility and in part also family formation insofar as it influences fertility trends. In addition, we provide simple empirical illustrations on the association between economic downturn and period fertility in the developed countries with low fertility. We first discuss the overall effect of the recession

[2] This paragraph is based on the DemoNet Research Note “Economic Recession and fertility in the developed world. A literature review” by Tomáš Sobotka, Vegard Skirbekk and Dimiter Philipov of the Vienna Institute of Demography (VID) and the International Institute for Applied Systems Analysis (IIASA).

on fertility trends, focusing on aggregate-level indicators of the recession, such as GDP decline, falling consumer confidence and rising unemployment rates. We also look at selected studies on particular regions and periods of time, such as the 'Great Depression' of the 1930s, the oil shocks of the 1970s, and the economic crisis following the collapse of state-socialist system in 1989-1990. Subsequently, we review particular mechanisms how the recession influences fertility behaviour of women and men, discussing the effects of rising unemployment and falling employment stability, rising uncertainty, changing housing market, and rising participation in education. In conclusion, we summarize our research and provide policy recommendations.

As most of the economic recessions in the past were of a relatively short duration, their impact on fertility rates was temporary. Therefore, much of this contribution deals with relatively short-term swings in fertility rates, typically lasting 2-5 years, and does not cover major long-term alterations in fertility patterns which are of different nature and typically caused by other factors. Because of this relatively short-term impact most of the studies are unable to distinguish between changes in fertility level and changes in fertility timing (postponement or advancement of birth), which jointly affect the usual aggregate indicators of fertility such as the period total fertility rate (TFR). However, short-term fertility movements are unlikely to have a measurable impact on the number of children women and men will have at the end of their reproductive lives (with an exception of a severe crisis like in the case of the Great Depression of the 1930s).

Pro-cyclical effects of economic growth on fertility

Economic recession has a multifaceted influence on fertility decisions. Its effects are often differentiated by gender, age (or a position in the life cycle), ethnic, migrant and social group, and number of children. Also the 'opportunity costs' of childbearing (time, skills and income lost due to child-care and child-rearing) are differently affected by the recession among various social groups.

Typically, fertility has a pro-cyclical relationship with economic growth. Recessions often lead to a temporary decline in period fertility levels one or two years later, partly reflecting a postponement of childbearing that is often later compensated during the period of improved economic conditions. Theories suggesting a counter-cyclical relationship between economic trends and fertility have not found much support in the empirical data. Among the OECD countries, GDP decline was associated with a subsequent fall in total fertility rates in 81% of the cases in the period 1980-2008.

The negative impact of the recession on fertility rates is usually rather small, in the order of up to 5%. Major shifts in fertility rates, such as the fertility decline of the 1970s in many developed countries, may continue uninterrupted during the recession and may make the impact of the recession difficult to identify. Measures of unemployment and consumer sentiment reflect more closely the impact of the recession than a more general indicator of GDP decline. A close relationship between rising unemployment rate on one side and partnership formation and fertility on the other side has been repeatedly found in many studies. Economic recession often has a stronger impact on first birth trends as younger and childless people as well as those without own housing are more strongly affected.

Recession effects: Pathways and mechanisms

At an individual level, recession usually has a stronger negative impact on fertility of men, of young adults who are not well established on the labour market and of the higher educated, who may be afraid of losing their job and career prospects when having a child in economically uncertain times.

Different types of uncertainty, such as uncertain employment prospects, low income, low life satisfaction, and anxiety about the future, are often hypothesized to negatively affect childbearing and lead to the postponement or foregoing of childbearing plans. Available literature suggests that the effect of uncertainty is differentiated by social status, especially education level, with higher-educated adopting most frequently 'risk-averse' behaviour (i.e., refraining from childbearing in uncertain circumstances). Lower disposable income, collapse in housing construction and lower availability of mortgages and affordable loans are likely to make housing less available for younger couples despite some general decline in housing prices. This may have a negative effect on fertility in countries where privately owned housing is commonly perceived as a precondition to parenthood. Economic recession may also lead to a prolongation of time in higher education, which in turn would lead to a further postponement of births and lower fertility rates.

2.2 Impacts of the crisis on the labour market[3]

From financial crisis to economic crisis to employment crisis

Beginning with the US subprime crisis in the summer of 2007 and its negative effects on financial markets, economic growth in industrialized countries started to slow down. After the default of Lehman Brothers in September 2008 the situation got worse and despite massive governmental interventions, the US as well as most European countries slid into recession. The labour market effects of such a development can be huge: Typically, employment decreases and unemployment increases after a slowdown of GDP albeit with a certain delay (cf. Blanchard, 2003).

Historically, European unemployment rates have been low after the Second World War and amounted to 2% in the 1960s. However, these rates started to increase in the 1970s after the occurrence of the two oil price shocks and a general slowdown of productivity growth, which was not incorporated in the wage bargaining process between unions and firms. In the 1980s European unemployment increased further to around 8% because of the disinflationary policy of many Central Banks. Afterwards, during the late 1980s, the 1990s and the 2000s, European unemployment rates fluctuated cyclically around this high level (cf. Blanchard, 2006 for an excellent treatment of European unemployment between the 1960s and the early 2000s).

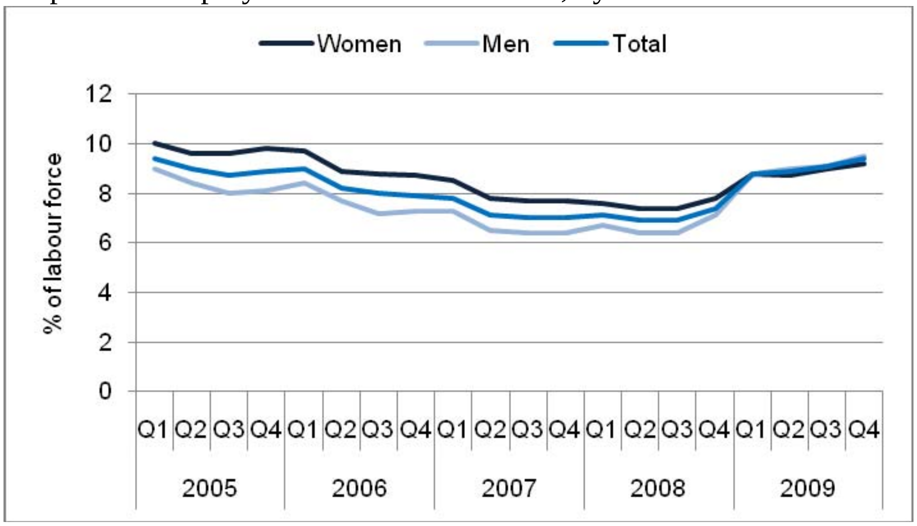
[3] This paragraph is based on the DemoNet Research Note The Global economic crisis and its impact on European unemployment according to selected demographic subgroups by Johannes Holler, Klaus Prettner and Julia Schuster of the Vienna Institute of Demography.

Before the economic crisis hit Europe, the business cycle was in a stage such that unemployment was generally decreasing (cf. European Commission, 2009; can be seen from graph 3 and then no reference will be needed). This trend stopped in 2008. With a time lag of approximately one year which was partly caused by policy measures, such as the adjustment of work hours, taken to mitigate the negative employment effects, the recession translated into higher unemployment. This increase in unemployment was not evenly shared between certain socioeconomic subgroups, where the biggest differences arose due to sex, age and educational attainment.
In the following, we look at the differential impact of the financial and economic crisis on the labour market perspectives of various demographic subgroups.

Overall unemployment rates: men were hit stronger by the crisis
Graph 1 illustrates a steady decline in unemployment from the beginning of 2005 till the third quarter of 2008; the unemployment rate declined from around 9.5% down to 6.7% of the total labour force. However during the next 6 months unemployment went up back to the level observed four years earlier. Male unemployment rose from 6.5% in the third quarter of 2008 to 9.5% of the total labour force by the end of 2009, while female unemployment rose from 7.4% to 9.2% of the total labour force. Graph 1 further highlights that the historically observed gap between female and male unemployment decreases since the beginning of 2008 and is offset by the first quarter of 2009. One reason for the strong over-proportional increase of male unemployment can be identified by looking at the influence of the recession on certain economic sectors. Men have been hit stronger by the cyclical unemployment since the economic downturn was mainly concentrated in the manufacturing and production sector. These male-dominated sectors were immediately affected by the economic crisis, while the main contraction of the female-dominated services sector occurred later. An additional explanation for the stronger persistence of female unemployment can be found in the structure of work contracts: women are to a greater proportion employed in part-time jobs which were less affected by the economic crisis (EC 2009). (A recently published report by the European Commission (EC 2010) identifies the concentration of male labour in certain sectors as the main driver behind the differences in unemployment for men and women).
Overall it can be expected, that the difference between levels of female and male unemployment will re-emerge in the future.

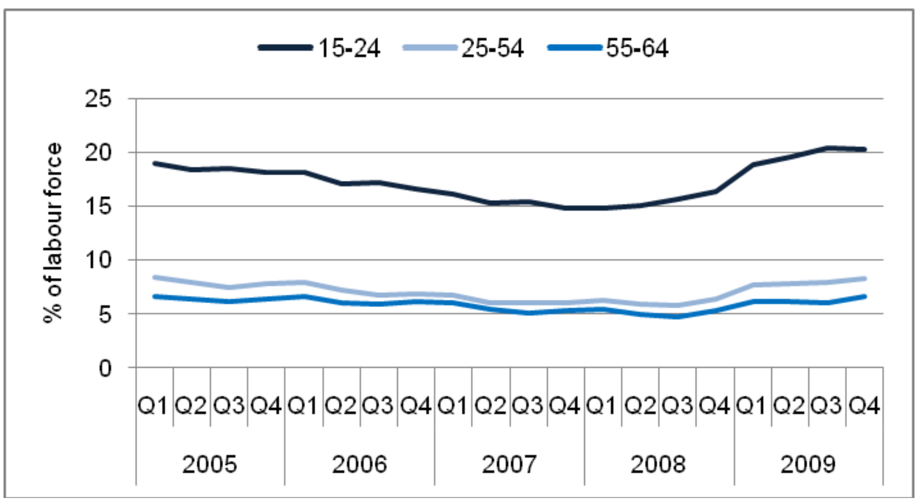
Unemployment by age: the younger workforce was hit hardest
The data further reveals that the unemployment increase affected certain age groups differently (see Graph 2). Youth unemployment (age 15-24) and prime working age unemployment (age 25-54) increased substantially while old-age unemployment (age 55-64) rose only moderately. The strongest increase was attributed to youth unemployment (5.4%), followed by prime working age unemployment (2%) and old-age unemployment (1.2%). The observed variations can partly be attributed to existing differences in work contracts. Older workers are mainly holding tenure and are to a great extent the beneficiary of labour market protection. Furthermore, individuals who lose their jobs at older ages have the opportunity to retire instead of registering as unemployed.

Graph 1: Unemployment rates in the EU 27, by sex



Therefore old-age unemployment is less affected than young unemployment. In general, if labour markets are very rigid, lower demand for labour mainly affects the inflows to the labour market which implies that the younger work force is hit hardest.

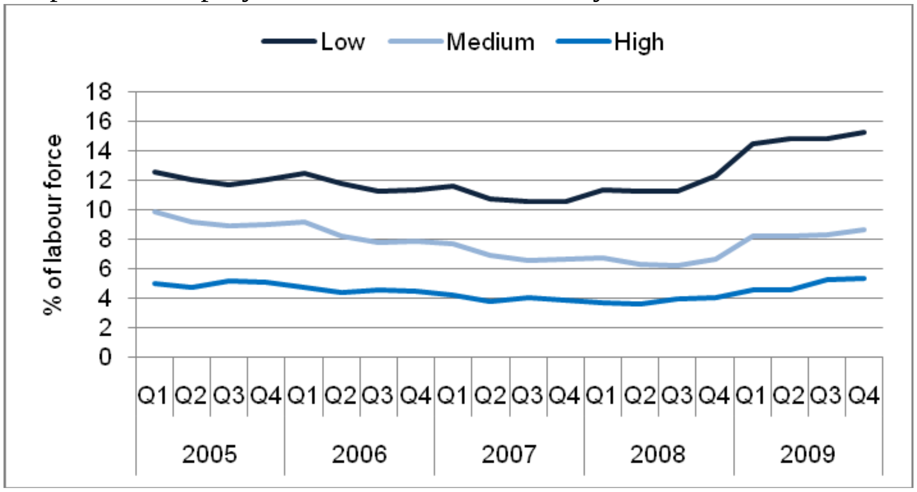
Graph 2: Unemployment rates in the EU 27, by age groups



Unemployment by educational attainment: the lower educated were affected most

During the economic downturn educational attainment had a differentiated effect on the increase in job insecurity. The unemployment rates of low-skilled people increased by 3.9%, while the unemployment rate of medium-skilled and high-skilled increased by 1.9% and 1.7%, respectively (see Graph 3). This variation can again be attributed to the varying impact of the crisis on economic sectors. The manufacturing and production sector for instance, which is mainly employing low and medium-skilled labour, was hit hardest, leading to a higher increase of unemployment for these skill groups. The variation of unemployment by skill levels highlights that in times of an economic downturn the more easily substitutable labour will be affected strongest.

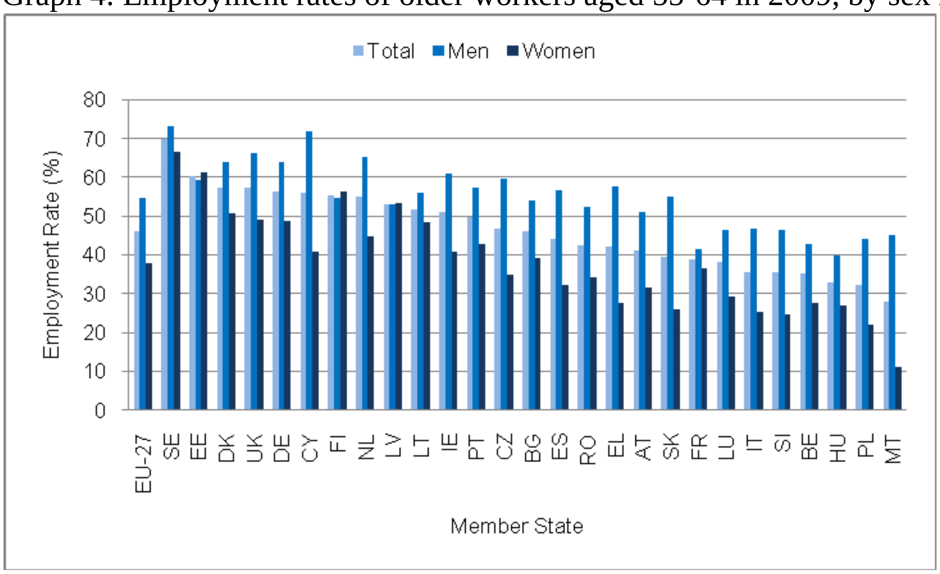
Graph 3: Unemployment rates in the EU 27, by educational attainment



Employment among the elderly: Lisbon targets will be more difficult to reach

According to the Lisbon strategy, employment among people aged 55-64 should be above 50% by the year 2010. Graph 4 illustrates these levels in the 27 Member States in 2009 and shows that employment for both sexes in this age group is around 46% for the EU as a whole and is above 50% in 12 of the Member States. Apparently the crisis will make it more difficult to reach the Lisbon targets for elderly employment.

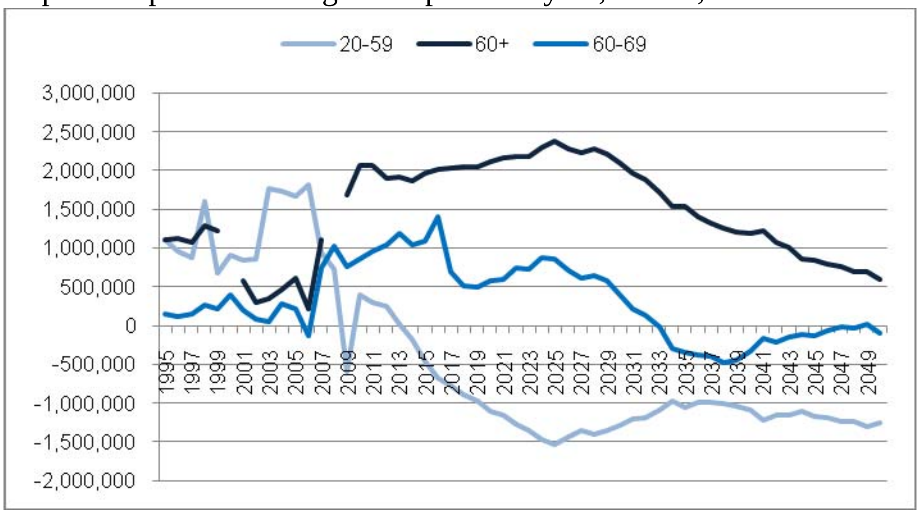
Graph 4: Employment rates of older workers aged 55-64 in 2009, by sex in EU 27, in %



Short-run expectations: the demographic background

Regarding the projected evolution of the workforce, and therefore the projected future labour supply, graph 5 shows that the working age population will start to shrink by 2014, while the number of individuals aged 60 and over will increase until 2025. This indicates that the supply side pressure on unemployment will increase untill 2014 and should decrease from 2014 onwards. The demographic factors do not favour a decline in unemployment during the next few years.

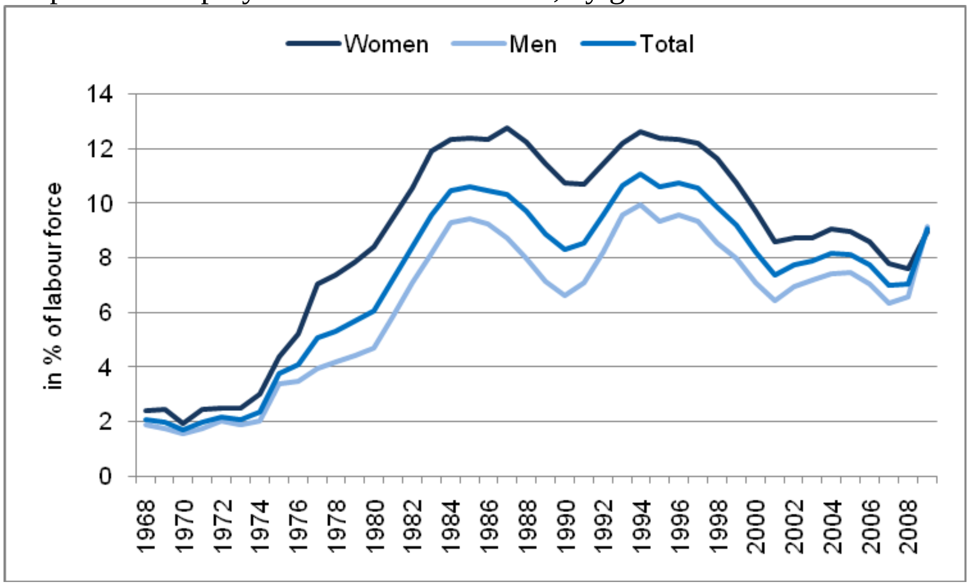
Graph 5: Population change over previous year, EU 27, 1995-2050



Historical vs. current economic crisis

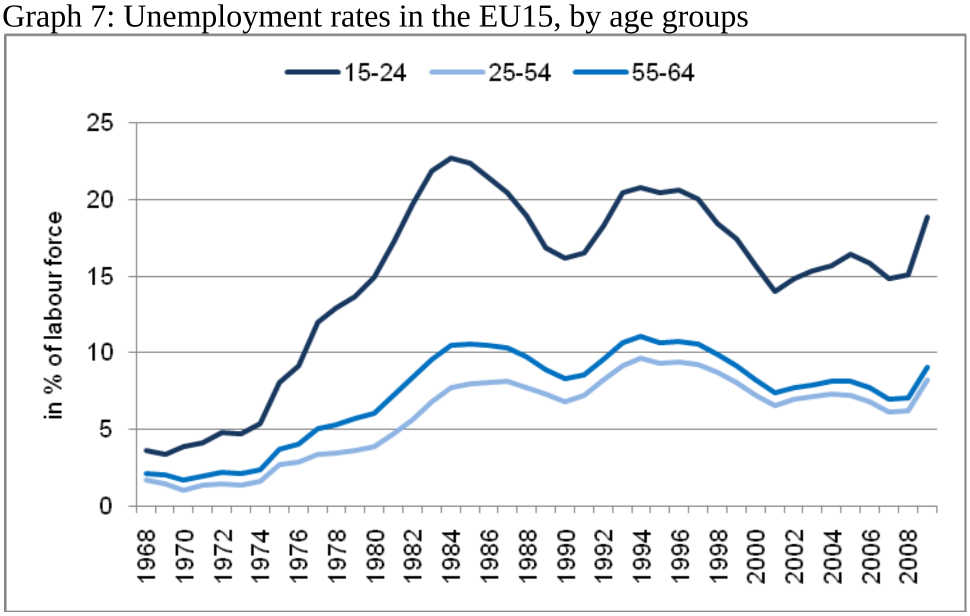
The economic crisis of the 1970s, which was caused by a 70% increase of oil prices and a cut in oil production by the OAPEC (Arab states of the OPEC), exhibits parallels as well as significant differences concerning the labour market effects of the economic slowdown (see Graph 6). Contrary to the recent economic crisis, in 1974 when the curb in production started to translate into higher unemployment, female unemployment reacted stronger than male unemployment. This reaction developed the spread between male and female unemployment which was persistent until 2008. The increase in female labour force participation that took place in the 1970s can be identified as the main driver of this trend. It appears that the economic crisis intensified the pressure on women to contribute to the family income. The data further highlights that while the economic crises of 1973 and 2007 affected the spread between female and male labour force, the crises of 1990 and 2001 did not substantially influence the relationship. The observed difference appears to be caused by the different extent to which the manufacturing and production sector was hit (e.g. the burst of the New Economy bubble in 2001 mainly affected the tertiary sector).

Graph 6: Unemployment rates in the EU15, by gender



Focusing on age specific labour market impacts graph 7 indicates that for all observed economic crises since the 1960s young workers were hit hardest. Nevertheless, due to the severity of the oil crisis and the recent economic crisis a particular strong effect on youth unemployment is observed. The overall evolution of unemployment for certain age groups highlights that the relevance of the spread between young and old workers is determined by the level of unemployment.

Graph 7: Unemployment rates in the EU15, by age groups



How anti-crisis policies influence the labour market

In addition to the immediate responses of labour markets to the economic downturn, the economic crises also led to certain policy measures that have been influencing labour markets. The financial market turmoil led to a severe contraction of confidence in the risk management ability of markets. As an immediate response, markets also re-evaluated risks connected to governmental insolvency, putting public debt to the center of public perception. As a consequence contractionary fiscal policy became a main point on the political agenda throughout Europe. In the short-run the resulting lower government spending and higher taxation may further increase unemployment. Besides this change in fiscal policy, the public debt crisis, which resulted in the bailout for Greece, led to a loosening of monetary policy by the European Central Bank. In the short-run expansionary monetary policy is likely to decrease interest rates and therefore increases output and decreases unemployment. As a side-effect, this policy comprises a strong inflationary risk. Potentially higher inflation would result in the evaporation of the positive employment effect in the medium-run.

The overall short-run effect of policy measures on unemployment depends on the strength of the underlying effects which differ for certain countries and demographic subgroups. Focusing on labour market subgroups, older workers which are the main beneficiary of labour market regulations, will bear the smallest part of the unemployment increase connected to fiscal contraction. Mainly young workers will have to bear the burden of possibly further increased unemployment. While the recession clearly led to cyclical unemployment, the long-run effect on structural unemployment is ambiguous. On the one hand, there is the danger that cyclical unemployment becomes persistent structural unemployment. On the other hand, the intensified pressure on the labour markets reduces rigidities and eases the labour matching process, which has the potential to curb long-run unemployment.

The decomposition of labour market effects of the economic crisis for certain demographic sub-groups suggests that policy measures should especially focus on younger and lower educated individuals. In the light of a shrinking future labour force, this makes investments in education especially beneficial.

2.3 Impacts of the crisis on migrants, immigration and integration

Although it is still difficult to fully asses the impacts of the crisis on international migration, and on the position of migrants and integration, it can safely be assumed that these impacts have especially been significant for migrants. A recent study from the Organisation for Economic Co-Operation and Development (OECD) illustrates that migrants and especially those with the weakest positions on the labour market, are among the population groups that have been hit hardest by the crisis (OECD 2009, 2009a). Before we turn to a discussion of the various impacts of the crisis, we should realize that empirical evidence especially for international migration is still limited.

Data on international migration are scarce in general….

Empirical evidence on the impacts of the crisis on international migration is scarce. There are several reasons for this paucity of data. First of all accurate data on international migration are hard to come by as such. As compared for instance to fertility and mortality, international migration is the most volatile demographic process which makes it difficult to get a clear and full picture (e.g. Raymer and Willekens 2008). Like the other demographic processes, its determinants are very diverse and also the consequences of international migration are wide ranging. But international migration processes are more difficult to document and definitions tend to differ making international comparisons a hazardous undertaking. The overall scarcity of migration data is also reflected when we wish to assess the impacts of the crisis and subsequent recession. Timing is another reason why data are scarce: it is still too early to document the full story of the impact of the crisis on migration and migrants using statistical information. [this paragraph may need to be moved to a section above]

…. and data on the impact of the crisis are even more hard to come by. But some inferences can be made from past experiences with global economic downturns and recent policy consultations.

While the empirical evidence on the impact of the crisis is scattered if not (still) lacking, any current assessment of the impacts of the crisis will have to be based on a careful combination of information from various sources. For this we can partly turn to the scientific and policy literature on the one hand and to history on the other. A recent literature review (Beets & Willekens 2010) shows that when we listen to what history can tell us about the effects of economic downturns on international migration we need to be careful: these impacts are very complex and hard to predict (see also Castles, 2009; Castles & Miller 2009). The Great Depression of the 1930s, for instance, may have led to a strong decline in international labour migration, but it is hard to separate the impacts of this crisis from the restrictionist migration policies adopted during and after the First World War. More generally they observe that economic recessions and political turbulence create a climate which is conducive to the restriction of international migration. The global Oil Crisis of the 1970s did have major repercussions on international migration, which also partly reflected changing economic realities such as the economic boom in the Gulf region and other oil producing countries which attracted large migration flows from Asia. Also the post oil crisis recession in Europe proved to be an unexpected turning point in international migration, putting a stop to invited (guest worker) migration programs while family reunification and more permanent settlements started (Castles 2009). Despite the very negative impact on migrant employment, the Oil Crisis[4] did not result in large return migration flows of non-European migrants. But migrants from European countries did opt to return home, a process that is also visible in the current crisis (Sward 2009).

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[4] The Asian Financial Crisis of the late 1990s did not turn into a global crisis and was followed by a quick economic recovery.

After many years of continuous increase, labour migration flows substantially declined because of the crisis. But the actual stock of migrants may decline at a much slower pace or, paradoxically, may even grow in some Member States due to overstaying.

The review of literature suggested that especially labour migration would feel the impact of the crisis. A massive drop in global economic growth, job losses and the subsequent rise in unemployment leads to a much smaller demand of foreign labour and a reduction if not a stop to the recruitment of foreign workers (Martin 2009 in Beets & Willekens 2009). The Organisation for Economic Co-operation and Development noted in its most recent (2009) International Migration Outlook that the economic downturn which affected the global economy since mid-2008 has since then turned into a jobs crisis. This resulted in a decline in labour migration to OECD countries after decades of continuous labour migration increase (OECD 2009). The fall in labour migration in almost all OECD countries was especially due to a decline in international recruitment by employers. The OECD notes that also in the European free movement area the decline in labour migration is strong, particularly in the United Kingdom and Ireland where applications for international labour went down by over 50 per cent.

As could already be seen from the literature review (Beets & Willekens 2009) the impact of the crisis on other types of international migration was less clear. In the case of family reunification, which is generally subject to income limits, entries of new migrants may have been delayed by the crisis because of the unemployment of potential sponsors. The OECD notes however that restrictions in labour migration opportunities could result in using the family reunification channel as a way of entry. The impact of the crisis on humanitarian migration (refugees and asylum seekers) is even more difficult to assess but does not seem to be strong although data from Italy suggest that since the crisis the numbers of humanitarian migrants declined (Chio 2010).

Due to the crisis return migration seems to have gained importance in the European Union, where economic conditions in host countries like the United Kingdom and Ireland have deteriorated more than in origin countries like for instance Poland [this is an excellent example and can be exploited further; foreign nationals in IE have gone down a lot while in the UK they stayed high, perhaps even kept increasing with the crisis; this gives an idea of what can happen if the crisis deepens (IE was more hardly hit), although in IE the migrants were also "fresher"] [Also add the story of ES and IT as told by Fernando, this is also an important tell-tale – I can do that if you wish]. Free mobility in the European Union seems to facilitate return migration of EU citizens because of the option to return to the immigration country when conditions have improved. Due to European enlargement and integration an increasing number of migrant workers in EU Member States are citizens from fellow Member States. In Luxembourg this is the case for almost 9 out of 10 migrants. This is exceptionally high but also in other Member States the share of EU citizens among labour migrants who are not subject to (restrictive) immigration rules for third country migrants is substantial.

The OECD signals that most likely one of the consequences of the crisis has been an increase in overstaying. Overstaying occurs when unemployed migrants with temporary work permits cannot renew their permits and accept illegal employment in the informal economy as a strategy to cope with the crisis. This may lead to the paradoxical situation that even while the inflow of migrants may decrease and the outflow due to return migration is low, the actual total stock of migrants, including those in irregular situations, may increase if overstay is significant (OECD 2009)]. Although data on overstaying are not available, several Member States including Italy and Slovakia, reported uninterrupted growth of immigrants (Chio 2010, Cierna 2010).

Due to the crisis migration policies became more restrictive, for instance by putting lower caps and quotas on labour migration.

The OECD also reviewed policies and observed that most OECD countries have implemented policy changes making it more difficult to recruit foreign workers thus reinforcing the current downward trends in labour migration. Usually the numerical limits for labour migration programs were reduced. For instance Spain did reduce its ceiling for non-seasonal workers as did Italy (but also Australia, reducing its quota for permanent migrants, and Korea doing so or temporary foreign workers) introduced restrictive labour migration policies. Other policies, like for instance in the United Kingdom (and also in Canada), do not directly control the volume of entries but make recruitment more difficult. Despite the crisis, some countries refrain from restrictive policies, such as for instance Sweden where a law facilitating labour migration is enacted, which was adopted long before the crisis. In Sweden also the number of residence permits which was granted did not decrease because of the crisis (Segendorf 2010). Data for Italy suggest that after a continuous increase in granted residence permits for migrants from outside the European Union from 1996 onwards, a slowdown and a slight decline occurred since the crisis (Chio 2010).

Also policies are introduced to stimulate return migration of unemployed migrants, like for instance in Spain, but also in the Czech Republic and Japan. The OECD notes that in the past monetary incentives have shown to be insufficient to drive large return migration flows. Also the current crisis did not seem to result in large return migration flows and return migration programs went undersubscribed.

The OECD observed that, to date, no irreversible migration policy changes were introduced as a response to the crisis. In fact countries were advised not to introduce such irreversible changes and to opt for a long term perspective on international, labour migration. More generally the OECD concluded its policy review by stating that trying to “turn off the tap” of labour migration may dry up legal routes and prompt more abuse in the medium term during the recovery phase. According to the OECD international migration flows are likely to rebound when labour demand resumes and good management of labour migration remains a priority where national labour market needs and their implication for international migration should be taken into account. These labour market needs can manifest themselves at all skill levels. And while future labour market needs will be of a long term nature, the OECD states that it is illusory to believe that such needs can be filled through temporary migration with cohorts of migrants cycling in and out of the economy to occupy the same jobs. Any approach towards labour migration should incorporate incentives for both employers and immigrants to follow the rules. Also safeguards to protect immigrant as well as domestic workers need to be included into policies (OECD 2009).

The crisis had a negative impact on the integration of migrants. Migrant workers were among the first to loose their jobs and migrants and their families were among the ones that were hardest hit. Especially lower skilled migrants suffered from the crisis. The crisis spurred the need for good integration policies.

Against the backdrop of the negative impact of the crisis on labour migration and the structural need for labour migration in the future, the OECD observes a marked deterioration of the labour market situation of migrants. Immigrants where among the first to loose their jobs. This impact is more visible in countries where the crisis began earlier (like Ireland, Spain, the United Kingdom and the United States). Unemployment rates of immigrants are souring and not exceptionally are twice as high as for the native born. The high unemployment rates of migrants are partly caused by the fact that migrants are overrepresented in economic sectors that were particularly hard hit by the crisis. Also migrants on average tend to have less secure labour contracts, less seniority and are at greater risk of loosing their job particularly if they lack basic qualifications and skills (see also Papademetriou *et al* 2009).

The integration of immigrant workers in the labour market is one of the most effective and key determinants for their long-term integration in the host society. The worsening of labour market conditions, to which migrants are particularly vulnerable, can thus hamper their integration. As a result a delaying or cutting back on integration measures may have negative long term implications for the integration of migrants and for overall social cohesion (OECD 2009a).

Despite the crisis the future outlook for international migration remains positive. A comprehensive long-term perspective on labour migration is needed to manage labour migration movements which can be positive for both sending and receiving countries.

As a consequence of the ongoing ageing of the population and work force of the European Union, it is to be expected that when the crisis subsides and the economy recovers, Member States will once again look at international migration as one of the options to fill expected labour shortages. While international migration cannot be a solution to population ageing, it can help to mitigate the effects of ongoing demographic changes (e.g. Van Nimwegen & Van der Erf, 2010). For the moment the crisis has created a lull in labour market pressures. It has led to fewer labour migration movements and it has also rolled back most of the progress that was achieved by migrants on the labour market (OECD 2009). But once economic recovery kicks in, higher labour migration flows can be expected to resume. Policies are needed to ensure that migration will be responsive to labour needs, that aim to reduce irregular movements and that encourage better long-term integration of migrants. Most Member States stress the role of language as a necessary tool for the successful integration of migrants Several Member States, like Slovakia (which recently turned from a country of emigration to one of immigration), but also Luxembourg and Cyprus were able to reinforce integration policies. Others like for instance Sweden continued these policies with the understanding that an effective integration policy is key to maximize the positive effects of international migration (e.g. Segendorf, 2010). In this context labour migration regimes which address needs at all skill levels (both high and low) and which are demand driven need to be developed. If managed properly, labour migration can be advantageous for both sending and receiving countries (OECD 2009a).

Does the impact of the crisis on international migration and the integration of migrants make it more difficult to address the demographic challenge?

Summing up the impacts of the crisis on migration and migrants in Europe, the overall assessment of the impacts of the crisis in the area of international migration, seems to be that the crisis had its largest impact on international labour migration. Here the crisis seems to have put a temporary stop to the growth of international migration flows that had been increasing for many years. Once economic recovery sets in it may be assumed that (labour) migration flows will recover as well. The challenge will remain how to make optimal use of future labour migration flows.

Through its impact on the European labour markets the crisis had a very negative effect on the labour market position of migrant workers where migrants with the weakest positions were hit hardest. Years of positive developments in labour market integration were rolled back by the crisis, endangering the long-term integration of migrants.

As to the impact on policies, the crisis did trigger more caution and restrictions in (labour) migration policies. While many restrictive changes were introduced like in previous crises, no irreversible changes in migration policies were observed. It is generally expected that once economic recovery gains momentum, labour migration flows will resume. To take full advantage of this, a long-term perspective on labour migration is needed as well as proper labour migration management policies (OECD 2009). Also from the most recent discussion of responses to the crisis in the Member States[5], the conclusion can be drawn that Member States, while acting prudently in direct response to the crisis, did manage to maintain an open minded, long term perspective on international migration. Abrupt and irreversible changes in migration policy were avoided, while several Member States were able to reinforce integration policies in an effort to be better prepared for the future challenges of the labour market, including the challenges of population ageing.

Although the crisis caused major damage for the integration of migrants, the overall responsiveness of Member States to the demographic challenges that lie ahead, does not seem to have been structurally affected. Sound crisis exit strategies taking the longer term demographic perspective of population ageing and slower population growth into account are needed to repair the inflicted damage and enhance demographic responsiveness.

2.4 Impacts of the crisis on public finances and sustainable social protection

[5] See footnote 1.

The full picture of the impacts of the crisis on public finances is not yet available. But the global financial crisis, which started as a banking crisis, was followed by an unprecedented debt crisis which in its turn threatened to destabilize the entire Euro Area and the public finances of all Member States. The impacts of this turmoil on public finances are very large. The responses of the European Union in the context of the European Stability and Growth Pact were unprecedented. The crisis has caused a deterioration of public finances (European Commission 2010) which already were under a large strain and not sustainable in most Member States also because of population ageing as was already noted by the Commission in its 2006 communication on Europe's demographic future (European Commission 2006). It is useful to distinguish between the short and the long term impacts of the crisis and to keep in mind that it is not entirely possible to separate the impacts that can be attributed to the crisis from more structural factors.

The structural problems in public finances, most notably the deficits in the budgets and increasing debts of Member States, have deteriorated because of the crisis …

In the short run the impacts of the crisis were visible in increased public spending related to crisis relieve packages. At the same time the crisis triggered lower public income due to negative economic growth and sinking tax revenues. As a consequence the public finance situation of the European Union substantially deteriorated. Starting from a relatively strong position in 2007, when government deficits corresponded to 0,8% of GDP in the European Union, these deficits are forecasted to reach 7,5% of GDP in 2010 before beginning to decline. Debt also deteriorated strongly; in 2007 debt in EU27 corresponded to 58.7% of GDP, while in 2010 it is forecast to equal 79.3%. Further increases in debt are expected to reach levels of 83.7% of GDP for EU27 and 88.2% in the Euro zone (European Commission 2010).

Debt levels are expected to increase further. The current increases in debt levels however are not unprecedented; in fact similar increases were experienced by some Member States after the oil crisis of the 1970s and during the 1980s. However, part of these former debts were not (fully) reversed so the current increases in debts start from higher levels (European Commission 2010). In the longer run and under a "no policy change" scenario, debt levels are expected to rise well above 100% of GDP by the year 2015 and could exceed 130% of GDP by 2020. This urges a sustained and very sizeable consolidation to start reversing the increase in government debt (European Commission 2010). In addition to this bleak outlook for public finances in the short run, there are ongoing concerns whether the crisis is really over. Signs of economic recovery are visible but are still weak; economic output is no longer shrinking since the middle of 2009 (European Commission 2010). The Commission considers that careful withdrawal from the fiscal stimulus and other crisis recovery programs is needed in a balanced exit strategy. A failure to address structural budgetary deficits would jeopardize sustainable economic recovery and could also have an impact on the level of (social) services which countries may provide to their citizens.

….and the impact of the crisis on the longer term adds to the challenges that Europe is facing already including population ageing. Strategies to cope with the impacts of the crisis, such as promoting employment and productivity, are also instrumental to cope with population ageing.

High levels of public debt may only be sustainable if they are combined with high levels of economic growth. It is not certain which impact the crisis will have on economic growth levels and on economic growth rates (see for instance Zuleeg, 2010). Zuleeg poses that several scenarios are possible. The most optimistic scenario shows a full recovery of both the level and the rate of economic growth after a relatively short "crisis dip". In this scenario the crisis has a short term impact only. Another scenario envisages a continuing economic growth when the recession is over, though at a structurally lower level. In this scenario the impact of the crisis is more lasting. A final scenario depicts a long term economic stagnation where also the economic growth rate declines and results in a weakening economy, as has been the case in Japan in the last decades of the 20th century. Irrespective of which economic scenario will unfold, it is evident that the crisis has made it more difficult for Member States to deal with the other challenges that Europe is facing like population ageing.

Similar to differences in economic growth and public finances, also large differences exist between Member States in the level of population ageing. One way to show the degree of population ageing is the old age dependency ratio which serves as an indicator of demographic pressure. This indicator gives the share of the older population (age 65 and over) relative to the population of working age (age group 20-64). Another indicator of population ageing is the so-called oldest-old dependency ratio which gives the share of the population aged 75 and over, relative to the working age population. As the need for care increases with age in particular after the age of 75, this indicator can be used to assess care needs.
In Box 1 the regional differences in the development of the oldest-old population is described.

Promoting employment and investing in a more productive work force are feasible strategies to cope with the impacts of the crisis, also in the longer run. (see also paragraph 2.3). Employment and productivity are also key factors to cope with the challenges of population ageing. An example is Austria where concerns about the declining work force due to the combined effect of population ageing and early retirement stimulates the discussion about pension reform, making the pension system more sustainable and considering a link with growing life expectancy (Bauernberger 2010). Also in Hungary (Sashegyi 2010) which experiences its deepest recession since the transition to the market economy, serious concerns about the very low activity rates (an employment rate of 55%) gave rise to consider pension system reforms including an increase in the age of retirement, new pension indexation rules and the striking of the 13th month of pension.

Box 1. Regional variations in the growth of the oldest-old population indicating the increasing pressure of population ageing

One way to measure the degree of population ageing is the old age dependency ratio. In 2008 the vast majority of European regions observed old age dependency ratios between 20 and 35. Higher values were mainly found in Italy, Greece and Germany, while most of the lower values can be found in Poland and Slovakia. (see also chapter xxx (Eurostat). To assess the effect of population ageing on the need for care, the rise in the number of persons aged 75 or over per 100 people aged 20-64 is a good indicator. For Europe, this 'oldest old dependency ratio' is projected to rise from 13 persons aged 75 and over per 100 persons of working age in 2008 to 21 in 2030. Map shows a large regional variation; the number of regions with an oldest-old dependency ratio below 15 (approximately the current average) will decline from 204 in 2008 to 21 in 2030, while the number of regions with a ratio above 20 will rise from 4 to 179. The highest ratios are projected for the German regions Chemnitz (41) and Dresden (38). Other regions with an expected old age dependency ratio above 30 are in Germany, Brandenburg–Nordost, Brandenburg–Südwest, Mecklenburg-Vorpommern, Sachsen-Anhalt and Thüringen, in France, Bourgogne and Limousin, in Italy, Liguria, and in Finland, Itä-Suomi.

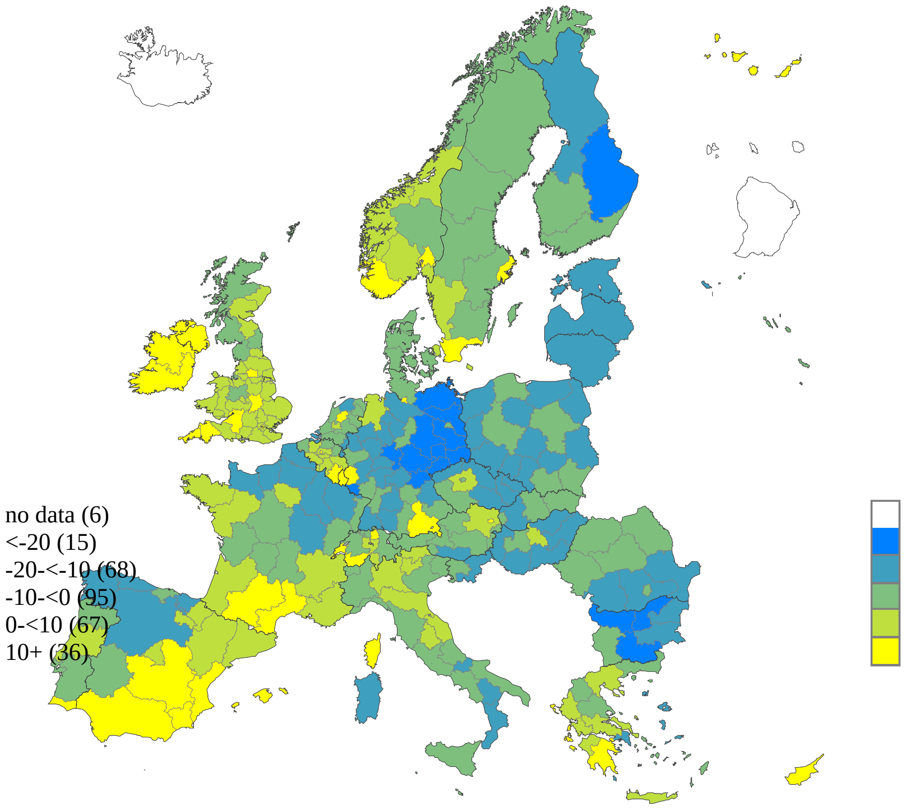
The increasing pressure of population ageing, measured here by the share of the oldest-old in the population, indicates an upward pressure on care needs and care spending and thus an upward pressure on public spending.

A strong and productive workforce will help to achieve the objective of sound public finances and sustainable social protection. Also in this respect population ageing adds a challenge since the working age population in the majority of European regions (see map 1) is set to decline in the near future according to the latest Eurostat projections (EUROPOP2008).

Changes over time in the working age population occur because of the gradual replacement of earlier born cohorts by later ones, through migration and through mortality.

In six European regions a decrease of more than 30 per cent is forecasted for the period 2008-2030 while in ten of the regions the expected growth of the working age population is more than 20 per cent. Overall, a declining potential work force is becoming a reality for most parts of Europe. As a direct impact of the crisis unemployment has increased, but after recovery, and especially in the longer run, the demand for labour will start to grow again. To avoid that a declining potential work force would jeopardize economic growth, more jobs, working longer and higher productivity are options to make better use of the existing work force.

Map 1 Growth of the working age population (20-64) between 2008 and 2030, NUTS2 regions

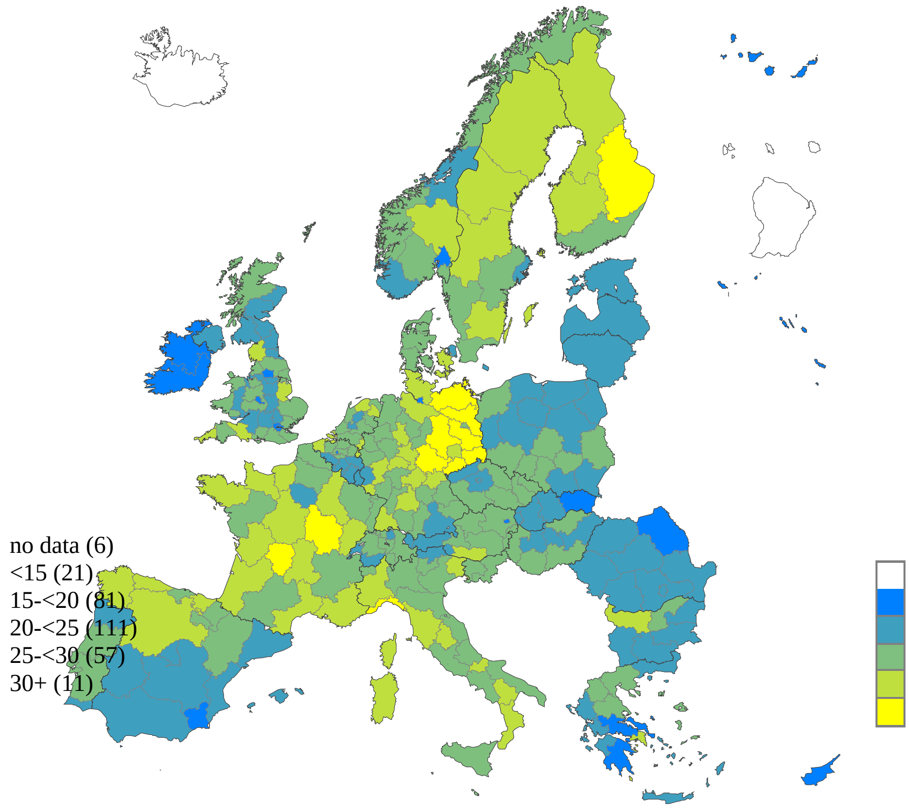


Source: EUROSTAT; calculations by NIDI.

The challenges of population ageing do not stop at retirement. Does the crisis have an impact on the older population? Promoting healthy and active ageing can help curb public expenditures. Making use of the human capital of the older population can contribute to sustainable public finances.

Due to population ageing the demand for social services increases. As such, population ageing exerts an upward pressure on public (health and care) expenditure. This upward pressure needs however to be qualified. The older population is not homogeneous, in fact it is very diverse. Moreover the older population is not only the recipient of care, but to a large measure also a provider of care. Older people today can expect to live longer and healthier than ever before. In older age at least three stages can be distinguished (see for instance Perrig-Chielo & Höpflinger 2009).

Map 2 Population 75+ per 100 population 20-64, NUTS2 regions, 1 January 2031



Source: EUROSTAT; calculations by NIDI.

The first stage is the phase of *healthy ageing*, also known as “the third age”. Here, more often than not[6], both men and women profit from good health in a relatively secure financial and economic position and enjoy the benefits of the social security system. Some are active in voluntary work, others may pursue hobbies or are engaged in educational activities, while still others may be active on the labour market, while all may be involved in caring for relatives including grandchildren. This phase of healthy ageing is strongly influenced by socio-economic factors. Policies to promote active ageing, including policies that promote intergenerational support, may very well be instrumental to prolong this healthy ageing life span. An extension of the phase of healthy ageing is expected to have a positive impact on public finance by postponing (not avoiding) care expenditure. Informal care provided by family members and social networks may help curb public care expenditure. Making better use of the existing human capital of the older population may well pay off.

After the phase of healthy ageing, the stage of *frailty* sets in, also referred to as the fourth age, starting usually around the age of 75-80. Dependency gradually grows and age-related health problems and disabilities increase as does vulnerability. Part of the increasing care needs may still be taken up by informal care, also in this phase of life.

[6] The position of elderly citizens varies widely throughout the European Union; the phases in the life course of the elderly are presented in a stylized form.

Policies which support the provision of informal care and reinforce intergenerational support may continue to help curb public spending. In the final stage of ageing the *dependence* on family and/or professional care becomes very strong. Again the onset and duration of this last phase of life is strongly influenced by social and economic factors.

The impacts of the crisis on public finances will be felt by all generations, including older Europeans. Vulnerable groups are especially at risk when measures to restore sound public finances are introduced.

In the aftermath of the crisis, in crisis exit strategies as well as in more structural attempts to cope with the long term impacts of the crisis, cutbacks in public spending could be implemented by Member States in an attempt to restore sound and sustainable public finances. Also public expenditures that are related to the elderly may be affected by these measures. It is to be expected that all generations will feel the impacts of the crisis[7]. Parent (2010) noted the readiness of the elderly population to do their share in coping with the crisis and observed that the needs of the ageing European population need to be taken into account. These needs are diverse and dynamic and change with age. Especially to protect the most vulnerable among the elderly, the impacts of policies on the wellbeing of older Europeans should be carefully monitored. From the perspective of intergenerational equity, the same would hold for other vulnerable groups. In this regard Morrin (2010) noted that for instance in Ireland, which was hit particularly heavily by the crisis, there is a fear for a “lost generation”. Through unemployment, reduction of income, expected tax increases, and a reduction in social insurance and services, the young population is expected to carry the main burden of the crisis. Active social inclusion policies including income support, debt relief, access to the labour market and access to (housing) services are under pressure but implemented.

To structurally address the issue of public finances in theory two alternatives are open (c.f. Zuleeg 2010). One choice is to create conditions for sustainable growth with a lean and more efficient public sector and sustainable public finances. The alternative is to face a continuing deterioration of public finances with persistent public finance imbalances, economic stagnation and subsequently fewer possibilities for policy intervention. The second alternative is clearly not sustainable. An important question with respect to public finances and sustainable social protection will be if the European “social contract” will hold under the pressures that are exerted by the crisis. Under this “contract” mutual support is provided between generations through intergenerational solidarity.

While Europe’s public funding is under severe strain as a result of the crisis and all generations are affected, population ageing adds to the budget strains. Intergenerational solidarity can help to share the burden and make it more bearable.

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[7] It is generally believed that public transfers in industrial countries benefit the elderly through pension and health care programs at the expense of the young and future generations. If public education is also considered as a transfer program this picture changes fundamentally. A recent study for the United States showed that all generations born since 1950 are net gainers, while many current elderly are net losers (BOMMIER ET AL 2010).

In the case of the labour market, the crisis has hit the most vulnerable groups hardest and policies are devised to protect these vulnerable groups such as women, the young, the lower skilled and migrants. Also with respect to care, protecting the most vulnerable age groups, like the oldest-old, is needed. Through the excessively heavy strains that the crisis has put on the public finances of Member States, the ability of Member States to respond to the challenges of population ageing have certainly diminished. Experiences in several Member States make it clear that policies do have a role to play in coping with the crisis and in addressing the challenges of unbalanced public finances. The successful implementation of these policies will also help to restore or maintain the ability of Member States to respond to the demographic challenge. There are large differences in the risks that confront Member States; countries with large deficits and high ageing costs face the largest risks and the most urgency to address sustainability (European Commission 2010). Member States have the comparative advantage to engage in joint political action. Firm policies, close collaboration and joint action are urgently needed also to close the gap between public income and expenditure as soon as possible.

3 The crisis and policy responses: the case of family policies

Family policies are a good indicator to assess the impact of the crisis on the readiness of Member States to cope with demographic challenges ….

When studying the impacts of the crisis on demographic trends and the way that member States are trying to cope with ongoing demographic challenges, the domain of family policies is a very useful laboratory. Indeed as we stated before, the impact of the crisis on demographic trends in fertility, family formation, mortality and migration may not be immediately noticeable. It takes time before possible changes in demographic behaviour are reflected in statistical indicators and become visible. More importantly, however, it must be noted that it also takes time before the crisis hits families; there is a time lag between financial market breakdowns and the impacts on family income as was also reported in paragraph 2.1. And finally it also takes time before families have devised adequate response strategies. Demographic behaviour involves key life events and demographic decisions tend to have longer lasting and far reaching consequences. Thus, demographic decisions usually are not taken lightly as is widely demonstrated in the scientific literature. The impact of the crisis then may not be very directly visible through demographic indicators. Changes in policy, however, may come about more quickly than changes in demographic trends. The larger degree of "policy volatility" could especially be expected when the crisis hits hard and crisis management and coping mechanisms delve deeply into government spending. A critical review of current and planned policies is "standard operating procedure" in the context of a crisis. It follows that if our perspective is to assess the readiness of Member States to cope with demographic challenges, the domain of family policies is excellently suited. For this reason the Commission undertook to gain better understanding of the impacts of the crisis through various means[8].

[8] On 26 November 2009 a meeting was convened of the Network of Experts on Family Policies for a first exchange of information. This meeting was followed up by a DG EMPL questionnaire which asked the

Family policy measures that were included in the assessment were:

- Child/family cash benefits (allowances) and tax relief measures for families with children;
- Maternity and parental leave policies (including pregnancy benefits, maternity and paternity leave policies, and parental and childcare leave policies);
- Childcare policies (including the provision of childcare and related subsidies for daycare, kindergarten, pre- and after school care, and early childhood education);
- Housing benefits for families with children;
- Support for families with caring responsibilities towards the elderly or other dependents;
- Other policies or services for families with children (cf. Gauthier 2010).

This definition captures a wide range of policy measures which are relevant for families with children and dependents. It does not cover other policies which may affect families, like employment or social assistance policies. This means that responses in these domains were not considered in this family policy assessment (but these were taken into account in the present chapter).

…. and while reactions of Member States varied, also because of different budgetary conditions, some countries were able to continue scheduled policy changes during the crisis, while others were much more limited in their responsiveness.

As was to be expected the responses of governments to the crisis were affected both by the timing and the severity of the crisis, and by the budgetary conditions of the country. Here it should be remembered that the European Union as a whole went into a deep recession in the 3rd quarter of 2008. This had an impact on all Member States. Nevertheless, and as measured by GDP growth rates, some countries were more affected than others: the crisis hit especially hard in Estonia, Hungary, Latvia, and Lithuania. If negative growth continues for a longer period of time and especially when this is exacerbated by rapidly deteriorating budgets, family support is at risk on two counts. On the hand the need for support by families (the demand side of family measures) increases. On the other hand the ability of governments to respond to this need (the supply side) diminishes. Hungary presents a clear case where the crisis did hit when a restructuring of government expenditure was in full swing and support for family policy already dwindled. This example also illustrates that it is not always possible to single out the impacts of the crisis from other impacts. Notwithstanding, the Commission's assessment established that from the onset of the crisis in the 3rd quarter of 2008 all Member States implemented structural changes in their family policy mix.

Despite the crisis structural and lasting changes in family policies that increased the overall level of family support were introduced in most Member States ….

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national experts to report on changes in their country's family policy since October 2008. See also Gauthier 2010, The impact of the economic crisis on family policies in the European Union on which material this paragraph is based.

Quite surprisingly the inventory showed that despite the economic crisis nearly all Member States were able to expand the structural level of support for families.

Table 3.1 presents an overview of structural changes in family policies that were implemented and/or considered after the onset of the crisis.

Table 3.1 Structural changes that increased the level of support for families. Situation as of February 2010

Austria	New tax-free allowances for children of 200 Euro per child per year (as of 2009) New tax credit for childcare costs (as of 1.1. 2009) Extended provision for free child care services (Sept 2009) The last year of kindergarten before entering elementary school became compulsory and free of charge (Sept 2010) Increases in heating cost allowances in many states (Länder) Extensions to the childcare allowance schemes (as of 1.1.2010)
Belgium	Increase in budget for childcare services to respond to ongoing shortages
Bulgaria[1]	Increase in family benefits for the year 2009 Various new family allowances and social assistance schemes (as of 1.1.2009) Increase in the duration of childcare leave from 315 days to 410 days for each child (as of 2.1.2009) New legislation on paternity leave aimed at increasing the presence of the father in the first days after childbirth (as of 2.1.2009) New right of the father to paternity leave from the 6th to the 12th month of the child Amendment to the national programme "In support of Motherhood" to include retired people as babysitters
Cyprus	Increase in child benefits (as part of regular increases) (as of 1.1.2009) New housing loan scheme targeted at low income families (for the period 2009-13)
Czech Republic	Pro-family package (part of it implemented, part of it submitted for consideration)
Estonia	Additional tax deductions for families with 2 and more children
Finland	Child benefit for the third and subsequent children was increased (as of 1.1.2009) Child benefit will be index-linked in 2011. Private day care allowance was increased (as of 1.1.2009) Minimum allowance during maternity, paternity and parental leave was increased (as of 1.1.2009; it will be index-linked in 2011) Child home care allowance was increased (as of 1.1.2009) and will be index-linked (in 2011) Partial child home care allowance will be increased (as of 1.1.2010) Entrepreneurs will be entitled to partial home care allowance (as of 1.1.2010) The 'Father's month' will be lengthened by two weeks (as of 1.1.2010) Maintenance allowance was increased (as of 1.1.2009)

Germany	One-off payment of 100 euro at the beginning of the school year for recipients of child allowances (as of 1.8. 2009) Changes to the child benefit rates to make them more closely related to the number of children (as of 1.1. 2009) Changes to the parental leave benefits (uniform minimum period of two months) (as of 24 January 2009) Extension of the parental leave for grandparents (in cases the parents are minors or in school) (as of 24.1. 2009)
Greece	Allowance for large families is extended to families with 3 children until the third child reaches the age of 23 (in 2008) Additional period of leave for mothers employed in the private sector (as of October 2008) New 'Reconciliation of family and professional life' action plan (mainly in the area of childcare provision) (2007-2013)
Hungary	Extension of the kindergarten and crèches network
Ireland	Introduction of the Nursing Home Support Scheme (October 2009) Increase in the minimum rate of maternity benefits (of 8.50 euro per week) (as of 1.1.2009)
Italy	Additional resources to promote home-based care services for early childhood and new pilot project to create new nurseries in public administrations New plan to help low-income families and young people pay their rent (July 2009)
Latvia	Introduction of free school meals for all pupils in the first grade (as of 1.9. 2008)
Malta	New tax exemption for mothers who return to work after the birth of their child Various measures to increase the quality of childcare services (2008) Increase in the energy benefits to help more low income families with the cost of housing utilities (in response to increase in oil prices) New measures to help first time home-buyers (Nov 2008)
Netherlands	Increase support to help parents pay for pre-school education (as of 1.8. 2009) Extension of the duration of parental leave from 13 to 26 weeks (as of 1.1. 2009) Increase in budget given to municipalities to help reduce child poverty (2008-9)
Poland	Increase in family benefits for the youngest child (as of 1.11. 2009) Increase in the nursery allowance Increase in the budget for the school lunch program (2009) "Family Package" signed into law. Extensive improvements in family support policies (as of 6.12. 2008)
Romania	Increase in the amount of allowances for families (including for lone-parents) New law on education and childcare services (aimed at diversifying childcare services and raise their quality) New benefits to help families with the cost of heating (Oct 2009) Various changes to parental leave and childcare benefit (including the introduction of a pay-related benefit instead of a flat-rate one)
Slovakia	New benefit with the minimum income protection scheme for children attending school (in 2009) Free kindergarten for households receiving minimum income protection benefits (2008) Changes to the parental leave scheme (including two levels of benefits based on work history) (as of Sept 2009)

Slovenia	Increase in the amount of child allowance (part of regular increases) (as of 1.7.2009) Free preschool education for the second and subsequent children (as of 1.8.2009) Free meals at the secondary education level (as of 9.5.2008)
Sweden	Increase in the educational content of preschool and universal preschool for 3-year olds (as of 1.7.2010) New childcare voucher system (as of July 2009) Increase number of days with benefit for care of closely related persons (as of 1.1. 2010) Extended right to temporary parental benefit to persons other than a child's parent (as of 1.1.2010)
UK	New Health in Pregnancy Grant (as of April 2009) Increase in the statutory rate for maternity, paternity and adoption (as of 5.4. 2009) (part of regular annual increase)

Note: 1- (2) In the case of Bulgaria, there was no information as to the measures introduced were structural ones or in response to the economic crisis. We assumed that they were structural.
Source: Gauthier 2010

Only two Member States (Hungary and The Netherlands) reported changes which reduced the level of family support. In Hungary a shorter duration of parental leaves however was compensated by expanding kindergarten and crèches facilities. In the Netherlands the costs for parents of pre- and after school care and home-based care increased as a result of lower subsidies.

Most Member States thus continued to increase the levels of family support immediately after the crisis set in. Whether or not these changes were larger or smaller than in previous years is unknown. Also the financial impact of these changes on the overall budgets for family policies is not known. It follows that the impact of the crisis on family policies is still hard to assess. But nevertheless the conclusion seems to be warranted that, in the immediate wake of the crisis, Member States managed to keep up the support for families at least *to the extent that this support was provided through family policies*. Other policy responses to the crisis may well have increased the burden on families. Data from the Social Protection Committee (2009) show that most policy responses to the crisis where in other parts of social policy, notably employment and employment benefits policies. These responses may well have had an (indirect) impact on the support for families.

…. but also temporary measures in direct response to the crisis were taken. Relatively few Member States were able to increase direct support to families in response to the crisis. Some could not avoid to decrease the support to families.

Member States that did introduce positive changes in family policies as a response to the crisis, did so in the form of temporary measures. Most used were cash benefits, measures related to the cost of childcare and housing subsidies. Usually this support amounted to relatively small amounts per family, but reaching many families. Table 3.2 provides an overview of positive crisis response measures in the field of family policy.

Table 3.2 Measures in response to the economic crisis and which increased the level of support for families

Cyprus	Increased funding to child care services as part of the Government Strategic Action Plan (Feb 2009)
Czech Republic	Increase in the amount of child allowance and extended eligibility (temporary measure valid from July to December 2009)
France	Reduction in income taxes for low-income families (benefiting about 4 millions of households) One-time cash benefits of 150 euro for low-income families and families with a modest income and a school-age child Service voucher of 200 euro (including for families with a disabled child and/or children below the age of 3) (June- Oct 2009)
Germany	One-off payment of 100 euro for each child entitled to child benefit (2009)
Hungary	One-off cash benefit for low income families facing a crisis (temporary measure for August 2009 equal to about 80-200% of the minimum pension).
Ireland	Free pre-school year of Early Childhood Care and Education (permanent, starting January 2010) (replaced the Early Childcare Supplement which was abolished at the end of 2009)
Italy	Lump-sum bonus for low income families (between 200 and 1000 euro) (in 2009) Increased family allowances (in 2008) Social card worth 40 euro per month for low income families with children up to the age of 3 (for the purchase of household goods) (Dec 2008) Lump-sum bonus for powdered milk and diapers (in 2009) Trust Fund for newborns to facilitate access to credit (in 2009) New tax relief of 19% of kindergarten expenses (2008) Reduction in the cost of natural gas and electricity for low-income families (60 to 135 euro per year) (as of 1.1.2009)
Lithuania	Benefits for children under age of 3 were extended to cover all children of this age irrespective of family incomes
Luxembourg[1]	New 'service voucher' for children aged 0-12 years
Poland	Temporary mortgage payment relief for home/apartment owners who have lost their job due to the crisis and are eligible for unemployment benefit
Romania	‘First house’ measure to facilitate the easier access of people to buy a house (June 2009)
Slovenia	New housing loan (including for young families) (2010)
UK	Indexation of the child element of the Child Tax Credit to help families affected by the recession (temporary) (about 175 pounds increase per year) Increase in child benefit (earlier than scheduled) (about 24 pounds per week for a two-child family) (Jan 2009) Increase in the Social Fund budget to help vulnerable people (temporary increase for two years) Introduction of Stamp Duty Holiday to stimulate house purchase (temporary) (Sept 2008) Support for Mortgage Interest (SMI) which assists homeowners with the interest on their mortgage (temporary) (Sept 2008) Funding package for third section organizations supporting families (temporary till March 2010)

Source: Gauthier 2010.

As was stated before, budgetary constraints forced some Member States to reduce the support to families in the face of the crisis. Table 3.3 gives a summary, where it should be noted that the list is strictly limited to cut backs in the field of family policy. Crisis cutbacks in other sectors of social policy are not included in this overview.

As was the case with the positive measures, most of the crisis-related negative measures tend to be of a temporary nature. Nevertheless the measures affected many families. Needing to respond to the crisis, no less than eight Member States reduced their levels of family support, among which the countries that seem to have been affected most (Estonia, Hungary, Latvia and Lithuania). Regarding cutbacks in cash benefits for families, governments opted for reducing the *duration* of payments, reducing the actual *amount* of benefits, making the benefits *taxable*, and reducing tax *reliefs* for children. Also cash benefits for maternity and parental leave were affected by the crisis in some Member States, while occasionally also cuts in childcare provision and early education were implemented (Finland). Hungary and Ireland reduced housing subsidies.

The overall impact of the crisis on family polices is difficult to establish. Structural measures to reconcile work and family seem to have been maintained if not expanded. Crisis response policies mainly concerned cash transfers to families: sometimes the balance was positive, sometimes it was not.

Member States reported a wide variety of responses to the economic crisis in the field of family policies. And although it is difficult to assess the full impact of the crisis on family policies, two types of policy responses can be distinguished:

- Most Member States were able to continue their structural family policies in the area of maternity and parental leave as well as in the field of childcare. This policy choice seems to reflect a continuous commitment of Member States to keep working towards a reconciliation of work and family responsibilities. If Member States are able to maintain this strategy this may enhance their capability to keep addressing the demographic challenges that are confronting Europe as a better work-family balance is seen as a crucial element of promoting demographic renewal and employment (European Commission 2006)
- Most of the policy responses that were introduced in a direct reaction to the crisis were temporary measures. These “emergency” policies mostly concerned cash transfers to families where some Member States were able to increase the level of support to families while other Member States saw no other option than to reduce the level of cash benefits. Also housing benefits and housing subsidies for families were important parts of the crisis response package. It should be noted that, when temporary emergency measures will be phased out in the framework of an overall “crisis exit strategy”, this may have a further impact on families.

The crisis had a mixed impact on the family policies of Member States. Depending on the severity of the crisis and the budgetary conditions of the Member States, a host of measures were taken. Some measures were of a structural nature while others had a

Table 3.3 'Negative' measures introduced in response to the crisis (i.e. measures that reduced the level of support for families)

Czech Republic	Reduction in the maternity allowance from 70% to 60% of salary (temporary measure from January to December 2010) No increase in parental allowance since Oct 2008
Estonia	Permanent: Termination of income tax relief for the first child (continues for families with 2 and more children) Termination of compensation of study loans for new applicants who have children under the age of 5 Termination of the annual school allowance Suspension of childcare allowance while in receipt of maternity, adoption or parental benefit Reduction of care benefits for children under the age of 12 (from 100% to 80% of the salary) Temporary: The program 'A day care place for every child' (providing additional contribution towards childcare provision from the central budget) was put on hold Suspension, until the end of 2012, of the paternity leave benefit.
Finland	Reduction in the local authorities' budget for daycare services Local authorities changed the regulations for municipal extras to child home care allowance to reduce demand of services
Hungary	The amount of the universal family allowances will not be increased in 2009 and 20101 Reduction to the home creation support programme for young families (decision of the Constitutional Court of 17/12/2009)
Ireland	Lowering of the eligibility to child benefit from 19 years to 18 (permanent measure) Various reductions in the supplementary rent allowance and related contributions (as of 1.6.2009)
Latvia	Reduction in the amount of family state benefit for the second or subsequent child (temporary) (2009-2012) Reduction in the duration of payment of family state benefit (age restrictions) (temporary) (May 2010) Family state benefits and parents' benefits will now be taxable (temporary until January 20112) Reduction in tax relief for dependents (temporary) (as of 1.1.2010) Reduction in the maternity leave benefits from 100% to 80% of salary (temporary) (Pending, scheduled to start Nov 2010) Decrease in the number of people eligible to parents' benefits (2009-2012) Introduction of limitations in the amount of maternity, paternal, and parents' benefits (pending) (Nov 2010)
Lithuania	Maternity leave benefits (currently very generous) will be reduced as of July 2010: a parent on a parental leave of a child under 1 year old will be compensated 90% and a parent of a child under 2 years will receive 75% of her/his salary
Netherlands	Decision not to increase the child-related budget and the family allowance (as of 1.1. 2009) Decision to lower the maximum income of families eligible for the child-related budget (as of 1.1. 2009)

Source: Gauthier 2010.

temporary character. Some of these measures resulted in an expansion of the support to families, while others leading to a contraction of this support. Data on the total expenditure on family policies are needed to estimate the net impact of the crisis on family policies. In this respect it should also be taken into account that the impact of the crisis on families will not be limited to the short term, but will have long term effects as well.

Current data do not allow to establish the overall impact of the crisis on family policies, nor its impact on families. As to the latter it should be kept in mind that policy measures and impacts outside the domain of family policies, such as on the labour market, may have a very large impact on the situation of families. To fully grasp both the short term and the longer term consequences of the crisis for families, policy changes and their impacts on families should be closely monitored.

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