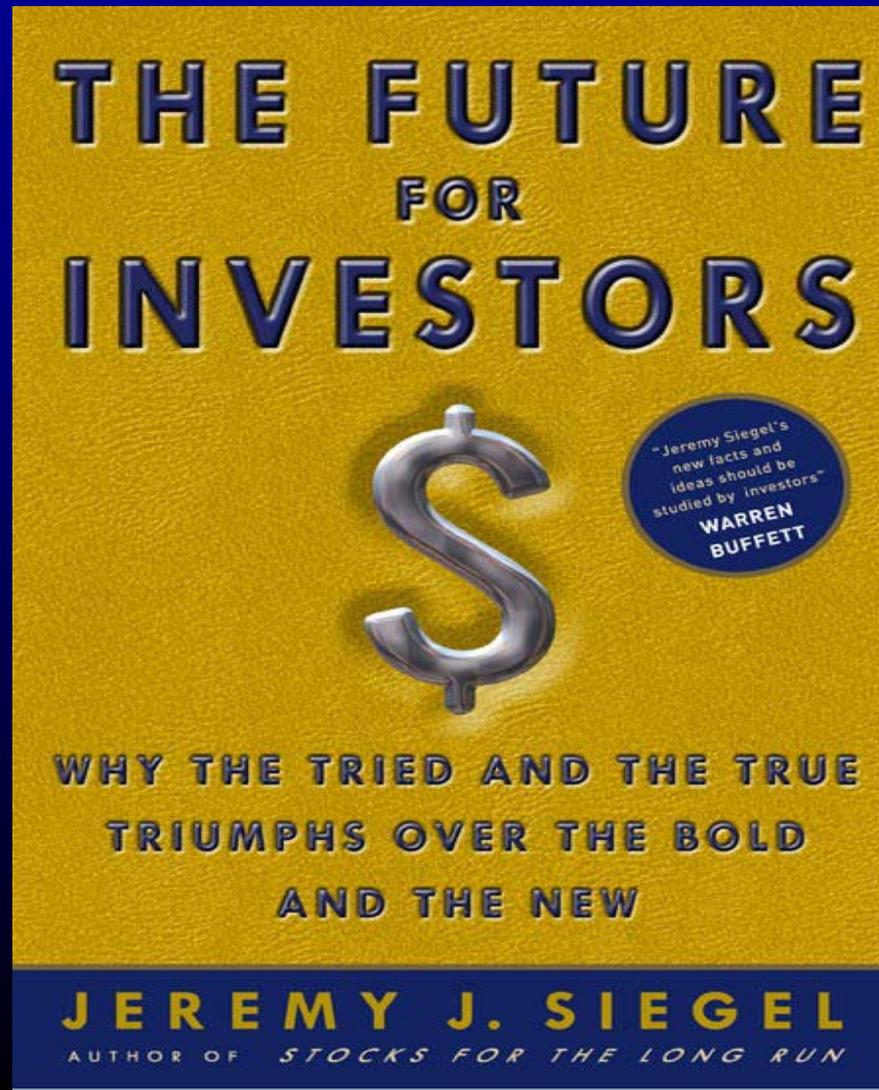


# *Future for Investors*

*Prof. Jeremy J. Siegel ~ The Wharton School*

*Global Aging Initiative ~ CSIS ~ November 16, 2005*



# The Next Fifty Years

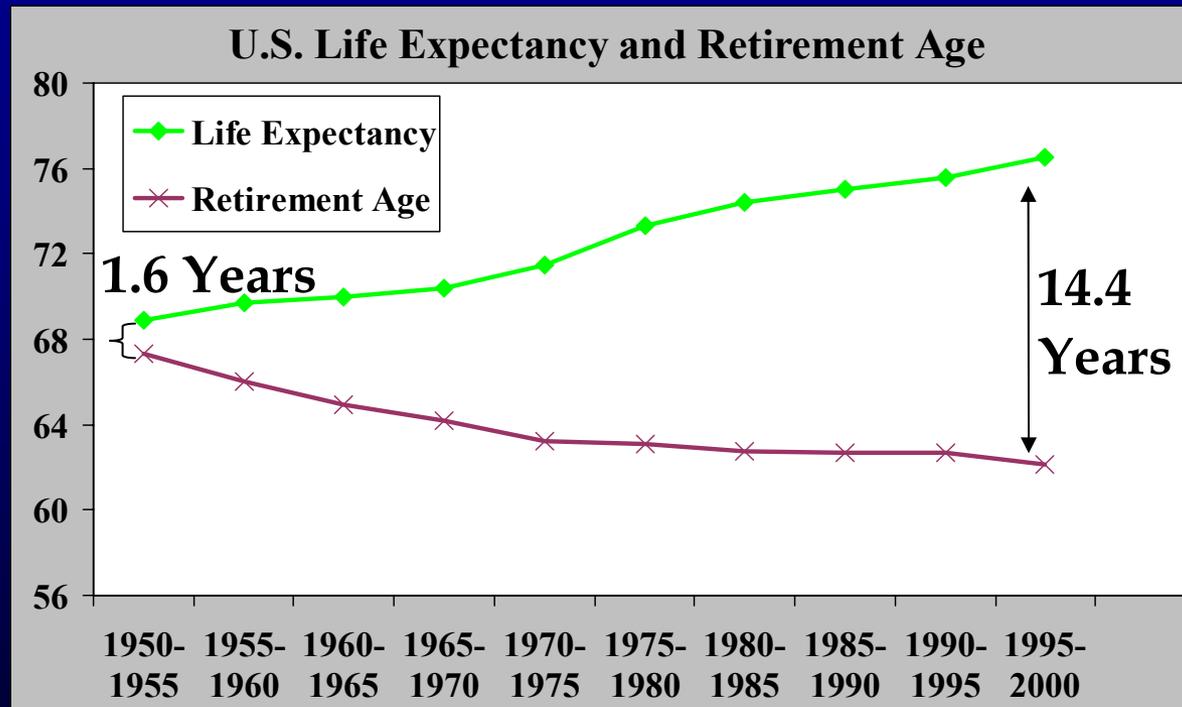
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## The Aging of the Population

***The Most Critical Long-term Economic  
Issue Facing the Developed World***

# Long Term Demographic Trends

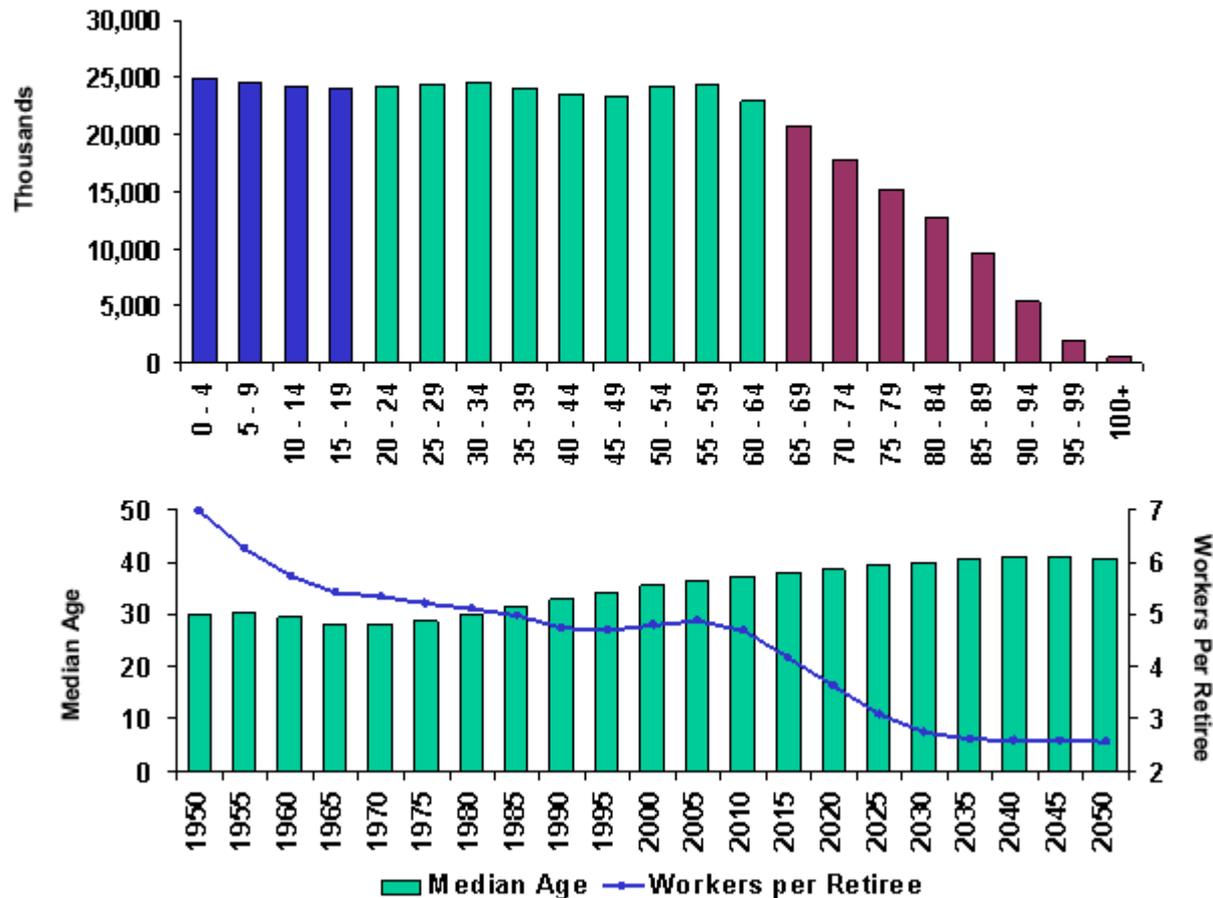
Past marked by (1) rising life expectancy and (2) falling Retirement Age



But this trend **Cannot Continue**

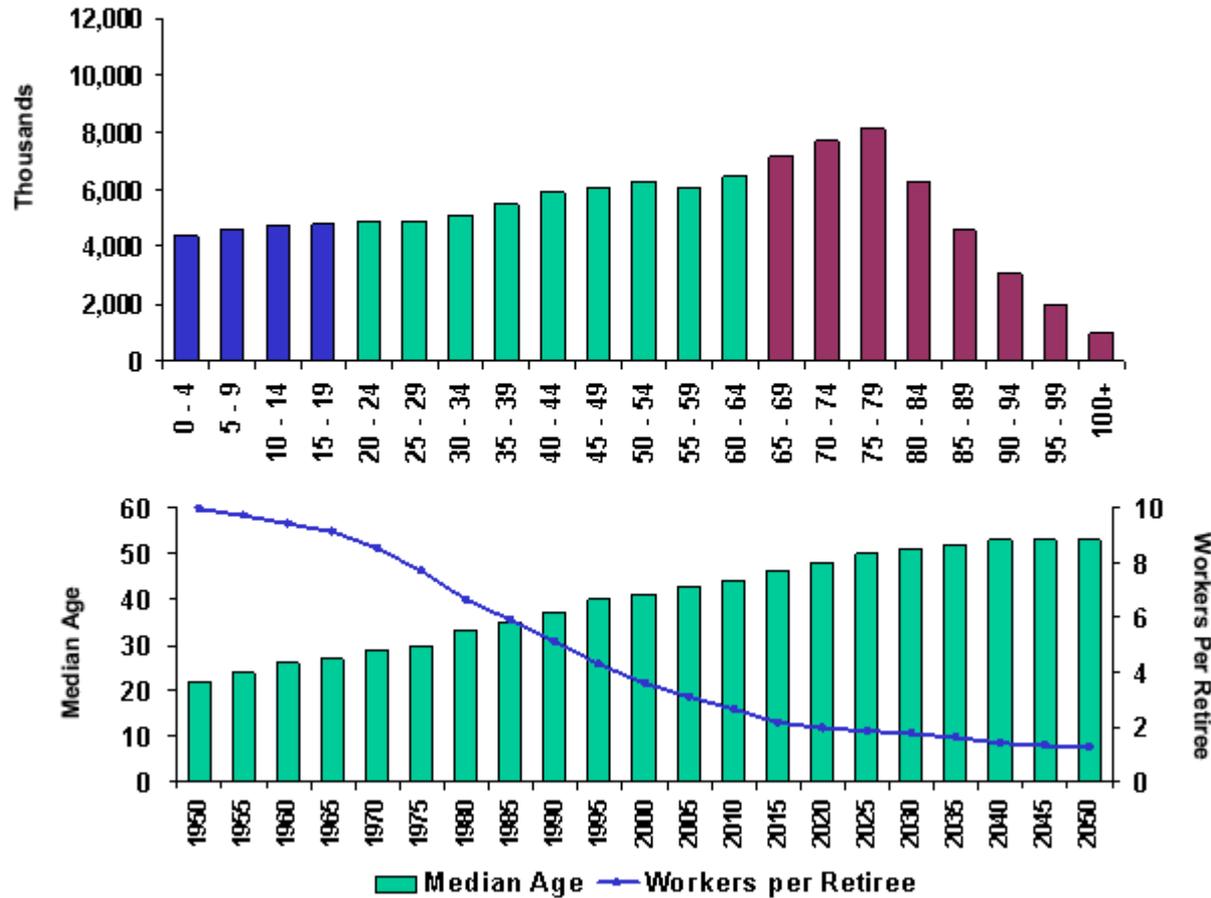
# Age Wave -- US

## U.S. Population By Age Group, 2050



# Age Wave – Japan

## Japan Population By Age Group, 2050



# Big Questions

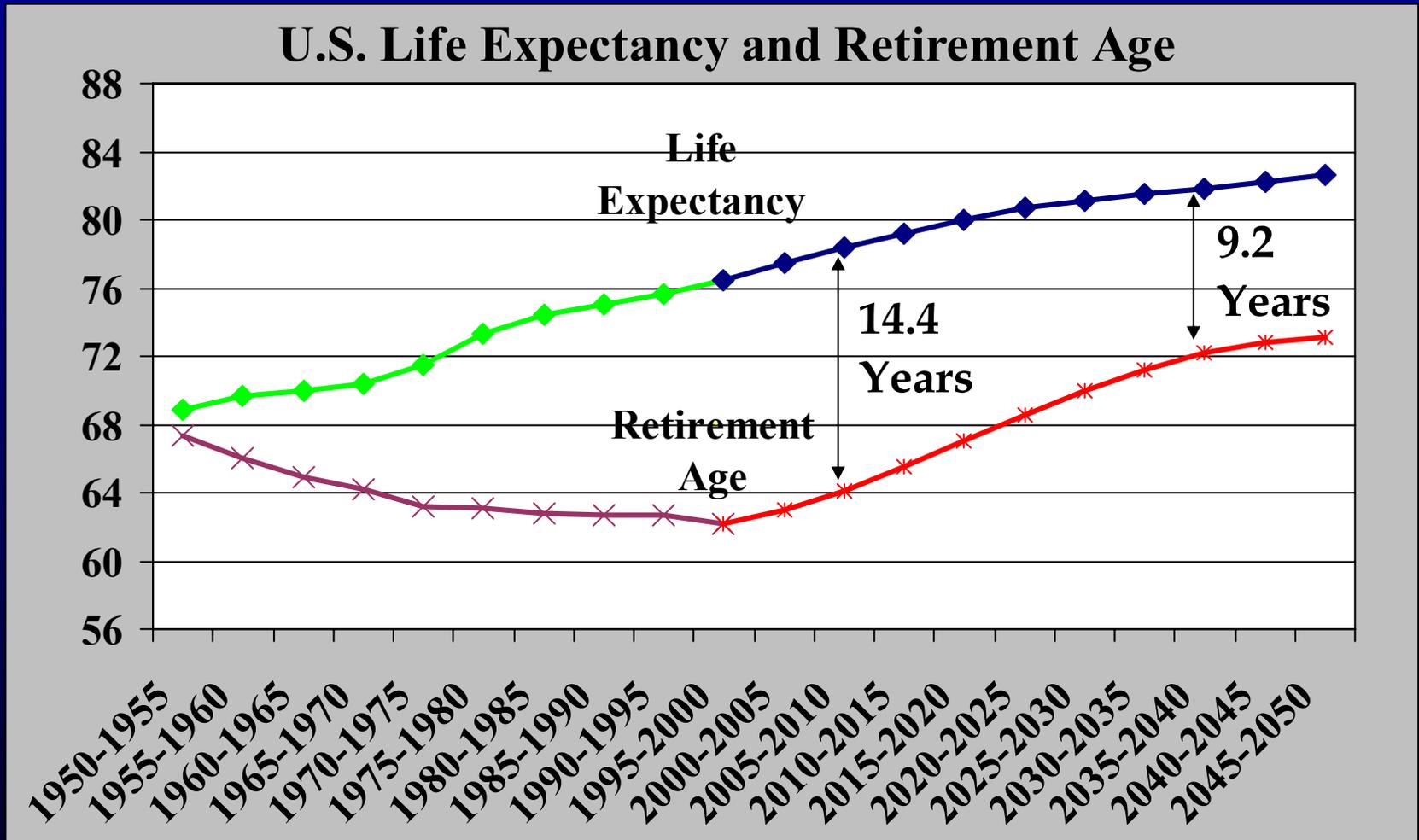
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## The Biggest Questions Facing the Developed World

**Who Will Produce the Goods?**

**Who Will Buy the Assets?**

# Retirement Age must rise to 73

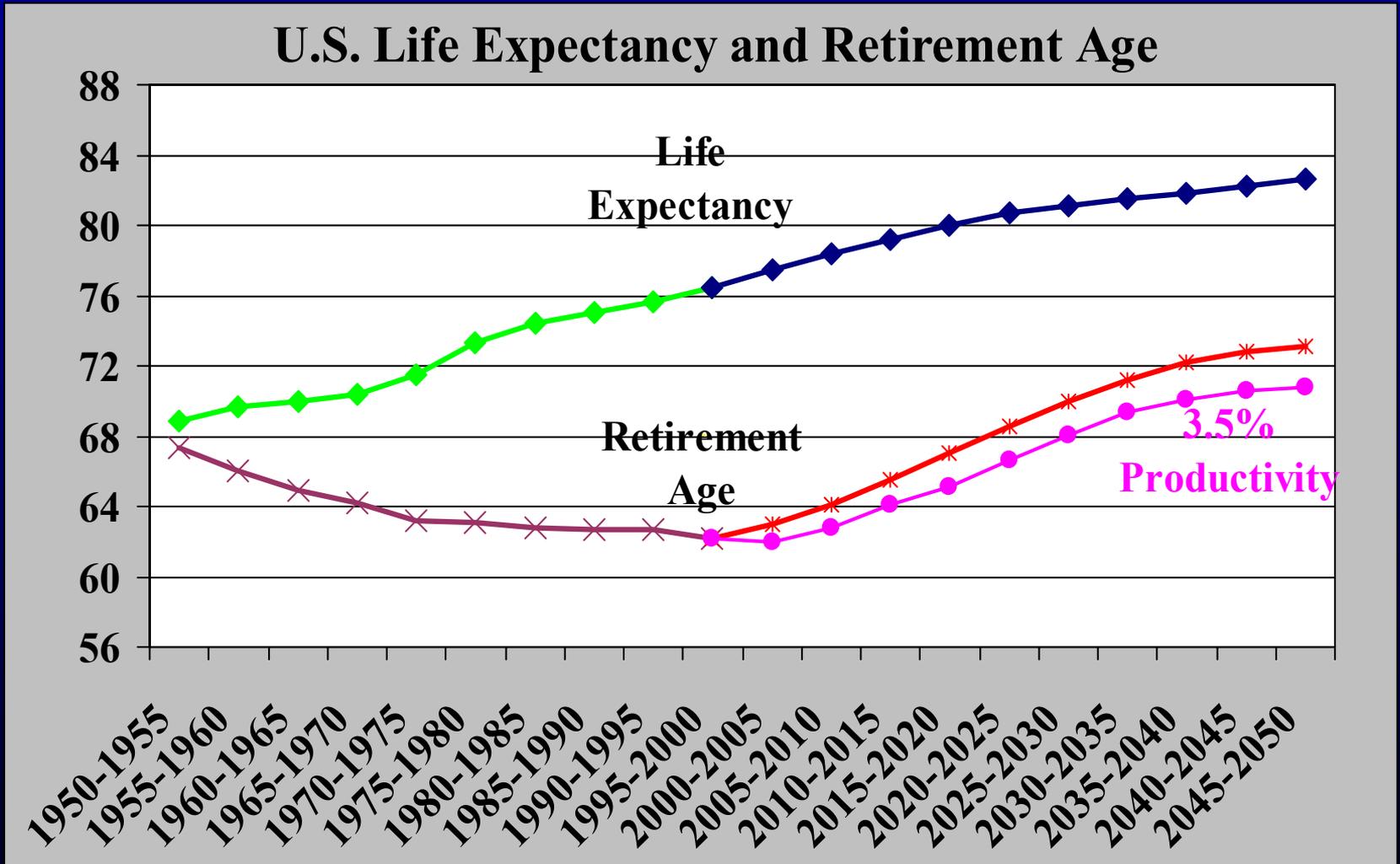


# Productivity Growth and Retirement

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- Can faster productivity growth help the *Aging Problem*?
- Let us be extraordinarily optimistic and assume future productivity growth averages  $3\frac{1}{2}\%$  per year, 70% above long term average of 2.2%.

# 3.5% Productivity reduces retirement age 2-3 years



# Immigration?

---

- **The number of immigrants to the US over the next 45 years needed to keep the retirement age in the mid 60s would be about one-half billion, far in excess of the current population.**

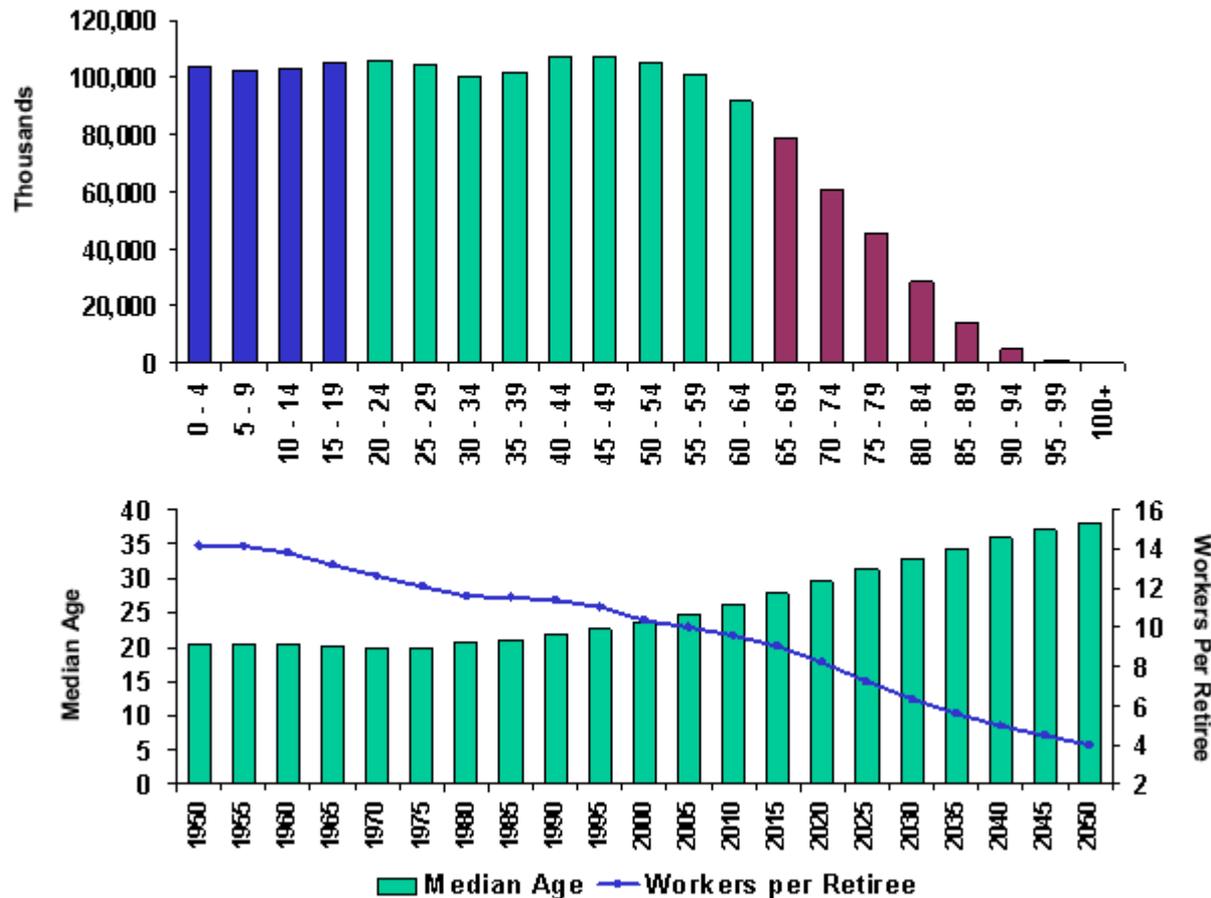
# But there is Hope

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- Outside the developed countries, the population of the world is much younger.
- Let's look at India.

# Age Wave -- India

## India Population By Age Group, 2050

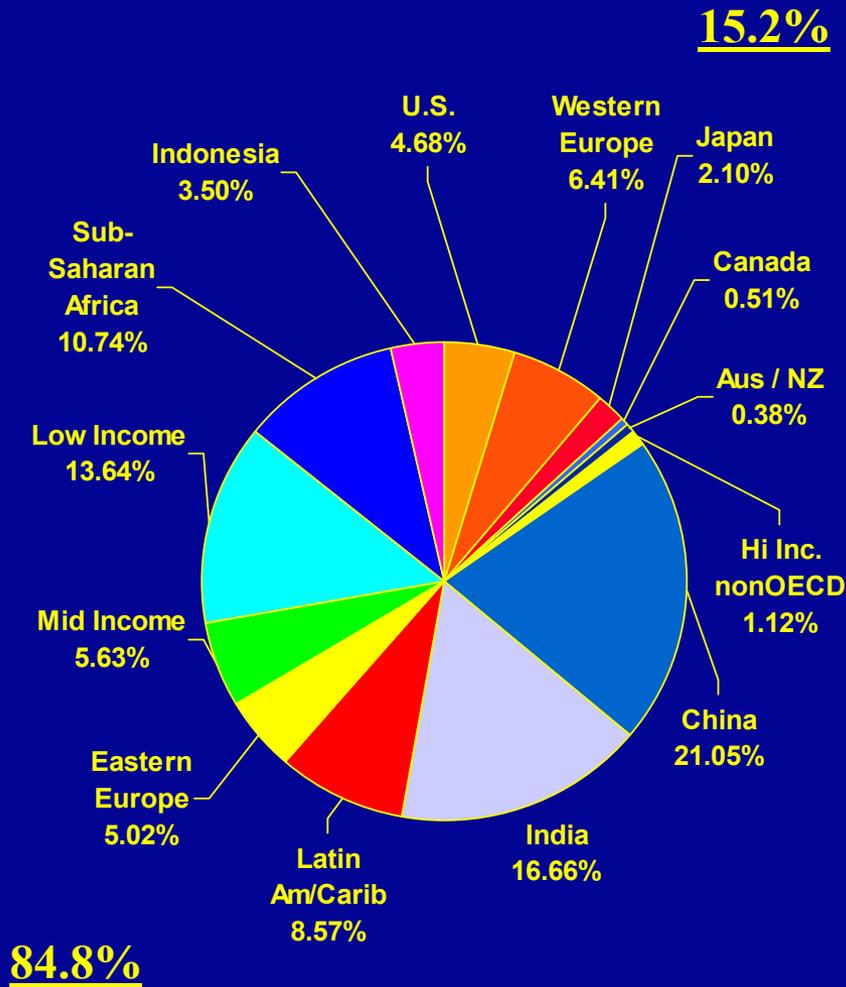


# Trade Deficits and Aging

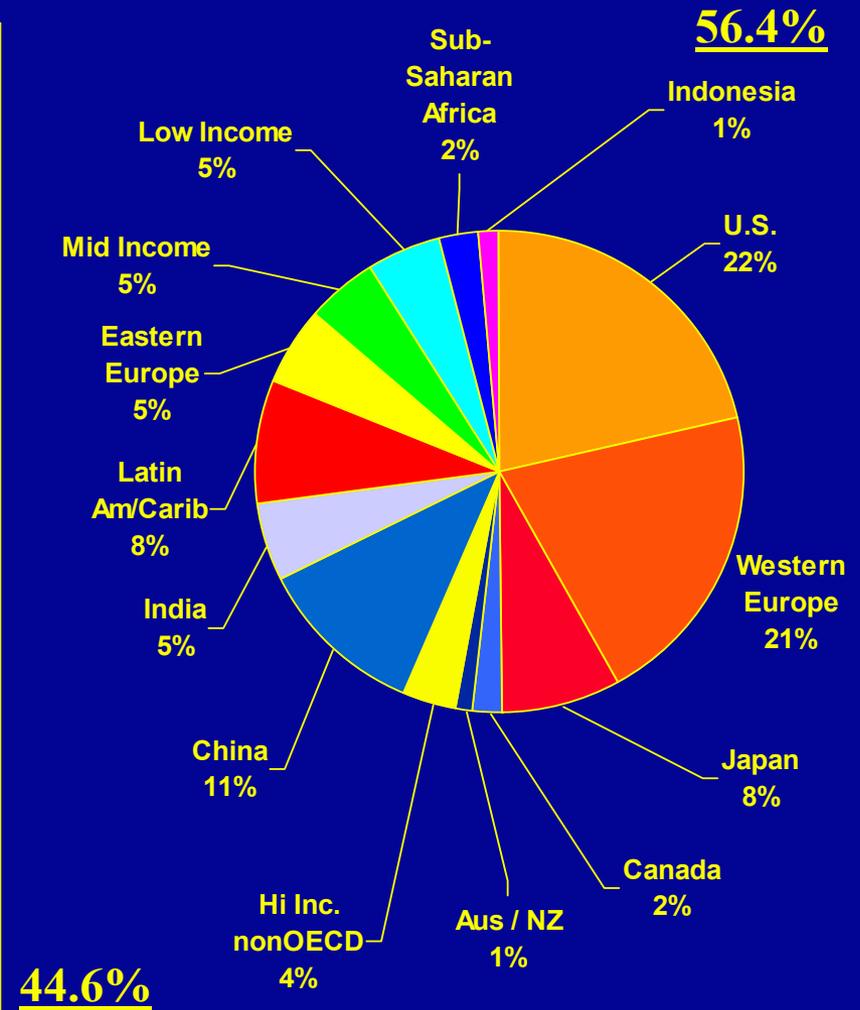
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- Throughout history, the “old” have sold assets to the young in exchange for goods.
- Today in US, Florida’s retirees sell assets to and import goods from other 49 states.
- In the future the US will sell its assets to the rest of the world.
- Success depends on rapid growth in the developing world.

# Population 2000



# World GDP 2000



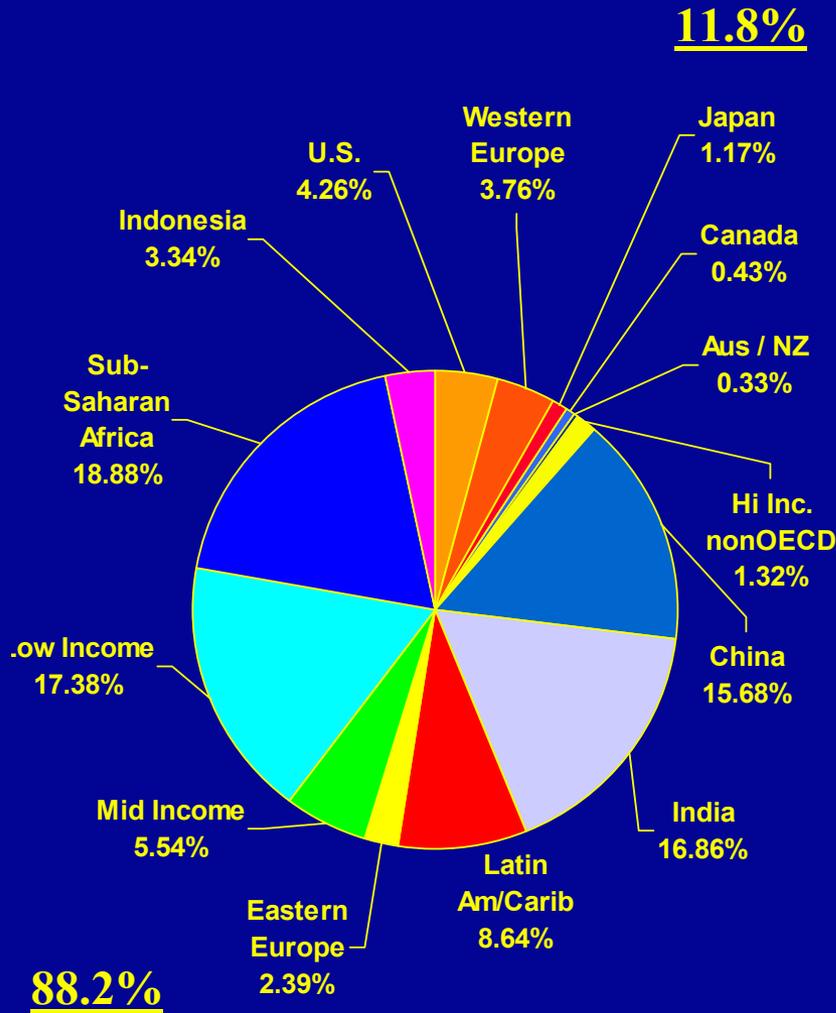
Examples of High Income Non-OECD countries: Singapore, Hong-Kong, Israel, Saudi Arabia

Mid Income Countries: Turkey, South Africa, Phillipines, Iran, Malaysia

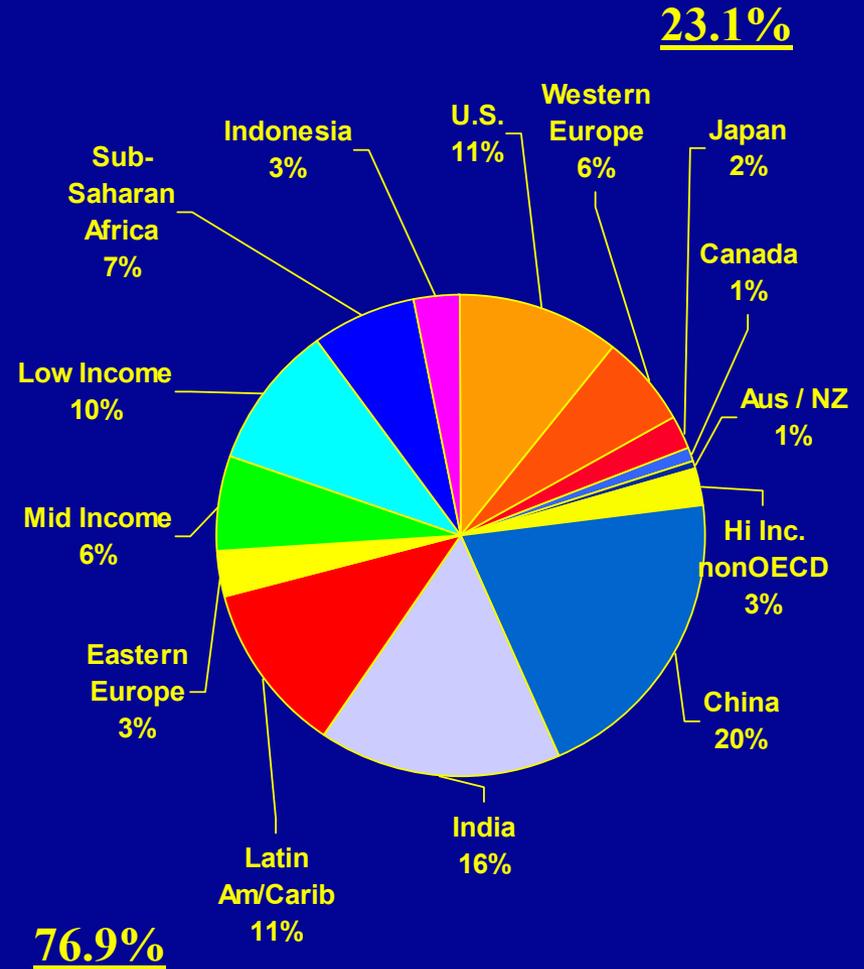
Low Income Countries: Pakistan, Bangladesh, Nigeria

Examples of Eastern Europe: Russia, Poland, Ukraine

# Population 2050



# World GDP 2050



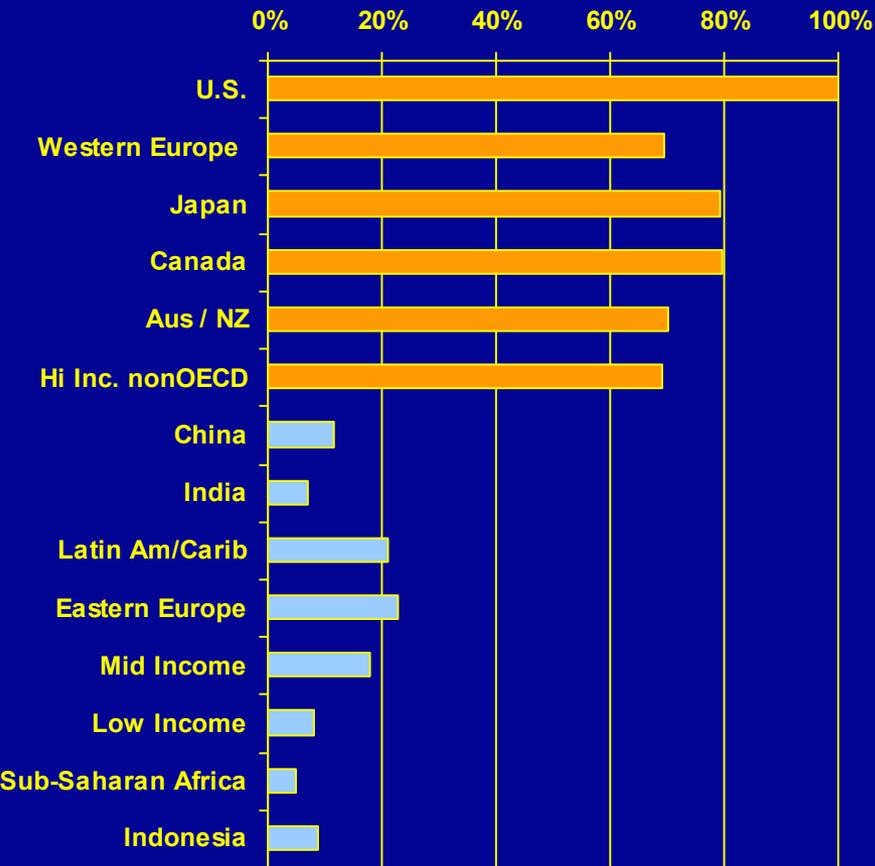
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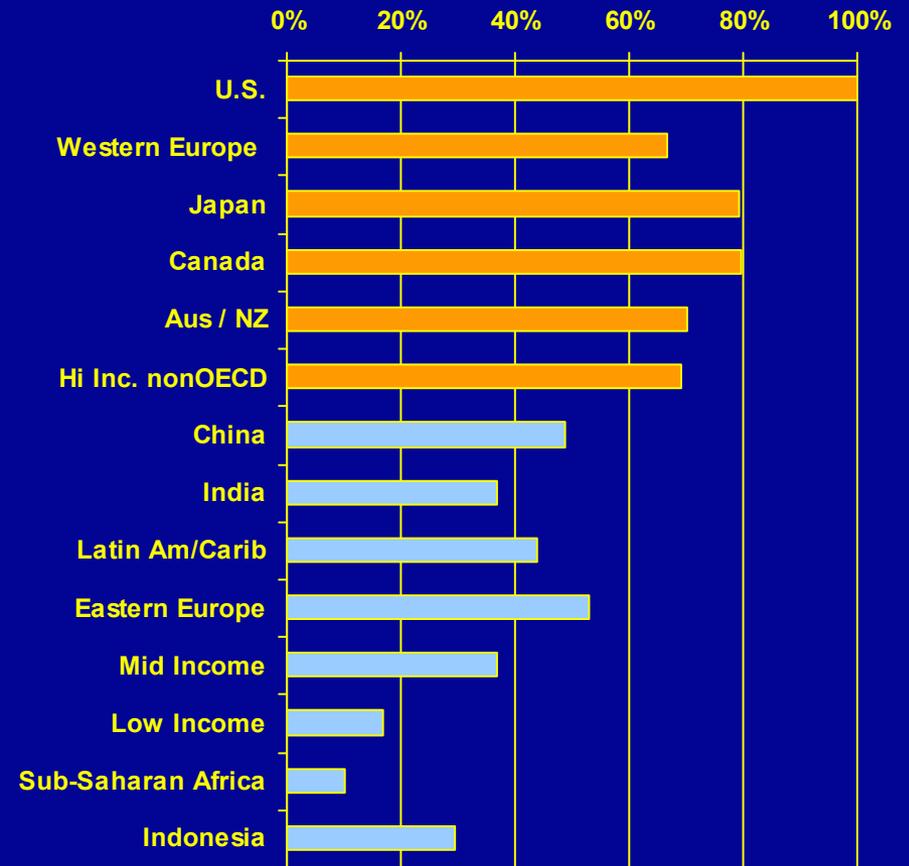
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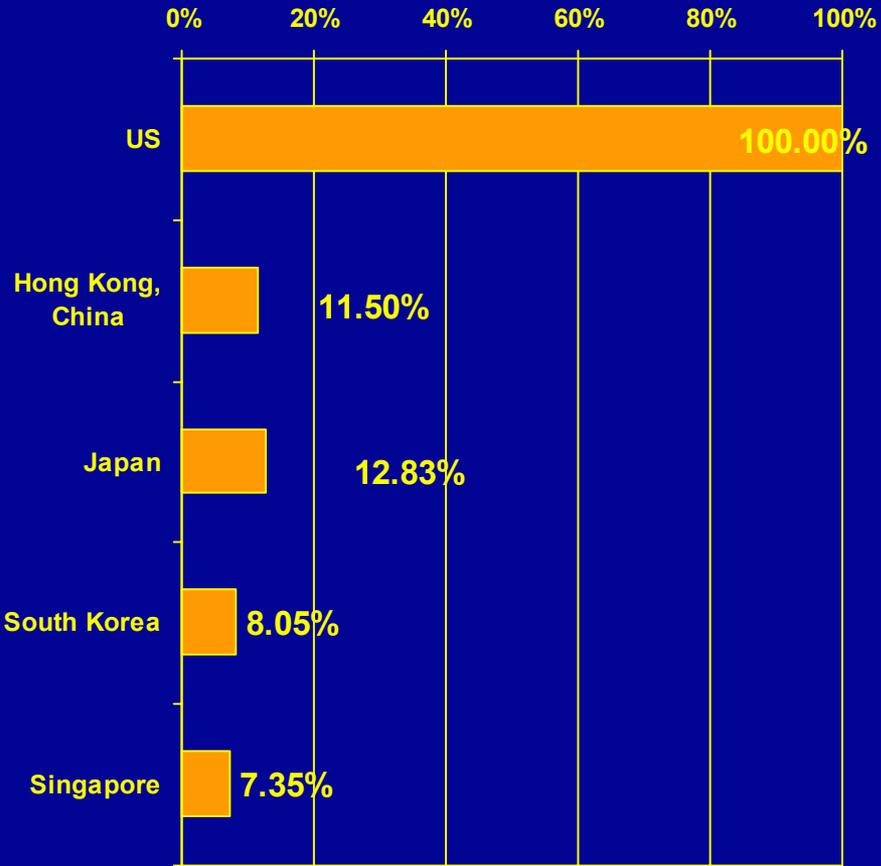
# Per Capita Income Relative to US 2000



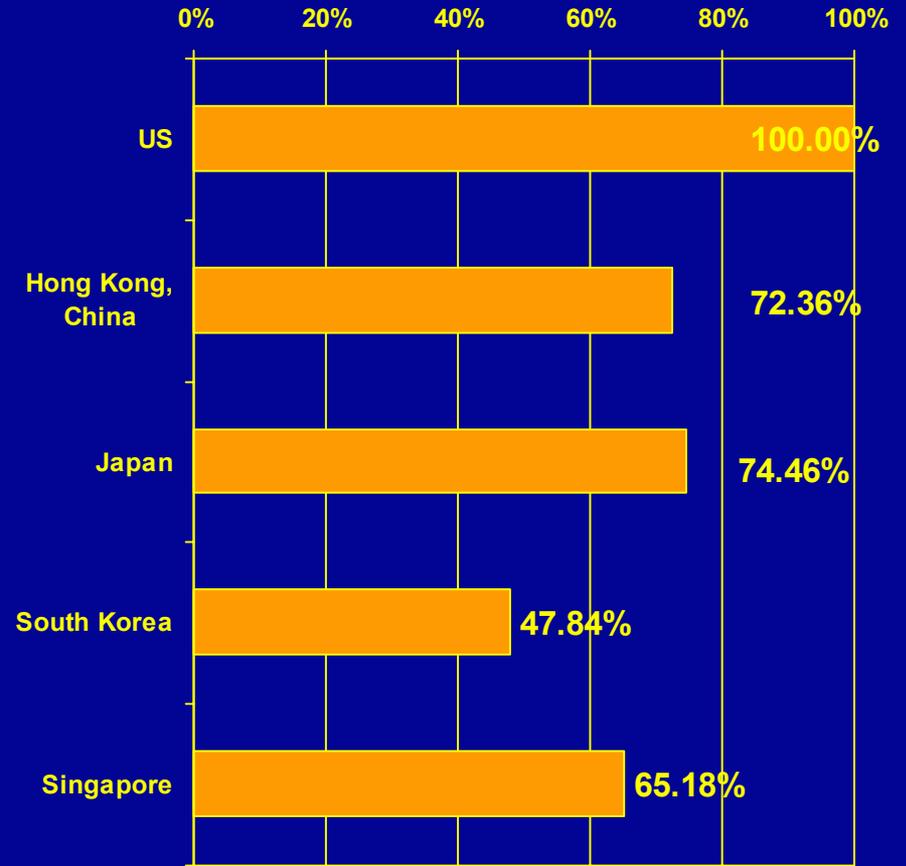
# Per Capita Income Relative to US 2050



# Per Capita Income Relative to US 1960

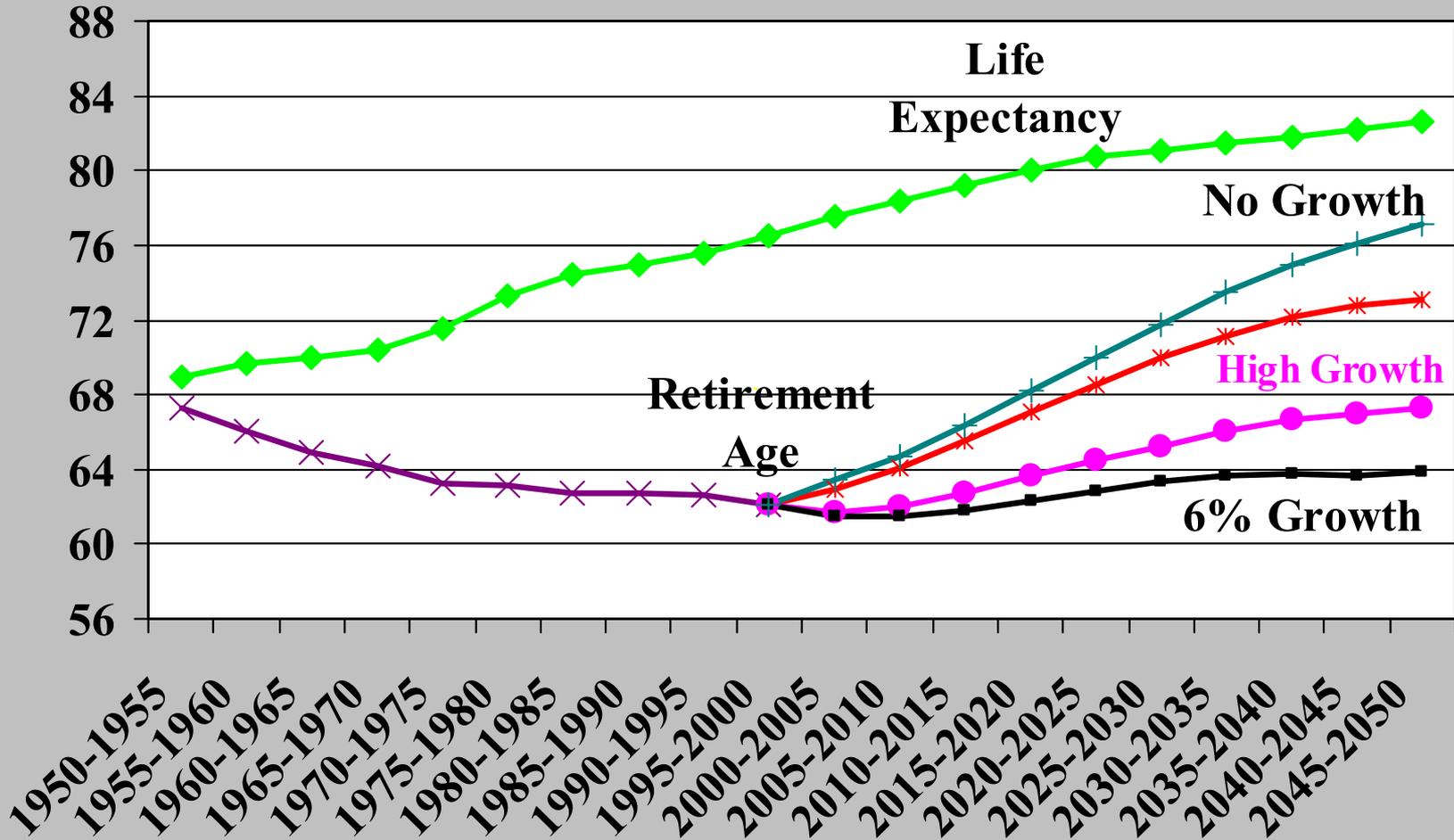


# Per Capita Income Relative to US 2003



# Retirement Age with high growth in LDCs

## U.S. Life Expectancy and Retirement Age



# The Global Solution

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**The answer to our question:**

***Who will produce our goods?***

***Who will buy our assets?***

***Is the same:***

***The Developing Countries***

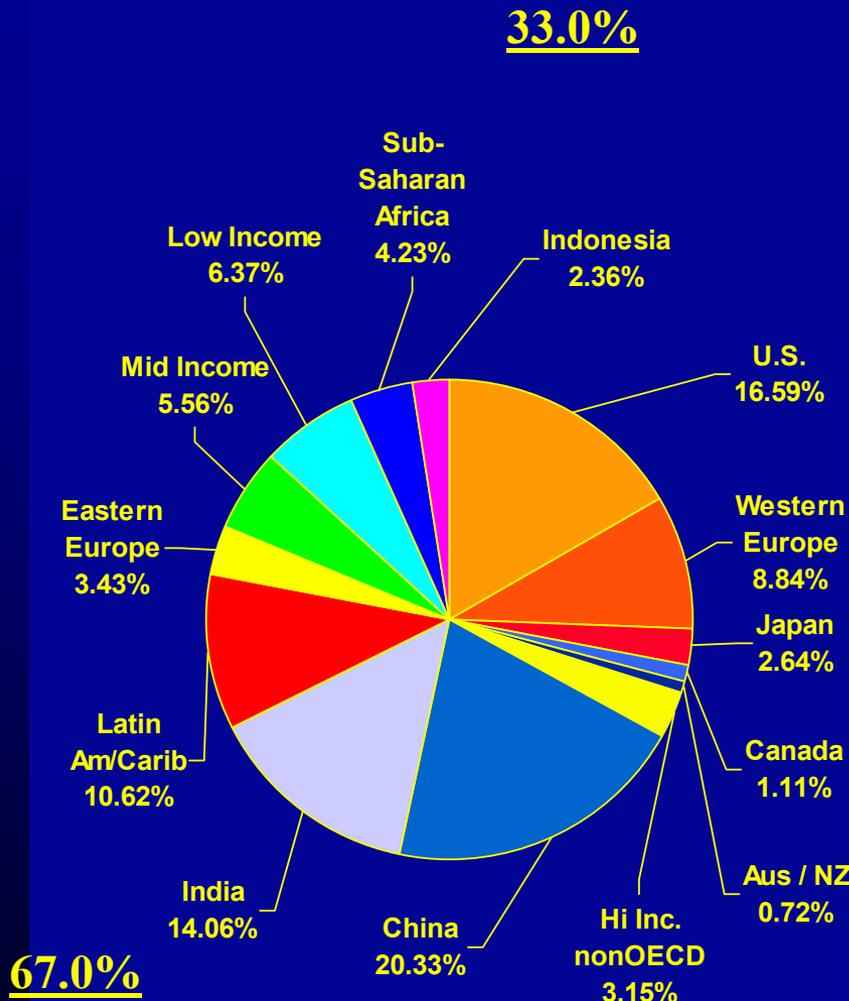
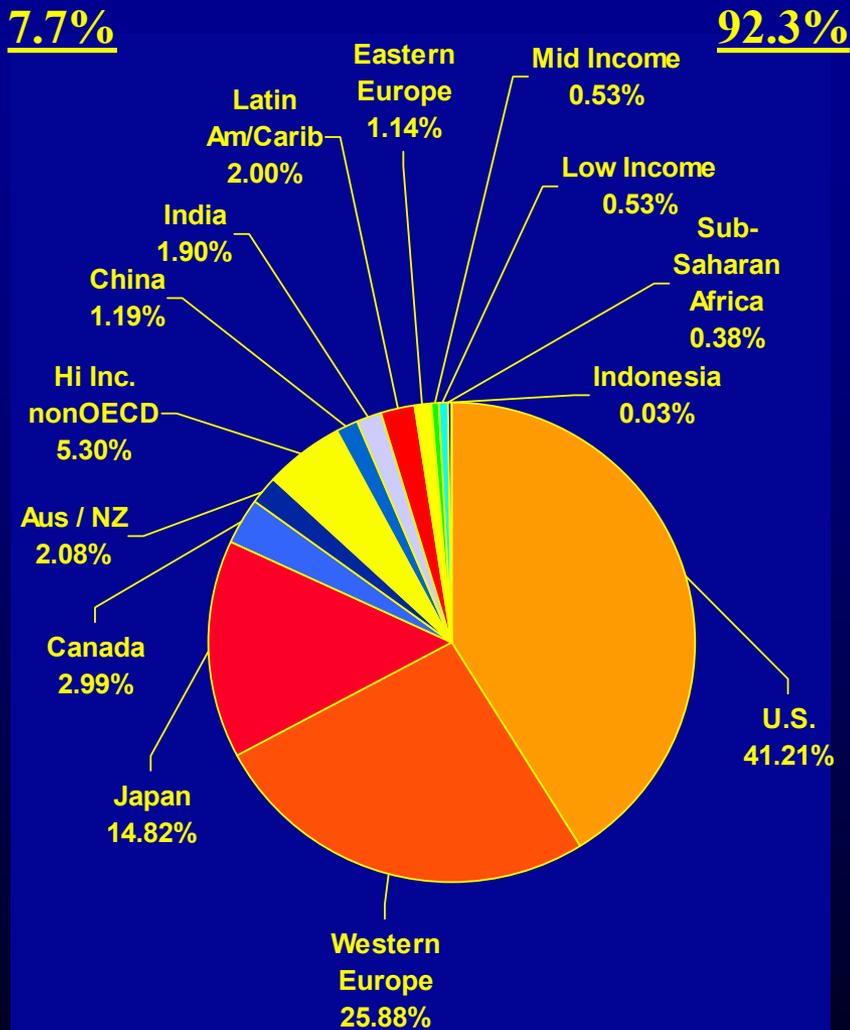
**By the middle of this century Developing Countries will own most of world's capital.**

**Developed Economies will run increasing trade Deficits**

**Trade Deficits will be demographically determined**

# Stock Market Capitalization 2000

# Stock Market Capitalization 2050



Examples of High Income Non-OECD countries: Singapore, Hong-Kong, Israel, Saudi Arabia

Mid Income Countries: Turkey, South Africa, Phillipines, Iran, Malaysia

Low Income Countries: Pakistan, Bangladesh, Nigeria

Examples of Eastern Europe: Russia, Poland, Ukraine

# Projected Trade Surpluses and Deficits

Trade Surplus/ Deficit Percent of GDP										
	2005	2010	2015	2020	2025	2030	2035	2040	2045	2050
US	-0.2%	-1.0%	-2.0%	-3.2%	-4.6%	-5.5%	-5.0%	-4.2%	-3.6%	-3.4%
Europe	-1.5%	-2.7%	-3.5%	-4.2%	-5.3%	-7.2%	-8.5%	-9.1%	-9.3%	-9.0%
Japan	-4.8%	-9.7%	-12.7%	-13.3%	-12.6%	-12.3%	-13.0%	-15.7%	-18.8%	-20.3%
China	1.4%	2.3%	2.3%	1.9%	1.9%	1.4%	-0.1%	-1.3%	-1.3%	-0.6%
India	2.2%	3.8%	4.9%	5.6%	5.9%	6.3%	6.3%	6.1%	5.7%	5.2%
Eastern Europe	2.3%	3.4%	2.4%	0.3%	-1.5%	-2.3%	-2.9%	-5.1%	-8.9%	-12.8%
Hi Inc. nonOECD	-1.5%	-3.0%	-4.0%	-5.2%	-6.3%	-6.9%	-7.3%	-7.9%	-8.7%	-9.5%
Latin Am/Carrib	1.8%	2.8%	3.4%	3.5%	3.3%	2.9%	2.4%	1.5%	0.3%	-0.5%
Mid Income	1.8%	3.0%	3.6%	3.8%	3.8%	3.6%	3.3%	2.5%	1.3%	0.1%
Indonesia	2.5%	4.4%	5.5%	5.8%	5.7%	5.2%	4.3%	3.2%	1.9%	1.1%
Sub-Saharan Africa	2.9%	5.1%	6.7%	8.0%	9.1%	9.9%	10.4%	10.7%	10.5%	10.3%
Low Income	3.1%	5.2%	6.3%	6.7%	6.9%	6.9%	6.9%	6.6%	5.9%	5.2%

# Conclusions

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- I believe that growth in developing world will offset slowing in aging economies and support future equity prices.
- Developing countries allow world to do “intertemporal trade” of goods today for goods tomorrow, rather than rely on their own resources.
- Faster growth in developing countries critically important to developed world.

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