

Five ways demographics are changing the economy

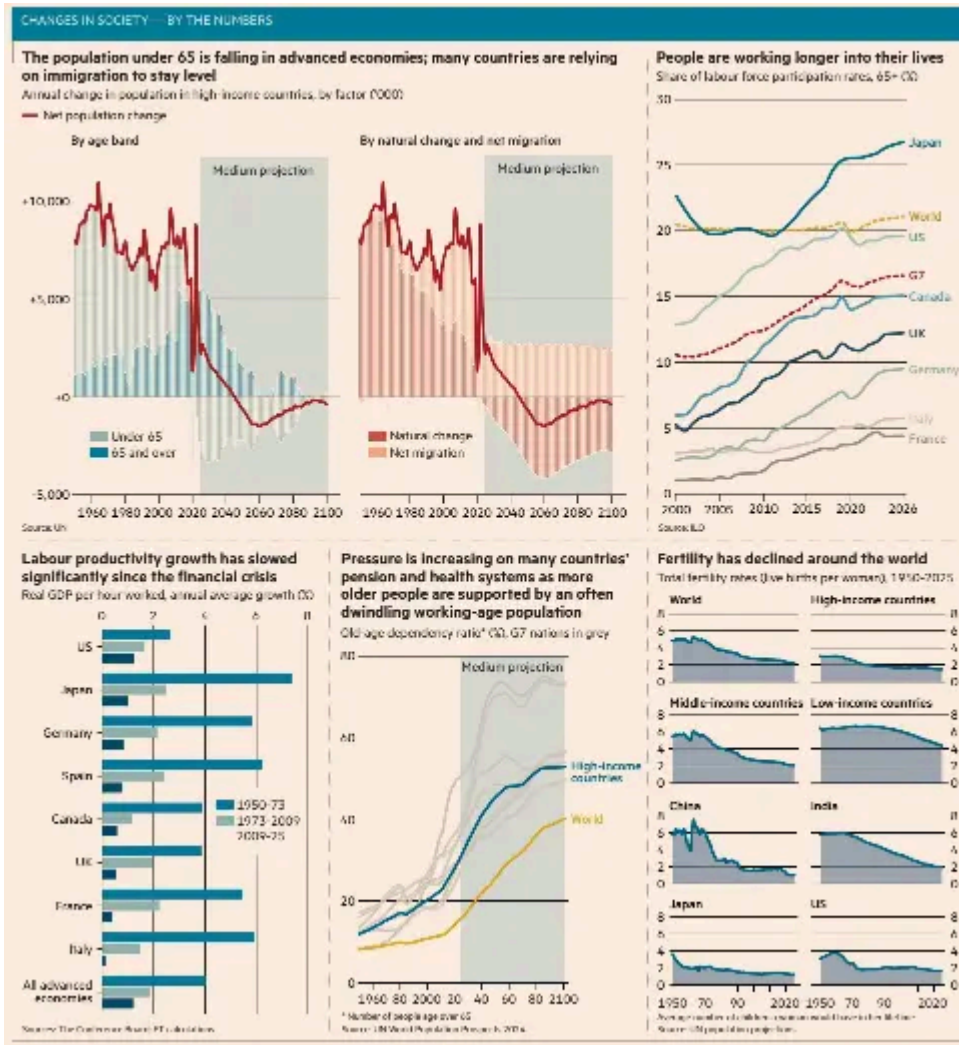
Longer work lives, use of AI, stress on welfare systems — 45 experts set out their analysis on what shifting patterns and ageing populations will mean for the global economy in the years to come.

Financial Times Europe

06 mars 2026

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In Shropshire, the heart of rural England, AI-powered robots are on hand in elderly patients' homes, to help remind them to take their medication, monitor their health and even organise visits by carers and family members.



The machines are just one of the ways in which the world economy is responding to a demographic earthquake.

After 60 years in which the fertility rate has halved in rich economies, the number of people of working age in many such countries is either already falling or set to do so soon. That contraction in the traditional labour force comes even as people's lifespans have lengthened dramatically.

“The longer-term workforce model will be carers accompanied by robots,” says Ben Maruthappu, a doctor who cofounded Cera Care, the company that owns the Genie Con-

nect technology rolled out in Shropshire and 11 other local authorities.

The demographic transformation goes far beyond the labour shortages that are making robots into carers — as do its consequences.

Many countries' populations are in clear decline, among them Japan, China, Italy and most of central and eastern Europe. Last year, for the first time since 1945, France registered more deaths than births, a milestone the UK is expected to pass for good in 2026.

The ageing society will have profound economic effects. The FT contacted 45 experts, from demographers to a Nobel Prize-winning economist, to ask what shifting demographic patterns will mean for the global economy in the years to come.

“People will need to work longer,” but many ageing people in good health “will want to work longer because work gives us meaning, it gives us networks, it gives us a sense of self-worth, and it gives us skills,” says Ian Goldin, professor of globalisation and development at the University of Oxford.

Already a quarter of Japan's population aged over 65 is in the workforce, according to ILO data.

That age cohort is also experiencing rising employment rates in many other countries, due to changes in retirement ages, financial needs and society as a whole.

The trend is in marked contrast with the final decades of the 20th century, when the average age at which people stopped working steadily fell.

The turning point came around the turn of the millennium — the number of jobs among the over-fifties in rich economies has increased more than twice as much as for the under-fifties over the past two decades, according to an FT analysis of OECD data.

At the same time, people in many such countries can expect good health at least until their seventies.

Andrew J Scott, a world expert on the economics of longevity, questions the traditional definition of old age, which “lumps everyone over 65 in one group”, assuming that these people “are a deadweight on the economy, which is just crazy”. He calls for greater investment “in the human capital in the second half of life . . . in the health and literacy and skills and [to] make jobs more agefriendly”.

Scott adds: “That'll be how we get quite a lot of extra work . . . We'll see a much more mixed pattern of work and leisure from a demographic point of view.”

Villa Santa Lucia degli Abruzzi in Italy has seen its population shrink from over 2,000 people in the early 1900s to only 80 people, mostly elderly. It is one of the many villages across Europe and east Asia struggling to stay alive amid falling fertility rates.

“It’s a slow euthanasia,” says Pamela Liguori, head of the department that maintains the municipality’s infrastructure. No child was born in the village in the last two years, and only one girl was born there in 2023, while many more elderly residents died.

The village’s last shop — a baker — recently closed because of the shopkeeper’s age, while a remote pharmacist no longer comes calling, an indication of how depopulation can undermine production as well as demand.

Other countries are also feeling the strain. In South Korea, “kindergartens are being turned into nursing homes and wedding halls into funeral parlours”, says Randall Jones at the Korea Economic Institute.

Pieter Vanhuysse, professor of political economy and public policy at the University of Southern Denmark, even refers to “gerontonomias” — economies that have lost their former dynamism amid demographic trends that lead to “secular stagnation and the increase of gerontocracies, or elderly oriented democracies”.

Overall, the OECD estimates that in the years to 2060, demographic changes will dramatically hold back the increase in living standards for a range of rich countries, assuming past productivity growth rates.

For Japan, it predicts a 70 per cent slowdown from the previous two decades, due to demographic factors. That will be accompanied by a 40 per cent slump in living standards growth for the UK and South Korea,

While there is expected to be little impact on the US, the slowdown the OECD forecasts for Germany is 80 per cent. For Italy and Greece the outlook is even more stark — not slower living standards growth but an absolute decline.

Dean Spears, associate professor of economics at the University of Texas at Austin and author of *After the Spike*, argues that, with fewer people, it is more difficult to cover fixed costs for businesses or governments to produce goods and services. And with fewer people contributing to knowledge, a depopulating future “would be making slower progress than it could”, he adds.

Recent years have not been a straightforward story of depopulation in the developed world.

Next month, Spain, whose economic growth is above its Eurozone peers, partly because of immigration, plans to grant legal status to 500,000 undocumented migrants.

South Korea tripled its quota of temporary visas for low-skilled workers between 2020 and 2024, while Italy plans to issue nearly 500,000 new work visas for non-EU nationals for the 2026 to 2028 period.

Immigration to the UK has taken the population to record levels, even as the birth rate has slumped.

But the number of people moving to Britain has now fallen, as the government toughens immigration rules, while migration to Germany last year was insufficient to offset the gap between deaths and births.

To adapt to demographic trends and “succeed”, “societies will have to overcome ageism, sexism and racism”, says John Bateson, visiting professor of Management at Bayes Business School. The increasing urgency of the AI productivity push

Oded Galor at Brown University disagrees with other economists’ demographic determinism.

He argues that “a significant component” of the “tremendous sustained” growth in income per capita enjoyed over the 150 years, in part propelled by technological progress, “has to do with the reduction in fertility”. On this view, falling birth rates and rising education lead to human capital formation and long-term increases in prosperity.

“The fact that we have scarcity of labour will expedite the adoption of AI, and . . . given the incredible potential, will [result in] incredible growth,” Galor contends.

The argument is far from universally accepted.

Paul Morland, a British demographer, considers it “very optimistic” to think AI could solve the negative effects of demographic change.

“If we were about to get a revolution in productivity through AI, we’d already be seeing it,” he says. Despite the technological advances of recent decades, he notes, “productivity of the more advanced countries in the world has been growing at a slower and slower rate”.

For almost all of the postwar period, labour productivity has been slowing. Between 1950 and 1973, the metric, based on output per hour worked, rose at an annual average of 4 per cent across developed economies. But the rate halved to 1.9 per cent from 1973 to 2009. And since the financial crisis, it has slowed further, averaging just 1.2 per cent between 2009 and 2025.

“Technological progress can help, but is unlikely to be sufficient to avoid a slowdown in GDP per capita growth rates, unless the most optimistic hopes about AI materialise,” says Christophe André, economist at the OECD.

The European Bank for Reconstruction and Development estimates that AI could provide, on average, about half of the productivity growth required to compensate for the effects of demographics in selected EU countries under a high-impact scenario.

Some economists argue that ageing economies shift towards consuming more labour-intensive services where productivity gains are harder to materialise.

“We don’t want a massage more quickly, we don’t want to play golf and go for a leisurely hike more quickly,” says Goldin. “That means slower growth and slow productivity

growth.”

Mark Zandi, chief economist of Moody's Analytics, adds that an older population will probably have “lower risk appetite”, hampering growth. Moreover, he says, “investment tends to concentrate in countries with better demographic prospects and deeper international connections as firms can count on more dynamic consumer bases and broader talent pools.”

When the German retirement age was set at 65 in the 1910s, life expectancy was below 50. It has now increased to over 81, while the retirement age is only set to increase to 67.

“Today's demographic and economic framework no longer fit the outdated welfare systems,” says Alexia Fürnkranz-Prskawetz, a professor of mathematical economics at TU Wien university.

While legislation on the statute books of more than half the OECD's 38 member countries is set to increase the normal retirement age, pressure continues to build on pension and health systems.

“Support for the old will have to be cut back at the same time as taxation will remain or rise for workers,” says Charles Goodhart, professor emeritus at the LSE and author of *The Great Demographic Reversal*.

As a result, the demographic shift could deepen inequality in many countries. Arnstein Aassve at Bocconi University argues that well-educated and higher-income groups in many countries are already starting to understand “that in the future, the public health service and the public pension system, that's just not going to be very generous any longer”.

While such groups are opting for private care, “those who have fewer resources are going to be stuck with the public health system”.

In the 1960s, Japan had eight or nine people aged 20 to 64 for every person aged over 65. Now it is just over one. “You cannot compensate . . . by changing the retirement age a few years,” says Paul Morland, the British demographer who is also the author of *No One Left: Why the World Needs More Children*.

“It's very nice to say: ‘Oh, we'll work a few years longer, and there'll be some robots, and all will be well,’” he says, but amid such demographic decline, “this is rearranging the deck-chairs on the Titanic”.

Just as family-friendly policies across continents helped more women in the labour market over the past decades, “we will have to make a similar pivot now for older adults”, says Bradley Schurman, founder and CEO of Human Change, a demographics consultancy.

He adds that the bias against hiring older workers is “still there”.

As for the other end of the life cycle, many economists say radical changes in society will be needed to make a significant rebound in fertility likely.

A crucial adjustment would be making having a family “more fun and less disruptive to careers”, says Ronald Demos Lee, founding director of the Center for the Economics and Demography of Ageing at Berkeley.

At present the calculus is often very different. About two-thirds of the world’s population live in countries with fertility rates below the replacement level of 2.1 children per woman. In the countries that now form the EU, there were only about 3.5mn babies born in 2024, down from 6.6mn in 1961.

“It may be that making individuals better off may not be increasing the birth rate,” warns Claudia Goldin, a Nobel Prize-winning professor of economics at Harvard.

She says that her research on falling fertility in the US and elsewhere takes the point of women who realise, as they obtain autonomy, “that the only way that they could have both their higher education, their career and their family is if they had more time [for childcare] from the father”.

Ultimately, says Oxford professor Jakub Bijak, any solution to the economic problems set off by demographic changes will require reforms across the whole scope of society – from education and migration to gender policies, and initiatives on health and welfare as well as technological change and working for longer.

“There is,” he says, no single “silver bullet.”