

Growth won't save us – there won't be any

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“ Merryn's blog ”



Posted by [Merryn Somerset Webb](#)

I can't be sure of much about next year. But here's one fact you can't argue with: 2013 will be the year that we get old.

How's that? 2013, as Paul Hodges of International eChem (IeC) points out to me, will be the year in which the average UK 'baby boomer' (born in 1958) turns 55. At any other previous time in history, the average person would have been dead by now (even in 1900 UK life expectancy was only 50).

This lot however, in the main, are looking at another 25 years before they even start to worry about choosing a nursing home, let alone thinking about death: the latest census showed us that the over 85s are the fastest growing group in our population, and that the modal age of death (that at which death is most common) is 85 for men and 89 for women. We now have the oldest population in history, with our baby boomers making up a massively influential group of what Hodges calls the 'new old' (those 55 and over).

You might think this is of little relevance to the things you are currently worrying about for 2013 –the collapse of the euro; the slightly nuts behaviour of our inflation seeking central bankers; the chance that a newly nationalistic Japan might amuse itself teasing China; the end of trail commission payments to IFAs; the UK's credit rating; fracking and earthquakes; the fact that Saudi Arabia's King Abdullah is uncomfortably past the modal age of death; and so on. But it is in many ways almost the only relevant bit of information you need to know to see what is going on in the West today.

I've written about this before here so regular readers will know the key points. Between 1946 and 1970 the UK saw a huge boom in births, with around 900,000 new babies born every year. That was a 15% rise on the previous 25 year period and something that added three million people to the population.

Since 1971, births have slowed to more like 746,000 a year. You might think that is no bad thing, given how overcrowded parts of the UK already feel, and it could easily be. However, it is also very probably the cause of our very low growth.

The 'new old' already make up 28% of the UK population (18 million people). They are likely to be 23 million strong by 2030. That matters because the new old aren't great spenders. They turned 25 back in 1983. Then they were spenders. They settled down, bought houses, raised children and (crucially) as years went by, borrowed money to consume.

But now their consumption patterns, as Hodges says, are changing "quite dramatically". New data shows, for example, that the average 65-year-old spends only 68% of the average 30-49 year-old. Add that nugget of information to the bit you already know – that consumption makes up 60% of UK GDP – and you will immediately see the problem: as our population ages our average propensity to consume falls and so immediately does our economic growth rate.

Now add in a little post financial crisis deleveraging and all will be clear. It is perfectly obvious that, barring some thrilling and utterly unexpected change in our national circumstances, we should continue to be in a low growth environment for the foreseeable future.

It is also pretty obvious that there isn't much we can do about it. Politicians insist that they can somehow create growth with their increasingly 'unconventional' policies, but demographics suggests that they are completely wrong: no amount of money printing can make 65-year-olds into 40-year-olds (would that it could) or even make them as productive as 40-year-olds. Nor can it force today's financially terrified boomers into bumping their spending back to the peaks of their youth.

I'm not entirely sure how we deal with all this, but a good starting point might be for politicians to recognise it and talk about it. Continuing to pretend that our economy will be saved from its debts by economic growth when there isn't going to be any economic growth just isn't very helpful.

PS Exactly the same goes for the US. [More from Hodges on America here](#). Also worth reading on how growth as we know it is gone forever are [Jeremy Grantham](#) (just read page four) and [Chris Brightman](#).