Population Europe

# Demographic Insights

## AGEING & ECONOMIC GROWTH

Too many, too unproductive, too expensive – these are just some of the fears associated with the increasing number of older people. But current research shows that they are not less innovative than younger people and that their contribution to economic growth is substantive. In many European countries the numbers of working older people are going up. They also have higher levels of education than in the past which can help to compensate for a shrinking workforce. Older people are thus a valuable resource for economic growth – if ageing societies manage to create the right frameworks.



## "Also the less educated contribute to our economic and social well-being."

### 5 Questions for Economist Axel Börsch-Supan

**Some recent research suggests that older workers with tertiary education are more innovative than younger ones who only have a secondary education. What is your view on this?**

The link between education and innovation is well known. It goes both ways: a good education supports innovative ideas, and the more innovative individuals select higher education. Age and innovation show a much weaker association. Ground-breaking innovations and patents are created more often at younger ages; however, our research shows that the little innovations that increase productivity in daily work are equally spread across the entire age range. And converting brilliant ideas into marketable products is more of a domain of the experienced and well-networked individuals which thus tend to be older.

**How does this influence economic growth in an ageing society?**

Since the association between age and innovation is complex as just described and certainly not static, I do not see much influence of this on economic growth in an ageing society. Actually, the term ageing society is already a misnomer as individuals of age 60 not only look like individuals of age 50, a generation earlier, but they also act much younger. Economic growth in an ageing society will be much more affected by a lack of labour force participation than by a lack of productivity and innovation.

**What impact does that have on the retirement age? Would it mean that only the well-educated have to work longer?**

This is exactly the right question: if we keep sending relatively young individuals into early retirement, we will have a serious growth problem. If we adapt the retirement age to our improving health and longevity, our research shows that we can sustain our current economic growth in spite of population ageing. This holds for all individuals, independent of education. Also the less educated contribute to our economic and social well-being.

**What do these findings mean for education policies?**

Policies in an ageing society tend to focus on the elderly. This reflects where the majority of voters are, but it is a big mistake in terms of economics. An ageing society must support those who have to shoulder the burden of an ageing society, and these are the young. An ageing society thus should prioritize spending on education and preventive health care to make and keep the young productive. We do not need to send everybody to tertiary education. But we need to also make sure that primary and secondary education is well designed and effective.

**In which ways could older people without tertiary education contribute to economic growth?**

Who builds solid houses? Who makes beautiful furniture? Who fixes the electric installation if it doesn't run anymore? Who helps us to find the right things in the shopping mall? Just look around your own environment and you see that without the help of well-trained individuals with secondary education we would be lost.

Axel Börsch-Supan
is Director of the Munich Center for the Economics of Aging (MEA) at the Max Planck Institute for Social Law and Social Policy (MPI-SOC), and Professor (Chair for the Economics of Aging) at the Technical University of Munich (TUM).

© private

Read more

## Changes Inside the Pyramid

Adding the educational dimension to labour force projections discloses a significant shift towards tertiary education degrees between 2008 and 2053 says a new publication by Elke Loichinger (Wittgenstein Centre for Demography and Global Human Capital (IIASA, VID/ÖAW, WU)). She presents projections for 26 EU countries by age, sex, and highest level of educational attainment. According to these an educational upgrading of the European labour force is not driven by developments in a few large countries but can be expected to take place in each of the 26 analysed countries.

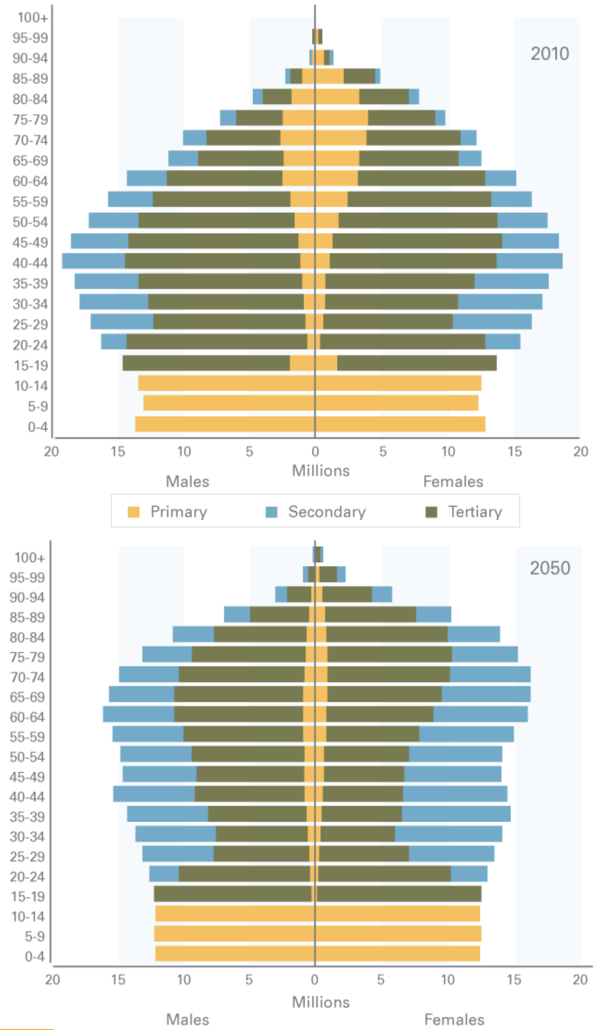


Figure 1. Population pyramids, all EU26 countries combined, 2010 and 2050, by education categories: incomplete and completed primary, secondary, and tertiary.
Source: Loichinger (2015)

In her conclusions, the author points out that the effect of education might become "diluted" for those with the highest level of educational attainment, and at the same time those with less than secondary education might find themselves in a pool of negative selection.

Read more

**54%** of all women between ages 55 and 64 are not active in the labour market according to data from Eurostat for the EU-28 for the year 2013. Whilst this is still a high percentage, the share of older women in the economically inactive population has actually decreased by 15% since 2002. The inactivity rate of men aged 55-64 fell by 12% (from 49% in 2002 to 37%).

Looking at country differences, the inactivity rates of older men were highest in Slovenia (54.9%) and Croatia (50.3%) and they were lowest in Sweden (18.4%) and the Netherlands (24.6%). On the women's side, the inactivity rates in this age group were as high as 80.3% in Malta and 73.0% in Slovenia, and as low as 26.6% in Sweden and 33.5% in Estonia. Inactivity rates for older people are particularly low in Iceland: only 10.1% of men and 22.3% of women are inactive..

Read more

## Visible and invisible costs

Modern societies tend to spend more on children than on older people according to current research on intergenerational transfers by Robert Gál (Hungarian Demographic Research Institute, Budapest). The main difference between the two groups is the origin of these transfers. Whereas most of the resources flowing to children are familial intra-household transfers, reallocations toward older people are socialised to a larger extent. Or, as Gál summarised his findings at a recent Population Europe event: "Children cost parents, the elderly cost taxpayers".

About one-third of the full package flowing to children is registered in National Accounts and roughly another one-third is made visible by looking at National Transfer Accounts, a new extension of National Accounts to quantify intergenerational transfers of time and money in and between households. The remaining one-third is the value of parents caring for their children. The corresponding shares in funding old age differ significantly: nearly 90 per cent are observed in public statistics and only just over 10 per cent are accounted for in National Transfer Accounts.

Read more

## Unintended but Positive

In a recent study, Fanny Kluge, Emilio Zagheni, Elke Loichinger and Tobias Vogt explored how different areas of life may be affected as populations grow older and become smaller in Germany. The country is at a relatively advanced stage of the demographic transition, which makes it ideal to study the potential long-term implications of population ageing. Results show that in the long run, having an older and smaller population can be beneficial. For instance, it contributes to lower carbon emission levels due to changes in aggregate consumption patterns. Having a higher share of the population with tertiary education could be beneficial for economic growth and could compensate, at least in part, for absolute and relative declines in the number of economically active persons. Inherited wealth will have to be split among a smaller number of siblings, which could compensate for an increase in public transfers via the pay-as-you-go pension system.

Read more

Publisher: Max Planck Society for the Advancement of Science on behalf of the collaborative network "Population Europe "
Concept and text: www.worteundgeschichten.de (Sigrun Matthiesen)
Editors: Andreas Edel (V.i.S.d.P.) and Harald Wilkoszewski | Population Europe Secretariat, Markgrafenstraße 37, 10117 Berlin | phone: +49 (0)30 2061 383 30 | fax: +49 (0)30 2061 383 50 | email: press@population-europe.eu