

Minutes of the FFJ-Banque de France Workshop

“Economics of ageing: macroeconomics and economic policy - Lessons from the Japanese experience”

14 June 2024 | 9:00 - 18:00 (Paris time)

The conference, hosted at Campus Condorcet (Aubervilliers, France), was attended by about 30 participants onsite and over 20 online. They came mainly from academia but also from central banks, ministries, the financial community, the OECD, the Embassy of Japan in France, and the Embassy of France in Japan.

Opening remarks

Sébastien LECHEVALIER (President of the FFJ-EHESS) welcomed the participants in Campus Condorcet, and highlighted how the conference was part of a multi-pronged research program on the impact of ageing at FFJ-EHESS, from its macroeconomic and microeconomic impacts discussed within the FFJ-BDF Lab to its societal and technological impacts explored with the INNOVCARE program.

The Ambassador of Japan in France, **Makita SHIMOKAWA**, used an offbeat approach to illustrate the challenges of ageing in Japan and its attention to its elderly community: at the request of elderly care centers, food companies in Japan have developed ice-creams that do not melt for an hour, thus allowing slowly eating older residents to enjoy one small pleasure of life. He also welcomed research to understand to what extent the population decline currently experienced by Japan, and soon by other similar countries, is historically unprecedented.

Laurent CLERC (Deputy DG at Banque de France) reminded the participants of the collaboration between the BDF and the FFJ since 2015, with the organization of about 20 workshops and the financing of a year-long stay for 9 scholars on the Japanese economy. He also remarked that demographic challenges are different for each country or region: advanced economies are confronted with ageing and possibly population implosion, while some developing economies are still confronted with the risk of population explosion.

Raphaël KELLER (Minister-counsellor at the French Embassy in Japan), highlighted with numbers the specific ageing challenge faced by Japan, with, for example, a record low fertility rate of 1.2 in 2023.

Overview

Brieuc MONFORT (Sophia University, Tokyo, and visiting researcher at FFJ) introduced the two research topics of the FFJ-BDF Lab, first on fiscal sustainability and price dynamics, covered in the first roundtable, second on innovation and human capital, covered in the second roundtable. While Japan has a head start compared to other G7 economies in terms of the

speed and extent of ageing, all these countries should experience a significant increase in the elderly ratio to their total population and the start of population decline by 2050.

First roundtable: Ageing and macroeconomic dynamics

Charles HORIOKA (University of Kobe)'s presentation explored the “puzzle wealth decumulation” in Japan, Italy, and a panel of European countries. While the life-cycle theory predicts that middle-aged households should save and older households dissave, empirical results show that older households tend to dissave much less speedily than predicted by theory in the case of Japan and to continue to save in the case of Europe. These discrepancies can be explained by the differences related to saving motives (precautionary savings, bequest...) as well by institutional features (relative generosity of the pension system, relative share of homeowners vs. renters).

Hiroshi INOKUMA (Bank of Japan) presented a theoretical model where a decline in population growth has a negative impact on total factor productivity through a relative decline of the younger, more dynamic firms, and a decline of business entry. Calibrating his model over the past half century and using projections for the next half century, he finds that current population trends should contribute to a 0.6% decline of productivity in Japan over the entire period and a 0.3% decline in the U.S.

R Anton BRAUN (GRIPS and CIGS)'s presentation discussed the concomitance of low inflation, low growth, and low interest rates recently in many advanced economies, as well as the relative ineffectiveness of monetary and fiscal policies despite massive stimuli. In his model, ageing is a driving force of these trends, with channels ranging from the labor productivity of workers to the demand for liquid and illiquid assets. Confronted with an ageing shock, older households are actually losers since they suffer from a negative wealth effect related to the price decline of oversupplied illiquid assets. A temporary expansionary fiscal policy helps redistribute income away from the winners, namely younger households.

During the following discussion, **Urszula SZCZERBOWICZ** (Banque de France) raised a question on assessing the role of asset prices in saving behaviors, especially the fact that stock market prices in Japan have just returned to their pre-bubble level after a 25-year hiatus; she also enquired about the policy options to counter the decline of TFP induced by ageing. **Noémie LISACK** (European Central Bank), focusing for her part on the third paper while deriving insights from the other papers in the roundtable, asked about the implications of the paper for the neutral rate as well as the optimal financing choice for the government, between debt and taxes.

Second roundtable: Human resources and innovation

Hippolyte D'ALBIS (Paris School of Economics)'s paper evaluates the impact of demographic variables on the French economy since 1880, with a particular focus on the contribution of women's labor supply to GDP. One of the originalities of the paper is to reconstruct national accounts and national transfer accounts for the period of study. Overall, the share of women in GDP has increased from 25% to 45% but has remained broadly flat until the 1970s despite

some wiggles during the inter-war period. The paper also studies counterfactual scenarios, such as holding constant the level of fertility or that of education.

Daniele ANGELINI (The University of Konstanz) focused on the relationship between ageing and the adoption of new technologies using an OLG model: one factor, relative labor scarcity, encourages the adoption of such technologies, while two others – namely the age/skill composition of workers and the increase in retirement age – reduces the impact of such technologies. This leads to a hump-shaped relationship between age and the adoption of new technologies, already evidenced in Japanese data. The paper also presents policy variants, with, for example, a reduction of pensions and a decline in labor tax, leading to an increased adoption of new technologies.

Tomohiko MORIYAMA (Japan Institute for Labour Policy and Training) investigated the employment rate of elderly workers in Japan: employment rates are between 65-85% for workers in their early 60s depending on gender and remains at 15-25% for workers above 70. These high rates are explained by economic reasons for 70% of workers above 65 but also a desire to continue to contribute socially for 33% and for health reasons for about 20% of those same workers. Mixing carrots and sticks, government policies have provided an incentive for workers to work longer, by raising the mandatory retirement age and protecting job security, but also for companies to continue to hire them, with a decline of wages by a quarter after 60.

Takeo HOSHI (The University of Tokyo) presented empirical results on the relationship between ageing and productivity using a dataset of Japanese firms and CEOs during the 2010s. The focus of the paper is on entrepreneurship rate and managerial ability, in contrast to related papers focusing on labor supply, capital supply, or the adoption of automation technologies. Sales and sales per worker increase with the age of the CEO before peaking between 40 and 50 years old. CEOs achieve their current positions after acquiring managerial abilities, but productivity declines later in age. Despite the hump-shaped productivity with age, in the case of Japan, ageing should mildly raise aggregate productivity while reducing output per capita.

The second roundtable was moderated by Urszula Szczerbowicz. On the underlying assumptions about the productivity of older workers, **Hugh WHITTAKER** (Oxford University) recounted an anecdote on the adoption of computer-controlled tools in Japanese and British factories: these tools were operated by younger workers in Japan (“they are young, they can learn from the manual”) but by older, experienced workers in Britain (“the machines are expensive, people can be killed”). **Franz WALDENBERGER** (DIJ – German Institute for Japanese Studies) enquired about the satisfaction of older workers when experiencing a 25% pay cut and asked about the policy implication of the decline of productivity induced by the decline of entrepreneurship rate.

Special presentation: Care-led innovation, the case of elderly care in France and Japan

In a session moderated by **Yuki TADA** (FFJ-EHESS), **Sébastien Lechevalier** introduced the program “Innovcare”, a research program benefiting from a large financing as part of a priority research program (“PPR Autonomie”). About 60 researchers, mostly from 18 French or Japanese institutions, are involved in this four-year program (2024-2028). The goal of the program is to derive actionable measures to improve the care of the very old. In Japan, the issue is particularly acute with a “care gap”, namely the shortage of care staff workers over

potential needs, increasing from 150,000 now to 650,00 by 2040. The hoped-for care robots are delivering mixed results so far; hence the need to better integrate social and technological progress, an approach called “care-led innovation”.

Third roundtable: From recommendations to policies – how to implement measures to address the ageing challenge

Sébastien Lechevalier moderated the final roundtable, which focused on policies to address the ageing challenge, with preliminary statements followed by an open discussion.

Laurent Clerc (Banque de France) highlighted that, at face value, considerations on ageing seem absent from a traditional monetary policy rule, such as the Taylor rule. In reality, the relations between ageing and monetary policy are manifold: impact of ageing on potential growth, real interest rate, deflationary or inflationary pressures, flattening of the Philipps curve, possibly feedback effects of monetary policy on demography (e.g. tighter credit conditions delaying the decision to have a child). Overall, deflationary impact should dominate, but appropriate supply-side policies may mitigate the impact of ageing.

Junko UENO (Embassy of Japan in France) reported on the ongoing efforts of the Japanese government to ensure the sustainability of the social security system. Public age-related expenditures in Japan (healthcare, long-term care, public pension) have tripled over the past thirty years. To ensure fairness between generations, the government is taking measures to raise the co-payment rate of the elderly, conditional on income, and to improve the environment to facilitate childrearing, through higher child allowances or changes in the social or work conditions.

Shruti SINGH (OCDE) presented the recently released OECD report on “Ageing and employment policies: working better with age”. France and Japan are almost polar opposites in terms of the share of employed workers in the 60–64-year-old age bracket, with respectively 40% and 75%. Strategies to increase older labor force participation rest on two pillars: “encouraging employers to retain and hire older workers; promoting employment throughout working lives”. The diversity of approaches explored by OCDE countries demonstrates possibilities to make labor markets more inclusive for older workers. The success of those policies requires coordination between governments, social partners, and civil society.

Takeo Hoshi (University of Tokyo) insisted on the need to design robust institutions: PAYG (pay-as-you-go) systems are sound when the population is growing but come under stress with ageing; similarly, given that demographic projections are subject to errors, social institutions should be robust to such errors. He also insisted that ageing should be considered not just as a challenge but also as a benefit, with people living longer and healthier.

Closing remarks

Arthur SOGNO-PEES (Banque de France) noticed that the workshop illustrated the commonalities within advanced economies confronted with ageing. Quoting the French demographer Alfred Sauvy, he reminded that “demography takes its revenge on those who ignore her”. Ageing is not just a challenge, but also an impetus for change, as illustrated by

novel efforts of some local governments in Japan to attract foreign workers and curb rural depopulation.

Sébastien Lechevalier concluded by thanking the participants and reminded that the FFJ-BDF workshop in Paris was the first part of a year-long research program, with a second conference scheduled for December 2d in Tokyo. Ending on a positive note, he concurred with numerous participants in the final open discussion that ageing is not just a challenge but also a blessing.

List of papers presented

First round table:

- Charles Horioka, The Saving Behavior of the Elderly in Japan and Europe
- Hiroshi Inokuma (jointly with Juan Sanchez), From Population Growth to TFP Growth
- R Anton Braun (jointly with Daisuke Ikeda), Why Ageing Induces Deflation and Secular

Second round table:

- Hippolyte d'Albis (jointly with Montserrat Botey and Miguel Sanchez-Romero), Working Women in France: An Economic Assessment since 1880
- Tomohiko Moriyama, Why Does the Older Population in Japan Work So Much?
- Takeo Hoshi (jointly with Naomi Kodama and Huiyu Li), The Effect of Ageing on Entrepreneurship and Aggregate Productivity
- Daniele Angelini, Ageing Population and Technology Adoption

Detailed programme

http://ffj.ehess.fr/upload/Actualites/Events/2024/14-06-2024_Programme.pdf

Staff of the FFJ involved in the event

Céline Caliaro (program coordinator); Fabien Michel; Nour Ait-Mesbah.

Sponsors of the event

