Aging, Asset Markets, and Asset Returns

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Policy Abstract

This study looks at the complex interactions between demographic trends, public pension reform, labor markets, and capital markets in a global context. The investigation connects several strands of literature. First, it investigates how strong “asset meltdown” effects are in an aging economy that is embedded in global financial markets. Second, it focuses on the importance of labor supply in particular, how policies affect labor markets, and how labor markets in return affect financial market performance. Third, it considers the impact of public pension reform on both capital and labor markets. And fourth, it looks ahead at the overall macroeconomic outcomes that result from these changes. The effects of population aging on the value of capital are estimated to be modest, and moderated by international capital flows. No major asset meltdown is predicted by the model. The changes in labor markets, however, may significant impact macroeconomic outcomes. The main effect of demographic change is that the number of gainfully employed people could fall sharply over time, relative to the population of consumers. This will put pressure on productive capacity of the economy, and could contain future economic growth. The study concludes by reiterating the importance of capital markets in an aging society, as the only way of distributing resources geographically, over time, and across generations.