

How ageing populations are stagnating economies

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People are living much longer and, as a result, populations are aging. During the last 20 years we have also experienced a significant slowdown in economic growth amongst the world's most advanced economies. These two phenomena are directed connected, new research from BI Norwegian Business School (<https://www.bi.edu/>) and Stern School of Business reveals.

Professors Espen Henriksen and Thomas F. Cooley found that changing demographics, in particular ageing populations combined with increases in life expectancy, have contributed to falling interest rates and lower output growth across the world's most advanced economies.

The research, published in the Journal of Monetary Economics, compares the downward shift in economic growth in Japan from the early 1990s and the U.S. from 2007 following financial crises.

Despite fiscal and monetary stimulus, growth rates in the US and Japan have been below those of previous recoveries from recessions, and this correlates directly with their ageing populations. During the last 50 years, life expectancy has increased by more than 10 years in most advanced economies.

"Changes in life expectancy impact not only individuals' savings decisions but also labor-supply decisions," says Professor Espen Henriksen.

"The deeply puzzling issue is why effective retirement age has hardly changed despite the gains to life expectancy. Almost all gains to longevity has meant more time spent in retirement. The mechanism behind falling interest rates and headwinds to economic growth is closely linked to these retirement choices".

"Over the next two decades, demographic trends will generate significant further headwinds to economic growth. Most likely, life expectancy will continue to increase and the median age of the population is increasing throughout the developed world. Unless voters support changing retirement systems and individuals are choosing to work longer, governments will, in addition, need to finance larger expenditures with a shrinking tax base" predicts Henriksen.

Understanding the impact of aging populations on global markets, through low interest rates and sluggish economic growth, is crucial for policy makers, business leaders and investors.

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