

The graying of the US economy

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VLI January 2020
Island of Kauai

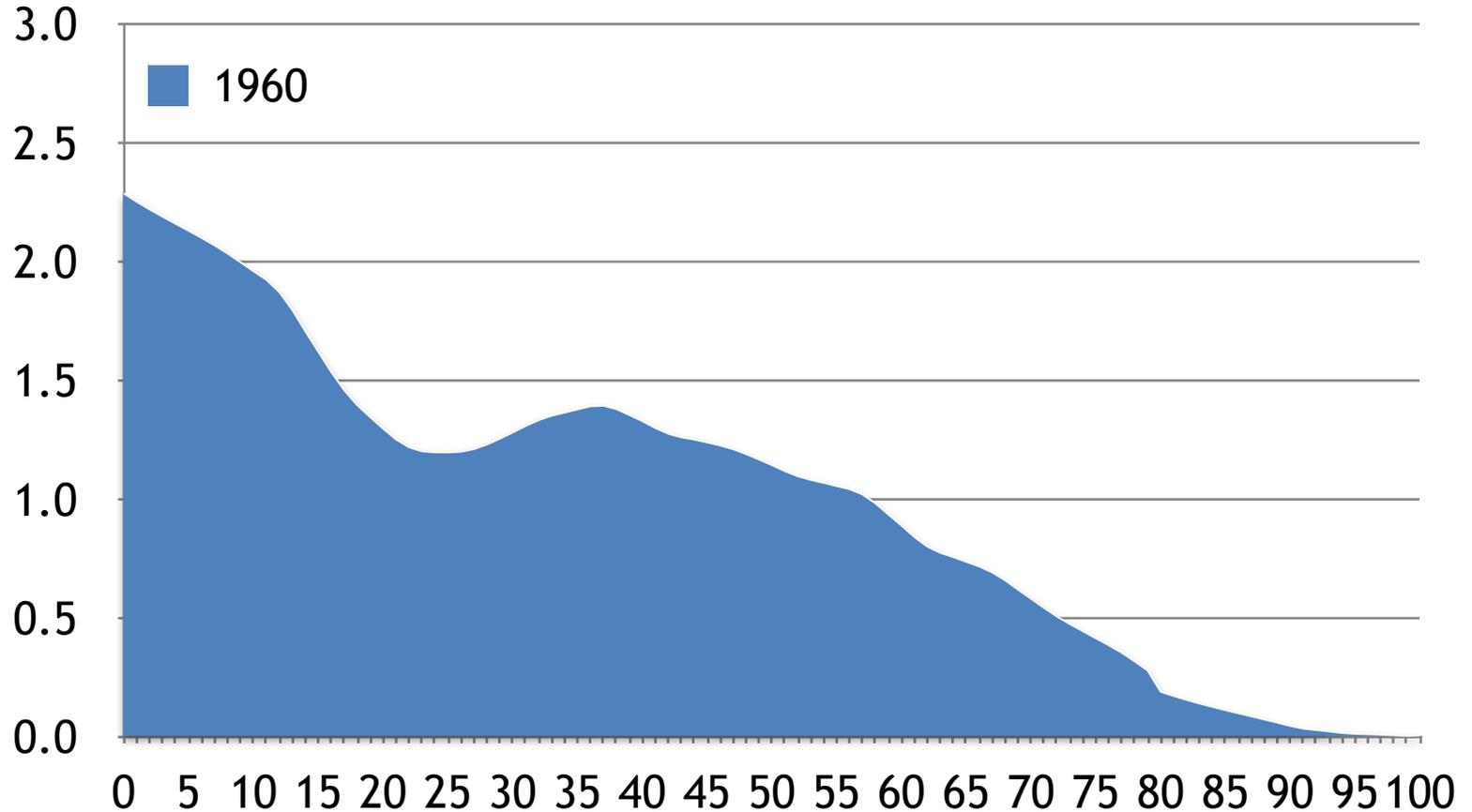


You and me are getting older

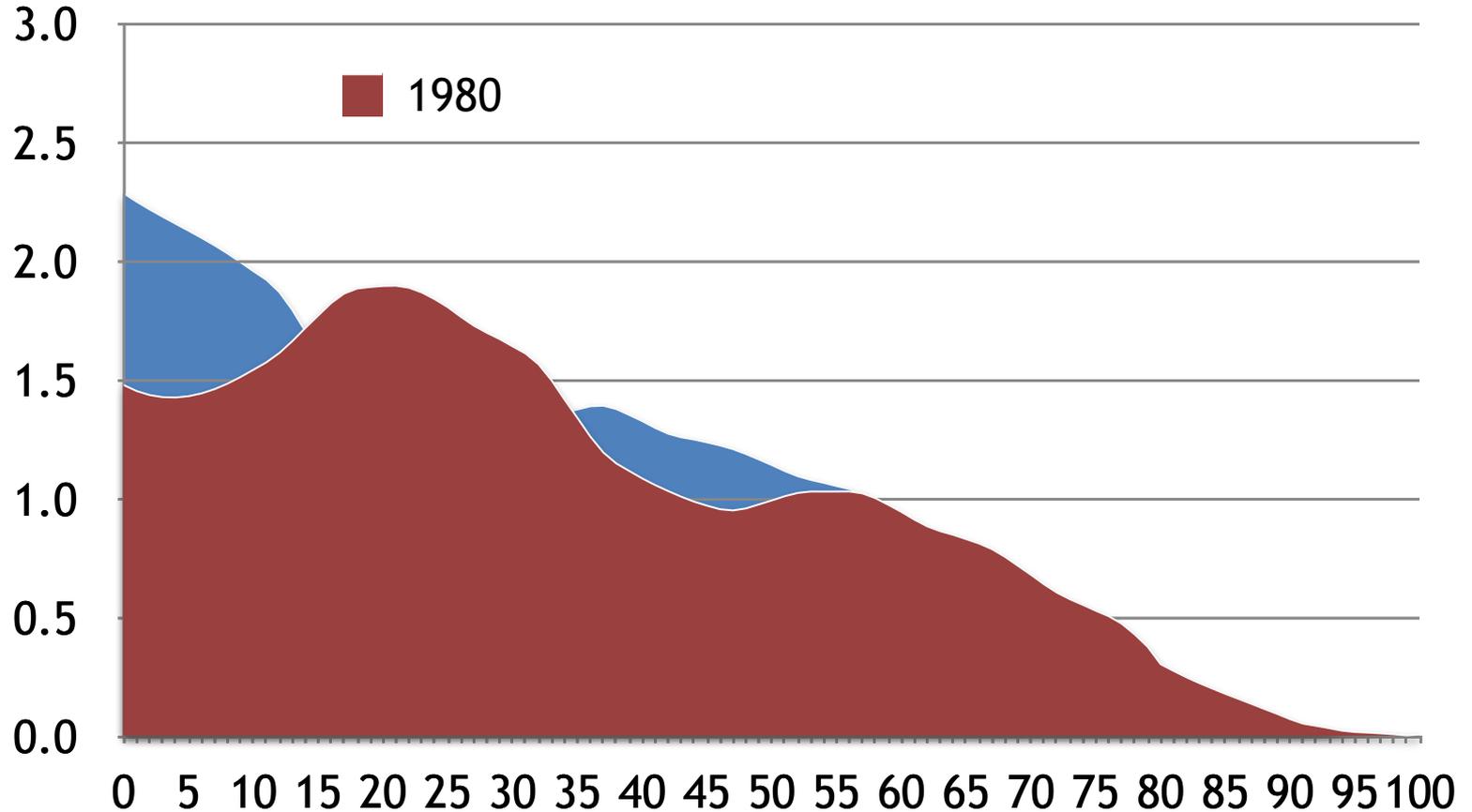
- No matter how much we kick and scream.
- How much are American demographics changing?
- What will this mean for the American economy?
- What might we do about it?



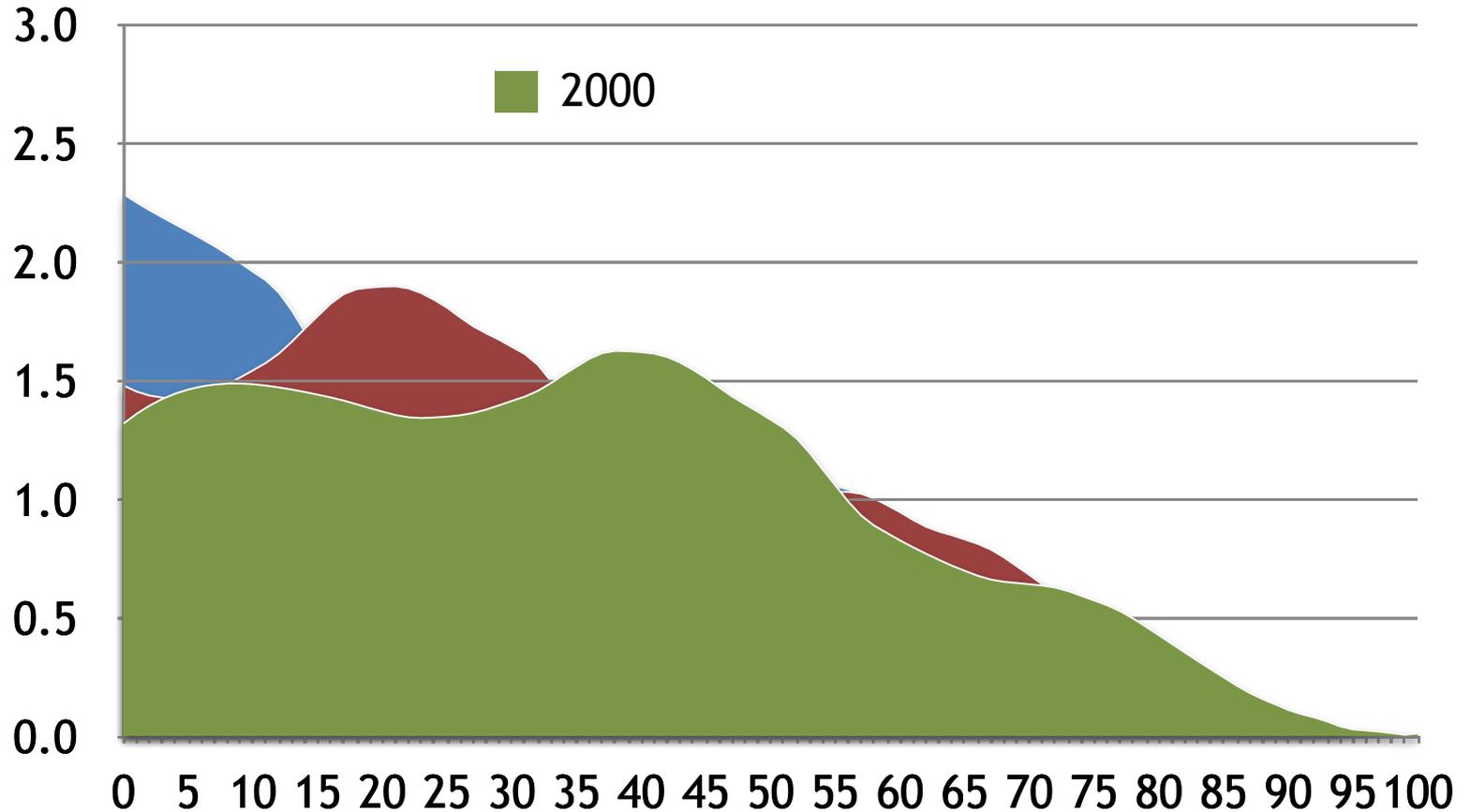
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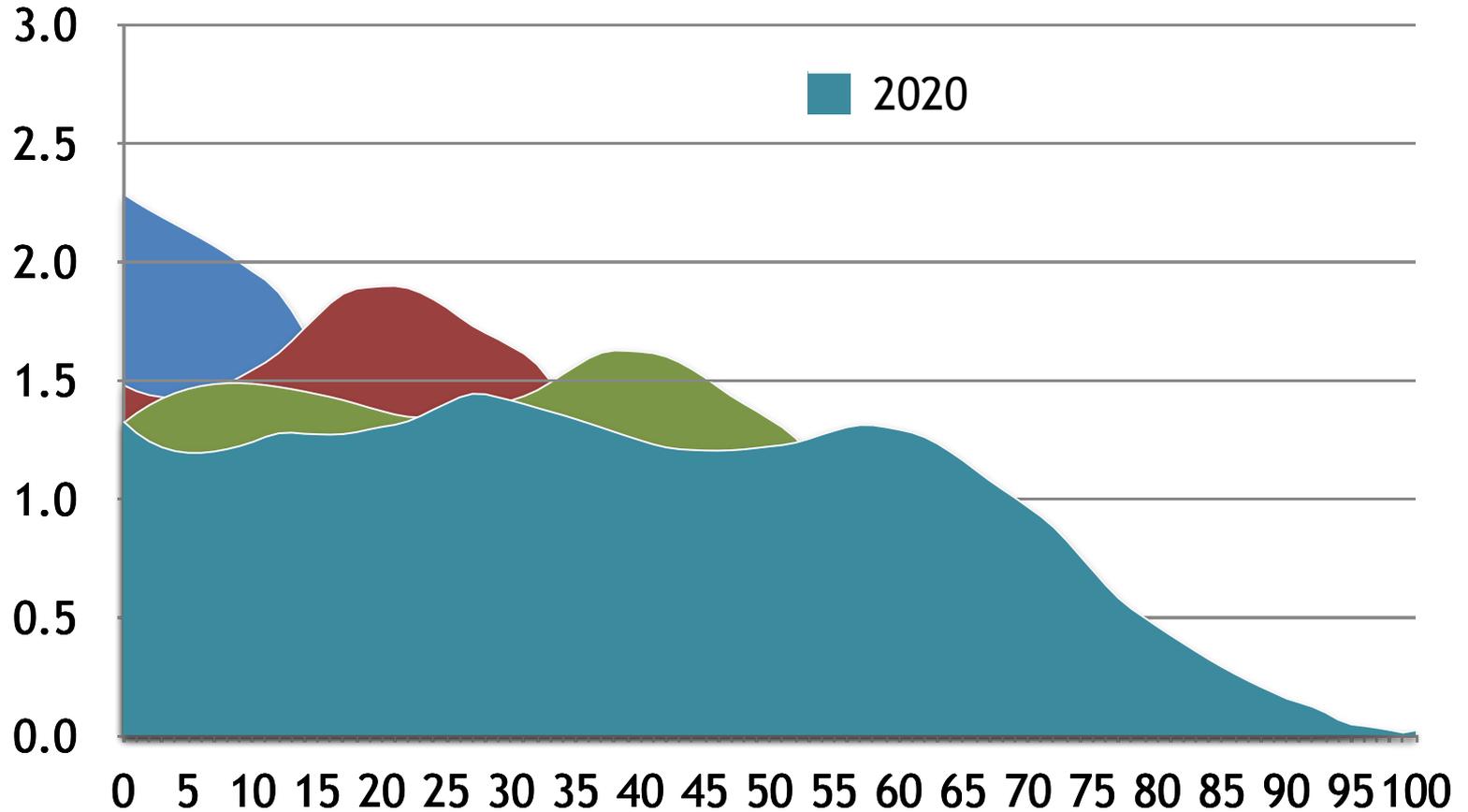
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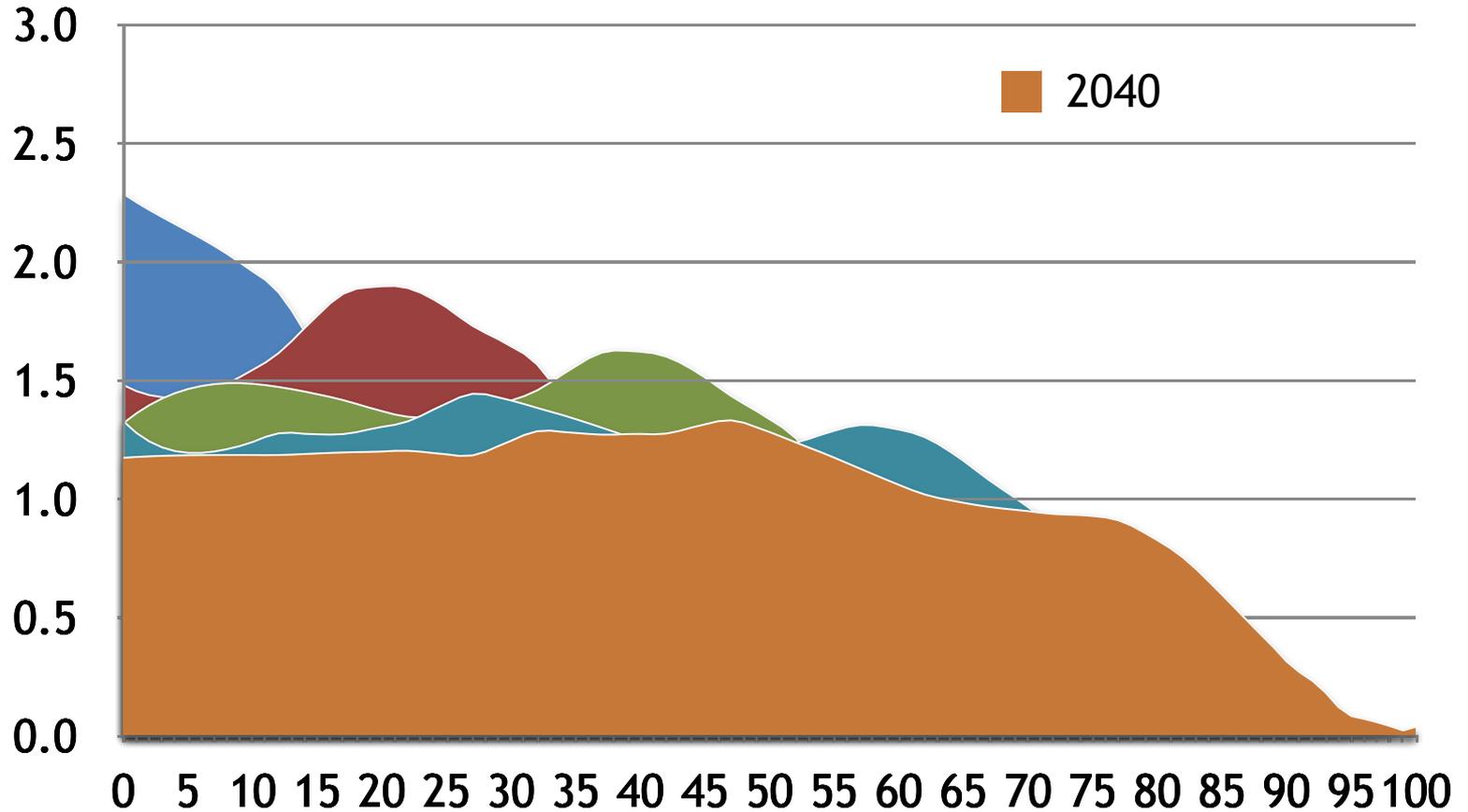
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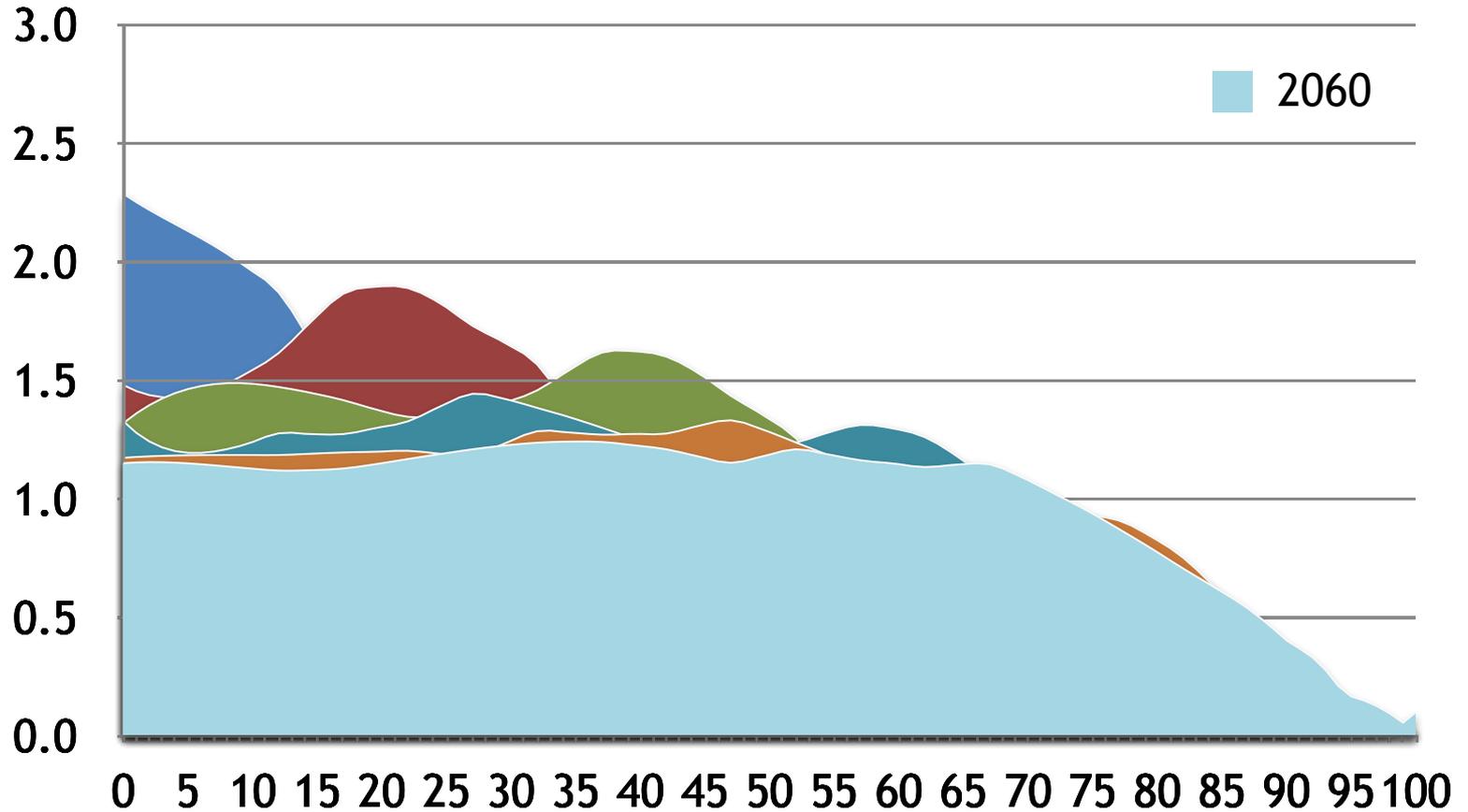
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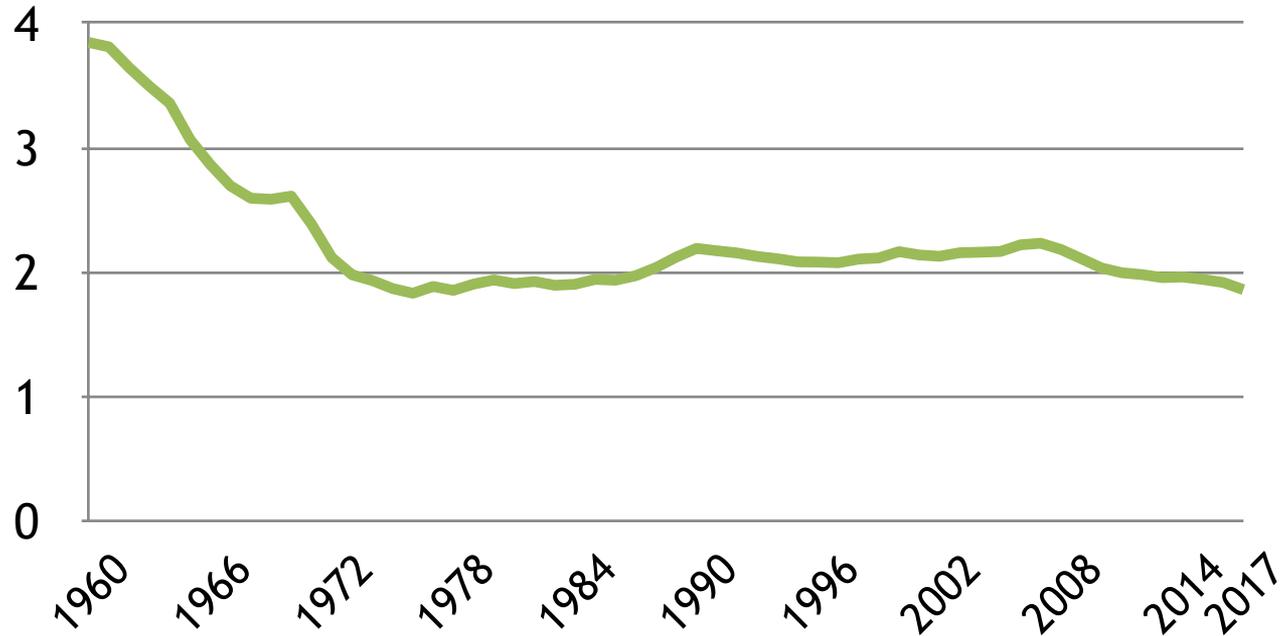


A global problem

- Globally, there are more adults over 65 than there are children under 5.
- By 2050, one out of every six people — 1.6 billion — will be over the age of 65
- Some countries have it lots worse than we do
 - More on that later.
- Why has this happened?

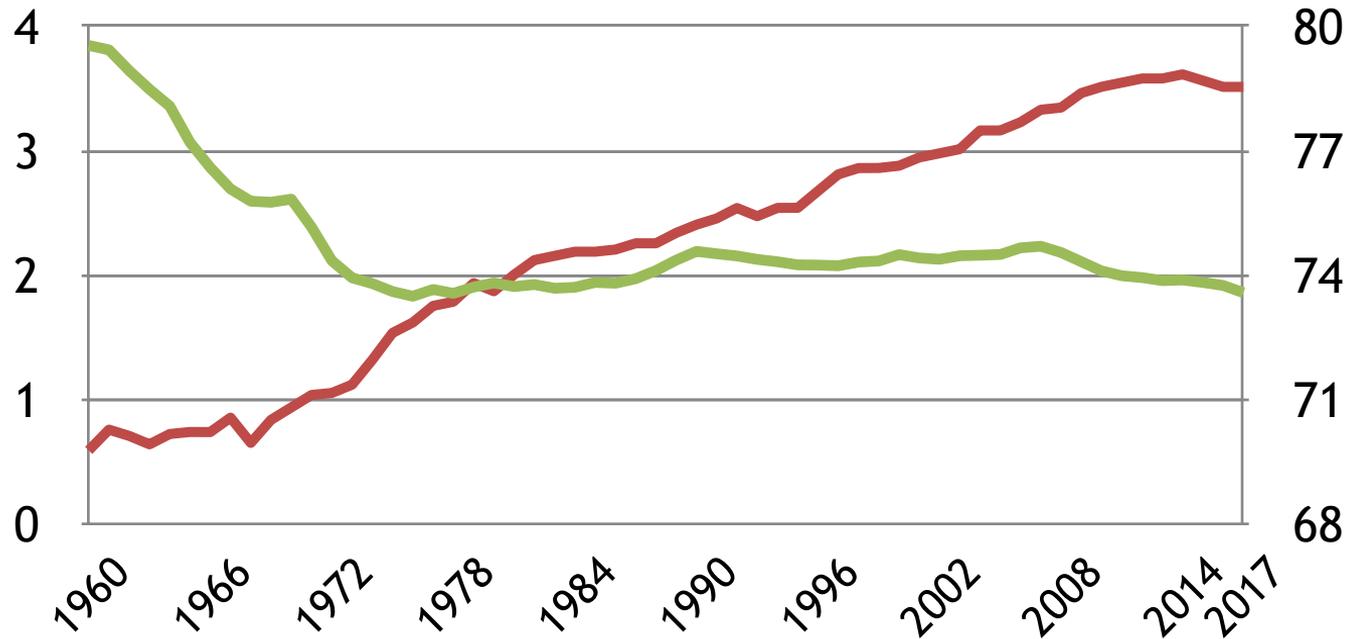
US fertility, once pretty good, has declined

Fertility (birth per woman)

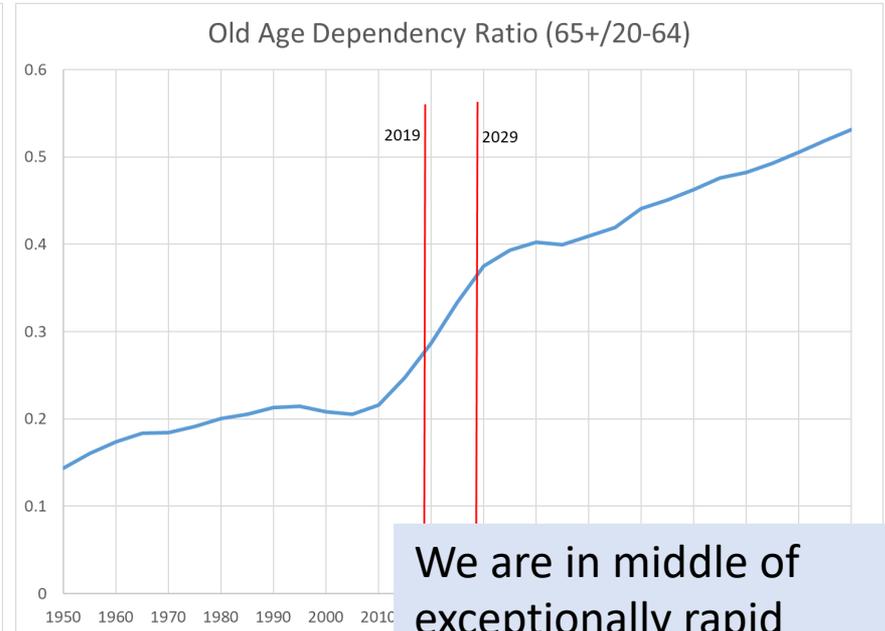
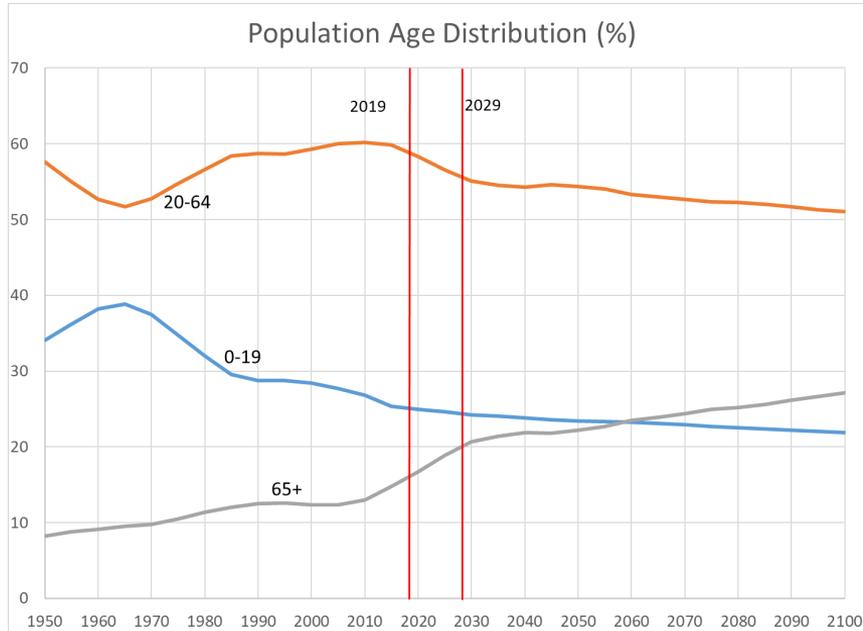


US life expectancy has increased, but is now declining

Fertility (birth per woman) and Life Expectancy at Birth



Will be more old folks to take care of



We are in middle of exceptionally rapid increase as OADR doubles.

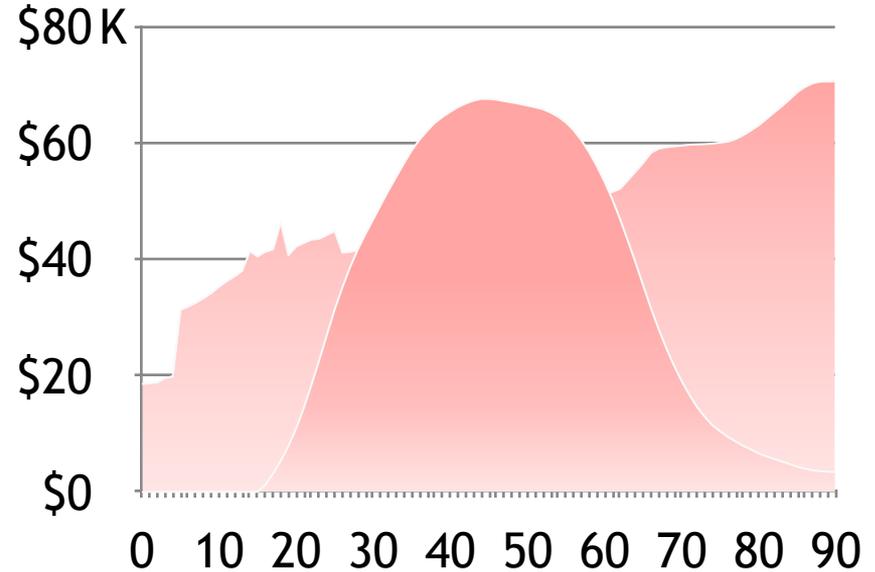
Population Aging, 1950-2015 and projected to 2100 (United Nations)

Source: Ronald Lee

The economic lifecycle

- People earn more than their consumption in middle ages
- And are net recipients of funds when young and old
- Some of these inward transfers are private (savings taking care of retirement, kids, parents)
- Some are public transfers

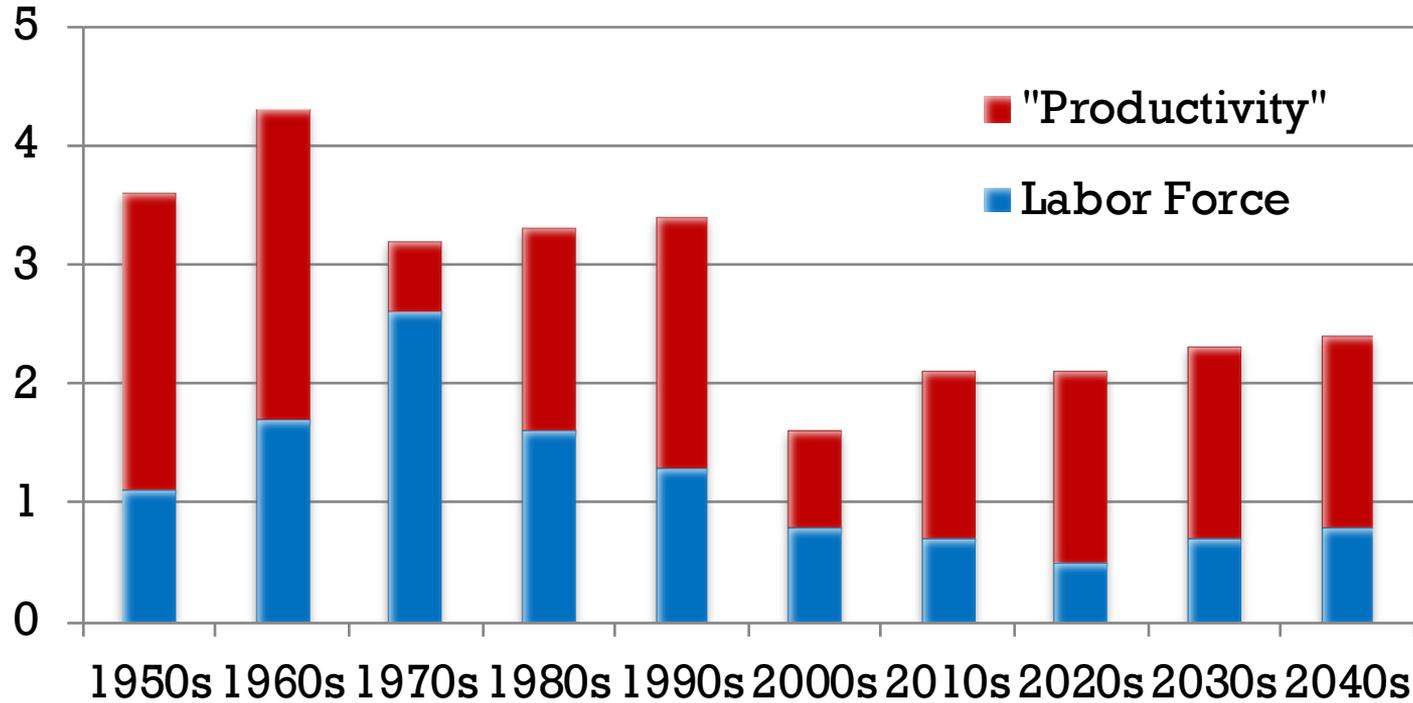
Labor income and consumption by age



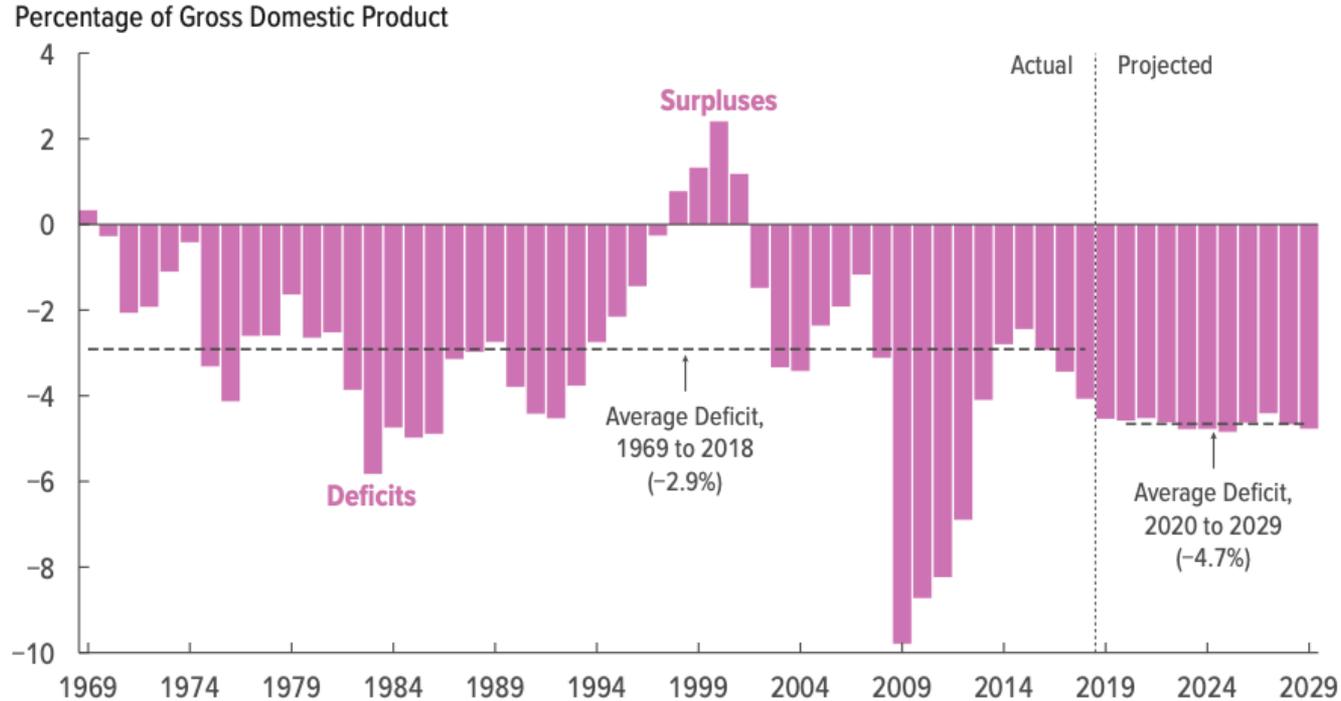
How might aging matter?

- Relatively smaller labor force lowers aggregate growth
- Pressure on government finances

Lower growth speed limit



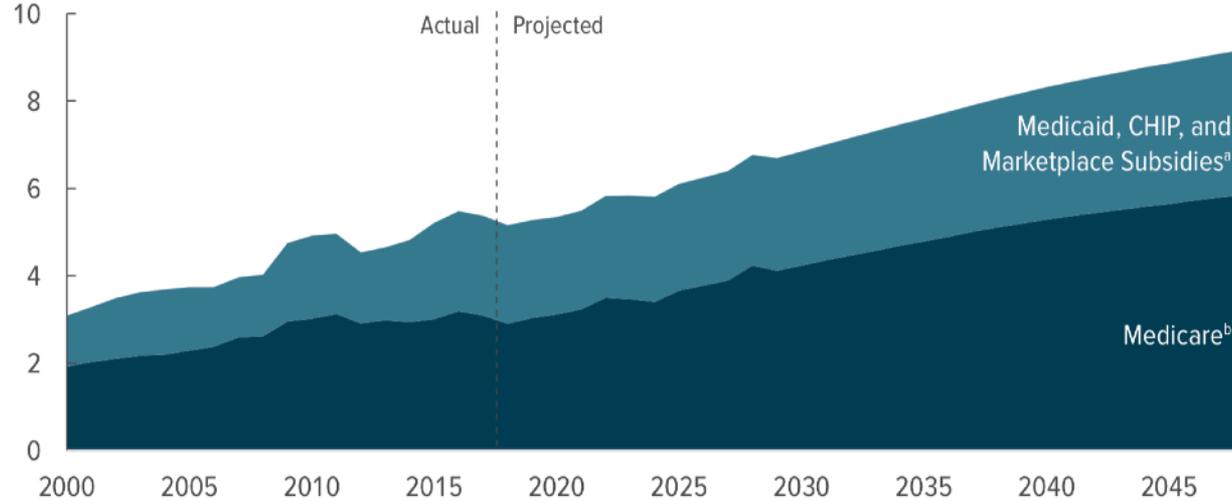
Nothing like starting out in a bad place



Fiscal challenges

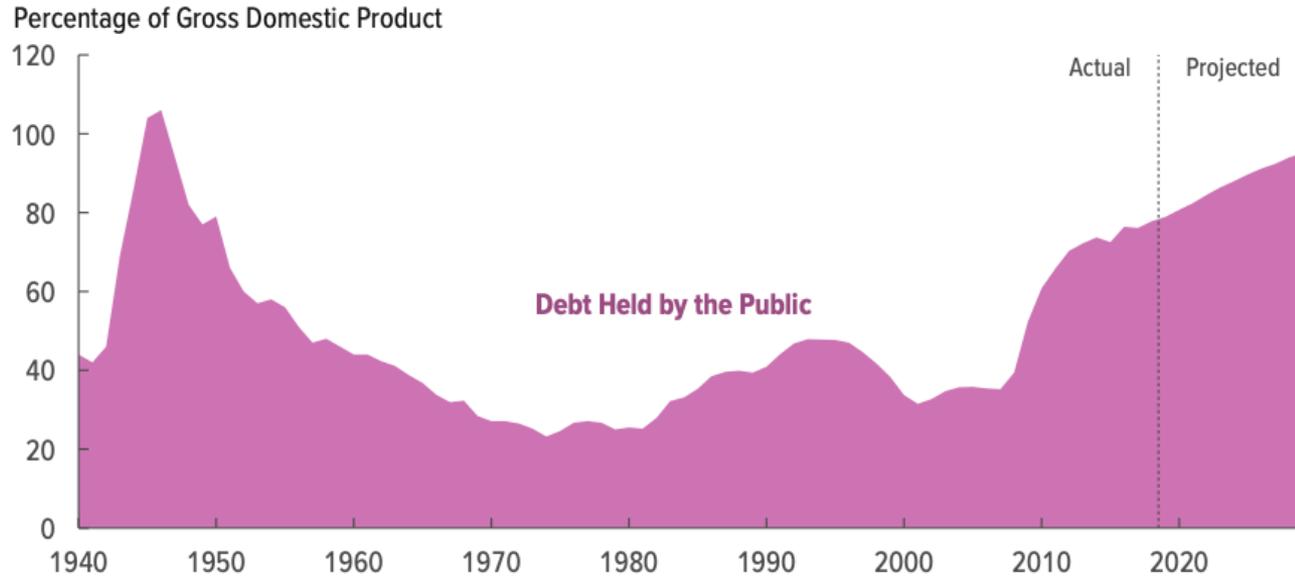
Federal Spending on the Major Health Care Programs, by Category

Percentage of Gross Domestic Product



Source: Congressional Budget Office.

Federal government debt is high and will grow



\$5-6 trillion in unfunded S&L pension liabilities

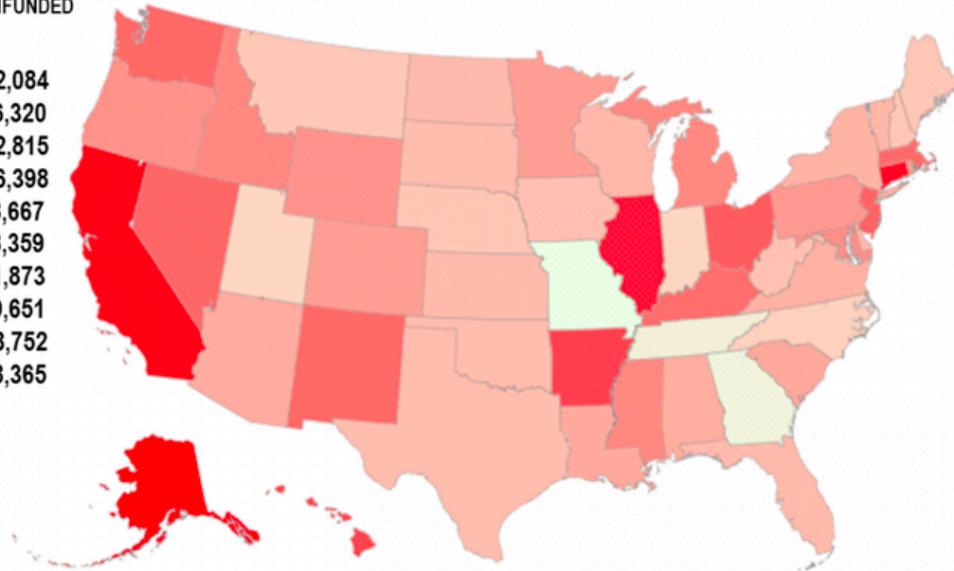
WHERE PENSION DEBT IS A LOOMING DANGER TO TAXPAYERS

PER HOUSEHOLD UNFUNDED GOVERNMENT PENSION LIABILITY



10 STATES WITH THE BIGGEST
PER HOUSEHOLD UNFUNDED
PENSION LIABILITIES

ALASKA	\$102,084
CALIFORNIA	\$86,320
CONNECTICUT	\$82,815
ILLINOIS	\$76,398
ARKANSAS	\$68,667
HAWAII	\$68,359
OHIO	\$61,873
NEW JERSEY	\$59,651
NEVADA	\$58,752
NEW MEXICO	\$58,365



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MAP BY THE TEXAS PUBLIC POLICY FOUNDATION, DATA FROM PENSION TRACKER STANFORD INSTITUTE FOR ECONOMIC POLICY RESEARCH

How might aging matter?

- Relatively smaller labor force lowers aggregate growth
- Huge pressure on government finances
- Possibly lower productivity growth
 - Poorer average health
 - Bigger burden of social programs
 - Less scope for needed government investments
- How large are these effects likely to be?
 - One study finds about 0.2 ppts per year
 - Is that a little or a lot?

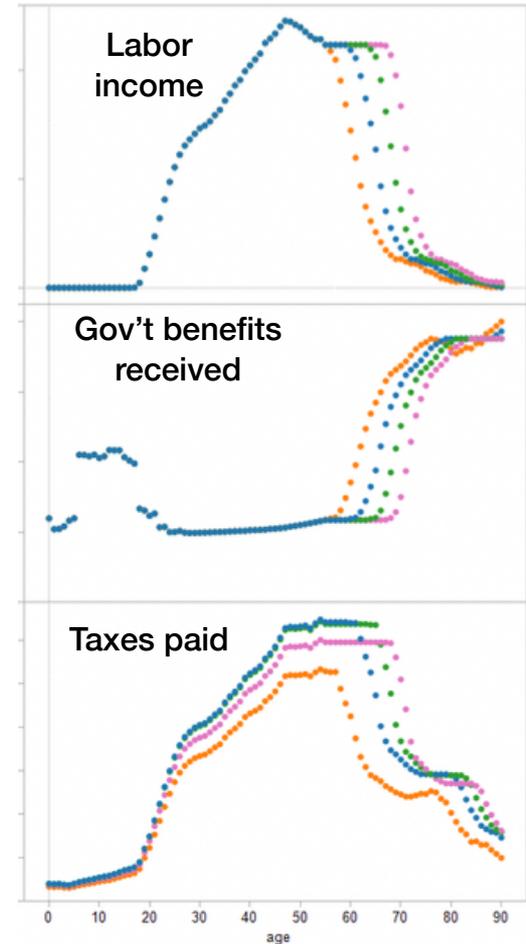
Is there anything good about aging?

- Wait, I'm thinking.
- Well, OK:
- Things not (well) captured by economic measures
 - Favorable environmental effects
 - Longer periods of enjoyed life
- Possible favorable effects on productivity
 - Fewer children mean higher education spending on each
 - Greater saving from large middle age fuels investment
 - Do older workers retain useful knowledge and work skills?

What can be done?

- No brainers
 - Gradually extend official retirement age
 - Provide other incentives to keep working
 - Provide better support for working parents
 - Encourage saving to increase private pensions
- More controversial or a lot harder
 - Raise social security and medicare taxes
 - Reduce social security benefits
 - Get a handle on health care costs
 - *Means test* public retirement benefits
 - Maintain a fairly open door immigration policy

Effects in Japan of gradually extending retirement age

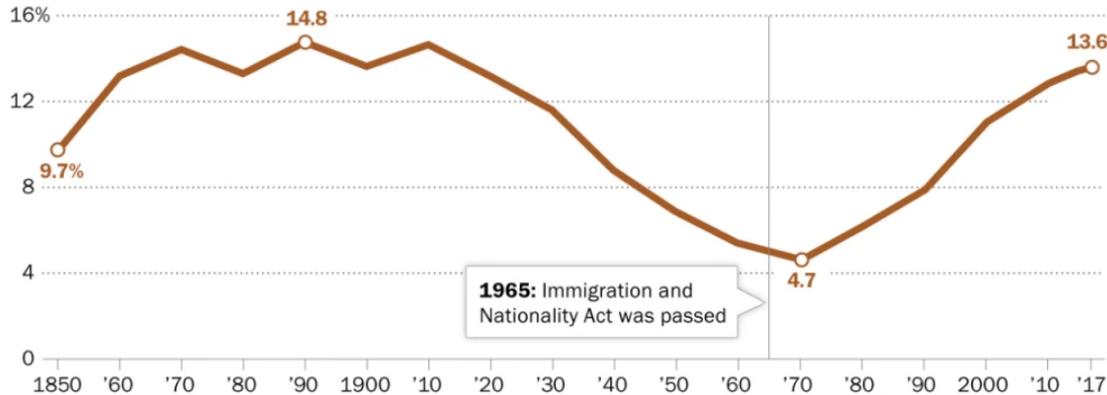


Immigration helps

- Foreign born share of pop has been rising since 1970.

Immigrant share of U.S. population nears historic high

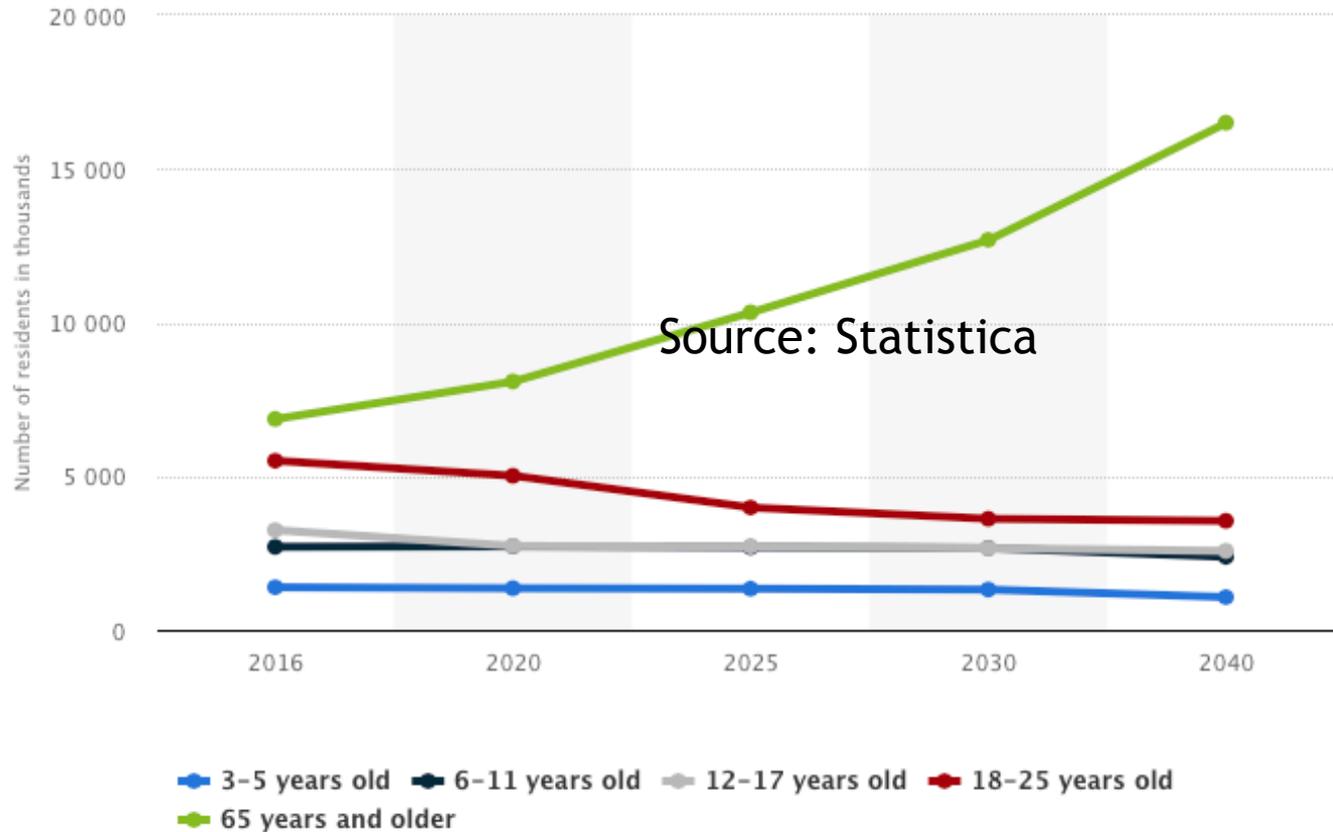
% of U.S. population that is foreign born



Source: U.S. Census Bureau, "Historical Census Statistics on the Foreign-Born Population of the United States: 1850-2000" and Pew Research Center tabulations of 2010 and 2017 American Community Survey (IPUMS).

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It could be worse: Korea



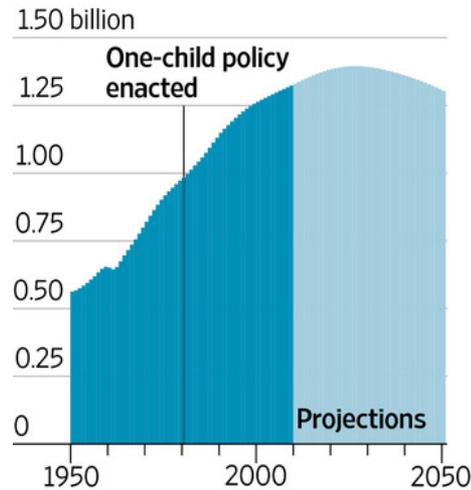
It could be worse: China 1st to be “old before rich”

Baby Bump

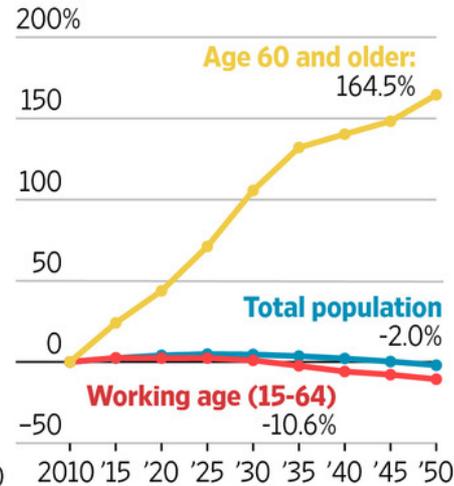
China's one-child policy was introduced to rein in population growth....

...but has resulted in several problems, including a shortage of younger workers.

Total population



Cumulative projected population growth from 2010



Note: Projections do not account for the change in China's one-child policy

Sources: U.S. Census Bureau's International Database

(population); U.N. Population Division (growth)

THE WALL STREET JOURNAL.

US Aging scorecard

	Positive	Negative
Demography	Fertility is only moderately low	Laggard in raising life expectancy
Labor markets	Flexible; strong incentives to work in old-age	Anti-immigrant sentiment
Consumption		High old-age consumption because of health care
Productivity	Heavy emphasis on funded approaches to old-age needs	Spending on children inadequately
Economic security	Sustainable with right policies	Inequality due to differential mortality
Generational balance	Moderate transfer programs reduce burden on future generations	High and rising public debt, unfunded liabilities at state, local levels

Source: Andrew Mason

Credit union take-aways

- Household formation will be smaller
 - Will there be a dearth of new home buyers?
- Your clientele will be older
 - Will they be less credit-worthy?
 - Will that increase the demand for non-traditional financial products?
- Lower aggregate growth will mean lower interest rates, probably spreads
- Remember, these are very long-term changes