Aging and international capital flows

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Abstract: Throughout the world, population aging is a major challenge that will continue well into the 21st century. While the patterns of the demographic transition are similar in most countries, the timing differs substantially, in particular between industrialized and less developed countries. To the extent that capital is internationally mobile, population aging will therefore induce capital flows between countries. This is the topic of this paper.

In order to quantify these international capital flows, we develop a multi-country overlapping generations model and combine it with long-term demographic projections for several world regions over a 50 year horizon. Our simulations suggest that capital flows from fast-aging industrial countries (such as Germany, Italy and Japan) to the rest of the world will be substantial. Closed-economy models of pension reform are likely to miss quantitatively important effects of international capital mobility.