

Generational Economy and Demographic Dividends

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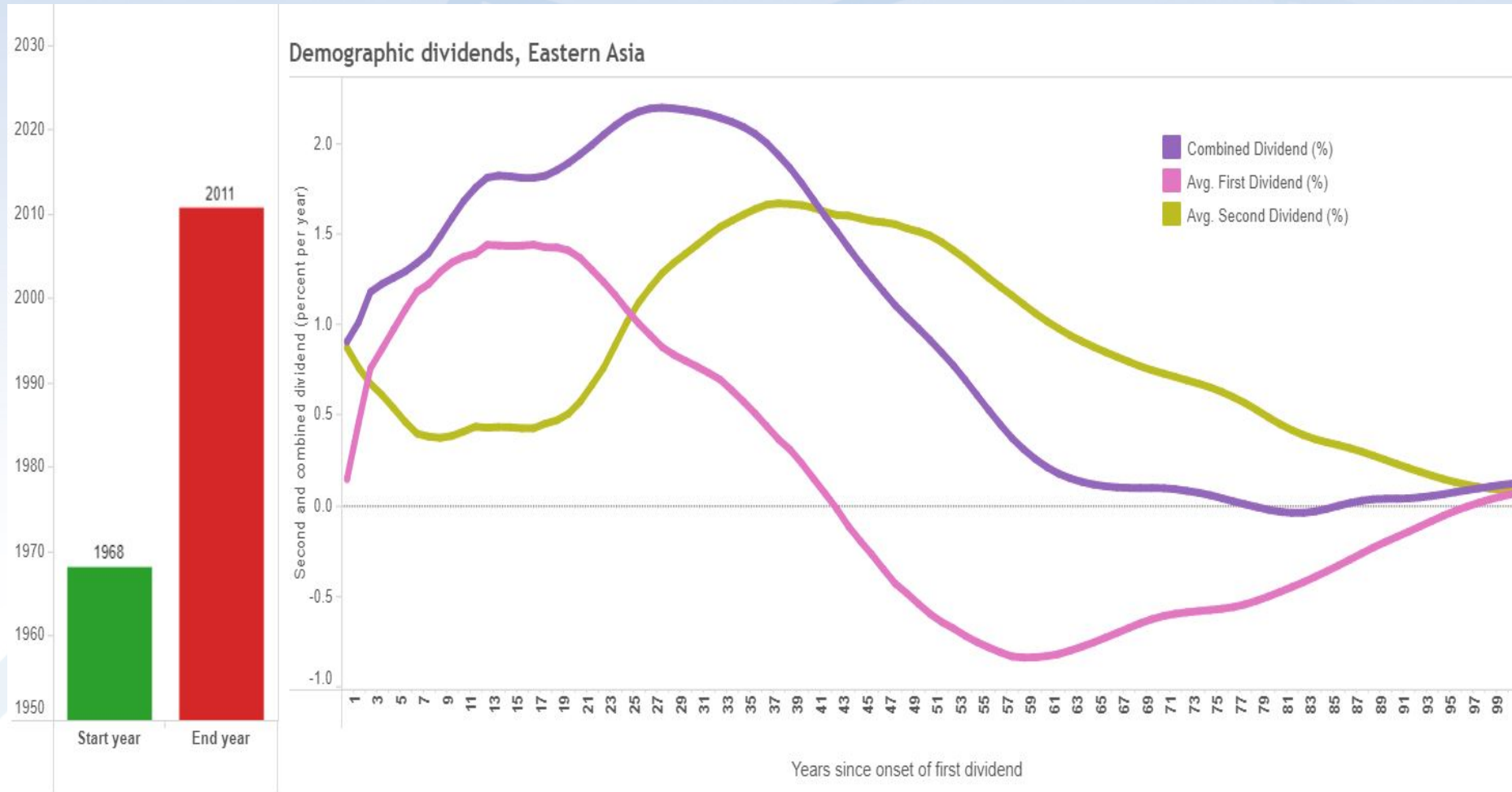
Population Change and Generational Economy

1. **1st demographic dividend**
 2. **2nd demographic dividend (capital deepening)**
 3. Human capital investment
 4. Support system (income security) for the elderly
 5. **Fiscal sustainability**
 6. Inequality and poverty
 7. Gender (counting women's work)
 8. Health and healthcare
 9. Retirement, pension, and labor market
 10. Immigration, population policy
- Others such as the effect of COVID-19.

1st and 2nd Demographic Dividend

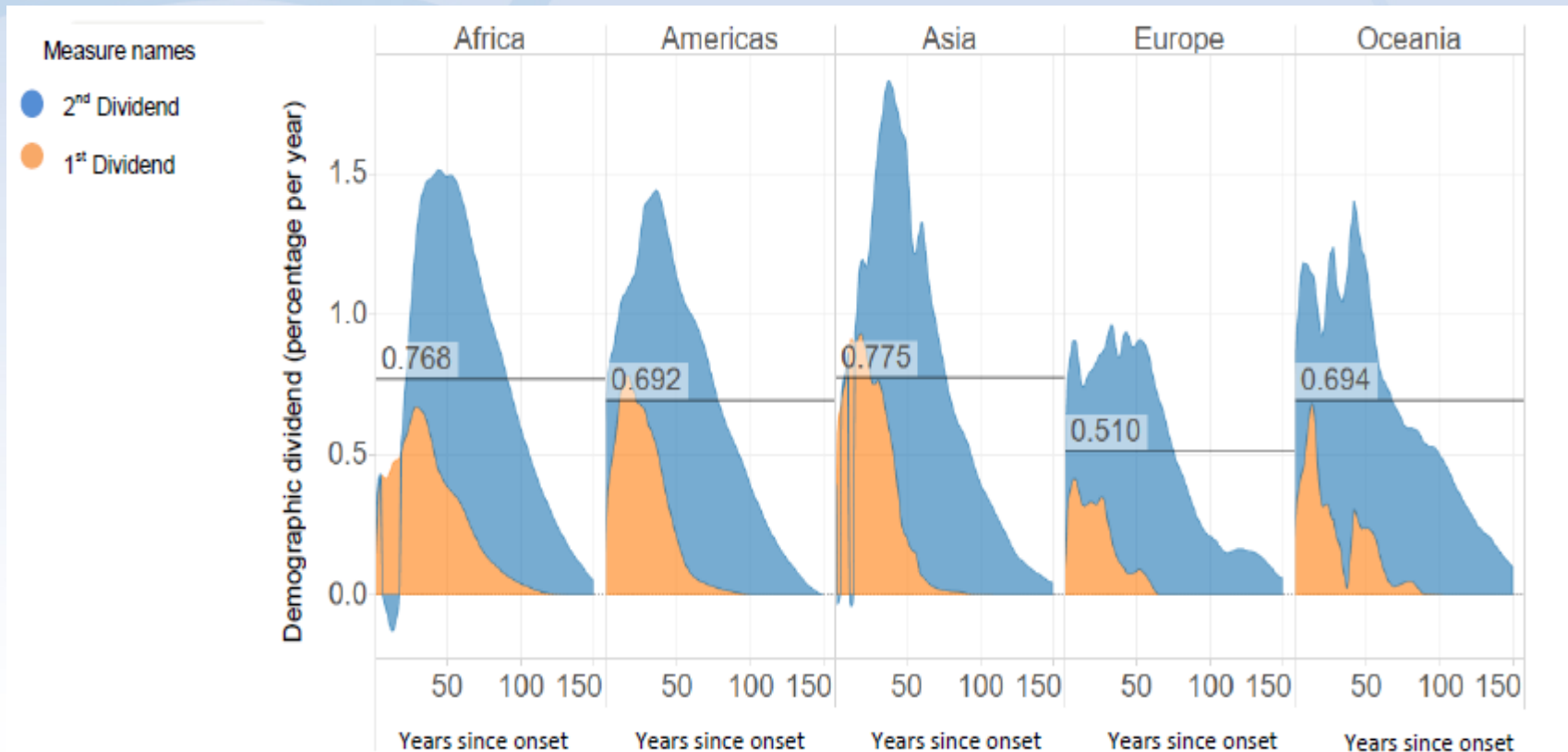
- The 1st dividend will vary in the future due to
 - Demography: the speed and timing
 - Labor patterns of workers, esp. older workers
 - Spending patterns of elderly vs. younger people
- Population aging also leads to a 2nd dividend
 - To fund the old-age consumption in excess of labor income, individuals must accumulate lifecycle wealth
 - Asset-based reallocation leads to increase in capital per worker
 - Higher per child spending on health and education
- Public policy can influence outcomes through each channels

The 2nd DD can be larger and last longer than the 1st DD



Source: Mason et al, 2017.

1st DD vs. 2nd DD by Region



Note: Values based on simple average of values for 164 countries for the first dividend and 112 countries for the second dividend. Average values refer to the average for the combined support ratio. For more details on variables and calculations see text.

Source: Mason et al, 2017.

Robust public support for seniors would also lead to unsustainable levels of public debt

- Effects of aging on new public debt in East Asia will be very substantial over the next 20 years.
- Effects will be impossibly large after 2040.
- In Southeast Asia, aging will have little or no effect until after 2040.
- In the Philippines, the results signal the need to strengthen programs for seniors.

Public debt solely due to aging			
Percent of GDP	2020	2040	2060
China (PRC)	2.2	105.5	476.9
South Korea	2.2	150.6	826.6
Taiwan	0.7	58.3	341.2
Japan	4.8	144.8	708.9
Indonesia	0.6	25.6	124.9
Philippines	-2.8	-89.4	-424.4
Singapore	-1.4	-9.4	41.2
Thailand	-0.8	-1.7	57.0

Source: Lee, Mason, and Park , 2021 forthcoming.

Policy Responses

- Labor patterns
 - Improve the school to work transition
 - Improve the work to retirement transition
 - Raise or eliminate mandatory retirement policies
 - Address low productivity of older workers through continuing education programs and employment practices
- Consumption patterns
 - Efficiency of spending on education and health including long-term care
 - As health improves, spending on young elderly for health and retirement could be reduced

Policy Responses (cont'd)

- Public sector
 - In some cases, reduced per capita spending on seniors will be necessary → has an implication on the 2nd DD as well.
 - In other cases, programs for seniors need to be strengthened (continuing education/training, digital divide)
 - Greater revenue will be needed in all cases.
- Demography
 - Develop effective responses to low fertility
 - Address the scope for immigration policy
- Broad reform is essential
 - Rethinking what it means to be old
 - High productivity and good health must be maintained to later in life

Sources

- S-H, A. Mason, and D. Park, 2021 forthcoming, “Aging and Debt”, in B. Ferrarini et al. (eds), The Sustainability of Asia’s Debt. Cheltenham, UK and Northampton, MA, USA, Edward Elgar.
- Mason, A., R. Lee, M. Abrigo, and S-H Lee, 2017. “Support Ratios and Demographic Dividends: Estimates for the World”, UN DESA Population Division, Technical Paper No. 2017/1 (United Nations: New York)