

# **Building Human Capital in an Aging Mexico:**

***Demography, Workforce Development,  
and Economic Competitiveness***

**Richard Jackson  
Center for Strategic and International Studies**

**Washington, DC  
September 7, 2005**

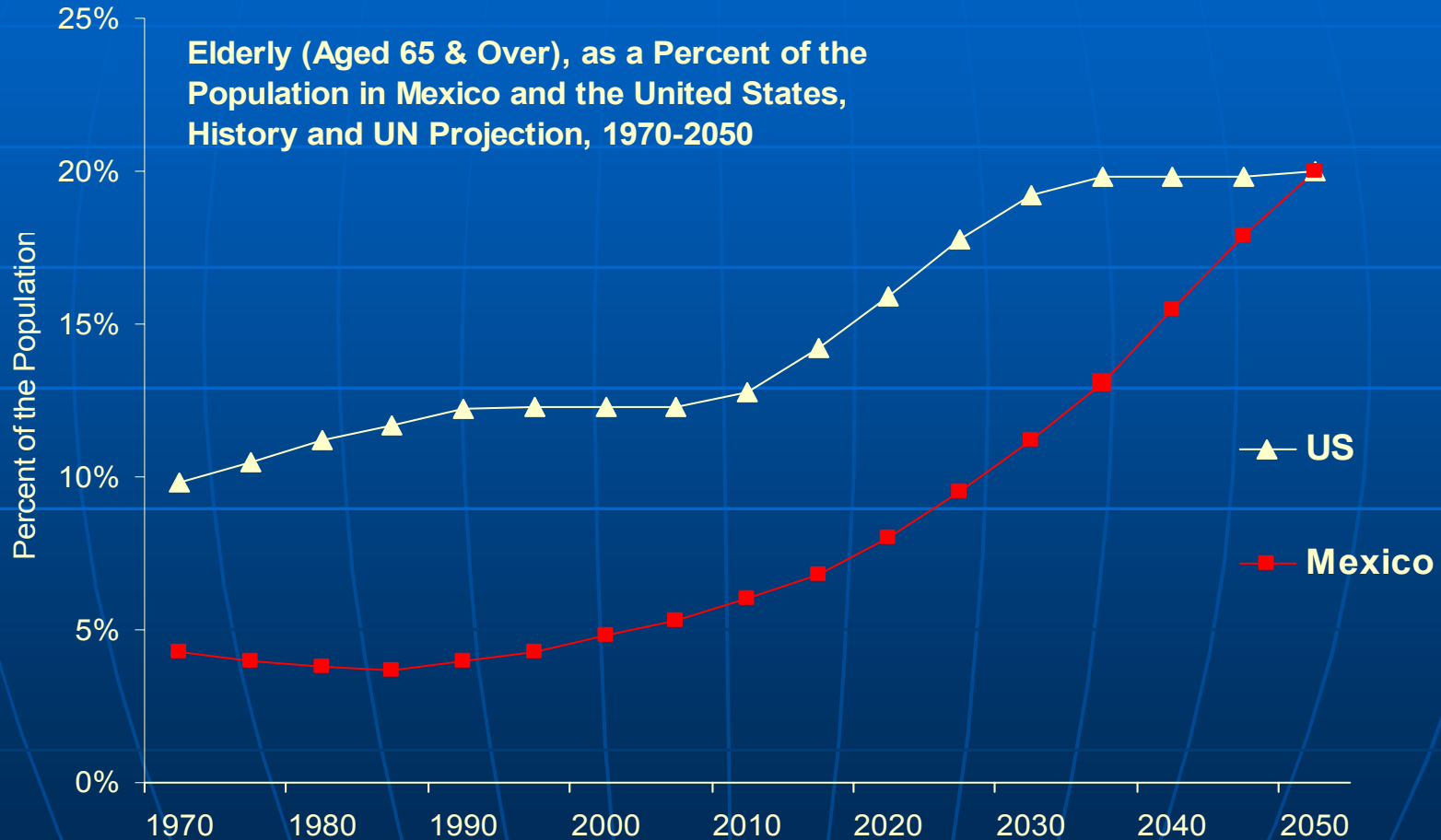
# **Mexico is about to undergo a stunning demographic transformation.**

**Mexico is still a demographically young nation, preoccupied with a young nation's challenges—modernizing its economy, creating jobs, and raising living standards.**

**Mexico, however, is about to age dramatically.**

**Today, there are nine times as many children in Mexico as elders. By mid-century, there could be as many elders as children.**

# When the age wave has run its course, Mexico will be as old as the United States.



Source: UN (2003)

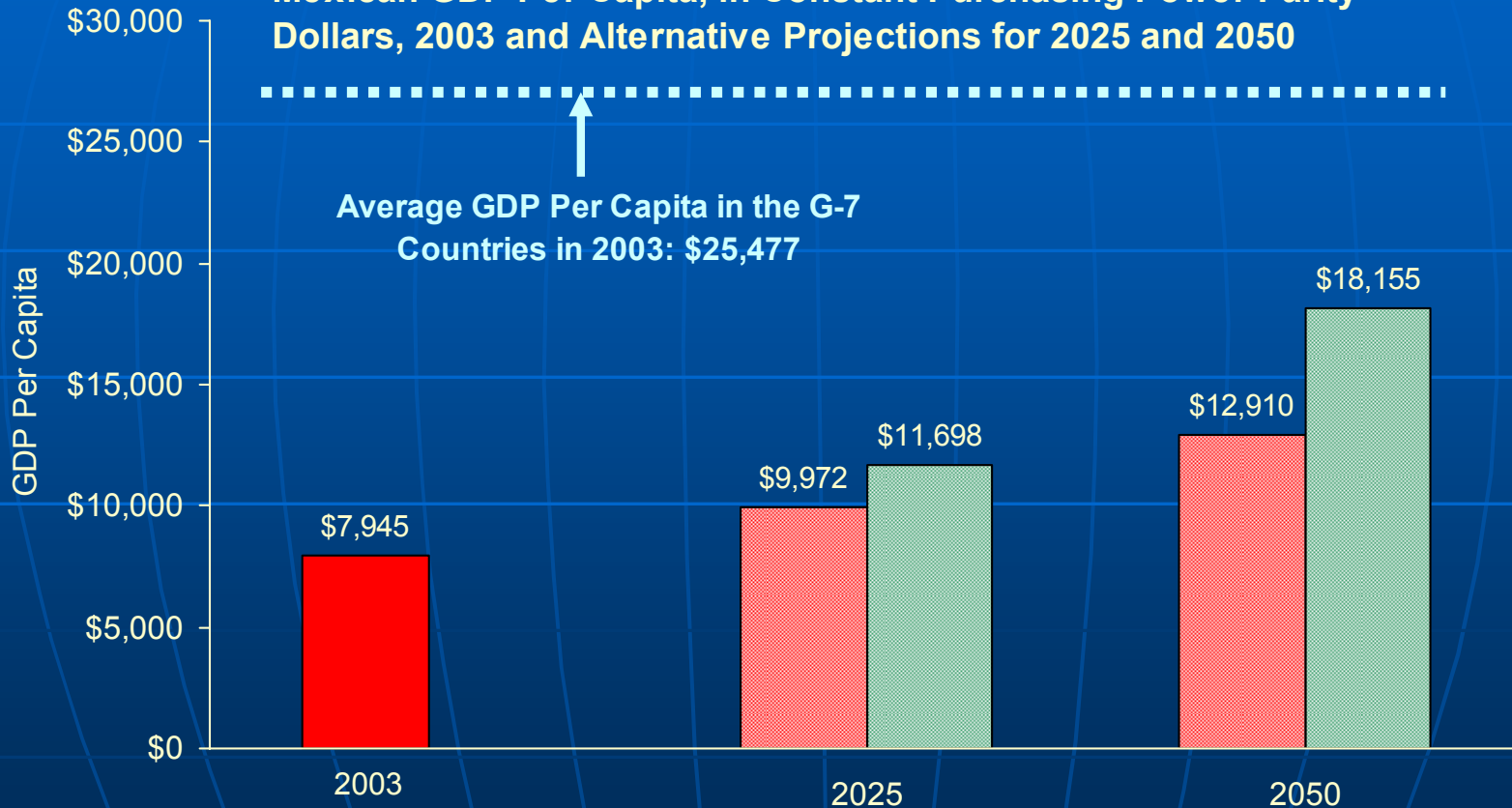


**Today's developed countries became affluent societies before they became aging societies. Mexico is on track to grow old before it grows rich.**



# At recent rates of income growth, Mexico will grow old before it grows rich.

Mexican GDP Per Capita, in Constant Purchasing Power Parity Dollars, 2003 and Alternative Projections for 2025 and 2050



- Assumes 1993-2003 average annual growth rate
- Assumes 1995-2003 average annual growth rate

Source: World Bank (2004) and author's calculations

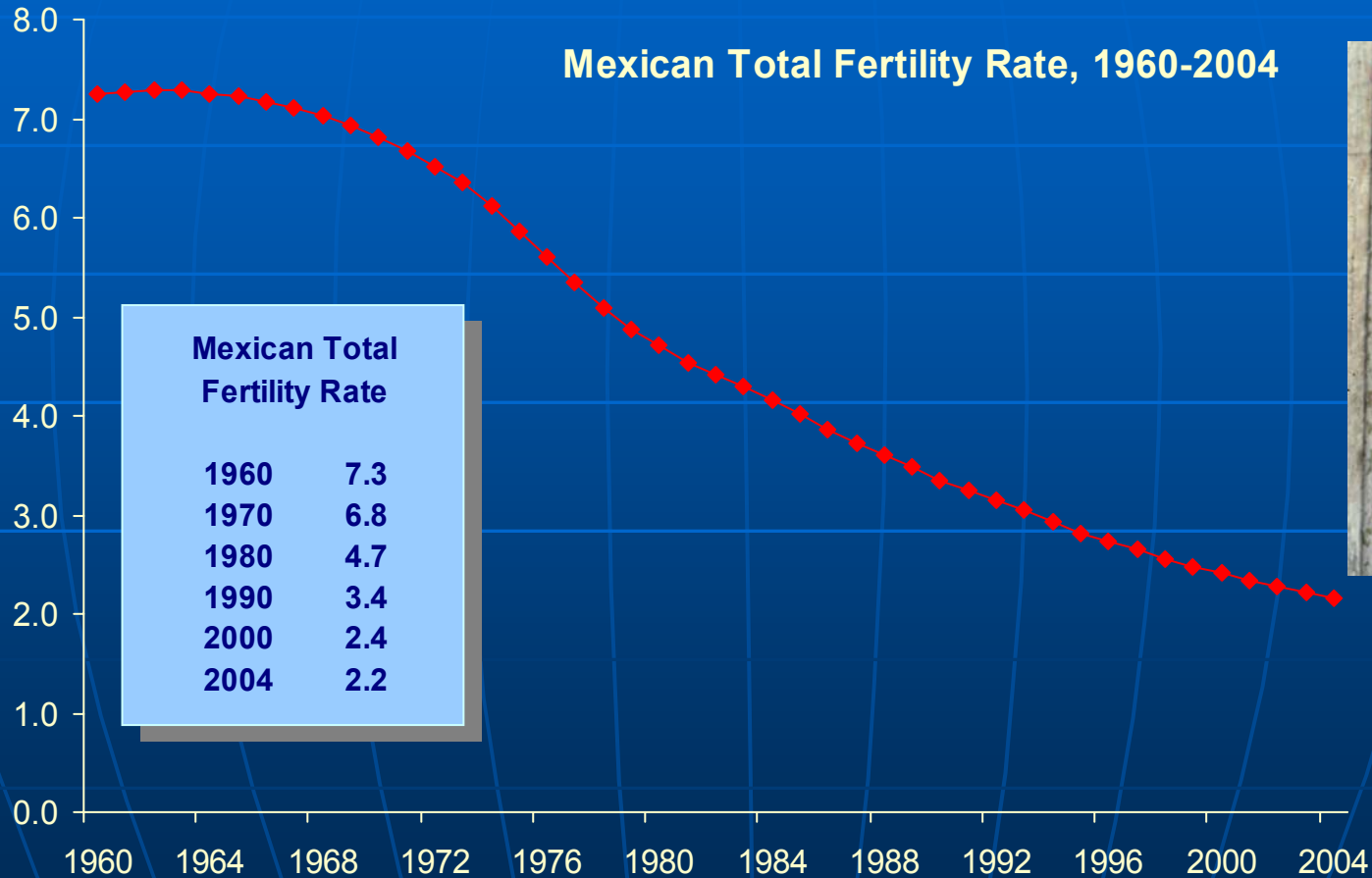
# There are two demographic forces behind the aging of Mexico.

The first force is **FALLING FERTILITY**.

Mexicans are having fewer babies—and this shrinks the relative number of young in the population.

Since the mid-1960s, Mexico's fertility rate has fallen from 7.3 to 2.2. In many urban centers, it has sunk beneath 2.1—the “replacement rate” needed to maintain a stable population over time.

# Behind Mexico's Age Wave: A dramatic decline in fertility rates.



Source: CONAPO (2005)



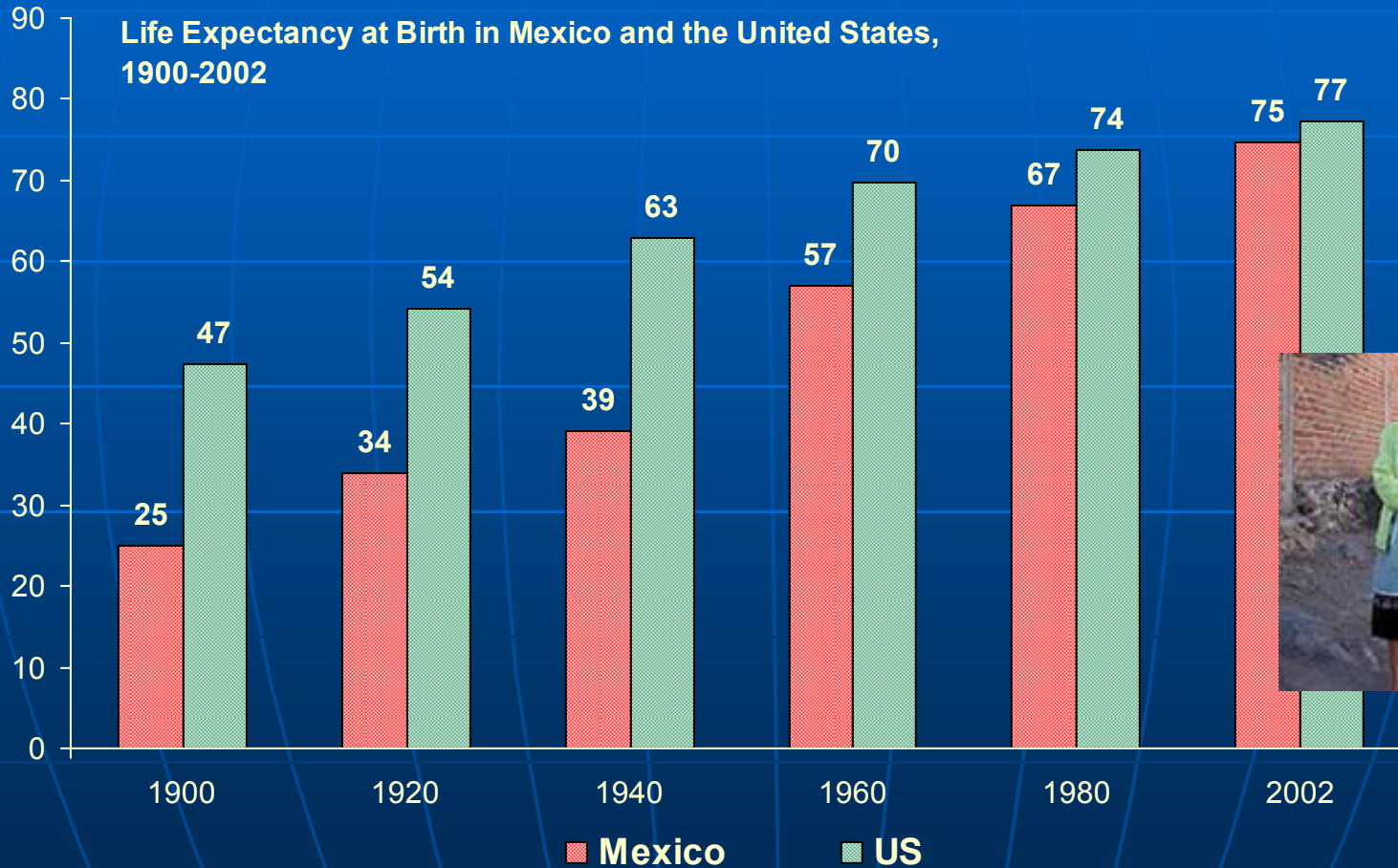
# **There are two demographic forces behind the aging of Mexico.**

The second force is **RISING LONGEVITY**.

Mexicans are living longer—and this increases the relative number of old in the population.

Over the past century, life expectancy in Mexico has risen from 25 to 75—putting it on a par with some developed countries, including the United States.

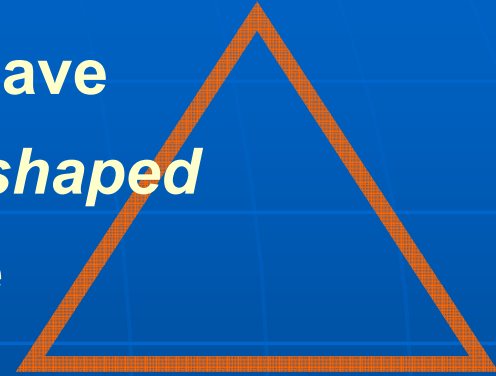
# Behind Mexico's Age Wave: An equally dramatic rise in longevity.



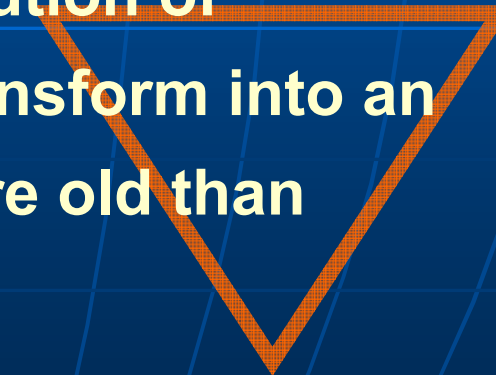
Source: CONAPO (2005), Astorga, Bergés, and Fitzgerald (2004), and National Center for Health Statistics (2004)

# A historic transformation approaches— the “inversion” of Mexico’s age pyramid.

Populations throughout history have all shown a steep *pyramid-shaped* age distribution—with more young than old people.

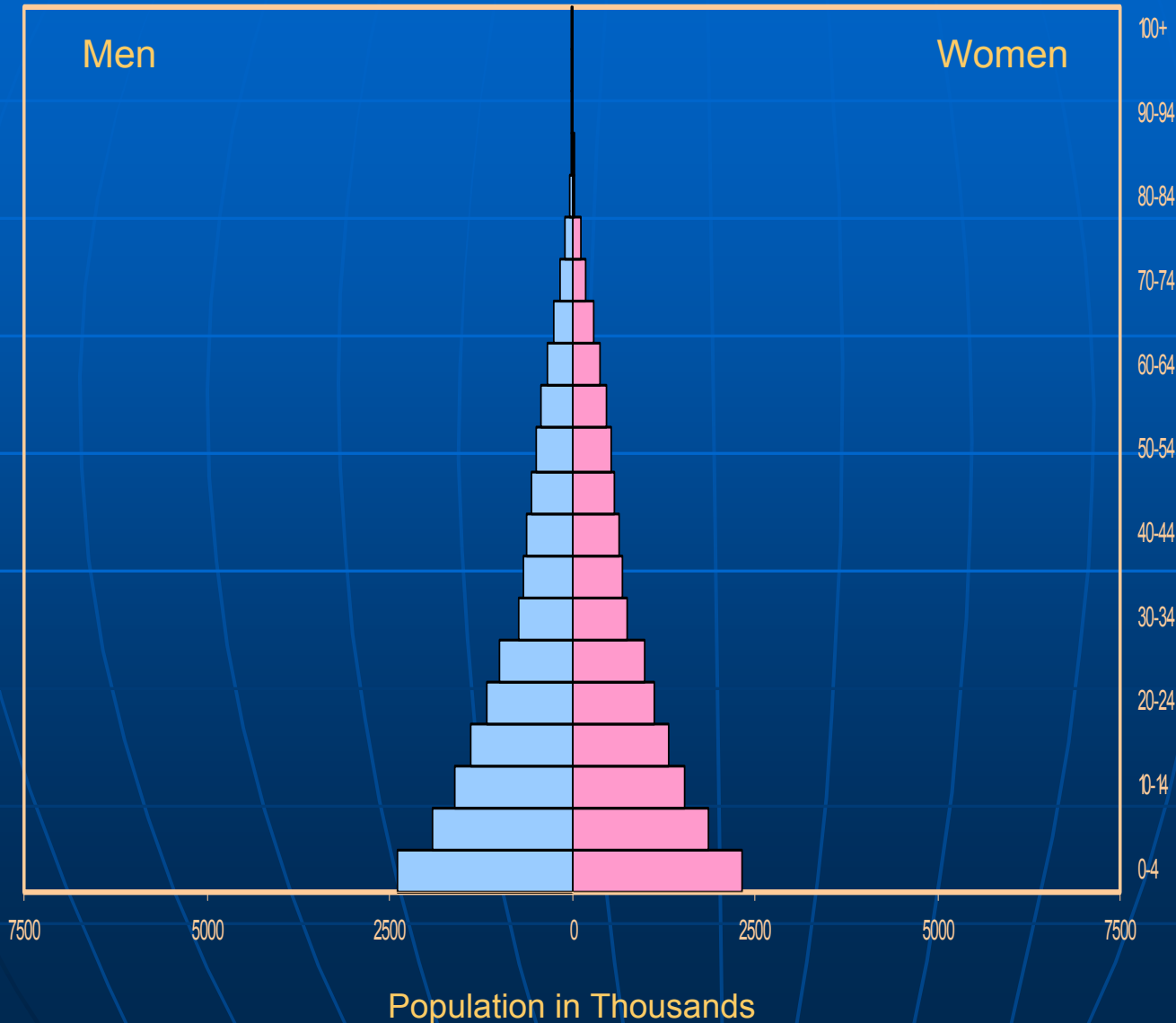


In the near future, the age distribution of Mexico’s population will transform into an *inverted pyramid*—with more old than young people.



# Pyramid inversion in Mexico—1950 to 2050.

Mexico: UN Medium Fertility Scenario



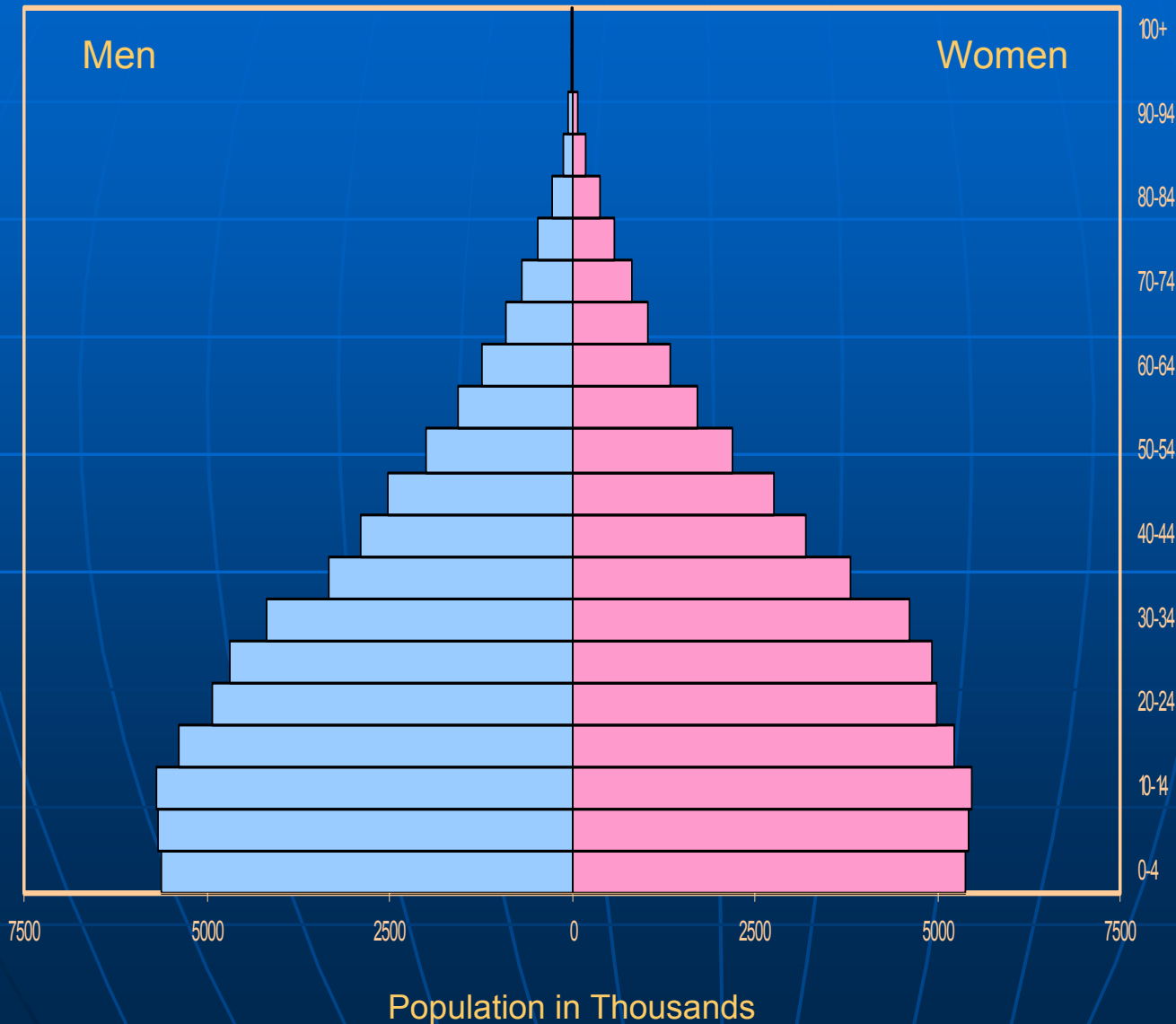
year  
**1950**

median age  
**19.1**

**THIS IS**  
**WHERE**  
**MEXICO**  
**WAS IN**  
**1950**

# Pyramid inversion in Mexico—1950 to 2050.

Mexico: UN Medium Fertility Scenario



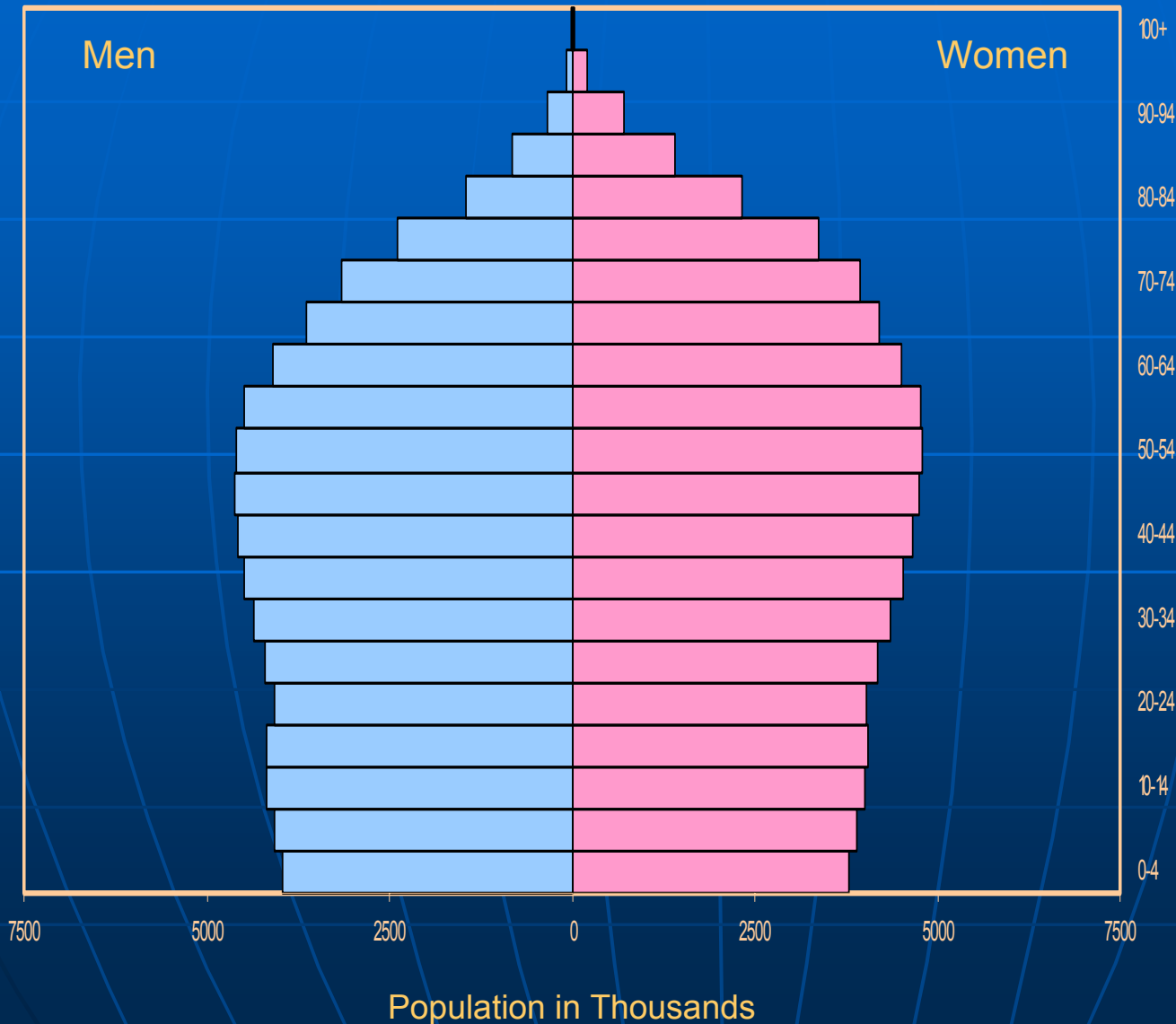
year  
**2005**

median age  
**24.7**

**THIS IS**  
**WHERE**  
**MEXICO IS**  
**TODAY**

# Pyramid inversion in Mexico—1950 to 2050.

Mexico: UN Medium Fertility Scenario



**year**  
**2050**

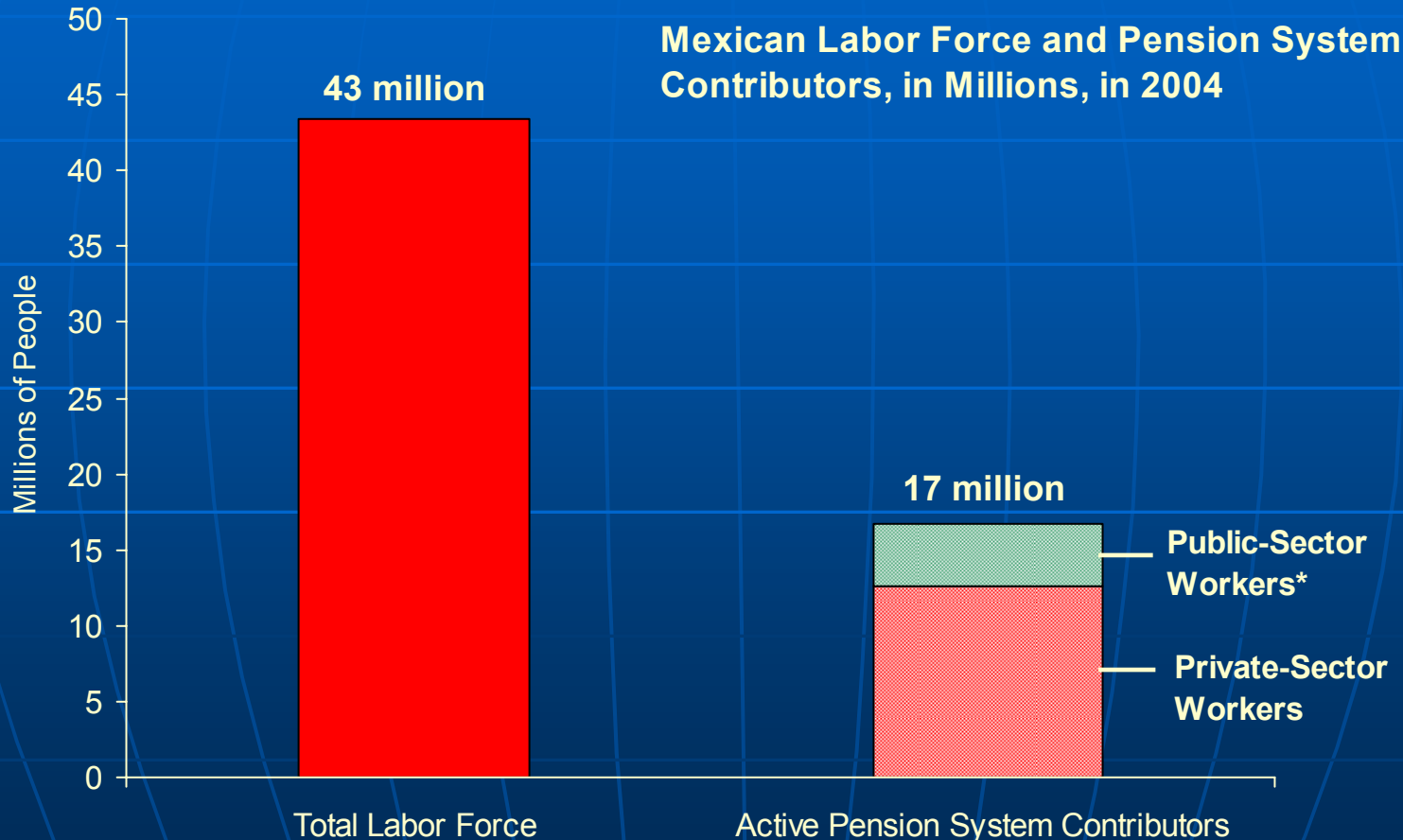
**median age**  
**42.1**

**THIS IS**  
**WHERE**  
**MEXICO**  
**WILL BE IN**  
**2050**



**The aging of its population will challenge Mexico's ability to provide a decent level of support for the old without imposing a crushing burden on the young.**

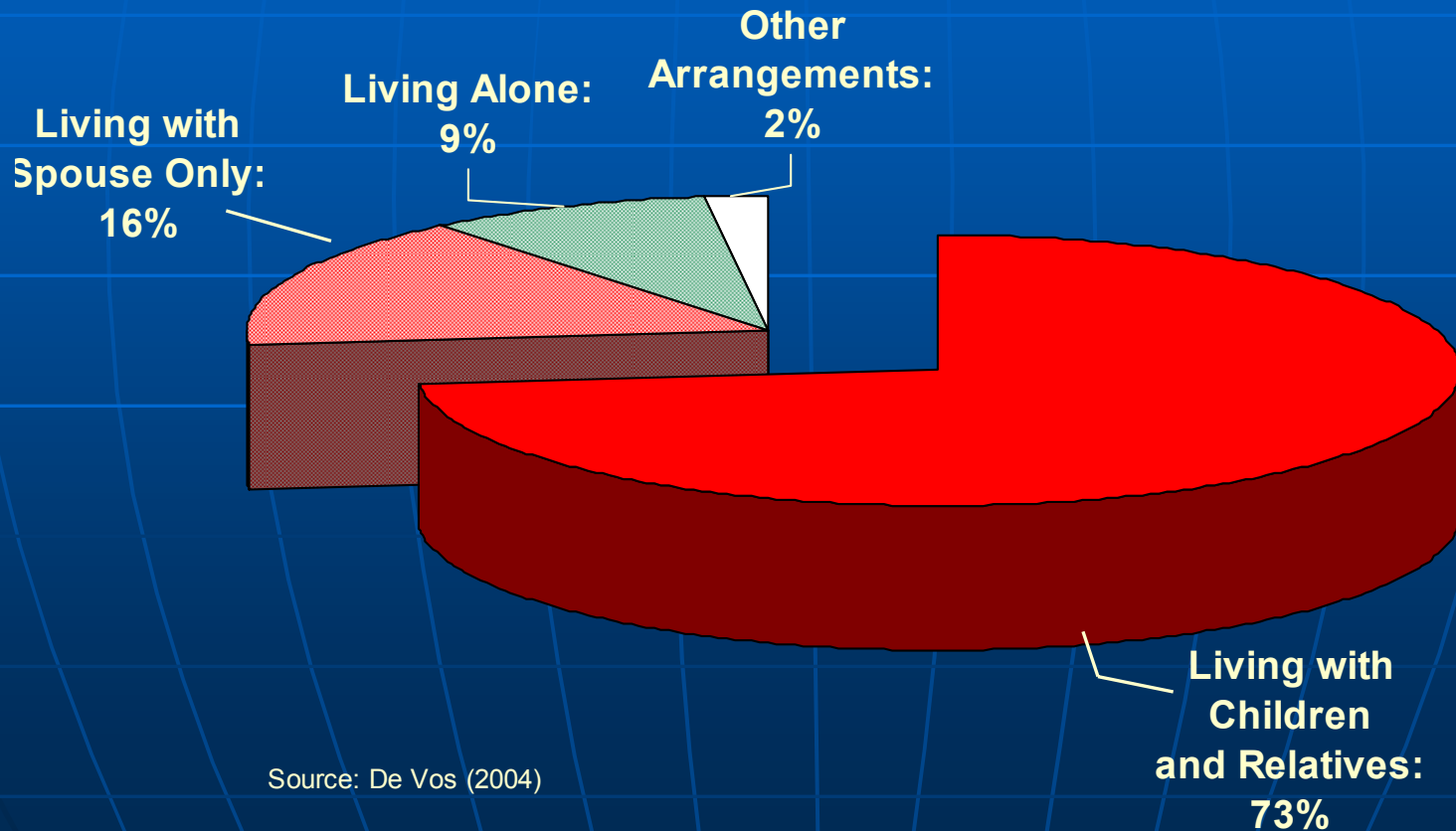
# Only a minority of Mexicans are contributing to the public pension system.



\* Data for public-sector workers are for 2002.  
Source: Budebo (2003) and AIOS (2004)

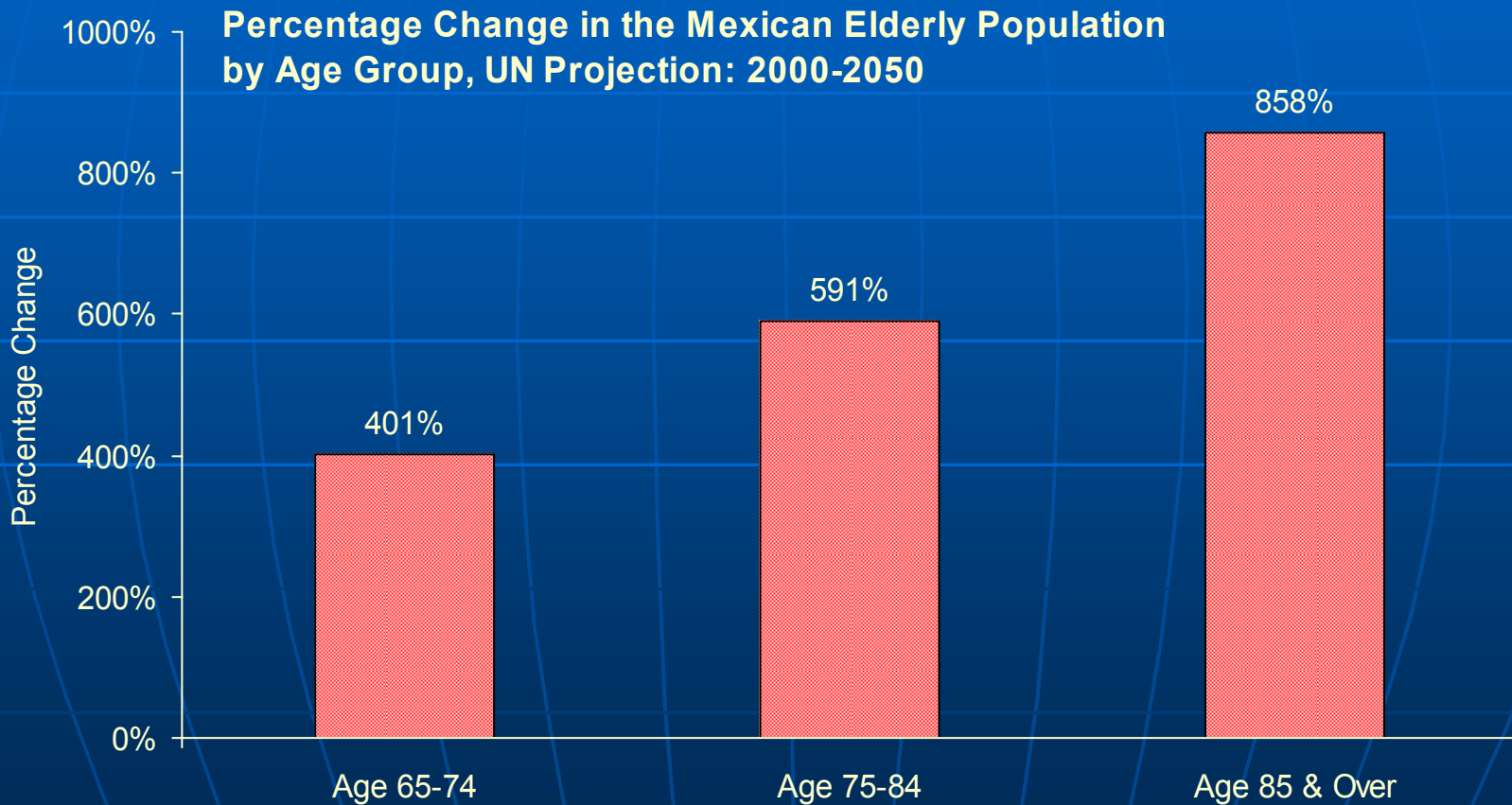
# Most Mexican elders still live in extended families.

Mexican Elderly (Aged 60 & Over), by Living Arrangement, as a Percent of Total in 2000



Source: De Vos (2004)

# The oldest elderly age brackets will be the fastest growing of all.

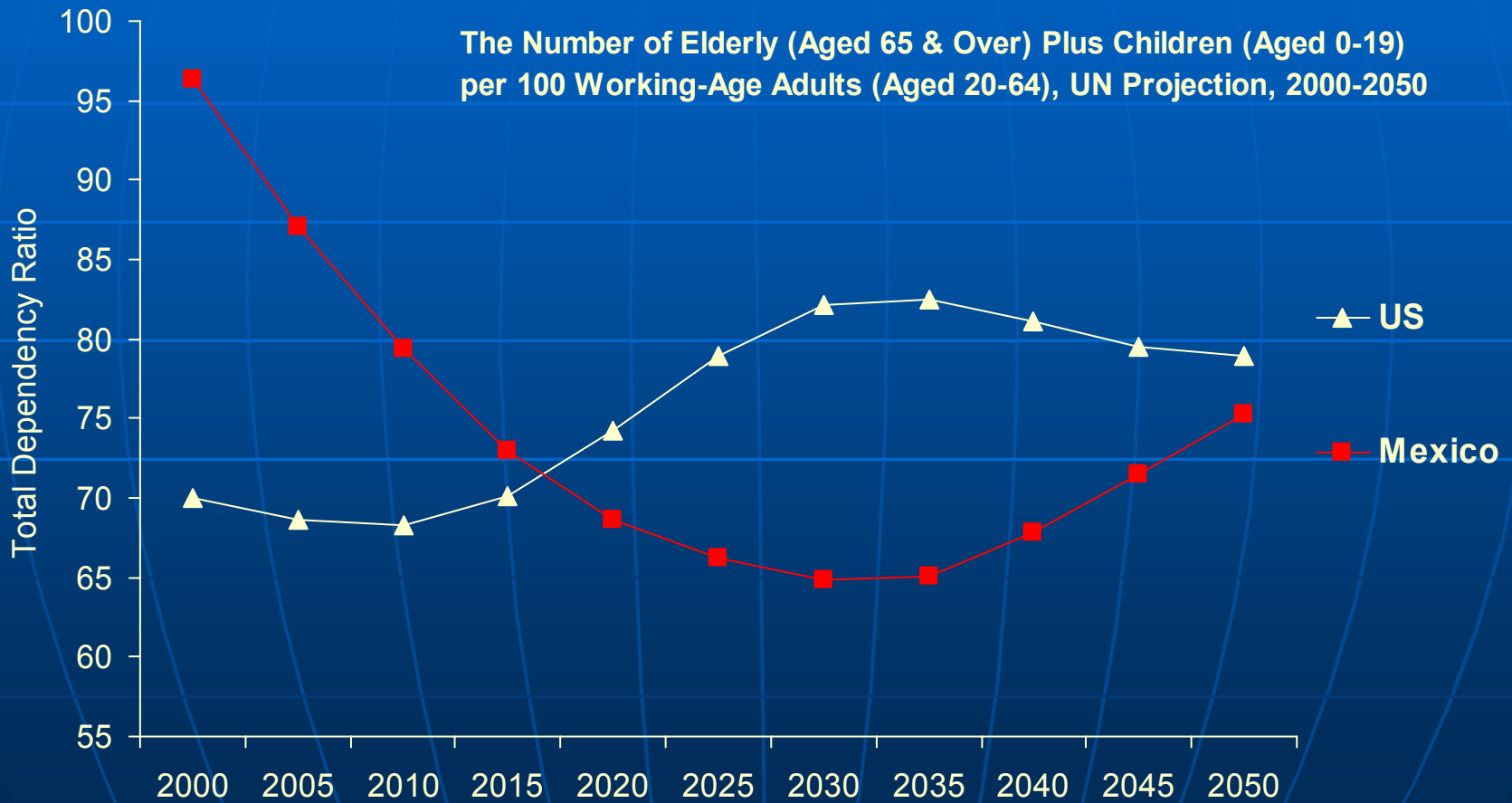


Source: UN (2003)

**Fortunately, Mexico's age wave—and the old-age dependency challenge it will bring—still looms over the horizon.**

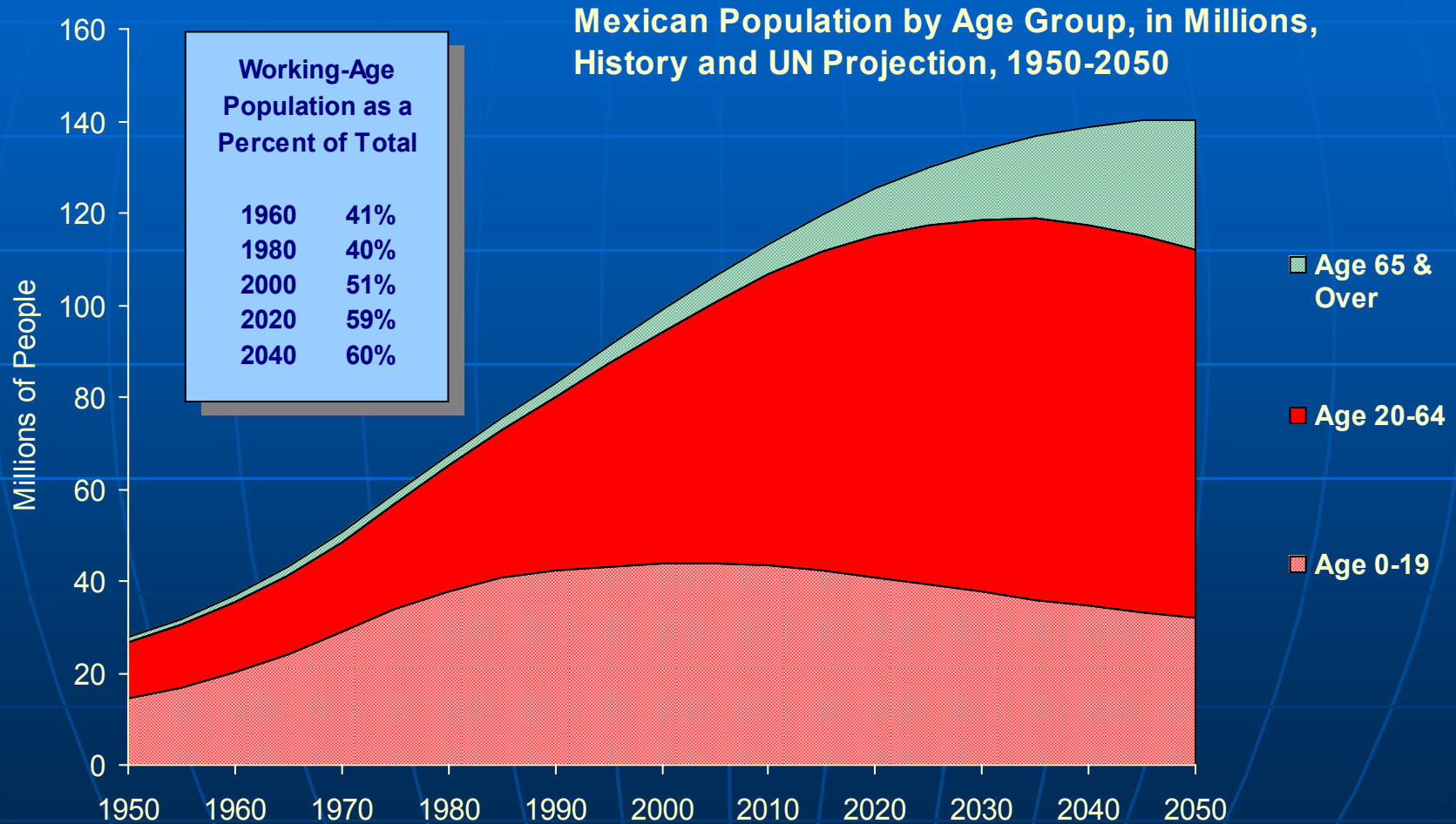
**For the next twenty-five years, demographic trends will tend to help rather than hinder growth in Mexican living standards.**

# The demographic dividend: A declining number of dependents per working-age adult.



Source: UN (2003)

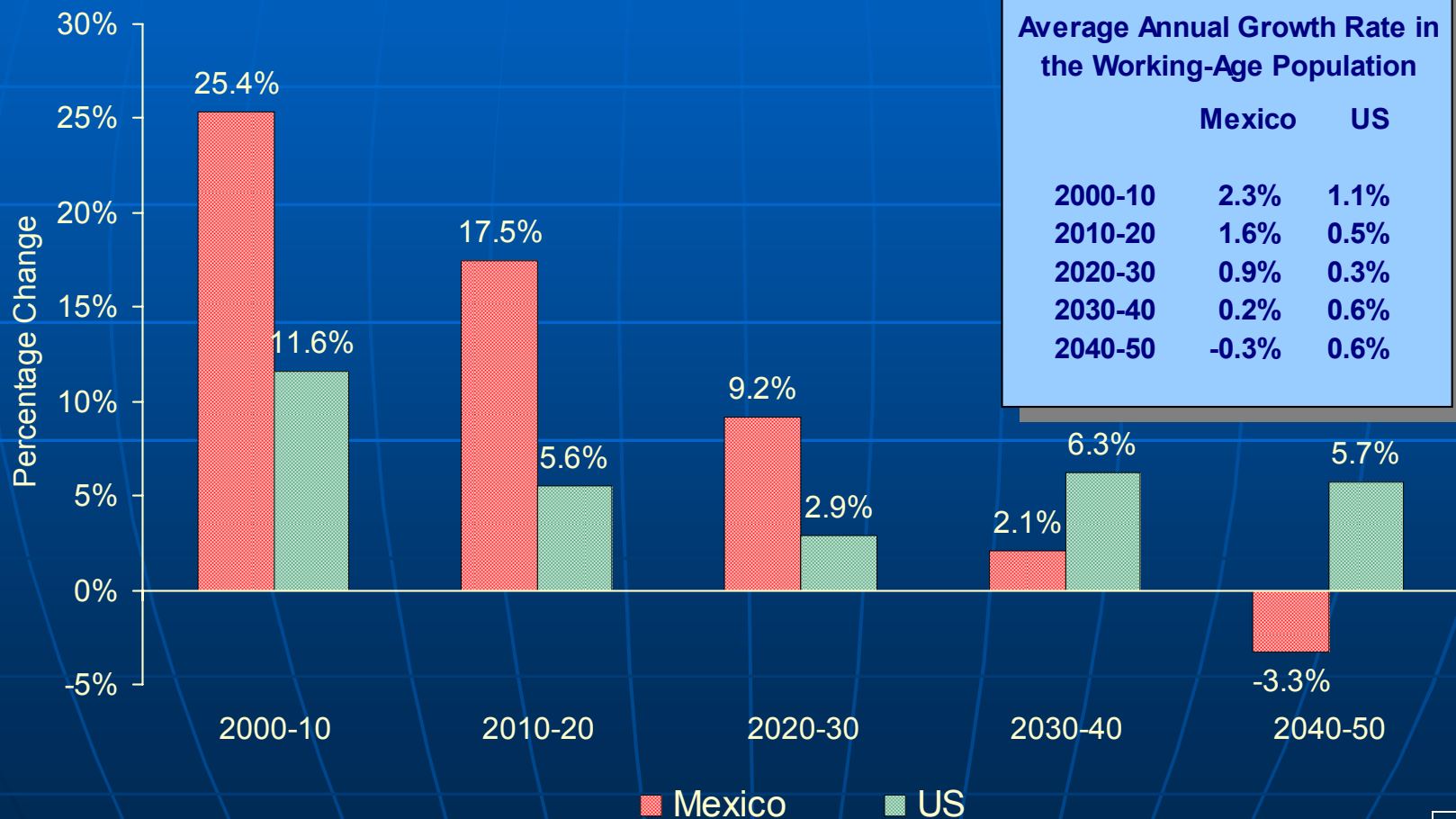
# The demographic dividend: A record share of the population in the working years.



Source: UN (2003)

# The growth in Mexico's workforce will gradually but steadily decelerate.

Percentage Change in the Working-Age Population (Aged 20-64) in Mexico and the United States by Decade, UN Projection, 2000-2050



Source: UN (2003)

# **The demographic dividend could bring important economic benefits.**

- Higher rates of savings, investment, and productivity growth.**
- A shift from labor-intensive (low wage) jobs to capital intensive (high wage) jobs.**
- Growing economic integration between Mexico and the United States.**

**To realize the potential benefits of its demographic dividend, Mexico must make the right policy choices today.**



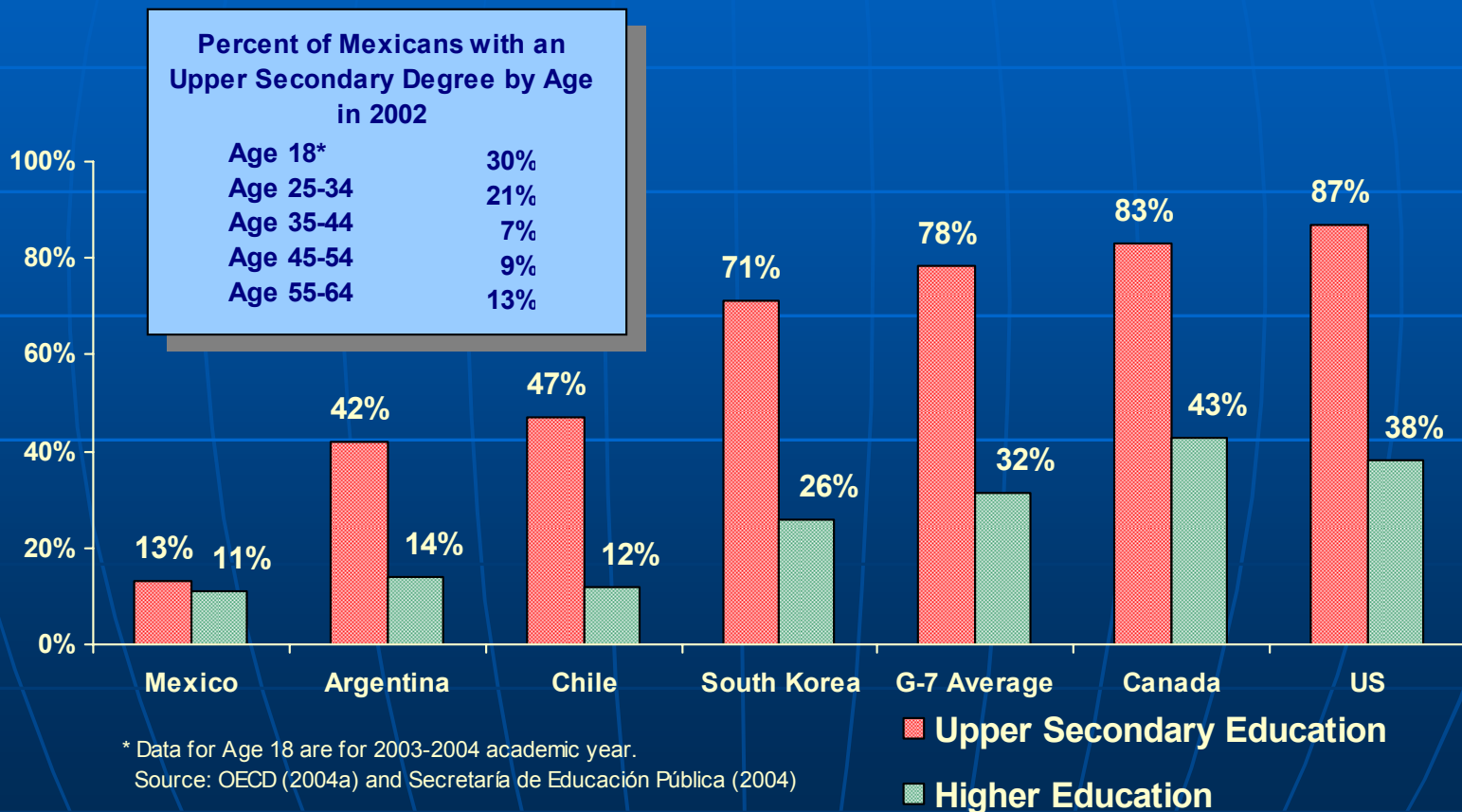
# Five imperatives for an aging Mexico.

- Educate the rising generation.



# Only a minority of Mexicans have completed high school or college.

Percent of the Population (Aged 25-64) with an Upper Secondary or Higher Education Degree in 2002



# Five imperatives for an aging Mexico.

- ❑ Educate the rising generation.
- ❑ Improve the skills of the current workforce.



# Even if educational levels keep rising, it will take decades for Mexico to catch up to the developed world.

## Percent of Mexican Working-Age Adults (Aged 25-64) with an Upper Secondary Education Degree, Alternative Projections, 2000-2050

<u>Year</u>	<u>Low Scenario</u>	<u>High Scenario</u>
2002	13%	13%
2010	22%	22%
2020	27%	43%
2030	33%	59%
2040	36%	73%
2050	36%	84%

**Low Scenario:** Assumes current educational completion rates do not rise in the future

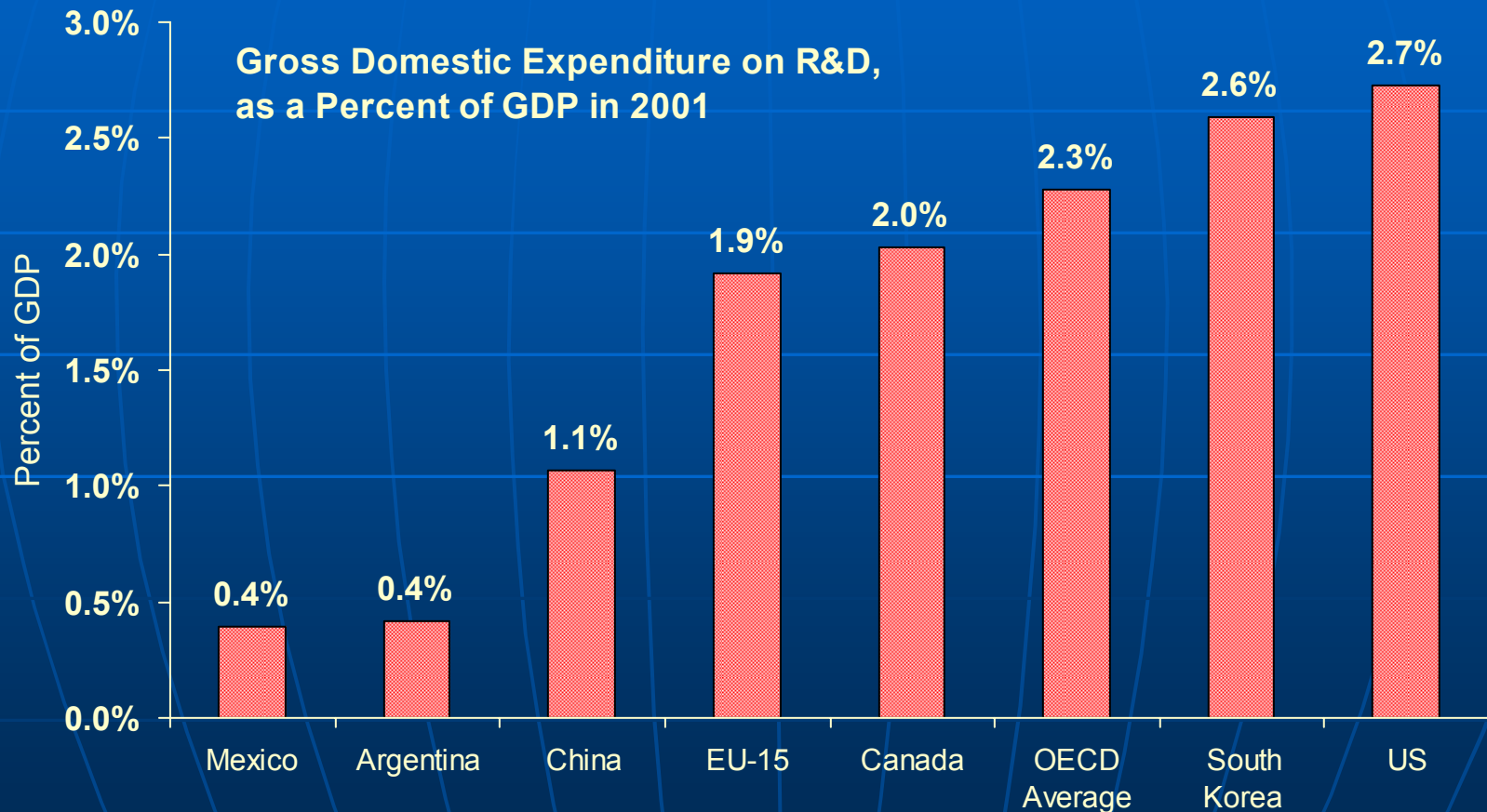
**High Scenario:** Assumes completion rates rise to the G-7 average by 2010

# Five imperatives for an aging Mexico.

- ❑ Educate the rising generation.
- ❑ Improve the skills of the current workforce.
- ❑ Invest in science and technology.



# Mexico needs to raise its low rate of investment in research and development.



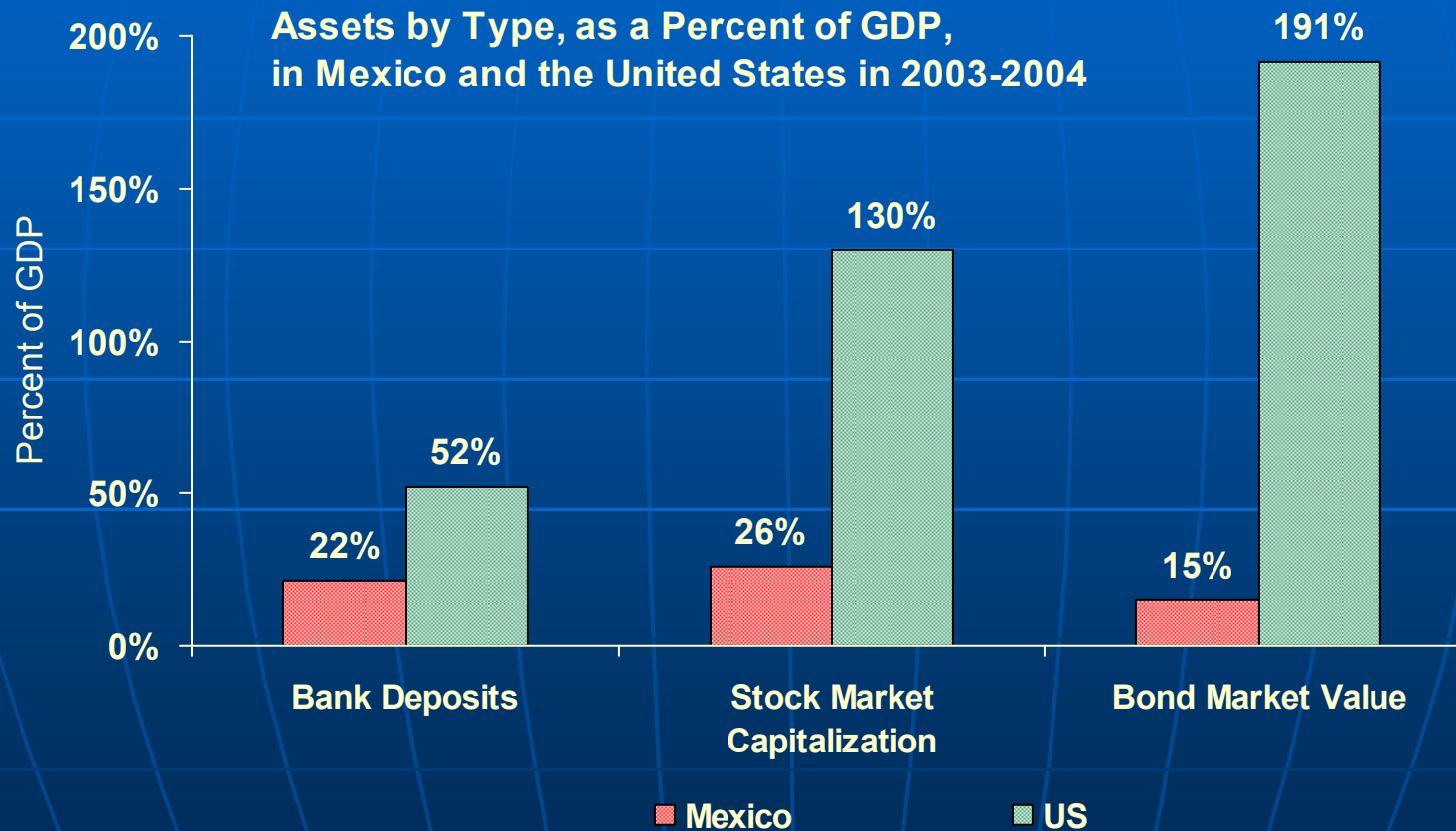
Source: OECD (2004)

# Five imperatives for an aging Mexico.

- Educate the rising generation.
- Improve the skills of the current workforce.
- Invest in science and technology.
- Complete the economic and political reform agenda.



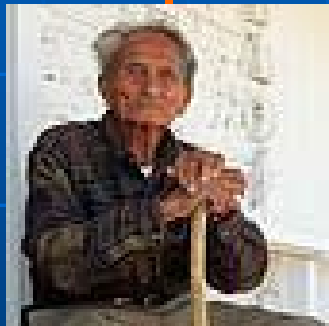
# Mexico's capital markets remain relatively underdeveloped.



Source: Bank of Mexico (2005), De la Torre and Schmukler (2004), and IMF (2004)

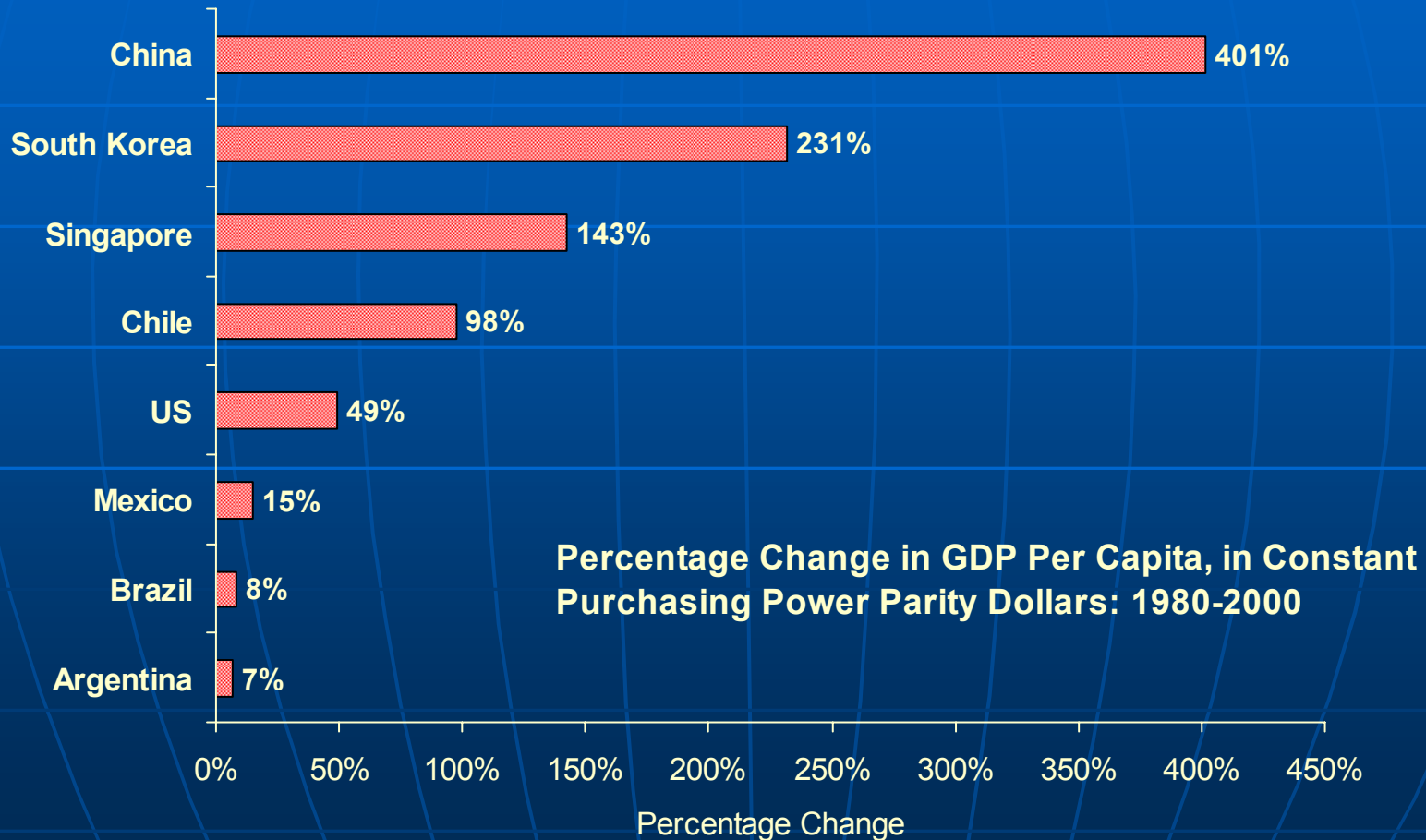
# Five imperatives for an aging Mexico.

- Educate the rising generation.
- Improve the skills of the current workforce.
- Invest in science and technology.
- Complete the economic and political reform agenda.
- Create a universal old-age safety net.



**Mexico's aspirations for the future depend on its ability to improve its competitiveness and raise its living standard. Yet despite impressive progress since the "lost decade" of the 1980s, Mexico is lagging in the international development race.**

# In recent decades, the growth in Mexican living standards has stalled.

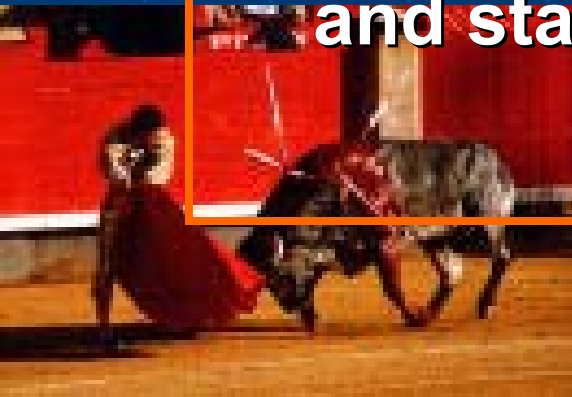


Source: World Bank (2004)



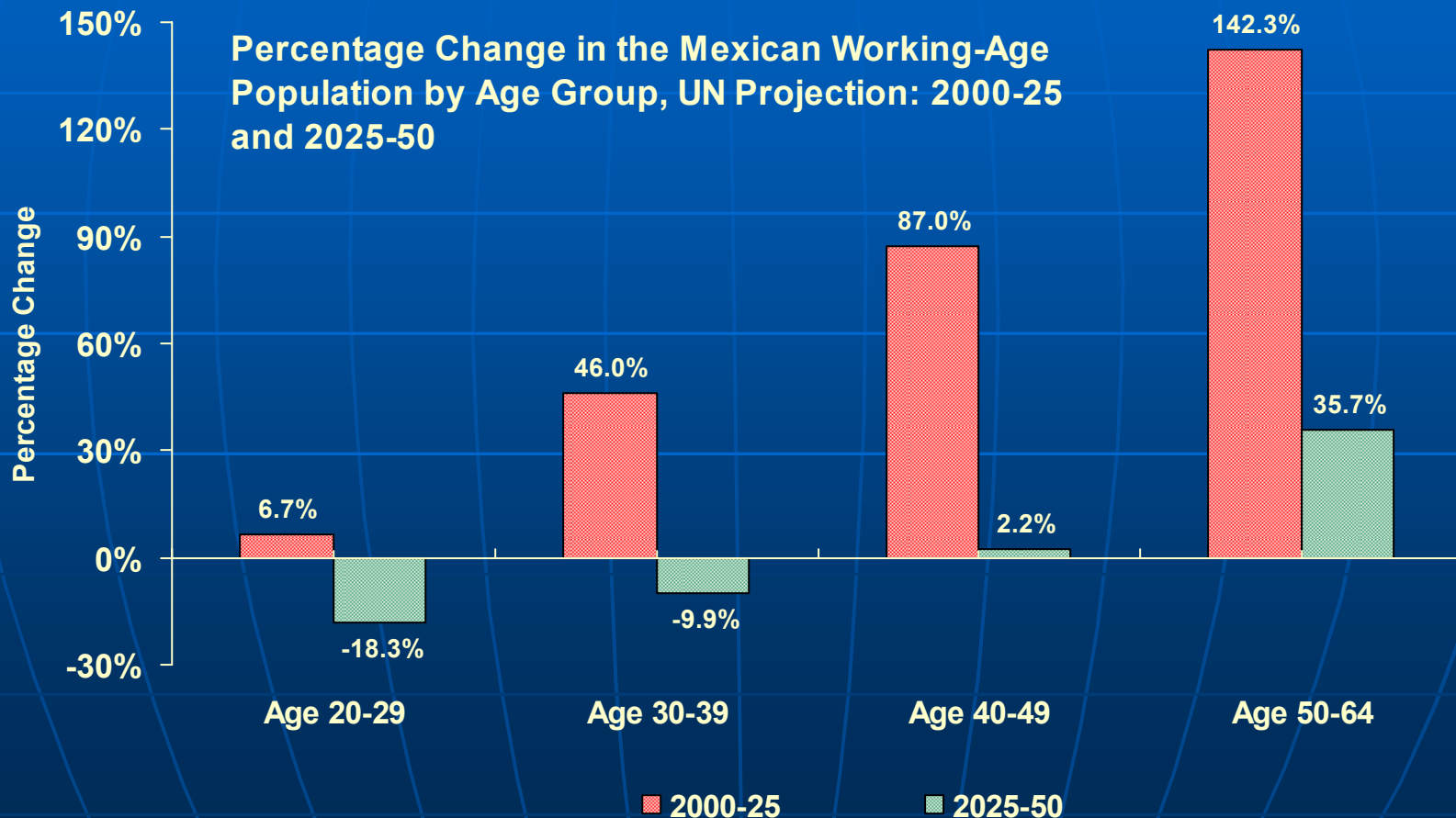
**Mexico stands at a historic crossroads.**

**How it navigates its coming demographic transformation will go a long way toward determining whether it achieves its objective of becoming a prosperous and stable developed economy.**



# ANNEX

# The number of older workers will continue to grow rapidly, even as the number of younger workers begins to decline.



Source: UN (2003)