Population trends in the 21st century: Demographic bonus or demographic anchor?

Predictions of an acceleration in the ageing of the population over coming years have supported arguments for social security reforms in many countries, in general under a cloud of pessimistic forecasts about the future impact of ageing on pension systems. However, changes in the age structure of the population produce quite complex effects that entail not only problems but also opportunities. The utilization of these opportunities will not be automatic but will depend on the adoption of appropriate policies.

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Just as urbanization and the accelerated decline in fertility were the demographic processes which characterized the 20th century, the 21st century faces challenges posed by two demographic phenomena to which analysts and those responsible for designing policy are devoting a large part of their attention: population ageing and migration.

As a result of migratory movements during the 20th century, there are now 191 million people (3% of the world's population) living outside their country of origin. In the first few years of this century alone, between 2000 and 2005, the more developed regions received 13.1 million immigrants from the less developed regions.[1] The political, social and economic consequences of these movements have become one of the central issues on the agendas of the governments of the countries affected, either by the exodus or by the massive influx of migrants.

Although it is perhaps more silent, the other demographic process with profound present and future consequences for the possibilities of development of contemporary societies is population ageing. United Nations projections predict that by 2050 the number of people in the world over the age of 60 – which is currently approximately 700 million – will reach two billion. When that happens, the older adult population will exceed the population of children under 14 for the first time in the history of humankind.[2]

Although at present ageing is more marked in developed countries, the less developed regions are also undergoing accelerated changes. While it took the countries of the Organisation for Economic Cooperation and Development 75 years to double the percentage of persons aged 65 and over (from 7% to 14%), it is predicted that in countries with medium and low incomes, the transition will be effected in 30 years.[3]

It is fairly obvious that such transformations will have profound effects on social institutions in general and on social security in particular. However, the way in which these effects will make themselves felt is less clear.[4]

Transitions and opportunities

The changes in the age structure of the population resulting from the first demographic transition and their potential effects on economic growth have been widely analyzed. Basically, this process may be described as follows: the passage from conditions of high mortality and high fertility to those of low mortality and low fertility brings about a series of changes which may be classified in three stages. At first, the population is 'rejuvenated' through an increase in the proportion of children, since it is infants and children who most benefit from the decline in mortality rates. During the second stage, the proportion of children begins to diminish and that of adults and older adults increases as fertility continues to decline. After a period of low fertility and low mortality, the proportion of both children and of economically active adults diminishes and the process of population ageing begins.

The possibilities for development which emerge in the second stage – when the proportion of active adults is significantly greater than that of children and the elderly – have been labelled a 'demographic bonus' or 'demographic window of opportunity'. The increase in the working-age population should have positive consequences for the economy, not only due to the growth of per capita GDP but also to a greater collection of taxes. Essentially, this stage in demographic transition is a period of opportunities; it does not automatically lead to greater growth or development, but it could if the necessary measures and policies are implemented.

Although this window of opportunity is already closed in regions where development is more advanced, Latin America and the Caribbean and Asia are at a stage of the transition where they could still take advantage of these favourable conditions. In several African countries the situation is somewhat more complex, since the transition to lower mortality rates has been interrupted by the incidence of HIV/AIDS.[5] However, as several of this year's Social Watch national reports show, the majority of these countries do not enjoy the necessary conditions with regard to education and employment to allow them to take advantage of the opportunities offered by the current active/passive population ratio.

Those responsible for designing public policies are rarely heard stressing the need to create the employment conditions necessary to benefit from this window of opportunity. Far more common are the pessimistic predictions of the future effects of population ageing. The prospect (or concrete experience) of demographic ageing processes has sparked concerns over the viability of health care and social security systems. In many countries, these concerns have been used to justify reforms of systems based on intergenerational solidarity and their replacement with systems based on personal savings.[6]

According to the Social Watch Italy report, for example: "The need for drastic reform of the public and compulsory pension system due to its financial unsustainability is an issue that began to have major public resonance at the beginning of the 1990s. There are basically three factors used as 'proof' of this necessity: serious accounting imbalances in the Italian Institute of Social Security (INPS), population ageing, and the forthcoming retirement of the so-called 'baby boom' generation."[7]

However, the arguments behind most social security system reforms disregard the fact that any kind of system requires economic growth to make it sustainable. Moreover, to consider the effects of ageing exclusively as a 'burden' is to forget that the increase in life expectancy goes hand in hand with an increase in years of a healthy and active life. Nor are there valid arguments to back

1 *International Migration 2006* (poster). United Nations Department of Economic and Social Affairs (DESA), Population Division.

2 *World population prospects: the 2004 revision.* United Nations, DESA, Population Division, 2005.

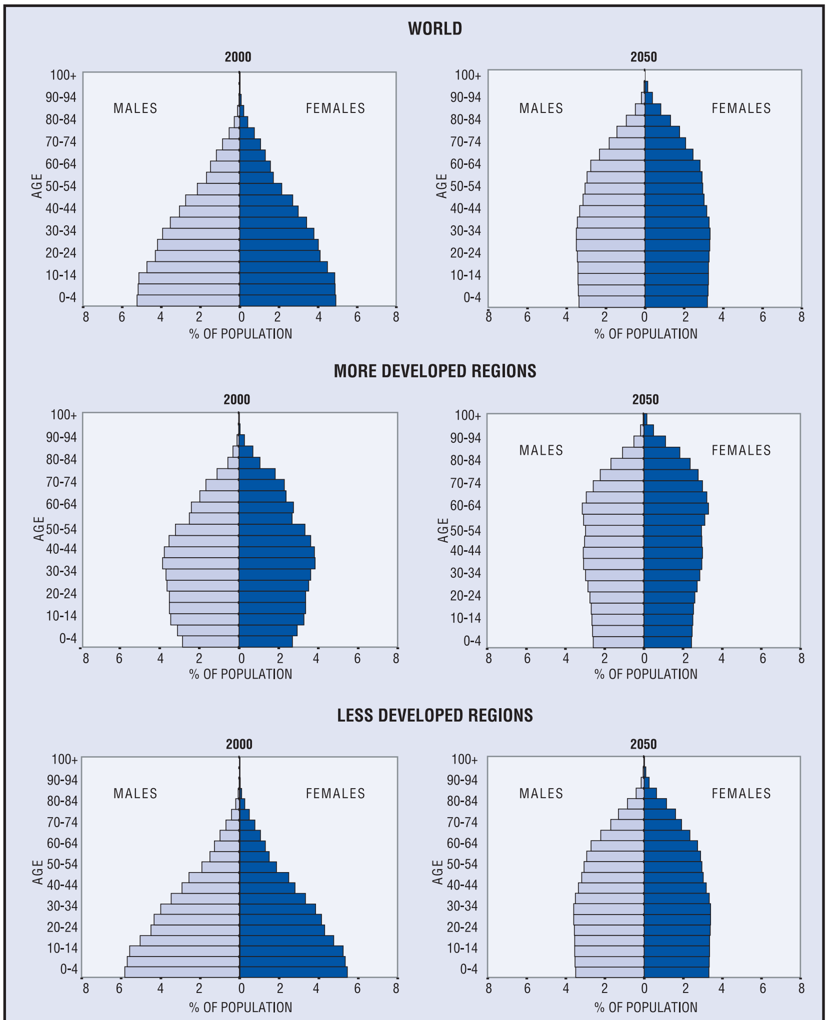
3 Sigg, R. (2007). "A Global Overview on Social Security in the Age of Longevity". In *United Nations Expert Group Meeting on Social and Economic Implications of Changing Population Age Structure.* United Nations, New York.

4 In order to shed light on these issues and adopt measures to address the current and future situation of older adults, some voices have begun to call for a UN Convention on Ageing, taking into account the results of the Second World Assembly on Ageing. See the chapter by Susanne Paul and Alischa Kugel in this Report.

5 See the box on HIV/AIDS in Asia, Africa and Latin America in this Report.

6 For a detailed analysis on the role played by the World Bank as principal promoter of these reforms, see the chapter by Antonio Tricarico in this Report.

7 Similar situations are described in other national reports, such as those from Malta, Spain and Germany, where the effects of ageing have been clearly perceptible for a number of years.



Source: Prepared by the author based on data from the UN Department of Economic and Social Affairs, Population Division: <http://esa.un.org/unpp/>

the claim that an increase in productivity cannot compensate for the greater cost of the pension system – especially since this has been the case until now in the developed countries. As underlined by the Social Watch Spain report: "In spite of the frequent predictions that the pension system is headed for collapse, the fact is that since 1998, the Spanish social security system has actually accumulated a surplus."

Furthermore, some researchers have suggested the possibility of a 'second demographic bonus' linked to the process of ageing. The basic idea is that, provided that the increase of the retirement age entails greater savings on the part of individuals, the state and/or companies, subsequent investment of that capital in order to finance consumption during the non-active years will cause the economy to grow faster than if those savings did not exist.[8]

Although this is an interesting idea inasmuch as it shows a possible positive effect of ageing, in current conditions the saving possibilities of most of the world's population are more than limited. In fact, more realistic projections regarding private saving capacity have served to back the call for implementing other solutions, such as a global old-age pension. "There is still significant pensioner poverty today but matters will become much worse by 2030 and 2040 as already enacted reductions in entitlement come into effect. Supposedly private savings, and new efforts by the financial services industry, will make up for this shortfall, but exorbitant charges and tempting information gaps between supplier and customer virtually rule this out, as official projections themselves reveal. If private financing of pensions fails in the rich countries because of cost rations and unequal information, its contribution in poor countries will be even more disappointing."[9]

However, the limitations of private savings do not appear to be the only difficulty with regard to mitigating the effects of decreased income after retirement. The way in which reforms have been undertaken is also problematic, as pointed out by the Social Watch Malta report: "The longevity risk is shifted squarely to the shoulders of individual contributors of the same generation and not borne by the state, since the move to a direct contribution scheme shifts the financial risk of changing economic and demographic factors from the state to the individual. Taken together, all these measures tend to disadvantage those with low lifetime earnings..."

None of these arguments attempt to deny the need to reform the health care or social security systems, but rather to challenge the arguments that focus exclusively on predicted shortages and their purported effect on financial sustainability. In other words, the ability to forecast future scenarios should not lead to the adoption of desperate measures based on the most pessimistic predictions, but to a search for viable and solidly grounded alternatives that create the conditions to take advantage of the opportunities offered by the first or second 'demographic bonus'.

The most effective measures for achieving this aim will depend not only on the particular stage of the demographic transition in which individual countries or regions find themselves, but also on a series of contextual factors. Therefore, any proposals must be based on detailed analyses of specific national and regional conditions, such as those presented in the national reports in this year's Social Watch report. In short, while the prediction of medium and long-term population trends is a fundamental input for planning, whether these trends are translated into development opportunities or obstacles ultimately depends on the policies adopted. ■

8 Mason, A. (2007). "Demographic transition and demographic dividends in Developed and Developing countries". In *United Nations Expert Group Meeting on Social and Economic Implications of Changing Population Age Structure*. United Nations, New York.

9 Blackburn, R. (2007). *Building Equality from the Ground Up: An Outline Proposal for a Global Pension (and Youth Grant).* In Lawrence & Wishart, <www.lwbooks.co.uk/journals/articles/blackburn207.html>.