

IPS Forum Vision 2050: Life and Family in Singapore

Tuesday, 23 October 2012

3.00 pm – 5.00 pm

Ballroom 1 (Level 3)

Orchard Hotel Singapore

Economic Perspectives on Singapore's Population Trends

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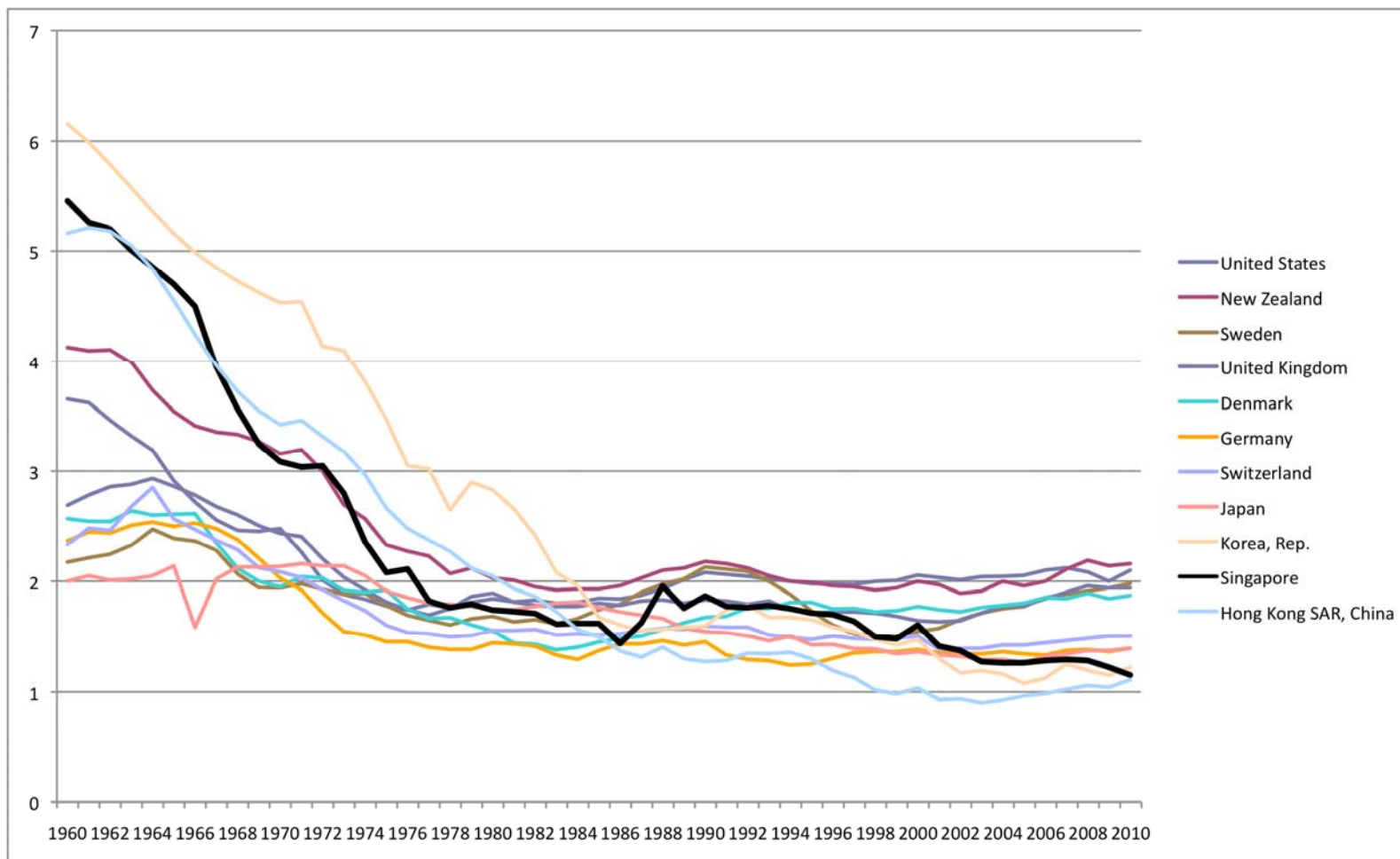
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Outline

- Drivers of ageing
- Economic impacts and policy implications
- Singapore's strengths
- Policy and institutional adaptations:
 - Retirement funding
 - Health and long-term care
 - Labour
 - Intergenerational equity and capital allocation

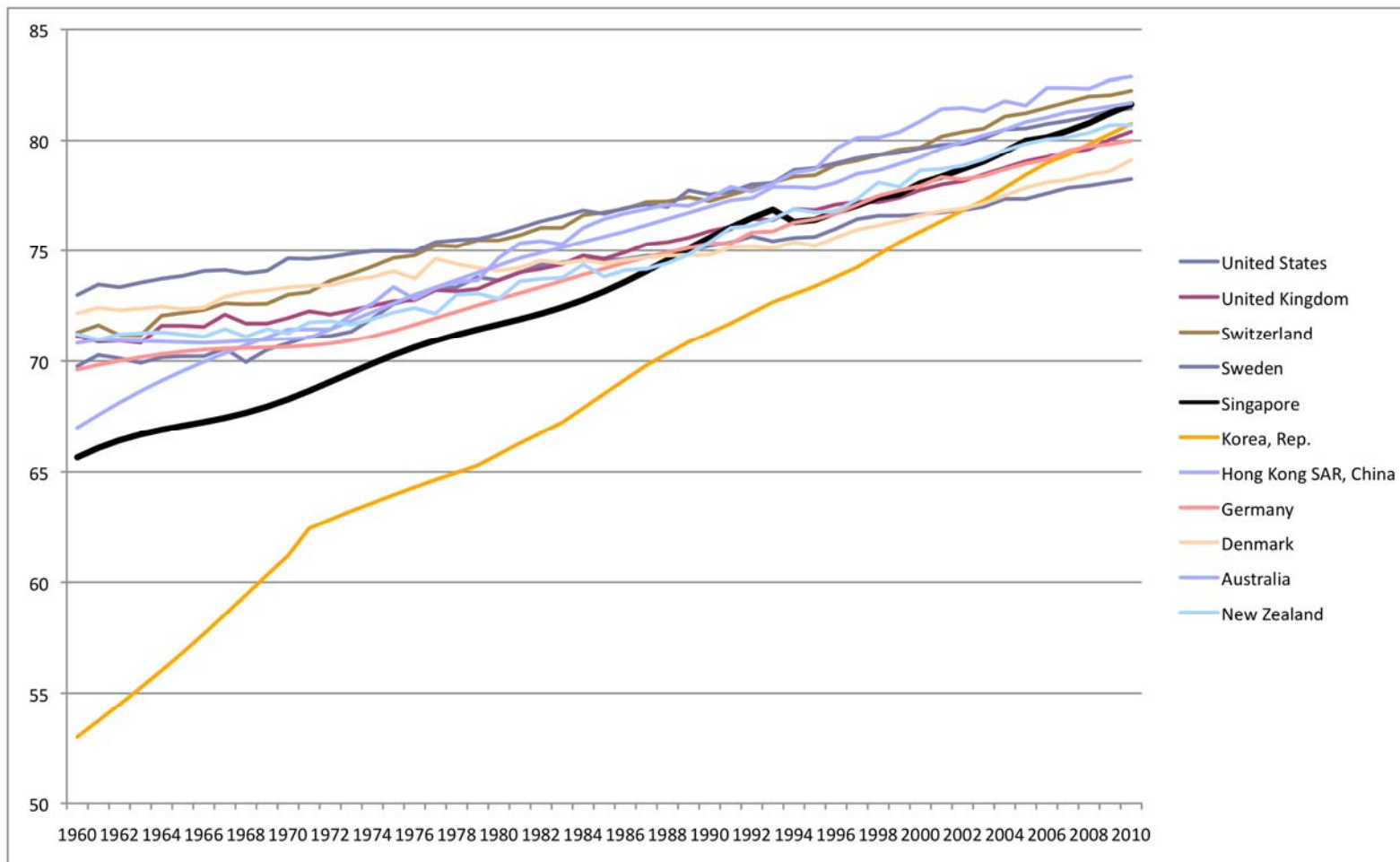
Drivers of Ageing

- Declining fertility rates in recent decades



Drivers of Ageing

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- Increases in life expectancy



Drivers of Ageing

- Declining fertility rates in recent decades
- Increases in life expectancy
- Past variations in birth and death rates

→ *Singapore enjoyed a demographic dividend in the 1970s-1990s as the working-age population increased at a much faster rate than the total population.*

→ *Demographic dividend now risks turning into a demographic burden as fertility continues to decline while life expectancy improves. The working-age population will shrink as a share of the total population.*

→ *Whether we age successfully will depend on how flexible and adaptable our policies and institutions are.*

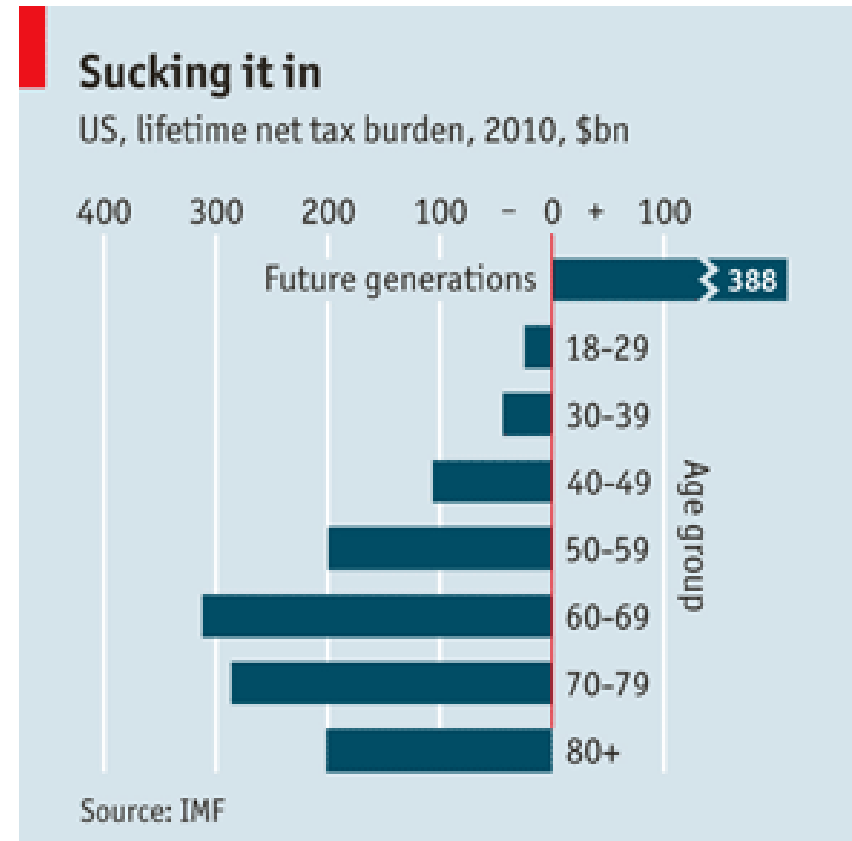
Economic Impacts and Policy Implications

- Pessimistic view: an ageing population will have negative consequences in terms of growth of income per capita. This view emphasizes the *accounting effects* of an ageing population.
 - A decreasing ratio of the working-age population to the total population raises the ratio of dependents to workers, and contributes negatively to growth of output per capita.
 - The key drivers of economic growth, such as aggregate labour supply, savings and productivity are adversely affected by aging.
 - Labour supply and savings per capita would decline with a rising elderly share of the population. Other things being equal, this translates into lower productivity growth.
 - This view accounts for the alarmist view of some commentators and economists.

Economic Impacts and Policy Implications

“The struggle to digest the swollen generation of ageing baby boomers threatens to strangle economic growth. As the nature and scale of the problem becomes clear, a showdown between the generations may be inevitable”

The Economist, *Sponging Boomers*,
Sep 29th 2012



Economic Impacts and Policy Implications

“We’re going to have a self-centered generation just sucking down all the resources.”

Ken Dychtwald, 1999

“The ageing of the population is becoming a growing challenge to the sustainability of public finances in the EU Member States. The increase in the ratio between the number of retirees and the number of workers will amplify expenditure on public pensions and health and long-term care and thus puts a burden on maintaining a sound balance between future public expenditure and tax revenues.”

EU’s Economic Policy Committee (2010)

“There is growing risk that the ageing society of a mature industrial nation will be an increasingly inequitable society, ruled by the rich (and the old) for their own benefit in perpetuation in power .”

Robert Ayres, World Watch magazine, 2004

Economic Impacts and Policy Implications

- Optimistic view emphasizes the *behavioral changes* in response to changing age structures and increases in life expectancies.
 - With better health and increased life expectancies, we can expect individuals to work longer
 - Increased life expectancies may also induce increased savings over the working life to finance a continued high standard of life in retirement, especially in countries where there are strong incentives for people to save for their own retirement
 - Smaller family sizes may increase labour force participation, especially among women
 - Increased life expectancies have been associated with reductions in the incidence of disease, disability and morbidity, i.e. there's a “compression of years in morbidity” as life expectancy rises.

Singapore's Strengths

- The key is *adaptation*: how flexible, adaptable and resilient are our policies and institutions to a fast-ageing population?
- Retirement funding: a fully-funded CPF system means that an ageing population does not create increasing liabilities for future generations.
- Public spending as a share of GDP is very low by international standards; strong surpluses provide us with plenty of “fiscal headroom” to deal with the rising social expenditures caused by a rapidly ageing population.
- A very low tax regime means that we can probably raise some taxes without hurting economic competitiveness
 - Inheritance tax, environmental taxes, more progressive property taxes?

Policy and institutional adaptations

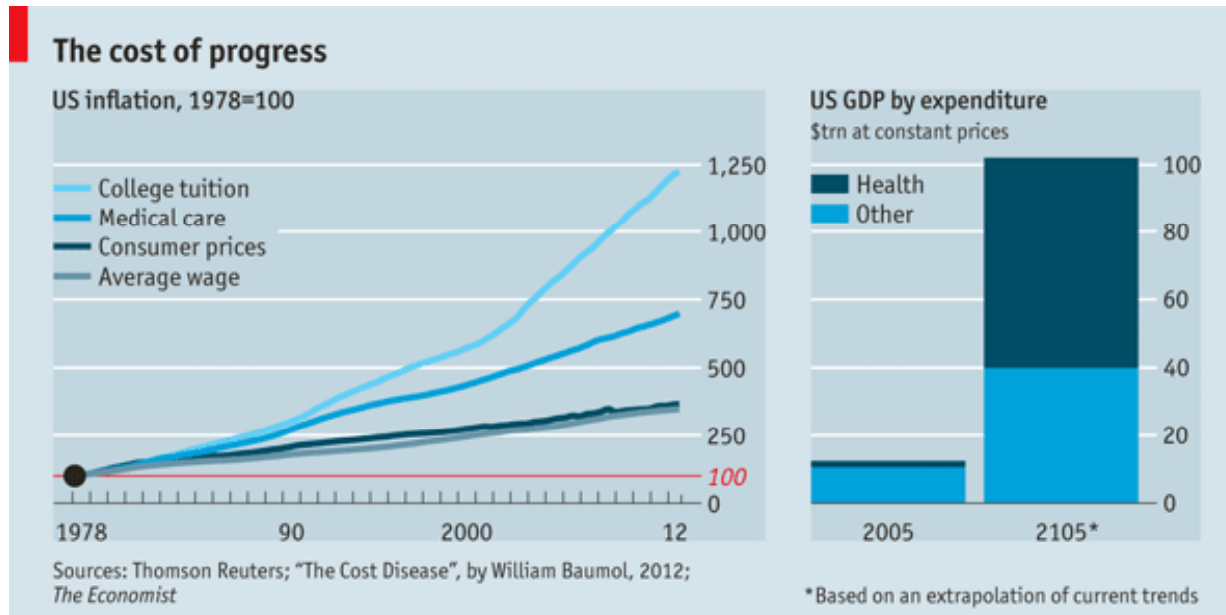
Retirement funding

- Many of today's older workers are unlikely to have built up sufficient retirement savings, and even if they have, may have invested too much of them in housing.
- Current policies to encourage home ownership will have to be adjusted to help Singaporeans “de-cumulate”.
 - Develop more monetisation options for the majority of Singaporeans who own public housing
- Government already provides a higher Workfare Income Supplement to encourage older people to work
- Basic monthly pension for older Singaporeans who do not have the Minimum Sum?

Policy and institutional adaptations

Health and long-term care

- Productivity growth in health care, social services and many other services which require “human touch” is relatively low; costs in these “stagnant” sectors will rise faster than the average inflation rate.
- Why? Standardisation and automation are hard in these industries.



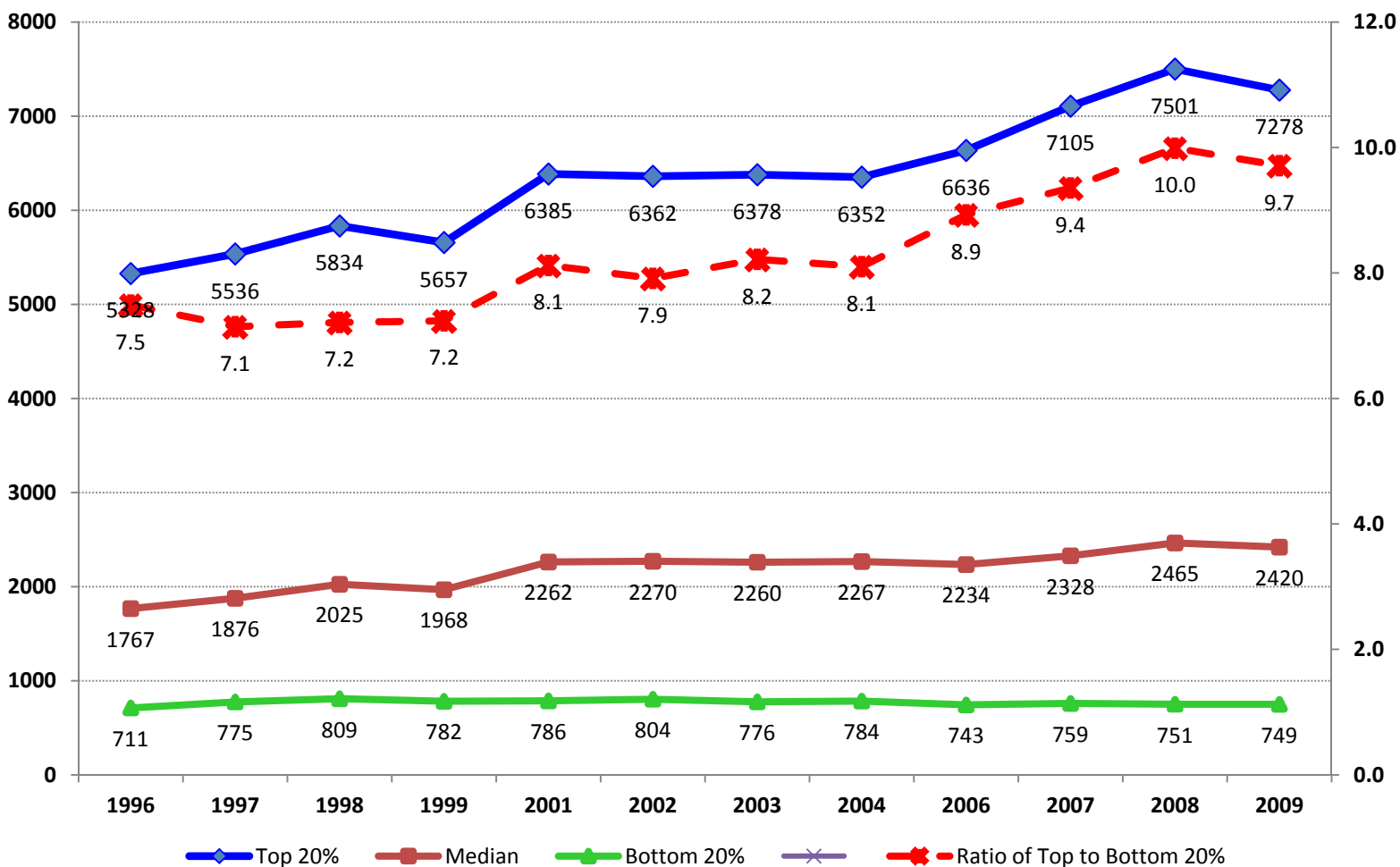
Policy and institutional adaptations

Health and long-term care

- Rising costs of healthcare will force us to think harder about whether a personal and customised touch is needed. If they are not, productivity gains are easier to achieve, e.g. electronic and tele-healthcare
- But there will always be [services](#) that are resistant to productivity gains.
- Real solution to the cost disease is to ensure that our incomes grow fast enough so that we can afford the rising costs of health and long-term care. And the only way to achieve that is through *productivity-led growth*.
- Lower-income households will be more adversely affected by the rising costs; government will have to more redistribute more vigorously or else subsidise healthcare more generously to ensure its affordability for everyone.

Policy and institutional adaptations

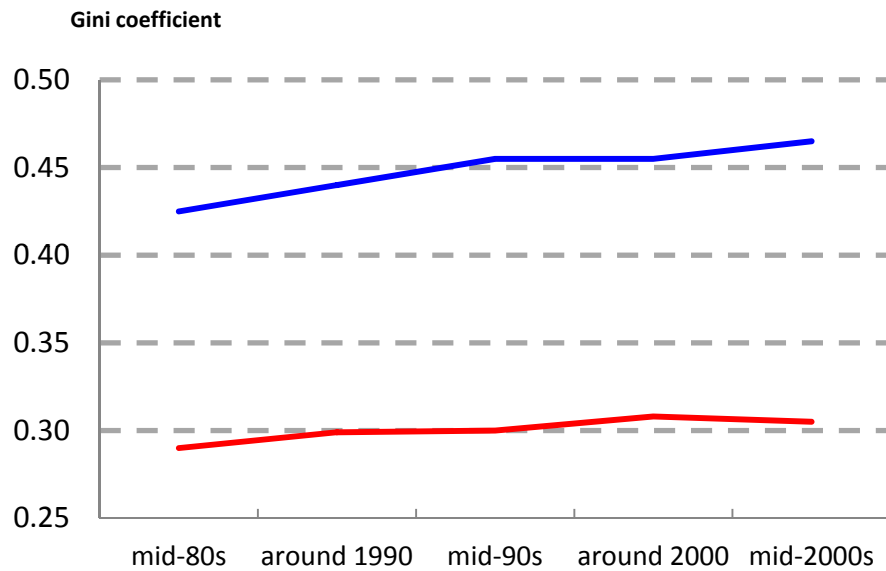
Real Median Monthly Income of Employed Residents, 1996-2009



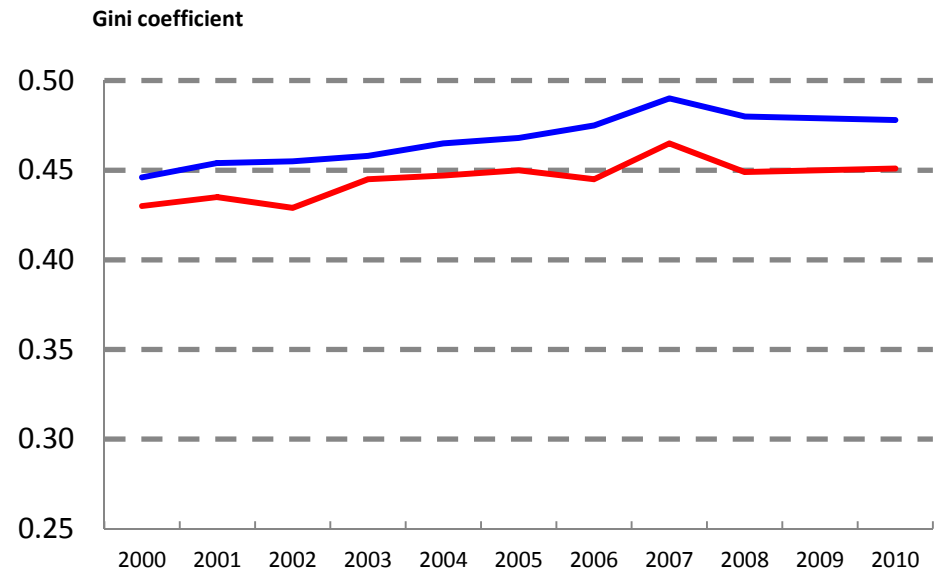
Source: Labour Force Surveys, Ministry of Manpower

Policy and institutional adaptations

Gini Coefficient for select OECD average



Singapore Gini coefficients



- Gini coefficient (before taxes and transfers)
- Gini coefficient (after taxes and transfers)

Policy and institutional adaptations

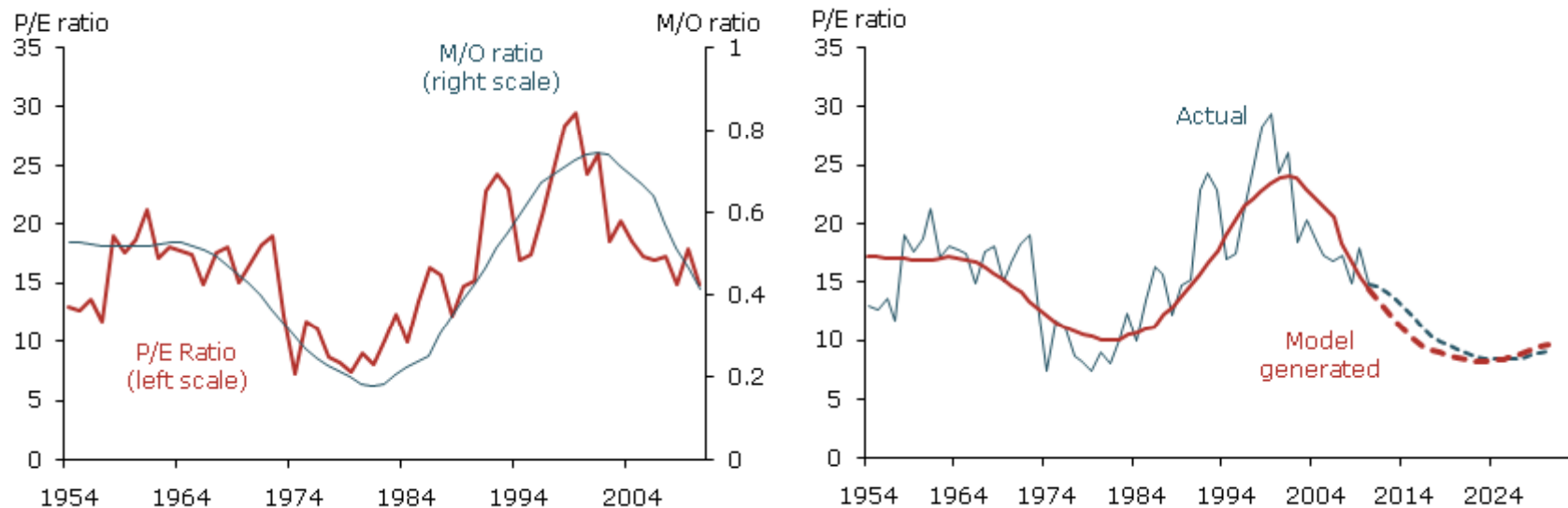
Labour

- Some evidence to indicate that at the firm level, high shares of older adults are associated with higher productivity, whereas high shares of young adults depress productivity
- Greater government efforts to discourage age discrimination, and encourage older workers to work longer (e.g. government to make up for the part of the reduced employers' CPF contributions for older workers?)
- Government must also help workers to adapt their skills and knowledge to the demands of a changing economy
- Increased support for childcare to help women rejoin the workforce

Policy and institutional adaptations

Intergenerational equity and capital allocation

- Baby boom generation contributed the most to the build-up of our fiscal surpluses. But there's little appetite on the part of the government to use these reserves to finance the needs of the baby boomers.
- Continuing with our current strategy of reserve accumulation when the population is ageing rapidly is probably both inefficient (implies a negative discount rate), and inequitable from an intergenerational perspective.
- Is investing our reserves still optimal? What if equity markets in the industrialized countries, which are also ageing, remain depressed?



“On a cumulative basis, fiscal rectitude practised over several decades and setting aside surpluses during boom years notwithstanding criticisms of stringency has resulted in a substantial net asset position of the government... This net asset position has put the country in a stronger position than countries with large debt and unfunded liabilities. Singapore can confidently cope with looming financial demands to meet the needs of a rapidly ageing population in coming years or with contingencies such as a global recession.”

– Henri Ghesquiere, Singapore’s Success: Engineering Economic Growth,
2006

Thank you