
Demographic Challenges and the **Lisbon Strategy**

**COSAC CHAIRPERSONS MEETING
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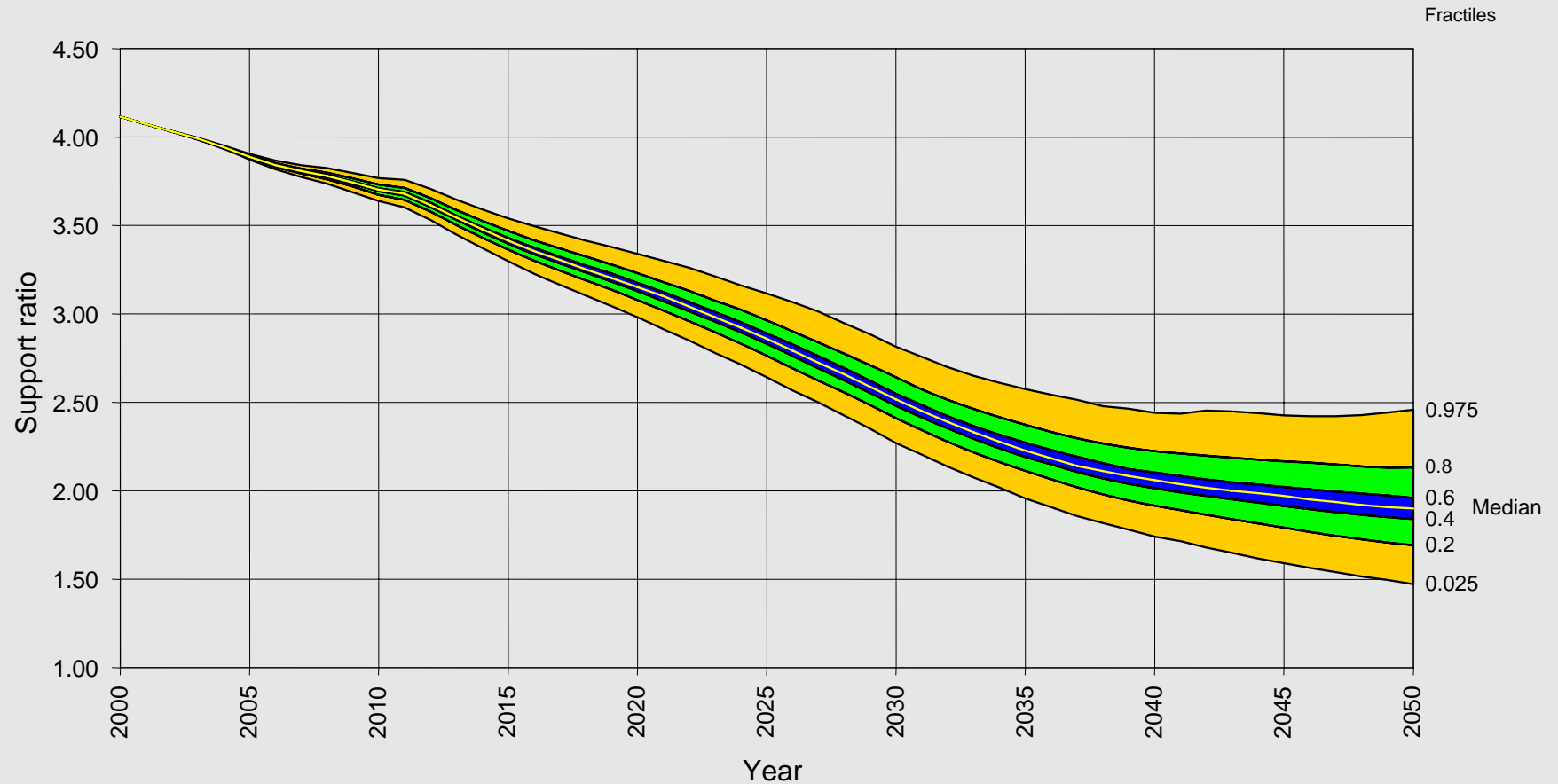
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Outline:

- Population ageing as a European mega-trend
- Does ageing endanger the Lisbon targets?
 - Balance of benefits and contributions in pensions systems
 - Innovation and productivity
 - Investments and competitiveness
- Can the demographic trends be influenced ?
 - Fertility
 - Migration
- Conclusions

Uncertainty Range of Future **Demographic** Support Ratio (15-64/65+) 2000-2050

European Union, Support ratio



Sergei Scherbov, 2002

When considering pension expenditure, the key variable is not the demographic support ratio, but rather the **balance between economically active and inactive persons**.

The negative impact of demographic trends on this balance can be partially offset, if more persons of working age participate in the labour market.

Lisbon objective/target:

Making Europe the **most competitive and dynamic knowledge-based economy** in the world by 2010.

Aim to **raise employment rates**

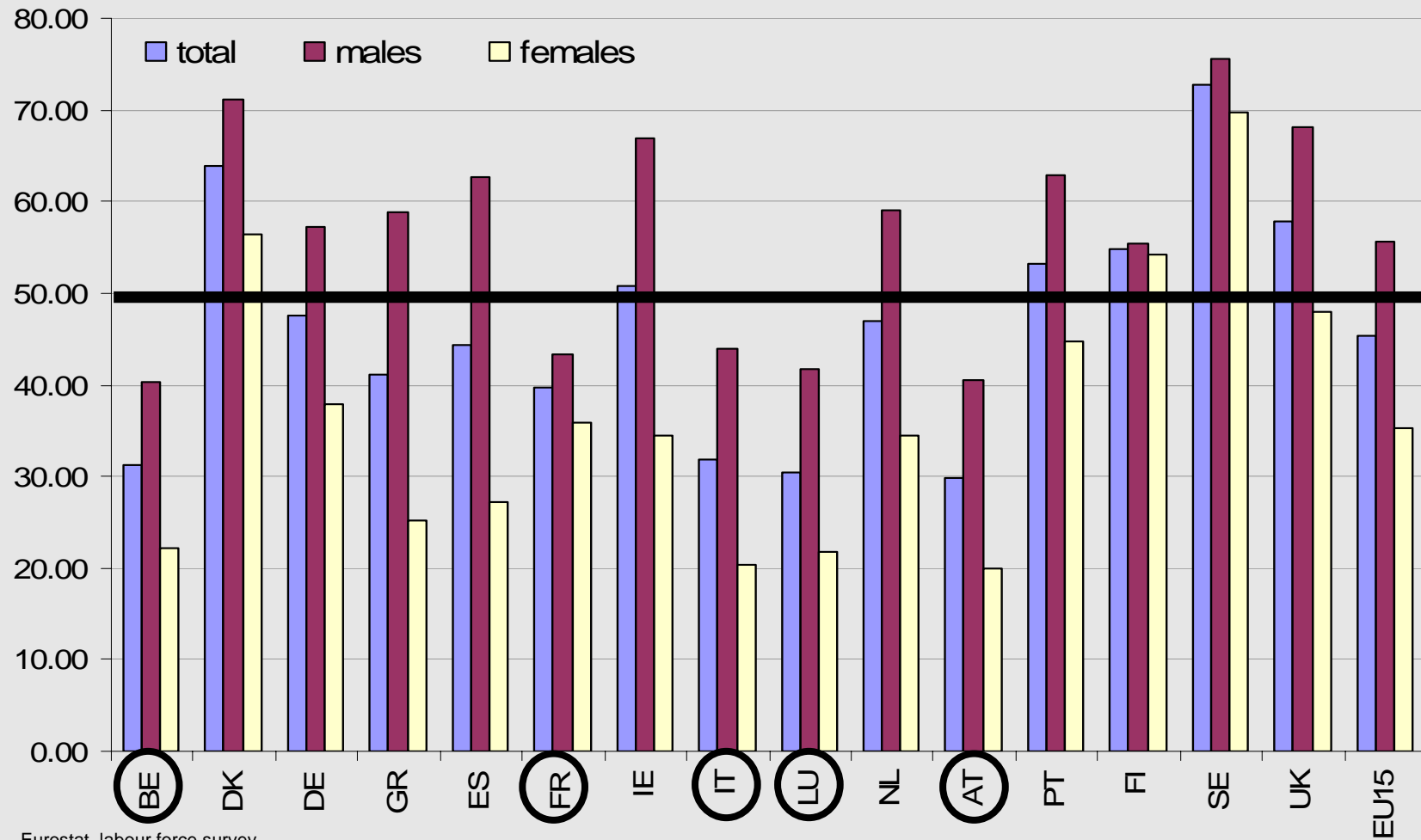
70% - overall employment rate,

60%- female employment rate,

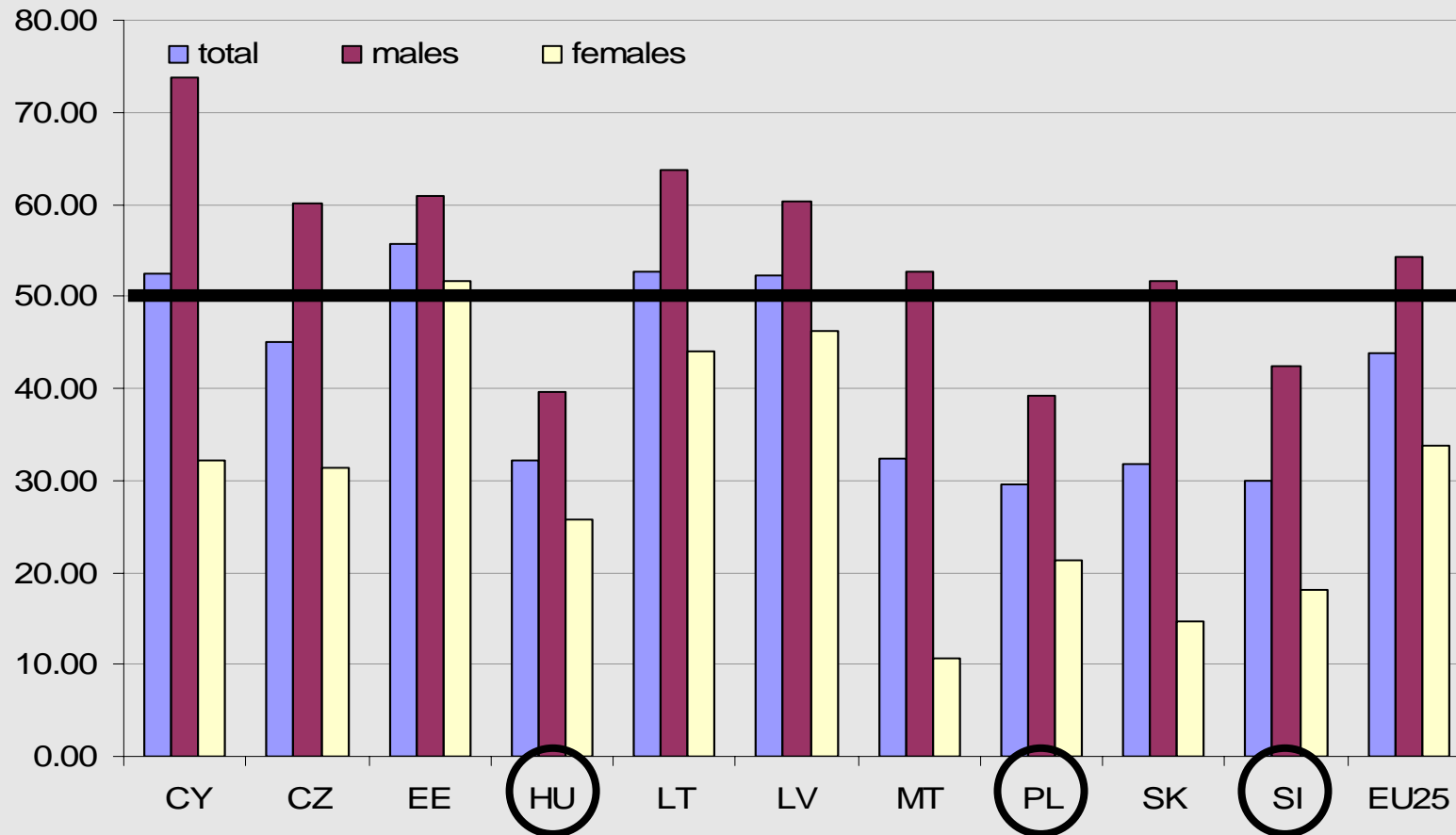
50%- older people

by 2010 and to improve labour market performance

Employment rates of **workers aged 55-64**, 2004, and the employment targets according to the Lisbon and Stockholm summits



Employment rates of **workers aged 55-64**, 2004, and the employment targets according to the Lisbon and Stockholm summits



Eurostat, labour force survey

Important open question:

Will a higher proportion of elderly workers lead to lower productivity growth and less innovation?

Major factors of productivity growth in Europe:

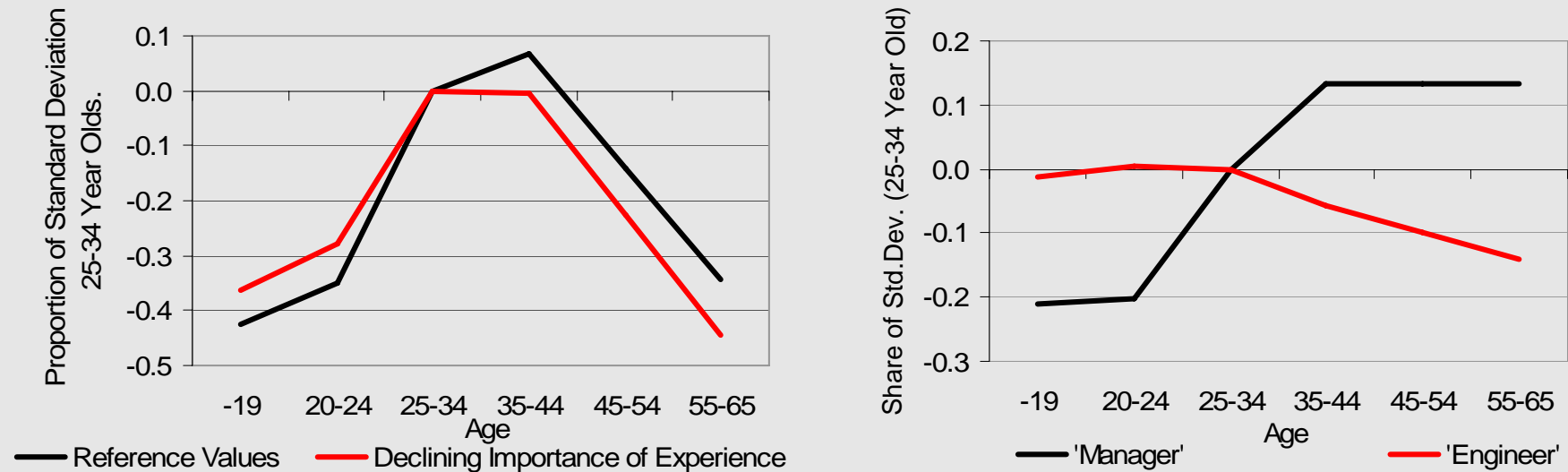
- innovation (public and private)
- information and communication technology (ICT)
- international knowledge spill over
- human capital development
- entrepreneurship

Evidence that older people are less educated, less healthy and demand more transfers.

Open question whether older workers are less willing to adopt new technologies.

Unclear whether innovation and new firm entry hampered, if there are fewer young workers?

Many skills decline with age – Experience increases with age



What is the balance at the level of firms?

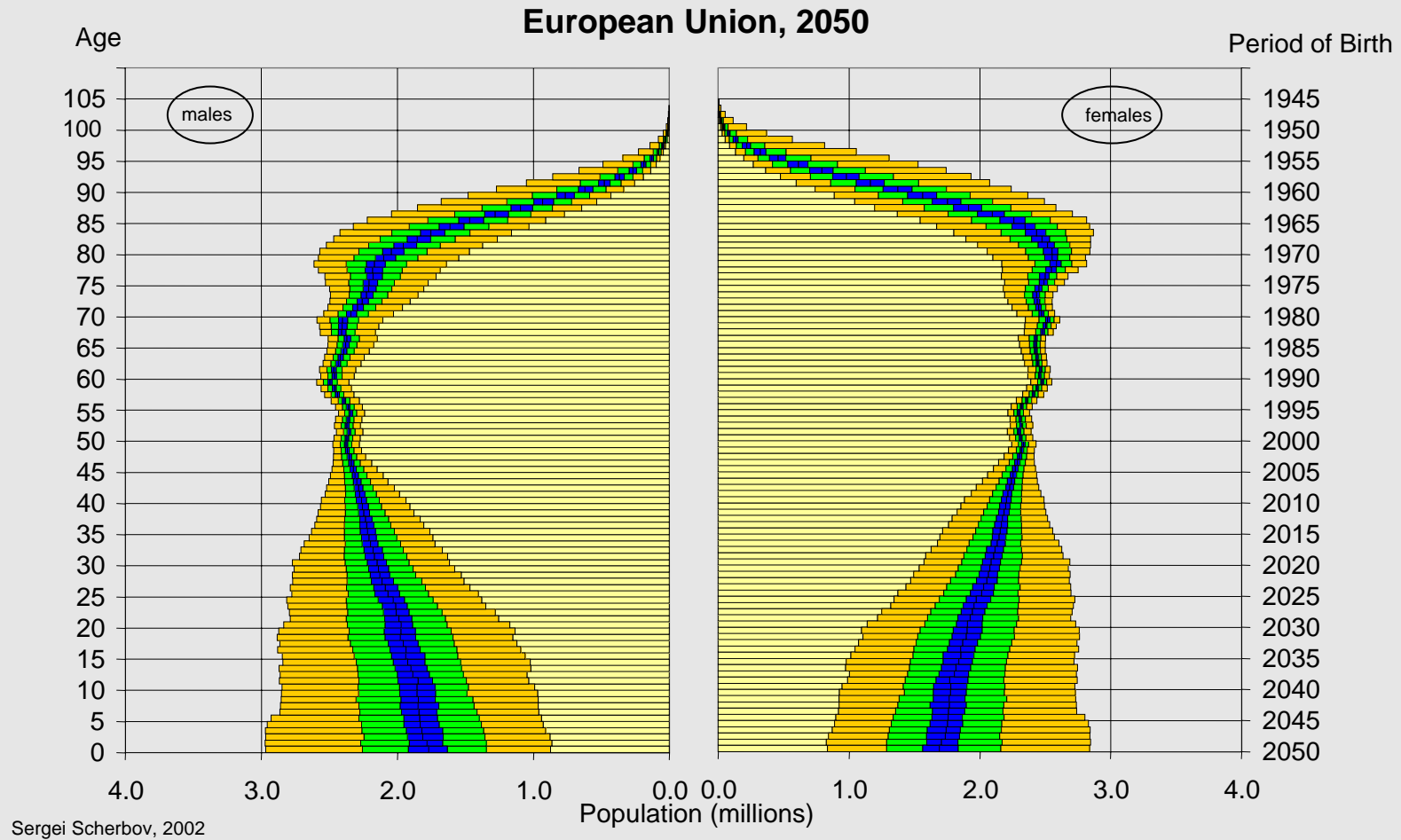
Evidence that the age profile is also hump shaped.

There is also the fear that in a globalizing world more investments will be made in dynamic markets rather than in those expected to stagnate.

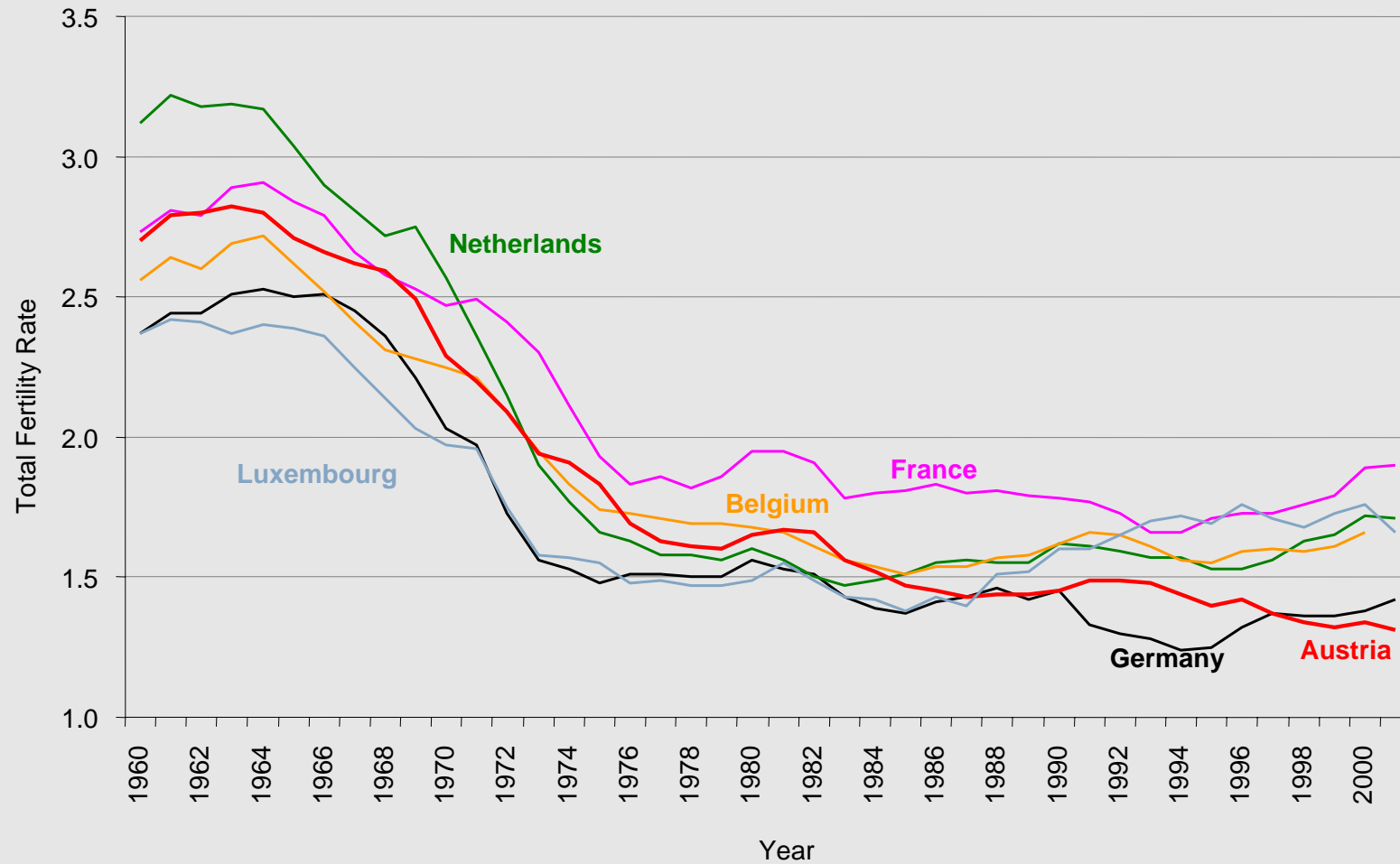
For the future all three factors of population change are uncertain:

Fertility - Mortality - Migration

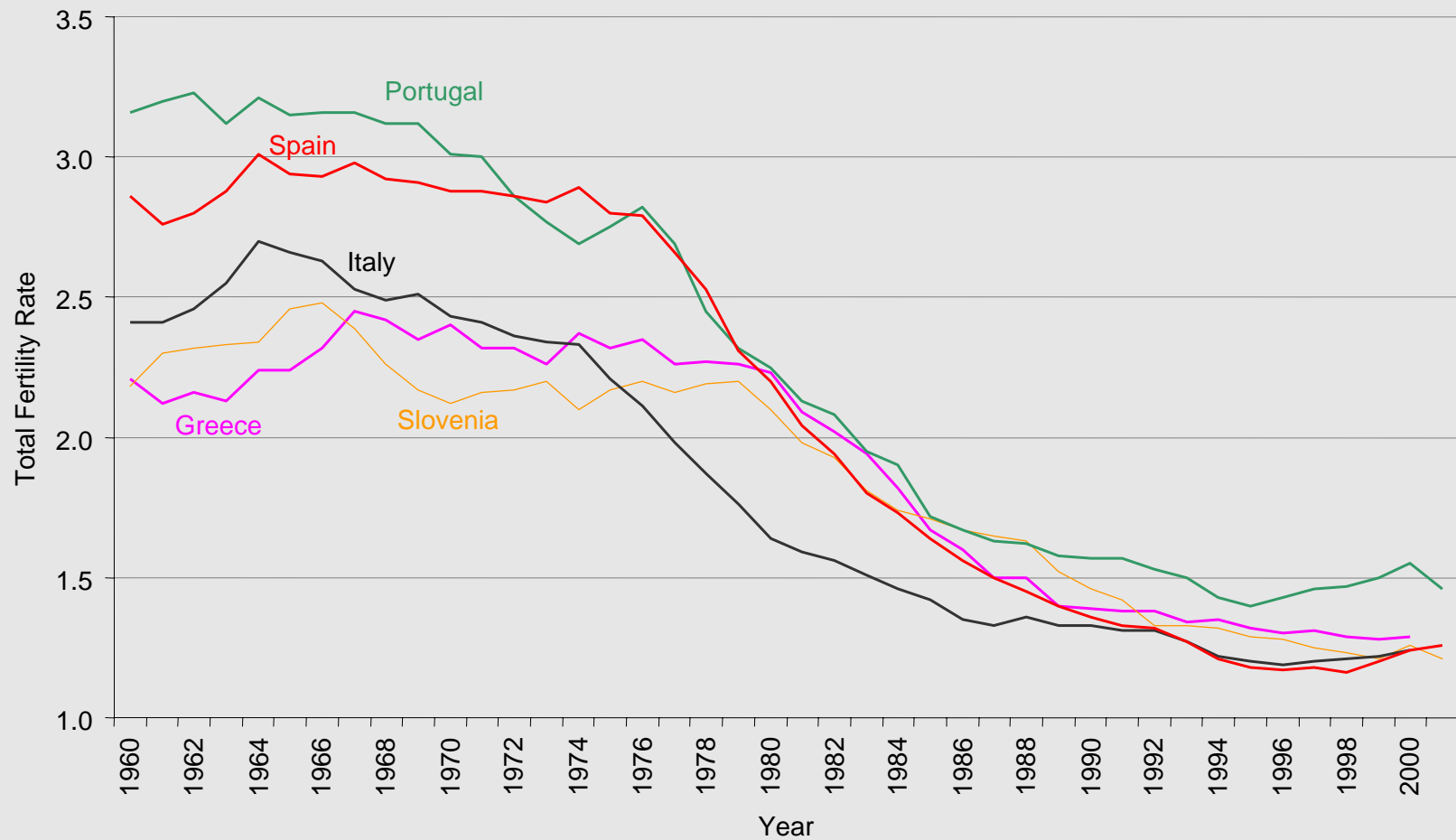
This uncertainty affects different age groups very differently



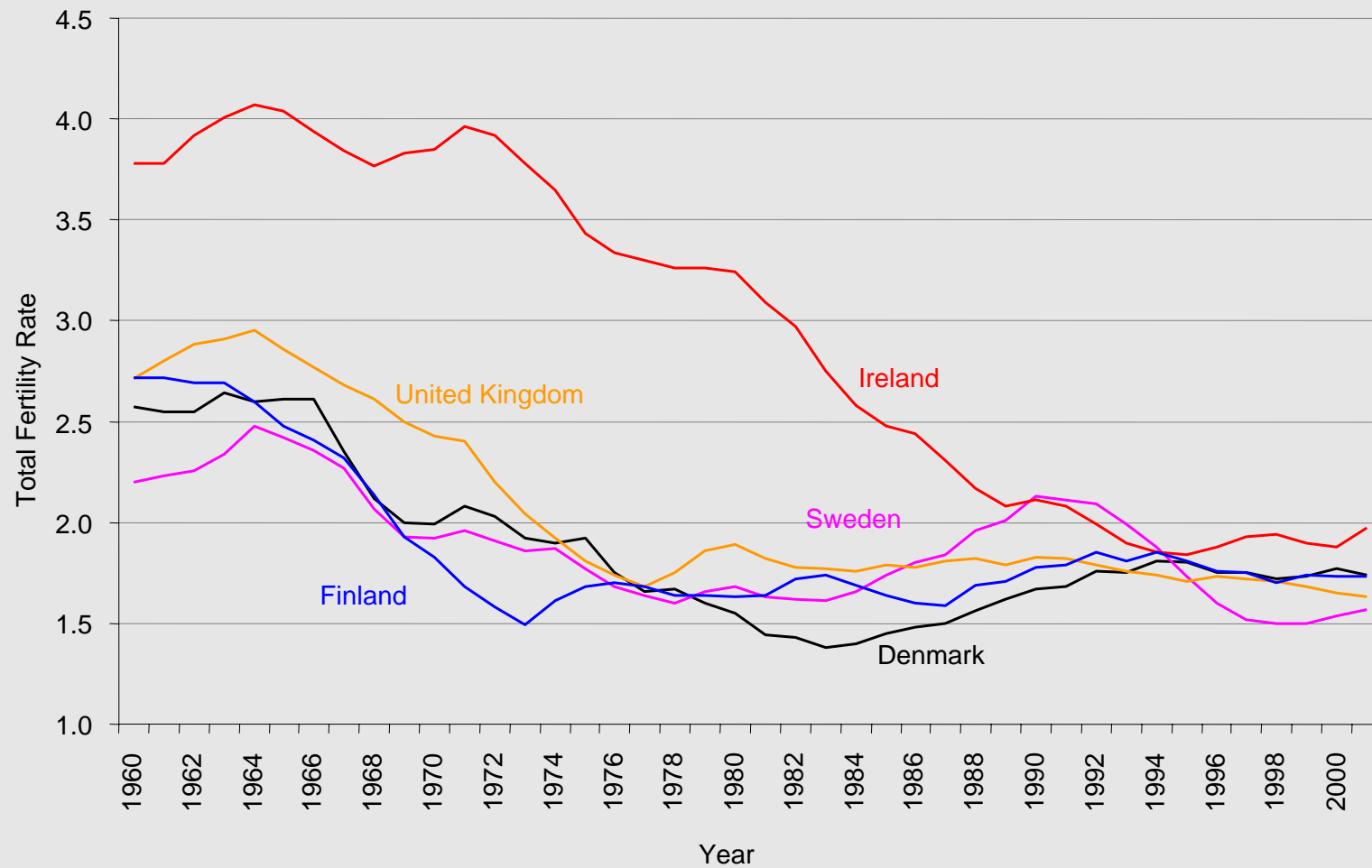
Western Europe, Total Fertility Rate, 1960-2001



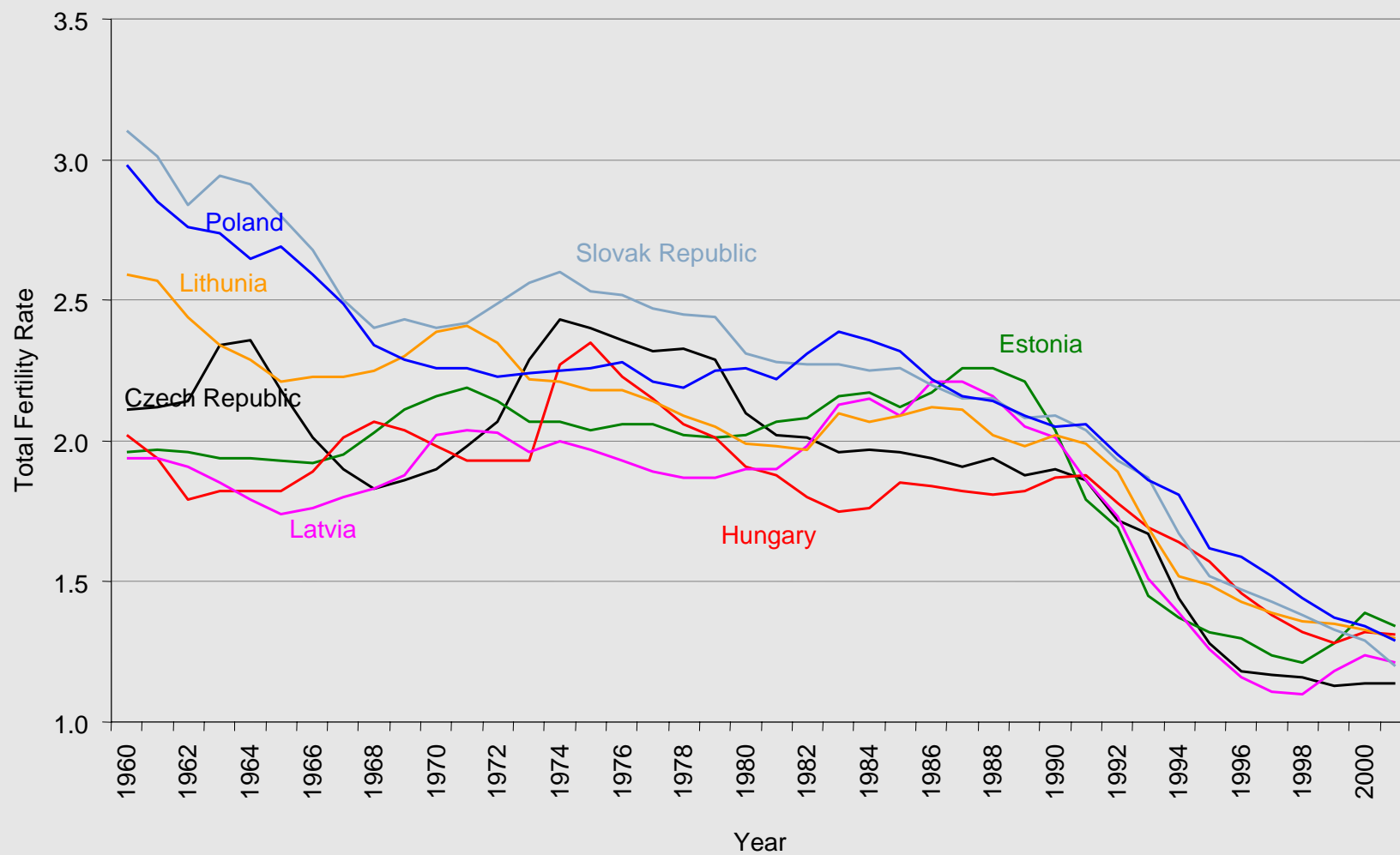
Southern Europe, Total Fertility Rate, 1960-2001



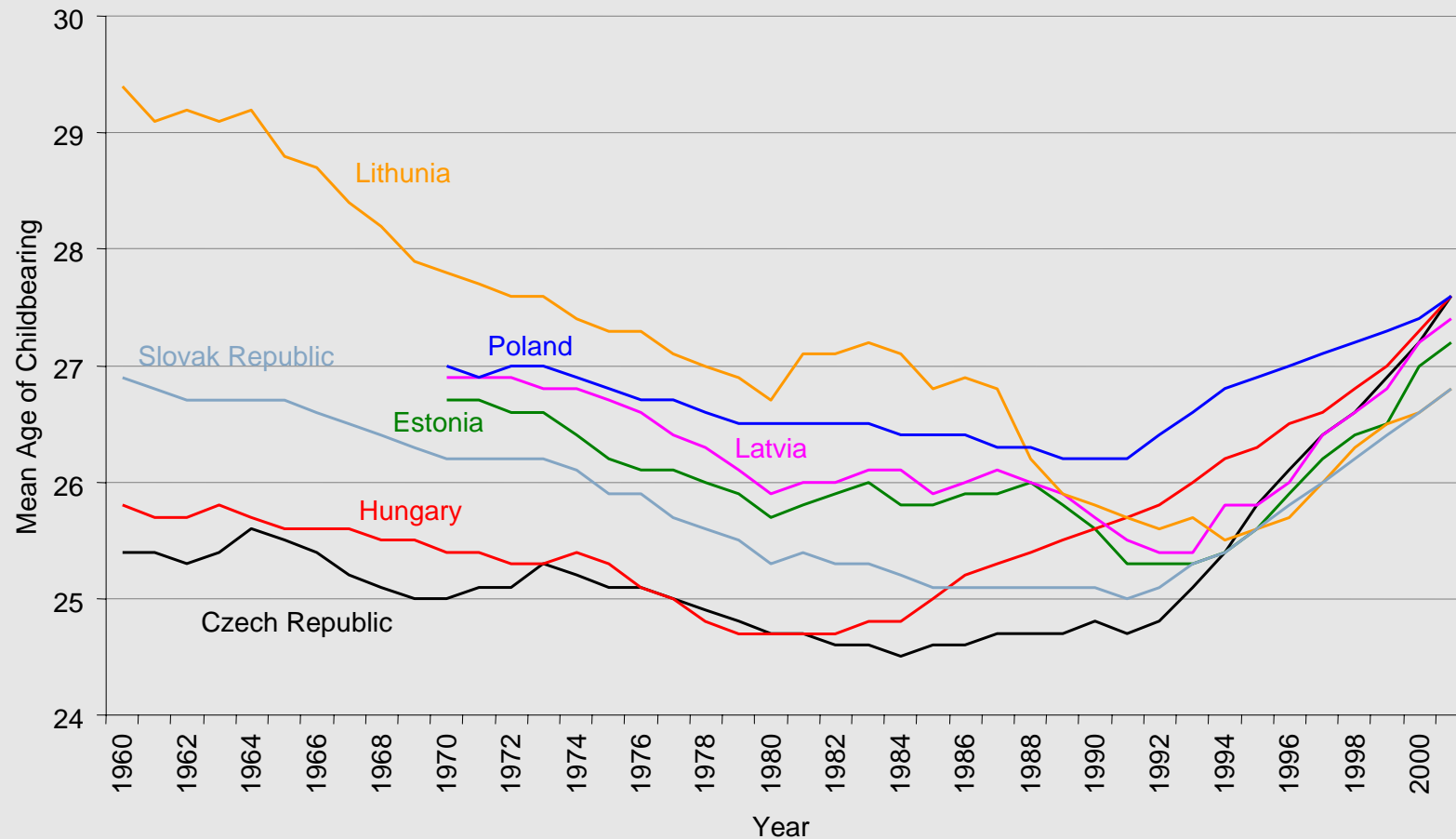
Northern Europe, Total Fertility Rate, 1960-2001



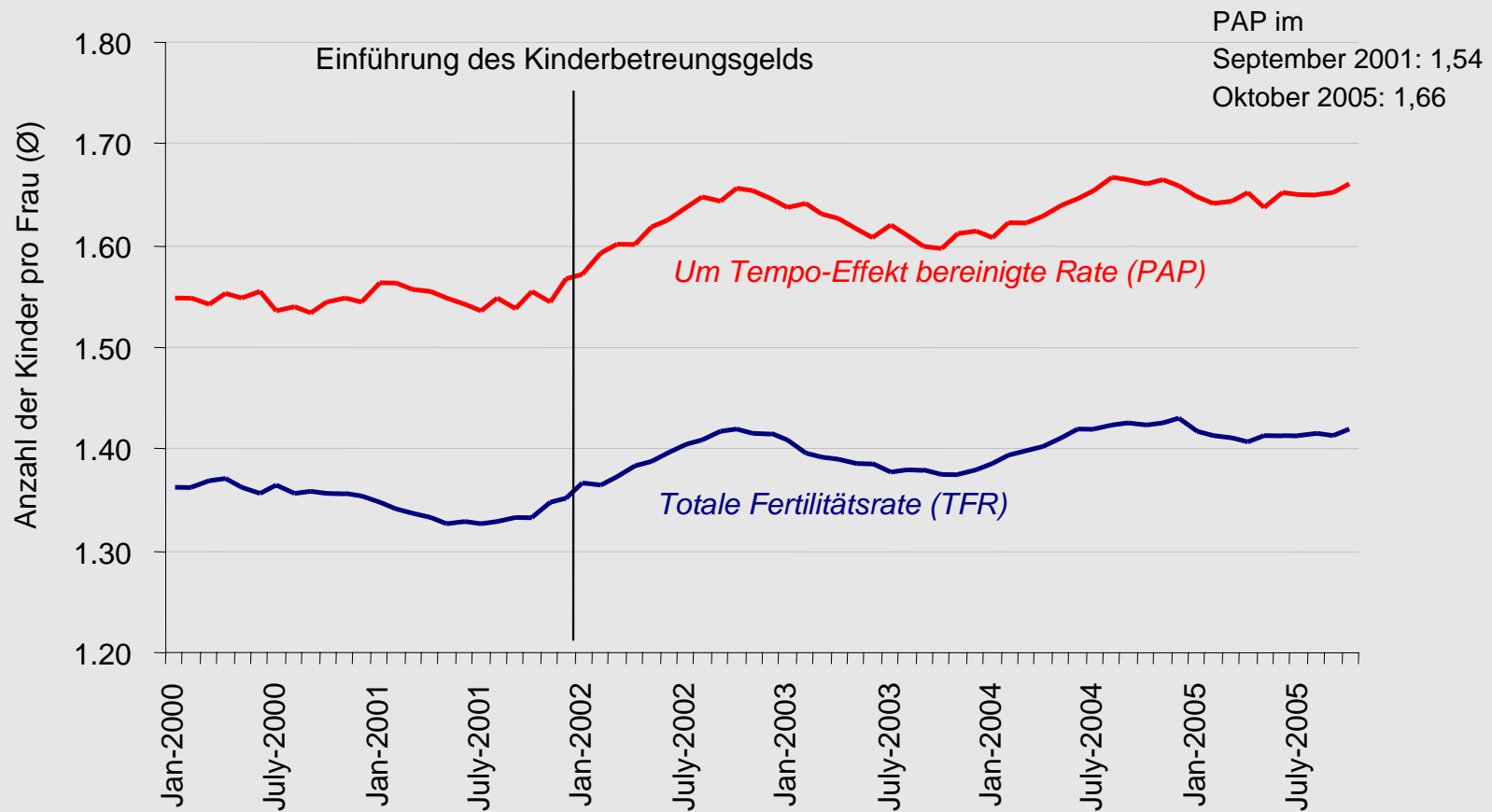
Central / Eastern Europe, Total Fertility Rate since 1960



Central / Eastern Europe, mean age of childbearing, 1960-2001
Tempo effect: While the mean age of childbearing increases, the Total Fertility Rate is artificially depressed: here since 1990

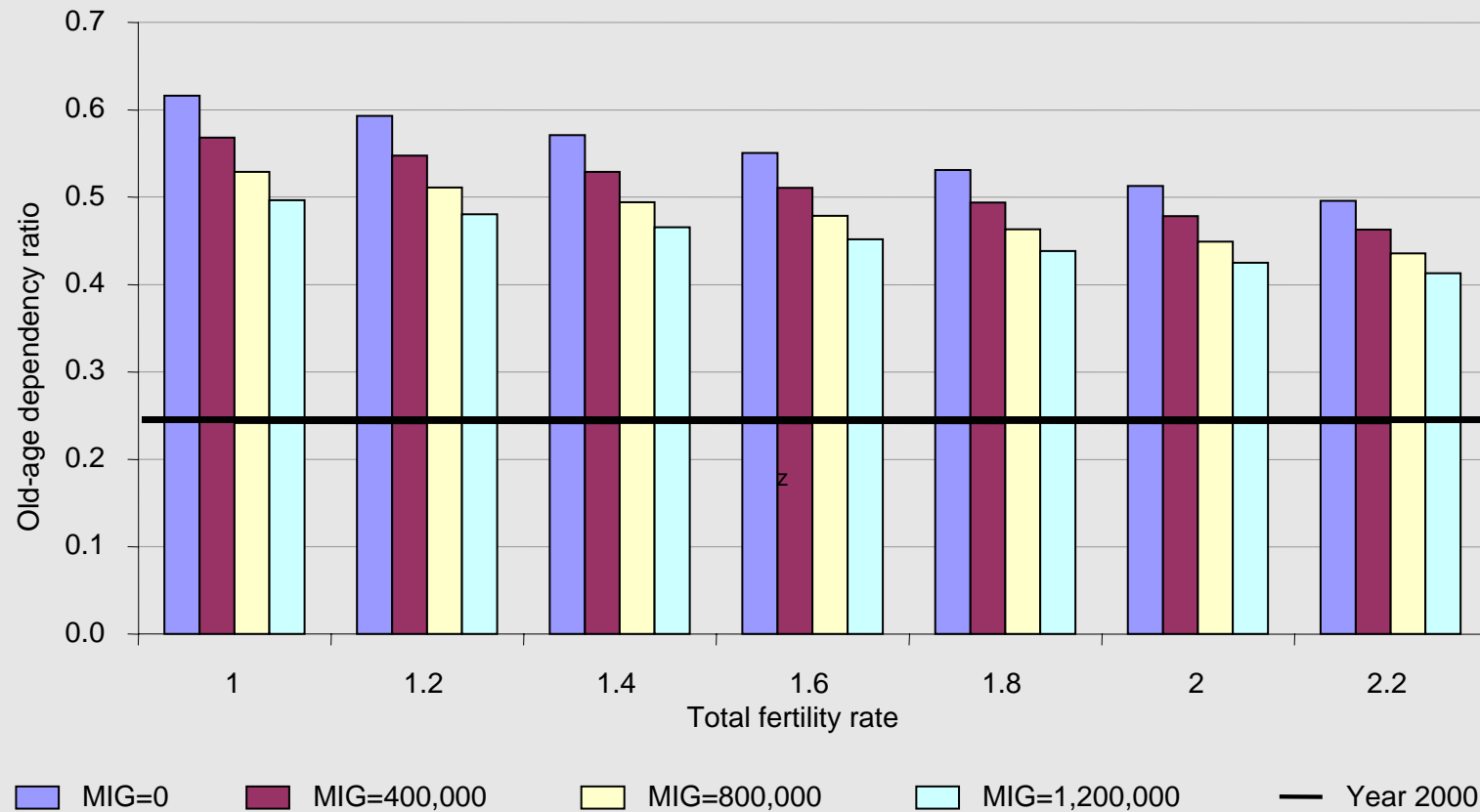


“Geburtenbarometer” for Austria
Monthly Changes in the Total Fertility Rates (TFR) and a rate
adjusted for tempo distortions (PAP: Period Average Parity)
Black line: In January 2002 a new child care benefit was introduced.



Can Migration Compensate for the Missing Births?

Alternative Projections of the Old Age Dependency Ratio for the EU-15 in 2050
based on different Fertility and Migration Assumptions
(Black line gives the level in 2000)



Conclusions:

- Population Ageing is a powerful force that will shape Europe's society and economy in the future.
- Much is predetermined in the current age structure shaped by past trends, but there is certain room for policies to influence future fertility and migration levels that will moderate the speed and extent of ageing.
- Since this is a new experience in human history and Europe is at the forefront of this process, the social and economic implications are hard to predict.
- Ageing is a challenge rather than a crisis: It is like a current affecting a boat that has means to counteract it (by rowing or engine). The Lisbon strategy could be such an engine.