New (and old) demographic challenges: analysis of the generational economy in Costa Rica

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National Transfer Accounts
Paris, France
February, 2023
Costa Rica: Fast aging process

Population age structure

- **20-64**: 60-70%
- **20 years or less**: 3%
- **Elderly**: 11%

Source: INEC-CCP
Costa Rica: Very low fertility

Total Fertility Rate

Source: INEC
Generational economy

• What are the main challenges and opportunities of aging for the economy?

• How much the life cycle deficit have changed?

• Are the demographic and gender dividend opportunities for the economy?
Methodology

• Manual:
  • Measuring and analyzing the generational economy

• Data:
  • Household income and expenditure survey - INEC
  • Integrated economic accounts – Central Bank
Evolution of labor income in Costa Rica

Per capita Labor Income

Source: Jiménez Fontana and Rosero Bixby, 2022.
Evolution of consumption in Costa Rica

Per capita Consumption

(colones de 2018)

Life Cycle. Costa Rica, 2013 y 2018

Lineas punteadas indican 2013

Aggregated LCD. Costa Rica, 2018

Population

Aggregate Consumption and Production

Source: Jiménez Fontana y Rosero Bixby, 2022.
What mechanisms have societies developed to finance LCD?
How people aged 20 years or less finance LCD?

20 years or less

<table>
<thead>
<tr>
<th>Year</th>
<th>Family</th>
<th>State</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>67</td>
<td>32</td>
<td>0</td>
</tr>
<tr>
<td>2013</td>
<td>68</td>
<td>31</td>
<td>0</td>
</tr>
<tr>
<td>2004</td>
<td>78</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>1991</td>
<td>75</td>
<td>16</td>
<td>10</td>
</tr>
</tbody>
</table>

- Family
- State
- Assets
How elderly finance LCD?

Elderly

-20 0 20 40 60 80 100 120

2018

-12 64 48

2013

-9 74 35

2004

66 36

1991

4 43 53

Family  State  Assets
What are the implications of the structure of the generational economy?
Demographic dividends

Year: 1950-2016

Households: 1970-2049

Second: 1970-2016

Fiscal: 1988-2089

Health, Pensions and Education Dividends

Education

Health

Pensions

What can be done?
Gender dividend

Potential opportunity for higher economic growth and productivity

Reduction of gender gaps in the labor market
Decrease in female labor force participation

Female labor force participation rate (%)

Men | Women

1987 | 89 | 31
1988 | 88 | 32
1989 | 87 | 33
1990 | 86 | 34
1991 | 86 | 35
1992 | 85 | 36
1993 | 84 | 37
1994 | 83 | 38
1995 | 82 | 39
1996 | 81 | 40
1997 | 80 | 41
1998 | 79 | 42
1999 | 78 | 43
2000 | 77 | 44
2001 | 76 | 45
2002 | 75 | 46
2003 | 74 | 47
2004 | 73 | 48
2005 | 72 | 49
2006 | 71 | 50
2007 | 70 | 51
2008 | 69 | 52
2009 | 68 | 53
2010 | 67 | 54
2011 | 66 | 55
2012 | 65 | 56
2013 | 64 | 57
2014 | 63 | 58
2015 | 62 | 59
2016 | 61 | 60
2017 | 60 | 61
2018 | 59 | 62
2019 | 58 | 63
2020 | 57 | 64
2021 | 56 | 65

Fuente: Jiménez-Fontana, 2018, con datos del INEC.
Female labor force participation and the glass ceiling

Female Labour Force Participation, 1980-2020
(ECLAC estimations)

What obstacles prevent improvements of female labor force participation?
Women face a triple barrier

- Insertion (participation LF)
- Selection (acceso to employment)
- Income
Gender gaps in the time spend on unpaid work

Source: Jiménez Fontana, 2014.
Women with a lower educational level spend more time doing childcare
Women face a triple barrier

- Insertion (participation LF)
- Selection (access to employment)
- Income
Women have higher unemployment rate
Young women with low educational level were the most affected

Unemployment rate, low skilled workers.
II trimester, 2019-2020

2019-2020

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<tr>
<th></th>
<th>Men</th>
<th></th>
<th>Women</th>
<th></th>
</tr>
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<tr>
<td></td>
<td>Generation X</td>
<td>2nd Baby</td>
<td>Millenials</td>
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<tr>
<td>2019</td>
<td>5.4</td>
<td>7.0</td>
<td>12.6</td>
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<tr>
<td>2020</td>
<td>11.1</td>
<td>14.2</td>
<td>27.2</td>
<td></td>
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<tr>
<td>2019</td>
<td>7.9</td>
<td>15.8</td>
<td>35.3</td>
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</tr>
<tr>
<td>2020</td>
<td>24.4</td>
<td>30.1</td>
<td>52.2</td>
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Fuente: Jiménez Fontana y Morales, 2021, con datos de las ECE, del INEC.
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<tr>
<td>2019</td>
<td>2020</td>
<td>2021</td>
</tr>
<tr>
<td>Generation X (1962-1973)</td>
<td>12,6</td>
<td>18,2</td>
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<tr>
<td>2nd Baby Boom (1974-1985)</td>
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<td>18,2</td>
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<tr>
<td>Millennials (1986-1999)</td>
<td>27,2</td>
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Women face a triple barrier

- Insertion (participation LF)
- Selection (access to employment)
- Income
Evolution of labor income in Costa Rica

Per capita Labor Income

(colones de 2018)

Source: Jiménez Fontana and Rosero Bixby, 2022.
Per capita labor income by sex and education

Perfil del ingreso laboral por sexo

Increasing female labor participation is a potential opportunity for economic growth and productivity.

**Evidence:** no significant improvement is observed in the reduction of gender gaps.
• Costa Rica did not take advantage of the first demographic dividend.

• Demographic trends and projections: rapid change on population age structure was expected

• LCD and transfers depend on demography, but also on public institutions.

• No significant reform has been done to improve sustainability of pensions and public health services

• Fiscal unsustainability of the social contract

• The challenges of population aging were well known for more than two decades.
Conclusions

The difference is that 10 years ago we talk about opportunities of the demographic change, now we have the old challenges (worsen) and some new ones:

- Public debt: 63% of GDP
- Unemployment rate higher than 10% for more than 10 years
- 45% of labor informality
  - Disconnection between labor market and public transfers
- Very low fertility rate
- Greater gender gaps
- Erosion of citizen trust in democratic values and principles (Alfaro, 2022).
• Difficult times to expand public policies and to cut benefits
• Government needs to do more with less money
• No ‘market solution’: we need public policies
• We are getting older with more gender inequality, without getting any richer.
• Public childcare services are not universal (mostly for poor people in some parts of the country)

• To have success on the labor market and reduce the gender gaps we need education policies and childcare networks
  • Includes private sector: childcare, subsidies, reduce gender discrimination, wfh,...

• Who are going to take care of elderly?

• Are we losing the opportunity of a gender dividend?