Age may not wither economy labour market

Experts say it would be wrong to be too pessimistic about the effects of Germany's ever-older population, writes Ralph Atkins

By Ralph Atkins

(…) Germany is among the industrialised countries most affected by an ever-older population - a fact that has often added to the gloom about its long-term prospects.

Axel Borsch-Supan, who heads the Mannheim research institute for the economics of ageing (MEA), says much of the pessimism is overdone. "People think that ageing is the end of the world, that Germany's richness will go out of the door. That is simply wrong. A fall in gross domestic product is possible - but is only one scenario."

With appropriate policies, Germany could at least maintain its long-term growth potential - although time is running out. Mr Borsch-Supan describes Germany as "an ideal showcase for the challenges - and chances - of global ageing".

The impact on Germany will be pronounced because its "baby boomer" generation was large and born within a smaller period - roughly 1955 to 1965 - than in other countries. Under current policies, the first of the baby boomers could start entering early retirement in as little as three or four years time. By 2035, most will have retired.

(…)

At the MEA, Mr Borsch-Supan reckons that on a "fairly good scenario" - assuming participation rates increase - Germany's trend growth rate might be between 0.2 or 0.3 percentage points lower between 2010 and 2035 as a result of population ageing. In other words, the rate at which Germany is deemed capable of growing on a sustained basis without excessive inflationary pressures - currently estimated to be around 1.5 per cent a year - would fall to 1.2 per cent or 1.3 per cent.

One issue unresolved among economists is whether an older workforce is also less productive - which would also have the effect of dampening growth. Research work is inconclusive; whereas younger workers might be better performers in manufacturing industry, that is not necessarily the case in the increasingly important service sector.

Only on an "absolutely gloomy" scenario, in which participation rates remain unchanged, productivity falls and ageing also has other negative effects - for instance by causing a sell off on financial markets - would Germany's long term growth fall to zero, says Mr Borsch-Supan.

(…)

True, today's German pensioners are comparatively wealthy (…). But even if future generations have to save more for their own pension provisions, that does not mean less spending in shops if higher participation rates mean more people in employment.

What measures might the German government take to offset the impact of ageing on long-term growth? One policy course that would probably not make a big difference would be to increase immigration. The numbers required to offset the effects of the "baby boomer" generation retiring would be too large even to consider, politically.

On other fronts steps are already being taken in the right direction. (…)

But economists generally agree that there is still work to be done in increasing the incentives for the unemployed to take work. And some proposals would run in the wrong direction.

For example, Jurgen Ruttgers, prime minister of North Rhine Westphalia, has won support in chancellor Angela Merkel's Christian Democratic Union for his proposal that unemployment benefit should be available for longer to those who had paid for a longer period into the social security system. Such a move might appear fair - but could be abused by companies wanting to push older employees into, in effect, early retirement.

The debate about Mr Ruttgers' proposal highlights the political difficulties of addressing the issue of ageing. "People are aware that you could do something but if you want to do something, the political system does not make it easy. This conveys a feeling of depression, which is unwarranted as the underlying economic perspective is not depressing," says Mr Borsch-Supan.

Der vollständige Artikel erschien in der Financial Times, London am 11.Dezember 2006.