

Non-traded Goods, Aging, and Pensions in Open Economies

Principal Netspar investigator:

Ben Heijdra, Groningen University

Scope

The analysis draws on two main bodies of literature. First, in order to allow for overlapping generations (OG) and the possibility of Ricardian non-equivalence, the framework originally developed by Yaari and Blanchard and further extended by Buiter, will be employed. By distinguishing birth and death rates, the model can study demographic shocks both with and without Ricardian equivalence. The project enriches the OG framework by allowing for age-dependent productivity (to capture the notion of saving for a rainy day) and by including a simple PAYG pension system. The second key building block concerns exposed and sheltered production sectors. The sheltered sector producing non-traded goods produces only for home absorption, and as a result the real exchange rate is determined endogenously within the model. While financial capital is mobile internationally, international physical capital mobility is limited.

Research goals

This project explores how aging and pension reforms affect open economies. It focuses in the roles of overlapping generations, non-traded goods and imperfectly mobile physical capital. Employing small-scale analytical models, this research clarifies the core mechanisms through which aging, pensions, and pension reform affect the macro economy.

Extensions

This project extends this framework by incorporating endogenous retirement decisions, age- and time-dependent birth and death rates, and age-dependent propensities to consume (non-traded) goods and leisure. The project also extends the analysis so that factor-price equalization no longer holds by recognizing sector-specific factors, limiting intersectoral capital mobility, and introducing non-competitive goods markets. The extended framework will be employed to explore various pension reforms, including the transition from pay-as-you-go to funded pension plans and an increase in the retirement age.