

## Niklaus Blattner: The demographic challenge – macroeconomic perspectives

Summary of a speech by Mr Niklaus Blattner, Vice-Chairman of the Governing Board of the Swiss National Bank, at the Conference "Die alternde Gesellschaft als sozio-ökonomische Herausforderung" (the aging society: a socio-economic challenge), University of Basel, Basel, 9 February 2007.

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

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Demographic aging, i.e. the growing average age of the population, or the reversal of the age pyramid, is also a matter of concern for a central bank. Without a careful analysis of the long-term developments in the real economy, any monetary policy assessment, and consequently any inflation forecast, will be inadequate. In addition to the activities in the money and capital markets, the long-term growth outlook – and thus also the population perspectives – are factored into the Swiss National Bank's monetary policy assessment.

The aging of the population is a fact. It is linked to three main trends, which will greatly influence Switzerland's demographic landscape in the decades to come: first, the economically active population will decrease, second, the old-age ratio, i.e. the ratio of people over 65 to those between 20 and 64 is on the rise, and third, longevity is increasing.

In future, Switzerland will have to produce more with fewer resources. "Fewer resources" because the economically active population is declining, "produce more" because the old-age ratio is worsening and longevity increasing. The consequences for the macroeconomic outlook are clear: if labour productivity and/or labour input fail to improve, the impending demographic development will lead to slower medium and long-term growth.

It is thus all the more important that labour productivity increases. The growth in labour productivity depends primarily on workplace capital and product market success. It would be ill advised, however, to make oversimplified calculations. Neither technological progress nor capital investment are unaffected by demographic aging. While enthusiasm for embracing innovation may decrease with old age, greater experience can enrich human capital. On the one hand, a tighter labour market can be counteracted by shoring up investment. On the other hand, both the savings and the investment rate can decline. If foreign locations become more attractive, the latter is a particularly likely scenario. It is not clear how the overall effect of these interactions would impact overall on growth.

These perspectives call for measures that boost both labour productivity and labour input. In a market economy, employers, employees and the self-employed have a number of instruments and options at their disposal to increase labour productivity and labour input. However, there is also room for improvement with regard to the economic conditions within which businesses operate. First, the capacity for innovation in Switzerland should not be allowed to decline. Therefore, policies fostering education and research are called for. Second, Switzerland ought to continue to attract more investment. In other words, domestic investment should become more attractive. In a globalised world, Switzerland's attractiveness as a business location in an internationally competitive environment should continue to improve. Third, the economically active population could be strengthened by increasing the number of qualified immigrants. There is a substantial pool of labour from which to recruit not only within the European Union (EU), but also in other regions. At the same time, Switzerland's employment quota could be lifted if more women now living in Switzerland entered the workforce. The key to achieving this goal is striving for a greater work life balance, i.e. combining a career and family life for both parents. For example, more women should have the option to work full-time on a permanent basis.