
BOOK REVIEW



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BOOK REVIEW - THE GREAT DEMOGRAPHIC REVERSAL: AGEING SOCIETIES, WANING INEQUALITY, AND AN INFLATION REVIVAL

(Reviewed by Junming Cui)

In April 2023, the U.N. officially confirmed that India had overtaken China as the most populous country in the world. The U.N. also projects that Nigeria will surpass the United States by 2050 to become the world's third most populous country. These major demographic shifts are expected to cast a profound and lasting influence in the coming decades. The old saying “demography is destiny,” once considered an over-exaggeration, now seems increasingly prescient.

In “The Great Demographic Reversal: Ageing Societies,

Waning Inequality, and an Inflation Revival,” authors Charles Goodhart and Manoj Pradhan provide an in-depth exploration of how historical demographic shifts have shaped societies. The book offers a comprehensive analysis of contemporary trends and predicts a significant increase in both inflation and interest rates, accompanied by a decline in inequality, over the coming decades.

Instead of examining each country separately, the authors adopt a holistic view of demographics and analyze its effect on global inflation and interest rates. The book starts with one of the most important economic events of the past few decades: the urbanization of China and the integration of its labor force into the global trading economy. The authors argue that China's mobilization, along with the liberalization of Eastern European

countries and a generally positive demographic trend, has contributed to the low inflation and nominal interest rate environment over the last 30 years. The book then shifts focus to how these favorable conditions for a deflationary environment have reached an inflection point. With shrinking populations in China and many other countries and the decline in savings in elderly societies, a future of high interest rates and high inflation seems almost inevitable.

Nevertheless, the authors do present some factors that might offset the global aging and subsequent rise in inflation and interest rates, such as growing labor forces in India and Africa, higher labor participation rates, and advancements in automation. However, they maintain that these factors may not be sufficient to counter the global demographic headwinds.

While there are certainly valid criticisms of the authors' somewhat pessimistic projections, such as the lack of discussion on the Southeast Asian labor force and the emergence of generative AI technologies, many of the authors' predictions, including

the rise of inflation and interest rates, have indeed materialized, in part due to the pandemic. At a time when markets are anticipating multiple rate cuts this year and expecting inflation to stabilize, it might be prudent to consider some of the

compelling arguments made in this book and the implications of the reversing demographic trend. Demographics may not be the sole determinant of destiny, but they certainly have a significant role in shaping it.