

The Challenge of Global Aging

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Part I

The Developed-World Age Wave

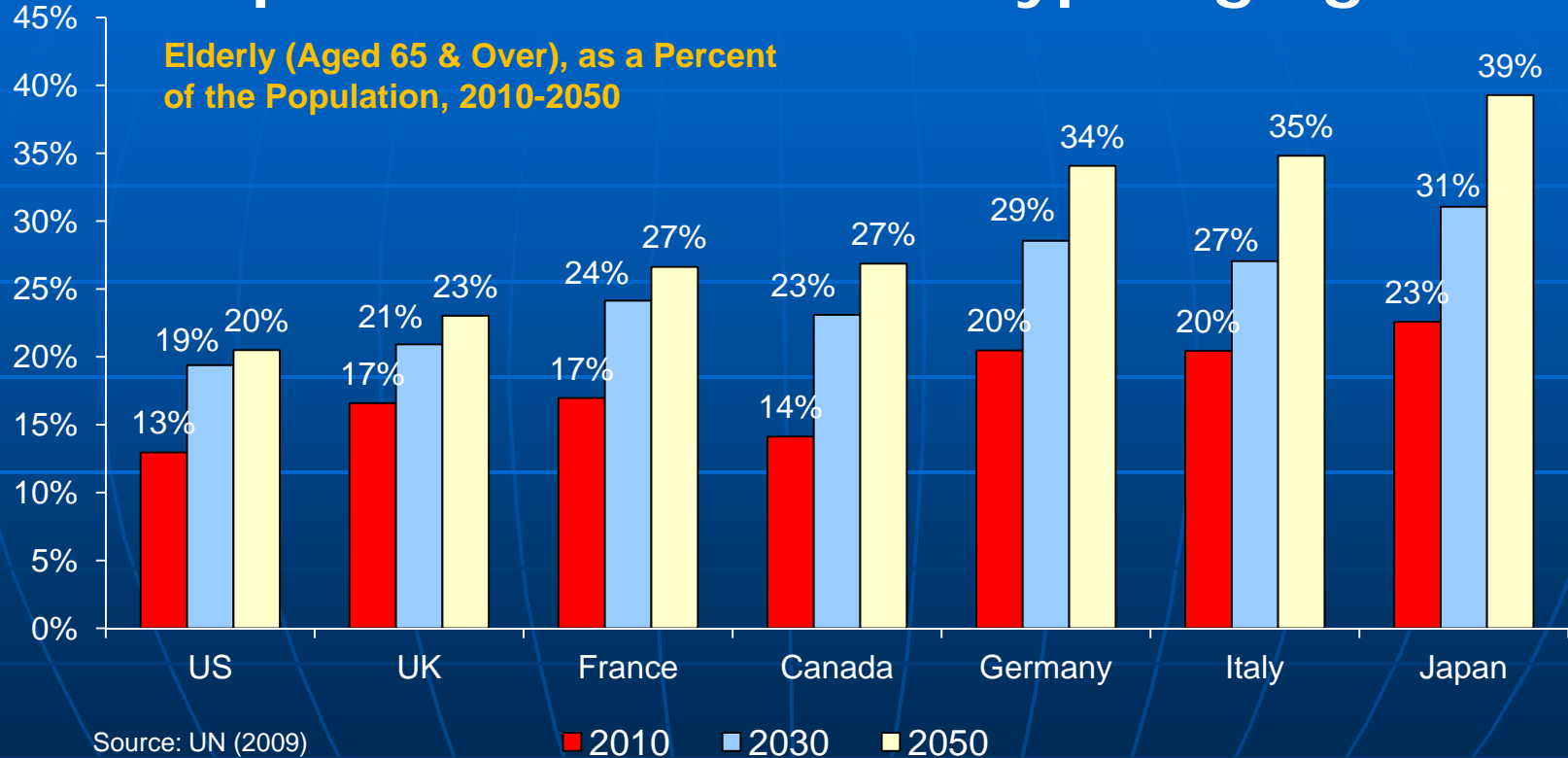
Behind the developed-world age wave: Falling fertility and rising longevity.

Total Fertility Rate and Life Expectancy: G-7 Countries

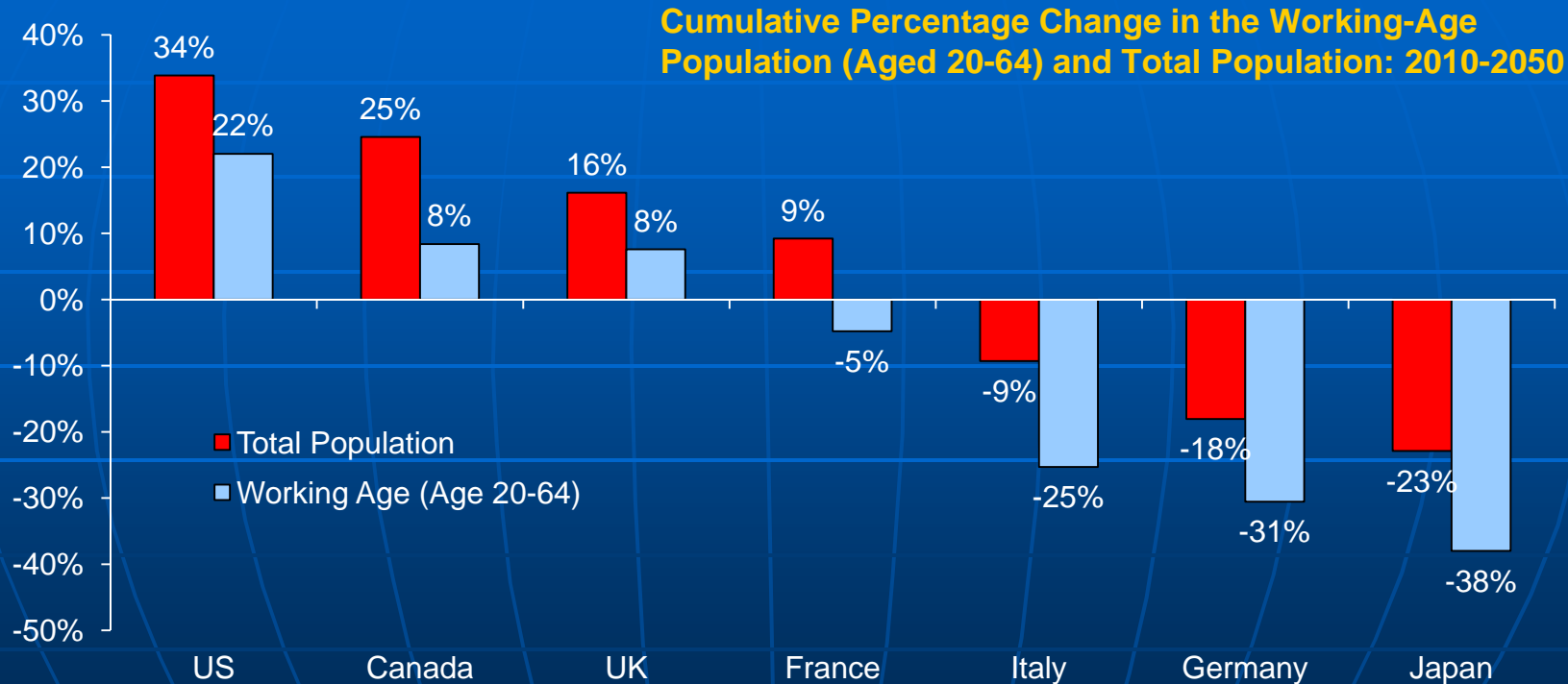
	Total Fertility Rate			Life Expectancy at Birth		
	1960-65	1980-85	2005-10	1960-65	1980-85	2005-10
Canada	3.7	1.6	1.6	71.4	75.9	80.7
France	2.9	1.9	1.9	70.7	74.7	81.2
Germany	2.5	1.5	1.3	70.3	73.8	79.9
Italy	2.5	1.5	1.4	69.6	74.7	81.2
Japan	2.0	1.8	1.3	68.9	76.9	82.7
UK	2.8	1.8	1.8	70.8	74.0	79.4
US	3.3	1.8	2.1	70.0	74.3	79.2

Source: UN (2009)

The developed countries are entering an unprecedented era of "hyperaging."



Along with aging populations, most developed countries will have stagnant or contracting ones.



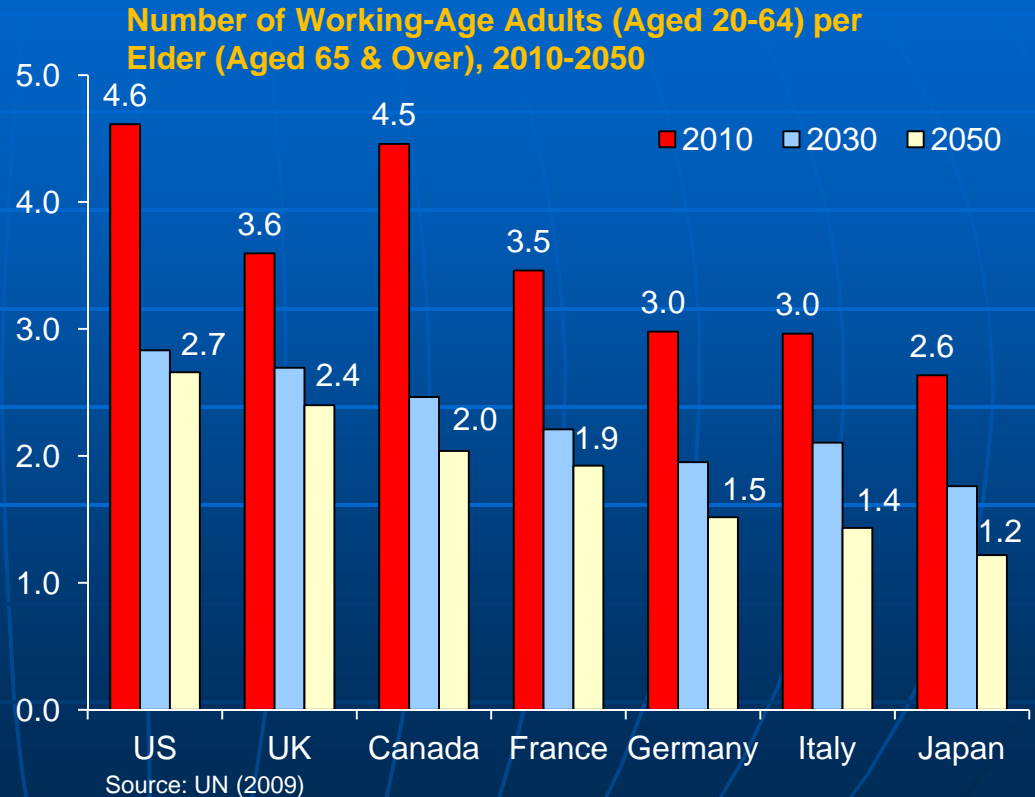
Source: UN (2009)

Part II

The Fiscal Challenge

Fiscal Challenge

- ❑ Falling fertility and rising longevity translate directly into a falling support ratio of workers to retirees.
- ❑ A falling support ratio in turn translates into a rising cost rate for PAYGO retirement systems.



CSIS “Current Deal” Projection: Government Old-Age Benefits, as a Percent of GDP, 2007–2050

	Public Pensions			Health Benefits			Total		
	2007	2030	2050	2007	2030	2050	2007	2030	2050
Canada	3.9%	7.0%	8.4%	3.6%	6.1%	8.9%	7.5%	13.1%	17.3%
France	11.2%	17.8%	19.6%	4.5%	7.8%	10.2%	15.6%	25.6%	29.8%
Germany	10.0%	17.0%	20.4%	4.1%	6.3%	8.5%	14.1%	23.3%	28.9%
Italy	12.3%	18.9%	24.6%	3.4%	5.5%	7.5%	15.7%	24.4%	32.1%
Japan	9.1%	13.9%	19.3%	4.0%	6.0%	8.0%	13.2%	19.9%	27.3%
UK	5.8%	7.9%	8.5%	4.0%	6.3%	8.8%	9.8%	14.2%	17.3%
United States	4.1%	6.6%	7.0%	4.2%	8.0%	10.2%	8.3%	14.6%	17.2%
Developed World	8.8%	13.7%	16.6%	3.8%	6.3%	8.6%	11.2%	17.9%	22.5%

Note: Data refer to benefits to persons aged 60 and over. Pension projections assume retirement ages remain unchanged and benefits continue to replace the same share of wages they do today.
Source: *The Global Aging Preparedness Index* (CSIS, 2010)

Fiscal Challenge

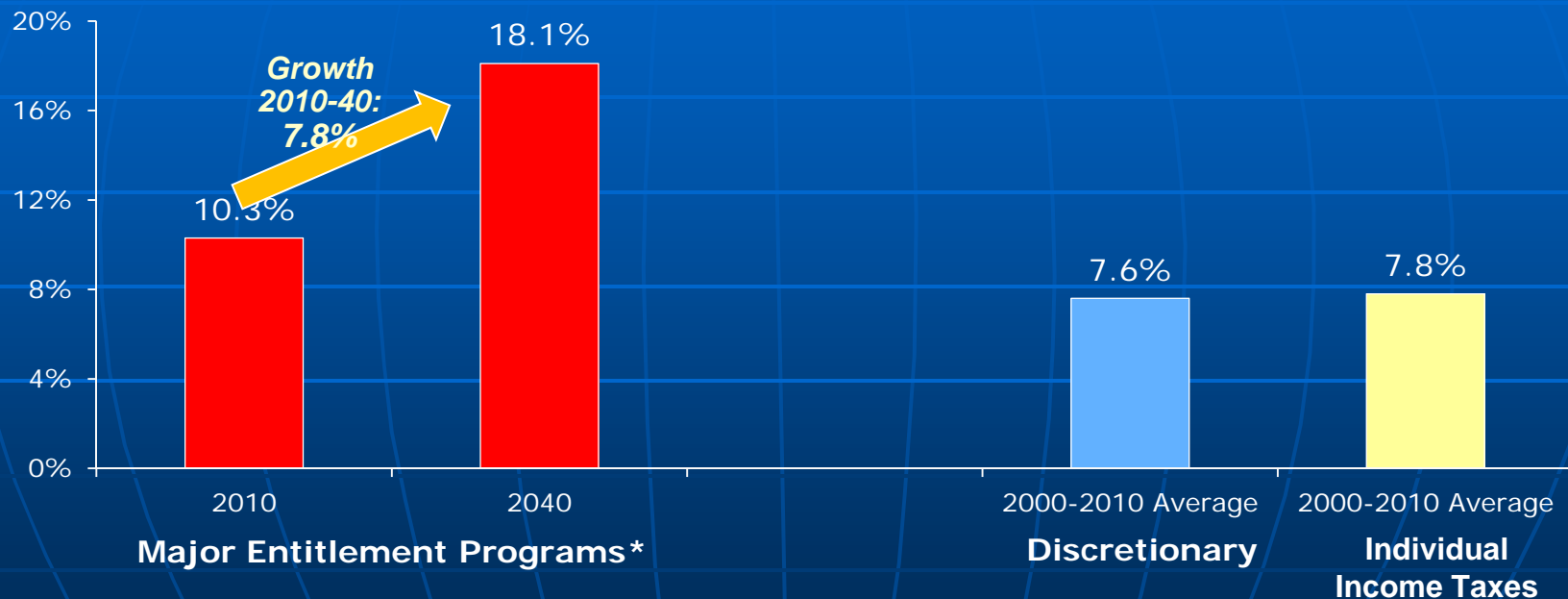
- ❑ Few countries will be able to raise taxes enough to cover more than a fraction of the age wave's cost.
- ❑ Most will have to cut benefits—but the required adjustments are large and are likely to meet growing political resistance from aging electorates.
- ❑ The likely alternatives: crowd out other spending or let deficits grow—undermining national savings and growth.

Public Benefits in 2007, as a Percent of Total Elderly Cash Income

	<u>Average</u>	<u>3rd Quintile</u>
Canada	31%	47%
France	59%	72%
Germany	47%	76%
Italy	55%	77%
Japan	39%	61%
UK	42%	69%
US	22%	38%

Source: *The Global Aging Preparedness Index* (CSIS, 2010)

Projected Growth in Major U.S. Entitlement Programs* versus Current Discretionary Spending and Individual Income Taxes, as a Percent of GDP



* CBO "Alternative Fiscal Scenario." Includes Social Security, Medicaid, Medicare, Exchange Subsidies, and CHIP outlays.

Part III

**The Broader Economic and
Social Challenge**

The Impact on Economic Growth

- ❑ The slowdown in workforce growth in the developed world will translate into slower growth in GDP.
- ❑ Japan and some faster-aging European countries face a future of secular stagnation.
- ❑ Productivity and living standard growth may also slow as rates of saving and investment decline.
- ❑ Aging workforces may be less flexible, less mobile, and less entrepreneurial—putting a further drag on economic growth.

Average Annual Growth Rate in the Working-Age Population (Aged 20-64), by Decade

	1980s	1990s	2000s	2010s	2020s	2030s	2040s
Canada	1.7%	1.1%	1.2%	0.5%	0.0%	0.2%	0.1%
France	1.0%	0.4%	0.6%	-0.2%	-0.1%	-0.2%	0.0%
Germany	1.1%	0.2%	-0.2%	-0.3%	-1.2%	-1.2%	-0.9%
Italy	0.9%	0.2%	0.3%	-0.3%	-0.6%	-1.2%	-0.9%
Japan	0.7%	0.4%	-0.4%	-1.0%	-0.7%	-1.5%	-1.5%
UK	0.6%	0.4%	0.6%	0.3%	0.0%	0.1%	0.3%
US	1.4%	1.2%	1.1%	0.6%	0.3%	0.6%	0.6%

Source: UN (2009)

The Threat of Capital Shortages

- ❑ As more of the population enters its harvest years, consumption rates will rise and savings rates will fall.
- ❑ Growing fiscal deficits may exacerbate the decline in household savings rates.
- ❑ The danger of a “Great Depreciation” in financial markets as postwar baby booms retire is overstated.
- ❑ Instead, aging developed countries are likely to become even more dependent on capital imports from a younger and faster-growing developing world.

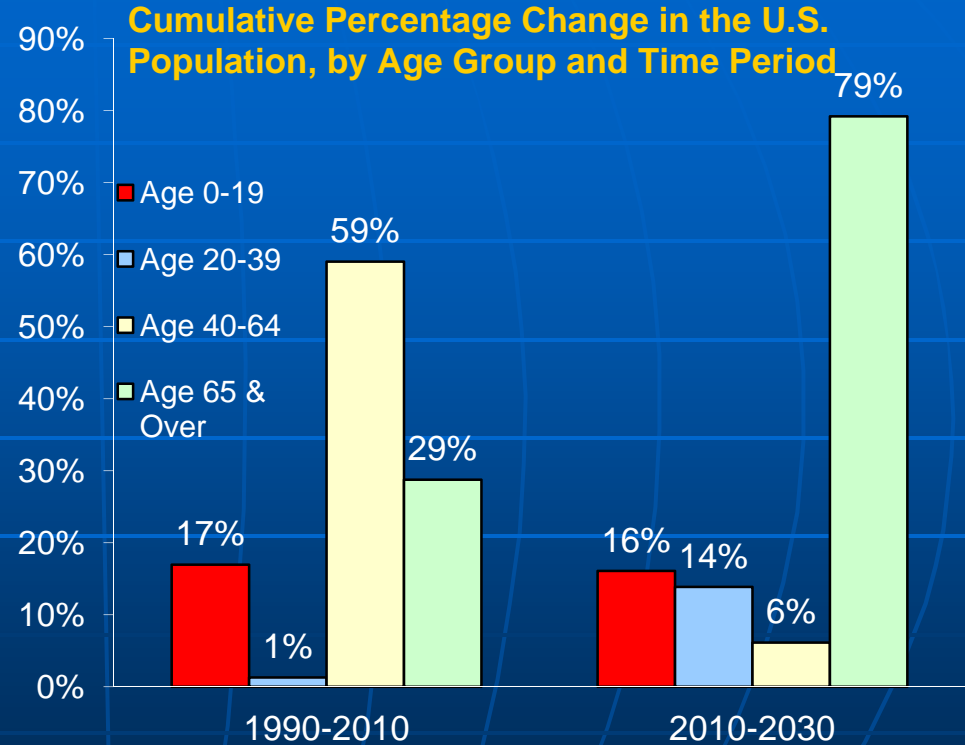
Adults Aged 20 & Over by Age Group,
as a Percent of All Adults

		2010	2020	2030	2040
US	Age 20-34	28%	28%	26%	26%
	Age 35-59	47%	42%	41%	41%
	Age 60 & Over	25%	30%	33%	33%
EU15	Age 20-34	24%	22%	20%	19%
	Age 35-59	46%	44%	40%	38%
	Age 60 & Over	31%	34%	40%	43%
Japan	Age 20-34	22%	18%	18%	16%
	Age 35-59	41%	41%	38%	34%
	Age 60 & Over	37%	41%	45%	50%

Source: UN (2007)

Sectoral Shifts and Business Psychology

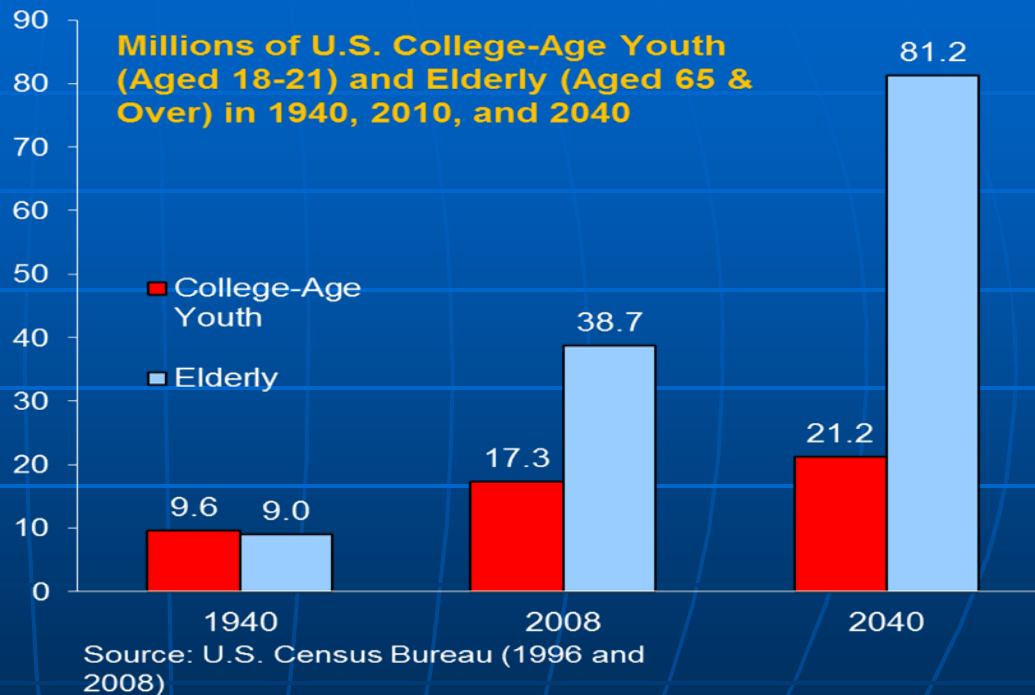
- ❑ The secular economic shift from manufacturing to services will accelerate.
- ❑ The “youth demographic” will give way to a new “silver demographic.”
- ❑ Business growth will come to depend more on market deepening than on market broadening.
- ❑ Product markets may be characterized by excess capacity, labor markets by higher adjustment costs.
- ❑ Stagnant or contracting markets will increase the risk of “beggar-thy-neighbor” protectionism.



Source: U.S. Census Bureau (2008)

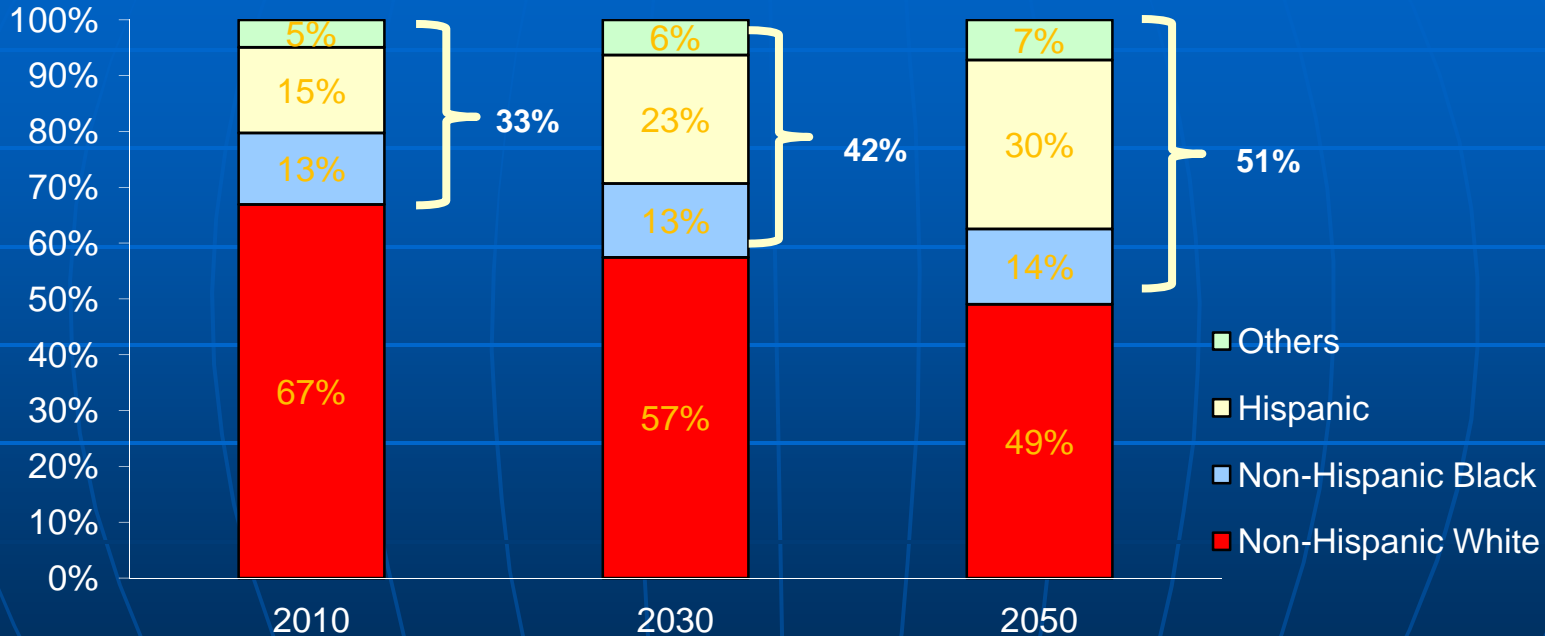
The Impact on Social Mood

- ❑ As societies age, the overall social mood may become more risk averse and “small c” conservative.
- ❑ Smaller families may find it more difficult to socialize the young—and care for the old.
- ❑ Elder-dominated electorates may lock in current public spending commitments at the expense of new priorities.
- ❑ As the developed countries age, they will also grow more diverse—challenging social cohesion in some countries.



By mid-century, the U.S. Population will be a "majority of minorities."

Percent of the U.S. Population by Race and Hispanic Origin in 2010, 2030, and 2050



Source: U.S. Census Bureau (2008)

Part IV

The Outlook in the Developing World

The developing world is still much younger, but it too is in the midst of the “demographic transition.”

Demographic Indicators for the Developing World

	Fertility Rate		Life Expectancy		Median Age			Elderly Share			Total Pop. Change
	1975	2010	1975	2010	2010	2030	2050	2010	2030	2050	2010-50
	Developing World	5.1	2.7	57.2	67.0	27.5	31.6	34.6	6.2%	9.8%	13.7%
Sub-Saharan Africa	6.7	5.2	45.5	51.7	18.5	20.6	24.6	3.1%	3.6%	5.2%	131.2%
Muslim World	6.2	2.9	52.2	68.2	24.7	29.4	32.8	4.6%	7.4%	12.2%	69.5%
China & East Asia	4.7	1.7	63.2	73.2	34.4	41.6	46.4	8.4%	16.3%	24.2%	1.8%
India & South Asia	5.4	2.7	51.4	64.9	25.4	30.3	34.0	5.1%	8.4%	12.4%	52.6%
Russian Sphere	2.1	1.4	69.3	67.3	38.2	44.5	48.6	13.5%	20.1%	26.3%	-26.7%
Eastern Europe	2.4	1.4	70.0	74.9	38.9	46.0	51.2	14.9%	21.6%	30.0%	-17.6%
Latin America	5.1	2.3	61.3	73.5	27.7	33.5	37.5	6.9%	11.7%	17.4%	38.8%

The case for hope: Declining “youth bulges” and “demographic dividends.”

- ❑ The “demographic peace thesis”: Demographic trends are pushing the developing world toward greater peace, prosperity, and ultimately democracy.
- ❑ The political argument: Fading youth bulges and rising median ages will foster social stability.
- ❑ The economic argument: Declining dependency ratios create a “demographic dividend”—and open up a window of opportunity for economic growth.

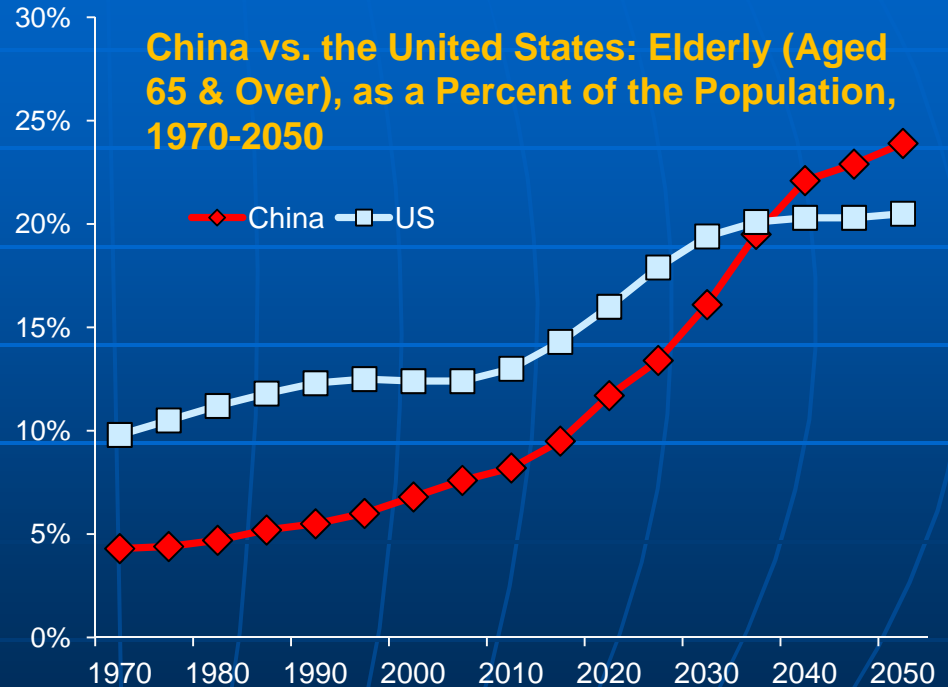
Working-Age Population (Aged 20–64), as a Percent of the Total Population, 1975–2050

	1975	1990	2000	2010	2020	2030	2040	2050
East Asia	46.8%	55.7%	59.6%	64.1%	63.9%	61.5%	57.8%	56.5%
Eastern Europe	56.8%	58.3%	60.4%	63.8%	62.1%	60.5%	58.9%	54.6%
Latin America	43.8%	48.5%	52.3%	56.3%	58.0%	57.3%	56.5%	55.3%
Muslim World	42.6%	45.1%	49.1%	54.3%	56.1%	56.3%	56.8%	55.9%
Russian Sphere	57.7%	59.6%	60.8%	65.6%	63.5%	61.1%	61.3%	57.3%
South Asia	45.2%	48.1%	50.8%	54.8%	56.9%	57.2%	58.1%	57.6%
Sub-Saharan Africa	42.0%	41.1%	42.1%	43.5%	44.9%	47.2%	50.6%	53.0%

Source: UN (2009)

The case for concern: The uneven pace of the demographic transition.

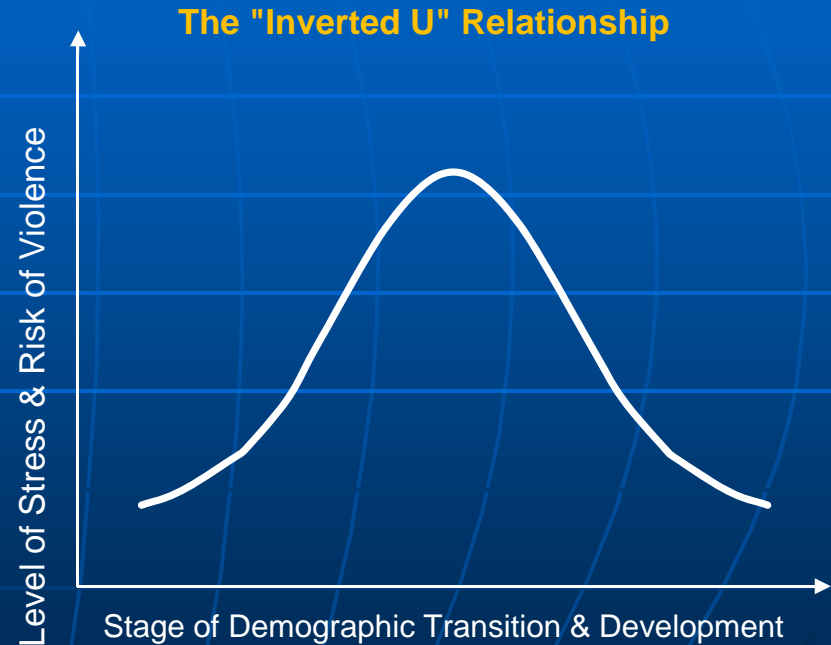
- ❑ **Stalled transitions:** In some parts of the developing world, including most of sub-Saharan Africa and some poorer Muslim-majority countries, the transition has failed to gain traction.
- ❑ **Transitions too fast and too far:** In other parts of the developing world, most notably East Asia, extremely rapid transitions are leading to “premature aging.”



The case for concern: Journeys can be more dangerous than destinations.

- ❑ Societies undergo tremendous stress as they move from the traditional to the modern. When plotted against development, most of the stressors describe an inverted-U—meaning that they become most dangerous midway through the transition.

- ❑ These stressors include:
 - Contact with the global marketplace and culture
 - Urbanization
 - Environmental degradation
 - Growing income inequality
 - Growing ethnic competition
 - Religious extremism



Part V

The Shape of the World Order

The developed world: A shrinking share of global population

12 Largest Countries Ranked by Population

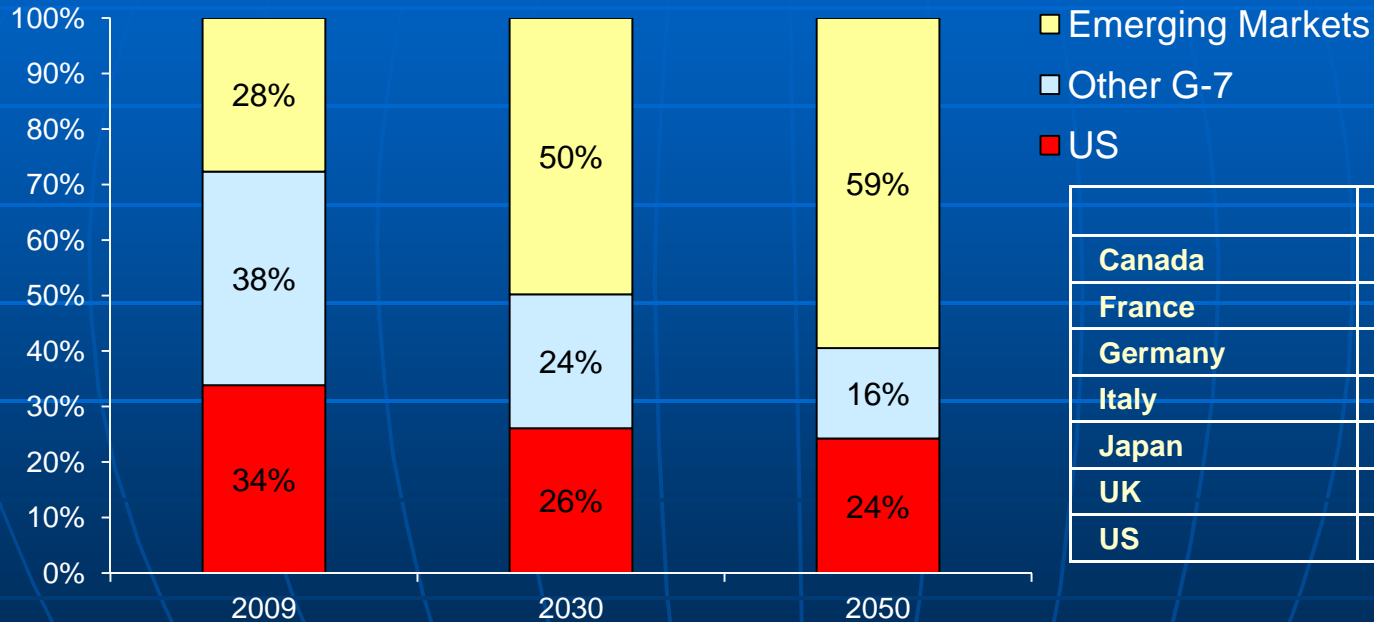
Ranking	1950	2010	2050
1	China	China	India
2	India	India	China
3	US	US	US
4	Russian Federation	Indonesia	Pakistan
5	Japan	Brazil	Nigeria
6	Indonesia	Pakistan	Indonesia
7	Germany	Bangladesh	Bangladesh
8	Brazil	Nigeria	Brazil
9	UK	Russian Federation	Ethiopia
10	Italy	Japan	Philippines
11	Bangladesh	Mexico	Dem. Rep. Congo
12	France	Philippines	Egypt
		Germany (16)	Russian Federation (16)
		France (21)	Japan (19)
		UK (22)	UK (27)
		Italy (23)	France (29)
			Germany (30)
			Italy (37)

Source: UN (2009)

Note: Rankings for developed countries that have fallen below 12 are in parentheses.

The developed world: A shrinking share of global GDP

GDP (in 2005 US Dollars) by Country or Country Group,
as a Percent of G-20 Total, 2009-2050

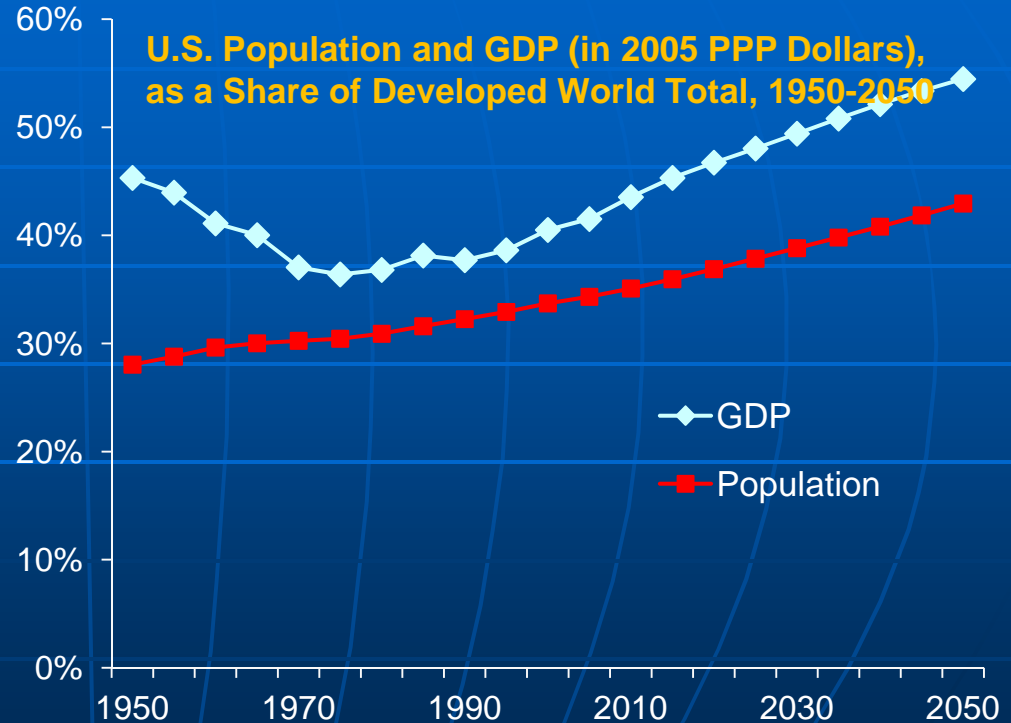


	2009	2050
Canada	3%	2%
France	6%	3%
Germany	7%	3%
Italy	4%	2%
Japan	12%	4%
UK	6%	3%
US	34%	24%

Source: Carnegie Endowment for International Peace (2010)

The United States: A Partial but Important Exception to Population Aging and Decline.

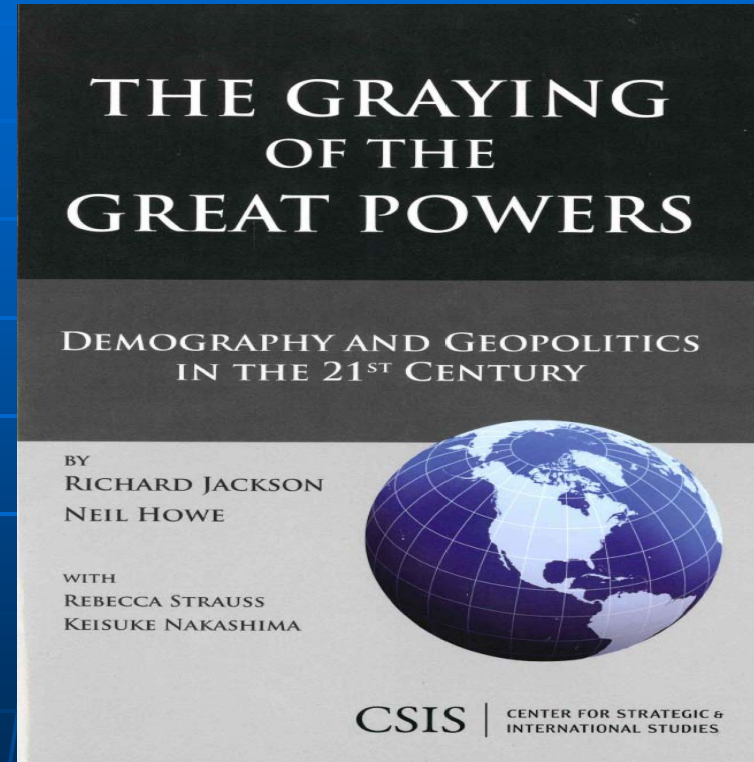
- ❑ The United States is now the youngest of the developed countries—and thanks to its relatively high fertility rate and substantial net immigration it is projected to remain the youngest.
- ❑ America's flexible labor markets, broad and deep capital markets, and entrepreneurial culture also constitute important advantages.
- ❑ To be sure, the United States labors under some notable handicaps, including a low savings rate, an extraordinarily expensive health system, and a political culture that finds it difficult to make trade-offs.
- ❑ But among today's developed countries, it alone will have the demographic and economic resources to play a major geopolitical role.



Source: *The Graying of the Great Powers* (CSIS, 2008)

Imperatives for an aging United States

- ❑ Put the federal budget on a sustainable long-term trajectory before the age wave rolls in.
- ❑ Retilt the overall economy from consumption to savings.
- ❑ Adapt business to an aging and increasingly diverse workforce.
- ❑ Adapt business to slowly growing and graying consumer markets.
- ❑ Resist protectionist pressure.
- ❑ Prepare to bear a greater security burden in a world that will need the United States more, not less.





**We live in an era defined by many challenges,
from global warming to global terrorism.**

None is as certain as global aging.

**And none is likely to have such a large and
enduring effect on the shape of national
economies and the world order.**