



The Challenge of Global Aging

*how demography will reshape
the world of the 21st century*

Keisuke Nakashima
Adjunct Fellow, CSIS Global Aging initiative
Lecturer, Kobe City University of Foreign Studies

28th Young Leaders Conference
October 4-6, 2012
Trieste, Italy

Outline.

❑ **Overview of Global Demographic Trends**

—*Aging as a global phenomena.*

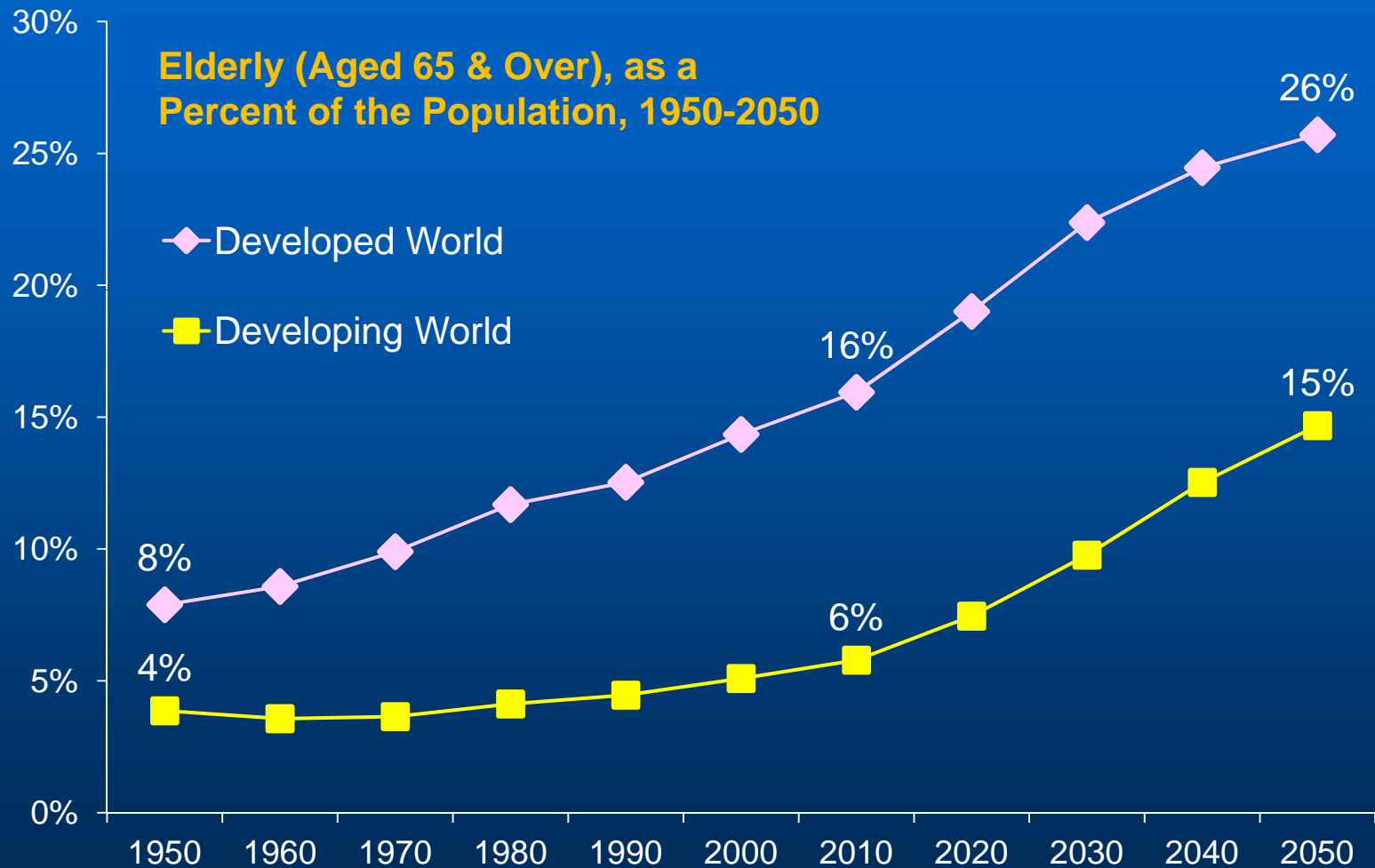
❑ ***The Four Challenges of Global Aging***

—*Fiscal, economic, social & political, and geopolitical dimensions.*

❑ ***Policy Responses***

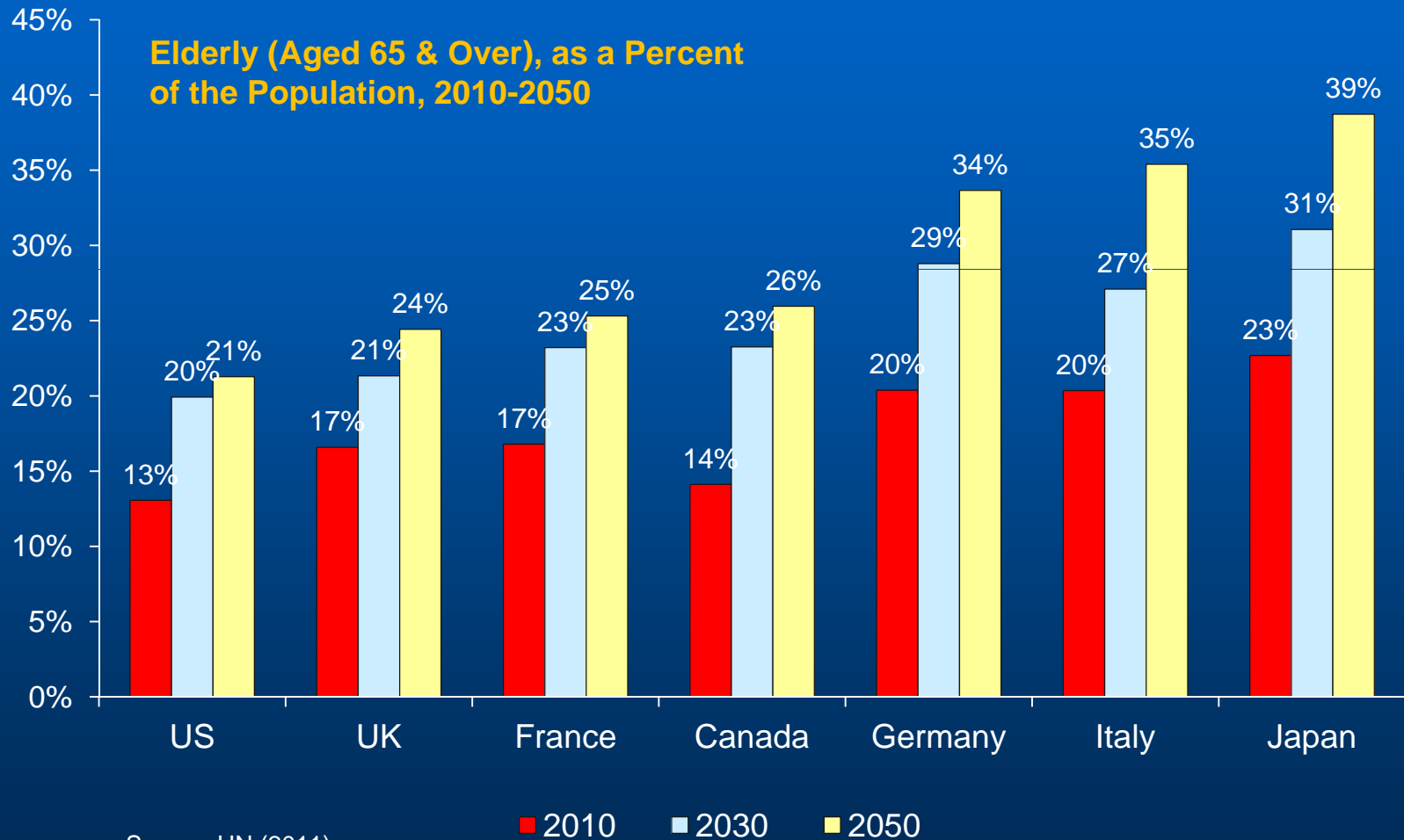
—*National and global solutions.*

The whole world is aging—and today's developed countries are leading the way.



Source: UN (2011)

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



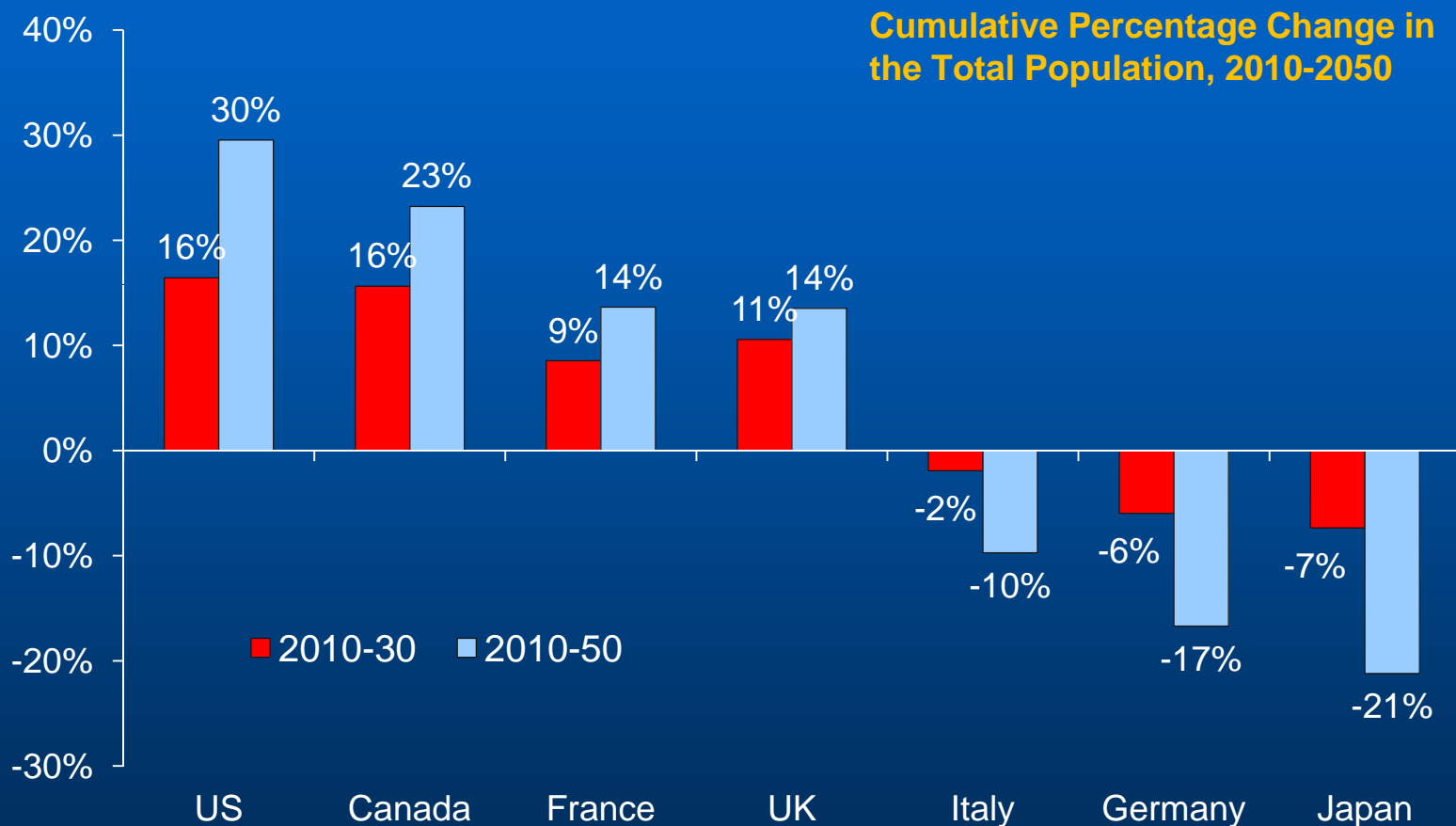
Two forces behind the age wave: Falling fertility and rising longevity.

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
Japan	2.0	1.8	1.3	69.0	76.9	82.7
Germany	2.5	1.5	1.4	70.3	73.8	79.8
Italy	2.5	1.5	1.4	69.6	74.8	81.4
Canada	3.7	1.6	1.7	71.3	75.8	80.5
UK	2.8	1.8	1.8	71.0	74.1	79.6
France	2.8	1.9	2.0	70.7	74.8	81.0
US	3.3	1.8	2.1	70.2	74.3	78.0

Source: UN (2011)

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



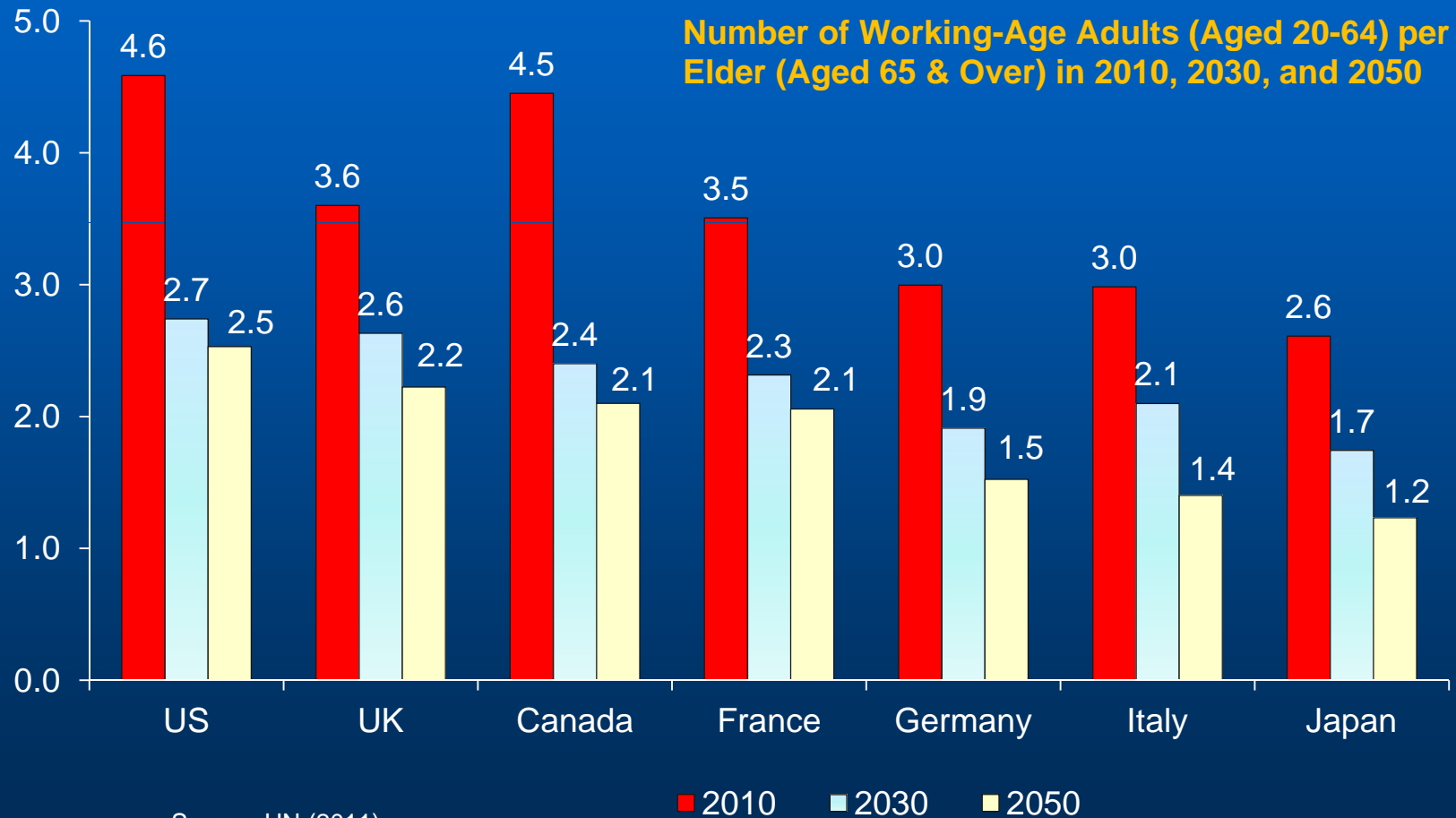
Source: UN (2011)

Four challenges.

- ❑ ***FISCAL challenge***
rising retirement and health-care costs
- ❑ ***ECONOMIC GROWTH challenge***
stagnant or declining GDP
- ❑ ***SOCIAL & POLITICAL challenge***
smaller families & aging votes
- ❑ ***GEOPOLITICAL challenge***
demographic power shifts and tight defense budgets



The number of working-age adults available to support each elder will fall steeply.



Source: UN (2011)

Government Benefits to the Elderly (Aged 60 & Over), as a Percent of GDP, 2007–2040

	Public Pensions			Health Benefits			Total		
	2007	2025	2040	2007	2025	2040	2007	2025	2040
Canada	3.9	5.5	5.6	3.6	5.5	7.7	7.5	10.9	13.3
France	11.2	12.2	12.8	4.5	7.0	9.2	15.6	19.3	22.0
Germany	10.0	10.7	11.9	4.1	5.7	7.3	14.1	16.4	19.2
Italy	12.3	13.3	15.1	3.4	4.9	6.7	15.7	18.3	21.7
Japan	9.1	8.8	10.1	4.0	5.6	7.0	13.2	14.4	17.2
UK	5.8	6.9	7.9	4.0	5.7	7.5	9.8	12.6	15.4
US	4.1	6.0	6.1	4.2	7.2	9.3	8.3	13.2	15.5
Developed World*	7.4	8.6	10.0	3.8	5.7	7.5	11.2	14.3	17.5

* Non-weighted simple average of the twelve advanced economies studied in The GAP Index.

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

- ❑ 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 economies.
- ❑ Dependence on capital imports from higher-saving emerging markets is likely to increase.

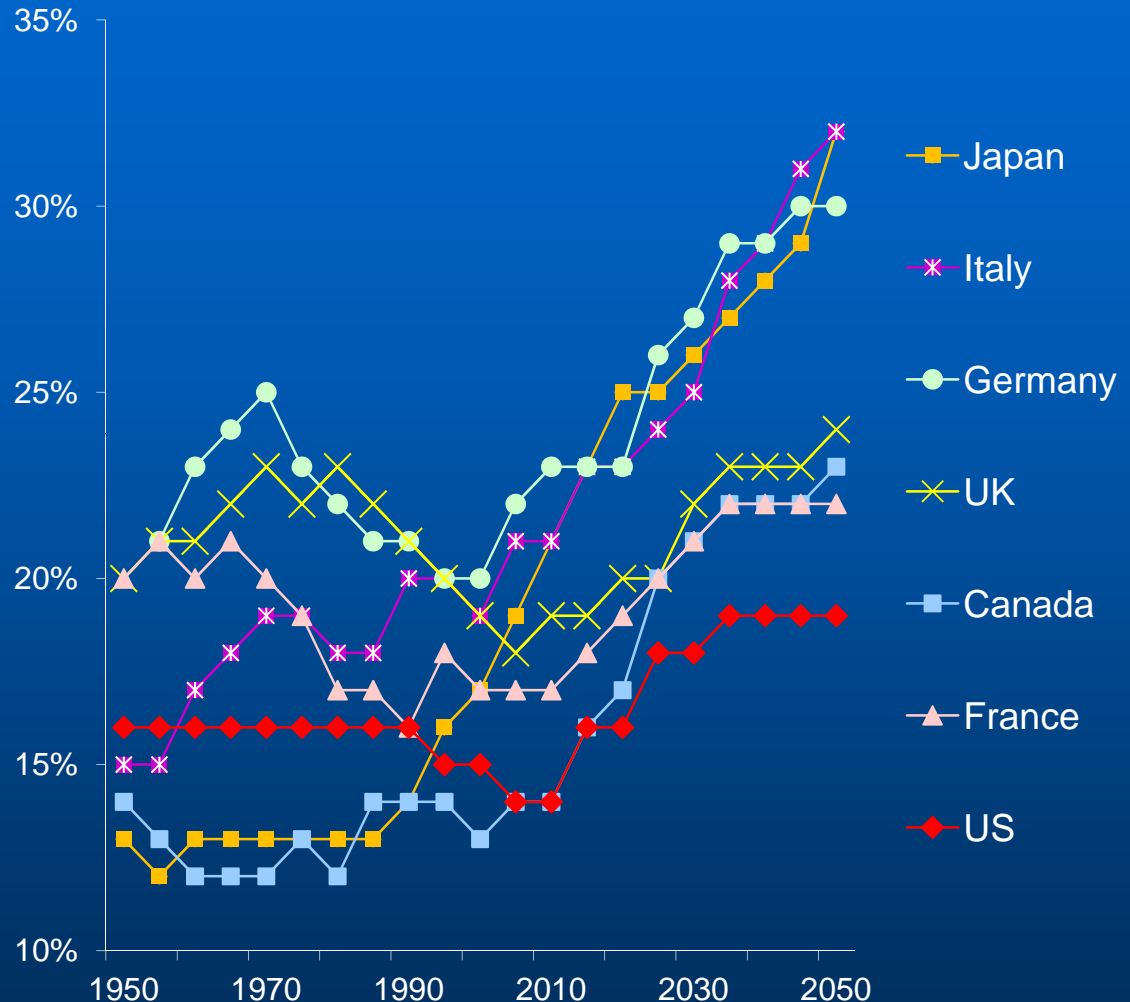
Average Annual Growth Rate in the Working-Age Population (Aged 20-64), by Decade, 1980s-1940s

	1980s	1990s	2000s	2010s	2020s	2030s	2040s
Canada	1.7	1.1	1.2	0.4	-0.2	0.2	0.2
France	1.0	0.4	0.7	-0.1	0.0	0.0	0.1
Germany	1.1	0.3	-0.2	-0.5	-1.2	-1.1	-0.8
Italy	0.9	0.2	0.4	-0.2	-0.6	-1.2	-1.0
Japan	0.7	0.4	-0.4	-1.0	-0.7	-1.4	-1.4
UK	0.6	0.4	0.7	0.3	0.1	0.0	0.0
US	1.3	1.2	1.1	0.4	0.2	0.5	0.4
Brazil	2.9	2.3	1.9	1.2	0.5	0.0	-0.6
China	2.7	1.8	1.4	0.5	-0.3	-0.9	-0.8
India	2.6	2.4	2.3	1.8	1.3	0.9	0.4
S. Korea	2.9	1.4	0.7	0.3	-1.1	-1.4	-1.5

Source: UN (2011)

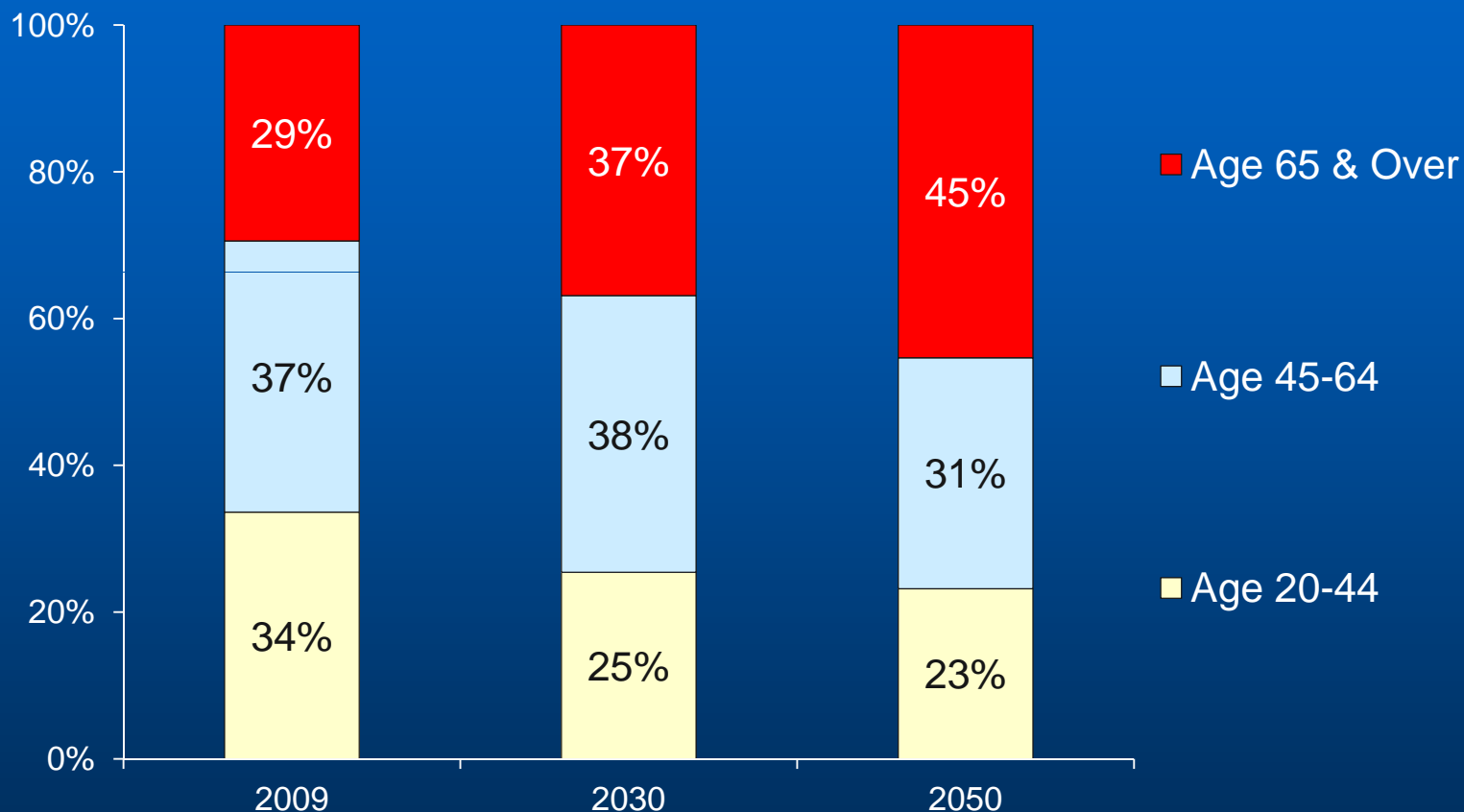
- ❑ As domestic markets in aging societies stagnate or contract, the risk of protectionism may grow.
- ❑ The potential shift in business psychology could be mirrored by a broader shift in social mood toward greater risk aversion.
- ❑ Elder-dominated electorates may tend to lock in current public spending commitments at the expense of new priorities.
- ❑ Even as the developed world ages, it will become more 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

Electoral Votes by Age in Japan: Actual for 2009 and Projections for 2030 and 2050



*The projections for 2030 and 2050 assume voting rates by age and sex observed in the 2009 General Election of the House of Representatives will remain unchanged.

Source: Calculated based on UN (2011) and Association For Promoting Fair Elections (2009)

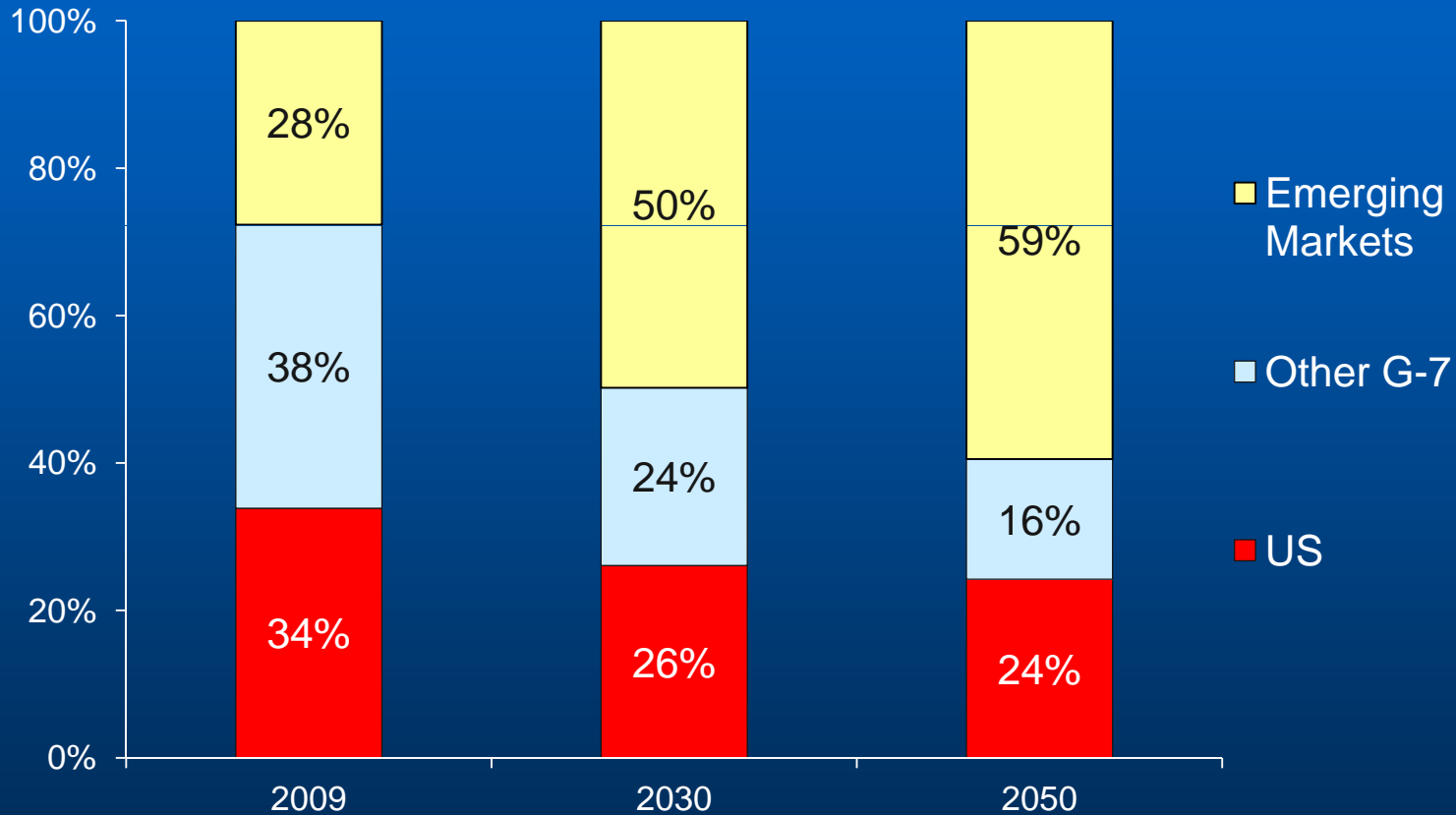
If demography is destiny, global leadership may pass from the “First” to the “Third” world.

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	Nigeria
5	Japan	Brazil	Indonesia
6	Indonesia	Pakistan	Pakistan
7	Germany	Nigeria	Brazil
8	Brazil	Bangladesh	Bangladesh
9	UK	Russian Federation	Philippines
10	Italy	Japan	Dem. Rep. Congo
11	France	Mexico	Ethiopia
12	Bangladesh	Philippines	Mexico
		Germany (15)	Russian Federation (14)
		France (20)	Japan (16)
		UK (21)	Germany (25)
		Italy (22)	UK (26)
			France (27)
			Italy (31)

Note: Rankings for developed countries that have fallen below 12 are in parentheses.
Source: UN (2011)

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



Source: Uri Dadush and Bennett Stancil (2010)

National Policy Responses—GAP Index Reform Strategy Guide

	1. Reduce public pension benefits	2. Reduce health-care cost growth	3. Extend work lives	4. Increase funded pension savings	5. Strengthen poverty floors	6. Increase fertility rates	7. Increase immigration
Australia	★	★★	★		★★	★	
Brazil	★★★	★	★	★★		★	★
Canada	★	★★	★			★★	★
Chile	★		★	★	★	★	★
China	★		★★	★★	★★★	★★	★
France	★★★	★★★★	★★★★	★★★★		★	★
Germany	★★★	★★	★★	★★		★★★★	★★★★
India*			★★	★★	★★		
Italy	★★★★	★★	★★★★	★★	★	★★★★	★★
Japan	★★★★	★★		★★	★★	★★★★	★★★★
Korea	★	★		★★★★	★★★★	★★★★	★★★★
Mexico				★★	★★★★		★
Netherlands	★★	★★★★	★★			★★	★★
Poland	★★★★		★★	★★		★★★★	★★
Russia	★		★★	★★	★	★★★★	★
Spain	★★★★	★★	★★★★	★★★★	★★	★★★★	★★
Sweden	★★	★★	★	★		★	
Switzerland	★	★★	★		★	★★★★	★
UK	★	★★	★★	★	★	★	
US	★	★★★★		★	★★		

Reform Guide Key: No Stars = Not a Priority ★ = Low Priority ★★ = Significant Priority ★★★ = High Priority

The global solution.

- Immigration and outsourcing can help match jobs with workers.
- Cross-border investment can help match savers with investment opportunities.
- Bottom line: An open global economy can allow young people to help themselves by helping to support old people across international borders.



**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.**