

30 May 2013

**Killing Us Softly:**

**How Demographics Drive Global Economies**

Professor James Sproule

What I have brought tonight is a lot of graphs because I am a keen believer in “A picture is worth a thousand words” and so I have got quite a number of pictures to illustrate what I am going to be talking through tonight, and as I was saying before I started off, my objective for this evening is to present to you a case which is so absolutely water and airtight that you all walk out at the end of the evening and think “I need everything I need to know about demographics and I am really quite concerned about it.”

I think economists and social thinkers have been thinking for many, many years about demographics: what is going on, and is it really as important as all that? I personally believe that it is. I think that, actually, if we look at really basic lifecycle economics, about what is going on, the productivity of a populace times the number of people working really equals your GDP, particularly if you take inflation out the way, and if you start to reduce the number of people who are working, your GDP is going to fall, and we are going to see some stuff – I have done some forecasting about all of that and what is going on. So, it really does, at some times, become that simple.

I have been in lots of conversations in the last few days and, in fact, I think there were some of you who were at the presentation that I went to yesterday with Paul Tucker of the Bank of England, and we were having a discussion about that and said, “What is the trend rate of growth of the United Kingdom?” and we were having an interesting discussion and somebody said, “Is it down to 1%?” As we will see in my presentation, I said, “Actually, it seems that we are at an inflection point in demographics, and the bad news is that it could be 1% if we do not do anything,” and Paul Tucker said, “Well, actually, you know, we looked at it in the last few years and it does not seem to be coming true – what demographic has suggested should happen has not come through yet.” My view was, yeah, but these are big long-term shifts. I do not care if it does not come through last year or this year. It does not mean we are going to create more people of working age – we are just not going to do that. So, anyway, we are going to come through lots of things tonight, and hopefully I will be through and give lots of time for questions as we come through as well.

One of the things, as an economist, that I really like about demographics, and Michael has alluded to it, is just how predictable it really is. I mean, as an economist, you get a constant reminder of just how much humility you should have in any forecast that you might be giving because, of course, we have all been giving these forecasts and said, “I am absolutely hand-on-heart certain this is going to be the case!” and it just does not quite work out in the way in which you would like. Demographics are great because, for the most part, it is more predictable than many other parts of the economy and certainly economic indicators that have come on. So, we will go on and we will look at some of the things in demographics.

So where are we now? I like this map because of course it gives an idea of, if the world was organised in the size of your populace as opposed to geographically, this is the size of the countries, and you can see the country that I was born in, Canada, really pretty small, the UK much, much bigger than that, which probably tells you why Mark Carney is going from Canada to the United Kingdom because, actually, from a population point of view of course, the UK is more important. Then other countries which have not done so well in turning the large number of people into more productive parts of their economy, so you are looking at India, parts of Africa, and we will be talking about some of those in just a little bit as well.

Where are we now? I am going to go through a few concepts here, just to really introduce you to some of the things that demographics are looking at, and then we are going to start to look more at some of the implications of all that as well.

These are some pretty standard charts that are given. In this case, it is always the males on this side, the females on this side, slightly different colours, as you see, and there is the children and then the retirees. What this shows you is the way in which the world of these four here, and the UK over on that side, you can see the way in which things have grown. There is the world in 1950, 2010, so right about now, 2050, and 2100. You can see how much fatter we are getting. So, when people say to you, “We know that there is older people in the world, that the dependency ratio is rising,” and it clearly is, you can see, if we look at the extreme here, the number of people who are both old and young, depending upon the number of people who are working, has increased quite markedly, and you can see why, when people started to design the original welfare state, way up here in 1950, it all worked. There were not very many old people – you could be really generous with them. If we move to now, we have got a bit of a problem. If we move to 2050, we have got a lot of a problem!

By the way, you can see, over here, this obviously is the War, and you do not really see the effect of the War, but you can see the effect of the War here very, very clearly. The effect of the War is not, in fact, one of people getting killed. It is really of babies not being born. So, you can see, clearly, a little tick in there of the deaths, but a much bigger push is in a few years later, which is, of course, the fact that lots of people were away and unable to start families, and that is a bigger kick effect, and we will see the implications of that as we go on, over the next few minutes.

If we look and say, okay, that is where we are – how many people are we having? What has happened to the fertility rates going on in here? Here, we have got global fertility and GDP. This is sometimes called the fertility paradox because, of course, as you become richer, you should be able to afford more children, and clearly, as you become richer, you do not. As you become richer, you have many, many fewer children.

You can see, down here, the number of children and the income of people, and it does not surprise, you know, what intuitively might be the case, we all know, in practice, is not, and you can see a lot of very, very poor countries, clearly they are having children both as an assurance policy against old age, they are having a lot of children because they may or may not have good healthcare and other things, so a lot of those children will be dying, lots of reasons why.

I think the interesting things that are coming out of this are: number one, if you look at places like Hong Kong – by the way, Singapore is not here, which is sort of the other city-state that we might want to look at, but if you look at Hong Kong, very, very, very low fertility there, much, much lower than you might expect.

The UK/EU, pretty average…the USA, a little bit higher… Some of the data from the US is a little bit skewed because, of course, they do not separate it out to different groups. If you looked at the US in terms of long-term indigenous population as opposed to newer immigrants, you would get a much, much lower birth rate there – so the US being skewed slightly by the fact that they have had a large immigration coming through on all of that.

What is also interesting is the way in which you look at the number of births per woman, and actually, they have all been falling. The European Union and the US, the long-term indigenous population in the US, round about eleven per thousand in a five year period, so round about two children per woman. There was a period of time, around 2000, when this was thought to be actually getting quite a bit worse, and you looked at it and you saw countries like Italy down at 1.3%, people well below reproduction level and all sorts of straight-line forecasts. I personally dislike straight-line forecasts intensely. I think a lot of economists do them. I have even seen some economists manage to sell straight-line forecasts, which always amazes me that anybody would buy something that simplistic. But people were saying within a few decades, we are going to see Germany being larger than Russia, and you think it is not quite as simple as that. What we seem to have seen is that a fair number of women have delayed childbirth, and so I think we have probably lived through a period in which women got on with their careers and they are having their children – they are just having them about five to ten years later than the generation before them. So, we have some evidence of that.

You can see there the point that I put forward that, in 2003, 21 countries had 1.3%, and it is only five now, so we are seeing a bit of a lift-up there. In any case, what we are seeing is a real convergence on the number of children people are having. So, we have got a much more steadying demographic, and I have got some data which I will touch upon later which goes and shows you the number of people in the world, and we are now at a number of turning points. As I said, the one in the UK of what is happening to working age population, and another turning point that we happen to be at right now is that, for the very first time, it is taking longer to achieve the next one billion people in the world than it has taken at any point up until now in human history. So, we are actually seeing a lengthening. It was, for the first billion people to move from one to two billion people, took 123 years; most recently, I cannot remember the numbers – we will come onto them in a moment, but it is actually starting to lengthen out. So, that is what is happened to your fertility.

As Michael said, demographics are about more than just populations. It is also about looking at how rich are people – where is the money? What are they demanding from us? And we start to, now, look at concepts that become very, very interesting from an economic point of view and what we are doing with all of this.

Here we have a life-cycle consumption. Now, this is a chart which I took from the National Bureau of Economic Research in the US, so it is obviously from the US, and the one thing that I think immediately will strike many of you is - this is not terribly believable – is that everybody lives till 90. Clearly, some people, unfortunately, will be passing away before they reach their 90th birthday, so it is not accurate to simply look at this and project it out and think that is the spending the government is going to have to do – it is not quite as bad as all that. However, it does give you an idea of the sorts of things that are going on in the lifecycle. I think there is more to lifecycle economics than simply this chart, clearly. One of them has been – and I used to say this to my students at the LSE all the time: I love economics and I love looking at economics, and a lot of it is about taking how you behave and rip-large, and you have probably got a reasonable idea of the sorts of things that people will want to do. So, for instance, if you are in your late twenties or early-30s, you are probably establishing a home and it is probably an expensive time for you. You make children an expensive thing for you. By the time you are in your 40s and 50s, hopefully you are at your peak earning years and you are probably thinking about things like your pension for the first time. That is what has been happening, and so, of course, what we have been enjoying in the US and the UK in the last few years has been the peak years really, and what we are seeing now is the falling away, and you can see there, we all know, that healthcare spending in the US is particularly problematic for them, but it is not that much easier for those of us in Europe, and you can see the quite considerable rise in the amount of public health.

That is important for a couple of reasons. One of them is that we know that the dependency ratio is rising. The dependency ratio is the number of people who are depending upon, in one way or another, whether they be children or old people, depending upon those of us still in work. So, the question becomes: if you have too many people depending upon not enough workers, can you continue to afford it? And it may well that you could say, well, the people are going to vote for it, you do not have a choice, but at the same time, I would say you cannot create money out of nothing, but of course the Bank of England is proving me wrong on that all the time! But, the fact is, you can have a populace that depends things that simply become unaffordable, and at some point, it all becomes unstuck, and if you would like to see evidence of that, you simply need to ask the Greeks.

Here we have the UK working age population. Now, this is stuff – this is all from the United Nations’ population database, a database I have long liked and, in fact, I have to say they have made better and better over the years – it is really very, very good.

Here is your UK working age population. So, this is between fifteen and 64, which is what they call the working age population. Clearly, a lot of us would not think that fifteen year olds necessarily are pouring into the job market, but it will tell us some interesting things.

The number starts to tick up in about 1970, so in reality we have got up to about 1960. If you remember what Harold Macmillan said, “You have never had it so good,” well, actually, a lot of people seemed to think that was the truth and they started producing families much bigger. In the US, for instance – and we will see this in a moment – it started quite a bit earlier, because of course the prosperity, the post-War prosperity in the US took hold probably about ten years before that seen in Europe. So, anyway, we can see the working age population starts to go up here, and it really goes up until the late-1960s, when all sorts of different societal changes come into it, and that is when it starts to level off. Importantly – whether people actually started working at fifteen is not a concern here, but what is a concern is, if you think about where we are now, 2013, that is about where we start to see that steep decline. We have got different variants here, and these variants depend upon things like immigration, they depend upon, in some degree, fertility, but everybody is agreeing on one thing. If you remember, one of the reasons I love demographics is because it is actually much more predictable than almost any other part of economics. We already know what the population is. We have actually seen, in the UK, one of the biggest periods of net immigration we have ever experienced in this country. It has been politically quite controversial, it is probably difficult to see it happening again, but the fact is, that is the sort of decline that we are going to be seeing going forward.

What is all of that going to mean for us, because, clearly, it is one thing to say, well, we have got a decline, and it is another thing to start to predict some of the things coming out of that.

Here is your working age population, productivity versus GDP. If you remember, a moment ago, I talked about the whole idea of an economy growth, in very simplistic terms, was your productivity plus how many people were working. If we see, in the previous chart, if your economy is growing, as it was, the number of people coming into the economy, whether that be because the indigenous population has got more people entering the workforce or because you have got immigration, you have got a very positive effect coming through here. It is not the whole story, by any means. Most of the story is about people getting more productive in their work. We know that people have a trend rate of productivity that people get better at our work by about 2% a year, but the trend rate of growth in the UK has been about 2.5%, and you can look at that quite clearly. You can see that I have added together the productivity and the population growth, and then compared it against the GDP. Now, the GDP is a figure generally derived out of VAT receipts, so it is a consumption figure, and the productivity and the population is an output measure, so you can see the two match pretty well, as you would expect. So many times in economics, what you expect does not actually happen, but in this case, it was rather gratifying that you could see quite clearly the two were very closely correlated. If you had said, “Well, what is productivity?” It is about 80%, so 20% of the growth that we have seen over the long-term has been due to the fact that we have got an expanding population.

More recently, we have had, the last few years, where, as you saw in the previous chart, we have reached something of a plateau and so we were not seeing a growing working age population. We were just muddling through. I think there is also been bigger issues within the economy as a whole. The last five years have clearly been pretty dramatic for those of us in the financial sector, and for everybody else in the economy as a whole, and I do not think you have probably seen the demographic implications being at the forefront of what has been driving the economy going forward from there. So, there we have got some idea of what has been happening in the UK.

What has been happening in the rest of the developed world? You will see, quite clearly here, pretty similar really. You can see the baby boom, and it comes at different places for different people, but essentially the effect of the War, and if you remember those charts, those bulging charts I showed you earlier, about the fact that children had not been born because men were largely away, that has really been driving an enormous amount of demographics across all of the European Union.

It is interesting – I have not put it up here, but if you look at countries like Ireland and Sweden, where there was not a War, or where they were not in the War, they are very, very different – they are much, much flatter. They have not experienced the same sort of gyrations going on with all of that.

The key to all of this of course was, not the return of the soldiers - if you look at the actual data in 1945/46, there is a little bit of a spike-up as the boys got home and immediately started to produce families, but the real thing is it is all about economic prosperity, so people felt good and they started to produce children, in a way that they just had not beforehand.

What is happening in the rest of the world? Well, here we have BRICs (Brazil, Russia, India and China). I am not just sure that BRICs are necessarily the best explanation of emerging markets, but they are the ones that everybody seems to use, and Jim O’Neill is making sure that we all remember it was he who put it forward. Anyway, we have got the BRICs, and I have put the world here, just to show you how they produce against that. Demographics have been a really positive boost for them as well.

I will just digress very briefly on one country in particular because I think it is extremely interesting: Ireland. Ireland, as I said, did not go into the Second World War, but when it left the United Kingdom in 1922, they went into more or less a long-term recession, 1922 to 1982 – a couple of generations of very poor economic growth, and during that time, they saw enormous amounts of net emigration away from the country. Eventually, they got their act together and they started to have what was obviously known as the Celtic Tiger and they did very, very well. It is interesting looking at that as they grew because one of the things that the Celtic Tiger really helped on was they started to have a demographic boom, and if you look at what Ireland did during that period of time, they had an enormous number of young people entering the workforce. We know that you can have an enormous number of young people and not do anything, and under-perform economically, and you have got examples of that. I think the most depressing case, to be honest, in the world is Egypt, where the population growth is rapidly outstripping any ability to provide for them economically, with the result that, actually, they are getting much, much poorer, almost uniquely poorer amongst countries that once were sort of middle-ranking. But Ireland has done very, very well, and we will come back onto that in a few moments, as to the hierarchy of how countries expand when they finally get things right.

Back to the emerging markets, we can see here fairly dramatic falls, but nothing like the dramatic falls that we are seeing here. A lot of people who go looking at the emerging markets will tell you pretty quickly, one of the reasons that people who are very positive about India, in comparison to particularly places like China, is because of the demographics, and you can see here, that purple line being India, and the steep-falling/collapsing line being China. Now, that is about 1% a year for China – the working age population drops by 0.5 of 1% and so it goes from a positive 0.5 to a negative 0.5, so a 1% drop a year. If you are growing at 11 or 12% and somebody says, “You are dropping 0.5%,” well, it is not that big a deal, is it? But everybody is also expecting China to be growing, and in fact, there are arguments right now that the Chinese Government is trying to get a broader range of growth and therefore is pushing or holding growth back on purpose for part of a bigger plan, and that they are aiming at 6% growth, and all of a sudden, if you are seeing a working age population falling by 1%, 1% off 6 is a lot bigger than 1% off 12, so China is facing a demographic problem of really catastrophic proportions. Along with that, they have got a whole trend of urbanisation, a real moving of the poor into the cities. So, some big, big things happening within the working age population as well.

I have described a lot of problems…let us look at some of these solutions.

It is not all inevitable, and the stuff I have said, I think, pretty much is inevitable, but we can do things about them – they are just not terribly easy things to do, and there will be some painful things, and undoubtedly some of you will pick me up in the questions and say, “Yes, yes, but this really is not possible because too many people will be hurt and too many people will not vote for it,” and I am thinking if you want to create more people to be workers, that is fantastic, and then we can come around to solutions.

Anyway, what can we do?

One is to retire later – and we will come onto that in a second!

One is to improve on automation in productivity, we can improve our workforce participation rates, we can improve the workforce flexibility in what we do, and, finally, we can accept stagnation. Before, of course, we said we do not want to accept stagnation – that is the choice the Japanese have made, and if you asked which country has been the first into this demographic, testing just to see what it is like to live in a country with 1% growth for two decades because nobody is willing to admit that past mistakes have been made and, by the way, the population is not growing, it is Japan. Let us be clear: Japan is still a rich country. People still live quite good lives there. But it is not one that is growing, and there will be all sorts of consequences of that as well.

So, let us just look quickly at what the UK would look like if we did not do anything.

As I said, if you remember before, I had that chart which looked at population growth plus productivity growth and said that is it, and then there is our GDP. Then I just took that and I said, well, let us just run that forward! Let us just say we do not get any more productive, we do not get any less productive – some people are saying everything has been invented that has ever been invented, which I always think is a particularly stupid type of approach. Let us just say we continue with the same rate of productivity growth that we have had in the last twenty years for the next twenty years. I am a big proponent of, whenever you want to look forward twenty or 30 years, you look back twenty or 30 years. It gives you a framework in which to set everything together, because oftentimes people can either think that we are all going to be travelling around in spacesuits and standing around in t-shirts like Star Trek, or they can say nothing is going to change at all. I think it is a good metric, and it is one that they often use at the World Economic Forum in Davos, and I think it is good.

The other thing about low rates of growth is they make industrial transformation pretty difficult. One of the things that I think is really positive about if we see, for instance, the way in which IT has come into India, is that old ways of doing things are changed by new industries coming into an economy, and if you do not have new industries coming in, it is much more difficult to undertake those sorts of transformations.

So, that is the downside. What are some of the things we can do to potentially get around that?

The first one, of course, is retire later. This is something that both the last Government and this Government have been working upon. Some of you may recall that the Labour Government decided that the absurd situation in which women both lived longer and retired earlier than men was being reversed and they were going to equalise the retirement age and then raise it. Unfortunately, they decided, in order to make sure that nobody was ever hurt by this, they would take four decades to do it, which is probably somewhat longer than I would have done it if James Sproule, the Radical, had been in charge.

Anyway, that said, it is not the be-all and the end-all here because I wanted look at this, and I was looking back at Lord Turner’s report of about six or seven years ago now, and seeing what is the evidence of this, retiring later. It helps, but it is not the answer – it is not the whole answer certainly.

You can see there, here is the old age, and you can see what happens if you get people to retire and you move the retirement age up. It is better. The dependency ratio is not as high. But it is not going to be the solution to this whole problem.

Also, it is interesting to see the number of children – so, the long-term projections of the number of children remain, as we were discussing earlier, it is moved up to about the replacement rate and it just sits there. Most families, two children, pretty normal…

Here we have got, clearly, a rising dependency ratio, and it is rising because people are old. The Coalition Government has now set a new plan, which is to, for the first time – and this is only in discussion, it is not been obviously put through – to link people’s retirement age – they do not actually have an official retirement age anymore, but to try to link people’s retirements to their longevity, so we are going to be encouraged to actually continue to work and to not have a fixed date at which we retire but to probably have a fixed date of number of years that we would seek in retirement, so, say, the last ten years or whatever.

The one thing that moving the retirement age up does do, it does not affect the dependency ratio so much, but it does mean that the retirement pot, the amount of money you sre able to save, is much, much better because you have both got fewer years to depend upon that pot of money and more years to contribute to it. So, there are some bigger benefits to it that are not necessarily shown in this chart.

If we are going to retire later and we have got a problem, maybe we could all be a bit more productive. Maybe we could actually do more. I think the immediate answer, the immediate thing there is that the UK certainly has scope for that. Many of these things, I have looked at and said there is not much scope to improve things here. There is a lot of scope to improve in the UK. If you look there on the chart here, the UK is the flat-line, and everybody is in comparison – the UK got more productive as everybody else collapses down between 1990, around 2006, 2007, and since then, it has steadied out, but we are down there with Canada and Italy, but we are some way below France, Germany and the US. Clearly, there is probably a lot to do there, and it is well beyond the scope of this particular lecture to go into all of that, but there is clearly scope for that. I think, looking at it, there is hope as well because, down here, one of the things that we have looked at about productivity, and I was always taught, way back when, when I was doing my undergraduate and then my Masters’ degree, that it was much easier to gain productivity increases when you were talking about manufacturing because, of course, people got better at manufacturing. Of course, it was Professor Robert Solo in 1987 who said you could see computers everywhere except the productivity statistics. I am not sure that is actually true anymore.

Here we have got the total services’ productivity increases in the whole economy in the UK, and that is manufacturing… So, either the data is dodgy – I do not think so, it is from the ONS – or, actually, we have got a lot better at getting service sector productivity. Now, some of that is due to the fact that we are doing more outsourcing, and some of it is due to the IT revolution that has taken longer to affect than most people would anticipate. One of my favourite quips is by Bill Gates, who said that the IT revolution is both underestimated in the long-term and overestimated in the short-term. People think that IT things will really, really affect them quickly – they do not; but they also do really affect you in the longer term. It takes a long time for companies to figure out how to use IT effectively, and I think that is really the case in a lot of the service industries coming through in all of that.

If we seem to have overcome the idea that service sector productivity is difficult, what are some of the other implications?

So, what have got here? I think this is also extraordinarily important, particularly this chart here, because one of the things we also hear is, well older people, they are not so productive and how is the economy going to respond to older people? In fact, if we look at what is the productivity by age, actually 50-plus has done really well. The people that are not so productive are your youth. Now, for those of us who are a bit older, a bit more cynical, that might ring true, but actually the data backs that up and I find it extremely interesting what has been happening there.

We have got, on the top one over there, the education level and the productivity and, surprise, surprise, those with the more education tend to be more productive, and that I think has been the case for a very, very long time and certainly will continue.

One of the things about the retirement age, which probably reflects both in these charts and the previous ones, is that, we have talked about people retiring and what age they retire – traditionally 65. Of course, one of the things that we have had over the last twenty-odd years has been many people taking early retirement. That, I think as a trend, is probably going to be reversed quite quickly. The reason that one might want to raise it from 65 to 70 or more, very, very rapidly, is because, actually, the anticipated age – so people say 65, and then, if they get to 55, they feel slightly guilty about retiring, but by 60, they are thinking maybe I can retire now. If we raised it to 70, the hope I think for many people, including myself, would be they will at least work until 65. Right now, they are not even working to 65 and I think we have got – a chart later shows the earnings capacity in all of that. So, part of the reason to delay is just to get people to push it back in some way.

If we are going to become a bit more productive, a bit better educated, thankfully, older workers do seem to be very productive, a bigger service sector economy certainly helps with productivity and older workers have a much easier time with the service sector economy and being productive in that economy, what are some of the other things we can do?

One of them is to improve workforce participation rates. I have not looked at unemployment here because I think unemployment is a figure that tends to get skewed, not so much in the UK, but wildly skewed in parts of Europe, and it is actually better, and what we are really concerned about here is not unemployment, we are concerned about how many people are out there working to produce stuff to keep the economy going, because what we are worried about is the number of people within the working age population and so we will look at the employment rates.

We all know that Germany is having a very good time economically in the last few years, and you can see the German employment rate going up there quite markedly, and the UK being pretty high already. In the UK, employment held up remarkably well in the last few years, despite the fact of the recession. It is one of the curious things about this, this downturn, has been many economists, including myself, would have predicted much higher unemployment to come up, but companies have been slow to restructure, and that slow to restructure has at least had the advantage of keeping lots of people in employment.

So, looking at the employment rates and what is going on with all of that – and, unsurprisingly, countries like Greece, I have mentioned them not obviously because they are major but because they can show you what happens when things go badly wrong from a not terribly heroic level, about 58%, now they are now down to about 54% of the people employed within the country, and that is pretty appalling.

What have governments looked at in all of this? What have governments focused upon? Governments tend to be focused upon long-term unemployed, and there is all sorts of reasons why you would want to focus on long-term unemployed as a politician. However, I want to make the argument that actually that is probably the wrong thing to focus on here, because what we are really concerned about is not unemployment, per se – we are concerned about getting people into the workforce and getting more people into the workforce because we have got a shortage of people to keep the economy going, and actually, long-term unemployed are the very last people in a hierarchy of employment that you would tend to define.

If we look at what happens economically, as companies grow within an area, the first people that they hire are those who have been unemployed for a short period of time – not discouraged workers, they have probably got a lot of relevant skills, they are out there looking all the time…they get dropped. Who is next? New to the labour force is actually next. It is easier to attract a housewife, fresh student, somebody like that, to come into the workforce, who had not considered working and now thinks, actually, there is good opportunities here, I will come into the workforce. The next in the queue, and this is really starting to stretch it, tends to be immigrants. I would much prefer to employ immigrants than long-term unemployed, and particularly if the immigrant has a connection. A lot of this data that I was looking at comes from studies that I did a number of years ago on the Irish economy, and clearly, they had a diaspora that left. That diaspora came home before they started to employ long-term unemployed. Only once the, in the Irish case, the boom had been going on about eight years did they start to employ. That type of a hierarchy of employment gives you an idea of how difficult it is to employ long-term unemployed. My encouragement for governments and policymakers here would be you can have programmes for the long-term unemployed for all sorts of good socio-economic reasons, but do not think that is going to be the thing that solves the problem of the demographic problem. The demographic problem should be addressed through a different thing, which is to get more people employed, and probably not all the focus upon the workforce.

Finally, let us look at getting some improved workforce flexibility. I think there are two things that need to come through here. A lot of people have talked about employers and the way in which they need to get with the picture and employ older people. B&Q of course is at the forefront of this, but who else can we point to and say “That is a company that really wants to employ older people within the economy”? Not that many have really focused upon it. I think that that is absolutely true, but I think there is more than that, and I think the other thing is the employees need to start to look at that, and they do not. The idea that people have some long, slow, gradual increase in their income to the age of 65 is wrong. It is going to have to change. People are going to have to start to say, towards the end of my career, I have a variety of incomes and I am not paid as much at the age of 65 as I was at 55 – that is the way it goes. It does not mean they are not going to be paid anything, it does not mean that you are not a productive member of society – it just means that people have to get used to a cycle that means up and down. Gordon Brown should remember that, no more boom and bust in his economic cycles – it means both. It means up and down, and that is probably the sort of thing that is going to happen. So, that is one thing that is going to come through in all of this.

A second thing is, if we are looking for people to keep the economy going because there is not enough wealth being created because there is not enough people to do it, there is another part of the economy which could, somewhat more controversially, be tapped to supply some of that and that is the public sector, which, as you can see here, has grown quite considerably. It has shrunk down in the last couple of years, but it is still employing about 25% of people in the country are employed in the public sector. Now, if the economy as a whole is not generating enough money, one has to look at what and how are we going to shift people around to make sure that the economy as a whole is generating that wealth. Rather than consuming the wealth through taxation and therefore paying into the public sector, there is an argument to say people can be shifted from less productive to more productive jobs in that manner.

Moving towards my conclusion, what are we going to do?

We can plan to retire later, which I think we should certainly do. We can drive up productivity, which we would all like – it is difficult but we would all like to do it. We can get more people working productively – probably a good idea. We can embrace agility. Or, we can decide to retire in 2065, which is to say we can enjoy a much, much lower standard of living.

I am here at Gresham College and I am here in the City of London, and I thought, just before I conclude, I am going to come onto one particular area which I find very, very interesting, which I think is really relevant to those of us who live in London and is a big demographic trend. When I was doing all of the reading for this lecture and putting it all together, one of the big factors that people were looking at and saying that this is going to be changing is urbanisation. I love this chart. It is not a chart, sorry, it is a picture. It is taken by NASA at night and it shows the world at night, and so you can see where people are, and you can see how many people are becoming urbanised. The one thing I will point out quickly, for those of you who have not, and I think probably most of you have seen it, it is not that clear a picture. You can look it up on the net very quickly yourselves or when all this presentation comes out on the Gresham website. If you look at Japan there, and then obviously you see South Korea, and then you see that blank part north of it, that is North Korea, so clearly not an area blessed with a lot of urbanisation, nor blessed with a lot of electricity, but what we are seeing here is urbanisation. So, what has been happening?

In 1800, about 3% of the people in the world lived in urban areas, so not many. London was obviously here, been around since Roman times, but not many people lived in cities – most of them were rural. Today, it is about 50% of people who live in urban areas, and currently, there is 23 cities with more than 10 million of populace. By 2025, it is estimated by the UN that that will be about 37 cities, so quite a considerable increase in the number of them. The first city with more than a million people in the world was London! About 1811, and we were the biggest. We are still the biggest in Europe, and there is a bit of artificiality to that of course because when they talk about London’s population, of course they just talk about the Metropolitan Boroughs, and we all know that London does not stop at the M25. It spills over and you could quite convincingly argue that essentially the whole South East of England is a city called London and certainly near parts of the Home Counties are all London. That type of thing happens in lots of other places as well.

Today, there are about 456 cities in the world with more than a million people, and 1.4 billion people live in those cities with more than a million people. This is I think the really key factor here: 600 urban centres with 20% of the world’s population generate 60% of the global GDP. What we are seeing is the power of cluster effects.

Now, cluster effects are something I find extraordinarily interesting, about why do industries cluster, and we happen to be sitting of course in the cluster of financial services here in London, but we can look at lots of others. Why is Northern Italy so good at shoes? There are other parts of the world that are really, really good at everything, from furniture manufacturing to textiles. Different parts of the world get very good. Lots of people would love to have Silicon Valley. It happens that a part just outside San Francisco is one of the world’s leading technical areas for invention and for entrepreneurship, those sorts of things, and there is very interesting stuff happening with all of that.

I think the urbanisation has been one of the real growing trends, and when we are looking at demographic effects coming forward, and all of the negative stuff I have put forward, and all of the things I have said about how we have got to really reform ourselves, those of us in London, provided we can continue to have London as being one of the world’s two global financial centres. As long as we are one of the two or even three big global financial centres, I think our outlook in London is pretty positive.

Let us conclude, demographics are not destiny. What I have set out tonight is not actually set in stone, but it is probably a pretty good guess as to what is happening. It is a noteworthy determinant. It is possible to overcome demographics, but it takes a lot of effort. At present, I think our trend rate of growth in the UK is going to be less than 1% unless we do something, and 1% does not feel very comfortable. That really brings up the whole question of do we need growth? There are lots of people who say they would be perfectly happy without growth. I remember getting into a debate when I was student about all of this, with a member of Green Party, who said the Government has got to encourage people to consume less – we just need to not grow, or to realise the limits of what the planet can produce. I said, well – this was in 1992. You will be very pleased to know that, at that point, the Government had arranged just such a policy. Unfortunately, it was called recession and people did not like it very much. People like growth, and the reason we like growth is it gives you opportunities, and opportunities are one of the things that people want to see their own career, their own lives progressing, and if you do not have growth, any time somebody is progressing, it means somebody else is losing, and so you cannot have a win-win situation in a very low-growth or no-growth society, and that is a very difficult thing.

I will close by saying there are ways to cope. They are not easy and they are not impossible. Not one of my necessarily heroes, but John Maynard Keynes was saying that he warned the effect of a growing populace was likely to be over-optimism, and that is what we saw throughout much of the post-War period. The effect of a shrinking populace is pretty much the opposite, in particular emphasis during the period of transition, and unfortunately, ladies and gentlemen, that is the period we are in right now.

© Professor James Sproule 2013