

A Comment on Prof. Chun's paper

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Introduction

- A very excellent research of the LCI on population aging in Korea, by using Generational Accounting (GA).
 - Because his job seems to be a big challenge, I have believed Prof. Chun-san to be a too “tough” or “smart” gentleman
- The research covers;
 - 1) Projection of Long-term Care benefit and revenue
 - 2) Computing generational distribution of Net Tax Burden
 - 3) GA's Analysis (under 9 policy Scenarios)
 - Growth Rate (gr) = 1.5%
 - Discount Rate (r) = 3.5%
 - 4) Two Sensitivity Analyses
 - Growth Rate change ($gr = 0.5\%, 1.5\%, 3\%$)
 - Discount Rate change ($r = 2.0\%, 3.5\%, 5\%$)

The setting of this gap is very important., because it affects the GA's result dramatically.

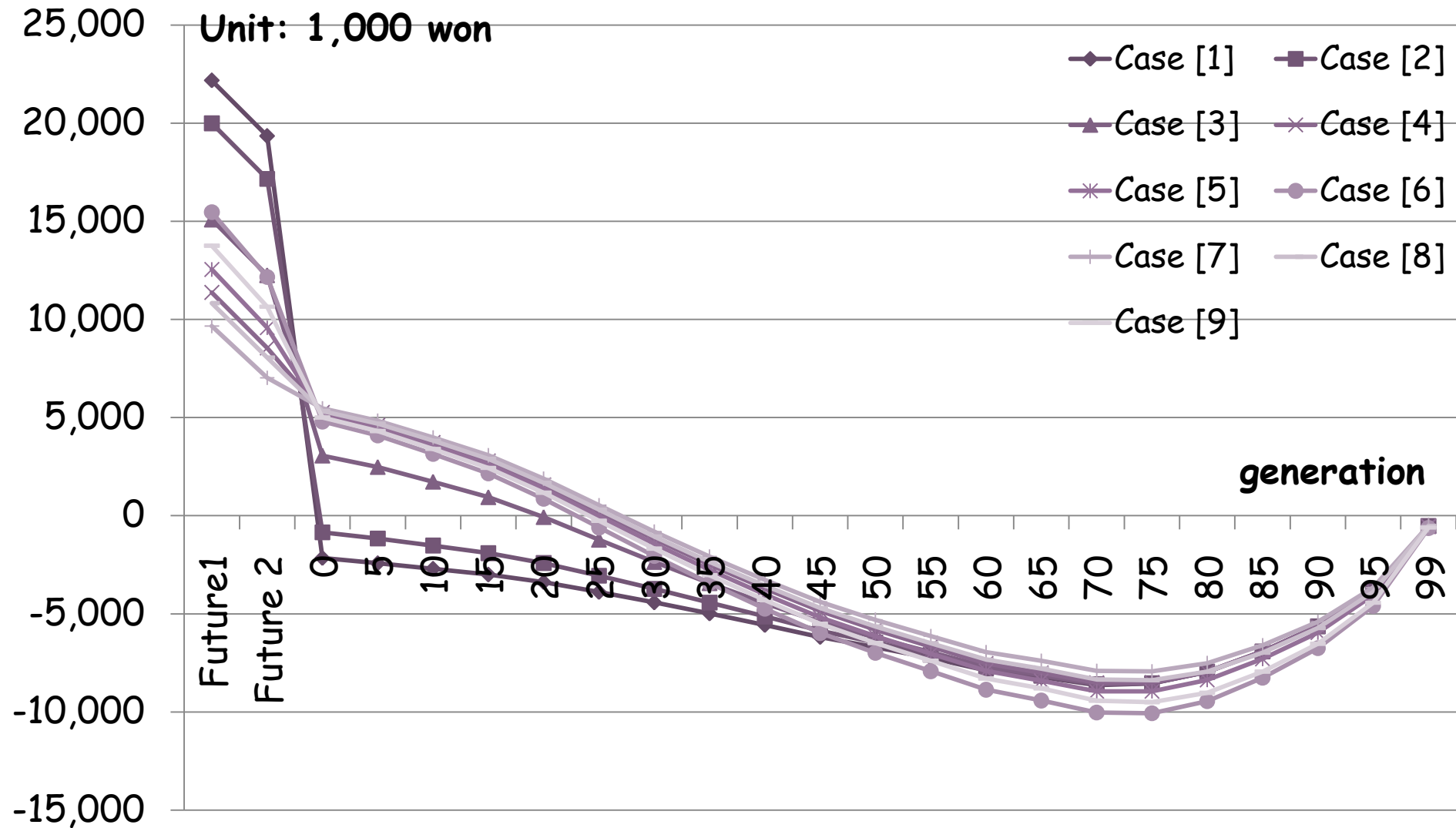


Main Results

- **PAYGO system will create larger burden for future generations**
 - Population of Korea will be rapidly aging, as well as that of Japan
 - 1) Long-term care (LC) benefit is projected to rise to 1.5–1.6% of GDP in the long-run.
 - 2) LC contribution rate, measured as proportion of NHI contribution revenue, needs to rise from currently 4.05% to about 80% until around 2060.
 - 3) **The lifetime net fiscal burden of 2040 (2080) newborns is about 153% (190%) of that of 2008 newborns.**



The Lifetime Net Fiscal Burden



Source: Chun's Paper

Background of Analysis

Zero-sum Game of Intergenerational Transfer

- **Current (implicit) debt = Sum of future surplus**
 - Intertemporal government budget constraint
- **If current implicit debt is unchanged, then “no” policy will change the right hand side of the above equation**
 - If some generations are better off, then other generations will be worse off.
 - Sum of benefit for some generations will proportionately offset the loss of other generations



Comments

- **How much is the implicit debt of health care and long-term care system in Korea ?**
 - In Japan, some economists estimate : Health care and Long-term care debt : 80% of GDP
- **How should we share the burden of the above debt between the current and future generations ?**
 - First, we may have to discuss the definition or the concept of “intergenerational equality”
 - ✂ See Arrow & *Suzumura* (2002), *Handbook of Social Choice and Welfare*, North Holland
 - Second, in an aging economy, it is better to keep **the accumulated funds** or to introduce **the prefunds**, if the government is concerned with the burden of future generations
 - ✂ See Fukui and Iwamoto (2006) , Suzuki (2008), Oguro (2007)



Minor Questions

- How much is the net fiscal burden rate, measured as proportion of the lifetime income of each generation ?
 - Generally speaking, it can be expected that the net fiscal burden affects **not only the lifetime income** of each generation, **but also its labor supply**
- What is the intensity level of “intergenerational altruism” in Korea?
 - Barro (1974) pointed out that, if parents have intergenerational altruism, **the theorem of Debt Neutrality** is satisfied.
 - ※ See Barro (1974) " Are Government Bonds Net Wealth?, " The Journal of Political Economy, Vol. 82, No.6, pp1095–1117.



My Specific Concerns

- I'm also a staff in MOF, Japan. Therefore, I am interested in some practical public management issues of the Korean LTC system.
- Please let me know the following policy actions of the Korean Government.
 - 1) Coordination between health care and long-term care: medical care as a prevention of LT care
 - Relative generosity of benefits for patients in LT care hospitals (covered by health insurance) and those in LT care institutions (covered by LT care insurance)
 - Relative level of fees for LT care hospitals and LT care institutions
 - 2) Supply, Efficiency, Quality of LT care institutions and providers
 - 3) Training and supply of LTC workers
 - In Japan, it is pointed out that there is huge lack in supply of LTC workers :
the average wage of LTC = ¥ 220,000 (per month)
the average wage of all other industries = ¥ 300,000 (per month)

