

## **Population and Living Standards**

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D.E. Baines, N. Cummins, M.S. Schulze

## Introduction

The six or so decades since the end of the Second World War saw an unprecedented increase in the average European's material standard of living. Most conventional measures of welfare point to rapid advance: Europeans are now enjoying incomes that are, on average and in real terms, about 3 to 5 times as high as in 1950; those born now can expect to live about 10 years longer than the generation born in the early 1950s, and access to secondary and tertiary education is far wider than it was sixty years ago.

The now widely-used Human Development Index (HDI) seeks to capture changes in the quality of life as a weighted composite measure of per capita income (GDP), longevity and years of formal education cum literacy. A bounded, relative index of development, the HDI is useful as a convenient means to document *some* of the comparative quantitative dimensions of welfare change in Europe. Table 2 below reports HDI scores for 19 European countries (see Section 2). Leaving aside, for the moment, changes in country rankings, regional variations and the behaviour of the underlying series, the big message here is clear: in HDI terms just as much as in terms of per capita GDP, Europeans are now much better off than they were in 1950 and variance in HDI across European countries is now only half the level it was then.

However, the HDI is certainly a less than perfect measure of broadly conceived living standards. It ignores the extent to which human rights, civil liberty and political freedom are protected. It makes no allowance for how income and wealth are distributed among members of society or for the extent of unemployment. It incorporates longevity, but not the health status of the population. Most tellingly, perhaps, it does not inform us on what could be reasoned to be a fair expression of human well-being – happiness. Richard Layard's recent work (2003) has shown that the happiness of the population in the Western world has not increased, despite rapid growth in material living standards. Hence the limitations of the HDI as a measure of welfare ought to be kept in mind when interpreting the evidence presented in the following.

The changes in living standards across Europe since the end of the Second World War have been shaped by changes in incomes, demographics and the institutional settings of 'welfare delivery'. The chapter starts by sketching out the Europe-wide rise of the public sector. In the west of the Continent this took the form of growing public provision of welfare services within market economies, i.e. the rise of welfare states. In the east and up to the late 1980s, welfare delivery occurred within centrally planned economies. The second section offers a comparative quantitative examination of changes in key welfare measures and the relationships between them. This involves

a regional analysis of HDIs and their component series. The final section explores the causes and economic consequences of demographic change (including migration).

## **1. The role of the state**

### **Welfare expenditure**

The origins of public involvement in the provision of welfare services reach back into the late 18<sup>th</sup> century. Initially this meant no more than ‘poor relief’ and, to a very limited extent, also some provision for education. The introduction of basic social insurance schemes to cover industrial accidents, sickness, unemployment and old age pensions for manual workers started in the late nineteenth century. By the inter-war period most European countries had adopted some form or all of such measures. However, after 1945 public welfare provision changed in both its quantitative and qualitative dimensions (Johnson, 1999: 122-123; Lindert, 2004: 11-15). In most European societies, coverage across economic sectors, the labour force and the population at large became almost universal. The objectives of public welfare provision were expanded beyond limited alleviation of hardship towards comprehensive social protection, encompassing, for instance, unemployment and invalidity benefits, income support for those on low or no incomes at all, the provision of pensions via public agencies and free access to health care. The outcome was a long-term increase in the absolute level of social expenditure and its share in national product in practically every (West) European country (see Figures 1 and 2 below). This holds irrespective of the significant differences in the accounting conventions used by national and international agencies and the respective changes over time which so complicate the production of reasonably consistent comparative data. A detailed treatment of the deeper causes of the modern ‘welfare state’s’ rapid advance after 1945 as reflected in the growth of ‘social’ expenditure is beyond the scope of this chapter. It ought to be emphasized, though, that it was the rise in tax-based social spending that accounted for most of the growth in post-war total government spending and taxation, not, for example, national defence, public transport or public enterprises (Lindert, 2004: 20). This shift in the composition of public expenditure reflects the shift in the role of the modern state beyond its traditional function as guarantor of the physical security of the citizens and their property rights towards that of provider of far more broadly conceived economic and social protection. In the literature this process has been linked to three ‘other great social transformations: the transition to fuller democracy, the demographic transition toward fewer births and longer life, and the onset of sustained economic growth’ (Lindert, 2004: 20). The two latter issues, i.e. the effects of demographic change and economic growth, will be dealt with in the following sections. Here it is important to note the fundamental change in the societal and political context within which welfare delivery occurred after the Second World War as compared to earlier periods. Following Johnson (1999: 123), two

broad explanations can be identified among the many on offer that speak directly to the hypothesis of political change and ‘democratization’ as necessitating and engendering the expansion of public welfare spending in Western Europe. Milward (1992) views both the rise in social spending and the inclusion of previously excluded social groups as a key component in post-war policies to re-establish the nation state and re-legitimize it in the eyes of the citizenry. Baldwin (1990) maintains that the creation of extensive post-war welfare systems was to a large extent an outcome of governments’ attempts to fashion supportive electoral alliances among groups faced with similar exposure to social risks and similar needs of public support.

However, whilst there are strong common threads running through welfare policies across Europe, one should not lose sight of the fact that the specifics of welfare delivery within countries, its mechanisms, means, aims, objectives and outcomes, were shaped by historical contingency as much as by deliberate political choices. The European Commission suggested that EU member countries in the early 1990s clustered into four distinct groups, sharing similar traditions and institutional characteristics of social protection (European Commission, 1995: 33-34). The first group includes the Scandinavian countries. Here social protection is a citizen’s right and coverage is universal. The system is centrally administered and general taxation provides the main source of finance of social protection, augmented by additional occupational schemes for the gainfully employed. The second group comprise the United Kingdom and Ireland where coverage of social protection is either universal or almost so. Whilst administration is also centralized, benefits are more modest than in Scandinavia and means-testing of eligibility is more widespread. Health care is funded through general taxation, but social insurance contributions from both workers and employers play a major role in financing much of the remainder of social expenditure. The third group of countries is made up of Austria, the Benelux countries, Germany and France. Here the emphasis is on a ‘Bismarckian’-type coverage through employment and family status rather than citizenship offering entitlements. The insurance principle underlies the determination of earnings-related benefits and often different regulations apply to different occupational groups. The system rests heavily on contributions from employers and employees, augmented by (tax-financed) social assistance schemes for those falling through the gaps in work-related social protection. The fourth group comprises the Southern countries of Greece, Italy, Portugal and Spain. Here we find a mixture of fragmented ‘Bismarckian’ income maintenance schemes and separate social assistance for the uninsured. Benefit levels tend to be markedly lower than in the third group of countries and gaps in coverage are greater than elsewhere in the EU.

In Central and Eastern Europe and up until the fall of communism in 1989/90, social protection evolved under fundamentally different political, economic and social conditions (Berend, ???; Eichengreen, 2007). For most of the period under review, this makes East-West comparisons of

social provision based on broad expenditure data practically impossible. Such comparisons are already problematic when looking only at the West European experience since definitions of ‘social expenditure’ change over time and vary between countries and the different international bodies charged with collecting comparative statistical material on the issue. Figures 1 and 2 should, therefore, be read with some caution: the definitions of social expenditure used in the Flora data set for 1947-1982 are slightly different from those that apply to the OECD data for 1980-2003. However, both data sets broadly correspond with Lindert’s (2004:6-7) delineation of social transfers as consisting of tax-based government spending, including basic material assistance to the poor, unemployment compensation, public (non-contributory) pensions, public health expenditures and housing subsidies. What is of interest here is, first, the significant rise in social expenditure across virtually all Western European societies up to the early 1980s, notwithstanding differences between countries in the relative levels of resources devoted to social protection (Figure 1). Starting from a range between about 7 to 15 per cent of GDP, social expenditure rose to between 20 to 42 per cent in 1980. To some extent, this is the outcome of post-war economic growth. As real per capita incomes grew rapidly (see Figure 4 below) and basic necessities had become readily accessible to consumers, demand for goods with an income elasticity over 1 increased. Social protection, e.g. better health care or provision for old-age, falls into this category: during the *Golden Age* all West European countries had social expenditure elasticities greater than unity which means that for every one per cent rise in GDP, social expenditure increased by more than one per cent.

Figure 1: Social Expenditure as Percentage of GDP, 1947-1982 (Flora)

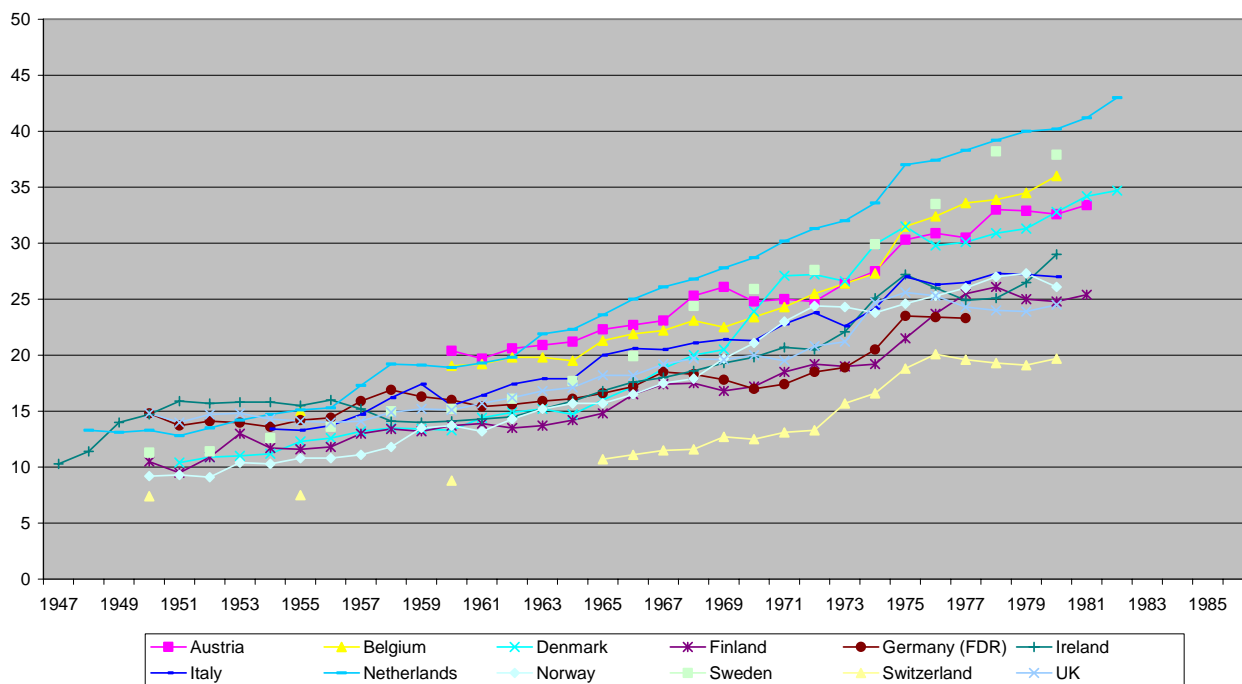
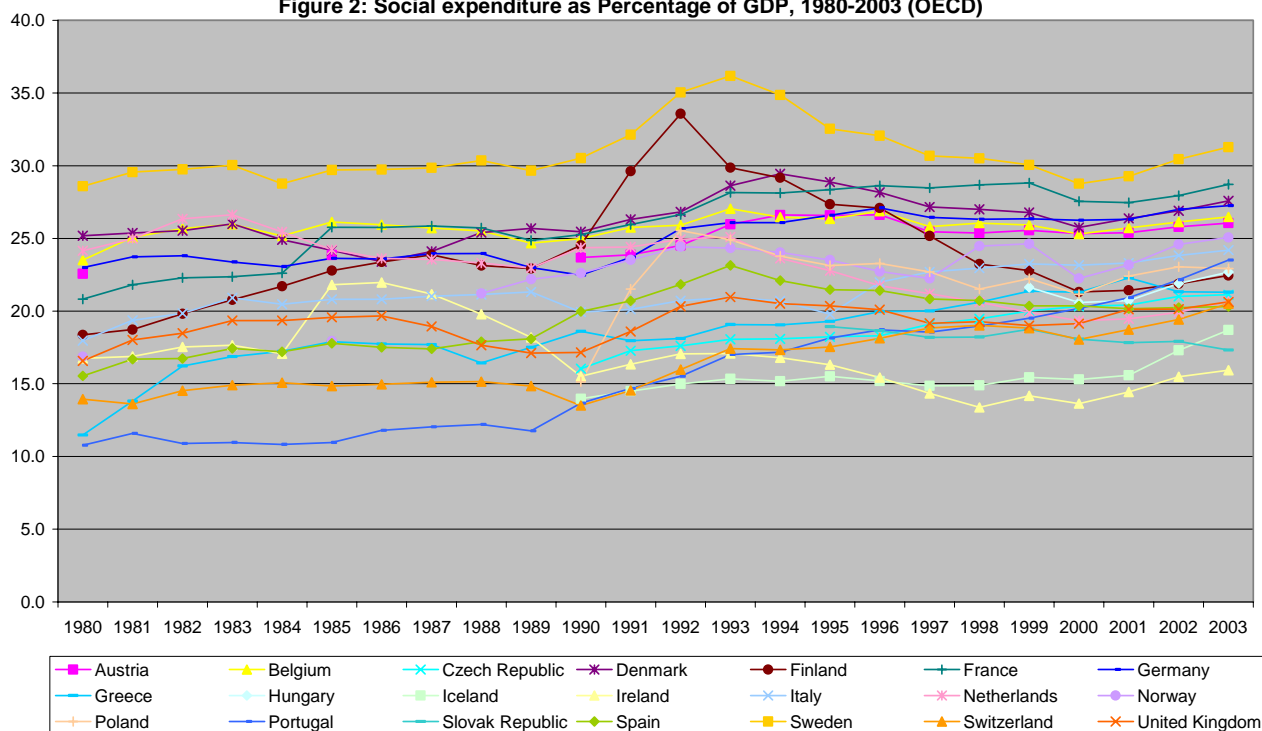


Figure 2: Social expenditure as Percentage of GDP, 1980-2003 (OECD)



In the 1980s social expenditure growth slowed down, but so did GDP growth. With some variation between countries, social expenditure elasticities remained slightly above or at least near unity up until the end of the century. But there were no more such pronounced increases in social expenditure as a share of GDP as in earlier decades (Figure 2). The reasons for this are manifold and the motives behind governments' attempts to limit the growth in social expenditure ranged from growing general concerns about the state of public finances to perceived adverse effects of welfare provision, especially unemployment benefits, on incentives to find paid work.

For individual European economies and over time there is strong evidence for a positive association between higher income levels and higher social expenditure. This impression is broadly confirmed in a cross-section of these economies at any one point in time (Johnson, 1999: 133-134; additional graph to follow). However, one ought not to read this as unequivocal support for the notion of social expenditure growth being a mere concomitant of economic growth. There is enough variation in the European sample to suggest that factors other than growth played a role as well: similar levels in GDP per capita were not necessarily associated with similar social expenditure shares. This is a clear pointer to historical contingency. As set out above, post-war national welfare regimes developed against a background of different historical conditions and different ideological traditions (cf. Esping-Anderson, 1990). Further, the timing and extent of political and social pressures for substantial changes in welfare expenditure were only partially aligned across different European countries.

## Outcomes

What were the outcomes of growth in European social expenditure over the longer term? Did the 'welfare state' make for improvements in the standard of living of the European population? Two widely used criteria to assess public welfare performance are the extent of poverty prevalent in a society and the degree of inequality in the income distribution. The proportion of people living in poverty is a basic, yet reasonably useful indicator of the effectiveness of a welfare system for it captures the success or otherwise of protecting individuals and families from the potentially detrimental consequences of being unable to work, of being made redundant, or of having large families. As alternative indicators, measures of income inequality can point to broader welfare issues. 'Poor' households in rich European countries may not be poor in an absolute sense, they may well be able to afford the basic necessities of life such as food, clothing and housing and they may not be poor compared with households in developing economies. But they may have an income so much below the average or median in their society that they cannot fully participate in social life. Hence a very unequal distribution of income within a country may lead to social exclusion of a significant number of its members. Wilkinson (1992) has argued that beyond certain threshold levels of income it is *relative* income, rather than absolute poverty, that matters for health outcomes. Further, while there appears to be no strong evidence suggesting an association between differences in per capita incomes and differences in life expectancy *across* developed economies, *within* these economies life expectancies and health are related to income distribution and social stratification (Wilkinson, 2004; Wilkinson and Pickett, 2006).

However, consistent measurement over time in this area is as much of a problem as finding coherent and compatible indicators of social expenditure across countries. Modern, developed welfare states have a general tendency to equalize post-tax and post-transfer incomes and one may very well argue that this is an (if not *the* most) important part of the exercise in the first place. Yet transfers can go from poor to rich tax-payers just as much as the other way 'round - the classic example being university education which, in most European countries, is still enjoyed disproportionately by students from families with above-average income but which is, substantially, financed out of general tax revenue.

Taking the European Community definition of people living in poverty if they have an income of less than half the average income in their country, the proportion of EC citizens living in poverty increased from 12.6 per cent in 1975 to 14.7 per cent in 1993 (Johnson, 1999: 128). This rise coincided with the slow-down in social expenditure growth documented in Figure 2 above and a general increase in income inequality in the 1980s. However, the comparative country evidence suggests that there is a relationship between high levels of social expenditure and low levels of poverty. That social expenditure mattered in terms of alleviating poverty is further borne out by

different data which compare the percentage of families in poverty (defined as living on half the median net income) pre- and post-social transfers. According to this evidence for the mid-1980s, between 32 and 38 per cent of families in seven West European countries had incomes below half the median prior to transfers. Receipt of transfer payments reduced that proportion to between 5 and 10 per cent (Bradshaw, 1993: 57).

**Table 1: Income Inequality – Gini Coefficients**  
(post-tax and post-transfer current incomes)

	c. 1985	c. 2000
Albania	..	29.1
Austria	..	29.1
Belgium	..	32.9
Bosnia and Herzegovina	..	26.2
Bulgaria	23.4	34.3
Croatia	22.8	29.0
Czech Republic	<b>19.4</b>	25.4
Denmark	..	<b>24.7</b>
Estonia	23.0	35.8
Finland	..	26.9
France	30.0	32.7
Germany	25.0	28.3
Greece	..	34.3
Hungary	20.9	26.8
Ireland	..	34.3
Italy	<b>31.0</b>	36.0
Latvia	22.5	37.7
Lithuania	22.5	31.8
Macedonia, FYR	..	39.0
Netherlands	26.0	30.9
Norway	..	25.8
Poland	25.2	34.5
Portugal	..	38.4
Romania	..	30.2
Russian Federation	23.8	<b>45.6</b>
Slovak Republic	19.5	25.8
Slovenia	23.6	28.4
Spain	..	34.7
Sweden	21.0	25.0
Switzerland	..	33.7
United Kingdom	28.0	36.0

*Sources:* World Development Indicators (April 2007); Mitchell and Bradshaw (1992).

Note: Data refer to observations for or nearest to 1985 and 2000, respectively. Minima and Maxima printed in bold.

Internationally comparative data on income inequality that reach back in time are hard to come by. The material in Bourguignon and Morrison (2003) is of little use in tracing changes in inequality in

post-war Europe. Apparently based on extrapolations, the country-specific Gini coefficients reported there are constant for 1950 to 1992. Here, the figures from *World Development Indicators* (2007) have been used. They provide good geographical coverage for the late 1990s and the early 21<sup>st</sup> century and have been augmented by additional data for c. 1985 from Mitchell and Bradshaw (1992). Note that both studies rest on the Luxembourg Income Study database, allowing for at least some degree of broad compatibility over time and between countries. Five main messages emerge from Table 1. First, prior to the collapse of communism, the countries of Central and Eastern Europe displayed persistently lower levels of income concentration than their Western capitalist neighbours. Second, the period since the fall of the Berlin Wall saw a sharp increase in income inequality throughout the transition economies of the former Eastern bloc countries. Third, in the West, too, income inequality increased significantly over the last decade or two of the twentieth century – the evidence seems to suggest that the post-golden age flattening out in the growth of social expenditure as a proportion of national income (Figure 2) was associated with a marked rise in income inequality as measured by Gini coefficients. In other words, the volume and direction of transfer payments taken together now add up to comparatively less redistribution towards the relatively poor than in the 1980s. Fourth, the Scandinavian countries score highly in terms of their capacity to maintain a relatively equal distribution of income through their tax regimes and/or social security measures. In the cases of Denmark, Finland, and Norway this was achieved against a background of relatively modest social expenditure to GDP ratios of around 22 to 26 per cent in 2000, pointing to either fairly flat pre-tax income distributions to start with or a strongly redistributive component in the tax system. In the case of Sweden, we find both a strong tax impact and a strong benefit impact on the distribution of net incomes (Bradshaw, 1993: 57-59). Finally, within the group of West European economies the gap between those with relatively modest degrees of income inequality (e.g. Scandinavia) and those with relatively high income concentration (e.g. Portugal, United Kingdom) widened over the last twenty or so years. Again, this is a pointer towards the significance of national welfare policies which, clearly, made for far less ‘convergence’ in *within*-country distributional patterns than *between*-country income distribution across Western Europe.

## **2. Decomposing changes in the standard of living**

### **Human Development Indices as a means to evaluate changes in living standards**

The Human Development Index (HDI) is a useful tool for summarising changes in historical living standards. It attempts to capture the *quality* of life by summarising the core components of material wealth, longevity and knowledge. However, the HDI can be viewed as a pretty blunt tool, perhaps more enlightening than analysing the raw series alone, but, as has been emphasized in the

introduction, failing to capture issues such as economic inequality or respect for human rights. Every year (since 1990), the UN has published HDI estimates for almost all countries in the World. The HDI represents a relative index of development. A country with a GDP per capita of \$40,000 US dollars (at 2000 purchasing power parity), a population averaged life expectancy of 85, enrolment rates for all levels of education of 100 per cent and a 100 per cent adult literacy rate, would score 1. Table 1 reports HDI scores for Europe at 1950, 1975 and 2003, organised by rank for each year.

**Table 1: Historical HDI Scores for Europe**

1950		1975		2003	
Denmark	0.786	Switzerland	0.873	Sweden	0.957
Netherlands	0.784	Sweden	0.864	Norway	0.950
Switzerland	0.782	Netherlands	0.862	Switzerland	0.935
Sweden	0.780	Denmark	0.862	Finland	0.934
Norway	0.776	Norway	0.859	Ireland	0.929
UK	0.766	France	0.845	Italy	0.929
Germany	0.744	UK	0.841	Austria	0.928
France	0.729	Belgium	0.840	Netherlands	0.927
Belgium	0.727	Finland	0.839	France	0.926
Austria	0.720	Germany	0.837	Belgium	0.926
Finland	0.707	Austria	0.836	UK	0.924
Ireland	0.698	Italy	0.826	Denmark	0.924
Hungary	0.682	Spain	0.810	Spain	0.921
Italy	0.668	Ireland	0.807	Germany	0.919
Poland	0.657	Poland	0.790	Portugal	0.867
Spain	0.627	Hungary	0.788	Poland	0.856
Bulgaria	0.607	Bulgaria	0.774	Hungary	0.854
Portugal	0.530	Romania	0.763	Bulgaria	0.803
Romania	0.510	Portugal	0.727	Romania	0.784
<b>Average</b>	<b>0.699</b>		<b>0.823</b>		<b>0.905</b>
Coefficient of Variation	0.119		0.048		0.053

*Sources:* Own calculations and Crafts (2002).

For the 19 European countries reported in Table 1, the average HDI score has risen by almost 30 per cent from 1950-2003 (.699 → .905). Together with this quite substantial increase there has also been a marked decline in the level of dispersion of HDI scores throughout Europe, as measured by the coefficient of variation (.119→.053). What exactly does this mean? To illustrate how changes in the HDI score reflect changes in the underlying series, let us take the example of Italy. For 1975, Italy scores .826, and for 2003 scores .929, registering an increase of .103 over the 1975 score.

<b>Italy</b>	<u>LE</u>	<u>CGER</u>	<u>Literacy</u>	<u>GDPpc</u>	<u>HDI</u>
1975	72.6	65.6%	95.28%	10,742	0.826
2003	79.8	86%	99%	19,150	0.929

Over the period 1975-2003, Italy has achieved some significant increases in its standard of living. Life expectancy at birth has increased by over 7 years; enrolment and literacy are now close to 100% and most strikingly of all material standards of living (as captured by per capita GDP) have nearly doubled. However, the overall HDI score has increased by only slightly over .1. This is due to the construction of the HDI, which heavily discounts increases in GDP per capita over a threshold level.

The HDI is primarily concerned with providing a comparative measure of development. For instance, we could think of the UK in 1950 (.766) as having a level of development close to China of 2004 (.768). Of course, this also highlights the limitations of the HDI as there are many reasons why most people would be reluctant to draw an equivalence between both countries at these points in time. Other comparisons to think about are Portugal in 1950 (.530) with Bangladesh in 2004 (also .530), Ireland in 1950 with Nicaragua of 2004 (both .698) and Europe's leading country in 1950, Denmark (.786) compares with Venezuela of 2004 (.784) (*Human Development Report 2006*).

Europe in 1950 can be categorised as a region of 'Medium Human Development', if we take a HDI of .8 as the threshold (in line with *Human Development Report 2006*). No countries (at least for this 19 country sample) could be categorised as countries of 'Low Human Development' (HDI below .5). By 1975, the vast majority of Europe could be termed as countries of 'High Human Development' (above .8). Only the countries of Eastern Europe and Portugal are below .8. By 2003, most of Europe had achieved an HDI of greater than .9, except again for the countries of Eastern Europe and Portugal. Today, in evaluating changes in living standards the HDI loses a lot of its power. This is because of the heavy discounting of growth in material living standards (as measured by GDP per capita), non-linear relationships between longevity and incomes, and also 'bounds' on the values for the knowledge component (for instance, most of Europe is now achieving close to full enrolment and 100 per cent adult literacy rates). Hence there is a need to investigate alternative and more comprehensive measures of living standards that are more sensitive overall and more responsive to changes in as non-monetary components (which may have a relationship with income up to a point, and none thereafter), in particular.

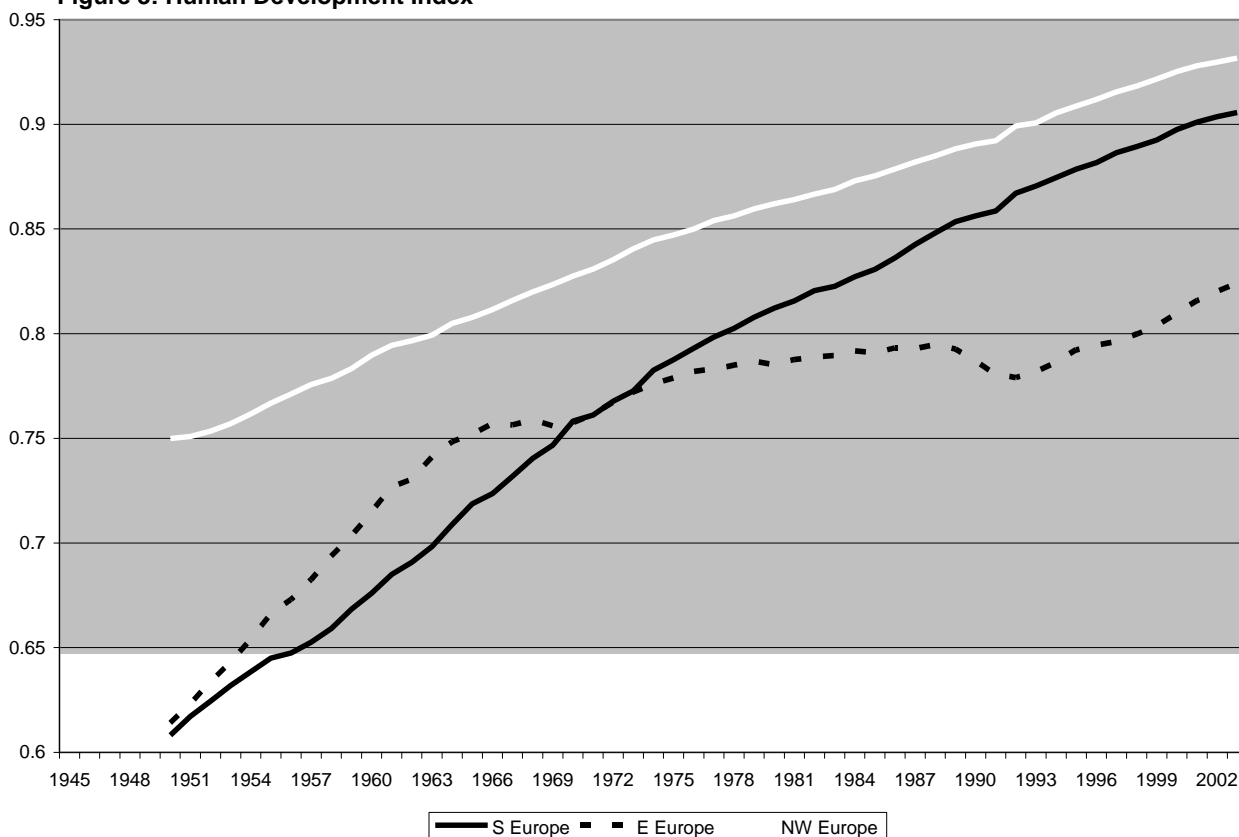
Within Europe, there has also been notable variation in rank of HDI score over the past 50 years. For instance the relative improvement of Ireland (12<sup>th</sup> in 1950, 5<sup>th</sup> in 2003), and the relative decline of Denmark (1<sup>st</sup> in 1950, 12<sup>th</sup> in 2003). However, the importance of rank is not as important in

2003 as it was in 1950, because the coefficient of variation is much lower in 2003, and differences between, say the 1<sup>st</sup> and 12<sup>th</sup> positions for both time periods are much smaller (.88 in 1950, .33 in 2003). The decline in variation in HDI in Europe is an indication of convergence in living standards over the period. It should be noted, however, that the level of convergence (as measured by the coefficient of variation) peaked in 1975 and has since slightly declined.

### Regional variations in HDI

By aggregating the computed HDI scores in Table 1 into regions, it is possible to identify three distinct trajectories in the growth of living standards in post-war Europe (see Table 2 below for regional groupings). In 1950, North Western Europe was clearly more developed than both the Southern and Eastern regions of the continent. The differential is approximately equal to .15 in the average value of HDI. From 1950-2003, North Western Europe maintained its lead in development terms. However, the Southern European experience is very much characteristic of convergence. The average growth rate for Southern European HDI was .005 per year, where as for North Western Europe it was .003. Southern Europe's HDI grew 63 per cent faster than North Western Europe's, and the differential in HDI between the regions declined from .15 to .03.

Figure 3: Human Development Index



Sources: See text.

**Table 2: Regional Aggregation**

<b>North Western Europe</b>		<b>Eastern Europe</b>	<b>Southern Europe</b>
Austria	Ireland	Bulgaria	Italy
Belgium	Netherlands	Hungary	Portugal
Denmark	Norway	Poland	Italy
Finland	Sweden	Romania	
France	Switzerland		
Germany	United Kingdom		

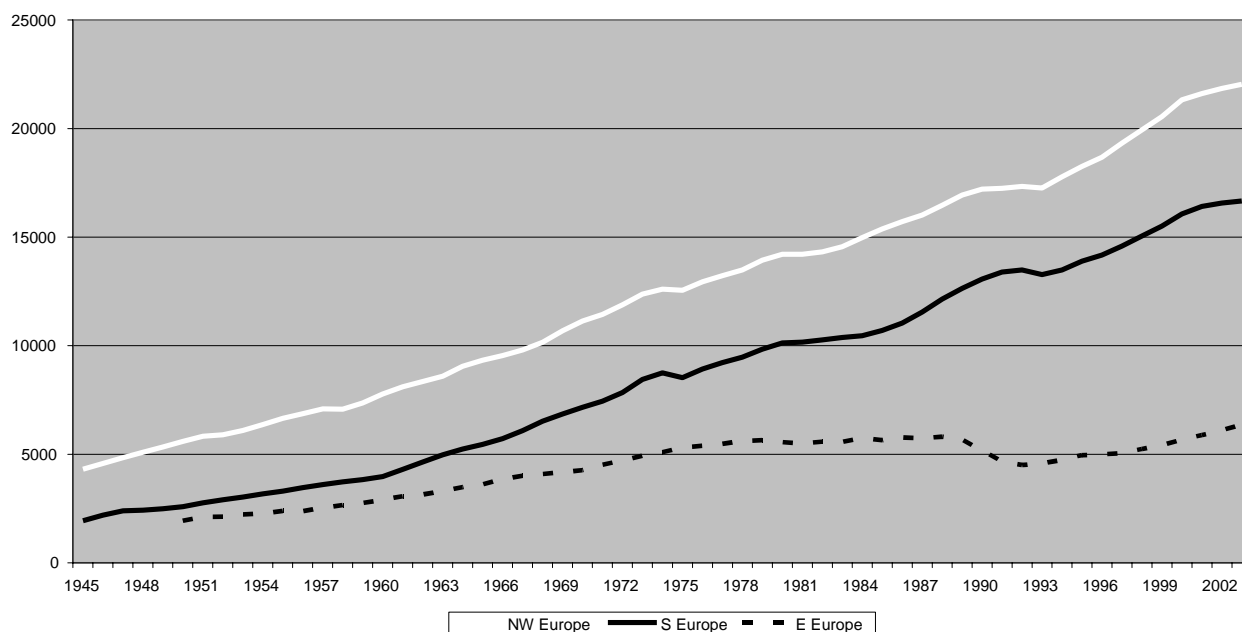
The trend in Eastern Europe's HDI is very much different from the rest of Europe. Three phases are evident in the data. From 1950 to about 1965, the HDI increased at a rapid rate, above that of North Western and Southern Europe, at .008 points per year. After 1965, the rate of growth of HDI diminished strikingly. Between 1965 and 1990, HDI increased at .001 points per year, one eighth of its previous rate. A period of decline followed, before the HDI grew again in the early 1990s at a rate of .003 HDI points per year (1991-2003).

What components drove these patterns? How can we explain Southern Europe's convergence, and Eastern Europe's relative failure in improving living standards to levels experienced elsewhere on the continent? The first step in answering these questions is to break up the HDI scores, and examine the trend in the three components income, longevity and knowledge in the regions.

### **Regional analysis of HDI components**

*Income.* In terms of material standards of living, Southern Europe's convergence with North Western Europe is magnified by the construction of the *income* component in the HDI series. Analysing the raw data (Maddison, 2007), the overall picture is of a similar trend in income growth and also a consistent movement towards common levels in GDP per capita. Southern Europe's GDP per capita amounted to about 46 per cent of North Western Europe's in 1950. By 2003, the differential had fallen to a level where Southern Europe's GDP per capita was equivalent to 75 per cent of North Western Europe's.

Figure 4: GDP per Capita 2000 US\$



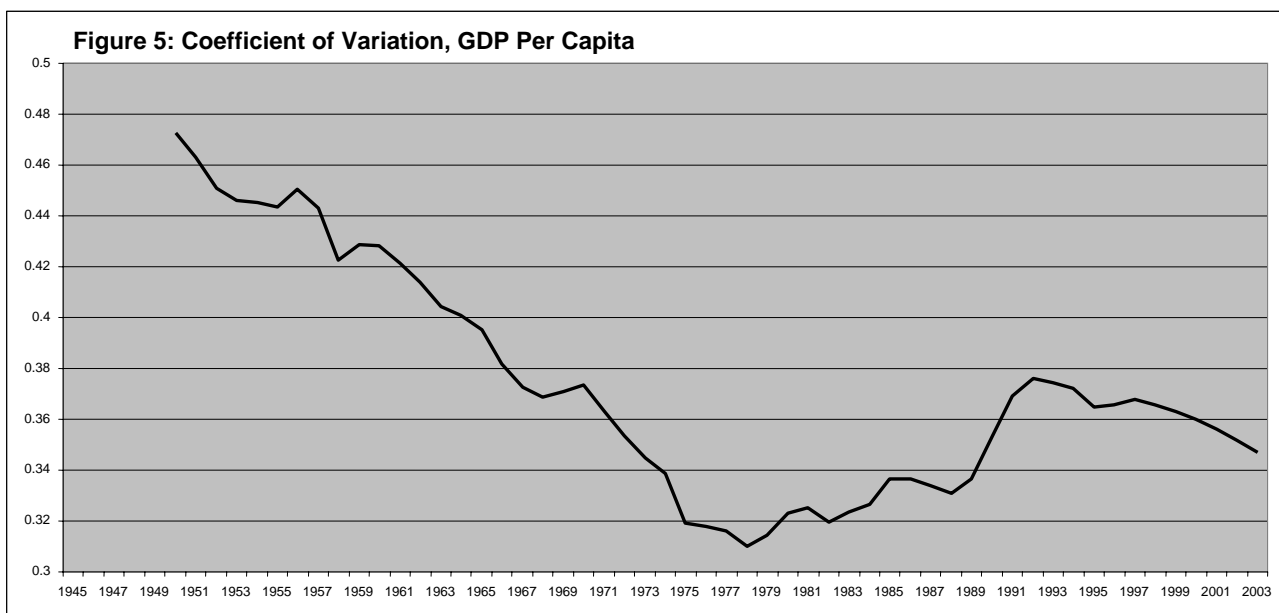
Source: Maddison (2007).

Eastern Europe, however, experienced a divergent trend in GDP per capita over the post-war period. Growth for the period as a whole was 2.6 per cent per annum for NW Europe, 3.6 per for S Europe, and 2.3 per cent for Eastern Europe. However, as with the HDI series, we can distinguish three different phases in the evolution of Eastern European income. From 1950-1979, GDP per capita grew at 3.8 per cent on annual average, but after 1979 GDP per capita stagnated and even declined in the early 1990s. Average growth for the 1979-1993 was -1.2 per cent per annum and 1979 levels of GDP per capita were not achieved again until 2000. The early 1990s mark a change in the trend where Eastern European per capita GDP recovered and grew at 3.2 per cent annually from 1994-2003. However, over the whole period Eastern European GDP per capita declined as a proportion of North Western GDP per capita from 36 per cent in 1950 to 28 per cent in 2003.

The differential timing and pace of economic growth across the 19 European countries generated three distinct phases of income convergence and divergence (Figure 5). First, the period between 1950 and 1978 is characterised by a sharply diminishing coefficient of variation in GDP per capita. From 1978 to 1993, inequality increases, returning to 1965 levels by 1993. After 1993, variation is declining; albeit at a slower rate than before. This pattern was driven by Eastern Europe's far more dramatic growth-slowdown relative the rest of Europe after the Golden Age.

The causes of Western Europe's rapid economic advance during the Golden Age, Eastern Europe's initial success in keeping up with or even exceeding western rates of growth in national product and

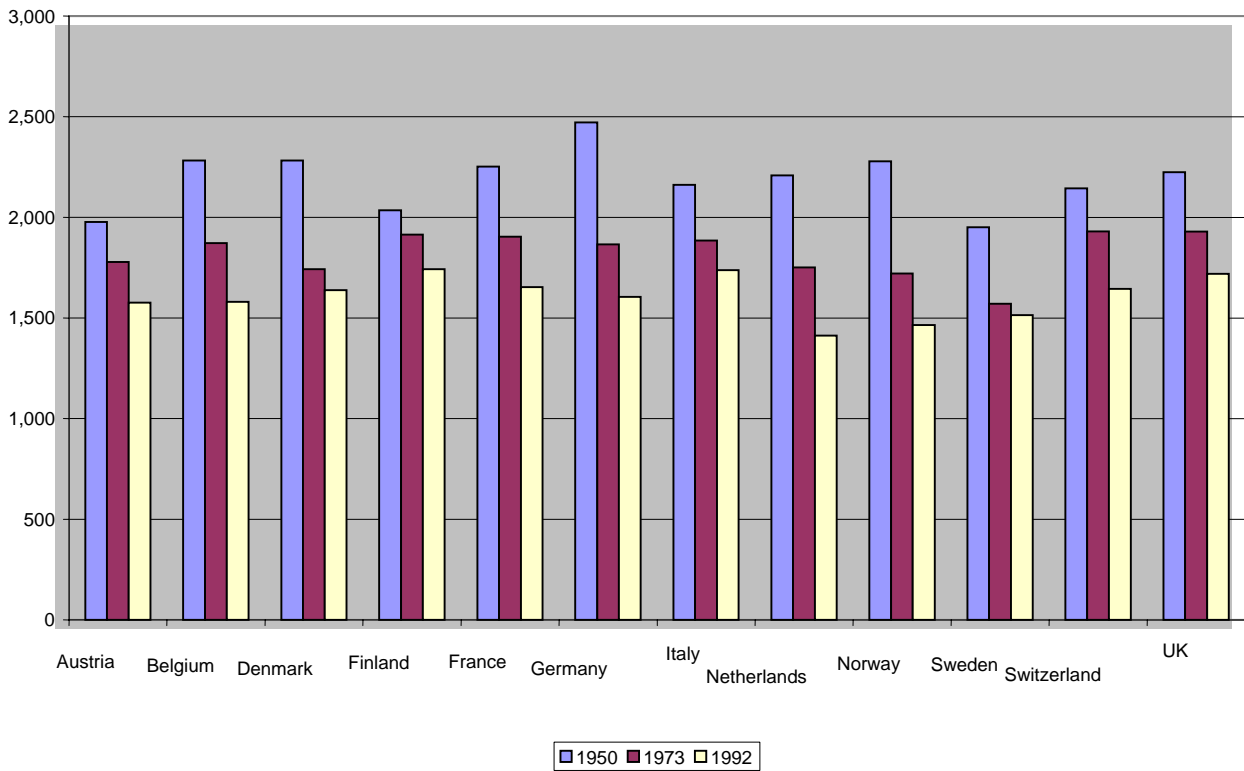
subsequent failure to do so in the post-Golden Age period are discussed elsewhere in this volume (see Chapters 12 and 13). Here it suffices to say that the era of communism and central planning produced poor results at least from the early 1970s, and that the stagnation and relative decline in Eastern living standards and incomes contributed to the collapse of these regimes (Dobrinsky et al., 2006:1). Initially, strong growth during the Golden Age was primarily a result of the reallocation of labour, from the primary sector (agriculture etc.) to secondary industries (manufacturing). However, resource allocation was based on the motivations and political priorities of the central planners, not necessarily upon any economic rationale. Eventually, such suboptimal economic policy, together with insulation from international markets, would translate into slower growth (Dobrinsky et al., 2006:11). It was only after the collapse of central planning and the subsequent ‘transitional recession’ that income growth resumed during the early-/mid-1990s.



*Sources:* See text.

The absolute and relative advance in material well-being of the average West European is brought into even sharper relief when the decline in hours worked is accounted for. The average person in 1992 worked significantly fewer hours per year than the average person in 1950. Aided by strong growth in productivity, the share of life time devoted to wage earning labour has fallen substantially in virtually all Western European countries (Figure 6). The resultant impact on welfare, ignored by measures such as GDP per capita and the HDI, is of course hugely important as people gained leisure time to pursue non-work related but welfare-enhancing activities and had the material means to do so.

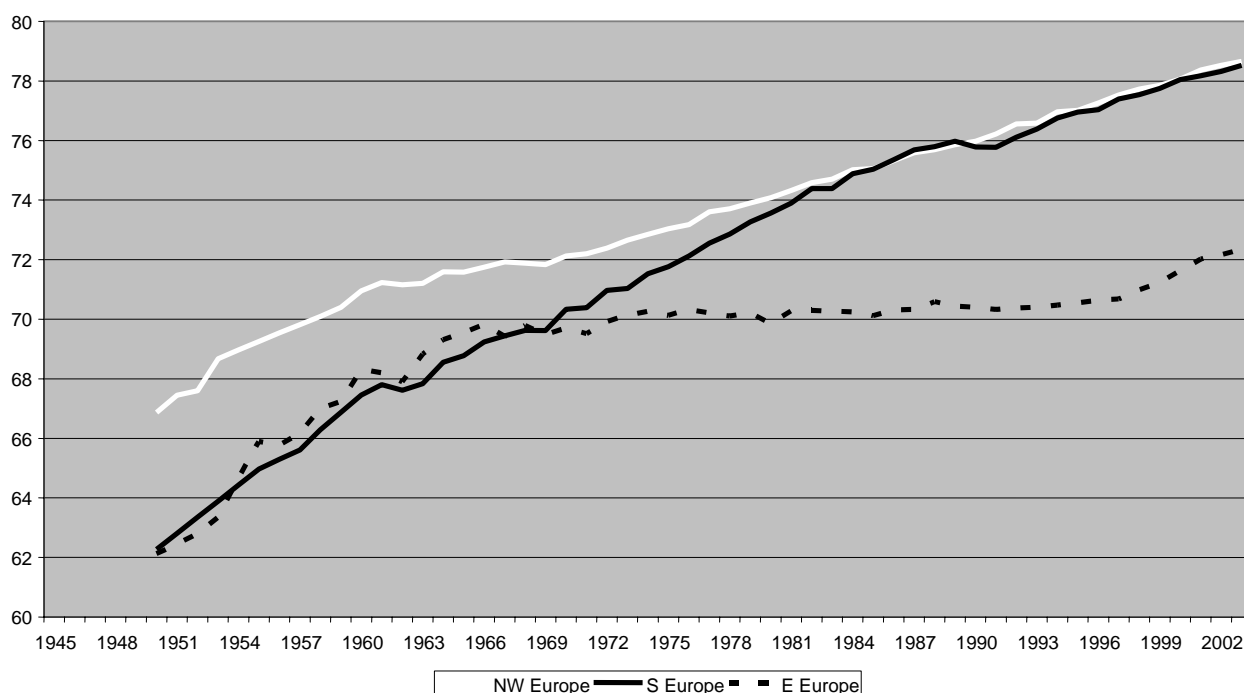
**Figure 6: Annual Hours Worked Per Worker**



Source: Crafts (1997: 316).

*Life Expectancy.* Growth in life expectancy at birth for both sexes ( $e_0$ ) was a great achievement of the post-war era and primarily a result of the spread of antibiotics and immunisation (Mesle, 2004: 46). North Western Europe added over a decade to average life expectancy between 1950 and 2002. Even more remarkable is the catch-up of Southern Europe, adding a population average of 16 years per person in life expectancy. Recently the trend in life expectancy has converged between North Western and Southern Europe. However, the data on Eastern European life expectancy are shocking, especially when viewed relative to the trends elsewhere in Europe. Both Southern and Eastern Europe had a similar level of life expectancy in 1950, and both experienced a strong rate of growth until their paths diverged in the late 1960s. From 1973-1991, the growth rate of Eastern European life expectancy was effectively zero. Only after 1997, did Eastern European life expectancy display evidence of consistent growth again. In 2003, life expectancy was over 78 years for both North Western and Southern Europe, and just over 72 years for Eastern Europe (Figure 6).

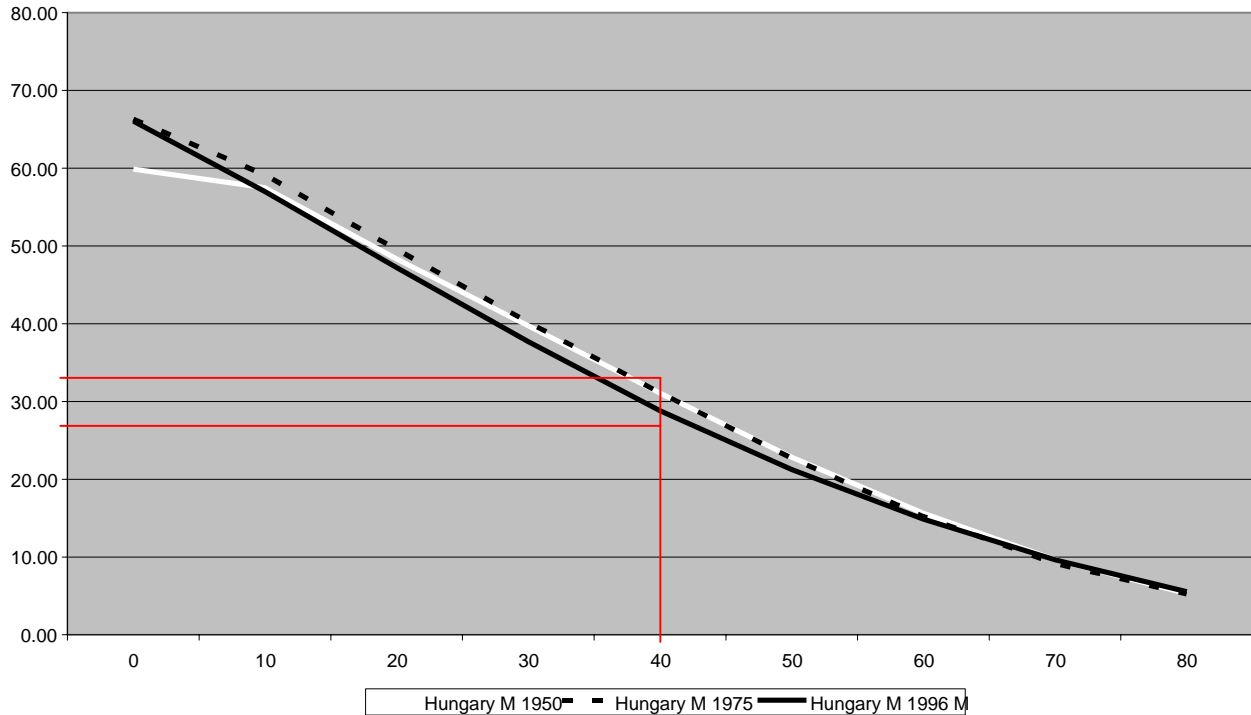
Figure 7: Life Expectancy at Birth



Sources: See text.

There is not the space here to analyse in depth the remarkable trajectory of Eastern European life expectancy. This is an issue which needs concentrated academic research. However, many peculiar features may be observed if we examine an individual case. Life expectancy in Hungary, for both sexes, was 62 years in 1950. By 2003, this had increased to 72 years. The corresponding figures for the UK are 64 (1950) and 77 (2003). However these population averages, and even the concept itself (life expectancy at *birth*) mask as much as they reveal. For instance, take a look at the following graph on male age specific life expectancy in Hungary (Figure 8). While life expectancy at birth has increased, the age specific life expectancies have actually *fallen* for every year over 10, for the years 1950-1996. This pattern only holds for males. Female age specific life expectancy shifted to the right between 1950 and 1996. For Poland, age specific life expectancy improved from 1950 onwards, but there is evidence of regress for the period after 1975 (at least).

**Figure 8: Age Specific Life Expectancy, Hungary**



Each line represents the LE schedule for Hungary at three points in time: 1950, 1975 and 1996. For example, life expectancy at age 0 is about 65 in Hungary in 1975 and 1996, where it is 60 in 1950. The major point of this graph is that for every age point after age 0, life expectancy at that age is lower in 1996 than it was in 1950 and 1975. For example if we take age 40, a person could expect to live about 28 years more in 1996, where as for 1950 and 1975 the person could expect to live 30 years more. (Lines are not exact in example above).

In common with the rest of Europe, Eastern Europe succeeded in combating infectious diseases at the start of the post-war period. However, governments there failed to implement the appropriate health policies to tackle circulatory disease mortality, and this is the key source of the divergence in life expectancy between East and West (Mesle, 2004: 66). However, there are other factors that may, at least partly, account for the unfavourable development in life expectancy in Eastern Europe. These include the effects of delayed industrialization and the structure of the economy. Apart from the former Czechoslovakia and East Germany, most of the East European economies were, after the Second World War, still characterized by large agricultural sectors in both absolute and relative terms. With the onset of ‘modernization’ under communism, economic growth was driven mainly by accelerated industrialization, i.e. the enforced shift of labour and material resources into industry and mining (cf. Eichengreen, 2007: Chapter 5). The emphasis was put on producer goods such as steel, energy (coal), heavy engineering and chemicals. Thus at a time when the more developed Western European economies began to ‘de-industrialize’ (as reflected in changing sectoral

employment shares), i.e. from the mid-1950s and up to the mid-1970s, the Central and East European economies started industrialization in earnest. Between 1950 and 1971, industrial employment growth in Czechoslovakia, Hungary and Poland was more than twice as fast as growth in total employment. As a consequence, the share of industry in total employment rose from 37 per cent in Czechoslovakia and 23 per cent in both Hungary and Poland to 48, 45 and 34 per cent, respectively, in 1971. Taken together, industrial employment in these three economies grew by 3.2 per cent per annum. This compares with less than half the equivalent rate of change for the whole of Feinstein's (1999: 53-54) 25 developed economies which include these three Eastern economies.<sup>1</sup> A large proportion of the labour force became engaged in physically demanding work in an industrial environment that was far less severely governed by safety, health and environmental protection laws and their enforcement than in most of Western Europe during the 1970s and 1980s. In reverse, the later upturn in East European life expectancy coincided with the process of de-industrialization that started with the post-1989 transition process in the region.

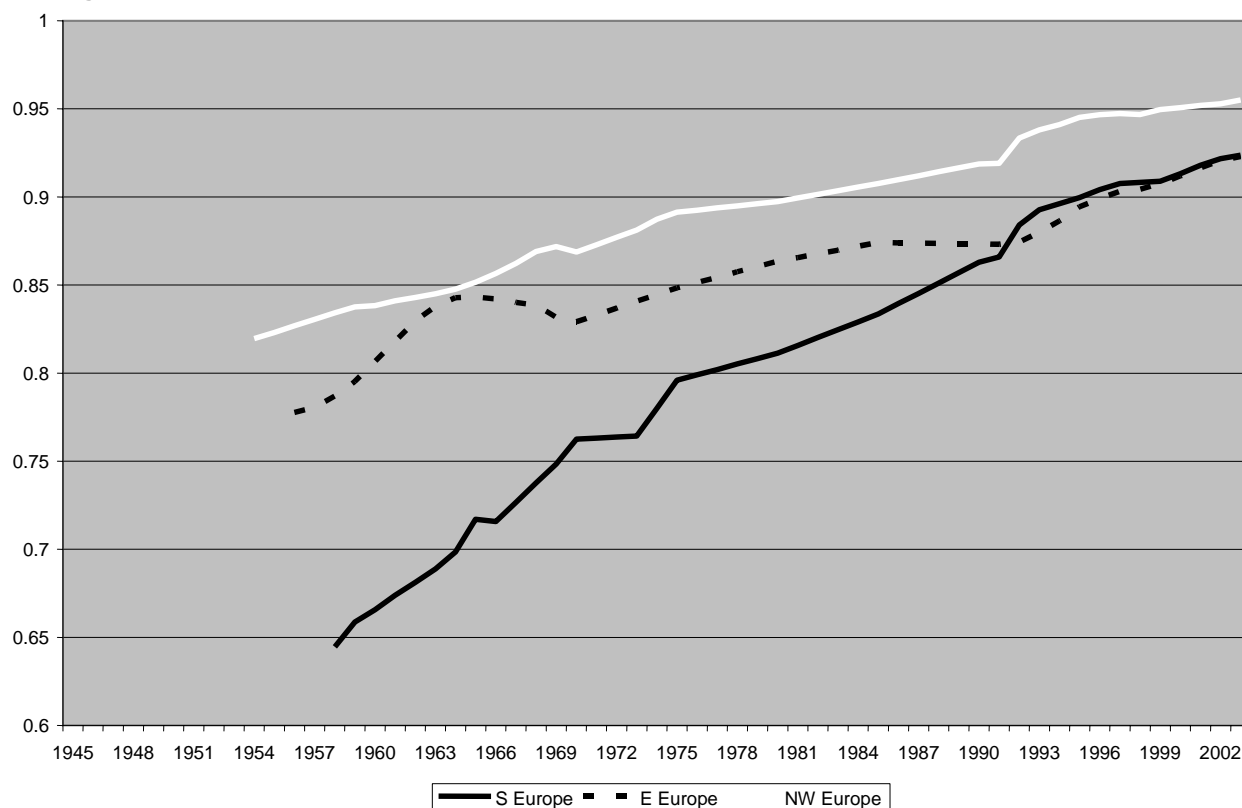
## **Education**

The knowledge component of the HDI is comprised of the combined general enrolment rate (1/3 weight), and the adult literacy rate (2/3 weight). Interestingly, Eastern Europe scores relatively well in this regard, with only a slight divergence from the trend in North Western Europe. Southern Europe experienced strong catch up and convergence, in the main driven by Portugal's very low initial levels in education, and subsequent high growth. However, enrolment and literacy are only the very basic measures of human capital. The implied convergence as indicated by the HDI components series may be misleading. For example, if we examine a measure of knowledge at the higher end of the scale, such as Scientific Journal articles per capita, North Western Europe has about 7 times Eastern Europe's level.

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<sup>1</sup> Of course, there were deviations from the West European norm in the 1970s. (West) Germany, for example, maintained an unusually high share of the labour force in manufacturing (49 per cent at its peak in 1971) – but this was against an historical background of traditionally high employment in the sector and not an outcome of sudden shifts in the employment structure. In fact, industrial employment there grew by just a third of the rate in the three Eastern economies during 1950-1971 and even that figure may be distorted by the impact of the exodus from East Germany where, significantly, both industrial and total employment growth over the period were distinctly slow in international comparison.

Figure 8: Education Index



Sources: See text.

### 3. Causes and consequences of demographic change

#### Causes of the decline in mortality

In general, mortality decline in Europe has been substantial since the Second World War.

Continuing previous trends, life expectancy at birth increased by some 10 years in western and southern Europe, for both males and females. (Table 3) Southern European countries experienced strong convergence. Life expectancy in Spain and Portugal, for example, was relatively low in 1950, but rose relatively fast. The fall was caused by the use of antibiotics, which were unknown before the war and by better diet - a product of economic growth. But the experience in Eastern Europe was different. In general, mortality in most eastern European countries failed to fall between the mid-1960s and the mid-1990s at a time when mortality was falling continuously in western and southern Europe. We consider that this phenomenon was caused by excessive industrialisation and its attendant pollution.

The components of the mortality fall are as follows. The widespread introduction of antibiotics further reduced adult mortality. It was already relatively low, because of the fall in deaths from some infectious disease - along with war, the major cause of adult death. The fall in infant mortality

was much more significant. Table 4 shows that in 1950, the variance in infant mortality was extremely large. It was 21 per 1000 live births in Sweden and 108 in Poland. By 2005, it had fallen

**Table 3: Expectation of life at birth in selected European countries, (Years)**

	1950	2005
<b>W. EUROPE</b>		
Belgium	70.37	79.48
France	70.24	80.21
Germany	69.54*	78.93
Sweden	73.04	80.55
Switzerland	71.31	81.24
U.K	71.13	78.95
<b>S. EUROPE</b>		
Greece	68.85	78.99
Italy	69.12	80.33
Portugal	63.44	78.07
Spain	69.11	80.57
<b>E.EUROPE</b>		
Bulgaria	69.25	72.56
Czechoslovakia	70.35	75.91**
Hungary	68.00	72.85
Poland	67.68	75.00

Source: World Development Indicators (2007).

Notes: \* = excludes DDR in 1950; \*\* = Excludes Slovakia in 2005

**Table 4: Infant deaths in the first year, selected European countries  
(Deaths per 1000 live births)**

	1950	2005
<b>W. EUROPE</b>		
Belgium	53.45	4.0
France	43.5	3.0
Germany	55.7	4.0
Sweden	21.0	3.0
Switzerland	31.16.	4.0
U.K	31.2	5.0
<b>S. EUROPE</b>		
Greece	35.45	4.0
Italy	63.8	4.0
Portugal	94.11	4.0
Spain	64.2	4.0
<b>E.EUROPE</b>		
Bulgaria	45.0 (1960)	12.0
Czechoslovakia	64.1	3.0
Hungary	85.7	7.0
Poland	108.0	6.0

Source: World Development Indicators (2007).

Notes: \* = excludes DDR in 1950; \*\* = Excludes Slovakia in 2005

to 3/000 and 6/000, respectively. There were two main reasons. The effect of the fall in fertility meant that, on average, the mother's age at birth was lower and the baby was higher in the birth order, both of which are associated with lower infant mortality. Secondly, the fall in infant (and child) mortality was related to policy intervention, for example, government owned clinics. This largely nullified the effect of differences in the level of urbanisation or overall GDP. (Access to clinics, is probably the reason why infant mortality why the infant mortality performance of eastern European countries was very good, while at the same time as their adult mortality performance was relatively poor. Finally, in recent years, there has been a rise in the life expectancy of older people. This has implications for age structure. (See below).

### **Changes in fertility**

Fertility was falling in most European countries before the Second World War. In general, fertility fell during the war, but there were important exceptions. It rose in Britain, France, and Scandinavia. Following the war, there was a brief post-war baby boom. This was essentially the births that had been postponed during the war. There was virtually no European equivalent of the 'baby boom' and, hence, of the 'baby boomer' generation, which was a phenomenon confined to the USA, Canada, Australia and New Zealand. (The latter was a change in behaviour, in effect, an increase in the desired family size by one whole child.) European fertility then continued to rise until the mid 1960. But from the mid-1960s, there was a major change. Fertility began to decline in every country and, eventually to very low levels. The overall effect is shown in Table 5. There has been some recent recovery but, at the time of writing, no European country has replacement level fertility. (Clearly, a mean TFR of just over two is necessary for the population to grow naturally in the long run.) In the 1990s, for example, only 15 per cent of European population growth was natural, 85 per cent was immigration.

**Table 5: Total fertility rate (children born per woman), selected European countries (Children born per woman.)**

	1950	2005
<b>W. EUROPE</b>		
Belgium	2.35	1.72
France	2.93	1.92
Germany*	2.1	1.36
Sweden	2.28	1.77
Switzerland	2.40	1.42
U.K	2.69 (1960)	1.80
<b>S. EUROPE</b>		
Greece	2.46 (1951)	1.28
Italy	2.49	1.32
Portugal	3.08	1.40
Spain	2.48	1.33
<b>E.EUROPE</b>		
Bulgaria	2.34 (1960)	1.31
Czechoslovakia**	2.08	1.28**
Hungary	2.02 (1960)	1.32
Poland	2.98	1.24

Source: World Development Indicators (2007).

Notes: \* = excludes DDR in 1950; \*\* = Excludes Slovakia in 2005

The number of births is completed family size (cohort measure) except for later years when future births to women who have not completed child bearing is estimated – i.e. a period measure. The latter is not expected to be significantly different from the former.

### Measurement.

The expectation of life at birth shows the period a newly born person will live assuming s/he is subject to the relevant mortality at each age. This is a so-called period measure. Period measures are partly an abstraction. They do not account for changes in future mortality, which is only known for people who have already died. Similarly the total fertility rate (Table 5) shows the number of children, that on average, a woman will have, assuming current fertility (normalised by age) continues. We do not know, for example, if younger women whose fertility is currently low, will achieve a *completed family size* which is higher than that predicted, although most demographers do not expect this to happen. In the 1930s, for example, current fertility rates predicted large falls in population in most European countries. Fertility did not actually fall until the 1960s, which of course was a different female cohort.

### Reasons for the fertility fall

Here, we are concerned with the trend fall in fertility (TFR). Fertility is subject to short term fluctuations, but these are usually caused by economic uncertainty – i.e. the trade cycle - and the long run effect on the economy is limited. Table 5 shows that the fertility decline was a European

wide phenomenon. Hence, we may discount those causes which are relevant to only one country. For example, it is tempting to relate falling fertility to the cost of children's education, religion or the extent of child employment. But the variance in these factors across Europe was much greater than the variance in fertility. Similarly, the introduction of particular birth control methods, particularly the contraceptive pill is a tempting hypothesis. But, fertility fell in countries where the pill was rarely used. This implies that the method used to prevent pregnancy was less important than changes in the desire to have children. (The low fertility of the 1930s was achieved in some countries using, what today would be considered, very inefficient methods.) In other words, there is an important distinction between sex and fertility. More efficient contraception affected coital frequency to a greater extent than fertility.

Consider the general and long run changes in post war European fertility. We might start with the rather nebulous concept of 'modernisation'. But what we do know is that an increasing proportion of the population lived in cities; mass communication made people more aware of conditions in other parts of their own country or further afield; female education improved and the position of women in the labour market also improved. So far, so good. But we are left with a paradox. If, for example, children were substitutes for consumer durables why did the increase in household income lead to rising fertility to the mid 1960s and then to falling fertility?

The most likely general explanation concerns the relation between income, female employment and status. Assume that in an ideal world most women desire both to have children and a fulfilling occupation. In the 1950s, when most women were married, household income was rising, making it possible for a family to live (at the then current expectations) on a single income. On the other hand, employment opportunities for women were limited and poorly paid. Hence, for a woman the opportunity cost of children in terms of both income and status was low. But by the later twentieth century, the labour market was different. Female occupations, particularly in services were well paid and had high status. But it was difficult for a woman to acquire sufficient human capital to establish a career if she had two or three children. (This partly depends on the cost of child care. Estimates of the cost of two children born before age 30 on a woman's lifetime income varied between -25% (France) to -50% (Britain). Table 6 shows female participation rates in some European countries.

One criticism of this approach is that it applies less to southern than northern Europe. Fertility fell to exceptionally low levels in Spain and Italy, for example, but female labour force participation was somewhat lower. (See Table 6) It might be more instructive to stress the *rise* in the participation rate in southern Europe, which was exceptional. In other words, it is possible that we are observing lagged behavioural changes rather than cultural differences. To reiterate. We are not

arguing that women forwent childbirth completely in order to enter the labour force. Most wanted both children and a job that was more fulfilling than domesticity. We may see this in Table 6.

**Table 6: Participation rate, 15-64 year old females, selected European countries, 2006 (Full and part time). %**

	Full time	Part time
<b>W. EUROPE</b>		
Belgium	38.5	20.4
France	49.3	14.6
Germany	41.7	26.8
Sweden	69.3	14.7
Switzerland	40.0	34.1
U. K	43.02	27.3
<b>S. EUROPE</b>		
Greece	47.9	7.1
Italy	35.9	14.9
Portugal	59.4	9.0
Spain	48.1	13.0
<b>E. EUROPE</b>		
Czech Republic	58.9	3.4
Hungary	53.6	2.3
Poland	47.6	9.2

Source: OECD, *Labour Outlook* (2007).

Overall, female participation rates were high (60-80 per cent of the 15-64 year olds in western Europe. It follows that most of the women in the labour force must have had (1 or 2) children. The proportion of women who were working part-time was much more varied – reflecting the cost and quality of child care in the different countries.

There was also a major change in the timing of births in the years since the Second World War. The childbearing period became more compressed. Women completed childbearing at an early age or, alternatively, postponed having children until they had established a career. (The former was the most common.) Currently, about 20 per cent of married women in Europe are childless (although that is not always from choice) and 80 per cent have only one or two children. Hence, it is the decline of the three and four child family which has driven the fall in fertility. There have also been major changes in the composition of the household since the 1950s. In the 1950s, the nuclear household (husband, wife and children) was almost universal throughout Europe and most children were born within marriage. This was because marriage was the insurance against unwanted pregnancy. More recent years have seen the growth of single person households, composed both of older and younger women. Children have been able to leave home at a younger age which is related to the growth of ‘cohabitation (technically, heterosexual non-married partners). The fertility of

unmarried couples is lower than married couples, however. Moreover, illegitimate births as a consequence of promiscuity is rare in many European countries other than Britain.

### **The consequences of demographic changes. Changes in age structure.**

In recent years there have been two main reasons why populations are ageing. Firstly, the effect of falling birth cohorts and, secondly, the change in relative mortality rates, in particular, falling mortality of older persons. The fastest ageing has been in southern Europe. This is because fertility in the past was relatively high, so that there are many older survivors of large earlier birth cohorts. Life expectancy at 65 in the EU25 was 15.9 for males and 19.5 for females. (Carone and Costello, 2005) In theory this has increased the number of 'dependents' relative to 'producers'. In Europe, in 2004, there were almost exactly two people aged 15-64 to those aged 0-14 and over 65. But we may not be defining 'dependency' correctly. For example, the demand for manual employment (which could not be undertaken by older people) is falling relative to the demand for service employment, some of which could. In other words, as the population ages, participation increases. (In the UK, for example, changes in the male participation rate (which was falling) since 1931 had twice the effect of changes in age distribution. (Johnson, 1997: 1898) Moreover, many older workers have high levels of human capital. The latter point is critical. In the main, the increase in the participation rate of older workers did not cause the youth unemployment problem, which has become commonplace in virtually every European country, since that is caused by the low human capital embodied in many young people. Moreover, population ageing did not lead to a reduction in expenditure on education, as it could have, because expectations rose. There was a large increase in expenditure on tertiary education, for example.

Finally, dire predictions that the ageing of European populations would lead to a slow down of economic growth have not occurred. This was argued (e.g. by Keynes) that this would lead to a fall in the savings ratio, and hence, in investment. But, as we know, the most important component of economic growth since the Second World War has been in TFP. In other words, the investment rate has been largely determined by the growth rate not *vice versa*.

### **Pensions do, however, provide a challenge.**

Under so-called 'pay as you go' pensions schemes, which have been commonplace in post-war Europe, individuals, while working, pay for the pensions of retired people in return for an expectation that someone else will pay for their pension in the future. There is no fund, as in a private pension scheme. Such schemes became more generous in the 1950s and 1960s. It is easy to see why. Politicians were able to benefit from promises to improve pensions, which, at the time were easy to finance, because there were relatively few existing pensioners and they had not built

up large contributions. In most European countries pension scheme receipts increased faster than expenditure in the 1950s and 1960s, allowing pensions to increase without increases in taxation. In France and Italy, for example, many (but by no means all) workers could expect a retirement income at 60 of two-thirds their average salary indexed linked.

The equation;

$$W(\% t.y) = P(\% p.w)$$

models a pay as you go pension scheme, where  $W$  is the size of the labour force;  $P$ , the number of pensioners;  $\%t$ , the contribution rate;  $\%p$ , the replacement rate (the ratio of pensions to average income;  $y$ , average income and  $w$  the average wage. This shows that if the size of the labour force ( $W$ ) falls (for example, because of population ageing), the level of pensions ( $P$ ) can only be maintained if contributions ( $\% t.y$ ) rise or the value of pensions ( $\% p.w$ ) falls. Note that a rise in GDP will not solve the problem since it would lead to a rise in average income ( $w$ ) and, hence, a rise in pensions. The equation shows why changing the age of retirement has been the preferred policy response to the funding problem. Germany and the Scandinavian countries have already changed the retirement age – coupled with a small increase in contributions. As yet, no European government has abandoned a pay as you go pension scheme, making pensions dependent on individual contributions. Such a policy would mean that existing taxpayers would have paid taxes (their ‘contributions’) but would not receive adequate pensions. Moreover, in a privatised scheme, the government would have no option but to pay pensions to people with no savings – i.e. the very poor. Hence, changing the terms of the existing pay as you go schemes has been politically more attractive. The UK is exceptional, however. The state pension was inadequate when it was introduced in 1948, and was subsequently eroded by inflation. Hence, personal (usually occupational) pensions were the norm. This means that the UK government’s exposure to pension problems was comparatively limited.

## **Migration**

In the immediate post-war period European migration was dominated by refugees and displaced persons. (West Germany was the largest recipient because of expulsions from Eastern Europe.) But by the early 1950s, the immigrants were predominantly workers. Immigration increased until the early 1970s, when it peaked at 3 million (1.5 million net). By 1973, 12 per cent of the German labour force were foreigners and 10 per cent of the French.)

It is easy to see why immigration was so high. ‘Golden Age’ growth rates led to labour shortages. Transport costs were low. The domestic labour force could not increase fast enough – i.e. *via* increased participation, structural change (e.g. labour moving from low productivity sectors, such as

agriculture) to compensate for the low fertility of the 1930s and the losses during the Second World War. About 10% of the increased labour demand in the 'Golden Age' was met by immigration. Within the original EEC six, migration was uncontrolled but only Italy, where incomes were relatively low had significant *intra* EEC migration. Immigration from outside the EEC was strictly controlled. Immigrants entered on fixed term labour contracts. Starting in the 1950s, Workers were recruited, from Turkey, former Yugoslavia, Portugal, Greece, North Africa, West Africa, Spain and Italy. (And Italy before its EEC entry in 1958.) The West German *Gastarbeiter* - literally 'guest worker' – experiment of the 1960s is the best known scheme, although it post-dated similar schemes in France and other countries. (Before 1961, when the Berlin Wall was built, Germany could rely on refugee immigration and its access to the DDR labour market.) The assumption of all the schemes was that the immigrants would return home when demand for their labour fell. Recruitment stopped in the early 1970s, as growth slowed but many temporary workers, declined to leave. Since deportation would have been politically impossible, the European governments, and particularly the West German, had no choice but to transform them into permanent immigrants. In turn, this meant that more dependents entered than workers in the 1970s and 1980s. Britain was an exception. There were no *Gastarbeiter*, or their equivalent, in Britain, but immigration from the Irish Republic was uncontrolled, and high in the 1950s and 1960s. The immigrant populations were clustered. Most immigrants from Turkey and former Yugoslavia were to be found in Germany, for example. There are three reasons. Firstly, recruiters targeted certain nationalities. Secondly, the phenomenon of 'chain migration'. Migration is characterised by uncertainty and previous immigrants (sometimes relatives) are a key source of information about, for example, the labour market. And finally, because of colonial links. The most important of the colonial immigrants were people from North Africa in France, from the Indian sub-continent and from the Caribbean in Britain and the Netherlands. However, the immigration of ethnic minority people from erstwhile colonies has been politically problematic. Following political pressures, most countries changed the status of colonial or ex-colonial citizens. For example, before the 1960s, any person born within the British Empire – e.g. anyone born in India or Pakistan before independence (1947) or in Hong Kong, were British citizens and had the right to live and work in the UK. Following racial tensions in the 1960s, it became necessary for a British passport holder to have a British-born parent to exercise this right. There were major changes in immigration patterns towards the end of the twentieth century. Immigration rates increased. There was a large increase in south to north immigration – i.e. from Africa. The migration pattern in the southern European countries, Italy, Spain and Portugal changed from net emigration to net immigration. The expected influx of immigrants from Eastern Europe was less than expected. The number of immigrants claiming asylum increased. And (net)

emigration out of Europe fell. These trends are relatively easy to explain. Labour demand continued to increase in most European economies but there were structural problems in some European labour markets. Natural increase in every European country was negative. At the same time restrictions on non-European immigration continued. In effect, the only legal way to enter an EU country was to be an EU citizen, to obtain a work permit (normally only give to skilled workers) or to claim asylum.

In economic theory, assuming no barriers to migration, trade and capital movements, migration is explained by the difference in the return to labour in the origin and destination countries. In turn, this is determined by the relative abundance of capital. *Ceteris paribus* labour moves where capital is relatively cheaper and capital moves where labour is cheaper, until a low net migration equilibrium is reached – so called ‘factor price equalisation’. (Theoretically, the relative abundance of resources is important but this is not relevant to recent European migration.) By the late twentieth century, there was free trade in manufactures and free movement of capital in the EU resulting in real income convergence. Hence, we would expect net migration rates across EU borders to have been low and thus was the case, although gross movement was high. The exception was migration from accession countries. Countries entering the EU were usually relatively poor. Moreover, as in many other parts of the world, on average, the productivity of both labour and capital was lower in these countries than in the richer countries – predicting large migration flows. But existing EU members did not have to offer free labour mobility for up to six years. At the time of writing immigrants from the Baltic States, Poland, Romania and Bulgaria without a work permit may only (legally) enter the UK, Ireland and Sweden. The majority of permits were normally granted to skilled workers (and their dependents). Hence, in the later twentieth century, the mean level of skills from non-EU immigrants was rising and that of intra-EU immigrants was falling.

Obviously, the composition of the immigrants was largely determined by the labour market in the main immigrant countries. Two of the three traditional immigrant sectors, manufacturing and agriculture had declined. (Only construction continued to attract large numbers of immigrants.) The demand for skilled labour in high end services was met by recruitment, some of which was within multi-national corporations. But the main demand was for workers in low end services, particularly in the larger and wealthier cities. Since these services could not be traded, the demand was met by unskilled immigration from within the EU and by undocumented immigrants. These, relatively low productivity jobs were not be filled by natives, usually because their reservation wage was too high and internal migration too low. But there were also structural reasons from within the domestic labour market. There were still many (usually older) workers whose skills had become redundant because of industrial decline. They found it very difficult to retrain into the new service occupations. In some countries (e.g. the UK) they were sustained by social security payments on the

grounds that they could not undertake heavy manual labour. Moreover, in several European countries, many young men (but not usually, young women) had few marketable skills. For example, some of the declining industrial towns of eastern Europe have surplus male populations because a large proportion of the young women have left to take up jobs in the larger cities (e.g. Berlin, Budapest) – an option which is not open to young men.

The rate of immigration is affected by an additional structural factor - the extent of the secondary labour market. Undocumented immigrants work in the informal sector because they cannot obtain a social security card. They are to be found in every European country. But the largest number is to be found in those countries with the largest informal labour market, e.g. Portugal, Spain, Italy and Greece. Social security contributions, paid by employers can increase the wage bill by 50-100 per cent. This encourages employers to hire undocumented workers. (Attempts to regularise their position have often been unsuccessful because the workers would lose their jobs if the employers had to pay social security contributions.) There is no question that the demand for illegal immigrant labour is more than zero, for example because many of them provide low cost domestic services. But in some countries they have a presence in several sectors. The source of undocumented immigrants was extremely wide, including, Albania, North and West Africa, Latin America and Russia. (Note that the undocumented immigrants did not cause the growth of the informal labour market. It was *vice versa*. Finally, the number of immigrants claiming asylum increased in the late twentieth century. All the richer countries were affected, but, Germany was the most important recipient, with large numbers of refugees from former Yugoslavia. Most of these returned, however. Asylum seekers were universally disliked by the electorate. Hence, policy in virtually all countries has been seriously to discourage them. It is easy to see why. At its peak in the late 1990s, there were about 500,000 applications per year in Europe. Of these, some 50,000 were accepted. Of the 450,000 who were refused, only 150,000 were deported. This left some 300,000 living in the Europe illegally.

## **Conclusion**

The six decades since the end of the Second World War have seen a major increase in broadly conceived living standards in most parts of Europe. Welfare improvements in Western Europe were easier to achieve, though, during the rapid economic expansion of the *Golden Age* when incomes rose faster than in subsequent decades, when social expenditure as a proportion of rising output increased and when the demographics were more favourable than in the late twentieth century. The evidence for Eastern Europe is far more ambiguous. While initially Eastern Europe performed as well as Southern Europe, if not better, in terms of the HDI, there was a distinct falling off in welfare

levels relative to the West from the early 1970s onwards. This was, on the one hand, an outcome of slower economic growth and, on the other, the result of a flattening out in the growth of life expectancy. The stagnation in life expectancy at birth, we hypothesize, may have been the price paid for the rapid post-war industrialization with its emphasis on the expansion of heavy and pollutant-intensive industries. Or: much of Eastern Europe was experiencing after the Second World War what the economically most advanced parts of Western Europe experienced during the industrial revolutions of the nineteenth century.

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