FISCAL SUSTAINABILITY IN THE LIGHT OF AGING TREND:

Finding the Patterns among Aged OECD Countries

Sangwon Lee

Dr. Ronald Ratti, Dissertation Supervisor

ABSTRACT

This study is an investigation into the fiscal sustainability of countries in the light of the aging trend and finds that it runs downhill in the countries that are classified as high-level age and have experienced the trend of high-speed aging. This conclusion, and the others that follow, come from the empirical results of the 18 OECD countries, using the annual financial data from 1971~2005.

First, this study finds that the reaction of the primary surplus against increasing the debt−GDP ratio, as the indicator of the fiscal sustainability, is negative or changing from positive to negative in seven countries. Included in this group is Japan, the highest age and aging speed country in the world.

Second, it identifies the distinctive properties within groups that are classified by both the age level and the aging speed. In particular, high-age level countries with the high-speed aging trend show signs of financial difficulty with rapidly increasing debt-GDP ratios, whereas the relatively low-age level countries with slow-speed aging trend exhibit fiscal sustainability with decreasing debt-GDP ratios.

Third, it concludes that the U.S. has a chance to prepare for future fiscal difficulty, whereas Korea has a high probability that it will suffer from fiscal sustainability problems over the next two decades or more. The debt-GDP ratios for the main OECD countries are expected to double when compared to 2005 levels.