

Demographic Changes and Human Capital Retention: Rethinking EU Cohesion Policy*

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The paper examines the macroeconomic and regional implications of the EU's demographic transition, with a particular focus on the role of the free movement of labour. It highlights that demographic disparities, exacerbated by population decline and emigration, will weaken the EU's competitiveness and fiscal sustainability in the medium term, while the sustained outflow of human capital will deepen regional inequalities and undermine prospects for economic convergence. The paper argues that the systemic integration of demographic considerations into cohesion policy is key to the EU's long-term economic stability and competitiveness. The 2028–2034 Multiannual Financial Framework provides an opportunity to strengthen policy instruments that support human capital retention and mitigate brain drain. In this regard, the concept of “freedom to stay”, proposed by Enrico Letta, could provide a new policy framework.

Journal of Economic Literature (JEL) codes: F15, J11, J18, J61, O52, R19

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1. Introduction

Over the past two decades, demographic transition in the European Union has accelerated to such an extent that natural population decline, ageing and the sustained outflow of human capital have become one of the most critical structural challenges facing the Union's economic and social model. The decline in the working-age population, deepening regional disparities and asymmetric intra-EU mobility adjustment effects constitute a complex set of problems that justify rethinking cohesion policy comprehensively beyond 2027. Addressing this challenge requires an examination of the mechanisms of human capital outflow

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at the Member State and regional levels, including an analysis of intra-EU mobility patterns and their macroeconomic, institutional and social consequences. A deeper understanding of these processes can lay the groundwork for policy measures that help retain the workforce – particularly young people – and strengthen economic and social convergence as well as regional cohesion within the EU.

This paper aims to demonstrate how free movement of labour within the EU can be understood in the context of human capital allocation and fiscal sustainability, with particular regard to the brain drain phenomenon. While mobility within the Union is a fundamental freedom of the Single Market, the analysis argues that it generates asymmetric adjustment processes that contribute to the persistence and deepening of development disparities among Member States. Therefore, the sustained outflow of human capital is not merely a labour market phenomenon, but a systemic challenge that affects growth potential, fiscal stability and social cohesion.

The paper is structured into three main sections. First, it reviews the economic theoretical frameworks of intra-EU mobility and brain drain, paying particular attention to their macroeconomic consequences and structural drivers. Second, it presents the macroeconomic and territorial impacts of the EU's demographic transition, emphasising the demographic and economic vulnerabilities of Central and Eastern European regions and the long-term consequences for economic convergence. Finally, it formulates policy recommendations for the 2028–2034 Multiannual Financial Framework (MFF), with particular regard to the policy application of Enrico Letta's "freedom to stay"¹ concept and the integration of demographic considerations into cohesion policy.

This paper aims to contribute to the development of EU policy responses to demographic challenges, while also demonstrating how cohesion policy could simultaneously support economic convergence, territorial equity and the retention of human capital.

2. Theoretical perspectives on intra-EU labour mobility and brain drain

Free movement of labour is one of the fundamental freedoms of the Single Market and a key driver of EU integration. However, a growing body of research indicates that internal migration can result in uneven regional growth and fiscal impacts, posing a persistent structural challenge, particularly for less developed regions. The outflow of human capital, and particularly brain drain – the sustained outflow of highly skilled workers – is primarily driven by wage differentials, more favourable career opportunities and quality-of-life factors. In recent decades, this phenomenon

¹ In discussing this concept, Letta uses two expressions, "freedom to stay" and "right to stay", in relation to fundamental EU rights and EU law.

has become a systemic economic and demographic challenge, receiving significant attention in academic and policy discourse. The literature primarily focuses on labour flows from less developed countries to more developed ones, paying particular attention to the labour market, innovation, and demographic and competitive impacts on both sending and receiving countries (*Docquier – Rapoport 2011*).

According to classical human capital theory, the mobility of skilled labour is an individual investment decision aimed at maximising lifetime earnings, i.e. the total income earned over a working lifetime (*Sjaastad 1962; Borjas 1987*). At the macroeconomic level, labour mobility improves allocative efficiency by utilising the workforce where its marginal productivity is highest, in line with neoclassical convergence models (*Barro – Sala-i-Martin 1992*). At the same time, human capital is a key factor of production in endogenous growth models, supporting innovation and long-term growth through positive externalities (*Romer 1990; Lucas 1988*).

From the perspective of sending countries, however, the loss of human capital generates significant negative externalities. Emigration of the working-age population, particularly high-value-added workers, slows productivity growth and weakens innovation activity, especially given limited research and development capacities (*Docquier–Rapoport 2011*). The distortion of the demographic structure – the decline in the proportion of the working-age population – narrows the tax and contribution base while increasing age-related public expenditure. A sustained outflow of human capital undermines the social return on public services, particularly state-funded higher education, since the costs are borne by the sending country, while the added value and tax revenues are realised in the receiving countries. This process thus affects both economic growth and fiscal sustainability.

At the same time, however, the literature points out that brain drain can also generate positive feedback mechanisms under certain conditions. For example, remittances can increase consumption and foreign exchange reserves, while return migration and diaspora networks can facilitate the transfer of knowledge and technology, expand trade relations and encourage the inflow of working capital. The findings of *Faini (2007)* support this, as he demonstrated that highly skilled immigrants typically send larger remittances, thereby strengthening the income and investment positions of their countries of origin. According to the “brain gain” hypothesis, the prospect of mobility can stimulate the accumulation of human capital (*Beine et al. 2008*), while New Economic Geography approaches emphasise the networked nature of knowledge flows (*Krugman 1991*). However, the extent to which these positive effects are realised depends heavily on institutional quality and the predictability of the economic policy environment (*Chen et al. 2024*).

The structural drivers of brain drain stem from the interplay between factors that encourage emigration (push factors) and those that attract immigration (pull

factors). Push factors are primarily found in economically weaker countries and include high unemployment, underfunded education and research sectors, limited opportunities for advancement, uncompetitive wages and poor working conditions. These issues are often compounded by corruption, a lack of trust in institutions and political instability. This creates an environment in which young, educated workers in particular see no long-term professional prospects, leading them to leave the country (*Bodnár – Szabó 2014*). By contrast, pull factors are concentrated in more developed countries, where favourable labour market conditions, a higher standard of living, competitive wages, a predictable institutional environment and well-funded research infrastructure are available. Emigration thus appears as a rational life-course strategy if the benefits outweigh the cultural and emotional costs of leaving one's home country (*Beine et al. 2011*).

Despite the growing political significance of labour mobility, comprehensive analyses of its economic impacts remain limited, particularly at the EU level. A significant proportion of research has examined the budgetary impact of immigration, often yielding mixed empirical results. According to *OECD (2021)* estimates, the net fiscal contribution of foreign-born immigrants typically ranged from -1 to $+1$ per cent of GDP between 2006 and 2018, with variations mainly stemming from the age structure of immigrants.

One distinctive feature of the EU is that there are few institutional barriers to mobility, meaning that the flow of human capital primarily takes place between Member States. While this process may improve efficiency at the EU level, it can generate asymmetric costs and benefits at the Member State level, which may result in persistent regional inequalities. In peripheral, demographically declining regions, brain drain can lead to structural labour shortages and a growth trap. In the longer term, this weakens convergence processes and undermines the foundations of cohesion within the European integration (*Committee of the Regions 2020*).

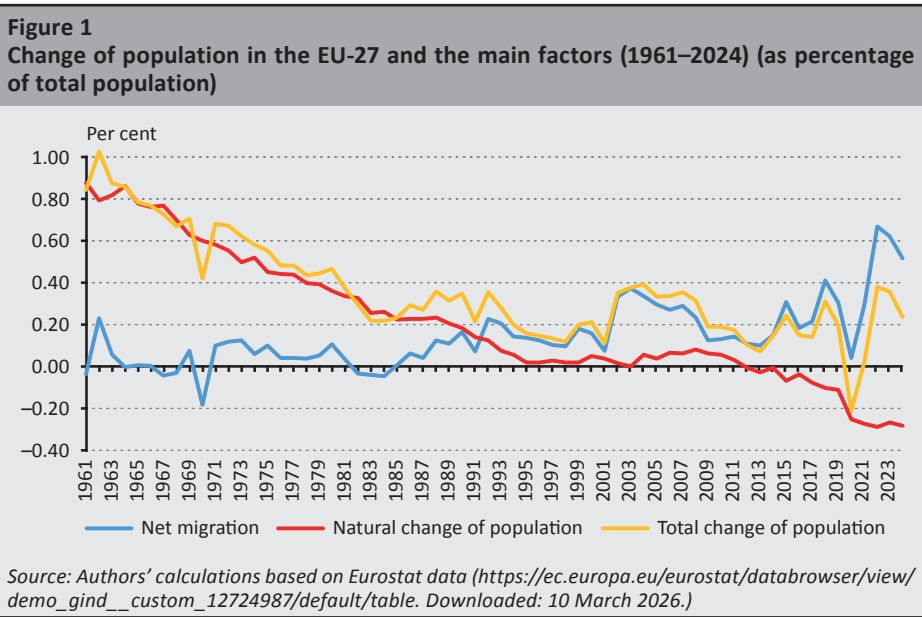
Overall, brain drain within the EU is a multidimensional economic and social phenomenon affecting growth potential, fiscal sustainability and cohesion. Addressing this requires an integrated approach to growth and fiscal policy that also takes into account interactions with demographic trends.

3. Main macroeconomic effects of demographic change in the EU

Developed countries, including EU Member States, have undergone profound demographic change in recent decades, characterised by a sustained decline in fertility rates and an increase in life expectancy. Consequently, many Member States have begun to experience a decline in their natural population, and the ageing of society has accelerated. In the EU, natural population growth has steadily declined since the 1960s, turning permanently negative in 2012 (*Figure 1*), which indicates

the structural nature of the population decline. At the same time, the importance of migration has grown: while its contribution was modest until the 1990s, it has become a key factor in population change since the 2000s. However, according to projections by the UN and Eurostat, immigration from outside the EU will not be sufficient to offset natural population decline in the long term. The EU's population is expected to decline by 3.8 per cent by 2070 (Eurostat 2023), while the global population could grow by around 29 per cent.² The temporary population decline observed in 2020–2021 – the first since World War II – could thus become a lasting demographic trend, unless comprehensive policy responses are implemented.

These trends will have a significant influence on the EU's global standing, given that its ability to assert its interests internationally continues to depend heavily on its demographic and economic clout. In the current geopolitical environment, which is characterised by great power competition, the need to secure critical raw materials and the growing importance of technological sovereignty, this factor has once again become more significant. Therefore, in the longer term, the EU's sustained population decline may diminish its global economic and political weight, as well as its influence in key international forums such as the G7 and the G20.



² <https://population.un.org/wpp/Download/Standard/MostUsed/>. Downloaded: 6 March 2026.

At the same time, the economic consequences of demographic change extend far beyond the reduction in geopolitical leeway. Population decline and ageing societies directly impact the labour market, productivity, the sustainability of public finances and the financial viability of welfare systems. This is why demographic trends have become one of the EU's economic model's key structural challenges (*Halmai 2014, 2018*). The greatest economic risk stems from the sustained decline in the working-age population (those aged 20–64).³ According to projections, this age group will shrink from 263 million to 223 million between 2022 and 2070, a decrease of over 15 per cent (*European Commission 2024a*). This process will fundamentally reshape the traditional sources of growth. Although an increase in the employment rate may mitigate the effects of a shrinking labour force to some extent, the trend indicates persistent labour shortages and rising costs, while changes in the age composition of the workforce may hinder productivity growth. For the first time in the EU's history, GDP growth will not be driven by an increase in the size of the labour force (*Draghi 2024*). According to current projections, the EU's annual GDP growth will average around 1.3 per cent between 2022 and 2070, while the direct contribution of the labour force will be negative (*European Commission 2024a*).

Therefore, future growth must be primarily based on innovation and technological progress, despite the EU gradually falling behind in these areas over the past few decades. Disparities in education, a key factor in productivity and competitiveness, clearly illustrate the scale of the challenge. In 2021, for example, EU spending on education accounted for just 4.4 per cent of GDP, lagging behind the figures for the United Kingdom (6.2%), the United States (5.8%), and South Korea (5.2%) (*OECD 2024*). A significant gap also exists in terms of research and development spending: the EU's R&D-to-GDP ratio was 2.1 per cent in 2024, compared to 2.7 per cent in the United Kingdom, 3.4 per cent in the United States, and 5.1 per cent in South Korea.⁴ Patent activity also lags behind that of global technology leaders, indicating a sustained weakening of knowledge-based competitiveness. This could all slow the accumulation of human capital and limit the effectiveness of economic policy responses to demographic challenges.

The effects of demographic changes extend beyond labour market and growth issues. Ageing societies also influence saving behaviour, investment patterns and entrepreneurial activity. The risk-averse portfolio choices and lower propensity to invest of older age groups dampen economic dynamism. The fiscal implications of ageing are significant as well: on average, the proportion of people aged 65 and over

³ While the working-age population is traditionally defined as individuals aged 15–64, the European Union usually uses the 20–64 age group as its primary benchmark. This approach improves the comparability of employment indicators between Member States, since a significant proportion of 15–19-year-olds are still in full-time education.

⁴ <https://www.oecd.org/en/data/datasets/main-science-and-technology-indicators.html>. Downloaded: 17 May 2026.

in the EU will rise from 21.2 per cent in 2022 to 30.5 per cent by 2070, while the old-age dependency ratio will increase from 36.1 per cent to 59.1 per cent. Ageing-related expenditure – pensions, healthcare and social benefits – as a percentage of GDP could rise from an average of 24.4 per cent in 2022 to 25.6 per cent by 2070 (*European Commission 2024a*),⁵ putting sustained pressure on national budgets. However, the trend in these costs varies significantly between Member States. The largest increases are expected in Luxembourg (10.7%), Malta (8.6%), and Slovakia (6.1%), while a decrease in spending is projected in Latvia (–1.9%), Italy (–2%), and Greece (–2.4%). Since pension and social security systems rely on taxes and contributions linked to earned income, a shrinking working-age population directly threatens government revenue sustainability. This is particularly critical in countries with high public debt, where fiscal manoeuvring space is limited. Demographic trends therefore pose a risk to macroeconomic stability and addressing them will be among the economic policy priorities of the coming decades.

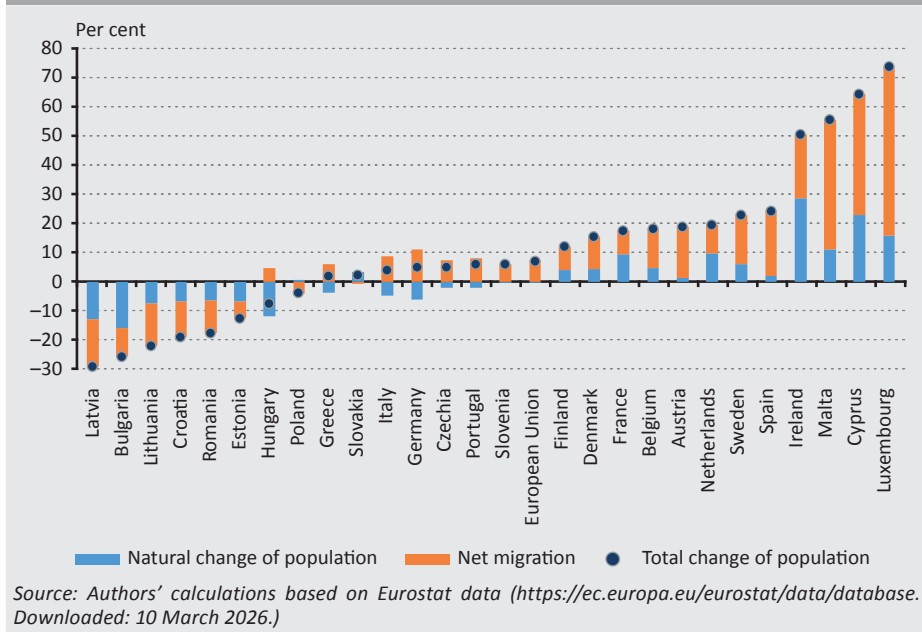
4. Economic and demographic implications of intra-EU mobility

While the EU as a whole is facing serious demographic challenges, disparities between and within Member States are further exacerbating structural risks. Low and declining fertility rates are common in developed economies, yet significant variations can be observed within the EU. According to data from 2024, Bulgaria (1.72) had the highest total fertility rate, while Malta (1.01) had the lowest; the EU average was just 1.34.⁶ This falls significantly short of the replacement level of 2.1, foreshadowing substantial labour market and fiscal adjustment pressures in the medium term. In this context, there are also marked differences in natural population change. Between 1990 and 2023, natural population growth was consistently negative in nearly half of EU Member States. Bulgaria, Latvia and Hungary experienced the largest declines (*Figure 2*), while Ireland, Cyprus, Luxembourg, and Malta showed the strongest natural population growth.

⁵ It should be noted, however, that the Commission's forecast is based on several overly optimistic assumptions. For example, it assumes that the EU's average fertility rate will rise from 1.53 in 2021 to 1.62 by 2070. However, this is not supported by current trends, given that the rate fell to 1.38 in 2023 and to 1.34 in 2024. Based on this, it is likely that the fiscal costs of ageing will increase more sharply than projected by the Commission in the future.

⁶ <https://ec.europa.eu/eurostat/databrowser/view/tps00199/default/table?lang=en>. Downloaded: 29 May 2026.

Figure 2
Natural change of population and net migration in Member States (1990–2023)
(as percentage of total population in 1990)



In Central and Eastern Europe, natural population decline and population ageing have been exacerbated by persistently negative net migration, primarily due to the emigration of young, highly skilled workers. Only Slovenia, the Czech Republic and Slovakia avoided significant population decline, while Latvia (−29.5%), Bulgaria (−26.1%), Lithuania (−22.3%), Croatia (−19.3%), Romania (−17.8%) and Estonia (−12.3%) recorded significant declines.⁷ Hungary and Poland showed more moderate declines at −7.5 per cent and −3.7 per cent, respectively. In Hungary's case, positive net migration – partly due to immigrants of Hungarian ethnicity arriving from neighbouring countries – partially offset the natural population decline. By contrast, favourable natural population change and a positive net migration balance resulted in population growth in several Western, Northern and Southern European Member States. In Germany, Greece, Italy and Portugal, immigration offset natural population decline, playing a decisive role in maintaining demographic balance.⁸

⁷ https://ec.europa.eu/eurostat/databrowser/view/demo_gind__custom_12724987/default/table. Downloaded: 10 March 2026.

⁸ It should be noted that positive net migration in Western, Northern and Southern Europe was largely due to immigration from outside the EU. While this adds a layer of complexity to the overall picture, it does not change the fact that intra-EU mobility has led to uneven territorial outcomes. This is particularly evident in Central and Eastern Europe, where negative net migration is predominantly driven by emigration to other EU Member States.

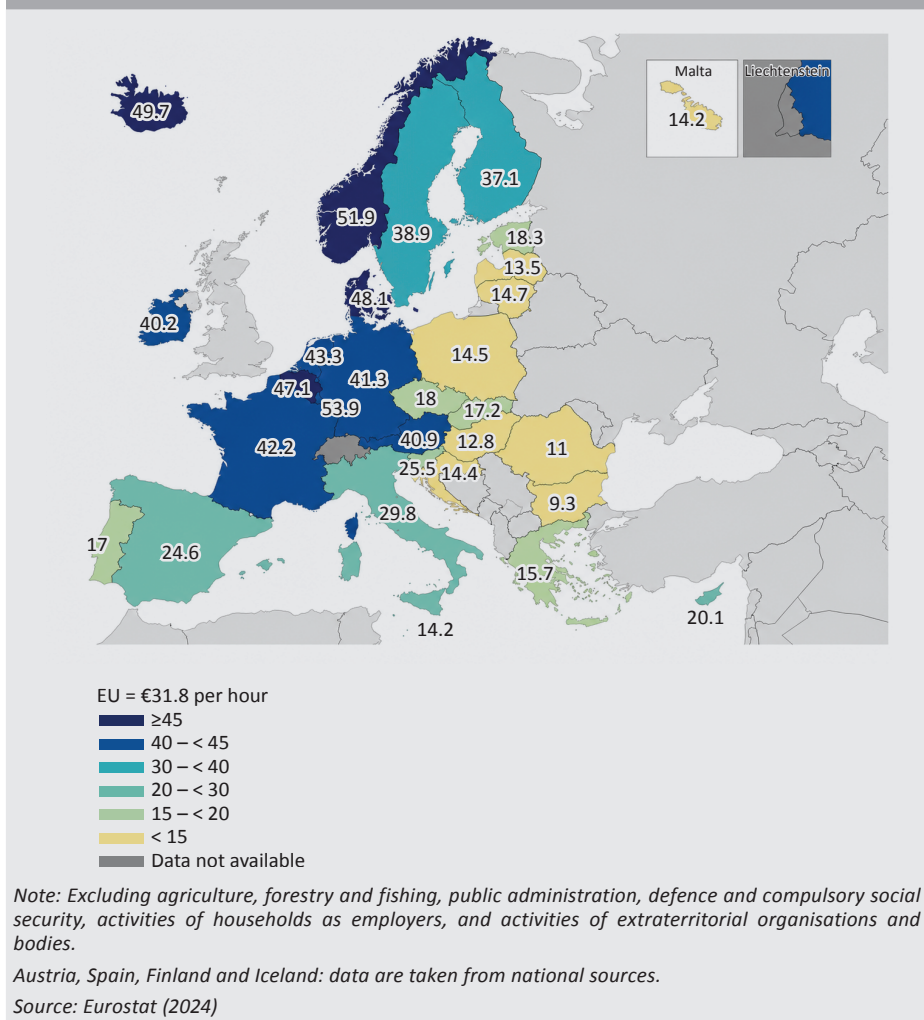
Although free movement of people is one of the most significant achievements of European integration, intra-EU mobility has led to a substantial outflow of highly skilled workers from less developed Member States and regions. This has further widened disparities in development and labour markets, strengthening the economic position of host countries in the process. In 2024, 13.9 million EU citizens were living in another EU country, accounting for 3.1 per cent of the EU's total population (*Eurostat 2025*). Seven Member States accounted for 84 per cent of intra-EU mobility: Germany (4.4 million), Spain (1.8 million), France (1.6 million), Italy (1.4 million), Belgium (1 million), Austria (0.9 million) and the Netherlands (0.8 million). This clearly illustrates the concentration of countries to which people migrate. Among immigrants arriving from other EU Member States, the proportion of working-age individuals is particularly high in Germany and Italy (78% and 75%, respectively), while it is lower in Austria and Spain (both 70%) and significantly lower in Belgium and France (67% and 58%, respectively) (*European Commission 2025*). Accordingly, immigration to Germany and Italy may contribute more significantly to GDP growth, whereas in Belgium and France, the higher proportion of older adults is likely to stimulate consumption rather than production.

Mobility also reveals significant disparities in terms of population share. For example, 36.5 per cent of Luxembourg's population are citizens of other EU Member States, compared to 10 per cent in Cyprus and Austria, 8.4 per cent in Belgium, 7.8 per cent in Malta, 6.7 per cent in Ireland, 5.3 per cent in Germany, and 4.5 per cent in Denmark. By contrast, the inflow is negligible in Central and Eastern European Member States: Poland and Lithuania (both 0.1%), Latvia (0.2%), Romania (0.3%), Bulgaria (0.4%), Croatia (0.5%), Slovakia (0.7%), and Hungary (0.9%). Emigration, however, paints a different picture: Romania leads the EU in both absolute (3.1 million people) and relative (16.1%) terms, followed by Croatia (14.6%), Bulgaria (11.5%), Estonia and Lithuania (both 5.3%), Latvia and Slovakia (both 5.2%). Overall, the 11 Central and Eastern European Member States account for more than one-half of EU citizens living in other EU Member States, despite making up barely one-fifth of the EU population.

Intra-EU mobility is characterised primarily by east-to-west and, to a lesser extent, south-to-north labour migration, which results in significant reallocation of human capital across the Union. While this process is facilitated by the institutional framework underpinning the free movement of workers, it is primarily driven by economic disparities between Member States and migrants' social networks. Migration decisions are influenced by income differentials (*Figure 3*) and the concentration of employment opportunities in more developed Member States (*European Commission 2024b*). The demographic and educational profile of migrants further reinforces these trends. In 2024, for example, 57 per cent of working-age EU citizens residing in another Member State were aged 20–34, compared to just 43 per cent of the host country population. Furthermore, the employment rate of these mobile EU citizens (78%) was higher than that of the native population (76%) (*European Commission 2025*).

These developments suggest that, while the Single Market and the free movement of persons have created more opportunities for EU citizens, they have also exacerbated economic and demographic imbalances within the Union. The sustained outflow of young, highly skilled workers undermines the long-term growth potential of sending countries, reducing productivity and weakening the quality of public services while posing challenges to fiscal sustainability. Over time, this process may generate a negative spiral whereby human capital losses further deteriorate development prospects and trigger further waves of emigration. Consequently, the outflow of human capital directly exacerbates social and territorial disparities across the EU and undermines the Union’s cohesion objectives.

Figure 3
Hourly labour costs in Europe (2023) (in euro)



In peripheral, ageing regions, the outflow of young, skilled workers exacerbates demographic decline and can result in lasting structural deficits, threatening the long-term survival of local communities. If skilled workers continue to leave these regions permanently, a structural duality may emerge, whereby Western and Northern European regions primarily benefit from innovation and economic growth, while other regions – including several in Hungary – are permanently relegated to the periphery.

Addressing these issues requires a comprehensive European demographic and development policy that links cohesion policy with targeted development tools in Member States and regions particularly affected by emigration. A multi-level governance approach can help retain talent and mitigate the adverse effects of brain drain while enabling solutions to be developed that are based on local conditions. To achieve these goals, spatial, area-based policy instruments are required to ensure competitive career and life prospects, even in less developed regions. Mitigating brain drain is therefore not only an economic policy task, but also a key issue for the institutional and social resilience of European integration.

Ensuring equal opportunities for all European citizens, regardless of where they live, is of fundamental importance for the future of the Union. To achieve this, we must address the adverse regional consequences of the free movement of people. A shift in mindset is needed: one that does not restrict mobility, but makes it a genuine choice rather than a necessity. The concept of “freedom to stay” offers a new approach in this regard, as it could enable people living in less developed regions to find realistic life and career prospects locally.

5. Single market challenges and the recommendations of the Letta report

Since 1993, the Single Market has been a central pillar of European integration, ensuring the free movement of goods, services, people and capital. While this framework has significantly expanded cross-border opportunities for citizens and businesses, the crises of recent decades – from the global financial crisis of 2008 and the COVID-19 pandemic to the economic consequences of the war in Ukraine – have highlighted the Single Market’s structural limitations and the risks of fragmentation. In its communication marking the 30th anniversary of the Single Market, the European Commission identified several obstacles, including uneven enforcement of rules, persistence of national barriers, insufficient coordination in responses to the challenges of climate change, energy transition and digitalisation, and persistent

competitiveness difficulties faced by small and medium-sized enterprises (SMEs) (*European Commission 2023a*).

To address these issues, the European Commission asked Enrico Letta, a former Italian prime minister, to prepare a comprehensive expert report. Entitled “Much More Than a Market” (*Letta 2024*), the document begins by acknowledging that, although the Single Market is one of the EU’s most successful achievements, it is currently unable to effectively address the global and geopolitical challenges of the 21st century. According to Letta’s analysis, the Single Market suffers from profound structural deficiencies that limit business growth, undermine the effectiveness of strategic investments and hinder the EU’s global competitiveness. The report proposes a comprehensive reform package, including the introduction of a new “fifth freedom” to facilitate the cross-border mobility of knowledge and research, the creation of a Savings and Investment Union to mobilise private capital, and deeper integration in strategic sectors such as defence, energy and space policy.

This paper focuses on Letta’s concept of the “freedom to stay,” which can be interpreted as a complement to the approach centred on mobility. Although the free movement of people is one of the cornerstones of integration, Letta argues that this freedom does not constitute a genuine choice for all regions. In many disadvantaged regions, mobility is more of a necessity for young, skilled workers, as there are structural barriers to remain and prosper in their home regions. Mobility has increased unevenly across regions: certain areas of Southern Europe and in particular Central and Eastern Europe have become major sources of emigration. Consequently, several regions have fallen into the so-called “talent development trap,” where, despite investing in human capital development, they are unable to retain skilled workers.

According to Letta, the “freedom to stay” is not an alternative to mobility within the EU, but rather a complement to it. It is aimed at making remaining (in one’s home region) a realistic and attractive option for citizens. This requires targeted policy measures, particularly in the Union’s peripheral regions, where emigration stems from deep-rooted structural causes. From a scientific and policy perspective, the initiative aims to address the complex mechanisms of regional imbalances and demographic decline. It emphasises that mobility can only be considered a true freedom if staying is also an equivalent choice.

Letta’s proposal urges policymakers to view intra-EU mobility not as a positive development in and of itself, but rather as a right that forms part of the concept of freedom – a right that only achieves its full meaning when remaining and prospering

in one's home region is also a genuine alternative. The report sets out several policy recommendations:

- *Targeted cohesion funding for economically declining regions:* Regional disparities have persisted and many peripheral regions have fallen into a development trap characterised by low growth, deteriorating public services and demographic decline. Cohesion policy must provide these regions with more focused support, particularly in areas critical for retaining human capital, such as education, vocational training, research and development, innovation, public services, housing and infrastructure.
- *A system of indicators suitable for measuring “the freedom to stay”:* Letta proposes developing a comprehensive system of indicators to objectively measure the extent to which a region can offer a genuine alternative to emigration. This would take into account factors such as employment opportunities, the quality of public services, the development of digital and physical infrastructure, social cohesion and the cohesive power of local communities (i.e. their ability to foster a sense of belonging).
- *Decentralised development of local innovation and entrepreneurial ecosystems:* Research and development, as well as start-up ecosystems, are currently concentrated in major urban centres, exacerbating regional disparities. Letta argues that the EU should encourage the territorial diversification of these structures to integrate peripheral regions into the innovation chain.
- *Multi-level governance and capacity building:* Disadvantaged regions often have weak administrative capacities, hindering the effective use of EU funds. Letta therefore recommends building the capacity of local and regional actors, as well as strengthening cooperation at the EU and national levels. Policy measures must be tailored to the specific challenges faced by regions in order to avoid an ensuing downward spiral of development.
- *Encouraging circular migration and return:* If the possibility of return exists, emigration does not necessarily entail a permanent loss. Letta therefore proposes incentive programmes for returning professionals, including targeted scholarships, start-up grants and administrative reintegration support.
- *Rethinking the balance between mobility (moving) and staying:* The “freedom to stay” should be incorporated as a horizontal principle into regional development, education, digitalisation and migration policies. Digitalisation plays a key role in ensuring that social mobility is not dependent on physical mobility. However, the digital divide, particularly in rural areas, remains a significant barrier, therefore

targeted investments in infrastructure, energy supply and the development of digital skills are needed.

Letta's initiative represents a paradigm shift, offering not a restriction on mobility but realisation of the freedom of choice. The goal is to ensure that, alongside free movement, staying is also a real and sustainable option. This approach reinterprets the Single Market as an instrument of social and territorial cohesion, not merely as an economic tool. It prioritises the integrated development of resilience, local capacity building and demographic adaptability, going beyond traditional redistributive logic. Therefore, a strategic rethink of cohesion policy beyond 2027 is essential, as the "right to stay" is not only a social expectation, but also an economic and political necessity that could serve as one of the main pillars of the EU's long-term sustainability and legitimacy.

6. Growing demographic dimension of EU Cohesion Policy

Cohesion policy is one of the cornerstones of European integration, aimed at strengthening economic, social, and territorial cohesion, particularly by helping the most disadvantaged regions to develop. Over the past few decades, this policy has evolved from an initial focus on redistribution into a complex set of development policy tools, with an increasing focus on the strategic goals of the green and digital transitions, competitiveness and social inclusion. Although cohesion policy has become more performance-oriented during the programming periods, its original purpose of mitigating territorial inequalities arising from the Single Market remains central. As early as the 1980s, Jacques Delors, former Commission President, emphasised that market integration alone does not guarantee balanced development since economic activity is inevitably concentrated in a few strong urban regions while peripheral areas may be excluded from growth (*Jouen 2017*). Therefore, as Delors put it, the Single Market and cohesion policy are "two sides of the same coin": while the former is the engine of economic development, the latter ensures that its benefits are distributed fairly both geographically and socially.

Nevertheless, demographic challenges such as population decline, an ageing population and the emigration of young, skilled workers have long received limited attention in cohesion policy. This is particularly noteworthy given that Commission discussion papers and proposals for addressing demographic issues at the EU level emerged as early as the late 1980s (*Zalai 2024*). This is due to significant regional variation in demographic trends and the fact that related policy areas, such as family policy, education and social welfare, remained largely within the competence of

Member States. In recent years, however, demographic issues have featured more prominently in EU debates, creating new opportunities for the further development of cohesion policy.

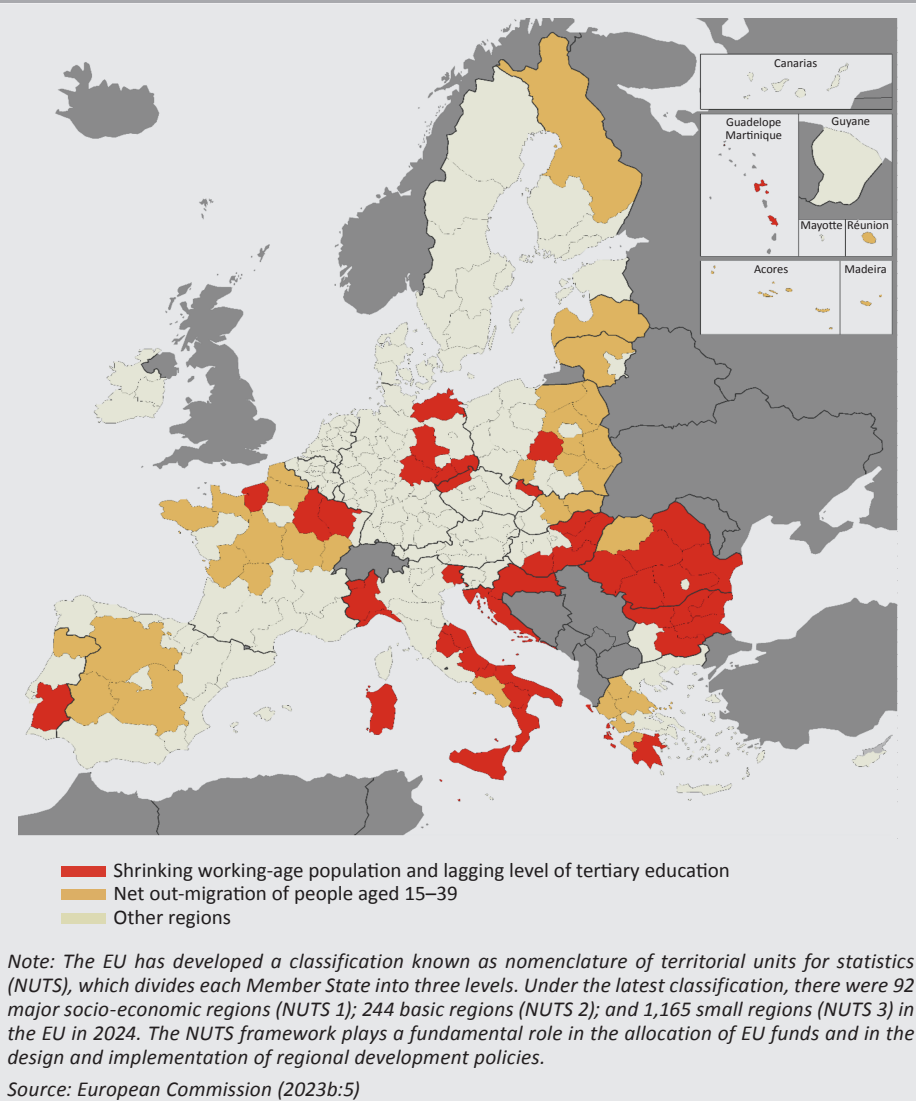
The first substantive attempt to integrate demographic considerations at a systemic level occurred during the 2021–2027 Multiannual Financial Framework.⁹ Following the 2015 migration crisis, the Commission proposed a special financial incentive for regions where a significant proportion of population growth was due to migration from outside the EU. These regions received EUR 405 per migrant annually to support their integration (*European Council 2020*). However, this approach primarily affected Western and Northern European Member States, and it failed to address the causes of demographic decline within the EU.

At the same time, primarily at the initiative of the Baltic States, a targeted support component was incorporated for those Member States where the population had declined by more than one per cent annually between 2007–2009 and 2016–2018. The amount of compensation was set at EUR 500 per person, based on the total population decline (*European Council 2020*). While this provided partial compensation for the structural disadvantages arising from the loss of human capital, its implementation was fragmented due to the absence of a unified strategic framework.

The most significant step forward was the Commission’s January 2023 communication, entitled “Harnessing Talent in Europe’s Regions” (*European Commission 2023b*). This document was the first at the EU level to recognise that demographic changes, particularly population decline, ageing and the outflow of skilled labour, directly exacerbate territorial inequalities and threaten EU cohesion. The Commission introduced the concept of the “talent development trap,” referring to regions where a declining working-age population, low rates of higher education attainment and out-migration of young people persistently undermine development potential. While the analysis primarily focused on the urban-rural development gap, the Commission acknowledged that peripheral regions, particularly in Central, Eastern and Southern European Member States, were disproportionately affected.

⁹ In the 2014–2020 Multiannual Financial Framework, the category of sparsely populated areas was incorporated into the EU cohesion policy framework. These territories are characterised by low population density and persistent demographic decline. While this category could have been used to address the structural challenges associated with population loss, it was primarily introduced to improve the net budgetary positions of the initiating Member States, Sweden and Finland, rather than for demographic reasons.

Figure 4
Regions in a talent development trap (NUTS 2 level)



According to the EU's assessment, 46 regions – accounting for around 16 per cent of the EU's population – are currently in such a trap, while another 36 regions (representing around 13 per cent of the EU's population) are at risk of falling into one over the medium term (Figure 4). While more complex theoretical models for identifying regional development traps do exist (Diemer *et al.* 2022), the Commission's policy shift has created a new conceptual framework underpinning EU

interventions aimed at retaining human capital. In November 2023, the Commission launched the Talent Development Mechanism, building on existing EU funds and policy instruments to provide targeted support to regions affected by demographic decline and brain drain. The mechanism aims to retain, attract and develop human capital, as well as reduce territorial disparities.

However, the EU's demographic responses continue to be implemented within a fragmented policy framework. While the Talent Development Mechanism and the Demographic Toolbox¹⁰ (*European Commission 2023c*) are steps in the right direction, a comprehensive, long-term EU demographic strategy is still lacking. In light of all this, it is essential that the demographic dimension is integrated horizontally and at the systemic level into post-2027 cohesion policy, and not merely considered as a statistical factor, but as a priority in its own right. Population decline, ageing, the emigration of young people and the regional concentration of human capital are profound processes that directly threaten the Union's territorial cohesion. Therefore, addressing these issues requires region-specific policy responses.

In order to address these challenges, it is crucial to develop an integrated, proactive and region-specific EU demographic strategy that recognises demographic change as an opportunity for structural development, not just a problem. Numerous studies have shown that increasing the volume of subsidies is not the solution; instead, a qualitative rethinking of policy instruments is needed. Rather than taking a traditional, welfare-oriented, supply-driven approach, policies sensitive to the specific structural characteristics of regions are needed. The success of this approach hinges on skills development, promoting innovation and entrepreneurial activity, and consistently managing institutional distortions (*Rodríguez-Pose 2018; Iammarino et al. 2019*).

This shift in perspective could enable future cohesion policy to operate not just on a compensatory basis, but also according to a preventive and capacity-building logic. The focus of cohesion policy must be recalibrated, as current Commission initiatives lack independent financing mechanisms and institutional embeddedness. One of the key issues for the 2028–2034 programming period will therefore be to ensure that the “talent development trap” emerges as a distinct intervention axis with dedicated financial instruments and targeted programming. Only such a strategic shift can ensure that addressing demographic transition becomes one of the cornerstones of cohesion policy in the post-2027 period, guaranteeing the possibility of sustainable development and social cohesion for all EU regions.

¹⁰ The Demographic Toolbox aims to compile best practices from Member States and link them to existing EU programmes and resources. This facilitates flexible yet coordinated policy responses to diverse demographic challenges (*Pape – Széchy 2024*).

7. Embedding demographic objectives in post-2027 cohesion policy

In recent years, several comprehensive studies and policy proposals regarding how EU cohesion policy should be reformed to respond more effectively to the EU's structural challenges have emerged in both the international and domestic literature (Busse *et al.* 2025; Schwab 2024). However, the Commission's proposal for the 2028–2034 Multiannual Financial Framework, published in July 2025, fails to address demographic risks at a systemic level. In fact, it suggests the removal of cohesion funding as a distinct category. This approach would pit regions against other EU policies, such as those relating to agricultural, migration or climate, thereby weakening the original convergence function of the Structural Funds. As negotiations are not expected to conclude until late 2027, there is a real opportunity for demographic considerations to be permanently and institutionally integrated into the future cohesion policy framework. This is of particular importance for Hungary in terms of the practical implementation of the “freedom to stay” and the “talent development trap.” We therefore set out a few policy recommendations below:

- *Establishment of a compensation mechanism for the most affected regions:* The EU should develop a targeted compensation mechanism to support regions affected by population decline, emigration and the loss of human capital. In this context, it may be appropriate to create a separate instrument which, alongside the European Social Fund and the Cohesion Fund, would offset the negative effects of human capital loss and fund programmes that encourage people to remain in their local communities. Support could be distributed based on the concept of the “talent development trap”. At the same time, this approach must be fine-tuned in order to take into account demographic and developmental differences among Member States and regions. Waiving the co-financing requirement and adopting more flexible state aid rules could strengthen solidarity among Member States and distribute the socio-economic costs of mobility more equitably. This could substantially support the strengthening of long-term demographic resilience, particularly in peripheral, depopulating and ageing regions.
- *Incorporating demographic criteria into EU funding policy:* The allocation of structural funds should be reformed to better reflect the EU's demographic challenges. This should include incorporating demographic impact assessments into the allocation system of the European Structural and Investment Funds, as well as giving greater weight to demographic indicators such as natural population decline, emigration and the ageing index. Regions facing persistent population decline require long-term, targeted support, as demographic decline simultaneously threatens economic sustainability and social cohesion. Consideration of demographic factors must extend beyond cohesion policy.

Reducing the innovation gap is essential for mitigating development disparities between regions. Therefore, the Horizon Europe programme should provide targeted support for regions with weaker research capacities. This can complement the principle of excellence and help to build competitive research ecosystems, thereby mitigating brain drain. However, funding alone is insufficient; there is also a need for tailored technical support, capacity-building programmes and long-term institutional partnerships between leading research centres and emerging centres of excellence. Coordinating cohesion, research and development policies can create synergies that simultaneously strengthen the EU's competitiveness and territorial cohesion.

- *Targeted reintegration programmes to encourage professionals who have emigrated to return:* The return of skilled professionals who have left the country can have a significant impact on the economy and innovation. To capitalise on this potential, the EU should develop reintegration programmes offering financial, administrative and professional incentives to returnees, such as tax breaks, targeted start-up grants and preferential access to venture capital. Simplifying the recognition of qualifications could accelerate reintegration into the labour market, while involving returnees in regional innovation hubs could strengthen the local economy's diversification and resilience. Such programmes can therefore be a cost-effective means of mitigating demographic decline, particularly when integrated into cohesion and research and development policies, ensuring that every region can contribute to Europe's future.
- *Strengthening Smart Specialisation Strategies (S3):* To reduce disparities in regional innovation capacities, the EU should strengthen the implementation of Smart Specialisation Strategies. This area-based approach enables regions to develop dynamic innovation ecosystems that generate quality employment and sustainable growth by building on their own resources. Support should be provided for developing regional innovation hubs that build on existing industrial, scientific and cultural resources, particularly in sectors such as agricultural technology, renewable energy and digital services. Cooperation between universities, research institutes and businesses – particularly in green technology and digital health – can accelerate technology transfer and strengthen competitiveness. Research shows that regions which consistently implement the S3 strategy achieve higher innovation performance and more vibrant entrepreneurial activity (*Kelchtermans et al. 2021*), which helps to retain and attract talent, particularly in peripheral and structurally disadvantaged regions.

8. Summary and conclusions

Although the European Union as a whole is facing significant demographic challenges, these adverse trends are further exacerbated by the marked structural differences between Member States and regions. Population decline primarily affects Central, Eastern and Southern Member States, as well as rural areas, where the sustained emigration of young, skilled workers is accelerating demographic decline. Although the free movement of persons is a cornerstone of integration, it has resulted in asymmetric adjustment pressures, leading to persistent structural lag in several regions, including Hungary. This deepens territorial inequalities and threatens the EU's long-term competitiveness and social stability. Mitigating the brain drain and addressing the negative externalities arising from mobility are therefore key policy priorities. Enrico Letta's "freedom to stay" initiative offers a new approach to this issue by creating real opportunities for residents of less developed regions to thrive locally, while still allowing them to benefit from the free movement of persons. Implementing this will require a strategic rethink of cohesion policy beyond 2027, paying particular attention to the persistent structural problems of regions affected by emigration.

However, in order to be credible and sustainable, any reform of cohesion policy after 2027 must integrate demographic trends into the financing and policy frameworks at a systemic level, linking territorial cohesion, innovation capacity building and retaining human capital. This approach could help to mitigate the socio-economic consequences of population decline and ensure that one of the fundamental promises of European integration – balanced development and genuine territorial cohesion – remains sustainable in the coming decades.

The questions and recommendations raised in this paper aim to contribute to this policy discourse, particularly in light of the European Commission's publication in July 2025 of its proposal for the Multiannual Financial Framework for 2028–2034. The ensuing negotiation process between Member States, which is expected to last several years, provides an opportunity to incorporate demographic considerations into the future cohesion policy framework at a systemic level. This is particularly important for Hungary.

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