

## Minutes of the FFJ-Banque de France Workshop

### “Economics of Ageing: Macroeconomics and Economic Policy - Lessons from the Japanese Experience”

2 December 2024

The second conference on the economics of ageing organized by the BDF-FFJ Lab was hosted at the Canon Institute of Global Studies (CIGS) for the morning session and at the Nihon Kogyo Club in the afternoon. It followed a first conference on the same topic organized at EHESS in Paris on the 14th of June. Throughout the day, researchers on the economics of ageing, including leading international experts in the field, interacted with senior representatives of central banks and government officials. The afternoon session, an open event, was attended by about 60 participants from think tanks, financial institutions, universities, or international organizations. The conference was sponsored by the CIGS, the Fondation France Japon de EHESS (FFJ), the Banque de France, the Bank of Japan, embassies from both France and Japan, and the Deutsches Institut für Japanstudien.



#### Opening Remarks of the Morning Sessions & Presentation of Policy Reports

The conference was introduced by **Akinari Horii**, a member of the board of the CIGS, the host of the morning sessions and a long-time partner of the FFJ. **Raphaël Keller**, minister-counsellor for economic affairs at the French Embassy in Japan and **Sébastien Lechevalier**, professor at EHESS and president of the Fondation France Japon de l'EHESS (FFJ) also welcomed the participants. The following opening session explores three reports on policies to address the aging challenge.

**Naoyuki Haraoka** (Japan Economic Foundation) discussed the challenges posed by population decline in Japan, with the total population expected to reach 105 million by 2050, a reduction of more than 20 million compared to its peak level. The challenge is not just economic (relative decline of overall GDP beyond Germany, relative decline of GDP per capita beyond Korea, fiscal pressures...) but also geopolitical, with serious concerns about Japan's security.

Discussing successful policies in comparative countries, he highlighted the need to raise the rate of fertility and the share of immigrants.

**Tomohiko Moriyama** (Japanese Institute for Labour Policy and Training) presented an econometric paper exploring the impact of caregiving and labor force participation of older men. Being a caregiver increases the probability for men of leaving the labor market, but this probability remains low for men before 60 employed in large companies. However, the same men do not favor nonregular or part-time work to conduct their caregiving functions and prefer continuing as regular employees. Thus, greater flexibility (working hours, employment status) may not align with the employment needs of older men.

**Franz Waldenberger** (German Institute for Japanese Studies) paralleled the situation in Japan and in Germany in terms of low fertility rates and increasing life expectancy. One key difference relates to immigration: immigration is slightly rising in Japan while Germany has experienced two major waves of immigration, in the 1980-1990s and in the 2010s. Another key difference is that productivity by hour in Germany has remained broadly at par with that in the U.S. despite a temporary decline before the last decade. By contrast, productivity per hour in Japan has slid from 70% of the level of the U.S. thirty years ago to 60% now. Closing the productivity gap in Japan requires improving the working conditions of employees and continuing to open up to immigration to address sectoral and local labor shortages.

### Session 1: Ageing and Macroeconomic Dynamics

**Charles Horioka** (University of Kobe) explored the saving behavior of the retired elderly in Europe. In contradiction with the life-cycle theory, retired elderly households continue to accumulate wealth at the rate of 7% over a three-year period. This situation, called the “wealth decumulation puzzle”, can be explained in part by precautionary savings (e.g. households with a positive health perception expecting to live longer save more) but subjective life expectancy has little impact. Other explanations rely on the relative generosity of pension systems and the proportion of homeowners compared to renters. Charles Horioka also presented specific results for Italy and compared the results with those of Japan.

**Brieuc Monfort** (Sophia University, FFJ-EHESS) discussed the accuracy of forecasts related to aging. Aging forecasts – as opposed to population forecasts - are relatively recent, in relation to an increased perception of an “aging crisis” from the mid-1990s. Both international institutions and national agencies have underestimated the impact of aging, the result of rosy forecasts on fertility rate but conservative forecasts on life expectancy. The bias is stronger in Asia but has been reduced over time. Scenarios on pension and health expenditures show no systematic bias but display a puzzling volatility from one vintage to the next.



**Takemasa Oda** (Japan Center for Economic Research) presented a model assessing the long-run effects of deflation in an aging economy with a safe asset. Two channels are explored, namely the Mundell-Tobin effect (deflation increases the real return on money holdings) and the redistribution effect (deflation shifts wealth from cash-poor younger borrowers to cash-rich older lenders). In this model, the negative impact of deflation is magnified by population aging. Over the past decades in Japan, this impact corresponds to -2% of GDP. Targeting a positive rate of inflation in an aging economy is thus a way to mitigate the costs associated with aging.

**Tomoaki Yamada** (Meiji University) presented another model this time exploring the relationship between population aging and labor share. In Japan, the labor share has declined from 65% to 60% over a 40-year period. The model helps disentangling the factors affecting the labor share: increase in education levels, substitution between capital and labor, technological progress. Overall, aging has contributed to the decline of the labor share, expected to continue to decline by 2.5% over the next 40 years.

#### Opening remarks of the afternoon sessions & special presentation

The afternoon sessions were introduced by **Toshihiko Fukui**, President of the Canon Institute for Global Studies and **Kenji Suwazono**, Executive Director of the Bank of Japan, who stressed the importance of the aging issue and insisted on Japan's specificity in this domain. **Sébastien Lechevalier** reminded the audience that this conference was the results of a year-long research program conducted throughout 2024 by the BDF-FFJ Lab, with the support, among others, of the CIGS and of the Bank of Japan.

**Brieuc Monfort** detailed the results of the four expert group meetings from April to November 2024 and the first international workshop in Paris in June. Including the papers presented in this second conference in December in Tokyo, more than 25 academic papers have covered a full scope of issues related to ageing, from fiscal sustainability to labor market dynamism or innovation, sometimes with converging views on some issues, other times with lingering differences. Beyond the two conferences, another key achievement of the research program is the acceptance by the *Journal of the Economics of Ageing* of a special issue on Japan's aging in comparative perspective with submissions by May 2015 and a scheduled publication in early 2026.

## Keynote Speeches

Two keynote speeches (separated by a session on human resources and innovation) focuses on ageing first from a demographic perspective then from a macroeconomic perspective.

**Jean-Marie Robine** (INSERM) explores the prospect for future increased in life expectancy. While life expectancy at birth has been rising continuously in France from 40 to 80-85 over the past two centuries, life expectancy at 65 has only started to increase in the post-war period from 75-80 to 85-90. However, over the past decade, gains in both indicators of life expectancy have been marginal, of 3 to 10 months in total in ten years. Mortality rates are also stagnating both for the youngest old (65) and the oldest old (90). One indicator nonetheless that has continued to increase is that of disability-free life expectancy (DFLE) at 65: over 2009-2022 for females, DFLE at 65 has increased by 2.5 years against only 6 months for the standard measure of life expectancy. These trends are not specific to France. Jean-Marie Robine concluded by advocating replacing the classic division into three age groups (youth, working-age, old) by a new division in four age groups (below 24, 25-49, 50-74, and above 75).

**Laurent Clerc** (Banque de France) highlighted that ageing is a common worldwide challenge, but countries are aging at a heterogeneous pace, reflecting significant differences in fertility or immigration. Over the next 50 years, the share of the world population of Asia will decline by 7 points and that of Europe and North America by 3 points, while the share of Africa will increase by 12 points. These changes will have important geopolitical and economic implications, as reflected, for example, in expected changes in net foreign asset positions. Zooming in on France, Laurent Clerc presented four scenarios using different assumptions on fertility and migration. He insisted on the need to distinguish between level effects vs. relative effects (e.g. output vs. output per capita): lower fertility may raise average standard-of-living per capita while decreasing the size of the economy; higher migration may benefit both, but the overall impact needs also to account for political economy factors and the cost of integration.

## Session 2: Ageing, Human Resources and Innovation

**Daniele Angelini** (University of Vienna) explored how the age composition of demand affect competition. Households differ by age-specific preferences and also by the opportunity cost of time. For example, middle-aged households have a higher opportunity cost of time than older households and are thus willing to purchase at higher price; in addition, they display a higher brand loyalty than younger households, leading to lower competition between goods. Overall, in the U.S. the age demand channel contributed to a decline of 8.7% of GDP over 1995-2004 but a 10.3% increase over 2005-2019.

**Takashi Oshio** (Hitotsubashi University) discussed how much longer can older persons work, judging by their health status and questioned whether working longer will enhance the health of older persons. Surveys show conflicting results on the benefits of working longer, with a positive impact on perceived health and physical health, but a deterioration of mental health due to stress. The analysis allows to identify an untapped capacity of older workers with good health status, suggesting that, in Japan, employment rates for persons in the bracket 65-70 could be raised by 20-30%.

**Axel Boersch-Supan** (Munich Research Institute for the Economics of Aging and SHARE Analyses, NBER) presented similar results in the case of Germany, with an untapped labor potential at about 10% of the labor force. A second avenue to face the aging challenge addresses productivity. For routine standardized tasks in the automotive or the insurance industries, productivity by age is broadly constant or slightly increasing. Still, overall productivity has been on a downward trend, requiring measures to raise productivity, such as digitalization, public infrastructure modernization, or regulatory reform. The third avenue concerns macroeconomic policy, with a caveat: aging could be either inflationary, as in Germany (supply-side), or inflationary, as in Japan (demand-side).

**Dietmar Harhoff** (Max Planck Institute for Innovation and Competition, University of Munich) returned to the promises of digitalization, as slow digitalization is a major cause of declining competitiveness in the E.U. A key impediment is the caution of senior and older managers (“digital gatekeepers”) in adopting digital technologies, a constraint amplified by capacity constraints in family-run SMEs. Various surveys show that older employees tend to discount the transformative character of AI and see it as a risk rather than an opportunity. Strikingly, smaller European countries have a more positive perception of the benefits of AI.

#### Policy discussion – Ageing as a threat or a blessing?

A final roundtable, moderated by **Junko Ueno** (Embassy of Japan in France) discussed what policies are necessary to ensure that ageing – often associated with a drift of social expenditures or deflationary pressures – is a blessing, allowing older adults to benefit from a healthier longer life.

**Stéphane Latouche** (Banque de France) commented on the speed at which aging occurs in Asia. To see a reduction of the fertility rate from 4 to 2 children per woman, it took 50 years in Europe, but only 25 years in Asia and even only 10 years in Singapore. Many Asian countries are already past their peak population, starting with Japan in 2009 but closely followed by Singapore, Vietnam, Korea or finally China in 2021. Many emerging Asian countries also face the challenge of “being poor before being rich”. Stéphane Latouche presented increased labor market participation as one solution but also reminded of constraints to use other policy options: Korea’s policy to raise the fertility rate has been a failure, while immigration is obviously not an option for a country the size of China.

**Hippolyte d'Albis** (Paris School of Economics) offered a more positive assessment of aging since, both naturally at a personal level and also at a macroeconomic level, higher life expectancy is a blessing. In the standard neoclassical model, aging leads to more savings, capital deepening, and higher output per capita. He invited to distinguish between pension expenditures and health expenditures: pension is a simple financial transfer; by contrast, healthcare is not just a transfer but also an industry. Still, one concern is about the fiscal cost of age-related expenditures, which could lead to a fiscal deficit of 6% of GDP by 2050.

**Tomoko Hayashi** (Cabinet Office) struck a similar positive note. Granted, the share of Japanese above 75 represents 17% of the male population and 20% of the female population. But Japan also distinguished itself by good health indicators (“hyper-health elderly”) and high labor force participation of seniors. Labor shortages are at the highest level since the 1990s

according to the Bank of Japan's Tankan Survey, which drives investment in labor-saving technologies and robots. Among her concerns related to aging, she noted the issue of age-old poverty, in particular for older women (at 23% vs. an OECD average of 17%) related to changes of family structure, and the continued declining rate of marriage.



**Takeo Hoshi** (The University of Tokyo) discussed conditions under which ageing could be a threat or a blessing. In particular, ageing is not a threat under high labor force participation, sustainable welfare systems, support of younger caregivers, and openness to new technologies of older people. The reverse is true if those conditions are not met. Hence, ageing is not necessarily a threat or a blessing but a keystone to assess our collective social choice.

#### Closing remarks

**Arthur Sogno-Pèes** (Banque de France), quoting Jean Tirole, remarked that “economics is simultaneously demanding and accessible”: this year of research on the economics of ageing within the BDF-FFJ Lab has helped clarify pressing issues. **Akinari Horii** (The Canon Institute for Global Studies) commented on the shifting boundaries of aging, with pension system introduced many decades ago for people expected to live above 60 but now living above 90. He concluded that, at the end of day long workshop, all speakers remain productive, sprightly, and young.



Sponsors of the event



## Title of papers or documents presented

### Policy relevant reports:

- Naoyuki Haraoka (Japan Economic Foundation), “What Must Be Done to Maintain a Population of 100 Million in Japan?”
- Tomohiko Moriyama (JILPT), “Does Caregiving Influence Work Patterns for Men Over 60”.
- Franz Waldenberger (German Institute for Japanese Studies), “Sustaining Welfare in an Ageing Society – Employment and Productivity”

### Session 1: ageing and macroeconomic dynamics

- Charles Horioka (Kobe University), “Why Do Europeans Save? On the Importance of Retirement Saving” (with Luigi Ventura)
- Brieuc Monfort (Sophia University, FFJ-EHESS), “The Future is Now: Reviewing the Accuracy of Aging Forecasts”
- Takemasa Oda (Japan Center for Economic Research), “A Quantitative Assessment for Effects of Deflation in an Aging Economy”
- Tomoaki Yamada (Meiji University), “Exploring the Relationship Between Population Aging and Labor Share in Japan”
- Discussants: Daisuke Ikeda (Bank of Japan) and R. Anton Braun (CIGS)

### Special presentation

- Brieuc Monfort (Sophia University, FFJ-EHESS), “What have we learned so far? A summary of Key Findings of One-Year Research Project”

### First keynote Speech

- Jean-Marie Robine (INSERM), “Demographic Dynamics – Future Populations and the Changing Nature of Risk Health”.

### Session 2: ageing, human resources and innovation

- Takashi Oshio (Institute of Economic Research, Hitotsubashi University), “Health and Work: a Case of the Older Japanese Persons”
- Dietmar Harhoff (Max Planck Institute for Innovation and Competition, University of Munich), “Age in the Digital Domain”
- Axel Boersch-Supan (Munich Research Institute for the Economics of Aging and SHARE Analyses, NBER), “Structural Adaptations to an Aging World”
- Daniele Angelini (University of Vienna), “Aging, Consumers, Competition and Growth” (jointly with Max Brès)
- Discussants: Brieuc Monfort (Sophia University, FFJ-EHESS) and Franz Waldenberger (DIJ)

### Second keynote speech

- Laurent Clerc (Banque de France). “A Central Banker’s Perspective on Some Long-Run Implications of Population Ageing”

## Staff of the CIGS and or the FFJ involved in the event

Makiko Watanabe (CIGS); Céline Caliaro, program coordinator, and Fabien Michel (both FFJ).