

# **The Great Demographic Reversal: Ageing Societies, Waning Inequality, and an Inflation Revival**

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Figure 1: Working age populations falling globally – Africa is the key exception, and India to a lesser extent

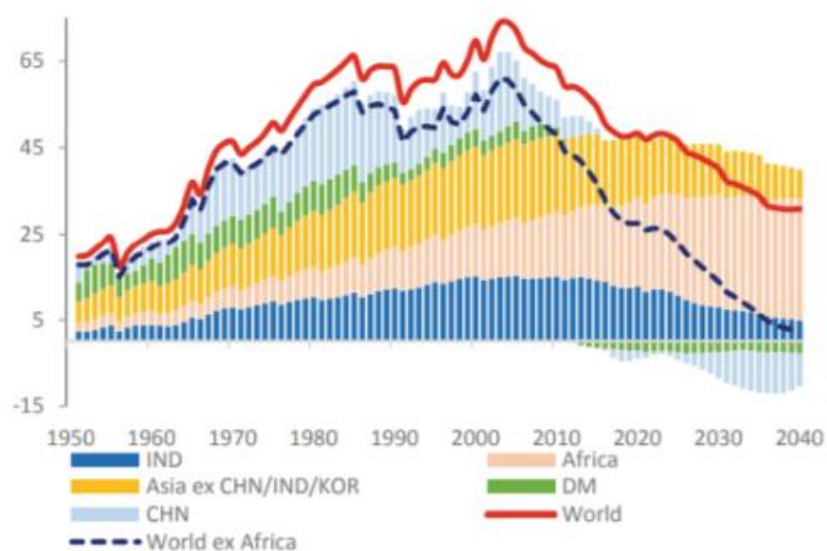
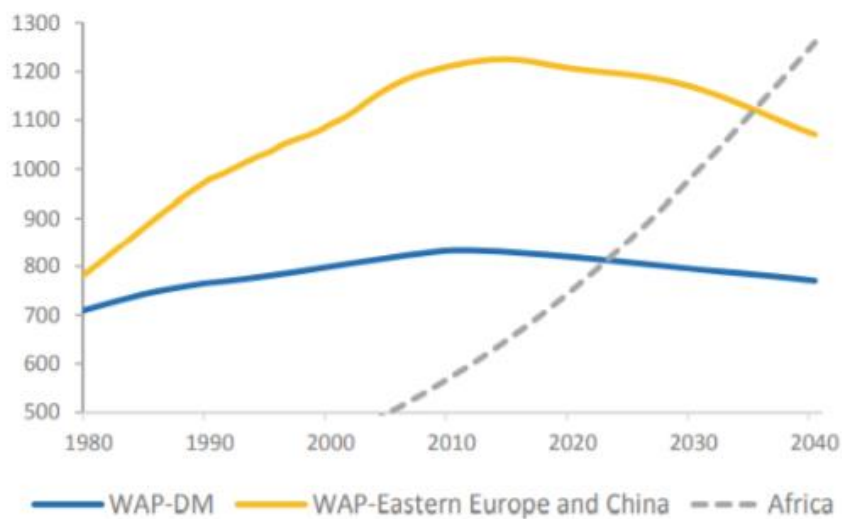


Table 1: Dependency ratios rising because of the elderly, not the young

|                   | USA | UK | Germany | Japan | China |
|-------------------|-----|----|---------|-------|-------|
| <i>Young</i>      |     |    |         |       |       |
| 1970              | 28  | 24 | 23      | 24    | 40    |
| 2010              | 20  | 17 | 14      | 13    | 19    |
| Change 1970–2010: | –8  | –7 | –9      | –11   | –21   |
| 2010              | 20  | 17 | 14      | 13    | 19    |
| 2019              | 19  | 18 | 14      | 13    | 18    |
| Change 2010–2019: | –1  | 1  | 0       | 0     | –1    |
| <i>Retiree</i>    |     |    |         |       |       |
| 1970              | 10  | 13 | 24      | 7     | 4     |
| 2010              | 13  | 17 | 21      | 22    | 8     |
| Change 1970–2010: | 3   | 4  | 3       | 15    | 4     |
| 2010              | 13  | 17 | 21      | 22    | 8     |
| 2019              | 16  | 19 | 22      | 28    | 11    |
| Change 2010–2019: | 3   | 2  | 1       | 6     | 3     |

Source UN Population Statistics

Table 2: Inequality has narrowed across countries, particularly the EMEs

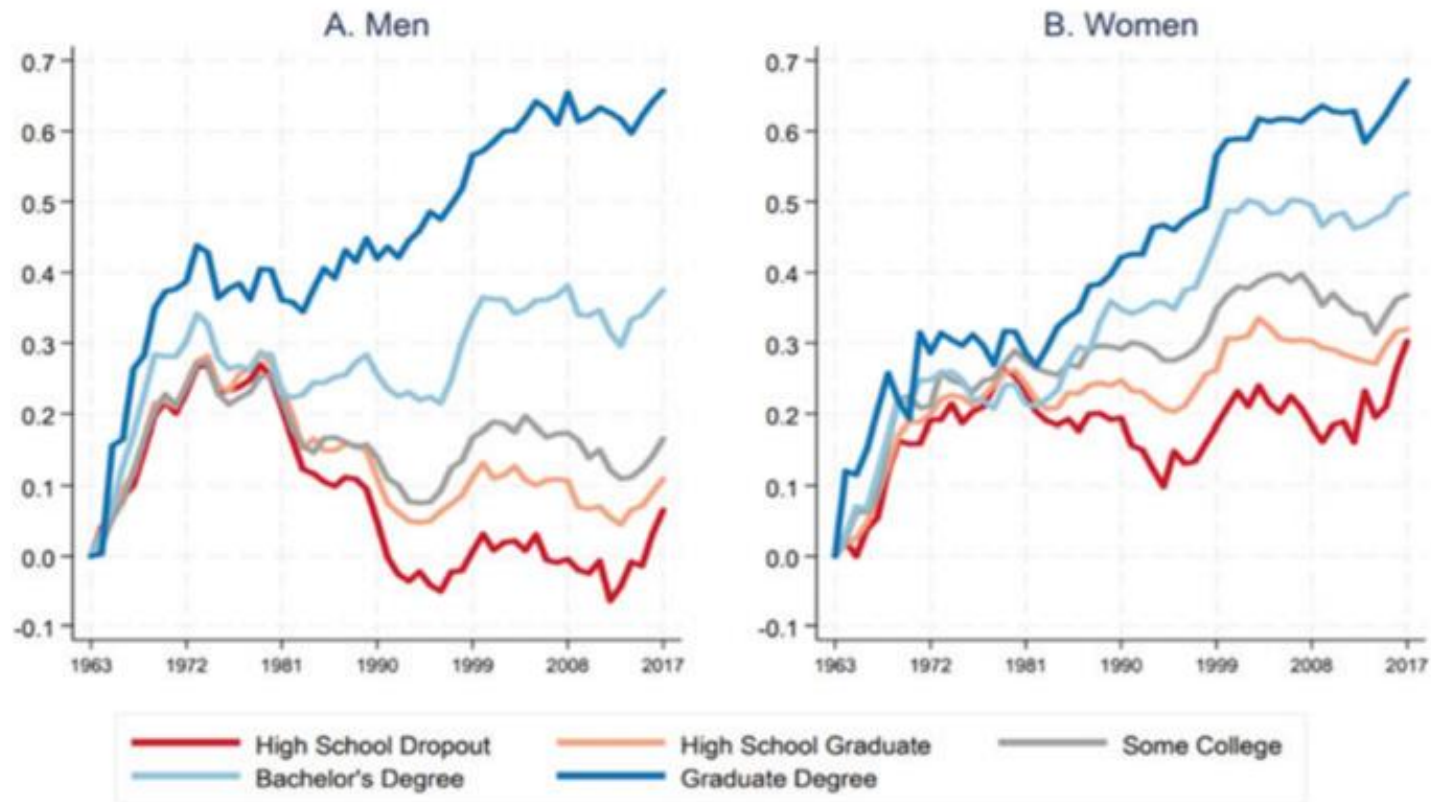
Ratio of the wages of the workers

|      | USA/China | France/Poland |
|------|-----------|---------------|
| 2000 | 34.6      | 3.9           |
| 2001 | 30.6      | 3.3           |
| 2002 | 27.4      | 3.5           |
| 2003 | 25.0      | 4.0           |
| 2004 | 22.9      | 4.2           |
| 2005 | 20.4      | 3.8           |
| 2006 | 18.1      | 3.7           |
| 2007 | 15.2      | 3.5           |
| 2008 | 12.2      | 3.0           |
| 2009 | 10.8      | 3.7           |
| 2010 | 9.7       | 3.3           |
| 2011 | 8.4       | 3.3           |
| 2012 | 7.5       | 3.4           |
| 2013 | 6.7       | 3.4           |
| 2014 | 6.3       | 3.3           |
| 2015 | 6.0       | 3.4           |
| 2016 | 5.9       | 3.4           |
| 2017 | 5.6       | 3.2           |
| 2018 | 5.1       | 2.9           |

Source National Sources

Figure 3: Those with lower educational attainment have been most exposed to the global labour shock

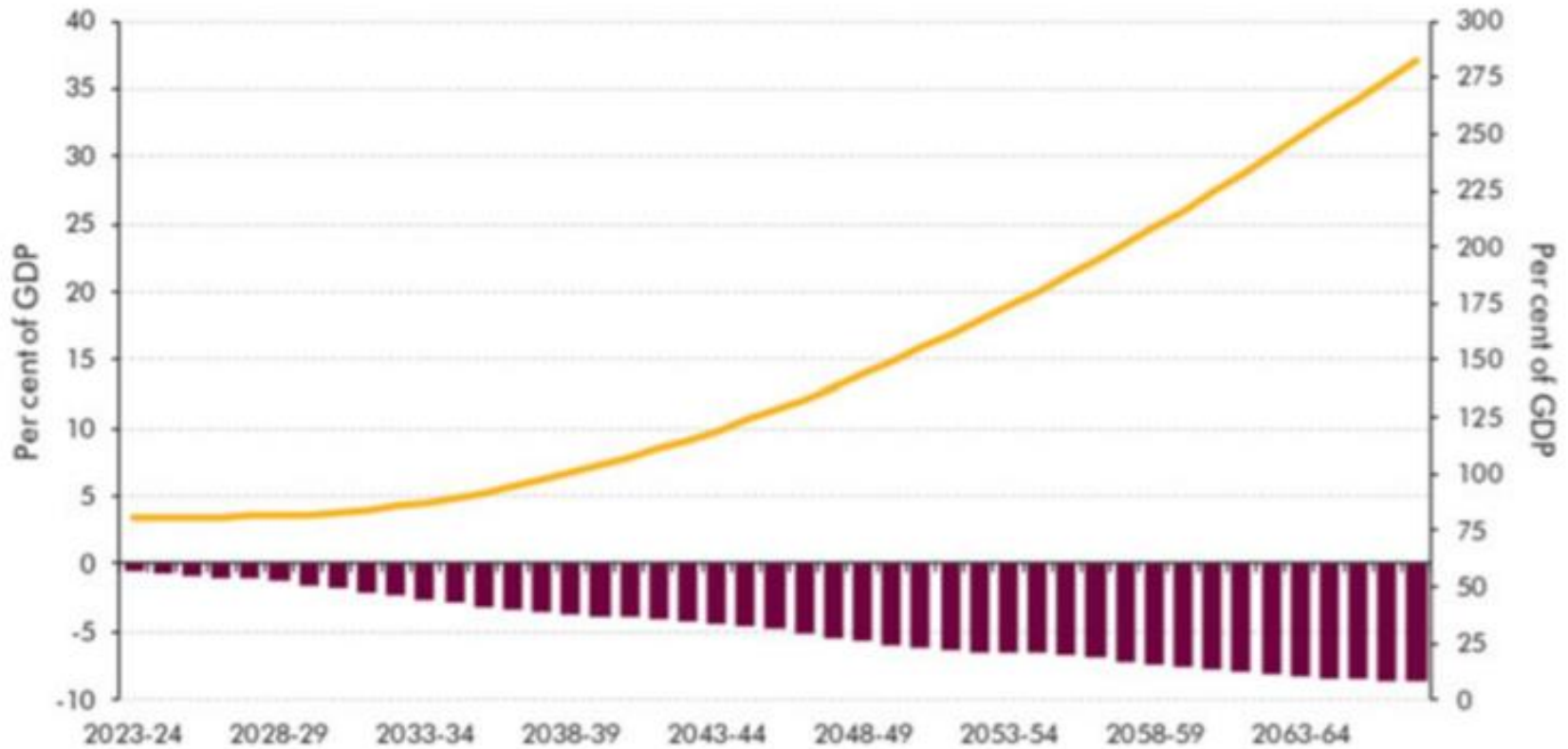
Cumulative change in real weekly earnings at working age adults aged 18-64, 1963-2017



Source: American Economic Association

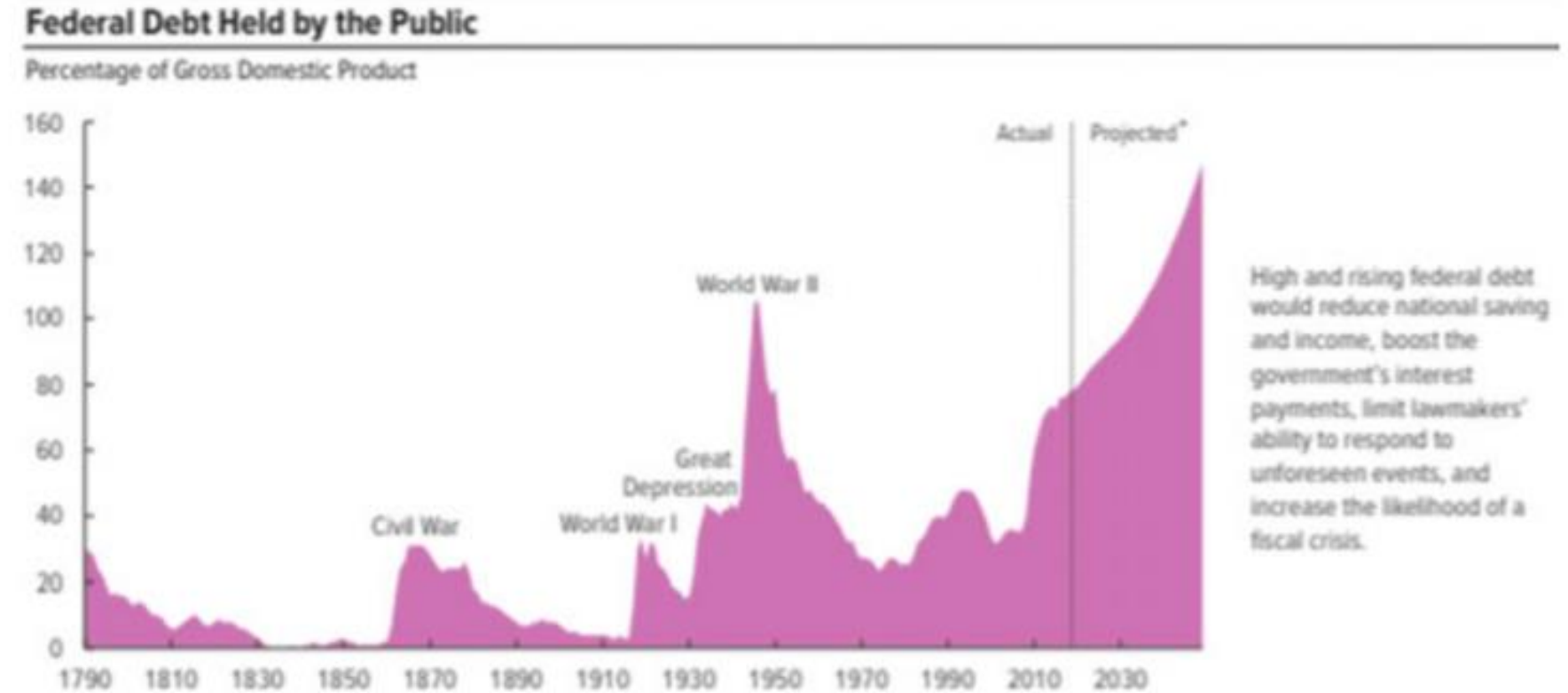
Figure 4: Ageing will lead to a massive rise in deficits and borrowing

Baseline projections of the primary balance and PSND



Source: OBR

Figure 5: US federal debt outstanding is project to skyrocket, mostly due to ageing

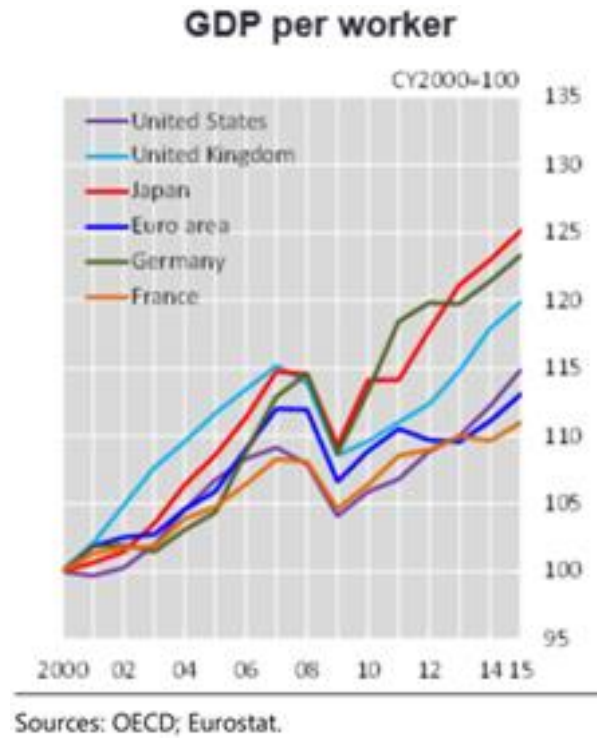


## Mitigants

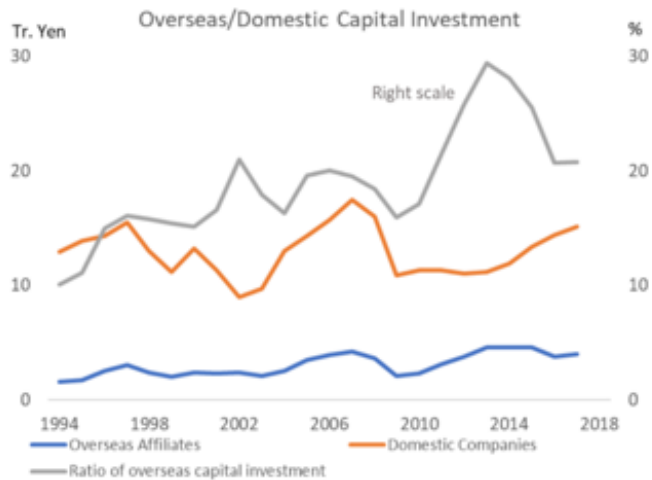
- Africa/India
- Limit benefits to old
- More participation of elderly
- Technology



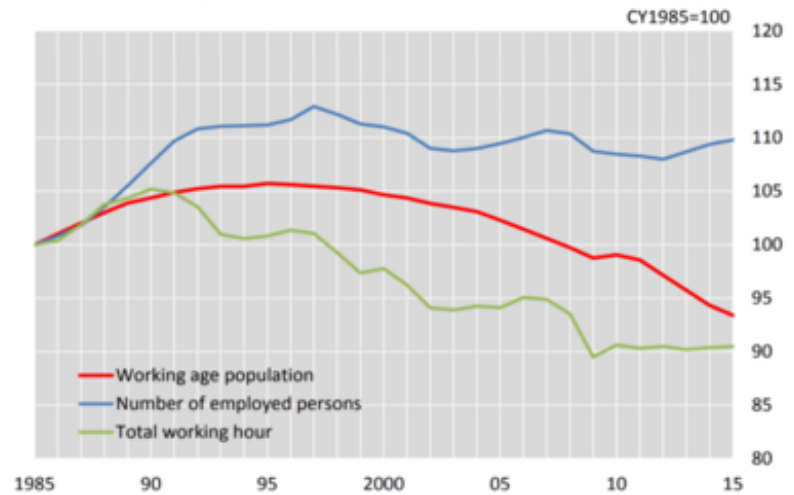
Figure 6: “Why Didn’t It Happen in Japan?”



### Japan Inc. Invested Heavily Abroad



### Labour Adjustment via Hours, Not Wages



### Table 3: The Debt Trap

Debt in the AEs rose even further between the GFC and the pandemic

| Dec-07 |     |     |     |       |       |
|--------|-----|-----|-----|-------|-------|
|        | HH  | NFC | PSC | Gov't | Total |
| US     | 99  | 70  | 169 | 65    | 233   |
| EA     | 60  | 92  | 151 | 65    | 216   |
| GER    | 61  | 57  | 118 | 64    | 181   |
| FRA    | 47  | 111 | 157 | 65    | 221   |
| SPA    | 81  | 124 | 206 | 36    | 241   |
| ITA    | 38  | 75  | 113 | 100   | 213   |
| UK     | 92  | 94  | 187 | 42    | 228   |
| SWE    | 65  | 126 | 191 | 39    | 230   |
| JPN    | 59  | 103 | 161 | 175   | 337   |
| AUS    | 108 | 80  | 188 | 10    | 198   |
| CAN    | 79  | 83  | 162 | 67    | 229   |

| Dec-18 |     |     |     |       |       |
|--------|-----|-----|-----|-------|-------|
|        | HH  | NFC | PSC | Gov't | Total |
| US     | 76  | 74  | 151 | 106   | 256   |
| EA     | 58  | 105 | 163 | 85    | 248   |
| GER    | 53  | 57  | 110 | 60    | 169   |
| FRA    | 60  | 141 | 201 | 99    | 300   |
| SPA    | 59  | 93  | 152 | 97    | 249   |
| ITA    | 40  | 70  | 110 | 132   | 242   |
| UK     | 87  | 84  | 171 | 87    | 258   |
| SWE    | 89  | 156 | 244 | 39    | 283   |
| JPN    | 58  | 103 | 161 | 237   | 398   |
| AUS    | 120 | 75  | 195 | 41    | 236   |
| CAN    | 101 | 117 | 218 | 91    | 308   |

| Change since Dec-07 |     |     |     |       |       |
|---------------------|-----|-----|-----|-------|-------|
|                     | HH  | NFC | PSC | Gov't | Total |
| US                  | -22 | 4   | -18 | 41    | 23    |
| EA                  | -2  | 13  | 11  | 20    | 31    |
| GER                 | -8  | 0   | -8  | -4    | -12   |
| FRA                 | 14  | 30  | 44  | 34    | 78    |
| SPA                 | -23 | -31 | -54 | 62    | 8     |
| ITA                 | 2   | -5  | -3  | 32    | 30    |
| UK                  | -5  | -11 | -16 | 45    | 29    |
| SWE                 | 23  | 30  | 53  | 0     | 53    |
| JPN                 | -1  | 0   | -1  | 62    | 61    |
| AUS                 | 12  | -5  | 7   | 31    | 38    |
| CAN                 | 22  | 34  | 56  | 24    | 80    |

Source BIS, IMF

HH—Households  
 NFC—Non-financial corporations  
 PSC—Private sector (HH + NFC)

## Conclusions

- Inflation is coming – and the coronavirus will accelerate its arrival
- Real interest rates could very well rise
- Asset returns will be harder to extract
- The combination will lead to lower within-country inequality
  
- The Debt Trap will have to be dealt with
- Higher taxes will finance age-related spending
  - Corporations
  - Land (Henry George)
  - Carbon
- Central bank independence will come under increasing threat