

# Demographics in the 21st Century:

DEFINING FUTURE MARKETS

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## **ACKNOWLEDGMENTS**

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## WHAT ARE BUSINESS ISSUES?

Business issues are focused, cross-cutting themes that will be of central importance for business in the next five to ten years. They are areas in the business landscape that are susceptible to a major change or shift in the future. Topics for the Business Issues Series are drawn from the key drivers presented in our annual *Ten-Year Forecast*. By exploring topics such as the future of globalization, regulation, and demographics, these reports will help companies think through the consequences of these changes for their investing, organizing, creating, communicating, and marketing efforts.

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# INTRODUCTION

**D**emographic shifts change the fundamental conditions under which businesses operate. Perhaps the most important demographic shift in the 20th century was the baby boom in the United States and around the world after World War II. The baby boom drove fundamental changes in consumer markets, the workforce, and society itself in the second half of the century.

Today, there are demographic shifts taking place that will drive equally dramatic changes for businesses, both in the United States and abroad. Business should pay attention to these shifts for the following four key reasons.

## CONSUMER MARKETS ARE FRAGMENTING

In the United States, life events and traditional life stages are spread out across a greater spectrum of time and options, creating increasingly individualized consumer needs and preferences. Women having children later in life, households outsourcing domestic tasks, new patterns in aging that enable many elders to have a “second life,” Latino youth who use both ethnic and traditional media in ever changing proportions are examples of demographic fragmentation that is breaking the marketplace into smaller segments. What’s more, groups like these are growing in size and importance. For example, the number of women over 35 having children has grown 19% in the last 10 years. Latinos are estimated to grow from 16% of the American youth population in 2001 to 19% in 2010, and 25% in 2030, while the proportion of non-Latino white youth is likely to fall from 64% to 59% to 51% during the same period. More importantly, individuals within these groups are reflecting a much broader range of interests and needs.

Why is this important? First, understanding changing demographic patterns helps business identify which markets are likely to fragment into tar-

gets appropriate to their business. Second, these smaller demographic groups will drive future market growth. Their demands for specialized products and services that meet their unique needs and preferences present opportunities for business to create new products and services.

### **LABOR MARKETS WILL BECOME MORE COMPLEX AND COMPETITIVE**

Like most markets, the labor market is about matching supply and demand. Changing demographics are affecting both sides of this equation, altering both types of workers required in the U.S. labor force, and the needs of the workers themselves. For example, aging populations will increase demand for more service workers and for larger cadres of younger workers, changing fertility patterns will create increased demand for flexibility in the workforce, and the growth of the information-based economy creates heightened global competition for labor. This is true for both well-paid, highly skilled workers and lower wage workers.

Why is this important? As both the supply and demand sides of the labor market evolve in the next decade, the goals of corporations, public policy, and society may diverge. These three players will need to balance immigration, workplace flexibility, and social spending to meet social needs, sustain economic growth, and nurture national cultures.

### **NEW URBAN CENTERS WILL BECOME ENGINES OF CONSUMER TRENDS**

Big cities have always been the hotbeds of innovation. From New York to London to Tokyo, urban centers in the developed world have long functioned as the centers of social and technological innovation and the engines of consumer trends. Because of their sheer size and economic importance, cities like these set the pace in fashion, lifestyles, technology use, and for product and service offerings.

The traditional urban centers are no longer alone on the world stage, however. The developing world is urbanizing at a fast pace and new trend-setting cities are emerging. In fact, much of the world population growth in the next decade will occur in the developing world. By 2015, there will be 7.2 billion people in the world, up from 6.1 billion in 2000. About 95% of the increase will be in developing countries, nearly all in rapidly expanding urban areas. New York, London, and Tokyo will be joined by

Mumbai, São Paulo, Delhi, Mexico City, and Jakarta, among others, as engines of commerce and new cultural mixing spots in the developing world.

Why is this important? Many of these cities will become significant nodes in the larger patterns of international migration and the flows and mixing of information and ideas in the global marketplace. The resulting flows of people and ideas will make these cities centers of new cultural, economic, and political influences, influences that will flow to the rest of the world as these new urban centers develop economic and social ties with each other and with the more traditional centers. Like the urban centers in the developed world, they will become centers of innovation, the places where ideas intersect and collide and are expressed in new contexts. Due to their number and the sheer size of their populations, these new urban centers will inevitably become not only important consumer markets in their own right but also engines of innovation in the 21st century.

### **GLOBALIZATION WILL EXPAND THE SPHERES OF INFLUENCE ON CONSUMERS**

Globalization—the rapid and largely unrestricted flows of information, cultural values, capital, goods and services, and people around the world—is transforming the way we think about consumers and consumer markets. Globalization is demographically driven through travel, work and study abroad, and the rapid flow of cultural influences through the modern media. By the very nature of the flows that define it, globalization shapes the way people think about their lives and the kinds of goods and services they desire to meet their changing expectations. In fact, what people around the world watch, listen to, wear, buy, or visit more often reflects these shared global values. These values define what is considered entertainment, which lifestyles are desirable, which ideas are acceptable, and what product or service offerings have use and meaning.

Globalization has not only extended the reach of economic relationships but that of social relationships as well, thereby expanding the spheres of influence on the lives of everyday people. In fact, social networks—the web of relationships by which an individual participates in the larger world—cross more boundaries and reach into more communities than ever before. Information technology facilitates this expansion by accelerating

the diffusion of new ideas and innovation. Technology helps people build new ties with others all around the world who share their passions, lifestyles, or professional interests, while at the same time helping them to strengthen ties with those they already know.

Why is this important? Individuals are not isolated entities with their own innate sets of preferences and desires but are woven into the larger fabric of a community where their desires, preferences, and behaviors are shaped by both the interactions and relationships among the people they know, and their formal and informal groups. By looking at the types of relationships and the patterns of interaction that inform people's networks, we can understand the larger social context in which they live. Who their customers include in their networks, and who they leave out, tell businesses much about their customer's values, beliefs, interests, and lifestyles. Understanding consumers and their social networks tell businesses not only who their customers are, but more importantly, what they want and what they are willing to pay for.

### THE KEY DEMOGRAPHIC TRENDS

In this report, *Demographics in the 21st Century: Defining Markets*, we explore the key demographic trends that will shape business decisions over the next decade. In Chapter 1, we provide a contextual overview of today's most important global demographic shifts. In Chapters 2 through 5, we take a in-depth look at four specific trends—fertility, household formation, urbanization, and aging.

Chapter 1

## GLOBAL DEMOGRAPHIC TRENDS FOR THE 21ST CENTURY

**F**ive major demographic trends will affect every global business in the next ten years and beyond. These trends include; the slower growth of the global population, the decline in fertility rates, the increase in longevity, the expansion of migration, and the acceleration of urbanization. Every company that operates across borders must understand these trends.

### WORLD POPULATION—THE GREAT TURNAROUND

The rate of annual world population growth peaked at 2% in the late 20th century, driven by constant fertility rates *and* declining mortality due to major improvements in nutrition, sanitation, and health care since the Industrial Revolution. It wasn't until fertility rates in industrialized countries fell in the 1960s that the overall population growth rate began to decline for the first time in 500 years. In the 1990s, the number of people added annually to world population slowed for the first time as well. More recently, lower than expected fertility rates in developing, high-fertility countries, like India, have driven a further downward revision of world population estimates. This unexpected shift in the most basic demographic indicator, population, will change how demographers think about population growth and its many effects in the future.

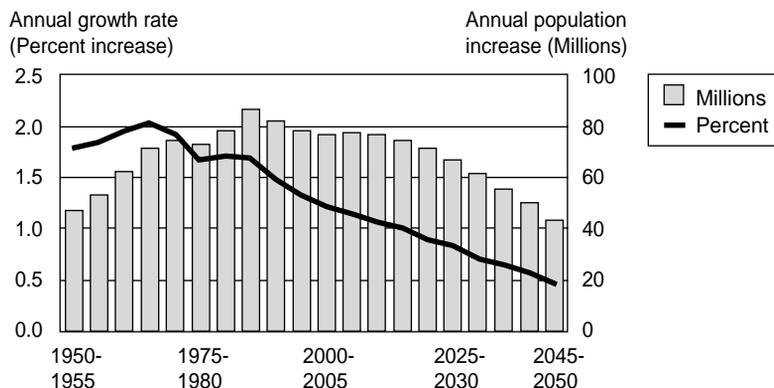
### Total Estimates Are Down

Estimates of population growth rates are shaped by basic demographic dynamics such as age structure, birth rates, mortality, and migration, and by assumptions about how these will change. Until recently, the ever-enlarging group of potential childbearers, women aged 15-44, has kept world population growth high—particularly since a disproportionately large number of potential mothers reside in high-fertility, developing countries. In the very recent past, however, the fall of fertility rates in developing countries around the world has been dramatic.

Only four years ago, world demographers projected a world population of 11 or 12 billion by 2100. The current, revised projection stands at 9 billion, with most growth occurring by 2050. (A population decline is estimated to begin around 2070, when deaths begin to exceed natural increases).

With the total world fertility rate expected to decline from 2.8 in 2000 to 2.2 in 2050, world population will continue to grow over the next 50 years, but at a slower rate than in the past. The annual growth rate will slow from 1.4% in 2000 to 0.5% in 2050, and the total number of people added yearly will shrink from 80 million in 2000 to just over 40 million in 2050 (see Figure 1–1).

*Figure 1–1*  
*World Population—Slower Expansion*  
*(Annual world population growth and annual growth rate, 2000–2050)*



Source: O’Neil, Brian and Deborah Balk, *World Population Futures*, Population Bulletin, September 2001; Data from United Nations, *World Population Prospects: The 2000 Revision* (Medium Scenario).

### Asia and Less-Developed Countries Will Continue to Fuel Growth

The bulk of world population growth in the next 50 years will occur in Asia and other developing regions, further exacerbating the current unequal distribution of world population. In 2000, more than 80% of the world population resided in the less developed regions of the world, with 58% in developing Asia alone (see Table 1–1). In the next 50 years, this imbalance will shift further, with the developed world’s share dropping from 20% in 2000 to 13% by 2050. Gradually, as incomes and education rise, lifestyle preferences change, contraceptive use increases and methods improve, and large numbers of potential mothers move past their childbearing years, population growth will slow appreciably in the developing world as well.

### DECLINING FERTILITY—THE KEY DRIVER OF POPULATION TRENDS

A dramatic decline in world fertility rates (average number of children per woman over her lifetime) is driving the decline in world population growth, and will continue to do so into the 21st century (see Figure 1–2 on page 4). However, while fertility rates will decrease around the world, they do vary by country (see Figure 1–3 on page 4). Indeed, fertility rates in developed countries, particularly in Europe, are projected to remain below replacement level (2.1 children per woman) through 2050. With declining populations in these countries, an erosion of a sustainable tax base and a smaller labor pool are likely to result. Meanwhile, the overall fertility rate in developing countries is also projected to decline in the next decade and beyond, from 3.1 in 2000 to 2.8 in 2010. This remains above the natural

*Table 1–1*  
*Population Growth Is Not Evenly Distributed*  
*(Percent of total world population by development group)*

	1950	2000	2050
Developed countries	32	20	13
Less developed countries	68	80	87

Source: United Nations, *World Population Prospects: The 2000 Revision*.

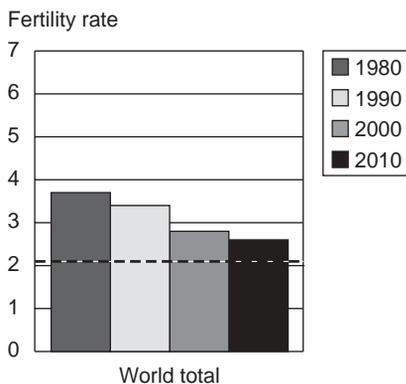
replacement level, however, and will continue to drive population growth in developing countries.

As women have fewer children, families in developing countries will face continued population growth combined with smaller nuclear families. Such developments will strain public resources and services, driving changes in community structure and expectations for social support from local and national governments. For example, while the movement from agricultural to service economies is creating smaller families and decreasing the total number of children in the education system, it will increase the number of years children are likely to remain in the education system and the cost of providing the level of education they need to successfully participate in the workforce.

### Political and Cultural Shakeups Decrease Fertility Rates in Europe

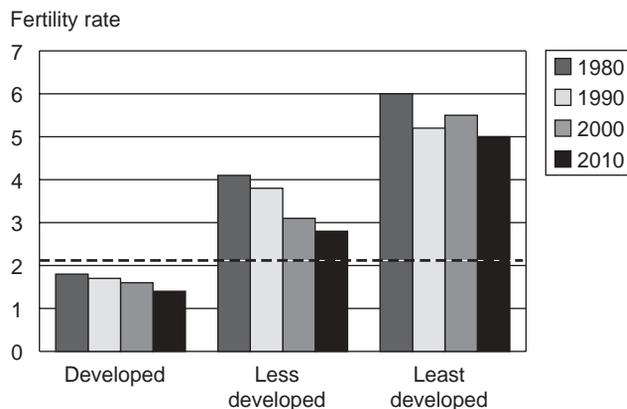
Fertility rates in Western and Northern Europe experienced tremendous declines from the 1960s through the 1980s. During this time, fertility rates

**Figure 1–2**  
*Declining World Fertility Rate*  
(Average number of children per woman over her lifetime)



Source: United Nations, *World Population Prospects, State of the World Population* and Institute for the Future.

**Figure 1–3**  
*Fertility Rates Will Continue to Vary*  
(Average number of children per woman over her lifetime)



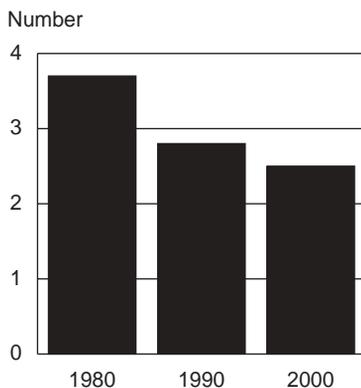
Source: United Nations, *World Population Prospects, State of the World Population* and Institute for the Future.

fell sharply, halving in less than a decade for many countries: West Germany went from 2.4 to 1.5 (1965-1975), Italy from 2.5 to 1.3 (1975-1987), and Spain from 2.9 to 1.3 (1980-1990). Eastern Europe experienced similar declines in the 1990s, with the result that this region, along with China, now has the lowest fertility rates in the world. Most Eastern European countries report rates of 1.1 or 1.2.

### Economic Development Lowers Fertility Rates

Economic development also lowers fertility rates. Moving from an agrarian to an industrialized economy, reduces the value of larger families. As education replaces physical labor as the foundation of economic sustainability, having fewer children becomes more desirable. This trend is evidenced in rapidly growing Asian countries, where over a very short time, fertility rates have declined as economic development has increased (see Figure 1–4).

*Figure 1–4*  
*Decreasing Fertility Rates in Growing Asian Countries\**  
*(Average number of children per woman over her lifetime)*



\* The countries included are the Philippines, Singapore, South Korea, and Thailand.

Source: United Nations, *World Development Report*, 1980, 1992 and 2001.

### LONGEVITY—AGING WILL STRETCH ECONOMIES

Life expectancy around the world began to rise in the late 19th century, with most key improvements in the industrialized nations coming in the first half of the 20th century. Indeed, developed countries saw life expectancy increase by up to four years per decade in the first half of the century and a little over one year per decade in the second half. These rates are likely to stay constant in the early 21st century, unless revolutionary breakthroughs in biotech or nutrition rapidly increase life expectancy.

Currently, it is the developing world that is experiencing rapid life extension. The elderly populations of developing countries are likely to explode in the next two decades, as economic conditions and health care improve. Such an explosion will strain housing, infrastructure, and health care services. Furthermore, the higher mobility of younger generations means that aging parents in developing countries will have fewer children living close by and it will likely fall to the government to support them.

*Table 1–2*  
*People Are Living Much Longer*  
*(Life expectancy at birth)*

	<b>Men</b>		<b>Women</b>	
	<i>c 1900</i>	<i>2000</i>	<i>c 1900</i>	<i>2000</i>
Chile*	29	72	33	78
Japan	43	78	43	84
United Kingdom	46	75	50	80
United States	48	74	51	80
Sweden	53	77	55	82

\*Note: Data for Chile is 1910 and 1998.

Source: World Health Organization, *The World Health Report*, 1999; U.S. Department of Health and Human Services, *An Aging World: 2001*, November 2001.

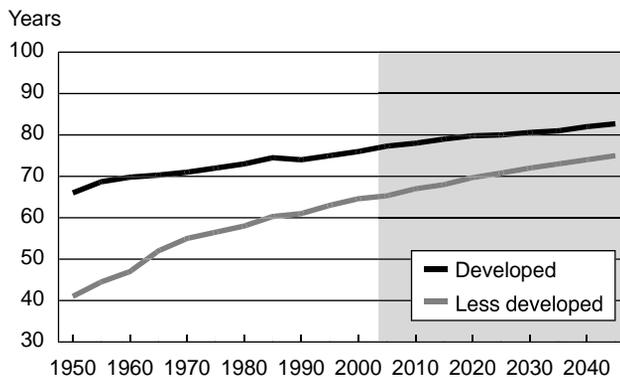
### Living Longer

In the last 100 years, life expectancy has increased around the world with some countries seeing increases of more than 40 years (see Table 1–2). This stands as one of the most significant human achievements in history, driven by improvements in sanitation, water supply, nutrition, immunizations, and basic health care. In the future, new gains will come from continued developments in biology, nutrition, and medicine.

### The Life Expectancy Gap

Life expectancy inevitably varies by country and region, based on differences in health care and mortality. The most notable gap exists between the developed and developing world. In 1950, the gap was more than 20 years (see Figure 1–5). Today, it is 12 years, with life expectancy at 75 in developed countries and 63 years in developing countries. The gap will continue to narrow over the next several decades as developing countries implement more effective public health policies.

*Figure 1–5*  
*The Shrinking Life Expectancy Gap*  
*(Life expectancy at birth, 2000–2050)*



Source: United Nations, *World Population Prospects: The 2000 Revision*.

### INTERNATIONAL MIGRATION IS EXPANDING

Disproportionate world population growth in developing countries, lower fertility rates, and rapid aging in developed countries will increase international migration. Immigration is becoming an economic necessity in many developed countries, especially those with declining population growth and fewer workers contributing to their tax bases. Today, nearly 170 million people live outside their country of citizenship, 40 million more than in 1990 (see Table 1–3). Both the proportion of international migrants to world population, currently 3%, and the total number of migrants, will increase in the next decade. Developed regions will remain the net receivers of migrants in the next 50 years, with an average gain of 2 million annually.

*Table 1–3  
A Big Jump in the Number and Share of Immigrants  
(Number of migrants in millions and migrants as a percent of  
world population)*

	<b>Migrants</b>	<b>Percent of World Population</b>
1965	75	2.3
1985	105	2.2
2000	168	2.8
2010	282	3.8

Source: Institute for the Future, historical data from United Nations.

## URBANIZATION—GAINING GROUND IN THE DEVELOPING WORLD

Urbanization is not a new trend. North American and European populations reached urbanization levels of 70% to 80% by the 1960s. What is new is the high level of urbanization underway in the developing world. This rapid and massive urbanization will create unprecedented growth of megacities—cities with more than 20 million inhabitants. The growth of megacities will change forever the patterns of life in these regions, bringing a myriad of social and economic opportunities and challenges.

### Rapid Growth

From 2000 to 2030, the world’s urban population is expected to grow at 1.8%, nearly double the world’s total population growth of 1%. As a result, the world’s urban population will double in 38 years with the majority of the growth occurring in developing countries where the urbanization rate will increase from 40% to 56% of the population (see Table 1–4).

This rapid growth will have dramatic implications in developing regions, where urbanization is a newer phenomenon. Many of these countries’ infrastructures (public safety, education, housing, welfare, and so forth) will simply be overwhelmed. As a result, many cities will face issues such as increasing urban crime, poverty, family planning, and runaway development of the kind that raged in developed countries for much of the late 19th and early 20th centuries.

*Table 1–4  
Developing Countries Are Urbanizing Faster Than Developed Countries  
(Proportion of population living in urban areas)*

	<b>1970</b>	<b>2000</b>	<b>2030</b>
Developed countries	67	75	83
Developing countries	25	40	56

Source: United Nations, 2000.

### The Rise of the Megacity

With 80% of the world population located in developing regions, the sheer magnitude of internal movement will be significant. In the next 15 years, the total number of megacities will grow from 1 (Tokyo) to 6, representing 135 million people (see Table 1–5). Every new megacity will arise in a developing country. These megacities will become important nodes in the larger patterns of international migration, and the resulting flows of people will create new cultural, economic, and political influences for both sender and receiver nations.

### FROM GLOBAL TO LOCAL

In the next four chapters, we examine how these global patterns will drive specific demographic shifts, particularly in the United States, which constitutes a large market and has long led the world in social change. The specific shifts include new trends in U.S. fertility, the changing composition of U.S. households, the new elderly emerging in America, and the growing complexity of international migration.

*Table 1–5*  
*The Number of Megacities Will Jump*  
*(Cities with more than 20 million inhabitants and population in millions)*

<b>2001</b>	<b>Population</b>	<b>2015</b>	<b>Population</b>
Tokyo, Japan	27	Tokyo, Japan	27
		Dhaka, Bangladesh	23
		Mumbai, India	23
		Delhi, India	21
		São Paulo, Brazil	21
		Mexico City, Mexico	20

Source: United Nations

## Chapter 2

# AMERICAN FERTILITY: CHOICES, OPPORTUNITIES, AND DILEMMAS

In the past four decades, fertility rates have declined steadily across a broad range of countries. While the fertility rate is relatively high in the United States compared to other developed countries, the situation here points to opportunities and challenges that other countries are likely to face in the future—fertility rates will stay low overall, women will have more social and economic options, and lower fertility rates will squeeze labor markets. These drivers will transform many key societal institutions, including the household, the workplace, and the health care system.

### THE FERTILE GROUNDS OF THE UNITED STATES

Demographers have encountered a bit of a puzzle in the last two decades. There have been subtle yet important differences in fertility rates among several developed countries. Namely, while fertility rates declined dramatically in developed countries across the board during the 1960s and 1970s, since 1980, the fertility rate in the United States has increased, whereas those of the other developed countries have continued to gradually decline (see Table 2–1 on page 12). Indeed, at the beginning of the 21st century, the United States is the only developed country with its fertility rate at replacement level—2.1 children per woman over her lifetime.

Many factors are contributing to the higher U.S. fertility rate. Perhaps the most important is the higher level of diversity in the United States versus many other developed countries. Some racial and ethnic groups that make up a sizeable portion of the U.S. population tend to have higher fertility rates. For example, the fertility rate for the Hispanic population is 2.5. Such heterogeneity contributes to a wider variation in family size preferences throughout the population.

Another reason for the higher fertility rate in the United States may be the American culture and worldview. Americans are generally more optimistic about the future than citizens of economically comparable countries. In a 1998 European Union EuroBarometer survey showed 47% of Europeans thought the 21st century will be worse than the 20th century. Only 34% thought the 21st century would be better. In the United States, however, in 1999, the Pew Research Center found that 81% of Americans believed that the 21st century will be better for themselves and their families, and 70% felt it will be better for the United States as a whole. This optimism makes Americans more likely to bring more children into the world.

The United States also has the highest level of women's participation in the labor market, another factor that, counterintuitively, may contribute to a higher fertility rate. Rather than dissuading women from having children, participation in the workforce may instead provide a sense of independ-

*Table 2–1*  
*United States Bucks the Fertility Trend*  
*(Average number of children born per woman during her lifetime)*

	1960	1980	1990	2000	2010
Canada	3.9	1.9	1.7	1.4	1.3
United States	3.7	1.8	1.9	2.1	2.2
Northern Europe	2.6	1.8	1.7	1.6	1.5
Southern Europe	2.6	2.0	1.4	1.2	1.3

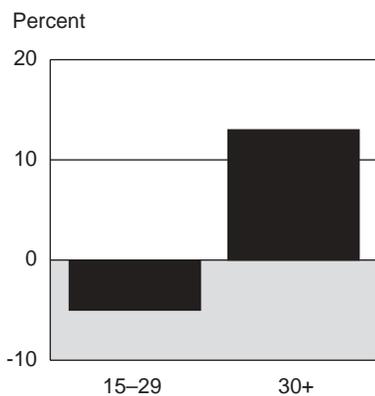
Source: Institute for the Future, historical data from United States Census Bureau, World Bank and Population Reference Bureau.

ence, freedom, and mobility that motivates women to seek a balance between children and work. Essentially, American women want to, expect to, and, for the most part, are able to incorporate multiple cultural and economic roles in their lives—having children is an important priority among those roles.

### THE RACE AGAINST TIME

While American women maintain a higher fertility rate than their counterparts in other developed countries, their choices are not without impacts on their own lives and the larger society. The need to juggle professional and familial pressures during childbearing years means that American women are having children later in life. Indeed, the mantra for aspiring professional women in the United States for the past two decades has been, “Establish your career and then start a family.” As a result, American women, especially white, college- and graduate school-educated women, are starting families much later in life than previous generations. American women in the 30-to-44 age bracket have seen a large increase in their fertility rate in the past 15 years. This trend will continue (see Figure 2-1).

*Figure 2-1  
More American Women Are Waiting to Have Children  
(Percent change in births per 1,000 women, by age,  
1985-2000)*

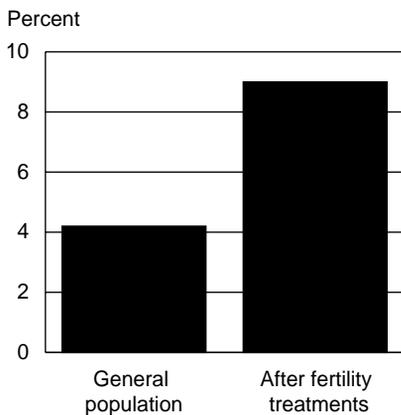


Source: Centers for Disease Control, 2002.

Having children later in life poses significant tradeoffs, however. Fertility among women begins a slow decline after age 27, and accelerates after 35. Doctors have marked 42 as the age after which successful pregnancy is highly unlikely, yet these statistics are not widely known or accepted. Common wisdom is that with fertility treatments, women can have children well into their 40s. Even with the assistance of fertility treatments, however, the likelihood of conception declines and the chance of miscarriage increases quickly with age. For example, 33% of women in their 30s who undergo in vitro fertilization conceive, but only about 8% of women in their 40s do. As a result, the number of women who want children but simply run out of time is increasing.

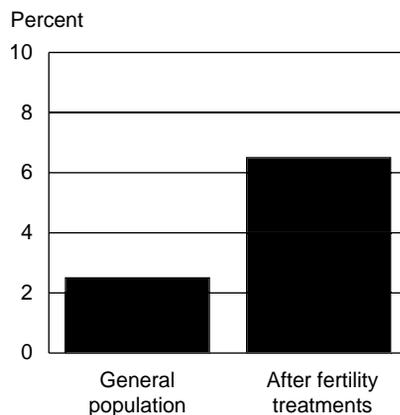
Even successful fertility treatments are not without societal impacts. As women seek fertility treatments in growing numbers, the number of children born with their assistance increases. From 1995 to 1998 alone, there was a 37% increase in women undergoing in vitro fertilization procedures. Such treatments can be dangerous for both the mother, in the greater risk of ovarian cancer through repeated ovarian stimulation, and the child, with

*Figure 2–2*  
*Fertility Treatments Raise Risk of Birth Defects*  
*(Percent of babies born with birth defects, by group)*



Source: Center for Disease Control, 2000.

*Figure 2–3*  
*Fertility Treatments Raise Risk of Low Birth Weight*  
*(Percent of babies born weighing less than 5.5 pounds)*



Source: Center for Disease Control, 2000.

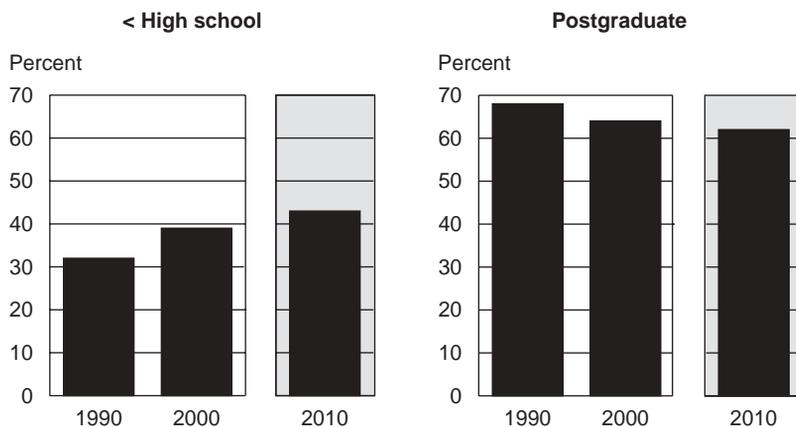
greater risks of birth defects and low birth weight (see Figures 2–2 and 2–3). (Older women have an even higher risk of giving birth to low birth-weight babies, with up to 10% of babies born to women between 40 and 44 weighing less than 5.5 pounds at birth.) On the other hand, as more women with economic influence seek to have children later in life, they will increasingly demand that science and medical technology make this possible in ways that maintain the health of both the mother and child.

### THE BABY SABBATICAL

It appears that the range of choices for American women is expanding to include, once again, staying at home with their infants, especially for professional women. At the very same time more women have been putting off having children, there has also been an increase in the number of women, many with graduate degrees, who had children and chose to stay home with them, at least for their infancy (see Figure 2–4).

Regardless of the number of children, the decision to stay at home, even for a year or two, is a major economic and career decision, dependent on

*Figure 2–4  
More College Educated Mothers Are Staying Home  
(Percent of mothers 15 to 44 years old with infants  
participating in the labor force, by education)*



Source: Institute for the Future, historical data from the U.S. Census Bureau.

factors such as lost salary, childcare cost savings, and a perception of career damage or difficulty re-entering the workforce. This critical decision also speaks to “identity” choices that some women are making—that is, they are choosing to stay home (or go to work) not because they have to, but because they want to. They are making a personal statement about who they are and what they value.

While more mothers holding postgraduate degrees have chosen to stay home with their newborns, at least for a period of time, this situation is reversed for new mothers at lower levels of education. Over the past five years, labor force participation among mothers with less than a high school education with infants has increased from 33% to 39%. This may indicate several things, such as the fact that this group may have more economic opportunities available to them, or they may have a greater economic need or personal desire to work. Either way, they are an important and growing part of the labor force with their own unique set of needs. While new mothers with postgraduate degrees will still be more likely to be in the workforce in the future, new mothers with less than a high school education will continue to participate in the work force in greater numbers.

### **MORE WOMEN AND COUPLES GO WITHOUT CHILDREN**

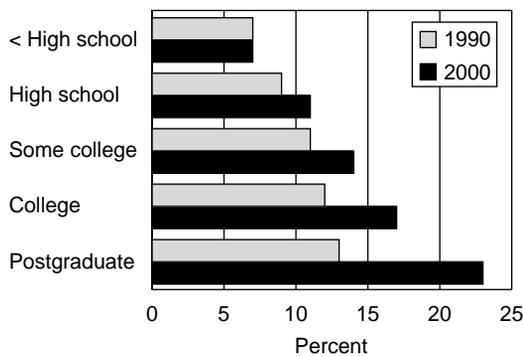
At the same time that U.S. fertility rates have increased in the past two decades, and more women are staying home with their infants, the number of women who aren't having children has also increased. Overall, the rate of childless women over 35 has increased from 9% in 1990 to 12% in 2000 and is expected to increase to 14% in 2010. There are many reasons for this—infertility, marital status, finances, personal choice, and career demands. Whether driven by delayed childbearing until after completion of higher education or mid-career, and the fertility problems that sometimes result, or by the inherently different priorities of some women seeking a graduate-level education, statistics show that women who are highly-educated are least likely to have children (see Figure 2–5). As women continue to enroll in college and graduate programs in higher numbers, and as more professions require graduate education for success or advancement, this trend is likely to continue.

An important subset of women without children is the group actively choosing not to have them. Couples in their 30s and 40s who designate

themselves voluntarily childless have more than tripled since the early 1980s, from 2.4% in 1982 to more than 7% by 2000. What’s more, this group is increasingly using this decision to differentiate themselves from other couples.

For example, clubs and associations have been formed around voluntary childlessness. An international social network for childless individuals and couples, No Kidding, was started up in 1984 and now has some 74 chapters in four countries (60 of them are in the U.S.). Voluntarily childless couples often make decisions—what neighborhoods to live in, which restaurants to frequent, and where to take their vacations based on the fact that they are childless. What’s more, they are increasingly pressuring employers to acknowledge their status by lobbying for benefits equivalent to those given their coworkers with children—benefits like greater contribution to retirement plans and flexible work schedules regardless of child-care demands. As this group ages, other issues, such as retirement decisions, spending, saving, and leisure activities will be shaped by their childless and grand-childless identities.

*Figure 2–5  
Highly Educated Women Most Likely to Remain Childless  
(Percent of women over 35 without children, by education)*



Source: U.S. Census Bureau

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As the number of unmarried women aged 35 who have not had children increases, so will the number of women deciding to have a child without a husband or partner.

### **WHY SHOULD BUSINESS CARE?**

Because fertility rates are such a basic demographic indicator, the economy in general, and business in particular, are deeply affected by their changing patterns. As the fertility patterns of customers and workers change, so will their priorities. Business will have to meet these new priorities in the form of products and services for customers and new workplace arrangements for workers. In particular, changing fertility patterns will shift the composition, roles, and age structure of the family, will require more flexibility in the workforce, will further fragment household spending categories, and put even more demands on the health care system.

### **The Roles of Women Continue to Expand**

More women are delaying marriage and childbearing to pursue economic opportunities, more women are choosing not to have children, and more highly-educated women who do have children are choosing to stay home with them, at least for a time. All in all, the range of effective choices for women in the United States is expanding. Some women are embracing traditional roles while others are forging new arrangements for flexible work. Also, some are turning to husbands, significant others, or agents to fulfill many household and childcare needs that, in the past have been the domain of women, so that they can maintain full-time careers.

What's more, the race against time for childbearing women is likely to accelerate the formation of alternative households, as women will be increasingly forced to balance a career, marriage, and children. As the number of unmarried women aged 35 who have not had children increases, so will the number of women deciding to have a child without a husband or partner. In the next decade, older women, especially those over 35 years of age, will increasingly have children out of wedlock. Business will be challenged to include married mothers, single mothers, and non-mothers in their workforces. They will also be challenged to create products and services that appeal to women who stay at home, women who work, and women who do both, with, and without a spouse or partner.

### **Parental Life Stages Will Shift**

As men and women have children later in life, their life stages will expand. More parents in their 60s will still have children in college, for example.

This has implications for how families save both for their children's education and their own retirement—significant events that are going to happen much closer in time, if not simultaneously.

In response, parents with dependent children may stay in the labor force longer, or may incur higher levels of debt at older ages and carry debt into retirement. The financial services industry would do well to create new instruments tailored for these situations. Solutions may include flexible savings programs oriented toward women currently delaying childbearing who are likely to need a sizeable flow of capital to take care of their children, aging parents, and retirement in a relatively short span of time. Other programs may be designed for older women and couples who are currently financing multiple life events, such as children in college and first and second home mortgages.

#### **More Demand for Flexibility in the Workforce**

Flexible work schedules are influencing women's decisions at both ends of the education spectrum, providing more opportunities to work part-time, telecommute, or exit-and-reenter the workforce. Partially as a result, more less-educated women are working and more well-educated women are staying at home with their newborns.

For women in lower education brackets part of the recent rise in workforce participation is attributable to the economic growth of the 1990s and welfare reform. This group moved into the workforce based on demand for their skills or because they had to get off the welfare rolls, rather than the flexibility of their jobs per se, which are likely to be low-paying service sector jobs. For these workers, their flexibility lies in choosing shifts that enable them to combine work and caring for their families. The jobs themselves provide little flexibility. It is high-paying service sector jobs, held by more educated women (and men), that are more likely to offer true flexibility, in the form of time off, work-from-home arrangements, or simply the demand for advanced skills that enable them to get back into the workforce when they want to.

As fertility rates continue to decline within developed nations such as France, Germany, and Italy, governments will increasingly promote workplace flexibility through tax credits aimed at subsidizing childcare and through legislation setting flexibility standards where business and labor

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More less-educated women are working and more well-educated women are staying at home with their newborns.

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In other words, both business and government in countries with low female workforce participation could promote broader participation to fill out diminishing labor pools.

fail to come to agreement. In the United States, the government will sponsor laws that assist families in balancing quality of life, education, and careers. Efforts such as these will have great effects on businesses, as they will be forced to address the work/family balance internally and to take the brunt of any social legislation, such as mandatory maternity leave, that affects the entire work force. Businesses can take advantage of this cadre of talented but perhaps under-utilized workers by offering even more flexible arrangements, such as in-house day care, flex-time, shorter work weeks, job sharing, and other options.

### **The Future Workforce**

Beyond making the workplace more flexible for current mothers and families, most developed countries must counteract another critical workforce problem—a shrinking labor pool. This concern is especially acute in the European Union, particularly for highly educated, skilled workers. For the longer term, countries are actively promoting childbearing, with programs such as tax incentives in the United States and direct payment for second, third, and more births in Canada and France. In the shorter term, countries have turned to immigration to shore up their workforces. As we will discuss in Chapter 5, however, immigration brings its own set of issues.

It is interesting to note that some of the countries with the lowest fertility rates also have comparatively low levels of female workforce participation. The Population Reference Bureau estimates that 64% of European women and 80% of European men participate in the labor force, whereas 72% of American women and 84% of American men do. In other words, both business and government in countries with low female workforce participation could promote broader participation to fill out diminishing labor pools. While it is certainly unclear whether increased female participation in the labor force would influence fertility rates in developed countries other than the United States, it would certainly help alleviate the problems of a diminishing workforce many countries are facing.

### **Household Spending and Consumer Decisions**

As more couples decide to have fewer children and have them later in life, and as more women (and couples) decide not to have children at all, household expenditure patterns will reflect these decisions. In effect, fertility

issues are breaking the consumer market into smaller segments. For example, older women, having spent significant time in the labor force with larger incomes and fewer children, have markedly different spending patterns than younger women with more children. The former are more likely to outsource some aspects of childrearing, for example, by paying for services and bringing experts into the home. The latter are more likely to gather multiple sources of information themselves as part of childcare and child-related purchasing decisions, and are more likely to look for bargains. We discuss the effects of these kinds of decisions on the household in greater detail in Chapter 3.

### Health and Health Care

The rise in fertility rates among older women and the growing use of fertility treatments hold implications for the health (and thus health care and health insurance) of both mother and child. For example, pregnancies are riskier after age 40—women are more likely to develop cervical cancer if they have their first child after age 45 and older women are also more likely to miscarry, for example. Furthermore, men over 45 are more likely to father schizophrenic children. Increases in these outcomes will increase the cost of health care.

As for the health of the infants themselves, low birth weights and birth defects that are more likely to occur as the mother ages or uses fertility treatments, or both. Low birth weights are associated with health and social problems as the infant develops.

In the next decade, the health issues, risks, and costs associated with the increasing use of fertility treatments and older couples having children will be widely debated in the United States. As a result, new ethical conceptions and public policies concerning fertility rights are likely to emerge. Currently, health care companies are participating in campaigns to raise awareness about issues such as declining fertility in older women and fertility-treatment-related birth defects. This will continue as such companies seek to minimize costs. The debate may evolve to the point when insurance companies decide to charge higher premiums for women who bear children later in life.

In response, couples will fight against perceived infringement of their fertility rights and demand policy action from the government. Consumers

will also demand improvements in fertility technology, which innovative companies will try to meet. Businesses that are not prepared for such changes, especially in the industry sectors most likely to be affected, will lose out.

## Chapter 3

# THE REINVENTION OF THE AMERICAN HOUSEHOLD

**T**hroughout much of the world, household and family configurations are undergoing dramatic changes as they adapt to demographic, cultural, socioeconomic, and technological developments. Nowhere is this more apparent than in the American household, which has long led the world in social change.

The number of different configurations of American households and families has expanded in the last 50 years. As a result, it is impossible to point to a typical American household today. Households consisting of a married couple with children, for example, have declined from 40% of all households in 1970 to 24% in 2000. Indeed, the so-called “traditional” family—with a husband in the labor force, a wife at home, and several children—made up less than 7% of all households in 2000. This decline in the number of traditional households has therefore increased the number of all other configurations.

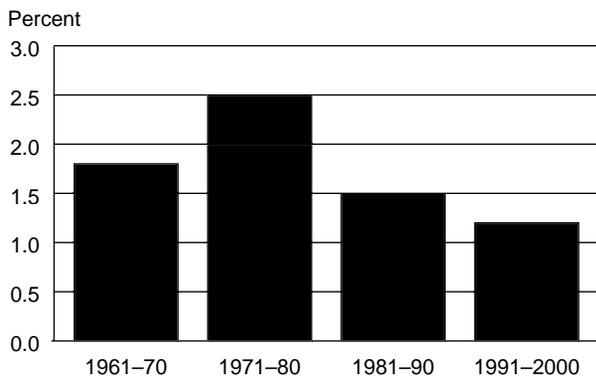
Because family and household arrangements are the most fundamental of social and economic units, business must understand how they are changing. The household provides the context for how every day life takes place. It is also the locus of a large share of economic decisions. Decisions about housing, utilities, insurance, finance, education, food, health and health care, travel, entertainment, and so on are all to some degree joint decisions of the household. As a result, shifts in the way households and families are defined and organized are likely to transform household purchasing patterns and, ultimately, will create new markets.

### THE NUMBERS

The growth in the number of American households peaked in the 1970s, with more than 17 million households added at an annual rate of 2.5%. Many of the new households formed at this time were nontraditional. Non-family households of single persons living alone, cohabiting couples, and households composed of unrelated adults living together grew 5.9% annually, and other nontraditional family households, such as single-parent families, grew 4.5 % per year in the 1970s. Several factors contributed to the growth of such nontraditional arrangements: a large number of baby boomers coming of age and moving out on their own, young people postponing marriage, and a skyrocketing divorce rate.

Today, the number of households continues to grow, but at a slower rate, largely because the boomers are now fully integrated into the housing market, increasing cohabitation has counterbalanced the postponement of first marriages, and divorce rates have remained stable for 30 years (see Figure 3–1). The number of U.S. households grew by more than 11 million between 1990 and 2000, bringing the total to 105 million, up from 63 million in 1970.

*Figure 3–1  
Number of U.S. Households Increasing, but at a Slower Rate  
(Average annual percent growth)*



Source: U.S. Census Bureau

## GREATER DIVERSITY OF AMERICAN HOUSEHOLDS

In the last three decades, a greater diversity of family configurations and living arrangements has emerged for U.S. households. Today, American households come in a variety of types—households with children, households without children, households headed by married or cohabitating couples, single-person households, households that include grandparents and other extended family members, and households consisting of unrelated individuals (see Table 3–1).

### Nontraditional Households Are Growing Faster

New and alternative household arrangements are growing as individuals respond to broader societal changes, whether in demographics, life styles, or social values, such as the greater acceptance of cohabitation before or in lieu of marriage. As discussed, nontraditional households grew the fastest during the 1970s household boom. Today, overall growth is slower, but non-traditional households are still setting the pace (see Table 3–2 on page 26).

*Table 3–1*  
*Greater Diversity of American Households*  
*(Distribution of U.S. households by type, in millions)*

	<b>1970</b>	<b>2000</b>
<b>Family households</b>	<b>81</b>	<b>69</b>
Married couples with own children	40	24
Married couples without children	30	29
Other family households	11	16
<b>Non-family households</b>	<b>19</b>	<b>31</b>
Women living alone	12	15
Men living alone	6	11
Other non-family	2	6

Source: U.S. Census Bureau

### BREAKDOWN OF CURRENT HOUSEHOLD MARKETS

As the composition of American households becomes increasingly diverse, so does the marketplace. In other words, the traditional household market is fragmenting. This creates a challenge for businesses trying to communicate product and service information. More markets translates to more sets of communication preferences, consumption patterns, and purchasing behavior that businesses have to track and understand. That's the bad news. The good news is that the new household configurations are large and worthy targets. Their different needs and preferences create a range of opportunities for new products and services.

*Table 3-2  
Nontraditional Households Are Growing Faster  
(Average annual percent change in household types)*

	<b>1970-1980</b>	<b>1990-2000</b>
<b>All households</b>	<b>2.5</b>	<b>1.2</b>
<b>Non-family households</b>	<b>5.9</b>	<b>1.8</b>
Other non-family	10.4	3.3
Men living alone	6.9	2.2
Women living alone	4.5	1.1
<b>Family households</b>	<b>1.5</b>	<b>0.9</b>
Other family households	4.5	1.9
Married couples without children	2.3	0.8
Married couples with children	-0.2	0.3

Source: U.S. Census Bureau

### The Four Types of American Households

American households can be categorized into four general types, each roughly equal in proportion to the total number of households: people living alone (25%), married couples without children (29%), married couples with children (24%), and single parent families, cohabiting adults, and other alternative living arrangements (22%). While these four categories each offer large target markets, there is significant variety among them. For example, 53% of all married couples and 64% of all married couples with children under 18 are dual-income families, with 45% of all dual-income families making at least \$75,000 a year. Obviously, households with more disposable income will have different buying patterns than those with less.

### Majority of American Households Are Still Families

Although declining in total share, families are still the large majority of U.S. households, at nearly 70%. It is important to note, these families are not the once typical married couples with children. Family households are much more varied today, including married couples without children, single-parent households, and households of extended family. Family households also include cohabiting adults with children. Even though sometimes categorized as non-family households, these households are part of the expanding definition of family in America. Today there are 6 million unmarried couples living together, up from the 3.2 million in 1990. What's more, among unmarried couples living together in 2000, 41% were home to children under 18. Companies developing products and services for the "family" market must keep in mind the full range of family configurations and their distinct needs.

### Number of Individuals Makes a Difference

While the share of households in the four categories is roughly equal, the number of people in each is not. For example, a household consisting of a married couple with three children has five individuals, while a single-person household obviously has just one. There is a huge difference in the number of people in the different market categories (see Figure 3-2 on page 28). Because larger households mean more communication targets and diverse sets of needs to serve, they can create additional challenges for business, but such households also open opportunities to reach more customers.

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Companies developing products and services for the "family" market must keep in mind the full range of family configurations and their distinct needs.

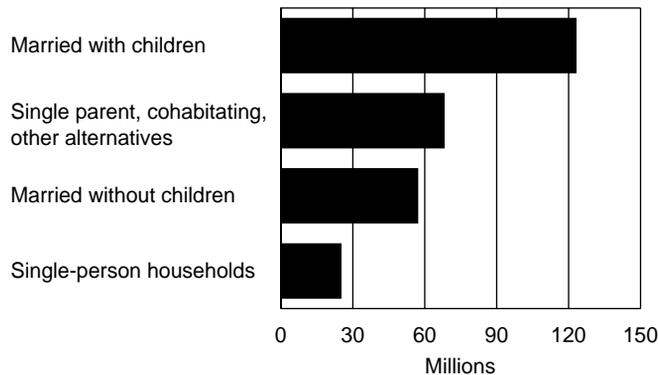
### PURCHASING DECISION PATTERNS VARY BY HOUSEHOLD TYPE

The way purchases are made in this growing range of households is increasingly complex. Economic decision-making used to be driven by clearly defined roles and domains of responsibility. Social norms dictated that women were responsible for household work and children, and men were responsible for earning the household income. Men didn't have much interest or power in day-to-day household management.

Today, household roles and responsibilities are fragmented and economic decision-making has become more complex. Questions such as, "Who makes the final purchasing decision?", and "Who influences the decision makers?", are not easily answered anymore. Today's answers must incorporate not only traditional factors, such as the number of earners in the household, the amount of discretionary income, and the household's patterns of information use, but also the evolving roles, responsibilities, needs, desires, and influence of each and every member of the household.

As more variables become part of the purchasing equation, household economic decision-making is becoming more difficult to understand. Not

*Figure 3-2  
Households Represent Different Market Sizes  
(Total number of persons in households, in millions, 2000)*



Source: U.S. Census Bureau

only are roles shifting within the household (with women making more financial decisions and kids having greater influence on purchases, for example), but more external influences are bearing on household decision-making with the emergence of “domain experts.”

Domain experts are individuals with particular expertise or experience in areas important to the household, such as finance, health, home maintenance, technology, and the like. Domain experts may be members of the household or members of the extended family, or they may reside outside the household in what have come to be called “social networks”—that is, the web of social relationships that links individuals and households to other people, organizations, institutions, and communities. Uncle Bob may be the household’s financial expert, for example, or Tim, the neighbor’s brother-in-law, may provide expert advice on technology devices.

More and more often, the social networks that these domain experts are part of are not exclusively physical. The spread of information technologies and services makes communication with these domain experts and the gathering of relevant data from other general sources easier, enabling such networks to reach around the world. In this way, domain experts and social networks are expanding the spheres of influence for household purchasing decisions, and are influencing the purchasing cycle of products and services in many ways. By creating the desire for new products and services, by filtering product and service information, by influencing the actual decision to purchase, and by shaping the use of the product or service itself, these influences result in a range of patterns for household decision-making as diverse as the households themselves.

### REINVENTION IN THE 21ST CENTURY

The American household has been reinventing itself for several decades now as more women have joined the workforce, adults have delayed marriage, divorce has increased, and women have had fewer children. Today, American households are again facing circumstances that are likely to force them to create new strategies. The next round of household evolution will be shaped by economic globalization, expanded definitions of family, new drivers of household formation, new information and communication technologies, shifting responsibilities in the household, and extreme time pressures.

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Domain experts are individuals with particular expertise or experience in areas important to the household, such as finance, health, home maintenance, technology, and the like.

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In 2000 the median income for households with a bachelor's degree or higher was nearly double the median income of households with only a high school education.

### **Work, Education, and the Global Economy**

Economic opportunities are perhaps the critical driver of household and family decisions. Given the globalization of the 21st-century economy, opportunities are now increasingly dispersed around the world, often disrupting existing living arrangements and creating new ones. What's more, many career opportunities in the global economy require larger investments in education or training. Investments in education, career development, and experiences in foreign countries often delay household formation for men and women, and will continue to do so because the tradeoff is often justified.

Perhaps the most convincing of the many reasons for pursuing higher levels of education is economic return. Income increases with education, for both men and women. For example, in 2000 the median income for households with a bachelor's degree or higher was nearly double the median income of households with only a high school education. As a result, a complex interplay among conditions in the labor market, the state of the larger economy, and decisions about education and employment are setting the context for household formation and living arrangements.

### **Expanded Definition of Family, Social Networks, and the Supporting Infrastructure**

Dispersed economic opportunities mean that some family members are often living far from relatives. Households geographically distant from family do not have the social support infrastructure that traditionally underlies household management and family life. For such households, family may come to be defined not by biological or kinship ties, but by social networks of interests, friendship, and community.

Indeed, information and communication technologies are allowing households to build and manage their social support infrastructure in new ways, whether it is local or far away. Such infrastructures allow people to maintain social ties with friends and family and form relationships around the world based on shared interests or experiences. These new kinds of networks may include online discussion groups and Web sites for first-time mothers, support groups for working moms, new suburban neighborhoods, or school districts. Such a just-in-time support infrastructure will drive household decisions, as roles and tasks come to be filled through social

networks rather than family ties, sometimes on an ad hoc basis—for example, finding a babysitter for tonight.

The reliance on social networks to fulfill roles and responsibilities that used to be kept in the family will further expand the definition of the household. For example, some households nowadays consider the nanny part of the family. For others, people outside the household, be they next door or far away, may be considered surrogate family members. Such “family members” may come to share in household chores such as car-pools and even influence purchasing decisions, in their areas of expertise.

#### **New Drivers of Household Formation**

With economic opportunities increasingly tied to educational attainment, many more young men and women are delaying marriage to pursue a college education. Therefore, many are earning college degrees, making their own money, buying homes and building investment portfolios well before marriage. As such, marriage is no longer the primary demographic event for household formation. Going to school, seeking a job in another city, or living with a partner are all alternatives.

For example, a Gallup survey conducted in March 2001 among Americans aged 20 to 29 found that 44% had lived with a partner at some time. A full 62% also said that cohabitation is a good way to avoid divorce and 43% said they would only marry a person after they have lived together. All in all, there is now a greater diversity of living arrangements for young people including, living alone, living with a partner, living with friends, living at home with parents, or living with siblings. As households become less strictly defined by biological or kinship ties, marriage will no longer be the dominant driver for household formation.

#### **Division of Labor and the Management of Household Life**

Traditional assumptions about the division of labor in the household no longer hold true. The roles of men, women, and even children are changing. Greater economic opportunities for women are driving this trend further and have resulted in more women who both work and have families. This heightens their need to juggle competing responsibilities and puts greater pressure on the division of labor within the household, particularly between men and women. This pressure has resulted in shifts in responsi-

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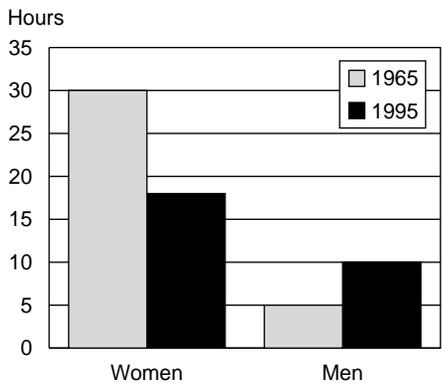
As households become less strictly defined by biological or kinship ties, marriage will no longer be the dominant driver for household formation.

bility and roles within the household. For example, roles and responsibilities among married couples with dual-incomes and children are becoming issues of time and availability rather than issues of gender and social expectation. Traditions die hard, however, and women are still responsible for the majority of household tasks (Figure 3–3).

At the same time, another powerful dynamic is at play. Households with more discretionary income, particularly dual-income families, are able to outsource more of the chores they don't want to or don't have time to do. In these cases, the "household" may expand to include housecleaners, gardeners, handymen, babysitters, or grocery deliverers. By outsourcing these tasks, and often the decision-making that goes with them, households essentially buy time to do the things they want to do by bringing more people into the equation.

Outsourcing, however, does not relieve mom (or sometimes dad) of responsibility entirely—someone still has to manage and schedule all the outsourced activities and services. While these developments make decision-making and household management more complex, and thus

**Figure 3–3**  
*Women Still Do the Majority of Household Chores*  
*(Average hours spent on all household work by women and men, ages 25-64)*



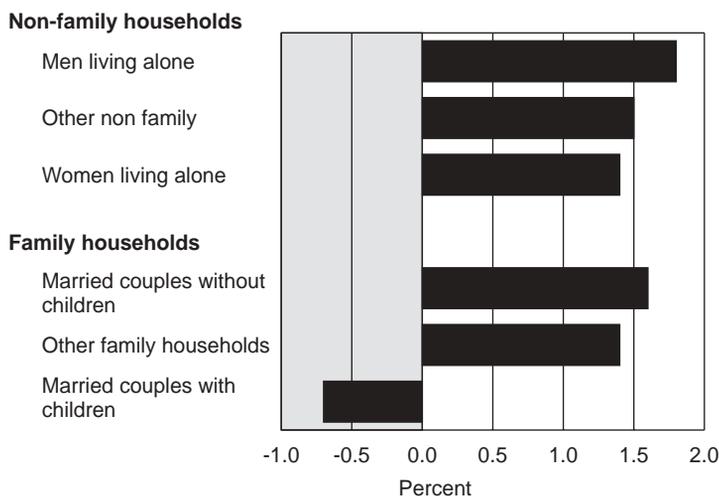
Source: Population Reference Bureau, *American Families, Population Bulletin*, December 2000.

harder for business to track, they also offer important opportunities for business to provide services or products to meet these needs.

### FORECAST

Economic, demographic, and cultural shifts will continue to shape the American household and family, reflected by an increase in the range of household configurations emerging in the last few decades. As households develop new strategies for making decisions and purchases in these evolving contexts, they will undergo dramatic changes that will not always be captured in numbers. However, the numbers do tell some of the story. The number of households will continue to increase at an average annual rate of 1.1% over the next decade. However, many nontraditional household categories will grow at a faster pace, while the traditional married with children category will decline (see Figure 3–4).

*Figure 3–4  
Nontraditional Households Will Continue to Grow Faster  
(Average annual percent growth rate by household type, 2000-2010)*



Source: Institute for the Future; U.S. Census Bureau, *Household Projections Series 1*.

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Companies targeting the household market will need to reassess their approach.

### **WHY SHOULD BUSINESS CARE?**

The household market is continuing to fragment. Household diversity can be measured by traditional characteristics of race, ethnicity, age, gender, education, and income as well as in the increasing variety of household configurations, family types, and living arrangements. Fragmentation is also occurring within the household itself as roles, responsibilities, and decision-making become more diverse and complex. Companies targeting the household market will need to reassess their approach. They are likely to have to build new communications patterns to reach these new types of households, based on the following developments.

#### **Decision-Influencers Are Not Always in the Household**

Roles and responsibilities are changing in the household. Emerging domain experts are more influential in household decision-making. Businesses need to target the person(s) within or outside the household who have the most influence on purchasing decisions, as well as those who actually make the final decision.

#### **Multiple Targets Within the Home**

Depending on the domain, activity level, division of labor, degree of responsibility, and household configuration, the target of customer communications will vary. Companies seeking to get closer to the consumer will need to understand where to target efforts in the household.

#### **Households Need Help in Building Their Infrastructure**

As household management grows more complicated and households are increasingly located farther away from traditional extended family, they will need help in building a support infrastructure. Business will find opportunities in providing technologies that help households manage and organize key activities and in providing services that ease these burdens.

#### **Nontraditional Households Are New Markets**

The increasing variety of household configurations—single-person, unmarried couples, roommates, couples without children—all have different needs and preferences. These households are growing markets for business to target directly.

**Individual Households Are Not a Single Markets**

Many different kinds of customers may exist within the same household—middle-aged professional men, stay-at-home moms, teenagers, preschoolers, and so on. Businesses need to find ways to communicate their messages to the individuals inside households, rather than targeting the household as a generic unit where decisions are made by a single person.



## Chapter 4

# THE NEW ELDERLY TAKE OVER

**T**he most important demographic trend in the United States in the next decade will be the growing economic, social, and political dominance of the elderly (those 65 and older). Many of them will be baby boomers, and many will be wealthier, better educated, and more experienced in using information than the elderly of previous generations. This savvy, empowered sector of the population will use what they learned from their experiences in college and business to bring to bear their growing power and influence on a range of social issues, particularly those critical to their own well-being.

### THE ELDERLY POPULATION IS GROWING AROUND THE WORLD

In the next decade, the elderly population of virtually every country of the world will grow, and with this growth will come greater clout. Any business or organization that wants to plan for the future must understand the growing influence of the new elderly, particularly in the United States. While Europe's population will also grow older, it will be the social, economic, and political assertiveness of the U.S. elderly population that will lead the transformation of society worldwide. By studying the new elderly in the United States, we can identify their attributes and track the ways they will influence the marketplace and public policy around the world.

### A World Perspective

Aging societies are a global phenomenon. The cutting edge of the post-World War II baby boomers will be turning 60 in 2005. This huge bulge in the population—accounted for by very high fertility rates between 1945 and 1965—will increase both the number and share of elderly in North America and in Europe.

While the baby boom was largely a North Atlantic phenomenon, a simultaneous population explosion took place in many developing countries as well, as death rates fell dramatically and fertility rates remained high. Sustained increases in longevity in every country have also contributed to a growing elderly population. Even in countries such as Saudi Arabia, where those under 15 make up over 50% of the population, the ranks of those age 65 and over will increase dramatically. In this chapter we focus primarily on the growth of the elderly in the United States, however such growth is happening all over the world, particularly in Europe (see Table 4–1).

### The Elderly in the United States

In the United States, the number of those over 65 grew from 20.1 million in 1970 to 34.7 million in 2000, and will grow to 53.3 million in 2020.

This rapid growth in the elderly population is a potential economic and social challenge. Traditionally, the elderly have been considered a

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*Table 4–1*  
*More Elderly Around the World*  
*(Percent of total regional population over 60)*

	<b>2000</b>	<b>2015</b>	<b>2030</b>
Europe	16	19	24
North America	13	15	20
Asia	6	8	12
Latin America	6	8	12

Source: United Nations, Population Division

“dependent” part of the population. As they move beyond their role as economically productive workers, they are taken care of by their families, by private retirement programs that provide pension benefits, by public benefits such as Social Security, or by some combination of these.

An increase in the elderly population can mean a drain on society’s resources. Indeed, those 65 and older are currently growing in proportion to the working age population (those 20-65). The ratio is gradually increasing over time (from 10% to 12% of the population between 1970 and 2000) and will accelerate sharply in the next two decades (to 17% in 2020).

This is not as much of a problem as it might have been, however. At the same time the elderly population has been growing, the end of the baby boom and the subsequent baby bust has led to a sharp decline in the share of the very young. This means that the total dependency ratio in the United States (those too young or too old to work full-time) will be about the same in 2020 as it was in 1980 (see Table 4–2). Said another way, the proportion of the working population, which historically supports dependents both young and old, is not declining, but has in fact grown slightly in the past 30 years, and will not decline relative to current levels for at least two decades.

*Table 4–2  
Dependency Ratios Are More Important Than Number in Population  
(Percent of young and old versus working population)*

	<b>Young</b> (0-19)	<b>Old</b> (65+)	<b>Working Population</b> (20-64)
1970	38	10	52
1980	32	11	57
1990	29	13	58
2000	29	12	59
2010	27	13	60
2020	26	17	57
2050	26	20	54

Source: U.S. Census Bureau, Population Estimates

While the elderly do have a growing need for care and assistance, the costs to society are not much different from those of the very young who need care and schooling. Thus, if the new, larger group of elderly behaves identically to their predecessors, funds will shift from the very young to the elderly, as the elderly increase its share of total dependency. Net social expenditures would stay about the same.

But the new elderly are not going to exhibit the same behaviors as their predecessors. Indeed, the new elderly are going to be quite different from those that came before them, leading to a gradual rethinking of their role in society.

### **KEY CHARACTERISTICS OF THE NEW ELDERLY**

Aside from the fact that there will be so many more of them, the new elderly will bring to aging four characteristics that will change the way we think about this stage of life. Specifically, they will be better educated, healthier, more active, and richer.

#### **The New Elderly Will Be Better Educated**

The new elderly will have much higher levels of educational attainment. The baby boomers were the first to go to college en masse. This means that the average level of education of those retiring in the coming decade will rise dramatically (see Table 4–3).

#### **The New Elderly Will Be Healthier**

More of the new elderly will be healthier than their predecessors. While there are few good indicators of chronic health conditions, those that do exist seem to indicate that the rates of chronic illness and the number of restricted activity days are declining for both the middle-aged and the elderly, while survival rates for those with cancer are rising. Data on restricted activity days show a gradual decline in the last two decades for both those under 65 and those 65 and over (see Figure 4–2). As a result, in the next decade and beyond, more elderly will have fewer health restrictions, particularly debilitating ones.

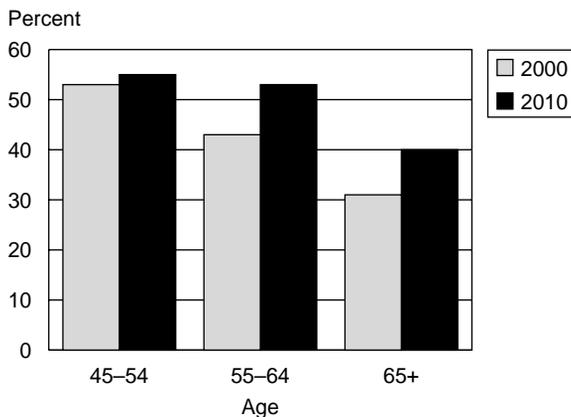
The incidence of chronic conditions has also been falling in recent years, at least for the baby boomers that have reached middle-age. The

rates of chronic illnesses like arthritis, heart conditions, high blood pressure, and hearing impairments have fallen about 15% for the middle-aged group, while the same indicators have been relatively steady for those over 65 (see Figure 4–3 on page 42). This suggests that the rate is likely to fall for the elderly as the healthier group of baby boomers moves into old age.

### The New Elderly Will Work Longer

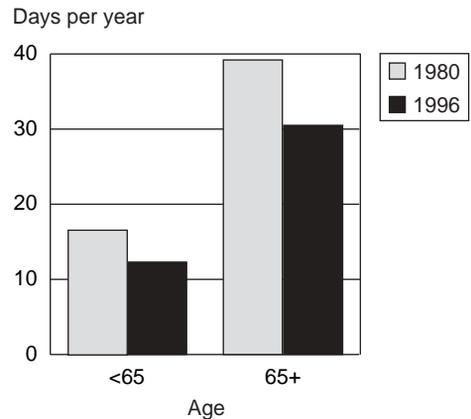
The trend toward early retirement has been very high for those who do physical work (construction, craftwork, manufacturing, or agriculture) or government work (fire fighters, police, teachers, and other civil servants). White-collar workers, on the other hand, tend to work longer. For example, in 1998, a 20-year-old American male with a college degree was expected to work for 40 years, versus 32 years for a similarly aged American male with less than a high school education. Since more of the new elderly are white-collar information workers, they are more likely to work longer as a

*Figure 4–1*  
*Retired Population Will Be Better Educated*  
*(Percent of age group with at least one year of college)*



Source: Institute for the Future; historical data from U.S. Census Bureau.

*Figure 4–2*  
*Restricted Activity Days Down*  
*(Days per year that a person cannot do normal activities because of illness or injury)*



Source: National Center for Health Statistics.

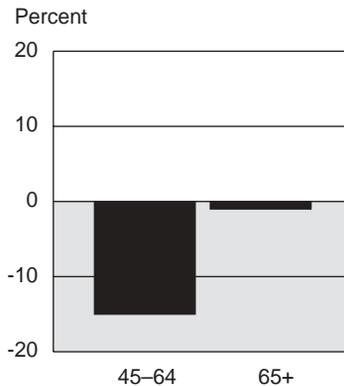
group. While the majority of people in their 60s will still leave the work force, a growing minority will find that satisfaction in the workplace leads to much longer or even second careers.

We estimate that the ages for receiving Social Security and Medicare benefits will be gradually extended from 65 to 67 in the 2010s, making older white-collar workers more likely to stay in the workforce even longer. In Table 4–3, we specifically break out men from the overall population, as they have dominated the elderly workforce and have accounted for trends in early retirement. While most people will continue to retire at the traditional age of 65, remaining in the workforce will be attractive to a growing subset of seniors.

### The New Elderly Will Have More Financial Options

The new elderly will also bring more income and wealth with them into old age. While the total of all family income and financial assets has risen in

**Figure 4–3**  
*Chronic Conditions Are Steady for the Elderly*  
(Percent change in rates per thousand for a range of chronic illnesses\*)



\* Chronic illnesses included are arthritis, heart conditions, high blood pressure, and hearing impairments

Source: National Center for Health Statistics.

**Table 4–3**  
*More Elderly Will Remain in the Workforce*  
(Percent of male population in the workforce, by age)

	1985	2000	2010
55-59	79	76	73
60-64	57	56	55
65-69	23	29	36
70-74	11	18	24
75+	n/a	8	7

Source: Institute for the Future. Historical data from Bureau of Labor Statistics, Employment and Earnings.

the last decade, by far the largest accumulation has taken place in the hands of those poised for retirement (see Figure 4-4).

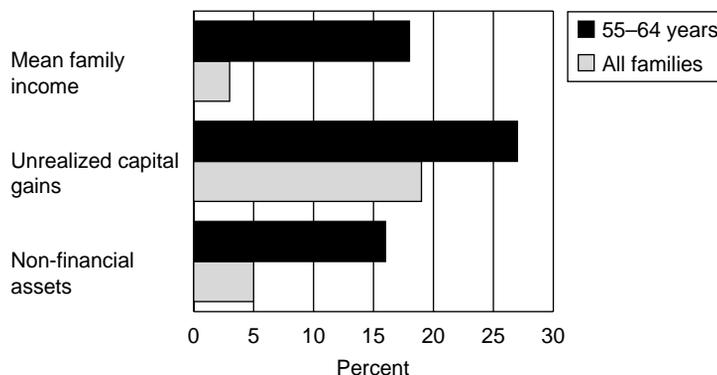
### WHY SHOULD BUSINESS CARE?

In the next decade, with their virtues of health, income, and education, the new elderly will change the way key societal institutions operate, as well as the way businesses think about them as a demographic group.

#### The Health Care System

The health care system is the third largest industry in the United States (after real estate and business services), accounting for over a billion dollars of annual consumer expenditures. The new elderly will bring revolutionary change to this industry, taking a much more active role in deciding how the health care system will evolve to meet their needs. Look for growing lobbying efforts by an activist generation of elders, especially on issues of critical importance to them—the cost of pharmaceuticals, the availability of generics, fast-track approvals of experimental drugs by the FDA, simpler rules for prescribing drugs, and greater choice within the system as a whole.

*Figure 4-4*  
*Income and Wealth Are Increasing for Those Nearing Retirement*  
*(Percent increase from 1989-1998, in 1998 dollars)*



Source: Board of Governors of the Federal Reserve System, Survey of Consumer Finances.

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To this end, the new elderly will drive a growing market for information, support, and services for health maintenance.

In addition, we are likely to see new issues emerge, such as pricing and reimbursement flexibility for Medicare, foreign trade in pharmaceuticals, benefits for retirees and part-time workers, and more private enterprises in the health market that offer services not under physician control—testing, analysis, nutritional supplements, and preventive, in-home, or limited care.

Because the new seniors will have greater clout, analysts are concerned about the possibility of skyrocketing health care system costs. Seniors will demand access to a myriad of new—and expensive—technologies designed to prevent or treat chronic illnesses. Such demand could raise costs and place extra burdens on national budgets.

For businesses, it is not necessarily important to predict the particular outcomes of each of these issues but to realize that they will become a major focus of organized concern and activity for the new elderly. Organizations like AARP (formerly the American Association of Retired Persons), for example, will become even more aggressive in representing their interests inside the system. AARP's recent decision to take a bigger role, through lobbying and joining related lawsuits, in gaining their 35 million members access to generics is just the beginning of a new surge of activism by such organizations.

### **Staying Healthy**

The new elderly will take a more active role in maintaining their health outside the health care system. This will include things like engaging in active lifestyles and regular exercise, paying careful attention to diet, having an interest in a wide-range of health and beauty products, and a growing use of over-the-counter medicines and nutritional supplements to enhance physical appearance and promote overall health.

To this end, the new elderly will drive a growing market for information, support, and services for health maintenance. They will identify trustworthy agents and advisors to access good advice and will push the government and insurance firms to develop information and create incentives for private firms to support healthy lifestyles. Most importantly, the new elderly will be willing to pay for many of these services.

### **Consumer Brands**

As both the American and world populations continue to shift toward older ages, consumer brand companies will face a declining market in younger

age groups. Historically, consumer companies have tried to establish brand relationships with these younger buyers that they expected would carry throughout their lives. This strategy has stemmed in part from the tendency of consumers to become set in their ways and thus less likely to switch brands over time.

This is not true for the new elderly. As an increasingly active consumer group, the new elderly will push consumer branded businesses outside traditional “elderly” industries (such as finance or pharmaceuticals) and demand new products and services. More than any prior generation, the new elderly will adopt a range of new products and services, particularly in lifestyle and communications, to meet the needs of their “second” lives.

#### **Financial Markets**

The day of the fixed retirement payment is fading. The new elderly now have 10 to 15 years of experience in managing their own investment portfolios, and they are not likely to give up managing them when they retire. Look for the new elderly to be much more active than past generations in owning and managing stocks, in the amount of wealth under their control, in the number of separate accounts they hold, and in the number of trades and transactions they undertake. They will also be more aggressive in establishing their legacies, whether by means of trusts for grandchildren or willed contributions to colleges or favorite charities.

#### **Leisure World**

The new elderly will travel more than past generations. Data shows that those in their 60s are increasing their travel activity more quickly than other age groups—both by land and air. For example, of all age groups, the number of auto trips is rising fastest among those in their late 60s. Look for more elderly to take advantage of their better health and higher incomes to travel, especially since, in these days of increased geographic mobility, their children are more likely to live farther away than in the past. As a result, they will be on the road more often for vacations, family visits, community activities, and so forth. Because they will have more free time, they are also less likely to purchase packaged vacations and more likely to take an active role in planning their trips.

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More than any prior generation, the new elderly will adopt a range of new products and services, particularly in lifestyle and communications, to meet the needs of their “second” lives.

### **Personal Security and Privacy**

The new elderly will be as concerned about their personal security and privacy as previous generations. What will be different is that they will be more active in ensuring physical and information security and will have more clout, both in the number of votes and in the financial means to spend on personal and information protection. They will put growing pressure on local government to deter crime, to ease access to shopping and services, and to create safe and convenient transportation options. They will also pressure the government on issues concerning privacy. This, after all, is the generation that created the information age, the first to have used computers and e-mail at work, the first to have made purchases online. They will want access to important kinds of information, such as medical and financial, but they will also want this information protected from outsiders.

### **Politics**

In virtually every area of public concern, the elderly population will advocate important political and social issues that affect their well-being. In fact, the new elderly will have the highest turnouts for elections of any population segment. The elderly have always been the most likely to vote, and as their numbers start to grow in the coming decade, they will come to exercise growing influence. The only age group that will vote in numbers close to theirs by the end of the decade will be those 55-64 who will gradually take on the same issues. What's more, the new elderly will make up a greater share of the volunteers, a greater portion of contributors to candidates, and a greater proportion of names on the ballot. As a result, look for a greater proportion of the national political agenda to reflect that of the elderly. Businesses would do well to keep this in mind in all their marketing and public relations campaigns.

## **GLOBAL MIGRATION: ACCELERATING IN NEW DIRECTIONS**

**D**emographic and economic forces are pushing people from their homes in less developed countries and pulling them toward the more prosperous regions of the world. As a result, international migration will accelerate in the next decade and move in new directions, presenting many countries and businesses with social, economic, and political challenges and opportunities.

### **HUGE JUMP IN IMMIGRATION**

The number of immigrants moving around the world has increased dramatically in the last 40 years. During the 1960s, the average number of migrants per year was around 7 million (see Figure 5–1 on page 48). By 1980s, the annual numbers had increased to 10 million. During the next decade, we expect the migrants to number around 17 million per year.

### **NEW FORCES ARE PUSHING AND PULLING MIGRATION**

The increasing imbalance in the distribution of the world’s population—more than 80% live in less developed regions—combined with the concentration of economic strength in the more developed, higher income countries is effecting a mass migration toward regions of economic opportunity. The migrants’ destinations include those countries with strong traditions of immigration, such as the United States, and those that historically have been more resistant, especially in Western Europe (see Figure 5–2 on page 49).

For people to leave their native countries, they must feel compelled by sticks that push them out of their countries or carrots that pull them away. There are numerous examples of forces that have pushed people out of their countries, such as Ireland’s potato famine in the 19th century, the persecution of the Jews in Europe in the 20th century, and ongoing poverty in Africa and South Asia. Forces that have pulled people from their countries include colonial ties such as those linking the United Kingdom and its former colonies like India and Hong Kong, and rapid economic growth in places like the United States and Western Europe.

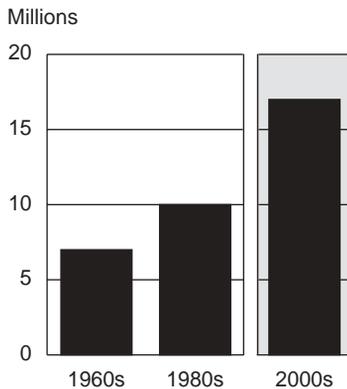
There is nothing new in pushes and pulls driving migration. Such forces have shaped migration throughout history. What’s different in the 21st century is the number of people moving, where they are leaving and going, and why.

**Globalization Spreads News of Economic Opportunity More Quickly**

The dramatic increase in migration is due to two factors—the discrepancy in income growth around the world and more effective communications.

In the past 10 years, the per capita GNP of high-income countries increased 3.4% per year, while that of low-income countries increased only 1.7% annually. This means that the economies of developed countries offer more jobs with better pay. At the same time, people in the better-off coun-

*Figure 5–1*  
*Immigration Rates on the Upswing*  
*(Average annual number of migrants by decade, in millions)*



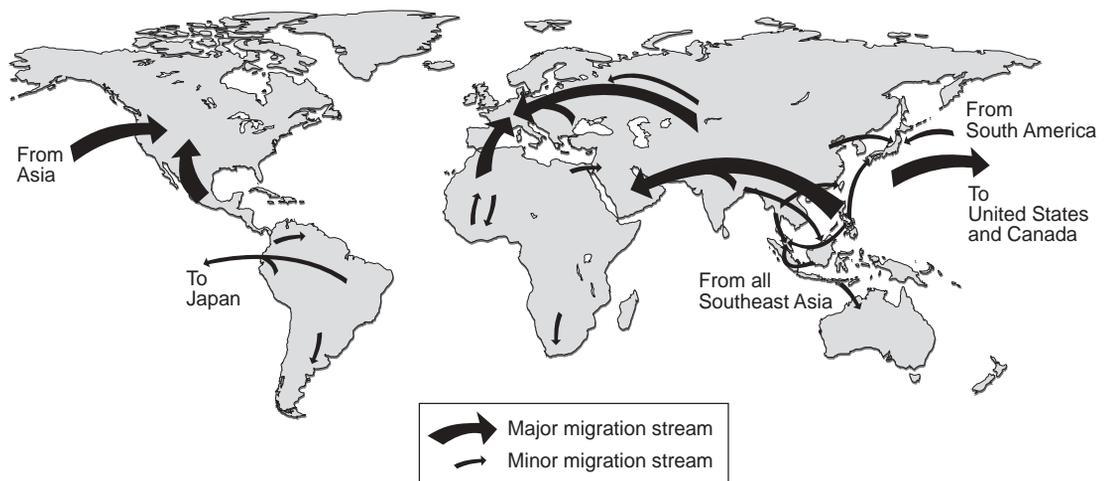
Source: Institute for the Future; United Nations.

tries have more attractive life styles and are also better able to purchase products and services that communicate this living standard to others.

What is also new is the low cost and high speed of communications, provided by technologies such as the Internet, mobile phones, and cable and satellite TV. Technologies like these enable a massive flow of information around the globe. More people learn about economic opportunities more quickly, enabling them to migrate as needed in response to world economic conditions.

Rapid information dissemination is especially important when employment opportunities, especially for low-skilled laborers, are scattered in developed regions or arising outside traditional economic centers. It used to be that most Latino restaurant workers in the United States were found in predictable urban centers like Los Angeles, New York, or Chicago, for example. Today, these workers can be found in Atlanta, Salt Lake City, and Cincinnati as well, with each city in effect competing for low-wage labor to drive economic growth. Information about economic opportunities in such disparate places is disseminated quickly by the new technologies and factored into migration decisions, enabling workers to go where they are most needed as quickly as possible.

Figure 5-2  
More People Are Moving to More Places



Source: Population Reference Bureau, *International Migration: Facing the Challenge*, 2002.

### Global Competition for Labor

The highly-skilled are also driving new migration flows. For example, the fierce competition for science and engineering talent has triggered both aggressive corporate recruiting practices and new government policies in many countries. The United Kingdom, Canada, and Germany have created a new, expeditiously processed, category for high-tech workers, for example, and Italy has eased immigration restrictions across the skills spectrum. As a result, high-skilled workers are not just heading for the traditional centers like Silicon Valley anymore, they are going to new technology hubs in Austin, Texas, the south of France, and the suburbs of Copenhagen, Denmark as well.

To gain access to low-skilled labor, on the other hand, businesses must decide whether it is more cost effective to drive this labor to the sites of their current operations, or to move their manufacturing centers closer to the cheaper labor. If they move, however, they will move only as far as necessary and try to pull the rest of the workers to them. Ultimately, this kind of regional migration leads to international relocation, as well. For example, in the past decade, several U.S. companies moved across the Mexican border to gain labor cost savings, pulling workers to them so dramatically and rapidly that entire cities sprang up just south of the U.S.–Mexico border. These border cities act as stopping points on the path to even better jobs in the United States. Such economic growth areas contribute to international migration by prompting the first step away from the community and increasing proximity to the border with a highly developed region.

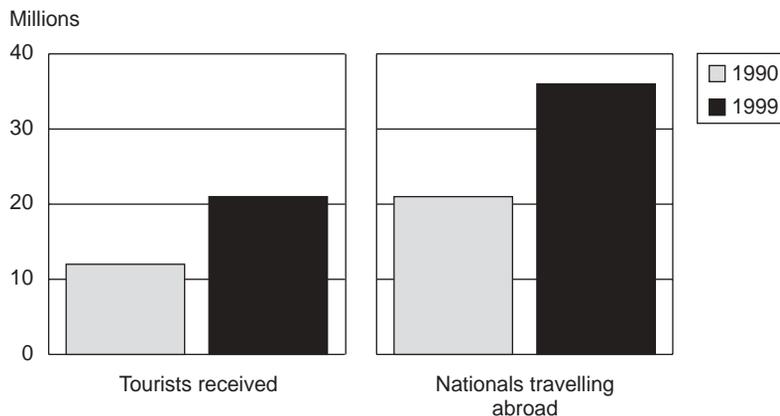
For some economic sectors, relocation is not practical. For example, modern households often depend on the availability of low-wage domestic labor, but they can hardly move to where the labor is, so the labor must come to them. Filipinos, especially women, have long filled this role by moving to Hong Kong and the United States. But recently, Filipinos have been moving in large numbers to countries such as Italy and Canada, where new economic opportunities are arising. The past decade saw nearly a 100% increase in the number of Filipinos in Italy and Canada, and as a result, Filipinos now compose a substantial percent of the total foreign population in many different countries—Japan (7.4%), Korea (5.7%), Italy (4.9%), United States (4.6%), Canada (3.7%) and Australia (2.6%). Ultimately, these regions and more like them may have to compete to maintain these low-wage domestic labor forces.

**Leisure Travel Communicates Opportunities and Prompts Migration**

Leisure travel is another method by which information, ideas, and the possibilities of different regions and cultures are exchanged. The rise in international leisure travel has not only increased the number of people traveling across borders for short periods of time, but has contributed to higher levels of permanent migration, especially among the young and well-educated.

Never in history have so many people traveled abroad for leisure. Not only are citizens of developed, richer countries traveling more often, but so are people from developing regions. For example, a sample of countries from different regions of the world—Brazil, Egypt, Malaysia, Peru, and Philippines—indicates that tourism has grown dramatically in the past decade. As a group, these five countries saw the number of tourists received increase 68% and the number of nationals traveling abroad increased 81% between 1990 and 1999 (see Figure 5–3). Travel from developing to developed countries, and vice versa, enables both groups to “peek over the fence,” so to speak, and see for themselves what life is like and what opportunities exist in other countries.

*Figure 5–3  
More People Are Traveling To and From Developing Countries  
(Tourism levels for Brazil, Egypt, Malaysia, Peru, and Philippines,  
in millions)*



Source: World Bank, *World Development Indicators*, 2001.

These trends will only intensify as the cost of travel continues to decline, and as the baby boomers, with their greater wealth and more open outlook than previous generations, travel in retirement.

What's more, the number of young people traveling for vacation or study, especially to developing countries, has increased as well. Specifically, the past five years has witnessed a surge in eco-travel and adventure travel abroad. When such travelers travel deep into countries and communities, the views of both the traveler and the residents of the host country are expanded. A teenager living in rural Peru might be impressed by the relative wealth, independence, health, and "happiness" of American or European teenagers traveling through her village. Repeated encounters might arouse the Peruvian girl's curiosity, and may eventually lead her to travel to these countries herself. For European or American students in Peru, greater exposure to different cultures returns home with them, affecting how they perceive their country in a more global context as well as immigrants or foreigners with whom they might interact. As more nationals of people-exporting countries travel abroad, their exposure to economic, social, and cultural opportunities will only increase, which will keep the flow of migration moving along.

### **CHANGING GLOBAL MIGRATION PATTERNS**

The interplay of these drivers is creating interesting new migration patterns around the world, illustrating both the problems and the opportunities migration will present for society and business.

#### **More Destinations**

Completely new groups of people are migrating to completely different places. For example, the number of Somalis in Denmark grew exponentially in the 1990s, and the number of Brazilians in Japan increased by nearly 400% in the same period (see Table 5-1).

As the data indicate, Italy has recently emerged as a popular destination for migration, especially from North Africa. Faced with an aging population and an estimated population decline of 25% in the next two to three decades, Italy has made attracting migrants a priority. As a result, Italy displaced Canada as the fifth ranked country in total immigrants received.

But while Italy has been successful at attracting immigrants, assimilating them has been problematic, and the acquisition of citizenship remains

low. In 1999, only 1% of the foreign population in Italy had acquired citizenship, well shy of the shares for other European countries, such as Germany (3.4%), France (4.5%), and Sweden (7.6%). Part of the problem is the manner in which immigrants gain citizenship in Italy (and indeed throughout most of Europe). In Italy, citizenship is granted almost exclusively by marrying a national rather than by a naturalization process such as those employed in the United States or Australia, where citizenship is achieved after seven years of residency and a series of examinations. (The number of applications is limited based on family, nationality and skills quotas, however.) While the process is not easy in countries such as the

*Table 5–1*  
*Rapid Growth in New Migrant Groups*  
*(Number of foreign-born residents by nationality, in thousands)*

	1985	1995	1999
<b>In Denmark</b>			
Somalia	0.0	6.9	14.3
Iraq	0.2	7.1	12.7
Lebanon	0.2	4.4	7.1
<b>In Italy</b>			
Senegal	0.3	24.0	37.4
Sri Lanka	2.5	20.3	29.9
Morocco	2.6	94.2	149.5
Egypt	7.0	21.9	28.3
Philippines	7.6	43.4	61.0
<b>In Japan</b>			
Peru	0.5	36.3	42.8
Malaysia	1.8	5.4	7.1
Brazil	2.0	176.4	224.3

Source: Organisation for Economic Co-operation and Development, *Trends in International Migration*, 2001.

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In this way, modern diasporas that have created pockets of cultural wealth and influence around the world are concurrently maintaining economic and political ties to home countries.

United States and Australia, it is more open. Italy and other countries looking for immigration to counterbalance aging populations will need to change their rules to promote more effective assimilation, or migrants will head for other regions.

### **Cross-Border, Regional Connections**

Whole communities of immigrants are maintaining economic and social roles in their native communities, increasing the political, cultural, and financial connections between regions. The relationship between the United States and Latin America (particularly Mexico) exemplifies this trend, as lower transportation costs have made temporary migration less expensive and politically favorable. For example, the United Federation of Zacatecas Clubs in Illinois, whose members are immigrants from Zacatecas, Mexico, are providing nearly 25% of the \$2.5 million in the 2002 budget in Zacatecas for parks, roads, computers, and community centers. In addition, many Mexican immigrants, having had new and valuable experiences abroad, have returned home to open businesses, run for political office, and build up their communities. Migration is no longer a one-way street.

In this way, modern diasporas that have created pockets of cultural wealth and influence around the world are concurrently maintaining economic and political ties to home countries. Since higher income workers are often able to procure only temporary work visas, they are likely to live in several different countries or regions during their working lives, moving around to different hubs or returning to their countries of origin for periods of time. Rather than the so-called “brain drain” of the past, these diaspora networks have created “brain circulation.” They have built networks of knowledge (and wealth) that travel between a number of host countries and home countries. In this manner, there are greater economic, social, and political connections between different global regions, opening new markets and creating new investment flows.

### **FORECAST**

In the coming decade, these global drivers will affect how many people voluntarily move across international borders, and where they go.

### More Immigrants Will Go to More Countries

Immigrants will grow disproportionately as a percent of total population and as a percent of the labor force in many developed, OECD (Organisation for Economic Co-operation and Development) countries (see Table 5–2). The North American countries will continue to have the largest proportion of foreign born in both categories, while growth will be highest in Italy and Denmark. In the short term, France will see declines in both categories, but growth toward the end of the decade.

### Successful Immigration Will Increase Economic Rewards

In developed economies, immigrants will continue to make key contributions to economic and social growth. In the labor force, they fill both specialized, highly skilled positions and low-paid, unskilled positions. In this way, immigrants will stimulate the economy with their labor and the soci-

Table 5–2

Share of Foreign Born Will Increase

(Percent of total population and labor force that is foreign born)

	Population			Labor Force		
	1990	1999	2010	1990	1999	2010
Canada*	16	18	20	19	20	22
United States	8	10	9	9	11	13
Germany	8	9	10	n/a	8	10
France	6	6	6	6	6	5
Austria	6	9	9	7	10	11
Denmark	4	6	7	2	4	6
United Kingdom	3	4	5	3	4	5
Italy	1	2	4	1	4	8

\* Note: Data for Canada is 1991 and 1998

Source: Organisation for Economic Co-operation and Development, *Trends in International Migration*, 2001.

ety with new cultural ideas, and as a group they form new consumer markets for goods and services. What's more, immigrants typically have higher fertility rates and thus contribute to the development of the future workforce. Indeed, the historically higher economic growth rates of the United States compared to Europe have been attributed, in part, to higher immigration levels, greater economic and social mobility for immigrants, and an acceptance of higher levels of economic inequality in the United States.

In the next ten years, many European countries will continue accepting increasing immigration. As such, they will also choose between adopting parts of the American immigration model and developing new strategies in order to reap the economic rewards immigration offers. One thing is clear, though. They will support and expand the opening of immigration policies to achieve economic growth. Indeed, the European Central Bank estimates that the euro-zone economy can expand at a rate of only 2% to 2.5% without increasing inflation, whereas the United States can sustain annual levels of 3% to 3.5%, a difference the Bank attributes to higher levels of lower-cost immigrant labor in the United States.

Becoming more immigration-friendly will no doubt meet popular resistance in many countries, however. As countries encourage immigration for economic reasons, they will also need to address their citizens' fears of increased crime, job insecurity, and cultural dilution.

To help immigrants gain a foothold in their new homes, governments will have to provide access to education and other social services, and create new paths to citizenship. Countries that fail to make the necessary changes will find that immigration will slow down or parallel societies will develop. Parallel societies result from a lack of social and economic mobility for immigrant groups that limit their potential contribution to the economy and contribute to unemployment and anti-immigrant sentiment. Either a lack of immigration or marginalization of current immigrant groups would stunt economic growth.

#### **Source Countries Will Benefit, Too**

It's not just the receiving companies that will benefit from migration. Emigration will provide economic stimulation for developing economies as well. In people-exporting countries, remittances will continue to grow in total dollar value and as a share of GDP.

In Latin America, for example, remittances will double in the next decade, growing between 8% and 9% per year and reaching \$45 billion, up from \$23 billion in 2001. This growth will be driven by continuing immigration and the efforts of multilateral institutions, such as the Inter-American Development Bank, to lower the cost of transferring remittance funds, for example, by replacing expensive wire transfers with lower-cost ATM network transactions.

Worldwide, remittances will grow at the slower pace of 6%, reaching nearly \$125 billion in 2010 from estimates of \$65 billion in 1999. China, the Philippines, Vietnam, and parts of Northern Africa will see remittances grow in total dollar value and proportion of GDP as migration from these regions to developed economies increases.

### **WHY SHOULD BUSINESS CARE?**

The growth of migration and the changes in migration patterns will pose many important business challenges in the next decade. In particular, immigration will affect the labor force, new market development, business-to-consumer communications, and the composition of domestic and foreign markets. Businesses must anticipate these changes and their effects in order to maintain market share and address operation and labor issues.

#### **Attracting Talent**

Business' current opportunity to recruit high- and low-skilled immigrant workers is unprecedented. While many corporations are primarily concerned with finding highly skilled workers, immigrants will be necessary at both ends of the spectrum to drive corporate and economic growth. At the same time, regional competition for immigrant labor, such as between different cities in a developed country or different hubs within developing regions, will increase. This kind of competition gives migrants a degree of economic power. They will be able to rank destination countries according to economic opportunity, immigrant-friendliness, access to education and other services, existence of a support networks, and other important factors. In response, businesses that depend on immigrant labor are going to have to consider immigration issues in making important business decisions. They may have to look for immigration-friendly places when choosing sites for new operations, for example, or strive to improve conditions and quality of life for immigrants where they already have facilities.

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Whether driven by the global dispersion of families, family reunification, the growth of border cultures, or tighter cross-regional links, new social patterns and networks are developing and expanding like webs across the globe.

### **Domestic Market Fragmentation**

As the share of immigrant populations within national borders grows, new markets will emerge to serve their needs, tastes, and preferences. Particularly in urban areas, businesses must address the unique media and consumer product demands of immigrant groups and anticipate how their children will combine ethnic and national media, products, and services.

### **Opportunities to Tap into Social Networks**

Due in large part to changing patterns of international migration, information, ideas, and products will be more quickly diffused throughout the world in the next decade. Whether driven by the global dispersion of families, family reunification, the growth of border cultures, or tighter cross-regional links, new social patterns and networks are developing and expanding like webs across the globe. These networks present a huge opportunity for businesses to promote their brands and products, to increase sales, and to establish relationships with disparate consumers who act as key links in the diffusion and adoption of products around the world.

### **Negotiation of Cultural Differences Will Be Difficult**

Immigration will become more of a political hot button as issues such as effective integration of foreigners into society, competition for the best immigrant workers, and the extent of acceptance of cultural change are debated in the public forum. In Denmark, the Netherlands, Austria, and France, for example, the recent 10% to 15% increase in the right-wing votes illustrates the frustrations of some citizens with immigration, along with other issues like crime and the growing dominance of the European Union.

Wisely, business tends to steer clear of ideological battles. But immigration resolves many of the demographic challenges that will affect business in the next decade and offers opportunities to tap into powerful international social networks for labor and new markets. Business can play an important role in negotiating cultural differences and facilitating the social and economic integration of immigrants. It can do so by offering employment to immigrant groups, and then actively negotiating cultural differences in the workplace. Even those corporations employing only

high-skilled technology workers from outside their country have a stake in supporting broader immigration. Their employees and the communities in which they live depend on immigrant labor at both the low and the high ends—working in houses and restaurants, running small businesses, and filling all the other roles that generations of immigrants have always filled to keep the economy running smoothly.

To maintain competitiveness, businesses must constantly adapt their organizations to changes in the global marketplace. Societies must learn to do the same, because, ultimately, a society's adaptation to global trends will determine the success of its national economy.

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