Twitter Thread by Michael Pettis



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China is aging so rapidly that it urgently needs to address the problem of a rapidly declining work force in a slowly declining population. To give an idea of relative population changes among the three most populous countries, today

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are 4.3 Chinese for every American and 4.7 Chinese of working age (ages 15-64), while there is just over 1 Chinese for every Indian and 1.1 Chinese of working age.

By the end of the century, however, there are expected to be 2.5 Chinese for every American and...

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just 2.4 Chinese of working age, while there will be 1.4 Indians for every Chinese and 1.5 Indians of working age. Over the rest of this century, in other words, while China's population declines quite rapidly relative to that of the two other most populous countries, it...

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also switches from having a much better dependency ratio than either to having a worse one than either, with far more of its dependents being the elderly rather than children. In effect its working age population will drop by half relative to those of the other two.

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This is going to be a very tough problem to resolve, although to the extent China succeeds, it will be very useful as an example for other countries. I am not sure they are going about it the right way, however. Making seniors make better use of smart technology sounds...

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very exciting and high tech, and might even help a little, as will lifting the retirement age, but the former is likely to have little effect on the overall economy or on the underlying imbalances, and the latter mostly catches China up to other urban economies.

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What is more, the idea that getting seniors jobs will boost consumption and help rebalance the economy is, of course, not true. While it might raise per capita GDP (slightly), it only increases consumption indirectly, by increasing production more. Without seriously...

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reforming the way income is distributed, this would only make the imbalances worse. The best way to rebalance the economy in this case would be to increase pensions and social benefits for the elderly. It would also be politically popular, and while at first it might be...

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opposed by local governments, who would be forced to foot the bill, it would eventually allow them to reduce spending on non-productive investment as it is replaced by an increase in productive business investment encouraged by higher direct and indirect consumption.