

CHAPTER 7: CONCLUSION

The simple OLG model of capital accumulation originally studied by Diamond (1965) doesn't guarantee that equilibrium will be optimal. Optimality and steady states occur when there is a relatively small capital stock. Some of the findings in this research are simply due to the intrinsic characteristics of the model whereby contribution is mandatory, derived only from labour wages, and benefits received at old age come from the current contribution which is assumed to be a mere transfer (i.e. not treated as a productive resource).

With constant population growth rate per period, higher social security contributions will erode private savings of the young thus aggregate (national) savings and put upward pressure on the equilibrium rate of interest. Consequently, an increase in interest rate will have income and substitution effects while affects savings in the opposite direction. Therefore, social security has two effects on private savings. **Firstly, it reduces private savings because it substitutes for household assets. Nevertheless, secondly, it also increases private savings because it lengthens the period of retirement over which accumulated assets will be spread.** Several studies had found that social security induces earlier retirement, which indirectly lead to higher savings.

With constant social security contribution rates, when there is high population growth rate per period, there will be less savings per head, hence reduce capital accumulation in the long run. *With increase in both the social security contribution rates and population growth rate per*

period, the population growth rate has a deeper impact onto all the macroeconomic variables.

We shall distinguish between short-run effects, i.e. the effects in the period when social security system is introduced and the long-run effects, i.e. the steady-state effects. The magnitudes of the short-run and long-run effects differ mainly due to the fact that while in the short-run, the capital stock, savings, wages and consumption path of a decision maker are not affected. In the long-run, more precisely a generation later, all the macroeconomic variables will be affected by a social security system.

In Malaysia, social security was established in an era when population is still young and the number of contributors still far outweighed the number of beneficiaries. The limitations of this research is that the model adopted and the assignment of parameter values in the simulations are largely for analytical purposes and represent the case of Malaysia only to a certain extent, but not in any strict sense. It is surprising that the introduction of social security system further lowers the consumption at old age, especially when the consumption of the young generation is reduced because of the mandatory contribution and postponed at the same time because of the higher exchange rate. Looking at both the negative (macroeconomic) and positive (demographic) effects of social security, thus, further to this research study, an appropriate social security reform should then come within the framework of national plan as a rhyme quoted the importance of social security in Malaysia:

"Rice may be one cent a ton;

Without a cent nothing can be done!"