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Demographic shifts accelerate

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Once every few years the world gets concerned about demography. Last year, the United Nations announced that the world's 7 billionth human being had been born. This year the general election in the United States and the sovereign debt crisis in Europe are reminding us about the challenge of population ageing and its implications for the future viability of pension systems and healthcare insurance schemes. East Asia — especially Japan, South Korea, and China — are also facing difficult scenarios in the near term.

GLOBAL ECONOMY



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In our book, *Global Turning Points*, to be published in September, we point out that one needs not panic about demographic trends. But politicians and policymakers must pay attention to what is going on if we are to avoid difficult situations. Fertility is dropping very quickly throughout the world. Still, higher-than-average births per woman in Africa, the Middle East, and South Asia will continue to generate relatively rapid demographic growth precisely in those regions of the world in which there are more natural resources, more failed states, and more political instability. The geopolitical challenges that we already face will no doubt be exacerbated by demographic growth in those areas.

From economic and financial points of view, however, population ageing is the most urgent challenge. We are living longer and having fewer children, two trends that make for an explosive mix. At the turn of the 21st century, only Germany and Italy had more people of age 60 and above than people below the age of 20. By 2010, Japan, Greece, Portugal, Spain, Austria, Bulgaria, Slovenia, Croatia, Finland, Switzerland, and Sweden were in the same situation. By 2015 South Korea will join them. By 2025, 46 countries or territories will be in that situation. China and Russia will join by 2030, the United States by 2035, Brazil by 2040, Mexico and Indonesia by 2050, and India by 2070.

While it is easy to explain why the population is ageing around the world, there's no agreement as to the implications. From an economic point of view, labor scarcity in the developed world and labor abundance in the developing countries will spur migration. Some experts argue that population aging will further reduce economic growth in the developed countries because ageing dampens productivity due to more frequent health problems, outdated skills and cognitive decline. However, other experts point out that an older workforce can be more productive because it has more experience. Ageing will also affect consumption, altering the demand for both durable and nondurable goods. New services will be in high demand, especially those having to do with healthcare and leisure. Demand for financial services will also shift.

The financial consequences of population ageing are unmistakable. Old people vote more assiduously than younger people, and they have distinct preferences regarding pension systems and healthcare insurance. The financial pressure on government budgets is likely to increase, and one can easily predict rising inter-generational conflicts over taxes and spending. "Pay-as-you-go" pension and healthcare systems — those in which current expenditures are funded with current taxes — will become the center of much political debate and controversy.

Given the magnitude and the enormous implications of these demographic shifts, we see steady migration from high-fertility areas to low-fertility ones as a necessary part of the solution. We also think that retirement ages will need to be raised, especially at a time when the average life expectancy at birth has risen above 75 years in many countries, and the average life expectancy after age 60 has broken through the 85-year barrier. We cannot afford massive numbers of people living for 25 years or more in retirement. But raising the minimum retirement age to obtain benefits can only go that far. We also need employers to redesign jobs and careers so that people in their

sixties and seventies can continue to have long, productive working lives. The moment for both politicians and employers to begin acting is now.

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