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THE AGE *EXPLOSION*: BABY BOOMERS AND BEYOND

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The Age Explosion: Baby Boomers and Beyond is a *pro bono* public service publication whose mission is to develop and implement creative, intergenerational national policies that will prepare the country for the aging of its baby boomers.

The Geopolitics of Global Aging

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Even as America girds for the approaching wave of baby boomer retirements, a far more significant, and stunningly counterintuitive, demographic development is underway: the rest of the world is aging much faster than we are. America's median age will rise by a scant 3.6 years during the first half of the twenty-first century,[1] half the rate of the previous 50 years, according to the US Census Bureau, and less than any other country in the world except, possibly, Luxembourg. During this period, the median age of the world is on track to rise by 9.7 years, while China and India can expect increases of 13.8 and 14.3 years, respectively.[2] What are we to make of these trends?

Global aging will fundamentally reorder our world.

We can be certain of one thing: global aging will fundamentally reorder our world. No region or individual will entirely escape its pervasive effects on economies, financial systems, government budgets, and even military establishments. Successfully adapting to these myriad challenges will require the recalibration of everything from individual life plans to international security alliances.

Global aging already has opened up a yawning worldwide generation gap, in which the richest and most developed countries have aged much more than

* *Mr Hewitt completed this article in 2003 while still Director of the Global Aging Initiative at the Center for Strategic and International Studies. The views expressed in this article are solely those of the author.*

the poorest and least-developed. Today, the difference in the median ages of the world's youngest and oldest societies, Yemen and Japan, stands at 27 years—up from 3.4 years in 1950. Yet, by 2025, the typical Yemeni will be 32 years younger than the typical European and 34 years younger than the typical Japanese. Significantly, countries on both sides of this generational divide will become sources of economic and political upheaval. A rapidly aging Europe and Japan will struggle under the growing weight of unsustainable old-age benefit promises amid economies made anemic by labor shortages and shrinking numbers of consumers. At the same time, the world's youngest regions—most notably, sub-Saharan Africa and the greater Middle East—will experience a glut of youth that will overburden fragile social systems already reeling from widespread unemployment and deteriorating public services.

Leaders in America and abroad have scarcely begun to recognize the extent to which demography is guiding history's course.

A third group of nations—the economically important emerging markets, including China, India and most of Southeast Asia and Latin America—will grow old amidst the throes of industrialization and urbanization. For these societies, rapid and sustained economic growth will be increasingly necessary in order to avert politically destabilizing levels of unemployment and economic inequality in the near term, and devastating aging crises only a few decades thereafter.

Only America will remain, comparatively speaking, an island of tranquility in this turbulent demographic sea. And even then, our exception will be temporary—as the vigorous population growth forecast for the next 50 years eventually peters out, allowing aging in the US to begin in earnest.

In the meantime, America seems destined to occupy the pivot point in the global aging transition. To successfully manage this transition, the US must serve as a bridge between a younger Third World that must soon become the engine of global economic growth, if there is to be global growth, and the aging developed world, notably Japan and Europe, whose leaders must overcome powerful political obstacles to reform if they are to prevent their insolvent pension systems from undermining global financial markets and dragging the rest of the world into economic and political chaos. Never before have the challenges facing US foreign policy been so complex and all-encompassing. And even now, with the transition well underway, leaders in America and abroad have scarcely begun to recognize the extent to which demography is guiding history's course.

Demographic Momentum

Population aging results when two demographic trends—rising life expectancy and falling fertility—combine to simultaneously reduce the proportion of youth in society while increasing the representation of older age groups. While longer life spans are a necessary ingredient in aging, by far the more powerful of these forces is fertility.

When fertility declines from high levels, the effect is to set in motion a process of very rapid aging.

Throughout most of history, families needed to churn out children as fast as possible in order to compensate for the fact that only a handful would survive into the reproductive years. Over the past two centuries, however, improvements in public health effectively nullified this equilibrium, enabling more and more children to reach adulthood. Inasmuch as family practices can adapt to such public health changes only very slowly, in country after country, the first-order effect of rising longevity has been a glut of youth.

In the developed regions, longevity gains have been gradual and longstanding, averaging about 2.5 months a year since the mid-1800s. In the developing world, improvements have been far more rapid—and recent. Life expectancy in the world's less developed regions grew by an average of 5.3 months per annum during the second half of the twentieth century. And in China, it shot up by a stunning 20 years between 1950 and 1970. The result was a flood tide of youth and the specter of severe over-population.

Today, rising longevity is setting the stage for similar Malthusian dilemmas within the world's youngest regions. At current birthrates, for example, Yemen's population will soar to 158.6 million in 2050—up from 18.3 million in 2000 and just 4.3 million in 1950.[3] With more than half the population still to enter the reproductive years, even the most optimistic fertility scenarios envision 71 million Yemenis at mid-century. This, in a desert nation where only three rivers flow year round.

When fertility declines from high levels, the effect is to set in motion a process of very rapid aging. For example, Mexico saw its birthrate fall from an average of 6.52 to 2.75 children per woman during 1970-2000. During these same 30 years, its median age rose from 16.7 to 23.3. But, because the smaller post-1970 birth cohorts are only now reaching reproductive age, the demographic momentum of falling fertility is just beginning to be felt. Even if Mexico's birthrate falls only marginally from here on out, the country's median age will rise another 11 years by 2030, and by 16.2 years by 2050[4]—leaving it with a population age structure only slightly younger than that of the United States at mid-century.

In recent decades, collapsing fertility has accelerated the pace of aging in many rich countries as well. Birthrates for the developed world as a whole have declined from about one-quarter above the "replacement rate" (2.1 children per woman) in 1960 to about one-quarter below replacement today. Absent immigration, the number of children in Japan and Europe could fall by roughly one-quarter every 30 years. As a result, both regions face the prospect of significant depopulation.

For example, the United Nations projects that Germany, where currently fertility is only 1.3, will see its population decline from 82 million in 2000 to 71 million in 2050.[5] This projection assumes, however, that fertility will partially rebound while today's high rate of immigration will continue indefinitely. Without these developments, the German population would decline to 51 million by 2050 and 24 million by 2100.[6] As significant as these declines are, Greece, Italy, Spain, and much of Eastern Europe all have lower birthrates and lower levels of immigration. All are projected to depopulate even faster than Germany.

On the other side of the world, Japan's aging transition is particularly rapid. While the Great Depression was discouraging family formation in most other industrial countries, Japan experienced a baby boom that left it with a median age of only 22.2 in 1940.[7] During the ensuing 60 years, plunging birthrates and soaring longevity pushed the median age all the way to 41.2—the highest in the world—setting in motion an explosion of elderly populations in the first quarter of this century. By 2025, the typical Japanese will be in her 50s and 37 percent of the population will be aged 60 or over.[8]

Japan's rapid aging (essentially, the mathematical echo of the sharp decline in births after 1950) foreshadows similar transitions in much of the developing world later in the century. All told, some 59 countries and territories, covering 44 percent of the world's population, had below-replacement birthrates in 2000, a list that many demographers expect Brazil, Mexico, Iran, and even India to join soon.[9]

In contrast, robust population growth in the United States—the product of high immigration and stable, replacement-level fertility (2.2 in 2001)—is helping to slow the rate of aging. The US population is slated to grow by 49 percent during 2000–2050,[10] compared to projected declines of 17 percent in Europe and 14 percent in Japan.[11] This means we probably will grow old alongside much of the Third World in the second half of the century. For now, our demographic destiny is diverging from that of our old allies and converging with the rising powers of the coming century.

Table 1: Change in Median Age for Selected Countries and Groupings, 2000 to 2050

	US	LDCs	World	Europe*	Japan	China	India
2000	35.5	18.2	26.5	37.7	41.2	30.0	23.7
2050	39.1	26.5	36.2	49.5	53.1	43.8	38.0
Increase	***3.6***	***8.3***	***9.7***	***11.8***	***11.9***	***13.8***	***14.3***

Source: United Nations (2000 revision); Census Bureau for US.
* Includes all Europe plus Russia (47 countries)

Demographic Bonuses and Penalties

In very youthful populations, a rising median age—the byproduct of shrinking family size—can produce a series of socially beneficial effects. In a phenomenon known as the "demographic bonus," falling child dependency not only directly increases per capita incomes, but also frees women to participate in the labor market, thereby enabling families to spend more on health and education. The result can be a "virtuous circle" of economic growth, social development, and political stability. But there is a catch: "The 'demographic window' opens only once and for a limited time," warns the United Nations Population Fund.[12] At some point, the window closes and social dependency rises again—this time in the form of old-age dependency. The fact that so many low- and middle-income countries will be seeking to cash in their demographic bonuses at the same time that the demographic window will be slamming shut throughout the developed world suggests that the era ahead will be one of unprecedented opportunities—and dangers—in the global economy.

As noted earlier, youth populations explode when birthrates remain high in the face of plunging child mortality. Yet living standards can rise only if the economy grows faster than the population. Saudi Arabia provides a textbook example of what happens to incomes when populations grow too rapidly. Between 1984 and 2002, the Saudi population more than doubled. For incomes to have remained stable during this period, the economy would have had to experience an extraordinary growth spurt. Instead, soaring youth dependency depressed Saudi productivity by preoccupying the working-age population with family-raising. One consequence was that per capita incomes fell by more than half.[13] In contrast, living standards and productivity are rising fastest in societies where the decline in youth dependency has been greatest, as in China and Thailand.

In order to capitalize on the demographic bonus, societies must provide employment opportunities. Without jobs, growing labor pools translate into ballooning legions of unemployed, who, in turn, become a source of social disaffection and instability. Indeed, the recognition that urban unemployment was at the root of so much revolutionary and geopolitical upheaval in the first half of the twentieth century led every industrial country to establish generous welfare states in the aftermath of World War II. In today's advanced welfare states, retirement still is widely justified as a mechanism for opening up jobs for unemployed youth, while benefit programs—from disability pensions to student subsidies—are touted as vital to maintaining "social peace." By contrast, safety nets in the low- and middle-income countries are likely to remain modest for the foreseeable future—meaning that social peace in these societies will depend perilously on the state of the global economy.

Of particular concern is the prospect that semi-permanent fiscal crisis in advanced welfare states will spill over and create instability in world markets. Should historical trends in productivity, labor force participation, fertility, and medical inflation persist into the future, by 2040, today's old-age benefit promises in the typical developed country would consume an additional 12 percent of gross domestic product (GDP) a year—roughly six times what European governments typically spend on defense.[14] Were governments simply to borrow this money, rather than raise taxes or cut spending, by the mid-2020s, budget deficits in the rich countries would consume all their savings, making them dependent on capital flows from the Third World to fund domestic investment. Long before then, capital shortages and rising default risks very likely would produce a ruinous spike in global interest rates—and, in the process, plunge the world into depression.

Table 2: Percent Change Over 2001 Spending Levels for Old-Age Benefit Outlays in 12 Countries

	2010	2020	2030	2040
Australia	1.0 %	3.2 %	5.2 %	6.9 %
Belgium	1.3 %	4.7 %	9.2 %	12.0 %
Canada	2.3 %	6.4 %	11.0 %	14.0 %
France	2.8 %	7.4 %	11.3 %	13.8 %
Germany	0.3 %	2.9 %	7.5 %	10.2 %
Italy	1.8 %	5.1 %	9.6 %	12.9 %
Japan	4.4 %	7.6 %	10.1 %	14.8 %
Netherlands	2.0 %	5.5 %	9.4 %	12.3 %
Spain	1.2 %	4.4 %	10.9 %	19.5 %
Sweden	1.3 %	3.4 %	6.0 %	8.0 %
UK	0.4 %	1.3 %	3.3 %	4.3 %
US	1.9 %	6.3 %	10.1 %	12.0 %

Source: CSIS Aging Vulnerability Index (2003)

On the face of things, the aging rich countries have ample time to adjust to these fiscal pressures. But recent events suggest that the era of "aging recessions" already may have begun. The Organization for Economic Cooperation and Development estimates that, during 2000–2025, shrinking labor forces will cut GDP growth by an average of 0.7 percent a year in Japan and 0.4 percent in the 15 member states of the European Union—a trend that will push average annual GDP growth for both regions under 1 percent after 2015.[15] Yet, stubbornly high levels of unemployment make it unlikely that labor shortages will become acute until the next decade.

More immediate, and worrying, is the fact that consumption is flat or declining in the fastest-aging countries, even as patterns of consumption shift radically. In Germany and Japan, for example, a shrinking consumer base that is becoming both older and thriftier is undermining demand in industries—from construction to retail—that hitherto had driven growth. Overcapacity in these sectors has led to a deflationary loss of pricing power. And the result has been a fiscally destabilizing combination of non-performing bank loans and plunging corporate income tax collections. In Japan, for example, 68 percent of companies are too unprofitable to pay income taxes. Economists typically explain overcapacity as a byproduct of "boom and bust" economic cycles. But if demographic factors are behind the overcapacity that is currently plaguing Japan and much of continental Europe, both regions will have little fiscal breathing room.

In theory, it would seem that the closing of the developed world's demographic window need not deprive emerging markets of their demographic bonuses. Slowing growth in the rich countries will translate to fewer profitable opportunities for domestic investment. In response, managers of capital will look abroad more and more to developing countries with large labor forces and low productivity, where infusions of technology and know-how can generate outsized returns. In this win-win scenario, rich country retirees would reap high rates of return on their nest eggs while helping to accelerate economic development in the poorer regions.

This is happening already on a modest scale, mostly in the form of direct investment by multinational corporations. But much larger capital flows will be necessary if foreign investment is to play a meaningful role in the developed world's retirement finances. Maximizing this potential will require an historic expansion of global trade and investment alongside fundamental structural reforms in both the developed and developing regions. Japan and Europe will need to place much more of the retirement burden on saving—for example, by embracing private pensions—to ensure that they remain capital exporters. For their part, the developing counties must create the physical, educational, financial, and legal infrastructure needed to become safer, more productive places to invest. Last, but certainly not least, any global aging strategy built around global synergies will require a stable geopolitical environment.

The Challenge for US Foreign Policy

In post-Cold War America, national security and Social Security increasingly are one and the same. Multinational firms dominate our retirement portfolios while trade-related sectors account for the lion's share of economic growth. Indeed, without growth to help offset the looming increase in beneficiary populations, even a much-pared back Social Security system will be difficult to afford. Looking ahead, these interests will require India, China, and other large developing countries to emerge as engines of global growth and perhaps even as military allies as well. To support this shift, the US will need to press Europe and Japan to reform their unsustainable old age benefit programs and, at the same time, lead a coalition to protect the global markets from disruption by the world's youngest societies. The task is enormous and the odds are not favorable.

Japan's deepening financial troubles may signal that the battle to avert financial shocks from deteriorating developed economies is already lost. A default in Japan—where a national debt of 160 percent of GDP makes public finances highly vulnerable to rising interest rates—would undermine growth in the US, China, Korea, and Southeast Asia and send unemployment spiraling in the Third World. Even if this disaster can be averted, major cutbacks still must be made to the bloated pension systems of continental Europe. And while America's aging challenge is less urgent than Europe's or Japan's, a doubling of retirement rolls by 2030 will require strong action here as well. If we are to successfully hector our allies into fiscal rectitude, we will first need to put our own house in order.

Any global aging strategy built around global synergies will require a stable geopolitical environment.

Meanwhile, exploding third world unemployment and radicalism could wreck prosperity and global markets by throwing "sand in the gears of cross-border connectivity," in the words of Stephen Roach.[16] Social scientists disagree on whether extreme youth is a precursor of conflict. After all, many young societies are peaceful, from Belize to Bangladesh. Yet it remains that youth gluts characterize the world's hot spots: 16 of the 25 youngest countries have experienced major civil conflicts since 1995.[17] Nor is it sheer coincidence that radical Islam flourishes where the typical citizen is a teenager—in Palestine (median age of 16.8 in 2000), Saudi Arabia (18.4), Afghanistan (18.1), Iraq (18.8), and Pakistan (18.9). Any comprehensive theory of global conflict will reflect that the twentieth century's bloodiest upheavals, from Europe's Great War to Japan's invasion of Manchuria to China's Cultural Revolution, began with surpluses of teenagers.

During 2000–2030, labor pools will grow by 149 million in the Arab world, and 402 million in Sub-Saharan Africa, with one-third of these increases coming in the volatile 15–30 age group. Rising unemployment and falling per capita incomes are a foregone conclusion. At the very least, the coming decades will see massive migration from these impoverished regions to a depopulating Europe whose welfare states are not equipped to handle the income inequality this will produce. At worst, financial shocks from deteriorating welfare state finances and political shocks from ballooning Third World unemployment will feed on one another, creating an era of economic and political turmoil that will substantially disrupt the baby boom generation's golden years.

We will need to convince a wider, and frequently skeptical, world that the aging challenge poses not only threats, but also significant opportunities.

The era of global aging is irrevocably underway. It is shaping such seemingly disparate events as deflation in Japan, financial flows to China, and the rise of radicalism in the Middle East. Increasingly, US foreign policy is consumed with managing its effects. But doing so successfully will require an extraordinary degree of policy coordination across national borders. To lead this process, America will require more than favorable demographics, a large military, and economic and cultural primacy. We will need to convince a wider, and frequently skeptical, world that the aging challenge poses not only threats, but also significant opportunities.

NOTES

[1] International Data Base, US Census Bureau, October 10, 2002. On the Internet, see: <www.census.gov/ipc/www/idbnew.html>.

[2] United Nations. *World Population Prospects: The 2000 Revision* (New York: United Nations, 2001): 38, 132, 264.

[3] *Ibid*., 350, 470.

[4] *Ibid*., 326.

[5] *Ibid*., 238.

[6] Herwig Birg, "Demographic Ageing and Population Decline in 21st Century Germany—Consequences for the Systems of Social Insurance," a paper presented at the United Nation's Expert Group Meeting on Policy Responses to Population Aging and Population Decline. On the Internet, see: <www.un.org/esa/population/publications/popdecline/birg.pdf>.

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[8] *World Population Prospects*, 280.

[9] Ben Wattenberg, "The Plot Thins," testimony before the House Ways and Means Committee, Subcommittee on Social Security, September 21, 2000.

[10] US Bureau of the Census, "(NP-T2) Projections of the Total Resident Population by Quarter: Middle Series, April 1, 1990 to January 1, 2101" On the Internet, see: <www.census.gov/population/projections/nation/summary/np-t2.txt>.

[11] *World Population Prospects*, 74, 280.

[12] United Nations Population Fund, *State of World Population 2001*, Chapter 3. On the Internet, see: <www.unfpa.org/swp/2002/english/ch3/index.htm>.

[13] Anthony Cordesman, *Saudi Arabia Enters the 21st Century: Building True Wealth Versus Over-Dependence on Petroleum and the State*, 84. On the Internet, see: <www.csis.org/burke/saudi21/S21_06.pdf>.

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[15] Dave Turner, Claude Giorno, Ann De Serres, Ann Vourc'h, and Pete Richardson, "The Macroeconomic Implications of Ageing in a Global Context" (Economics Department Working Papers, No. 193, OECD, Paris, 1998), Table 3, 47.

[16] Stephen Roach, "Back to Borders," *The Financial Times*, September 28, 2001.

[17] Author's calculations compiled from *World Population Prospects* (2000 edition) and "Conflict List 1946–2001" data base of the International Peace Research Institute, Oslo. On the Internet, see: <www.prio.no/cwp/ArmedConflict/>.