

DEMOGRAPHIC DEBATE

Will Population Ageing Decrease Productivity?

Summary of the Debate

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In December 2004 the Vienna Institute of Demography organised a workshop on “Population Ageing and Economic Productivity.”¹ The focus of the symposium was **on the labour market** and to consider the fact that population ageing will affect the quantity and the composition of the current workforce. It is now well accepted that in most industrialised countries, the economic output will have to be achieved by a smaller and older labour force in the future. The question is then how this development might have an impact on economic productivity.

The workshop was concluded by a general debate on whether population ageing will decrease economic productivity. Wolfgang Lutz opened the debate: “*When we talk to politicians, they ask whether population ageing will lead to lower productivity growth in Europe? This is a timely question since the Lisbon target aims at Europe becoming the most competitive knowledge based economy of the world. But indicators show that Europe is unlikely to make it. Why? Is it that Europe is ageing, in contrast to the US where the demographic situation is more dynamic?*”

In the following I summarise the main arguments brought forward during the debate. Vegard Skirbekk and Thomas Lindh gave two short keynote lectures that are re-printed in the next sections. The main argument of Thomas Lindh is that productivity is a system attribute and individual productivity cannot be separated from its social context. Most importantly, the measure of productivity itself is not clearly defined (productivity can be measured at the aggregate (economy-wide), firm or individual level and these are not the same concepts) and we need to set up reliable forecasting models if we aim to judge the effect of population ageing on economic productivity in the future. While the position of Thomas Lindh may be judged to be neutral, Vegard Skirbekk presented several arguments why population ageing will most likely decrease economic productivity. His main point is that productivity at the individual level is unambiguously negatively

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¹ Background information and a summary of the workshop are provided on pp. 11-15.

related to age for older workers and this effect will dominate also any countervailing forces at the macro level.

Several arguments brought forward in the discussion can be assigned to one of the two viewpoints as represented by Thomas Lindh and Vegard Skirbekk. The more neutral viewpoint was supported by arguments that although there will be less people in the workforce, it is the productivity of those that are working which will determine overall productivity. The argument was that companies will react to population ageing, but we need to give them time to adjust to the compositional change of the labour force. Europe will also see an increase of the most experienced work force during the next years (i.e., before the baby boom generation starts retiring) and this will constitute an opportunity for Europe. Generally it was argued that a better understanding of the role of ageing on driving factors of productivity growth is necessary and the correct question would be to understand how consumption and welfare will change under population ageing. The average welfare is increasing and it will depend on the redistribution between those who work and those who do not work. A further argument was that there might be less pressure on the issue of unemployment and unproductive technologies may be closed, which would encourage technological growth. Similarly, population ageing may imply an opportunity for people who have not yet been integrated into the workforce. For instance, there is an increasing effort across European countries to facilitate the compatibility of motherhood and labour force participation for women and men alike. More focus is also placed on integrating older workers into the labour force. An interesting argument was that although there might be lower productivity growth this may not be related at all to population ageing. The high productivity growth in Europe that accompanied the educational transition may now be flattening out and this has nothing to do with population ageing.

On the more negative side the following arguments were stated: not only will there be less people in the work force when populations age, but they might also be less productive and the increased number of the elderly population will put financial pressure on the shrinking working-age population. The labour markets in Europe may be inefficient and not flexible enough to accommodate the changing age structure of the work force and this may cause a productivity decline. As long as investment in older people does not pay off, productivity may decline when the work force ages. Social and political frictions will hinder and complicate the change in institutions. Europe will experience a unique decrease in the share of young workers and this may exert a downward pressure on the demand side of the economy.

To sum up, before answering whether population ageing will decrease economic productivity or not we need to be clear about the measure of productivity (labour productivity, total factor productivity, etc.) and the level of analysis (individual,

firm, macro) we talk about. As illustrated in several papers presented at the workshop, the assumptions we make in our models (e.g. closed versus open economies) and the measures of productivity we apply will somewhat shape our answer to whether population ageing is detrimental to economic productivity or not. Our personal judgement about the flexibility of institutional adjustments when the work force ages will further intervene with the answers we propose. While several of the workshop participants were rather negative about the possibility that labour markets conditions in Europe will adjust, there were also the opposite viewpoints that countries like Japan which are ageing rapidly indicate that labour policies will react to the changing composition of the work force. Studies that investigate individual retirement decisions that are interrelated with prevailing institutional setups are indispensable to improve labour policies in Europe. In the end we must accept that there is no “true” specification of age and productivity, and we need more in-depth studies to empirically understand the relation between age and productivity and to predict consequences of population ageing on economic productivity.