

January 2004 Commentary

Global Trends

"Prediction is very difficult, especially about the future."

Niels Bohr

As we enter this New Year, there are currently 6,341,347,261 people in the world, give or take a few. By the year 2050 according to the U.S. Census Bureau, the World's population will grow 42% to over 9 billion people. This equates to a population growth rate of 0.75% per year. Over the next 50 years the annual population growth rate is expected to slow down from a current rate of over 1% to below 0.5%. But, even at the low rate of 0.5%, the world could still be adding about 40 million new earthlings each year, equivalent to the combined population of California and Ohio, or the entire population of Spain each year.

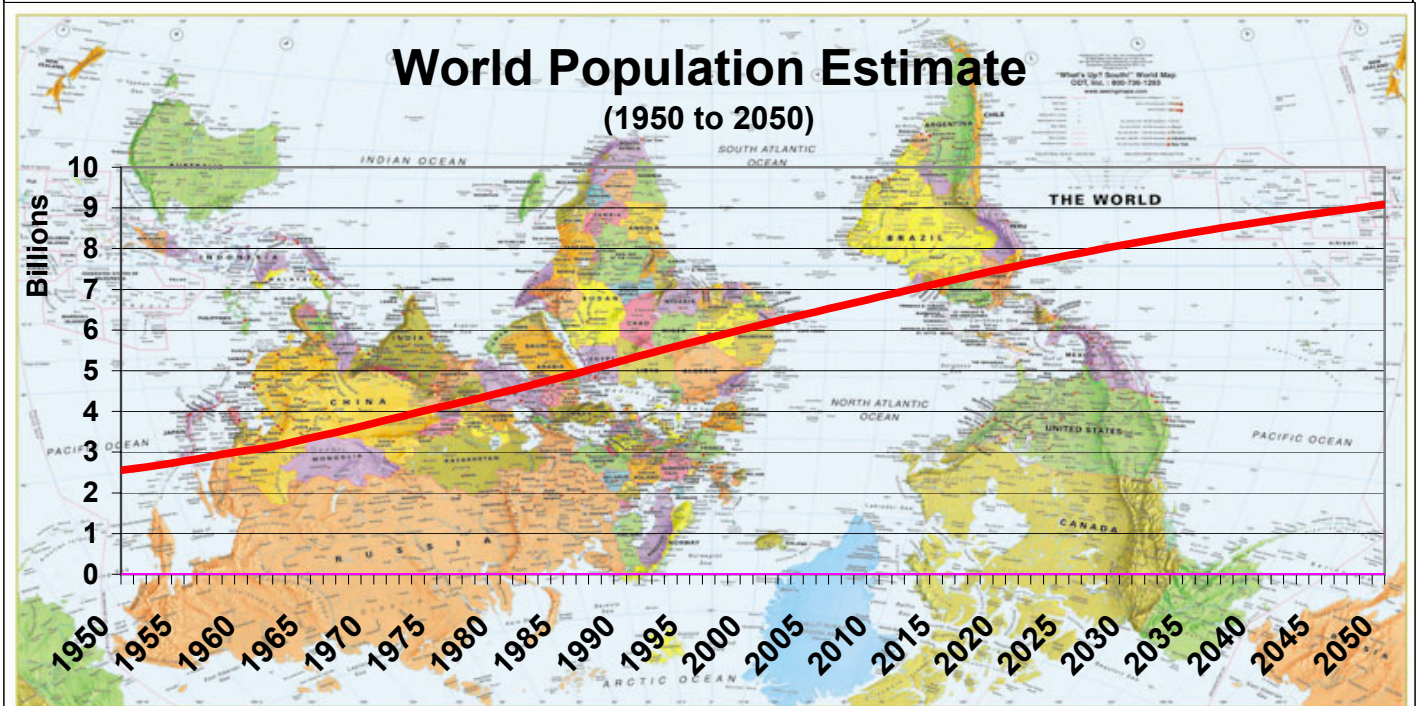
Just in case you are worried about where 9 billion people might find a place to live, the earth's surface area is over 196 million square miles, 70% of which is ocean; leaving 59 million square miles of land. Thus, the population density would be just over 150 people per square mile, up from 107 today. (Perhaps there might be a good business opportunity for anyone who could figure out how to comfortably inhabit the oceans - everyone could have an ocean view!)

Currently, China is the world's most populated country with almost 1.3 billion people. India is close behind with 1.05 billion. According to the U.S. Census Bureau, over the next 46 years India's population will overtake China. In the year 2050 India is expected to have over 1.6 billion people (1% annual growth) vs. over 1.4 billion for China (0.2% annual growth). The United States is currently the world's third largest with 290 million and by 2050 the U.S. is expected to have 420 million (0.8% annual growth and adding about the same number of people as China), maintaining its third place position. About half of this growth will come from internal births, with the rest due to international immigration. Some nations are expected to grow their populations rapidly. Nigeria is expected to double its population to 307 million before 2050 and the Congo is also expected to double to 181 million. Saudi Arabia is expected to triple in size to 91 million and Iraq is expected to double, bringing its population to 56 million.

The opposite phenomenon is happening in most European countries as the populations in Russia, Germany, Italy and Spain are expected to lose a total of 45 million people, while France and the United Kingdom gain only about 5 million. These six countries are expected to see their aggregate population decline from a current total of 445 million to 405 million by 2050. Japan is also expected to see a decline in its population, from a current 127 million to just under 100 million in 2050.

"I never think of the future - it comes soon enough."

Albert Einstein



"An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today."

Laurence J. Peter

The large population declines in Europe and Japan may lead to a severe weakening of the economic power in those countries. GDP growth is a function of two forces: the growth in the number of workers and productivity growth. Unless European countries and Japan can sustain high productivity growth, the decline in their working population will cause their economies to slow. Of course, this doesn't mean that countries with high population growth will automatically experience rapid economic growth - they will face many challenges, too. Political stability is paramount as are the proper systems to provide nutrition, education and health services, and legal systems to encourage ownership of property and business growth. These changes don't occur overnight.

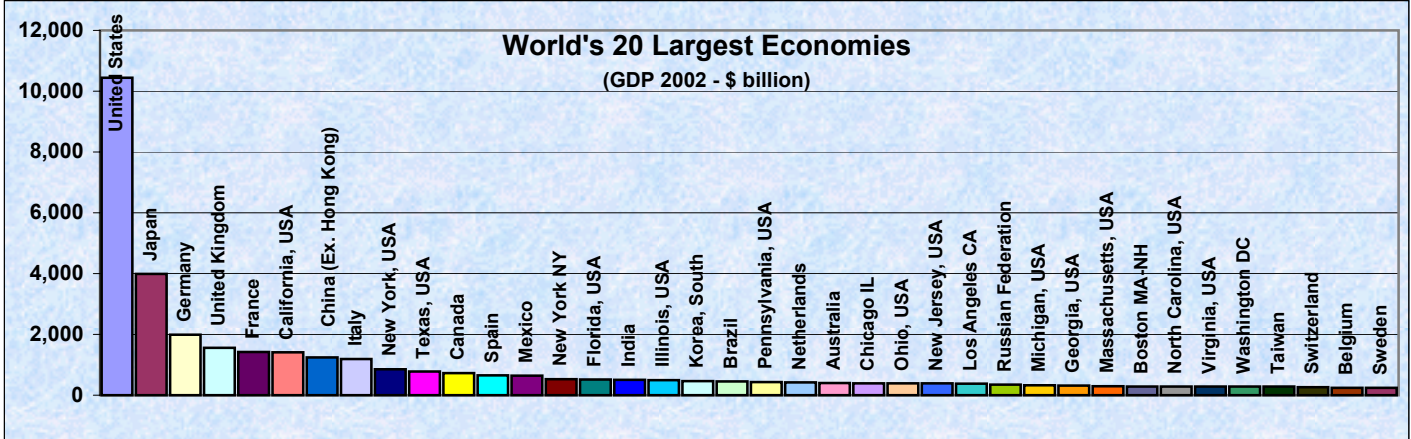
The developed world, including the United States, will also be impacted by changing demographics as the proportion of senior citizens increases. In 2000, the percentage of the U.S. population over the age of 65 was 12%. By 2030 those over 65 are expected to account for 20% of the population, a 35 million person increase. In addition, the number of people over the age of 80 is expected to double in the next 25 years to about 20 million (equal to the entire population of Texas or the current combined population of Arizona and Florida!). This trend is even more pronounced in Europe and Japan. Italy's 65+ population already accounts for about 20% of its total population and is expected to see the biggest impact as its workforce is projected to drop by 40% by 2030.

This shift in demographics will certainly present some challenges to our society as we figure out how to provide desirable living spaces, health care services and the promised retirement and Social Security benefits. In the U.S., as well as most developed nations, the public retirement income plans and healthcare systems are funded on a pay-as-you-go basis. Current workers pay directly for current retirees. As the population ages and the ratio of retirees to workers rises, most governments will have to enact deep benefit cuts or steep payroll tax hikes. The total cost of public retirement programs in developed countries is expected to rise from 12% of GDP today to 24% by 2040. Peter Blackstone, former US Secretary of Commerce (1972-1973) and chairman of the Blackstone Group suggests that, "It's important that investors get their minds around these projections. Most of the developed world is heading for a fiscal and economic crisis the likes of which they've never confronted before."

In the U.S. there are many actions that could be taken to help ward off a future crisis. All workers could begin to save more for their own retirements. The Social Security and Medical programs could begin a conversion from pay-as-you-go plans to pre-funded plans. Just as we have a progressive tax system (those with higher incomes pay more in taxes) we could have progressive benefit reductions so that people that can afford to fund their own retirements would receive reduced benefits. Cost of living adjustments also could be reduced for those who don't need them. There might be ways to encourage older (experienced) workers to remain in the workforce - called "productive aging". Whether we like it or not, it's likely that some of these and other ideas will be necessary to combat the challenges.

Of course, let's not forget that the U.S. is an economic powerhouse like no other. Our 10 trillion dollar economy accounts for one third of the World's entire GDP (Japan's accounts for 12.5%, Germany 6% and United Kingdom and France each have about 5%). Our 13 largest states would place within the 20 largest countries (see chart below). The rapidly growing Chinese economy is about one-tenth the size of the U.S. and is smaller than California's annual GDP. The GDP of India is also growing rapidly, but it is smaller than Florida's and that of the New York City area. Of course, we have our work cut out for us if the U.S. is to remain such an economic force...

"The future ain't what it used to be." Yogi Berra - **"The future will be better tomorrow."** Dan Quayle



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