

Population in Asia: Growing Old before Becoming Rich? (Discussion)

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Key Issues

- How population change influence economy (current and future)
- What public policies can be pursued to influence the outcome
 - Evidence-based research provides policy tools.

This paper

- Population is aging very rapidly in Asia
 - Less time to adapt policies
 - Getting old before becoming rich
- Emphasizes the negative impact of aging on labor productivity
- Aging is positively related with current account balance (when aging speed is high).
- Aging is negatively related with real interest rate.

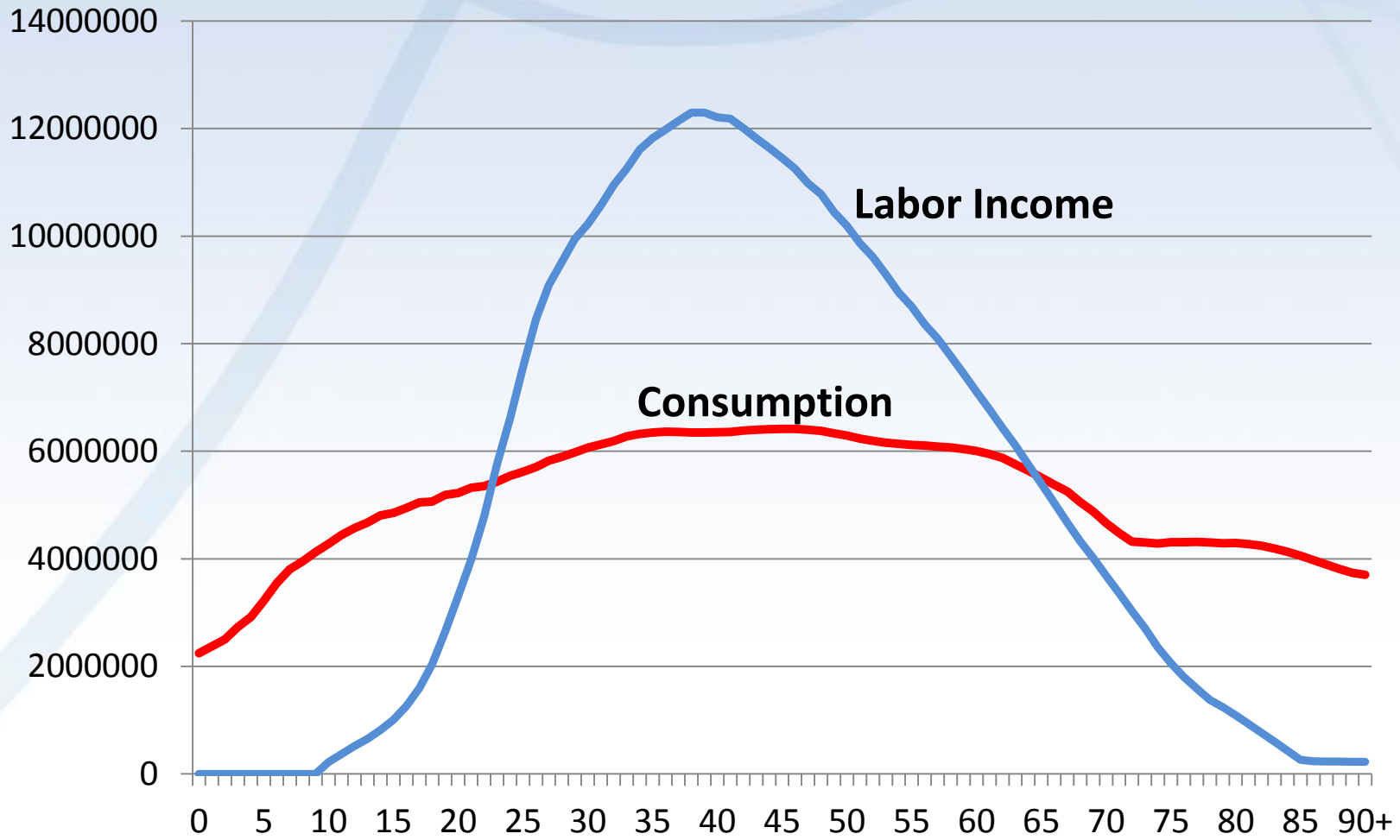
Aging and Economic Policy Issues

- 1. Growth (1st demographic dividend, secular stagnation)**
- 2. Savings and investment (2nd demographic dividend)**
- 3. Labor market issues**
4. Human capital investment (quality vs. quantity)
5. Income security (support system) for the elderly
6. Fiscal sustainability (pension, healthcare)
7. Intergenerational equity
8. Gender issue
9. Inequality
10. Population policy

National Transfer Accounts (NTA): Integrating age into NIPA

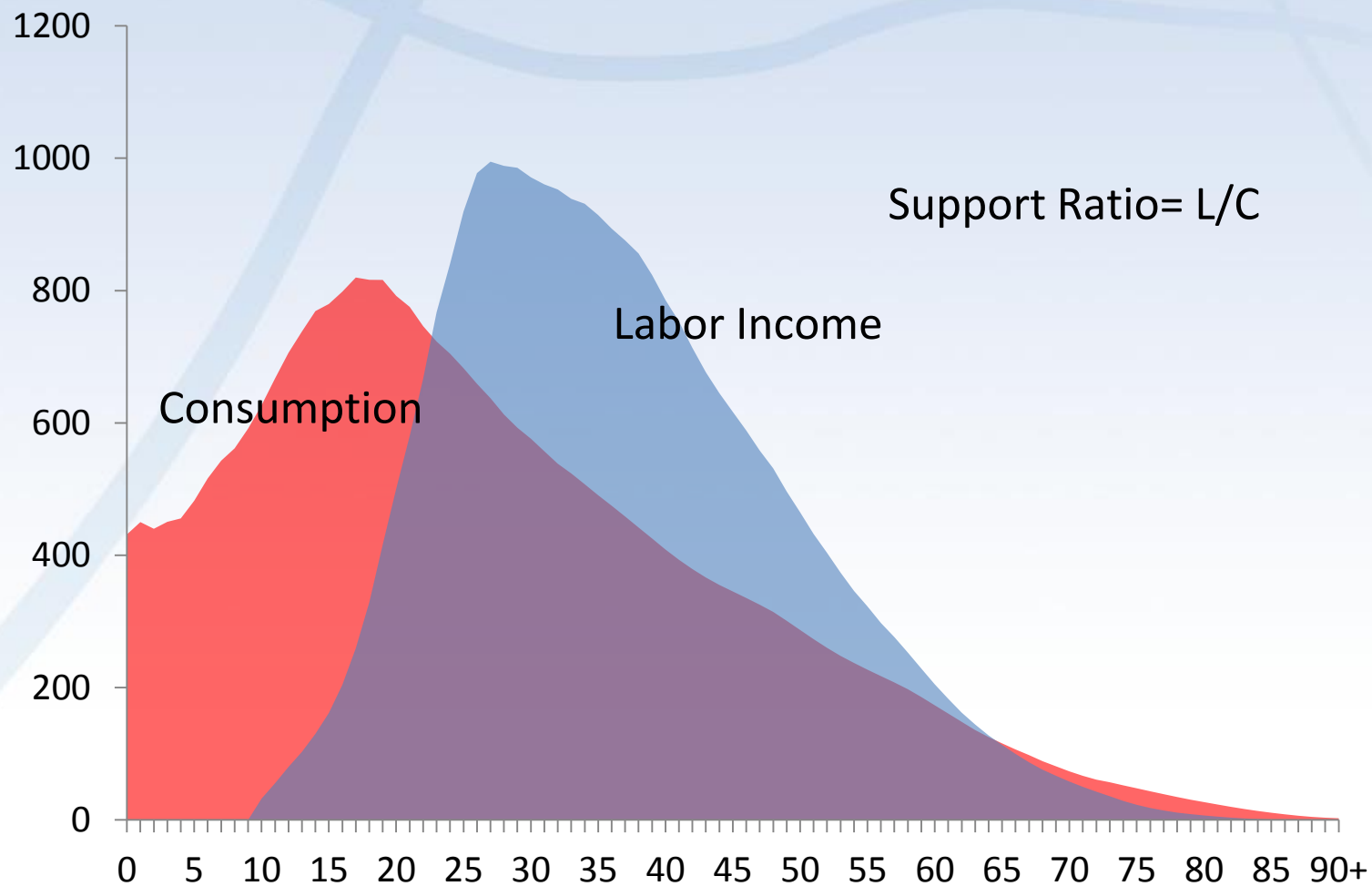
- Integrating population structure into economy
- Consistent with SNA
- Quantifies how each age groups acquires and uses economic resources
- Over 70 countries are participating (comparative)
- www.ntaccounts.org

Per capita flows, Lao PDR 2011



Source: NTA database www.ntaccounts.org

Aggregate flows, Lao PDR 2011

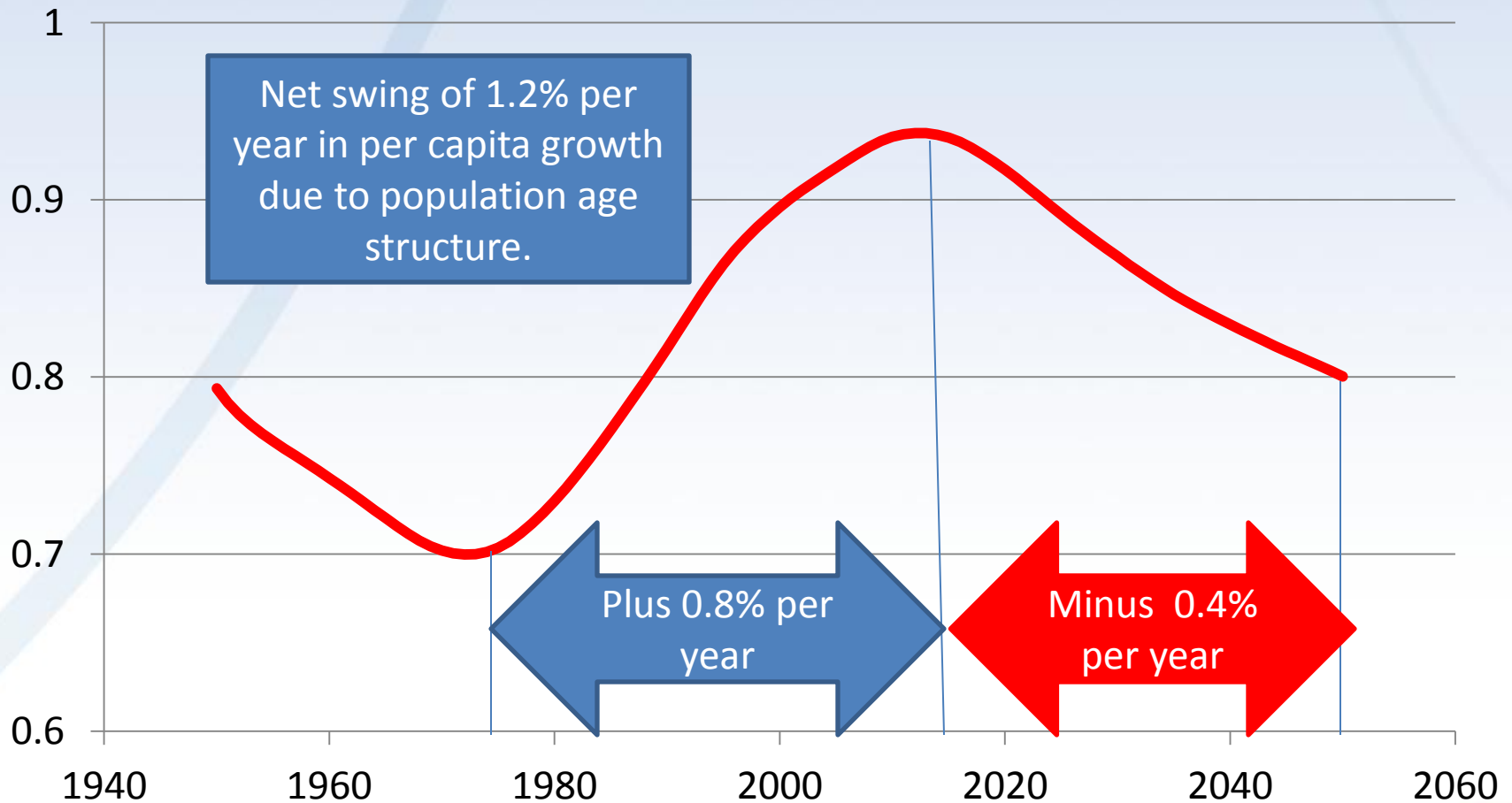


Source: NTA database www.ntaccounts.org

The Support Ratio (L/C) and Demographic Dividend

- The Support Ratio (L/C) measures the effective number of workers relative to the number of consumers.
- Given worker productivity, a 1% increase in the support ratio leads to a 1% increase in per capita income (Demographic Dividend: DD)
- Decline in fertility leads to positive DD.

Support Ratio, China

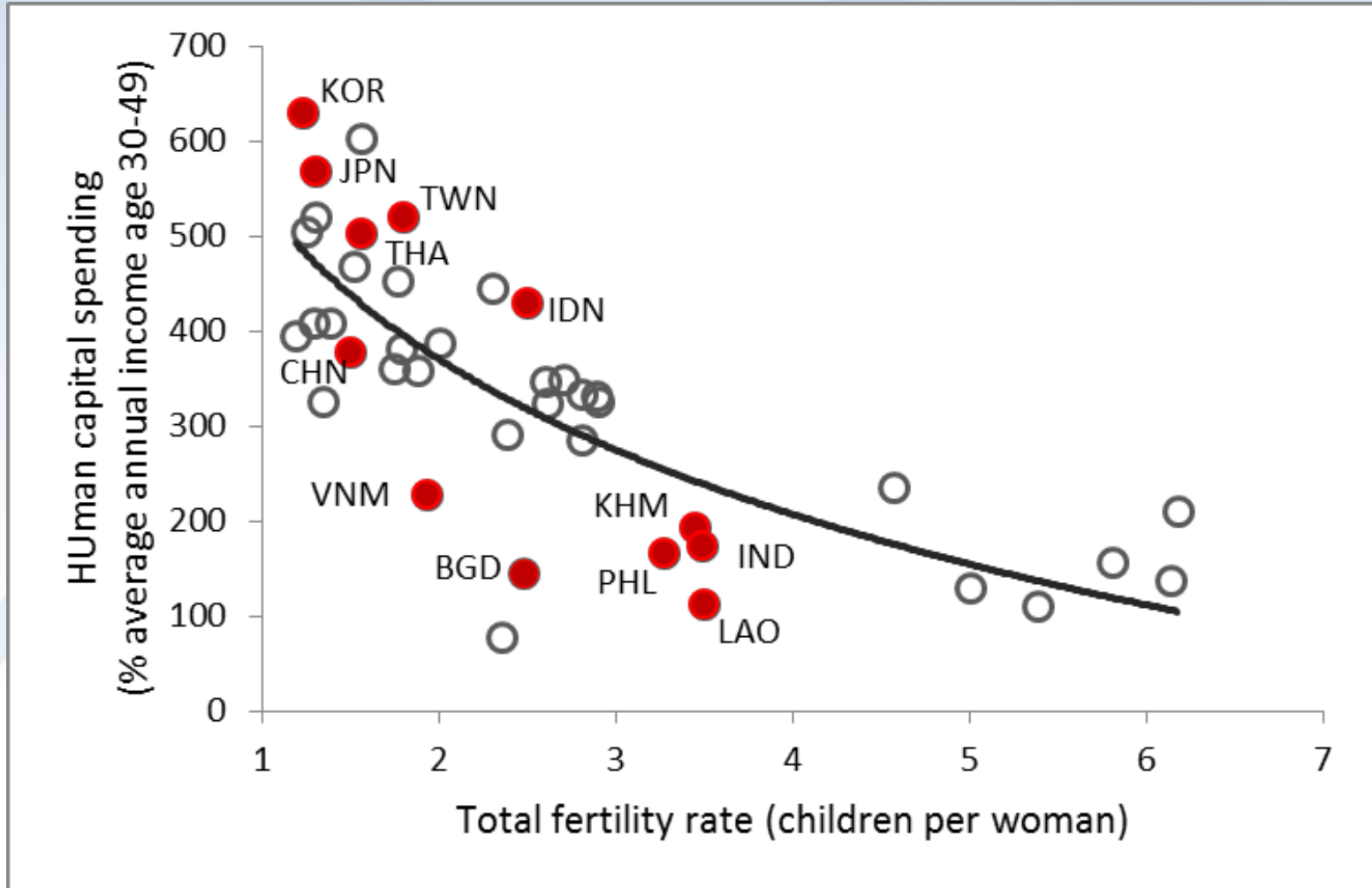


Calculated from NTA database www.ntaccounts.org

Middle Income Trap (MIT) and Demographic Crisis in Asia

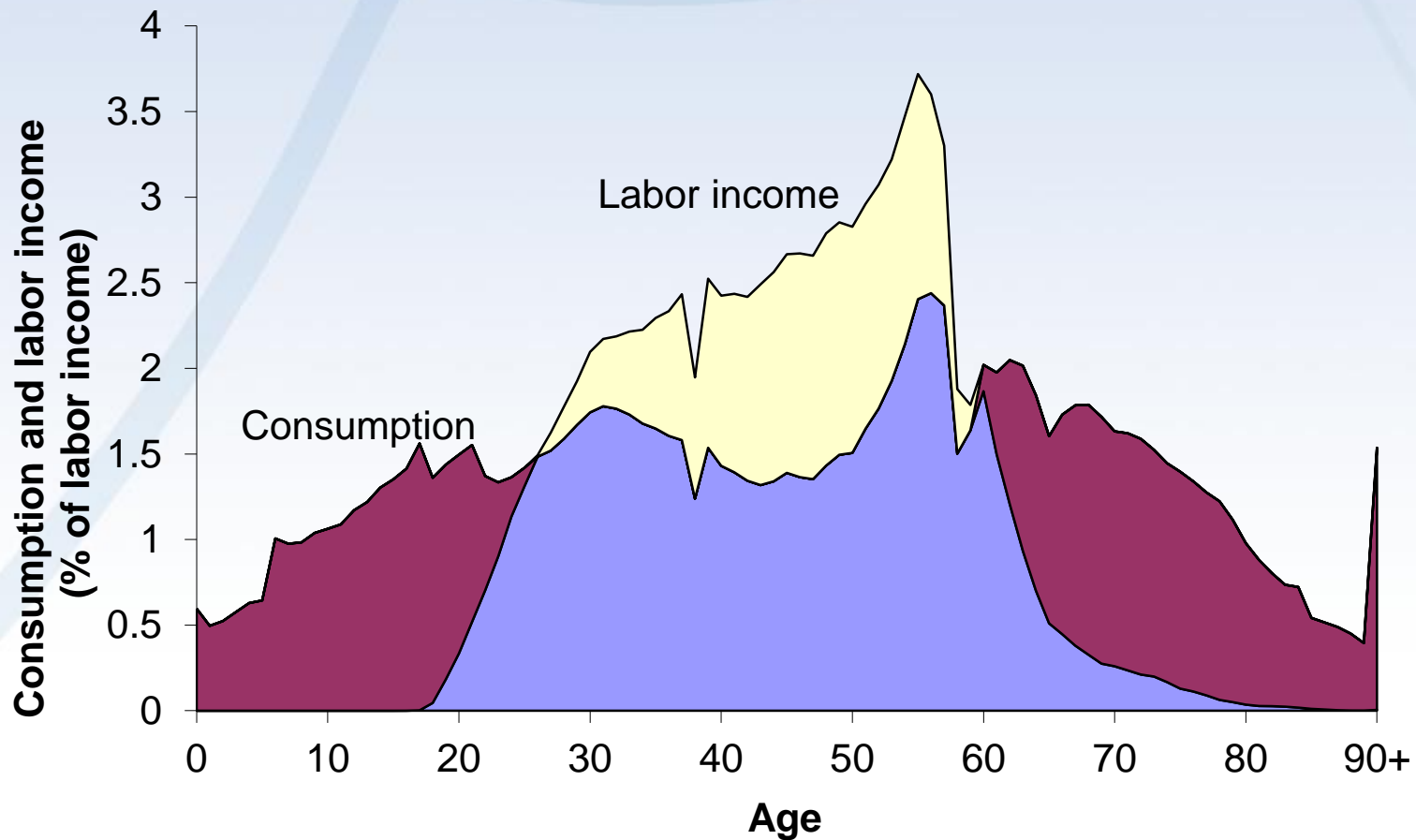
- Ha and Lee (2016, JOEA, 2017 ADB)
- Support ratio explains a lot for economic convergence in Asia toward high-income economy
- Asia's speed of convergence is highly sensitive to support ratios
 - Efficiently reaping the benefits of demographic dividend
- Asia's demographic change is perhaps too sensitive to economic development
 - (Getting “very” old before getting rich in Asia)
 - Demographic dividend grows faster but it declines also faster.
 - There may be within-Asia convergence for some time, but, it is not clear if Asia will eventually converge to the frontier countries.

Fertility/human capital tradeoff



Updated from NTA database www.ntaccounts.org

Aggregate flows: Japan



Source: NTA database www.ntaccounts.org

Savings and population aging: Old-age support system

- Family transfers
- Public transfers
 - Public pension, healthcare
- Asset-based Reallocations
 - Interest, dividends, rent from personal assets
 - Home
 - Dis-saving

Evolution of old-age support system

Assets / Saving

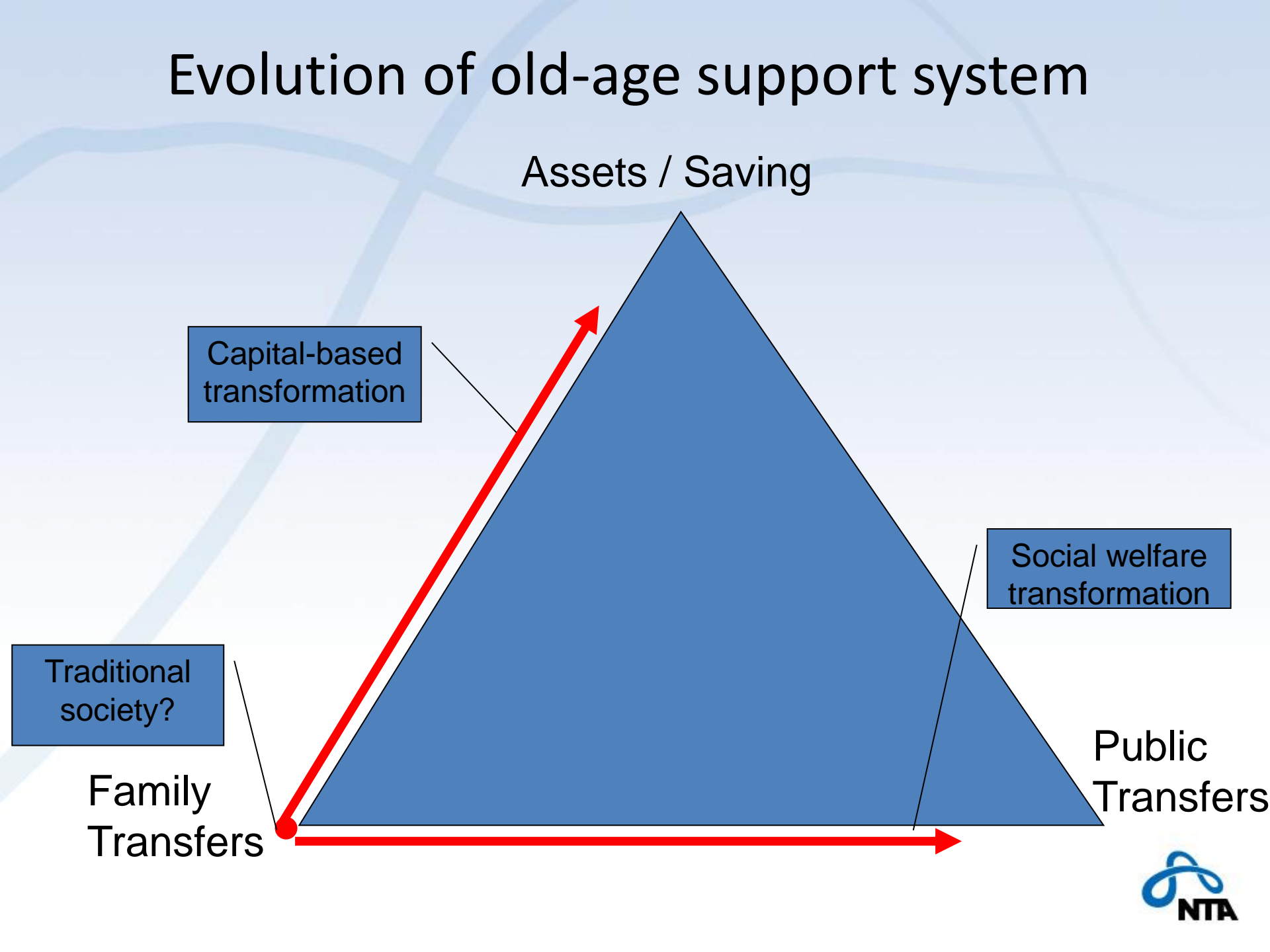
Capital-based transformation

Social welfare transformation

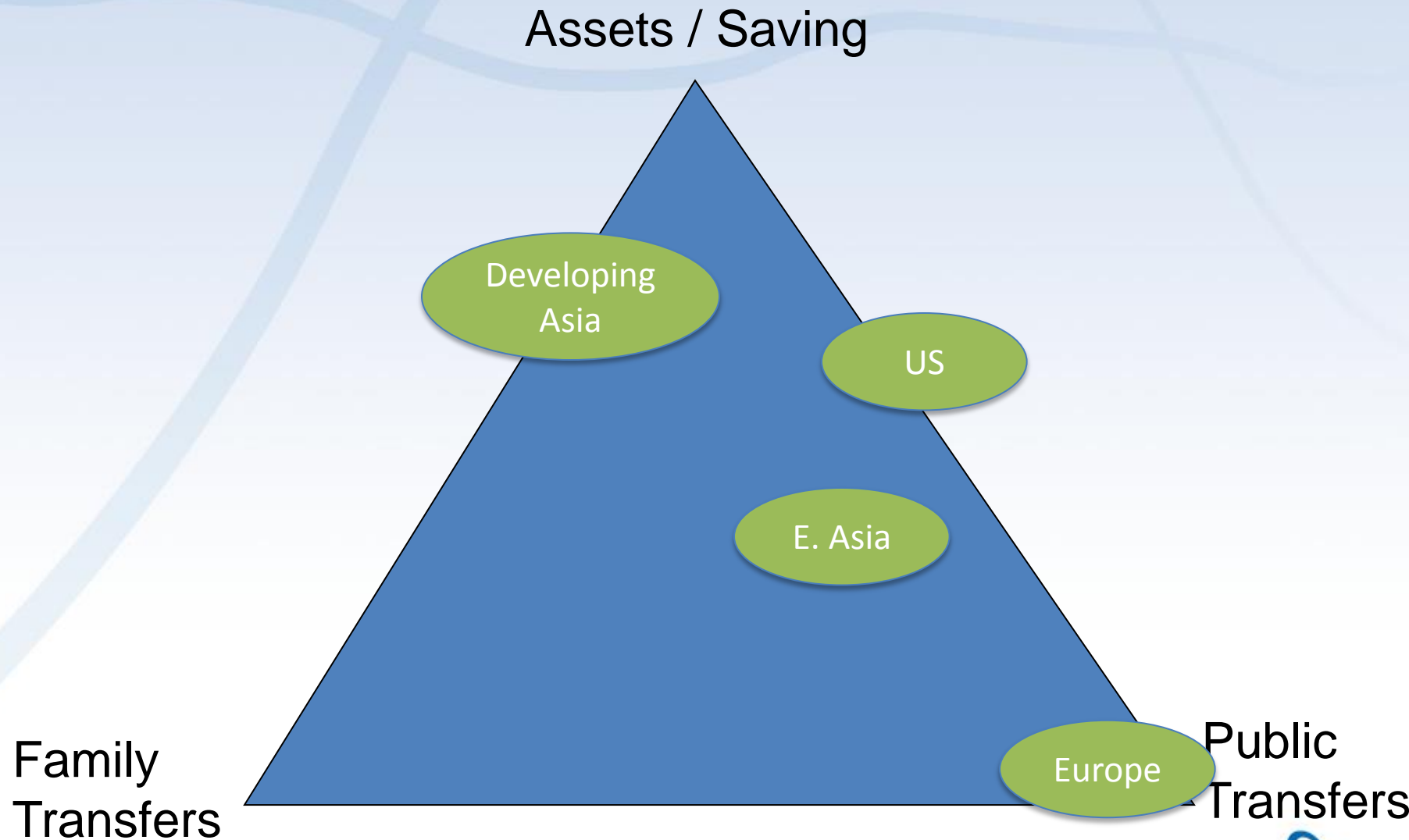
Traditional society?

Family Transfers

Public Transfers



Evolution of Old-Age Support System



Economic Imbalance in an Aging World

- Global imbalances between saving and investment at both national and global level.
 - Regional shifts in current accounts, international capital flows, and trade balances.
 - Saving glut depressing rates of returns (secular stagnation).
- Public sector imbalances
- Retirement resources
 - => What policies can be pursued?

Policy Implications of the Paper

- Macroeconomic policies
 - Secure debt sustainability
 - Asset prices, household wealth, assessment of r
- Labor market policies
 - Labor force participation, flexible labor market
 - Active labor market policies
- Structural reforms
 - Pension reform
 - Retirement systems

Importance of Country Specific Economic Environment

- Policies worked for some countries do not work for the others.

- E.g.)
$$\left(\frac{Y}{N}\right)_a = \left(\frac{L}{N}\right)_a * \left(\frac{Y}{L}\right)_a \text{ or}$$

$$y_a = l_a * \bar{y}_a$$

- Per capita labor income by age

= Age specific activity rate *

Average productivity of workers by age

Conclusion

- Our economic systems are being tested by unprecedented changes in population age structure in Asia.
- Stakes are very large: sustainable growth, economic security for elderly, sustainability of support systems.
- Complex systems are involved: governments, markets, households, and financial sectors
- Essential that policy be informed by the best possible data linking macroeconomy and population.