



## Demographic Change : Aging Societies

### How to Make More With Fewer Inputs

**In Lisbon 2000 the EU set itself the goal to become the world's most competitive knowledge economy with more and better jobs and greater social cohesion. Ann Mettler, executive director of the Lisbon Council explains how realistic this wish list still is in the face of an ageing and declining population.**



**Ann Mettler, Executive Director of the Lisbon Council, a Brussels-Based Think Tank**

"Inaction is not an option" (Photo: Lisbon Council)

#### **The Lisbon goals need to be achieved in two years. How do you see this happening in the face of demographic change in Europe?**

Interestingly, demography has not featured very highly in the Lisbon Agenda to date, but it certainly does pose a challenge to fulfilling the Lisbon criteria. An aging and declining workforce will almost inevitably slow economic growth. At the same time, the additional expenditure on an aging population -up to 5 percent of GDP in some countries - make it more difficult to channel additional resources into future-oriented investments, such as education or infrastructure.

The short answer is, the only way we can grow in the future will be by figuring out how to make more with fewer inputs. Interestingly, productivity is growing faster in Europe than in the United States for the first time in a decade. We need to build on this success to meet the Lisbon Agenda targets.

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#### **Given the rapid aging of Europe, how can we ensure long-term fiscal and economic sustainability?**

There are three levers governments can utilize: consolidation of public finances, increasing employment rates, and reforming social security systems. I want to particularly focus on the first point, because it touches on an issue that is least often addressed: if no measures are taken today to consolidate public finances, government debt is projected to accelerate dramatically, reaching as much as 200 percent of GDP in 2050 in some countries - clearly an unsustainable option and an overt

assault on the interests of today's young people. If, however, the EU member states adhere to the Stability and Growth Pact, and apply appropriate budgetary consolidation, government debt will "only" be about 80 percent of GDP in 2050.

### **Is increasing the age of retirement a viable solution to the decline of the European workforce?**

It is certainly one of the solutions, and should occur anyway considering the incredible increase in life expectancy. Consider this: in 1970, the average woman in OECD countries drew a pension for 14 years. By 2004, that figure had increased to 23 years. Consider also that in 2050, there will be one person over the age of 65 for every two people of working age compared to five people of working age in 2000. As these figures demonstrate, inaction is not an option.

**Human Capital Demography Ranking**  
Projected change in employed people (2005-2030), in percent terms

Rank	Country	Score
1	Ireland	17.3
2	Sweden	0.2
3	United Kingdom	0.1

### **Human Capital Demography Ranking (click to enlarge)**

See how the demographic capital of various EU countries will have changed by 2030 (Graphic: Lisbon Council)

### **To what extent can immigration alleviate certain negative effects of aging populations?**

Immigration holds the potential to offset some of the decline of the labor force. However, unemployment rates among immigrants tend to be twice as high as among the native population. With regards to attracting more highly skilled executives, many countries must do more. Germany, for instance, attracted a mere 456 top earners in 2006 - a drop in the bucket if you consider that the country has over 20,000 vacancies for engineers alone. If we want to use immigration to offset demographic challenges, we must do a much better job of integrating migrants into our workforces, and we must be more welcoming vis-à-vis foreigners.

### **Many of the highly skilled people coming to Britain and the Netherlands are coming from eastern Europe. How can we avoid a "brain drain" in countries like Poland?**

The brain drain you describe is not necessarily a bad phenomenon. China and India, for instance, are now benefiting from the citizens who migrated previously and are now returning with valuable skills. The same could be true for central and eastern Europe. Some countries, such as Poland, are offering big incentives to coax emigrants to return home. In the meantime, wages have risen considerably - by as much as 7 percent - due to the shortage of skilled labor. So while the brain drain is certainly an important factor with regards to economic development, it's not possible to categorise it simply as "good" or "bad."

### **Human capital will be crucial to manage the demographic challenge. Sweden and the Netherlands are ranked at the top of the European Human Capital Index. What is the secret of their success, and is it transferable to other countries?**

Sweden and the Netherlands have done a great job. Both countries have already achieved the 2010 Lisbon Agenda target of a 70-percent employment rate. They also score well in human capital utilization, but also importantly, they also endow their human capital very well. For instance, 26.3 percent of the Dutch workforce is highly skilled - one of the highest percentages in Europe. Both countries also invest a lot in life-long learning. In Sweden, 44- to 64-year-olds spend 358 hours per year in educational activities with job relevance.

What is noticeable is that countries that rank well, do so consistently, meaning that one is very unlikely to have a high employment rate, but score poorly on educational attainment or life-long learning opportunities. And, yes, other countries can - and must - learn from these positive experiences.

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