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Globe turning gray

Aging or world's population poses huge economic problems

By Dave Anderton
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Federal Reserve Chairman Alan Greenspan has called it a potential time bomb, a period of global economic stagnation triggered by falling fertility rates and increasing life expectancies.

As the populations of the world's industrial nations grow older, the fallout could be devastating, leading to chronic labor shortages, higher taxes, shrinking numbers of consumers and governments in default.

Alex Nabaum, Deseret News

Utah, with the youngest population in the nation, is not immune from the graying onslaught. At present, Utah's population aged 65 years old and older represents one of the lowest elder populations in the country.

"But Utah has experienced dramatic growth in the percent increase of 65 and older in the past decade," said Scott Wright, a professor in gerontology at the University of Utah. "We've had a 27 percent increase in the 65 population since 1990. This makes Utah the sixth-fastest-growing state for 65 plus in the United States during the past decade."

The approaching "geezer glut," as one national magazine coined it, will impact everything from personal pension plans and retail trends to hiring practices and immigration.

According to business futurist Roger Herman, the United States alone will face a labor shortage of more than 10 million people by 2010, a result, in part, of 77 million baby boomers racing toward retirement.

"Many corporate leaders are not even aware that a potential catastrophe looms just around the corner," Herman said from his Greensboro, N.C., office. "Most of them unfortunately have their heads in the sand. They just are complacent and to a significant extent ignorant of what's happening in their operating environment. In a relatively short period of time, things are going to be dramatically different."

Impending crisis

Herman writes in his new book, "Impending Crisis: Too Many Jobs, Too Few People," that the late 1990s gave corporate leaders a taste of what is coming in this decade. "What we will experience in 2003-2010 will make the work force crisis of the late 1990s seem like a practice session."

In the United States today, one retired person is supported by roughly four workers. However, the baby boom exodus will double the dependent elder population, leaving each retiree supported by just two workers.

"It does mean that taxes could double, too," said Paul Hewitt, director of the global aging initiative at the Center for Strategic and International Studies in Washington, D.C. "A lot will depend on what we do to reform Medicare."

In February, Hewitt warned the U.S. Senate's Select Committee on Aging that by 2040 today's old-age benefit promises would consume an additional 12 percent of gross domestic product a year in the United States and throughout other developed countries, leading to budget deficits that would devastate savings and making these countries dependent on capital flows from the Third World to fund domestic investment.

"More immediate, and worrying, are the effects of depopulation on product markets," Hewitt told the committee. "In Germany and Japan, shrinking numbers of older and thriftier consumers already are creating overcapacity in industries, from construction to retail, that used to be engines of economic growth. The loss of pricing power in these sectors not only has been deflationary, but fiscally destabilizing, as collapsing corporate profits and rising bank losses have deprived governments of needed corporate income tax revenues."

The looming emergency, Hewitt told the Deseret News, can be blamed on falling fertility rates.

"Part of it's selfishness. Part of it is just hedonism, people deciding that life is more comfortable if you don't have children to pay for," he said. "It's starting to be one of these issues that is shaping everything."

In fact, the United Nations in February revised downward world population projections for the year 2050 by more than 400 million people — from 9.3 billion to 8.9 billion. Half of the decrease was attributed to falling fertility rates, the other half to the HIV/AIDS pandemic.

"For the first time, future fertility levels in the majority of developing countries will likely fall below 2.1 children per woman, the level needed to ensure the long-term replacement of the population," the U.N. report said. "By 2050, three out of every four countries in the less-developed regions will be experiencing below-replacement fertility."

A drop in population

The situation is more ominous in developed nations. Fertility rates between 1.2 and 1.4 are common throughout most European countries. And the populations of 33 countries are projected to be smaller by mid-century than they are today.

Japan, the most rapidly aging society with a fertility rate of 1.4, will see 14 percent of its population disappear by 2050, the U.N. report noted.

Italy's population will decline by 22 percent. Bulgaria, Estonia, Georgia, Latvia, the Russian Federation and Ukraine each will see population decreases of between 30 percent and 50 percent.

Some, like Hewitt, believe those projections are too conservative. He estimates Japan's current population could fall by as much as 25 percent to 30 percent.

The depopulation of the world's industrial nations will have profound effects on an increasingly connected world, experts say. Global power will shift away from Europe and Japan to emerging markets, like China, Mexico, India, Indonesia and Brazil.

"It means that economies that today account for 40 percent of GDP are going to be drags on global GDP," Hewitt said. "It means that Europe is going to be in permanent fiscal crisis, probably experiencing aging recessions, and they are not only going to create a drag on global growth but will present ever weaker export markets to the United States."

Yet depopulation is something the United States likely will avoid, with present fertility rates at 2.1 children per woman, a rate projected to slightly increase by 2030.

Utah's advantage

And here in Utah, with a fertility rate of 2.7 — the highest in the nation — the state has a distinct economic advantage, according to Neil Ashdown, chief economist to Gov. Mike Leavitt.

"Many states, particularly in the Midwest, are already seeing severe labor shortages," Ashdown said. "They cannot fill the current positions they have at home, so many factories and businesses are pulling out of those states. You find that those states are desperately trying to attract immigration just so they can keep the jobs that they have. Utah doesn't have that problem. I do think that places us in a strategic position in the future."

But while higher fertility rates will ensure U.S. markets maintain a young work force, an ever-graying population will still present unique challenges as rising Medicare costs and Social Security benefits push retirement ages higher.

By 2030, Hewitt estimates, U.S. workers won't retire until they are at least 72 years old.

Immigration is expected to play an increasing role in filling the rising labor gaps of present-day industrial nations.

According to the U.N. report, the more developed nations are expected to remain net receivers of international migrants, with an average gain of about 2 million migrants per year over the next 50 years.

"Averaged over the 2000-2050 period, the main net gainers of international migrants are projected to be the United States (1.1 million annual net migrants), Germany (211,000), Canada (173,000), the United Kingdom (136,000) and Australia (83,000)," the report said.

But immigration will not represent a total solution and ultimately could act as a destabilizing force, as fears over terrorism tighten immigration policies and social tensions escalate.

"Their (Europe's) social system isn't designed to handle that kind of inequality," Hewitt said. "If Germany tried to keep the same ratio of workers to retirees through immigration, by 2050, 80 percent of the people living in Germany would be non-German in their ancestry."

Globally, the number of persons aged 60 years and over will nearly triple, the U.N. report predicts, increasing from 606 million in 2000 to nearly 1.9 billion by 2050. In more developed regions, the population aged 60 or over currently constitutes 19 percent of the population; by 2050 it will account for 32 percent of the population, or two elderly persons for every child.

"I think that's the real danger from global aging," Hewitt said, "that this rising old-age dependency is going to translate into financial instability."

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