

**Introduction**  
**Economics of an Ageing World (\*)**

by

Katerina Lisenkova  
Ronald McQuaid  
Robert E. Wright

Revised  
March 2010

(\*) Earlier versions of the papers included in this issue were presented at the workshop, *The Employability of Older Workers*, held at Edinburgh Napier University, July 1, 2009. Financial support from the *Royal Society of Edinburgh*, through a *Lloyds TSB Foundation* grant, is gratefully acknowledged. We are also grateful to the *Scottish Economics Society* for a grant that helped facilitate the refereeing process.

## **Introduction**

### **Economics of an Ageing World**

#### **1. Introduction**

In the 1950s, 1960s and 1970s there was great concern that the population of the world was growing too rapidly. This concern generated a series of books aimed at getting the over-population message across to a more general audience. Perhaps three of the most influential were: Sax (1955), *Standing Room Only*; Ehrlich (1968), *The Population Bomb*; and Meadows et al. (1972), *The Limits to Growth*. This view of impending “doom and gloom” is best exemplified by Ehrlich’s chilling warning: “...we will breed ourselves into oblivion”. It is safe to conclude that much of what was predicted in these books has not happened.

The fact that the global population growth rate is slowing is welcome news in the sense that many of the economic, social and environmental problems caused and/or exacerbated by population growth should lessen. However, decreasing population growth, driven by declining fertility and longer lifespans among other things, is creating a new set of problems - the populations of many countries are ageing rapidly. “Population ageing” is the redistribution of relative population shares away from the younger to the older age groups, leading to an increase in the average or median age of the population. According to the United Nations (2005), there are only 18 “outlier” countries, where currently population ageing is not occurring. In this sense, population ageing is a global phenomena and not a “problem” restricted to the high-income countries of Europe, North America, Australia, New Zealand and Japan.

There is a large and growing literature concerned with the economic consequences of population ageing. In this issue of *21<sup>st</sup> Century Society* four papers

deal specifically with some of the economic consequences of population ageing in both high- and low-income countries. The papers are not intended to be exhaustive reviews, but focus on how population ageing interacts with, and impinges upon, employment and the labour market. Although the papers tend to stress the “economics of the problem”, they are written in such a way as to be accessible to a wide range of social scientists with interests in this area.

David Bloom, David Canning, and Günther Fink refreshingly argue that the effects of an ageing population on economic growth will be comparatively modest. This is because the lower labour force participation and saving rates among older workers will likely be more than counterbalanced by the fact that the ratio of the labour force to the population will actually increase in most countries, due to there being relatively fewer dependent young people and more females in the labour force. Further, behaviour and policies are likely to change in ways that would mitigate the effects of an aging workforce. Among such changes may be higher savings and alternative funding plans for retirement, greater rates of human capital accumulation and possibly increased migration from labour-abundant to labour-scarce countries. Together these factors suggest that an ageing population may not significantly impede economic growth. However, they warn that there will be important implications for government finances, the need for and delivery of health care, and the economic security of the elderly.

Katerina Lisenkova, Ronald McQuaid and Robert Wright also focus on global changes in demography, specifically population decline and population ageing. Assuming no changes in age-specific labour force participation rates, population decline will result in a shrinking of the labour force in many countries, particularly those where the female participation rates are already high. They argue that

developed and developing countries are going to be affected by these demographic processes in different ways during the next four or so decades, but that each will face labour force ageing. Most growth in the potential size of the labour force will be in developing countries, compared to a decline in developed countries. In response, developed countries are likely to try to increase productivity and labour force participation rates, especially of older workers, as well as to use immigration to counteract labour force decline.

David Bell and Duncan McVicar find that in most European countries the labour force participation rates of older men (aged 50-64 years) have generally been growing since the early-mid 1990s – a reversal of earlier trends. For women there has been a continuation of the existing upward trend in participation rates. So here is some evidence that labour markets are beginning to move in a way that the earlier articles suggest is needed to partly respond to an ageing population. Ill health is an important factor in reducing labour market participation rates among older people, and here the upward trend in male rates of health-related inactivity has reversed in around a third of countries – generally those with the previously highest levels – although it has continued to rise in others. Meanwhile female rates of health-related inactivity have continued to rise in most countries. The authors argue that the public pension replacement rates and other institutional factors have played a role in driving these trends. Hence careful policy development will be crucial in helping to shape workforce responses to population ageing.

Wendy Loretto considers UK and wider policy responses to the effects of an ageing population on the workforce. In particular she focuses upon the relatively neglected demand side of the labour market where legislation prevails upon employers to adopt fairer employment practices or to actively manage their ageing

workforce. Using a qualitative approach she finds a gap between current government exhortation to employers concerning the need to actively manage their ageing workforces and the views of employers. As yet there is little sense of employers in general, at least among those interviewed, actively offering flexible work. Although there are exceptions, only a minority of older workers currently work flexibly. The coming changes in the labour force due to an ageing population do not appear to have been taken on board by the employers represented in her review, with many still looking for 'ideal workers' and distancing themselves from the reality of the situation. Loretto raises some of the complexities arising from considering the demand side for older workers, and the importance of adopting a holistic approach to examining the ways in which the rest of our lives may be viewed and construed.

The transition from high to low, or even negative, population growth rates will have many profound economic, social, political and environmental implications. Together these papers highlight some of the issues facing countries as the global phenomenon of population ageing increasingly affects both labour markets and wider society.

## References

- Ehrlich, P.R. (1968), *The Population Bomb*, Cutchogue, New York, Buccaneer Books.
- Meadows, D.H., D.L. Meadows, J. Randers and W.W. Behrens, (1972), *The Limits to Growth: A Report for the Club of Rome's Project on the Predicament of Mankind*, London, Pan Books.
- Sax, K. (1955), *Standing Room Only: The Challenge of Overpopulation*, Beacon Press, Boston.
- United Nations, (2005), *Human Development Report 2005*, United Nations Development Programme, New York.