Comments on Schmidt’s ‘Demographic developments in Germany – avoiding a false sense of security’

Paola Subacchi, Chatham House, London

Nomura Foundation Macroeconomic Conference
Tokyo, 20 October 2017
The paper

- An overview of Germany’s demographic trends
- Population growth and output growth
- Two scenarios: fertility rate, life expectancy and net migration
Key conclusions

- GDP growth and immigration have so far mitigated the demographic transition in Germany.
- This is unlikely to continue and the reform of the social security system is inevitable in order to maintain fiscal sustainability.
- Policies should focus on:
  - increasing fertility
  - manage immigration
  - increase the participation rate to the labour market
  - promote human capital accumulation
  - increase the retirement age
My points

- Germany is not unique: all advanced economies and many developing countries → comparative approach
- Increasing/managing immigration is a partial (and problematic) solution → spillovers
- Macro data need more disaggregation → 65+ or 65-80 and 80+?
- Increasing the age of retirement is a limited solution → productivity growth and innovation
- The UK is ahead in making public spending on pensions sustainable → focus on pensions replacement rates
Ageing G7

G7: rate of natural increase, 1950-2050, per 1,000 population

<table>
<thead>
<tr>
<th>Year Period</th>
<th>Japan</th>
<th>United Kingdom</th>
<th>Italy</th>
<th>France</th>
<th>Germany</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-1955</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1965-1970</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980-1985</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1995-2000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010-2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2025-2030</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2040-2045</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: UN
Demographic imbalances between developed and developing countries

Demographic pyramid, Less Developed Countries (LDCs) and Advanced Economies (2017). Source: United States Census Bureau, available at https://www.census.gov/population/international/data/
Peak in youth population everywhere but Africa

- In 2015 1.2 bn youth aged 15-24 worldwide
- By 2030 nearly 1.3 bn youth (a 7% increase)
- By 2030 the youth population of Africa is projected to have increased by 42% (and have more than doubled from current levels by 2055)
How sustainable is public spending on pensions?

Pension replacement rates, % individual earnings, gross

Public spending on pensions, projections, 2015

Source: OECD
Thank-you
@PaolaSubacchi