

## Ageing Populations in the OECD

Almost all countries in the OECD (Organisation for Economic Co-operation and Development) have a rapidly ageing population due to an increasing life expectancy and declining fertility rates. Fertility rate is the number of births per woman, and it is a key statistic at the heart of the problem. A fertility rate of 2.1 is the so-called replacement rate: if the fertility rate is below this, it means that the population will shrink over time. Currently the only OECD country with a fertility rate above 2.1 is Israel with a rate of 3. The second is Czechia with a rate of 1.81. Fertility rates have been declining in most OECD countries for decades, and unless the trend is reversed soon, this will have devastating consequences for both states and for individuals.

Falling birth rates have been accompanied by a rise in life expectancy in most countries. Most people would agree that this is a good thing at the individual level, however it puts an increased strain on the healthcare- and pension systems. One pillar of the latter is often the state, funded by taxpayers. However a shrinking working population due to a lack of young people leads to lower tax revenues and exacerbates the pressure on public pensions. There are several approaches to resolving this problem: increase taxes, increase the retirement age, provide incentives to people to work longer - not necessarily the most popular ideas with any part of an electorate. The real solution (simpler, at least in theory) would be to increase the working population. There are two main channels for this: immigration or increased birth rates.

An increase in immigration provides near immediate relief to the economy, boosting GDP and alleviating labour shortages, especially in low- and medium-skilled jobs. Countries that have enjoyed the benefits of this are for example Canada and Spain. However, even beyond concerns about security and integration, it is not clear that this is a long-term solution. Immigrants increase GDP, but do not necessarily increase GDP per capita. They have more children in general, increasing fertility rates, however this effect is temporary and in a couple generations they regress to the mean of the host country. Immigrants can also have a negative effect on a mostly unrelated problem: a tight housing market in cities due to urbanization. This is important to note not only because it can contribute to anti-immigrant sentiment among the locals, but increased housing costs contribute significantly to people's decision to have fewer children.

Continuing along this train of thought it is no surprise that countries that opt for "pro-natalist" or family policies to combat the problem of ageing often do so by offering housing support for families (e.g. by offering generous loans). Other policies include tax exemptions, child benefit schemes, extended parental leave, discounts on public transport, etc. While these policies might sound good on paper, so far they have shown only limited success (e.g. halting the decrease in fertility rates but not increasing it, as in the case of South Korea or reversing the decreasing trend but nearly enough to reach a rate of 2.1 as in Hungary).

At risk of inciting battles in the 'culture war', it is worth mentioning that while "family policy" is often a disguise for "anti-woke" policy, the impact of a society's values and its attitudes towards reproductive rights on birth rates is likely not insignificant, as evidenced by Israel's astronomically high fertility rates compared to the rest of the OECD.