

**Comments on “Fertility Policies and Social Security  
Reforms in China: Global Ramifications  
in the 21<sup>st</sup> Century”,  
by Prof Nicholas Coeurdacier and Prof Keyu Jin**

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# Summary

- The paper analyzes the domestic and international effects of China's fertility policies and institutional reforms on global savings, interest rate, and social security programs.
- The paper finds that the impact of scrapping one-child policy and other institutional reforms depend crucially on whether binding fertility constraints are in place.
- The paper also that Chinese reforms can strengthen sustainability of US social security system.

# Contribution to literature

- In contrast to existing literature, which takes fertility and demographics as exogenous, this paper allows for endogenous response of fertility to social security reforms
- To do so, the paper develops an open-economy, overlapping generation model in which fertility decisions, capital accumulation, and social security reforms are endogenously determined.

# Comment 1: One-child policy

- Is the one-child policy binding?
  - A central underlying assumption of the paper is that there will be a significant fertility response to the relaxation of the one-child policy.
  - But is this the case?
    - Urban, middle class China follows in Korea and Japan's footsteps
    - Already, a lot of exemptions --- rural, minorities, and so forth
- Going forward, the policy may not be so binding
- In any case, are there any studies which look at the potential impact of relaxing this policy? Please cite.

## Comment 2: Labor market participation of elderly

- Related to comment 1, perhaps it might be better to take demographics as exogenous and focus instead on elderly labor market participation
  - A key stylized fact of today's China is its rapid population aging, which has huge socio-economic ramifications
  - The elderly can decide how much to work, and this depends on social security, and has further feedback effects on social security
- Perhaps a model in which the elderly's work decision, capital accumulation, and social security reforms are endogenously determined
- Endogenize “demographics”, or more precisely, workforce

# Comment 3: Safe versus risky assets

- How would the model behave if there would be a distinction between safe and risky assets?
  - In the model the pension fund invests in the capital of the firms while in reality pension funds mostly in safe assets
  - The US plays a major role in providing safe assets, including to China
  - Does the US's role as the global provider of safe assets have anything to do with its fertility rate?

# Comment 4: Human capital

- Can human capital and education be added to the model?
  - Human capital could play an interesting role, and bring the model closer to reality
  - The higher skill level of the US workforce relative to China's workforce is a major asymmetry between the two countries
  - This is relevant for the model since it affects investment in children

# Comment 5: Other comments

- Is there any empirical research on the relationship between savings in China and fertility rates in the US?
  - This would help back the results of the open-economy policy experiments with fertility policies
  - A more direct effect on US social security sustainability would be via China's growth and its effect on US growth
- Fully funded versus PAYG social security system
  - The paper does not distinguish between fully funded and PAYG pension systems. I don't think that fully funded pension systems matter, but this should be clearly stated.