

## **Jean-Pierre Roth: The population is ageing - we cannot wait any longer!**

Summary of a speech by Mr Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank, at the Association suisse des actuaires, Basel, 17 June 2005.

*The complete speech can be found in French on the Swiss National Bank's website ([www.snb.ch](http://www.snb.ch)).*

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Like other developed countries, Switzerland has been hard hit by the phenomenon of demographic ageing. It is putting our old age pension scheme to a severe test. The ageing of the population is also impacting on our ability to innovate, our potential to achieve productivity gains and our competitive dynamism in a globalised and demographically diversified world.

This is why measures need to be put in place quickly. At the heart of this demographic challenge lies the need to enhance the productivity of our economy as well as our productive capacity. It is all the more important to secure favourable growth conditions because the ageing of the population in itself could impact negatively upon our capacity for growth – which is under strain already now.

Increasing the productivity of our economy and the pace of growth is essential if we wish to maintain our system of social security. At the macroeconomic level, the financing of old age pensions works according to a simple principle. This involves imposing a levy on the incomes of the working population and transferring these funds to pensioners, either through redistribution in the present (pay-as-you-go system) or via a capital funding system which benefits future generations of senior citizens. Thus, demographic ageing means that the working population is obliged to shoulder ever greater levies. If, at the same time, the global creation of wealth progresses slowly, the responsibility of financing old age pensions is going to impose an increasing social burden.

Thus, it is not only necessary to improve our economic efficiency, we also need to be careful not to impede these efforts through inappropriate measures. We must allow the invisible hand of competition to bring about the most efficient allocation of our resources possible in both the domestic and the foreign arenas. Consequently, we need to do more with the resources at our disposal. At the same time, we need to make sure we have access to better quality resources. This means taking a longer-term approach to our system of education. The conditions within which our economy operates also play an important role. Growth in investment activity not only allows us to create new jobs but also, and above all, to accelerate productivity advances – both of these factors encourage growth and help to achieve a better financial basis for our old age pension scheme.

There are three reasons why the Swiss National Bank is concerned about demographic developments and growth. First, because a central bank cannot create wealth above and beyond the income derived from its own investments, and therefore cannot finance old age pensions. Second, there are still people who believe that, in the event of an economic slump, the central bank will bring about a sustained improvement in economic performance. It is an illusion to believe that, in the long term, jobs can be created through monetary stimulation. Over a longer period monetary policy is neutral. The third and final reason relates to the fact that it is possible that the response to the demographic challenges of the future might affect the equilibrium real interest rate of our economy – a variable that always enters into our assessments of a given situation.