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Older and Poorer?

How sharing among generations could improve wellbeing

TOWARD INCLUSIVE GROWTH

Around the world, the age of the entire population is changing. These changes will affect economic growth and equity across generations. In 190 countries, the fastest-growing age group is working-age adults (25–59 years old). In these countries, the proportion of children is declining because of low fertility, and the proportion of elderly people is still small. Thus, they are experiencing what is often called a “demographic dividend.” This is a unique opportunity to improve standards of living and lower rates of poverty. With fewer mouths to feed, each working-age adult has a better opportunity to save, invest, and educate the young, building a strong foundation for sustained economic growth. This process is just beginning in Africa, where it will relieve the pressure created by very young populations. In many countries of Latin America, Asia, and most of the industrialized world, the age structure will be favourable for several more decades, but the future will be increasingly dominated by growing older populations.

THE EVIDENCE

National Transfer Accounts represent a new set of tools that reveal the age dimension of an economy, showing how populations produce, consume, save, and share resources by each age group. As in all countries, children and the elderly consume more than they produce. The accounts show that in Nigeria, for instance, consumption by children was among the largest in the world, at 90 percent of the entire value of the production of the working-age population, while consumption by the elderly was trivial.[1] In African countries, working-age adults are devoting so much to the basic needs of their many children that too little is left to invest in their children’s education or to save and invest for their own future. In highly developed economies such as Japan, on the other hand, the challenge is increasingly to support the consumption of large groups of the elderly.

Chile also provides an instructive case of how changes in population age structure and effective policy lead to better economic outcomes, both now and in the future.[2] As of 1996, Chileans devoted only 40 percent of their total labour income to support children. Spending on health and education is relatively high, and pension programs have been reformed to emphasize personal savings rather than transfer systems that would burden future generations of workers. Policies in Latin America are mixed, however. Some countries, such as Brazil, rely heavily on large public pension programs that are known to discourage saving and cannot be sustained when populations age.

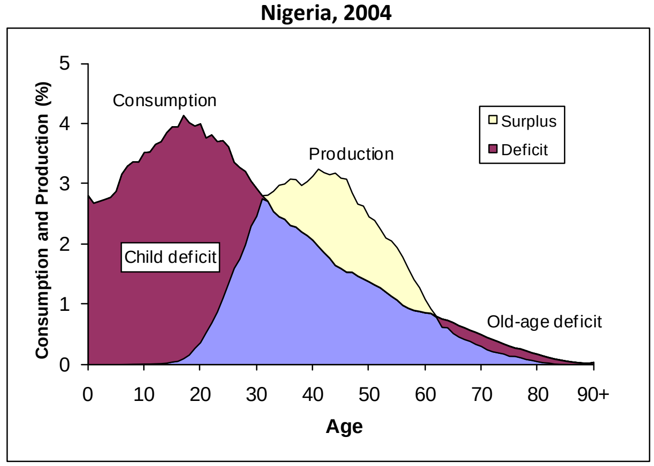
KEY CHOICES

Jobs are critical at every stage of the age transition. To ensure that incomes are adequate to support current consumption and investment for the future, policies need to draw a wide range of the population into the workforce—including young adults, women, and the elderly who are still able-bodied. These policy options could include increasing the mandatory retirement age, varying pension benefits so that early retirement is neither encouraged nor discouraged, and improving flexibility for employers to hire part-time workers. Flexible and part-time employment may be especially attractive to women and to the elderly.

Governments should create an economic environment that encourages high rates of personal savings. In addition to providing retirement income for individuals, high saving by the older generation supports investment that leads to higher wages and a more productive workforce. One priority is to ensure that financial institutions provide attractive and secure long-term investment opportunities in the context of low inflation, so that money saved today will retain its value tomorrow.

As child dependency declines, families and government alike can increase their investment in each child without increasing overall spending. Better child health and more education will lead to higher incomes so that national economies can continue to grow and important social programs can be sustained.

Consumption and production as a percentage of total production, Nigeria, 2004



Source: Estimates based on Soyibo et al. forthcoming.

[1] Adedoyin Soyibo, Olanrewaju Olaniyan, and Akanni O. Lawanson. Forthcoming. “The structure of generational public transfer flows in Nigeria,” in Ronald Lee and Andrew Mason (editors), *Population Aging and the Generational Economy* (Edward Elgar, forthcoming). Related IDRC Project # 104231, 105399, and 105654. For more information about National Transfer Accounts, see www.ntaccounts.org.

[2] United Nations, Economic Commission for Latin America and the Caribbean, *The generational economy in Latin America*. UN ECLAC, 2010.