

HOW DEMOGRAPHICS ARE CHANGING THE GLOBAL ECONOMY AND OUR WORLD

George Magnus

The

AGE

of

AGING

Contents

[Acknowledgments](#)

[Preface](#)

[The demography dial](#)
[Endnote](#)

[Chapter 1 Introducing a new age](#)

[Everyone is affected everywhere](#)
[The demographic debate laid bare](#)
[Differing prospects for richer and poorer nations](#)
[Demographics and other global trends](#)
[Endnotes](#)

[Chapter 2 Population issues from Jesus Christ to aging and climate change](#)

[Population take-off, Malthus, and Marx](#)
[Fertility debate gathers significance](#)
[Falling fertility, family structures, and modern times](#)
[Climate change, food, oil, and water join the fray](#)
[Food and oil supplies](#)
[Water shortages too?](#)
[What happened to the dominant species?](#)
[Endnotes](#)

[Chapter 3 The age of aging](#)

[Global population changes](#)
[Your world party guest list](#)
[Three stages of ages](#)
[Aging and dependency](#)
[What about the workers?](#)
[Dependency ratios for the old and the young are not comparable](#)
[The demographic dividend for poorer countries](#)
[Conclusions](#)
[Endnotes](#)

[Chapter 4 The economics of aging—what is to be done?](#)

[How the rich world is aging](#)
[Will labor shortages crimp growth?](#)
[Is it possible to boost the supply of workers?](#)
[Raising participation and immigration](#)
[Women to work](#)
[Can we strengthen brain as well as brawn?](#)
[Working longer to retirement](#)
[Youth trends sap economic strength](#)
[How much immigration?](#)
[Productivity is the holy economic grail](#)
[Will we be able to finance retirement?](#)
[Saving less with age, saving less anyway](#)
[Changing pension schemes](#)
[Retirement and savings in the United States](#)
[Endnotes](#)

Chapter 5 Coming of age: United States, Japan, and Europe

Aging in advanced economies

Accounting for growth in Japan, western Europe, and America

Removing the sex and age barriers to work

Barriers to female employment

Barriers to older workers in employment

Later retirement is more than just a matter of law

A Singaporean model for all?

Who's for change?

Endnotes

Chapter 6 Will aging damage your wealth?

Will there be enough in the personal savings pot?

Savings patterns and trends in Japan

Savings in the United States

Savings in Europe

Less generous pensions

More self-reliance for retirement savings

Government spending and more public debt

Age-related spending: pensions

Age-related spending: healthcare

Age-related spending in OECD countries

America's healthcare and public spending explosion

Paying for aging

Fiscal versus fallen angels

Will aging societies inflate or deflate?

Will aging damage your wealth?
Less buoyant returns but new opportunities
Safe as houses?
Prime-age house buyers in decline: who will buy?
Wealthy and healthy?
Endnotes

Chapter 7 Waiting in the wings: aging in emerging and developing nations

Aging faster than rich countries
Demographic dividend and dependency
Asian strengths and weaknesses
Gender discrimination
China—Middle Kingdom, middle age
One-child policy
Running out of cheap labor
Economic consequences
Growing social policy agenda
India and its human capital
An Asian America?
Jobs and skills are what India needs
Russia—a failing petrostate?
Demographic decay
Fading fertility
Mounting mortality
Manpower, military, and immigration
Africa and the Middle East, banking on the dividend
Africa: a distorted dividend?

Reasons to be optimistic regardless?
Stronger institutions, too much HIV/AIDS
Middle East and North Africa—rage, religion, and reform
Basic population characteristics
Angry young men in an unstable region
The need for reform
Believing, not belonging
Don't hold your breath
Endnotes

Chapter 8 Where globalization and demographics meet

Globalization is the death of distance
Solving the globalization problem via institutions
The globalization “trilemma”
Negative sentiment
Globalization and well-being: the case of HIV/AIDS
For richer, for poorer: marriage by globalization
Conclusions
Endnotes

Chapter 9 Will immigration solve aging society problems?

Rising hostility toward immigration
How many immigrants and where are they?
How sustainable is higher immigrant fertility?
Economic arguments are awkward or weak

Short-run effects positive but may not last
Unskilled or semiskilled immigration issues
For some, a brain drain into retirement
Financial aspects of immigration are balanced
Competition for migrants may be rising
Conclusions
Endnotes

Chapter 10 Demographic issues in religion and international security

The secular-religious pendulum swings back
The Pyrrhic victory of secular capitalism
Will religion get us from here to maternity?
Religious belief in the ascendant?
Secular balance can be sustained
International security
Demographic change and new forms of conflict
Manpower shortages
Endnotes

Epilogue: The *Boomerangst* generation

The kiss of debt and other sources of angst
Insecurity, inequality, and changing family structures
Conclusion
Endnotes

Postscript: Population forecasting

Endnote

[Index](#)

Advance Praise for The Age of Aging

How Demographics Are Changing the Global Economy and Our World

George Magnus has done a superb job explaining why demographics matter. *The Age of Aging* is an understandable and balanced bridge between academic studies and tabloid articles on critical population issues of our time. Magnus begins by providing the reader with a lucid tour of the basics of the determinants of population change. He then moves on to a thoughtful, insightful and stimulating inquiry into the likely consequences of demographic changes, especially aging, at the national and international levels. In sum, specialists and non-specialists concerned with population issues will find *The Age of Aging* readable, informative and provocative.

Joseph Chamie

*Research Director, Center for Immigration Studies
Former head of the United Nations Population Division*

In this book, George Magnus delivers a broad-ranging, sophisticated and stimulating analysis of worldwide demographic trends, linking them with rigorous intellectual honesty to the economic, social and political effects that we can both observe today and—more importantly—anticipate for the future. He writes in clear, accessible language,

articulating well-reasoned arguments along with some refreshingly new and challenging perspectives: his chapter on Religion and Security is a compelling case in point.

This is a highly important text for those with an interest in the shaping and consequences of demographic change, and the book's thought-provoking content and highly approachable style should guarantee wide appeal.

Alan Massey

Vice Admiral

Royal Navy

Many financial market professionals often wonder about the long-term consequences of the demographic process for economic trends and markets. Most other people probably don't even think much about the issue. Here, in a very readable manner, George Magnus offers a very welcome detailed study on all the key long-term issues that should help many people get to understand some of the challenges that lie ahead.

Jim O'Neill

Chief Economist

Goldman Sachs

The Age of Aging

*How Demographics are
Changing the Global
Economy and Our World*

George Magnus



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To Lesley, Daniel, Jonathan, Rachel and Ben

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Preface

Why demographics matter

People have always been fascinated by or fearful of population developments. Nowadays, many of us fear overpopulation. We fret about congestion in countries and communities and, for both good and bad reasons, we are becoming more vocal about immigration. In some countries, especially in Africa, we see poverty, famine, and disease on a scale that shocks. Not least, we peer anxiously at a new phenomenon: rapidly aging populations. Demographic change is now one of our main preoccupations. What will our world look like, and how will it function in the next 25 or 50 years as it supports a further three billion people, mostly in developing countries, and as the populations of several richer societies decline? And how will our societies adapt and change as, in some Western countries, the over-65s become the fastest growing age group, outnumbering children?

Demography is defined as “the branch of knowledge that deals with human populations, especially the statistical analysis of births, deaths, migrations, disease etc., as illustrating the condition of life in communities.”^{[1](#)} Voluminous books and research papers have been published on these topics and on the biggest issue of demographic change: population aging. Interest in gerontology, the study of the process of aging, has been around for centuries—and is even more relevant now against a backdrop of increases in both average life expectancy and the maximum age to which any one person might expect to live. This book, though, is not about gerontology but rather about the

economic, social, and sometimes political consequences of a world in which different populations are aging at different rates. For the most part, aging research is highly academic, sometimes requiring an understanding of algebra and econometrics, or is specifically about the thorny and complex issues of retirement pension and personal finance planning. At the other extreme, there is a lot of news coverage of sensitive subjects such as immigration or of dire warnings of economic and social collapse.

What I try to do here is bridge the gap and look at the spectrum of demographic challenges we all face in ways that I hope people, with and without specialist knowledge will find illuminating and revealing, if sometimes provocative. Much of the book is about the economic and social characteristics and implications of demographic change but, inevitably, there are frequent forays into the political, both national and international, including ways in which public policy, the law, and human behavior could or should change. However, those looking for clear and self-evident solutions to such issues will be disappointed. There is no template, no precedent, and no proven theory to help us anticipate the consequences of population change and aging. Instead, I look to frame the challenges and the resulting issues, rather than lay out a blueprint for policymakers. Similarly, when it comes to some of the more overtly social and political matters related to global demographic change, I look to explore some of the things that societies are going to have to think about and address, including many that are taboo, rather than offer any particular legislative agenda.

The last decade has witnessed the strongest economic growth around the world—for over 40 years—and a rapid acceleration in the pace of globalization and technological change. Yet it has also emphasized or aggravated, especially in the West, a range of fears and insecurities

about income inequalities, threats to jobs, immigration, the affordability of pensions, large and unstable financial imbalances in the global economy, and environmental degradation. If it's an unfortunate truth that the poor are always in need of help, and often without a strong political voice, the same cannot be said of the middle classes in Western societies. It is in the middle classes in America and Europe that the greatest increase in discontent and in economic insecurity can be detected. While this may be hard for the baby boomers to cope with, their young adult children and grandchildren are finding it even tougher.

In the coming decades we will battle with these issues, rather than bask in the afterglow of the breakneck speed of global economic growth of recent years, not least because the United States and other advanced economies began to succumb in 2007 to a serious banking crisis and possibly a sustained economic downswing. Aging societies, the characteristics of which will become increasingly evident from 2008, will become a challenge of growing importance.

Some of the issues of aging societies were taken up in a German TV drama-documentary in 2007. Germany's population is one of the world's oldest and fastest aging, and the program set out to consider the implications of aging (*2030—Aufstand der Alten* (Uprising of the Elderly)). The three-part thriller, set in the year 2030, started with an aggrieved pensioner kidnapping the head of a healthcare company that had, with government backing, stolen money from retirees under the false promise of a happy and comfortable life in a retirement resort. The plot thickens, and a reporter uncovers a commando group that plans to dispose of the elderly to camps in Africa. Such aging angst, albeit presented in this perhaps tongue-in-cheek way, reflects an increasing consciousness about the implications of aging societies, not only in the West but, in due course, around the world.

The footprints of aging are everywhere. Now that the euphoria of triumphalist capitalism, stirred by the fall of the Berlin wall in 1989, has passed many have begun to believe that free market capitalism cannot address the needs of the politically vocal middle classes, let alone the poor, and certainly not in aging societies. New forms of social or welfare capitalism will be required to accommodate the shift toward a grayer world—as well as to manage the implications of climate change, globalization, and other social issues.

The coming significant and prolonged changes in the size and the characteristics of the population and the labor force could undermine economic growth. Aging societies will have to figure how to get more age-related spending from the welfare state and how to pay for it. Aging societies will experience changes that affect asset prices, wages, and profits. They may see the gradual disappearance of involuntary unemployment—but at the same time those in work may face rising pressures to save through higher taxes and social charges. Such societies will require additional efforts to invest in education and training, not only to allow workers to stay ahead in a globalized world but also to boost the productivity of the fewer people of working age.

Many of the premises on which modern welfare programs were established have changed or soon will. Retirement pensions, for example, were designed to allow people to stop working and enjoy their last few years in relative comfort while making way for new, younger workers. Today, although pensioner poverty is becoming a growing problem and longer life expectancy means more disability, retirement is for many an extended period of state-supported or company-financed leisure, which was never anticipated. Now Western countries have to think about how all of this is going to be paid for as the numbers of younger

contributors to state pension and healthcare schemes decline or grow much more slowly.

To address these challenges over the next decade or two, it is probable that the role and influence of the state, and what is demanded of it, will expand. Demographic change involves public policy areas that span health, education, social and labor market institutions, immigration, openness of the economy to trade and investment, retirement pension systems, and national savings and taxation systems. Free market solutions and ways of addressing these issues are available of course, but it is unlikely that we will be willing to depend on market-based outcomes as our societies age. In the late nineteenth century, and again in the twentieth, people needed or wanted to accord the state a bigger role to introduce and develop social welfare systems to tend to larger and younger populations. Today, its role may have to be expanded again as populations become older and possibly smaller at the same time.

Developing countries will also have to face these questions, if not now then with added force in a decade or two. China, in particular, will have to balance rising economic aspirations and growing social and environmental problems with the structure of central political control. What Beijing calls attempts to “coordinate market mechanisms” may be a unique way of combining such control with the operation of at least some market forces. It remains to be seen, however, whether this model can provide growth and stability, greater equality, environmental improvement, and financial security for its growing bands of childless over-65s.

The demography dial

Our world is home to 6.5 billion people, and current projections are that it will grow to about 9.2 billion by 2050. Although the growth rate of the world's population is

expected to slow from roughly 1.2 percent per year now to less than 0.5 percent by 2050, nearly all our new citizens are going to be born, and grow up, in developing countries. In the developed or advanced world, many countries will experience the curious phenomenon of population decline. In Japan, this process has already begun.

More of us will be living in towns and cities. This is not a new trend, as on average about half of us are urban creatures today, but by 2030 this proportion will be over 60 percent. In advanced societies, and in Latin America, the urban population is expected to rise from an already high 70–80 percent to about 85–90 percent. In other developing countries in Asia and Africa, the urban population is expected to rise from 40 percent today to nearly 55 percent. As this occurs, there will be a near 50 percent increase in the average number of people occupying each square kilometer of land.

That means more people in more crowded cities, with the biggest changes happening in the developing world. These are the things at the core of excited, and sometimes emotional, debates concerning climate change, the adequate availability of resources—including crude oil and water—immigration and domestic and international security.

The biggest change, and one that mankind has never experienced before, is advanced population aging. The median age of the world's population—where half are older and half are younger—is 28 years. By 2050, it will have become 38 years. In Europe it will be 47, in China 45, and in North America and Asia about 41. This aging process is the result of two mega-trends. The first is a low or declining fertility rate at, or below, the so-called replacement rate of 2.1 children per woman. Most countries in the West, except for the United States, have fertility rates below this level, as indeed does China. In other words, women are generally having fewer or no children, and family size is shrinking. The

second is rising longevity—or the tendency to live much longer thanks to improvements in health, diet, preventive care, and so on.

It follows that over the next few decades, many countries are going to be characterized by a rising proportion of old people and very old people (aged over 80) and by a slower growing, or shrinking, proportion of young people. It is fair to ask what “old” means in the first half of the twenty-first century, especially in societies dominated by service industries and information and communications technology. Are we “too old” to do meaningful work at 63 or 67 or 74? Clearly not, but I shall argue that attitudes to work, and to older people capable of work, are going to become much more important—and certainly more so than the stereotypes that come to mind so easily.

The number of people aged over 60 is expected to reach one billion by 2020 and almost two billion by 2050, some 22 percent of the world’s population. In Japan, this age group is expected to double to about 38 percent of the population, only a few percentage points higher than it is expected to be in China. In Europe and America it will account for about 28 percent and 21 percent respectively. And those aged over 80 are expected to account for about 4 percent of the world’s population, four times as big as now. For the first time, the number of over-65s will exceed those aged less than five years. This is the first time there has been such a shift in age structure, and with it will come new economic, social, and political issues we’ve never had to tackle before. In some countries, notably Japan but quite soon in western Europe and even in China, this means that there aren’t going to be enough children growing up to become workers and employees to support a rapidly growing elderly population.

As I shall point out later, these changes in age structure are going to lead to significant changes in dependency,

which in turn will have enormous economic and financial consequences. Dependency ratios are defined as the number of old or very young people as a percentage of the working age population, that is those aged 15–64. Most developing countries will still have falling dependency ratios for the next 20 years because youth dependency is falling, and old-age dependency isn't rising especially fast yet. Western countries, on the other hand, have completed the decline in youth dependency and now face a rapid increase in old-age dependency.

It is small wonder, then, that there is now an extensive debate going on about the economic and social effects and characteristics of aging societies, covering the affordability and financing of pensions and healthcare, the statutory retirement age, immigration, labor, and possibly skill shortages, and the implications for tax, social, employment, and education policies. In addition, noncommunicable diseases will become more of a burden, family structures will change, the way we retire from work will shift toward greater self-provision, our health and pension systems will come under greater strain, and new roles for government and government policy will have to be formulated.

It is not possible to predict today what life will look like in the next 50 years—any more than our parents or grandparents could. Imagine if surveys from 1908 or 1958 had asked people what they thought the world would be like in 2008. The answers would probably be laughable today. In terms of demographic change alone, experts have underestimated life expectancy, overestimated mortality, and been surprised by the downswing in fertility rates. And they can't really predict immigration trends. That said, population growth and aging are slow-moving developments that should be among the more predictable. Unlike unfolding globalization, the complexities of the Middle East, and the rise of China, demographic shifts tend to be more

stable. Unlike the human responsibility for climate change, where we may have to wait 30 years to find out which side of the scientific debate was right, demographic change is transparent and clearly for us to manage. By understanding and examining the scale and implications of demographic change, we can prepare. By preparing, we can try to mitigate some of the repercussions, for a while at least, and, who knows, even come up with innovative solutions that can sustain our spirit. There's no guarantee we will succeed before some sort of crisis erupts, or maybe even at all. So, let us explore the Age of Aging and see what is in store for us, our children, and theirs.

Endnote

[1](#) *The Oxford English Dictionary.*

Chapter 1

Introducing a new age

The day is coming when great nations will find their numbers dwindling from census to census.

—Don Juan in George Bernard Shaw, *Man and Superman*, Act 3, 1903.

The distinguished economist, author, and public servant J.K. Galbraith, who died in 2006 at the ripe old age of 97, referred some 10 years earlier to the “still” syndrome. He was reflecting on the way the elderly are reminded constantly about the inevitability of decline. The “still” syndrome, he said, was adopted by the young to assail the old as in “Are you still working?” or “Are you still taking exercise?” or “. . . still writing,” “. . . still drinking?” and so on. His advice was to have a retort ready to call attention to the speaker’s departure from grace and decency. His was to say, “I see that you are *still* rather immature.” He urged old people to devise an equally adverse, even insulting, response and voice it relentlessly.^{[1](#)}

You can see Galbraith’s point. I do not wish to become embroiled in an argument about “agism,” but the fact that we can live and work longer than our parents and grandparents and that it looks like our children will do even better, reflects great improvements in health, education, technology, and economic growth. It is the consequences of that success that I propose to look at here. For, while we might like the idea of living healthier and longer lives, population aging brings with it very real economic and social problems.

In the very long run, the issue of population aging will probably fade. The baby boomers will move on to the great retirement home in the sky, and the global trend toward lower fertility rates will result in the restoration of better demographic balance. For the time being, however, we will have to face up to the problems created by such age and gender imbalances, and the divide between the old-age bulge of developed countries and the youth bulge of developing ones. Some communities and countries will deal with these challenges more successfully or with less disruption than others.

In some ways, you could see aging and population trends as more evidence of the West's steady decline. While there may be some truth in this, the global and complex nature of population aging also means we must look at aging through different spectacles.

For the West the challenges that lie ahead will be formidable. They aren't quite the same as those discussed in *Decline of the West*, a cyclical theory of the rise and fall of civilizations as foreseen by the controversial historian and philosopher Oswald Spengler in 1918.² His rather prejudiced views—he believed in German hegemony in Europe and was seen by the Nazis as a sort of intellectual heavyweight—were set against a background of what he called the prospect of “appalling depopulation.” Today, it is population aging rather than depopulation that concerns us, along with the economic and social changes associated with a shift of power to the younger countries in the developing world, typified by China and India. These things are already influencing our perceptions of economic and financial security. As if this were not enough, younger people in Western societies will probably have to deal with a generational shift in feelings of prosperity and well-being. What seemed to come easily to the baby boomers will be less accessible to their children and grandchildren. How well

Western societies and institutions cope with these changes is of great importance.

From a philosophical point of view, the quote from George Bernard Shaw's play at the start of this chapter may be of interest. Drawn from a dream sequence, in which Don Juan and the Devil debate the relative benefits of Hell over its dull alternative, the passage also discusses love and gender roles, marriage, procreation, and the enjoyment of life.

Everyone is affected everywhere

Baby boomers will remember the term “swinging sixties” with nostalgia and some affection. Notwithstanding the restrictions in the 1960s on what you could do in public, this era of “sex, drugs, and rock 'n' roll” was essentially a public celebration of a golden age for youth and of rising political and social consciousness. Young people aspired to freedoms, rights, and means of expression that were revolutionary in the context of the environment in which they had grown up, even if not in the traditional context of the violent overthrow of government. In fact, the sixties may have been anything but swinging in some respects, but the impact of the boomers on social organization, political processes, and economic outcomes was unquestionably significant. What mattered was not so much the demand for change, but that it occurred in the context of an enormous increase in the proportion of young people in the population.

Time and age, though, have moved on and in many countries, for the first time ever, there are already more people of pensionable age than there are children under 16 years—and the difference is going to increase over the next 20 to 30 years. It is both apt and increasingly urgent,

therefore, to focus attention on the different prospects and lifestyles faced by different generations.

If you were born before the end of the Second World War, the chances are you are retired or soon will be. You may worry about many things in your life, but financial security is probably not one of them, and your state and/or employee pension is most likely secure.³ If you were born after the Second World War but before say 1963, you are now on the cusp of retirement or within 10 or 20 years of it. Most of you should not have to worry too much about financial security, but some at the younger end of this age group are almost certainly going to confront the implications of population aging head-on.

Those who are Generation X, born between the mid-1960s and 1979, or Generation Y, born between 1980 and the fall of the Berlin Wall in 1989, or belong to the subsequent Internet Generation, are a large part of the focus of this book. They form what has been called the “boomerangst” generation. Although this term normally refers to the fears and concerns of the boomers themselves, it is also apt to apply it to their children and grandchildren. Indeed, it is a direct allusion to both some behavioral characteristics of younger people today and some of the financial and social issues with which they are growing up. For it is on their shoulders that the worrying burden and task of managing and coping with population aging will fall.

Although it is the macroeconomic implications of these changes that I examine in this book, there are many personal issues that people will have to confront that will affect both themselves and their elders. By way of background, consider just three: First, younger people today have higher divorce and separation rates. Nonmarried women are less likely than nonmarried men to have adequate financial security for retirement, but the latter have bigger problems in forming and maintaining social

networks. Second, childless couples and single-parent families comprise a growing social class, and care for separated or single middle-aged women, as they age, becomes a more pressing issue when they do not have adult children to help. And third, support for the growing band of older citizens will become crucial. More and more over-65s will be living alone and belong to families that will be “long” in terms of generations and “narrow” in terms of the number of children, siblings, and cousins.

It would be wrong to think that these demographic issues are unique to the West. Many developing countries, while younger than Western societies, are aging faster, and most will confront similar problems from about 2030–35. Yet, for now at least, they lack the West’s wealth, social infrastructure, and financial security systems. Some developing countries, notably China and South Africa, will confront their aging issues—for quite different reasons—much earlier than most. For South Africa, the main problem is the devastating effect of HIV/AIDS on the mortality of younger, working-age people. In China’s case, it is because of the impact of the one-child policy, as well as other more common causes of declining fertility rates and rising life expectancy. China’s population aged under 50 and, by implication, much of its labor force, starts to contract around the same time as in Germany, in 2009–10. Despite our fascination and, for some, fear at the speed with which say, China and India, are becoming major world powers, it is possible that they too face a parallel to the West’s “decline.” Later, I shall explain that the reason for this slightly chilling warning lies in the interplay between aging populations on the one hand and a growing gender gap characterized by an excessive male:female ratio on the other.

Moreover, just because one country or region seems to be more youthful than another, you cannot assume that its economic prowess and potential is greater. Age—or youth—