

The U.S. Aging Challenge in International Perspective

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The Demographic Transformation

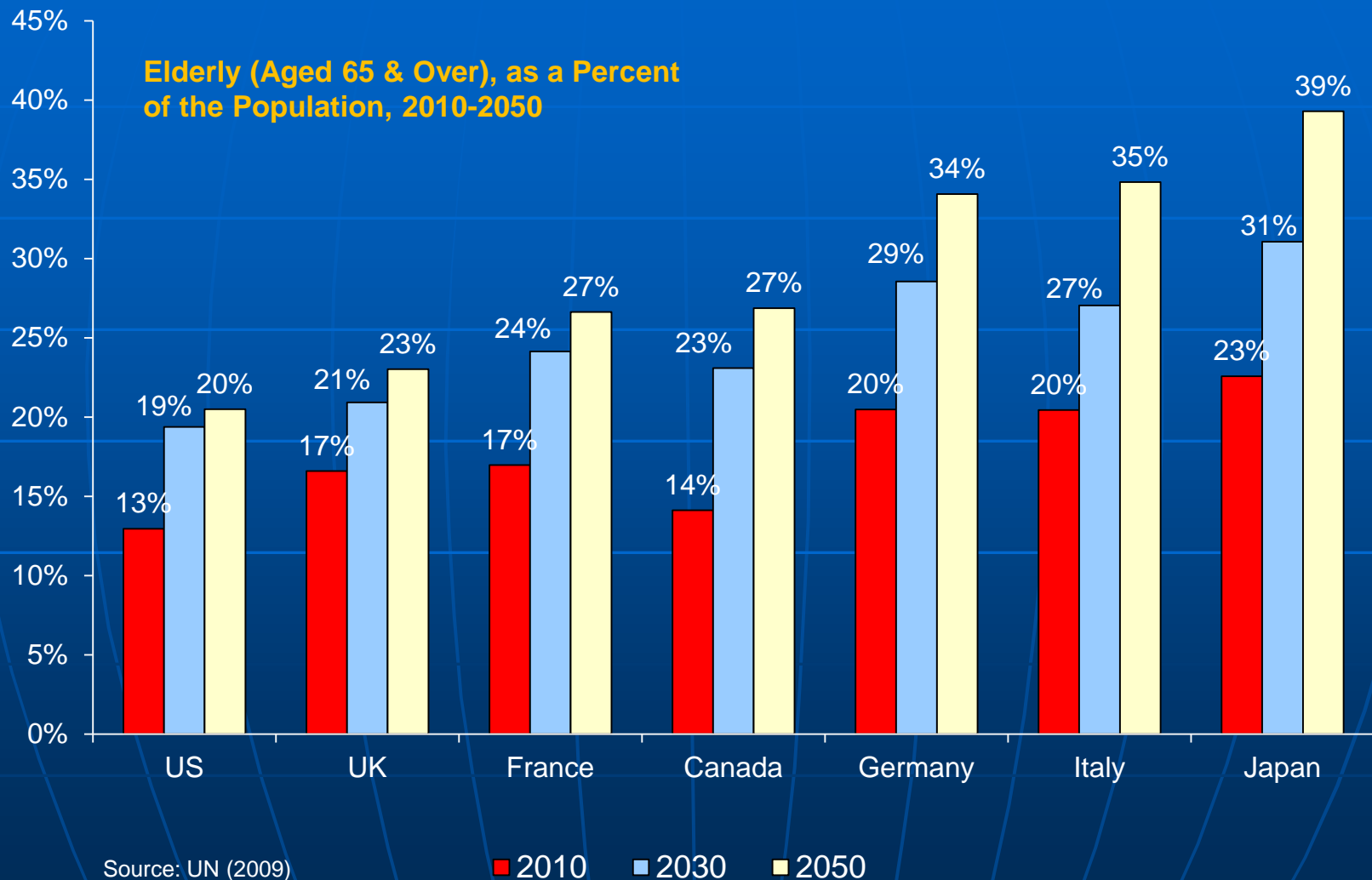
Behind the developed-world age wave: Falling fertility and rising longevity.

Total Fertility Rate and Life Expectancy: G-7 Countries

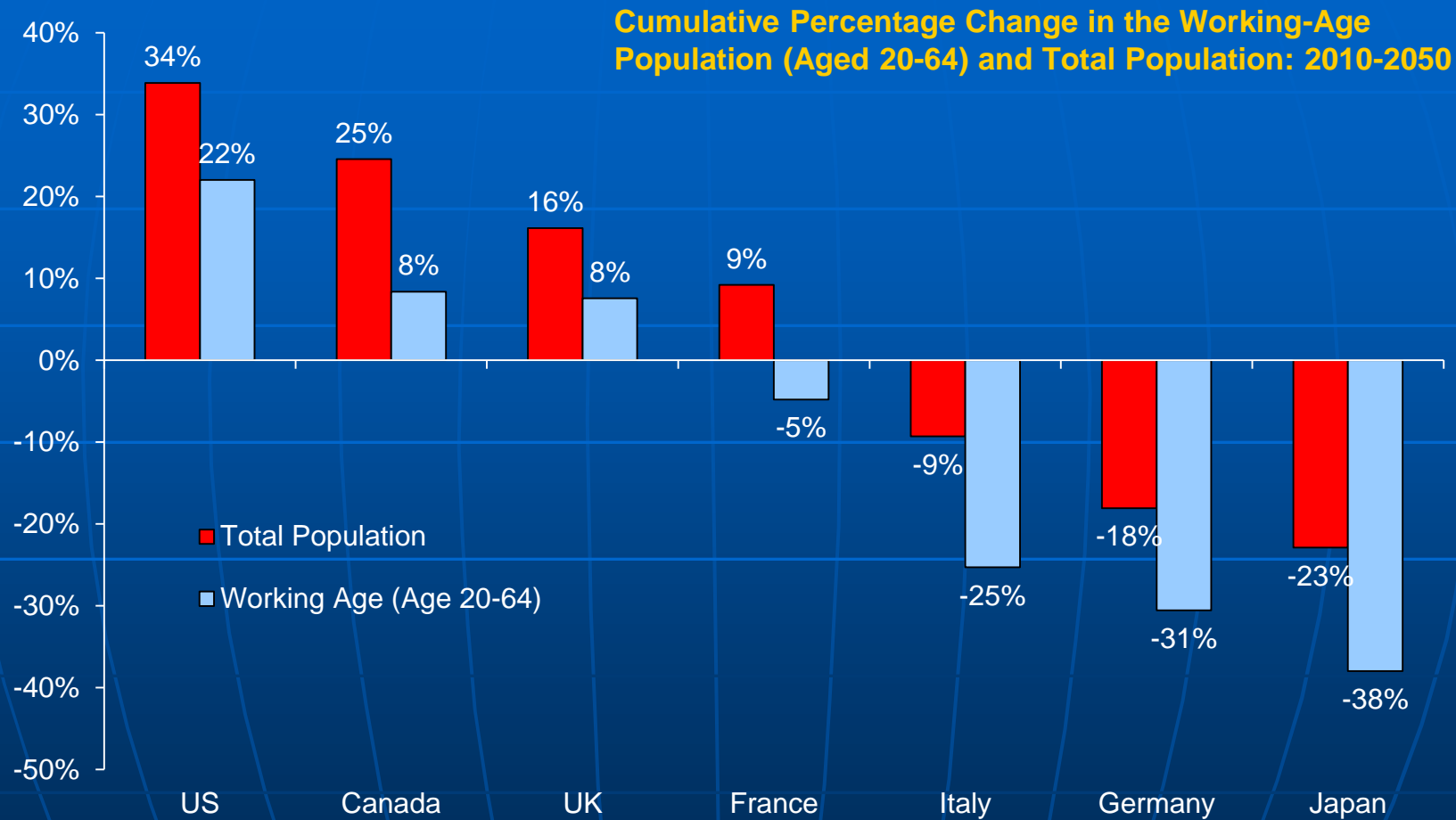
	Total Fertility Rate			Life Expectancy at Birth		
	1960-65	1980-85	2005-10	1960-65	1980-85	2005-10
Canada	3.7	1.6	1.7	71.4	75.9	80.5
France	2.9	1.9	2.0	70.7	74.7	81.0
Germany	2.5	1.5	1.4	70.3	73.8	79.8
Italy	2.5	1.5	1.4	69.6	74.7	81.4
Japan	2.0	1.8	1.3	68.9	76.9	82.7
UK	2.8	1.8	1.8	70.8	74.0	79.6
US	3.3	1.8	2.1	70.0	74.3	78.0

Source: UN (2011)

The developed world is entering an unprecedented era of “hyperaging.”



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



Source: UN (2009)

Although the developing world as a whole is still much younger, it too is aging.

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%	48.7%
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%

Source: UN (2009)

Challenges for the Developed Countries

A Growing Fiscal Burden

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

	Total			% Change 2007-2050
	2007	2030	2050	
Canada	7.5%	13.1%	17.3%	+9.8%
France	15.6%	25.6%	29.8%	+14.2%
Germany	14.1%	23.3%	28.9%	+14.8%
Italy	15.7%	24.4%	32.1%	+16.4%
Japan	13.2%	19.9%	27.3%	+14.1%
UK	9.8%	14.2%	17.3%	+7.5%
United States	8.3%	14.6%	17.2%	+8.9%
Developed World	11.2%	17.9%	22.5%	+11.3%

Note: Data refer to benefits to persons aged 60 and over. Projections assume that program eligibility ages and benefit levels remain unchanged in the future.
Source: *The Global Aging Preparedness Index* (CSIS, 2010)

- ❑ Graying means paying—more for pensions, more for medical services, and more for long-term care.
- ❑ Few countries will be able to raise taxes enough to cover more than a fraction of the age wave’s cost.
- ❑ Most countries will have to cut benefits—but most are likely to meet with growing political resistance from aging electorates.
- ❑ The alternatives: Cannibalize other spending or let fiscal deficits grow—undermining national savings and growth.

A Future of Slower 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 slowdown in workforce growth in the developed world will translate into slower GDP growth.
- ❑ Japan and some fast-aging European countries like Germany and Italy may face a future of secular economic stagnation.
- ❑ Declining saving and investment may also mean slower productivity and living standard growth.
- ❑ Aging workforces may be less flexible, less mobile, and less entrepreneurial, further impairing economic performance.

The Threat of Capital Shortages

- ❑ As more of the population enters its harvest years, savings may fall faster than investment demand, leading to capital shortages.
- ❑ 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.

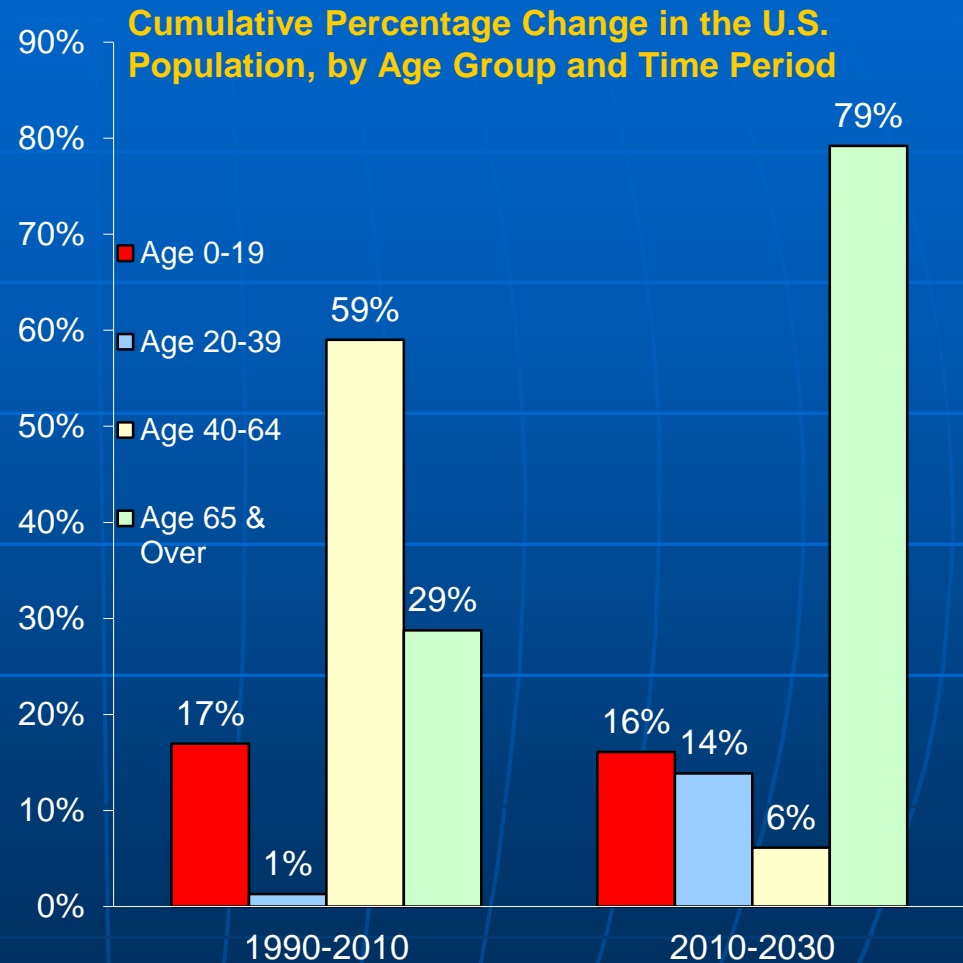
Adults Aged 20 & Over by Age Group, as a Percent of All Adults

		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)

Disruptive Structural and Sectoral Shifts

- ❑ The ongoing economic shift from manufacturing to services will accelerate.
- ❑ Business growth will come to depend much more on market deepening than on market broadening.
- ❑ Product markets may be characterized by excess capacity, labor markets by higher adjustment costs.
- ❑ As domestic markets stagnate, the danger of “beggar-thy-neighbor” protectionism will grow.

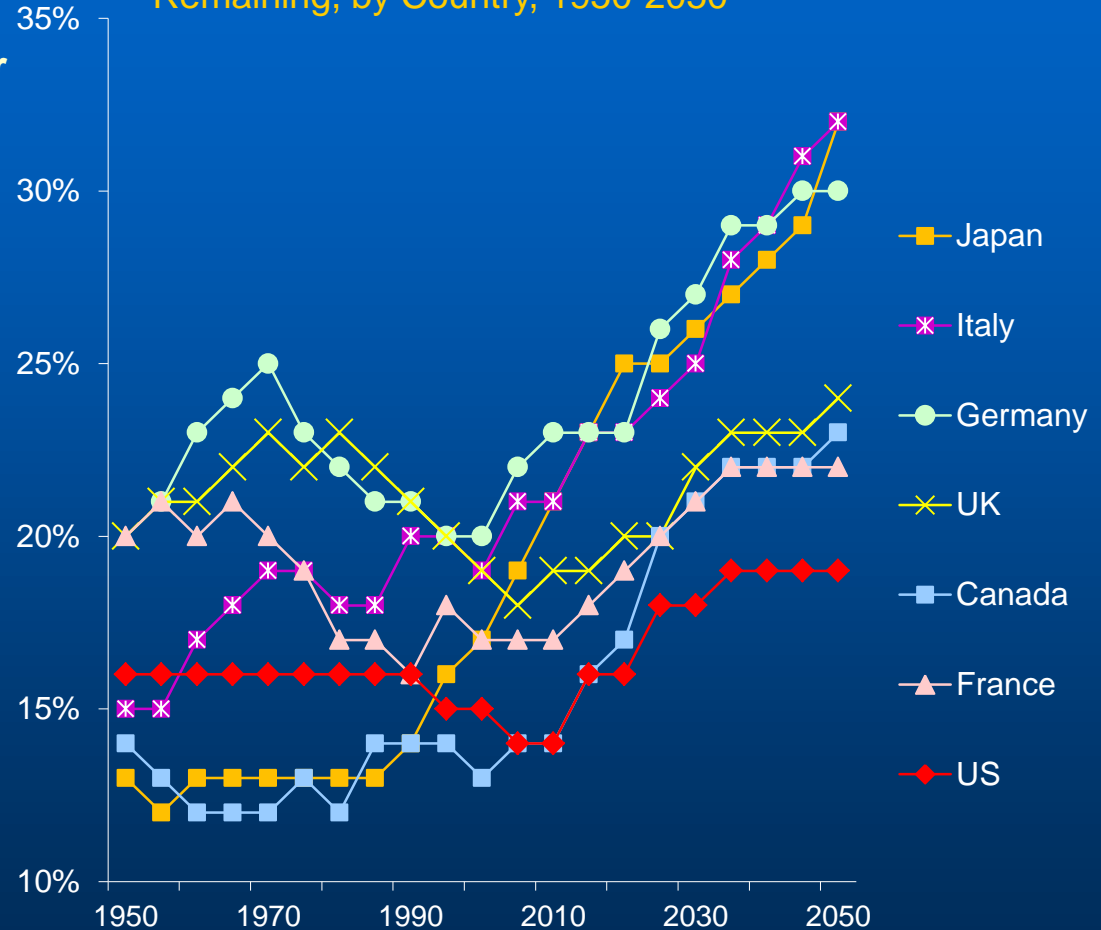


Source: U.S. Census Bureau (2008)

A More Risk-Averse Social Mood

- ❑ The shift in business climate may be mirrored by a broader shift in social mood toward greater risk-aversion and shorter time horizons.
- ❑ Elder-dominated electorates may become more “small c conservative”—tending to lock in current budget priorities at the expense of investments in new agendas.
- ❑ As the developed countries age, they will also become increasingly diverse—threatening social cohesion in some countries.

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



Source: CSIS calculations based on UN (2007) and Human Mortality Database, University of California, Berkeley and Max Planck Institute for Demographic Research

U.S. “Demographic Exceptionalism” and the Shape of the Global Economy

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)

France (21)

UK (22)

Italy (23)

Russian Federation (16)

Japan (19)

UK (27)

France (29)

Germany (30)

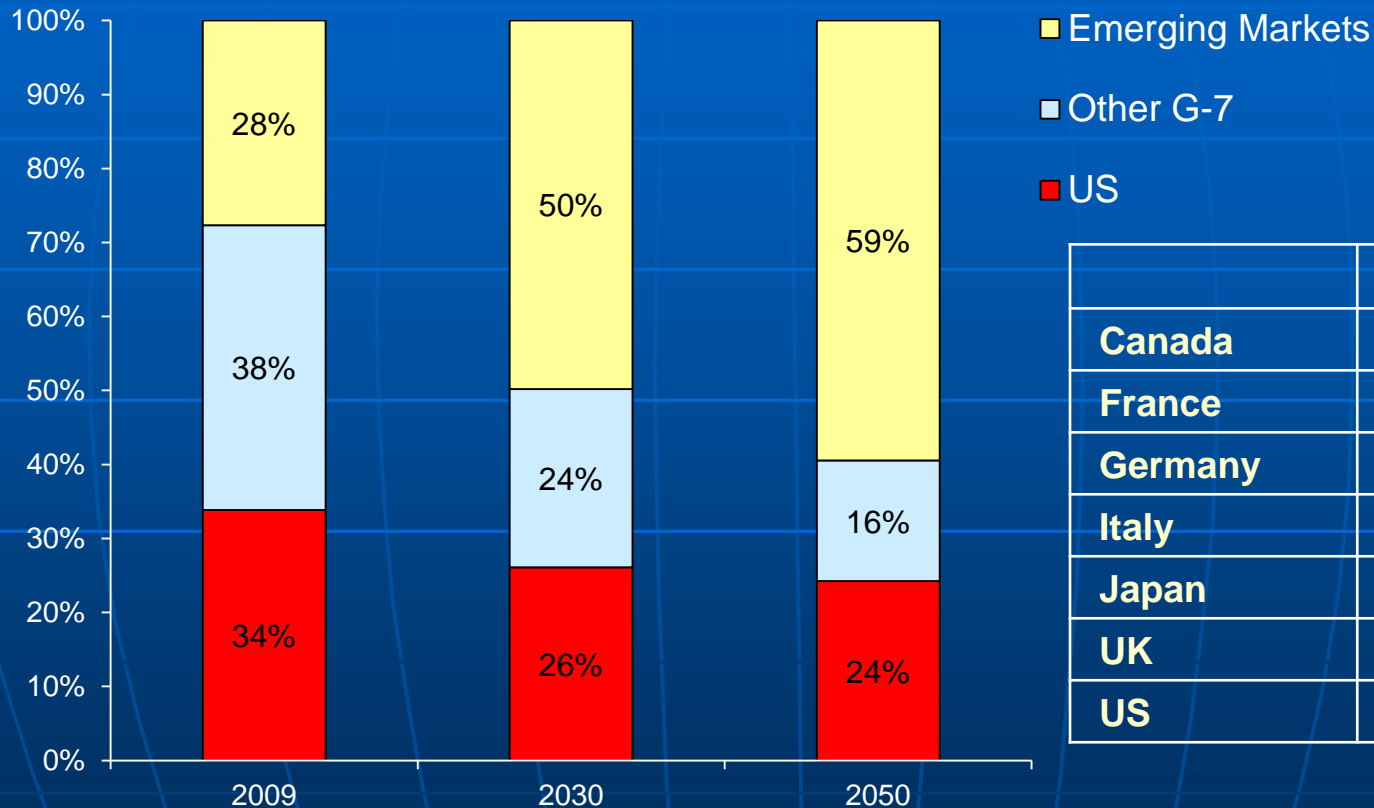
Italy (37)

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**

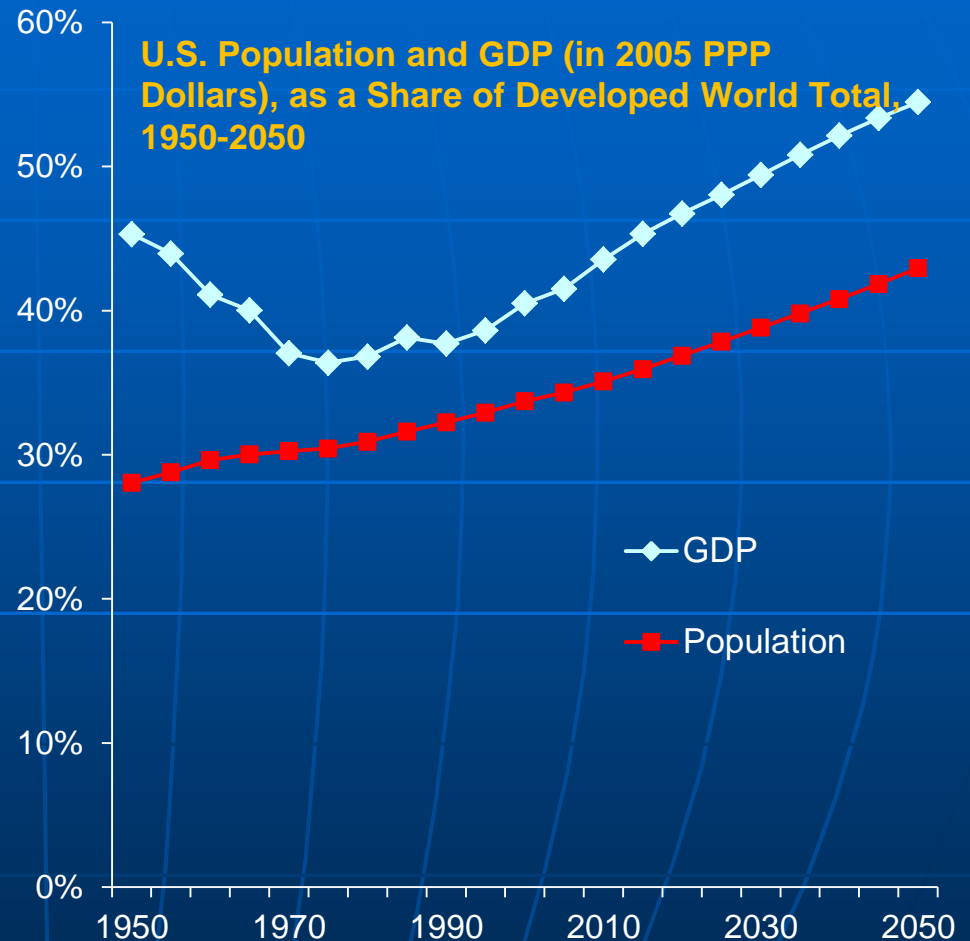


	2009	2050
Canada	3%	2%
France	6%	3%
Germany	7%	3%
Italy	4%	2%
Japan	12%	4%
UK	6%	3%
US	34%	24%

Source: Carnegie Endowment for International Peace (2010)

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

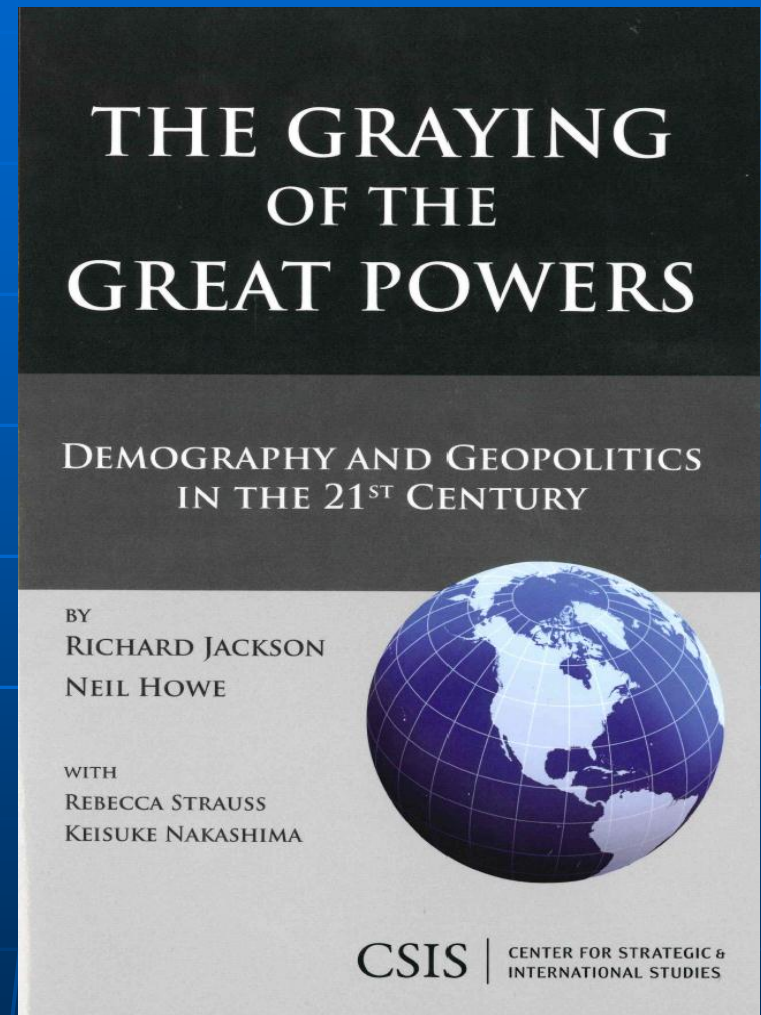
- ❑ The United States is now the youngest of the developed countries—and, thanks to its relatively high fertility rate and substantial immigration, it is projected to remain the youngest.
- ❑ Beyond its favorable demographics, America benefits from its flexible labor markets, broad and deep capital markets, and entrepreneurial culture.
- ❑ Yet the United States also 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.
- ❑ If it fails to address these handicaps, it too could face a future of long-term economic and geopolitical decline.



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.
- ❑ Rethink age-based entitlements.
- ❑ Acknowledge the need for limits in health-care spending.
- ❑ Retilt the overall economy from consumption to savings.
- ❑ Raise retirement ages, extend work lives, and maximize the productive potential of the elderly.
- ❑ Resist protectionist pressures.
- ❑ 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.**

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