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Demographic Dividend, Human Capital, and Saving:

Take it Now or Enjoy it Later?

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The goal of this paper is to improve our understanding of the economic implications of the demographic dividend arising through decisions about the allocation of resources between current material needs, enhanced human capital spending, and higher rates of saving and investment. The analysis will make use of National Transfer Account (NTA) data, including time series data, and the conceptual framework that governs the construction of NTA (Lee and Mason 2011; United Nations Population Division 2013). Our earlier work on age structure and human capital relied on a very simple simulation model developed in the spirit of Becker and Barro (1988) to draw out the implications of population aging for human capital and economic growth. That work was informed by cross-sectional National Transfer Account estimates of investment in human capital to quantify the quantity-quality tradeoff (Lee and Mason 2010).

The research presented in this paper will be based on a new simulation model that will provide a comprehensive and consistent treatment of how each generation or age group acquires and uses economic resources to meet their current needs, the needs of others, and to provide for the future. The model will be used to explore how exogenous changes in population age structure, technological change, and public policy with respect to taxes and spending influence the availability of resources to each age group or generation and how, in turn, private intergenerational transfers, public and private spending on human capital, and saving are influenced. A particularly innovative feature of this work will be a treatment of private intergenerational transfers that incorporates the familial linkages across age groups.

As in the past, model parameters will be based on cross-sectional NTA data. In addition, we will exploit the increased availability of time series NTA estimates to validate our model and to distinguish the effects of population age structure (and generational squeezes) from the influence of other forces affecting human capital spending and other macroeconomic outcomes.

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