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?

<table>
<thead>
<tr>
<th>Social expenditures, % of GDP</th>
<th>1990: 18.6%</th>
<th>2005: 20.1%</th>
<th>2010: 27.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of working-age population</td>
<td>1990: 60.4%</td>
<td>2005: 63.5%</td>
<td>2010: 64.5%</td>
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Sustainability?  
Trade-offs?
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
The A(ging) Team

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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

NTA, established models + National and International datasets, new models → Internationally comparable, country-specific public policy analysis
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

Issue: How to account for use of public capital/investment?
Argentina’s Social Welfare System in 2010

<table>
<thead>
<tr>
<th></th>
<th>Education</th>
<th>Pensions</th>
<th>Health</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Argentina</td>
<td>High-income countries</td>
<td>Argentina</td>
</tr>
<tr>
<td>Aggregate Spending</td>
<td>4.1%</td>
<td>4.7%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Dependency Rate</td>
<td>44.5%</td>
<td>25.7%</td>
<td>18.9%</td>
</tr>
<tr>
<td>Benefit Generosity Ratio</td>
<td>9.3%</td>
<td>18.3%</td>
<td>39.5%</td>
</tr>
</tbody>
</table>

*Selected countries: Austria, Finland, Germany, Japan, Spain, Sweden*
Projecting Argentina’s Public Social Expenditures

Issue: How does private consumption enter into the picture?

Unsustainable social expenditure in the long run?

Trade-offs between sectors: possible and necessary

- Pensions = 19.2%
- Health Care: Aging + Intensified Use = 10.8%
- Health Care: Aging Only = 6.9%
- Education = 3.2%
Social Protection

Impact on poverty by type of program, 2012

- Pensiones
- Asignaciones Familiares
- Seguro Desempleo
- Pensiones < mínima
- AUH
- Actual

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

- 45% in 2010
- 38% in 2020
- 68% in 2100

Issue: How to deal with short-term uncertainty with long-term policies?

“Status quo” implies a decrease in coverage rates

Pension system crucial to reduce poverty rate among elderly
Health

Health spending by sector, 2006 - 2009

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

Issue: How to account for “obras sociales” (Social Security)?
Issue: How to distribute aggregate spending across age groups?
Argentina spending per student is roughly 30% less than OECD.

Issue: expenditure does not ensure quality.

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

Translate spending in policies: how to reduce drop-outs and repetition in secondary education.
Issue: Incentives generated in the labor market affect (i) payroll-financed social spending and (ii) general revenue-financed social spending.
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?

\[ G = \sum_{e=15}^{E} l_e \cdot N_e \cdot p(e) \]
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!