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The Economic Implications of Ageing

Annual Meeting 2005

Davos, Switzerland: January 26 - 30, 2005

Date: Friday, 28 Jan 2005

Time: 12.45 - 14.30

Location: The Hotel Waldhuus

The economic implications of ageing populations in the developed world will greatly impact business and economies for years to come.

1. How does the shift in demographics impact economics today?
2. As the trends continue, what policy responses are needed from governments to mitigate the impact of ageing on labour markets and social security systems?
3. What can be done by business to face workforce and wider market challenges due to ageing?

Moderated by

MEDIA INQUIRIES

We welcome inquiries from the media.

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Participants

The Economic Implications of Ageing

An unfamiliar demographic landscape is emerging, and it has many governments wondering how their policy priorities need to change. In some countries, longstanding concerns about runaway population growth have been replaced by worries about the onset of population ageing.

Between 1950 and 2000, the world's population more than doubled in size, to 6.1 billion. The median age rose by less than three years to 26. Over the next 50 years, the world's population is expected to increase by less than 50%, to 8.9 billion, while its median age will rise by 11 years to 37. According to UN projections, the annual rate of growth, which peaked at 2% in the late 1960s and is currently 1.2%, will fall to 0.3% by the late 2040s.

The populations of 43 countries, mainly in Europe, will be lower in 2050 than they are today. The biggest absolute fall will be in Russia, from 146 million in 2000 to 101 million in 2050, followed by Japan, from 127 million to 110 million. Throughout the developed world, populations will be greying as the age balance tilts towards the elderly. In the European Union, for example, the elderly dependency ratio (i.e., people aged 65 or more compared to those aged 15-64) will increase from one-in-four to one-in-two. In several countries, including Japan, Italy and Singapore, the median age will rise to over 50 by 2050.

The importance of understanding the economics of ageing is highlighted in two areas: pensions and the workforce. In ageing nations, pension concerns are rising to the forefront. The retirement of the post-war Baby Boomers is drawing ever closer; in France the first cohort leaves the workforce in 2006. Governments face escalating bills from pay-as-you-go financing, as the ratio of pensioners to contributors starts to soar. The OECD has estimated that the rising old-age dependency ratio will, in itself, push up pension spending in developed countries by 5% of GDP over the next 50 years.

One way to mitigate the economic and fiscal problems caused by ageing populations is simply to raise the retirement age. Proponents argue that

older people are now healthier and better educated, and the demands of the workplace are generally much less physically onerous. But it is a politically difficult proposal.

Sweden offers a possible model for state pension reform: the country has changed its pay-as-you-go system into a “notional defined contribution” scheme, which creates an actuarially fair link between contributions, which are credited to notional individual accounts, and eventual benefits. Corporate funded pension savings are also shifting from defined-benefit plans to defined-contribution plans.

Workforces must also adjust to ageing populations. Some nations face the prospect of a declining labour pool; the United Nations has pointed out that Japan would need to take in 600,000 immigrants a year just to maintain its present workforce. One solution is to change immigration controls to encourage new workers to enter the country. But cultural conservatives in nations around the world often oppose such proposals, believing that widespread immigration would affect national identity and culture. And even workforces that aren't declining in size must face the fact that an ageing population places new demands on the workforce—potentially increasing the need for nursing and medical professionals, for example.