

Demographic Dividend or Demographic Threat in Pakistan?



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Scheme for Presentation

- 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.

Missing Emphasis- Age Structure

Population size and growth have remained main focus of debate.

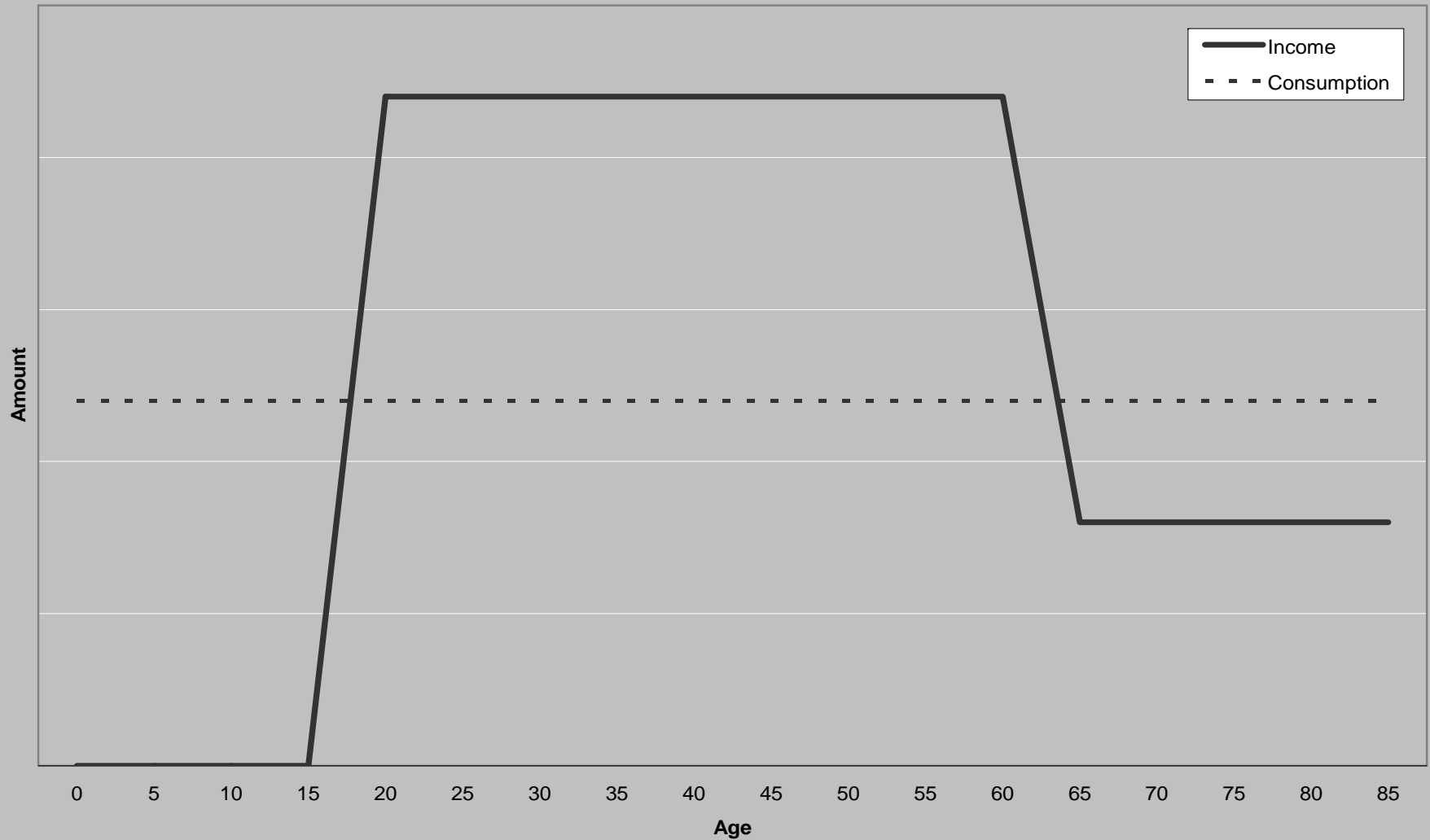
Coale and Hoover (1958), brought age structure dynamics in this debate, arguing that sustained high fertility and falling mortality make governments and households burdened with high youth dependency rates, lowering tax revenues and household savings.

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



Essence

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".

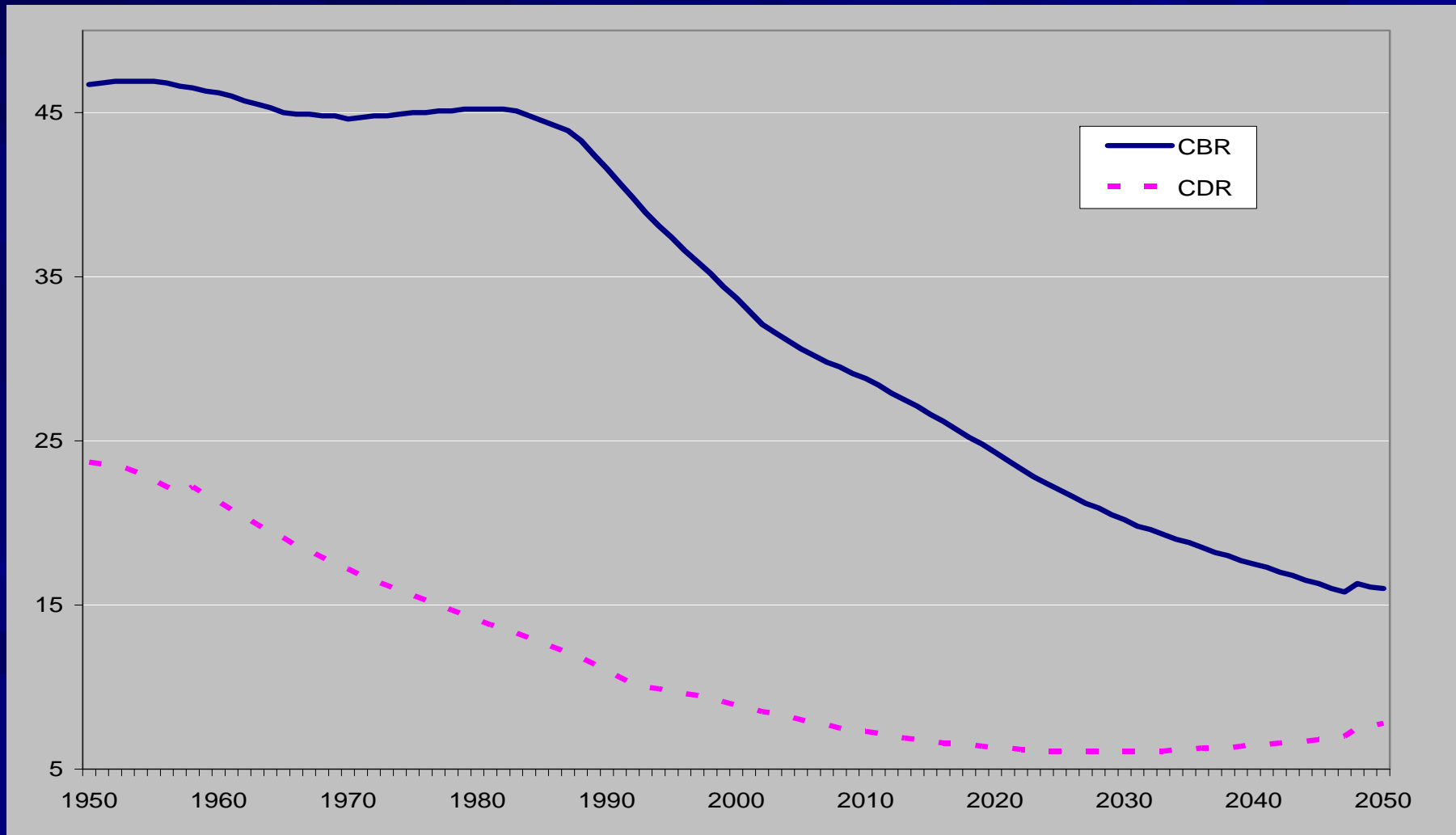
A Transitory Phenomenon

“..... 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.”

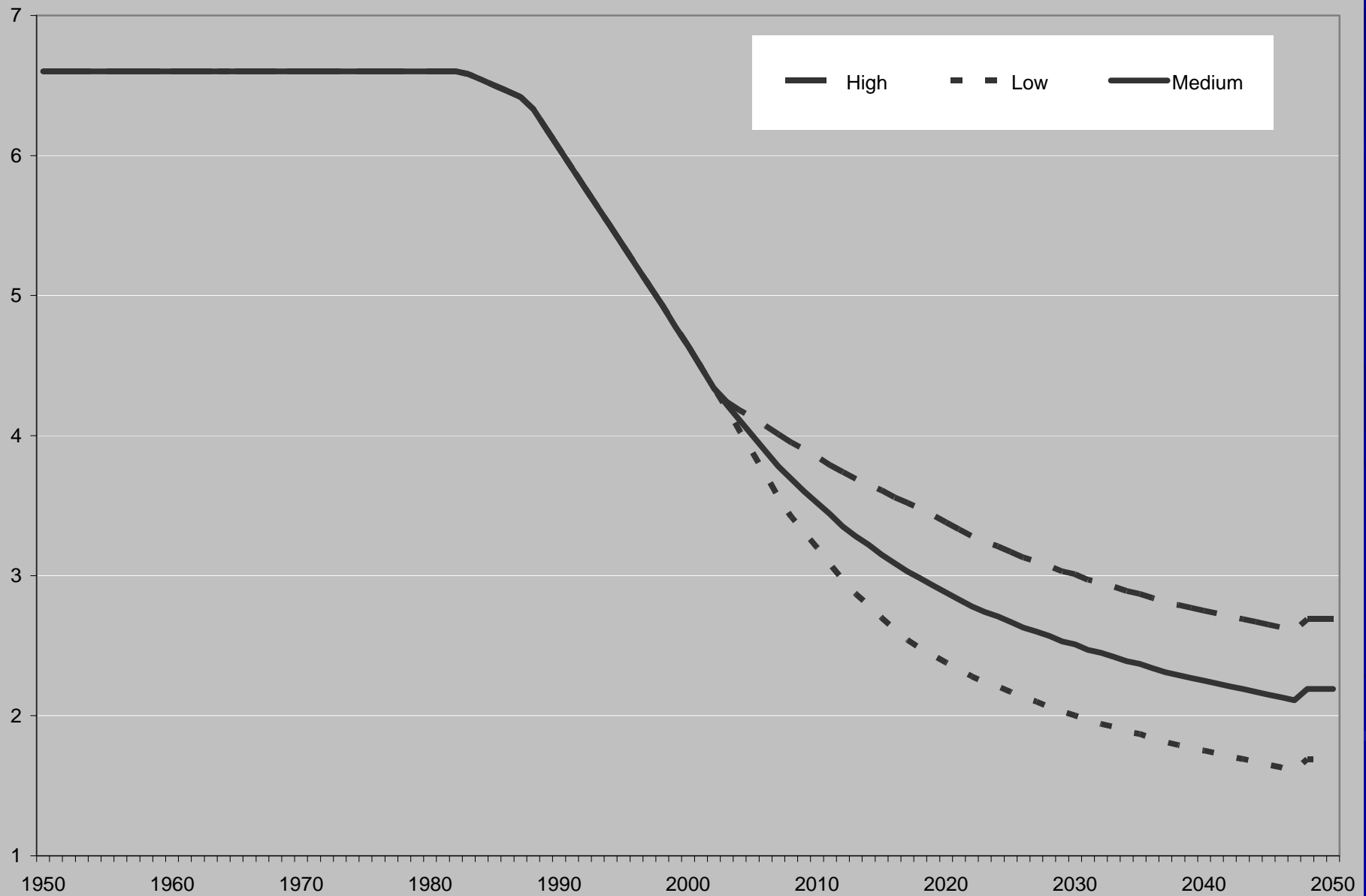
(Bloom and Williamson 1998:429)

Demographic Transition and Demographic Dividend in Pakistan

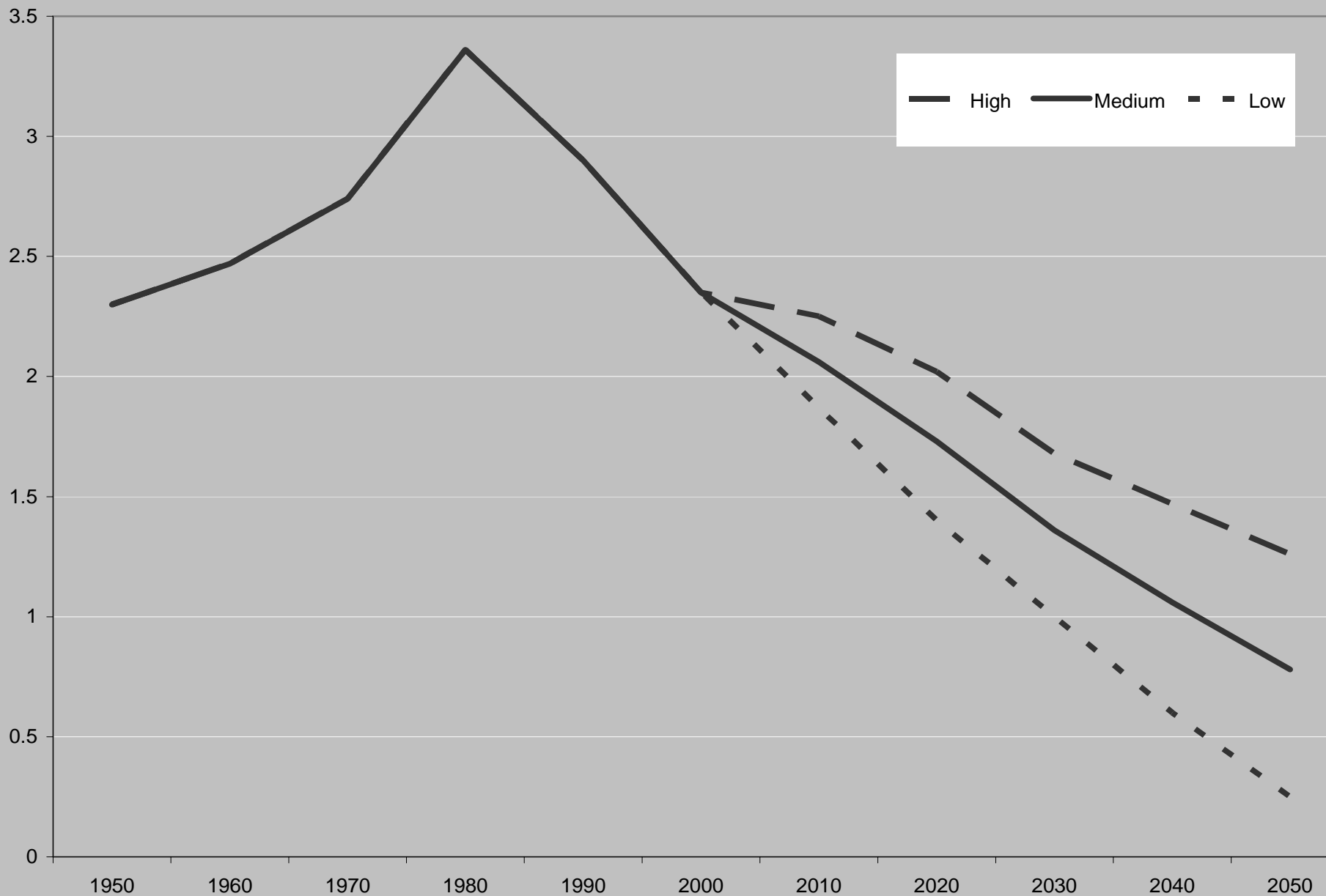
Crude Death and Crude Birth Rates: Pakistan 1950-2050



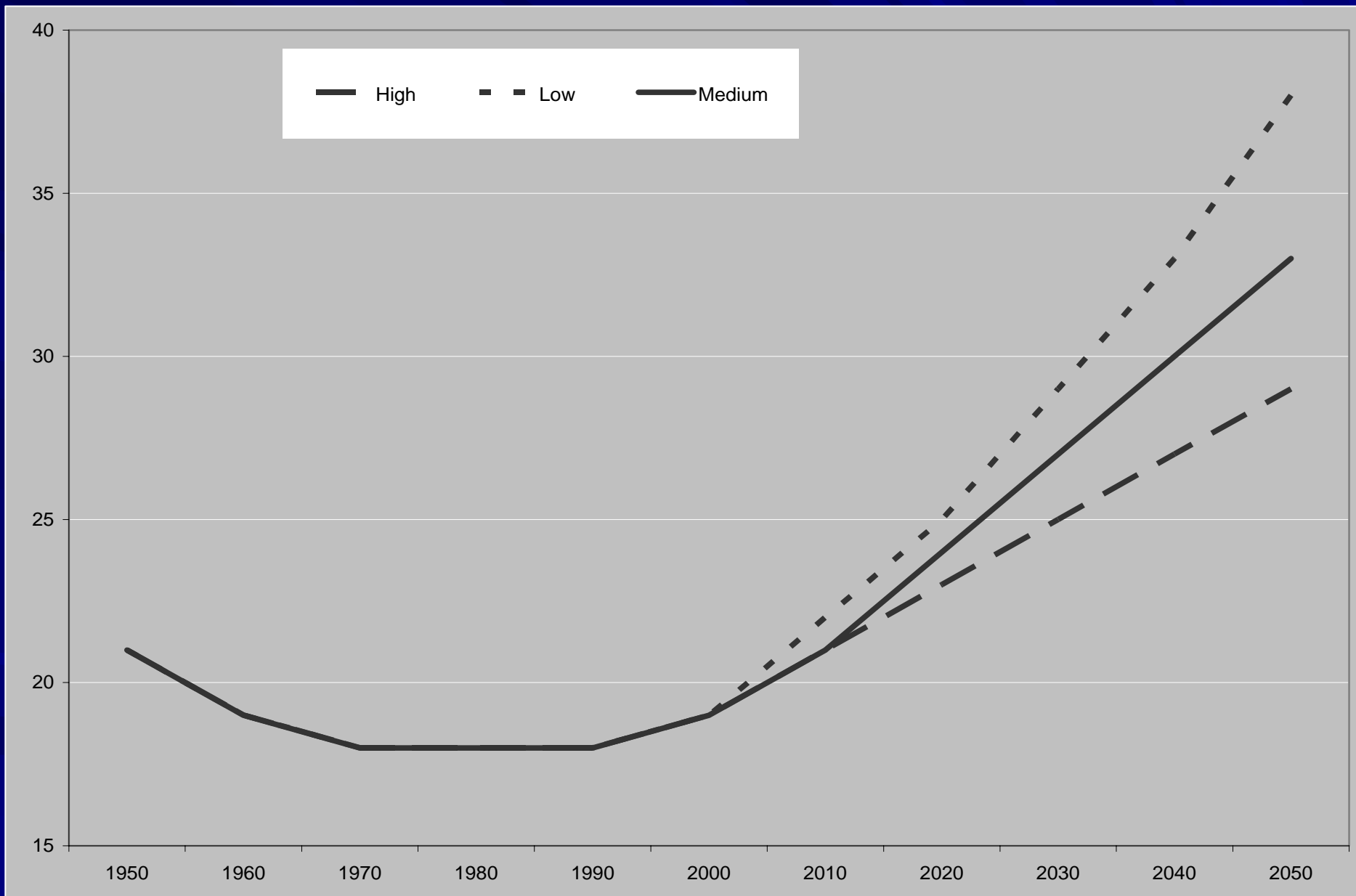
Total Fertility Rates: 1950-2050



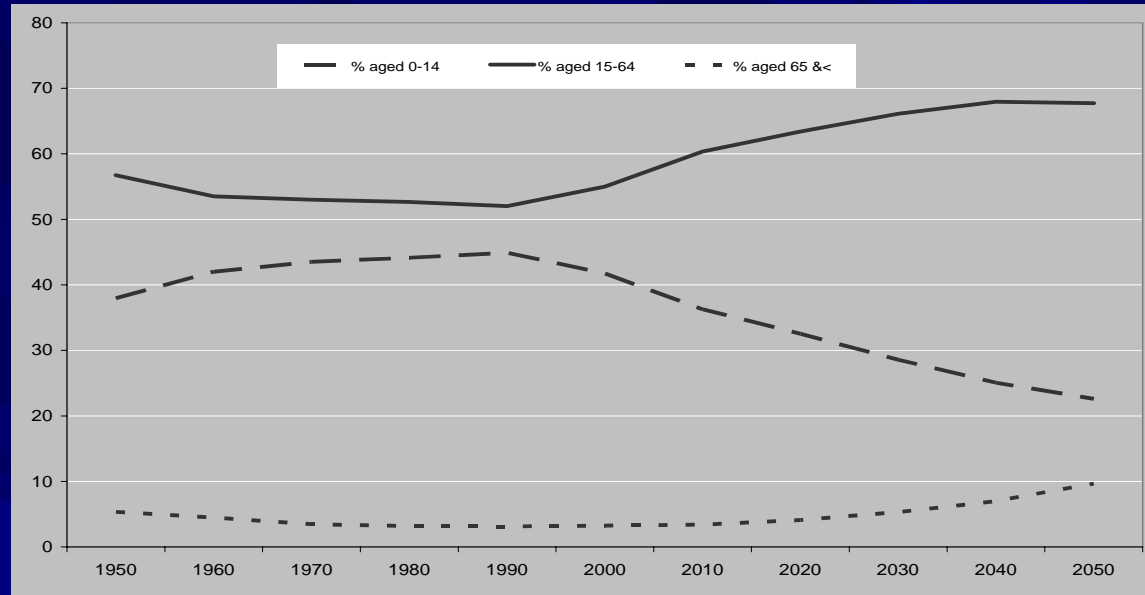
Population Growth Rate: 1950-2050



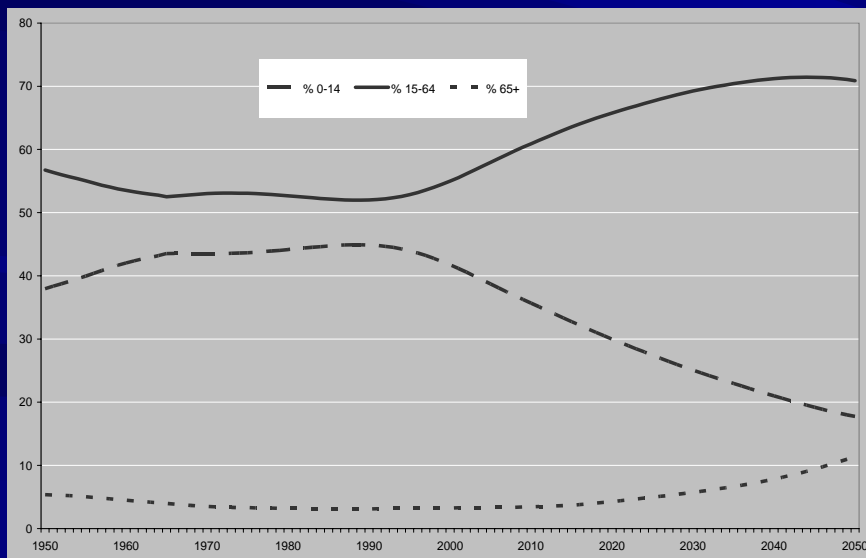
Median Age: 1950-2050



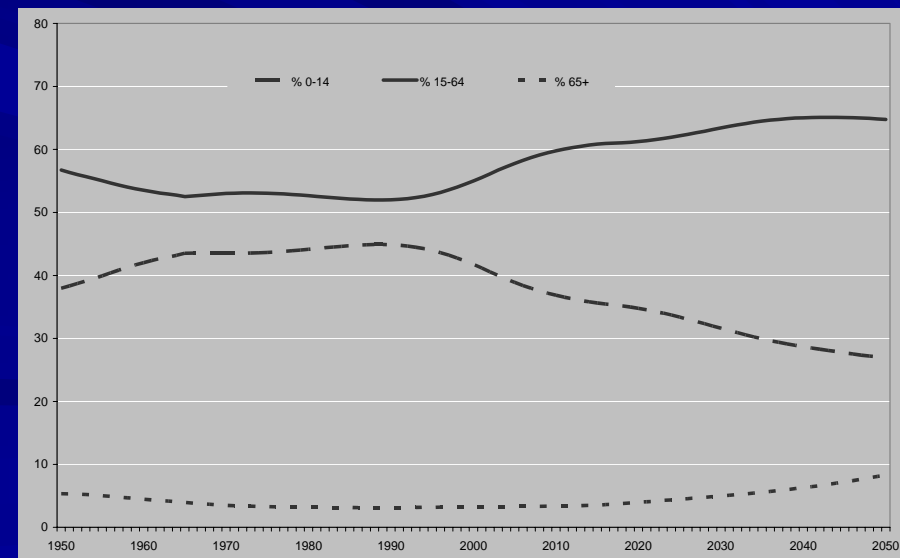
Share of Different Age Groups in Population (%)



Medium

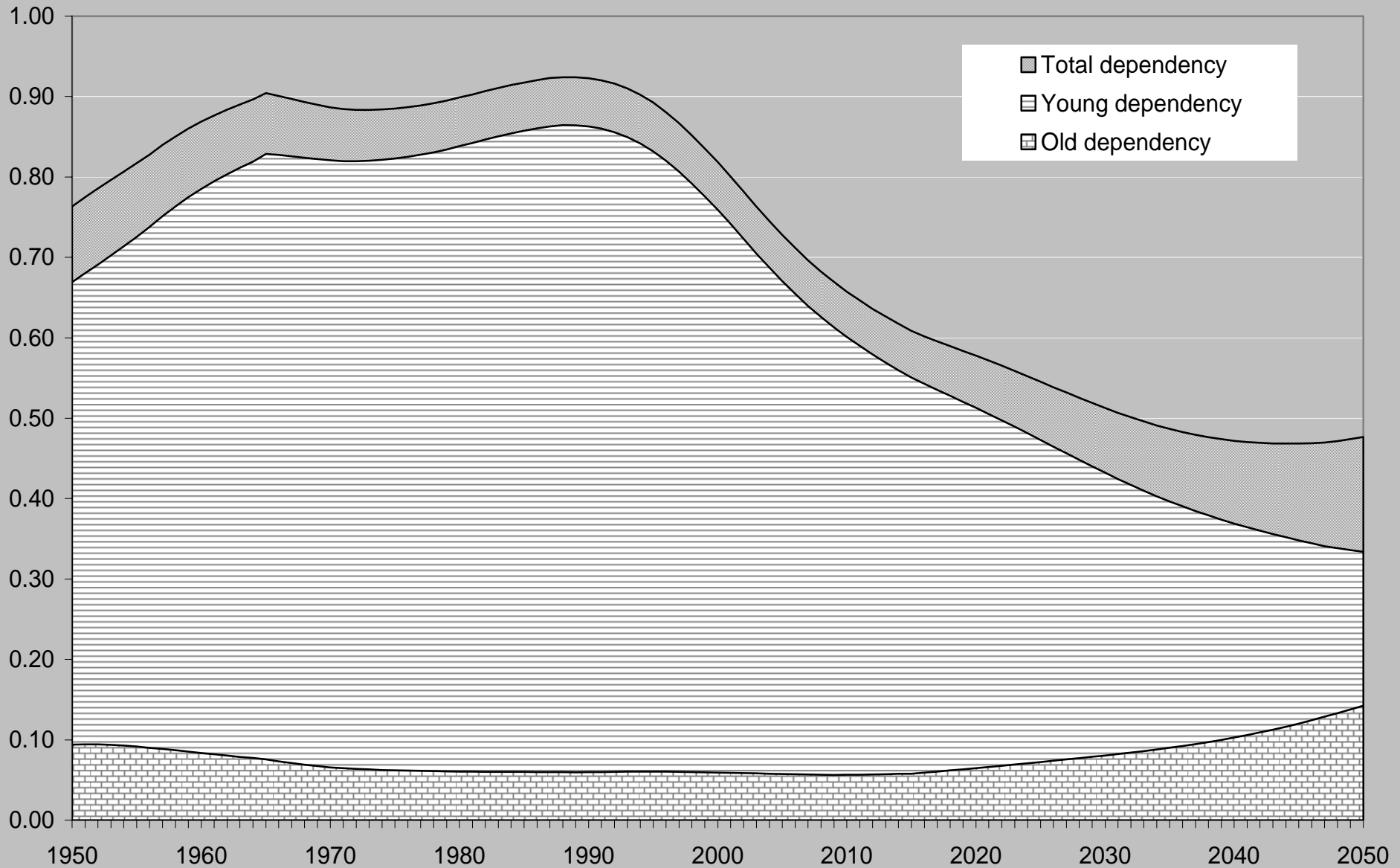


Low



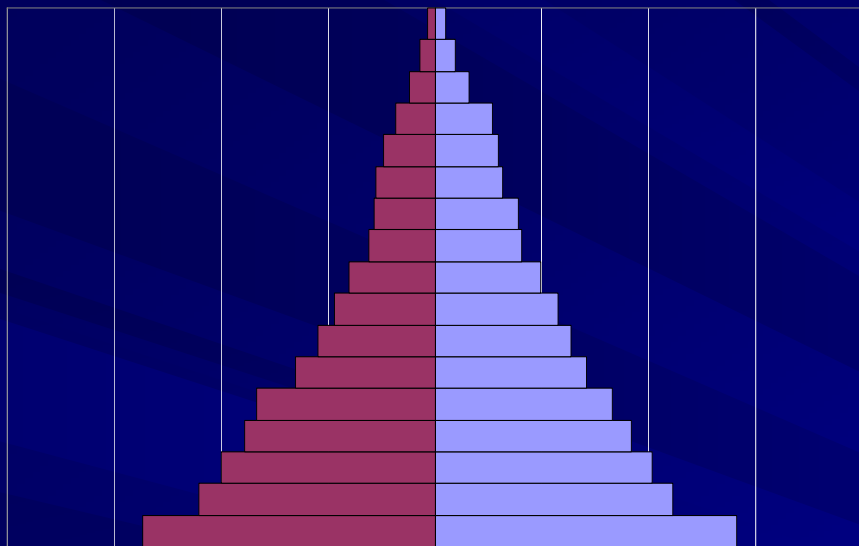
High

Dependency Ratio: Old, Young and Total

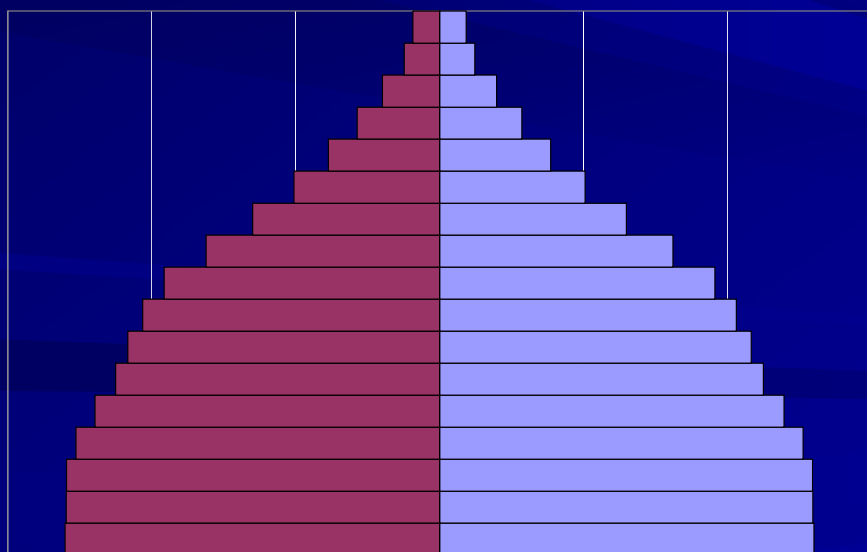
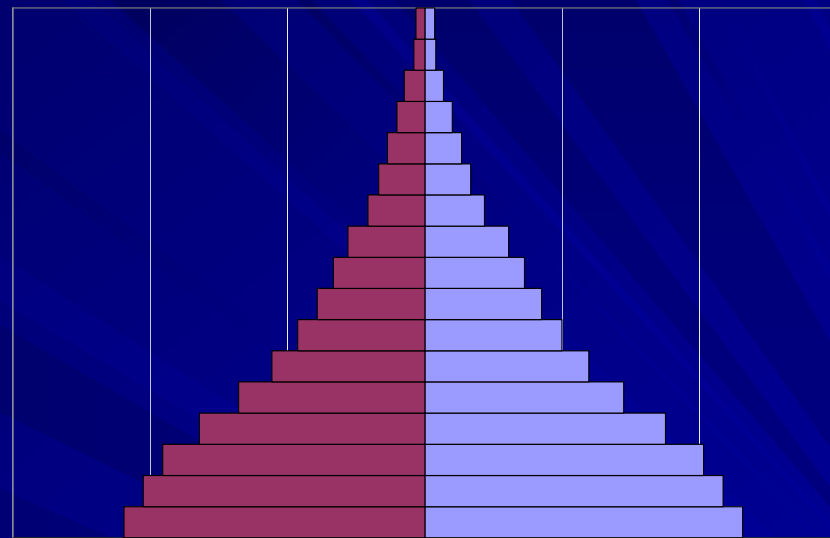


The Changing Shape of Pakistan: 1950-2050

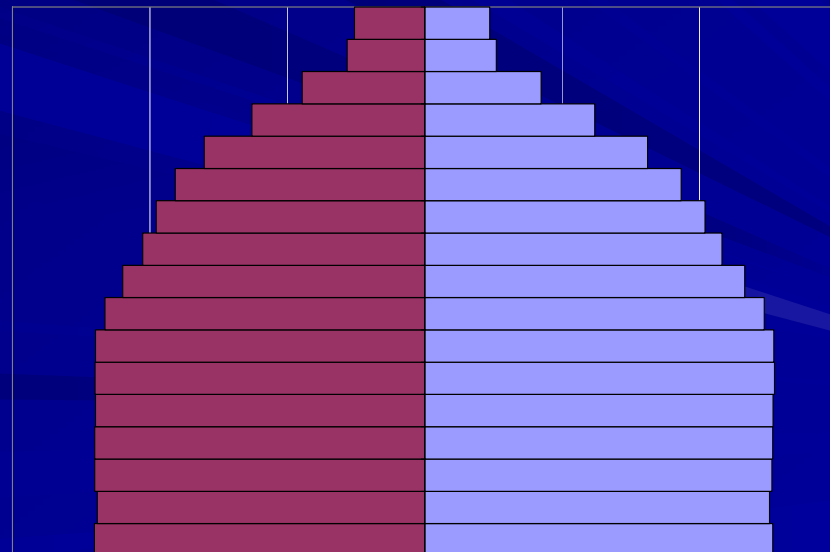
1950



2000

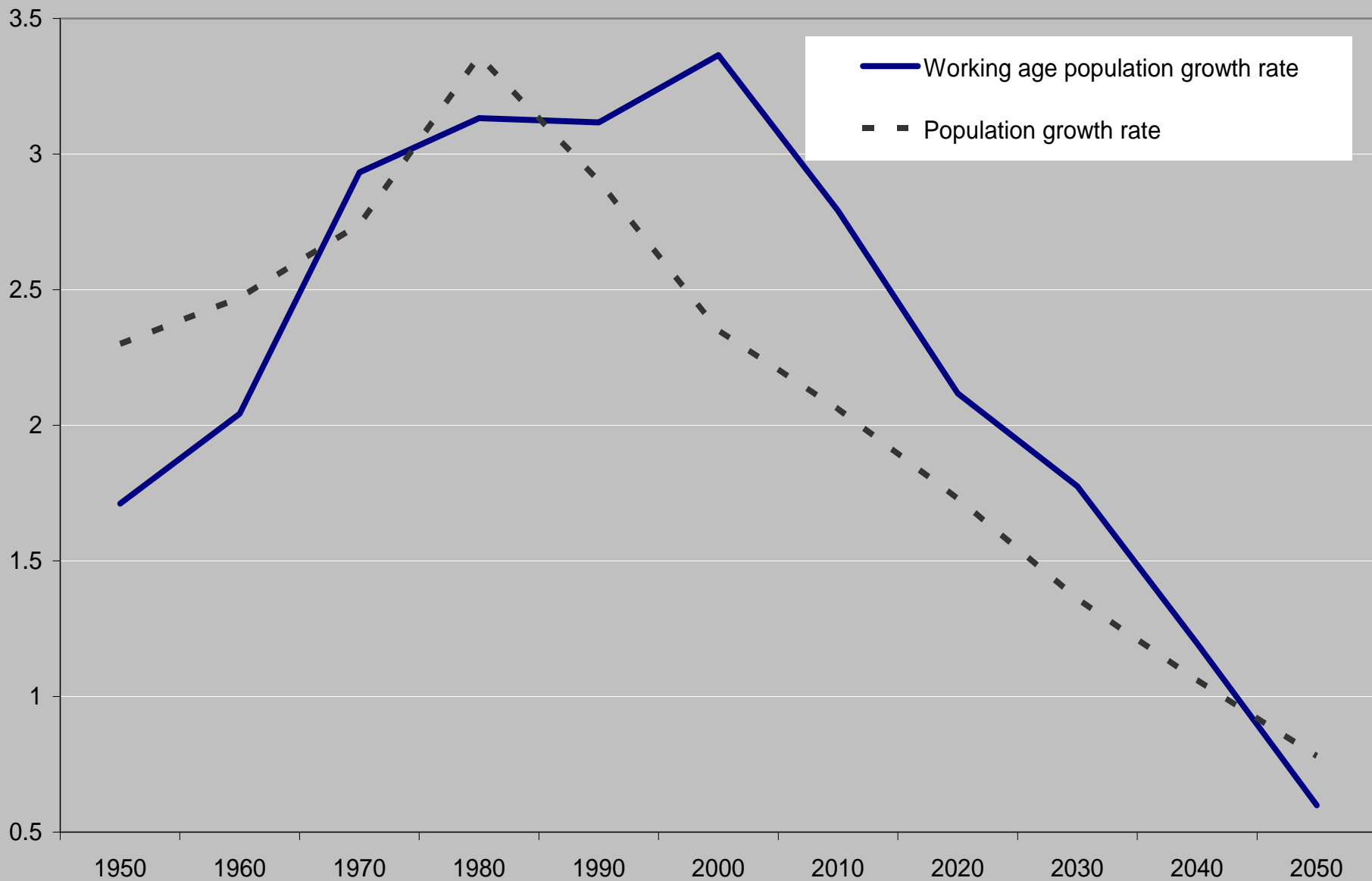


2025

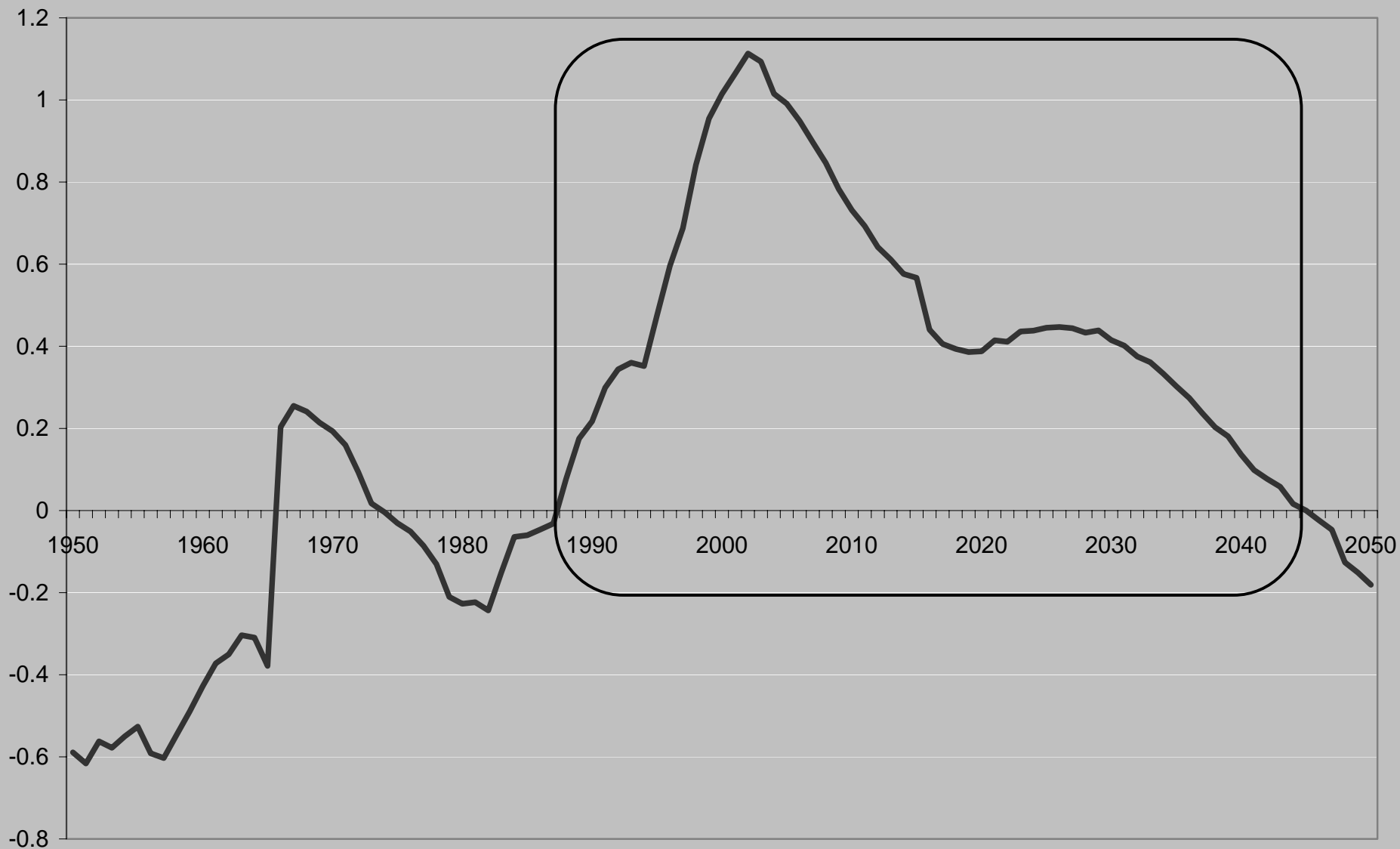


2050

Labour Force and Population Growth Rate



Pakistan: Timing and Duration of Demographic Dividend



Implications of Demographic Dividend for Pakistan

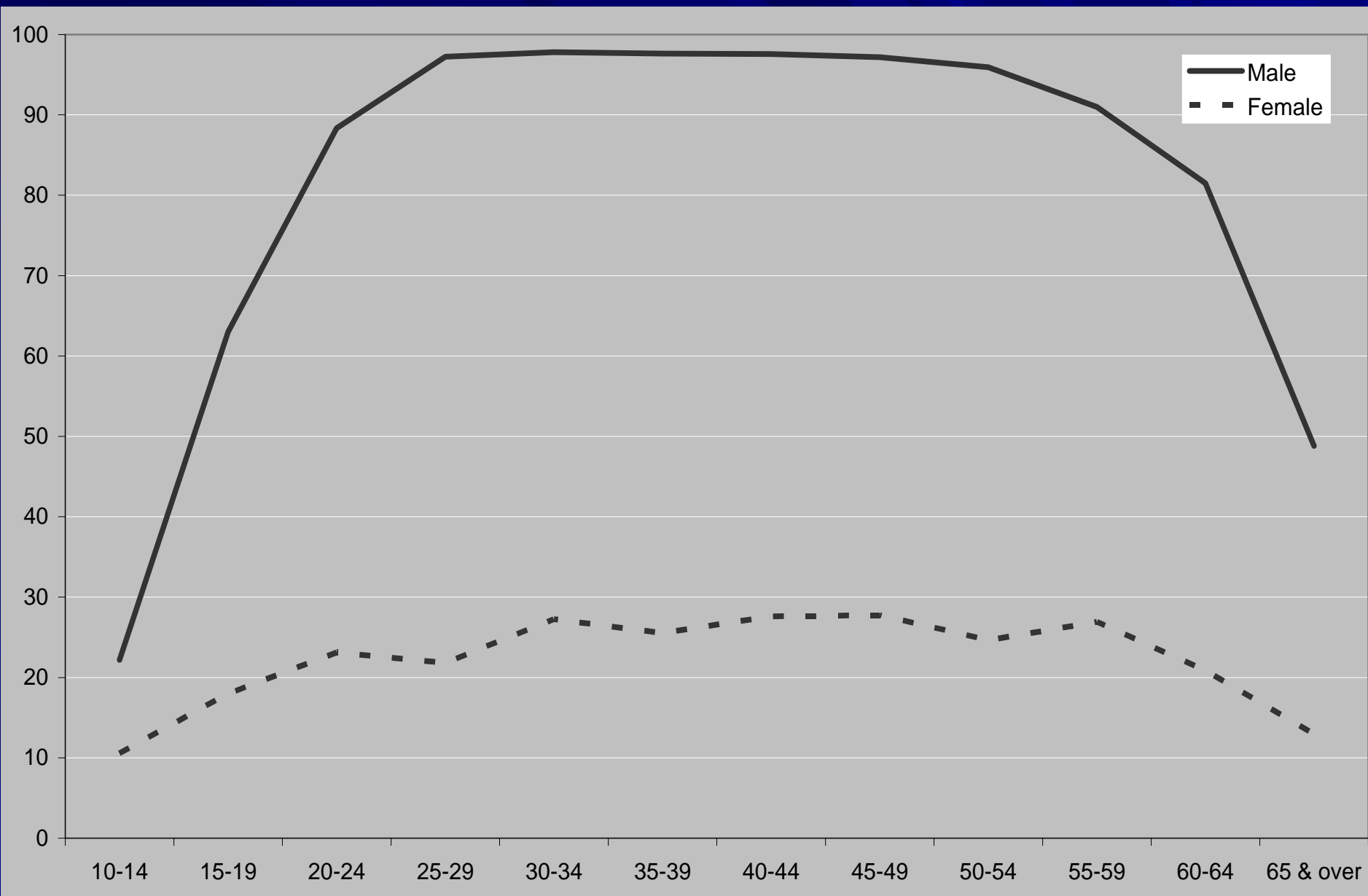
■ Labour supply



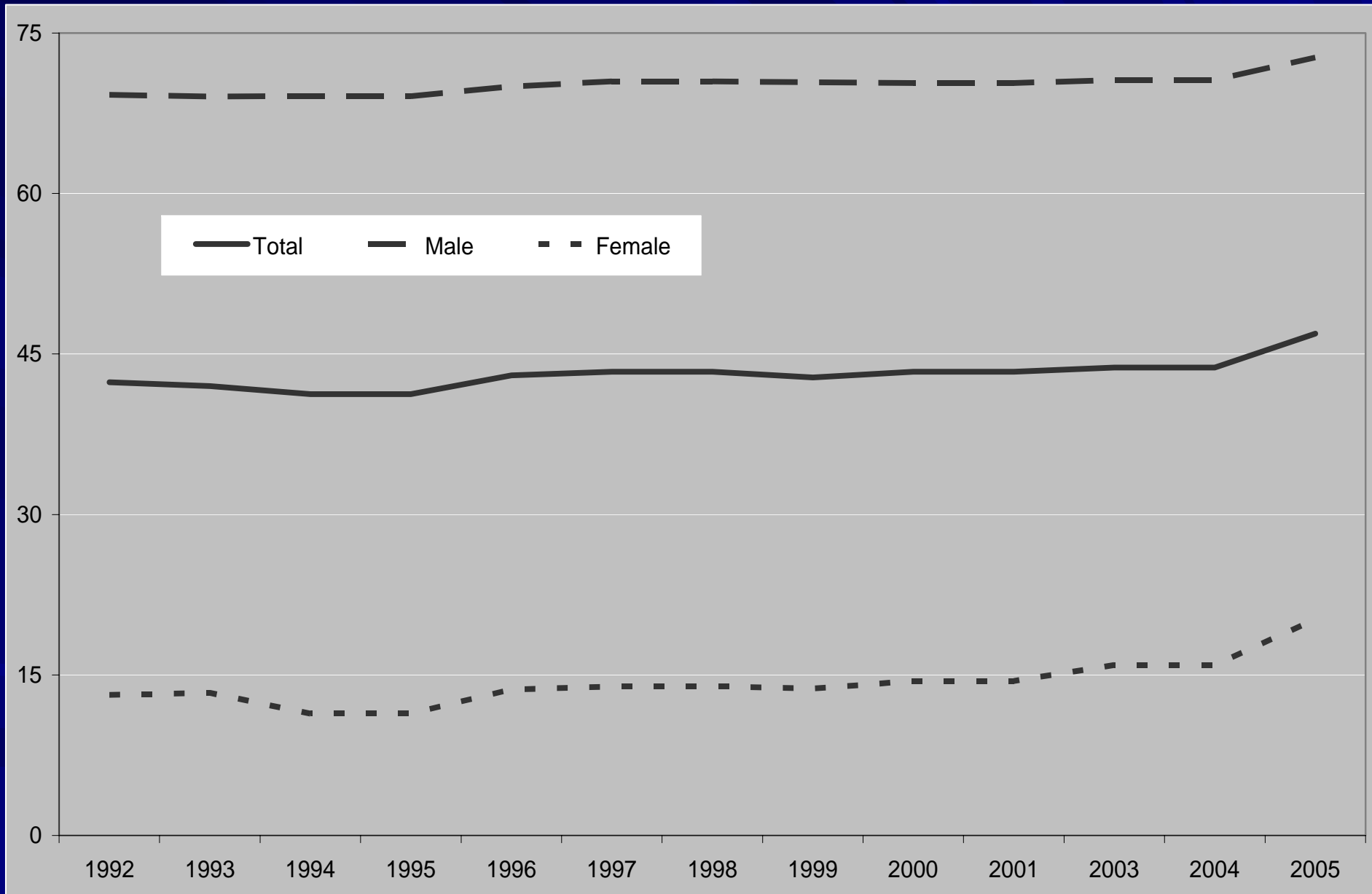
■ Savings

■ Human capital

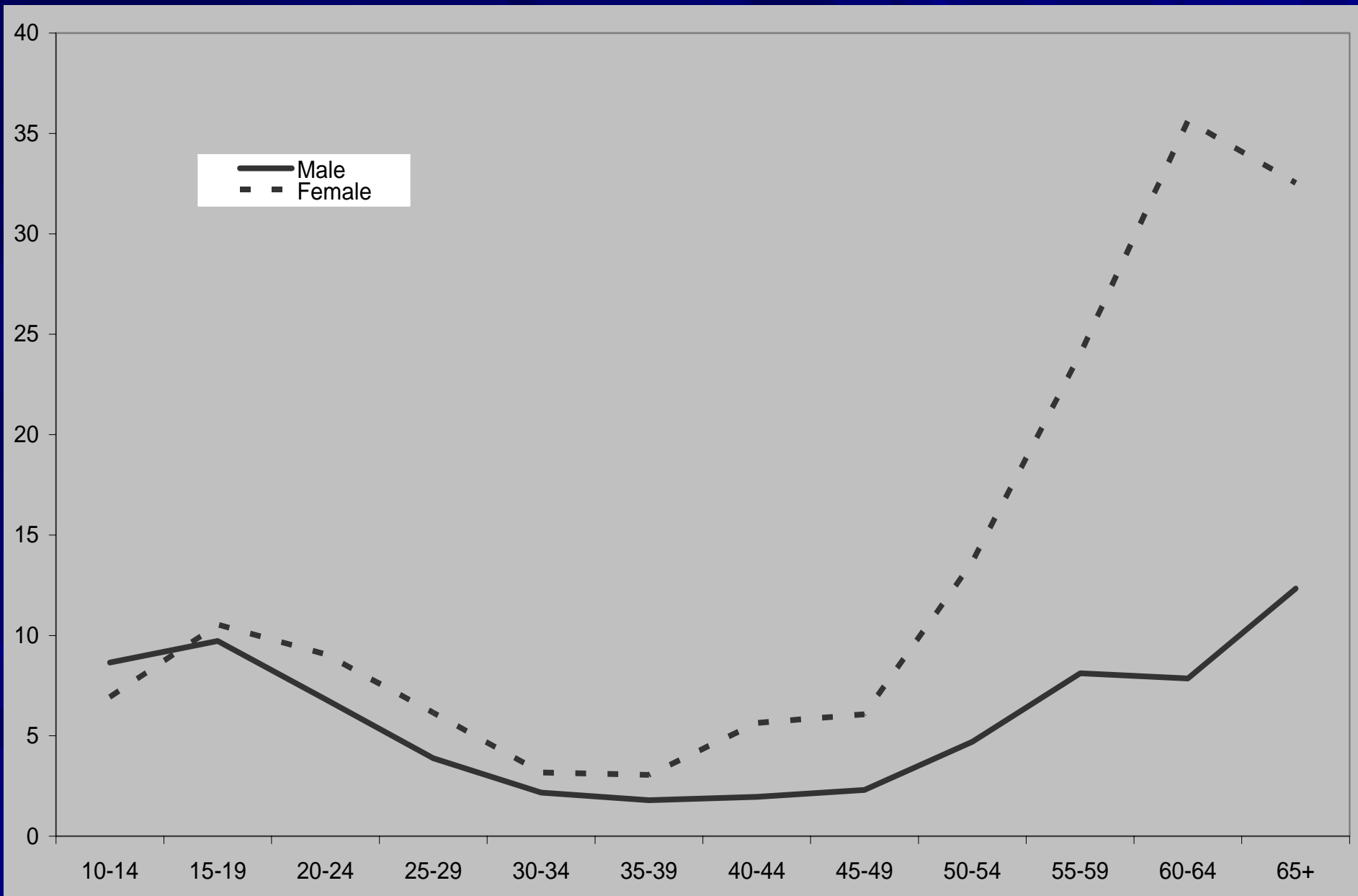
Age-sex specific LFPRs 2005-2006



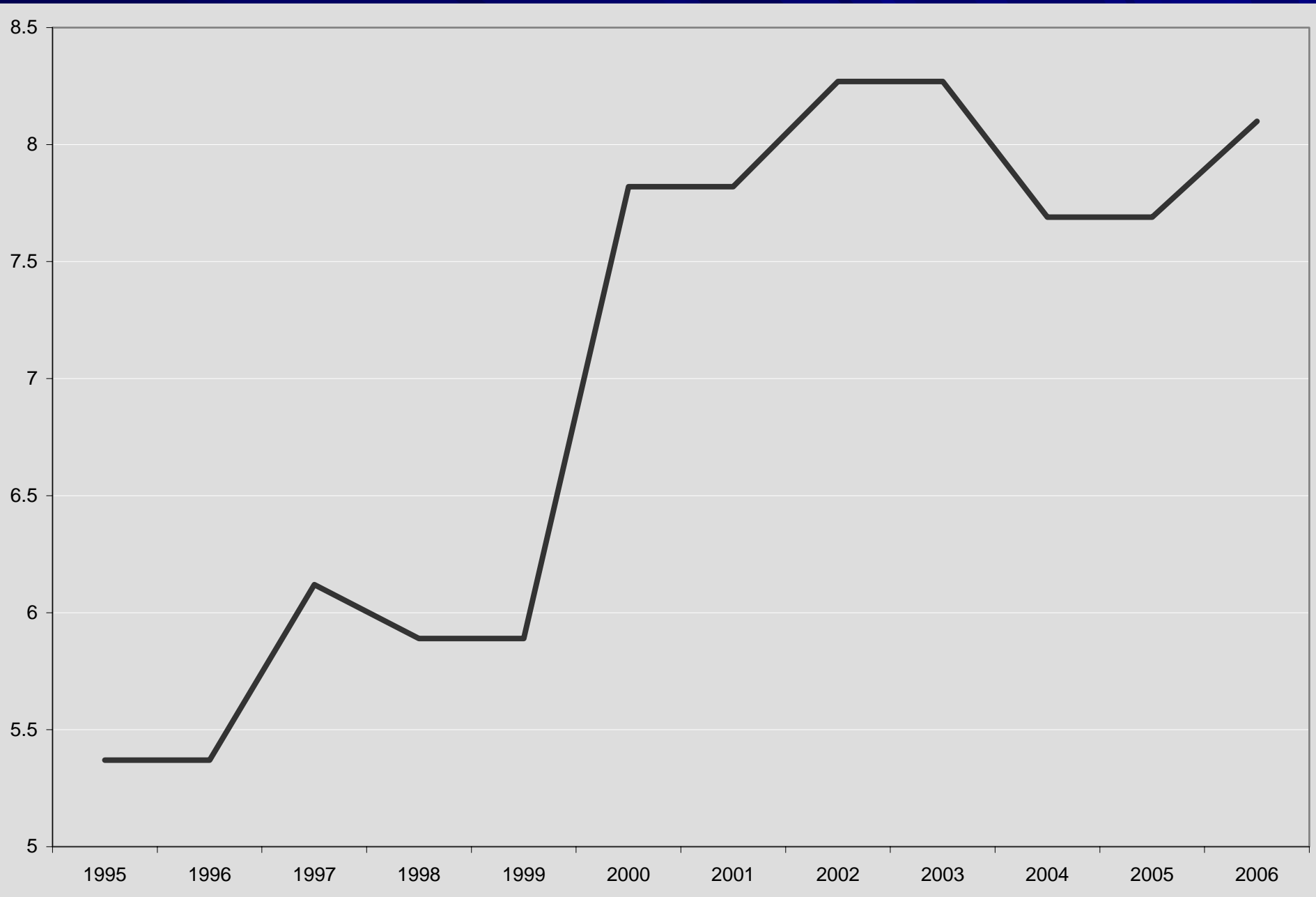
LFPRs: Total, male and female 1992-2005



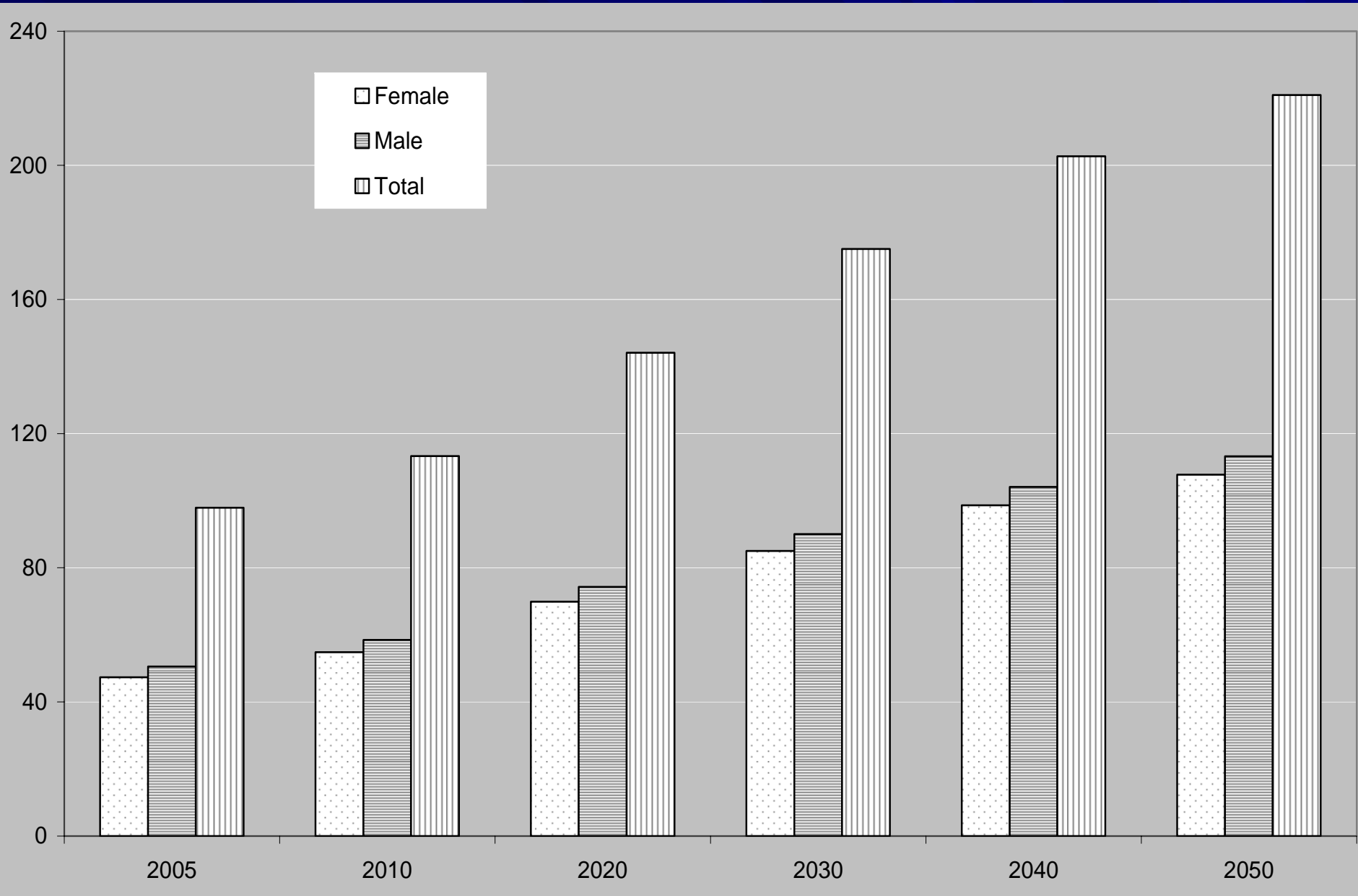
Age-Sex Specific Unemployment Rates 2005-2006



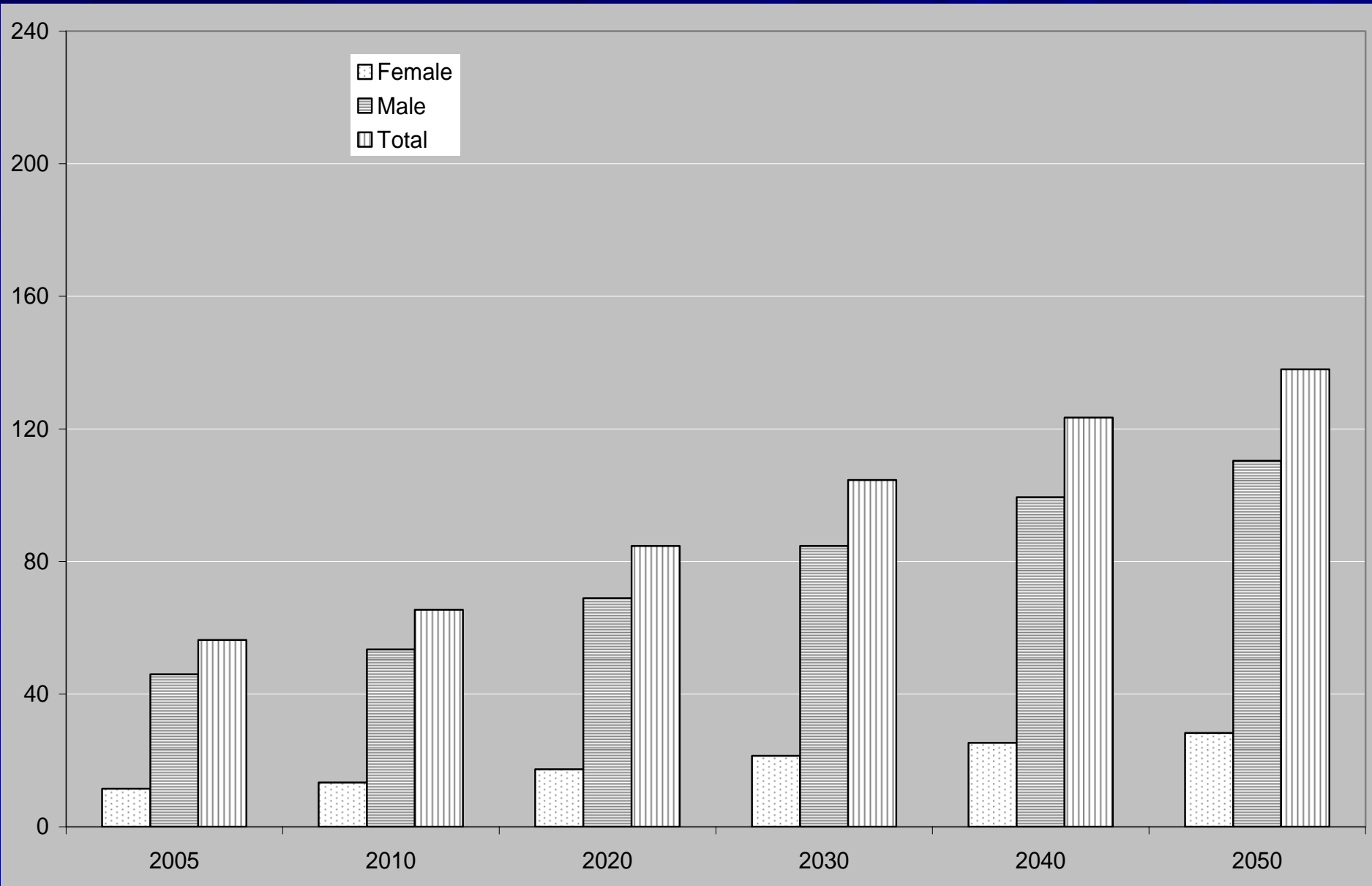
Unemployment Rate: 1995-2005



Projected Population aged 15-64: Total, Male, and Female (millions)



Population Projected to be Active in Labour Market 2005-2050: 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.

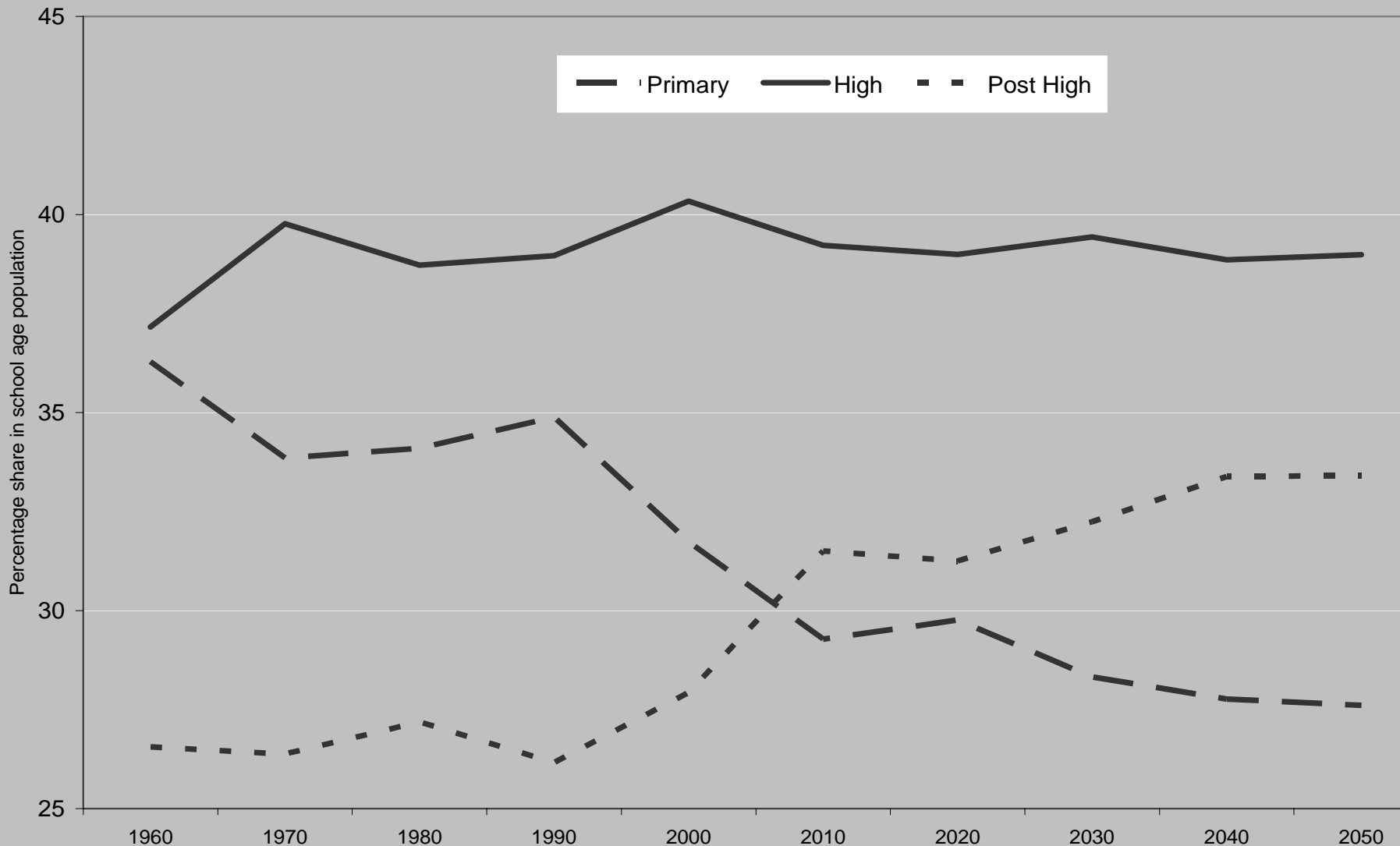
Despite consistent real GNP[■] growth rate of around 6% per annum, Pakistan's saving rate continues to show an almost horizontal trend over years. Household income has been found to be the prime factor influencing saving behaviour in Pakistan and various studies found a strong inverse relation between dependency ratio and savings in the country.

Savings-II

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.

Human Capital

Percentage share of school going population for different educational levels: Pakistan 1950-2050



Distribution Of Population 10 Years Of Age And Above By Level Of Education And Sex (%)

Level of Education

2003-04

Total

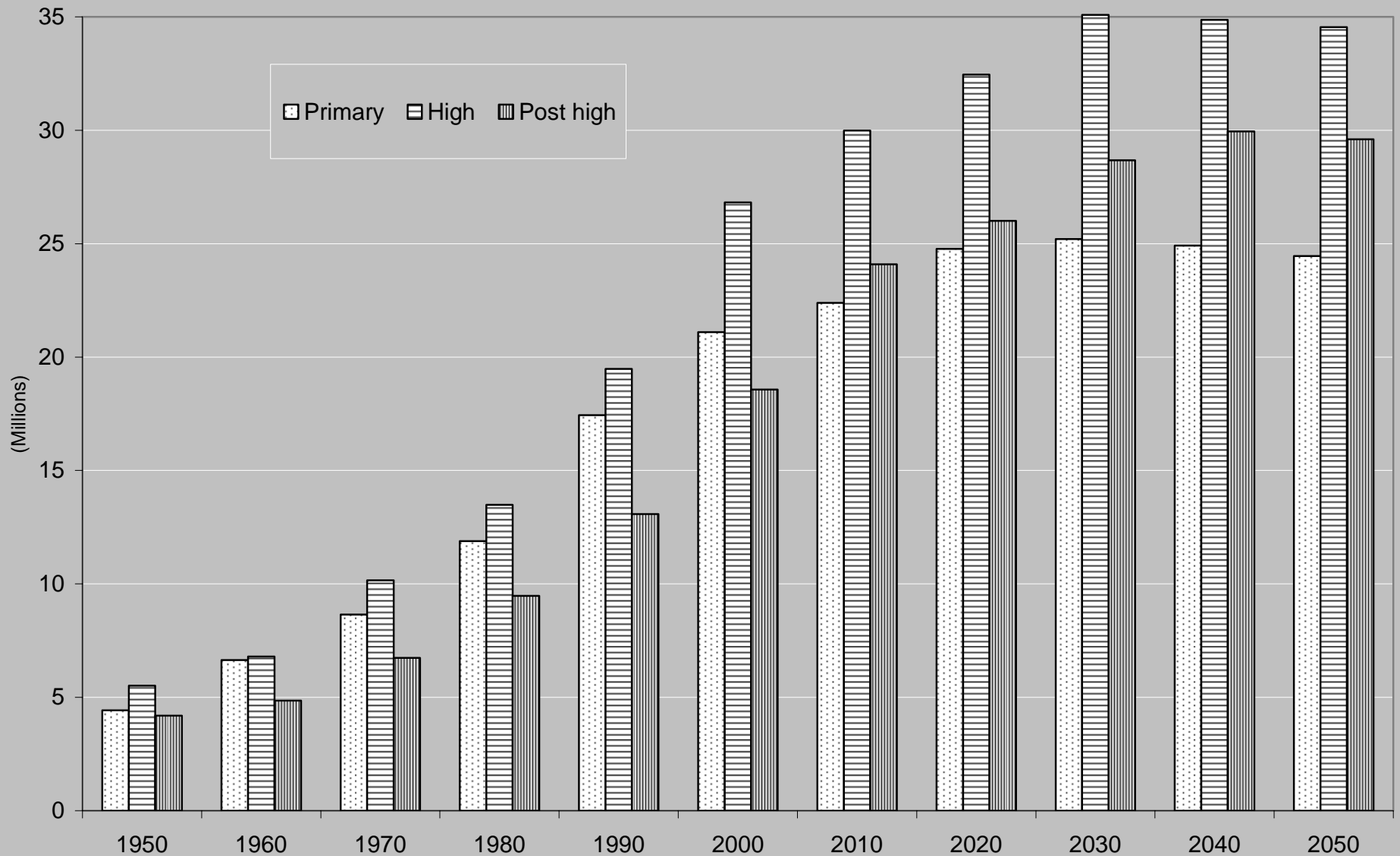
Male

Female

No formal education	0.6	0.7	0.5
Below matric	33.7	41.1	26.0
Matric but less than intermediate	9.7	12.3	7.0
Intermediate but less than Degree	3.9	4.7	3.1
Degree and above	3.8	4.9	2.6
Literate	51.6	63.7	39.2
Illiterate	48.4	36.3	60.8
Total	100.0	100.0	100.0

Labour Force Survey 2003-2004

Population at Different Educational Levels: Pakistan 1950-2050



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.

Conclusions-II

- 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.
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- 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.

Policy Implications-II

2. Employment generation

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.

Policy Implications-III

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.

Policy Implications-IV

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.

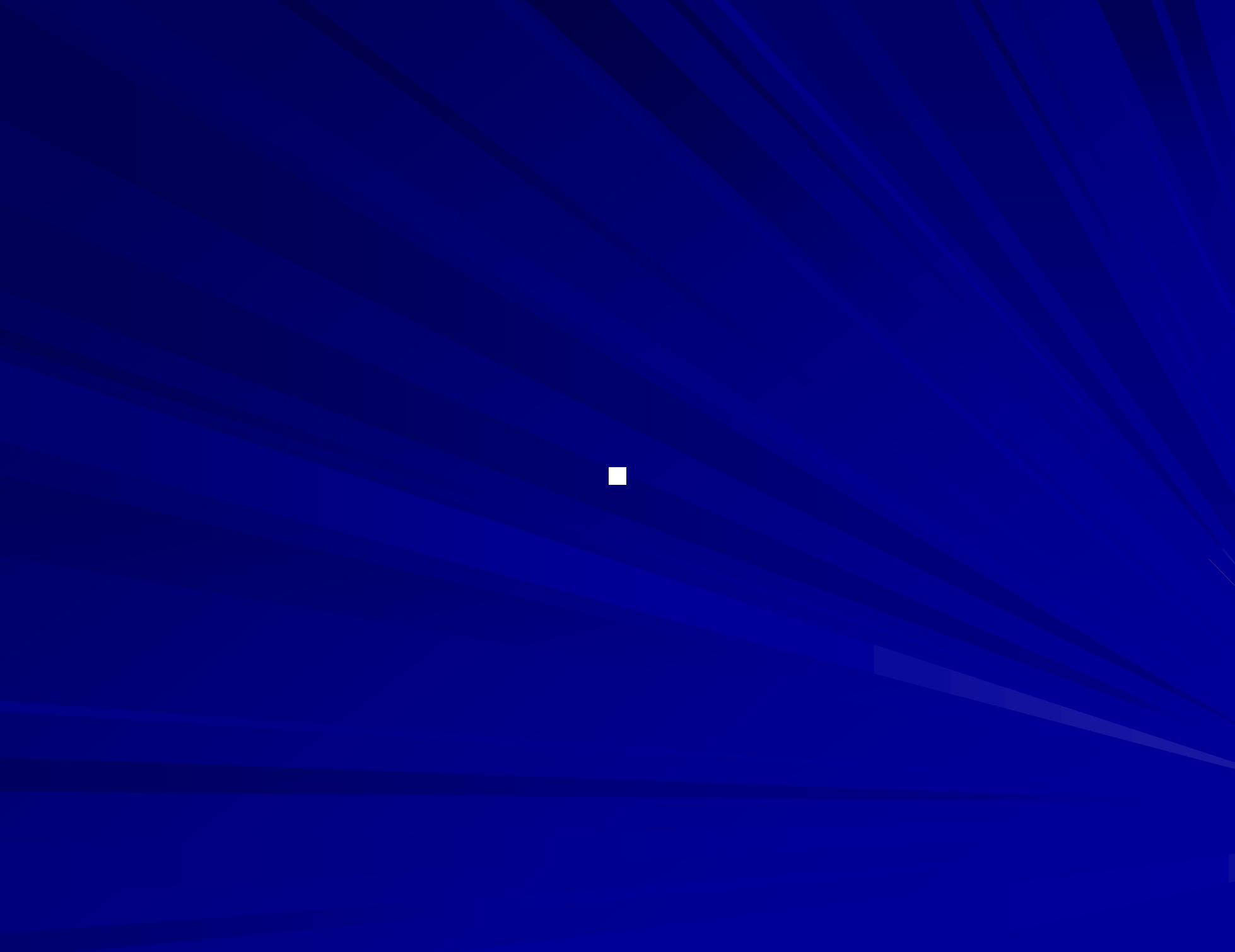
Endnote

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.

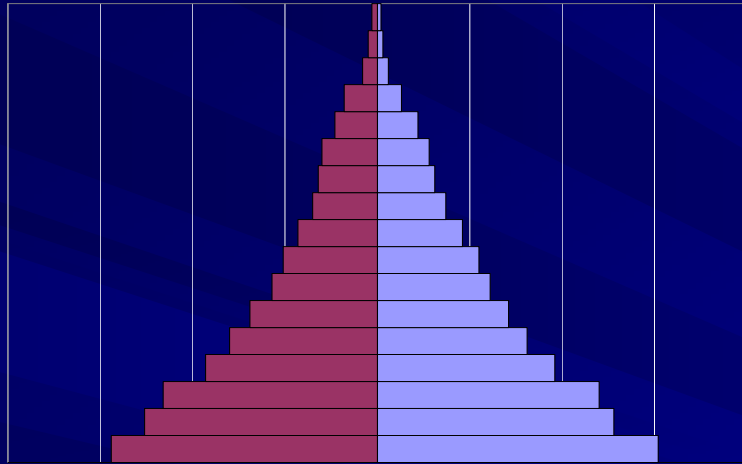
It is thus in our hand what we make of it- a dividend or a threat!



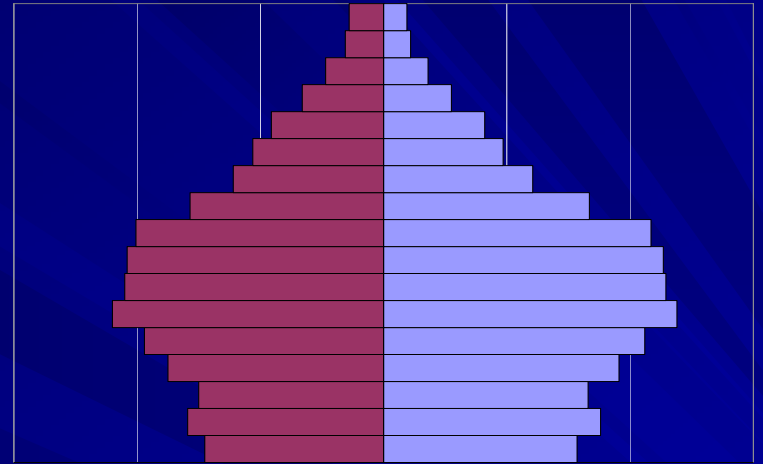
Korea 1950-2050

From 'Demographic Dividend' to an Old Population

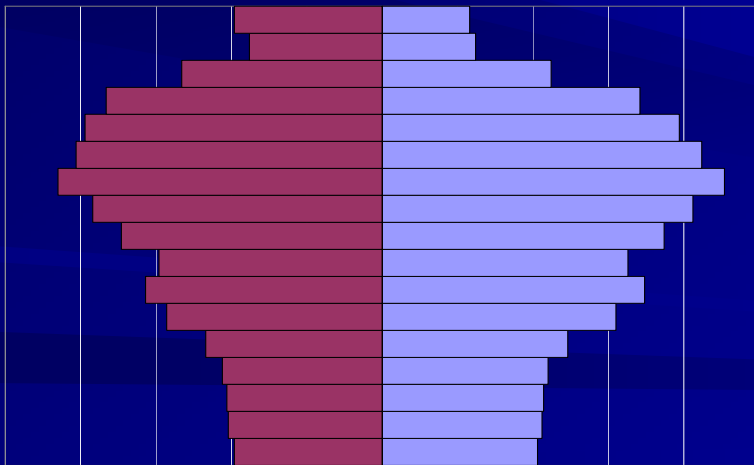
1950



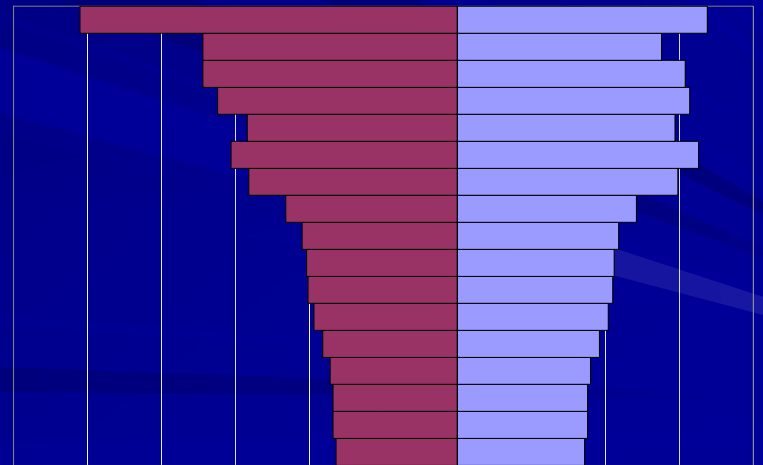
2000



2025



2050



Women Aged 15-49 Years: Pakistan 1950-2050

