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Demographic dividend

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In the early 1950s, the Philippines was just recovering from the rubbles of the second world war. Fertility was high, averaging about seven to eight births per woman (UN 2017). Living conditions, however, were poor. An infant born around that time was expected to live for only 55 years. Much of the population were therefore comprised of children, with a little more than half of the country's whole population being younger than 20 years old.

At present, fertility has lowered down to about three births per woman. Life expectancy at birth also reached an all-time high of 69 years. Children still constitute a large proportion of the population, but the share of those in the prime working ages has increased significantly—making up to about 63 percent of the current total population from about 54 percent almost seven decades ago. This transition from a high-mortality, high-fertility to a relatively low-mortality, low-fertility environment creates an opportunity to raise the overall well-being of the population, i.e., the demographic dividend.

This *Economic Issue of the Day* gives an overview of what the demographic dividend is all about, its causes, and how the Philippines fares in reaping the gains from the shift in the population's age demographics.

What is the demographic dividend?

In the early stages of the demographic transition, such as where the Philippines is currently at, the population becomes increasingly concentrated toward ages where productivity is highest. The labor force grows more rapidly than the dependent population. The support ratio, or the number of effective workers relative to effective consumers, temporarily rises. All else being the same, this growth in the support ratio implies a direct and measurable increase in the average consumption level of an effective consumer. This is the first demographic dividend.

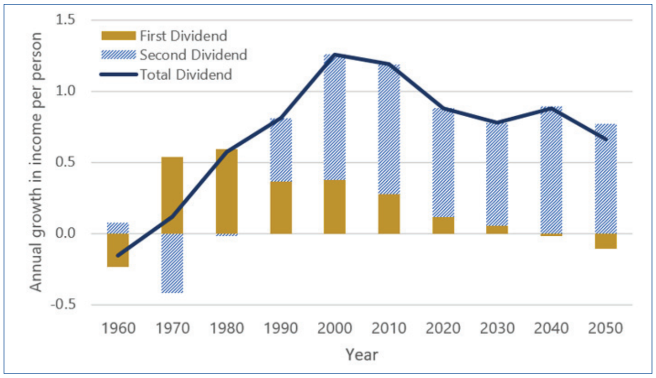
The first dividend phase typically lasts for about one to three generations, and on average, delivers an additional 0.5 percentage point growth in income per person. This windfall resource is a window of opportunity that allows families and governments to invest more in children or to save for future consumption. The first demographic dividend, however, is only transitory. As the demographic transition continues, the population then becomes increasingly concentrated toward the elderly. The support ratio declines, thereby, all else being equal, depressing average income per person. What used to be a demographic dividend now turns into a demographic time bomb.

However, a second demographic dividend is possible. The decline in fertility is often accompanied by greater investments in the human capital of children. With fewer mouths to feed, parents are able to provide more for their children's education and health. Further, with improvements in health and longevity, workers face the prospect of living longer years in retirement. Depending on the economic support systems available, this creates a strong motivation for workers to save and accumulate assets to afford their future consumption. This raises the average amount of capital available to each worker. Together, these mechanisms boost workers' productivity that raises the average income per person, which, in turn, allows greater consumption per effective consumer.

Estimates for the Philippines

The country is currently riding on the demographic sweet spot. Since the late 1960s, the Philippines has been enjoying an additional 0.4 percentage point annual boost in income per person, on average, from the first demographic dividend. The window of opportunity, however, is closing soon. Recent estimates by Mason et al. (2017) point to an end to the country's first dividend phase by 2042, or just about two decades from now. Between 2018 and then, the first dividend is expected to provide only up to a maximum of 0.2 percentage point additional annual growth in income per person. After 2042, all else being the same, the average income per person is expected to deteriorate (Figure 1).

Figure 1. Demographic dividend: Philippines, 1960–2050



Source: Mason et al. (2017)

The second demographic dividend could potentially offset this decline. If present lifestyles and economic support patterns continue, Mason et al. (2017) estimated that the combined contributions of the first and second demographic dividends will provide an additional 0.4 percentage point growth in income per person during the second half of this century. During that time, around 1 in every 10 Filipinos are aged 65 years or older, from the current statistic of 1 in every 20. Given the right conditions, the potential added growth could be higher.

Reaching for the demographic dividends

Although the dividends are also often called demographic bonus, it cannot be overemphasized that they are not guaranteed. Much work needs to be done in order to harness this potential. For instance, infrastructures, e.g., schools, health facilities, roads, etc., must at least grow as fast as the population that requires them. The young must be afforded the chance to be educated. Employment opportunities must be available to those seeking work. A sound financial market is needed to allow investments to flourish. These are but some of the things that the country must be striving for regardless.

A precondition for the demographic transition to happen is for fertility to decline. This may be achieved, for example, by providing families the necessary support that they need to attain their desired fertility level. In 2013, for instance, women from poor households wanted to have only three children on average, but their actual total fertility rate was at five per woman (PSA and ICF International 2014). Even if average fertility decreases, it is very likely that the rates of decline vary across different groups of people, which may potentially worsen inequality in the near term. Affirmative actions, such as direct government transfers, may therefore be necessary.

Some policies need to be rethought or introduced. Government transfer systems, like unfunded pension or social health insurance—particulary when they are especially generous—may pose heavy burden to taxpayers in an ageing population. Allowing the elderly to continue working when they desire so, say by removing mandatory retirement age, may ease some of this burden. Policies promoting saving and investments among middle-age workers may also provide the needed social security, while raising the available capital at the same time.

The demographic dividend is highly time bound. The country's window of opportunity from the first dividend is closing soon. The time to invest in the Philippines and in Filipinos is now so that the country may continue to harvest demographic dividends for years and years to come.

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