

# **Population Aging: Are America and the World Approaching an Inflection Point?**

**Richard Jackson**

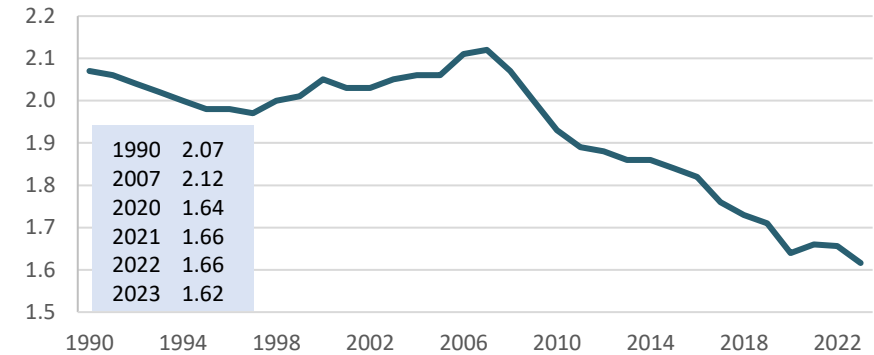
**President  
Global Aging Institute**

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# The Global Baby Bust

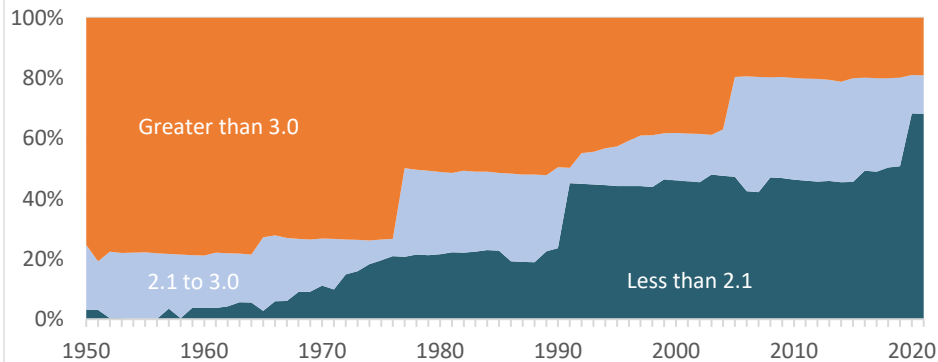
- ❑ The decline in birthrates is the primary driver of population aging. The trend began in the rich world, but has now overtaken much of the emerging world as well.
- ❑ Until recently, America's relatively high fertility rate, together with substantial net immigration, seemed to ensure that it would remain the youngest of the major developed countries for the foreseeable future. Since the Great Recession, however, the U.S. fertility rate has fallen sharply, narrowing America's demographic advantage.

### U.S. Total Fertility Rate, 1990-2023



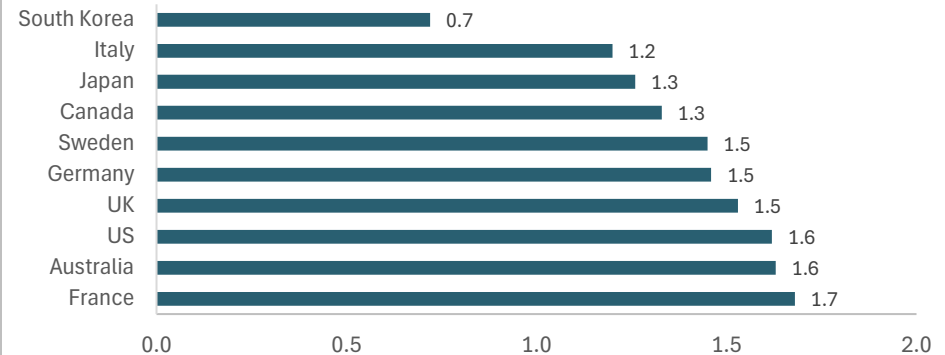
Source: NCHS (various years)

### Distribution of the Global Population, by Fertility Level, 1950-2021



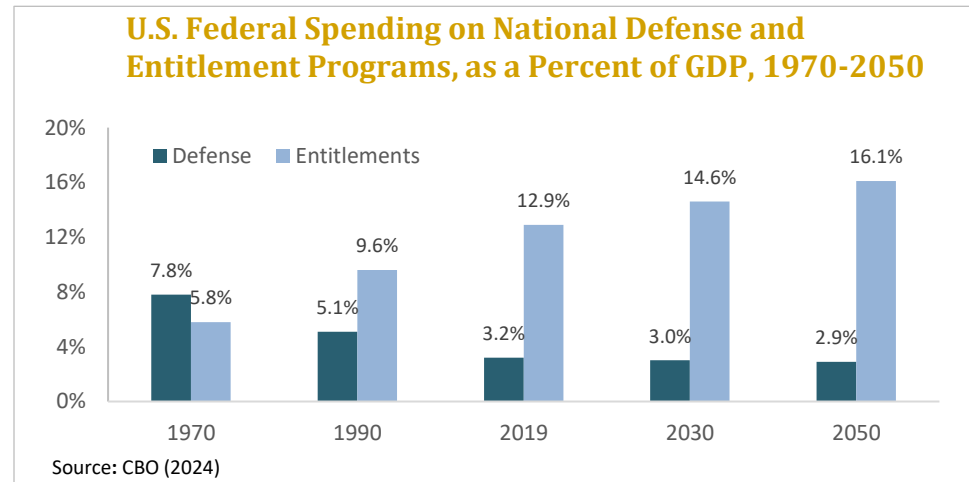
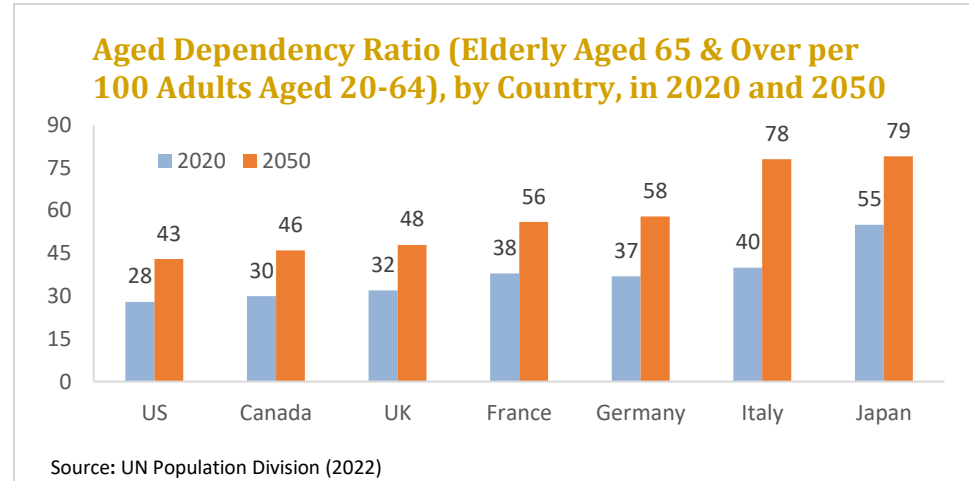
Source: UN Population Division (2022)

### Total Fertility Rate in Selected OECD Countries, 2022 or 2023



Source: OECD (2024) and NCHS (2024)

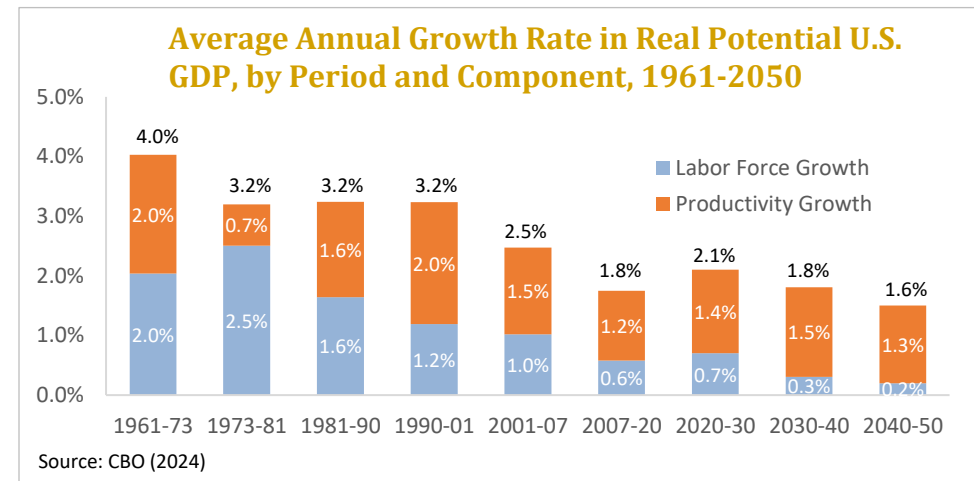
- ❑ Over time, lower fertility and higher life expectancy translate into a higher aged dependency ratio, which in turn translates into a higher cost rate for pay-as-you-go retirement and health benefit programs.
- ❑ Growing spending on old-age benefits in turn crowds out other government spending on everything from education and the environment to national defense.
- ❑ Higher old-age dependency costs may be partially offset by lower youth dependency costs. However, the youth dependency ratio is projected to fall much less than the aged dependency ratio is projected to rise, the old consume more per capita than the young, and most developed countries have socialized the cost of being old to a much greater extent than the cost of being young.



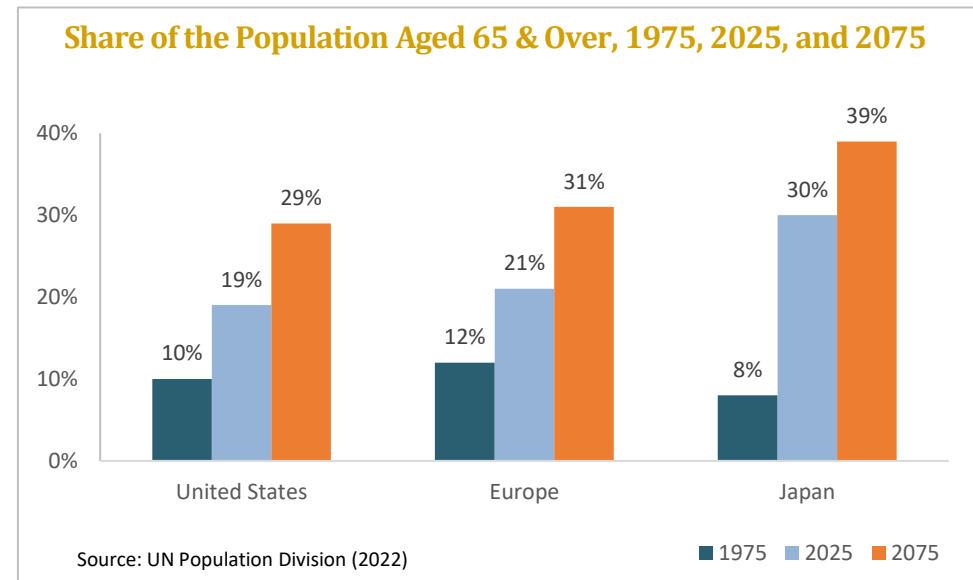
- ❑ Over time, lower fertility also translates into slower growth in the working-age population, which in turn translates into slower growth in employment and GDP.
- ❑ Productivity growth may also decline in aging societies, further dragging down economic growth:
  - More slowly growing workforces mean less investment demand and a slower turnover in the capital stock.
  - Along with crowding public investment out of government budgets, rising fiscal deficits may also crowd private investment out of capital markets.
  - Aging workforces may be less flexible, less mobile, and less entrepreneurial.
  - Economies will be increasingly dominated by service industries resistant to productivity improvements.
- ❑ Real GDP growth in the United States could fall to less than half of its postwar average. Japan and some European countries may face “secular stagnation”—that is, zero growth in real GDP across the business cycle.

Average Annual Growth Rate in the Working-Age Population (Aged 20-64), by Decade, 1980s-2040s							
	1980s	1990s	2000s	2010s	2020s	2030s	2040s
Canada	1.7%	1.1%	1.3%	0.7%	0.2%	0.5%	0.3%
France	1.0%	0.4%	0.6%	-0.3%	-0.2%	-0.2%	-0.3%
Germany	1.1%	0.3%	-0.5%	0.1%	-0.9%	-0.6%	-0.4%
Italy	0.9%	0.2%	0.2%	-0.3%	-0.8%	-1.4%	-1.1%
Japan	0.7%	0.4%	-0.4%	-1.0%	-0.6%	-1.3%	-1.2%
UK	0.7%	0.4%	0.7%	0.4%	0.0%	0.1%	-0.1%
US	1.3%	1.2%	1.1%	0.6%	0.2%	0.2%	0.1%

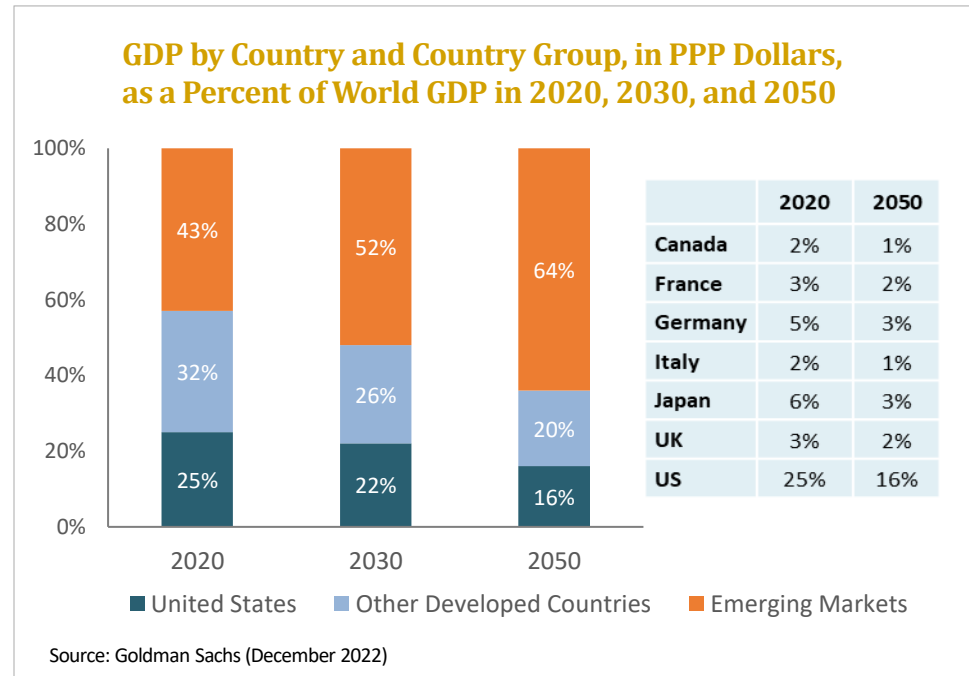
Source: UN Population Division (2022)



- ❑ There may also be psychological dynamics to population aging that further undermine economic growth.
- ❑ With the size of domestic markets growing more slowly, we may see more cartel behavior to protect market share and more restrictive rules on hiring and firing to protect jobs. We may also see increasing pressure on governments to block foreign competition.
- ❑ Shifts in business psychology could be mirrored by a broader shift in social mood. Slow-growth, aging societies may become more risk averse, have shorter time horizons, and be less willing to make investments with long-term payoffs.
- ❑ A robust statistical literature establishes that extremely youthful societies are often dysfunctional. Extremely aged societies may also prove to be dysfunctional in some ways, favoring consumption over investment, the past over the future, and the old over the young.



- ❑ Experts disagree about the economic benefits of absolute demographic size. One school of thought stresses that large and growing populations can benefit from increasing returns to scale (mainly involving large public undertakings), while another stresses that size also involves decreasing returns to scale (mainly involving natural resources and the environment).
- ❑ When it comes to geopolitics, however, virtually no one disputes that demographic size and economic size together are potent twin engines of national power.
- ❑ Over the next few decades, the developed world will be shrinking steadily in demographic and economic size relative to a faster-growing emerging world.
- ❑ While history has many examples of demographically small powers that exercised outsized geopolitical sway, it has few if any examples of demographically and economically stagnant or contracting powers that were at the same time geopolitically rising powers.



- ❑ Policies designed to mitigate the extent of population aging:
  - Encourage higher birthrates through measures that help young adults balance job and family responsibilities
  - Increase and/or better target immigration
  
- ❑ Policies designed to improve economic performance in the face of any given degree of population aging:
  - Reduce the fiscal burden of old-age benefit programs
  - Increase labor-force participation, especially at older ages
  
- ❑ Policies designed to leverage cross-country differentials in population age structures and growth rates:
  - Promote open global labor markets
  - Promote open global capital markets



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