

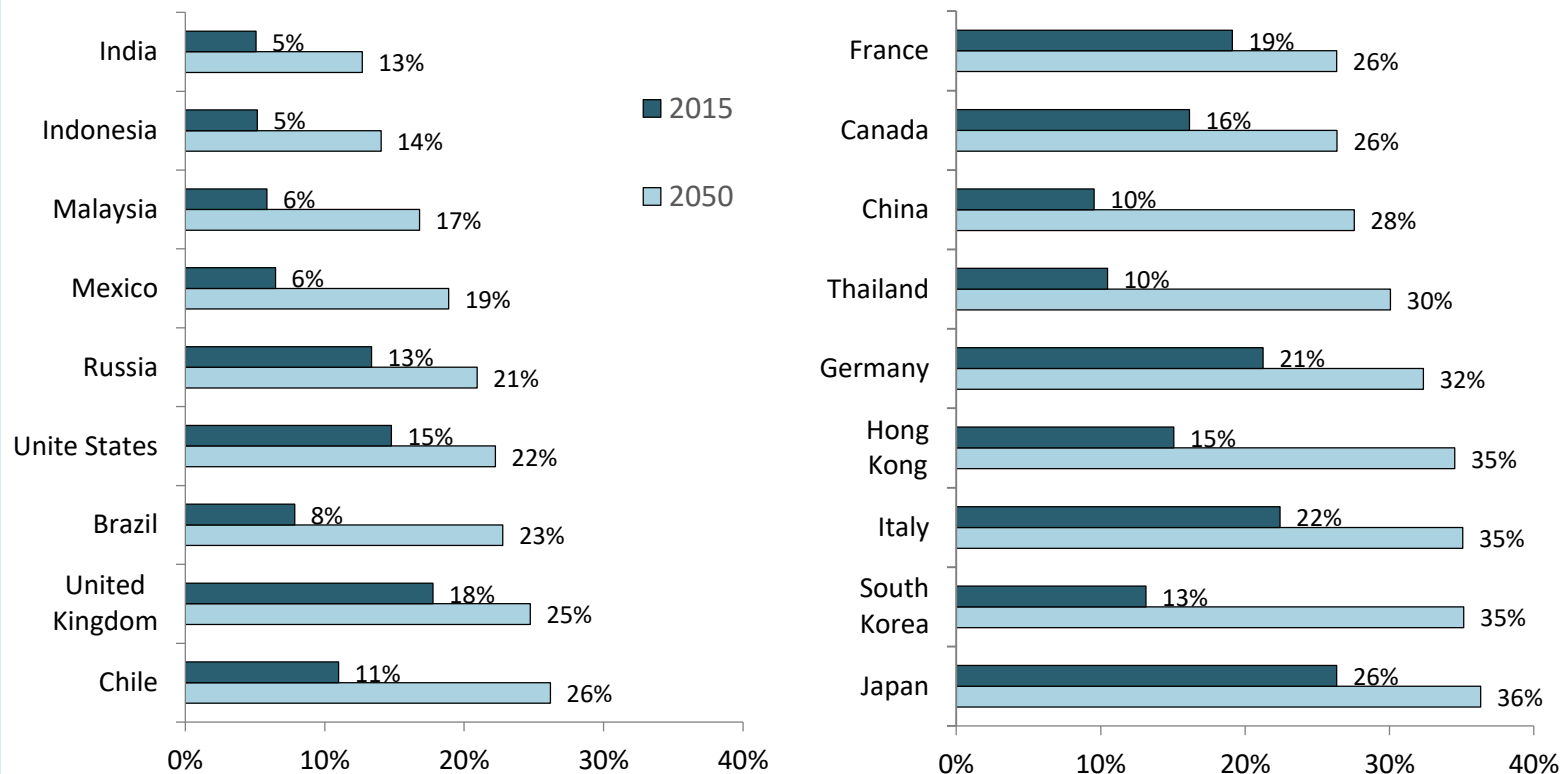
# **How Global Aging Will Transform the Economy, Society, and Geopolitical Order of the 21<sup>st</sup> Century**

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

## Elderly (Aged 65 & Over), as a Percent of the Population in 2015 and 2050



Source: World Population Prospects: The 2015 Revision (UN Population Division, 2015)

# Two Forces behind the Aging of the Population: Rising Longevity and Falling Fertility

	Life Expectancy at Birth				Total Fertility Rate			
	1950-55	1970-75	1990-95	2010-15	1950-55	1970-75	1990-95	2010-15
<b>Developed World</b>	67	72	76	81	2.8	2.1	1.7	1.7
<b>Japan</b>	62	73	79	83	3.0	2.1	1.5	1.4
<b>Western Europe</b>	67	72	76	81	2.5	2.2	1.6	1.6
<b>United States</b>	69	71	76	79	3.3	2.0	2.0	1.9
<b>Emerging East Asia</b>	44	62	70	76	6.0	4.8	2.0	1.5
<b>Eastern Europe</b>	60	69	68	72	2.9	2.2	1.6	1.6
<b>Greater Middle East</b>	42	55	64	70	6.6	6.2	4.6	3.2
<b>Latin America</b>	52	62	69	75	5.9	5.0	3.0	2.2
<b>South Asia</b>	40	52	61	69	5.9	5.5	3.6	2.4
<b>Sub-Saharan Africa</b>	37	45	50	58	6.6	6.8	6.2	5.1

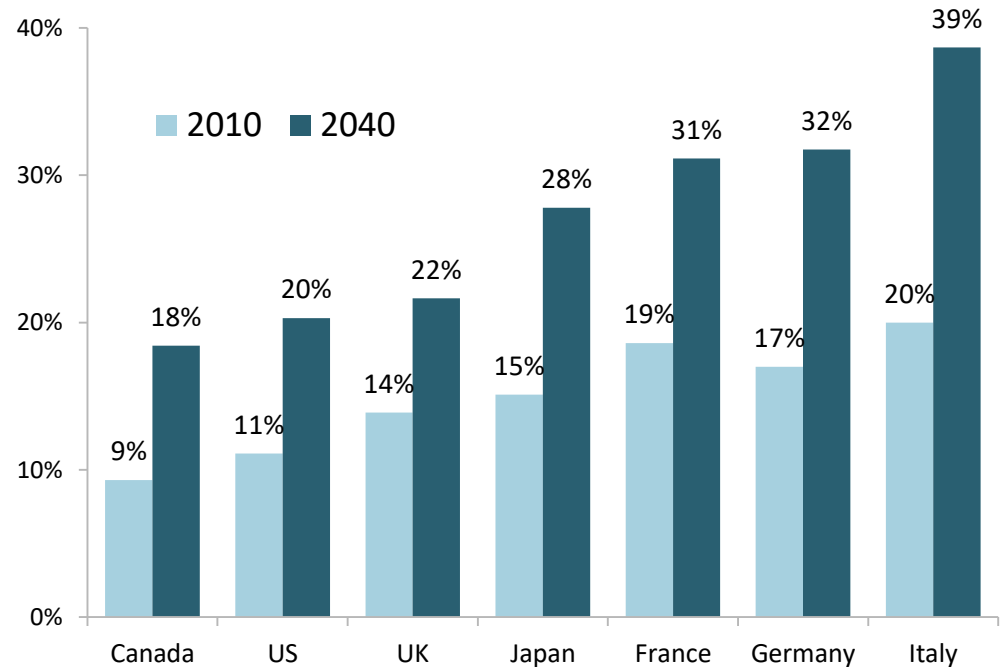
Source: UN Population Division (2015)

# **Developed World Outlook**

# A Future of Rising Fiscal Burdens

- ❑ Graying means paying more for pensions, health care, and 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 cost.
- ❑ Most countries will have to cut old-age benefits, but the required reductions are large and are likely to meet with 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**



**Note:** 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.”
- ❑ 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 growth.
- ❑ As domestic markets stagnate, the danger of “beggar-thy-neighbor” protectionism will grow.

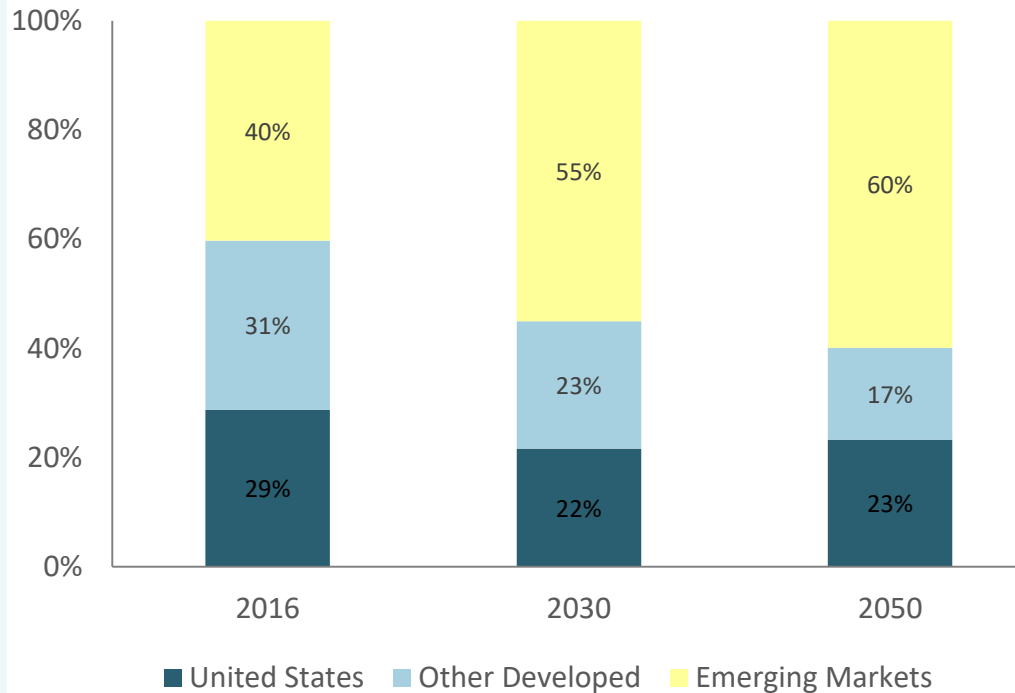
## Average Annual Growth Rate in the Working-Age Population (Aged 20-64), by Decade

	1980s	1990s	2000s	2010s	2020s	2030s	2040s
<b>Canada</b>	1.7%	1.1%	1.3%	0.5%	-0.1%	0.3%	0.2%
<b>France</b>	1.0%	0.4%	0.6%	-0.2%	0.0%	0.0%	0.1%
<b>Germany</b>	1.1%	0.3%	-0.5%	-0.1%	-1.1%	-0.8%	-0.5%
<b>Italy</b>	0.9%	0.2%	0.2%	-0.4%	-0.7%	-1.2%	-0.6%
<b>Japan</b>	0.7%	0.4%	-0.4%	-1.0%	-0.7%	-1.2%	-1.1%
<b>UK</b>	0.7%	0.4%	0.7%	0.3%	0.0%	0.1%	0.2%
<b>US</b>	1.3%	1.2%	1.1%	0.4%	0.1%	0.3%	0.4%

Source: UN Population Division (2015)

# A Future of Relative Economic Decline and Diminished Geopolitical Stature

**GDP by Country and Country Group as a Percent of World GDP, in PPP Dollars, 2016, 2030, and 2050\***



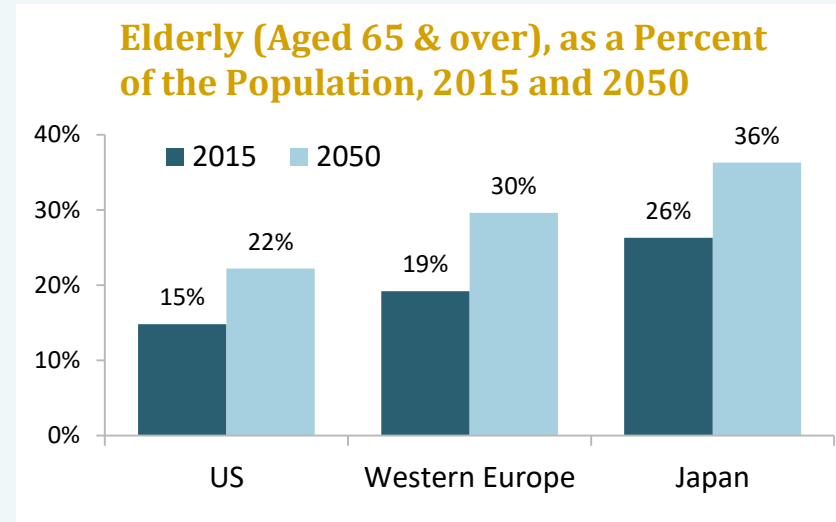
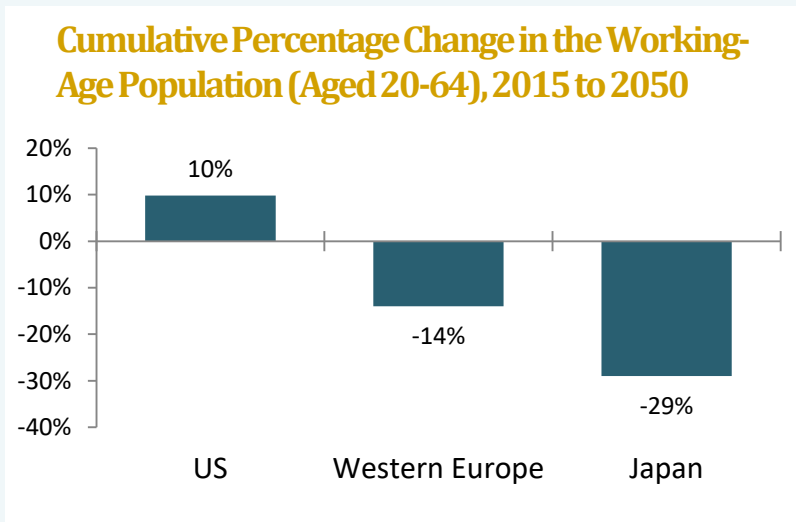
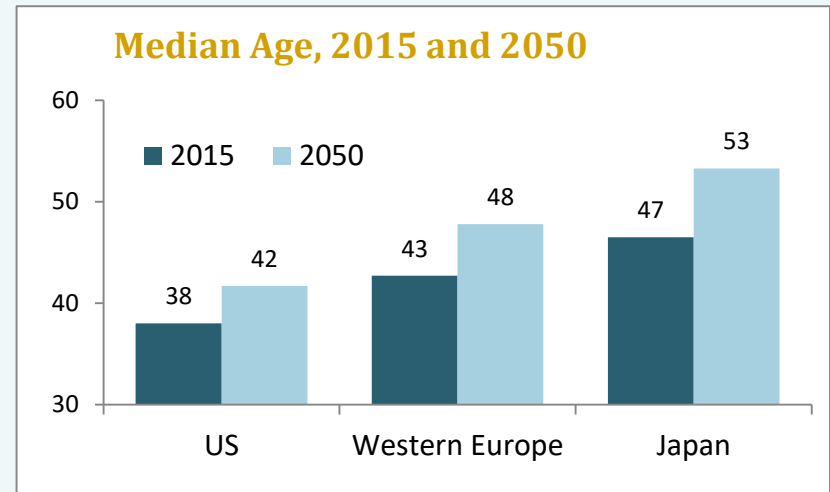
	2016	2050
<b>Canada</b>	2%	1%
<b>France</b>	4%	2%
<b>Germany</b>	5%	3%
<b>Italy</b>	3%	1%
<b>Japan</b>	7%	3%
<b>UK</b>	4%	3%
<b>United States</b>	29%	23%

**Note:** “World GDP” refers to the GDP of 32 of the world’s largest economies, including the ten largest developed economies (the G-7 plus Australia, the Netherlands, and Spain) and 22 large emerging markets.

**Source:** *The Long View: How Will the Global Economic Order Change by 2050?* (PWC, 2017)

# Shades of Gray

- ❑ The degree of population aging varies tremendously across the developed world, from moderate in the United States to severe in parts of Europe and Japan.
- ❑ Yet to one extent or another, all developed countries face a future of rising fiscal burdens, slower economic growth, and diminished geopolitical stature.





# **Developing World Outlook**

# The Promise of the “Demographic Dividend”

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

## Median Age, 1975–2050

	1975	1990	2015	2030	2050
Emerging East Asia	20	25	37	43	50
Eastern Europe	31	34	40	44	43
Greater Middle East	18	19	25	29	33
Latin America	19	22	29	35	41
South Asia	19	21	27	32	38
Sub-Saharan Africa	18	17	18	20	24

Source: UN Population Division (2015)

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

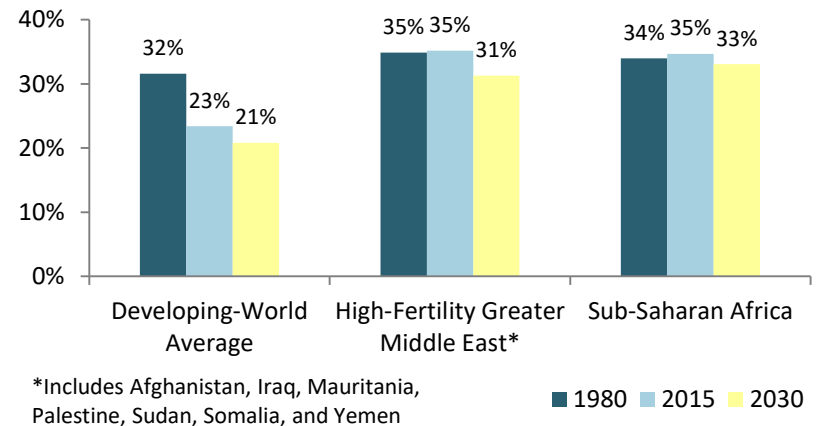
	1975	1990	2015	2030	2050
Emerging East Asia	46%	55%	67%	62%	54%
Eastern Europe	58%	59%	64%	58%	55%
Greater Middle East	43%	44%	54%	56%	57%
Latin America	44%	49%	58%	59%	57%
South Asia	45%	48%	57%	60%	60%
Sub-Saharan Africa	42%	41%	43%	47%	52%

Source: UN Population Division (2015)

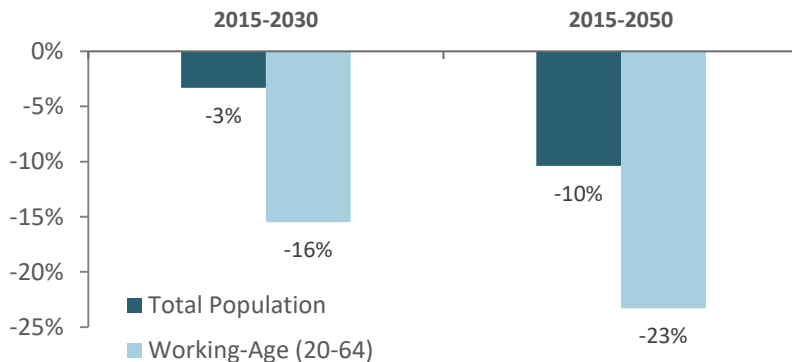
# Caveat One: Averages Can Be Deceiving

- ❑ In some regions of the developing world, including most of sub-Saharan Africa and parts of the Greater Middle East, the demographic transition has stalled in its early stages.
- ❑ In other regions, the very speed of the transition is potentially destabilizing. China is aging prematurely, while Russia is on the cusp of a steep population decline.

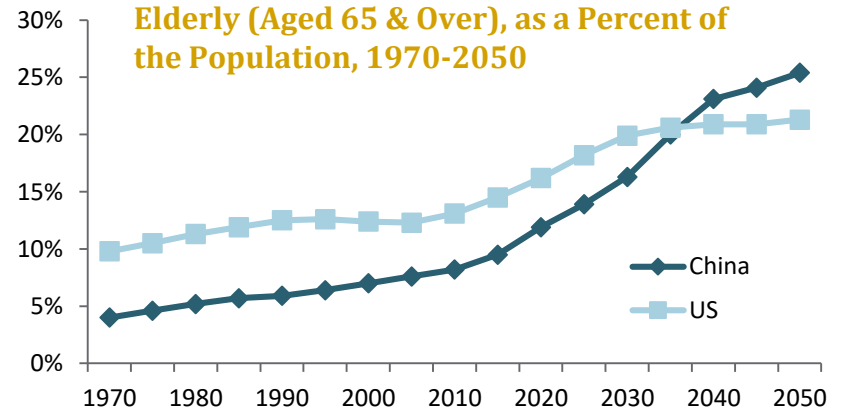
**Youth Bulge (15-24) as a Percent of the Adult Population (15 & Over), 1980, 2015, and 2030**



**Percentage Change in the Population of the Russian Federation, 2015-2050**



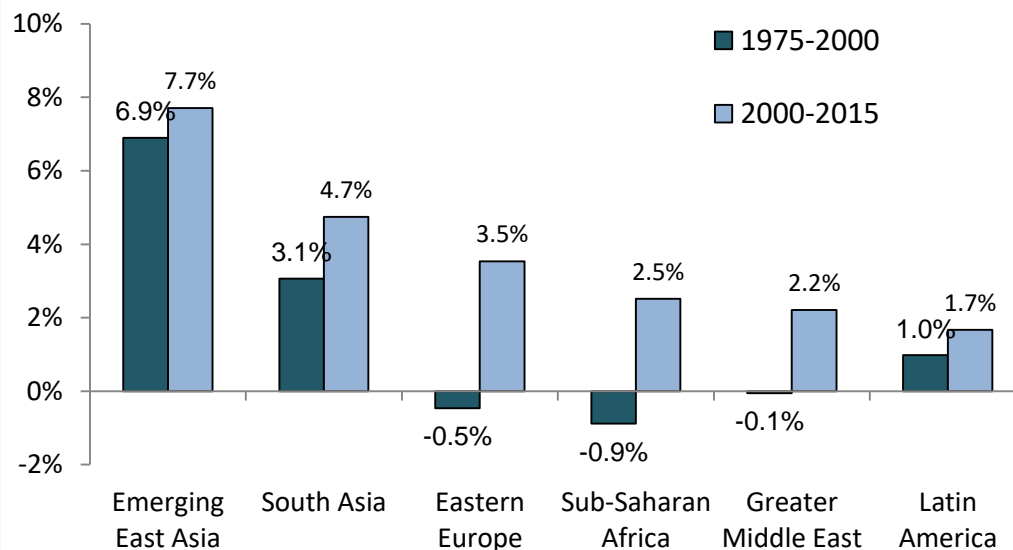
**Elderly (Aged 65 & Over), as a Percent of the Population, 1970-2050**



# Caveat Two: Missed Economic Opportunities

- ❑ The demographic dividend may open up a window of opportunity for development, but it does not guarantee economic success.
- ❑ Leveraging the dividend requires sound macro policies, good governance, and massive investments in infrastructure and, above all, human capital.
- ❑ Although economic growth has accelerated in many emerging markets over the past fifteen years, none are on track to replicate East Asia's economic performance.

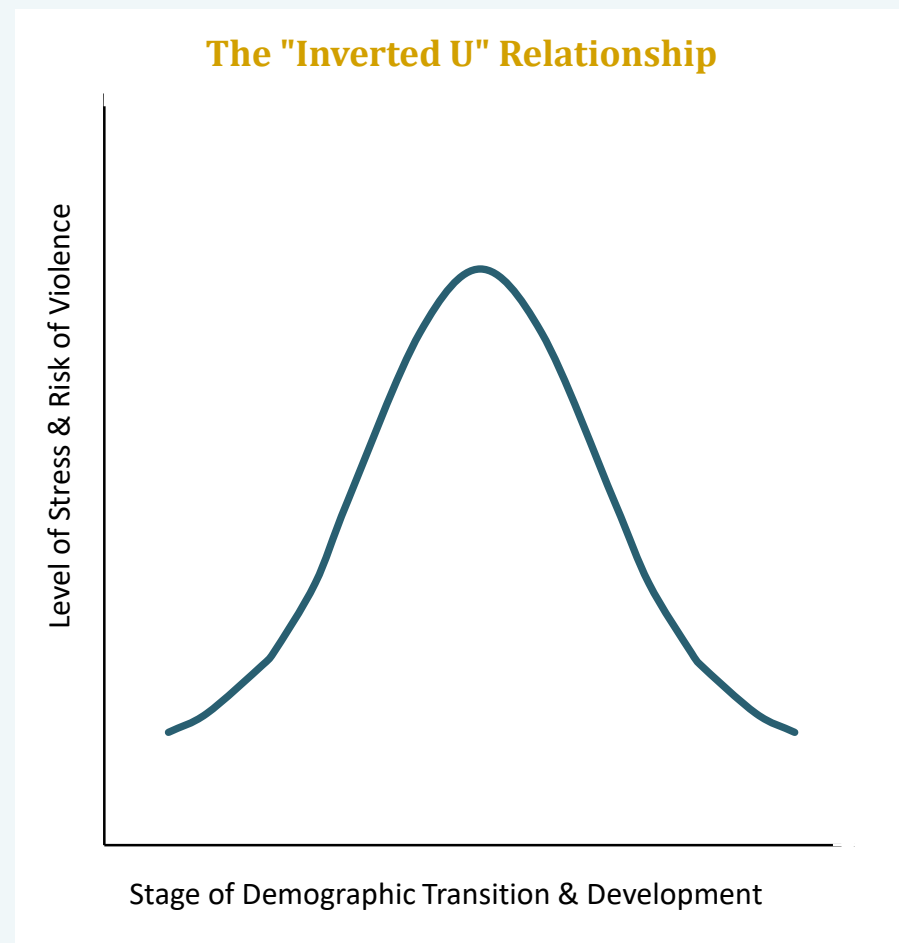
**Average Annual Growth Rate in Real GDP Per Capita in PPP Dollars, by Period, 1975-2015**



**Source:** World Development Indicators Database; Maddison Project Database; and UN Population Division (2015)

# Caveat Three: Journeys Can Be More Dangerous Than Destinations

- ❑ Societies undergo tremendous stresses as they move from the traditional to the modern. When plotted against development, most of these stresses describe an inverted-U, meaning that 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



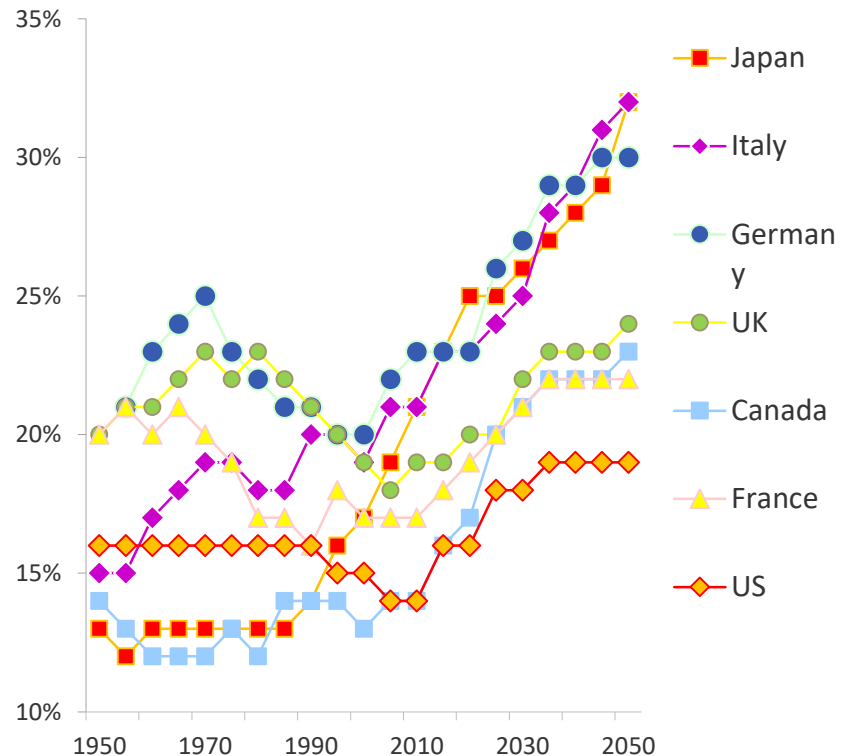
Source: Author's illustration.

# Concluding Thoughts

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- ❑ 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 whose answers remain unclear:
  - Will health spans rise along with life spans?
  - Is global aging pushing the world toward a future of capital surpluses or 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 Twenty 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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