

## **2020 Demographics: The Human Factor**

*David Foot sees population trends changing business in some pretty surprising ways. Are you ready for the rise of Turkey?*

An interview with David Foot by Alex Mlynek

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This year, Canada's baby boomers—the huge population wave born from 1947 to 1966—began to turn 60. How will their golden years, along with other demographic changes, affect the economy in coming years? To find out, we turned to demographer and economist David Foot, who 11 years ago brought into sharp focus the importance of demographics in his book *Boom, Bust & Echo*, co-authored with Daniel Stoffman. Upfront editor Alex Mlynek spoke with Foot, currently a consultant and an economics professor at the University of Toronto, about Canada and the future—and what businesses should do to prepare for what's to come.

### **CB: Can you paint a picture of what Canada will look like demographically over the next two decades?**

**Foot:** The boomers today are in their 40s and 50s, and they're a third of the population, so they've tended to dominate the trends, the issues and to some degree the future. Twenty years from now, they'll be in their 60s and 70s. Some of them may still be working. Most will not. They still will be demanding tremendous amounts of goods and services. And economic growth will be slowing down quite noticeably.

### **Why the slowdown?**

It's already happened. Basically, the birth control pill means that there are fewer younger people being born, and the younger people are the future consumers and the future workers. If you have fewer children, inevitably you're going to have fewer consumers and fewer workers down the road.

And almost no amount of immigration can change that. The numbers of immigrants required are too many to be easily absorbed into the workplace. Currently Canada has the highest rate as a percent of population of immigration in the world, so increasing the numbers drastically would lead to many challenges.

### **What will be the biggest issue facing Canada in 15 to 20 years?**

It's a very difficult thing to say because a lot of it depends on what we do in the meantime. I don't believe there is a labour-market shortage today, because the unemployment rate is still about 6% in Canada, but 15 to 20 years from now there may be challenges, particularly for health-care workers and construction workers. If we don't get the children of the boomers into these occupations in the next five to 10 years, then we're really going to have some challenges down the road.

We'll probably have slower economic growth, but that doesn't mean we will have declining standards of living—in fact, we may have noticeably increasing standards of living. So it's very important not to automatically relate slower rates of growth with lower standards of living. As

long as economic growth exceeds population growth, then standards of living go up. I actually think we'll have higher standards of living, even with slower growth, 20 years from now.

**What do you think a smart business person should be doing now to prepare for that future?**

Well, they should be examining their product lines and seeing that they don't write off all of the customers over 50, like they tend to do now. Marketing departments tend to be dominated by young people, and young people know how to develop very creative marketing plans for young consumers. Those young consumers tend to be in cities, and an aging population tends to put more people in the smaller towns, because when you're young you move downtown, and in your 30s and 40s you move out to the suburbs to raise your kids. In your 50s, 60s, 70s, you're more likely to have a vacation property, which is really not a vacation property—it's a second home that's further away. It won't be a rural area because you want access to a hospital. But in fact it's going to lead to much more sprawl, if you like, as people move further away from the downtown areas.

Essentially, what a good business person should do is make sure they not only have products and services oriented to the young in the downtown core, but increasingly products and services available to the 50-plus population out of the downtown core.

**What do you think the Canadian government should be doing now to prepare for our future?**

Let me just say before moving on to that question what the Canadian business person should do, and also what Canadian business should do.

We need to get apprenticeships reestablished in our society. We've got a particular problem with non-completion of high school by boys, and we're going to have some real problems down the road if we don't get these young men into occupations, particularly construction trades and health-care occupations—not just cardiologists, but orderlies, occupational therapists, and all the rest of it.

Often business doesn't want to establish apprenticeships because they feel if they pay for the training of a new employee, that employee then gets poached away by their competition. So you really need some bigger authority, a construction council or something like that, to do the apprenticeships. Or government needs to step in and treat it like an education system, so business doesn't feel like it's paying the burden and someone else is reaping the benefits.

Government itself needs to start doing some sensible calculations. Stop just sending out the public relations signal that health care is going to bankrupt the public purse, thereby leading to the idea that our hands are tied, that we're inevitably going to have a two-tier health system. We may choose to do that, that's fine, but we don't have to do that. The boomers, for example, have accumulated tremendous tax obligations. The RRSP age used to be at 69; they've now moved it back up to age 71. The first boomer hits 71 in 2018. From there on, they're starting to pay gobs of taxes as they gradually have to take money out of their RRSPs, and that will help to pay for health care. In fact, Robert Brown at the University of Waterloo has argued that all the additional health-care spending can be funded by these tax revenues.

And so the government needs to sit down and do some very sensible calculations on the idea that they can fund health care. We shouldn't be worried. I certainly have no concerns. But I get the impression that the government's living from election to election and they see health-care spending growing, and there doesn't seem to be any long-term thinking in government anymore.

Mind you, there's little long-term thinking in the private sector, either. We give our CEOs annual bonuses so they really do think one year at a time.

### **How else do you think the boomer generation is going to affect the economy in the future?**

I think we've got some real interesting opportunities. People are living longer—life expectancy is going up two years every decade, as we increasingly begin to solve the problems of older people—so we've got an ever-increasingly healthy population of people living longer in the older age groups. That's a potential workforce pool. We've got a lot of workers now in their 50s, saving for retirement, still healthy, willing to work, and probably will want to do that in their 60s, but they'll also want to be with grandkids, travel, play golf. So we've got a tremendous opportunity now to prepare for that future by having much more flexible workplaces, so people can work half-time for half-salary, or nine months of the year for three-quarters salary.

This has all sorts of public policy implications. On days you're working, you'd like to be able to accumulate pension benefits; on days you're not working, you'd like to withdraw pension benefits. That's not possible in Canada today, whether it's a private or a public pension. You can't contribute and withdraw at the same time. Well, that's an insane policy. We now have computers; they can keep track of the actuarial pension for any individual. So we need far more flexible workplace environments. We need to encourage people in their 60s to work, but not full time. Because we also want them to stand back and create jobs for the younger generation.

Their kids, the echo generation, are now entering the workforce, and I often say if you can get a 55-year-old to go half-time then half of a 55-year-old's salary will pay the full salary of a 25-year-old. So we can create a job for a younger person. We can keep all of the experience and knowledge in the workplace of the older employee, who can transfer it to the younger employee. And the younger employee can help the older employee with the latest computer programs. So we've got a huge opportunity for intergenerational understanding, but we've got to create much more flexible workplace environments.

We've got to encourage the older workers to keep working, but not full time, and governments in this regard should take the caps off of worker's compensation and Canada Pension Plan contributions. Right now, what you do for every employee is you pay so much up to a certain level for, say, EI contributions. But that means once you've hit that level, it pays the employer to keep working the same employee even longer because if you take on another employee you have to pay up to the same cap again. So we should be making a lot of these workplace contributions—whether EI contributions, pension plan contributions or worker's comp contributions—into a function of the number of hours or the number of days worked by employees. That way, there's no incentive to have fewer employees working longer hours. We should be then encouraging organizations to take on more employees, and working them shorter hours to encourage this workplace flexibility.

### **More employees, shorter hours.**

Well, for older employees. Younger employees will still want longer hours. They have no money. They still have to pay off their mortgages. But we shouldn't have anything in the workplace that discourages that flexibility I'm talking about, and at the moment those caps do.

Let's make it clear that what I'm talking about is a change that will be revenue neutral. I'm not talking about let's take the caps off and pay at the same rates, because that will be a tax grab by government. But what you should do is change the whole system to a per-hour, per-day basis for every employee, but at a much lower rate, so that it ends up being revenue neutral. The idea of some innovative workplace strategies that we could do now would go a long way to preparing us for the future.

### **Do you have concerns about the effect of the aging population on the savings rate?**

No, not at all. This is one of those wonderful stock-flow questions. When we look at GDP, we're looking at a flow—the amount of output produced this year. When you're young, you borrow to buy a house, and you gradually pay off that asset over your lifetime. And people will borrow for that second house, or they'll borrow to renovate their house, but at the same time that they're using either current income or borrowing into current income, they're building up the value of their assets. So everybody seems to focus on income, which are flows, and very few people seem to focus on assets, which are stocks.

The boomers in North America have lots of debt. Everyone, including *Canadian Business*, writes on the debt levels of boomers, but they've taken on that debt to accumulate assets. But if you look at the latest Statistics Canada data, and in fact if you look at data around the world, the debt-to-asset ratio declines over your lifetime, almost linearly. You have the highest debt-to-asset ratio in your 20s, and the lowest debt-to-asset ratio in your 60s and 70s. And you have the maximum debt in your 40s. So if you look at debt, all of those boomers in their 40s took on all of this debt, but they've done it to build their asset base.

Now that's the background to answering your question. Well, they can use that asset base to live into their 60s, 70s and 80s. And so they'll generate income out of their mutual funds, and out of their stocks. They ultimately can sell their second house, their cottage, if they want. So they can use assets to maintain their standards of living in retirement. So we're going to see, not that they won't necessarily be saving, but there's not going to be this huge drain on the economy that's implied by your question.

### **Switching to the world stage, what about China's and India's futures?**

I think most people are not taking into account the fundamental difference between China and India: there's a one-child policy in China, and no one-child policy in India. In fact, they're having still more than three children in India. The one-child policy has been going for about 25 years, and very effectively for at least 15 years, in China.

Come on a little logical tour with me. If two parents have only one child, then China's going to run out of young workers. If China runs out of young workers, wages are going to be driven up. If wages are driven up, China's no longer going to be a low-cost competitor in the world. China's going to gradually become a rich country, in per capita terms.

The same thing's not going to be true in India. If two parents have three-plus children, there's always going to be a pool of cheap young labour, so wages are always going to remain low.

So China and India are heading into two entirely different futures. Economic growth in China is going to come from rising per capita incomes. Economic growth in India will come from a continually growing population.

### **Which countries will be major economic players in the next 15 to 20 years, and why?**

Well, I often start by looking at Europe. The biggest country in Europe today is Germany. It has about 82.5 million people, but its population is about to start to decline. Now there's already a couple of other countries that have declining populations. The population of Russia has plummeted from 150 million to a little over 140 million people. The population of Japan has been declining for the last three years. I often point out that these are the powers of the past. Germany, Russia and Japan will not be the powers of the future. It's very hard to be a global power with a shrinking market.

As the population of Germany starts to shrink, there's another country in Europe whose population is continuing to grow. It's up to 70-odd million people. It's passed Italy, it's passed France, it's passed the United Kingdom. And within probably a decade it will pass Germany. And that's the country of Turkey.

The Turkish have educated their women, and the population distribution of Turkey today looks like it looked in Canada in the 1970s. And if they successfully create jobs for their young people, as they're currently doing, they'll have a rapidly growing economy, like they currently have. And that means they're building the foundation for rising per capita incomes in the future.

So a country like Turkey is going to be an increasing power, whether it's in Europe or outside of Europe. But Turkey has lots of young workers that Europe needs today to help build the foundations for their pensions in the future, and that transition is not taking place.

Other global powers of the future: Brazil, a huge country of something like 190 million people. Huge market. Women are educated. Right now, they've got lots of young people in their 20s that they need to create jobs for. The president of Brazil's been doing that. They've been growing at 6%-7% a year. That's a country to keep your eye on in South America.

In Southeast Asia, look out for Vietnam. Again, a country with 85 million people—big market. A country that's very successfully transitioned after their war. And a country that's just poised—that's slightly younger, but better educated now—poised to take over the Taiwans and the Koreas of the world, which are rapidly aging. Countries like Taiwan and Korea are aging faster than Canada, and they're having less children than Canada now.

In the Middle East, a country like Iran, if it's given the opportunity. The Shah built colleges and universities and the women have continued to get educated. They may be told what to wear at the school, but that doesn't mean they can't go to school. In fact, the women of Iran are having fewer children than the Americans. That's a country that could do, economically, extremely well. Again, a big country—70-odd million people. A big domestic market, and a reasonably well-educated population. They're two good pre-conditions to becoming a global player.

**What issue in 15 to 20 years do you think will catch most people off guard?**

The echo of the echo. The echo of the boom are the children of the boomers. They're currently aged 10 to 25, roughly. They're entering Canada's workplace today. Most people don't realize we've got lots of potential young workers, particularly in Ontario, not necessarily uniformly across the country.

But as we've seen, we've now got the echo of the bust; in other words, the impact of the birth control pill has meant that there are fewer and fewer women over the last decade, fewer and fewer women in their 20s and over-30s to have children. So we've had fewer children born over the last 15 years in Canada. And not surprisingly, we're now facing declining school enrollments. Well, that's the echo of the bust, if you like.

But the front end of the baby boom echo, the children of the boomers, born in 1980, reach age 29 in 2009, and I say age 29 because that's the average age of first marriage in Canada. So at roughly that age is when the children of the boomers will start to either get married or partner up. Well, about six or seven years later, they will start having children. So around 2015, 2016, we'll see the number of births go up in Canada, and everyone will say, "Oh, isn't that surprising. We've just closed all of these schools. Now the births are going up. We're going to have to reopen them."

**What will the effect be?**

Oh, it will be mild because as I said it's an echo of an echo. It's a little ripple, if you like. But the effect will be that people will have to open a few schools again. And it will mean that the toy industry will have a new market to sell to. And the toy industry is now going through tough times because births have been going down. And all of a sudden there will be a renaissance in children's toys in the middle of the next decade. Don't overplay it, because it's a little ripple, but it will catch people by surprise, I think.

**In terms of Canada's competitiveness, you sound fairly optimistic. Do you think the future, or at least the next 15 to 20 years, looks good?**

The short answer is yes. Now, the Americans have had the highest fertility in the developed world. So they're still having two children per family. We know that U.S. economic growth is going to exceed everybody else's for the next 35 years. They've had higher fertility. They've got a bigger growing domestic market. And while immigration can contribute to market growth, it seldom can be as important as domestic growth. So if Canada compares itself to the U.S., our economic growth will inevitably lag, and we'll be wringing our hands as we always do. But our economic growth will exceed almost every other country in the developed world. We'll have much faster economic growth than all of the countries of Europe, much faster economic growth than Japan and most of the countries in Southeast Asia. That's not because necessarily we have higher fertility, but because we don't have the low fertility that they have in many of the countries in Europe, and we have our immigration program that I'm sure we will either maintain, and even expand in the second decade of the new millennium, to contribute to market growth here in Canada. So yes, I'm optimistic.

So the U.S. is going to dominate the developed world in economic growth over the next 20 years. Canada's going to be behind the U.S., but way ahead of Europe, Japan, Korea and other

countries in Southeast Asia. We're probably going to be a solid second place. And if we're not in second place, it will be third.

When we talk about productivity, we sometimes mean output per worker as distinct from total GDP growth. I interpreted your question as growth in GDP. Now, how we'll do in output per worker—that's an open question. I'm quite concerned that we won't do terribly well, because we're gutting our businesses here in Canada. Our business ownership is going to foreign lands, and as a result the jobs are not being created necessarily in Canada.

The most important decisions are capital investment decisions, and those decisions are increasingly going out of Canadians' hands. And if you don't invest in capital—and by that I mean machines, equipment, ideas, technology and processes—your output per worker will languish. If we let ownership go to foreign hands, who choose to invest in their home countries, not in Canada, Canada will have a real challenge on its hands.

Canadian business has generated huge profits and put those profits in the bank, and not reinvested them in machines and computers. That is very problematic for Canada, because we now see all of these companies with all of this money and they're takeover opportunities for countries in the rest of the world. That doesn't mean they too don't take over, invest in other countries, but a real important question for future productivity is the level of capital investment in Canada. I think that is linked to ownership.

We badly need the business sector to step up to the plate and start investing in modern processes, modern technology, if we're going to be productive in terms of output per worker. I think that is a major problem facing Canada down the road. And it's linked directly to the business sector.

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