Demography and growth

Why does the literature on economic growth and conditional convergence neglect the role of demography?
- The target variable is PER CAPITA GDP rate of growth and not GPD rate of growth.
- Under global integration of labour and financial markets the nationality of production factors should matter less.

Why demographic factors are important?
GDP rates of growth are affected because:
  aging population progressively reduces working age population and working hours if not offset by higher productivity and workers migration
Per capita GDP rates of growth are affected because:
  some factors of conditional convergence are not neutral to demographic variables.

Population aging and human capital

The quality of human capital is a crucial determinant of per capita GDP growth and is affected by the age structure of the population.
If technological revolution makes part of accumulated knowledge obsolete, the younger vintage of workers will come on the market with higher quality of human capital
The younger have on average a higher number of schooling years.

The dynamism of capitalism depends on hidden intangible factors:
Investment depends on entrepreneurs' animal spirits and the present value of an investment is crucially affected by the entrepreneur's discount rate which is decreasing in its hope for the future. With less confidence in the future fewer investment projects will be financed at a given lending rate.
The same cost of external finance is not invariant in the confidence that financial investors have in the future. A reduced confidence in the future raises risk premia that investors demand on financial markets thereby raising, coeteris paribus, the cost of external finance.
An aging population is therefore highly likely to possess much less those qualities (animal spirits, confidence in the future, propensity to risk) which are fundamental for the dynamism of capitalism.
Finally, consider also the well known argument of Murphy, Shleifer and Vishny on the importance of translating higher human capital into entrepreneurial ideas and of the social praise for entrepreneurship on economic growth. Murphy, Shleifer and Vishny (1991) conveniently argues that social rewards may play a crucial role in affecting the direction in which talents are invested. The authors use this argument to explain why the industrial revolution did not occur in China centuries before its actual occurrence in England, even in presence of a large market and the necessary technological innovations.

The dynamism of capitalism depends on hidden intangible factors:

They consider that in the Chinese society the highest social praise was not for entrepreneurship but for rent seeking professions. When this is the case it is highly likely that talents and human capital are not addressed to the creation of wealth and therefore their contribution to economic growth is reduced. In the light of their argument we may wonder whether aging does not affect also social praise on entrepreneurial activity and, through it, the likelihood that best human capital resources are addressed toward growth enhancing activities.

Population aging domestic consumption and growth

An important channel through which ageing could affect economic growth is consumption.

In principle here the negative effect of ageing should be on savings and not on consumption if we take into account the life cycle perspective of a non altruistic generation of elders.

In reality we must also consider that a changing in the demographic structure also modifies the pattern of domestic consumption.

A series of goods which are mainly purchased by the young generation may face a shrinking demand for their products. If producers of these good operate on the international markets they may not suffer much from it, if these goods are nontradable the effect may be stronger.