

## **The Role of Labour Substitution by Age in the Effect of Fertility on Living Standards: Simulations for Scandinavia**

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**Abstract :** This paper analyses a potentially new consumption dividend from lower fertility arising from imperfect labour substitution by age. A smaller proportion of young workers relative to older workers raises relative youth wages given imperfect labour substitution by age. Discounted lifetime labour income rises which provides a consumption dividend. Simulation results are reported for the four Scandinavian countries, adopting a simple overlapping generations model. Imperfect labour substitution is modelled using a CRESH functional form of an aggregate labour index. The magnitudes of this new consumption dividend from a Low fertility projection compared with a high fertility projection are found to be approximately 4 percent annually, on average over the Scandinavian countries in the very long run, but somewhat lower in the short term. There is some sensitivity to the interest rate and the degree of consumption smoothing.

**Keywords :** fertility, consumption, productivity, labour substitution

**Conference Title :** ICEF 2015 : International Conference on Economics and Finance

**Conference Location :** Singapore, Singapore

**Conference Dates :** January 08-09, 2015