Does Aging Population Strain on Economic Growth in Sri Lanka?

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Introduction

Increase in life expectancy and the decline in fertility rate increase the elderly population in a country making an imbalance in the population pyramid. By the year 2050 approximately two billion people will be aged 60 years and over and 400 million people will be aged 80 years and over globally (United Nations, 2013). Population aging has become a global phenomenon which has significant impacts on economic areas and it is both a triumph and a challenge. Increase in aging population increase old age dependency ratio. According to Hock and weil (2012), increment in old age dependency ratio is expected to reduce the disposable income of the working population and lead to further decline in the fertility rate.

Theoretically, according to Bloom et al., (2003), increase in aging population makes positive, negative or neutral effect on macroeconomic growth in an economy. Physical capacity, consumption preferences and needs will change when an individual is getting old. An aging population leads to lower labor-force participation which will directly affect the country's level of production, savings, taxation, transfer of wealth from one generation to another and finally to slowdown the economic growth. According to Prettner (2013), older individuals tend to save more and as a result, they provide more resources for investment, which positively affects economic growth. Lee and Mason (2007) indicated that increase in the elderly population will reduce the per capita income of all three generations of child, working group, and retiree and lead to a net decrease in the family's total consumption level.

Both the developed and developing countries are currently facing economic problems of global population ageings which affect economic growth dynamics of consumption and saving patterns (Albuquerque and Lopes, 2010; Li et al., 2012), human capital (Sharpe, 2011; Gobel and Zwick., 2012), and public social spending. In the very near future, Sri Lanka is becoming a country having the oldest people in the non-developed world and also one of the fastest aging countries in the world, like a more developed country. The proportion of elderly population in Sri Lanka is higher among the South Asian countries. In 2001, over 9% of Sri Lanka's populations were 60 years of age and over, which is a relatively large elderly population for a developing country (United Nations,2003). Therefore, it is essential to examine the burden of aging population and prepare long term plans and innovations to mitigate the adverse effects of population aging. Hence, the current research and development and government policies should have to concern aging population in the country. In the context of increasing aging population, the time series analysis of the relationship between aging population and economic growth will be a significant research area for a developing country like Sri Lanka which was less focused before.

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