Executive summary

All OECD economies are undergoing population ageing – an increase in the share of older persons in the population – reflecting a combination of increasing longevity and declining fertility rates. The process and pace are, however, far from uniform, with ageing much more advanced in some countries than in others. Moreover, the implications on public spending, revenues and debts vary not only across countries, but also within countries, across levels of government, with many local and regional governments facing particularly heavy spending burdens as their revenue bases decline. Such burdens are especially intense in the context of the COVID-19 pandemic that puts extreme pressure on shared health systems, public safety, social care and many other locally delivered public services.

The first chapter, by Bert Brys and Céline Colin, analyses the consequences of population ageing at the sub-central government levels and introduces a “sub-central fiscal vulnerability to ageing” indicator. This indicator identifies the countries in which these government levels are vulnerable to the ageing of their populations from a fiscal perspective, both from the expenditure and revenue sides. Notable expenditures at the regional or local levels include healthcare and old-age social care in most OECD countries. The chapter finds that in order for countries to make their fiscal frameworks more “ageing resilient”, they require coherent fiscal strategies that focus on tax and spending reforms that take a whole-of-government perspective.

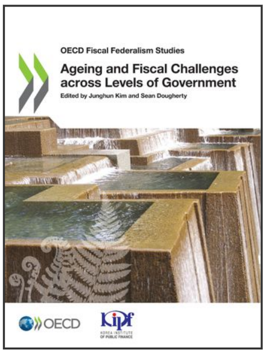
The second chapter, by Federica Daniele, Taku Honiden and Alexander Lembcke, examines how ageing interacts with productivity growth in OECD regions. In principle, the negative impact of ageing on the growth rate of per capita GDP could be offset by increases in productivity. However, for many regions, productivity growth rates have been insufficient. One reason for this is that ageing also has a direct negative impact on productivity growth, with the effect concentrated in urban areas. Cities specialise in sectors such as tradable services, where the content of tasks makes it difficult to automate many stages of the production process, while at the same time, a key driver of productivity growth, business dynamism, is negatively affected by demographic change.

The third chapter, by Fanny Kluge and Tobias Vogt, looks at the fiscal impact of population ageing within Germany. The analytical results show the long-term fiscal implications caused by different ageing patterns, and find considerable differences among states or municipalities. While some metropolitan areas are attracting younger inhabitants and even growing, certain regions and peripheral areas are suffering from out-migration and rapid ageing. While in general, the expenditure burdens of state and local governments are not increasing, revenues in many regions are decreasing markedly, due to a decline in the working-age population under existing retirement schemes. Extending retirement ages or reforming the fiscal equalisation system could help to address these gaps.

The fourth chapter, by Christine Wong and Randong Yuan, looks at China’s ageing challenges. The country is facing a “population ageing tsunami”, with the share of the population aged over 65 expected to double between 2010 and 2030. The chapter examines the workings of the main pension programme currently covering more than 400 million workers and retirees. The fragmentary programme is managed mostly at the city and county levels. The system has stymied previous consolidation efforts, although recent central government reforms have strengthened its governance. To improve equity and the long-term sustainability of the programme, it will need to be extended to cover younger migrant workers and strengthen their incentives for participation.

The fifth chapter, by Fernando Filho, Cássio M. Turra, and Afonso Arinos de Mello, presents future public spending projections for Brazil from its demographic transition. The end of the demographic dividend will affect spending on education, health, social security, social programmes and long-term care services. Education expenditure is expected to decline as the population ages, while health and long-term care spending will increase significantly. However, the chapter finds that the biggest overall challenge will be the payment of social security benefits, putting at risk the sustainability of government finances. Thus, the most urgent task for all levels of government is to pursue comprehensive social security reforms that will ensure basic government functions in the coming years.

The sixth and final chapter, by William Robson and Alexandre Laurin, examines inter-governmental fiscal arrangements in Canada. Transfers from Canada's federal government to provinces, territories and local governments account for about one-fifth of the revenues of those governments, and about one-third of federal programme spending. The chapter argues that such large transfers can undermine accountability and foster unsustainable fiscal policies. Demographic change will dampen the growth of government revenues in Canada and push programme spending up, particularly at the provincial level. Responding effectively will require a mix of tax increases and spending restraint from provinces, ideally combined with pre-funding of some programmes.



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