

SWITCH

SUSTAINABLE WELFARE
INNOVATION AND COMPETITION
IN HEALTH

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DEMOGRAPHY, SUSTAINABILITY, AND GROWTH. NOTES ON THE FUTURE OF THE SOCIAL MARKET ECONOMY

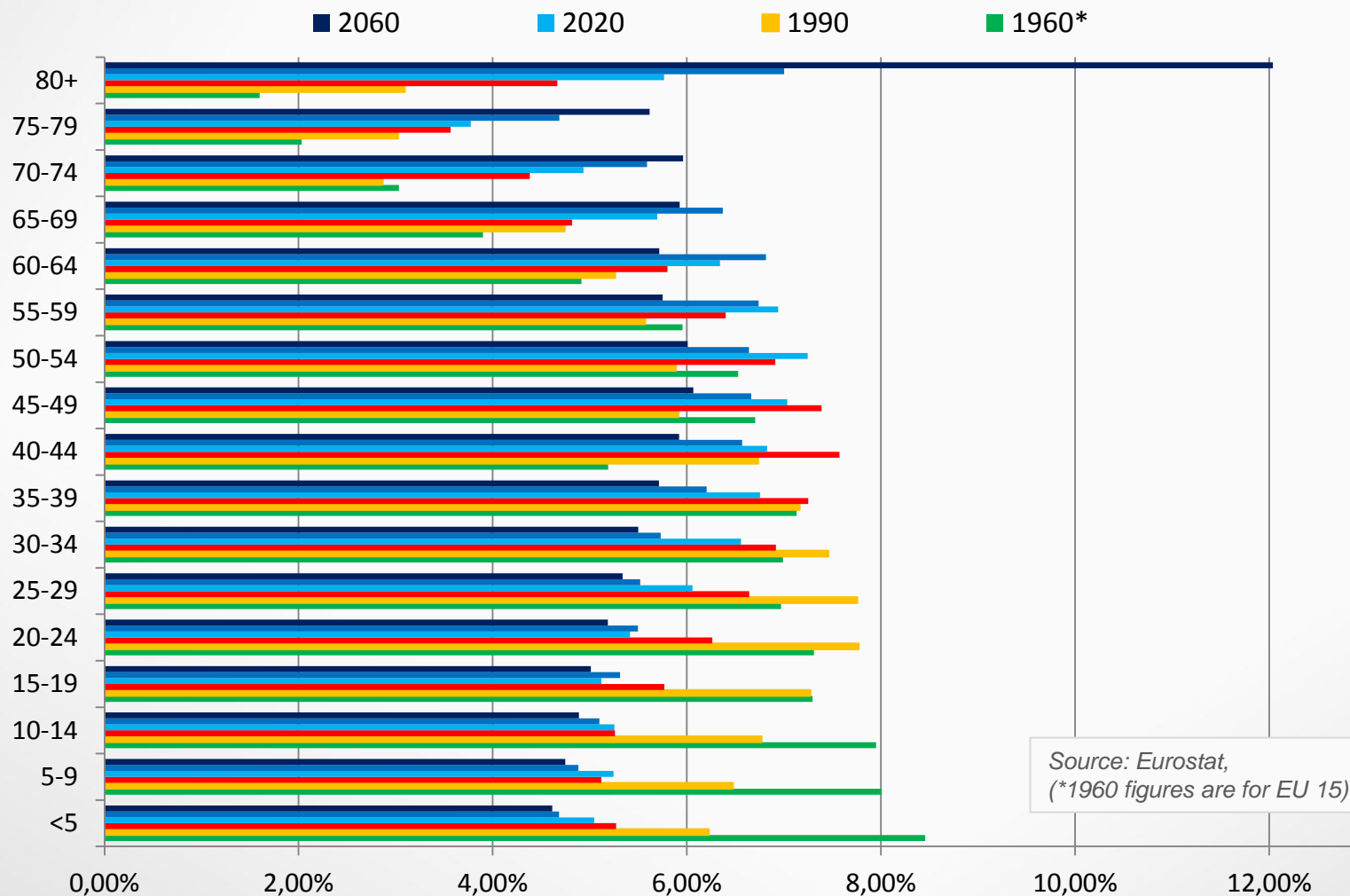
Vilnius, November 19, 2013

LA “LONGUE DURÉE”: ON INNOVATION, GROWTH, AND THE EUROPEAN MODEL OF SOCIAL MARKET ECONOMY

- I. The Macro Financial Dimension: Public Finance Sustainability, Long Term Projections, and the Current Funding Model for Health and Pensions: Which Tensions on Economic Growth?
- I. Europe as a System or as a Collection of National Institutional Settings? The case of The European Research Area

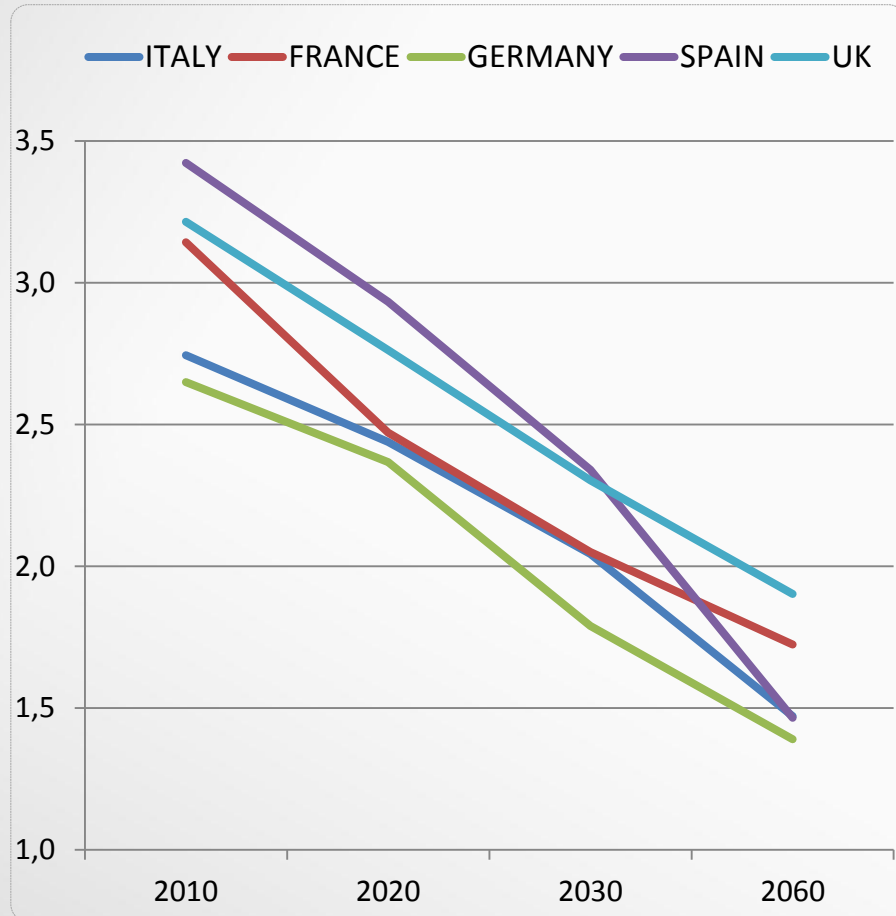
POPULATION AGEING IN EUROPE...

Composition of Population in EU-27, 1960-2060

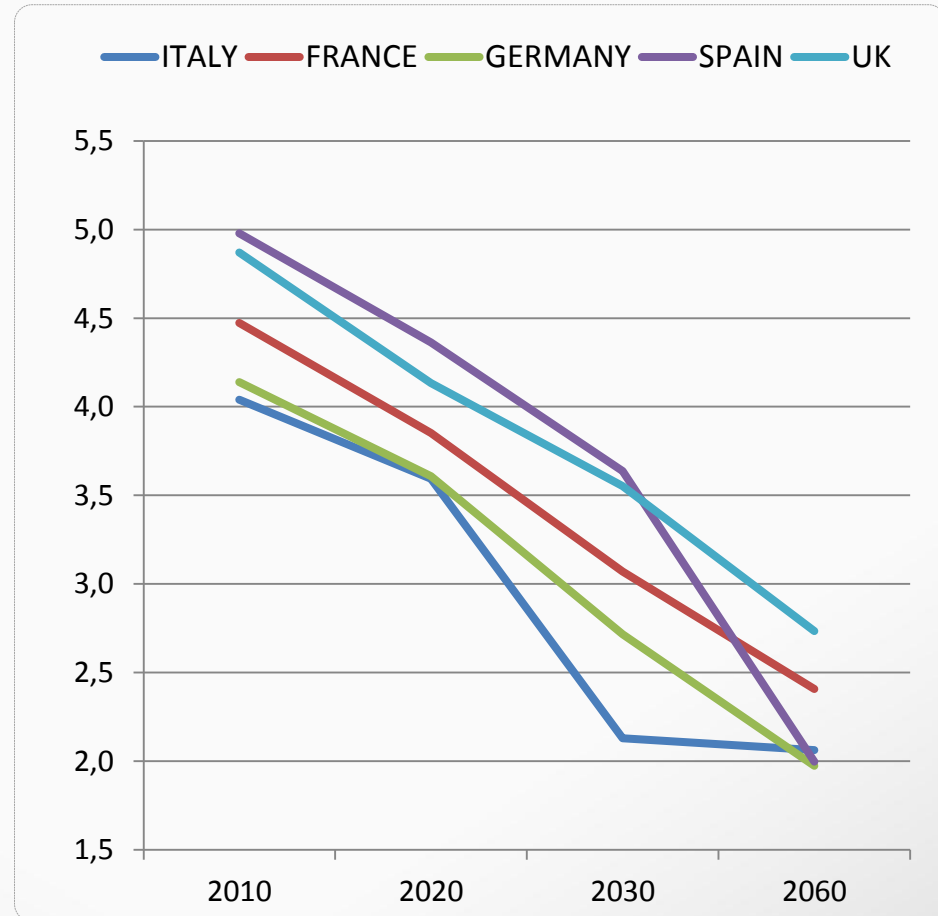


POPULATION AGEING IN EUROPE...

N° of working age (25-65) over 65+



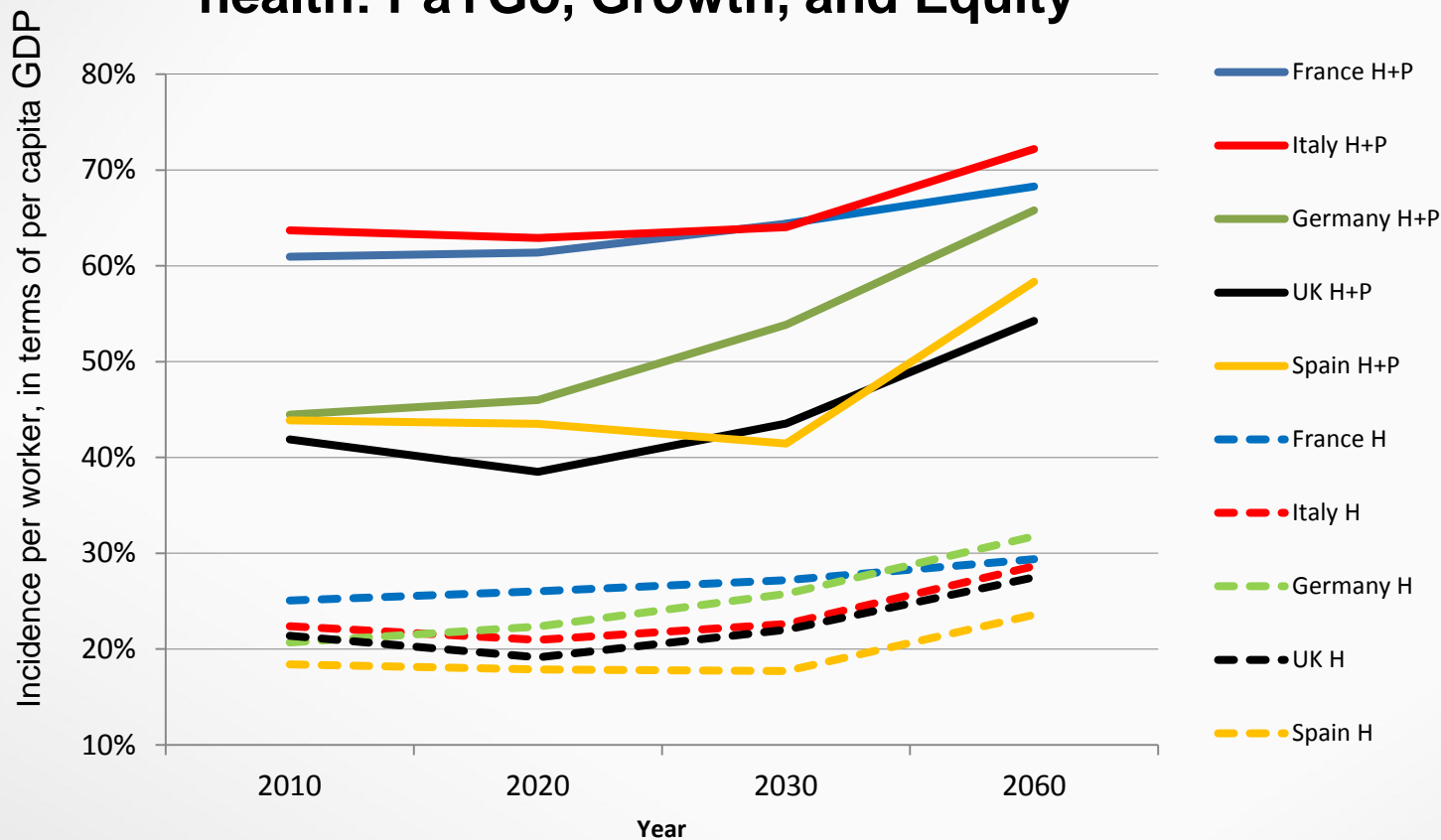
N° of working age (25-70) over 70+



Source: EUROPOP2010, Eurostat

...AND ITS CONSEQUENCES ON PUBLIC FINANCES

The current funding of public pensions and health: PaYGo, Growth, and Equity



Source: CeRM on 2013 Stability and Convergence Programs

PROJECTIONS: UNDERLYING ASSUMPTIONS

- *Demography*: Population projections from EUROPOP2010: Fertility and mortality rates converge to those of the forerunners. Net migration flows are also projected.
- *GDP*: Convergence in the long-run towards around 0.8% annual growth.
- *Unemployment*: Increasing participation rate and lower unemployment.
- *Health care expenditure*: Only demographic drivers, no longevity risk.

PROJECTIONS: HEALTH EXPENDITURE

Life expectancy, the 'residual', and health care expenditure

1. *Increasing number of «old» people, due to improved adult survivorship;*
2. *Increasing number of years spent under treatment, with consequences on both acute and long term care costs;*
3. *Uncertainty on the impact of organizational models, technological innovation, income, and cost containment*

Two actions seem particularly relevant

1. *Investigate the effects of ageing on health costs at different stages of the life cycle;*
2. *Stress tests on projections by applying stochastic methods.*

Old-age dependency ratios: increasing pressure on PAYGO schemes, and uncertainty.

Mixing PAYGO with funded schemes, to:

1. Reduce public finance sustainability dependence on future demography;
2. Reduce individual uncertainty on future health and pension benefit cuts;
3. Rely more on capital markets, with a positive impact on economic growth.

To which extent is a transition from PAYG to (partial) funding feasible and welfare improving? Towards a common multi pillar framework?

LA “LONGUE DURÉE”: A SYSTEMIC PERSPECTIVE ON WELFARE FUNDING SOLUTIONS

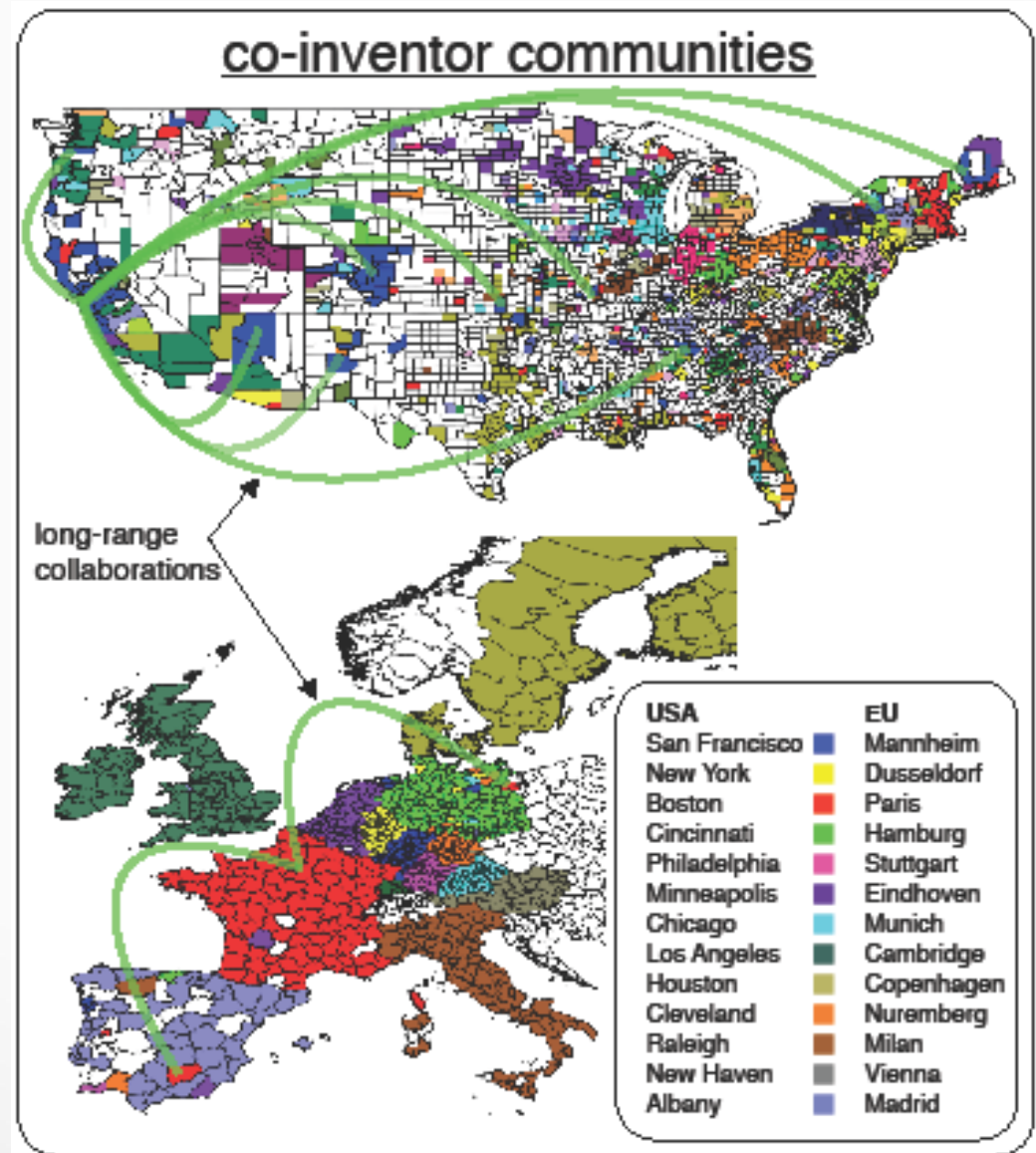
“The net present value of future increases in health care and pension spending is more than ten times larger than the increase in public debt due to the crisis. Any fiscal consolidation strategy must involve reforms in both these areas.” IMF, 2010, Ten Commandments for Fiscal Adjustment in Advanced Economies

“There are strong complementarities across health, labour market, pension reforms and related financial products. A broad reform package implemented at all levels of government could generate large gains. [...]” OECD, 2013, Public spending on health and long-term care: a new set of projections

LA “LONGUE DURÉE”: WHICH EUROPE TO SUSTAIN INNOVATION AND GROWTH?

Community structure of the EU-15 and USA co-inventor network, 2010. Communities (color blocs) are labeled by their most-central region and were generated by iteratively aggregating NUTS3 regions into clusters of increasing size.

“Scientific borders” in the EU: are they any different than geo-political borders?



POLICYFORUM

EUROPEAN POLICY

Is Europe Evolving Toward an Integrated Research Area?

A. Chessa, A. Morescalchi, F. Pammolli, *O. Penner, A. M. Petersen, M. Riccaboni*

Despite efforts to integrate across borders, Europe remains a collection of national innovation systems.

SCIENCE VOL 339 8 FEBRUARY 2013



Thank you

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