

Demographic Change in Argentina: An Analysis of Fiscal Implications for the Welfare System

9th NTA Workshop, Barcelona

6th June 2013

Agenda

- What this study is about
- Preliminary results - and first challenges
- Next steps - and questions for you

What this study is about

Rationale - Why looking at demographic change in Argentina?

Social expenditures, % of GDP

1990:
18.6%

2005:
20.1%

2010:
27.8%

Sustainability?
Trade-offs?

Proportion of working-age population

1990:
60.4%

2005:
63.5%

2010:
64.5%

The project

- Objective
 - To analyze the fiscal implications of social policy in the context of population aging in Argentina
- Scope
 - Focus on social spending – Social Protection, Health, Education
 - Comprehensive approach – From Micro to Macro
- Timeline
 - Study to be completed in Autumn 2013

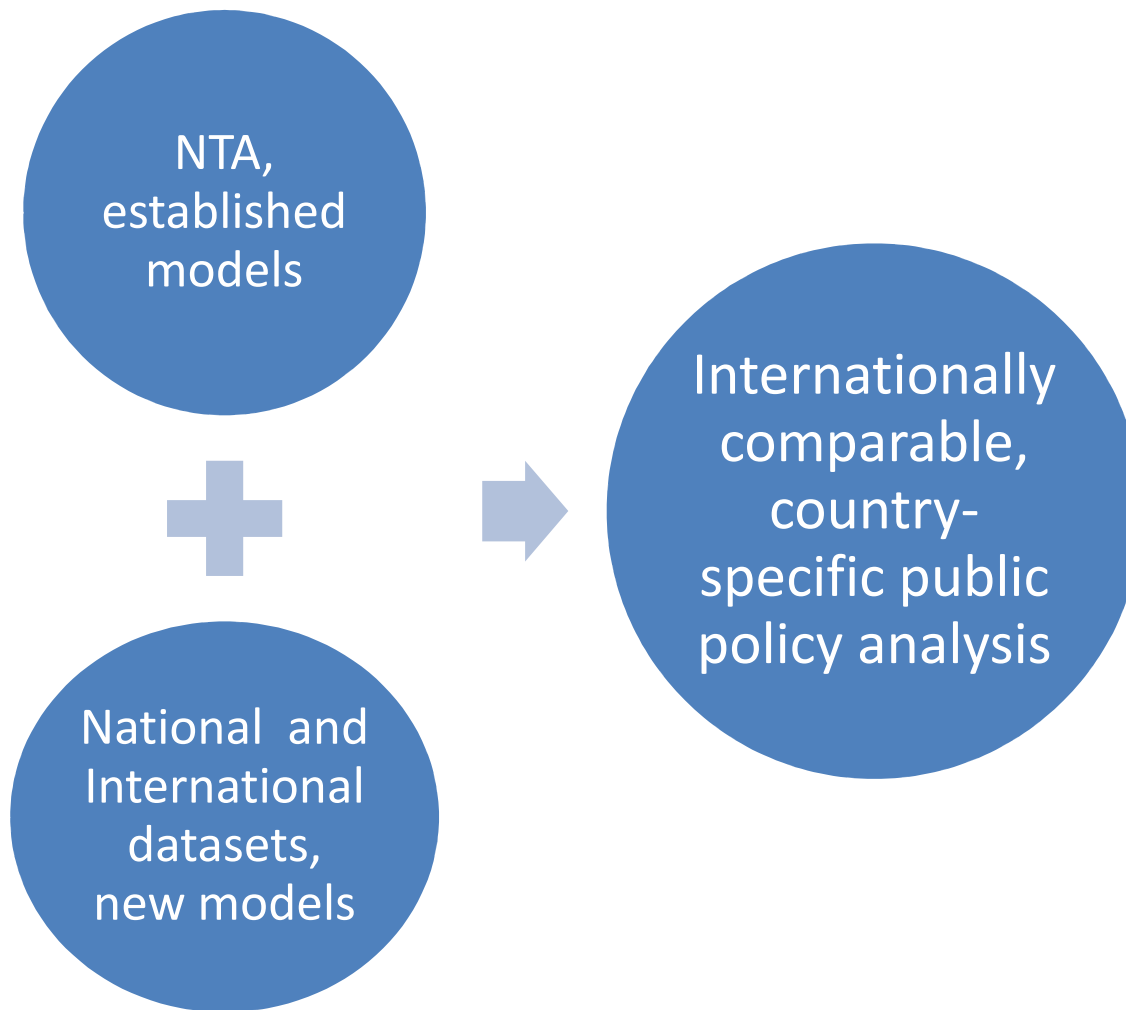
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Outline

1. An integrated view
2. Argentina's Demographic Outlook
3. Age Specific Profiles for Expenditures and Transfers
4. Projecting Argentina's Social Expenditures
5. Social Protection
6. Health
7. Education
8. Labor Market & Productivity
9. Public Finance Implications
10. Saving, Investment and Growth

Methodology



Preliminary results

Argentina's Demographic Outlook

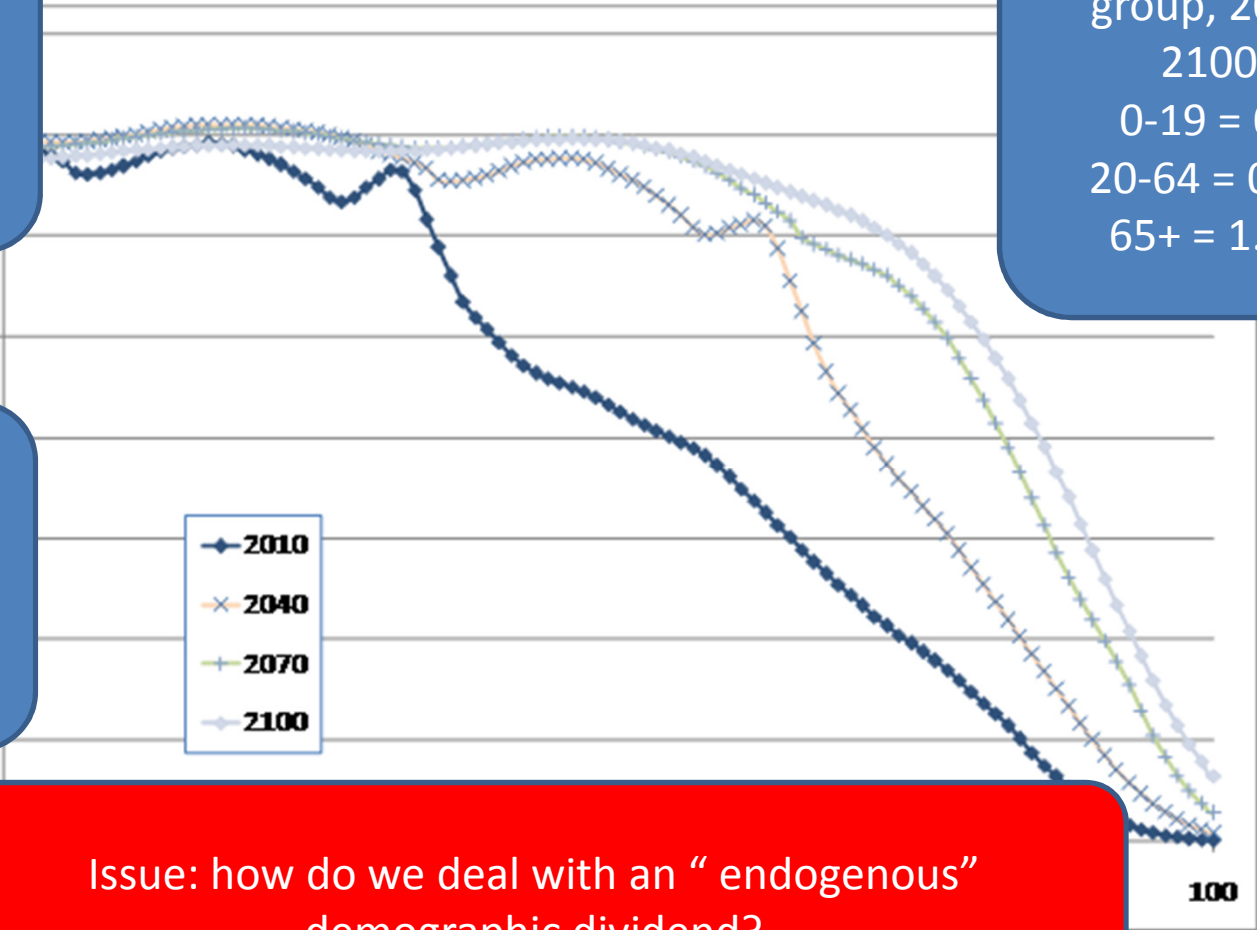
Evolution of population by age

Growth rate of population by age group, 2010-2100:
0-19 = 0%
20-64 = 0.3%
65+ = 1.4%

Slower aging progress if compared to the rest of LA, but it started earlier



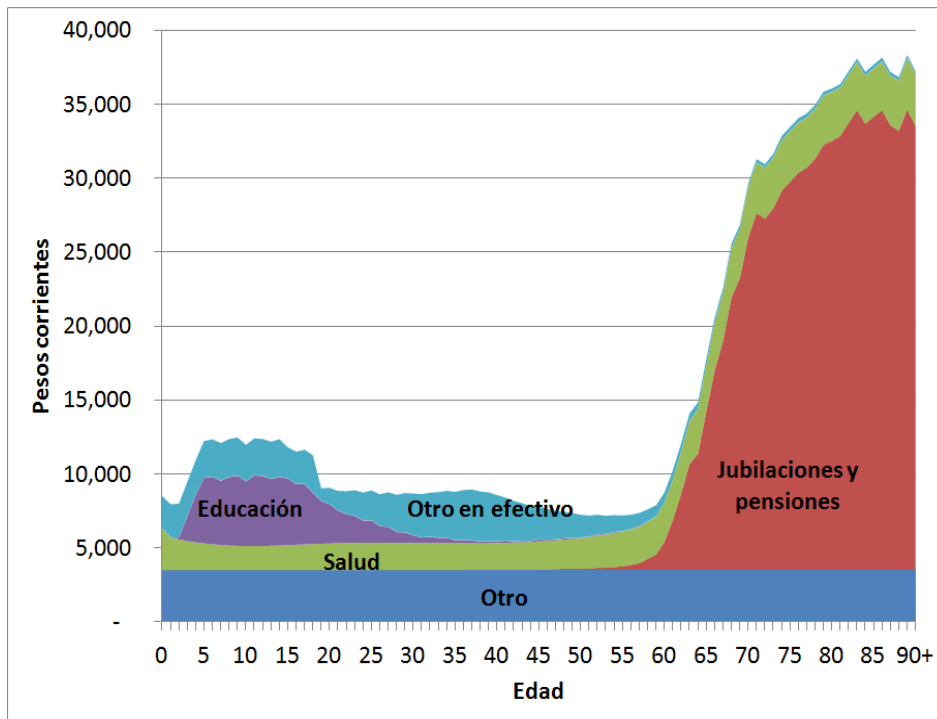
"Smaller" and "shorter" demographic bonus



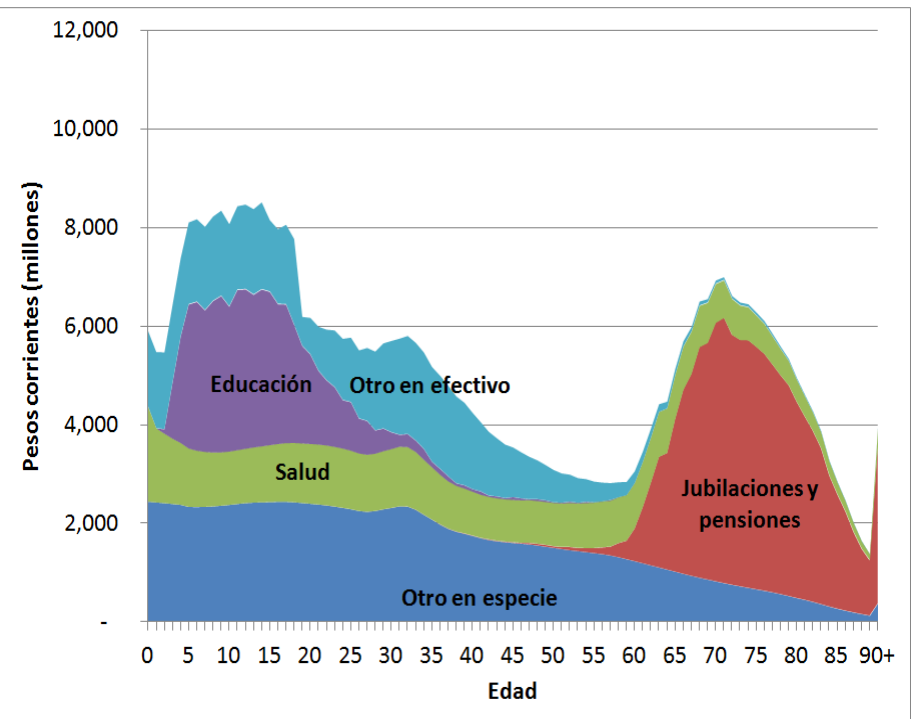
Issue: how do we deal with an "endogenous" demographic dividend?

Age Specific Profiles for Transfers - 2010

Public transfers, per capita inflows



Public transfers, aggregate inflows



Policy choice



Age structure implications

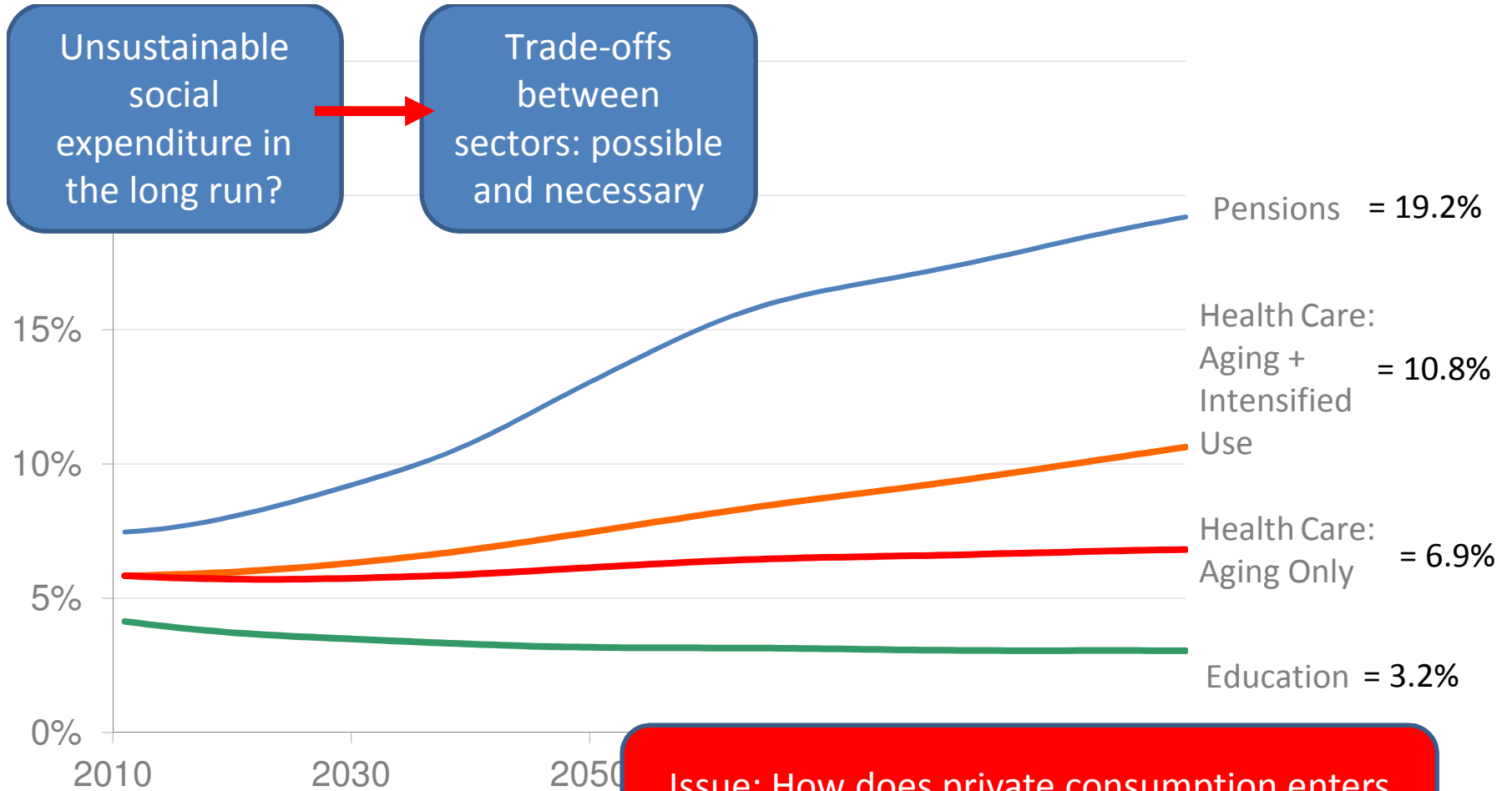
Issue: How to account for use of public capital/
investment?

Argentina's Social Welfare System in 2010

	Education		Pensions		Health	
	Argentina	High-income countries	Argentina	High-income countries	Argentina	High-income countries
Aggregate Spending	4.1%	4.7%	7.5%	12.2%	5.8%	6.7%
Dependency Rate	44.5%	25.7%	18.9%	31.2%	14.3%	16.5%
Benefit Generosity Ratio	9.3%	18.3%	39.5%	39.1%	40.7%	40.6%

*Selected countries: Austria, Finland, Germany, Japan, Spain, Sweden

Projecting Argentina's Public Social Expenditures



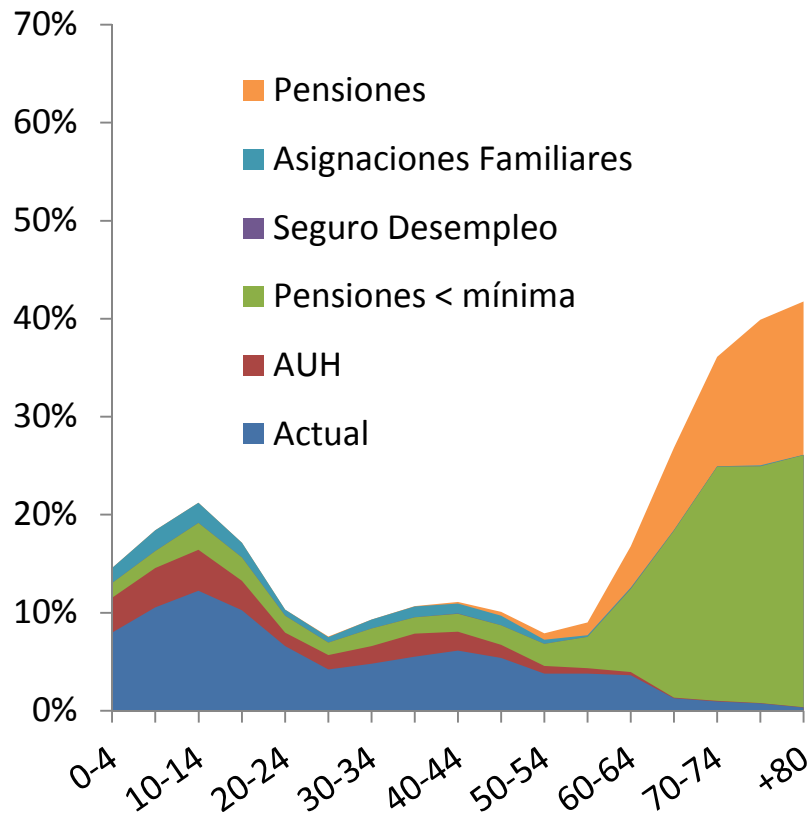
Unsustainable social expenditure in the long run?

Trade-offs between sectors: possible and necessary

Issue: How does private consumption enters into the picture?

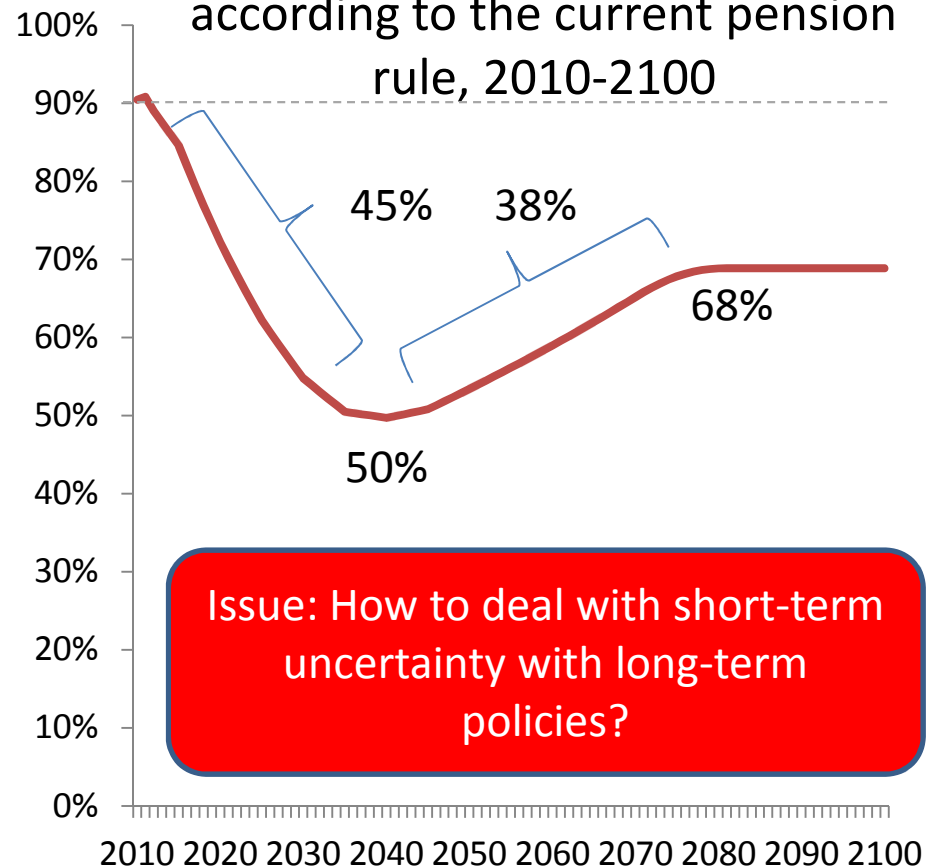
Social Protection

Impact on poverty by type of program, 2012



Pension system crucial to reduce poverty rate among elderly

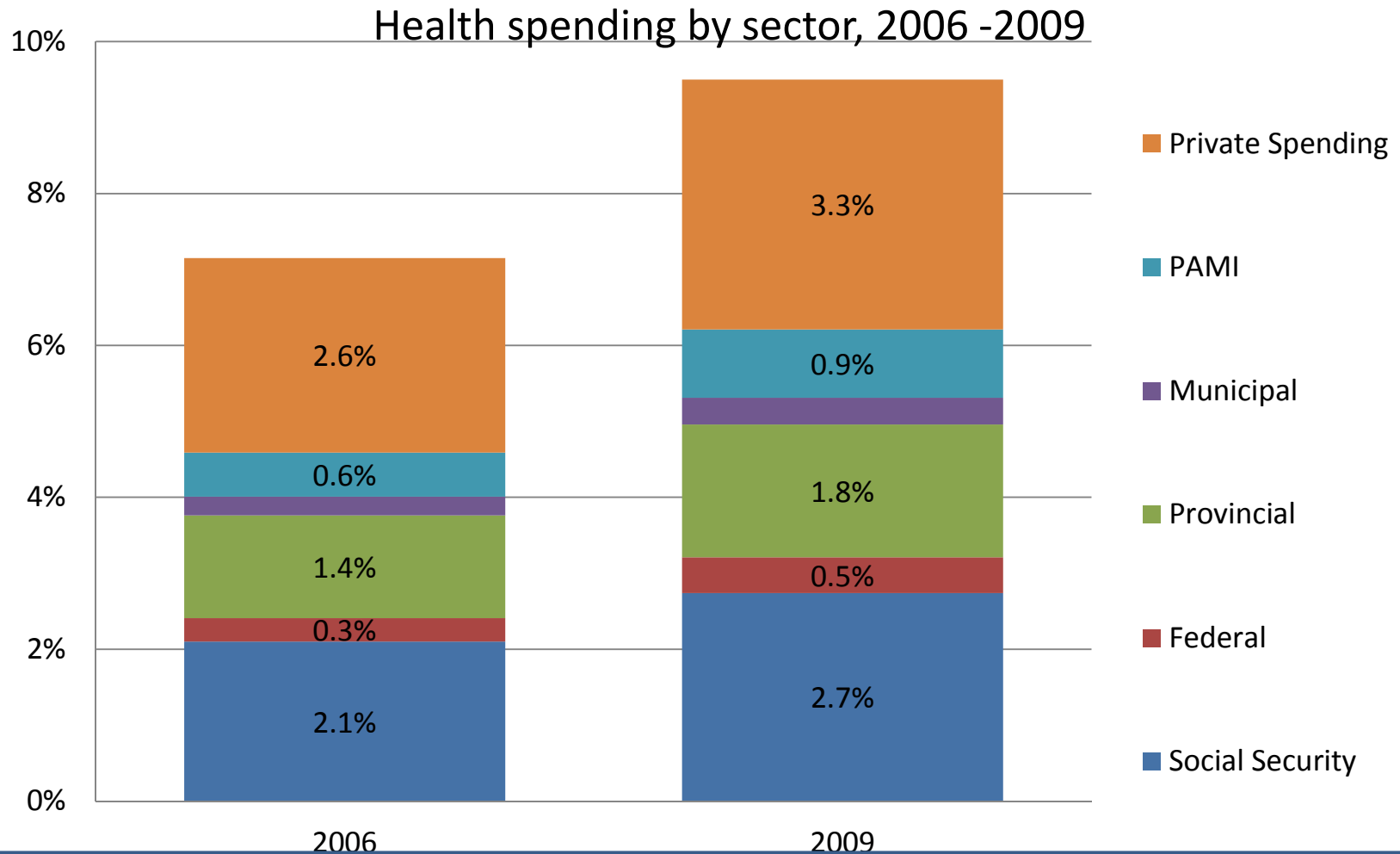
% of 65+ receiving pensions, according to the current pension rule, 2010-2100



"Status quo" implies a decrease in coverage rates

Health

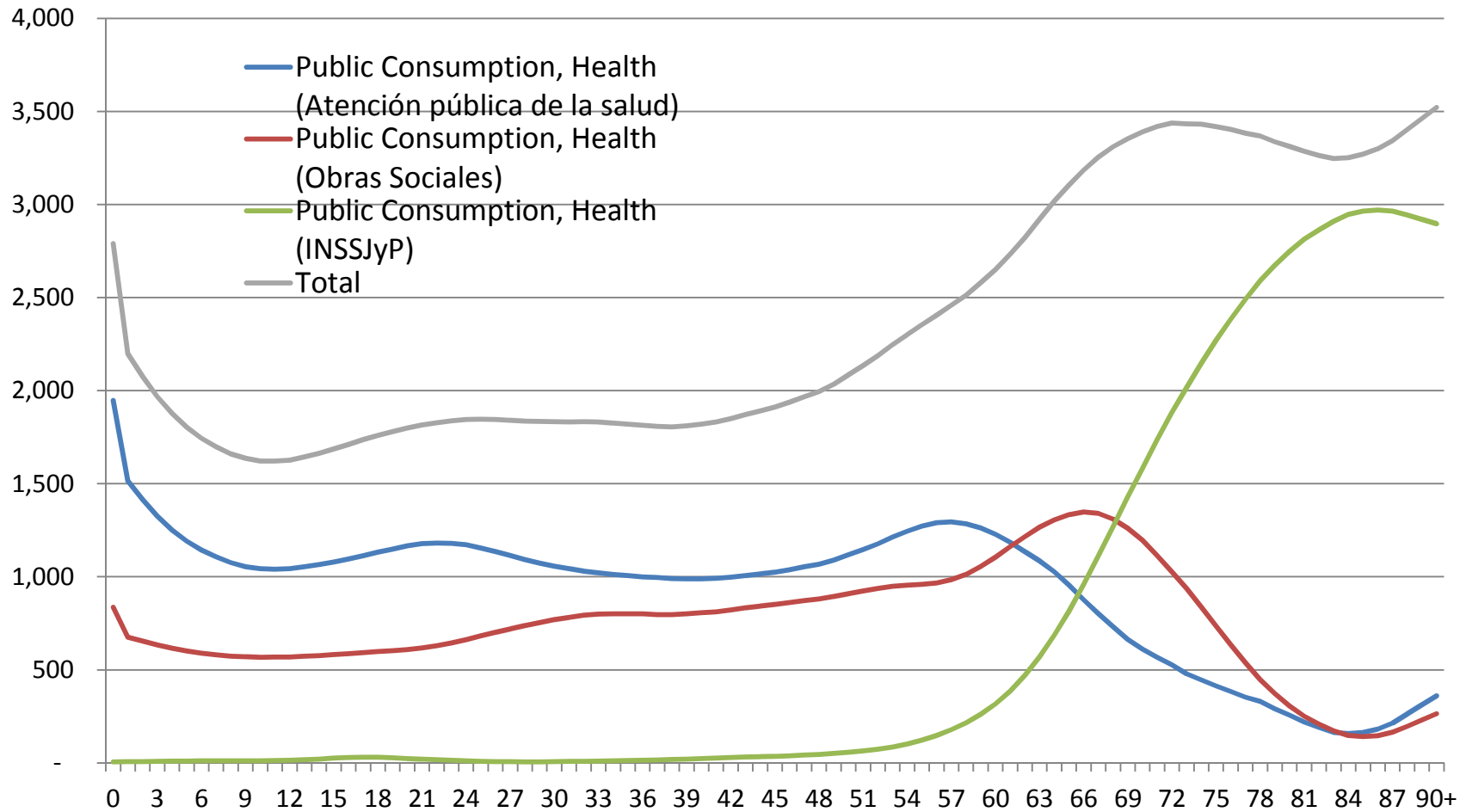
Issue: How to account for "obras sociales" (Social Security)?



Fragmented system: Social security / National , provincial, municipal / PAMI / Private

Health

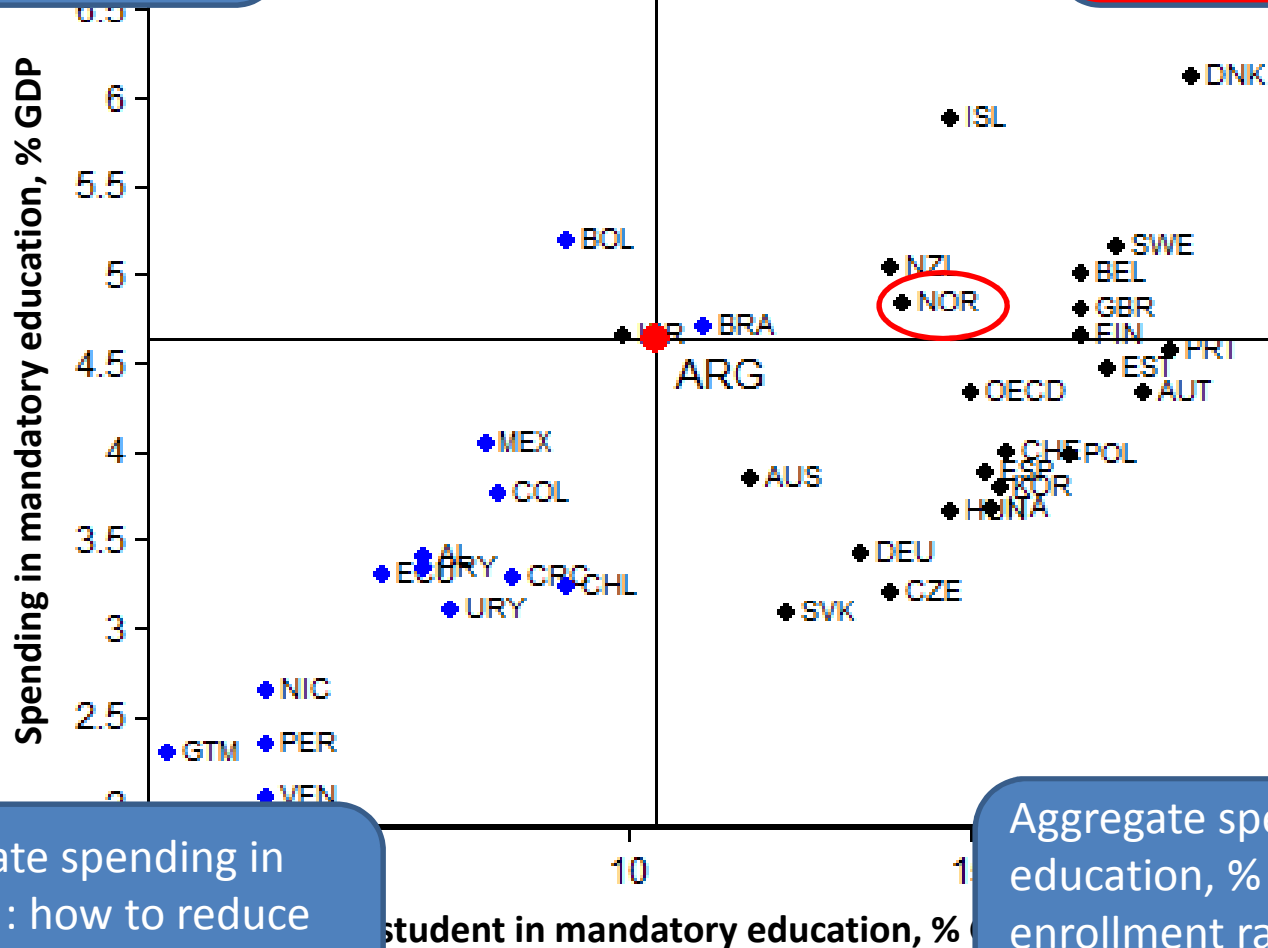
Issue: How to distribute aggregate spending across age groups?



Education

Argentina spending per student is roughly 30% less than OECD

Issue: expenditure does not ensure quality



Translate spending in policies : how to reduce drop-outs and repetition in secondary education

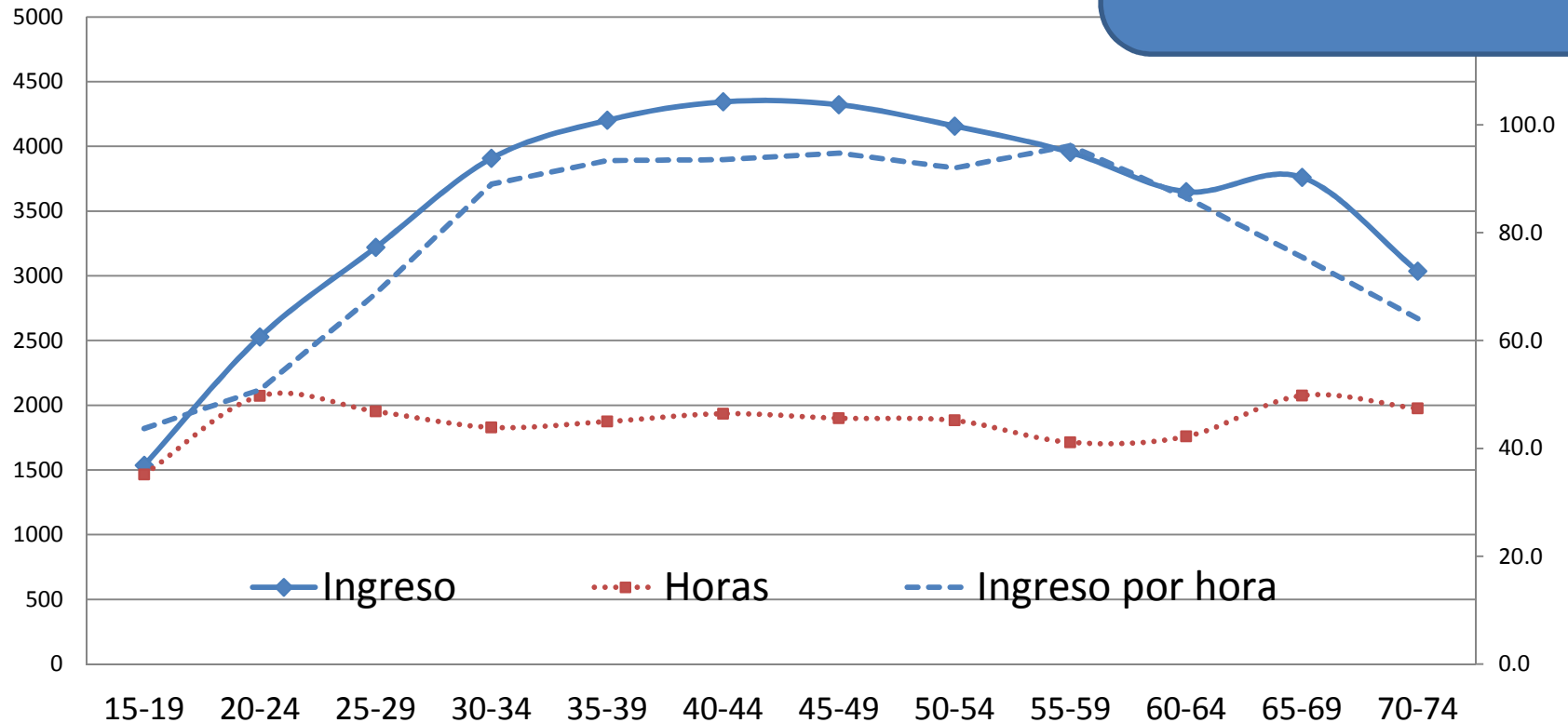
Aggregate spending on education, % GDP = Net enrollment rate * Overage rate * Dependency rate * Spending per pupil



Labor Market

Hourly wage, 2012

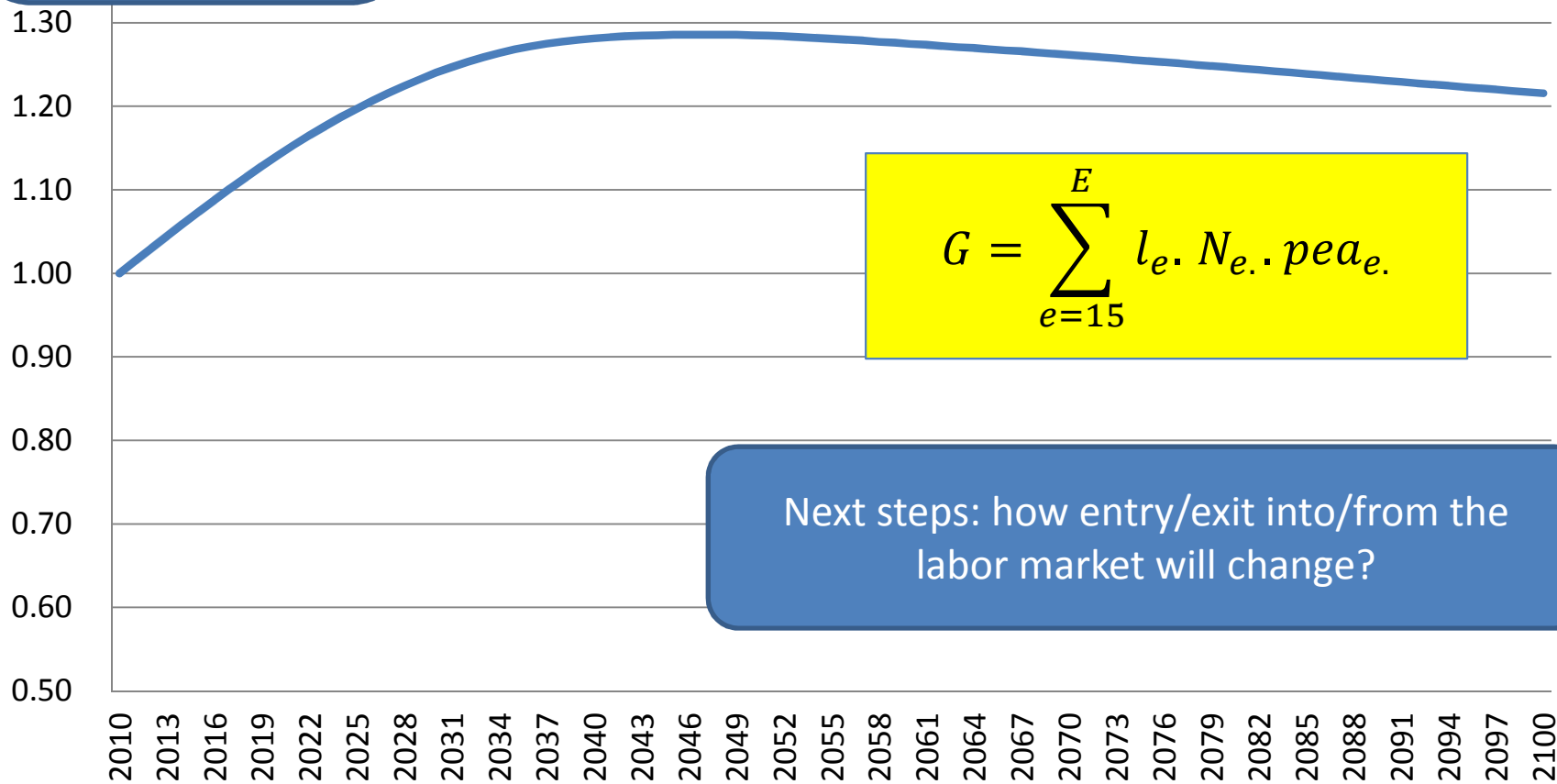
Wage as proxy of productivity: how it applies to the Argentina case



Issue: Incentives generated in the labor market affect (i) payroll-financed social spending and (ii) general revenue-financed social spending

Labor Market

Increasing share of elderly in the workforce > Implications for average productivity in the economy?



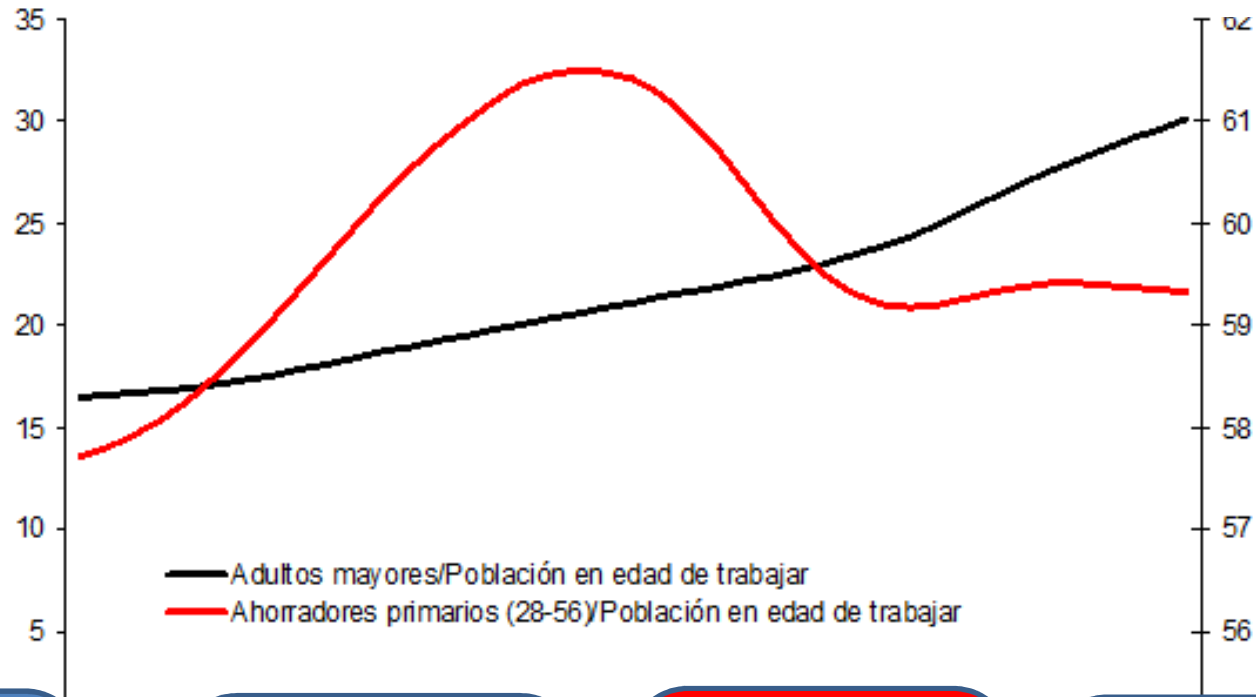
Next steps: how entry/exit into/from the labor market will change?

Public Finance Implications

- Demographic transition would imply doubling social spending in 90 years
 - Affordable? How to finance it?
 - Efficiency of tax structure
 - Tensions between sectors / Trade-offs

Saving and Growth

Prime savers and Old-age dependency rate, 2010-2100



Small first dividend > Crucial to focus on second dividend and savings



Low savings rate during the demographic dividend

Issue: How to promote a higher savings rate?

Issue: Asset-based reallocation = Domestic savings. How do foreign savings enter into the picture?

Challenges in the process

- How to put everything together?
 - Interconnections
 - Endogeneity
- How to bring in private spending?
 - Shall we do that?
- How to incorporate qualitative dimensions of social spending (together with fiscal analysis)?
 - Quality of education and health care
 - Equity issues (e.g. impoverishing effects of health expenditures)
- What can we say about short-term sectoral policies by using at a long-term model?

Merci!