

Labour Market Adjustments to Population Decline: A Historical Macroeconomic Perspective, 1875-2016

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Short Abstract

According to demographic projections, advanced economies will face negative population growth in the decades to come. Despite this impending profound transition, there is little evidence of the labour market consequences of a declining population, both in the theoretical and empirical literature. Given this apparent shortcoming in the literature, we investigate empirically detectable labour market adjustments in macroeconomic time series. To this end, we compiled a new historical dataset for nine advanced economies, covering demographic and labour market variables on an annual basis from 1875 to 2016. Using a panel smooth transition VAR (PSTVAR) and estimating regime-dependent impulse response functions, we allow for different reactions to a negative population shock during periods of shrinkage compared to adjustments to a positive population shock in times of growth.

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