

## **Abstract**

This paper investigates fiscal and population policies in an emerging economy with a significant informal sector with a trend of rapid population aging. Workers in the informal sector do not pay labor income taxes and usually do not receive benefits of public insurances that differs from developed economies. The literature studying demographic change and economic growth has discussed the benefit of fertility reduction in early stages of development because it lowers the dependency ratio and increases education investment. However, nowadays, the fertility rates in many developing countries are already low and expected to face population aging and declining labor force in the near future. Is low fertility still good for economic development? In addition, because the underdevelopment of social insurance, aging may cause serious social problems in emerging economies. International organizations usually encourages a development of pension and universal health insurance. Is the development of social insurance financially sustainable with the challenges of aging and large informal employment? This paper develops an overlapping generations (OLG) model with endogenous fertility and education choices. Individuals also choose to allocate labor between formal and informal sectors. We use Thailand as an example for quantitative analysis because roughly 60 percent of its workers are in the informal sector, and it has recently developed a public pension and a universal health insurance systems. With a calibrated benchmark, we quantitatively investigate the impacts of aging on education investment, government taxation, informal employment and economic performance. We also discuss the population and related public policies in the aging economy and assesses their effects on economic performance and welfare.