

Ageing, Human Capital and Earnings Schedules by Vegard Skirbekk

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[Rethinking Retirement](#)

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Summary

- Important trends
 - Population growth (decline in mortality)
 - Ageing workforce
 - Growing migrant populations
 - Heterogeneity in fertility
- Facts on life-cycle productivity and earnings profiles
 - Earnings grow faster than productivity at later stages in life
 - Cognitive decline (particularly fluid IQ)
 - Hiring prospects for older workers are higher when relative wages are lower
- Policy implications
 - Extending work life
 - Increasing fertility

Extending work life

- Institutions/labor supply
 - Actuarially fair pension systems
- Labor demand
 - Abolishment of seniority pay/deferred compensation
 - Downward wage flexibility of older workers
- Matching supply and demand
 - Job assignment (“Offering ‘meaningful jobs’ to older workers”)

Problem

- We cannot simply “prescribe” lower wages
 - Demand for older workers rises
 - But supply is not inelastic → policy is at best partly successful
- Not easy to implement (e.g. Japanese model)
 - Requires changing the whole set of institutions
 - Changing culture and values (maybe even preferences?)

Alternative/complementary approach

- Prevent/slow down decline in productive skills of older workers (i.e. increase their human capital)

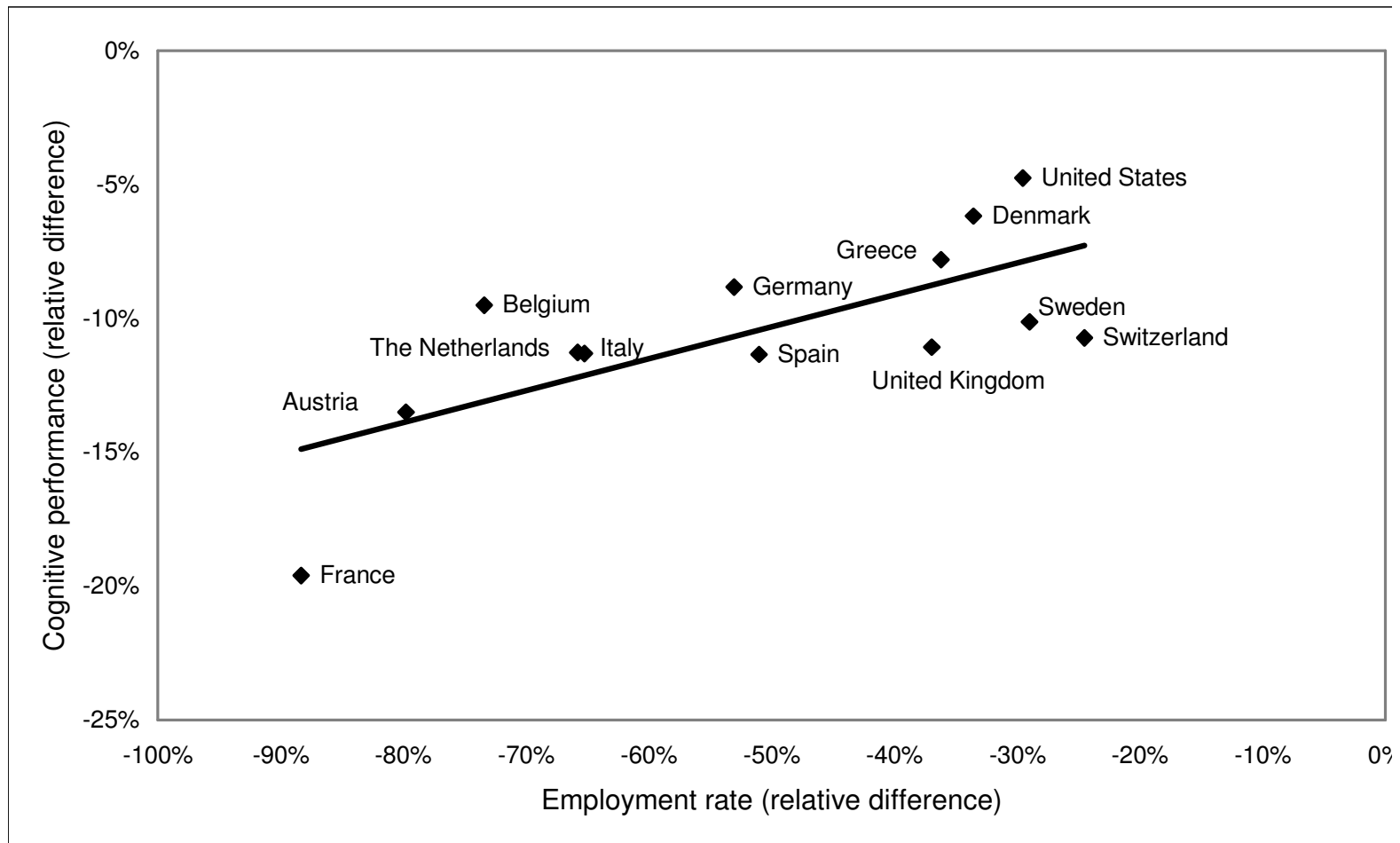
Research Agenda

- Identify how factors that determine skill formation change over time and how malleable they are
 - Cognition
 - Non-cognitive skills
 - Monetary investment incentives

Cognition

- Direct effect on productivity
- Indirect effect (raising returns on HC investments)
- Malleability of cognition
 - Aging shapes a zone of possible functioning
 - Behavior can enhance cognitive functioning
 - Scope for employer policy
 - ⊕ Practice
 - ⊕ Work place and job design
 - Role of institutions
 - ⊕ E.g. early retirement schemes

Employment rate and cognitive performance
Relative difference between 60-64 and 50-54 years old men

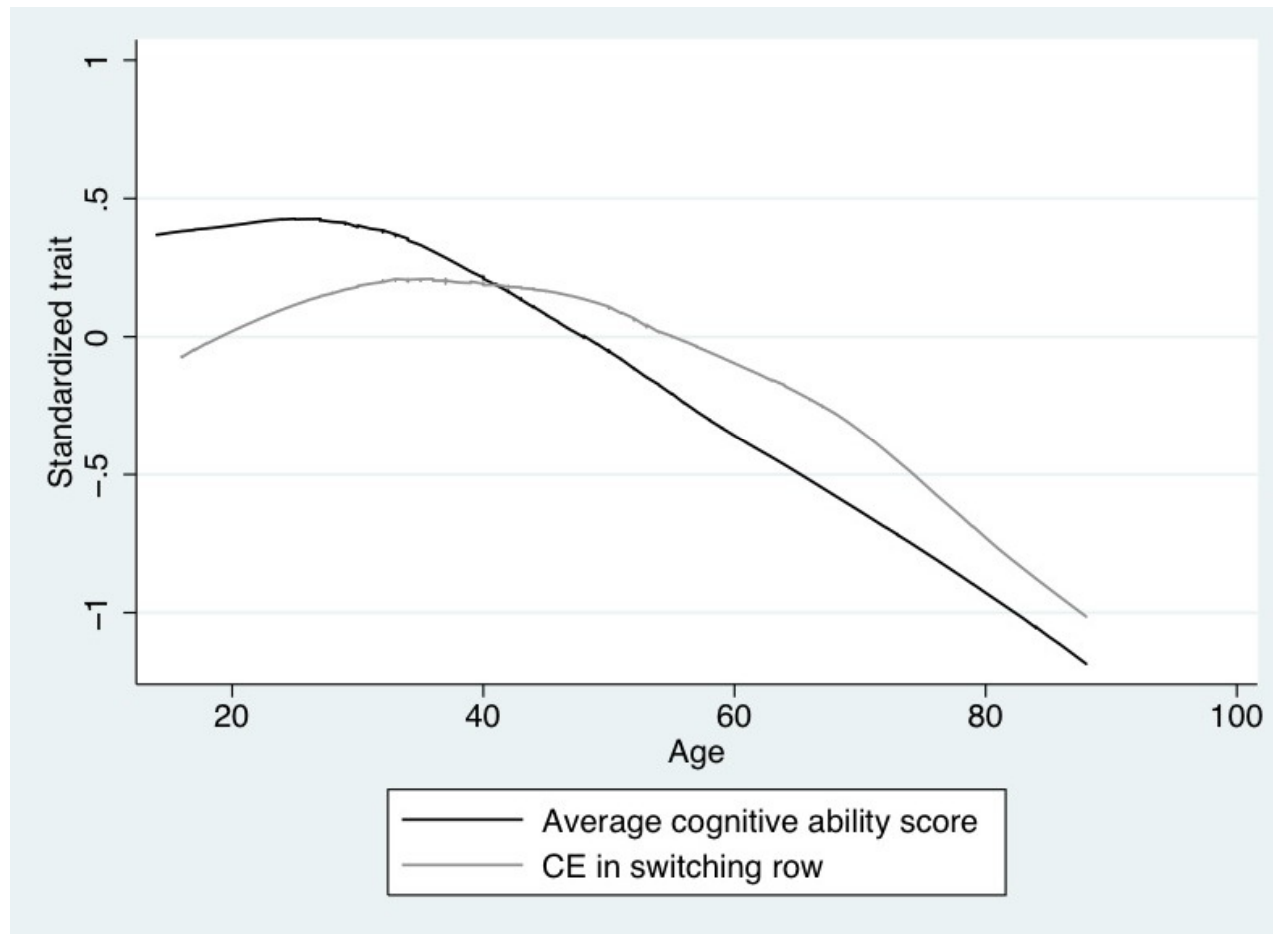


Source: S. Adam, E. Bonsang, S. Germain and S. Perelman (2007), "Retirement and cognitive reserve: A stochastic frontier approach applied to survey data", CREPP DP 2007/04, University of Liège.

Non-cognitive skills

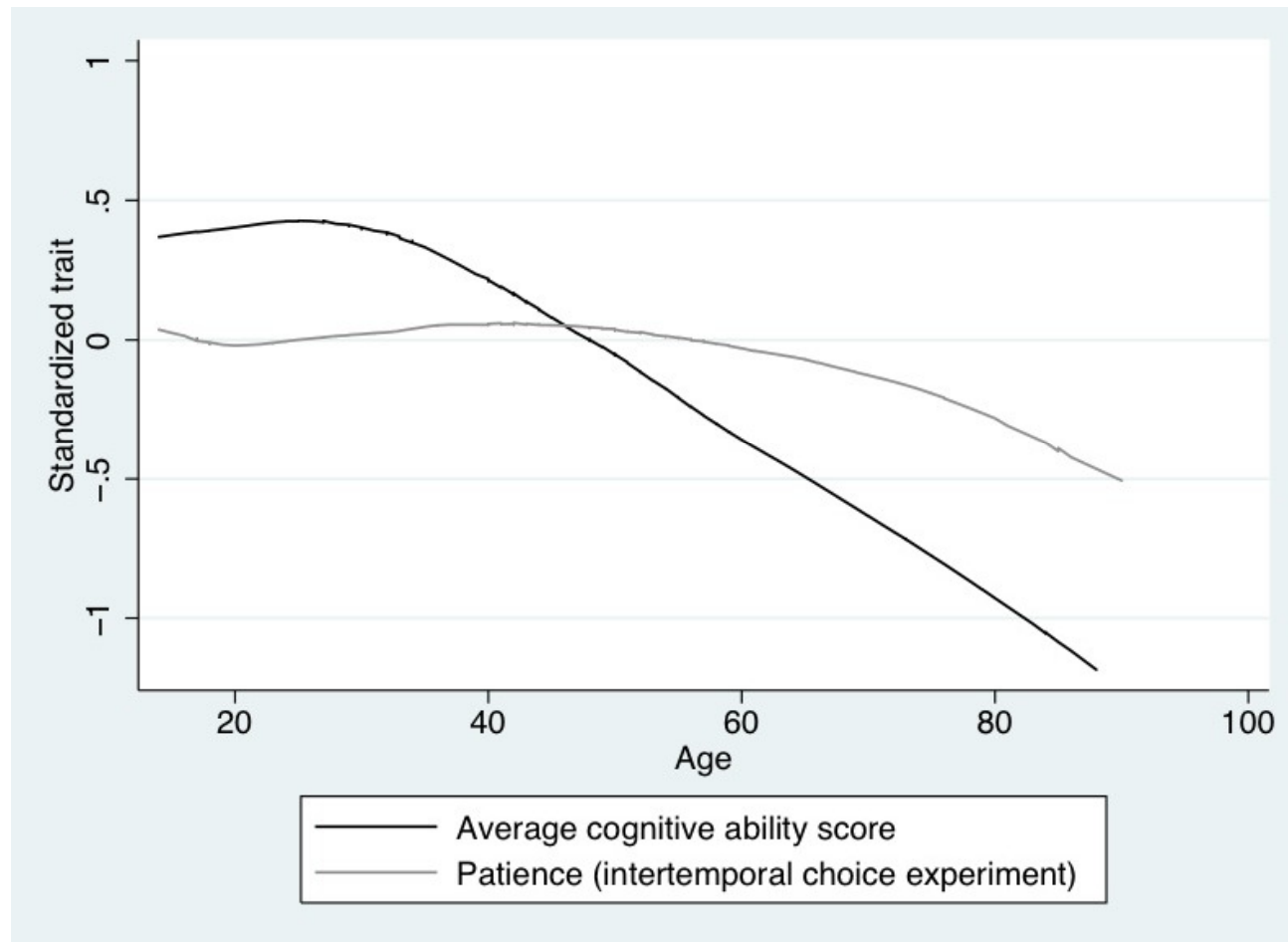
- Motivation
 - Affects willingness to actively engage in skill acquisition
- Key economic preferences
 - Risk and time preferences
 - ⊕ Impact on investment behavior
 - Preferences for work and leisure
- Implications from changes over the life cycle

Willingness to take risks and over the life-cycle (identified in cross section)



Notes: Lowess smoothed regression lines.

Similar Results for Patience and Cognitive Ability



Notes: Lowess smoothed regression lines. Patience is $-1 \times$ (standardized impatience).

Monetary incentives

- Amortization period
 - Role of institutions (e.g. retirement scheme, employment protection)
 - Health
- Returns to investment
 - Wage flexibility
 - Effect of investment on productivity (e.g. impact of learning speed)
- Interactions with cognitive and non-cognitive skills