

COMPLETION REPORT

The Impacts of Population Aging on Public and Private Savings: A Comparative Study of Japan and Taiwan

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This study analyzes the long-term dynamic effect of demographic change on national savings of Taiwan and Japan, by constructing a multi-period overlapping generation model of these economies. The simulation results illustrate that population aging has an adverse effect on national saving and induces heavier fiscal burdens to the governments under the pay-as-you-go pension system. Although both economies face fiscal deficit problems, Taiwan's fiscal deficit situation would be more serious than that of Japan because Taiwan has a lower tax rate and a lower pension contribution rate. In summary, the research results indicate three main conclusions for both economies: First, aggregate saving rate decreases as population aging evolved. Second, capital-labor ratio decreases due to that saving ratio decrease faster than shrinking labor force. And, finally, government deficit get worsen in the long run as population aging developed. The major conclusion from this research is that population aging has an adverse effect on national saving and generates fiscal burdens to the government under the current pay-as-you-go pension system in both economies. In order to achieve fiscal sustainability with aging population, tax reform and pension reform would be necessary for both economies.

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Huei-Chun Lo, and Yuan-Ho Hsu.* "Population Aging, Human Capital and Economic Growth: Empirical Evidence from Japan." *International Research Journal of Finance and Economics*. Issue 121, pp.27-35. (2014, forthcoming) (**JEL, Econ-Lit**) *Corresponding author

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