

# thebigpicture

guideposts for the private investor

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*thebigpicture* guideposts for the private investor is published by *thebigpicture* Economics (ABN 71 040 787 936). The author, John A Robertson, while working in Australia, London and New York, has over 20 years experience in international financial and commodity markets, corporate strategy, financial and business evaluation and government policy. He has been Chief Economist and a director of a leading Australian investment bank. He has been a top-rated institutional equity analyst and has marketed investment advice in all the major international financial centres.

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## GETTING OLDER: DEALING WITH THE FUTURE

The government tried to drag the aging workforce to the centre of the policy stage to recreate some political momentum in an election year. Its relatively minor amendments to superannuation barely hint at some of the momentous changes ahead. Financial planning is set to become much more difficult.

Population aging is not simply an Australian issue. Australia's demographic plight is but one aspect of the bigger demographic picture. Global population growth is set to slow from 1.8% a year in the last 50 years to 0.8% a year in the next 50 years. The uneven nature of the changes projected by the United Nations Population Division point toward a significant rebalancing of political and economic power.

- The UN expects the population of the less developed regions to rise from 4.9 billion people in 2000 to 7.7 billion people in 2050, a 0.9% pa growth rate.
- The population of the more developed nations is expected to be smaller in 2050 than it is today. The USA will be relatively dynamic with a projected population growth rate slightly over 0.7% pa. In Europe and Japan, however, an average annual decline of 0.3% is expected over the projection period. The population of the Russian Federation is expected to fall by a staggering 30%.
- The median age of the population is expected to rise. It is thought likely to go from 37.3 to 45.2 years in the developed countries and from 24.1 to 35.7 in the less developed nations between 2000 and 2050.
- Eight countries (India, Pakistan, Nigeria, the United States of America, China, Bangladesh, Ethiopia and the Democratic Republic of Congo, in order of population increment) are expected to account for half of the world's projected population increase. Asia and Africa, together, account for 89.5% of the projected population increase over the first five decades of the century.

*“Not only will you need more wealth to fund your latter years but you will have to do it with lower investment returns.”*

Million people	1950	2000	2050(p)
Europe	547	728	632
Northern America	172	316	448
Oceania	13	31	46
Africa	221	796	1,803
Asia	1,398	3,680	5,222
Latin America & Caribbean	167	520	768
World	2,519	6,071	8,919

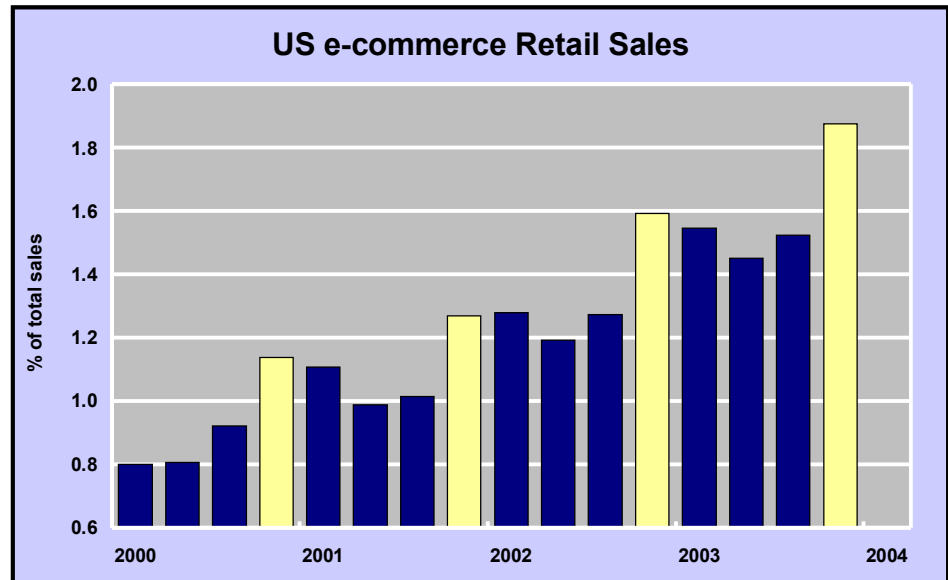
With these changes, the USA gains more political and economic muscle at the expense of European and Japanese influence. Its western leadership position will be unassailable. It will, however, lose influence to Asia as the latter realises more of its long anticipated potential as a global economic player with China and India gaining economic influence and political clout.

Some of these changes are already evident. They will go further.

While malevolent and incompetent political leaders in Africa will continue to deprive its people of their rightful wealth, its looming size will attract more attention. Very numerous and very poor has always been an unstable mix. African-based political movements seeking to confront richer western countries over their disproportionate share of global

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## THE WEEKLY CHART SPOT



Source: US Department of Commerce

The US Department of Commerce has reported that e-commerce retail sales in the USA increased by 25.1% over the year to the December quarter.

Despite growing at an annual rate of 34% since the Commerce Department first began to compile the data in the December quarter of 1999, e-commerce only accounts for 1.9% of total retail sales.

The latest data also show a continuation of the Christmas shopping phenomenon. The chart highlights with yellow shading the share of retail sales in the fourth quarter of each year. In each December quarter, the e-commerce share jumps significantly. For the first three quarters of the subsequent new year, e-commerce usage remains static or even declines slightly until the following December.

There is some evidence that more people begin to experiment with shopping on-line for Christmas when the pressure for efficient shopping is most intense. Having engaged in the experiment successfully, the approach is locked in but there is little further motivation to do more until the next year.

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## United Nations Population Projections for Selected Countries

Million people	2000	2003	2015	2025	2050	% chg pa
World	6,070,581	6,301,463	7,197,247	7,851,455	8,918,724	+0.77
Australia	19,153	19,731	21,747	23,205	25,560	+0.58
Palestine	3,191	3,557	5,260	6,903	11,114	+2.53
Saudi Arabia	22,147	24,217	32,728	39,751	54,738	+1.83
Pakistan	142,654	153,578	204,465	249,766	348,700	+1.80
Nigeria	114,746	124,009	161,726	192,115	258,478	+1.64
Israel	6,042	6,433	7,772	8,598	9,989	+1.01
India	1,016,938	1,065,462	1,246,351	1,369,284	1,531,438	+0.82
USA	285,003	294,043	329,669	358,030	408,695	+0.72
Mexico	98,933	103,457	119,618	129,866	140,228	+0.70
Indonesia	211,559	219,883	250,428	270,113	293,797	+0.66
China	1,282,472	1,311,709	1,410,704	1,454,141	1,405,191	+0.18
Germany	82,282	82,476	82,497	81,959	79,145	-0.08
Japan	127,034	127,654	127,224	123,444	109,722	-0.29
Russia	145,612	143,246	133,429	124,428	101,456	-0.72

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wealth are more likely to emerge to compete with or join other disaffected groups on the world stage.

In some critical locations, too, demography will begin to assert its influence more emphatically. The population of the occupied Palestinian territories, for example, will increase by a factor of 3½ by 2050. From containing a population half the size of Israel's currently, people in the occupied Palestinian territories will outnumber Israelis by 2040 making it much harder to keep their political and economic aspirations in check.

Among the influences which will loom large for western countries will be the impact on overall rates of economic growth. Slower population growth will mean less economic activity.

The Australian Treasury has estimated that Australia's GDP growth will decline to around 2% a year given anticipated population growth over the coming 20 years.

An economy which can sustain only 2% GDP growth can probably deliver only 5% profit growth with price rises being kept to within 3%. This would be a halving of the 10% profit growth of the past 30-40 years. With that also comes a potential halving of equity price appreciation.

This goes to the heart of financial planning strategies for the future. Not only will you need more wealth to fund your latter years but you will have to do it with lower investment returns.

Against this backdrop, the Australian government's response is a timid one which fails to offer a solution or get people thinking about the bigger picture.

Of course, there is no easy solution. Even an immediate turnaround in fertility rates will fail to avert the pressures over the coming decades such as the lead times before there can be any impact on the number of people of working age.

The government's solution has centred on maximising the labour force participation rate by encouraging older workers to remain in the workforce past the time of their normal retirement.

The government's superannuation proposals gained quick approval with Labor, Democrats and independents in the Sen-

ate all endorsing them as sound policy. Is there a surer sign that Howard and Costello have failed to find an issue which can redefine the government for the electorate?

At some stage, an Australian government will have to confront a stark choice: falling living standards or more people? This is the more controversial debate mainstream politicians prefer to avoid.

Europeans are already beginning to address this and are accepting some irrevocable changes to their society. For many years, Germany and other European nations have admitted north African and east European guest workers to supplement their labour needs. More radical changes are in the offing with 10 new members set to join the European Union in May.

Wage differences across Europe will be an incentive to move from some of the relatively poor regions of Europe to the relatively wealthy, labour scarce regions to the west.

In the past week, the British Home Secretary initiated changes to allow for guest workers in the UK. The new UK policy assumes that foreign workers admitted under well-defined rules will be easier to manage than the illegal trade in people which would be encouraged if previous legal barriers were to be retained in the

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Median Age of Population			
No. of Years	1950	2000	2050(p)
Europe	29.2	37.7	47.7
Northern America	29.8	35.4	40.2
Oceania	27.8	30.7	39.9
Africa	19.0	18.3	27.5
Asia	22.0	26.1	38.7
Latin America & Caribbean	20.1	24.2	39.8

face of large wage disparities.

The UK government is seeking a balance between allowing the economic incentives to play out and not burdening its current taxpayers by allowing economic migrants immediate access to its social welfare system.

The US administration has also had to take a more realistic view of the demographic pressures which are surrounding it. President George W Bush has put for-

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ward proposals making it easier for non-US workers to enter the USA as employees to supplement the existing labour force. He has also proposed amnesty arrangements for an estimated 10 million illegal immigrants already in the country.

These changes come as US authorities concede that they cannot control the influx of people across US borders and as employers find it increasingly difficult to attract low-paid manual workers from among existing legal residents.

Why should Australia be any different? Would it be able to withstand a 40 year decline in its relative economic performance without succumbing to pressures to allow guest workers to top up the labour supply? Australia, too, will have abundant supplies of labour on its borders, including an anticipated 80 million increase in the population of Indonesia. Being an island helps ameliorate some of the pressures felt within Europe and the USA but it might not offer a sustainable solution.

And these are not all of the challenges. At a more microeconomic policy level, we no longer have an agreed model for the provision of aged care, for example. Not-for-profit groups are being supplanted by profit-oriented companies which have yet to prove that their model can work.

The Salvation Army announced recently that it intended to cease providing aged care facilities. It judged that its mission was best fulfilled by directing its funds to areas of greatest deprivation. Newly emerging commercial organisations could run its facilities and it could redeploy its assets elsewhere.

Corporatised aged care is a radical change. On this model, care will no longer be provided by the extended family or surrogate families through non-profit organisations.

As the corporations take over, for the first time, the pricing of aged care will be driven by the need to generate an economic return on the funds invested through the capital market.

Where altruism has usually been a

dominant motivator, striving for competitive economic returns can create tensions which alienate stakeholders. Privatisation of health care is an example where application of commercial incentives has failed conspicuously in many instances.

Since the 1980s, privatisation has become a standard policy response to service delivery tasks. Similarly, we also have policy makers whose experience is anchored in the 1980s and 1990s when debt was a rational funding choice. They are now encouraging debt funded tertiary education at a time when inflation is at rock bottom, high real interest rates are government policy and the burden of repayment is in favour of the lender.

The challenge for individuals planning their financial futures reflects the same conundrum: how to divorce themselves from the past to deliver solutions which are sound responses to future conditions.

Unfortunately, to achieve what is needed might require some radical rethinking not simply tinkering with existing arrangements. While objectives, such as higher savings rates or later retirement, might be generally agreed, there are forces rooted in the past acting against their achievement.

Policy makers have barely begun to think about many of the contradictions let alone develop strategies to cope. Coming up with some of the solutions will challenge financial advisers until government can confront the issues more fully.

*“Would [Australia] be able to withstand a 40 year decline in its relative economic performance without succumbing to pressures to allow guest workers to top up the labour supply?”*

What is needed....	Why it might be too hard....
▶ greater wealth accumulation over one's working life	<ul style="list-style-type: none"> <li>investment returns are likely to be significantly lower</li> </ul>
▶ an early start to saving and higher levels of saving to maximise retirement assets	<ul style="list-style-type: none"> <li>rising tertiary education fees are encouraging dissaving among the young</li> <li>low inflation maintains the real value of debt</li> <li>high real interest rates favour lenders</li> </ul>
▶ a commitment to more lower cost aged care	<ul style="list-style-type: none"> <li>corporatised aged care requires economic rates of return for shareholders making a larger impact on savings</li> </ul>
▶ annuity style financial products to fund retirement	<ul style="list-style-type: none"> <li>no financial inheritance for cash-strapped families seeking to reduce debt</li> </ul>
▶ policies to expand the labour force	<ul style="list-style-type: none"> <li>a reluctance to admit large numbers of overseas workers</li> </ul>

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