

**Charles Goodhart and Manoj Pradhan:**  
*The Great Demographic Reversal: Ageing Societies, Waning Inequality, and an Inflation Revival*  
 Cham 2020: Palgrave Macmillan, 280 pp.

Contemporary societies are facing several challenges that could have a big impact on economic growth, the sustainability of welfare states, and international trade. One challenge is climate change, which is expected to disrupt international supply chains and reduce agricultural output and workers productivity' as a result of extreme weather events. Similarly, the COVID-19 pandemic has highlighted how infectious diseases are becoming more common and can disrupt global supply chains, overwhelm the health-care sector, and limit international travel. Nevertheless, future societies face another challenge that relates to the demographic processes that have been developing in the global population in recent decades [see Goerres and Vanhuysse 2021].

In *The Great Demographic Reversal*, Goodhart and Pradhan offer interesting argumentation on how demographic processes have affected the world economy in the past three decades and provide a glimpse of the trends to come. More specifically, they argue that in the 20th century demography and globalisation largely influenced the global supply of labour and this affected economic growth, nominal interest rates, inflation, and labour's bargaining power. In particular, they highlight the role that China played from the end of the last century as a major supplier of labour in the global economy. However, the near future looks different, as China and other advanced economies are facing problems such as rapid population ageing and an increasing age dependency ratio (i.e. the number of people older or younger than the working age divided by the number of people of working age). These changes in the population structure raise the question

of how demography affected the world economy in the past and how it will do so in the future.

Demography has often been used to understand how population structures affect societies. For example, in the 18th century Malthus described how exponential growth of the population could put pressure on the availability of resources, which grow arithmetically, resulting in the famous the 'Malthusian Trap'. However, this proposition was largely disproved in subsequent years thanks to a substantial increase in productivity and economic growth. Nowadays, the debate on the sustainability of population growth is still alive and divides scientists betting on the impact it will have on the prices of different commodities (Spinney, 2021). Nevertheless, focusing merely on population quantity leads us to neglect other important ways in which demography can exert societal changes. In fact, one important metric is the age structure of a population. Consequently, the change in the shape of the population pyramid that is currently occurring in most countries raises important questions about the impact different age structures have on society.

Rapid population growth has several societal consequences, one of which is a larger supply of labour in the economy. The model of demographic transition asserts that population grows in five phases and it happens rapidly. In the first stage, it predicts no population growth as deaths and births are both high. In the second stage, it forecasts a decline in deaths and a rapid increase in the total population that slows slightly in the third stage and stops in the fourth and fifth stages, at which point population decline may start as a result of low births. Goodhart and Pradhan suggest that the momentum created by rapid population growth causes a substantial increase in the supply of the working age population in the economy. Some of the possible consequences of the abundance of

labour are a decrease in the bargaining power of workers, an increase in the profitability of capital, and an increase in inequality. Additionally, in a globalised world, the stock of available labour in one country has spillover effects in the economies of other countries. For example, companies might decide to relocate industries to other countries (e.g. U.S. industries producing goods in China) or citizens could decide to migrate from countries with an abundance of labour to countries with higher capital (e.g. migration from East Europe to West Europe following the collapse of the Soviet Union). Goodhart and Pradhan relate the global abundance of labour and the increase in inequality to the political developments of recent decades. They explain the success of populist and nationalist parties as resulting from the dissatisfaction of citizens in advanced economies that have experienced stagnation in real wages. Populist parties have been promoting policies that would limit immigration and protect local employment for the losers in globalisation. Currently, these global demographic patterns are reversing and a call for an analysis of the 'Great Demographic Reversal' is already happening in several countries and is expected to accelerate soon in many others.

Goodhart and Pradhan call the current demographic shift in the global population the 'Great Reversal'. In their analysis they use the World Bank classification of countries into pre-dividend, early-dividend, late-dividend, and post-dividend categories, which closely correspond to the phases of the demographic transition model, and indicate whether a country is benefitting from a demographic dividend or not. Most advanced economies are in the late-dividend and post-dividend phase or close to entering a phase in which they do not have a large stock of working age population. Conversely, most developing countries are still waiting to gain from the demographic dividend or are starting to gain

from it. Importantly, the ageing advanced economies account for the largest share of the global Gross Domestic Product (GDP) and GDP growth in past decades and the demographic shift could highly impact their future contribution to the global economy.

The authors highlight some of the main consequences of the Great Reversal. First, they discuss how a larger share of elderly could cause a crisis of care and a considerable increase in public spending. Second, they expect rising inflation resulting from a larger share of dependents in the economy. Higher inflation could also lead central banks to raise interest rates. Third, the authors link the increase in within country inequality and the rise of populist parties in recent decades to the abundance of global labour. Consequently, they forecast a coming shortage of labour, which will give workers stronger bargaining power and increase their wages, as predicted by the Phillips curve.

Japan is often presented as an example of how population ageing will impact other countries in the future. For example, in a special report on Japan *The Economist* described Japan as 'A country on the Frontline' and titled the article 'An Ageing Country Shows Others How to Manage' [*The Economist*, 11 December 2021]. The article highlighted the effort Japan has made to increase the labour market participation of the seniors, as now more than half of people in the 65–69 age group are working. However, is Japan a good example for other countries? Goodhart and Pradhan are sceptical about this. The authors fairly admit that Japan offers a contrasting example to many of their propositions and predictions. For example, the wages of Japanese citizens did not substantially increase with a decline in unemployment. However, several factors explain the peculiarity of Japan compared to other countries. First, Japan has so far been able to substitute national labour with production

in China, but this option is no longer available for other countries or for Japan in the future. Second, the Japanese labour market is different from the labour markets in western countries because of cultural specifics that render it inflexible to changes in employment. Third, the labour participation rate of seniors in many advanced economies is not comparable to the levels reached in Japan, and it is difficult to expect a fast increase in seniors' participation given the serious political consequences faced by politicians who want to reform the pension system. For these reasons, Goodhart and Pradhan find that Japan does not offer tangible solutions for the countries that soon will face similar demographic problems.

If Japan does not offer lessons on how countries can cope with population ageing, how will future societies manage the consequences of these demographic processes? The authors present an interesting discussion of solutions and policies that highlights the advantages and disadvantages of each. More precisely, the authors have serious doubts that pension system reform, immigration, or the demographic momentum of the African continent and India will be enough to counteract the demographic challenges ahead. For political reasons, pension system reform and immigration are not considered feasible solutions. Pension system reform is politically very complicated. In several countries politicians have tried raising the age of retirement based on longer life expectancy, but such plans have been met by strong resistance from the electorate and grim prospects in the following election. Equally, immigration is a politically heated topic that has led to the emergence of several political parties that seek to limit it. Even if immigration were to receive greater political support, a sizable level of immigration would be required to offset population ageing. Additionally, the booming population in African countries and India will not

be able to emulate the role played by China for structural and political reasons. The unfeasibility of the above-mentioned options leaves space for a few alternatives to counteract the higher public expenses faced by governments. More precisely, the authors propose a broad set of taxes that could be used to pay for the higher public debt resulting from higher public health costs and pensions. Relatedly, the current COVID-19 pandemic has raised questions about how it may have further exacerbated the macroeconomic trends described above. The authors, in a postscript, highlight how the pandemic may have accelerated the economic trends that the 'Great Reversal' was expected to usher in, causing an increase in government debt, wages, and inflation.

The Great Demographic Reversal is a great read that intelligently combines theoretical assumptions with empirical evidence and covers a broad range of aspects related to demography and macroeconomy. Additionally, Goodhart and Pradhan interestingly discuss how these processes might explain trends in income inequality and political behaviour such as the rise of populist parties. Despite the book's big aspirations, it reads fluidly and is nicely structured, and it contains graphs and charts that help the reader grasp the substance and subtleties of main ideas it proposes. For this reason, the book has the benefit of appealing to a large audience of both academic and non-academic readers. Among academic readers, macroeconomists may find it interesting to learn how demographic processes on a global scale can affect national economies. Demographers can discover how the population processes they study relate to central economic outcomes such as inflation and economic growth. Political scientists may find the discussion of the rise of populism and how this relates to globalisation and the available stock of global labour both stimulating and controversial. Microeconomists and sociologists may find an alternative

explanation for the growth of inequality and the decrease in the bargaining power of labour. And welfare state researchers can find a thorough discussion of how the increase in the age dependency ratio will affect public spending, which will require policies that raise supplementary taxes to pay for these expenses. Overall, this is a timely book that effectively contributes to our deeper understanding of how global demographic processes have affected societies in the past and could do so in the future.

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#### **Oded Galor: *The Journey of Humanity: The Origins of Wealth and Inequality***

London 2022: Penguin Books Ltd, 304 pp.

This book offers a comprehensive overview of the history of our species, describing the journey of humanity starting in Africa some 300 000 years ago. Rather than focusing on specific occurrences of historical importance, Galor pays attention to the fundamental mechanisms working since the emergence of the species, moving humankind through hundreds of thousands of

years of stagnant population size and living standards and towards the explosion of both after the industrial revolution. What Galor calls 'the cogs of change' had been turning under the surface all along but have had different consequences across the planet. The book poses the question: what has caused humanity to achieve its still-expanding growth? And further, wherein lie the roots of its immensely unequal distribution?

In the first part of the book, Galor sets his sights on explaining the mystery of growth and why humans, unlike any of our co-species on this planet, have managed to escape the Malthusian Trap. Named after Thomas Malthus, the Malthusian equilibrium captures the human tendency to utilise the affluence reached through technological advances into increase in procreation, which in turn leads to exhausted resources and again deteriorated living conditions. While this mechanism has been the rule for most of human existence, in the past two centuries it has ceased to be so. To explain the sudden and ever-accelerating growth after the extended period of stagnation, Galor considers one 'cog' at a time until he has drawn a simple yet surprisingly powerful explanation, in which human capital plays a significant role. Galor argues that it was the technology-facilitated increasing return to education that pushed parents to re-evaluate the quantity-quality trade-off of producing offspring and to choose investing into their existing children rather than bearing more. This drop in fertility and decrease in hungry mouths per household finally led to progress in human living standards in the long run. The growing human capital worked as raw material for the process of industrialisation, which in turn multiplied the demand for further human capital investments within the industrialised nations. Thus, 'the great cogs of human history' have made it possible for our species to reach for the stars.