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Reconciling competitiveness and demographic change: a Franco-German imperative

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France and Germany are facing parallel demographic shifts that could reshape the future of their economies and their social models. These shifts reflect broader European patterns but are magnified by the central role both nations play in EU governance and competitiveness.

This article gathers ideas based on the discussions held at the 2025 Genshagen Forum. It looks at how France and Germany are dealing with demographic decline – and why this matters for Europe as a whole. It explores the pressures ageing populations put on labour markets, welfare systems and regional balance, and highlights where the two countries diverge and where they must act together. The focus is on practical policy options and the role of Franco-German cooperation in turning demographic risk into strategic opportunity.

Demographic trends in France and Germany: diverging realities, shared stakes

Germany faces a sharper **demographic decline** than France, with significant implications for labour markets and social systems. The working-age population (20 to 64 years old) in Germany is projected to fall by over 10% by 2035, compared to a decline of only around 4% in France. The youth-to-elderly ratio illustrates this imbalance: Germany has just 0.66 individuals aged between 15 and 19 for every person aged between 60 and 64 years, whereas France maintains a 1:1 ratio (OECD Demography Statistics Database). France's comparatively higher fertility rates – averaging 1.8 children per woman over the past two decades versus Germany's 1.5 – have helped slow the pace of ageing. Germany has mitigated some demographic pressure by maintaining a high employment rate among older adults: over 72% of Germans aged 55 to 64 are employed, compared to just 57% in France (Eurostat, 2023). Nonetheless, rising life expectancy (around 81 years in both countries, Eurostat 2023) combined with relatively stable or declining retirement ages has extended pension periods. This adds strain to public finances, especially given that only a small share of older workers engages in upskilling – under 10% in France, and only slightly more in Germany.

Migration offers only a partial buffer. Germany has experienced net immigration of around 0.9% of its population annually in recent years, while France's figure is closer to 0.5%. Germany's migration is more explicitly tied to labour market strategy, whereas France's political debate often focuses on cultural identity. However, restricting irregular migration flows towards Germany has gained traction in the political debate while Germany recently reformed its immigration policy for labour migration. The migration policy shift might deter future skilled migrants from choosing Germany as a destination country or influence the duration of stay of migrants already working in Germany, also against the backdrop of rising far-right populism. Despite the current inflows, both countries struggle to integrate migrants into the workforce, particularly in rural areas where unemployment and underemployment remain high. In addition, the low recognition of migrants' skills impedes them from properly integrating and matching the needs of the labour market, especially in high-shortage fields such as the care sector, construction and the hotel and catering industry.

Regional demographic imbalances further complicate matters. Urban centres such as Paris continue to attract young people and immigrants, leading to depopulation and ageing in rural areas. While people living in urban areas such as Ile-de-France are 38 years old on average, average age is the highest in more rural areas such as Corsica with 43 years (Statista, 2023). Regional age disparities also exist in Germany, albeit at a considerably higher level. For example, there is a regional disparity in Germany with regions in eastern Germany displaying an average age of 47 years as compared with 42 in urban areas. Although a modest countertrend emerged during the COVID-19 pandemic – with some internal mobility towards suburban and rural areas due to urban cost pressures and greater scope for working remotely – these zones often lack adequate infrastructure, digital connectivity and job opportunities. Targeted regional policies are urgently needed, particularly in areas where fertility remains higher but economic stagnation drives youth outmigration.

Together, these trends call not only for pension and labour market reform, but also for integrated policies spanning migration, education and regional development.

The core challenges of demographic change

The Franco-German demographic challenge is multidimensional, with implications for economic vitality, social cohesion and geopolitical positioning.

Shrinking workforce and skills shortages: The most immediate risk is the erosion of the labour force in strategic sectors such as health, care, engineering and technology. This threatens the productive base of both economies and, by extension, the EU. Labour shortages are already acute in Germany and are emerging in France. Yet activating underused segments of the population – including women, older workers and NEETs (Not in Education, Employment or Training) – remains politically and culturally constrained. Automation and artificial intelligence (AI) offer long-term productivity gains, but their rollout is uneven and requires significant upskilling. Despite repeated calls for training and lifelong learning, uptake remains low, especially among older and lower-educated adults.

Social protection vs. competitiveness: France and Germany face a growing challenge between maintaining generous welfare systems and ensuring economic competitiveness. Ageing populations increase demand for health, long-term care and pensions, straining public finances. The work of French researcher Philippe Aghion suggests that ageing also undermines economic risk-taking and innovation, creating further drag on growth. Germany, with its strong industrial base, is at a crossroads where digital transformation must offset workforce losses. France, meanwhile, faces repeated political resistance to pension reform. Both nations are hindered by rigid administrative systems that reduce flexibility and adaptability – crucial traits for dynamic economies.

Territorial disparities and rural depopulation: Depopulation of rural areas risks undermining territorial cohesion, fostering inequality and weakening national unity. A lack of investment in schools, public transport, healthcare, cultural offerings and job opportunities creates a feedback loop of decline. Revitalising these territories is costly but necessary, particularly if labour migrants and young families are to be attracted outside metropolitan zones. Eastern Germany exemplifies another layer: migrants settle initially (or are forced to settle in a specific place in eastern Germany as in the case of refugees) but often move westward in search of better opportunities and a more tolerant and cosmopolitan environment. In France, most migrants concentrate in large cities, despite personal preferences for smaller towns – reflecting a disconnect between individual aspirations and structural opportunities.

Solutions for competitive, cohesive and demographically resilient societies

Confronting demographic decline requires structural reforms and societal consensus in France and in Germany. Three solution pathways are essential:

1. Activate and expand the workforce

- Boost participation and labour market integration: Targeted activation policies for older workers in France and women in Germany. Integration and job offers with future prospects for young people and NEETs (notably in France) are also an important lever for increasing the labour force with a high return of investment (this includes investment in reskilling and childcare infrastructure).

- Revamp training systems: Encourage lifelong learning through tax incentives, flexible programmes and digital platforms.

- Make work sustainable: Adjust jobs for older workers and low-skilled migrants through ergonomic design, part-time options, upskilling and inclusive hiring practices.

2. Reconcile social protection with economic dynamism

- Digital and AI transition: Accelerate the modernisation of public administration and small and medium-sized enterprises (SMEs), a cornerstone of the economic model of Germany in particular, to raise productivity and offset labour constraints.

- Pension and care reform: Ensure financial sustainability by promoting multi-pillar pension systems (such as both public and individual capitalisation of pensions) and developing cost-effective eldercare models. Include intergenerational justice and targeted offers for younger people.

- Leverage private savings: Use accumulated wealth, especially among the elderly, to fund long-term investments in health, housing and care.

3. Territorial investment and immigration rebalancing

- Revitalise rural regions: Invest in schools, broadband, public transit, civil society (associations and cultural activities) and health services to make small towns and rural areas attractive again. Leverage EU cohesion funds more strategically. Best practices with Germany's track record in Lusatia could be insightful in this regard.

- Smart immigration: Create pathways for skilled migrants to settle in underpopulated areas, offering incentives and support for family relocation. Design integration programmes tailored to local labour markets.

- Foster intergenerational communities: Encourage local development models where different age groups can coexist sustainably, ensuring access to lifelong services.

- Consider smart and innovative citizen participation in regional development to attract economic activities, retain demographic stability in ageing areas (retain young people, attract families including with intergenerational approaches, encourage intraregional mobility); this means also including the perspective of people in the region who do not usually participate and the viewpoint of those people who are interested in relocating to regions but are not (yet) residents.

A Franco-German test of leadership

France and Germany stand at a critical juncture. Their demographic resilience will determine not only national trajectories but also the EU's capacity to remain competitive in an ageing, contested world. Addressing these challenges requires balancing economic imperatives with social cohesion – a modernised European model that preserves solidarity while adapting to new realities. The Franco-German Social Summit, held in Berlin on 1 July 2025, marked a recent step in this direction. France and Germany reaffirmed the importance of closer cooperation on labour and social policy by aligning policy priorities and strengthening the resilience and inclusiveness of their labour markets.

Rather than offering quick fixes, there is a need for coordinated, long-term strategies to safeguard the sustainability of European welfare models and enhance economic competitiveness. As demographic pressures mount, such joint efforts serve as an example of how ageing societies can respond – not with resignation, but with reform, innovation and shared leadership. The envisioned outcomes are not merely national strategies but are also meant to feed into a broader European social agenda. By forging stronger ties between governments, social partners and experts, France and Germany aspire to reinforce their own social models, enhance economic competitiveness and uphold the solidarity that has long been a cornerstone of European sovereignty.

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