Fiscal challenges for the OECD and Europe over the coming 50 years

1. Public finances will be strained due to:
   • Weak initial fiscal positions;
   • Rapid ageing affecting growth and fiscal positions down the line.

2. Additional fiscal risks stem from:
   • Failure to implement labour supply reforms to balance rising longevity;
   • A drying up of labour-related migration.
Weak initial fiscal positions: Fiscal gap to stabilise debt at 60% of GDP in 2060
Rapid ageing over the next 50 years, especially in Europe and parts of Asia

Old-age dependency ratio: % of population older than 65 as share of population aged 15-64
Ageing will contribute to fiscal pressures: Fiscal gaps adding pension and health expenditure
Further risks relating to labour supply

• The scenario assumes that reforms are enacted so that active work lives are extended in line with rising longevity;
• Migration assumptions for OECD countries may be too optimistic, given rapid convergence in incomes between OECD and non-OECD.
Assumed increase in labour force participation rates 2010-2060

Percentage points

Average
Without migration OECD area population is set to shrink....
...and the expected impact is especially large in Europe

However, even though migration has lowered past old-age dependency ratios, they are unlikely to offset future ageing effects:

- Dependency ratio differences are small (but may increase as native populations age).
- Work-related migrants may not show up, due to global income convergence.
Potential labour force with modelled migrant flows, 2060
Identifying weak spots (I): Employment rates by age groups, men 2012

Graph showing employment rates by age groups for various countries including France, Germany, Japan, Sweden, OECD countries, and the United States.
Identifying weak spots (II): Employment rates by age groups, females 2012

France
Germany
Japan
Sweden
United States
OECD countries
Possible roads to reforms

Retirement:
• Adjust retirement age automatically to longevity;
• Ensure portability of pensions and decrease reliance on defined-benefits in the light of migration uncertainty;
• Raise minimum pension age (France, 60 now, 62 in 2017);
• Increase transparency of pension system by moving to a notional point or account system (France).

Labour supply:
• Address work incentives for females, e.g. through abolishing joint family taxation (France);
• Tackle low female labour supply (and fertility) through better access to child care (Germany).

Additional structural issues:
• Review public/private cost sharing in e.g. tertiary education and some components of health care;
• Increase flexibility of labour and product markets to improve integration of marginal groups and immigrants into the labour market.
Obstacles and challenges

- Gaining political momentum for retirement reforms is difficult;
- Distributional effects of tax reforms and fiscal consolidation need to be considered;
- Rising global trade integration will put pressure on taxation and funding of the public sector, as mobile tax bases erode.
THANK YOU!