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Comments on “Population Aging and Economic Growth in Asia”

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Summary of the Paper:

Age structure is significantly changing in Asia. This change is driven by many factors such as decline in total fertility rate, increase in life expectancy and dynamic evolution of past variation. In shaping the demography structure, however, the decline in total fertility plays a dominant role. In the paper, the authors attempt to empirically estimate the impact of aging on growth. They find that while the impact of youth-age population share is negative, the impact of old age population share, especially in the long run, is not. They conclude that population aging may not impede growth prospective in Asia.

The most intriguing finding of the authors' is that while youth-age population share decreases economic growth, old-age population share does not. They argue that, even if the economy is aging, increased labor force participation of aged workers as well as female workers may help increase growth. They also argue that savings rate may also rise as the life expectancy and hence a subsequent need to fund retirement income increase. They further point out that as the fertility rate decreases, the quantity-quality tradeoff kicks in so that investment in human capital increases, leading to higher productivity of labor.

While rising life expectancy may increase saving, this is true as long as those who save belong to the working population. Once they become old, they have to dissave. Most empirical studies actually find that as the economy is aged, the saving rate decreases. See among others, Leff (1969), Mason (1987), Horioka (1989), Higgins (1998) and Bosworth and Chodorow-Reich (2006).

The equation adopted to empirically estimate the impact of youth- and aging-population shares may subject to an endogeneity problem. The authors regress the growth rate of output on youth- and old-age dependency rates and other control variables that determine the steady state level of per capita GDP. While they have used a reasonable set of control variables, there may remain other unobserved country fixed effects. For example, if some unobserved country fixed effects generate faster TFP growth and at the same time lead to longer life expectancy, higher growth and larger old-age population share can be spuriously correlated.

I believe that how an aging economy affects growth potential is an important question. However aging is expected to influence the economy through a number of channels, which cannot be completely comprehended by estimating a reduced-form, single equation. In order to answer the question, we need more structure of the model and each channel through which aging affects growth potential should be investigated.

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