Aging and its economic implications for Europe

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International Workshop „Well-being in Aging Societies“
Beijing, 24 October 2013
Main Questions:

• What are the opportunities and challenges for economic growth (“material well-being”) in Europe?

• Is there any growth potential in Old Europe?

• What are the major structural bottlenecks in Europe?

• How can these bottlenecks be unplugged?

• What could be the role of the public sector?
Economic Growth after the Crisis

Source: Eurostat, downloaded Dec 9, 2012
2007Q4 = 100

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Population ageing is one of the challenges of the 21st century for Europe affecting:

- Pensions, health and long-term care
- Economic growth and living standards
- Social (esp. intergenerational) cohesion

Financial, debt and economic crisis has made matters worse

Key economic mechanisms ("dependency"): 

- Fewer contributors for more pensioners
- Fewer tax payers for more people needing care
- Fewer workers for more retirees
- Fewer buyers but more seller for assets
Old-age dependency ratio

Child dependency ratio

Total dependency ratio

Demographic Tailwind

Demographic Headwind

Children(-15)/Elderly(65+) per population 16-64

Source: Börsch-Supan 2008

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Extremely Rapid Increase of Dependency in Asia vs. Europe

Average annual increase rates (%) of elderly populations

Source: Zeng Yi, CCER, Peking University, 2007
Life expectancy

Women

Men

Life expectancy

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Source: United Nations Demographic Yearbook 1996
Need for structural reform

Labor force participation of men age 60-64

Where is Flexibility? Adaptivity?

Source: Gruber and Wise 2005

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Labor force participation (men)

Labor force participation (women)

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The power of structural reform

Living standard [Consumption per capita] relative to a non-aging population

- **1: Status Quo**
- **2: Labor Market Reform**
- **3: Labor Mkt & Pension Reform**

If resemble...

Source: Börsch-Supan and Ludwig 2010

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PERCENT VERY HEALTHY (objective functional measure)
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Main Questions:

• What are the opportunities and challenges for growth in Europe?
  - Heterogeneity within Europe -- Europe vs. Asia

• Is there any growth potential in Old Europe?
  - Not demography is destiny, but our policy response

• What are the major structural bottlenecks in Europe?
  - Labor force participation -- „competetiveness“

• How can these bottlenecks be unplugged?
  - Structural reform, especially labor market/pensions

• What could be the role of the public sector?
  - Long run investments: health, (further) education