

Commentary

BUFFIN PARTNERS INC.

ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

Global Demographic Trends: Older and Wiser

It is often said that demography is destiny. Demography influences economics; economics influences politics; and politics influences social policy. Together, these forces drive the relative wealth and geopolitical power of nations. In a global context, the two main demographic factors, declining mortality rates and birth rates, impact the future population size and age structure of individual nations, geographic regions and the whole world.

Japan, Germany and many other large industrialized nations face long-term population declines as more young adults have fewer children or delay family formation. While the world's population is expected to increase by almost 50 percent by 2050, Japan could lose 20 percent of its population over the current half-century according to data from the Population Reference Bureau. Russia's population is expected to decline by 17 percent and Germany's by 9 percent. By contrast, the population of the United States is expected to increase by 43 percent from its current level of 293 million to 420 million by 2050. A key factor underlying US population growth is immigration.

Phillip Longman, Senior Fellow at New America Foundation, wrote recently in *Foreign Affairs* that the rate of world population growth has fallen by more than 40 percent since the late 1960's. Demographers at the Institute for Applied Systems Analysis predict that the global population will peak at around 9 billion by 2070 and then start to contract. The population of many nations will peak and begin to decline well before 2070. Japan's population is projected to peak in 2005 and then decline by about one-third over the next 50 years. Some 59 nations, comprising about 44 percent of the global population, are not producing sufficient live births to avoid population decline. No industrialized country is expected to

sustain its population level or to prevent a rapid population aging effect.

The changing economics of family life is the primary factor influencing falling birthrates. The world's current generation of women of childbearing age is producing children at a rate about only one-half that of women two generations earlier. In Mexico, fertility rates have fallen substantially and the rate at which the Mexican population is aging is about five times greater than for the United States. According to United Nations projections, Mexico's median age will increase by about 20 years to 42 over the first half of this century. Again, according to UN projections, the population of Algeria will experience an increase in its median age from 22 to 40.

These global demographic trends impact the world's economy and the geopolitical balance of power. Slower population growth is credited with the economic boom in Japan and other Asian nations from the 1960's onwards. In East Asia, the working-age population increased four times faster than the non-working population of children and seniors between 1965 and 1990. A lesser emphasis on family formation and raising children was a key factor in providing a large increase in the female labor force and freeing up social and economic resources for growth and investment. China's recent rapid industrialization is facilitated by its restrictive one-child family policy. Throughout the Middle East, the aging of populations is making available more resources for infrastructure and industrial development that otherwise would be committed to dependent children.

Aging populations bring gradual changes in economic, political and social policy matters. Older and wiser populations place more emphasis on issues such as health care and retirement income and savings. Political activism and violence

are less in evidence among older populations than younger populations. Phillip Longman characterizes the challenge for aging populations as "getting rich before getting old." France and Japan have met that challenge successfully, but for China, an emerging dynamic global economic power in the twenty-first century, the challenge is very real.

Germany is an example of how an aging population has impacted social and economic policy at the current time. Public spending on social welfare benefits is projected to increase from 14.1 percent of GDP to 24.2 percent of GDP by 2040, resulting in a political agenda to reform the nation's social welfare policies to a more sustainable level as the ratio of active workers to seniors declines from 2.6 to 1.4 over the period. Italy projects its working-age population to decline by 41 percent by 2050. Europe's future economic growth is greatly dependent on future productivity increases and its ability to generate tax revenues at higher rates to support the cost of social welfare including old-age pensions and health care.

NOTE 1: *Commentary* acknowledges several primary research sources utilized in connection with this edition, including United Nations, International Monetary Fund, Population Reference Bureau, New America Foundation, *Foreign Affairs*, Institute for Applied Systems Analysis and Organisation for Economic Cooperation and Development.

NOTE 2: The current and previous editions of *Commentary* are available at www.buffinpartners.com

Buffin Partners Inc.



P.O. Box 1255

Sparta, NJ 07871

Phone: (973) 579-6371

Fax: (973) 579-7067

Email: commentary@buffinpartners.com