

POPULATION AGING, FISCAL SUSTAINABILITY AND POLICY REFORMS

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ABSTRACT

This paper investigates the impacts of population on the economy of Taiwan with a computable overlapping generation (OLG) model. The simulation results indicate that population aging yields adverse impact on economic growth, deteriorates government budget soundness, distort factor prices in the factor market, and weakens the protection function of social security system. To investigate fiscal sustainability of the aging economy, this paper performs four reform schemas of income tax reform, consumption tax reform, reforms aims to constraint government financial outlays, and consolidated income and pension reforms. With respect to tax reform, the simulation results imply that increasing in the consumption tax would be less beneficial than broaden the direct tax base. Income tax reforms are the least harmful measures to economic growth and yield no noticeable effect on budgetary improvement. Consolidated reform in pension and public fiancé systems can generate beneficial effect on public finance yet this improvement is obtained at the cost lower economic growth and per capita consumption.

KEYWORDS: Fiscal Sustainability, Overlapping Generation, Pension, Population Aging, Tax Reform