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Implications of Demographic Developments in Germany

Presentation for the VASAB Expert and Stakeholder Meeting
on Demographic Trends and Labor Market Development

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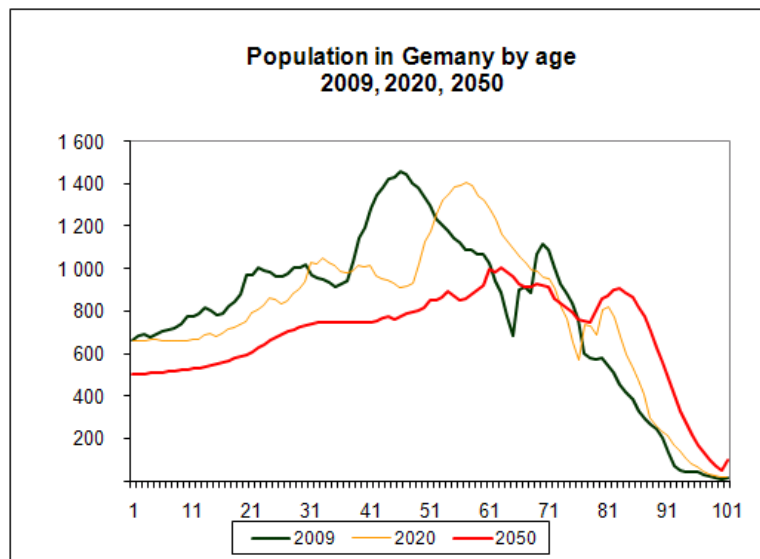
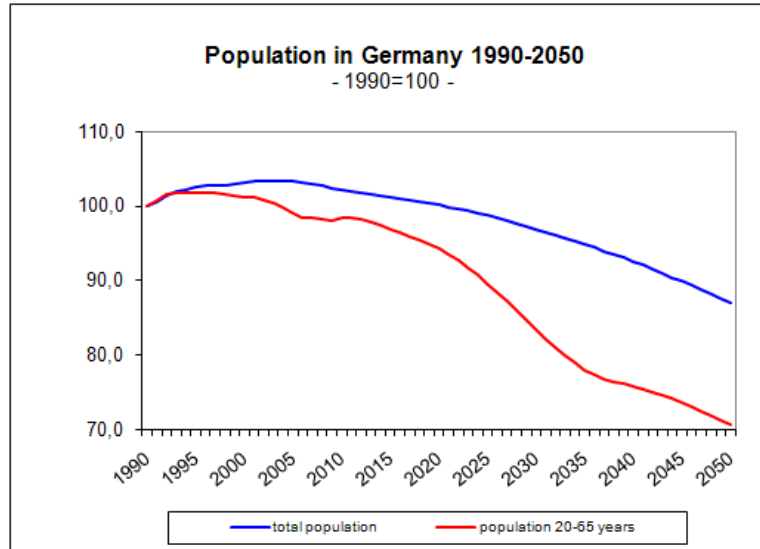
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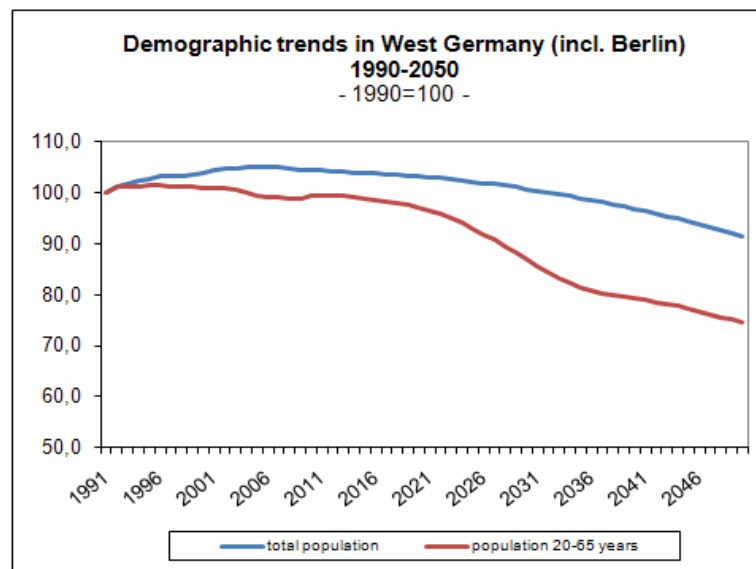
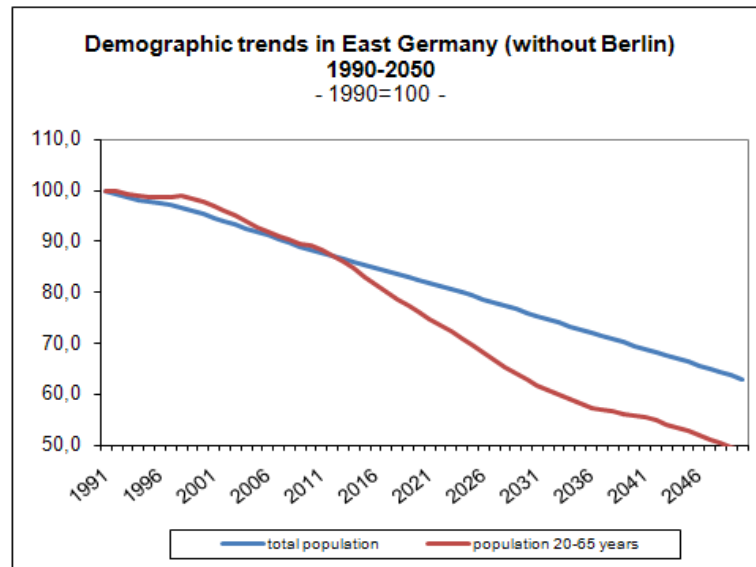


Demographic Development in Germany: Stylized Facts



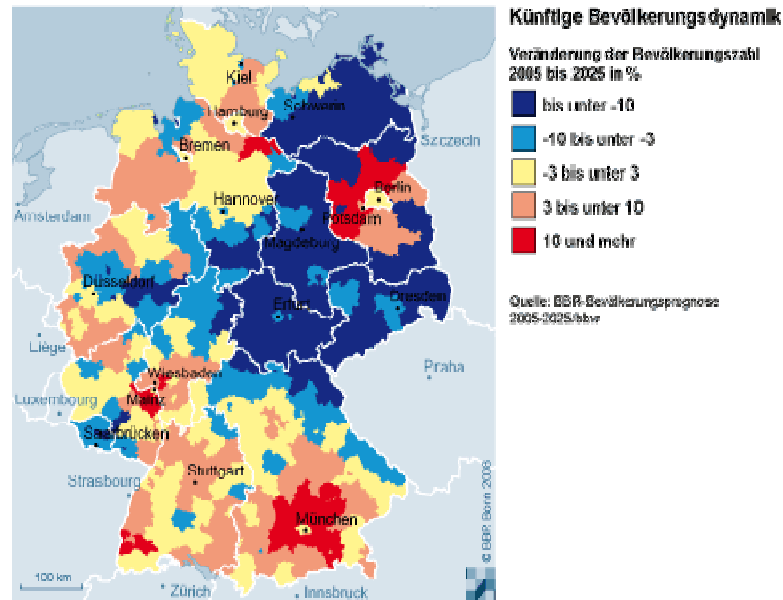
- only slight population decrease in Germany in 1990-2020
- however: population is expected to shrink by about 0.5% p.a. in 2020-2050
- strong shifts in the age structure will occur after 2020
- labor force will decrease sharply after 2025 as „baby boomers“ of the 1960ies will retire

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



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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



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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



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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)

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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



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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



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Thank you for your attention!

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