COUNCIL on FOREIGN RELATIONS

Must Read

Standard & Poor's: Global Aging 2010: An Irreversible Truth

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This Standard & Poor's study evaluates the profound economic and policy impacts of a rapidly aging global population.

No other force is likely to shape the future of national economic health, public finances, and policymaking as the irreversible rate at which the world's population is aging. The problem has been long observed and is well understood: U.N. figures show the proportion of the world's population aged over 65 is set to more than double by 2050, to 16.2% from 7.6% currently. By the middle of the century, about 1 billion over 65s will join the ranks of those classed as of non-working age. Standard & Poor's Ratings Services believes that the cost of caring for these people will profoundly affect growth prospects and dominate public finance policy debates worldwide.

Since September 2007, when we published our last update on what we view to be the potential implications of this shift in demographics on sovereign ratings, the onset of the financial crisis has interrupted government efforts to manage the burden of aging-related spending. Before the crisis, many governments' structural primary deficits were improving, albeit not as quickly as our projections had indicated would be needed. However, the rapid build-up of government debt over the past three years has, in our view, heightened the need to do more to frontload reforms aimed at containing the risks to sovereign budgets, especially in countries with high expected future increases in age-related spending. Currently, relatively high general government deficits are complicating efforts to rapidly improve public finances, particularly among advanced economies. This will, in our view, likely lead to further debt accumulation over the medium term.

The 2010s had been considered by previous Standard & Poor's reports the window of opportunity to address the challenges posed by aging to the sustainability of public finances. Through the next decade, governments likely have some breathing space as we expect pressure from age-related spending will remain relatively moderate over this period. Nevertheless, while this window to implement fiscal sustainability strategies remains open, it will not be for long with the expected acceleration in spending starting in 2020. Against the backdrop of large deficits in some countries, we expect undertaking budgetary consolidation and pension or health-care system reforms simultaneously will prove politically challenging, and could lead to delays in policy implementation. In our view, the maneuvering room has shrunk and delays in policy implementations may generate additional political, economic, and budgetary costs.

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