

# THE GRAYING OF THE GREAT POWERS

**Demography and Geopolitics in the 21<sup>st</sup> Century**

## *Major Findings of the Report*

by

**Richard Jackson  
Neil Howe**

with

**Rebecca Strauss  
Keisuke Nakashima**

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# THE GRAYING OF THE GREAT POWERS

## Demography and Geopolitics in the 21<sup>st</sup> Century

### *Major Findings of the Report*

This report is about the geopolitical implications of “global aging”—the dramatic transformation in population age structures and growth rates being brought about by falling fertility and rising longevity worldwide. Its viewpoint is that of the United States in particular and of today’s developed countries in general. Its timeframe is roughly the next half-century, from today through 2050.

The report explains how population aging and population decline in the developed world will constrain the ability of the United States and its traditional allies to maintain national and global security. It not only assesses the direct impact of demographic trends on population numbers, economic size, and defense capabilities, but also considers how these trends may indirectly affect capabilities by altering economic performance, social temperament, and national goals. Although the focus is on the developed countries, the report also looks closely at how the striking demographic changes now under way in the developing world will shape the future global security environment—and pose new threats and opportunities for today’s graying great powers.

This overview summarizes the report’s main findings under two headings: findings about the demographic transformation and findings about its geopolitical implications. It also lays out a framework for policy action.

#### **MAJOR FINDINGS: THE DEMOGRAPHIC TRANSFORMATION**

- *The world is entering a demographic transformation of unprecedented dimensions.*

Global aging is not a transitory wave like the baby *boom* that many affluent countries experienced in the 1950s or the baby *bust* that they experienced

in the 1930s. It is, instead, a fundamental demographic shift with no parallel in the history of humanity. “When this revolution has run its course,” observe aging experts Alan Pifer and Lydia Bronte, “the impact will have been at least as powerful as that of any of the great economic and social movements of the past.”<sup>1</sup>

Consider median age. Until the beginning of the twentieth century, a national median age higher than 30 was practically unheard of. As recently as 1950, no nation in the world had a median age higher than 36. Today, 8 of the 16 nations of Western Europe have a median age of 40 or higher. By 2050, 6 will have a median age of 50 or higher. So will Japan, the East Asian Tigers, and 17 of the 24 nations in Eastern Europe and the Russian sphere. (See figure 1.) Or consider population growth. Throughout history, populations have usually behaved in one of two ways. They have grown steadily, or they have declined fitfully due to disease, starvation, or violence. In the coming decades, we will see something entirely new: large, low-birthrate populations that steadily contract. There are already 18 countries in the world with contracting populations. By 2050 there will be 44, the vast majority of them in Europe. (See figure 2.) As historian Niall Ferguson has written, we are about to witness “the greatest sustained reduction in European population since the Black Death of the fourteenth century.”<sup>2</sup>

**Figure 1: Countries Whose Median Age Is Projected to Be 50 or Over in 2050\***

Taiwan	56.3	Hong Kong, SAR	54.0	Armenia	52.3
Japan	56.2	Ukraine	54.0	Croatia	52.1
Bulgaria	55.9	Romania	53.9	Cuba	52.0
South Korea	55.5	Slovakia	53.9	Germany	51.8
Slovenia	55.3	Latvia	53.8	Belarus	51.7
Czech Republic	55.0	Italy	53.5	Hungary	51.2
Poland	54.4	Greece	53.3	Portugal	51.1
Singapore	54.3	Lithuania	52.8	Austria	50.9
Spain	54.2	Bosnia & Herzegovina	52.7	Georgia	50.2

\*Excludes countries with populations of less than 1 million.

Source: *World Population Prospects* (UN, 2007); and Population Projections for Taiwan Area, 2006-2051, Council for Economic Planning and Development, Taiwan, <http://www.cepd.gov.tw/encontent/>. For demographic scenario, see *The Graying of the Great Powers*, appendix 1, section 3.

<sup>1</sup> Alan Pifer and Lydia Bronte, “Introduction: Squaring the Pyramid,” in *Our Aging Society: Paradox and Promise*, eds. Alan Pifer and Lydia Bronte (New York, W.W. Norton, 1986), 3.

<sup>2</sup> Niall Ferguson, “Eurabia?” *The New York Times Magazine*, April 4, 2004.

**Figure 2: Countries Projected to Have Declining Populations, by Period of the Decline's Onset\***

Already Declining		Decline Beginning: 2009-2029		Decline Beginning: 2030-2050	
Hungary	(1981)	Italy	(2010)	Azerbaijan	(2030)
Bulgaria	(1986)	Slovakia	(2011)	Denmark	(2031)
Estonia	(1990)	Bosnia &	(2011)	Belgium	(2031)
Georgia	(1990)	Herzegovina		Thailand	(2033)
Latvia	(1990)	Greece	(2014)	North Korea	(2035)
Armenia	(1991)	Serbia	(2014)	Singapore	(2035)
Romania	(1991)	Portugal	(2016)	Netherlands	(2037)
Lithuania	(1992)	Cuba	(2018)	Switzerland	(2040)
Ukraine	(1992)	Macedonia	(2018)	UK	(2044)
Moldova	(1993)	Spain	(2019)	Hong Kong, SAR	(2044)
Belarus	(1994)	Taiwan	(2019)	Puerto Rico	(2044)
Russian Federation	(1994)	South Korea	(2020)	Kazakhstan	(2045)
Czech Republic	(1995)	Austria	(2024)		
Poland	(1997)	Finland	(2027)		
Germany	(2006)	China	(2029)		
Japan	(2008)				
Croatia	(2008)				
Slovenia	(2008)				

\*Excludes countries with populations of less than 1 million.  
Source: See figure 1.

- *The coming transformation is both certain and lasting. There is almost no chance that it will not happen—or that it will be reversed in our lifetime.*

The public may suppose that population projections 50 years into the future are highly speculative. But in fact, demographic aging is about as close as social science ever comes to a certain forecast. Every demographer agrees that it is happening and that, absent a global catastrophe—a colliding comet or a deadly super virus—it will continue to gather momentum.

The reason is simple: Anyone over the age of 45 in the year 2050 has already been born and can therefore be counted. And though the number of younger people cannot be projected as precisely, few demographers believe that low fertility rates in the developed world will recover any time soon. Even if they do experience a strong and lasting rebound, the declining share of young (childbearing-age) adults in the population will delay the positive impact on age structure and population growth. Because of demographic momentum, population growth takes a long time to slow down. Once stopped, it also takes a long time to speed up again.

- *The transformation will affect different groups of countries at different times. The regions of the world will become more unlike before they become more alike.*

As the term global aging correctly implies, nearly every country in the world is projected to experience some shift toward slower population growth and an older age structure. This does not mean, however, that the world is demographically converging. Most of today's youngest countries (such as those in sub-Saharan Africa) are projected to experience the least aging. Most of today's oldest countries (such as those in Europe) are projected to experience the most aging. As a result, the world will see an increasing divergence, or "spread," of demographic outcomes over the foreseeable future.

During the 1960s, 99 percent of the world's population lived in nations that were growing at a rate of between +0.5 percent and +3.5 percent annually. By the 2030s, that 99 percent range will widen to between -1.0 percent and +3.5 percent annually. By then, most nations will be growing more slowly, and indeed many will be shrinking—but some will still be growing at a blistering pace of 3 percent or more per year. In the 1960s, 99 percent of the world's population also lived in nations with a median age of between 15 and 36. By the 2030s, that 99 percent range will widen to between 18 and 54. Here again, the trend is toward increasing demographic diversity.

- *In the developed world, the transformation will have sweeping economic, social, and political consequences that could undermine the ability of the United States and its traditional allies to maintain security. The consequences can be divided into three main types:*

*Changes in Demographic Size.* The growth rates of the service-age population, of the working-age population, and (therefore) of the GDP in the typical developed country will all fall far beneath their historical trend and also beneath growth rates in most of the rest of the world. In many developed countries, workforces will actually shrink from one decade to the next—and GDPs may stagnate or even decline.

*Changes in Economic Performance.* As populations age and economic growth slows, employees may become less adaptable and mobile, innovation and entrepreneurship may decline, rates of savings and investment may fall, public-sector deficits may rise, and current account balances may turn negative. All of this threatens to impair economic performance.

*Changes in Social Mood.* Psychologically, older societies will become more conservative in outlook and possibly more risk-averse in electoral and leadership behavior. Elder domination of electorates will tend to lock in current public spending commitments at the expense of new priorities. Smaller family size may make the public less willing to risk scarce youth in war. Mean-

while, the rapid growth in minority populations, due to ongoing immigration and higher-than-average minority fertility, may undermine civic cohesion and foster a new diaspora politics.

- *In the developing world, the transformation will have more varied consequences—propelling some countries toward greater prosperity and stability, while giving rise to dangerous new security threats in others.*

At the opportunity end of the spectrum, some developing countries will learn to translate the “demographic dividend” created by their declining fertility into higher savings rates, greater human capital development, efficient and open markets, rising incomes and living standards, and stable democratic institutions. Some will follow the meteoric success path of a South Korea or Taiwan, others the slower-but-still-steady success path of an India or Malaysia.

A larger share of the developing world, unfortunately, stands nearer to the challenge end. There are the countries (most notably, in sub-Saharan Africa) least touched by global aging, whose large youth bulges, high poverty rates, weak governments, and chronic civil unrest offer the least prospect of success. There are the countries (most notably, in the Muslim world) where population growth is declining and substantial economic growth is more likely—but where terrorism and destructive revolutions and wars are also more likely. And then there are the countries whose demographic transformation will be so extreme (Russia) or is arriving so rapidly (China) that it could trigger an economic and political crisis. Russia, Ukraine, and the other Christian countries of the Commonwealth of Independent States (CIS), afflicted both by very low fertility and declining life expectancy, are projected to lose an astonishing one-third of their population by 2050. China, having suddenly adopted a one-child policy in the 1970s, will face a developed country’s level of old-age dependency with only a developing country’s income.

## **MAJOR FINDINGS: THE GEOPOLITICAL IMPLICATIONS**

- *The population and GDP of the developed world will shrink steadily as a share of the world totals. In tandem, the global influence of the developed world will likely decline.*

During the era of the Industrial Revolution and Western imperial expansion, the population of what we now call the developed world grew faster than the rest of the world’s population. From 17 percent in 1820, its share of the world’s population rose steadily, peaking at 25 percent in 1930. Since then, its share has declined. By 2005, it stood at just 13 percent—and it is

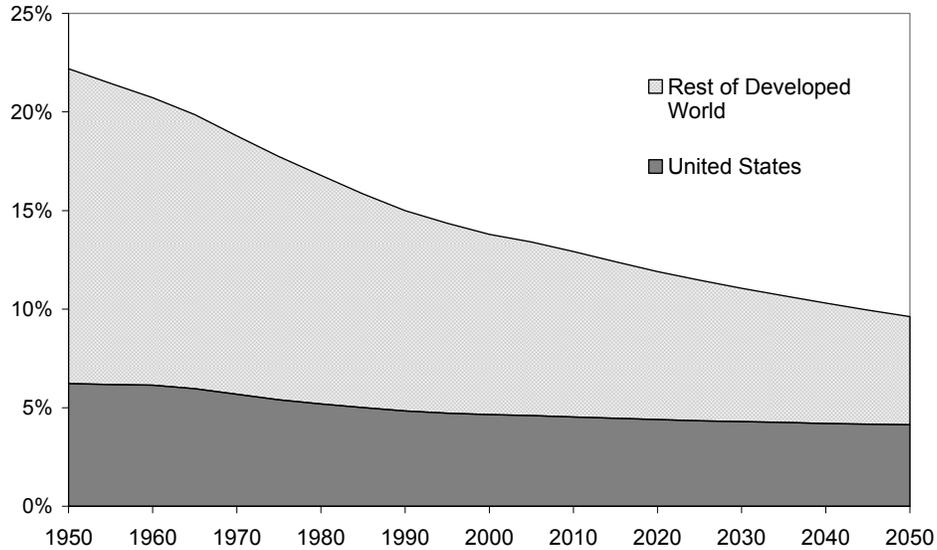
projected to decline still further in the future to below 10 percent by 2050. (See figure 3.) As a share of the world's economy, the collective GDP of the developed countries will similarly shrink, from 54 percent in 2005 (in purchasing power parity dollars) to 31 percent by 2050. (See figure 4.) Driving this decline will be not just the slower growth of the developed world, but also the surging expansion of such large, newly market-oriented economies as China, India, and Brazil.

*Implications:* In the years to come, developed-world security alliances will need to fortify their global position by bringing powerful new members who share their values and goals into their ranks as equal partners. They will also have to be alert to threats from powerful new peer competitors, acting singly or in concert, who may wish to challenge the existing global order. By 2050, the very term “developed nations” is likely to encompass several gigantic new economies. Today's long-term security planners need to prepare accordingly.

- *The population and GDP of the United States will expand steadily as a share of the developed-world totals. In tandem, the influence of the United States within the developed world will likely rise.*

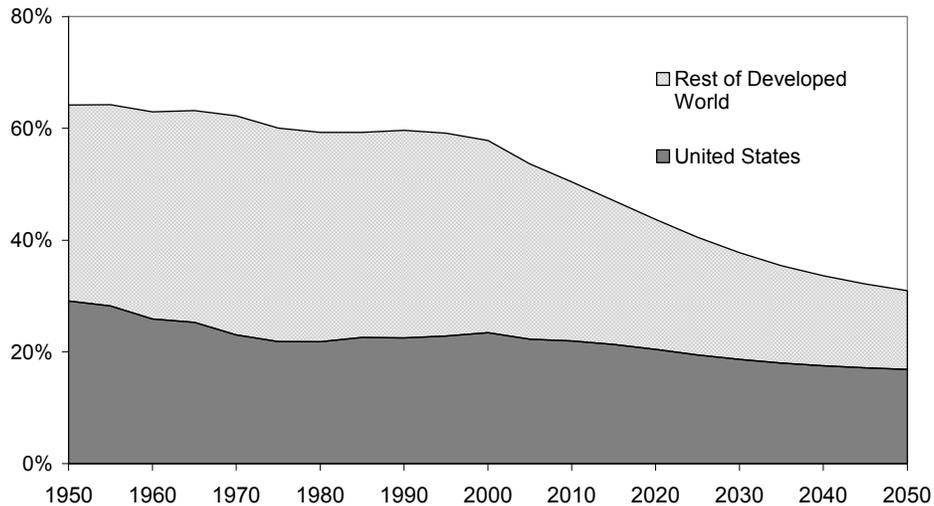
Over the last two centuries, the U.S. share of the developed world's population has risen almost continuously, from a mere 6 percent in 1820 to 34 percent today. With its higher rates of fertility and immigration, the U.S. share will continue to grow in the future—to 43 percent by 2050. By then, 58 percent of the developed world's population will live in English-speaking countries, up from 42 percent in 1950. The relative U.S. economic position will improve even more dramatically. As recently as the early 1980s, the GDPs of Western Europe and the United States (again, in purchasing power parity dollars) were about the same, each at 37 percent of total developed-world GDP. By 2050, the U.S. share will rise to 54 percent and the Western European share will shrink to 23 percent. The Japanese share will meanwhile decline from 14 percent to 8 percent. By the middle of the twenty-first century, the dominant strength of the U.S. economy in the developed world will have only one historical parallel: the immediate aftermath of World War II, exactly 100 years earlier at the birth of the “Pax Americana.” (See figure 5.)

**Figure 3: Developed-World Population, as a Percent of World Total, 1950–2050**



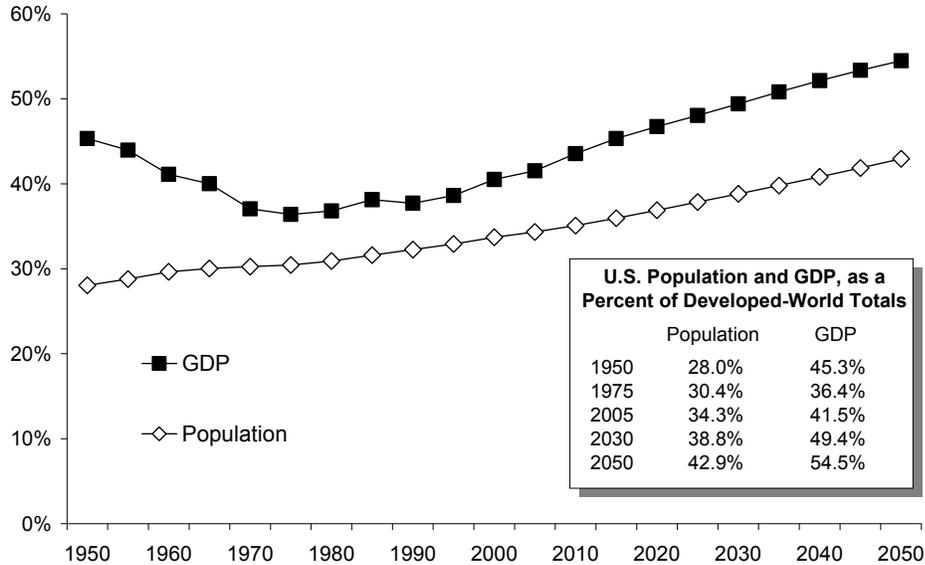
Source: *World Population Prospects* (UN, 2007). For demographic scenario, see *The Graying of the Great Powers*, appendix 1, section 3.

**Figure 4: Developed-World GDP (in 2005 PPP Dollars), as a Percent of World Total, 1950–2050**



Source: For historical data, authors' calculations based on Angus Maddison, *World Population, GDP and Per Capita GDP, 1–2003 A.D.*, August 2007, <http://www.ggdc.net/maddison/>; and *World Development Indicators 2007*, The World Bank, 2007, <http://devdata.world-bank.org/dataonline/>. For GDP scenario, see *The Graying of the Great Powers*, Appendix 1, section 5.

**Figure 5: U.S. Population and GDP (in 2005 PPP Dollars), as a Percent of Developed-World Totals, 1950–2050**



Source: See figures 3 and 4.

*Implications:* Many of today’s multilateral theorists look forward to a global order in which the U.S. influence diminishes. In fact, any reasonable demographic projection points to a growing U.S. dominance among the developed nations that preside over this global order. As Ben Wattenberg puts it, “The New Demography may well intensify the cry that America is ‘going it alone’—not because we want to, but rather because we have to.”<sup>3</sup> The United States is the only developed nation whose population ranking among all nations—third—will remain unchanged from 1950 to 2050. Every other developed nation will drop off the radar screen. (See figure 6.) The United States is also the only developed economy whose aggregate economic size will nearly keep pace with that of the entire world’s economy.

- *Most nations in sub-Saharan Africa and some nations in the Muslim world will possess large ongoing youth bulges that could render them chronically unstable until at least the 2030s.*

Political demographers generally define a youth bulge as the ratio of youth aged 15 to 24 to all adults aged 15 and over. As the youth bulge rises,

<sup>3</sup> Ben J. Wattenberg, *Fewer: How the New Demography of Population Will Shape Our Future* (Chicago: Ivan R. Dee, 2004), 7.

**Figure 6: 12 Largest Countries Ranked by Population Size\***

Ranking	1950	2005	2050
1	China	China	India
2	India	India	China
3	<b>United States</b>	<b>United States</b>	<b>United States</b>
4	Russian Federation	Indonesia	Indonesia
5	<b>Japan</b>	Brazil	Pakistan
6	Indonesia	Pakistan	Nigeria
7	<b>Germany</b>	Bangladesh	Bangladesh
8	Brazil	Russian Federation	Brazil
9	<b>UK</b>	Nigeria	Ethiopia
10	<b>Italy</b>	<b>Japan</b>	Dem. Rep. Congo
11	Bangladesh	Mexico	Philippines
12	<b>France</b>	Viet Nam	Mexico
		(14) <b>Germany</b>	(18) <b>Japan</b>
		(20) <b>France</b>	(26) <b>Germany</b>
		(21) <b>UK</b>	(27) <b>France</b>
		(23) <b>Italy</b>	(32) <b>UK</b>
			(39) <b>Italy</b>

\*Developed countries are in boldface; future rankings for developed countries projected to fall beneath 12<sup>th</sup> place are indicated in parentheses.  
 Source: *World Population Prospects* (UN, 2007). For demographic scenario, see *The Graying of the Great Powers*, appendix 1, section 3.

so does the likelihood of civil unrest, revolution, and war. In today’s sub-Saharan Africa, burdened by the world’s highest fertility rates and ravaged by AIDS (which decimates the ranks of older adults), the *average* youth bulge is 36 percent. Several Muslim-majority nations (both Arab and non-Arab) have youth bulges of similar size. These include Afghanistan, Iraq, the Palestinian Territories, Somalia, Sudan, and Yemen. In recent years, most of these nations have amply demonstrated the correlation between extreme youth and violence. If the correlation endures, chronic unrest could persist in much of sub-Saharan Africa and parts of the Muslim world through the 2030s—or even longer if fertility rates do not fall as quickly as projected.

*Implications:* While many of these nations will likely remain “trouble spots” for decades to come, most of the trouble will not have geopolitical repercussions—except when it involves terrorism or interferes with the flow of important natural resources. Upon occasion developed countries will intervene, either for humanitarian purposes (for instance, stopping genocide or alleviating natural disasters) or to prevent violence from spreading across national borders. Even modest development assistance may help some of these nations break the cycle of high fertility and high poverty.

- *Many nations in North Africa, the Middle East, South and East Asia, and the former Soviet bloc—including China, Russia, Iran, and Pakistan—are now experiencing rapid or extreme demographic change that could push them either toward civil collapse or (in reaction) neo-authoritarianism.*

Some of these nations have buoyantly growing economies, while others do not. Some have a recent history of political upheaval, while others do not. Yet all are rapidly modernizing—and all are encountering mounting social stress from some combination of globalization, urbanization, rising inequality, family breakdown, environmental degradation, ethnic conflict, and religious radicalism. China faces the extra challenge of handling a vast tide of elder dependents come the 2020s, when it will just be becoming a middle-income country. Russia must cope with a rate of population decline that has no historical precedent in the absence of pandemic. Any of these nations could, at some point, suffer upheaval and collapse—with serious regional (and perhaps even global) repercussions. In response to the threat of disorder, many will be tempted to opt for neo-authoritarian regimes (following the current lead of China or Russia).

*Implications:* Although these fast-transitioning countries may experience less chronic violence than the large youth-bulge countries, the crises they do experience will tend to be more serious. Their economies are more productive, their governments are better financed, their militaries are better armed, and their rival factions are better organized. Several have nuclear weapons. Many stand on the knife-edge between civil chaos and one-party autocracy. In their demographic and economic development, most are entering the phase of maximum danger and must therefore be watched closely.

- *The threat of ethnic and religious conflict will continue to be a growing security challenge both in the developing and developed worlds.*

Over the last 20 years, ethnic conflict in the developing countries has been on the rise. The causes include widening population growth differentials between higher- and lower-fertility ethnic groups; the reemergence of ethnic loyalties suppressed during the Cold War; the rise of electoral democracies that enable ethnic groups to vie against each other at the ballot box; and globalization, which may also provoke ethnic resentment by enriching some groups at the expense of others. Meanwhile, in many developed countries, ethnic tensions are being inflamed by the rapid growth of immigrant minorities as a share of the population. All of these trends can be expected to continue in the decades to come. Religious conflict is also likely to intensify due to the following fact: Fully nine-tenths of the world's population growth between now and 2050 is projected to occur in exactly those regions—sub-

Saharan Africa, the Arab world, non-Arab Muslim Asia, and South Asia—where religious conflict (between and among Muslims, Christians, Jews, and Hindus) is already a serious problem. Within those regions, moreover, the disproportionate fertility of devout families will ensure that younger generations will be, if anything, more committed to their faiths.

*Implications:* In a rapidly modernizing world, the appeal of ethnic and religious loyalty will remain powerful. The developed world needs to demonstrate that it respects this loyalty while at the same time defending pluralism and taking a hard line against aggressors who harness zealotry for destructive ends. It will help greatly if the developed countries are able to demonstrate, within their own borders, that the assimilation of ethnic and religious minorities really does work. Given its track record of relative success, the United States will need to take the lead in this effort.

- *Throughout the world, the 2020s will likely emerge as a decade of maximum geopolitical danger.*

In the developed world, the 2020s is the decade in which global aging will hit the hardest. Workforces will practically stop growing everywhere except the United States—and will begin to shrink rapidly in much of Western Europe and Japan—with potentially serious economic consequences. The ratio of elderly to working-age adults will surge, with especially large jumps in countries (like the United States) that had large postwar baby booms. Some governments may experience a fiscal crisis. Meanwhile, in the developing world, new demographic stresses will appear. Many Muslim-majority countries (both Arab and non-Arab) along with some Latin American countries will experience a temporary resurgence in the number of young people in the 2020s. This youth echo boom (a 30-percent jump in the number of 15-to-24 year-olds in Iran over just 10 years) may rock regimes. The countries of the Russian sphere and Eastern Europe will enter their decade of fastest workforce decline, even as China, by 2025, finally surpasses the United States in total GDP (in purchasing power parity dollars). Yet China will face its own aging challenge by the 2020s, when its last large generation, born in the 1960s, begins to retire.

*Implications:* Security planners must keep in mind that demographic change is nonlinear. The 2020s promise to be a decade in which breaking population trends come to play an important role in world affairs. According to “power transition” theories of global conflict, China’s expected displacement of the United States as the world’s largest economy during the 2020s could be particularly significant. By 2025, China’s economy will also be four times larger than Japan’s and three times larger than India’s. At the same time, however, China will be grappling with a sudden rise in its old-age de-

pendency burden and a sudden decline in its workforce. The net outcome is uncertain.

- *The aging developed countries will face chronic shortages of young-adult manpower—posing challenges both for their economies and their security forces.*

As the developed world ages, domestic youth shortages will create powerful economic incentives to encourage immigration and trade and to expand all types of offshoring. Political opposition from aging workforces and older electorates is certain. With the number of service-age youth flat or declining in most countries (especially in the rural subcultures that have traditionally supplied recruits), militaries will be hard-pressed to maintain force levels—especially if smaller families are less willing to put their children at risk in war. Militaries will need to resort to creative expedients. They will outsource all non-vital functions. They will try substituting high-tech capital, such as robotics and unmanned craft, for labor. They may offer citizenship for service, directly hire overseas combatants (in effect, mercenaries), or enter “service alliances” with friendly developing countries.

*Implications:* Many developed countries will be tempted to abandon military forces altogether, especially forces capable of large-scale combat, which will render them permanent free riders on their allies. Countries retaining major forces, the United States foremost among them, will need to carefully weigh the potential benefits of labor-intensive security missions (such as occupation, nation building, and counterinsurgency) against the high costs. Informal burden-sharing may give way to a more formal assessment of global levies—or to alliance-shattering declarations of neutrality.

- *An aging developed world may struggle to remain culturally attractive and politically relevant to younger societies.*

Today’s liberal and democratic global order owes its durability not only to the developed countries’ capacity to defend it against aggressors, but more importantly to the positive global reputation of the developed countries themselves. Their mores and institutions embody this order. This is sometimes called the “soft power” of liberal democracy, and it has widespread support both as a way of life and as a force in global affairs. All of this may change if, as the developed countries age, they are no longer regarded as progressive advocates for the future of all peoples, but rather as mere elder defenders of their own privileged hegemony. Illiberal neo-authoritarian regimes may then be able to win popularity as better advocates for rising generations. Ominously, history affords few (if any) examples of an aging civilization in demographic decline that has managed to preserve its global reputation and influence.

*Implications:* The consequences of the coming demographic transformation cannot be calibrated in mere population, productivity, or GDP numbers. The most important consequences may lie in the realm of culture and perception. By making full assimilation of immigrants work at home and by building mutually beneficial relationships with younger allies abroad, the developed countries may yet keep their ideals fresh in the eyes of the world. If, on the other hand, the twenty-first century comes to be seen by the developing countries as a struggle between the old, complacent, demographically declining “them” and the young, aspiring, demographically ascendant “us,” the challenge facing the developed world will be much more difficult.

## A FRAMEWORK FOR POLICY ACTION

Meeting the geopolitical challenges posed by global aging will require strategic policy responses on four broad fronts: (1) *Demographic Policy*, or responses that slow demographic aging itself, and thus alter the fundamental constraints on the geopolitical stature of the developed countries; (2) *Economic Policy*, or responses that maximize economic performance, and thus mitigate the negative impact of any given degree of aging; (3) *Diplomacy and Strategic Alliances*, or responses that adjust foreign-policy orientation to meet the new geopolitical threats and opportunities arising from global demographic change; and (4) *Defense Posture and Military Strategy*, or responses that adapt force structures and mission capabilities to the new demographic realities.

### Demographic Policy

- *Help women balance jobs and children.* Policies that help women (and men) balance jobs and children are the lynchpin of any effective pronatal strategy. Countries with low fertility rates and low rates of female labor-force participation may need to reform labor-market rules that limit part-time work options, implement parental leave policies, and provide for affordable daycare. More broadly, all countries will need to move toward more flexible career patterns that allow parents to move in and out of employment to accommodate the cycles of family life.
- *Reward families for having children.* Although the evidence that direct pronatal benefits raise fertility is mixed, they may be effective with the right incentive structure. One approach that has been used successfully by France is to increase the per capita amount of cash payments (or tax breaks) along with the number of children that families have. Another promising approach discussed by some developed countries (but not yet enacted by any) is to build pronatal incentives into social insurance sys-

tems by reducing payroll tax rates (or increasing benefit payouts) for families with children.

- *Improve the economic prospects of young families.* In the end, no pronatal strategy will succeed unless governments also pursue broader reforms that improve the economic prospects of young families. One large impediment to family formation in the developed countries is the rising burden of intergenerational transfers from young to old. Two-tier labor markets are another. Reforms in both of these areas will be crucial.
- *Leverage immigration more effectively.* Higher immigration rates can substitute to some extent for higher fertility rates. The faster that immigrants can be assimilated into the mainstream of society, the higher the immigration rate can be without triggering social and political backlash. Developed countries without a tradition of assimilating immigrants will need to study best practices around the world, especially in the United States, Canada, and Australia.

## **Economic Policy**

- *Reduce the projected cost of old-age benefits.* Any overall strategy to minimize the adverse economic impact of demographic aging must begin by reducing the rising cost of pay-as-you-go old-age benefit programs. There are many possible approaches. For pensions, governments can raise eligibility ages, means test benefits, or introduce “demographic stabilizers” that directly index benefits to changes in the old-age dependency ratio. For health benefits, they can control costs by implementing a “global budget cap” for health spending and by researching and mandating best-practice standards.
- *Increase funded retirement savings.* As governments scale back pay-as-you-go benefits, they will need to ensure that funded private pension savings fills the gap. Experience teaches that mandatory systems are far more effective at increasing savings and ensuring income adequacy than voluntary systems.
- *Encourage longer work lives.* Along with reducing fiscal burdens, aging societies need to increase workforce growth. Encouraging longer work lives will be crucial. The developed countries will need to raise eligibility ages for public pensions, revise policies (like seniority pay scales) that make older workers costly to hire or retain, encourage lifelong learning, and develop “flexible retirement” arrangements of all kinds.
- *Enable more young people to work.* While more older workers will help, younger workers have their own indispensable qualities. Governments,

especially in Europe, will need to overhaul two-tier labor markets that lock in high levels of youth unemployment. Meanwhile, countries with low female labor-force participation must make it easier for women to balance jobs and children. With the right mix of policies, countries can have both more working women and more babies.

- *Maximize the advantages of trade.* Trade allows aging societies to benefit from labor in younger and faster-growing societies without the social costs of immigration. As technology increases the tradable share of the service economy, the potential for trade to raise living standards will grow. Yet so too will resistance to offshoring on the part of aging workforces and electorates. Governments will need to pay special attention to developing policies that mitigate the adjustment costs.
- *Raise national savings.* Only adequate national savings can ensure adequate investment without the dangers of large and chronic current account deficits. Governments in aging societies will have to implement a comprehensive pro-savings agenda that includes everything from tax reform to entitlement reform.

### **Diplomacy and Strategic Alliances**

- *Expand the developed-world club.* The future security of today's developed countries will increasingly depend on their success at building enduring strategic alliances with younger and faster-growing developing countries that share their liberal democratic values. The only way to keep the developed world's relative demographic, economic, and geopolitical stature from declining is to expand the membership of the developed-world club itself.
- *Prepare for a larger U.S. role.* As the population and economy of the United States grow relative to the rest of the developed world, so too will its role in security alliances. Leaders in the United States, Europe, and Japan need to acknowledge and prepare for this reality, while seeking ways to strengthen multilateralism.
- *Invest in development assistance.* Over the next few decades, much of the developing world will be subject to enormous stresses from rapid demographic, economic, and social change. To help prevent chronic problems from erupting into acute security threats, the developed countries need to devise long-term and cost-effective strategies of development aid and state-building assistance. A large investment could yield large payoffs, but it may not be affordable unless the developed countries manage to control the rising cost of old-age benefits.

- *Remain vigilant to the threat of neo-authoritarianism.* As the demographic transition progresses and the stresses of development increase, the appeal of the neo-authoritarian model is likely to grow in many parts of the world. The developed countries must remain vigilant to the threat and devise strategies to steer at-risk countries in the direction of liberal democracy.
- *Preserve and enhance soft power.* The developed countries now exercise enormous soft power throughout the world. To preserve and enhance it, they must make sure that they remain champions of the young and the aspiring—both at home and abroad. If domestically they persist in tilting the economy toward the old, and if internationally they are unwilling to commit substantial resources to helping young nations, the global appeal of their values and ideals will diminish.

### **Defense Posture and Military Strategy**

- *Prepare for growing casualty aversion.* Defense planners must realize that youth will be considered a treasured asset in aging societies. Developing communication strategies to persuade the public that putting scarce youth at risk is necessary must become an integral part of the planning process for military actions.
- *Substitute military technology for manpower.* Developed-country militaries are already doing a lot of this, and they will need to do even more in the future. Substituting technology for manpower, however, is a strategy with limitations. Manpower will always be needed—for occupation and pacification, for nation building, and, in the event it happens, for large-sale conventional war.
- *Substitute nonnative for native manpower.* As recruitment pools shrink, the developed countries will need to substitute nonnative for native manpower. The challenge will be to minimize the risks associated with this strategy. The worst approach is to hire freelance mercenaries (whether foreign or domestic). The best may be to offer immigrants citizenship in return for service—perhaps, as Max Boot and Michael O’Hanlon suggest, even recruiting potential immigrants abroad.<sup>4</sup>
- *Create “service alliances” with loyal developing countries.* Another way to substitute nonnative for native manpower is to create service alliances with developing-country allies that are willing to supply troops in exchange for

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<sup>4</sup> Max Boot and Michael O’Hanlon, “A Military Path to Citizenship,” *The Washington Post*, October 19, 2006.

aid or technology. Developed-country militaries would need to train and equip the troops to developed-country standards.

- *Adapt weapons, training, and force structure.* Demographic trends will influence both the types of locales in which militaries will be called on to fight and the types of missions they will be called on to execute. Warfare will be increasingly urban; nation building will be as important as battlefield victory; and expertise in “exotic” languages and familiarity with foreign cultures will be essential. Weapons, training, and force structure must be adapted accordingly. It may make sense to develop a special nation-building force—or what Thomas Barnett calls a SysAdmin Force.<sup>5</sup>

In the decades to come, the world will witness a sweeping demographic transformation never before seen in history. The rapid aging of today’s developed countries threatens to undermine their ability to maintain national and global security—even as demographic trends in the developing world will give rise to serious new threats. Meeting the challenge will require discipline, leadership, and a wide-ranging and long-term agenda.

To the extent that it can, the developed world should try to modify the demographic outcome through family-formation and immigration policies that are consistent with its deeply held liberal democratic values. As the transformation unfolds, it will need to take special care to enhance and preserve the performance of its economies—by making sure that they remain flexible, open to new innovations, and generate enough savings to ensure a future of rising living standards for younger generations. In its dealings with the rest of the world, the developed world will need to be forward-looking and open to the membership of new societies that share its basic values—as well as vigilant about countries that may respond to rapid demographic change in authoritarian ways. As always, the security and authority of the developed world will depend on its ability to defend itself. This will require creative solutions if it is to protect its scarce youth from needless risks, while filling a broader range of likely missions. Here too, part of the solution will be to build relationships with younger societies that are potential allies.

Well into the twenty-first century, the United States will be fated by demography to be a leader. It will not only have to continue shouldering the level of global responsibility of recent decades, but in all likelihood will have to assume even greater responsibility. In a world of graying great powers, the United States will be even more indispensable.

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<sup>5</sup> Thomas P. M. Barnett, *Blueprint for Action: A Future Worth Creating* (New York: Berkley Books, 2005).