The First and Second Demographic Dividend in European NTA Countries: an update

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Abstract

Population aging is rapidly changing the population age structure in European countries. The link between demography and economy is usually analysed with the dependency ratio and the support ratio. Both of those indicators compare the population in working- and non-working-age, which are arbitrarily defined. However, not all the people of certain age group are productive and the remaining ones unproductive. Further, not all productive individuals are equally productive. On the other hand, not all individuals consume the same, which is implicitly assumed in the dependency and support ratio. By applying NTA age profiles of consumption and labour income on population projections we calculate the improved version of the support ratio - 'NTA support ratio'.

Changes in the NTA support ratio are captured by the 'first demographic dividend'. Depending on how elderly finance their consumption population aging can also have a positive economic effect in form of 'second demographic dividend'. Under the current setting in European NTA countries the opportunity in form of positive second demographic dividend is expected to be heavily dominated by the challenge of the negative first demographic dividend. However, the newly added UK case seems to be an exception. UK elderly relying heavily on the income from assed based reallocation results in a high second demographic dividend, which is expected to outweigh the negative first demographic dividend in the next decades. Also, we propose the first and second demographic dividends to be presented in cumulative terms over the projection period.