Public Abstract

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Title:FISCAL SUSTAINABILITY IN THE LIGHT OF AGING TREND:

Finding the Patterns among Aged OECD Countries

Nowadays, the aging problem is a major issue in government financial affairs due to placing a huge burden on government revenue and expenditure. This paper identifies patterns of fiscal sustainability in the light of this aging trend. Some OECD countries have already experienced aging problems of certain levels. By checking these experiences, this paper finds that fiscal sustainability runs downhill in the countries which are considered high-level aged and have a high-speed aging trend.

This paper uses both OLS testing and panel data analysis for 16 OECD aged countries, the U.S. and Korea with the annual data from 1971 to 2005.

First, it finds that some countries, including Japan the highest aged and aging speed country in the world, show the decreasing primary surplus against increasing the debt-GDP ratio, which indicates fiscal instability. Second, it examines the distinctive properties between groups which are classified by both the aged level and the aging speed. The high-aged level countries with high-speed aging trend show difficulty in the financial affairs with rapid increases in the debt-GDP ratio, whereas the relatively low-aged level countries with slow-speed aging trends are fiscally stable.

Third, it concludes that U.S. has a chance to prepare for difficulty in its fiscal affairs, whereas Korea has a high probability of suffering from instability during next two decades or more.