

Keynote 2

How Global Aging Will Transform the Economy and Society of the 21st Century

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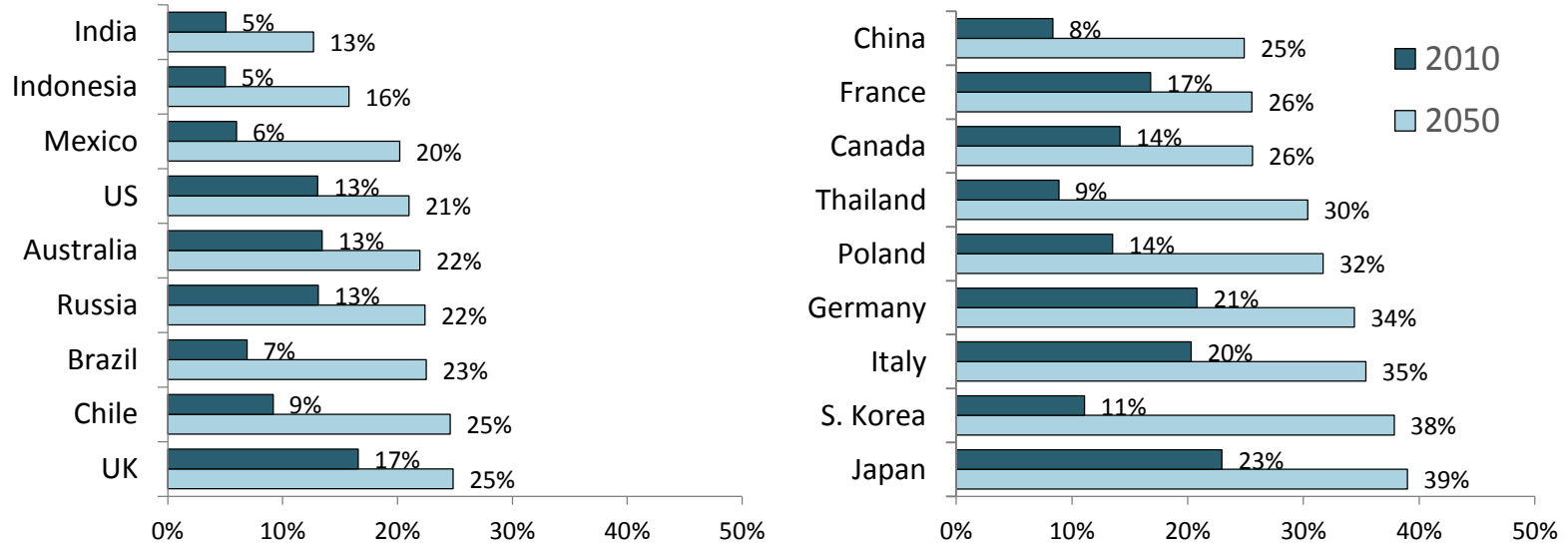


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The world stands on the threshold of a stunning demographic transformation called global aging.

Elderly (65 & Over), as a Percent of the Population, 2010 and 2050



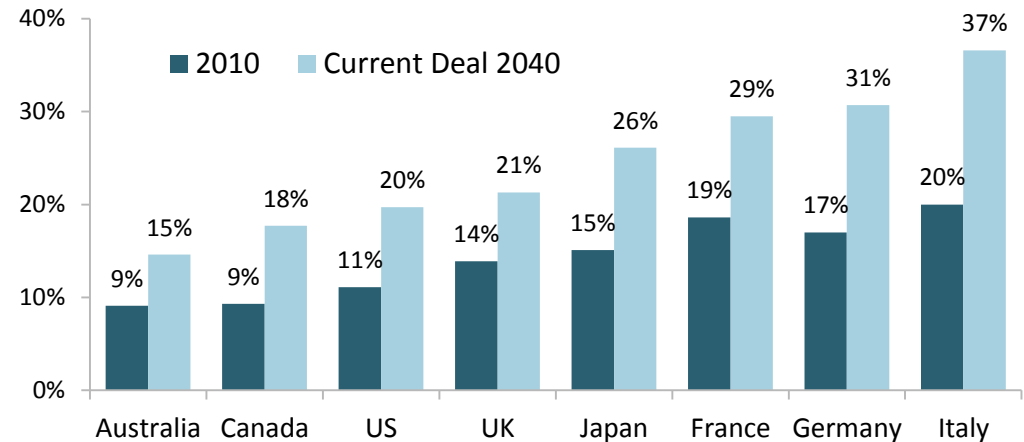
Source: UN Population Division (2013)

Developed World Outlook

A Future of Rising Fiscal Burdens

- ❑ Graying means paying more for pensions, more for health care, and more for long-term care for the elderly.
- ❑ Few countries will be able to raise taxes enough to cover more than a fraction of the age wave's total fiscal cost.
- ❑ Most countries will have to cut old-age benefits—but the required reductions are large and are likely to meet with growing resistance from aging electorates.
- ❑ The alternatives: Let old-age benefits crowd out other government spending and/or run widening budget deficits.

“Current Deal” Projection: Total Government Benefits to Persons Aged 60 & Over, as a Percent of GDP, 2010 and 2040*



*Projections assume that program eligibility ages and benefit levels remain unchanged in the future.
Source: *The Global Aging Preparedness Index, Second Edition* (CSIS, 2013)

A Future of Slower Economic Growth

- ❑ Slowly growing or contracting working-age populations will translate into slower GDP growth. Japan and some European countries may face a future of “secular stagnation.”
- ❑ Higher rates of labor-force participation, especially at older ages, could partially offset the demographic drag on potential GDP.
- ❑ Productivity growth, however, is more likely to fall than to rise as societies age, both because savings and investment are likely to decline and because aging workforces may be less flexible, less mobile, and less entrepreneurial.
- ❑ As domestic markets stagnate, the danger of “beggar-thy-neighbor” protectionism will grow.

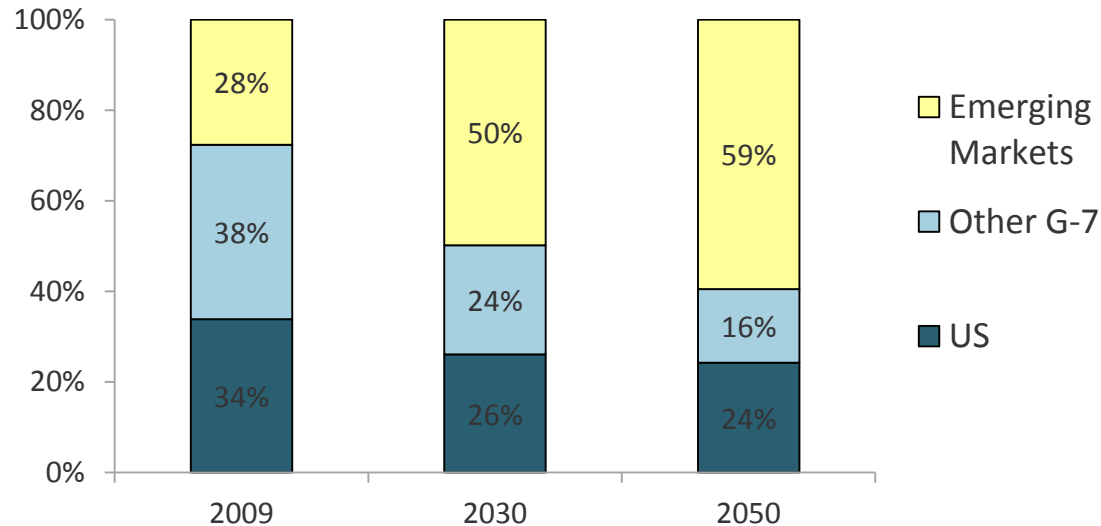
Average Annual Growth Rate in the Working-Age Population (20-64), by Decade

	1980s	1990s	2000s	2010s	2020s	2030s	2040s
Australia	2.0%	1.4%	1.7%	0.8%	0.6%	0.8%	0.7%
Canada	1.9%	1.2%	1.4%	-0.1%	-0.1%	0.4%	0.2%
France	1.1%	0.4%	0.8%	0.0%	0.0%	0.0%	0.3%
Germany	1.2%	0.2%	-0.3%	-0.3%	-1.1%	-1.1%	-0.9%
Italy	0.9%	0.2%	0.4%	-0.2%	-0.6%	-1.1%	-0.8%
Japan	0.8%	0.4%	-0.4%	-0.9%	-0.7%	-1.3%	-1.3%
UK	0.7%	0.4%	0.6%	0.2%	0.0%	0.1%	0.2%
US	1.4%	1.3%	1.1%	0.4%	0.1%	0.5%	0.5%

Source: UN Population Division (2013)

A Future of Relative Economic Decline —and Diminished Geopolitical Stature

GDP by Country or Country Group, as a Percent of G-20 Total, 2009-2050



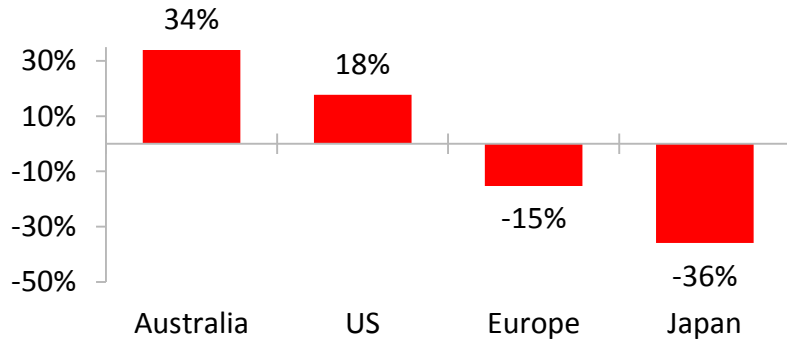
	2009	2050
Canada	3%	2%
France	6%	3%
Germany	7%	3%
Italy	4%	2%
Japan	12%	4%
UK	6%	3%
US	34%	24%

Source: Carnegie Endowment for International Peace (2010)

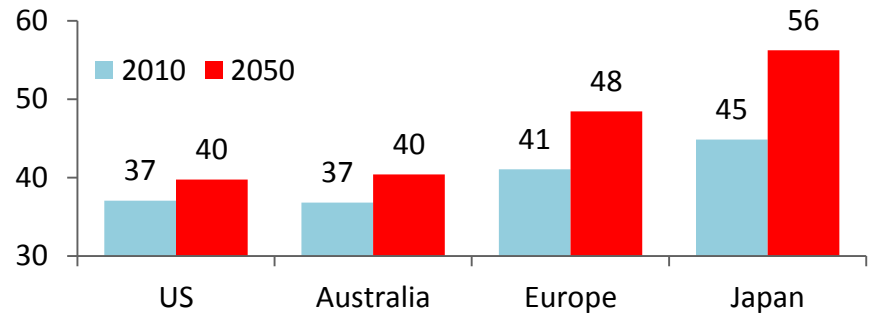
A Widening Generation Gap and Growth Gap within the Developed World

- Australia and the United States are now the youngest of the major developed countries—and, thanks to their relatively high fertility rates and substantial net immigration, they will remain the youngest for the foreseeable future.

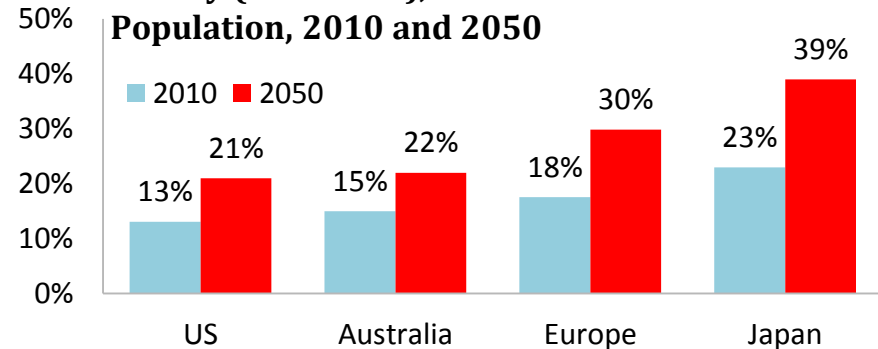
Cumulative Percentage Change in the Working-Age Population (20-64), 2010 to 2050



Median Age, 2010 and 2050



Elderly (65 & Over), as a Percent of the Population, 2010 and 2050



Developing World Outlook

The Promise of the “Demographic Dividend”

- ❑ As life expectancy rises and fertility rates fall, the slowdown in population growth and upward shift in age structures may push the developing world toward greater peace and prosperity.
- ❑ The social argument: Fading youth bulges and rising median ages will foster social and political stability.
- ❑ The economic argument: Declining dependency burdens and growing working-age populations create a “demographic dividend” and open up a window of opportunity for development.

Median Age, 1975–2050

	1975	1990	2010	2030	2050
East Asia	20.4	24.9	34.7	42.7	48.3
Eastern Europe	31.0	33.5	38.5	44.0	46.9
Greater Middle East	18.3	19.1	23.7	29.8	35.1
Latin America	19.3	21.9	27.4	34.2	40.8
South Asia	19.1	21.1	25.9	32.0	37.6
Sub-Saharan Africa	17.6	17.2	18.1	20.3	23.8

Source: UN Population Division (2013)

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

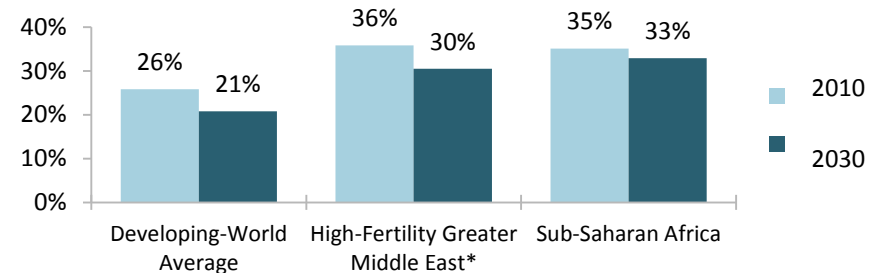
	1975	1990	2010	2030	2050
East Asia	47%	55%	64%	63%	56%
Eastern Europe	58%	60%	65%	59%	55%
Greater Middle East	42%	44%	53%	58%	58%
Latin America	44%	49%	56%	59%	58%
South Asia	45%	48%	55%	60%	60%
Sub-Saharan Africa	42%	41%	44%	48%	53%

Source: UN Population Division (2013)

Caveat One: Averages Can Be Deceiving

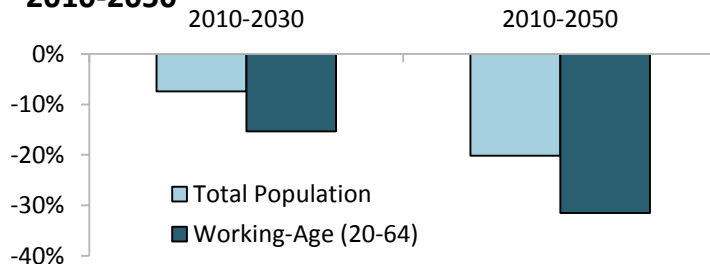
- ❑ In some regions of the developing world, including sub-Saharan Africa and parts of the Greater Middle East, the demographic transition has stalled in its early stages.
- ❑ In others, especially East Asia and Eastern Europe, the demographic transition is proceeding at a breathtaking pace, leaving countries at risk of growing old before they grow rich.

Youth Bulge (15-24) as a Percent of the Adult Population, 2010 and 2030

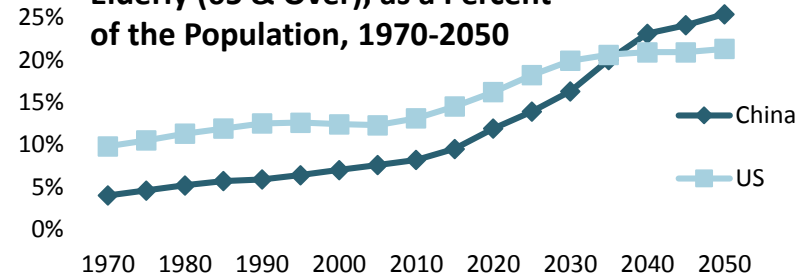


*Includes Afghanistan, Iraq, Mauritania, Palestine, Sudan, Somalia, and Yemen

Percentage Change in the Russian Population, 2010-2050

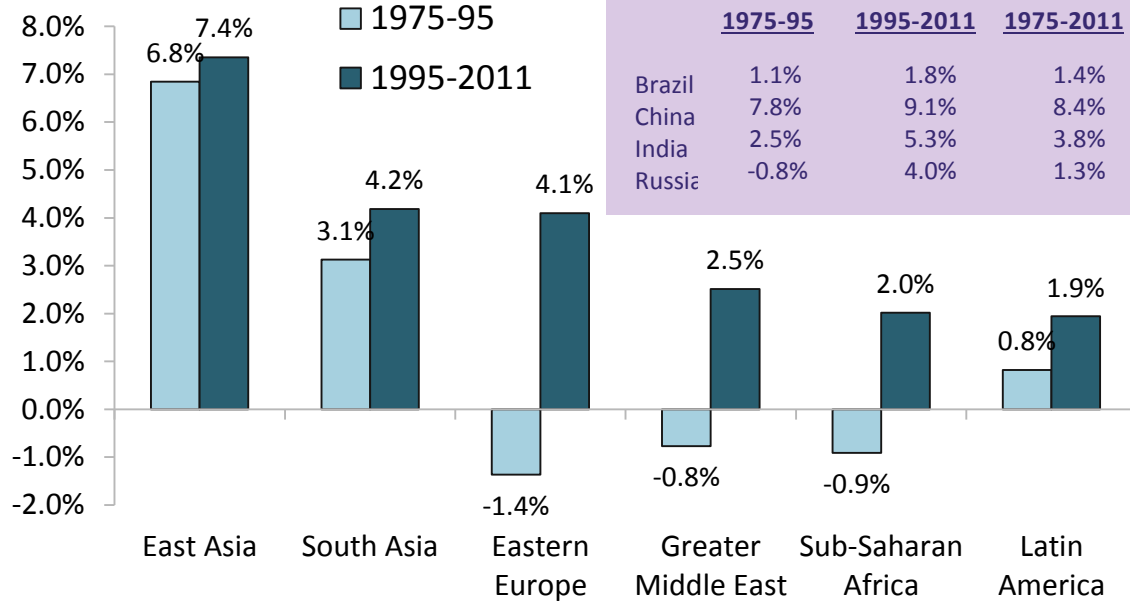


Elderly (65 & Over), as a Percent of the Population, 1970-2050



Caveat Two: Missed Economic Opportunities

- ❑ The demographic dividend opens up a window of opportunity, but does not guarantee economic success.
- ❑ Leveraging the demographic dividend requires sound macro management, the rule of law, policies that promote export-led growth, and massive investments in infrastructure and human capital.
- ❑ Only East Asia has been fully successful at leveraging its demographic dividend. Although economic growth has begun to accelerate in many other emerging markets, none are on track to replicate East Asia's economic performance.

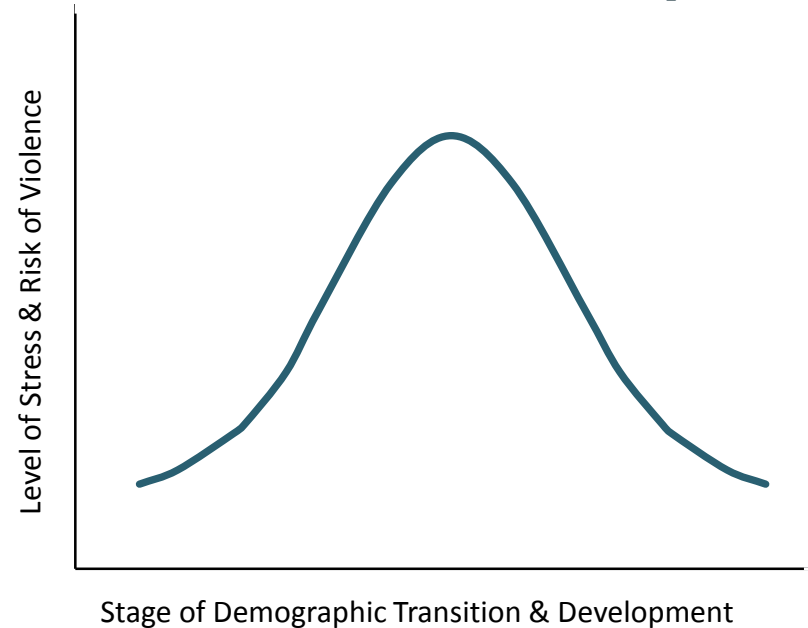


Source: World Development Indicators (World Bank, 2012); Angus Maddison, Historical Statistics of the World Economy: 1-2008 A.D. (Groningen Growth and Development Center, February 2010); and UN Population Division (2011).

Caveat Three: Journeys Can Be More Dangerous Than Destinations

- ❑ Societies are subject to tremendous stresses as they move from the traditional to the modern. When plotted against development, most of the stresses describe an inverted-U—meaning they become most dangerous midway through the demographic transition and the development process.
- ❑ These stresses include:
 - Contact with the global marketplace and culture
 - Urbanization
 - Environmental degradation
 - Growing income inequality
 - Growing ethnic competition
 - Religious extremism

The "Inverted U" Relationship

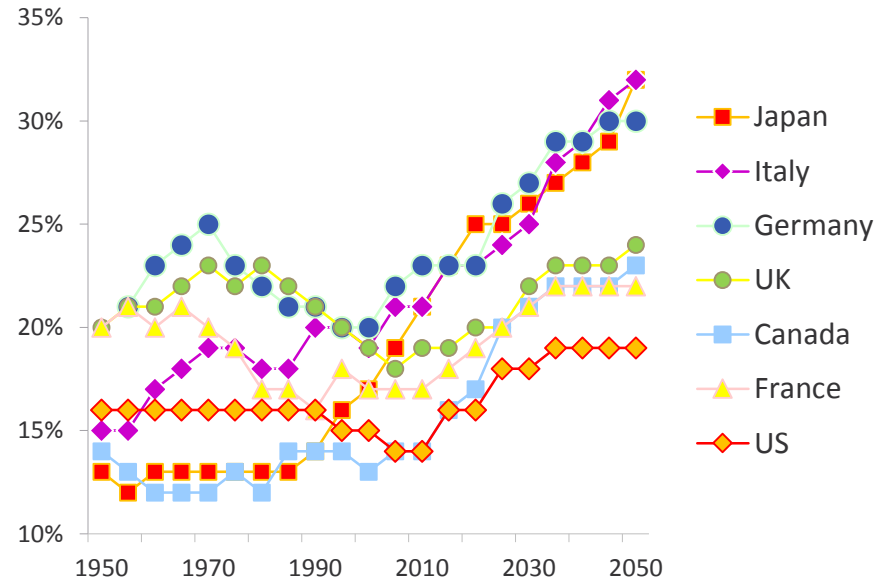


Conclusion

Final Thoughts

- ▣ Global aging is as close as social science comes to a certain prediction about the future.
- ▣ From rising fiscal burdens to slowing economic growth, many of the consequences are also highly certain.
- ▣ Yet there are also critical questions about global aging where the answers remain unclear:
 - Will health spans rise along with life spans?
 - Is global aging pushing the world toward a future of capital surpluses or capital shortages?
 - Will aging societies become more risk averse, have shorter time horizons, and be less willing to undertake investments in future-oriented agendas?
- ▣ Global aging is a global problem requiring global solutions. The greatest danger is that aging societies may retreat from globalization.

Share of the Population with Less Than 20 Years of Life Remaining, by Country, 1950-2050



Source: Author's calculations based on UN Population Division (2007) and Human Mortality Database (UC Berkeley and Max Planck Institute for Demographic Research)

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