

An ageing population and its impact economics essay



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People today, live longer and often healthier lives owing to advances in various areas. It is a challenge to maintain and plan longer lives. Societal ageing hampers economic growth and issues such as sustainability of families, the states and communities' capacity to provide for older people.

A quick look at the recent decline in fertility rates combined with increases in life expectancy and strong evolution from past fluctuations in birth and death rates depicts a really significant shift in the global age structure. So much so that by 2050, twenty two percent of the world's population will be over the age of 60 or a figure reaching almost 2 billion compared to expectations for year 2020 of 1 billion. As for citizens aged 80 or above, statistics predict an increase from 1 to 4 percent.

It is undeniable that a country's economic character will tend to change as its population ages since different age groups have different economic needs and productive capabilities. These changes can be measured by assuming a certain age-specific behaviour in relation to earnings, employment and savings and to assess the implications of modifications in the relative size of different age groups for these main contributors to the national income. However this tends to be misleading in the long run.

Normally, changing expectations about life cycle and demographic shifts are likely to entail behavioural changes and thereby influencing economic consequences of ageing. One good example is an individual who expects to live longer than his ancestors who will continue to work for longer and therefore start benefiting his savings at a later age.

2. 0 WORLD AGEING SITUATION

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Rapid reduction in infant mortality rates coupled with a dynamic fall in the death rate has resulted in a sharp rise in the proportion of older people in the population. This phenomenon of ageing population is fast becoming a worldwide problem. In 1950 there were about 200 million people above 60 years old in the world. This figure has risen some 616 million in the year 2000 and is expected to rise to 1. 2 billion in 2025. A majority of them, about 72% of the total, will be living in developing countries. The projections indicate that the demographic transition will proceed much more rapidly in developing countries than it did previously in developed ones. The continuing fertility decline in many developing countries today is faster than the gradual decline experienced by the currently developed countries. In the developing countries, therefore, the pace of population ageing will exceed the pace in the developed countries. For example, it took France and Belgium more than 100 years to double the rate of the population over 60 from 9% to 18%. In Mauritius, the same change will occur in only 25 years.

3. 0 Current economic problem of the ageing population.

EU residents over age 65 outnumber those under 14, a Spanish study says, as the bloc's young population has fallen 21% in 25 years. There are currently more elderly people than children living in the EU, as Europe's young population has decreased by 21 percent – or 23 million – in 25 years, 10 percent of which in the last ten years alone. Only 16. 2 percent of today's EU population is less than 14 years old, while one sixth (16. 6 percent) is 65 years or more. In addition one out of every 25 EU citizens is over 80 years old. Italy has the least young people (14. 2%) and one out of every five

Italians is more than 65 years old. At the other end of the scale, Ireland has <https://assignbuster.com/an-ageing-population-and-its-impact-economics-essay/>

the most youngsters (20.7%), according to a recently-released report by the Institute for Family Policies based in Spain.

However, the decrease in numbers has been greatest in Spain, where the young population has diminished by 44% in the 1990 to 2005 period. Despite these figures, the EU population has grown by 8.2% over the last 27 years, now reaching almost 500 million. This paradox can mostly be explained by an ever increasing number of immigrants coming to the EU. Last year alone, 75% of the population growth was the result of immigration flows.

France and the Netherlands are the only member states where the natural population growth has been higher than the immigration inflow. A relative population growth can be noted only in Western European countries, however, while in central and eastern Europe it has either remained the same (Slovenia and Slovakia), or decreased. The decrease has been most significant in new member state Bulgaria, which has lost almost 8% of its population (7.94%) in the last ten years.

On top of that, the number of births across the EU has been decreasing and in some member states, the birth rate is almost two times lower than in the US (2.09 children per family in 2006). In Greece, Spain and Italy birth rates have reached a critical level of 1.28 to 1.34 children per family, while among the new member states, none but Cyprus has a birth rate of above 1.30. One divorce every 30 seconds in the EU. The report which focuses on the Evolution of the Family in Europe in 2007 also points at the decreasing number of successful marriages. From 1980 to 2005 the number of marriages in Europe decreased by 22.3 percent, while divorces increased by

55 percent in the same period. Spain presents the most radical case-study, as the number of divorces there has increased by 183 percent in the last 25 years. Currently, a couple divorces every 30 seconds in Europe and over 13.5 million marriages affecting more than 21 million children ended between 1990 and 2005 in the enlarged EU.

4. 0 The Economic and Financial consequences of Population Ageing.

4. 1 The importance of age structure.

Economic growth may be influenced by changes in population age structure. To analyse age structure, a life-cycle perspective is adopted, based on people's economic needs and contributions during the various stages of life. The ratio of consumption to production is higher for the young and old people and lower for working adults. The key drivers of economic growth such as labour, productivity, consumption and savings vary according to where people fall in the life cycle. Labour and savings are higher among working adults than among those aged above 60. Declining fertility and mortality rates during the past four decades have significantly changed the age structure of the population.

4. 2 Social Security Benefits

Social Security benefits and public sector pensions are among the sectors that will certainly be affected by the ageing issue. Nowadays, the composition of social security benefits is two-fold, non contributory and contributory. Basic retirement pensions of the elderly and the elderly invalids irrespective of their economic status are non-contributory benefits wholly

financed by government. The actuarial report on the National Pensions Fund has drawn attention to the fact that future increases in the number of pensioners will make the financing of basic retirement pensions an increasing burden on resources. The cost of basic retirement pensions rose sharply from about Rs 2.3 billion in 1999/2000 and is estimated to be Rs 3.5 billion in 2015 and Rs 6.4 billion in 2035. Examination of the implications of the projected strain on government resources is therefore becoming a high priority. Assuming that the rate of basic pension remains more or less the same, it should be noted that an increase in pension age from 60 to 65 would lead to significant saving to the government in respect of basic pensions. Tax revenues may also increase as a result of employment continuing between ages 60 and 65 but there would be no financial impact on the NPF as a result of these changes. Welfare services such as long term care and any payment (other than from the NPF) to the elderly out of the state budget which are likely to increase faster than GDP in future are other examples of financial implications of ageing on state budgets.

The ageing of the population will increase the financial strain on the state budget in future as follows:

Basic pension expenditure (all of which is financed by general taxation) is projected to increase by 75% in some twenty years and to almost triple by 2040 if present pension rates are maintained.

Expenditure from the NPF is projected to exceed contribution income by 2015. Part of the NPF expenditure will need to be met by investment income, most of which is derived from Government bonds or loans. In the absence of

corrective measures, the investment income required to meet NPF expenditure would be derived largely from taxation.

Expenditure on public service pensions is projected to increase by about 80% in real terms over the next 20 years, that is , from about 11/4% to 21/4% of GDP;

Expenditure on healthcare and social services for the elderly can also be expected to increase substantially over the same period.

4. 3 Accounting Effects

If age-specific behavior in respect of labour supply and savings were fixed, labour supply and savings per capita would decrease with a rising elderly share of the population. Keeping all other factors such as productivity and migration equal, this would imply lower growth in income per capita. Peter Peterson (1999), argued that, “ global ageing could trigger a crisis that engulfs the world economy and may even threaten democracy itself.” Alan Greenspan (2003), former U. S Federal Reserve Chairman has stated that ageing in the United States “ makes our social security and Medicare programs unsustainable in the long run”.

The European Union’s Economic Policy Committee (2010) is more measured in its assessment of the threat: The ageing of the population is becoming a growing challenge to the sustainability of public finances in the EU Member States. The increase of the ratio between the number of retirees and the number of workers will gradually increase expenditure on public pensions

and health and thus creates difficulties on maintaining a sound balance between future public expenditure and tax revenues.

The retirement of baby boomers and the increase in the share of elderly in the population will create economic and fiscal stresses on the second decade of the 21st century. These demographic developments, if not offset by changes in household behavior and government fiscal policy, will reduce the number of workers in relation to the population needing support and lower the national saving rate. The result will be slower growth in national income and consumption after 2010.

Ageing-related expenditures are one of the fastest growing components of government expenditures. Over the next 40 years, the share of working adults will decline from 59 percent of the population to about 56 percent. The share of older adults (65 and over) will increase from just over 12 percent to almost 21 percent of the population. The higher costs of supporting these retirees will be offset partially by lower costs of supporting children, as the share of the population age 19 and under will drop from 29 percent to just over 23 percent.

4. 5 Future Labour supply

After 2010 the population between ages 20 and 64 will decline and the percentage of people over age 65 will increase dramatically. These changes reflect the short run effect of the ageing of baby boomers while the long-run effect of reduced fertility and increased life expectancy. If labour force participation rates in each age group remain the same, the ratio of workers to retirees will decline sharply between 2010 and 2030. A decrease in the <https://assignbuster.com/an-ageing-population-and-its-impact-economics-essay/>

share of workers in the population means that, if all else remains the same, output per capita and living standards will be lower than they otherwise would have been if the share of workers had remained stable.

The change in age composition of the population will reduce the share of workers and increase the share of dependent elderly. The increase in experience associated with an older workforce will raise average earnings and productivity per worker.

With better health and increased life expectancies, one can expect individuals to work longer. The response to rising life expectancy is to increase the number of working years and the number of years in retirement proportionately, without changing period-specific saving behaviour. While a large set of factors such as increasing demand for leisure, general increases in wealth and difficult labour markets have contributed to low labour force participation among the elderly, social security systems have undoubtedly been a key reason for the continued low labour force participation among the elderly. Even if individuals decide not to work longer, increased life expectancies can be expected to induce increased savings over the working life in order to finance a continued high standard of life in retirement. As the elderly are healthier, they can work longer and more productively and place fewer demands on public resources. Businesses can play a role in encouraging older workers to continue working, and they can in turn benefit from such workers' experience and reliability. Allowing flexible schedules, offering ongoing training in new skills, providing wellness programmes, and re-allocating physically demanding tasks to younger workers are measures that can help retain the older segment of the workforce.

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4. 6 Consequences for Living Standards

Labour supply adequacy is one factor influencing standard of living of the population. It refers to the ratio of the quality-adjusted workforce to the total consumption needs of the population. But not all people have equal consumption needs. For example, the government spends much more per capita on the over-65 population than it does on other age groups.

Demographic trends will have adverse effects on economic growth after 2010, due in large part to the slowdown in the growth of the workforce and the increase in spending on age-related government transfers. But the effects do not appear to be catastrophic. The economy will continue to grow, even at a slower rate. Capital will increase considerably, even though lower national savings rate, as a smaller workforce requires less capital.

Individual and population ageing are not gender neutral. Women's entitlement to goods and services over time is closely related to their work history, pension, property and inheritance rights. Old women generally occupy a precarious economic position, as they have accumulated fewer financial reserves than men, have fewer assets of their own and, more often than not, experience a weakening of their control over the family assets with the death of the husband. Poverty is a real threat to women as they get older. It is therefore imperative that any financial and social scheme developed to care for an ageing population should include targeted policies for the support of the elderly women.

4. 8 Influences on Public Savings

Public saving is what is left of taxes after subtracting transfers, interest paid on government debt, and government consumption. Public saving is also government investment minus the budget deficit. Future public saving will be affected by the ageing of the population because major government transfer programs-social security and the health programs (Medicare and Medicaid) - disproportionately benefit the elderly.

Found that the elderly not only do not dissave to finance their consumption during retirement, they spend less on consumption goods and services than the young at all levels of income. Moreover, the oldest old save the most at a given levels of income. At the same time, while their human capital and private pension wealth is being depleted, especially at the most advanced ages, the elderly face a complex problem of uncertainty about their health, life expectancy, and ability to maintain independent households. In these circumstances, they reduce their consumption to maintain their wealth.

The problem of population ageing, which is a consequence of fertility decline, has become the new "bête noire" of development, replacing rapid population growth, a consequence of high fertility. It is ironic that population ageing and rapid population growth are two faces of the same coin: fertility. Both population growth and ageing have an adverse effect on savings, it is argued, as the young and the old are more consumers than producers, and thus dependent on the working population. The orthodox debate not only ignores the positive contribution that the old could and do make to the economy, but also fails to recognize the fact that there are other sections of the population, such as the unemployed, who are also supported by the working population. From a long term point of view, however, it is the <https://assignbuster.com/an-ageing-population-and-its-impact-economics-essay/>

working age and not just the working population that matters. Keynes and others argued that population ageing would reduce growth via its adverse impact on aggregate demand and investment, and not because of a higher tax burden and government expenditure on social security and pensions. The relevance of this approach to the current debate on ageing in its integrated view of the demand and supply or consumption and production implications of population ageing, in contrast to the orthodox approach which is primarily concerned with the consumption effects of ageing.

The economic implications of an ageing population are intricately intertwined with the macroeconomic performance of a society over time. At the macro level it is the current output that has to pay for the subsistence of the population, young or old, at working age or retired. The current output, however, depends in part on past savings and investment. In other words the work and savings of the present generation provide subsistence and employment for the present as well as for the future generation. The benefits of growing national income and increased productivity will not, however, be distributed equally among the old whose claim on the national income depends on their accumulated assets, including savings and pensions. An economy which distributes its assets and income unequally over its working age population carries such inequalities into old age, thus creating a differentiated group of old people. This has to be taken into account in the setting up of national pension plans in order to prevent hardship among those old people whose poverty when of working age prevented them from saving for their old age.

5. 0 Conclusion

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Euro's latest stats of population projections (EUROPOP2010) were made covering the period from 2011 to 2060 - and show that population ageing is likely to affect all EU Member States over this period. The convergence scenario is one of several possible population change scenarios that aim to provide information about the likely future size and structure of the population. According to this scenario, the EU's population will be slightly higher in 2060, while the age structure of the population will be much older than it is now and it will badly effect the European economy by creating major unemployment.