

# Generational Economy and Demographic Dividends

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# Population Change and Generational Economy

1. 1<sup>st</sup> demographic dividend
  2. 2<sup>nd</sup> 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.

# 1<sup>st</sup> and 2<sup>nd</sup> Demographic Dividend

- The 1<sup>st</sup> 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 2<sup>nd</sup> 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 2<sup>nd</sup> DD can be larger and last longer than the 1<sup>st</sup> DD

Source: Mason et al, 2017.

# 1<sup>st</sup> DD vs. 2<sup>nd</sup> DD by Region



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.

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





# 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)