

Interview with Dr. Tae Suk Lee, Vice President & Director, Department of Public Finance & Social Policy, Korea Development Institute

# Aging Populations & Their Economic Impact: Focus on Asia

By Japan SPOTLIGHT

Declining birth rates and longer lives have created aging populations. This supposed benefit of technology is now a major concern driving economic and social policies in many countries, and will be thus one of the core issues at the G20 Summit in Osaka in 2019. Japan SPOTLIGHT interviewed Dr. Tae Suk Lee, a distinguished expert in this area at the Korea Development Institute (KDI), a well-known think-tank in South Korea.

(Interviewed on March 4, 2019)

## Introduction

**JS: Could you please introduce yourself and KDI?**

**Lee:** I am vice president and director of the Department of Public Finance and Social Policy at KDI. KDI is a government-funded public think-tank working with the government and many global organizations such as the World Bank and the Asian Development Bank. My research interests are demographic change and its impact on long-term public finance and social policy, and in particular aging issues.

**JS: Our Japan SPOTLIGHT May/June 2019 issue is going to highlight the coming G20 Summit in Osaka and one of the important topics is aging. How do you assess the aging of populations globally and specifically in Asia?**

**Lee:** I think population aging is part of economic development, as is documented in many countries with advanced economies starting in the 20th century. In both Asia and the rest of the world the fertility rate and the mortality rate have declined simultaneously, leading to a larger proportion of the population whom we designate as elderly. “Aging” – or increased life expectancy – can be interpreted as a result of economic development.

Asia’s mortality rate has declined more rapidly and has resulted in rapid aging. Economic development and improvements in public health and public hygiene have led to improved life expectancy.



Dr. Tae Suk Lee

Decreasing mortality naturally increases the time in which individuals participate in society. Also, the cost of giving birth has increased gradually and caused fertility to decline. In the medium term, we first have seen the effects of lower mortality rates, and then the fertility factor results in a gradual decline in the labor force sooner or later.

## Aging Populations & the G20

**JS: So you agree that aging populations is a relevant issue to be discussed at the G20 or some other international forum?**

**Lee:** I think population aging is an ideal topic for the G20 because it is a universal

phenomenon which every country will experience some time in its development. The concept of development is related to aging. We hope this forum can improve awareness of the process of designing demographic policies from a local perspective, especially in aging countries like Japan, China, and South Korea. We can learn from the experience of all aging countries, like those in the European Union and other advanced countries that have similar policy issues and policy problems, and we can discuss which practices are effective or not, based on their experience. This also offers opportunities for cooperation among countries with different characteristics. With a shrinking population one country may need the capital to invest now, but another country may save it for future expenditure; one country may have excess workers and another a labor shortage.

**JS: You remarked that it's both a social and, at the same time, economic issue. It also seems to be connected with technology and social stability as it relates to inclusiveness in growth. Do you believe that a multidisciplinary approach would be important in tackling this issue?**

**Lee:** The elderly are expected to account for about half of the population in the near future, so we need a special interdisciplinary study of the elderly and policy issues. Two key components of the elderly in this regard are happiness and learning ability. Their psychological and medical status is different from younger people. Gerontology comprises interdisciplinary research on the many aspects of aging.

For example, the social work/welfare approach can deal with special social welfare programs for the groups with a larger proportion of medical expenditure and limited work ability. Pedagogy can deal with lifelong education systems, and anthropology could provide policy implications for immigration policies. Sociology and public administration can be used to improve delivery and implementation of welfare programs. Of course, economics can be used to pursue the maximization of social welfare, given resource constraints.

**JS: Allowing aged people to stay in the labor force for a long time sounds like a good idea. How does happiness and the ability and willingness to work among the elderly influence government policy as it relates to costs and expenditures?**

**Lee:** The two main factors to consider are happiness and the ability to work. Some people can work and feel happiness in working, while others have very limited work capacity or cannot work at all. So we can increase the retirement age due to the fact that the overall average health quality of the demographic group has improved, but we have to consider the individual with limited work capacity as well. It is critical to measure the diversity or heterogeneity of this cohort. Not all members of the older group have the same capacity or desire to work. Therefore, we propose a gradual extension of the retirement age, taking into account the pace at which labor-vulnerable groups are improving their work capacity. We also propose a system of incentives for labor expansion of workable groups, which could increase fiscal revenue, reducing the pressure for fiscal spending.

**JS: You are proposing that we need to check or monitor the weakest group, the most elderly group, and to provide them with incentives to remain in the labor pool. It would seem we may need to have very detailed statistics in order to respond to each specific need of the different age groups. Is this where big data comes into play?**

**Lee:** If there is some kind of regulation or friction to prevent them from working further then we need to remove that. But we shouldn't require older people to work longer. When we check the individual data and the individual labor choice, we discover a wide range of workability and health status. We need to carefully design our policies and programs to suit the individuals and provide incentives so that they can choose what is best for them. We can utilize big data as well as administrative data to design the best assistance to prevent health risks in advance and cure serious diseases. This approach reduces our health costs.

## **Immigration as a Solution for Aging Populations**

**JS: Immigration might be a solution to tackle labor shortage costs due to aging populations. But immigration can lead to social instability as we see now in Europe and elsewhere.**

**Lee:** Immigration is quite a difficult issue. As you said, it can reduce labor shortages but it can create social pressures. South Korea has several work permit visas, some more successful than others. One successful example is the F4 program that allows a foreign resident or citizen with a common Korean heritage to come and work here in their grandparents' country for a limited time.

These visa holders illustrate the value of developing the social skills and competencies that are necessary for the immigrant community to integrate into society. Not every immigrant can have grandparents from our country, but society should provide the opportunity to build a kind of social solidarity.

Basically immigration promotes the understanding of social diversity. To have an "aging friendly society" we need to recognize and appreciate diversity. In order to utilize the good side of immigration, we need to secure the language and cultural homogeneity of the immigrant. We accomplish this with special programs to integrate immigrants and the native peoples.

**JS: You mean education programs?**

**Lee:** Education can be broadly defined, including social campaigns, coordinated cultural events and programs to share and recognize cultural diversity. Like the United States, it is desirable to establish a special tradition of sharing knowledge and ideas with others. But the important point to consider in the Asian context is language. Many people use English and you and I communicate in English, right? However, South Korea and Japan are familiar with each other's language and culture. In our case, the Korean and Japanese languages should form the basis for clear communication, and then cultural backgrounds. Our lifestyle is different from the European or Western lifestyle, and because of our shared Asian cultural background, social conflict can be controlled. Eventually we need to mingle with each other.

Asian countries have very limited immigration, because we have quite unique cultures and languages. It is difficult to persuade foreigners to learn another language and culture. But we need to persuade them to learn and educate each other. Of course we also need to learn their culture and language and must make efforts to create an environment for them to adapt.

**JS: We need to build a common identity?**

**Lee:** Exactly, this kind of social capital is fundamental if we wish to increase the labor force with key foreign persons.

**Income Inequality, Innovation & Aging**

**JS: Do you think income inequality is a source of populism or rising political instability? If that's the case, can we anticipate more political instability as aging progresses?**

**Lee:** Political stability is a serious concern in an aging society. Longer life expectancy is a natural consequence of economic development, which leads to slower economic growth and limits our resources. In the process of meeting diverse social needs with limited resources, many political problems will intensify.

There are many opinions on the causes of income inequality. I think that aging is not the only reason or the main source, but it's an important factor. One of the key factors explaining income inequality is the increasing gaps in productivity among the elderly population resulting from differences in individual learning ability. As the

sophistication in skills diverges in the labor market, inequality will increase. Examples of other factors include rapid technological development, changes in industrial structure, and concentration of corporate profits as a result of globalization, and so on.

As income inequality grows, the diversity of societal demands increases and the fiscal demand to solve them increases. On the other side, an economic slowdown reduces the tax base. The challenge is how to concentrate our limited resources on the targeted groups most in need.

**JS: The Fourth Industrial Revolution, including IT, AI and robotics, is expected to increase unemployment. Will this be a serious problem in the future? And how does it fit into your formula of the elderly and work?**

**Lee:** Technological innovation will likely reduce labor demand and yet it might sustain economic growth and allow people to balance work and life activities and ultimately their age of retirement. The challenge of the policy maker is to design a proper tax system. Funds from those who have work capacity will need to be distributed to those who require extra help because of their limited work capacity or other circumstances.

**JS: Is there anything you would say in conclusion?**

**Lee:** First, we must support the development of medical technology and use its achievements socially to improve the quality of mental and physical life. It is necessary to invest more to improve the quality of care and mental health, especially with regard to dementia such as Alzheimer's.

And secondly, we must control our consumption in order to mitigate pollution and energy demands which impact climate and therefore the quality of life of all ages.

**JS**

Written with the cooperation of Dan Considine who teaches at Seikei University and is president of NeTip Inc.