What is demographic dividend?

Demographic evolution leading to ‘demographic dividend’ in Pakistan

Mechanisms that can influence the ability to capitalise on demographic dividend in Pakistan, and their implications

Conclusions and policy implications
Population Growth: Good or Bad?

The pessimists: who believe that population growth restricts economic growth.

The optimists: who think that population growth can promote economic growth.

The neutralists: who propose that population growth has no relation with economic growth.
Population size and growth have remained main focus of debate.

Coale and Hoover (1958), brought age structure dynamics in this debate, arguing that sustained high fertility and falling mortality make governments and households burdened with high youth dependency rates, lowering tax revenues and household savings.

Economists have recently begun to focus on the impact of changing age structure of the population moving beyond the Malthusian emphasis on population growth—an interest triggered by the demographic transition taking place in the developing countries.
Demographic Dividend

The potential economic benefits offered by changes in the age structure of the population, during the demographic transition, when there is an increase in working age population and an associated decline in the dependent age population. As a net effect rate of growth of the labour force exceeds that of the total population.
Lifecycle Consumption Model

![Graph showing lifecycle consumption model. The graph plots age on the x-axis and amount on the y-axis, with lines representing income and consumption. The graph illustrates a common lifecycle pattern where income increases until a certain age, peaks, and then decreases, while consumption mirrors the trend.]
Young and the old tend to consume more than they produce, unlike working age population, which contribute more to output and savings than they consume.
Origins

The term ‘demographic dividend’ has its origin in a study of the East Asian growth carried out by Bloom and Williamson (1998). They used aggregate quantitative data to carry out cross-country econometric regressions to identify the role of changing age-structure in the economic take-off in East Asia, and found demographic dividend to account for between one-fourth and two-fifths of East Asia’s “economic miracle”.
“…… in the early stages of the demographic transition, rising youth dependency burdens and falling shares of working-age adults diminish the growth of per capita income, as the transition proceeds falling youth dependency burdens and rising shares of working-age adults promote the growth of per capita income. The early burden of having few workers and savers becomes a potential gift, as is proportionately high share of working-age adults. Later, the economic gift dissipates, as the share of elderly rises.”

(Bloom and Williamson 1998:429)
Demographic Transition and Demographic Dividend in Pakistan

Crude Death and Crude Birth Rates: Pakistan 1950-2050
Total Fertility Rates: 1950-2050

The graph shows the trend of total fertility rates from 1950 to 2050, with three scenarios: High, Low, and Medium. The rates are depicted on a logarithmic scale, with the x-axis representing years from 1950 to 2050 and the y-axis representing fertility rates. The High scenario shows the highest fertility rates, followed by the Medium and then the Low scenarios, which show a steady decline in fertility rates over time.
Share of Different Age Groups in Population (%)
The Changing Shape of Pakistan: 1950-2050
Pakistan: Timing and Duration of Demographic Dividend
Implications of Demographic Dividend for Pakistan

- Labour supply
- Savings
- Human capital
Age-sex specific LFPRs 2005-2006
Age-Sex Specific Unemployment Rates 2005-2006
Projected Population aged 15-64: Total, Male, and Female (millions)
Savings

An inverse relation exists between dependency ratio and savings- young and old consume more than they produce, while working-age people produce more than they consume and can save, which can contribute to economic growth.

Despite consistent real GNP growth rate of around 6% per annum, Pakistan’s saving rate continues to show an almost horizontal trend over years. Household income has been found to be the prime factor influencing saving behaviour in Pakistan and various studies found a strong inverse relation between dependency ratio and savings in the country.
Savings are important at both national and personal level. At the national level, savings are needed to finance investment and growth, while at the personal level they are vital to maintain a standard of living through period of retirement. This is truer for Pakistan where no state security or pension system exists and individuals are primarily reliant on their own savings during older ages.
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<th>Level of Education</th>
<th>Total</th>
<th>Male</th>
<th>Female</th>
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<td>0.7</td>
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<td>Below matric</td>
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Labour Force Survey 2003-2004
Population at Different Educational Levels: Pakistan 1950-2050

(Millions)

- Primary
- High
- Post high
Conclusions-I

Increasing numbers of people are entering the working-ages in the country which can act as a double-edged sword- if they do not enter the labour force the very logic of “demographic dividend” is defied, but if they do become economically active it poses a big challenge to the country’s economy to provide them gainful employment.

With its poor current educational state, training and educating the ever increasing population for a changing economic scenario is another test confronting the country.
Importance of savings cannot be over-emphasised for reasons ranging from personal to national, and with the increasing elderly population in the absence of any state planned social security system its significance is heightened even more.

Fifteen years of the “dividend”, which will end by 2045, have already gone by without much gain and in absence of any immediate measure Pakistan will have an aging population that is uneducated, untrained and little savings to rely on.
Policy Implications

Key areas of focus in this regard include:

1. **Education**

   Education and training are vital to determine the productivity of human resources. This cannot be gained by just improving the basic enrolment rates but by providing relevant and quality education. Interventions are needed to upgrade the educational system by including provision to develop skills to meet the demand of a more flexible labour force in the new economy.
To accommodate the growing number of people in working ages would be a major issue for the country. New areas need to be explored to provide employment to the ever increasing numbers. Sectors that could provide an opportunity to increase employment can be construction activity, warehousing, transport, retail shops, and other service industries.
3. Incentives for savings

People tend to save only if saving is secure and profitable. To promote saving price stability is critical, as motivation to save is higher in environments with low inflation. Bad fiscal management, political instability and corruption, among other factors, can discourage people to save. Making transparency and efficiency in financial institutions are important for increasing savings.
4. Public health and family planning

i. Health is an important determinant of economic performance, but it becomes even more important keeping in consideration a growing elderly population in the country.

ii. The number of women in reproductive ages would be at an all time high in the coming decades and to maintain the declining trend in fertility family planning needs have to be taken care of in the country with increased vigour.
Endnote

Demography provides policymakers a crystal ball to formulate policies for tomorrow’s world.

What this crystal ball tells right now is that time is running out to put appropriate policies in place, the absence of which may result in large-scale unemployment, and immense pressure on health and education systems. In short a socio-economic crisis may take place making the demographic dividend more of a demographic threat.
“The changes in age structure define possibilities, but by themselves do not determine the outcomes”, said Mason.

It is thus in our hand what we make of it - a dividend or a threat!
Korea 1950-2050
From ‘Demographic Dividend’ to an Old Population