

Economic Effect of the Arrival of an Aging Society

Since the 1960s, the birth rate in Korea has been declining significantly due to birth control and the spread of the nuclear family while the average life span lengthened with an improved diet and developments in medical technology. In consequence, the population has been aging at a rapid pace; and the nation became an aging society by the U.N. standards, registering a share of the population aged over 65 of 7.2% in 2000 as against one of 2.9% in 1960. Furthermore, the speed is expected to accelerate due to birth rates that remain at very low levels. Although the aging of a society is a worldwide phenomenon that goes hand in hand with economic developments, the pace in Korea will be so fast that appropriate measures need to be put in place as a matter of urgency.

Viewing the impact of population aging on the Korean economy, its progress will reduce the size and potential of the labor force, in response to a decreasing population of working age and the weakening productivity of an aging population. Also with the increasing burden of supporting the aged falling on the working age population, the savings ratio is expected to decline; thus along with the declining supply of the labor force, these consequences will act to slow down Korea's potential economic growth rate. On the other hand, the deceleration of economic growth consequent on the reduced labor supply will retrench the revenue base of taxation and its receipts will decrease. Meanwhile, fiscal account

will also worsen as fiscal expenditures expand, in response to the increase in the number of pensioners and social welfare related expenditure. In addition, the aging of a population will heighten the demand for a stable economic environment so that the aged population can maintain a stable quality of life. Finally, we expect that social demands for goods and services catering to the aged will grow rapidly.

As explained above, since an aging population brings about substantial changes across the entire economic sector, it is necessary to draw up a comprehensive plan, which covers the labor market, the pension system and the industrial structure. In order to strengthen the basis of labor supply, various policy efforts should be undertaken to encourage old people and women to participate more in economic activities. The soundness of public finances should also be maintained through reform of the National Pension System and the setting-up of an appropriate fiscal rule. Lastly, measures need to be put in place for the expansion of demand for goods and services for the aged, a. k. a. the nurturing of the silver industry, which is expected to be highly effective in creating jobs and contributing to the public good in the near future.