

# An Estimate of the Age Distribution's Effect on Carbon Dioxide Emissions\*

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We estimate the age distribution's impact on carbon dioxide emissions from 1990 to 2006 by exploiting demographic variation in a panel of 46 countries. To eliminate potential bias from endogeneity or omitted variables, we instrument for the age distribution with lagged birth rates, and the regressions control for total population, output, and country and year fixed effects. The increase in the share of the population aged 35 to 49 accounts for a large portion of the observed increase in carbon dioxide emissions.

KEYWORDS: CO<sub>2</sub> Emissions, Demographics, Environment

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# 1 Introduction

We exploit temporal and geographic demographic variation to estimate the relationship between a population's age distribution and carbon dioxide (CO<sub>2</sub>) emissions in a panel of 46 countries from 1990 to 2006. To reduce potential omitted variable bias, we instrument for the age distribution with lagged birth rates and control for both total population and gross domestic product (GDP). A higher share of prime working age individuals within a country leads to higher CO<sub>2</sub> emissions, while younger and older populations have lower CO<sub>2</sub> emissions according to our results.

Emissions of CO<sub>2</sub> account for about half of the radiative forcing from anthropogenic sources that are the primary contributors to global warming. The 2007 Intergovernmental Panel on Climate Change predicts increases in average surface temperatures in the range of 1.1 to 6.4 degrees Centigrade (2 to 11.5 degrees Fahrenheit) by the end of the century. Climate change has created the threat of substantial environmental damage, with potentially catastrophic consequences for many throughout the world. As a result, both academics and policy-makers are interested in CO<sub>2</sub> emissions.

The literature aimed at explaining CO<sub>2</sub> emissions invariably focuses on the size and affluence of the population. This approach can be traced back to the seminal work by Ehrlich and Holdren (1971), the biologist and physicist who argued that population *size* has a disproportionate impact on the environment. The relationship they posited can be expressed as  $I = P \times F$ , where  $I$  is environmental impact,  $P$  is population size, and  $F$  is a function measuring the population's per capita impact. The impact is generally assumed to depend upon affluence and technology, leading to the well-known IPAT identity,  $I = P \times A \times T$ , where  $A$  is affluence (GDP per capita) and  $T$  is a technology index. More recent literature has focused on models of the technology index and how the index changes over time (e.g.,

due to improvements in abatement technology). The widely cited Intergovernmental Panel on Climate Change studies use several variations of the IPAT model to produce regional emissions forecasts, which are then aggregated to the global level. Structural studies by economists (e.g. Nordhaus 2009) have also attempted to forecast global CO<sub>2</sub> emissions using estimates of GDP from production functions and world population size. Although these studies have frequently used geographic density of the population as well as its size as explanatory variables, and have allowed for nonlinearity in size, most have ignored the age distribution within the population.<sup>1</sup> Our results show that this may be an oversight.

That the age distribution of the population *per se* has a nontrivial effect on the level of CO<sub>2</sub> emissions should not be viewed as a surprise. Production tends to increase with the fraction of the population employed, so linking emissions to the working share seems a natural conjecture. The surprise is, perhaps, that essentially no attention has been paid to the age distribution's potential impact on CO<sub>2</sub> emissions. After all, economists and policy-makers have long been concerned about the effects of demographic change on the social safety net. Moreover, life-cycle consumption patterns might reinforce the connection between the age structure and CO<sub>2</sub> emissions. Lifetime consumption follows a hump shape, rising as people age, reaching a maximum during the prime working years, and tapering off late in life. Admittedly, some of the increased consumption in the peak working years may be imported, and therefore not involve domestic production. However, Aguiar and Hurst (2010) find that much of the increased consumption involves work-related non-durables, including transportation, which is the second-leading source of CO<sub>2</sub> emissions.<sup>2</sup> An automobile driven on domestic roads generates domestic CO<sub>2</sub> emissions, wherever it was produced.<sup>3</sup> Thus, *ceteris paribus*, we should expect greater CO<sub>2</sub> emissions for a population with a higher fraction of people in their prime working years.

Attempts at both domestic regulation and international negotiation, such as the Kyoto

protocol, have taken the projected growth of GDP into account explicitly, but overlooked changes in the age distribution. While we do not focus on forecasting future CO<sub>2</sub> emissions or constructing policy, our findings should be of interest to those that do. If our results continue to hold in the near future, then the aging of the baby boomers will reduce CO<sub>2</sub> emissions in the United States and other developed countries. Conversely, demographic changes might increase emissions in developing countries. Suppose, for example, the fraction of the population in their prime working years increases over time, as is projected for many developing nations. We would expect an increase in GDP and, according to proponents of the environmental Kuznets curve, a decrease in CO<sub>2</sub> emissions. However, the change in the age distribution associated with such GDP growth might increase CO<sub>2</sub> emissions, mitigating or even negating the GDP effect.<sup>4</sup> Calculations based on United Nation's age distribution projections and our regression results indicate that accounting for the changing age distribution would increase forecasts of CO<sub>2</sub> emissions by more than 15% in developing countries over the next ten to twenty years.

Our baseline regression includes a full set of time and country dummies, and we use the fraction of the population aged 35-49, or working share, as the main explanatory variable. Changes in the working share across time, not common to all countries, and independent of GDP and total population provide the variation to estimate the age distribution's effect. Unfortunately, ordinary least squares (OLS) estimates may suffer from omitted variable bias. Country and year specific factors leading to high CO<sub>2</sub> emissions, but not included in the regression equations, might also attract young migrants. Similarly, CO<sub>2</sub> emissions may be correlated with current birth rates or with old age mortality. These changes to the age distribution would mechanically reduce the working share and bias the OLS estimates downward. Classical measurement error could also shrink the OLS estimates.

To address the potential bias, we instrument for the current working share with the

birth rates from 10, 20, 30, and 40 years ago. The working share depends on past birth rates. Also, future CO<sub>2</sub> levels probably did not enter into past fertility decisions. Thus, identification of the age distribution's effect on CO<sub>2</sub> emissions in the two-stage least squares (2SLS) regressions relies on differential changes in birth rates across the panel of countries.

In a back of the envelope calculation the point estimate from the baseline 2SLS regression implies that demographic change accounts for about 60% of the recent CO<sub>2</sub> emissions increase. The OLS estimate and some of the robustness checks are smaller than the baseline (though still big), and the estimates (though statistically significant) have large standard errors. Thus, instead of a single number we prefer the simple conclusion that the age distribution has a quantitatively large effect on CO<sub>2</sub> emissions.

The next section summarizes the within- and cross-country variation in the data. Section 3 presents the results and robustness checks, along with a discussion of the magnitude and possible causes. The hump shaped life-cycle consumption pattern represents one compelling explanation; however, the regressions cannot fully rule out the production side. Either way, the age distribution's effect on CO<sub>2</sub> emissions is large.

## 2 Data and Identification Strategy

We use a balanced panel with 782 total annual observations on 46 countries over 17 years (1990-2006). The set of countries displays economic and geographic diversity. Data on CO<sub>2</sub> emissions and GDP comes from the World Bank's World Development Indicators. Age distribution information comes from the United Nations World Population Prospects. The Appendix provides additional details.

Figure 1 plots average logged CO<sub>2</sub> emissions as a solid line (left axis) and the average

working share, number of people aged 35-49 divided by the total population, as a dashed line (right axis) against time for the sample of 46 countries. Both clearly trend up. While provocative, the time series correlation could be spurious. Thus, we leverage the variation across countries to estimate the age distribution's effect on CO<sub>2</sub> emissions.

Figure 2 plots CO<sub>2</sub> emissions and the working share over time for each country. The different patterns within countries provide the variation necessary to estimate the working share's effect on CO<sub>2</sub> emissions. Many places (e.g. Chile, Ireland, New Zealand, Sri Lanka, Spain, and Thailand) follow the global trend of increasing working share and emissions, while others (e.g. Denmark, Hungary, and Sweden) have a downward trend. The robustness checks address the possibility of non-stationarity in the variables. Also, Australia, Canada, France, Poland, the US, and several others have hump shaped working shares. The scale of CO<sub>2</sub> emissions varies, highlighting the need for country fixed effects in the regressions. For Romania and the United Kingdom the working share and CO<sub>2</sub> go in opposite directions. Overall, though, emissions appear to move with the working share in most countries.

Omitted variables or measurement error might bias OLS estimates, so we instrument for the current working share with birth rates from 10, 20, 30, and 40 years ago. The United Nations 1997 Demographic Yearbook reports past birth rates for many countries, but the availability of reliable birth rate data restricts the sample.<sup>5</sup> Access to birth control, government family-planning policies, cultural norms, wars, disease, and even weather patterns have been known to cause variation in birth rates, and ample demographic variation exists to estimate the working share's impact on CO<sub>2</sub> emissions.

We assume the variation in fertility was caused by factors unrelated to current CO<sub>2</sub> emissions. As with any instrument, an omitted variable could affect both lagged birth rates and current CO<sub>2</sub> emissions, violating the exclusion restriction assumption. However, given the temporal structure of the data, candidate variables are difficult to imagine.<sup>6</sup> The four

instruments span 30 years and have different effects from each other on the age distribution and, in a reduced form regression, on CO<sub>2</sub> emissions (see Table 2). Thus, we believe birth rates are a valid instrument. Also, instrumenting for the age distribution with lagged birth rates has been done before in other contexts. Shimer (2001) measures the age distribution’s effect on the unemployment rate; Feyrer (2007) relates the age distribution to productivity; and Lugauer (2011) considers whether the age distribution affects the magnitude of business cycles. We turn now to the regression analysis.

### 3 Results

Equation 1 captures the relationship of interest:

$$CO2_{i,t} = \alpha_i + \beta_t + \gamma ws_{i,t} + controls_{i,t}\delta + \varepsilon_{i,t}. \quad (1)$$

Variable  $CO2$  represents logged kilotons of CO<sub>2</sub> emissions in country  $i$  during year  $t$ . The  $\alpha$  represents country fixed effects to control for time-invariant differences in  $CO2$  levels across countries, possibly due to environmental policy, source of power, industry specialization, automobile use, or geography.<sup>7</sup> The  $\beta$  represents year effects to control for global time trends. The working share variable  $ws$  equals the percentage of the population aged 35-49 in country  $i$  during year  $t$ .<sup>8</sup> The working share is our measure of the age distribution, and primarily we are interested in the age distribution’s effect on  $CO2$ . Identification of the working share effect,  $\gamma$ , comes from changes in the working share over time not common across countries. The control variables include real GDP, GDP<sup>2</sup>, and total population all in logs. Thus, the estimated working share effect is net of the level of output and total population.<sup>9</sup> The term  $\varepsilon_{it}$  captures other sources of variation in CO<sub>2</sub> emissions.

### *Ordinary Least Squares*

OLS estimation of Equation 1 results in an  $R^2$  of 0.996 and a  $\gamma$  estimate of 3.47 (column 1 in Table 1). We report robust standard errors clustered by country throughout the paper because the residuals suffer from heteroskedasticity across countries and serial correlation within countries. The adjusted standard error for the OLS estimate of  $\gamma$  equals 1.20.

The OLS estimate is big, statistically significant at the 1% level, and likely biased downward. Immigration by young workers into countries with high CO<sub>2</sub> emissions, possibly because of consumption or production opportunities, could reduce  $ws$  mechanically and decrease the OLS  $\gamma$  estimate.<sup>10</sup> Factors affecting both CO<sub>2</sub> output and mortality contemporaneously, such as increased electricity access, could bias the OLS estimate. Classical measurement error in the variables also could bias the OLS estimate toward zero. Hence, we pursue an instrumental variables strategy.

### *Two Stage Least Squares (2SLS)*

We instrument for the working share with lagged birth rates, where the birth rate is the number of births per 1000 people. Equation 1 still captures the relationship of interest, and Equation 2 is the associated first stage:

$$ws_{st} = \alpha_i + \beta_t + \lambda_1 birth10_{i,t} + \lambda_2 birth20_{i,t} + \lambda_3 birth30_{i,t} + \lambda_4 birth40_{i,t} + controls_{i,t} \delta + \nu_{i,t}. \quad (2)$$

The instrumental variables  $birth10$  -  $birth40$  equal the birth rates in country  $i$  10, 20, 30, and 40 years before year  $t$ . All other variables are defined as before. The estimation is by 2SLS.

The 2SLS estimate of the working share's effect on CO<sub>2</sub> ( $\gamma$ ) equals 6.17 with standard error 1.87 (Column 2 in Table 1). Table 4 reports the coefficient estimates for the control

variables. The baseline 2SLS  $\gamma$  estimate represents our main result. A null hypothesis of no effect can be rejected with better than 99% confidence. A Hausman test rejects equivalence between the OLS and 2SLS coefficient estimates.

The baseline estimate is quantitatively large. Consider the overall increase in CO<sub>2</sub> emissions from 1990 to 2006 within the sample (about 0.29 log points in Figure 1). Then, taking the  $\gamma$  estimate literally, the observed increase in the average working share (about 2.7 percentage points in Figure 1) accounts for a  $2.7\% \times 6.17 \approx 0.17$  log point increase in CO<sub>2</sub> emissions for the average country in the sample, or approximately 60% of the actual increase. A 90% confidence interval for the baseline estimate of  $\gamma$  goes from about 3 to 9, and in some of the robustness checks the point estimate is smaller than the baseline. However, even at a  $\gamma$  value of 3, the working share's impact on emissions is large.

Naturally, the working share depends on lagged birth rates. The F-statistic for the joint significance of the instruments in the first-stage regression (Equation 2) equals 10.63. The strong first stage dispels concerns about serious finite-sample bias problems (Bound, Jaeger, and Baker 1995). The small sample bias in the 2SLS estimate approximately equals  $1/(1+F) \approx 0.09$  percent according to Stock and Staiger (1997). The first stage point estimates have a simple interpretation (Table 2, row 1). A 1.0 percentage point increase in the birth rate 10 years earlier implies about a 0.91 percentage point decrease in the current working share. Sensibly, the coefficient estimates on the birth rates ten, twenty, and thirty years ago have negative signs, and the coefficient for the birth rate forty years ago is positive. The reduced form regression of *CO2* on the birth rate instruments has the same pattern (Table 2, row 2). With four instruments, *birth10* - *birth40*, and a single endogenous variable, *ws*, the model is overidentified. The p-value for the J-statistic test of the overidentifying restrictions equals 0.51, so the model cannot be rejected.<sup>11</sup>

### *Robustness Checks*

Several countries in the sample agreed to the Kyoto Protocol and committed to reducing their annual CO<sub>2</sub> emissions by about 5% on average. The first robustness check adds a dummy variable for whether a country had ratified the Kyoto Protocol by the given year. Only Annex I (developed) countries are flagged. Most countries entering into Kyoto had ratified by 2002, but variation exists. Column 3 of Table 1 contains the results; the  $\gamma$  estimate (6.05) remains about the same as the baseline.<sup>12</sup> Interestingly, the coefficient on the Kyoto flag (not reported in Table 1), while not statistically significant, equals  $-0.05$ , indicating a 5% decline in emissions on average for the 25 Annex I countries.

Our baseline sample does not include Germany, Brazil, Russia, India, or China, some of the world's largest CO<sub>2</sub> emitters. Table 1, column 4 reports the results with the 26 observations available on these five countries included. The  $\gamma$  estimate (5.96) stays close to the baseline. Column 5 also includes the Kyoto flag. Again, the  $\gamma$  estimate (5.83) is close to the baseline. Neither the additional countries nor the Kyoto Protocol flag alter the main finding.

According to Aguiar and Hurst (2010), consumption peaks for some goods during the 35–49 age range, our working share. Consumption (or production) related to CO<sub>2</sub> emissions could peak at a different age range. In Table 3, column 2 the share of 30–34 year olds has been added to  $ws$ . The first-stage F-statistic increases, but the  $\gamma$  estimate decreases to 5.17. Column 3 includes the 50–54 age group in  $ws$  instead. The point estimate increases to 6.51, but the first-stage F-statistic falls. Additional age groups are added as regressors in column 4. The new explanatory variables are instrumented as before, and the first stage regressions (not reported) remain strong. To avoid collinearity, the young group (age 0-19) is omitted. Thus, the coefficient estimates measure movement out of the young group into each other group. The point estimate (5.92) on the working share remains statistically different from

zero at the 1% level. We tried broader age groups and finer age groups, and the results stay close to the baseline.

Table 4 reports the results when eleven more years (1939-1949) of lagged birth rate information from previous Demographic Yearbooks are included for some countries. If a country does not have data for any year, then the country is dropped entirely from the sample.<sup>13</sup> The new balanced panel has 35 countries. Column 1 reports the baseline regression from 1990-2006 with the smaller sample of countries. The  $\gamma$  estimate falls to 4.35. Column 2 reports the results including the 1979-1989 data. The coefficient estimate equals 4.07.<sup>14</sup> However, since CO<sub>2</sub> emissions in the new sample grew slowly during the 1980s, the change in *ws* actually explains a larger portion of the increase in CO<sub>2</sub> emissions from 1979 to 2006 in the 35 countries (using  $\gamma$  equal to 4.07) than from 1990-2006 in the full 46 countries (using  $\gamma$  equal to 6.17). In column 3, we use the new data to instrument for the working share with the birth rate lagged 49 years in addition to lags of 10, 20, 30, and 40 years.<sup>15</sup> The  $\gamma$  estimate (4.28) is virtually identical to the baseline (4.35).<sup>16</sup> We also report the analysis including all the countries in column 4. The  $\gamma$  estimate when the panel is not balanced equals 5.11.<sup>17</sup> Column 5 includes the observations for Germany, Brazil, Russia, India, and China, bringing the sample size to 1299. The first stage F-statistic equals 13.48. The working share effect equals 5.16, and it is statistically significant at better than the 1% level. Overall, the additional birth rate data does not alter the main finding.

Table 5 reports estimates for the control variable coefficients in Equation 1. Column 1 repeats the baseline. Total population and GDP are positively correlated with CO<sub>2</sub> emissions. The square of GDP is negatively related, indicating an environmental Kuznets curve type relationship; although, CO<sub>2</sub> emissions do not begin to decrease until a country achieves high GDP levels. We tried several variations of the controls such as including GDP growth and higher order polynomials of GDP, using GDP per capita, and dropping the square of

GDP, and the  $\gamma$  estimate does not change appreciably. None of the controls are individually statistically different from zero in the baseline regression.

Next, we add four controls into equations 1 and 2. The new variables are the proportion of the labor force working in industry (as opposed to services or agriculture), the level of exports and imports in logs, and the proportion of electricity produced using coal. The industry term represents an attempt to account for the concentration of manufacturing production. Controlling for the level of imports and exports helps ensure that the observed correlation reflects a domestic phenomenon.<sup>18</sup> We include the coal variable because coal is among the dirtiest ways to produce electricity in terms of CO<sub>2</sub> emissions.<sup>19</sup> The country fixed effects account for the time-invariant levels of these variables; however, a country with an increasing supply of younger workers might begin to generate power via more labor intensive methods such as coal, or export more, or manufacture more. The World Bank's World Development Indicators has complete data for 29 of the countries in our sample. Using the smaller set of countries, the baseline  $\gamma$  estimate decreases to 4.46, with a relatively lower first stage F-statistic (Table 5, column 2). Including the four additional controls leads to a larger  $\gamma$  estimate (4.84), but still a weak first stage (Table 5, column 3). Column 4 reports the results with an unbalanced sample, and the results remain similar. We tried other controls for the method of production; none altered the main finding. We view the estimates in Table 5 as evidence that life-cycle consumption patterns rather than production methods drive the baseline results.

We have searched extensively for specific countries, outliers, or other odd patterns affecting the results. We omit the full details to save space, but a few of the checks are worth mentioning. Japanese CO<sub>2</sub> emissions take only two values in Figure 2, so we ran the regressions without Japan. We also tried dropping the United States, as its emissions dwarf all other countries besides China. In both cases, the  $\gamma$  estimate increases relative to the baseline.

We dropped the six largest countries by population and separately the six smallest, and also weighted all observations by population. The estimates are smaller than the baseline, but quantitatively large (ranging from 4.7 to 5.8) and statistically significant. We examined the residuals from the first stage regression, most of the largest residuals come from Japan and Singapore. Dropping Japan and Singapore increases the first stage F-statistic to 11.64 and leaves the  $\gamma$  estimate virtually unchanged from the baseline. We also examined the residuals from the second stage, finding no other patterns by country or year.

Much of the world’s man-made CO<sub>2</sub> emissions comes from electricity production, so in column 1 of Table 6 the dependent variable has been replaced by logged total electricity generation.<sup>20</sup> Belize and Fiji are dropped from the sample due to lack of information. The  $\gamma$  estimate remains statistically different from zero, indicating that the age distribution affects electricity production. The first stage, OLS, reduced form, and parameter estimates on the controls are similar to the baseline.

The remainder of Table 6 reports  $\gamma$  estimates when each variable has been fifth differenced.<sup>21</sup> For example,  $CO2_{it}$  in Equation 1 has been replaced with the log of CO<sub>2</sub> emissions in year  $t$  minus the emissions in year  $t - 5$ . We use long differences to eliminate year-to-year variation in the data that is independent of long term population changes.<sup>22</sup> Another reason to difference the data, as pointed out in Cole and Neumayer (2004), is non-stationary variables can lead to poor estimates. The main explanatory variable, the working share of the population, is probably stationary by construction. The control variables and emissions of CO<sub>2</sub> could have unit roots, although  $CO2$  does not appear to for most countries in Figure 2. Differencing helps ensure stationarity, and differencing eliminates the country fixed effects and five years of observations. The 2SLS  $\gamma$  estimate (5.25 in column 3) based on the differenced variables is statistically significant at the 1% level; although, the first stage F-statistic falls to 7.85.<sup>23</sup> As in the baseline, the 2SLS estimate of the working share effect

exceeds the OLS estimate (3.10 in column 2). Also, the p-value for the J-statistic test of the overidentifying restrictions equals 0.70, so the model specification cannot be rejected. Column 4 includes the observations from Germany, Brazil, Russia, India, and China, and the  $\gamma$  estimate (5.08) is similar to column 3.

Overall, the main result - the age distribution's large effect on CO<sub>2</sub> emissions - survives the many robustness checks. The  $\gamma$  estimate is sometimes smaller than the baseline, but the working share effect remains quantitatively important and statistically significant in all cases.

### *Discussion*

Cole and Neumayer (2004) also use a cross-country panel to estimate the effect of demographic change on CO<sub>2</sub> emissions in an IPAT type model. While Cole and Neumayer (2004) include age group shares as controls, the groups (younger than 15, 15-64, and 65+) are too wide to capture our effect, and Cole and Neumayer (2004) do not instrument for the age distribution as we do. Instead, Cole and Neumayer (2004) focus on changes in total population; whereas, we are interested in the age distribution effect for a given population size.

Dalton et al. (2005) do focus on the age distribution. They build a structural overlapping generations model to forecast US CO<sub>2</sub> emissions.<sup>24</sup> In their model simulations, population aging has a big effect on future emissions. Our empirical findings support Dalton et al. (2005); we provide an empirical justification for their modeling approach.

Dalton et al. (2005) imbed hump-shaped life cycle consumption into their model, and this mechanism generates their results. As mentioned, we also think life cycle consumption patterns underlie the age distribution effect. However, even with the robustness checks in Table 5, our approach cannot rule out the production side. In part, the distinction is

semantics. Power generation and transportation create most CO<sub>2</sub> emissions and are both used as inputs into production and consumption.

Still, countries could adopt different production techniques (machines, factory locations, power sources, etc.) as the age distribution (and labor supply) evolves without changing the goods consumed. Similarly, completely different industries might thrive in countries with different labor forces, with trade keeping consumption patterns unchanged (e.g. pollution off-shoring). The age distribution could also impact environmental policy (Kahn 2002). Since we have not been able to rule out these competing explanations, we conclude that more research is needed to understand the theoretical mechanism linking the age distribution to CO<sub>2</sub> emissions.

Automobile use (which could be consumption or an input to production) varies by age. For example, the US National Household Travel Survey (2011) reports that prime working age individuals drive the most on average.<sup>25</sup> Changes in a population's age structure might generate changes in the aggregate amount of driving. Since burning fuel creates CO<sub>2</sub> emissions, motor vehicles could be the mechanism connecting the age distribution to emissions. We were unable to locate time series data to control for automobile use by country (and it is not clear that we should - this is the type of effect we want to measure); however, if other countries have life-cycle driving patterns similar to the US, then motor vehicle use might help explain our results.

Finally, we return to the overall importance of our findings. The magnitude of the working share effect is about equivalent to the effect of GDP and total population. Although we have not focused on forecasting CO<sub>2</sub> emissions, some quick forward looking calculations help put the results into perspective. Imagine a (developed) country with projected annual growth rates of 2% for GDP and 0.7% for total population and a -0.3 percentage point annual decrease for the working share. Ignoring the environmental Kuznets curve and holding all

else constant, the regression results imply that the shrinking working share (leading to a 1.8% annual reduction) erases the growth in emissions due to output (1.4% annual increase) and population (0.4% annual increase) combined.

For most developing countries changes in the age distribution will *contribute* to the growth of CO<sub>2</sub> emissions. Using United Nations age distribution projections in conjunction with the regression results, Table 7 lists the percent change in annual CO<sub>2</sub> emissions versus 2006 levels due solely to changes in the working share. Developing regions, excluding China, will have increasing working shares for the next twenty years, followed by gradual decline. Emissions in India, the world's third largest CO<sub>2</sub> producer, will increase by 20% over the next two decades due to demographic changes alone. The working share in developed regions will decline for the foreseeable future, reducing annual emissions more than 30% by 2041. China, the world's largest CO<sub>2</sub> producer, should see a reduction in emissions, but not for another 30 years. Emissions in the US, the second largest producer, should begin to fall immediately. These calculations are obviously rough because they are outside of our sample and do not consider the many other factors affecting emissions; however, Table 7 again demonstrates that the age distribution has a large effect on CO<sub>2</sub> emissions.

## 4 Conclusion

As reported in Anderegg et al. (2010), approximately 98% of climate scientists accept the idea that man made CO<sub>2</sub> emissions cause increases in the mean global temperature. Kundzewicz et al. (2007) finds that the continued growth in global average temperature due to increased CO<sub>2</sub> output threatens to reduce available stocks of fresh water and arable land, while Fischlin et al. (2007) argue that global warming increases health risk. The potential for widespread disaster has prompted most nations to consider regulations aimed at curbing CO<sub>2</sub> emissions. Such regulation often trades current and future consumption for lower emissions. Thus, understanding the determinants of CO<sub>2</sub> emissions has become increasingly important.

We have documented a statistically and economically significant relationship between the share of prime working age individuals within a country and CO<sub>2</sub> emissions, finding that a one percentage point increase in the working share results in as much as a 6.1% increase in CO<sub>2</sub> emissions. The estimates can account for a large portion of the increase in CO<sub>2</sub> between 1990 and 2006 in our sample of countries. Future research should be aimed at uncovering why the age distribution has such a large effect on CO<sub>2</sub> emissions, and forecasts of future CO<sub>2</sub> emissions should take the age distribution effect into account.

## Notes

<sup>1</sup>Auffhammer and Steinhauser (2010) offer an excellent survey of the CO<sub>2</sub> emissions literature and examine thousands of models, none of which include the age distribution as an explanatory variable as far as we know. Cole and Neumayer (2004) and Dalton et al. (2008) have explicitly studied the age distribution and emissions; we discuss these papers in Section 3.

<sup>2</sup>Fernandez-Villaverde and Krueger (2007) also provide evidence on how the mix of goods consumed changes over the life cycle.

<sup>3</sup>See Glaeser and Kahn (2010); they estimate CO<sub>2</sub> emissions from automobile use and other sources at the household level in 66 major metropolitan areas in the United States.

<sup>4</sup>Our results provide a possible explanation for why studies of CO<sub>2</sub> emissions and the environmental Kuznets curve have had mixed results. See Lieb (2004), Dinda (2004), and Bartz and Kelly (2008) for more on the environmental Kuznets curve.

<sup>5</sup>For example, the baseline panel does not include Germany, Brazil, Russia, India, or China because of data limitations. These countries are included in Figure 2 and used in some of the robustness checks below.

<sup>6</sup>We investigated lagged business cycle fluctuations as a possibility, but could find nothing resembling the pattern implied by the birth rates.

<sup>7</sup>The first four also could vary over time. We discuss these possibilities below.

<sup>8</sup>Equation 1 implicitly assumes age groups outside of 35-49 have a homogeneous effect on emissions. In the robustness checks, we include other age groups, and the main results do not change.

<sup>9</sup>Parameter  $\gamma$  measures the change in  $CO_2$  resulting from a change in  $ws$  keeping GDP and total population constant. Having GDP enter as a control ensures the estimated relationship between  $ws$  and  $CO_2$  reflects a shift to a more, or less, pollution intensive form of consumption or production, and not simply a change in the level. Holding population constant means that  $\gamma$  captures the change in  $CO_2$  emissions due to the distribution of ages within a country, and not due to a change in total population.

<sup>10</sup>The bias would go the other way if the opportunities related to  $CO_2$  disproportionately attracted prime age workers. Usually, though, young workers migrate most.

<sup>11</sup>The p-value for the J-statistic drops below 0.10 in some of the robustness checks in which the sample size has been reduced.

<sup>12</sup>All robustness checks include the controls from the baseline regression, except where noted. We do not report the associated OLS, first-stage, or reduced form regressions as they look similar to the baseline.

<sup>13</sup>The Appendix lists the countries and describes why the older birth rates might be less reliable.

<sup>14</sup>The statistical significance decreases somewhat, but the number of countries to cluster on has fallen below 42, making clustered standard errors less reliable (Angrist and Pischke 2008). Using Newey-West lag 2 standard errors, the estimate continues to be statistically significant at the 1% level in all cases.

<sup>15</sup>We also used birth rates lagged 49 years as an instrument with the additional age groups from Table 3, obtaining similar results.

<sup>16</sup>We also have instrumented for the working share with the sum of the birthrates 35-49 years ago, similar to Lugauer (2011). The first stage F-statistic increases to 14.24, and the

coefficient estimate increases to 4.84.

<sup>17</sup>Columns 4 and 5 include a few observations from 2007. Dropping the 2007 data does not change the estimates by much.

<sup>18</sup>Controlling for total imports and exports does not address the types of goods traded. As populations age, they may change the mix of goods traded or engage in pollution off-shoring. We have also tried controlling for the trade mix along several dimensions obtaining similar results to those reported in Table 4. See Antweiler, Copeland, and Taylor (2001) and Kahn (2003) for more on the pollution haven hypothesis.

<sup>19</sup>We tried including terms for the proportion of electricity produced through natural gas, oil, and nuclear, obtaining similar results.

<sup>20</sup>The magnitude of the coefficient estimates in Table 6 should not be directly compared because the left hand side variable is different.

<sup>21</sup>We also tried fourth and eighth differencing using all available data, obtaining estimates similar to those in Table 6.

<sup>22</sup>As can be seen in Figure 2, CO<sub>2</sub> emissions frequently deviate from trend; whereas, the working share moves smoothly. Demographic changes probably only explain the low frequency movements in CO<sub>2</sub>. We also tried altering CO<sub>2</sub> by explicitly removing the high frequency deviations from trend with the Hodrick-Prescott filter (smoothing parameter 6.25), and the estimate for  $\gamma$  increases to 6.59.

<sup>23</sup>A regression in levels using years 1995-2006 results in a  $\gamma$  estimate of 5.81.

<sup>24</sup>Several papers have developed structural models to study the environment. John and Pecchenio (1994) study the welfare implications of environmental protection in an overlapping generations framework. Gerlagh and van der Zwaan (2000) explore several potential

policies for lowering pollution. Kelly and Kolstad (2001) build a simple representative agent model to examine population growth and the environment.

<sup>25</sup>Drivers aged 35-54 logged about twice as many miles per year compared to teenagers and retirees in 2009, and the amount of driving per driver has been about constant since 1990.

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## 5 Appendix: Data Sources

Annual country specific data on CO<sub>2</sub> emissions, real GDP (in 2000 dollars), imports, exports, electricity production and several other variables were extracted in June of 2011 from the World Bank World Development Indicators web site:

[data.worldbank.org](http://data.worldbank.org).

Some sources report CO<sub>2</sub> emissions in kilotons of carbon or CO<sub>2</sub> equivalents; we use kilotons of actual carbon-dioxide. Measurement of CO<sub>2</sub> emissions is being constantly refined. The World Bank estimates include only man-made sources, but not sea ships. Military bases count toward the geographic location, not the home country. The Carbon-Dioxide Information Analysis Center generated the CO<sub>2</sub> estimates for the World Bank, and more details of the estimation methodology can be found on their web site:

[cdiac.ornl.gov](http://cdiac.ornl.gov).

The age distribution information comes from the United Nations World Population Prospects (2008 Revision). Birth rates from 1950 to 1996 come from Table 1 and Table 5 of the United Nations 1997 Demographic Yearbook, available at this web site:

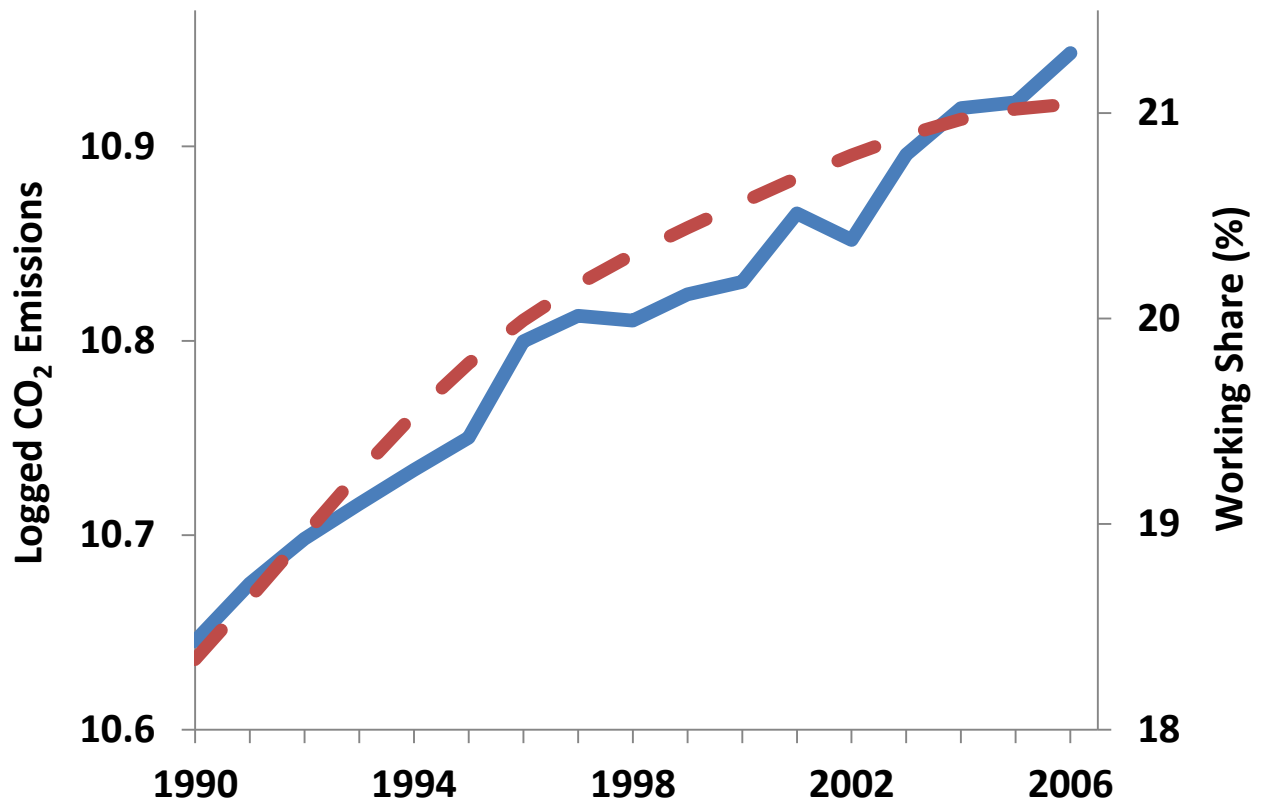
[unstats.un.org/unsd/demographic/products/dyb/dybhists.htm](http://unstats.un.org/unsd/demographic/products/dyb/dybhists.htm).

Single missing observations were imputed by averaging adjacent entries. The 1997 Demographic Yearbook also contains birth rates from 1948, 1949, and 1997 for some countries. Including the extra data increases the baseline  $\gamma$  estimate to 6.79. The robustness checks experiment with including birth rates as far back as 1939 from the United Nations 1954 Demographic Yearbook, available at this web site:

[unstats.un.org/unsd/demographic/products/dyb/dybsets/1954%20DYB.pdf](http://unstats.un.org/unsd/demographic/products/dyb/dybsets/1954%20DYB.pdf).

When using the birth rates from the 1954 Demographic Yearbook the following eleven countries are dropped: Belize, Bulgaria, Iran, Israel, Panama, Poland, Romania, Singapore, Sri Lanka, Tunisia, and Uruguay. The older birth rates may be less reliable because some countries reported registered births in some years rather than actual births, other countries did not count European births, and changes in geographic boundaries were not accounted for. Also note the following issues with the lagged birth rates. Singapore's birth rates only reflect the population on the island of Singapore before 1947. Ecuador's birth data is missing for several provinces, but the birth rate is calculated using the population of the entire country, resulting in an underestimation of the birth rate. Hungary's birth rates prior to 1947 include information from territory ceded to Czechoslovakia. Romania's birth rates include information from territory later given up. Re-doing the baseline regressions without these four countries results in a first-stage F-statistic of 15.76 and a  $\gamma$  estimate of 5.17, which is statistically significant at the 1% level.

**Figure 1:** Average CO<sub>2</sub> Emissions and Average Working Share, 1990-2006



**Notes:** Figure 1 plots average logged carbon-dioxide emissions (solid line) and the average working share (dashed line) by year for the 46 countries in our baseline sample.

Figure 2: CO<sub>2</sub> Emissions and Working Share by Country, 1990-2006

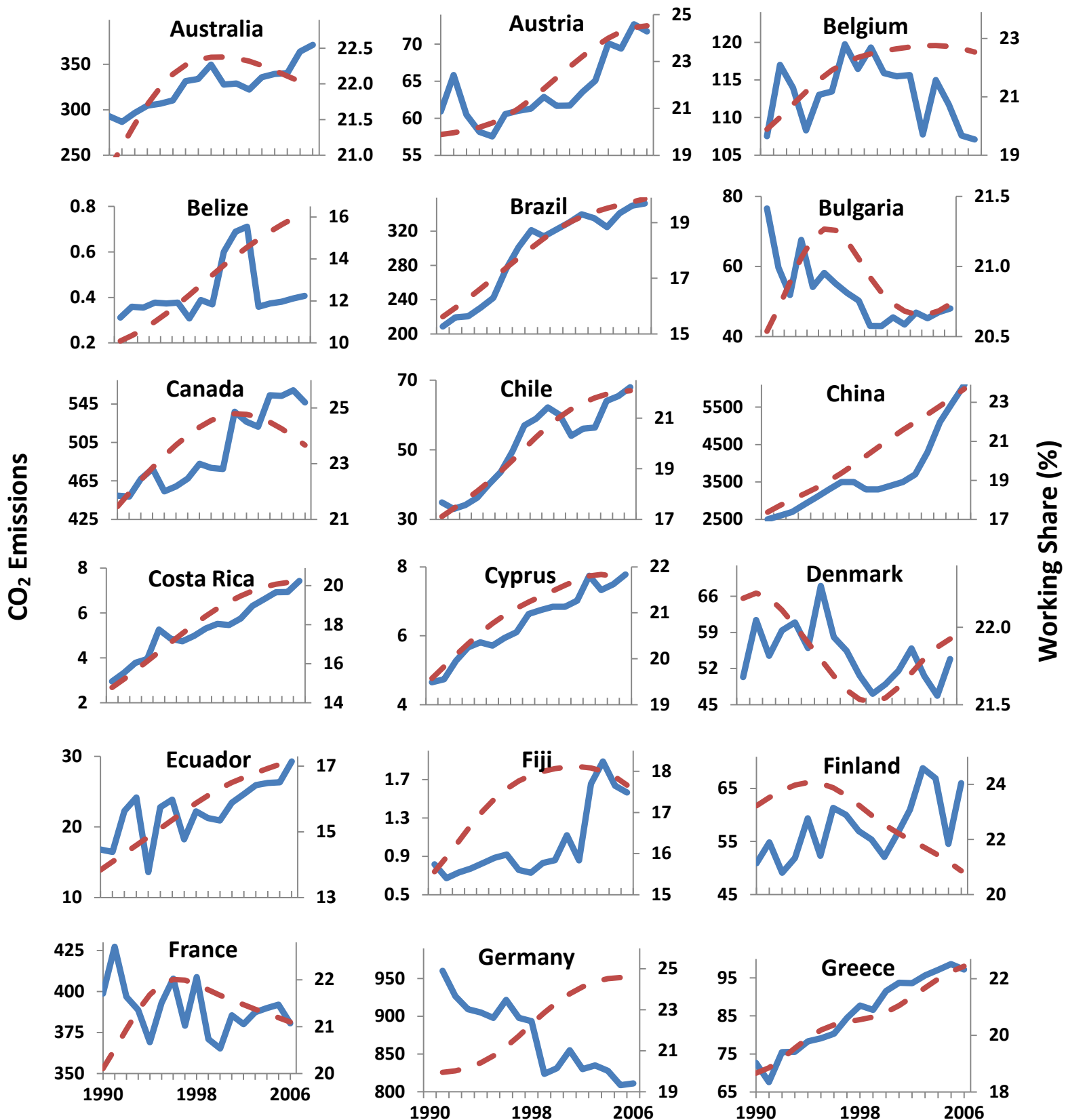


Figure 2: CO<sub>2</sub> Emissions and Working Share by Country, 1990-2006 (continued)

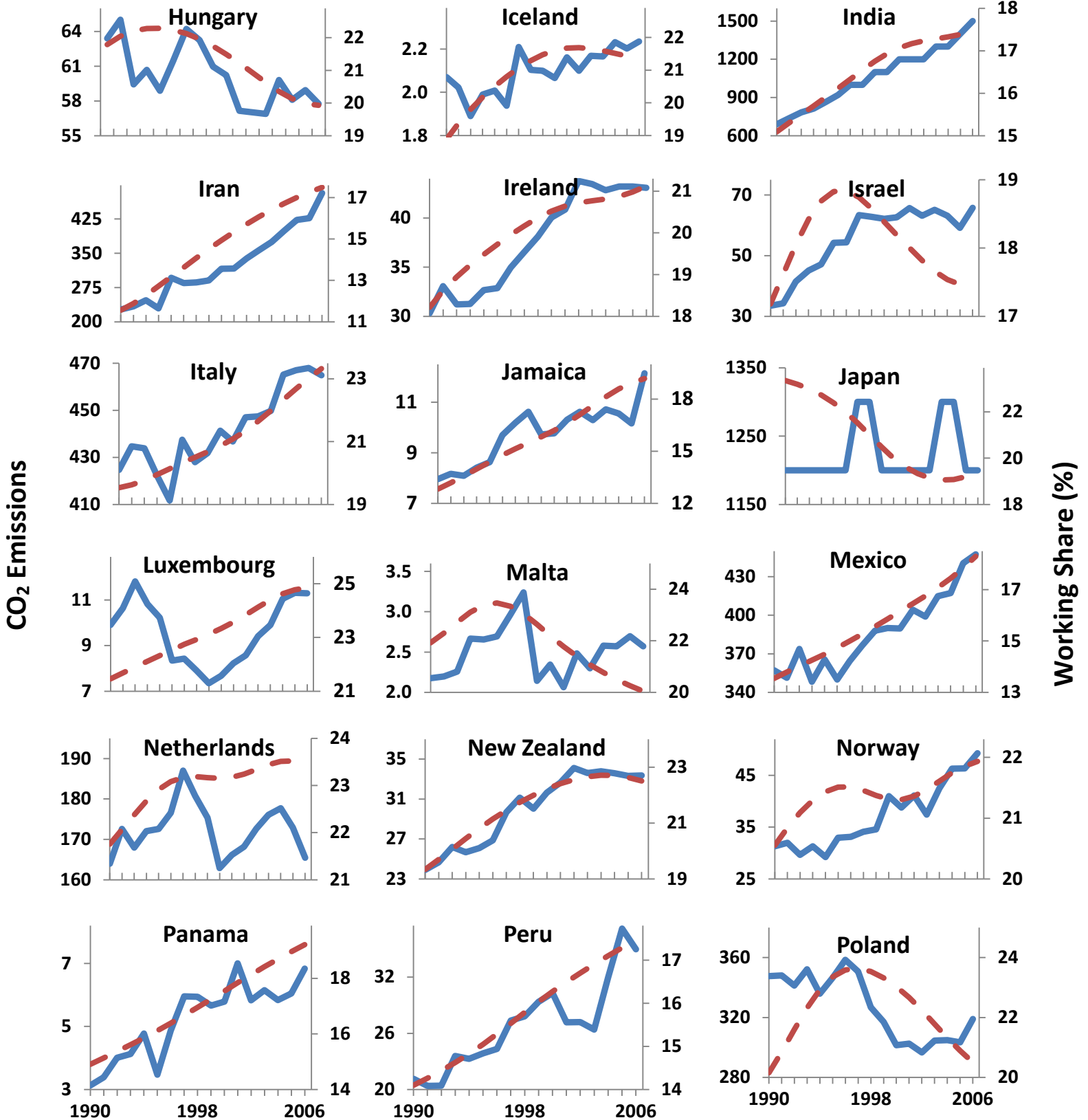
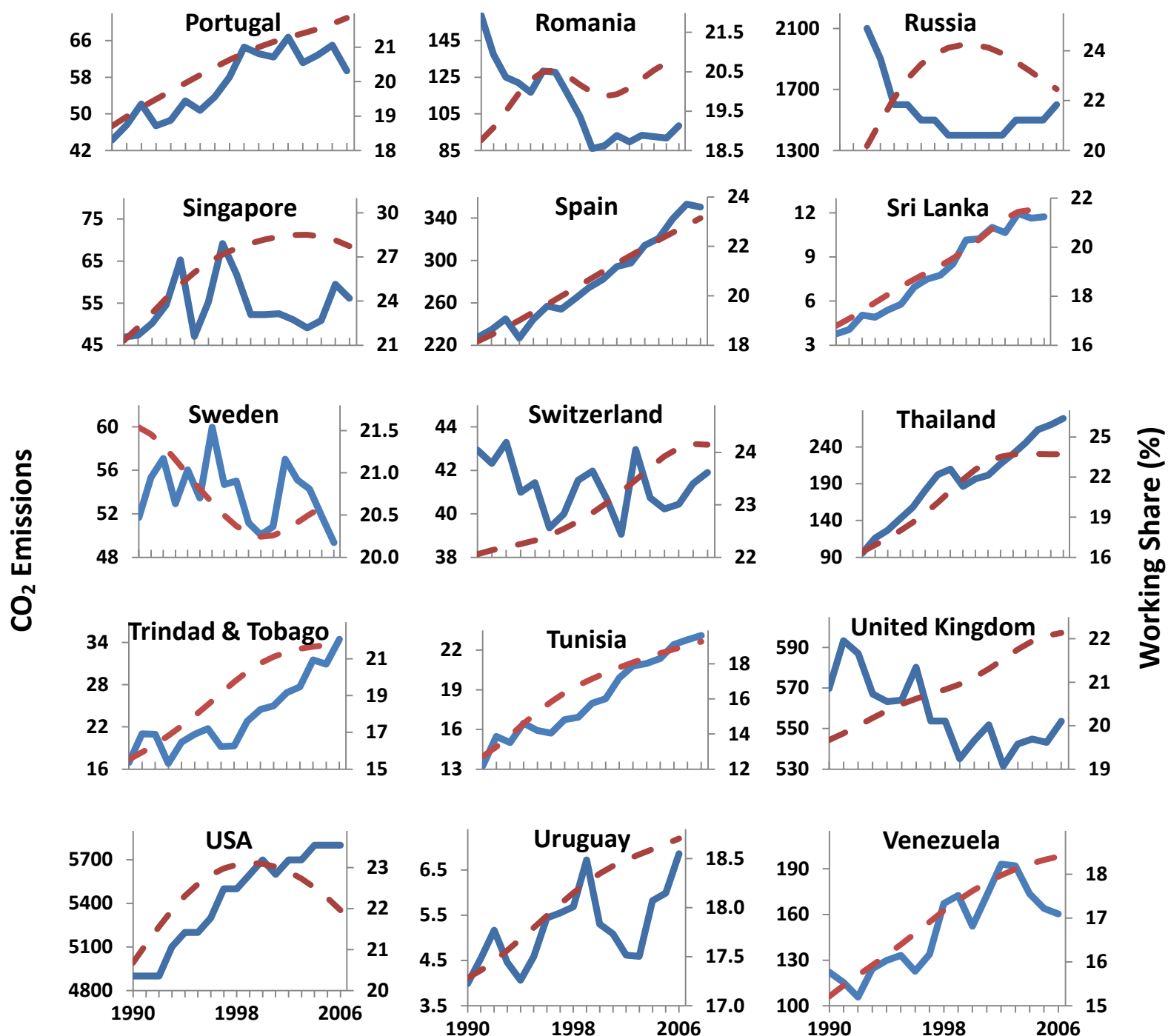


Figure 2: CO<sub>2</sub> Emissions and Working Share by Country, 1990-2006 (continued)



Notes: Figure 2 plots kilotons of carbon-dioxide emissions (solid line) and the working share (dashed line) by year for each of the 46 countries in the baseline sample plus Germany, Brazil, Russia, India, and China.

**Table 1:** Estimates of the Working Share's Effect on CO<sub>2</sub> Emissions, 1990-2006

	Working Share ( <i>ws</i> )				
	OLS (1)	Baseline 2SLS (2)	Kyoto (3)	G BRIC (4)	Kyoto G BRIC (5)
CO <sub>2</sub> Emissions ( <i>CO2</i> )	3.47 (1.20) ***	6.17 (1.87) ***	6.05 (1.47) ***	5.96 (1.77) ***	5.83 (1.76) ***
F-statistic	-	10.63	10.29	11.01	10.68
Countries	46	46	46	51	51
Observations	782	782	782	808	808

**Notes:** This table reports estimates for the parameter  $\gamma$  in Equation 1 with standard errors clustered by country in parentheses. The F-statistic tests the joint significance of the instruments in the first stage regression based on Equation 2. The regressions include country and year fixed effects and logged GDP, GDP squared, and total population as controls. Stars denote statistical significance of the parameter estimate at the \* 10%, \*\* 5%, and \*\*\* 1% level.

**Table 2:** First Stage and Reduced Form Estimates, 1990-2006

Birth Rates						
	Lag 10	Lag 20	Lag 30	Lag 40	R <sup>2</sup>	Observations
Working Share ( <i>ws</i> ) age 35-49	-0.910 (0.259) ***	-0.431 (0.385)	-1.791 (0.383) ***	1.424 (0.313) ***	0.951	782
CO <sub>2</sub> Emissions ( <i>CO2</i> )	-7.050 (4.012) *	-3.835 (4.396)	-8.356 (4.531) *	9.907 (4.099) *	0.997	782

**Notes:** Row 1 reports the OLS coefficient estimates for instruments in the first stage regression ( $\lambda_1$ - $\lambda_4$  in Equation 2) and row 2 reports the reduced form of the two-stage IV. The estimates have been multiplied by 1000. The regressions include country and year fixed effects and logged GDP, GDP squared, and total population as controls. Standard errors clustered by country are in parentheses. Stars denote statistical significance of the parameter estimate at the \* 10%, \*\* 5%, and \*\*\* 1% level.

**Table 3:** 2SLS Estimates of the Working Share's Effect on CO<sub>2</sub> Emissions, Robustness Checks

	CO <sub>2</sub> Emissions (CO <sub>2</sub> )			
	Baseline (1)	Include 30-34 (2)	Include 50-54 (3)	More Age Groups (4)
Working Share (35-49)	6.17 (1.87) ***	5.17 (1.47) ***	6.51 (1.94) ***	5.92 (2.16) ***
Young Workers (20-34)	-	-	-	-0.395 (2.19)
Older Workers (50-69)	-	-	-	-3.846 (8.47)
Old (70 +)	-	-	-	5.06 (15.33)
F-statistic	10.63	15.99	10.24	-
Years	1990-2006	1990-2006	1990-2006	1990-2006
Countries	46	46	46	46
Observations	782	782	782	782

**Notes:** This table reports 2SLS estimates for Equation 1 with standard errors clustered by country in parentheses. The F-statistic tests the joint significance of the instruments in the first stage regression based on Equation 2. The regressions include country and year fixed effects and logged GDP, GDP squared, and total population as controls. Stars on the standard errors denote statistical significance of the parameter estimate at the \* 10%, \*\* 5%, and \*\*\* 1% level.

**Table 4:** 2SLS Estimates of the Working Share's Effect on CO<sub>2</sub> Emissions, Additional Data

	Working Share ( <i>ws</i> )				
	Baseline Fewer Countries (1)	Include 1979-1989 (2)	Instrument Lag 49 (3)	Unbalanced (4)	Unbalanced G BRIC (5)
CO <sub>2</sub> Emissions ( <i>CO2</i> )	4.35 (1.49) ***	4.07 (1.84) **	4.28 (1.41) ***	5.11 (1.58) ***	5.16 (1.57) ***
F-statistic	10.35	13.30	13.54	14.15	13.48
Countries	35	35	35	46	51
Years	1990-2006	1979-2006	1990-2006	1979-2007	1979-2007
Observations	595	980	595	1269	1299

**Notes:** This table reports estimates for the parameter  $\gamma$  in Equation 1 with standard errors clustered by country in parentheses. The F-statistic tests the joint significance of the instruments in the first stage regression based on Equation 2. The regressions include country and year fixed effects and logged GDP, GDP squared, and total population as controls. Stars denote statistical significance of the parameter estimate at the \* 10%, \*\* 5%, and \*\*\* 1% level.

**Table 5:** 2SLS Estimates of the Working Share's Effect on CO<sub>2</sub> Emissions, Robustness Checks

	CO <sub>2</sub> Emissions (CO <sub>2</sub> )			
	Baseline (1)	Fewer Countries (2)	Additional Controls (3)	Unbalanced (4)
Working Share ( <i>ws</i> )	6.17 (1.87) ***	4.46 (1.65) ***	4.84 (1.31) ***	4.77 (1.37) ***
GDP	0.678 (1.291)	0.957 (0.764)	1.236 (0.750) *	2.467 (1.176) **
GDP <sup>2</sup>	-0.009 (0.027)	-0.009 (0.016)	-0.011 (0.014)	-0.043 (0.023) *
Population	0.599 (0.492)	1.324 (0.213) ***	0.882 (0.251) ***	0.950 (0.415) **
Exports	-	-	0.025 (0.085)	0.012 (0.057)
Imports	-	-	-0.093 (0.068)	-0.129 (0.069) *
Prop Industry	-	-	0.004 (0.005)	0.011 (0.009)
Prop Coal	-	-	0.005 (0.001) ***	0.004 (0.001) ***
F-statistic	10.63	4.97	4.98	7.65
Years	1990-2006	1990-2006	1990-2006	1990-2006
Countries	46	29	29	43
Observations	782	493	493	664

**Notes:** This table reports estimates for the parameter  $\gamma$  in Equation 1 with standard errors clustered by country in parentheses. The F-statistic tests the joint significance of the instruments in the first stage regression based on Equation 2. Stars denote statistical significance of the parameter estimate at the \* 10%, \*\* 5%, and \*\*\* 1% level.

**Table 6:** Estimates of the Working Share's Effect on CO<sub>2</sub> Emissions, Further Robustness Checks

	Working Share ( <i>ws</i> )			
	Total Electricity (1)	5 <sup>th</sup> Difference OLS (2)	5 <sup>th</sup> Difference 2SLS (3)	5 <sup>th</sup> Dif 2SLS G BRIC (4)
CO <sub>2</sub> Emissions ( <i>CO2</i> )	5.49 (1.59) ***	3.10 (1.02) ***	5.25 (2.06) ***	5.08 (1.96) ***
F-statistic	12.21	-	7.85	8.38
Years	1990-2006	1995-2006	1995-2006	1995-2006
Countries	44	46	46	51
Observations	748	552	552	566

**Notes:** This table reports estimates for alternative specifications to Equation 1 with standard errors clustered by country in parentheses. The F-statistic tests the joint significance of the instruments in the first stage regression based on Equation 2. Stars denote statistical significance of the parameter estimate at the \* 10%, \*\* 5%, and \*\*\* 1% level.

**Table 7:** Implied Percent Change in Annual CO<sub>2</sub> Emissions from 2006 Levels, 2011-2100

	2011	2021	2031	2041	2051	2075	2100
Developing Regions (excluding China)	2.9	11.3	17.0	14.6	13.4	7.3	2.8
Developed Regions	-4.9	-10.5	-18.3	-31.7	-30.5	-34.7	-36.9
China	8.5	-11.0	-7.2	-26.9	-39.8	-51.1	-49.6
USA	-10.9	-19.4	-20.0	-26.2	-25.6	-30.4	-35.6
India	3.3	13.1	21.2	20.7	18.6	6.8	-4.5

**Notes:** This table reports the projected percent change in annual carbon-dioxide emissions due solely from changes in the working share. The estimates are based on the baseline regression results and United Nation age distribution forecasts.