



The Coming Generational Storm

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Demographics = Destiny

- Much of the World is About to Experience Unprecedented Aging
- Result of Dramatic Rise in Longevity and Decline in Birth Rates
- Enormous Social and Economic Consequences
- Major Depopulations Forecast in Japan, Europe, China, & Russia
- Could Bankrupt the U.S., Europe, Japan, and China
- Could Spell High Inflation If Not Hyperinflation



The Aging Process Has Begun!

- 1 in 5 Japanese are Now 65+.
- The Oldest U.S. Baby Boomers Are Now 60.
- Europe and Japanese Work Forces Are Now Shrinking.
- Japan is Now Depopulating, Europe Starts in 4 Years.

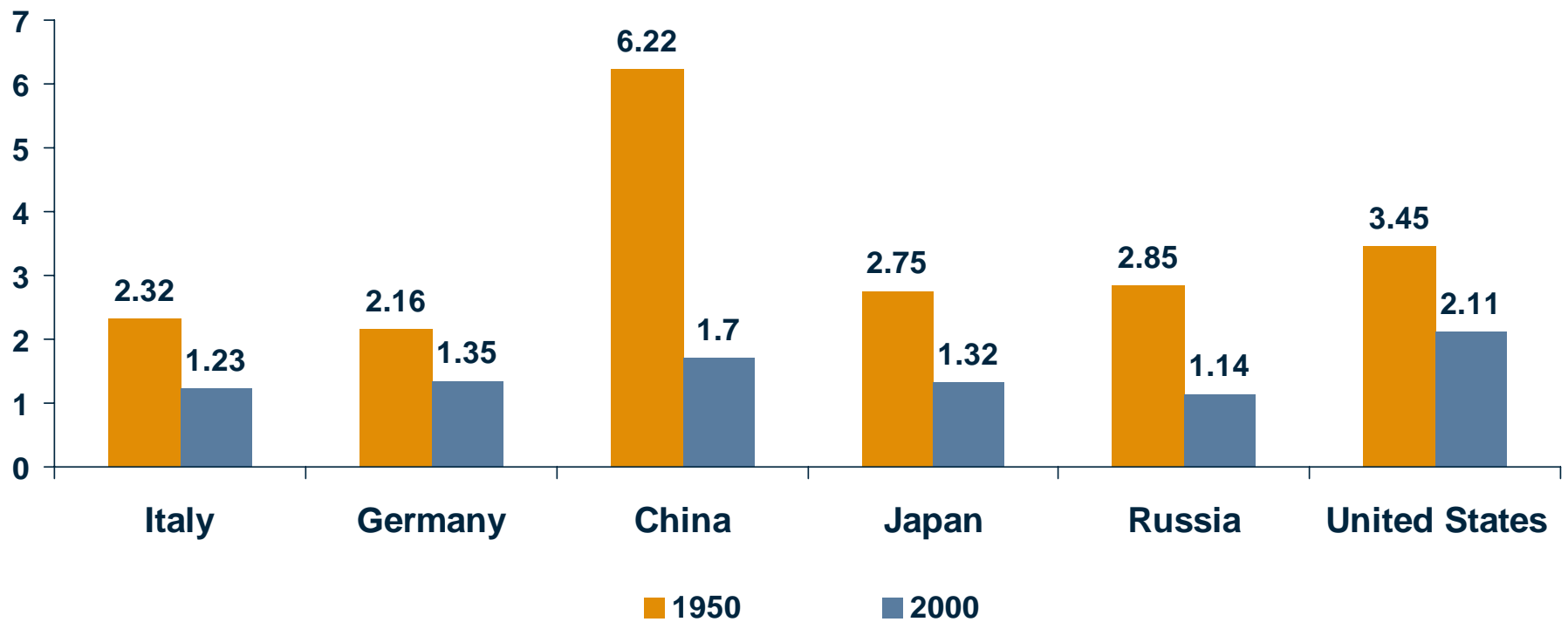


Elderly Population Shares

Country	2005	2030	2050	2070
Germany	17.1%	26.3%	30.6%	31.3%
Japan	18.0%	29.9%	36.8%	37.7%
U.S.	12.4%	19.1%	21.3%	21.6%
China	7.6%	16.3%	23.6%	na

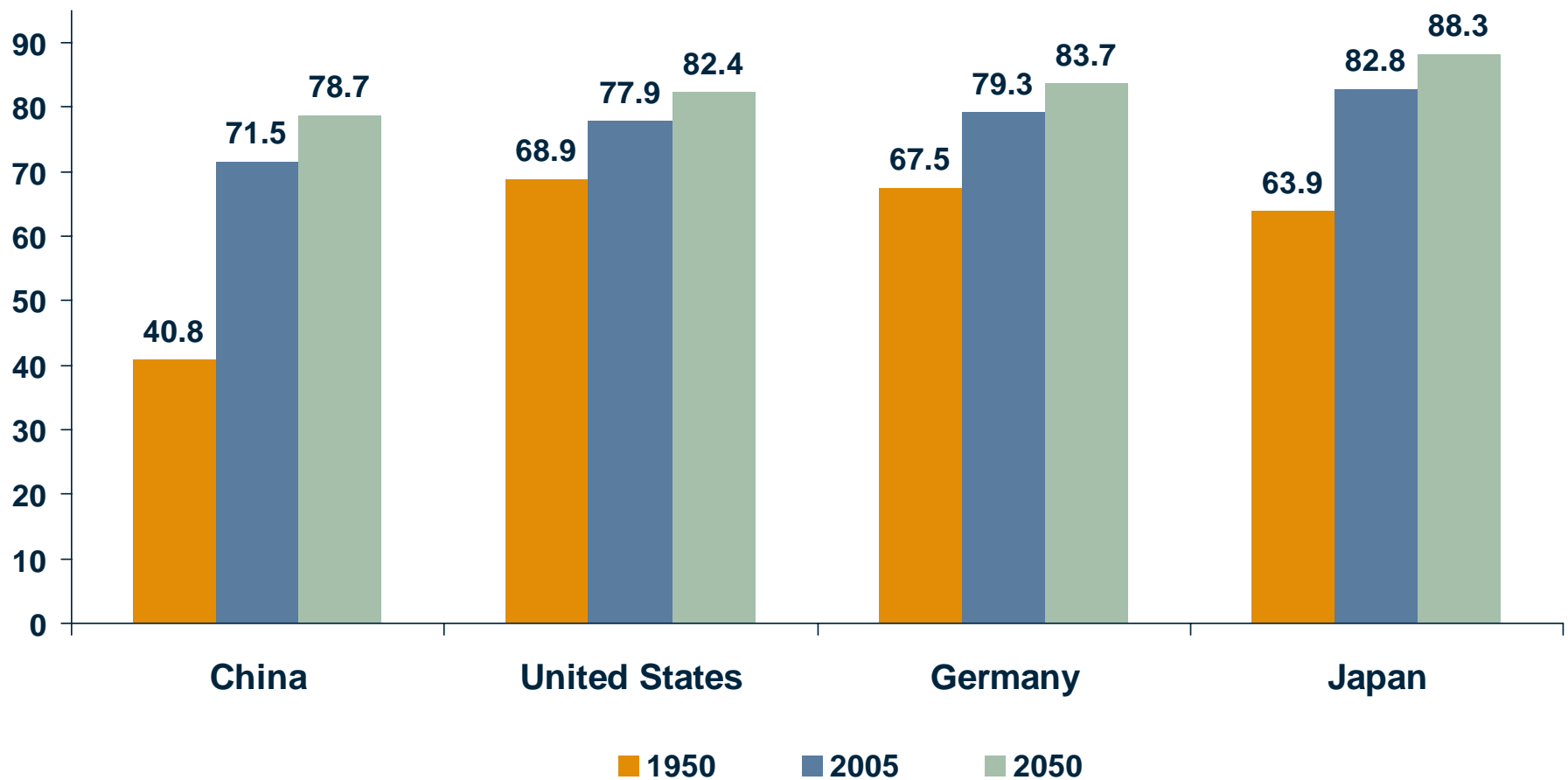


Fertility Rates



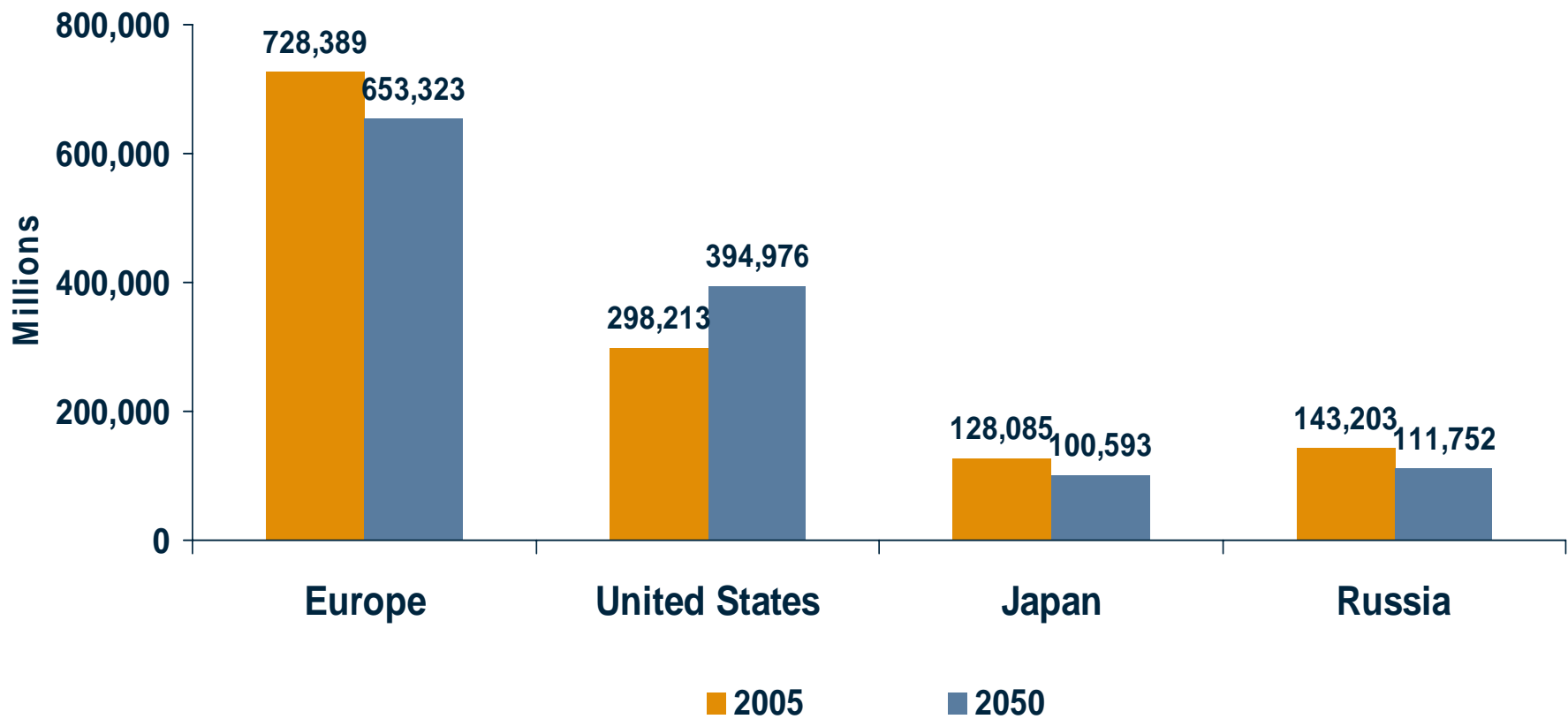


Life Expectancy at Birth





Populating and Depopulating





Demographic Shockers

- Japanese Female Life Expectancy is 86, Russian Male Expectancy is 59.
- Minorities Account for 90% of U.S. Population Growth.
- By 2060 U.S. Minorities Will Be the Majority.
- Fully Developed, China will Constitute More than 2/3rds the Developed World.
- In 2050, the U.S. Will Have Enough Centenarians to Fill Up Washington, D.C.
- France Could be a Muslim Country By 2050.
- 1/2 (1/4) of 65 Year-Old U.S. Couples Will Have a Member Live to 92 (97).
- U.S. Females in Top Colleges Outnumber U.S. Males by 1.33 to 1.
- Roughly Half of Today's Children will Live with Only One Parent Prior to Age 18
- Roughly 80% of Young Black Men Under 35 Have a Criminal Record



Paying the Piper – the Cost of Aging in the U.S.

- Social Security, Medicare, and Medicaid Spending Per Older is \$30,264.
- This Equals 80 Percent of U.S. Per Capita GDP
- This Exceeds Per Capital GDP in 200 of the world's 231 Countries
- 77 Million Boomers Poised to Start Collecting \$30,264 Plus
- Healthcare Spending Represents More than Half of the \$30,264.
- The Healthcare Component Has Been Growing at an Incredible Rate.



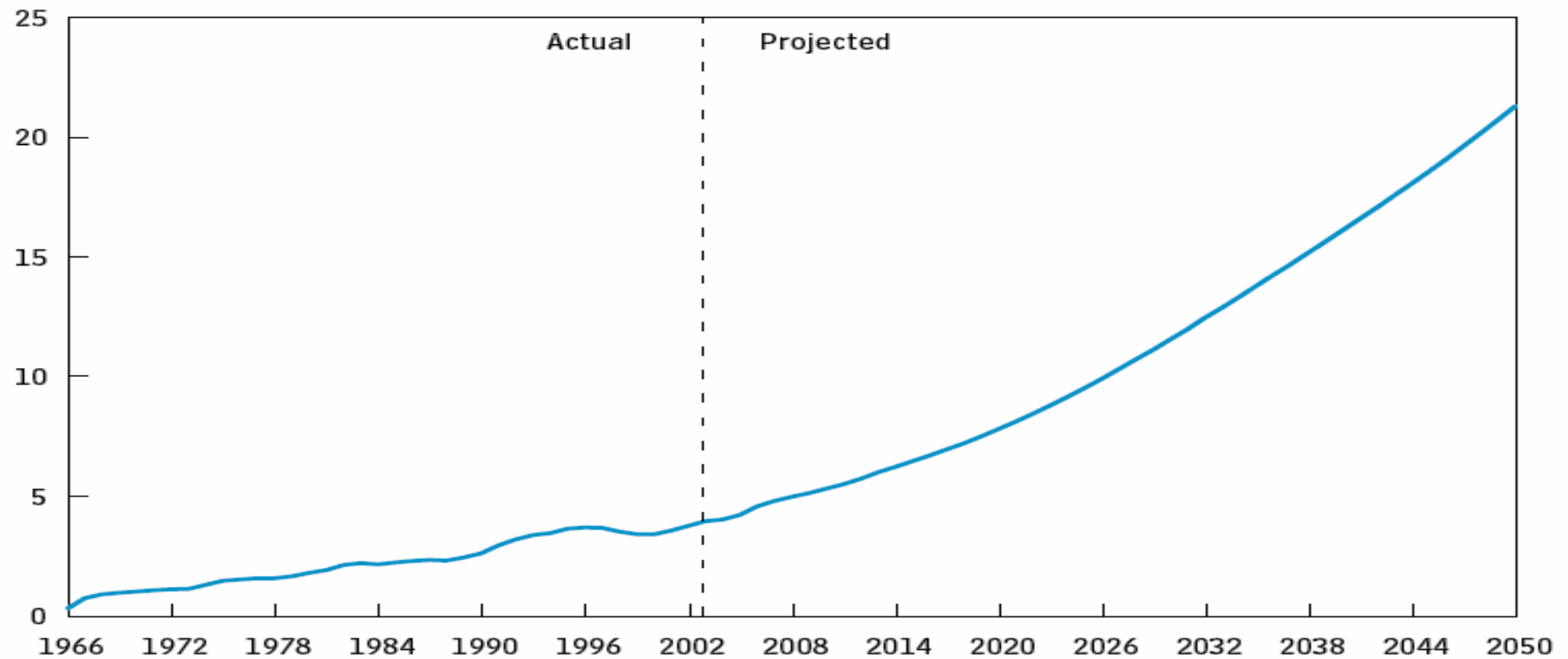
1970-2002 Growth in Government Healthcare Benefit Levels

Country	Annual Growth in Expenditure Per Recipient	Annual Growth in Expenditure Per Capita	Annual Growth in GDP Per Capital	Ratio of Expenditure Growth to GDP Growth
Germany	3.30%	3.62%	1.54%	2.1
Japan	3.57%	4.85%	2.44%	1.5
U.S.	4.61%	5.10%	2.01%	2.3



Total Federal Spending for Medicare and Medicaid

(Percentage of GDP)



Source: Congressional Budget Office. See *The Long-Term Budget Outlook* (December 2003).



Mind the Fiscal Gap!

Fiscal Gap =

Present Value of Expenditures - Present Value of Receipts



Is the U.S. Bankrupt?

U.S. Fiscal Gap =

\$63,300,000,000,000!

Source: Jagadeesh Gokhale and Kent Smetters (2005)



Eliminating the Fiscal Gap – the Menu of Pain

- **70% Permanent Hike in Personal and Corp Income Taxes**
- **109% Permanent Hike in Payroll Taxes**
- **91% Permanent Cut in Federal Discretionary Spending**
- **45% Permanent Cut in Social Security and Medicare**



Bush's Fiscal Policy – Accelerating Bankruptcy

No Social Security Reform

Big Expansion of Medicare

No Medicaid Reform

No Tax Reform

Big Rise in Federal Discretionary Spending



What About?

- Immigration
- Increased fertility
- Capital deepening/Technological change
- Delayed retirement
- Help from employers
- Help from dad and mom
- Help from Our kids



U.S. Is Youngest Kid On Block, But May Be in the Worst Fiscal Shape

- Japan, France, Italy, Sweden, & Germany Have Enacted Major Pension Reforms
- UK is Price-Indexing Its Pensions
- Spending on State-Provided Healthcare is Easier to Control than Spending in a Fee-For-Service System



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U.S. Fiscal Demise Is Not Inevitable

The New New Deal

- The FairTax
- The Personal Security System
- The Medical Security System
- Scaling Back Discretionary Spending



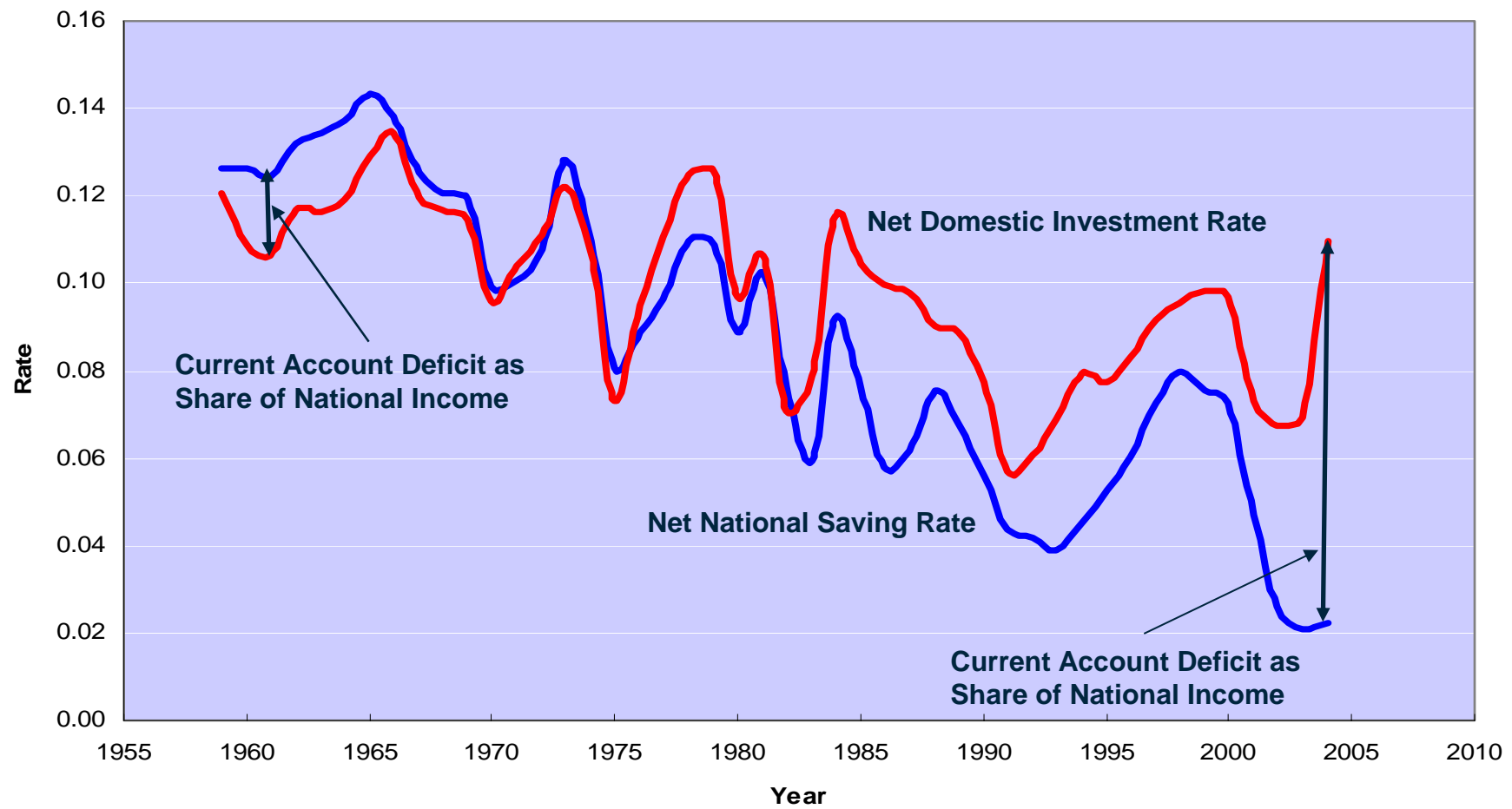
Going Critical

Countries that can't raise taxes or cut spending, print money

- Practice dates to Emperor Diocletian in 300 AD
- 20 hyperinflations in the last century
- Do cry for me Argentina
- Think about Brazilian interest rates
- China Holds and Can Dump \$750+ Billion in U.S. Treasuries



Net National Saving and Net National Investment Rates





Warnings for Financial Markets

- Hyperinflation is Just Around the Corner
- Sky-High Interest Rates Are Just Around the Corner
- Fed's Independence is a Myth
- The Bond Market is About to Tank
- Where U.S. Bonds Go, U.S. Stocks Will Follow
- Where U.S. Stocks Go, Foreign Stocks Will Follow
- Where U.S. Financial Market Goes, Real Economy Will Follow