

Global Aging and the Crisis of the 2020s

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Long-time readers of *Outside the Box* are familiar with the work of Neil Howe, co-author of one of the most prescient books of the last few decades, *The Fourth Turning* (written in 1997), which described and indeed virtually nailed our current social climate. When Neil writes, it pays to pay attention. He has recently written a piece called "Global Aging and the Crisis of the 2020s," an article he co-authored with Richard Jackson. They work with the Center for Strategic and International Studies on the Global Aging Initiative. This week's OTB was just published in the January 2011 issue of *Current History*, who have given me permission to send it to you.

Howe and Jackson are also the authors of "The Graying of the Great Powers" and other commentary on the impact that demographics will have on our future. You can see that paper and others at <http://csis.org/publication/graying-great-powers-0>.

Here in Cabo San Lucas we are staying at Casa Oliver (www.cabocasaoliver.com), which was recently featured in the *Robb Report*. The owner, Dene Oliver, is a very generous man who donates the use of his home to various charities, which is how Jon Sundt and his partners at Altegris secured the place, at a charity auction for an anti-drug organization sponsored by Jon.

The whales are cavorting a little way off the beach . The kids are in the pool. The sun is setting over the Pacific. Jon Sundt and company have picked a great place for our annual meeting. A great place to kick back and reflect on the future, which seems to be coming at us ever faster.

They are calling dinner, prepared by a serious world-class chef, Pia Quintana, so it's time to go. Sushi night.

Your living larger than usual analyst,

John Mauldin

Global Aging and the Crisis of the 2020s

By Neil Howe and Richard Jackson

“The risk of social and political upheaval could grow throughout the developing world—even as the developed world’s capacity to deal with such threats declines.”

From the fall of the Roman and the Mayan empires to the Black Death to the colonization of the New World and the youth-driven revolutions of the twentieth century, demographic trends have played a decisive role in many of the great invasions, political upheavals, migrations, and environmental catastrophes of history. By the 2020s, an ominous new conjuncture of demographic trends may once again threaten widespread disruption. We are talking about global aging, which is likely to have a profound effect on economic growth, living standards, and the shape of the world order.

For the world’s wealthy nations, the 2020s are set to be a decade of rapid population aging and population decline. The developed world has been aging for decades, due to falling birthrates and rising life expectancy. But in the 2020s, this aging will get an extra kick as large postwar baby boom generations move fully into retirement. According to the United Nations Population Division (whose projections are cited throughout this article), the median ages of Western Europe and Japan, which were 34 and 33 respectively as recently as 1980, will soar to 47 and 52 by 2030, assuming no increase in fertility. In Italy, Spain, and Japan, more than half of all adults will be older than the official retirement age—and there will be more people in their 70s than in their 20s.

Falling birthrates are not only transforming traditional population pyramids, leaving them top-heavy with elders, but are also ushering in a new era of workforce and population decline. The working-age population has already begun to contract in several large developed countries, including Germany and Japan. By 2030, it will be stagnant or contracting in nearly all developed countries, the only major exception being the United States. In a growing number of nations, total population will begin a gathering decline as well. Unless immigration or birthrates surge, Japan and some European nations are on track to lose nearly one-half of their total current populations by the end of the century.

These trends threaten to undermine the ability of today’s developed countries to maintain global security. To begin with, they directly affect population size and GDP size, and hence the manpower and economic resources that nations can deploy. This is what RAND scholar Brian Nichiporuk calls “the bucket of capabilities” perspective. But population aging and decline can also indirectly affect capabilities—or even alter national goals themselves.

Rising pension and health care costs will place intense pressure on government budgets, potentially crowding out spending on other priorities, including national defense and foreign assistance. Economic performance may suffer as workforces gray and rates of savings and investment decline. As societies and electorates age, growing risk aversion and shorter time horizons may weaken not just the ability of the developed countries to play a major geopolitical role, but also their will.

The weakening of the developed countries might not be a cause for concern if we knew that the world as a whole were likely to become more pacific. But unfortunately, just the opposite may be the case. During the 2020s, the developing world will be buffeted by its own potentially destabilizing demographic storms. China will face a massive age wave that could slow economic growth and precipitate political crisis just as that country is overtaking America as the world’s leading economic power. Russia will be in the midst of the steepest and most protracted population implosion of any major power since the plague-ridden Middle Ages. Meanwhile, many other developing countries, especially in the Muslim world, will experience a

sudden new resurgence of youth whose aspirations they are unlikely to be able to meet.

The risk of social and political upheaval could grow throughout the developing world—even as the developed world’s capacity to deal with such threats declines. Yet, if the developed world seems destined to see its geopolitical stature diminish, there is one partial but important exception to the trend: the United States. While it is fashionable to argue that US power has peaked, demography suggests America will play as important a role in shaping the world order in this century as it did in the last.

Graying Economies

Although population size alone does not confer geopolitical stature, no one disputes that population size and economic size together constitute a potent double engine of national power. A larger population allows greater numbers of young adults to serve in war and to occupy and pacify territory. A larger economy allows more spending on the hard power of national defense and the semi-hard power of foreign assistance. It can also enhance what political scientist Joseph Nye calls “soft power” by promoting business dominance, leverage with nongovernmental organizations and philanthropies, social envy and emulation, and cultural clout in the global media and popular culture.

The expectation that global aging will diminish the geopolitical stature of the developed world is thus based in part on simple arithmetic. By the 2020s and 2030s, the working-age population of Japan and many European countries will be contracting by between 0.5 and 1.5 percent per year. Even at full employment, growth in real GDP could stagnate or decline, since the number of workers may be falling faster than productivity is rising. Unless economic performance improves, some countries could face a future of secular economic stagnation—in other words, of zero real GDP growth from peak to peak of the business cycle.

Economic performance, in fact, is more likely to deteriorate than improve. Workforces in most developed countries will not only be stagnating or contracting, but also graying. A vast literature in the social and behavioral sciences establishes that worker productivity typically declines at older ages, especially in eras of rapid technological and market change.

Economies with graying workforces are also likely to be less entrepreneurial. According to the Global Entrepreneurship Monitor’s 2007 survey of 53 countries, new business start-ups in high-income countries are heavily tilted toward the young. Of all “new entrepreneurs” in the survey (defined as owners of a business founded within the past three and one-half years), 40 percent were under age 35 and 69 percent under age 45. Only 9 percent were 55 or older.

At the same time, savings rates in the developed world will decline as a larger share of the population moves into the retirement years. If savings fall more than investment demand, as much macroeconomic modeling suggests is likely, either businesses will starve for investment funds or the developed economies’ dependence on capital from higher-saving emerging markets will grow. In the first case, the penalty will be lower output. In the second, it will be higher debt service costs and the loss of political leverage, which history teaches is always ceded to creditor nations.

Even as economic growth slows, the developed countries will have to transfer a rising share of society’s economic resources from working-age adults to nonworking elders. Graying means paying—more for pensions, more for health care, more for nursing homes for the frail elderly. According to projections by the Center for Strategic and International Studies, the cost of

maintaining the current generosity of today's public old-age benefit systems would, on average across the developed countries, add an extra 7 percent of GDP to government budgets by 2030.

Yet the old-age benefit systems of most developed countries are already pushing the limits of fiscal and economic affordability. By the 2020s, political conflict over deep benefit cuts seems unavoidable. On one side will be young adults who face stagnant or declining after-tax earnings. On the other side will be retirees, who are often wholly dependent on pay-as-you-go public plans. In the 2020s, young people in developed countries will have the future on their side. Elders will have the votes on theirs.

Faced with the choice between economically ruinous tax hikes and politically impossible benefit cuts, many governments will choose a third option: cannibalizing other spending on everything from education and the environment to foreign assistance and national defense. As time goes by, the fiscal squeeze will make it progressively more difficult to pursue the obvious response to military manpower shortages—investing massively in military technology, and thereby substituting capital for labor.

Diminished Stature

The impact of global aging on the collective temperament of the developed countries is more difficult to quantify than its impact on their economies, but the consequences could be just as important—or even more so. With the size of domestic markets fixed or shrinking in many countries, businesses and unions may lobby for anticompetitive changes in the economy. We may see growing 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. Historically, eras of stagnant population and market growth—think of the 1930s—have been characterized by rising tariff barriers, autarky, corporatism, and other anticompetitive policies that tend to shut the door on free trade and free markets.

This shift in business psychology could be mirrored by a broader shift in social mood. Psychologically, older societies are likely to become more conservative in outlook and possibly more risk-averse in electoral and leadership behavior. Elder-dominated electorates may tend to lock in current public spending commitments at the expense of new priorities and shun decisive confrontations in favor of ad hoc settlements. Smaller families may be less willing to risk scarce youth in war.

We know that extremely youthful societies are in some ways dysfunctional—prone to violence, instability, and state failure. But extremely aged societies may also prove dysfunctional in some ways, favoring consumption over investment, the past over the future, and the old over the young.

Meanwhile, the rapid growth in ethnic and religious minority populations, due to ongoing immigration and higher-than-average minority fertility, could strain civic cohesion and foster a new diaspora politics. With the demand for low-wage labor rising, immigration (at its current rate) is on track by 2030 to double the percentage of Muslims in France and triple it in Germany. Some large European cities, including Amsterdam, Marseille, Birmingham, and Cologne, may be majority Muslim.

In Europe, the demographic ebb tide may deepen the crisis of confidence that is reflected in such best-selling books as *France Is Falling* by Nicolas Baverez, *Can Germany Be Saved?* by Hans-Werner Sinn, and *The Last Days of Europe* by Walter Laqueur. The media in Europe are already rife with dolorous stories about the closing of schools and maternity wards, the abandonment of rural towns, and the lawlessness of immigrant youths in large cities. In Japan, the government has half-seriously projected the date at which only one Japanese citizen will be left alive.

Over the next few decades, the outlook in the United States will increasingly diverge from that in the rest of the developed world. Yes, America is also graying, but to a lesser extent. Aside from Israel and Iceland, the United States is the only developed nation where fertility is at or above the replacement rate of 2.1 average lifetime births per woman. By 2030, its median age, now 37, will rise to only 39. Its working-age population, according to both US Census Bureau and UN projections, will also continue to grow through the 2020s and beyond, both because of its higher fertility rate and because of substantial net immigration, which America assimilates better than most other developed countries.

The United States faces serious structural challenges, including a bloated health care sector, a chronically low savings rate, and a political system that has difficulty making meaningful trade-offs among competing priorities. All of these problems threaten to become growing handicaps as the country's population ages. Yet, unlike Europe and Japan, the United States will still have the youth and the economic resources to play a major geopolitical role. The real challenge facing America by the 2020s may not be so much its inability to lead the developed world as the inability of the other developed nations to lend much assistance.

Perilous Transitions

Although the world's wealthy nations are leading the way into humanity's graying future, aging is a global phenomenon. Most of the developing world is also progressing through the so-called demographic transition—the shift from high mortality and high fertility to low mortality and low fertility that inevitably accompanies development and modernization. Since 1975, the average fertility rate in the developing world has dropped from 5.1 to 2.7 children per woman, the rate of population growth has decelerated from 2.2 to 1.3 percent per year, and the median age has risen from 21 to 28.

The demographic outlook in the developing world, however, is shaping up to be one of extraordinary diversity. In many of the poorest and least stable countries (especially in sub-Saharan Africa), the demographic transition has failed to gain traction, leaving countries burdened with large youth bulges. By contrast, in many of the most rapidly modernizing countries (especially in East Asia), the population shift from young and growing to old and stagnant or declining is occurring at a breathtaking pace—far more rapidly than it did in any of today's developed countries.

Notwithstanding this diversity, some demographers and political scientists believe that the unfolding of the transition is ushering in a new era in which demographic trends will promote global stability. This “demographic peace” thesis, as we dub it, begins with the observation that societies with rapidly growing populations and young age structures are often mired in poverty and prone to civil violence and state failure, while those with no or slow population growth and older age structures tend to be more affluent and stable. As the demographic transition progresses—and population growth slows, median ages rise, and child dependency burdens fall—the demographic peace thesis predicts that economic growth and social and

political stability will follow.

We believe this thesis is deeply flawed. It fails to take into account the huge variation in the timing and pace of the demographic transition in the developing world. It tends to focus exclusively on the threat of state failure, which indeed is closely and negatively correlated with the degree of demographic transition, while ignoring the threat of “neo-authoritarian” state success, which is more likely to occur in societies in which the transition is well under way. We are, in other words, not talking just about a hostile version of the Somalia model, but also about a potentially hostile version of the China or Russia model, which appears to enjoy growing appeal among political leaders in many developing countries.

More fundamentally, the demographic peace thesis lacks any realistic sense of historical process. It is possible (though by no means assured) that the global security environment that emerges after the demographic transition has run its course will be safer than today’s. It is very unlikely, however, that the transition will make the security environment progressively safer along the way. Journeys can be more dangerous than destinations.

Economists, sociologists, and historians who have studied the development process agree that societies, as they move from the traditional to the modern, are buffeted by powerful and disorienting social, cultural, and economic crosswinds. As countries are integrated into the global marketplace and global culture, traditional economic and social structures are overturned and traditional value systems are challenged.

Along with the economic benefits of rising living standards, development also brings the social costs of rapid urbanization, growing income inequality, and environmental degradation. When plotted against development, these stresses exhibit a hump-shaped or inverted-U pattern, meaning that they become most acute midway through the demographic transition.

The demographic transition can trigger a rise in extremism. Religious and cultural revitalization movements may seek to reaffirm traditional identities that are threatened by modernization and try to fill the void left when development uproots communities and fragments extended families. It is well documented that international terrorism, among the developing countries, is positively correlated with income, education, and urbanization. States that sponsor terrorism are rarely among the youngest and poorest countries; nor do the terrorists themselves usually originate in the youngest and poorest countries. Indeed, they are often disaffected members of the middle class in middle-income countries that are midway through the demographic transition.

Ethnic tensions can also grow. In many societies, some ethnic groups are more successful in the marketplace than others—which means that, as development accelerates and the market economy grows, rising inequality often falls along ethnic lines. The sociologist Amy Chua documents how the concentration of wealth among “market-dominant minorities” has triggered violent backlashes by majority populations in many developing countries, from Indonesia, Malaysia, and the Philippines (against the Chinese) to Sierra Leone (against the Lebanese) to the former Yugoslavia (against the Croats and Slovenes).

We have in fact only one historical example of a large group of countries that has completed the entire demographic transition—today’s (mostly Western) developed nations. And their experience during that transition, from the late 1700s to the late 1900s, was filled with the most destructive revolutions, civil wars, and total wars in the history of civilization. The nations that engaged in World War II had a higher median age and a lower fertility rate—and thus were

situated at a later stage of the transition—than most of today’s developing world is projected to have over the next 20 years. Even if global aging breeds peace, in other words, we are not out of the woods yet.

Storms Ahead

A number of demographic storms are now brewing in different parts of the developing world. The moment of maximum risk still lies ahead—just a decade away, in the 2020s. Ominously, this is the same decade when the developed world will itself be experiencing its moment of greatest demographic stress.

Consider China, which may be the first country to grow old before it grows rich. For the past quarter-century, China has been peacefully rising,” thanks in part to a one-child-per-couple policy that has lowered dependency burdens and allowed both parents to work and contribute to China’s boom. By the 2020s, however, the huge Red Guard generation, which was born before the country’s fertility decline, will move into retirement, heavily taxing the resources of their children and the state.

China’s coming age wave—by 2030 it will be an older country than the United States—may weaken the two pillars of the current regime’s legitimacy: rapidly rising GDP and social stability. Imagine workforce growth slowing to zero while tens of millions of elders sink into indigence without pensions, without health care, and without large extended families to support them. China could careen toward social collapse—or, in reaction, toward an authoritarian clampdown. The arrival of China’s age wave, and the turmoil it may bring, will coincide with its expected displacement of the United States as the world’s largest economy in the 2020s. According to “power transition” theories of global conflict, this moment could be quite perilous.

By the 2020s, Russia, along with the rest of Eastern Europe, will be in the midst of an extended population decline as steep or steeper than any in the developed world. The Russian fertility rate has plunged far beneath the replacement level even as life expectancy has collapsed amid a widening health crisis. Russian men today can expect to live to 60—16 years less than American men and marginally less than their Red Army grandfathers at the end of World War II. By 2050, Russia is due to fall to 16th place in world population rankings, down from 4th place in 1950 (or third place, if we include all the territories of the former Soviet Union). Prime Minister Vladimir Putin flatly calls Russia’s demographic implosion “the most acute problem facing our country today.” If the problem is not solved, Russia will weaken progressively, raising the nightmarish specter of a failing or failed state with nuclear weapons. Or this cornered bear may lash out in revanchist fury rather than meekly accept its demographic fate.

Of course, some regions of the developing world will remain extremely young in the 2020s. Sub-Saharan Africa, which is burdened by the world’s highest fertility rates and is also ravaged by AIDS, will still be racked by large youth bulges. So will a scattering of impoverished and chronically unstable Muslim-majority countries, including Afghanistan, the Palestinian territories, Somalia, Sudan, and Yemen. If the correlation between extreme youth and violence endures, chronic unrest and state failure could persist in much of sub-Saharan Africa and parts of the Muslim world through the 2020s, or even longer if fertility rates fail to drop.

Meanwhile, many fast-modernizing countries where fertility has fallen very recently and very steeply will experience a sudden resurgence of youth in the 2020s. It is a law of demography that, when a population boom is followed by a bust, it causes a ripple effect, with a gradually

fading cycle of echo booms and busts. In the 2010s, a bust generation will be coming of age in much of Latin America, South Asia, and the Muslim world. But by the 2020s, an echo boom will follow—dashing economic expectations and perhaps fueling political violence, religious extremism, and ethnic strife.

These echo booms will be especially large in Pakistan and Iran. In Pakistan, the decade-over-decade percentage growth in the number of people in the volatile 15- to 24-year-old age bracket is projected to drop from 32 percent in the 2000s to just 10 percent in the 2010s, but then leap upward again to 19 percent in the 2020s. In Iran, the swing in the size of the youth bulge population is projected to be even larger: minus 33 percent in the 2010s and plus 23 percent in the 2020s. These echo booms will be occurring in countries whose social fabric is already strained by rapid development. One country teeters on the brink of chaos, while the other aspires to regional hegemony. One already has nuclear weapons, while the other seems likely to obtain them.

Pax Americana Redux?

The demographer Nicholas Eberstadt has warned that demographic change may be “even more menacing to the security prospects of the Western alliance than was the cold war for the past generation.” Although it would be fair to point out that such change usually presents opportunities as well as dangers, his basic point is incontestable: Planning national strategy for the next several decades with no regard for population projections is like setting sail without a map or a compass. It is likely to be an ill-fated voyage. In this sense, demography is the geopolitical cartography of the twenty-first century.

Although tomorrow’s geopolitical map will surely be shaped in important ways by political choices yet to be made, the basic contours are already emerging. During the era of the Industrial Revolution, the population of what we now call the developed world grew faster than the rest of the world’s population, peaking at 25 percent of the world total in 1930. Since then, its share has declined. By 2010, it stood at just 13 percent, and it is projected to decline still further, to 10 percent by 2050.

The collective GDP of the developed countries will also decline as a share of the world total—and much more steeply. According to new projections by the Carnegie Endowment for International Peace, the Group of 7 industrialized nations’ share of the Group of 20 leading economies’ total GDP will fall from 72 percent in 2009 to 40 percent in 2050. Driving this decline will be not just the slower growth of the developed world, as work-forces age and stagnate or contract, but also the expansion of large, newly market-oriented economies, especially in East and South Asia.

Again, there is only one large country in the developed world that does not face a future of stunning relative demographic and economic decline: the United States. Thanks to its relatively high fertility rate and substantial net immigration, its current global population share will remain virtually unchanged in the coming decades. According to the Carnegie projections, the US share of total G-20 GDP will drop significantly, from 34 percent in 2009 to 24 percent in 2050. The combined share of Canada, France, Germany, Italy, Japan, and the United Kingdom, however, will plunge from 38 percent to 16 percent.

By the middle of the twenty-first century, the dominant strength of the US economy within the developed world will have only one historical parallel: the immediate aftermath of World War II, exactly 100 years earlier, at the birth of the “Pax Americana.”

The UN regularly publishes a table ranking the world's most populous countries over time. In 1950, six of the top twelve were developed countries. In 2000, only three were. By 2050, only one developed country will remain—the United States, still in third place. By then, it will be the only country among the top twelve committed since its founding to democracy, free markets, and civil liberties.

All told, population trends point inexorably toward a more dominant US role in a world that will need America more, not less.

Since the April 2020 Monthly Briefing on the World Economic Situation and Prospects, the global death toll of the pandemic has increased by more than 330 per cent, while the number of confirmed cases rose by over 210 per cent. COVID-19 is now the most severe health crisis since the Spanish Flu of 1918. The current pandemic crisis is reminiscent of the Great Recession in 2009 although origin and causes of the two crises are fundamentally different. The Great Recession began with foreclosures and bankruptcies with households defaulting on mortgage payments, which cascaded to a banking crisis. As bankruptcies increased and liquidity and credit dried up, unemployment skyrocketed and a Great Recession followed in 2009. For some time now, I have been sounding the alarm of an impending major economic crisis that may hit globally by the year 2020. Contrary to reports by some analysts and experts, I have good reasons to predict that the next crisis is going to be more devastating than the last one in 2008. Most likely, and similar to the previous one, the new crisis will start in the United States. Copyright © 2020 The Jordan News. All Rights Reserved. Powered By: AccuSolutions Web Development & Mobile Applications. The expectation that global aging will diminish the geopolitical stature of the developed world is thus based in part on simple arithmetic. By the 2020s and 2030s, the working-age population of Japan and many European countries will be contracting by between 0.5 and 1.5 percent per year. Even at full employment, growth in real GDP could stagnate or decline, since the number of workers may be falling faster than productivity is rising. Unless economic performance improves, some countries could face a future of secular economic stagnation—in other words, of zero real GDP growth from peak to peak. Yes, global crises loom all the time in many different contexts. Economic, religious, food, housing, water, temperature, floods and droughts, AI, newspapers and banks collapsing, education, rise of skinheads, rise of communists, It's the end of the world. A global crisis is something that can happen, but is certain to be predicted. My personal guess is that the US is safe from a financial crisis until 2020. Banks have been recapitalized to historic rates thanks to Dodd-Frank and Basel III. This doesn't mean a recession might not occur, since recessions can be caused by literally an infinitude of things.