Aging and Local Government Spending: Evidence from Program-Level Budget Variation

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Abstract

This paper examines how population aging affects the size and composition of local government spending in South Korea. Using project-level budget data from 226 municipalities (2016–2023) and an instrumental variable strategy based on historical demographics, we estimate the causal effect of aging on per capita expenditure. We find that a higher elderly population share significantly increases spending, particularly in social welfare and agriculture-related programs. This effect is driven mainly by programs co-financed by central or provincial governments—such as the Basic Pension and senior employment initiatives—whereas programs funded solely by local governments show little response. Importantly, we find no evidence that increased elderly-related spending crowds out expenditures for younger age groups. These results underscore the pivotal role of intergovernmental transfers in absorbing the fiscal pressures of aging. As Korea undergoes rapid demographic transition, our findings raise important considerations about the long-term sustainability of existing transfer systems and the fiscal autonomy of local governments.

Keywords: Population aging; Local government; Public spending; Fiscal decentralization; Intergovernmental transfers

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