

Demographics, Wealth, and Global Imbalances in the 21st Century

by A. Auclert, H. Malmberg, F. Martenet and M. Rognlie

Discussion — Nicolas Coeurdacier (SciencesPo & CEPR)

IMF, September 2021

Research question

How much demographic ageing contribute to

- ▶ Rising wealth to income ratios.
- ▶ Falling world rates of return.
- ▶ Rising global imbalances.

A quantitative question with important implications going forward.

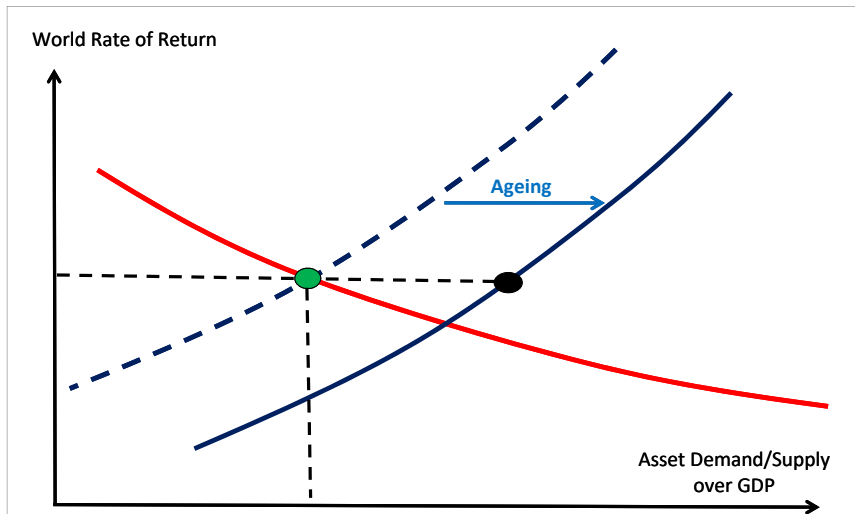
Answer → **A lot and much more to come.**

What the paper does?

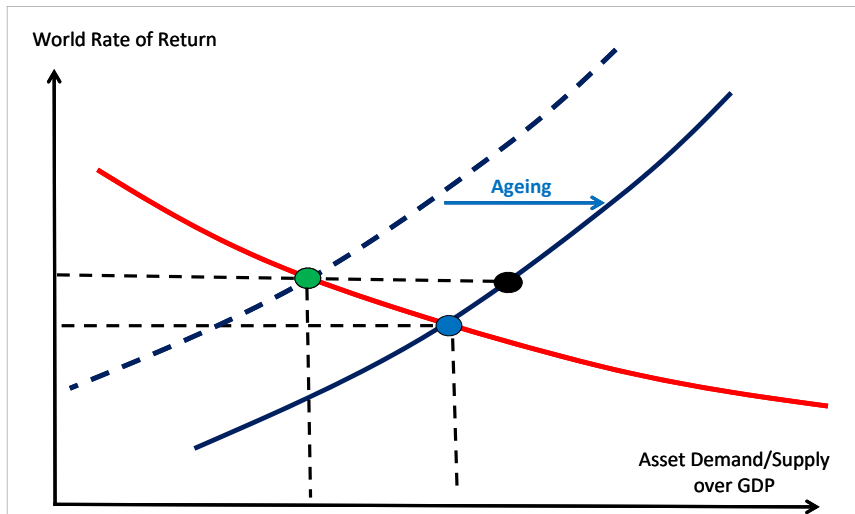
Develop a **sufficient statistic** approach to

- ▶ Compute the implied change in asset demand due to ageing (holding age profiles constant)
- ▶ Combined with structural parameters determining asset demand and supply (semi)elasticities
- ▶ Back-out quantitative predictions for the future evolution of wealth-to-income, net foreign assets and world rate of return.

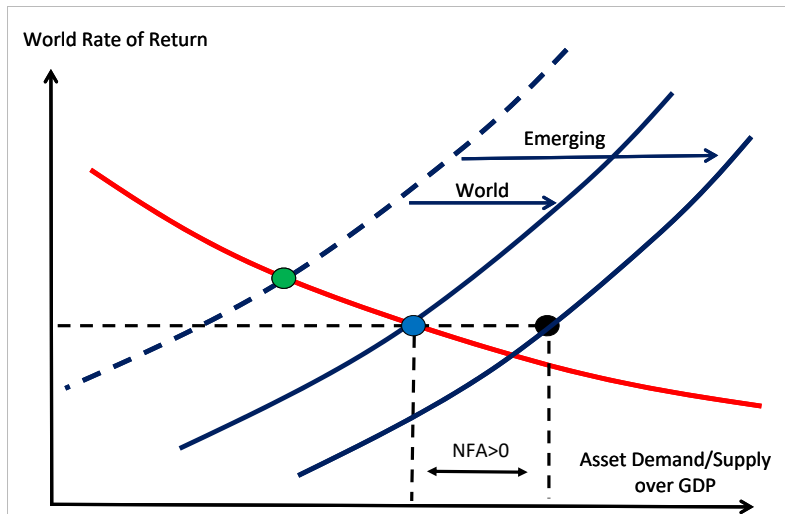
The sufficient statistic magic



The sufficient statistic magic



Heterogenous Ageing — Emerging ageing more



Comments

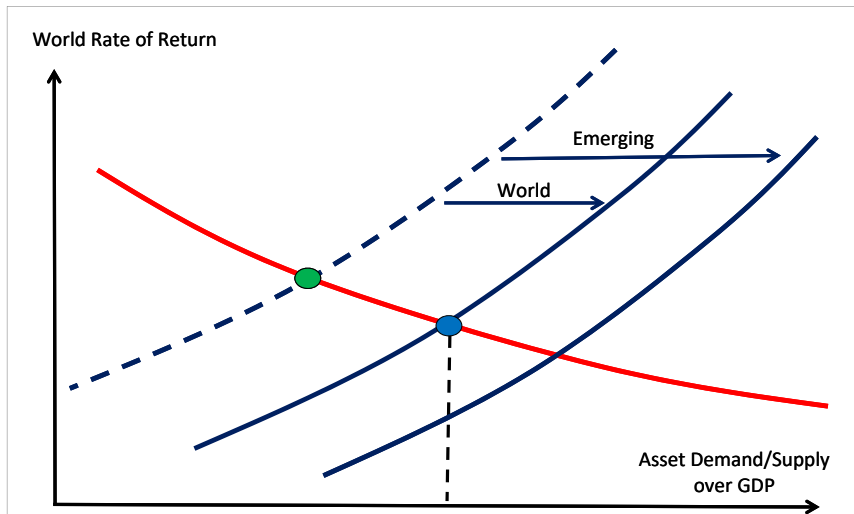
- ▶ Great **methodological** contribution.
- ▶ Issue at stake is also **quantitative**.
- ▶ Large effects from the sufficient statistic approach. Confirmed in a more sophisticated macro model.
- ▶ Difficult to discuss the paper as the paper does a lot.
- ▶ Will try to argue that the effects might be **underestimated**.

Comment 1 — The size of emerging/developing countries

- ▶ Emerging/developing countries expected to age more in the future.
 - ▶ Larger drop in fertility and rising longevity.
- ▶ Emerging countries might account for a larger share of the world economy
 - ▶ Due to faster productivity growth in the future
 - ▶ Due to sample selection
- ▶ Larger world compositional shift in asset demand.

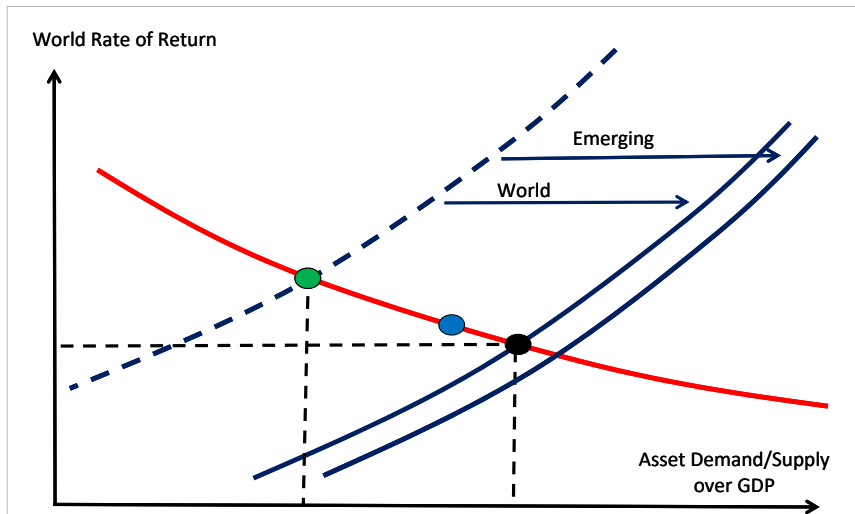
Baseline

Comparison across steady states



Larger Emerging

Comparison across steady states



Comment 2 — Heterogeneity in demand elasticities

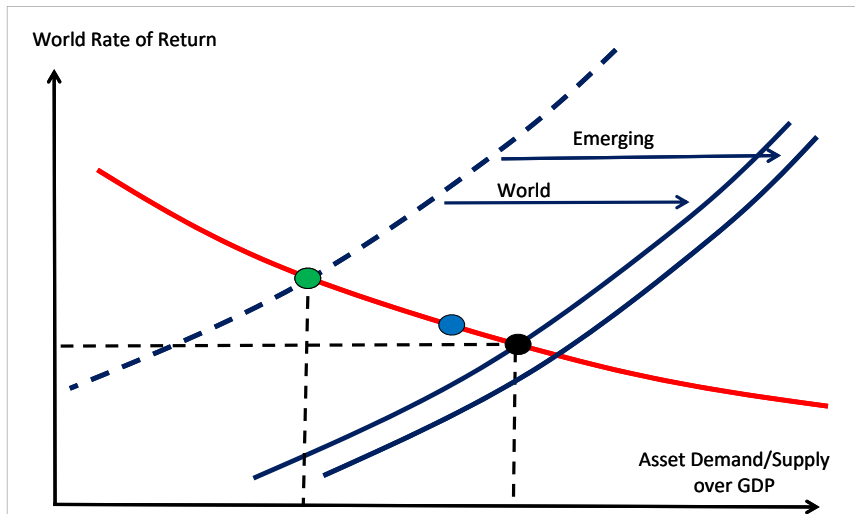
- ▶ Magnitude of the effects depends on asset demand elasticity. Stronger effects if smaller demand elasticities.
- ▶ Asset demand elasticity arguably smaller in emerging countries
 - ▶ Tighter borrowing constraints.
 - ▶ Less generous social security and low coverage of benefits.
 - ▶ More self-insurance (higher uncertainty/lower insurance).

→ Larger global imbalances.

→ Larger rise in wealth to income/larger fall in the world interest when considering larger emerging economies.

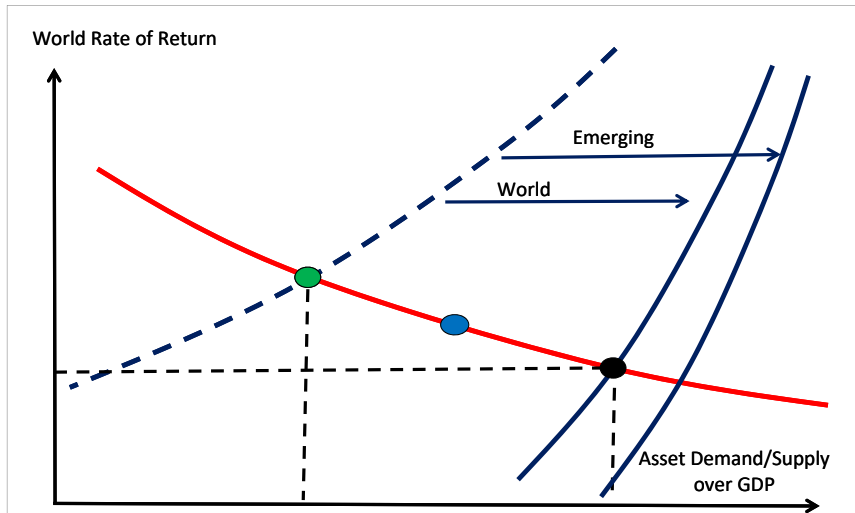
Larger Emerging

Comparison across steady states



Larger Emerging + Lower demand elasticity

Comparison across steady states



Comment 3 — Variations in age-wealth profiles.

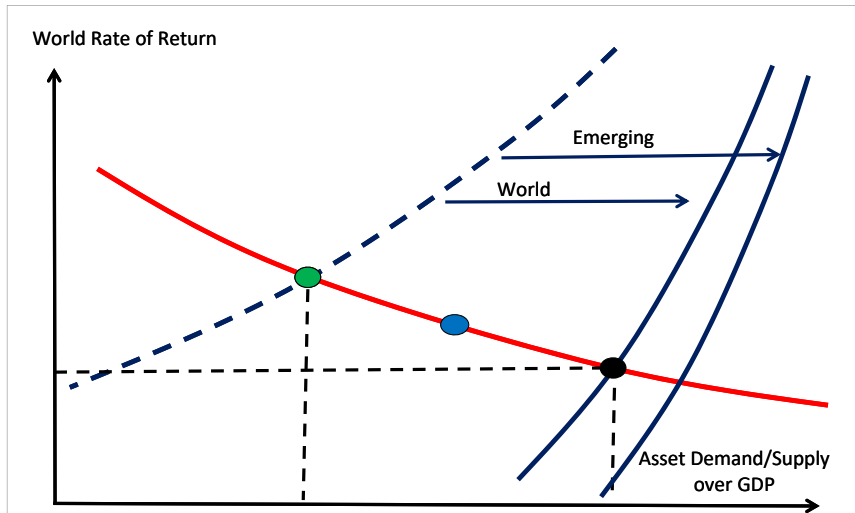
- ▶ Baseline assumes constant age-wealth profiles.
- ▶ Might not be a good approximation for Emerging countries.
 - ▶ Emerging countries have room for a large increase in longevity.
 - ▶ Lack of social and health insurance.

→ Might trigger a more significant shift in wealth at a given age.

- ▶ Quantitative effects of longevity on wealth-to-income larger when combined with falling fertility.

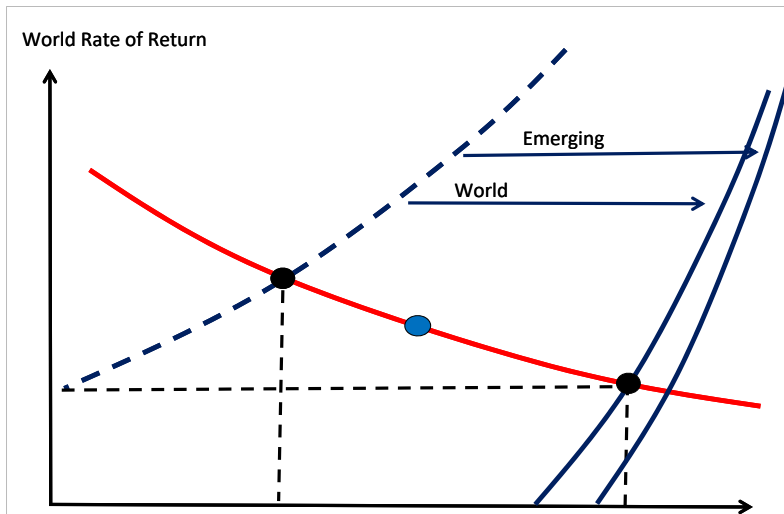
Larger Emerging + Lower demand elasticity

Comparison across steady states



Larger Emerging + Lower demand elasticity + Longevity

Comparison across steady states



Conclusion

- ▶ Great paper. Very creative to match theory with observables
Enjoyed a lot reading it.
- ▶ Large effects of demographics on wealth to income ratios and global imbalances.
- ▶ Claim that effects might be even underestimated.
 - ▶ Larger size of emerging countries ageing faster.
 - ▶ Emerging countries with potentially lower demand elasticities.
 - ▶ Effects of rising longevity might be more pronounced in these countries.