The EU's growth potential vis-à-vis a shrinking workforce

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EU-OECD DIALOGUE ON INTERNATIONAL MIGRATION AND MOBILITY: MATCHING ECONOMIC MIGRATION WITH LABOUR MARKET NEEDS - Brussels, 24 February, 2014
Shrinking Working-Age Population..

Average annual decline will be -0.4% as from 2020..
.. setting the focus on the potential impact of migration

EU's working-age population (people aged between 20 to 64 years)

Source: Eurostat Europop2010 convergence vs no-migration scenario
.. will impact on employment growth.

We assume for the employment rate:

Phase I:

1. Successful "EU2020": 75% EU-wide employment rate to be achieved by 2020 (today: 68%)

Phase II:

2. No NUTS-2 region will be lagging behind 75% by 2030 (today: 191 out of 267 regions < 75%)
Employment rates in Europe: 2012 (age 20-64)

Now: 2012

EU-average: 68%

Source: LFS data, own calculations based on DG EMPL’s regional projection software.
Employment rates in Europe: „EU2020“ (age 20-64) (EU-average 75% by 2020)

Local Employment Rates (20-64)

Phase I:

2022

EU-average: 75%

Source: LFS data, own calculations based on DG EMPL’s regional projection software
Employment rates: min. 75% by 2032 (age 20-64)

EU-average: 77.3%

Local Employment Rates (20-64)

Phase II:

2032

Source: LFS data, own calculations based on DG EMPL’s regional projection software

Local Employment Growth over last 5 years

Pre-crisis:

2002-2007

EU: +6.9%

Source: LFS data, own calculations based on DG EMPL’s regional projection software

Crisis:
2007-2012

EU: -0.3%

Source: LFS data, own calculations based on DG EMPL's regional projection software.
Employment growth in Europe: 2012 – 2017 (Target: 75% for EU by 2020)

EU:
+4.1%

Phase I: EU2020:

2012-2017

Source: LFS data, own calculations based on DG EMPL’s regional projection software
Employment growth in Europe: 2012 – 2017 (Target: 75% for EU by 2020)

Local Employment Growth over last 5 years

Phase I: EU2020:

2017-2022

EU: +3.3%


Source: LFS data, own calculations based on DG EMPLOY's regional projection software
Employment growth in Europe: 2012 – 2017 (Target: 75% for EU by 2020)

Phase II: ER ≥75%

2022-2027

EU: +0.1%


Employment growth in Europe: 2012 – 2017 (Target: 75% for EU by 2020)

Local Employment Growth over last 5 years

Phase II: ER ≥75%

2027-2032

EU: 0%

Source: LFS data, own calculations based on DG EMPL’s regional projection software
Conclusions (1)

Employment growth is set to slow down even under ambitious employment rate scenarios.

What can activation policies contribute?
We define a range
(for the activity rate by age, gender, educational attainment level):

1. **LOW activation scenario:**
   No further progress in increasing activity rates

   vs.

2. **HIGH activation scenario:**
   - Female activity rates will catch up to male levels by 2030.
   - Older workers' activity rates shift by 20 p-pts. by 2030.
   - Further educational progress will trigger activity gradually.
HIGH Activity scenario
1: Female activity rates: No gender difference by 2030

Activity rates in % of working-age population

Source: Own calculations based on Eurostat EU-LFS
HIGH Activity scenario
2: Older Workers’ activity rates: Up 20 %-pts by 2030

Activity rates in % of working-age population

Source: Own calculations based on Eurostat EU-LFS
HIGH Activity scenario

3: Further educational progression for the younger workforce: people aged 25-34 (log-linear regression)

Resulting development of population aged 20-64 by educational attainment level from 2010

Source: Own calculations based on Eurostat EU-LFS
Potential employment paths

Workforce development, age group 20-64 years

- Working age popul. (age 20-64)
- Active population
- Active Population, Low activity scenario
- Active Population, High activity scenario
- Active Population, Education Effect
- Past employment

Source: Own calculations based on Eurostat EU LFS and Eurostat Europop 2010 population projection
Potential employment paths

Source: Own calculations based on Eurostat EU LFS and Eurostat Europop 2010 population projection
Potential employment paths

Workforce development, age group 20-64 years

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Potential employment paths

Workforce development, age group 20-64 years

Source: Own calculations based on Eurostat EU LFS and Eurostat Europop 2010 population projection
Potential employment paths

Workforce development, age group 20-64 years

Employment growth scenario:
- Low activity scenario
- High activity scenario
- Education Effect

Source: Own calculations based on Eurostat EU LFS and Eurostat Europop 2010 population projection
Potential employment paths

Working age popul. (age 20-64) - Active population - Low activity scenario - Active Population - High activity scenario - Education Effect - Employment

Workforce development, age group 20-64 years

Source: Own calculations based on Eurostat EU LFS and Eurostat Europop 2010 population projection
Critical year by country
(year from which on 1% employment growth won't be possible any longer)

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections
Employment growth would turn negative around 2030 at the latest.

Impact on Europe's growth potential?
Potential employment growth paths

GDP-growth = Employment growth + Productivity-gains

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections
Potential employment growth paths

GDP-growth = Employment growth + Productivity-gains

*Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections*
Potential employment growth paths

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections
Potential employment growth paths

- "sustainable" GDP-growth

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections
Potential employment growth paths

Employment growth, LOW scenario

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections
Potential employment growth paths

Necessary productivity
Growth, LOW scenario

Employment growth,
LOW scenario

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections
Potential employment growth paths

Necessary productivity Growth

Employment growth

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections
Potential employment growth paths

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections
**GERMANY**

Potential employment growth paths

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections

**annual growth in %**

avg 2000-2008

**Potential employment growth paths**

- **2016**
- **2019**

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections
Maximum annual productivity growth required for 2% GDP growth - HIGH activation scenario

Source: Own calculation based on Eurostat EU LFS and Eurostat Europop2010 population projections
What to do in Europe?

**NOW:** Use existing potential to 'prolong' employment growth!
Increase employment potential, tapping into resources so far unexploited (increase women's, young people's, migrants', older workers' employment rate).

**For COMING DECADES:** Use this extra time to invest in productivity!
Increase (local) productivity as the only remaining source of growth in future decades!
Heavy investment in **skills** development and **education** to achieve higher productivity gains.
Potential employment paths

Workforce development, age group 15-64 years

Own projections based on UN population prospects, 2012 revision, medium variant (except EU: Eurostat Europop2010, convergence scenario); World Bank labour market data (employment and participation rates)
Potential employment paths

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Background:

"Growth potential of EU human resources and policy implications for future economic growth"
by C. Fotakis and J. Peschner

(available in DG EMPL's online publication catalogue)

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