

# China's Age of Abundance: An Update

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# Introduction

- China's Age of Abundance: When Might it Run Out?



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China's age of abundance: When might it run out?

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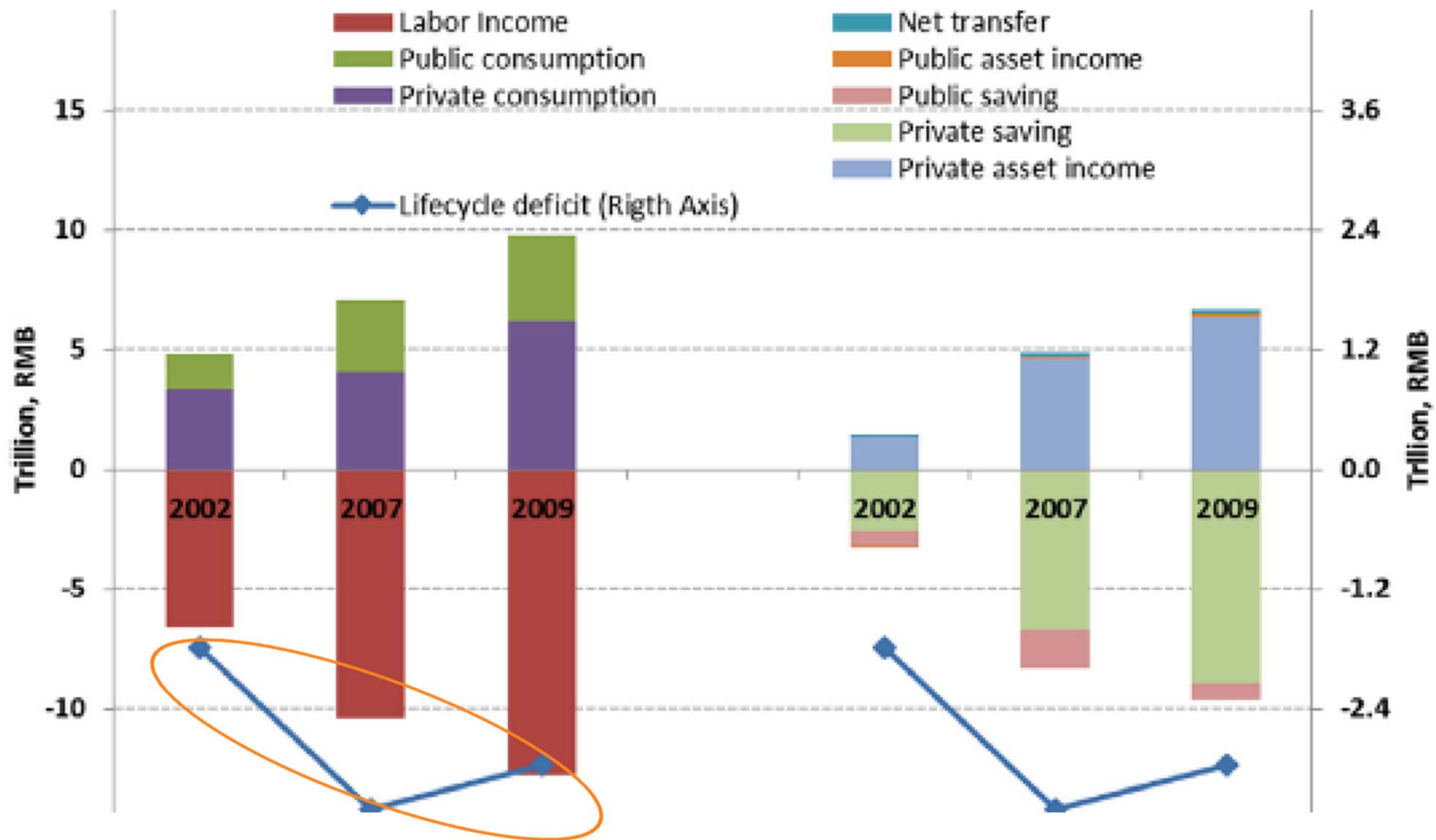
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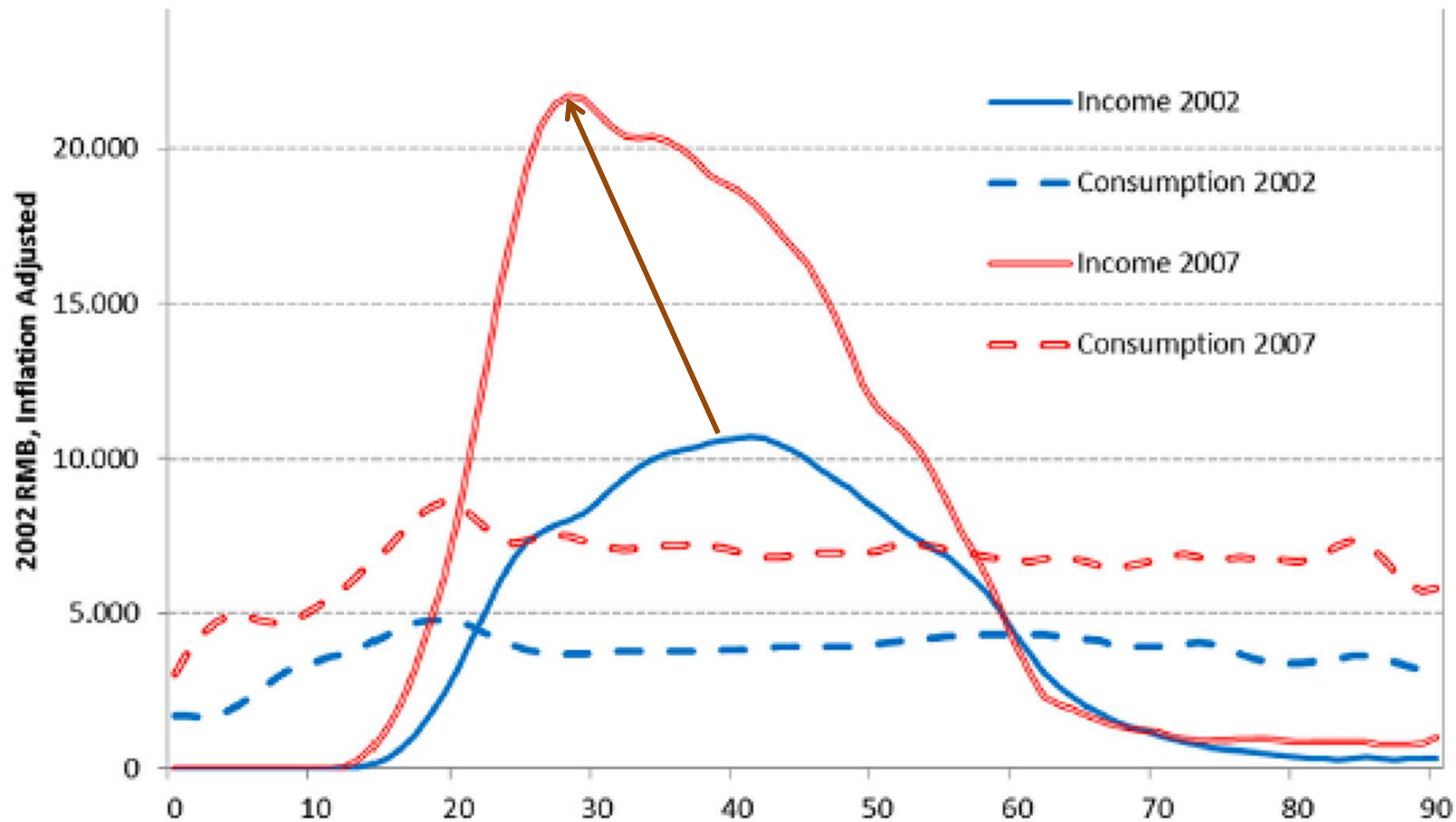
# Background

- Previous work using NTA methodology revealed:
  - Rapid income growth, savings, and moderate consumption levels result in a sizable life-cycle surplus
  - In comparison to population age structure/aging, changes in the economy, especially consumption level, are the main drivers for life-cycle surplus
  - Between the two time points of the last exercise, 2002 and 2007, substantial changes in income and consumption were already evident

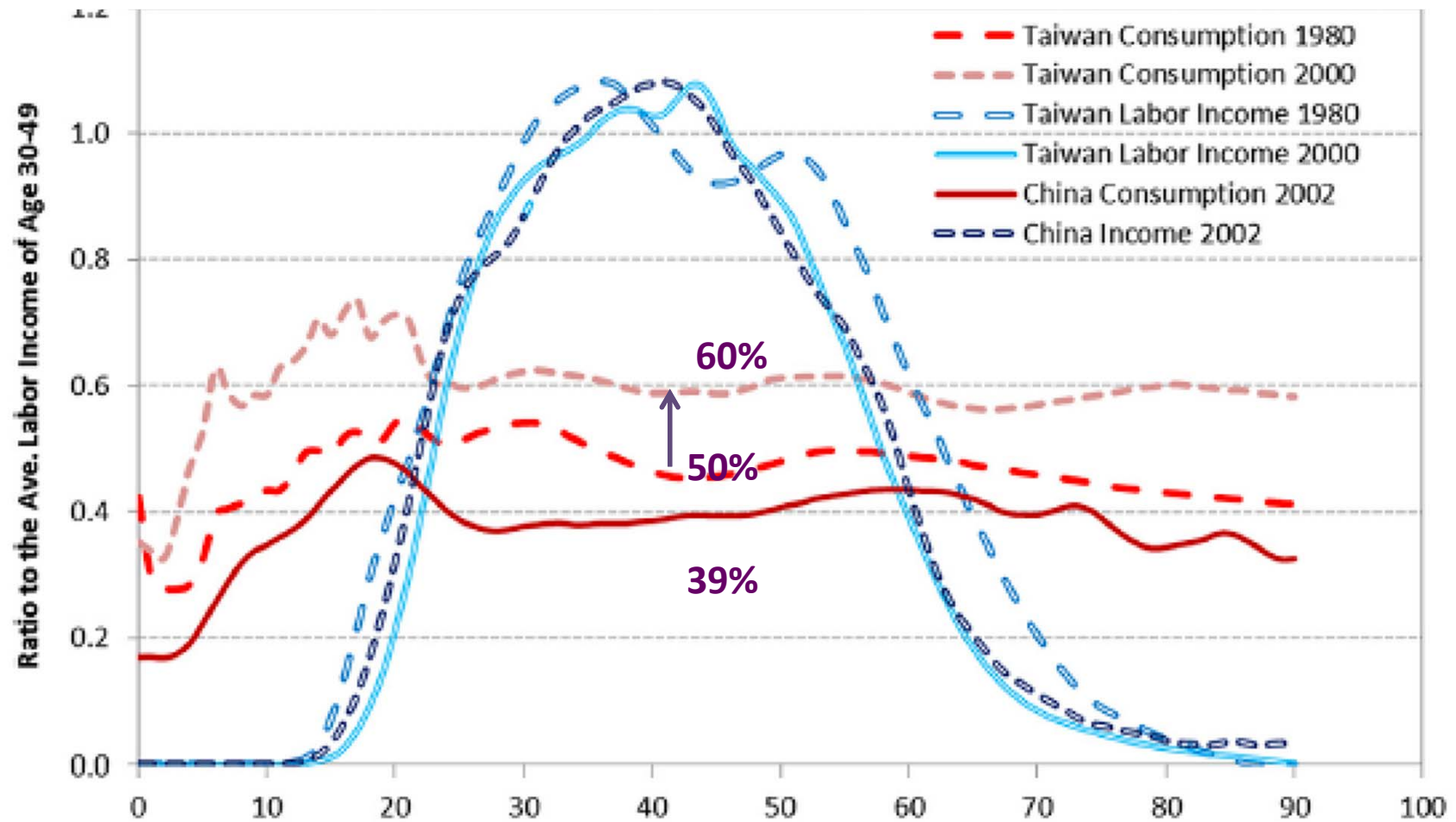
# Sizable Surplus, but Shrinking



# Income Increase Outpaces Consumption, Especially among the Young

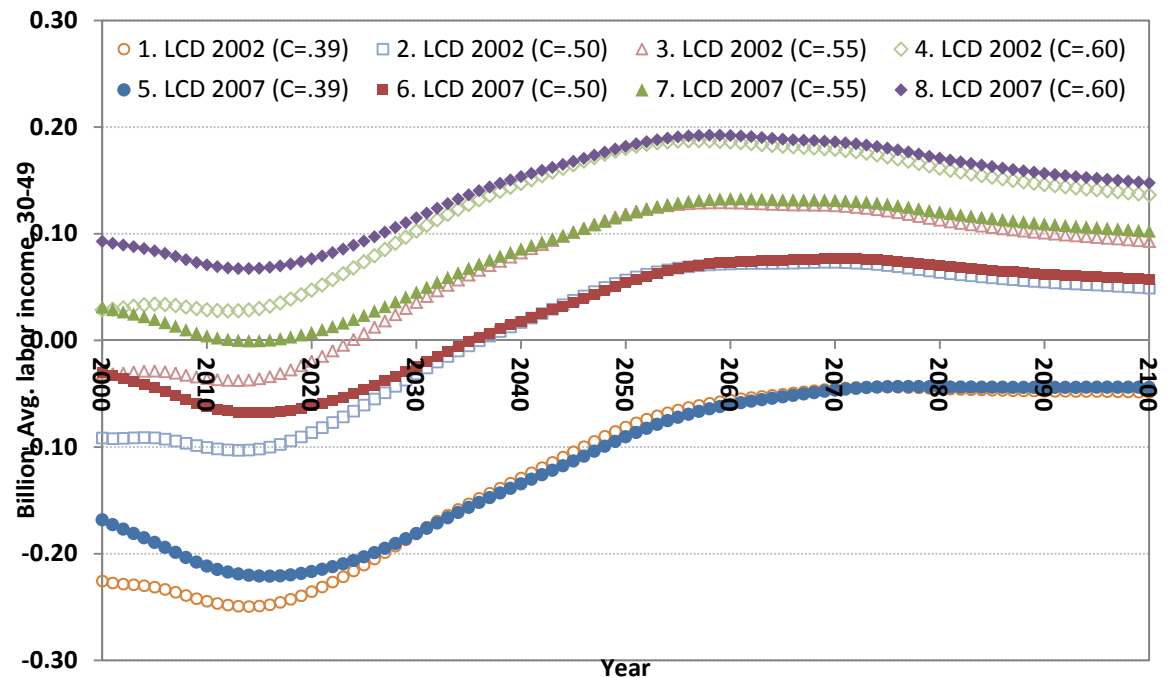


# What Happens When Income Increases: Taiwan as a Reference



# Consumption is the Key

- Even with rapid population aging, keeping consumption share at 2002 level will not exhaust life-cycle surplus (bottom lines)
- Raising consumption share to 0.50 could exhaust surplus in the mid-2030s
- Raising consumption level above 0.55 could exhaust surplus in the next 10 years



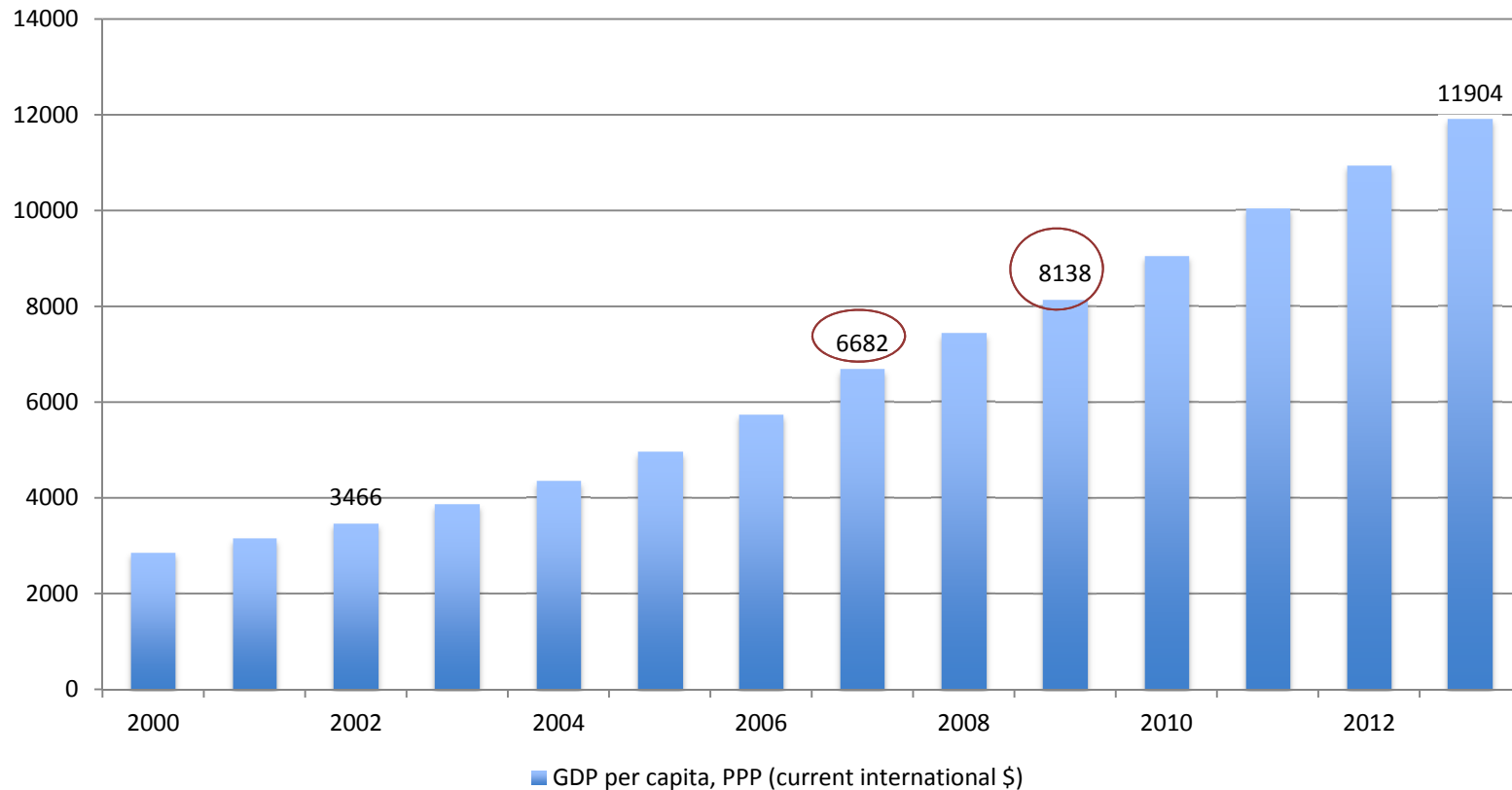
# Rationales for Updating

- Further changes in income and consumption patterns between 2007 and 2009
- Newly available micro-level data (CFPS 2010)
- Financing life-cycle deficit
- Revised population projections



# Rapid Economic Growth

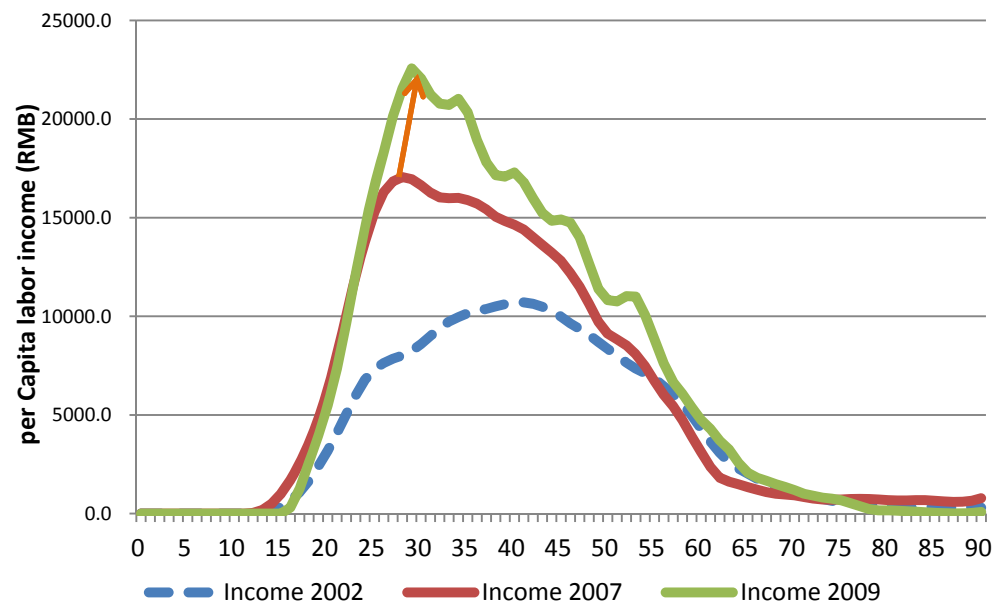
(Per capita income, current international \$, PPP)



Source: World Bank

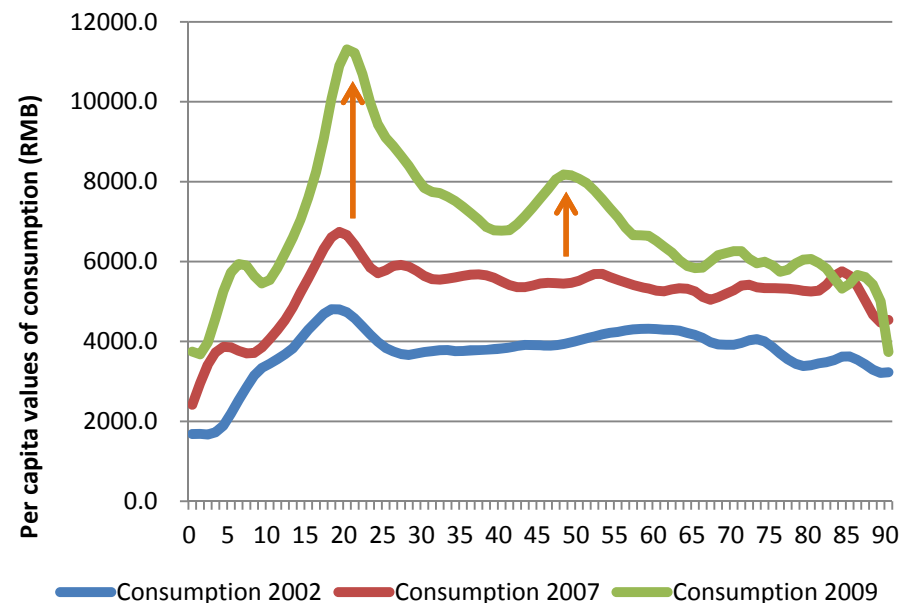
# Continued Rise in Labor Income (in 2002 prices)

- In 2 years, average income rose by 17.5%, in contrast to 43.1% in the previous 5 years
- Shift in peak earning ages started to return to “normal”
- Largest increase in absolute value still among the relatively young



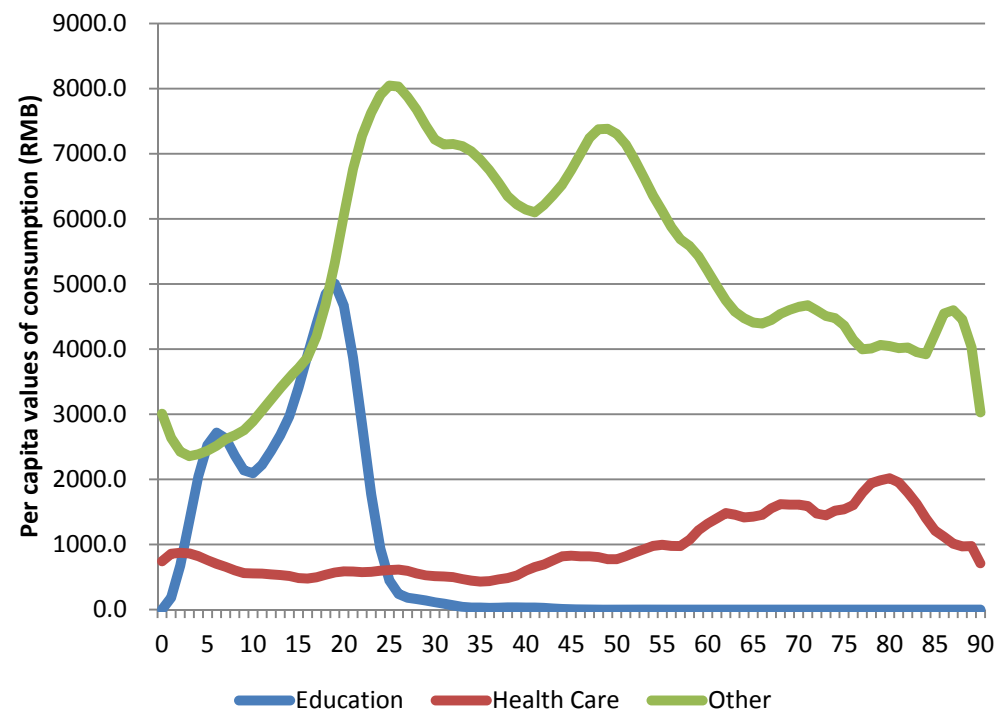
# Consumption Increase Outpaces Income Increase

- In 2 years, average total consumption rose by 38%, in contrast to 40% in the previous 5 years
- Fastest increase found among ages 18 to 26, with an increase of 50% or more in 2 years
- Fast increase also found in late 40s



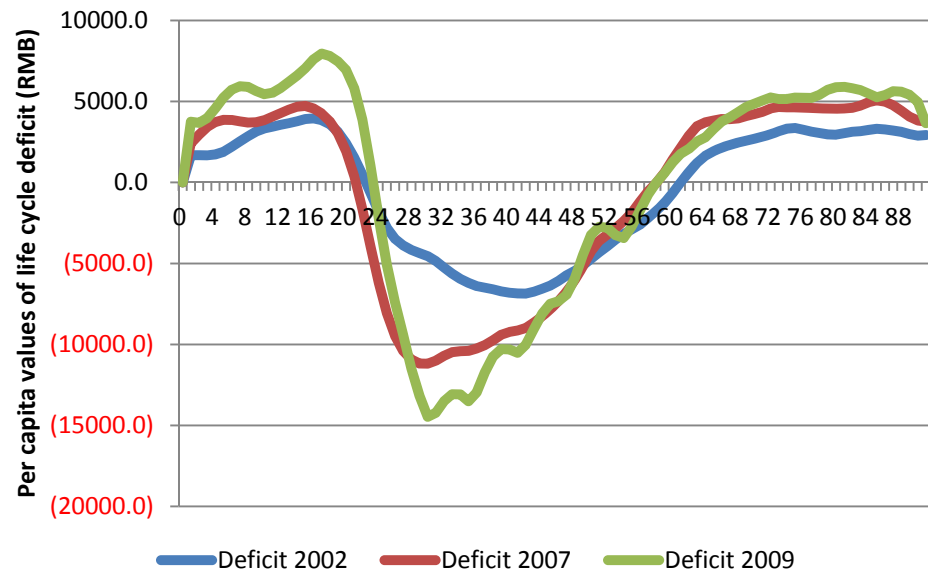
# Where Does Consumption Increase?

- Pre-school and higher education in early life
- Health care in old age
- “Other consumption” in adult ages



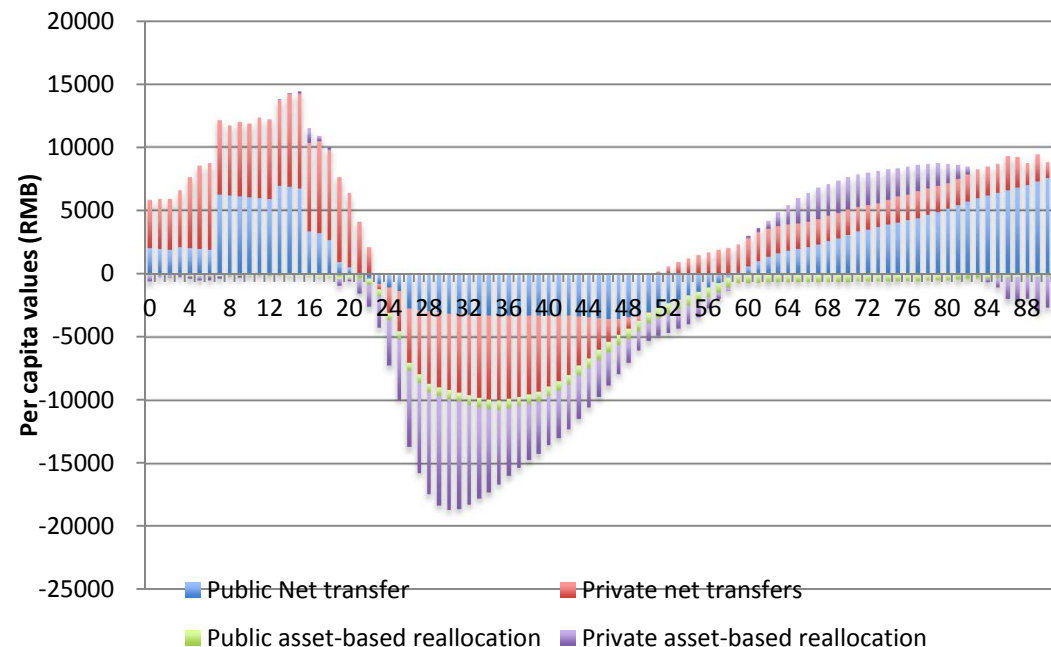
# Changes in Life-cycle Deficit

- Substantial increase of deficit in early ages
- Continued expansion of surplus in adult ages
- Little increase of deficit in old ages
- Starting age of surplus shifted from 21 in 2007 to 23 in 2009
- Ending age of surplus shifted from 59 in 2002 to 57 in 2007 and 2009



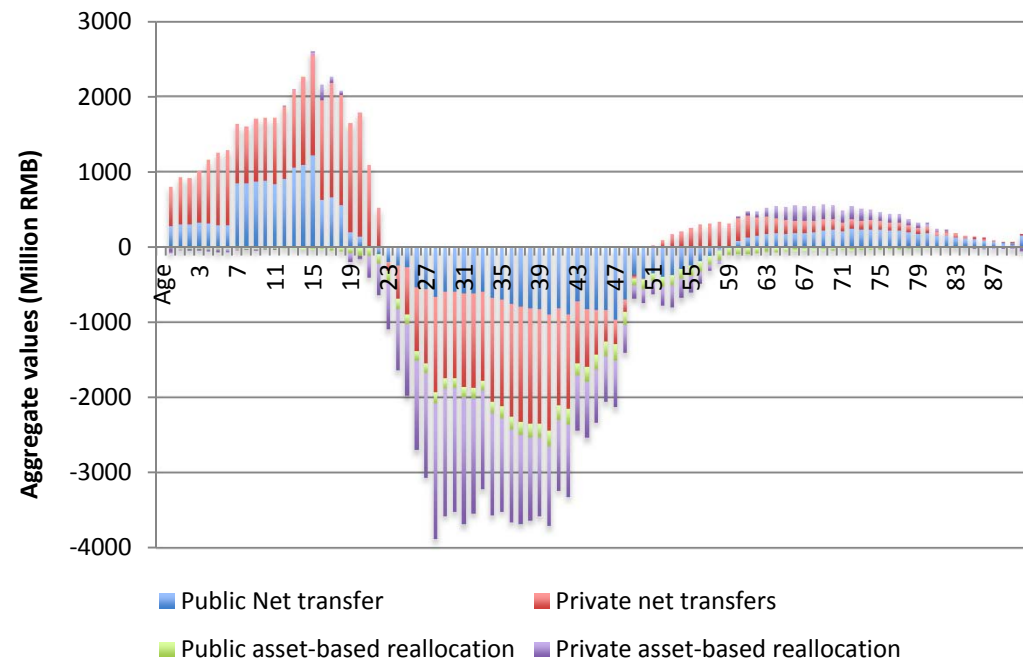
# Financing Life-cycle Deficit (Per capita, 2009)

- Early age (0-22) deficit financed by public (38%) and private transfers (46%)
- Among peak earning ages (30–49), 28% of surplus went into public transfers, 33% went into private transfers, and 33% went into private asset-based reallocation
- Among older adults (60+), 60% of deficit financed by public transfers, 34% by private transfers

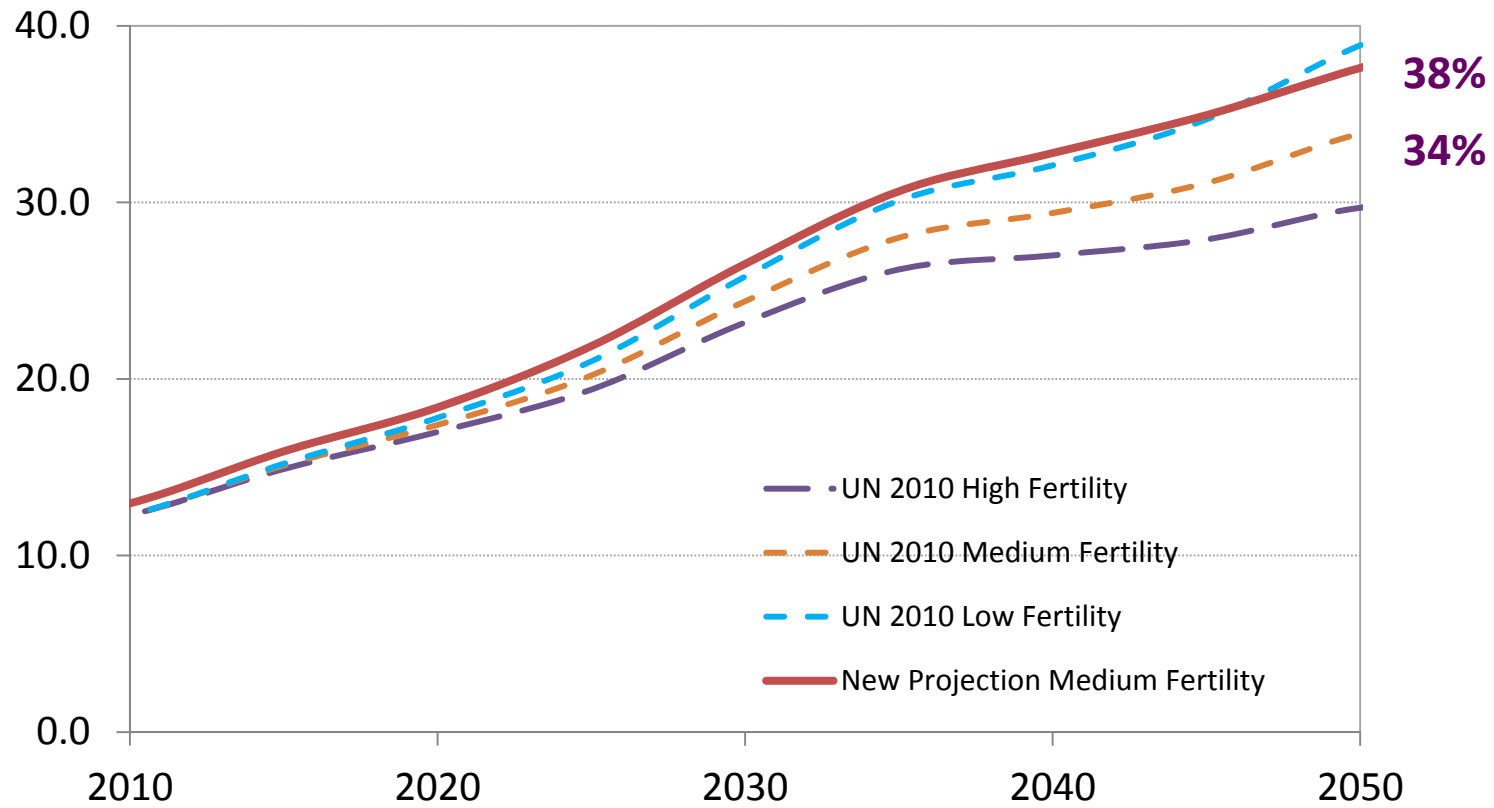


# Financing Life-cycle Deficit (Aggregate, 2009)

- Overall large aggregate surplus due to favorable age structure
- Life-cycle deficit among the old not yet a major concern
- Life-cycle deficit mostly concentrated among the young



# Projection of Population Aging (Percentage 60 and above)



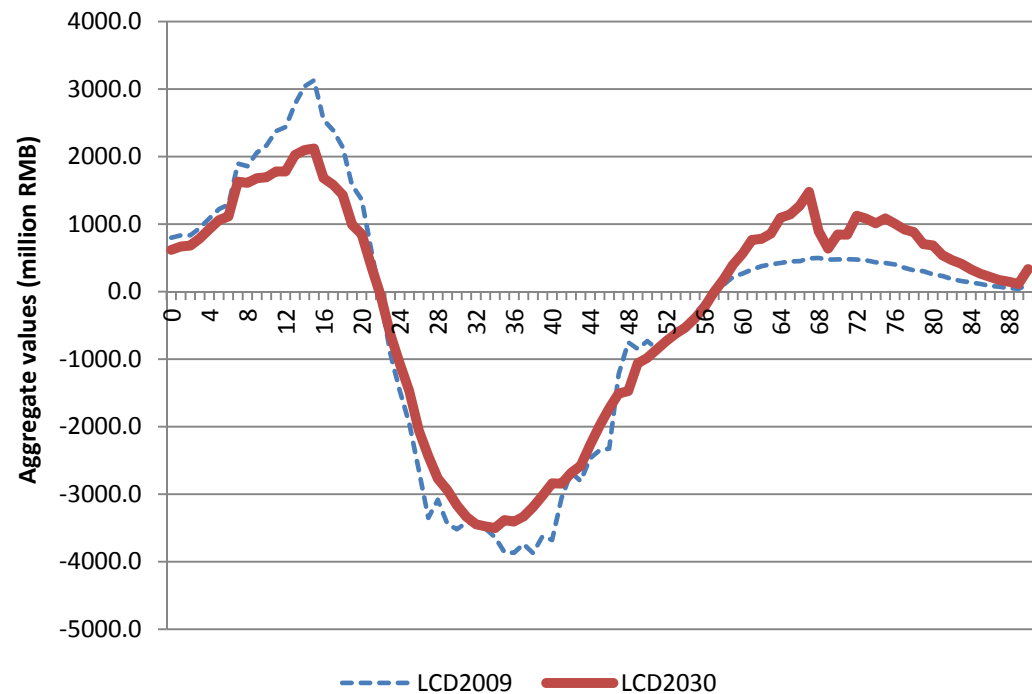
Our new projection (TFR 1.5 and higher life expectancy) results in faster aging than the UN medium-fertility scenario and is closer to the low-fertility scenario, with 38% rather than 34% elderly in 2050



# Effects of Population Aging

(Projected with 2009 profile, 2030 population)

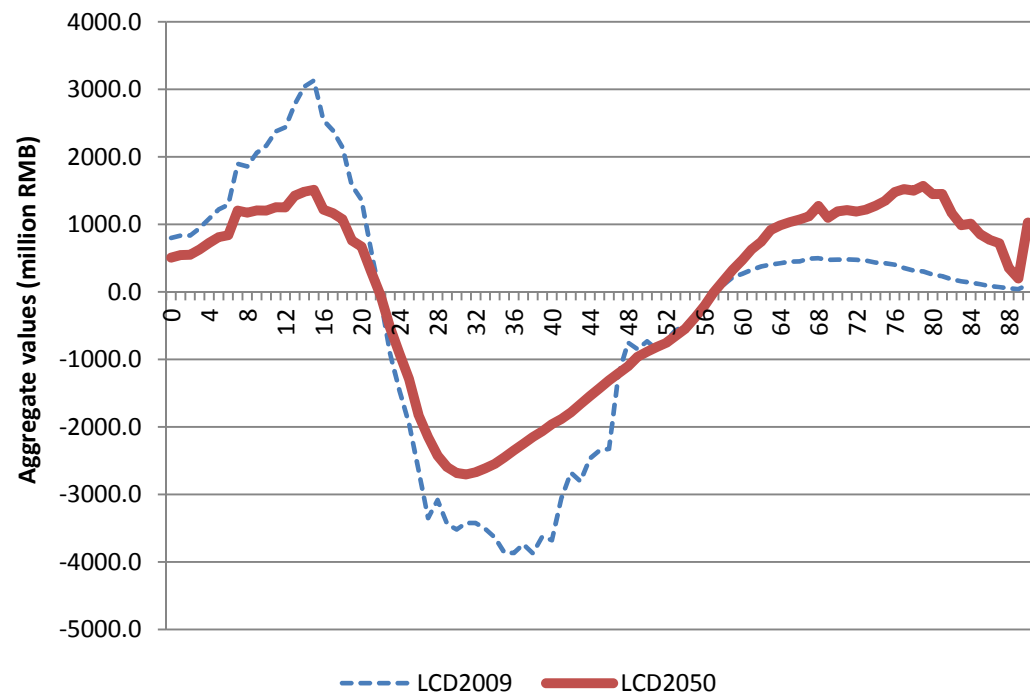
- Significant shrinkage in surplus, 35% by 2030
- Decreasing deficit in young ages due to projected low fertility (TFR 1.5)
- Deficit grows in old ages, especially very old ages



# Effects of Population Aging

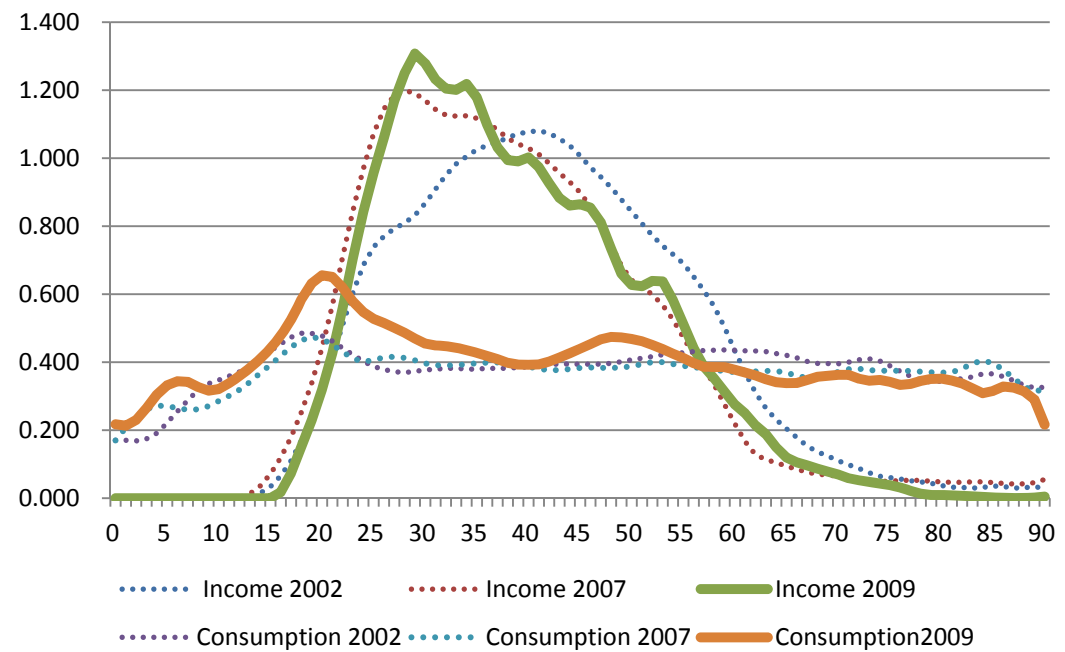
(Projected with 2009 profile, 2050 population)

- Virtual disappearance of surplus, reduced by 98% by 2050
- Substantial drop in deficit in young ages due to low fertility (TFR 1.5)
- Large deficit in old ages, especially very old ages



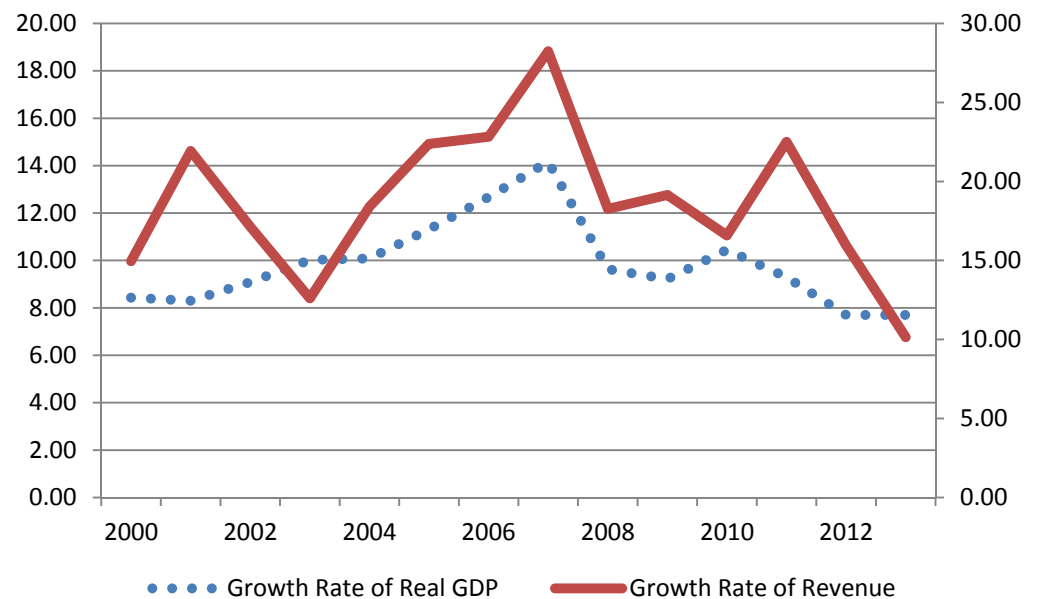
# Rising Consumption Share

- Rising consumption level is not taken into account in the previous projections
- Share of consumption did not change between 2002 and 2007, at 39%; it increased noticeably between 2007 and 2009, to 43%
- Combined, rapid population aging and rising consumption could exhaust China's life-cycle surplus sooner than expected



# Challenges of a Slower Growth Era

- China is coming to an end of hyper economic growth, with the growth rate dropping from more than 10% to less than 8% in the past few years
- Government revenue, which was growing at a rate of almost twice that of the economy, has shown an even more precipitous drop
- Slow growth in the economy and especially in government revenue could pose further challenges to social welfare programs and public transfers



# Conclusions

- China's continued economic growth and social changes are leading to rapid changes in income and consumption
- The two years between 2007 and 2009 show significant new changes, especially in consumption
- Changing consumption combined with (faster) population aging could quickly exhaust China's current large surplus
- The end of China's hyper-growth era could add challenges to financing life-cycle deficit