Implications of Demographic Developments in Germany

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Demographic Development in Germany: Stylized Facts

- only slight population decrease in Germany in 1990-2020
- however: population is expected to shrink by about 0.5% p.a. in 2020-2050
- strong shifts in the age structure will occur after 2020
- labor force will decrease sharply after 2025 as „baby boomers“ of the 1960ies will retire
Stylized Facts: Regional Differentiation I

- population decline is mostly an East German problem
  - population decrease of about 40% from 1990 to 2050
  - labor force will decrease by more than 50% from 1990 to 2050

- in West Germany demographic change will be less dramatic and will occur later
Stylized Facts: Regional Differentiation II

- regional differences in population dynamics:
  - strong population decrease esp. in rural areas and in the periphery
  - population increase in (West German) centers of economic activity and in the Berlin area

- determined by:
  - overall low fertility rate (1.4 children/woman)
  - interregional migration flows esp. of younger cohorts

=> for a long time, policy has to deal with population decrease and population increase at the same time
Implications for economic development

- decrease of the labor force
  ⇒ lower supply of production factors
  ⇒ negative impact on economic growth
  ⇒ reduction of the unemployment rate (though esp. the less qualified will further suffer from unemployment)

⇒ policy advice:
  ⇒ longer working time in the life cycle (reduction of schooling times/later retirement)
  ⇒ better integration of non-employed persons (esp. women)
  ⇒ attraction of migrants from abroad
  ⇒ in the long run: increase of fertility rates (this, however, will not help in the short run)
  ⇒ raise of productivity (e.g. by higher capital intensity, by training, by R&D investments)
Implications for economic development

- aging of the labor force
  ⇒ worsening of the human capital base (as qualifications of elderly people might be outdated)
  ⇒ decrease of innovative power (due to outdated qualifications or due to higher risk aversion)
  ⇒ lower productivity growth
  ⇒ drop in new firm start-ups
  ⇒ negative impact on economic growth

⇒ policy advice:
  ⇒ more training and qualification
  ⇒ improved technology transfer to firms
  ⇒ re-organisation of production facilities (in order to deal with the special needs of elder employees)
  ⇒ improved conditions for business start-ups
Implications for economic development

• population decrease
  ⇒ lower demand for regional products and services
  ⇒ structural shift toward interregional traded goods (mainly manufacturing) as external demand will not decline as fast as internal demand
  ⇒ eventually: negative impact on economic growth

⇒ policy advice:
  ⇒ no policy action necessary, but support for structural change (towards export industries) seems necessary to avoid negative effects

• population aging
  ⇒ increasing demand for „old-age specific“ products and services
  ⇒ intensified structural change

⇒ policy advice
  ⇒ no policy action necessary, but possible impediments for structural change should be removed
Actual Economic Policy Reactions in Germany

- so far, only limited attempts to deal with the economic effects of demographic change:
  - labor market reforms (though not explicitly motivated by demographic reasons)
  - liberalisation of migration schemes (though rather weak)
  - successive extension of working times by later retirement age (however, mainly caused by financial problems of the pension system)
  - increased support for Kindergartens and elementary schools
  - reduction of schooling times (high school graduation after 12 instead of 13 years)
  - reform of the university system („Bologna process“)
  - support for firms introducing „family oriented“ organisational features
  - improved social assistance for families
Implications for Spatial Structures

- public (and private) services in regions with declining population will be reduced due to cost pressures
  ⇒ general education system
  ⇒ medical system
  ⇒ public safety and order
  ⇒ water and energy supply
  ⇒ waste management
  ⇒ public transport
  ⇒ public administration services
  ⇒ elementary shopping facilities
  (…)

- in some regions esp. in East Germany, even today basic public services are no longer sustainable
Implications for Spatial Structures

- Policy Advice
  - restriction of publicly provided services to the basics (i.e. elementary schooling, medical care, public safety)
  - concentration of basic public services (such as high schools, public administration, hospitals) in centrally located places (which means higher mobility costs for the private sector)
  - decentral organisation of public services where possible and less expensive (e.g. waste water treatment, electric power stations)
  - mobile solutions where possible (e.g. certain forms of public administration, elementary schools, basic medical services)
  - internet-based provision of public services (e.g. administration services, secondary schooling, medical services)
  - reduction of quality standards (e.g. for road quality, assistance in case of emergency)
  - dismantling of infrastructures (e.g. buildings, water pipes)
  - in some cases: abandoning regions (if necessary: financial incentives to support migration to the centers)
Actual Spatial Policy Reactions in Germany

- financial support for the dismantling of infrastructures
- centralisation of public services (esp. schools, administration, hospitals)
- administrative reform (merging of municipalities, reorganisation of tasks)
- decentralisation of basic medical services
- reorganisation of public transport (taxi transport instead of busses or railways)
- (financial) incentives for regional initiatives (e.g. with respect to economic development, public transport, cooperation of regional stakeholders)
Implications for Fiscal Policy

- due to the specific organisation of the German fiscal system
  - lower tax revenues (and lower social security contributions)
  - however: due to existing fiscal equalization schemes per capita revenues of Laender/communities will remain constant
  - expenditures are expected to increase in order to deal with demographic changes

- structure of the budget has to be adjusted (lower expenditures for youth-specific purposes, higher expenditures for old-age-specific needs)
  => distribution of revenues between federal government and Laender has to be altered due to specific tasks

- increased financial instability of the social security system (i.e. health care, pension system) due to the predominant pay-as-you-go-principle
  => entitlements will be reduced, contributions must be increased
Actual Fiscal Policy Reactions

- with respect to fiscal federalism: none
- with respect to the social security system:
  - reduction of (future) pensions
  - retirement age (actual 65 years) will gradually be set to 67 years
  - better integration of non-employed people in the labor market (in order to increase social security contributions)
  - increased tax finance of social security expenditures
Thank you for your attention!

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