

Europe's Demographic Deficit

A Plea for a Child Pension System

Abstract

Due to exceptionally low birth rates, the dynamism of Europe will be lagging behind that of other regions of the world for the time being. The paper assembles a rich body of comparative empirical data to clarify the extent of the demographic problems for the EU countries. It advances the view that the low birth rates in part result from early government interventions in terms of socializing the fruits of human capital investment via the pay-as-you-go pension system. To mitigate the extent of socialization, it considers a policy of freezing the contribution rates within the existing pensions systems, forcing the childless to save and providing an additional tax-financed "child pension" tax to parents.

Hans-Werner Sinn

Ifo Institute for Economic Research at the University of Munich

Sinn@ifo.de

Tinbergen Lectures,

Amsterdam, 22 October 2004