

The Demographic Winter Is Here

The demographic winter is here. The last decades have witnessed an increase in the [share](#) of the population aged 60 and older, which has moved from around 12.5 percent in 1950 to almost 22 percent in 2017. In 2040, this number is expected to reach 28 percent of the U.S. population. In other words, in two decades, almost one third of Americans will be older than 60.

Economists tend to emphasize the fiscal impact of population aging, a phenomenon that can be attributed to lower fertility rates, restrictive migration policies, and an increasing life expectancy. In effect, an aging population results in the labor force facing a greater fiscal burden to support the non-working population as well as more spending on social programs such as Medicare and Social Security.

Yet there is an aspect that is usually overlooked when analyzing population aging: its impact on economic growth. A 2016 [paper](#) published by the National Bureau of Economic Research examines this question in detail, concluding that per capita GDP growth will be substantially lower over the next decade than it would have been in the absence of population aging.

Here are some numbers. Over the period 2010-2018, the annual growth rate in per capita terms was 1.5 percent. Without population aging, it would have been 80 percent higher, that is, 2.7 percent. And something similar is expected to occur next decade. Between 2020 and 2030, population aging will reduce per capita economic growth by around 0.6 percentage points per year.

If these numbers don't tell you much, let me give you an

example. When income per capita grows at a one percent rate, it doubles every 70 years. However, it takes only 35 years to double at a two percent growth rate.

Why does population aging have such a negative impact on economic growth? Two mechanisms are at work. First, population aging implies slower labor force growth as more people retire than enter the workforce. Since 2000, the [labor force participation rate](#) has fallen by almost seven percent. This in turn results in fewer people producing goods and services in relation to the total adult population, with the subsequent negative impact on per capita growth.

Second, population aging has a negative influence on labor productivity, a key ingredient to economic growth. An older workforce will find it more difficult to [adapt to productivity-enhancing technologies](#), which can push training costs up for employers. Furthermore, workers in the last part of their working life tend to be more productive. When they retire, the positive productivity spillovers generated by older workers interacting with younger ones disappear, reducing average productivity, slowing down wage growth, and ultimately undercutting economic growth.

Population aging, an inevitable consequence of prosperity,

isn't limited to the United States. Europe, for instance, has been experiencing this problem for years, with the [detrimental impact](#) this entails on economic growth and living standards.

Yet the negative impact this demographic trend has on economic growth can be alleviated by pursuing less restrictive migration policies that slow down the aging of the population. Similarly, the introduction of growth-boosting reforms would also help mitigate the effects of the demographic winter we are immersed in.

These reforms should go in two directions. First, they should be aimed at lowering the tax burden of businesses, especially those that invest heavily in R&D, which would incentive them to increase their innovation efforts. The elimination of bureaucratic barriers to wealth creation would also have a positive effect on the economy, particularly in European countries where starting a company is often an obstacle race for entrepreneurs.

These measures would no doubt drive up productivity, partially compensating for the negative effects of population aging on economic growth.

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