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BEYOND THE FIRST DIVIDEND: SUSTAINING THE SECOND DEMOGRAPHIC DIVIDEND

As a result of a “first” demographic transition, age structures of populations become older. Economically, people often move into higher-paying jobs and countries experience higher per capita income. These social and economic changes motivate people to accumulate greater personal wealth—a process known as the “second” demographic dividend. This second dividend operates in two ways:

- **Greater Accumulation of Wealth.** Lower fertility and increased life expectancy generally lead to greater wealth. First, people accumulate wealth during their working years, and by the time they reach old age their wealth is at or near its peak. Second, as people realize they will live longer, they will be more motivated to accumulate wealth that they can use to support themselves in old age.
- **Greater Investments in Human Capital.** As people’s wealth increases, research indicates that they are more likely to invest in the health and education of each of their children. With fewer children to care for, it is possible for parents to invest more resources in each child.

How Big Are the Dividends: The Second Dividend Has Typically Been Larger Than the First¹

Region	Demographic Dividends			Actual Growth in GDP/N*	Actual Dividend
	First	Second	Total		
Industrial	0.34	0.69	1.03	2.25	1.22
East Asia and Southeast Asia	0.59	1.31	1.90	4.32	2.42
South Asia	0.10	0.69	0.80	1.88	1.08
Latin America	0.62	1.08	1.70	0.94	-0.76
Sub-Saharan Africa	-0.09	0.17	0.08	0.06	-0.02
Middle East and North Africa	0.51	0.70	1.21	1.10	-0.11
Transitional**	0.24	0.57	0.81	0.61	-0.20
Pacific Islands	0.58	1.15	1.73	0.93	-0.79

The second dividend (second column) has been larger than the first dividend, and the combined effects of the two (third column) range as high as 1.9 percent a year in East and Southeast Asia. East Asia benefited greatly from the second demographic dividend: The combined effect of fewer children to support and increasing life expectancy is estimated to have led to an increase in gross national saving rates by approximately 14 percentage points.²

* Actual growth in GDP per effective consumer (GDP/N), 1970–2000, in percent a year. The effective number of consumers is the number of consumers weighted for age variation in consumption needs.

** Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, FYR Macedonia, Moldova, Mongolia, Poland, Romania, Russian Federation, Serbia and Montenegro, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

1 Andrew Mason, “Demographic Transition and Demographic Dividends in Developed and Developing Countries,” United Nations Expert Group Meeting on Social and Economic Implications of Changing Population Age Structures (Mexico City, 2005).

2 Andrew Mason and Tomoko Kinugasa, “East Asian Economic Development: Two Demographic Dividends,” conference on “Miracles and Mirages in East Asian Economic Development” (Honolulu, 2004).

WHAT IS THE SECOND DEMOGRAPHIC DIVIDEND?

In a demographic transition, fertility rates decline—and as a result, the size of the working-age population (ages 15 to 64) increases compared to the size of the younger and old-age population groups. This change in population structure contributes to a first demographic dividend, which can last five decades or longer. The economic growth resulting from the first dividend depends on many factors, including the speed of fertility decline and the level of productivity of workers. Employment and worker productivity, in turn, are influenced by policies related to governance, infrastructure, trade, and labor. As the fertility transition winds down, and unless there are significant numbers of immigrants, the size of the labor force will grow more slowly. At the same time, improved life spans and the aging of previously large birth cohorts result in the growth of the elderly population. As this happens, per capita income normally will grow more slowly and the window of opportunity for the first demographic dividend closes.

During the first dividend, individuals and families have more resources that can be used to improve their standards of living and to invest in the health and education (human capital) of their children, as well as in equipment and buildings that produce goods and services (physical capital).

Whether the additional assets of older workers are invested domestically or abroad, national income will rise. If invested in the domestic economy, the result will be more physical capital per worker, which means that production and services grow. If invested abroad, net foreign income and national income will grow more rapidly. In either case, per capita income will grow more rapidly than it would without those investments. If the right policies are in place, population aging can yield a second dividend, one that can be long-lasting and larger than the first dividend.¹

REALIZING THE SECOND DEMOGRAPHIC DIVIDEND

The extent to which a country realizes a second demographic dividend depends on how well it anticipates and organizes support for its elderly. In the developing world, the elderly have traditionally been assisted by their families and by relying on themselves—continuing to work and drawing down on assets they have accumulated during their life or received through

inheritance. As countries become more developed, they rely increasingly on the public sector to provide support for the elderly. As populations age more quickly due to lower fertility, the resources needed to support the elderly increase relative to GDP, so that families and public pension systems may experience severe strains on their resources. However, if economic policies and financial mechanisms are put in place early in the process of population aging to help workers accumulate assets—such as property, funded pensions, and personal savings—they can achieve more financial independence in old age and depend less on government and their families. In this scenario, population aging will lead to sustainable family and government support systems and boost capital, productivity, and per capita income.²

Policymakers, especially in developing countries, need to establish sound and trusted financial systems accessible to the millions who wish to secure their financial futures. The time is now: People must have the opportunity and mechanisms to accumulate wealth needed for old age.

AFRICA AND A SECOND DEMOGRAPHIC DIVIDEND

The conditions for a demographic dividend were not present anywhere on the African continent until 2000 in South Africa. At that same time, many countries in the South Asia region were already experiencing their first demographic dividend. Whether the majority of African nations will realize either a first or second demographic dividend remains to be seen. Since the second dividend is a consequence of population aging, the accumulation of wealth needs to occur early, in anticipation of aging, as does the implementation of appropriate economic policies. African nations must be willing to avoid situations that force the elderly to live with few resources or be overly dependent on families or public pensions. Instead, African countries must enact policies that give workers adequate incentive to save and invest and thus prolong the demographic dividend.²

References

- 1 Ron Lee and Andrew Mason, "What Is the Demographic Dividend?" *Finance and Development* 43, no. 3 (2006).
- 2 Andrew Mason and Ron Lee, "Reform and Support Systems for the Elderly in Developing Countries: Capturing the Second Demographic Dividend," *GENUS* 62, no. 2 (2006).

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