

## Japan's Unprecedented Aging and Changing Intergenerational Transfers: Comments

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While providing an interesting account of Japan's experiences in population aging, the paper also provides insights for analyzing policy issues related to economic-demographic and social changes in developing countries currently undergoing age structure change of varying timing and speed and at varying stage of socio-economic development. I focus my comments on these insights for developing countries.

### *Effect of economic, social and policy changes on the age pattern of consumption and production*

The paper describes Japan's the changing age-profiles of per capita consumption and per capita production (Figure 7) as influenced by a number of interacting factors. These factors include patterns of economic growth, labor and social security policies, and social change. The last factor involves value shifts in family support for the elderly, and preferences for composition of assets, for example, land versus others forms. While one could speculate on what would have happened to the profiles of Japan's per capita consumption and production over the past 20 years had these factors been different in timing and speed, of practical interest is the effectiveness of recent policy reforms in the areas of, for example, mandatory retirement age, public pension schemes, long term care insurance scheme, and medical insurance scheme.

Broadly, the analysis provides insights into possible factors to consider in macro-demographic simulations to test out various scenarios for other countries. For example, what would be the profile of consumption and production in countries characterized by slow and uneven economic growth, high poverty rates, slow demographic transition, and limited coverage of institutional mechanisms for public transfers. In these countries, high and low income groups are likely to have different demographic profiles, capacities for human and capital formation and patterns of transfers. What is the impact on overall poverty and income distribution over the longer term for such diverging economic and demographic profiles among major social groups within the country?

The analysis of Japan's experience provided by the paper also point to some policy insights for developing countries trying to catch up economically, demographically and institutionally with the developed world. For example, on economic policies, in the face of rapid growth of the absolute size of the labor force, would emphasis on achieving full employment first rather than focusing on labor policies to protect the workers through social security and pension schemes (which tend to raise the cost of labor relative to capital, and reduce labor absorption) have more far reaching impacts on overall patterns of consumption and production and economic growth?

### *Effect of age structure on economic growth given age patterns of consumption and labor income*

The paper estimates the first and second demographic dividend in Japan. They find that the magnitude of the positive first demographic dividend (annual growth rate of the economic support ratio, which measures the change in output per effective consumer due solely to changes in age structure) was large, adding just over one percentage point per year to economic growth during the 1960s and 1970s (Figure 8). However, since the mid-1990s the economic support ratio has been declining, and the first dividend has become negative.

The estimate of the second demographic dividend (i.e., the growth rate of productivity or output per labor income that arises because of an increase in the demand for assets as a consequence of population aging) is made over the period 1960-2035. In the 1980s, the second demographic dividend generated almost one and a half percentage points of additional economic growth (Figure 9). Beginning from the 1990s, the second demographic dividend has declined to around half a percentage point, with the prospect of maintaining this lower rate up to 2035.

The paper's Figure 16 shows estimates of the first demographic dividend for selected Asian countries. Following Japan's experience in rapid demographic transition, South Korea, Thailand and China added another one to one and a half percentage points to their economic growth solely due to age structure change. The pace of fertility decline was relatively much slower in Indonesia, Philippines and India. As a result the first demographic dividend added only less than one percentage point to economic growth. For the latter three countries and similarly situated countries, an immediate goal is how to reap the full benefits of the first demographic dividend both in an accounting sense, through a more rapid decline in fertility, and, in a behavioral sense through better economic policies and stronger institutions. While age structure change through fertility decline can add to economic growth, other factors such as continued rapid total population growth because of slower fertility decline, misguided economic policies, and weak institutions could easily negate the contribution of age structure change to economic growth. The resulting overall slower economic growth and development would have implications for the pattern of consumption and production, asset accumulation, and the age reallocations, and in turn on the capacity to generate the second demographic dividend.

### *Changing patterns of age reallocations*

The third part of the paper describes the effect of aging on the changing pattern of age reallocations for 1984 to 2004. The reallocations are made through assets, net public transfers, and net private transfers

The paper show important changes in age reallocations resulting from the rapid growth of the elderly population (Figure 12, Panels A to C). In general, over the period net total transfers increased by three times, with the increase coming mainly from public transfers, while net familial transfers have declined. Furthermore asset-based reallocations have become important, increasing 10 times during the period, although net public transfers still dominate in 2004.

How well an aging population can support the consumption of the elderly depends on how well the demand for lifecycle pension wealth is accumulated. The authors note that countries that rely on capital accumulation to meet the retirement needs of the elderly, population aging would provide an incentive to accumulate capital and other assets, and thus usher in the second demographic dividend.

Countries lagging behind the demographic transition would nonetheless undergo an aging process. But the slow demographic transition carries with it lost opportunities for faster economic growth and poverty reduction. Moreover, countries with slow demographic transition and limited coverage of the institutions for public saving (e.g., social security schemes and social health insurance) such as the Philippines are likely to also experience limited capacity in the future for age reallocations either in the form of transfer wealth (public and private) or in the form of asset accumulation to support the aging population and reap the second demographic dividend.

*Putting interrelationships together: policy simulation modeling*

The paper examined three different aspects of Japan's postwar economic-demographic experience: (a) the role of economic, social and policy changes on the age pattern of consumption and production, (b) given an average age pattern of consumption and production, the effect of age structure on economic growth, and (c) depending on the nature of the age reallocations, the emergence of the second demographic dividend. For policy simulation, it might be instructive to put economic, social and policy parameters to interact with age structure change that could simultaneously produce different levels and shapes of the age pattern of consumption and production, different patterns of the first demographic dividend, and different age reallocations. The empirical analysis for Japan describe in the paper provides building blocks for such policy discussions in developing countries.