

Global Trends in Domestic savings and Longevity- Implications for India

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ABSTRACT

Demographic dividend and the lowest median age among the earning population propels consumption and growth in India. Among the emerging economies, China had the leverage for growth through exports until 2008. India benefited by demographic dividend and this translates to providing income and thereby increases savings. On the other hand, the developed countries are experiencing problems of an aging economy, a deflationary scenario, and a pension burden. India, with its major workforce in the unorganized and private sector, needs to recognize the need for forward-looking policies that stimulate savings for a better lifestyle post-retirement. The study was focussed on the relationship between longevity (life expectancy), and domestic savings. The research observed divergence between the developed nations and India. A more futuristic policy action is suggested to motivate savings as the increase in population and higher levels of economic growth can be achieved with more domestic savings.

KEYWORDS

Domestic Savings, Granger Causality, Longevity, Panel VAR

INTRODUCTION

Developed economies around the world have once undergone the highest growth trajectory, which helps them expand and reach the leader of growth among the other countries. Some economies have well-designed strategies and implemented forward policies to address the retired citizens while the others had restricted population growth and are witnessing aged population and deflation. The governments across the globe shifted to a defined contribution system acknowledging that the current system cannot suffice the growing aged population in terms of pensions. The developed countries have witnessed problems with underfunded pension systems. The Citibank reported

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that “The total value of unfunded or underfunded government pension liabilities for 20 countries belonging to the Organization for Economic Co-operation and Development (OECD) — a group of largely wealthy countries is \$78 trillion.” The study included the richest nations as classified by the OECD, U.S., Canada, Australia to name a few.

Many countries increased the retirement age as an immediate response to reduce pension outlay. Prior literature suggests some policy action to increase savings, by providing benefits, increasing financial literacy could have aided the citizens in building a large corpus. Eventually, citizens would be forced to work post-retirement to manage the expenses. The aging demography precedes the medical cost associated with it. The technological advancement has made every disease curable but at a cost. To enable the citizens to manage the increase in cost post- retirement, and to build a larger corpus, private savings are being initiated with incentives to savings to ensure that the retirement kitty is large enough to address the issue.

In this context, the research was focused to study the life expectancy, Per capita income, savings, GDP and population of developed and developing countries. The model of the variables is built to understand the developed countries and any implications that can be drawn to aid the policy makers of the developing country in particular India. The policy actions at all developing countries and India should be to incentivize long term savings, promote financial literacy and to attain higher standards of financial inclusion. The second section covers the review of literature and research gap for the study. The third section describes the objectives, hypothesis to be tested and model for the study, section four discusses the data analysis and inferences of the topic covered and, finally, the fifth section would conclude the results with implications followed by the scope & implications.

LITERATURE REVIEW

Longevity and the rise in the life expectancy across nations of the world have been daunting the policymakers, pension funds, and the insurance companies. Many developed countries have had issues in the recent past of failures towards higher payouts to the pensioners. The actual survival age in many developed countries is higher than in most developing countries. The various studies indicate that the savings have also been increasing to meet the consumption post-retirement. Longevity raises the rate of savings and physical capital accumulation. Some countries had initially a higher tax rate due to public education (Zhang, Zhang, & Lee, 2003).

The rising inflation also is a hindrance for the investment companies to deliver returns beating inflation. The various studies in this context have been on aggregate savings level and longevity, the research findings observed that in certain conditions, the hypothesis of the economic theory supports that increase in longevity leads to a higher aggregate saving in steady state (Sheshinski, 2009) & (Bloom, 2002). The holding period of the assets also was longer when classified for permanent income distribution and the findings observed high permanent income people kept large assets

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