



UNDERSTANDING THE GENERATIONAL ECONOMY IN PAKISTAN

An insight into the demographic dividend



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Generational economy provides:

- Estimates of people's income and their consumption at every age
- Understanding to how do people, especially the young and the old who consume more than they produce, support themselves

The current population age structure of Pakistan provides the country an opportunity to reap the demographic dividend. An opportunity provided by the fact that the number of people in the working ages are more than the young and the elderly. An insight to the generational economy can help us understand the wealth flows taking place in the population across different ages in Pakistan. It also strengthens our understanding of the linkages between population dynamics and development.

The Economic Life-Cycle and Life-Cycle Deficit in Pakistan

Life-cycle accounts incorporate consumption and labour income, where consumption is subdivided into public and private consumption. This is helpful in investigating the age pattern of income and consumption by quantifying the economic life-cycle. Generally, young and old age groups consume more than they produce, hence, their economic life-cycle is in deficit. On the contrary, the working-age group produces more than their consumption and have a life-cycle surplus.

The youth not only require resources for their basic needs but also for investment in their human capital, while older, apart from basic needs, require significant resources for their declining health. The consumption not only varies by age but also according to the population structure of a country. Developed economies' elderly population is increasing and thus have different age-specific consumption patterns from developing countries, which have a high proportion of the young population. Besides, in developing economies like Pakistan, consumption decisions are not individual but also depend on the collective decision within the family. Life-cycle deficit is at the core of these estimates. Since life-cycle deficit is calculated as consumption minus income, Figures 1 and 2 present the per capita and aggregate life-cycle deficits in terms of consumption and income. Consumption is the sum of private and public consumptions on education, health, and other consumption. Labour income is composed of labour earnings and self-employed income.



The economic life-cycle is an age pattern of consumption and labour income.

The life-cycle deficit is the net result of consumption minus labour income.

¹This brief is based on a detailed study, Nayab, D., and Siddique, O. (2019) "National Transfer Accounts for Pakistan: Understanding the Generational Economy". Islamabad: PIDE and UNFPA.

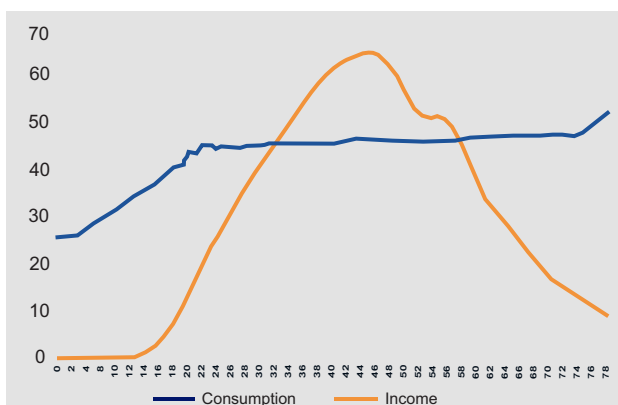


Figure 1: The Life-Cycle Deficit: Per Capita Labour Income and Consumption (thousand rupees)

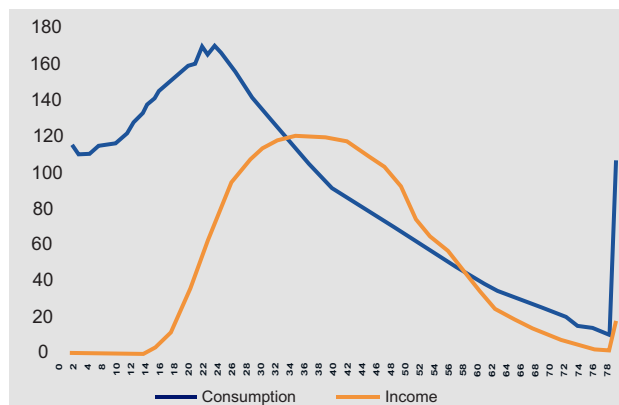


Figure 2: The Life-Cycle Deficit: Aggregate Labour Income and Consumption (billion rupees)

As Figure 1 shows, the younger population consumes more than they produce but this gap is even wider for the older population. For the young, the consumption-income gap is due to the education consumption while for the old, the gap is driven mainly by expenditures on health. Figure 2 shows the impact of Pakistan's age structure on the life-cycle deficit. Since the proportion of the population in younger cohorts is higher in Pakistan, the aggregate consumption is also higher for this age group. Consumption shows a declining trend for the older population. The figure further reveals that 25-45 is the most productive age group, in terms of generating income.

Generational Wealth Flow in Pakistan

The estimates show that a large life-cycle deficit exists in Pakistan for the young and an even bigger one for the elderly, on per capita basis (Figure 1). There are two mechanisms to fund the life-cycle deficit, which are private and public age reallocations (discussed below). However, for Pakistan, the life-cycle deficit is mainly funded through private asset-based reallocations and private transfers. Although public sources also contribute to bridging the life-cycle deficit, the role of the private sector is greater.



Private Age Reallocations

Private age reallocations are made through two mechanisms, namely, transfers and asset income. Transfers are cash and in-kind flows to (transfer inflows) and from (transfer outflows) individuals or age groups that do not require any explicit return. Transfers are further subdivided into inter- and intra-household transfers. Similarly, private asset income is composed of capital and property income. The private age reallocations are mediated by households, families, and other private institutions. These private transfers are a significant source of funding the life-cycle deficit.

Public Age Reallocations

Public age reallocations are the flow of current resources across age that is mediated by the government. Public age reallocations are composed of two economic mechanisms – public transfers and public asset-based reallocations – that can be used to shift resources across age. Public transfers are ones between the public and the private sector. These are the transfers that flow from working-age adults, who pay taxes, to the ages in which beneficiaries are concentrated, often children and the elderly, to fund the life-cycle deficit.

Public asset-based reallocations arise because the government owns assets and debt. Inflows occur when government earns public asset income or borrow. Outflows occur when the government have property income outflows, paying interest on public debt, or when governments save.

Estimates of the generational economy show that net public transfers are small, especially when compared to private transfers. The detailed account reveals that the public transfers flow from the population in their early 30s onward to the younger population.

KEY POINTS

Prime productive ages in Pakistan are the 40s as their income is substantially more than their consumption.

Education consumption relies more on private sources than public ones. This is true for all educational levels.

People Save!
The life-cycle deficit is funded primarily by asset-based reallocations, and these reallocations are more in the private domain than public.

Health consumption is highest for the elderly and, irrespective of age, private financing of healthcare exceeds public.



What does it mean for Pakistan?

Estimates for Pakistan's generational economy has serious policy implications for various key areas. Some of the more important ones are given below.

Gainful employment: The outflows from the working ages are meeting the life-cycle deficit faced by the young and the elderly. To reap the potential benefits of the demographic dividend, it is imperative that the working ages are gainfully employed. As these young workers progress they not only provide for their own living but also for those who are dependent upon them.

Education spending: Expenditure on education, especially public expenditure, is quite low to produce the quality needed to compete in the modern global economy. The analysis, therefore, reinforces the need to increase investment in education, with emphasis on quality.

Public health consumption: Private health consumption far exceeds public health consumption. There is a dire need to increase public spending on health. Literature suggests that health expenditures are a major source of pushing households into poverty.

Caring for the elderly: Although the proportion of the elderly is not high in Pakistan, nor is projected to be so in the coming few decades, the numbers are fast increasing. The absence of universal public social security system makes the elderly extra-vulnerable due to changes in the family living arrangements, such as the trend towards the nuclear family system. It, therefore, is about time we start planning for the elderly because, as the estimates show, the elderly have the largest life-cycle deficit and the highest health expenditure.