

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

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Figure 1: Interest rates have been falling for decades

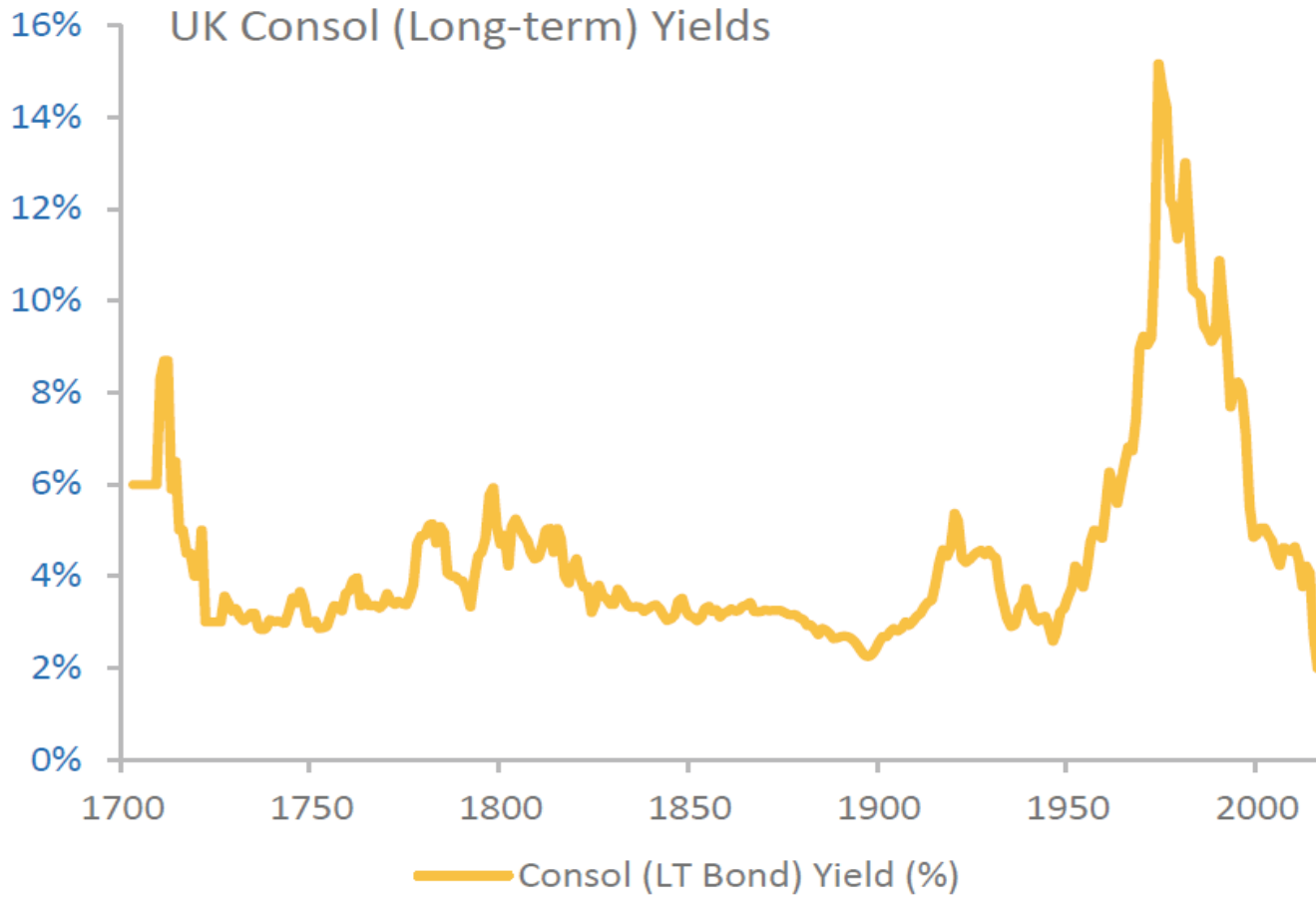


Figure 2: Working age populations falling globally – Africa is the key exception, and India to a lesser extent

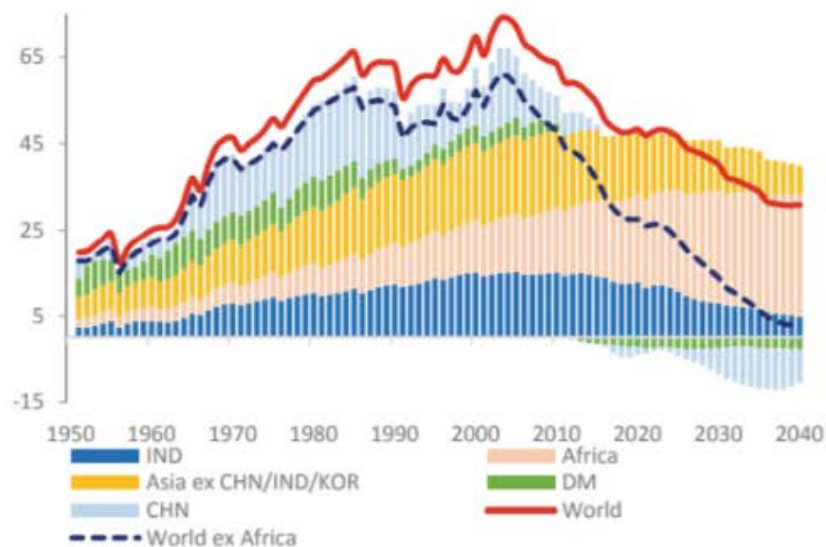
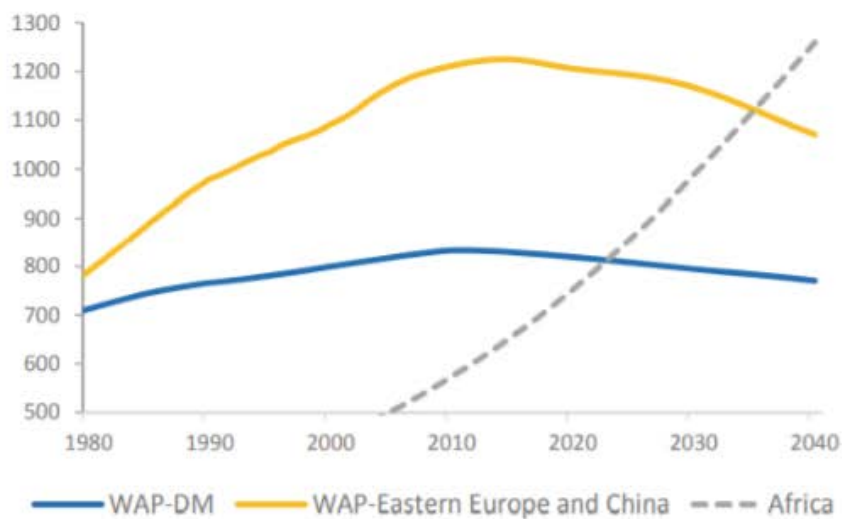
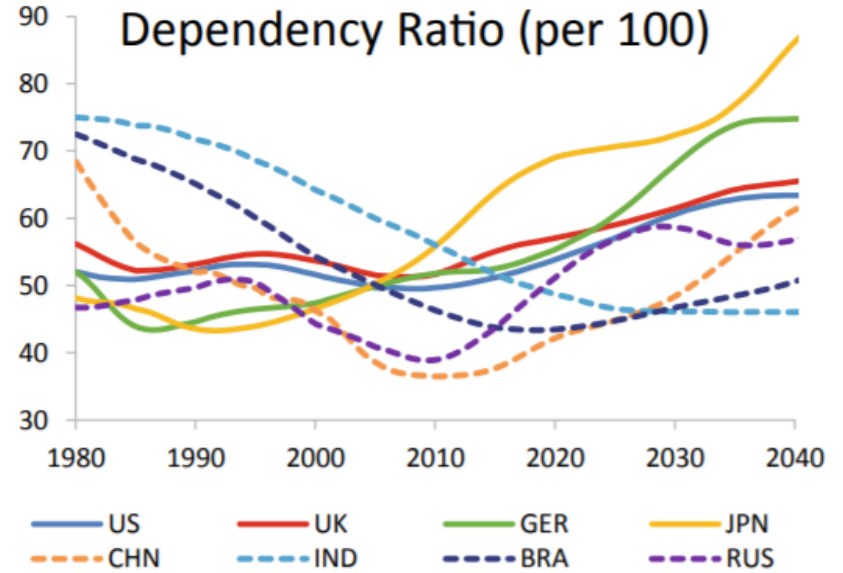
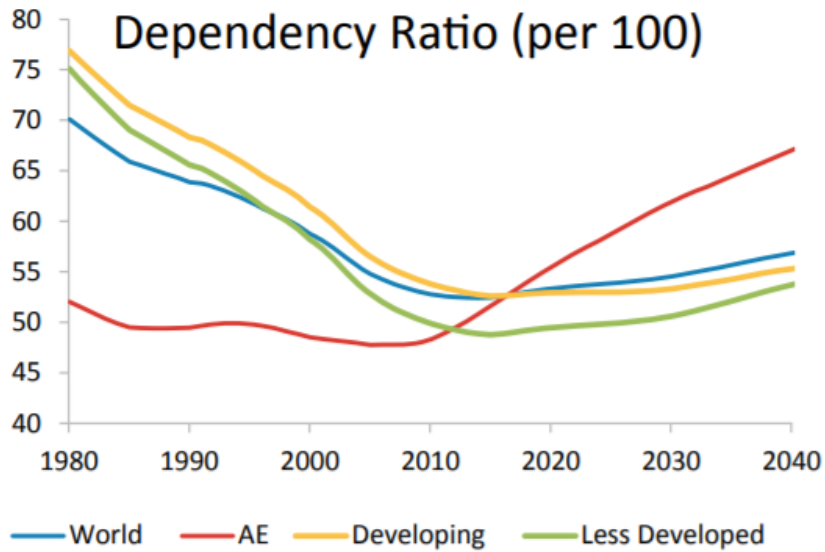


Table 1: Dependency ratios rising because of the elderly, not the young

	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

Figure 3: The 'dependency ratio' is rising in the AEs and EME giants – except India



## **China – A Historic Mobilization Ends**

### **China's integration in the global economy:**

WTO accession, internal migration, financial repression of households to subsidize SOEs

### **Today:**

Labour: China is past the 'Lewis Point'

Capital: Inflow of companies, and hence technology, is harder

Economic model and external environment have been transformed

### **The Result?**

China is no longer a global disinflationary force

Falling savings (due to ageing) will push the current account into deficit

Technological change will have to be generated at home.

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 4: The bargaining power of labour in the AEs has fallen due to the global shock to labour supply

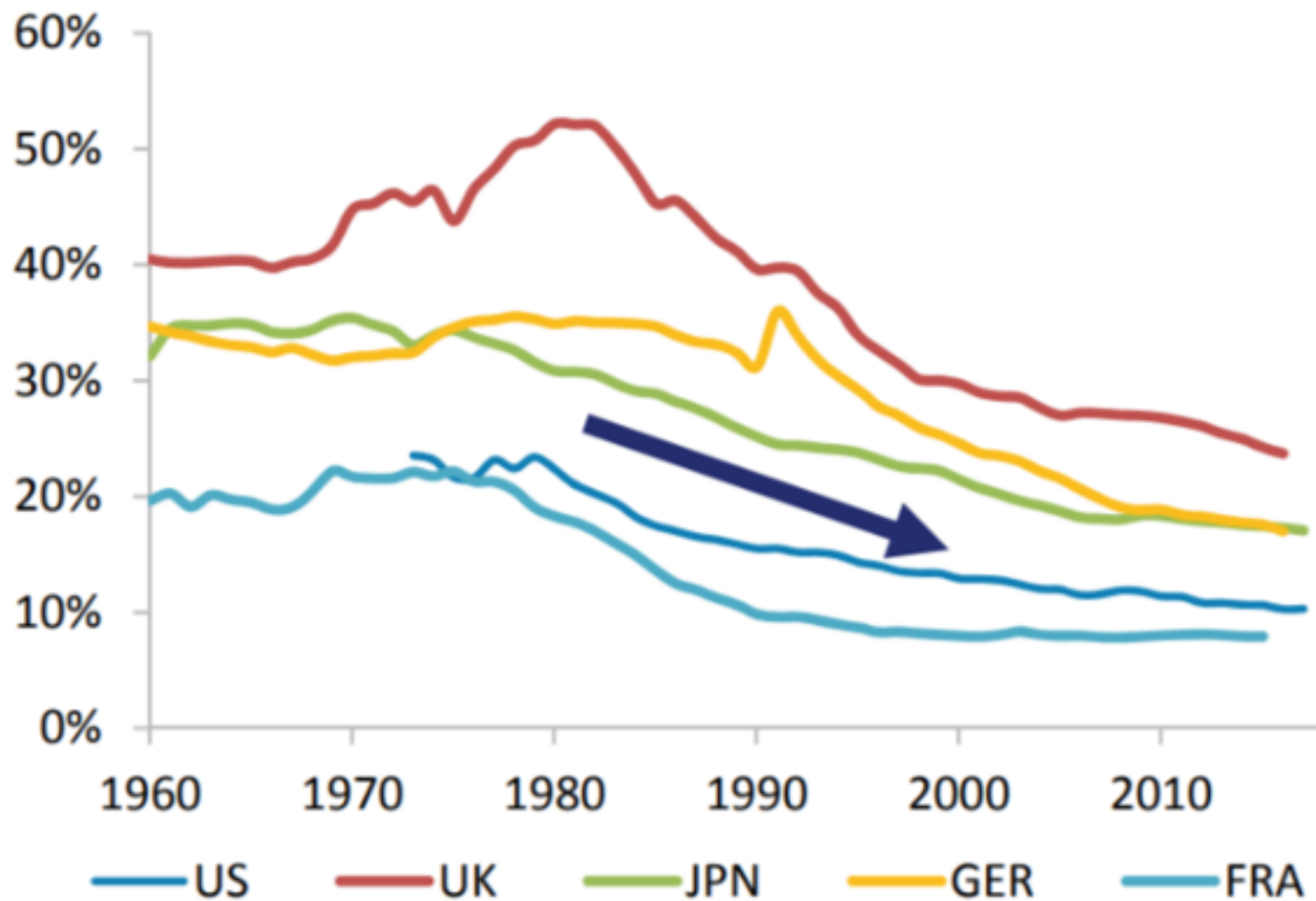
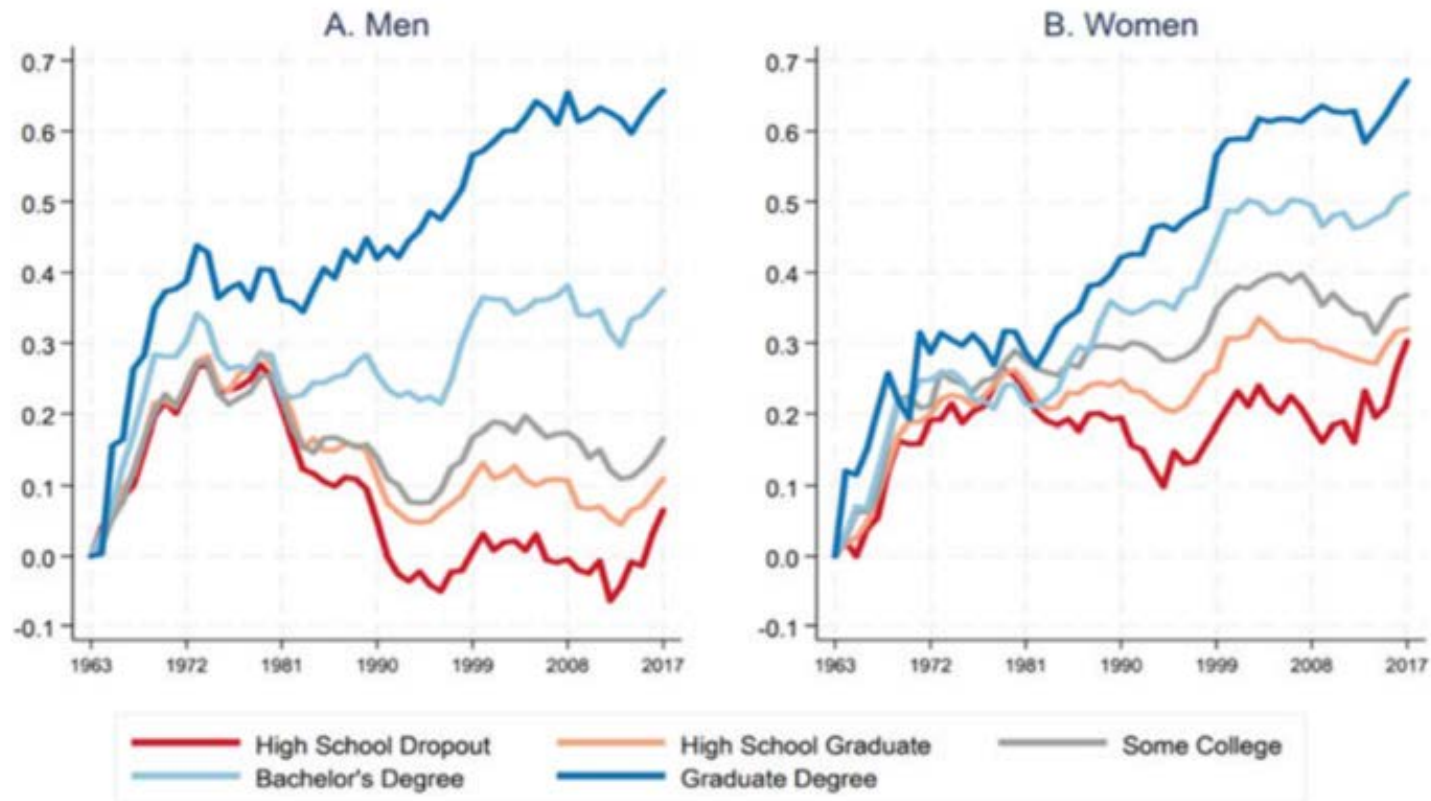




Figure 5: Those with lower educational attainment have been most exposed to the global shock to labour

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



Source: American Economic Association

Figure 6: Within-country inequality has risen over the last 30 years

The Gini coefficient has risen across the OECD countries

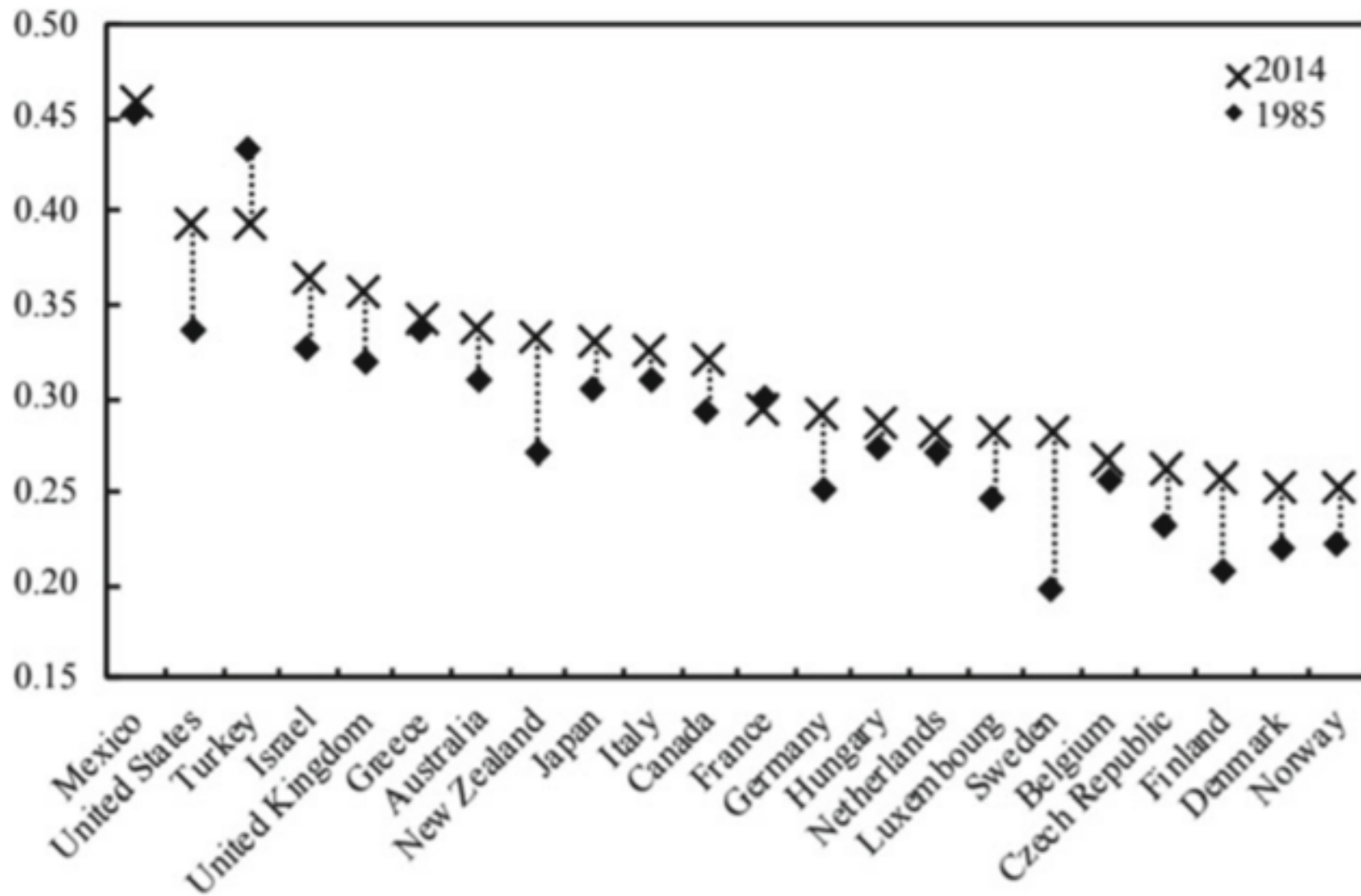


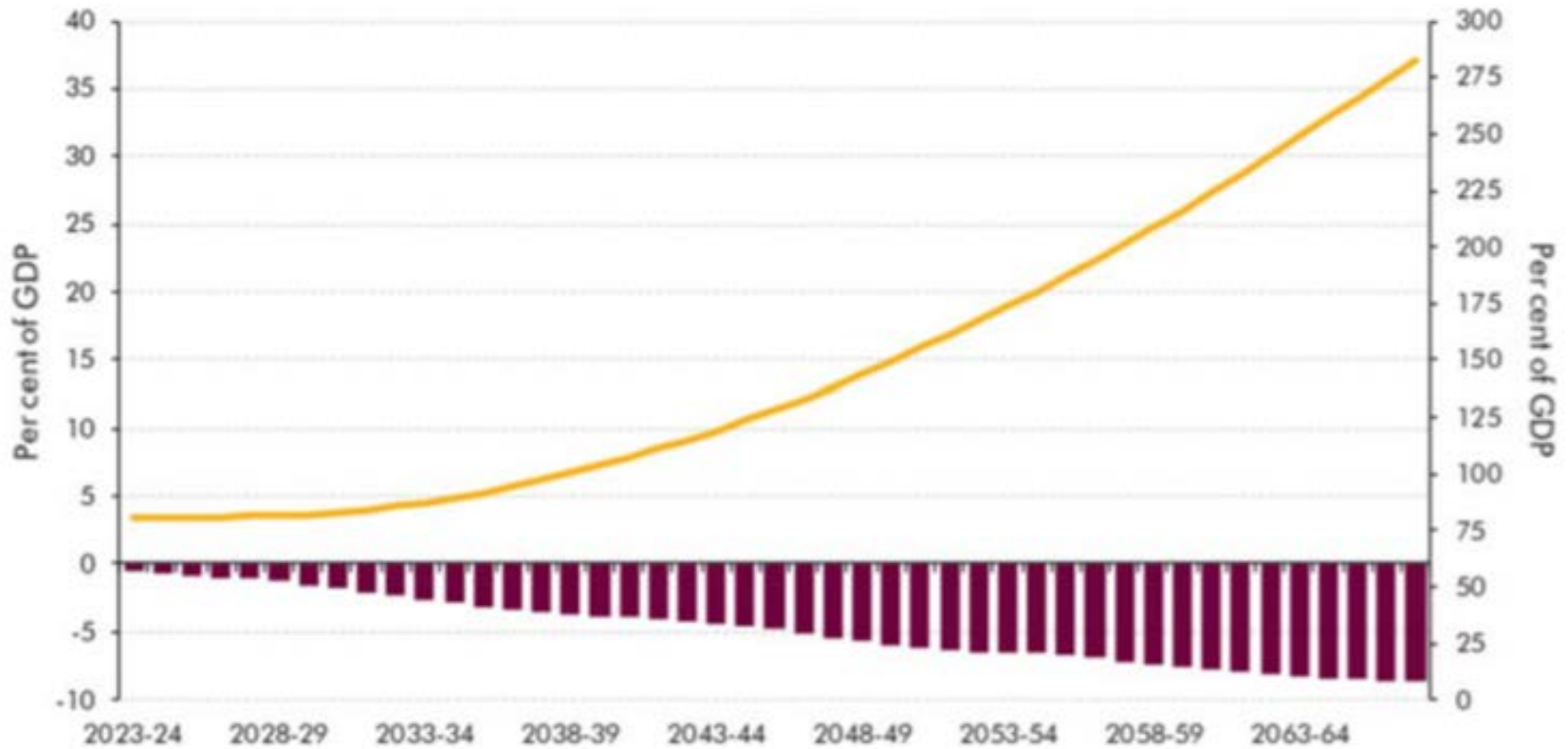
Table 3: The oldest-old form the dominant cohort among 'medical dependents'

UK, 2017

		Total population	Dependents	Percentage
Young–Old	65–75	5276	1621	30
Old	75–85	3130	1539	49
Old–Old	85+	1318	1023	78

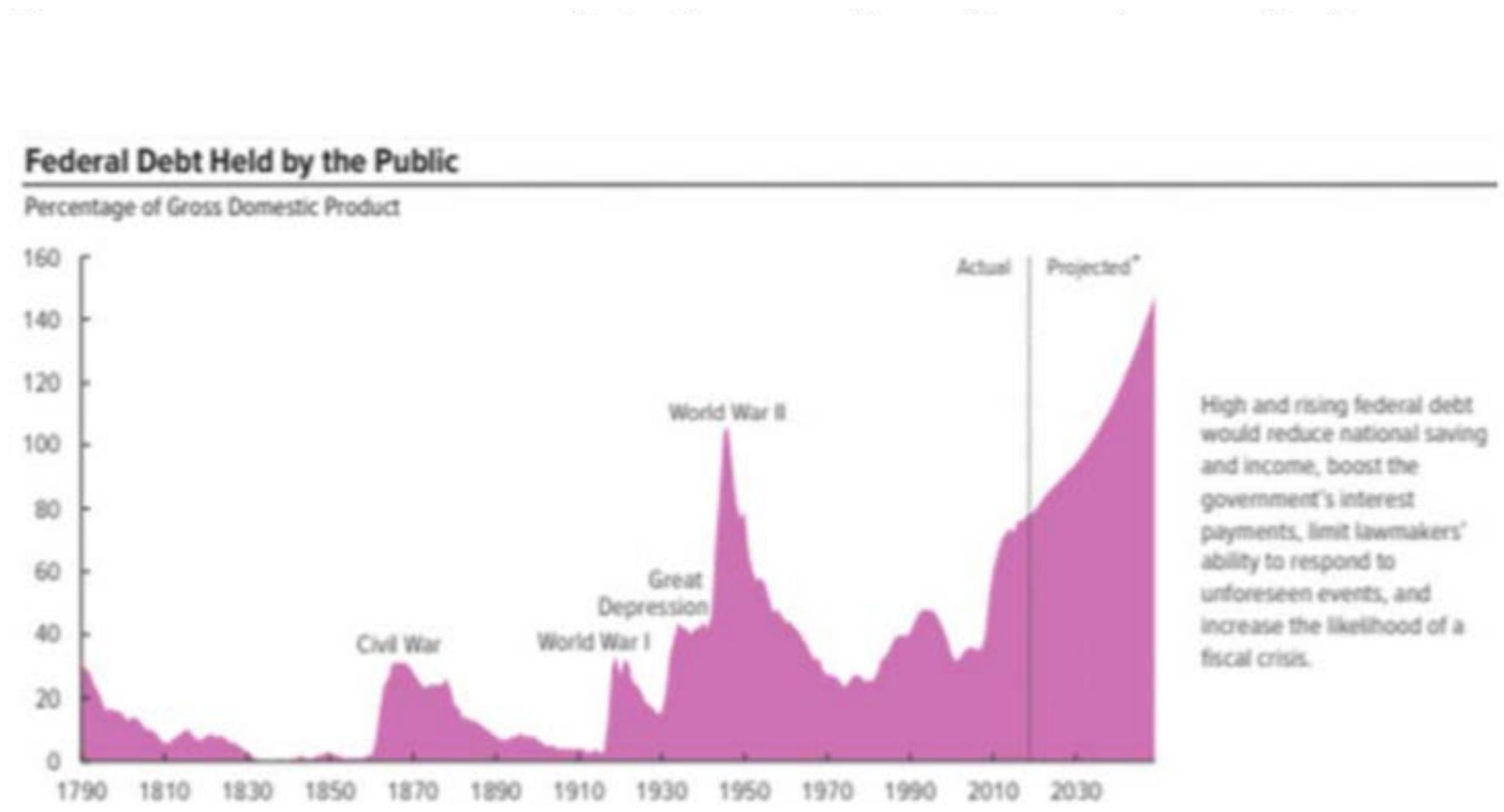
Figure 7: Ageing will lead to a massive rise in deficits and borrowing

Baseline projections of the primary balance and PSND



Source: OBR

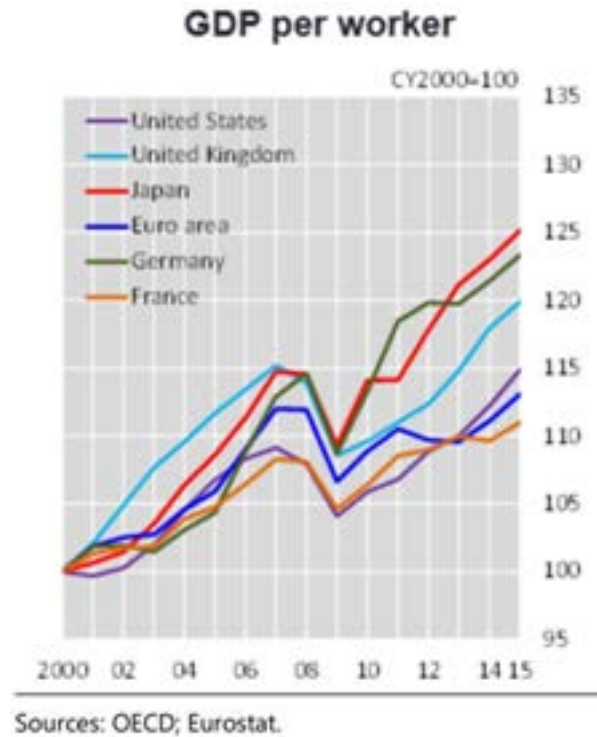
Figure 8: US federal debt outstanding is project to skyrocket, mostly due to ageing



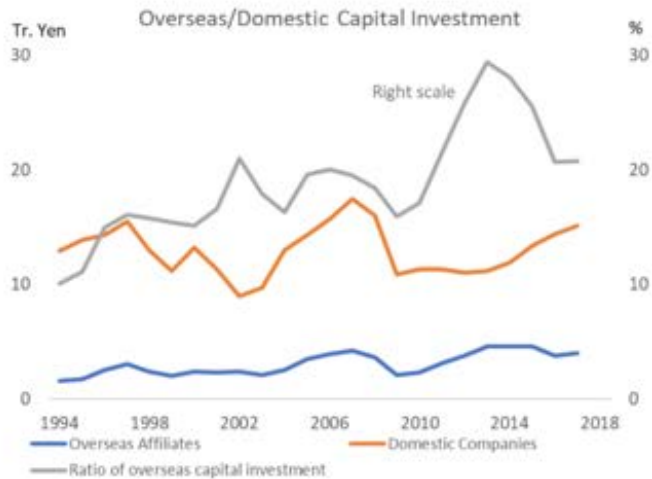
## Mitigants

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

Figure 9: “Why Didn’t It Happen in Japan?”



### Japan Inc. Invested Heavily Abroad



### Labour Adjustment via Hours, Not Wages



Table 5: 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)



Dec-07					
	HH	NFC	PSC	Gov't	Total
CHN	19	98	117	29	146
KOR	72	89	161	29	189
IND	11	42	53	74	127
IDN	12	15	26	32	59
MAL	52	58	111	40	150
THL	45	46	91	36	127
HKG	51	126	177	1	178
BRA	18	30	48	64	111
MEX	14	15	28	37	65
CHL	29	66	95	4	99
COL	17	27	44	33	76
ARG	5	17	22	62	84
RUS	11	39	50	8	58
POL	23	34	57	44	101
CZE	23	46	69	27	97
HUN	30	78	108	65	174
TUR	11	30	41	38	79
SAF	44	35	79	27	106

Dec-18					
	HH	NFC	PSC	Gov't	Total
CHN	53	152	204	50	255
KOR	98	102	199	41	240
IND	11	45	56	70	126
IDN	17	23	40	29	70
MAL	66	68	134	56	190
THL	69	48	117	42	159
HKG	72	219	292	0	292
BRA	28	42	71	88	158
MEX	16	26	42	54	95
CHL	45	99	144	26	170
COL	27	35	62	50	113
ARG	7	16	22	86	109
RUS	17	46	64	14	77
POL	35	46	81	48	129
CZE	32	57	89	33	122
HUN	18	67	85	69	154
TUR	15	70	85	29	114
SAF	34	39	72	57	129

Change since Dec-07					
	HH	NFC	PSC	Gov't	Total
CHN	34	54	88	21	109
KOR	25	13	39	12	51
IND	1	3	3	-4	-1
IDN	5	9	14	-3	11
MAL	14	10	24	16	40
THL	24	2	26	6	32
HKG	21	94	115	-1	114
BRA	11	12	23	24	47
MEX	3	11	14	16	30
CHL	17	33	50	22	71
COL	11	8	19	18	37
ARG	2	-1	1	24	25
RUS	7	7	14	6	20
POL	13	11	24	4	28
CZE	9	11	20	5	26
HUN	-12	-11	-24	4	-19
TUR	4	40	44	-9	34
SAF	-10	4	-7	30	23

## Conclusions

- Inflation is coming – and the coronavirus will accelerate its arrival
- The interest rate yield curve will steepen
- 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