

Small State or Small Families?



Economic Conservatism, Social
Conservatism and the need for more
children

Paul Morland and Philip Pilkington



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Endorsements

“This stimulating report by Policy Exchange addresses one of the top global issues of our time: the impact of collapsing birthrates on our economy, society and public services. Regardless of whether one agrees or not with the specific conclusions and recommendations, this is a matter which deserves to be talked about more. Policy Exchange’s report ably demonstrates that no-one who cares about lower taxes or a smaller state can afford to ignore the subject of demographic change.”

Neil O’Brien MP, Shadow Minister for Education

“Falling birthrates present a whole range of economic and social challenges, among them higher and higher social spending and therefore taxation. The UK cannot sustain its current level of wealth on a birthrate of below 1.5 children per woman – and falling.

“This new Policy Exchange report exposes the myth that immigration can be our saviour. Instead, as the authors rightly argue, we must move beyond cliched thinking of left and right. Only by embracing solutions from across the political spectrum – from family-friendly taxation to better maternity leave - can we solve this growing demographic crisis.”

David Goodhart, Head of Demography at Policy Exchange and Best-selling author of ‘The Road to Somewhere and The Care Dilemma’

“We need to have a discussion about how we can strengthen the role of the family as a cultural and social unit - and the demographic question is one important part of that discussion. This paper by Policy Exchange is a very important and welcome contribution to the debate.”

Salma Shah, Senior Government Adviser 2014-19

About the Authors

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Summary

One of the fundamental tensions at the heart of modern British Conservatism often appears to be between Economic and Social Conservatives, those who emphasise the need for lower taxes and a smaller state on the one hand and those who hanker for a more traditional society on the other. In fact, their interests are in common, for the aspirations of the Economic Conservatives will be far more difficult to achieve without meeting the aspirations of Social Conservatives for a more pro-natal society.

Low birth rates create an ageing population increasingly dependent upon the state: without getting back to a population pyramid with a lower base – which means more children – the UK and other developed countries are likely set on an endless journey towards greater dependence on the state, rising taxes and exploding levels of state debt. This paper explains the conundrum, quantifies it and suggests some ways forward.

Modelling three scenarios, we find that the combination of continued low birthrates and the ageing population could result in a significant increase in Government spending – an increase that would require an increase in taxation equivalent to a rise in the average rate of income tax by 7.4 percentage points. Contrary to some suggestions, even ongoing levels of high net migration, at over 600,000 a year, would not compensate for low birth rates, and would still leave a spending gap equivalent to an increase in the average rate of income tax by 4.1 percentage points. Only an increase in the birth rate to above replacement rate will mitigate the impact of the ageing population, leaving only a small demographic pressure that could be readily mitigated and overcome by improved economic growth, increased public sector productivity or other efficiencies.

Discussion of birthrates has been seen as a marginal concern in the UK, but the urgency of increasing the birthrate is being increasingly recognised in other countries, including socio-economically developed democracies such as France and Denmark. The immediate step forward would be for a UK government of whatever colour or stripe to join what is becoming an increasing norm amount developed states and acknowledge that a nation cannot have a future if it fails to reproduce itself, and that this nation has not been reproducing itself for half a century.

We consider specific policies that might need to be adopted by a government to reverse the declining birthrates, including examining the potential impact of housing, maternity pay, childcare, tax and benefit policies and regulation – as well as the less measurable and more intangible impact of culture. While many of these would help, we conclude there is no silver bullet to solving the problem, as declining birthrates are found

in countries with a wide diversity of policies and attitudes, including generous maternity pay and childcare polices, cheaper housing and more 'traditional' social attitudes. Rather we conclude that, to be effective, there would need to be a broader reorientation of policy, taxation and benefits across the board, from the focus on the individual to a system that consistently and systematically supports the family, and considers the impact of policies and spending upon it, combined with a cultural shift in favour of returning to a society in which couples have, on average, two to three children. At this point, far from being a leader, the UK is a laggard in addressing the looming demographic crisis.

Chapter One: Economic Conservatism, Social Conservatism and the Hidden Hand of Demography

Conservatism's Ideological Divide

There is an ideological divide at the heart of modern Conservatism in Britain. Obscured recently by the multiplicity of parliamentary groupings and by the shifting positions over time of leaders and leadership candidates, the divide can be characterised mostly simply as being between *Economic Conservatives* and *Social Conservatives*. Similar divides can be seen on the political right in other countries, but our focus here is on the UK.

There are of course other divisions on the British right. Brexit created a sharp division in the Conservative Party, drawing rather different fault line. Some Economic Conservatives saw the benefit of remaining with the EU while others sought to create a 'Singapore on the Thames'. Social Conservatives might somewhat have gravitated to the cause of Brexit as a project to restore the nation, but they too were divided on the subject. However, as the question of the UK's relationship with Europe recedes, the division between Economic and Social Conservatives is regaining its salience.

This division has a long pedigree. It is a division rooted in historical Conservative ambivalence towards free markets and the social change that comes in their wake. There is an ideological divide with its origins in the nineteenth century, rearing its head again in the later twentieth century. The tension between custom and competition, between time-honoured tradition and untrammelled trade, has long run through the heart of the political right in the UK and beyond. Competitive forces- unmediated and unconstrained by the state - have a tendency to tear up social norms, conventions and settled forms of life valued by Conservatives and to call forth demands that limitations be placed on those forces. But personal liberty and property rights demand that it is the state, not the market, that needs to be constrained. In the nineteenth century, free trade exemplified by the repeal of the Corn Laws was seen to undermine the rural social fabric and the hierarchy and stability of the established order at the behest of new urban, industrial forces.¹ The issue split the Tory Party of the day. Questions of free trade split the Conservatives again sixty years later

1. See, for example, *Victorian Studies*, Volume 5, No.3, "Reflections on the Repeal of the Corn Law", March 1962, pp. 189-203, [link](#)

around the question of Imperial Preference. Disraelian Conservatism in part defined itself against Gladstonian *laissez-faire* liberalism.

In more recent times, the debate within British Conservatism has mirrored one in the United States. Post-industrialism and concomitant hyper-individualism are held by some to be responsible for undermining the established patterns of social life.² Globalisation stands similarly charged.³ Those on the political right find themselves divided on these issues.

The point of view that can be called Economic Conservatism came particularly to the fore in the era of Thatcherism, when British Conservatism increasingly defined itself against the encroaching rise of the social democratic state which the post-war Labour Party had come to embody and to which, for a time, the Conservatives accommodated themselves. National revival and economic recovery, Margaret Thatcher and her colleagues proclaimed, required lower taxes, less government spending, privatisation and the unleashing of competitive forces. This was the Conservatism that Keith Joseph and Margaret Thatcher discovered – or re-discovered - in the 1970s, its intellectual home in the Institute of Economic Affairs, its gurus Ludwig von Mises, Friedrich Hayek and Milton Friedman; their thought championed in the UK by men like Alfred Sherman and Arthur Seldon. The practical heyday of this ideology was in the 1980s and early 1990s when efforts were made and considerably realised to roll back the state in Britain. Marginal tax rates were brought down, government spending was reined in and vast swathes of industry were privatised. Along with confrontation with the Trades Unions and a tough stance towards the Soviet Union in close alliance with the USA under Ronald Reagan, these were the fundamentals of Thatcherism. The path taken then was necessary. It restored the fortunes of the United Kingdom and won the Conservative Party four successive election victories and eighteen years in power.

It could be said that, emotionally, Thatcher was also a Social Conservative. She lauded what she labelled ‘Victorian values’, imbibed as a child of Grantham, which included not only economic self-reliance – required for a limited state – but also strong families and traditional morality. She hoped that her economic policies would encourage these values to flourish.⁴ But for all their achievements, the Conservative administrations which ruled from the late 1970s to the late 1990s were unable to overcome the underlying trends away from social conservatism and its traditional institutions, including the family. The Thatcher administrations found that a freer economy, - essential to restoring prosperity at home and Britain’s place in the world - did not re-enforce the more traditional social patterns as had been hoped. In this, Marx was right:

‘Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all newformed

2. See, for example, New York: Basic Books, “The Cultural Contradictions of Capitalism”, 1976

3. See, for example, Vanderbilt Journal of Transnational Law Volume 41, Issue.2, “Do Norms Still Matter? The Corrosive Effects of Globalization on the Vitality of Norms”, pp. 327-379, March 2008, [link](#)

4. History Volume 82, No.268, “Thatcher and the Victorians: A Suitable Case for Comparison?”, 1997, pp.601-620, [link](#)

ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind'.⁵

When Labour came to power in 1997, the Blairite programme seemed to absorb some of the lessons of Thatcherism, at least initially aiming to hold government spending steady, and with no plans to reverse the extensive programme of privatisation which had placed whole swathes of the economy back in the private sector, nor to undo any element of Trades Union reform. But there was an essential difference between Thatcher and Blair; for Blair, social change was to be embraced and promoted alongside free market policies. The Cameron government from 2010 followed in a similar vein. It worked to put the public finances back in order following the 2008 financial crisis while reforming public services, introducing sweeping welfare reforms and promoting socially liberal policies such as gay marriage. Although electoral and parliamentary mathematics forced Cameron into a coalition with the Liberal Democrats, the impression was always given that this was a coalition with which he and his colleagues had little discomfort.

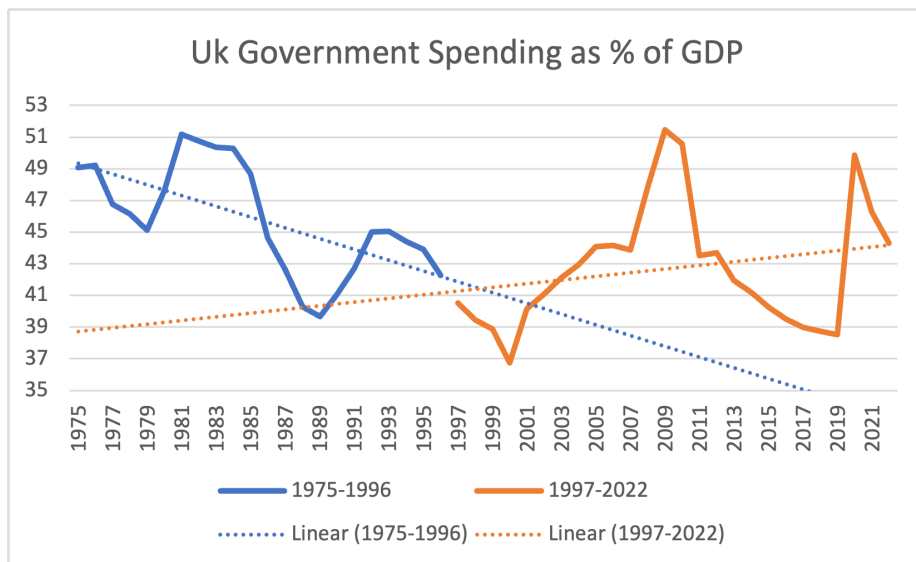
Since then, a more socially-aware Conservatism has started to emerge and to create a new fault line within the party. To an extent it can be seen as a generational divide at work within British Conservatism. Those of the Baby Boomer generation look to recreate the small state that was, or that they imagine was, the hallmark of Thatcherism. Many younger Conservatives support free markets but do not assume that by themselves, they will automatically deliver the sort of society they wish to see. They note the continuing falls in fertility rates, the continuing rise of childlessness outside marriage and the cultural fragmentation of a once homogenous society through mass migration.

Today's Conservative party includes many who believe that the country's fundamental problems are economic. Success for the party and the country will come if only the magic of the Thatcherite period can only be re-kindled. Somehow it must be possible to cut taxes. One way or another it must be possible to reduce government spending despite the setback of Covid and the rising demands for defence spending in the wake of Russia's invasion of Ukraine. Yet somehow, during fourteen years of Conservative government, the realisation of the Thatcherite formula for success seemed endlessly to be just over the horizon. The small state, like the bottom of the rainbow, is forever in view and never within reach.

This is particularly striking if we look at the development of government spending over the past half century. The following chart shows UK government spending as a percentage of GDP during two periods: 1975-1996 and 1997-2022. The first period encompasses the premierships of Margaret Thatcher and John Major together with the period immediately preceding the former. We see here clearly a sharp downward trend in government spending as a share of national income. This was the fruit of the struggle by Thatcher and her allies to rein in spending, curtail the state and restore enterprise to the heart of national life. But even though

5. Marxists.org, "Manifesto of the Communist Party", first published February 1848, [link](#)

Thatcherite economic ideas became the norm in the Blair and post-Blair era that followed the election of Tony Blair in 1997, since then we have seen a gradual upward creep in government spending share.



In the 1980s, the main opposition within the Conservative Party to the Thatcher project came from a group known as ‘wets’ who wanted a slower pace of economic change. They were not by-and-large Social Conservatives, although their attitudes were in some cases patriarchal. Today’s Social Conservatives are perhaps a more heterogeneous group and their concerns are more variegated. Some consider family the basic structure of society and seek ways to shore it up. They regret the decline of the share of births within marriage and may have been resistant to the legal recognition in changing sexual mores, such as the introduction of no-fault divorce. A small number may have strong religious objections to the legalisation of gay marriage, or to abortion.. Others in turn worry about the rapid cultural change the UK has experienced in the last decades of mass immigration and lament the loss of cohesion of communities. Social Conservatives may particularly focus on the need for law and order. Some may hold all of these views, others just some of them. All are likely to believe that having children is a ‘good thing’, but some would worry about the rise of births outside marriage and the increasing number of single mothers while others would be more open to a variety of family structures providing society is creating its demographic future. What unites them is a sense that simply allowing the forces of the market to blow through society is reckless and, in many ways, contributes to the social changes they dislike. They see a role for the state in preserving and promoting the characteristics of traditional society that they value.

Neither Side is Winning

The Conservative Party was in power, partly in coalition and partly depending on minority party support but for much of the time with absolute majorities, from 2010 to 2024. In 1997, after eighteen years of rule, the Party was exhausted but even in the aftermath of its historic defeat at the election that year, it was hard to deny the extraordinary and transformative task it had achieved. The Trades Unions had been tamed. The economy had flourished and the country lost its reputation as the ‘sick man of Europe’. Business had thrived and privatisation had been judged a success. The growth of state spending was reversed, albeit modestly. Tony Blair’s government inherited an economic legacy of low inflation, falling unemployment and relatively low government indebtedness.⁶ Today, with the ending of another long period of Conservative political dominance, there is far less of a sense of success and achievement. Both Social and Economic Conservatives are frustrated and disappointed, neither having achieved their goals.

Economically, the state has got bigger, the tax burden has grown the government debt has risen as a share of GDP. The Tories were returned to power in 2010 in the wake of the financial crisis. As tax revenues recovered from the recession, in 2011 government spending was 43.5% of GDP. In 2022, after over a decade of Tory rule, it has risen modestly to 44.3%. Since 2010 personal taxes are two percentage points higher as a share of GDP and the debt to GDP ratio has risen from around two-thirds of GDP to around 100%.⁷ There was progress in reducing the state’s share of spend in the early years of the most recent Conservative predominance, reversing the post-economic crisis splurge, but even as the costs of Covid and energy cost support fade, there seems to be no prospect of returning to lower levels of spend. It would seem that only in the most benign of external circumstances is it possible to prevent the state from growing, never mind actually shrinking it. Even the greatest defender of the Conservative record since 2010 could not boast that this has been an administration that has achieved low taxes and sound public finance.

Social Conservatives have equal reason to be disappointed by the results of fourteen years of Tory rule, although they may be less surprised. The burgeoning state itself is something many will dislike, undermining social bonds and obligations and replacing them with coercive taxation and centralised spending. But while the various governments in power from 2010 to 2024 at least expressed broadly small-state aspirations – on which they have to an extent failed to deliver – they have not even suggested that they aspire to anything vaguely Socially Conservative. Social trends have generally been in a direction that Social Conservatives do not welcome. Whilst the number of divorces has stabilised (it was more or less the same in 2009 and 2021), the number of marriages fell 10% between 2010 and 2019 – the last year not impacted by Covid – while births outside marriage rose to over 50% for the first time in 2021.⁸ Crucially, the fertility rate has tumbled. Back in 2010 it was close to a post-baby-boom high of nearly two children per woman; in 2023 it was not much above 1.5.⁹ Post-Brexit,

6. UK Public Spending, [link](#), last accessed 13th August 2024, [link](#); Office for National Statistics, “Consumer price inflation, historical estimates and recent trends, UK: 1950 to 2022” 18th May 2022, [link](#); Bank of England, “Public sector debt: end March 1997”, 1st December 1997, [link](#)
7. Statista, “Public sector net debt expressed as a percentage of GDP in the United Kingdom from 1900-01 to 2028/29”, 3rd July 2024, [link](#)
8. Office for National Statistics, “Births in England and Wales: 2022 (refreshed population)”, 23rd February 2024, [link](#)
9. Ibid.

the scale of migration has not shrunk but has grown: while the numbers of those coming from the Continent have declined, they have been more than replaced by increasing numbers from the rest of the world.¹⁰ For Social Conservatives valuing traditional institutions such as the family and the nation, and for whom social cohesion, integration and shared values are a priority, these are all negative developments.

After so long a period of Conservative rule and four successive electoral victories (albeit only two with clear working majorities), Conservatives of both the Economic and Social variety are disappointed. The former imagine that bold, supposedly Thatcherite policies of tax cutting, combined with continuing mass migration, will allow GDP to grow more robustly, bringing in tax revenues and allowing further tax cuts and a reduction in debt as a share of GDP. The latter are sceptical, noting the failure of the Truss administration to persuade the markets that the pursuit of a Laffer curve is feasible, and at the same time are looking for government to institute stricter border controls and somehow to support a return to more traditional social structures. They are alarmed at the spread of trends observable within, for example, schools, universities, the Civil Service and the armed forces promoting a DEI (Diversity, Equity and Inclusion) and Trans-genderist agenda. Conservative Governments seem no more able to hold back the 'woke' tide than it does to turn back the boats bringing asylum seekers across the Channel or more generally to limit immigration in the face of pressure from the human rights lobby on the one hand and businesses eager for cheap labour on the other. In some undefinable way, the Zeitgeist seems to press in a direction antithetical to both Economic and Social Conservatives, leaving both feeling defeated despite having been in power for fourteen years. Victories, such as the recent Cass report, are few and far between.

The disappointment and frustration of both Conservative tribes is feeding the generally febrile atmosphere on the political right. It is not surprising that the Party experienced whiplash, swinging wildly in different directions and getting through five leaders in fourteen years of government compared with just two leaders in the eighteen years in power between 1979 and 1997. The divide between Economic and Social Conservatism in the UK can only be resolved, and Conservatives can only start to unite, to win and to be effective, if they understand that at the heart of the contradiction between these two groups is an issue too often overlooked: demography.

Whatever the ideological difference between these two groups, the argument of this paper is that there are grounds for their unity if demography is understood. In essence, developed societies cannot have a small state if they insist on having small families. On the contrary, they must choose between small state and small families. These issues and tensions are common across the political Right and apply as much to Reform as they do the Conservatives. Values and policies that support pronatalism and a rise in the fertility rate are essential if anything like the Thatcherite vision of a retreating state and a rise in personal rather than

10. Office for National Statistics, "Long-term international migration, provisional: year ending June 2023", 23rd November 2023, [link](#)

collective responsibility is to be realised. At least one element of Social Conservatism – namely Pro-natalism – is necessary in the long term if Economic Conservatism is to meet its goals. And, after half a century of below-replacement fertility rates in the UK, the long term has arrived.

The Demographic Dividend: Thatcherism's Secret Weapon

Before investigating how demographic change is required to come to the rescue of small-state Conservatism - how Social Conservatism is required in the service of Economic Conservatism - it is necessary to understand the role the former has already played in the historic success of the latter. The argument, in a nutshell, is that during the triumph of the Thatcherite years, the UK was benefiting from a little-noticed 'demographic dividend'.

The 'demographic dividend' is a term we tend to associate with developing countries moving out of the phase of ultra-high fertility. For such societies, there is, relative to the population as a whole, a large cohort of newly-working-age people in their twenties and early thirties. They are the product of high fertility rates in a previous generation. The elderly, who have been fecund, are therefore relatively few in number compared to their progeny. But meanwhile, the twenty- and thirty-somethings are dramatically reducing their own fertility rates. This means a demographic bulge in the working-age population, especially concentrated at the younger and more dynamic end of the population. These new young workers are less encumbered by offspring than were their parents, choosing smaller families. As a result, the economy benefits from a boom deeply rooted in demography.¹¹ By its nature this propitious time for the economy cannot last forever but while it does persist it can provide the conditions for economic take-off. These were the demographic circumstances under which Japan emerged post-war to become one of the world's leading industrial economies. It provides much of the explanation for the Asian economic miracle of the 1970s, 1980s and 1990s from Korea to Singapore.¹² It also explains the dynamism today of economies such as those of India and Indonesia, both countries with large cohorts of early working-age but moderating fertility rates. Felicitous demography is no guarantee of economic success – countries like Syria, facing just such a youth bulge, have not been able to translate into a demographic dividend – but if not a sufficient condition for economic take-off, the right demography is close to being a *necessary* one.

We do not generally associate the demographic dividend with advanced industrial and post-industrial countries like the UK but in fact part of the economic success and dynamism of the Thatcher period can be explained by the demography of the post-war baby boom and by its manifestation after a couple of decades in the workforce. In the immediate post-war era, the national economy suffered from labour shortages resulting from the dislocation of the war itself, the need for reconstruction and the continuing large-scale maintenance of armed forces, including the continuation of

11. See for example; International Monetary Fund, "What is the Demographic Dividend?", September 2006, [link](#); Picador, "Tomorrow's People" The Future of Humanity in Ten Numbers", 17th March 2022 pp. 54-55, [link](#)

12. Journal of Asian Economics, Volume 19, Issue 5-6, "East Asian economic development: two demographic dividends", 1st November 2009, pp.389-399, [link](#)

National Service until the early 1960s. But there was an additional element at play; the depression of birth rates during the inter-war period. Between the eve of the First World War in 1914 and the eve of the Second in 1939, the UK fertility rate fell from around three to around two children per woman.¹³ The continuing fall in infant mortality rates somewhat offset the depressing impact this had on the flow into the workforce in the 1940s and 1950s but its effects could be felt nevertheless. John Maynard Keynes and other economists had noted the low levels of fertility rates in the 1930s and this had given rise to a degree of economic pessimism.¹⁴

But Britain, along with much of the West, was blessed with a baby-boom after the Second World War. In the UK, this saw fertility rates rise to nearly 2.5 children per woman in the early 1950s and to not much short of three in the early 1960s.¹⁵ This second spike meant a particularly large cohort of young workers entering the labour market in the first half of the 1980s. On the other hand, the fertility rate by then was well below replacement level, and so, in a mild way, the UK in the period benefited from many of the characteristics we now associate with demographic dividends we witness in the developing world. Relative to the population as a whole, the elderly were a modest share (over-65s were still less than 15% of the population in 1980 compared with approaching 20% now) requiring correspondingly modest pensions and healthcare spend, while the under-fifteens were likewise relatively small in number (reduced from around 30% to 25% between 1970 and 1990).¹⁶

Buoyed by a young and relatively unshackled working-age population, the country was poised to flourish. Fortuitously, North Sea oil revenues began to flow at the same time, providing the country with a double fillip. This was not guaranteed – the right policies were essential – and the downside of a swell of young entrants to the workplace and a highly-valued quasi-petrocurrency was persistent unemployment even as the economy recovered from its early-1980s recession. Yet a confluence of wise macro- and micro-economic management and favourable demography laid the foundations for economic growth and national recovery. (Note that the decline in the fertility rate from the mid-1960s was storing up problems for the future, to which we will come. But although it would eventually mean a shortage of workers and a falling ratio of those of working age to those retired, initially the lower birth rate served as a tonic, reducing the requirement for spending on education and releasing a higher proportion of potential parents, and particularly women, into the workforce. This is a paradoxical effect which we will explore in greater depth below.)

Business was able to recruit the young plentiful young labour available, and this was an essential part of its dynamism in the middle and later Thatcher period, and some years beyond. It was under these conditions that tax revenues grew in spite of tax cuts and state expenditure was brought under control in spite of the costs of unemployment pay. Within a few years of the accession to power of Margaret Thatcher, the worst of a deep recession was over. The 1983 election may in part have been such a triumph for the Conservatives because of the Falklands Effect, but

13. Statista, "Total fertility rate in the United Kingdom from 1800 to 2020", 9th August 2024, [link](#)

14. A Journal of Demography, Volume 8, Issue 3, "John Maynard Keynes's theories of population and the concept of "optimum", published online 8th December 2011, pp. 228-46, [link](#)

15. Office for National Statistics, "Births in England and Wales: 2022 (refreshed populations)", 23rd February 2024, [link](#)

16. United Nations, "Population Division. World Population Prospects 2019", last accessed 13th August 2024, [link](#)

four years into the Thatcher experiment, it was clear that the economic prospects were improving. The long forward advance of the state that had been proceeding since the Second World War was at least halted and even slightly reversed. Thatcher's sound economic policies were given an invaluable tailwind via the benefits of the demographic dividend.

A Demographic Dividend No More

When asked to account for the disappointment of Economic Conservatives in reducing state spend relative to the economy, the standard responses are likely to mention Covid and the war in Ukraine, the latter resulting in a spike in energy prices and compensatory subsidies for household fuel bills. Those who appreciate the demographic or at least inter-generational underpinnings of our malaise are rare.¹⁷

For sure, the upsets of Covid and the Ukraine-war related energy shocks have both made exceptional demands on the public purse, but as already noted, even as they recede, the State does not. It is true that government spend as a share of GDP was on a downward trajectory from 2010 to 2019 as the exceptional measures to deal with the fallout of the 2008 financial crisis ceased to be necessary. But so-called 'austerity' did no more than bring it back to the pre-2008 crisis level.¹⁸ With Covid now well behind us, and even though defence spending as a share of GDP is still well below its 2010 level, the government share of the national pie is reaching post-war peaks.¹⁹

So, either government has struggled manfully to bring its spend under control against strong countervailing forces or it has allowed it to rise. In both cases, it has been battling against an underlying demographic reality that is sharply different to what faced the Tory administrations of the 1980s and 1990s. This is not to say that it would be impossible to reduce the size of the state, or to increase public sector productivity, in the face of demographic headwinds. It is simply that it adds significant additional challenges to doing so.

The results of fifty years of below-replacement level fertility rates are being felt in the labour force and in the welfare state, and this is the reason why solid achievements in rolling back the state or even in preventing it from rolling forward have been so difficult. It is possible to change the retirement age, and some progress has been made in doing this.²⁰ But the impacts are small compared to the rise in the older population. Since the mid-1980s, the share of over-65s relative to the working-age population (essentially aged 20-65) has grown from a quarter to a third. By the middle of this century, in just twenty-five years' time, it projected to be around a half.²¹ Unsurprisingly, pensions spending has risen; from less than 4% of GDP in the 1980s to over 7% today.²²

Disappointing economic growth and sluggish productivity gains have also played their role in constraining what government could achieve financially, forcing a higher level of taxation for a given level of spending and borrowing. Some argue that the declines in productivity may in part be put down to ageing and a loss of inventiveness, innovation and

17. Atlantic Books. "The Pinch: How Baby Boomers Took Their Children's Future - and Why They Should Give It Back", 1st May 2011, [link](#)

18. TaxLab, "What does the government spend money on?", last accessed 13th August 2024, [link](#)

19. Ibid.

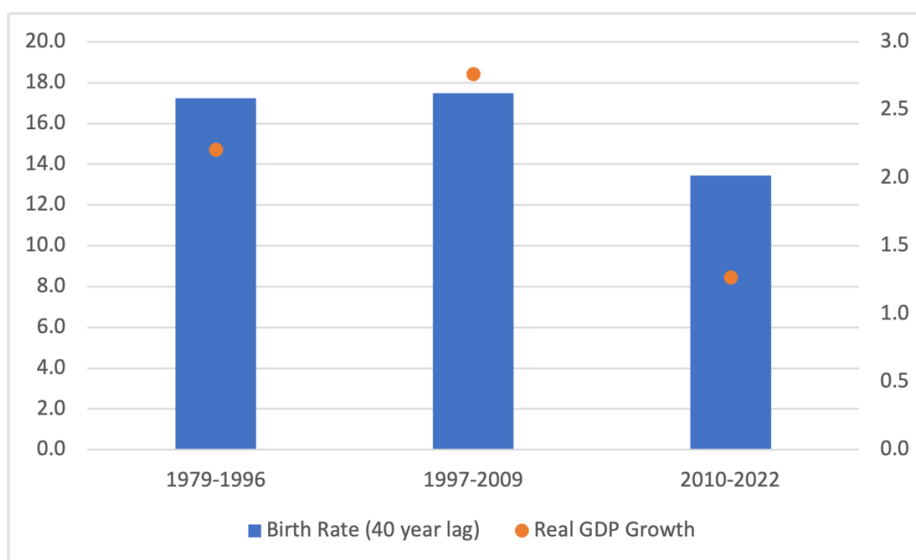
20. House of Commons Library, "State pension age review", 6th April 2023, [link](#)

21. United Nations Department of Economics and Social Affairs, "World Population Prospects 2019", last accessed 13th August 2024, [link](#)

22. Institute of Chartered Accountants in England and Wales, "Graphic: 70 years of public spending", 19th April 2023, [link](#)

dynamism associated with younger populations. On the other hand, some studies have shown productivity rises with age – up to a point. So waning rises in productivity can be viewed as at least in part exogenous to the demographic structure and at least in part not explainable by them.²³

The story of the demographic dividend and its reversal can be seen in the following chart. The chart plots the average birth rate lagged by 40 years²⁴ against the average real GDP growth for a given period. As we can see, during the Thatcher-Major years the demographic dividend was still robust with the 40 year-lagged birth rate at around 17.2 babies per 1,000 people. The Blair-Brown years were still riding high on the baby boom with an average 40-year lagged birth rate of 17.5. But the recent series of Tory governments have inherited a demographic lemon: the average 40-year lagged birth rate has fallen 13.4. Economic growth has followed the 40-year lagged birth rate almost exactly. This is not surprising as GDP growth is determined by working-age population growth and labour productivity growth. If the former sags, it is an almost an arithmetical certainty that GDP will fall – and this is precisely what we see.



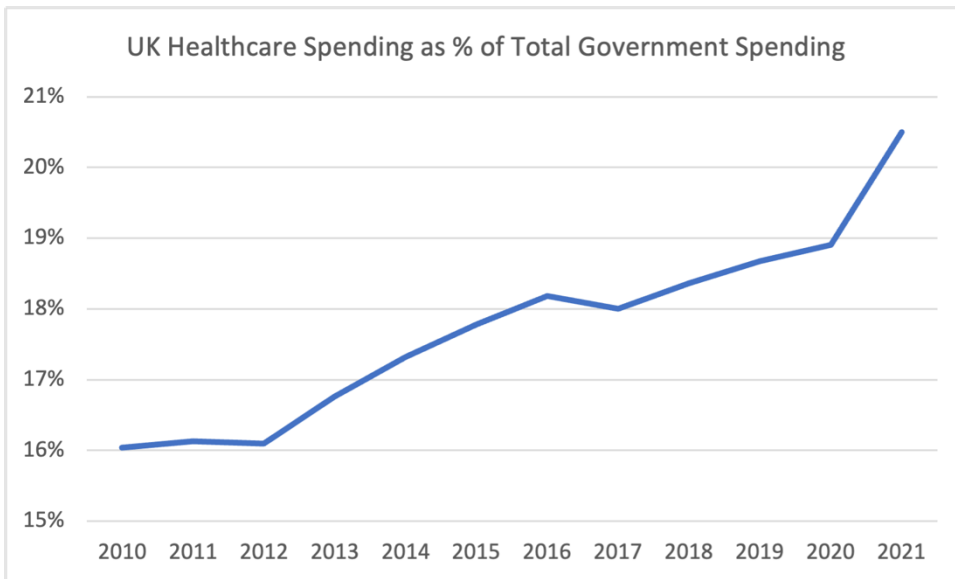
It is not only the pensions bill which has swollen with the rising age of the population. So too has the healthcare bill. The dramatic rise in spending on the NHS matched by declining perceptions of what it is able to deliver can best be understood in the context of the ageing population. It is reckoned that someone aged 85 requires six or seven times as much healthcare spend as someone in their twenties, thirties or early forties.²⁵ Since the mid-1980s, those aged over 85 have more than doubled as a share of the UK population; by the end of the current century, it is forecast that they will more than have tripled again.²⁶ Recent Tory governments have seen the upward trend in healthcare spending that has been triggered by this shift, as can be seen in the following chart.

23. National Academies of Sciences, Engineering and Medicine, "Aging and the Macroeconomy. Long-Term Implications of an Older Population", 10th December 2012, [link](#)

24. A person is counted in the working age population if they are between the ages of 15 and 64. 40-year-olds fall in the middle of this range. Hence, we lag the birth rate by 40 years to see its future impact on the labour force.

25. Gov.UK, "Ageing and health expenditure", 29th January 2019, [link](#)

26. United Nations Department of Economics and Social Affairs, "World Population Prospects 2019", last accessed 13th August 2024, [link](#)



Burgeoning demands on the public purse combined with a rising unmet demand for labour and consequent loss of tax revenue are having the effect of bloating the state. In such circumstances, strong economic growth and major increases to public sector productivity might be able to stave off the increase in government spend as a share of GDP. But where these are lacking – as they have been in recent years – the result is ever-increasing state spending.

Before we go on to model and quantify the impact of long-term low fertility rates on the size of the state relative to the economy, two questions need to be dealt with. First; will an increase in the birth rate and a rise in the number of young worsen the dependency ratio, making still further demands on government spend, in this case for school provision and childcare, without providing workers and taxpayers for decades? And second, can immigration resolve this problem by providing ready-made and minted workers to fill our requirements and rebalance the demographic pyramid?

Dependency and Old-Age Dependency Ratios and the Paradox of Youth

The dependency ratio and the old-age dependency ratio are different things, and a clear distinction between the two is required if the argument in this paper is to be understood.

What makes the traditional demographic dividend experienced by developing countries so powerful is the fact that while the elderly dependents are a small share of the population for reasons outlined above (their high fertility rate and large number of surviving offspring render them a small share of the population), at the same time the bulge generation in their twenties and thirties are choosing to constrain their own fertility. This means that the share of the population of working age is doubly large relative to the population as a whole: both because of the scarcity of those

older than them and of those younger than them. A whole generation or two is able to devote itself to the needs of the economy. We see this in a country like Indonesia today, where those aged over 65 are around 7% of the total population (compared with close to 20% in the UK) while the fertility rate today is at around 2.2 children per woman, down from 5.5 in the late 1960s.²⁷

A situation like Indonesia's can be expressed as an exceptionally low *dependency ratio*, where the dependency ratio is the proportion of those both *too old* and *too young* to be in the workforce as a share of those of workable age. The *old age dependency ratio*, by contrast, looks only at those too old to be in the workforce as a share of those suitably aged to work. When the very young are small in number, this does help the economy, for it means relatively light investment in schools and childcare and greater participation of women in the workforce is possible. But this is a distinctly different kind of benefit from when the very old are relatively small in number. Investment in the young particularly in their education, is the most obvious way for a society to invest in its future, indeed to ensure its future. Provision for the elderly is the hallmark of a civilised society and to be lauded, but it does not in itself provide an economic payback. Changes in the retirement age, already in the process of being accomplished, make sense as people live longer and, to an extent, live healthier lives into later age. But, as we will show, the difference further changes in this direction will make are limited, akin to not much more than moving the proverbial deckchairs on the Titanic.

So, while it true that a low dependency ratio is good for a society and economy, this needs to be unpicked. Insofar as it is created by a low *old age* dependency ratio, which is normally the case where previous generations have had high fertility rates in an environment of high survival for offspring, then it is very much an unmixed blessing. Where and insofar as it is a result of a low *young age* dependency ratio, it is storing up problems for the future. We might think of this by analogising it to investment versus consumption. In an economy, both investment and consumption cost money and resources. But while consumption spending sucks up resources that produce nothing further, investment spending sucks up resources that produce more than the sum of those resources in the future. Money spent on young age dependents is akin to investment spending as it produces workers in the future, while money spent on old age dependents is like consumption spending. The UK's below-fertility rate of the 1970s, 1980s and 1990s gave those decades a relatively light pass in terms of the need to invest in the young, but today the lack of that investment – and the small size of the generation in which we invested – is haunting our economy and plaguing it with labour shortages and a lack of workers and taxpayers to support today's elderly. Societies enjoying a low dependency ratio for lack of the young are effectively eating their seed corn.

Persistently low fertility and the increasingly inverted population pyramid it creates will lead to a higher dependency ratio when a large cohort reaches old age and must cope with its own lack of fecundity and

27. Ibid.

the lack of younger people to support it. For developing countries enjoying a low dependency ratio, the relative lack of youngsters is a natural part of a development towards a lower fertility rate. Providing this fertility rate does not fall catastrophically low, the dependency ratio will eventually rise but need not do so disastrously. In Indonesia, for example, with its moderate but still above-replacement rate fertility of a little over two, the overall dependency ratio by the end of the century will have deteriorated, but only to the kind of level the UK was enjoying back in the mid-1980s.²⁸

All of this presents us with what we might call the paradox of youth. On the one hand, a lack of young people due to a low fertility rate lowers the overall dependency ratio and provides some immediate benefits to an economy. On the other hand, it stores up problems for the future. When it is first experienced, and there are no stored-up problems from the past currently manifesting themselves, the impact seems entirely positive. But it is a false economy, rather like a consumer-oriented company flattering its annual earnings by slashing back on the marketing budget. By so-doing it can be sure that in future years, its earnings will as a result be depressed.

The Immigration 'Fix'

There initially appears to be an easy way out of the conundrum that economies face when decades of low fertility start to present themselves as rising dependency ratios and lack of labour: immigration. It is no coincidence that in the UK, during the demographic dividend years of the 1980s and early 1990s, net immigration was small and often negative.²⁹ Once the arrival of the large tail-end baby boomers had already entered the economy and the newly-arriving cohorts were smaller, the requirement for immigration rose. As early baby boomers have been retreating from the workforce, the problem has become more acute. The British economy was in search of fresh workers whom the society was no longer providing in sufficiently large numbers.

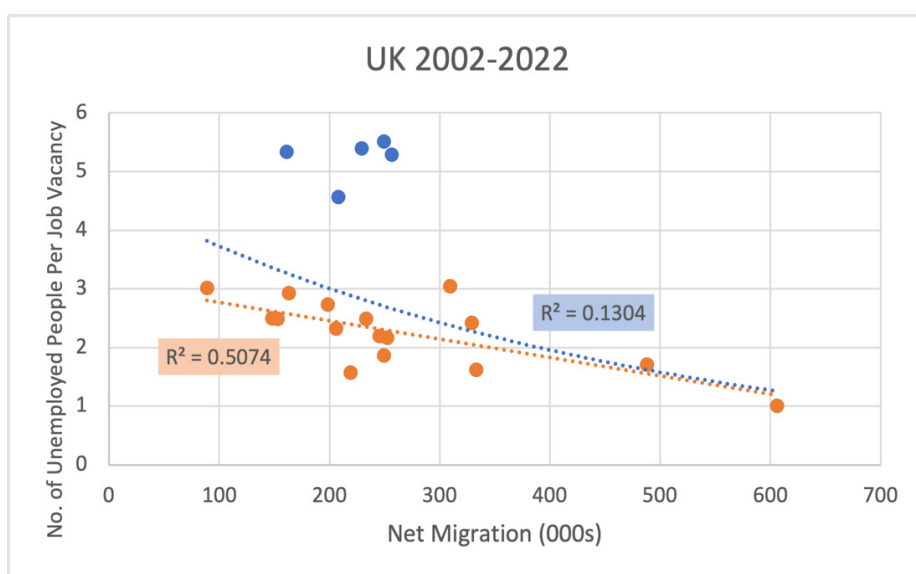
The demands for immigration today are particularly vociferous from the business sector. This is thanks to widespread labour shortages. In the days when large cohorts were arriving at the workplace this was not the case; there was a plentiful local pool from which to recruit. Today, as that pool dries up, businesses look overseas for workers. So do state employers such as the NHS and schools, desperate to plug recruitment gaps. This appears to many be the alternative to a society bearing its own children; leaving it to others to do so and then inviting them to move to where wages are higher.

This can be seen in the following chart which plots unemployed workers per job vacancy against net migration in Britain in the 2000s. Here we have two regression lines: one for the full sample, and one excluding the periods of high unemployment in the immediate aftermath of the 2008 financial crisis (blue dots). If we exclude the period in the immediate aftermath of the recession, the correlation between the two is very strong. What this suggests is that net migration, outside of serious recessions where migrants continue to turn up even though there is little

28. Ibid.

29. Office for National Statistics, "Explore 50 years of international migration to and from the UK", 1st December 2016, [link](#)

work³⁰, is largely driven by the number of unemployed people per job vacancy. We should pay particular attention to the 2022 datapoint in the bottom right of the chart. In 2022, the British economy was experiencing severe labour shortages. As the chart shows, the number of unemployed people per vacancy fell close to 1 for the first time. This correlated with unprecedented net migration figures of over 600,000 migrants per year. At the time when this was taking place, those opposed to these historically unprecedented levels of inward migration failed to make the connection to the existing labour shortages – let alone the fact that these labour shortages were due to half a century of below replacement fertility rates. If birth rates do not rise in the future, we would expect this dynamic to repeat itself any time the British economy is running at low unemployment.



In most years since the late 1990s there has been more immigration into the UK than it received in the whole period from the Norman Invasion to the Second World War.³¹ However, mass immigration is at best a palliative, and one which comes with significant side-effects. There are severe limits to what can and what should be achieved by way of ameliorating demographic shortcomings by means of immigration. We have discussed them elsewhere.³² But in brief and for the record they include the following:

- Immigration can only be a temporary fix since immigrants in turn grow old and their own fertility rates, even if they come from high fertility countries, tend to converge on the local norm, meaning that to keep dependency ratios down, ever greater numbers of freshly-arriving immigrants are required.
- Immigration from high-skills countries such as Ireland and Poland will become more difficult as Britain becomes a less attractive country thanks to narrowing wage differentials (or in the Irish case, higher wages at home) and shrinking cohorts of twenty- and

30. This is probably due to an informational lag. Migrants typically travel to countries after hearing 'through the grapevine' that there are good job opportunities. It seems likely that positive news travels faster and more reliably, as it were, than negative news. This in turn is likely due to the fact that potential migrants gradually build up a picture of a country in their mind over years of hearing positive stories and so when they hear negative stories, they discount them.

31. This takes the British Isles as a single unit and does not therefore include immigration from Ireland. See Routledge, "Demographic Engineering: Population Strategies in Ethnic Conflict", 6th February 2018, p. 7, [link](#)

32. Alliance for Responsible Citizenship Research, "Migration, Stagnation or Procreation: Quantifying the Demographic Trilemma", October 2023, pp. 7-10, [link](#); See also Morland, Paul, *No One Left: Why the World Needs More Children*, London, Forum, 4th July 2024

thirty-something potential emigrants because of their own falling fertility rates.

- Across Europe, rapid immigration, with a resulting loss in cultural cohesion, are fuelling populism and in the UK were significantly behind Brexit; mass immigration is not popular with voters and it is not unreasonable or necessarily 'far right' when concern about its impact is expressed in the UK.
- There is a certain immorality in wealthy countries like the UK leaving it to much poorer people in places like Ghana to raise and educate children, sometimes at great cost for example in terms of medicine, only then to skim off the best and brightest. There are reputedly more Ghanaians working in healthcare in the UK than in Ghana, despite Ghana having a much lower ratio of doctors to the population.

In our modelling to quantify the trade-off between small families and the small state – aimed at showing that only higher fertility can allow for a more resilient and less state-dependent economy and society – we have therefore taken a neutral stance in comparing scenarios with regard to immigration. While immigration is – and has been – a short-term alternative route to redressing demographic imbalances, it is not one on which any country should rely on excessively or exclusively as the UK has now for a quarter of a century.

Chapter Two: Small State or Small Families – Quantifying The Choice

In this section of the paper, we will try to get some sense of just how deleterious the effects of an ageing population might be on the public finances of the United Kingdom. When modelling the impact of demographic changes on the economy, the researcher has much leeway. Demographic changes impact the economy at almost every level. For example, an ageing population is a population with a smaller labour force relative to the number of consumers. This can affect everything from economic growth to tax revenue growth to the rate of capital formation. These effects can be felt in both the short-term – as with tax revenue growth – and in the long-term – as with the rate of capital formation. “With four parameters I can fit an elephant,” the mathematician John Von Neumann once said, “and with five I can make him wiggle his trunk.” What Von Neumann meant was that if a modeller is given sufficient leeway in terms of the variables they can adjust, they can produce results that suit their interests to a very impressive degree. Put more technically: as the number of arbitrary parameters rises, so too does the modeller’s freedom to make a model say what he would like it to.

For this reason, we have opted to be as parsimonious as possible. In what follows we will attempt to model only the most basic relationship between the age structure of the population and government finances. We will seek to establish only the most basic empirical relationships and then show what they imply for British public finances moving forward in three different scenarios, which we will introduce shortly. This inherently biases our modelling to be not just conservative but *extremely* conservative. The impact of an ageing population on economic growth and tax revenue growth is both logically unassailable and supported by empirical evidence.³³ This means that our model almost certainly underestimates the impact of an ageing population on the government’s fiscal balance. As we shall argue in what follows, the fact that we are able to generate dramatic results even from such a conservative model should raise alarm bells amongst policymakers about this major threat to the British economy and to British government finances.

To build our model we draw on our earlier modelling work³⁴ showing the impact of fertility rates and immigration on the old age dependency ratio (OADR). The OADR measures the number of elderly retired people

33. See: Dougherty, S et al. (2022); OECD *Working Paper on Fiscal Federalism*, “Funding the future: The impact of population ageing on revenues across levels of government”, 20th August 2022, [link](#); National Bureau of Economic Research, “The effect of population aging on economic growth, the labor force and productivity” working paper, revised June 2022, [link](#)

34. Alliance for Responsible Citizenship Research, “Migration, Stagnation or Procreation: Quantifying the Demographic Trilemma”, October 2023, pp. 7-10, [link](#);

relative to the number of people in the labour force. Our previous modelling work has attempted to model OADR under three distinct scenarios that we believe represent policy choices for Britain moving into the future:

1. The first scenario is one in which Britain continues the path it is currently on with birth rates falling and inward net migration filling the gap. In this scenario, British fertility rates fall stay around the same as they are today (1.56) until 2080.³⁵ Meanwhile, migration starts at just over 460,000 per year and grows up to around 660,000 per year in 2080. We will refer to this scenario as: ‘High-Immigration, Low-Birth Scenario’.
2. The second scenario is one in which Britain seeks to vastly reduce the rate of immigration while seeing a gradual decline in its fertility rate to just over 0.9 in 2080. We might imagine this as a scenario where a hardline anti-immigration government rose to power in Britain. In this scenario, migration falls to just over 23,000 people annually and rises to 33,000 people by 2080. We will refer to this scenario as: ‘Low-Migration, Low-Birth Scenario’.
3. The third scenario is one in which Britain sees a moderate amount of immigration and succeeds in immediately raising its fertility rate and ensuring an upward trend in its birth during the 21st century. We might imagine this as a situation in which Britain produced a highly successful pro-natalist government. In this scenario, migration falls from present levels to just over 116,000 annually and rises gradually to just over 165,000 annually in 2080; meanwhile, the fertility rate immediately rises to 2 and then creeps up to 3 by 2080. We refer to this scenario as: ‘Mid-Immigration, High-Birth Scenario’.

Clearly, demographic change and immigration are not the only things that impact government income and spending. The level of economic growth, as well as potential productivity gains in both the private and public sector could make a significant difference, whether achieved through organisational reform or technological breakthroughs. Future Governments may also make choices as to what public services will be funding, to what extent, and about future eligibility for benefits or entitlements.

It is outside the scope of this paper to model such changes and we have, therefore, used the same central estimates on these matters for each of the scenarios above. The different scenarios therefore illustrate the relative impact of demography on public spending regardless of whatever is – or is not – accomplished with regards to productivity and growth, at any given level of efficiency and effectiveness from public services.

35. This is an extremely conservative assumption. As we argue in the paper, provisional evidence from younger generations strongly suggests that British fertility rates are set to fall in the coming years unless something changes.

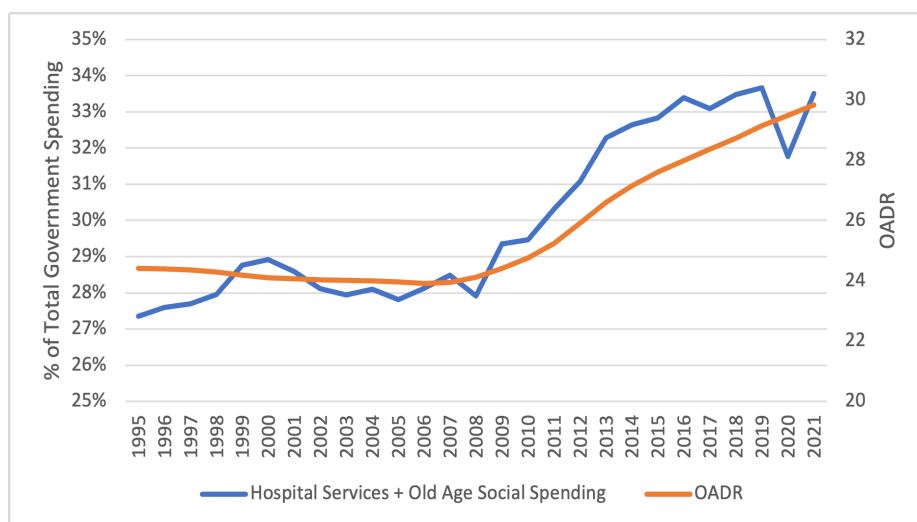
Impact of demographic structure on government cost

Next, we need to measure the impact of demographic structure on government cost. Here we utilise the Classification of the Functions of Government (COFOG) statistics.³⁶ COFOG statistics allow us to break government spending up into broad categories. As stated, we have sought to be as conservative as possible when choosing which categories to use when considering the impact of an aging population on government finances. We have settled on two. The first is spending on hospital services. We find that these statistics correlate well with our OADR metric and that they are intuitively plausible. In effect, they measure the usage of hospitals and similar services³⁷ We know that a large and growing number of people using these services are elderly.³⁸ Researchers at the NHS write:

“The average age of hospital patients has been rising steadily for many years. Between 2005-06 and 2015-16, the number of admissions for patients aged 44 and under increased by less than 9 per cent (from 5.8 million to 6.3 million), whilst for patients aged 45 and over it increased by nearly 44 per cent (from 6.9 million to 9.9 million).”³⁹

The second COFOG metric we have used is old age social spending. This is a comprehensive category that seeks to measure the amount of government spending deployed to support the elderly population.⁴⁰ Note that this statistic contains within it public pension spending and so this does not need to be modelled separately.

The following chart plots these two variables as a percent of total government spending in Britain against Britain’s OADR. As we see – and unsurprisingly, given what this spending is used for – the two reliably rise together. This is the core correlation that drives our model.



Although we utilise British time-series data from the COFOG statistics in our model, it is worth cross-checking our statistical method and intuition with international data. The following chart shows data available from the OECD for 35 countries in 2019 and plots old age public spending plus public pensions as a percentage of GDP against OADR. These are slightly

36. See: Eurostat, “Manual on Sources and Methods for the Compilation of COFOG Statistics- Classification of the Functions of Government (COFOG)- 2019 edition”, 25th September 2019, [link](#)

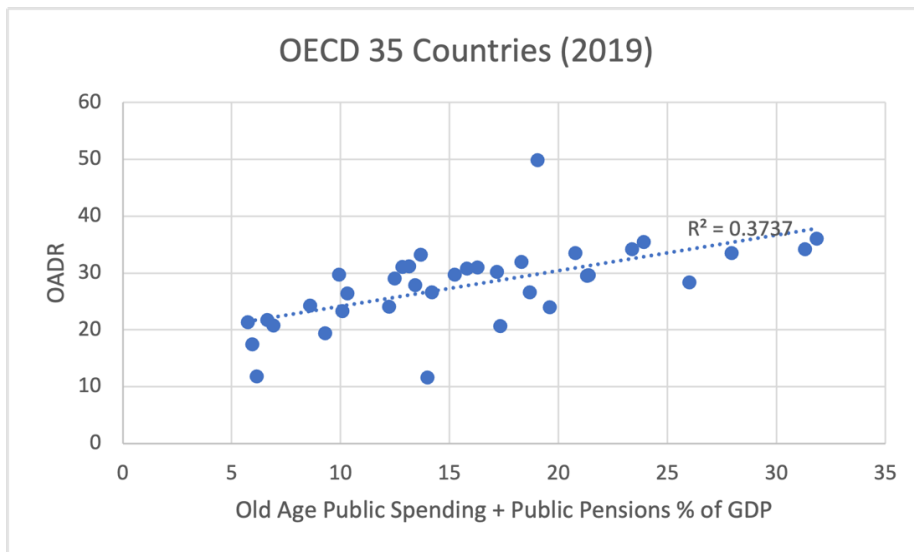
37. Ibid, p218; “This group covers the services of general and specialist hospitals, the services of medical centres, maternity centres, nursing homes and convalescent homes which chiefly provide in-patient services, the services of military base hospitals, the services of institutions serving old people in which medical monitoring is an essential component and the services of rehabilitation centres providing in-patient healthcare and rehabilitative therapy where the objective is to treat the patient rather than to provide long-term support.”

38. Note that if we wanted to be more liberal in our assumptions, we would try to factor in this scaling effect: i.e. that given the NHS statistics the beta between OADR, and hospital services should be exponential rather than linear. We have maintained our conservative modelling posture, however, and simply assumed linearity.

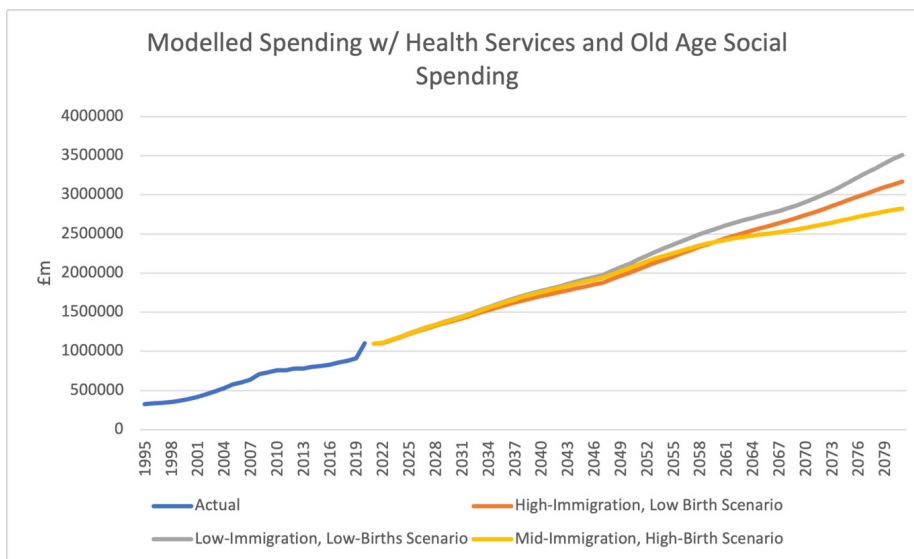
39. NHS England, “Hospital admissions hit record high as population ages”, 9th November 2016, [link](#)

40. See: Eurostat, “Manual on Sources and Methods for the Compilation of COFOG Statistics”, 25th September 2019, pp.226-227 [link](#); “Provision of social protection in the form of cash benefits and benefits in kind against the risks linked to old age (loss of income, inadequate income, lack of independence in carrying out daily tasks, reduced participation in social and community life, etc.); administration, operation or support of such social protection schemes; cash benefits, such as old-age pensions paid to persons on reaching the standard retirement age, anticipated old-age pensions paid to older workers who retire before the standard retirement age, partial retirement pensions paid either before or after the standard retirement age to older workers who continue working but reduce their working hours, care allowances, other periodic or lumpsum payments paid upon retirement or on account of old age; benefits in kind, such as lodging and sometimes board provided to elderly persons either in specialized institutions or staying with families in appropriate establishments, assistance provided to elderly persons to help them with daily tasks (home help, transport facilities etc.), allowances paid to the person who looks after an elderly person, miscellaneous services and goods provided to elderly persons to enable them to participate in leisure and cultural activities or to travel or to participate in community life. Includes: pension schemes for military personnel and for government employees. Excludes: early retirement benefits paid to older workers who retire before reaching standard retirement age due to disability (10.12) or unemployment (10.50).”

different measures than the COFOG measures we are using, but we believe that having cross-sectional confirmation firms up our methodology.



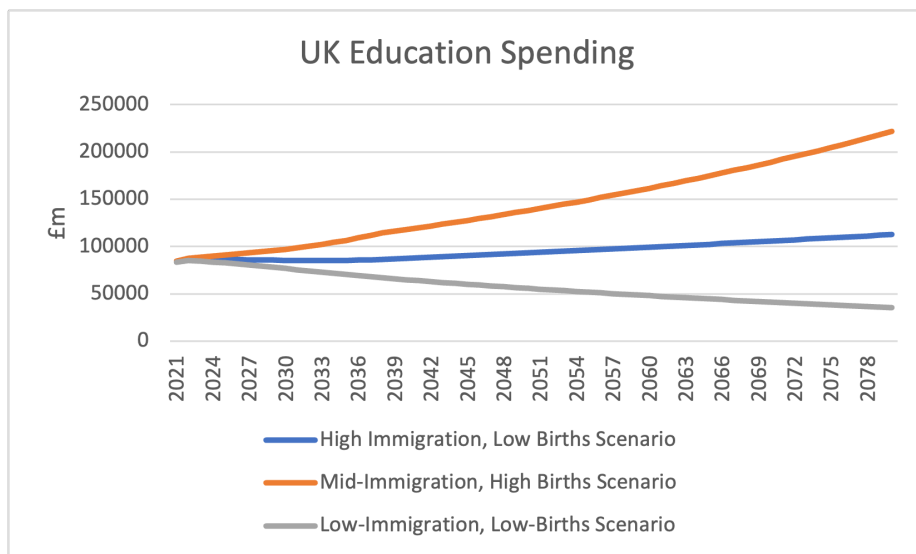
This gives us a model of government spending which accounts for the pressure the elderly place on the government for our three scenarios.



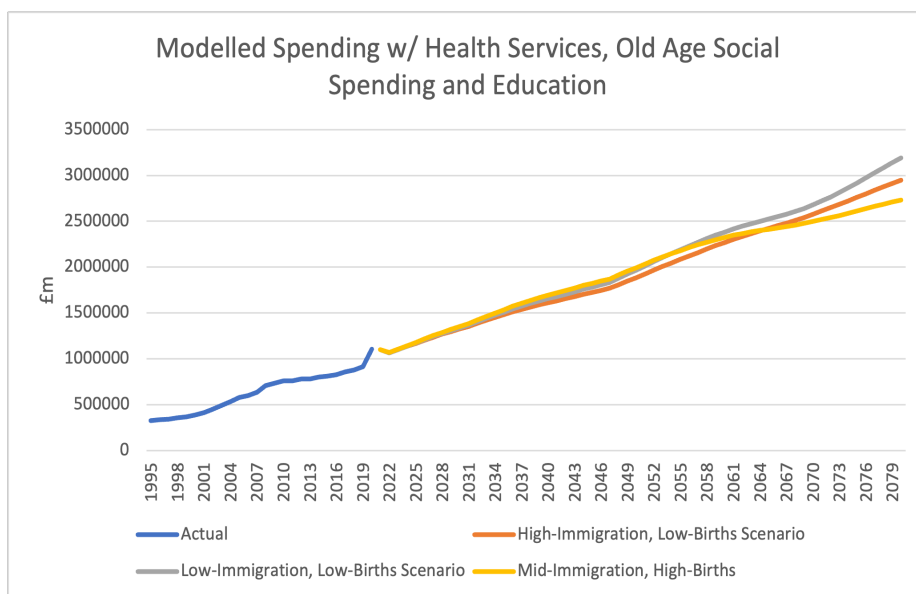
Finally, we need to factor in potentially reduced spending on the young in a scenario of falling birth rates. The main government expenditure component that is spent on the young is education. We will focus on primary and secondary education so as not to get caught up in the debate about how tertiary education should be funded and whether it should be reduced.⁴¹ Here we will use a slightly different methodology due to the inability to easily correlate the number of young people with COFOG educational spending. To calculate education spending we take the number of people aged 0-17 alive in any given year and multiply it by average

41. Primary and secondary spending is the core of British education spending anyway. Primary and secondary spending made up 64% of total British government education spending in 2021 while tertiary and post-secondary spending made up only 17%.

education spending per child, adjusted for education spending inflation.⁴² The chart below shows the results of this model.



We can then subtract the changes in education spending to get a full model of how the aging population impacts government spending in our three scenarios.



42. Average spending per child was £7690 per year and, after running the numbers, we allowed this to grow 2.3% a year – we think a good estimate of education spending inflation and roughly in line with average general inflation. See: Gov.uk, "School funding statistics/ Financial year 2023-24", 25th January 2024, [link](#)

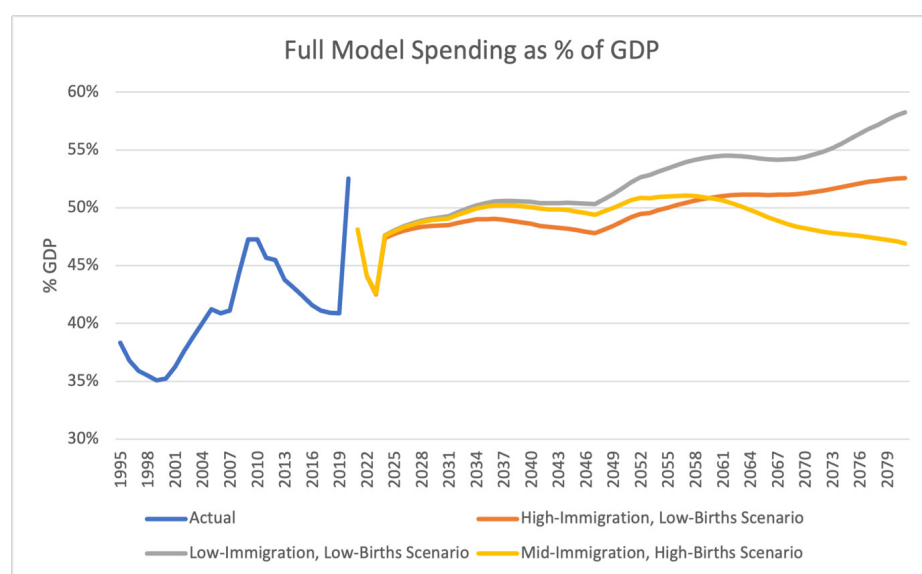
43. Again, we are being highly conservative here because (a) at the time of writing British economic growth is stagnant and (b) as we have already stated, it seems highly likely that an aging population would even further suppress British GDP growth. We have assumed that British growth continues along a linear path seen since 1995.

Using this overall model and a linear projection of British nominal GDP growth⁴³, we can express these scenarios as a percentage of GDP to get a better view of their sustainability. Here we start to see the results of our modelling more clearly. Our high-immigration, low-births scenario – that is, effectively the course that Britain is pursuing today – does not appear to be sustainable. Government spending rises from around 48% of GDP today to around 53% of GDP by 2080. It would also, as has been

discussed above, have potentially major impacts in terms of pressure on public services, housing and cultural cohesion.

Restricting immigration without raising birth rates makes this situation far worse. Under this scenario, government spending rises from 48% today to around 58% in 2080.

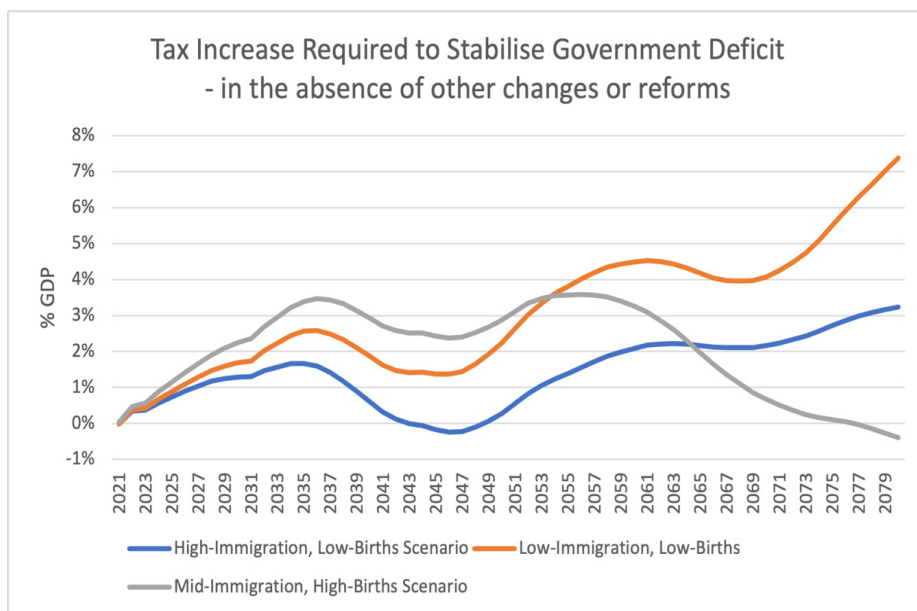
The only scenario that looks to be stabilising for British government finances is our mid-immigration, high birth model. Here we see that the government's share of spending rises quite fast – this is due to the additional costs of education associated with higher fertility rates – and then stabilises around 2060. By 2080, it has fallen slightly to below 47% and is on a clear downward trajectory after this as the natural increase in population gains momentum. This is despite net immigration being held to between 100,000 and 200,000 a year – significantly lower than in recent years.



We would be careful to highlight here how long it takes for even successful pro-natalist policies to have an impact. At the time of writing, Britain has seen below replacement birth rates for nearly half a century. This has already built in extreme problems for the future, as we can already start to sense looking at this chart, and there is nothing we can currently do about it. British policymakers should have been addressing these low birth rates 30 or 40 years ago. Because they chose not to, we will have to live with the consequences for the next half century. Of course, this should not sway us from trying to increase fertility rates. If we do not the problems will only worsen. We merely highlight this to underline the gravity of the situation facing the country.

It is interesting to also consider the ramifications of this increased government spending on taxation or on the government budget balance. With a rising share of GDP being spent by the government, then, in the absence of other reforms that deliver increased productivity in the public sector or broader economic growth, this will need to be financed either by raising taxes or by increasing the government

deficit and, hence, borrowing. We can model this by taking a linear model of future government revenues⁴⁴ and adjusting our modelled spending scenarios. This gives us the amount by which taxes will need to be raised relative to GDP to not add to the deficit – or, conversely, how much the deficit will have to increase in lieu of tax increases.



Of course, these increases are not inevitable. Government could choose to vary the amount it spends on public services, benefits and entitlements either up or down. Similarly, increasing economic growth or increasing public sector productivity would reduce the tax increases required, while a reduction in these would result in a greater liability. How to achieve higher growth and productivity – while vital for the future of the country – is outside the scope of this modelling, which has applied the same assumptions on growth and productivity to all scenarios.

A government might be tempted to hold down short-term costs by continuing doing what Britain has been doing in the recent past: maintaining a low birth rate and high immigration. In fact, this chart may go a long way to explaining why Britain has been pursuing this path. Even a low-immigration, low-birth path is more attractive in the short-term than engaging in a pro-natalist policy. But in the long run, this proves to be equivalent to eating one’s seed corn, as much higher taxes and borrowing are required later.

It is worth considering how much average income taxes in Britain would have to increase by 2080 to stabilise the budget, in the absence of other reforms. We calculate this by taking the average income tax rates in Britain as calculated by McDaniel⁴⁵ and regressing them on the tax burden (i.e. tax revenue as % of GDP). We can then use the coefficient to estimate approximately how much income taxes would have to rise under our scenarios. These are laid out in the table below.

44. Once again, a very conservative assumption given that we know an aging population will hurt tax revenues in a variety of ways.

45. Arizona State University Working Paper, "Average Tax Rates on Consumption, Investment, Labor and Capital in the OECD 1950-2003", March 2007, [link](#)

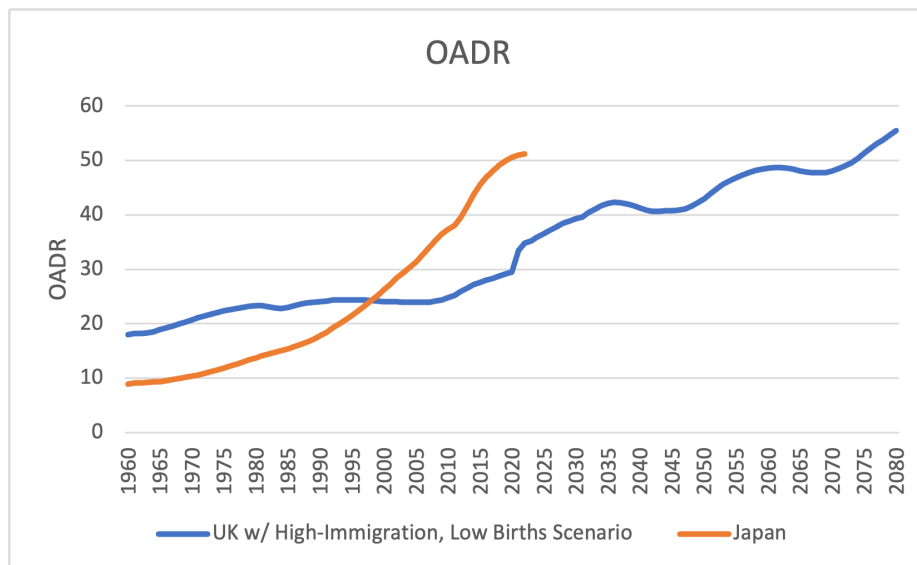
2080 - Average Income Tax Changes	Average Income Tax Rate	Change from 2015-20 Average
High-Immigration, Low-Birth	30.5%	4.1%
Low-Immigration, Low-Birth	33.9%	7.4%
Mid-Immigration, High-Birth	27.9%	1.4%
2015-20 Average	26.4%	

On its current trajectory, Britain would be facing a 4.1% increase in the average rate of income tax – that is, the actual rate of tax that people pay from their income – to stabilise the budget. If an immigration restrictionist government got into power, an enormous 7.4% increase in the average rate of income tax would be required. Overcoming these increases through productivity increases and curbing spending would be challenging even for an economically conservative government fully committed to economic reforms.

Again, only the high birth model results in a trivial increase in the average rate of income tax in the long-term. This comparatively small demographic headwind would clearly be much more feasible to be mitigated through economic growth, public sector productivity growth and spending efficiencies – meaning a pro-natalist, economically conservative government could, in practice, deliver falling tax rates and increased economic growth.

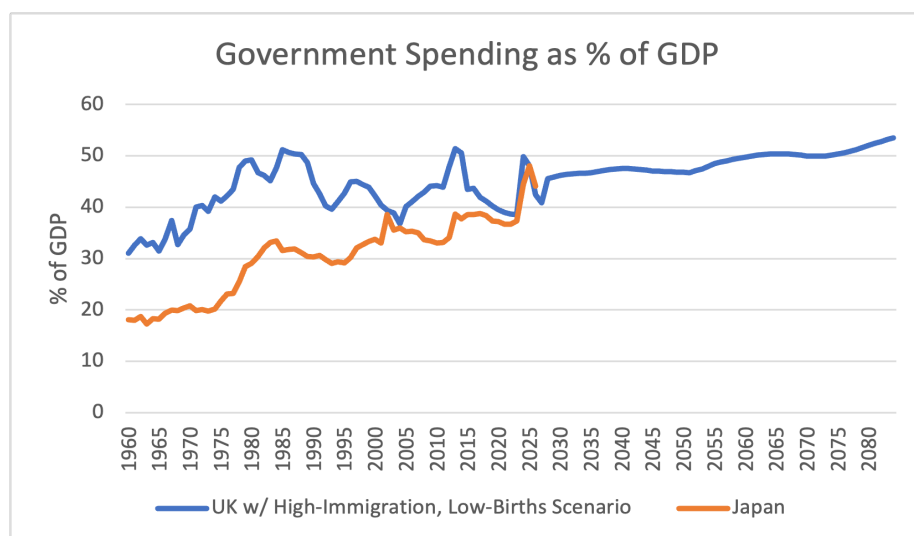
We should also stress that it is not in principle impossible that there may be scenarios in which the size of the state and the necessary tax and debt burden could be controlled even without a restoration of higher birth rates. Gains in productivity in the public services, particularly the NHS, could make a significant difference, whether achieved through organisational reform or technological breakthroughs. And whatever is – or is not – accomplished in this regard, at any given level of efficiency and effectiveness from public services, the burden of the state within the wider economy will be lower with a younger population.

Finally, we will double check our numbers against an existing empirical example. Engaging in complex modelling can often make researchers blind to what their models are doing – it is almost impossible to keep track of all the moving parts. Therefore, it is very useful to check results against results that have taken place in the real world if these are available. Fortunately for us, there is already a country that has gone through some of the aging process as captured by our model: Japan. Let us get slightly more familiar with the dynamics in Japan as compared to our model before we run our test. First let us compare the OADR of Japan in recent years with British data together with our high-immigration, low-births model – recall this is what happens if Britain carries on as is.



Here we see that Japan’s population aged far faster than Britain’s has in recent years. It also aged far more rapidly than we expect Britain to age under a high-immigration, low-births model. The reason for this is successive governments’ willingness to accept large amounts of migration and the relatively higher UK fertility rate over the past five decades. Japan has only begun the process of replacing the babies that are not being born with immigrants. Because Japan is quite a closed society and culture, the country tolerated stagnant economic growth for decades and only started engaging in mass migration when labour shortages started to appear after 2008.

Unsurprisingly, when we look at Japanese government spending as a percentage of GDP, it rises much faster than what we see in our high-immigration, low-births model. It is worth noting here, however, that Japan started from a much lower base in terms of government spending as a share of the economy. It took Japan going from an OADR of less than 9% to an OADR of over 50% just to catch up with British levels of government spending as a share of the economy. British policymakers should pay close attention to this as when people discuss the economic and budgetary impacts of an ageing population, they often cite Japan. But this may be misleading because Japan had a great deal of ‘catch-up space’ when it came to having a large government sector. Even this, however, has not stopped Japan from racking up enormous government deficits and debt: at 263% of GDP Japan has the largest stock of government debt in the world.



We can now undertake our ‘sanity check’ on our model. The table below compares how much Japanese government spending rose as a percent of GDP when it transitioned from an OADR of 34 in 2007 to an OADR of 51 in 2022. It compares this to what our high-immigration, low-births scenario model predicts when Britain makes a similar transition between 2022 and 2075. We see that the two figures are in the same ballpark. We also see that the empirical evidence from Japan shows an increase that is about 20% larger than what the model predicts for Britain – once more showing that we have likely been conservative in our approach.

Increase in Government Spending as % of GDP		
	Japan	UK
OADR 34=>51	11.02	9.17

What are the key takeaways from the modelling? Here we would list a few.

1. Which scenario occurs makes an enormous difference to British public finances. Both scenarios with low birth rates have major negative fiscal implications. Even permitting mass immigration does not negate these pressures, it only mitigates them – at a potentially significant cost to cultural cohesion and pressure on public services and housing affordability. The only long-term solution to this problem is to raise the birth rate.
2. Pursuing a policy of raising the birth rate itself comes with trade-offs between the short-term and the long-term. If birth rates are increased immediately the older population already in existence would continue to exist for several decades. This means that the government will need to fund both higher education costs and the higher costs associated with old age dependence. This provides strong incentives for governments not to act on the birth rate.

We would point out that not doing so would be extremely short-sighted because not acting is in effect eating your fiscal seed corn to stave off hunger for a very short period and thereby losing the only opportunity you have for a long-term solution.

These findings will be used to inform our recommendations to the British government which we will explore at the end of this paper.

Chapter Three: Policy Implications

Acknowledging That We Have a Problem

It is now more than fifty years since the UK's fertility rate went below replacement level. In the last year in which women in the UK were having enough children for the population to replace itself – 1972 – the Duke of Windsor died, Chancellor Anthony Barber was stoking his notorious and eponymous boom and John Betjeman was appointed Poet Laureate. Richard Nixon was in the White House and Leonid Brezhnev was in the Kremlin with a decade in office ahead of him. In demographic terms, this is two generations ago. And yet in all that time there has been, to our knowledge, not a single expression of concern on the part of any British government nor even the suggestion of a single policy to address the problem. One can only confirm that the low fertility rate is indeed essentially not seen as a problem by the powers that be and have been in the UK. Only recently have voices begun to be heard from some Conservative backbenchers, such as former MP Miriam Cates, suggesting that something is wrong.⁴⁶ In fact we are going backwards: Keir Starmer has spoken on the subject, but only to say that he is not going to get involved. Since low fertility will itself take time to turn around, and since new births do not feed into the workforce for a couple of decades, it is high time a discussion on the subject commenced and action is urgent.

That urgency is recognised in other countries, including socio-economically developed democracies. Early in 2024 France's President Macron lamented his country's falling fertility levels and called for a 'demographic rearmament'.⁴⁷ Governments of EU countries from Finland to Greece and from Spain to Romania have policies to raise their fertility rates.⁴⁸ Japanese Liberal Democrat governments have long been trying to tackle the problem of demographic demise and the current Prime Minister, Fumio Kishida, has pledged to redouble efforts in order to prevent 'civilisational collapse'.⁴⁹ Even if such a pro-natalist stance is less common in the Anglosphere, it is not unknown. Australian Treasurer Paul Costello argued the need for 'One for Mum, One for Dad and One for the Country' and launched a baby bonus scheme in 2002 aimed at encouraging families to have more children.⁵⁰ A UN study in 2019 reckoned that no fewer than twenty-nine countries had pro-natalist policies, among them a significant number of EU member states.⁵¹

The immediate step forward would be for a UK government of whatever

46. The Critic, "Arresting the fertility crisis", 24th May 2024, [link](#) (impression: 8th May 2024)

47. The Guardian, "Macron wants more French babies- but his meddling fertility plan isn't the answer", 9th February 2024, [link](#) (impression: 7th May 2024)

48. United Nations Department of Economic and Social Affairs, "World Population Policies 2021: Policies Related to Fertility", 2021, [link](#)

49. Financial Review, "Peter Costello's 'baby bonus' generation grows up", 21st April, [link](#) 2023; Bloomberg, "Fears of Societal Collapse Prompt New Push for Babies in Japan", 27th March 2023

50. Financial Review, "Peter Costello's 'baby bonus' generation grows up", 21st April, [link](#) 2023

51. United Nations Department of Economic and Social Affairs, "World Population Policies 2021: Policies Related to Fertility", 2021, [link](#)

colour or stripe to join what is becoming an increasing norm amount developed states and acknowledge that a nation cannot have a future if it fails to reproduce itself, and that this nation has not been reproducing itself for half a century.

The reluctance on the part of politicians to do so is in a way understandable. First, any action taken today is likely to have cost implications while at the same time the benefits will not be felt for a very long time. Second, it is far from clear what government can do and whether it is likely to be effective. Third, the state of the national conversation is such that it might be expected that there is political capital to lose and little obvious gain. Pronatalism is still seen as a fringe and slightly weird position to take. It is even suggested that there is something ‘far-right’ about it. When one of the authors of this paper proposed some family-supporting policies in a national newspaper, he was met with an invective which included accusations of proposing sinister folly and sounding like a neo-fascist.⁵²

All three of these causes of reluctance need to be riposted. First, the political leadership needs to take responsibility for the long term – if not they, then who? – and can get credit if they can articulate a persuasive case for the necessity of what they are doing. Second, the assumption that there is no political gain in re-orienting the tax and benefit towards the support of families is probably wrong. Constituencies can be built out of such policies, particularly in socially-conservative working-class communities that delivered the Conservative Party a large majority at the 2019 election. To these can be added family-oriented ethnic minority communities, a growing share of the electorate as the UK becomes more ethnically diverse. Overseas, family-friendly policies have also proved to be election winners.⁵³ Third, any association of pro-natalism with the ‘far right’ needs to be scotched. As we have seen, policies encouraging childbearing are common overseas across the political spectrum. And historically, it has often been the left which has been sharpest in its critique of population restrictionism (see Marx’s critique of Malthus) and the first to introduce family-friendly policies (see the introduction of Family Allowances by the Attlee government).⁵⁴

Indeed, historically it has been parties and movements of the centre-left which have been most family-friendly, whether intending to boost the birth rate or simply to alleviate child poverty. Promoting the rights of mothers in the work place and payments to families per child are associated with the centre left, tax breaks for parents with the centre right. In Sweden Gunnar and Alva Myrdal, foundational to the much-vaunted and copied Swedish model, were explicitly pro-natalist and their influence has been seen as foundational to Sweden’s having one of Europe’s higher fertility rates for many decades.⁵⁵ Much of the social spending of Roosevelt’s New Deal was centred around supporting mothers and children.⁵⁶ The Socialist government of François Mitterrand in France in the 1980s prioritised family expenditure and gave particular attention to second and third children.⁵⁷ Generous tax reliefs for parents in Germany have long enjoyed cross-party support.⁵⁸

52. The Times, “Taxing the childless would be a sinister folly”, 10th July 2022, [link](#); The Guardian, “Tax the childless! Encourage ‘our own’ to breed! What an asinine, inhumane way to tackle a population crisis”, 4th July 2022, [link](#)

53. See for example, The Atlantic, “The Poland Model- Promoting ‘Family Values’ With Cash Handouts”, 14th October 2019, [link](#)

54. *Organization and Environment* Volume 11, No.4, “Marx and Engel’s conception of Malthus: The Heritage of a Critique”, December 1998, pp.451-460, [link](#); “Revenue Benefits, “Child Benefit and Guardian’s Allowance: Where it all started”, 2nd August 2021, [link](#)

55. Women’s E News, “Sweden Pushed Gender Equality to Boost Birth Rates”, 26th April 2014, [link](#)

56. VCU Libraries Social Welfare History Project, “Aid to Dependent Children: The Legal History”, last accessed 13th August 2024, [link](#)

57. Mediaclip, “François Mitterrand’s wishes: priority objectives for youth and the family”, 31st December 1982, [link](#)

58. IFO Institute, “Child benefit and child allowances in Germany: their impact on family policy goals”, March 2012, [link](#)

Quite how a belief in the need for children has come to be so discredited and suspect in the UK when it has been so common across the political spectrum in much of the world is up for debate, but it is clear that it is. One of the greatest services a UK administration of whatever political party could do would be to alter this. In this case, it is not about shifting the Overton window but rather opening it at least a tiny crack. If discussion of the subject were no longer the preserve of only a few brave Conservative backbenchers but included participation from senior politicians and ministers, we might find a whole national conversation opens up. The opening up of such a conversation will be very far from all that is required in order even to start fixing the problem. But without it, it is hard to see how any kind of progress can be made. The creation of social incentives—what we might call involuntary obligations—may be seen as illiberal. But the fact is that in the UK and other developed countries, people do want children in healthy numbers— or at least say they do. The project can be seen more as one of enabling than coercing or even pressuring.

A consideration of detailed policies to promote fertility rates is of limited value at this stage given that the UK has not yet even acknowledged the problem. The most important political next step is for our leaders to follow the example long set by leaders overseas of the left, right and centre and a de-toxification of the issue. However, it is at this stage worth considering broadly two things: first, what has been tried overseas and whether it has had any success, second whether there are immediate steps a UK government could take, if not to encourage fertility, at least to stop discouraging it. To these topics we now turn.

The Question of Housing

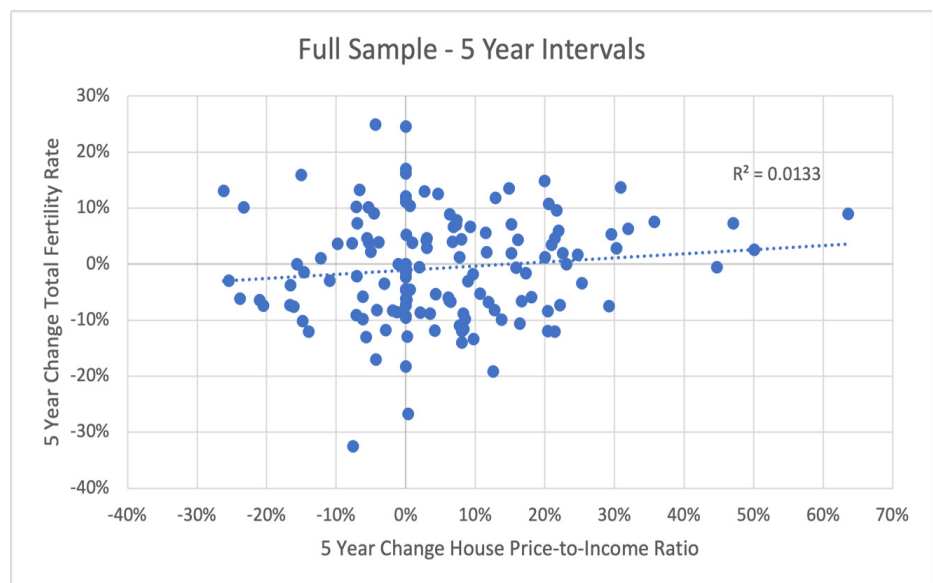
One factor that is regularly discussed when considering the question of what to do with falling birth rates is housing. The argument here is intuitively appealing: since one of the main expenditures a couple must undertake when forming a family is housing then higher cost housing will result in lower birth rates, as would-be buyers are locked out of the market and therefore delay family formation. A counterpoint to this argument is that the period of modern history when people tended to own their own homes is a relatively short one. For example, as late as 1918, less than a quarter of British homes were owner-occupied⁵⁹ – significantly less than the 64% that are owner-occupied today.⁶⁰ It was only with the rise of building societies and the development of the British mortgage market that it became the norm for people to own their own homes. In Britain, home ownership has only really been the norm for 3-4 generations. This is not to make a value judgement on the matter. We highlight this only to point out that fertility rates remained above replacement throughout the modern period despite homeownership being out of reach of most people and, in fact, in the post-WW2 era when home ownership started to rise this was the same period in which birth rates declined.

Yet it is still possible that in the postwar era as homeownership came to be seen as the norm, people started to factor this into their fertility

59. History Extra, “A brief history of home ownership in Britain”, 27th February 2014, [link](#)

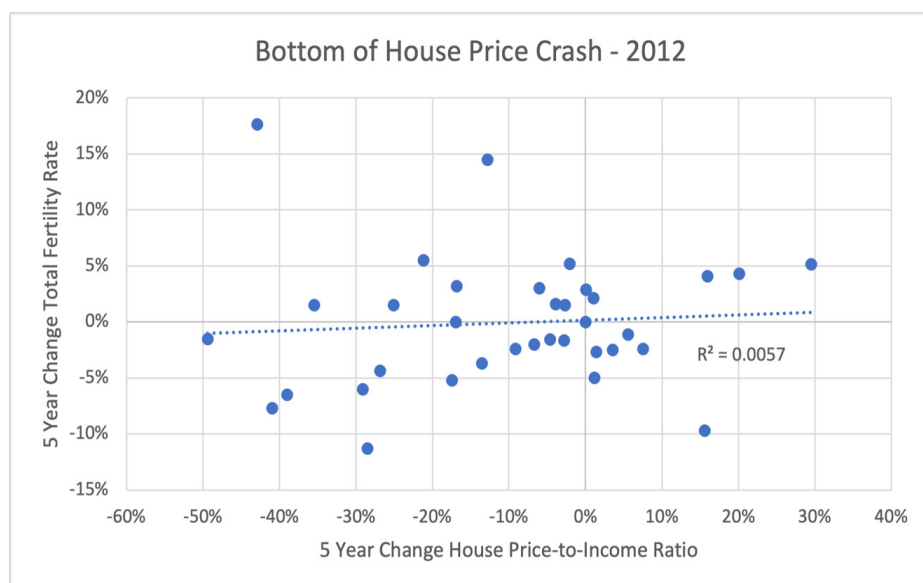
60. IFA Magazine, “The number of homeowners who own their home outright has increased over the last 10 years, according to new data”, 12th January 2024, [link](#)

decisions. So, while a person in 1918 simply took it as a given that they would not own their own home and started a family anyway, a person in 2018 thought that since homeownership was now the norm it would be irresponsible to start a family without first securing a mortgage and buying property. If this is true and homeownership is a major factor in peoples' fertility decisions then we should see a negative correlation between changes in housing affordability and changes in fertility rates: when homes become unaffordable, fertility rates should fall and when they become more affordable, fertility rates should rise. The following chart plots data on five-year changes in house price-to-income ratios and fertility rates for 34 countries at five-year intervals since 2000.



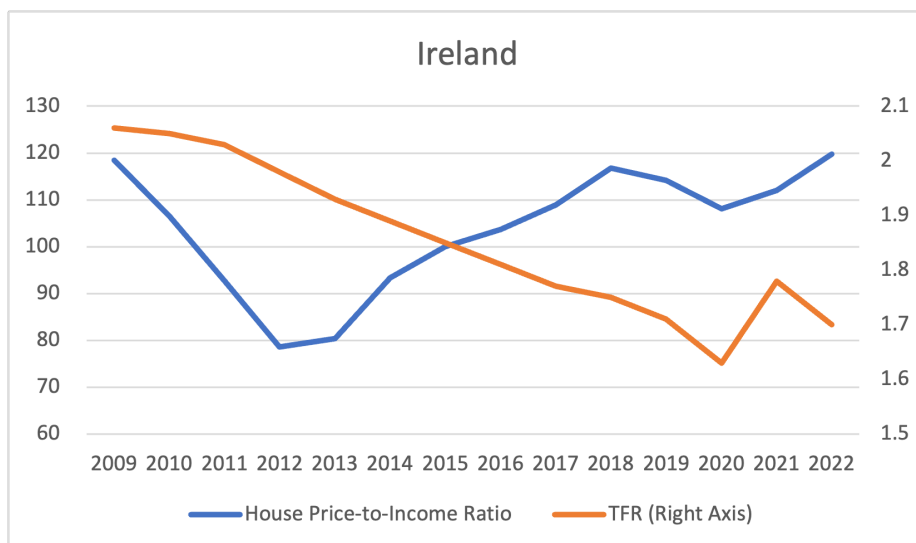
As we can see, there is no strong correlation and to the extent that there is a trend it shows a positive correlation – that is, rising house price-to-income ratios seems to be associated with rising fertility rates. This is a very surprising result. Polling shows that when asked two out of five young renters says that they are putting off having more children until they have their own home.⁶¹ But when we look at the overall data, there does not appear to be much evidence of this. We see this especially when we look at the very large declines in house price-to-income ratios that we saw in the wake of the 2008 Global Financial Crisis. Most housing markets in this period bottomed out in 2012. If it were true that affordable housing is a solution to low fertility rates, we should have seen those rates rise significantly in this period. The following chart plots the five-year change in house price-to-income ratios and in the fertility rate for the 34 countries in 2012.

61. The Mirror, "Families in rented homes 'delay having kids until they can afford their own house', study finds", 14th February 2018, [link](#)

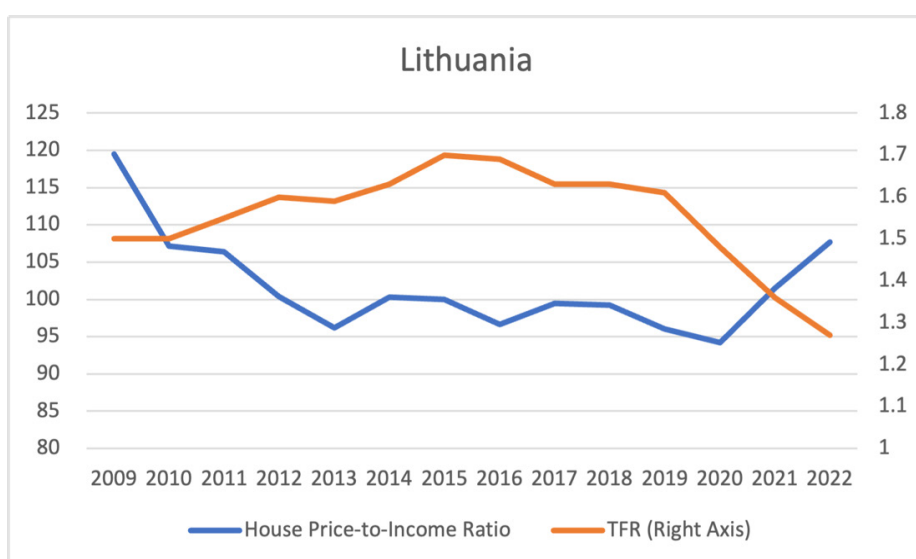


Once again, we see no correlation between the two variables. This chart also gives us a sense of how even very dramatic changes in housing affordability seem to have little effect on the fertility rate. Most of the countries in the sample saw a 10%-50% decrease in house price-to-income ratios. This represents an enormous rise in housing affordability – more than anything some additional building or a government program might hope to achieve. Yet there is no consistent effect on the fertility rate. Indeed, many countries in the sample saw fertility rates fall in this period – some by as much as 5%-10%.

Here it is instructive to look at two countries at the extreme: Ireland and Lithuania. These two countries had the largest decline in house price-to-income ratios in the sample and yet the two saw very different trajectories for birth rates. As the following chart shows, Irish house prices fell dramatically between 2009 and 2012 before recovering. At the same time, Ireland's fertility rate fell – and it kept falling. It is hard to attribute this effect to the recession and austerity that Ireland experienced in this period. Ireland returned to growth in 2010 and by 2016, unemployment was at reasonable levels. Despite this, with much more affordable housing, fertility rates continued to fall.



In Lithuania we see a very different story emerge. House price-to-income ratios fell between 2009 and 2012, much like in Ireland, but fertility rates rose in this period from around 1.5 to around 1.6. These fertility rates remained high until the pandemic and lockdowns of 2020 when they sank to lower than where they had been in 2009. One might think that the difference between Lithuania and Ireland is that Lithuania experienced a faster economic recovery and this, combined with relatively affordable house prices, led to rising fertility rates. But such an interpretation would not fit with the facts. Like Ireland, Lithuania returned to growth in 2010 but unlike in Ireland unemployment remained very high: Lithuania never achieved its pre-crash unemployment rate of around 3% and instead experienced unemployment rates of between 7% and 8% for most of the period.



The evidence suggests that the relationship between housing

affordability and fertility rates is very complicated. There is no simple correlation between the two variables. It is also difficult to argue that if we managed to produce a booming economy with low house prices then fertility rates would rise, as shown by the twin examples of Ireland and Lithuania. How would we interpret this considering the polling data we saw earlier? It seems likely that housing is a ‘hot topic’ when the prices of homes are high and when asked to give reasons for why they are not starting families young people reach for what is in the headlines.

Where we do find evidence of a link between housing and fertility is when it comes to urban density. The key aspect of housing that needs to be addressed is the density of development. There is good evidence that dense urban dwelling discourages fertility rates.⁶² Careful thought needs to be given the nature of the housing we build, and the kind of transport and other services required to make it viable. Cramming ever more people into smaller spaces is unlikely to fix the fertility problem and will almost certainly make it worse. It is for this reason that we consider the findings of our survey of the link between housing and family formation when we make our final recommendations at the end of this study.

Policy Action: Learning Lessons from Abroad⁶³

With pro-natal policies increasingly widespread across the globe, a comprehensive review of their effectiveness would be a major task and this paper is not the appropriate place for such an endeavour. However, we will look briefly at what has been tried in three countries of particular interest: Australia because, like the UK, it is in the Anglosphere, Hungary, because it has put particular emphasis on the issue in recent years and Denmark because, like the UK, it is north European state with a strong social democratic tradition.

We have already mentioned the Australian approach with the launch of the Baby Bonus, payments made for each child born. The scheme, launched in 2004, was at least followed by a modest rise in fertility in the subsequent decade, heading up towards replacement level.⁶⁴ There is some evidence emerging from careful statistical work that the Baby Bonus did have a material if modest impact on the number of babies born in Australia.⁶⁵ But although the amount paid per child went up, to as much as AUD 5,000, the policy was limited, watered down and effectively abolished over time. Australia’s fertility rate has since fallen back and the country has continued to rely heavily on immigration rather than fertility to meet its demographic requirements.

Although, as we have seen, many European governments have adopted explicitly pro-natal policies, it is the government of Hungary that is most notable for its determined pursuit of a higher birth rate. Visitors to Hungary are assailed by posters promoting family values on their arrival at the airport in Budapest. Although this is associated with the right-wing government of Viktor Orbán, pro-natal policies were in fact first introduced into Hungary by the Communists in the 1950s who tried to increase the number of births by the very crude methods of limiting access

62. *American Psychologist* Volume 76, Issue 6, “Increasing Population Densities Predict Decreasing Fertility Rates Over Time’, A 174-Nation Investigation”, 2021, pp. 933-46, [link](#)

63. Forum, “No One Left: Why the World Needs More Children”, 4th July 2024, pp. 177-95, [link](#)

64. World Bank, “Fertility rate, total (births per woman)- Australia”, last accessed 13th August 2024, [link](#)

65. Population Research and Policy Review, Volume 30, No.3, “Did Australia’s Baby Bonus Increase Fertility Intentions and Births?”, June 2011, [link](#)

to contraception and abortion. They were forced to retreat in the face of public opposition. (Such policies were adopted in the 1960s with greater determination but with only temporary effect next door in Romania.) Although the restrictive policies were abandoned, positive ones were later introduced such as allowing women to retain a large part of their salaries while staying at home once they had children.⁶⁶

Today, the Hungarian administration is adopting a suite of approaches. To start with, there is the unapologetic rhetoric. ‘Without strong families there is no strong nation’ insisted Katalin Novák, Minister for Families and subsequently and until recently President.⁶⁷ Mothers with a large number of children get significant tax breaks. Children from large families have preference in accessing nurseries. Loans are granted to people wishing to purchase or build houses with the intention of having children and then the loans are written-off once the children materialise.⁶⁸

The success of these policies is open to discussion. On the one hand, the Hungarian fertility rate has increased from a low of 1.2 children per woman to 1.6 in the decade from 2011 to 2021.⁶⁹ On the other hand, this is far from the required replacement rate of a little over 2 and similar to what has been achieved in neighbouring and less insistently pro-natalist Slovakia, Romania and Czechia. All of these countries are benefiting from a bounce back following the economic and social shock of the Communist collapse and all are probably also benefiting from what is known as the tempo effect, whereby annual fertility figures are depressed by a general delay in childbearing as the age of having children rises and are then boosted when the that age stabilises. But the Hungarian approach does seem to be having some dramatic impacts in other social metrics. Against the norm elsewhere in Europe, Hungarian marriages doubled in number between 2011 and 2021.⁷⁰ The divorce rate has fallen significantly.⁷¹ We cannot say that Hungary has discovered the magic formula for boosting the birth rate but its varied and experimental approach seems to have given rise to some kind of social shift which might portend further rises in fertility or at least consolidate the gains made to date.

Denmark has a long-established universal welfare model in which benefits are available to all rather than mean-tested and funded by a relatively high level of taxation. Parental leave is generous and childcare subsidised. Danish parents receive child benefits and tax relief.⁷² In 2015, noting a decline in the national fertility rate, a travel agency took it upon itself to encourage couples to take a break, engage in holiday sex and conceive, under the slogan ‘Do It for Denmark’. Although none of this has fostered a baby boom, Denmark’s fertility rate has held up slightly better than those of other Nordic countries.⁷³

There is as yet no clear-cut set of policies that can be guaranteed to raise fertility rates regardless of the particular local circumstances in which they are tried. A degree of experimentation and trial and error is required. Monetary incentives alone will not suffice; a cultural shift will be required, in which government can play a role. But any successful effort to shift the culture is likely to have to be broad-based and sustained, and to sit

66. Frontiers Sociology Volume 7, “The Propensity to Have Children in Hungary, with Some Examples from Other European Countries”, 2nd December 2022, [link](#)

67. Balkan Insight, “Helping Hungarians have all the babies they want”, 23rd September 2021, [link](#)

68. Forum, “No ONE Left: Why the World Needs More Children”, 4th July 2024, p183, [link](#)

69. World Bank, “Fertility rates, total (births per woman)- Hungary”, last accessed 9th May 2024, [link](#)

70. Statista, “Number of marriages in Hungary from 2010 to 2022”, 10th July 2023, [link](#)

71. Statista, “Number of divorces in Hungary from 2010 to 2022”, 10th July 2023, [link](#)

72. Tax Foundation Europe, “Tax Relief for Families in Europe”, 27th May 2021, [link](#)

73. Statista, “Fertility rate in the Nordic countries from 2000 to 2023”, 4th July 2024, [link](#)

alongside measures traditionally associated with the right (family friendly tax policies) and the left (more generous maternity and paternity leave).

But until we start making the effort at the policy level, we cannot begin to know what will move the dial in the context of the UK.

Policy Action: Removing Obstacles

Alongside opening a discussion of the issue and acknowledging its concern, another step which a UK government could take at this stage would be, if not immediately to implement pro-natal policies, then at least to remove policies which are impeding fertility rates. For as David Goodhart has written: ‘Much policy effort has been expended to ensure that the careers of professional women are held back as little as possible by motherhood’.⁷⁴ It is time to balance this with more attention to how women can freely choose to balance work with motherhood. Apart from the inherent virtues and joys of bearing and raising children, helping women in this respect means balancing the needs of today’s economy with that of the future.

The individualisation of taxation, stemming from Nigel Lawson’s reforms, initially allowed for a married couples allowance which amounted to something equivalent to the transfer of allowances between members of a couple, but this has been whittled down and altered over time, so that today the UK taxation system is judged to be exceptionally family-unfriendly.⁷⁵ It diminished the possibility of a large family in which one adult member, usually but not necessarily the mother, stays at home. A successful pro-natal society will allow for this possibility, alongside making it easier for mothers who wish to work to do so in combination with having a family. Some anomalies which arise in the benefits system and effectively penalise couples who stay together.⁷⁶ These should be systematically eliminated where possible. How this should be done has been considered in some detail in Philip Booth’s Policy Exchange Paper of 2022, ‘Taxing Families Fairly’⁷⁷.

Frequently-cited obstacles to individuals having families are the expense of childcare where both members of the couple choose to work, and of housing. The former Conservative administration went a long way to addressing the former in the 2023 budget which introduces thirty hours of free childcare from April 2024, a policy which has been maintained by the current Labour Government. There has been criticism of the workability of the scheme, and the coming months will determine any pitfalls in practice. And it was motivated, in all likelihood, more by an attempt to get more women into the workplace than by an effort to address a block on fertility. Nevertheless, it goes a considerable way in addressing one of the major problems of a society replacing itself demographically when its women have reached equality with men in education and aspiration and wish to pursue careers.

One explicitly anti-natal act by the UK government was the 2017 capping of means-tested benefits and tax credits at two children.⁷⁸ Besides the impact this has on child poverty, it sends a signal to the country that

74. Allen Lane, “Head, Hand, Heart: The Struggle for Dignity and Status in the 21st Century”, 8th September 2020, p. 212, [link](#)

75. Tax & the Family, “History”, last accessed 13th May 2024, [link](#)

76. Institute for Fiscal Studies, “Couple Penalties and Premiums in the UK Tax and Benefit System”, 2010, last accessed 27th May 2024, [link](#)

77. Policy Exchange, “Taxing Families Fairly”, 9th August 2022, [link](#)

78. House of Commons Library, “The impact of the two-child limit in Universal Credit”, 14th February 2024, [link](#)

the ideal family size is no more than two children. In an environment in which an increasing number of women are not having any children, the requirement for those who do have children to have larger families is all the greater if the fertility rate is to be maintained. Already there have been calls for this cap to be scrapped, not least by former Home Secretary Suella Braverman.⁷⁹ Opponents include the Labour Party in Wales and Scotland and the Liberal Democrats nationally.⁸⁰

The corporate sector in collaboration with regulators should play its role if it wants to ensure that there is a future generation of workers and consumers. Product design can often be an obstacle; the third child who once fitted comfortably in the back of the car can no longer be squeezed in when child car seats get larger. This has been suggested as a reason for families stopping at two.⁸¹ Rules applied in swimming pools where a parent can only accompany two children create similar headaches for larger families where both parents are not always on tap for family outings. As larger families become less common, so everything from product design to safety rules fail to take account of them and in turn make larger families more unlikely by systematically discouraging them.

In order to strengthen families, the government should be offering choice to women and to couples in the kind of childcare arrangements they make. This is not only equitable and in line with Conservative belief that people know best how to organise their own lives but also is likely to be more effective in encouraging the widest number of people to have more children, both the career-oriented and those who wish to take longer out to look after their children. This is why it would be desirable if, alongside the extra funding for childcare welcomed above, the full transferability of tax allowances mentioned above were permitted, making staying at home more viable for those who prefer that option.⁸²

However, we should be cautious in believing that cheaper housing or childcare in itself will work a transformation in matters of childbearing. Areas in the UK such as County Durham, with relatively cheap housing also have low fertility rates.⁸³ Countries such as Germany which are not generally noted for unaffordability of family accommodation have suffered lower fertility rates than those in the UK for decades. And Germany is also an example of a country with cheap childcare but this has no more ignited a baby boom than has the affordability of housing.⁸⁴ The same is true of countries like Finland and Estonia. All of which suggests that at the root of low fertility lies not material constraints – our societies are, after all, wealthier than they have ever been – but a deep cultural malaise. This makes it all the harder for governments to resolve. A shift to pro-natalism will require both material incentives and a cultural shift. Whilst the state can most obviously play a role in the former, its impact on the latter should not be overlooked. Simply introducing the drop-off of fertility into school biology curricula or fertility check-ups for those in their early twenties (being introduced by President Macron in France) could help shift attitudes.

What is needed is a truly radical approach to this question, one in

79. The Telegraph, "It is time to abolish the two-child benefit cap", 11th May 2024, [link](#)

80. BBC News, "Scottish Labour oppose UK leader Starmer on two-child benefit cap", 18th July 2023, [link](#); BBC News, "Labour's Welsh government still opposed to two-child benefit limit", 18th July 2023, [link](#); ALDC, "Council Motion: Two Child Limit to Benefit Payments", 2nd February 2024, [link](#)

81. Social Science Research Network, "Car Seats as Contraception", 22nd September 2020, [link](#)

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which we rethink how the government taxes and spends money that is informed by the emerging demographic realities. This is why we propose the following: the British welfare state should be repurposed away from a focus on individuals and toward providing support for families. The emphasis of the welfare state has always been on the individual. But this is no longer tenable. Demographic realities mean that the focus will have to shift from the *individual* to the *family*. Of course, extreme poverty should still be alleviated and those who cannot work should retain their access to disability payments, but beyond that, state support in Britain must be removed from the individual and channelled into the family unit.

The same is true of the tax code. Given the demographic realities, there needs to be a shift away from looking at taxes purely in terms of their ‘fairness’ when it comes to income distribution. Rather taxes should be looked at insofar as they foster family formation. Families should be rewarded, and this should scale with the number of children produced. The capacity to have a family is not determined by a person’s relative wealth and indeed poorer people tend to have larger families than wealthier people, so such changes will still result in a taxation system that is *de facto* progressive. We should also consider the findings of this study with respect to housing when it comes to approaching planning laws. A revision of our planning laws in the light of the requirements of families is essential and we would highlight the issue of urban density as a potential factor in influencing birthrates. We are certainly not arguing against making housing more affordable. This seems like a positive goal in itself. But since the evidence suggests that there is no clear link between housing affordability and fertility rates a government pursuing a pro-family policy should try to ensure the housing that is built is sufficiently spacious so as to be conducive to encouraging family formation.

When we undertook the modelling earlier in the paper, we showed that there was a trade-off between spending now and not having to spend later. We highlighted that this created a problem of incentives. A government that is elected to power with the promise to bring down the fiscal deficit is strongly incentivised to cut all spending and raise all taxes – including spending and taxes that assist people in starting families – and while this may make the fiscal deficit better in the short-term, it will make it worse in the long-term. If we are to take a rational approach to demographics and spending Britain will need an institution that factors in these calculations into long-term fiscal forecasting and policy.

We have shown in Chapter Two that the return on investing in childbearing is positive, although payback is quite a long-term business, meaning that any calculation will be heavily dependent on the discount rate. But the demographic threat to our national future calls not for just some additional spending in a possibly vain effort to induce childbearing but rather a complete rethinking of the tax and benefit system itself to orientate them away from the individual and towards the family.

We are very unlikely to have the fiscal headroom to introduce material financial incentives to encourage and support children without finding

major savings elsewhere. The very basis of the welfare state will need to change. Combined with a cultural shift in favour of returning to a society in which couples have on average two to three children, this is an urgent existential necessity for the UK, as it is for an ever-increasing share of the countries of the world. At this point, far from being a leader, the UK is a laggard in addressing the looming crisis.



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