Effects of Demographic ageing on Economy

Asha Joshi
Faculty Member, NIA

Effects on Economic Growth

Population growth either

• Restricts	Pessimistic
• Promotes	Optimistic
• Independent	Neutral

Demographic dividend

- **Delivered through number of mechanisms. The most important are labour supply, savings and human capital.**
- **It is time limited**
- **Is an opportunity**

Dr. Vijay Kelkar said

- **"…in the future, the economy can reap the dividends from the resultant systematic stability. Thus, India riding the wave of growth fundamentals such as demographic transition, human capital accumulation, improved incentive structures, diffusion of new technologies such as IT, total factor productivity accelerators through ' network industries', and an improved security environment- will be growing rates which can be above 10% per annum i.e. double digit growth rates. There is an ineffable sense of joy for me personally, and professionally, to see India embark on this growth odyssey, a journey that I call "India: On the growth turnpike".**

Likely effects of Ageing

- Capital formation
- Labour supply
- Labour productivity
- Financial stress on pension systems
- Transfers between generations
- Strain on political social systems

Measures taken by developed world to reduce the adverse effects of ageing

- Widespread labour market reforms resulting in lower unemployment and higher labour participation
- Improve labour productivity
- Investing abroad
- Policy measures in respect of pension reforms

Social, economic and political forces behind the genesis of a variety of social security

- **Social security as a Means of Risk Sharing**
- **Social Security to enhance efficiency through Induced Retirement**
- **Social Security as Retirement Insurance**
- **Social Security as a Sign of the State's paternalism**
- **Social Security as a cure for Excessive saving/capital Over- Accumulation**
- **Social Security as a longevity Insurance**

Five basic elements of multi-pillar pension system suggested* by the World bank

- (a) a noncontributory or "zero pillar"(in the form of a demogrant or social pension) that provides a minimal level of protection;
- (b) a "first pillar" contributry system that is linked to varying degrees to earnings and seeks to replace some portion of income;

* (**Old-Age Income Support in the Twenty-first Century: An International Perspective on Pension Systems and Reform** Robert Holzmann and Richard Hinz & others- February 18, 2005)

- (c) a mandatory "second pillar" that is essentially an individual saving accounts but can be constructed in a variety of ways;
- (d) voluntary "third pillar" arrangements that can take many forms (individual, employer sponsored. Defined benefit, defined contribution) but are essentially flexible and discretionary in nature; and
- (e) informal intrafamily or intergenerational sources of both financial and non-financial support to the elderly, including access to health care and housing

Requirement of a good Pension System

- Good Coverage
- Sustainable
- Should give the contributors value for money
- Should be in consistency with government policies of poverty alleviation,consumption smoothing and other economic goals

Challenges to achieve them include

- Poor initial coverage
- Fiscal constraints
- Public awareness
- Administrative preparedness and implementation constraints
- Financial Market readiness , Regulatory,and supervisory issues

Let us discuss these issues further…..