

Aging and Growth

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Introduction

- New phenomenon
 - low fertility
 - high life expectancy at retirement
- Long-run strategy to cope with
- Quantification

1. Family support

- Does the fertility rate depends on family support?
- Types of family support
 - family allowance
 - tax credit
- Indicator: share of family support in the GDP

2. Education level

- Fewer but better workers may compensate for more but worse workers
- Level of education:
- Indicator: Average number of schooling years, controlled for quality

3. Wage and seniority

- Steeper rise in seniority pays, lower employment
- Optimum wage--age curve
- Indicator: ratio of wage of 55-65 to average wage

4. Payroll tax rates

- High tax rates: low employment
- Low tax rates: low benefits
- Average and marginal tax rates
- Employer's and employe's rates
- Indicator: standardized

5. Public pension systems

- The greater the public pension system, the stronger the impact of aging (and private systems?)
- Indicators: Replacement rates
 - initial
 - average (depends on indexation)
 - accrual rates

6. Implicit debt

- Public pension promises are implicit public debts
- Do they differ from private promises?
- Indicator: Generational Accounts

7. Health care

- The impact of aging on health care is even greater than on pensions
- Indicator: Ratio of health expenditure to the GDP

8. Public investment

- Preparatory financing for future
 - e.g. new roads, hospitals, etc
- Indicator: Share of public investment to the GDP

9. Public debt

- A simple way to prepare for aging is to reduce explicit public debt
- Indicator: The ratio of public debt to the GDP

10. Foreign debt

- Foreign debt can be a very unpleasant form of intergenerational redistribution from the older to the younger or unborn cohorts.
- Indicator: ratio of foreign debt to GDP

11. Tax rebates

- Tax rebates on private investment can be a perverse form of income redistribution
- Indicator: the ratio of tax rebates on voluntary private investment, especially pension funds

12. Private assets and liabilities

- Private assets should be high, liabilities should be low (it is infeasible to finance 401(k) by home equity mortgage)
- Indicator: the ratio of net assets to final annual pay