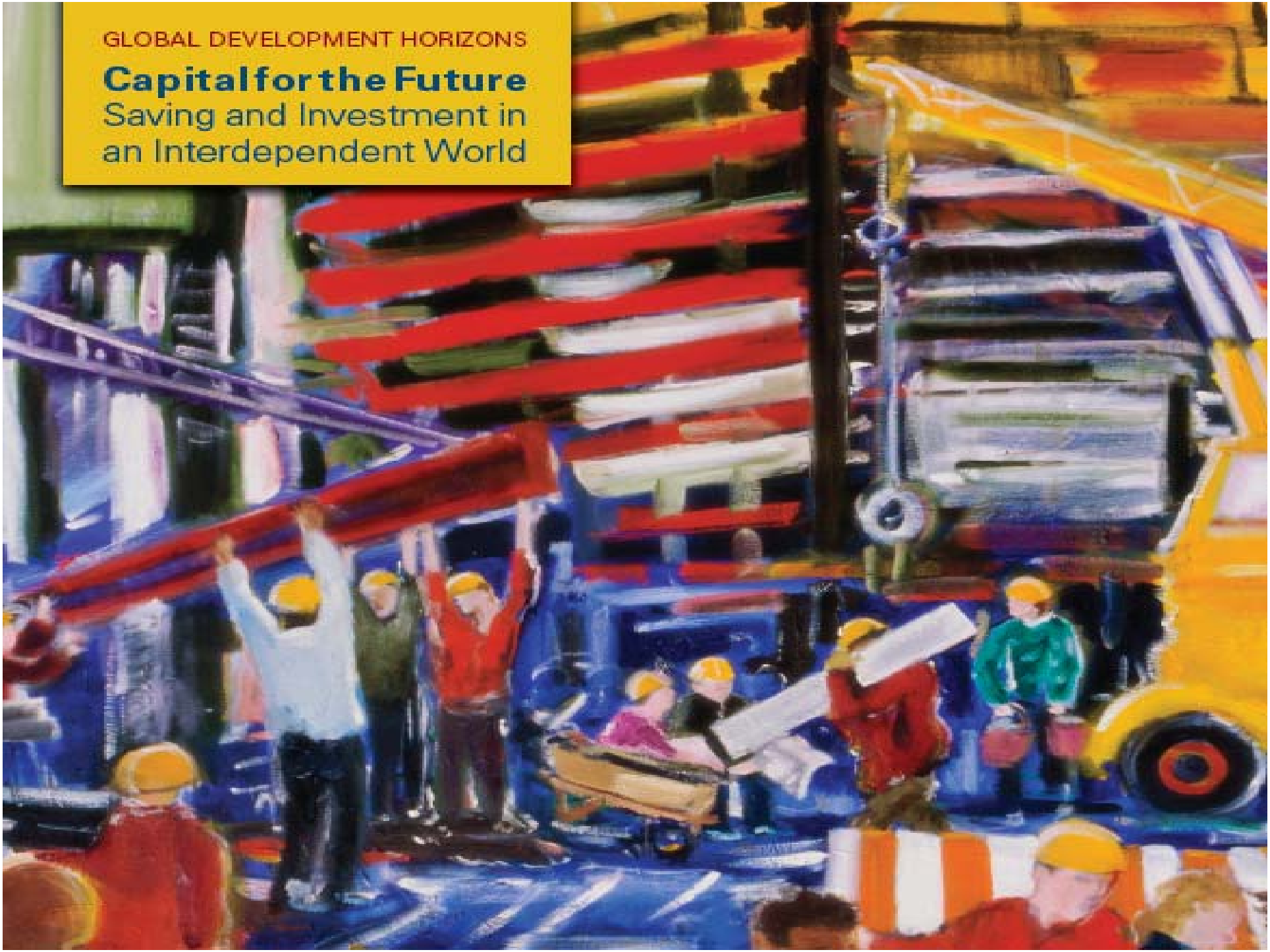
GLOBAL DEVELOPMENT HORIZONS

Capital for the Future

Saving and Investment in an Interdependent World



Capital for the Future

Which countries will drive investment in a multipolar world?

Will an aging world run out of saving to fund investment?

How will savers and investors be matched in the future?

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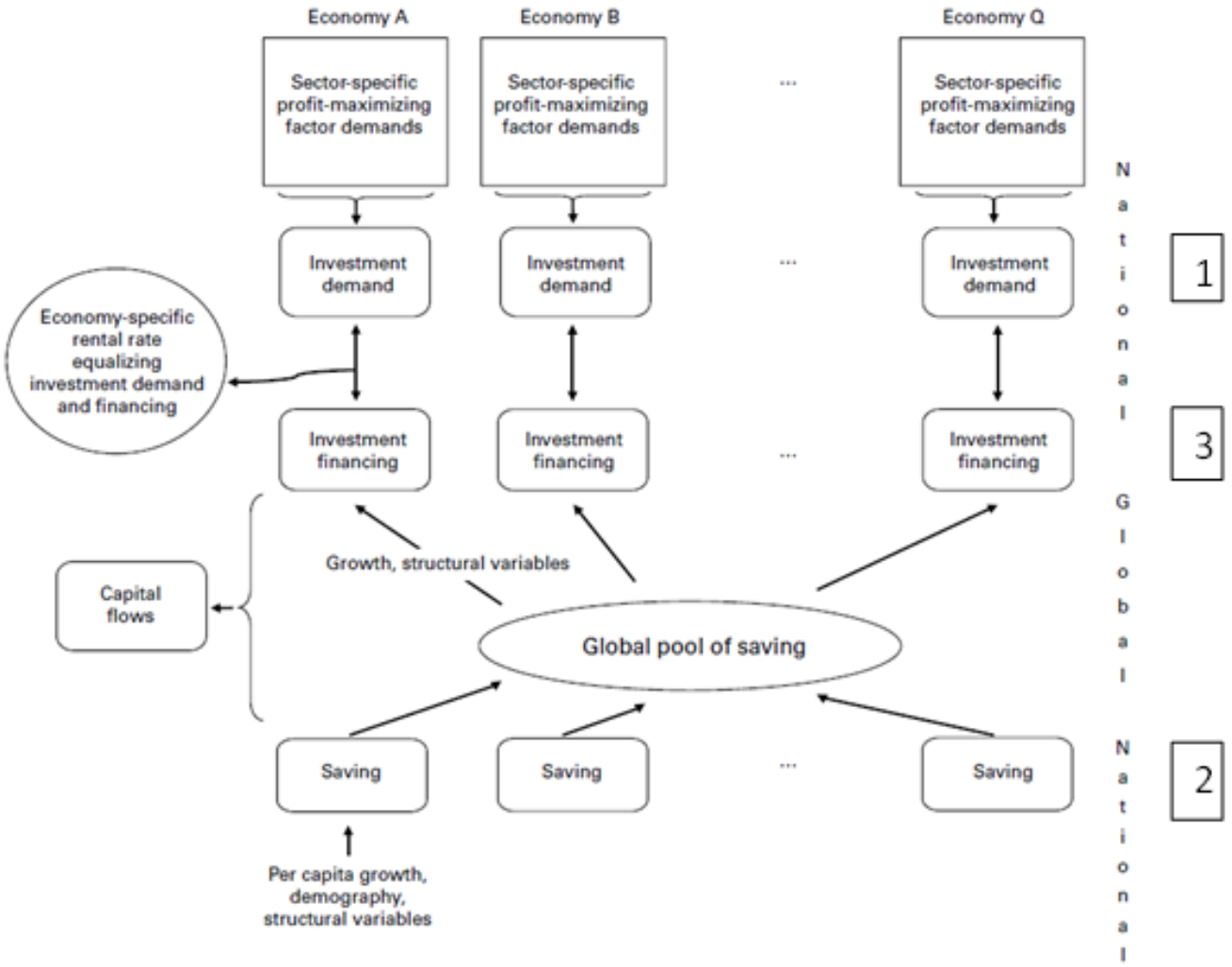
One picture on methodology



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Which countries will drive investment in a multipolar world?

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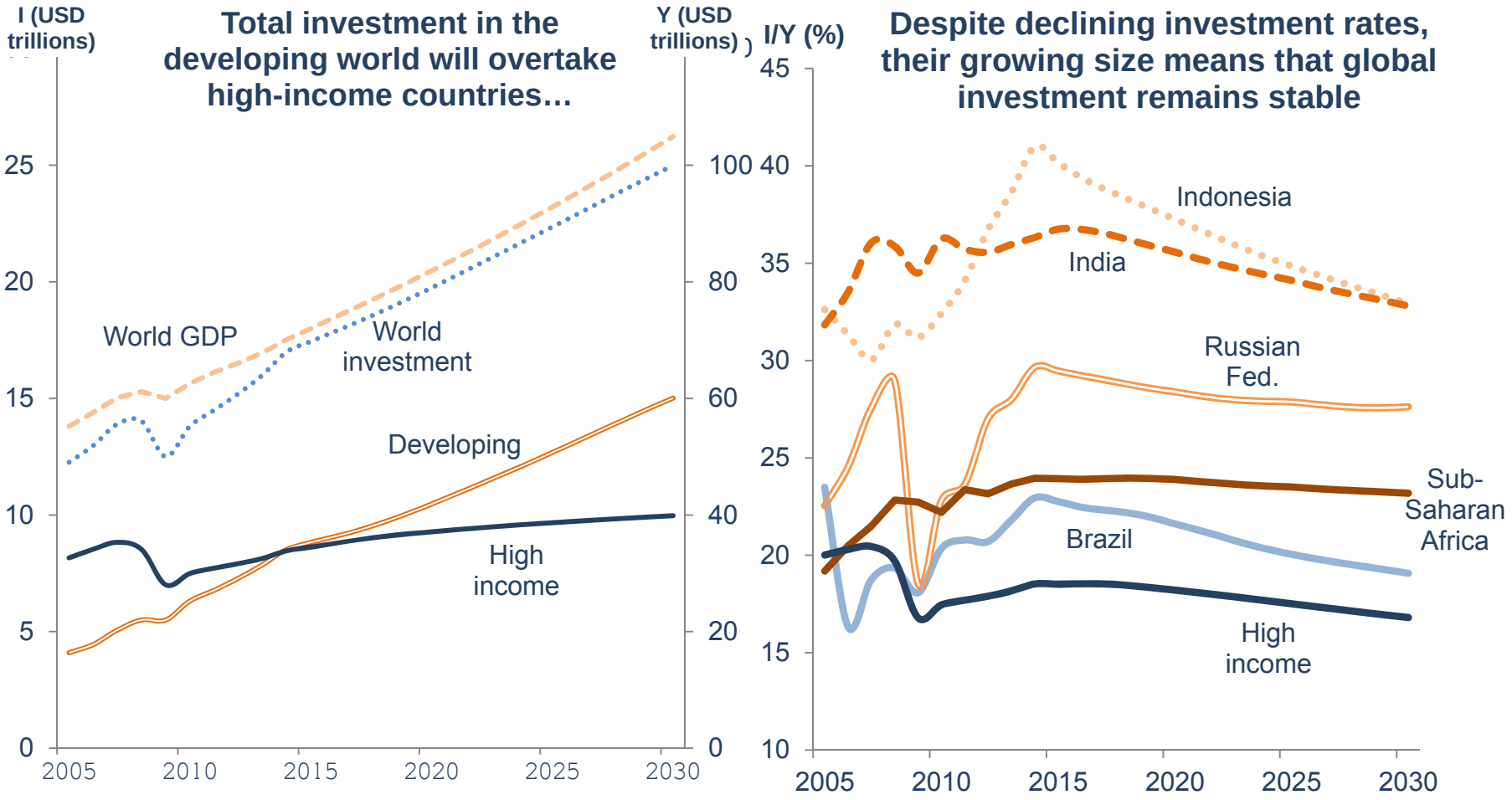
By 2030, 60 cents of every investment dollar will be invested in developing countries



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Will an aging world run out of saving to fund investment?

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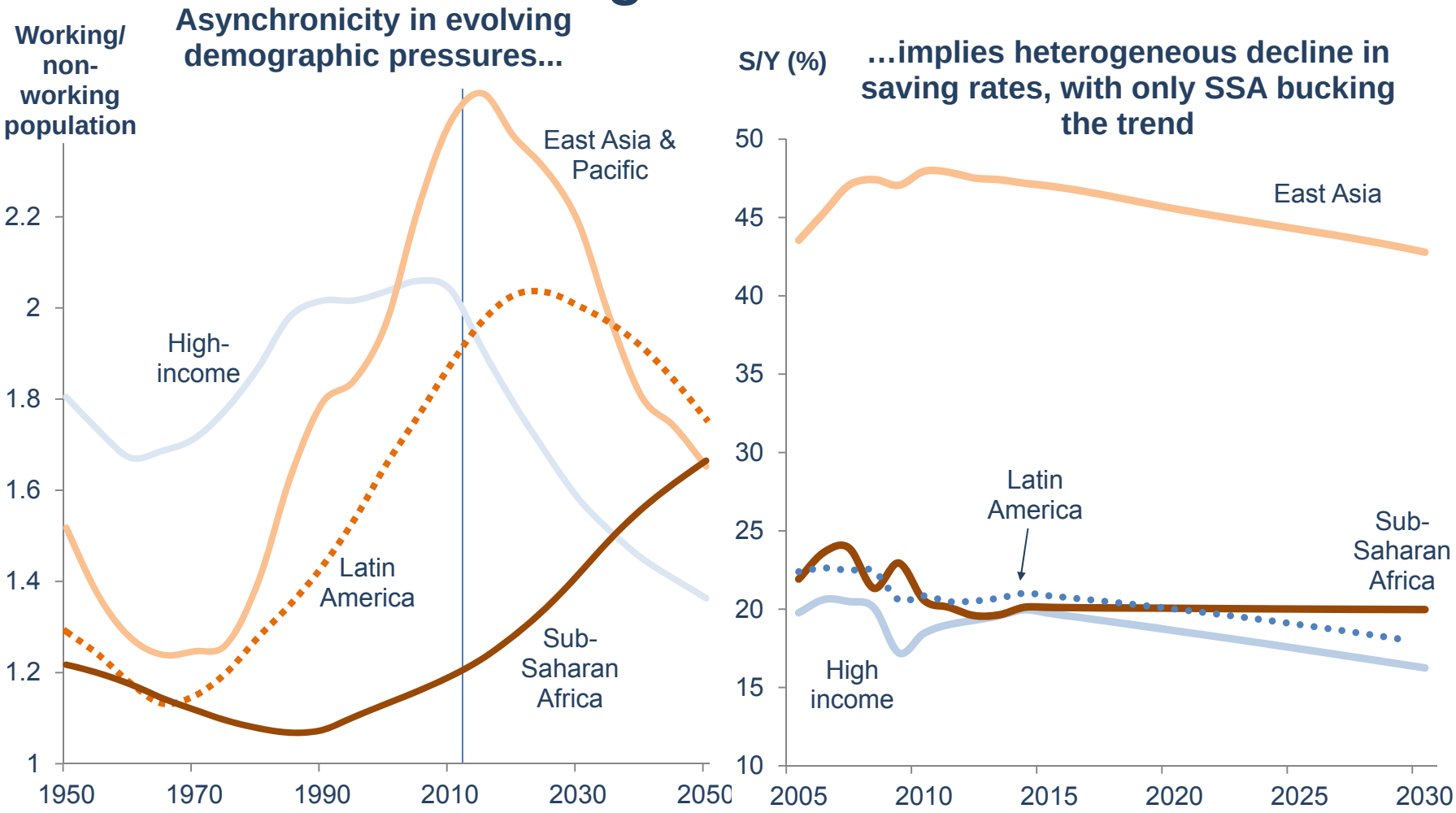
While there will undoubtedly be demographic pressures, the world will not "run out" of saving in the future



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Aging will put pressure on public finances

- Public expenditures (over GDP) on an age-related item (education, health care, or pensions), can be broken down into:

$$\frac{E}{Y} = \sum_{age=0}^{90+} \underbrace{\left[\frac{\left(\frac{E_{age}}{P_{age}}\right)}{\left(\frac{Y}{W}\right)}\right]}_{\text{Generosity}} \cdot \underbrace{\left[\frac{P_{age}}{C_{age}}\right]}_{\text{Coverage}} \cdot \underbrace{\left[\frac{C_{age}}{W}\right]}_{\text{Cohort}}$$

Generosity: Avg. expenditures on each program participant in age cohort, relative to avg. output per working-age person

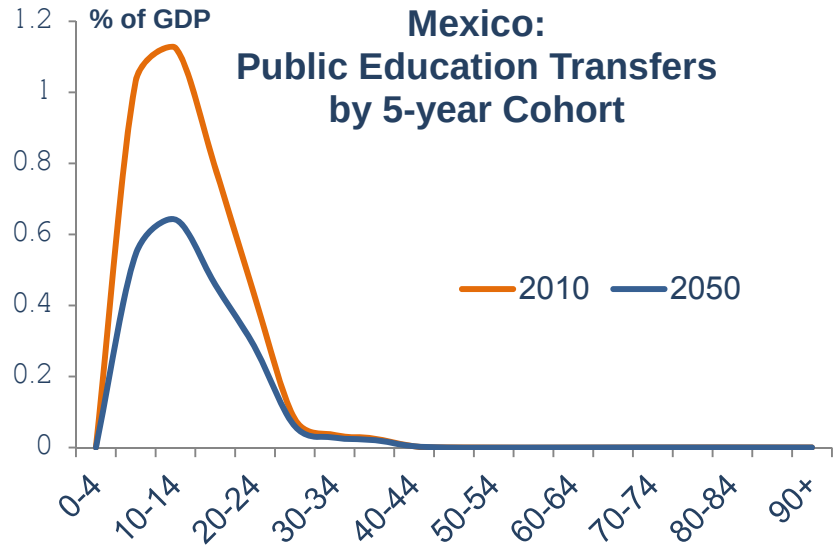
Coverage: Share of the cohort participating in the program

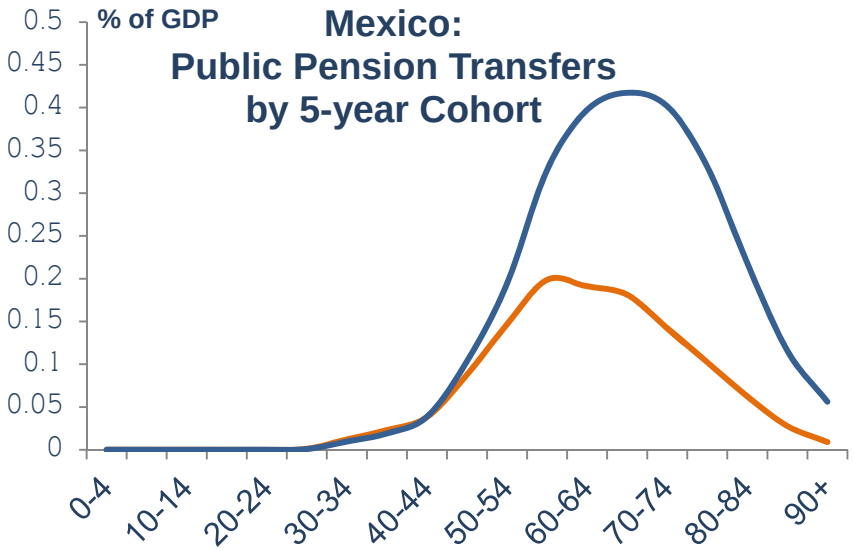
Cohort population, relative to working-age population

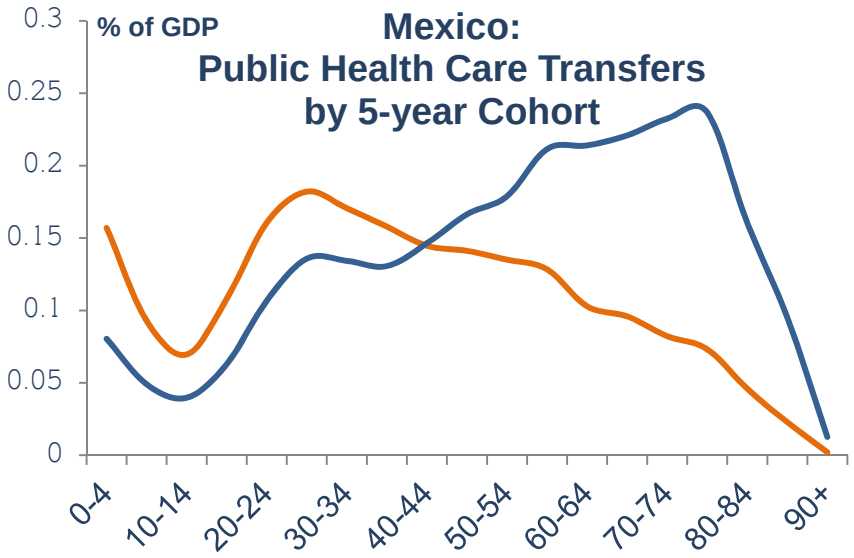
where E is expenditures, Y is GDP, P is participants in the public system in question, W is working-age population, and C is cohort population

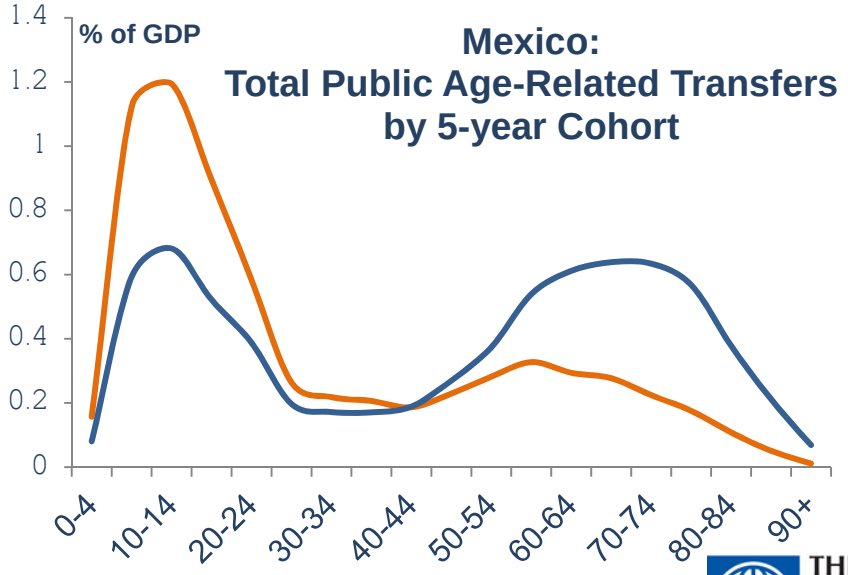
- Projections were generated under three alternative assumptions:
  - Generosity and coverage are constant (isolating demographic effect)
  - Generosity Coverage linearly converges to that of the U.S. by 2050
  - Generosity Coverage linearly converges to that of Sweden by 2050

Projected demographic effect on public transfers:









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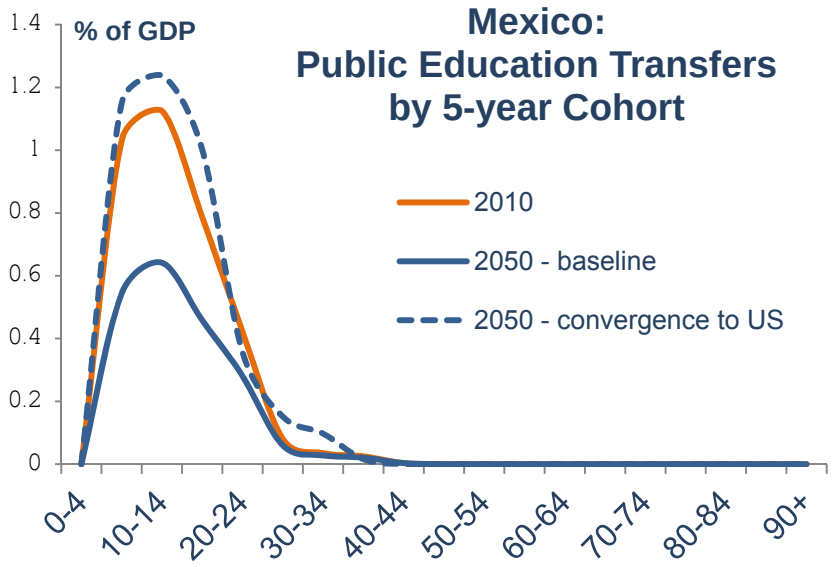
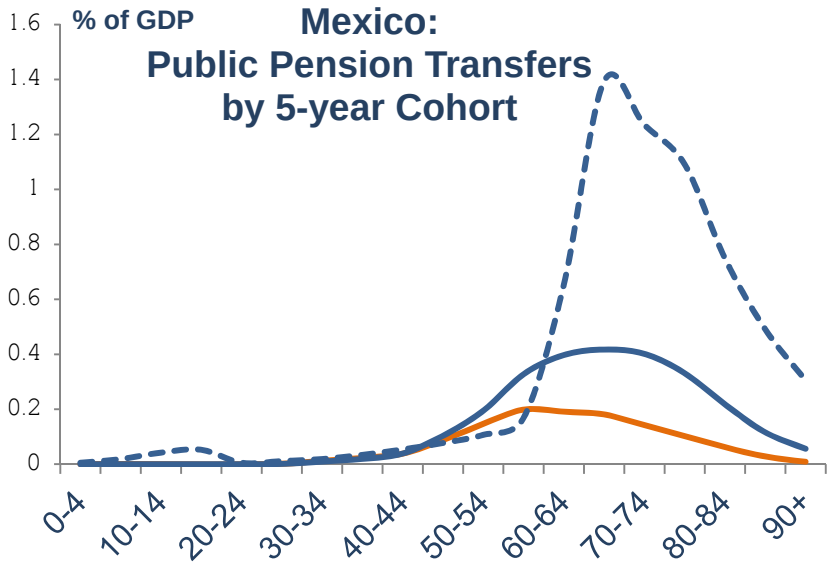
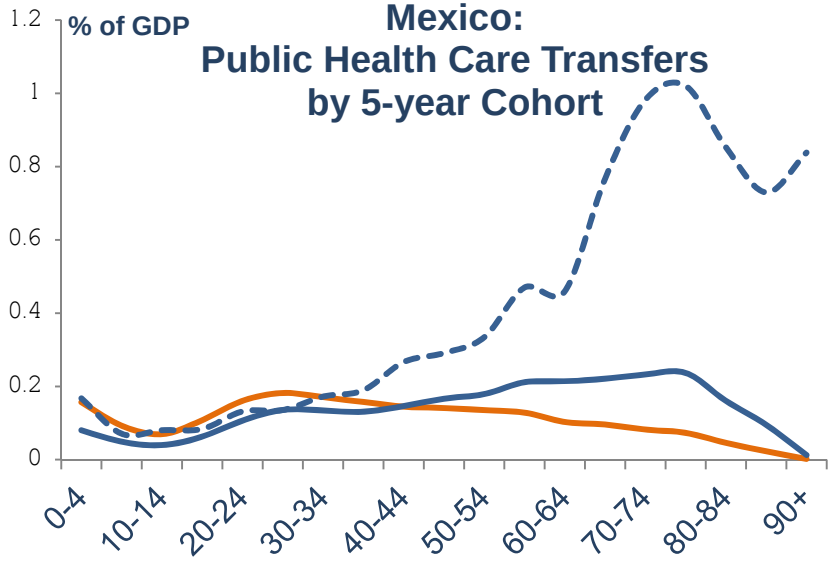
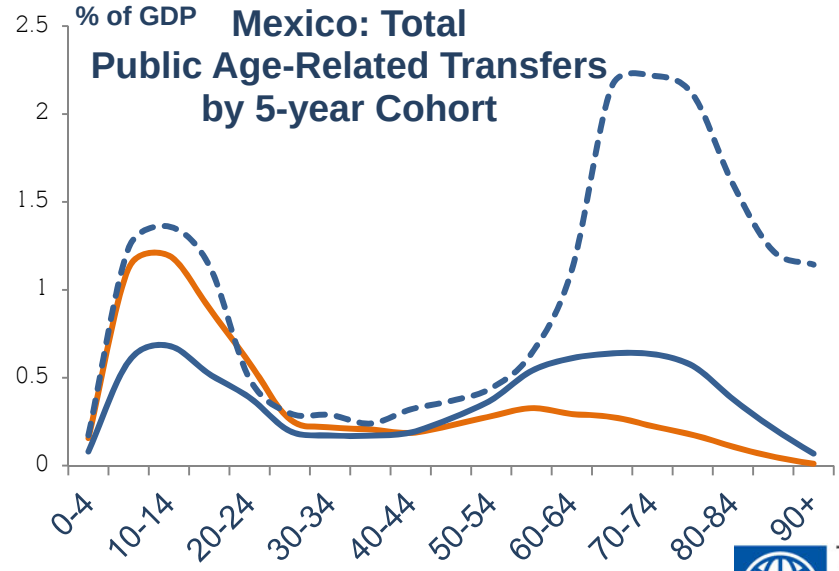
Convergence of public systems would have an even greater effect than aging in some cases









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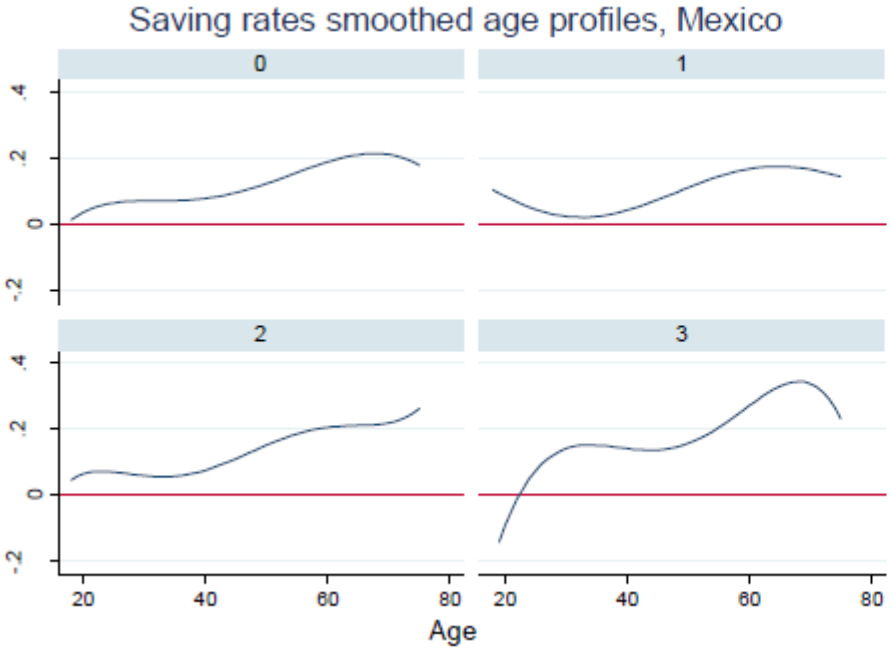
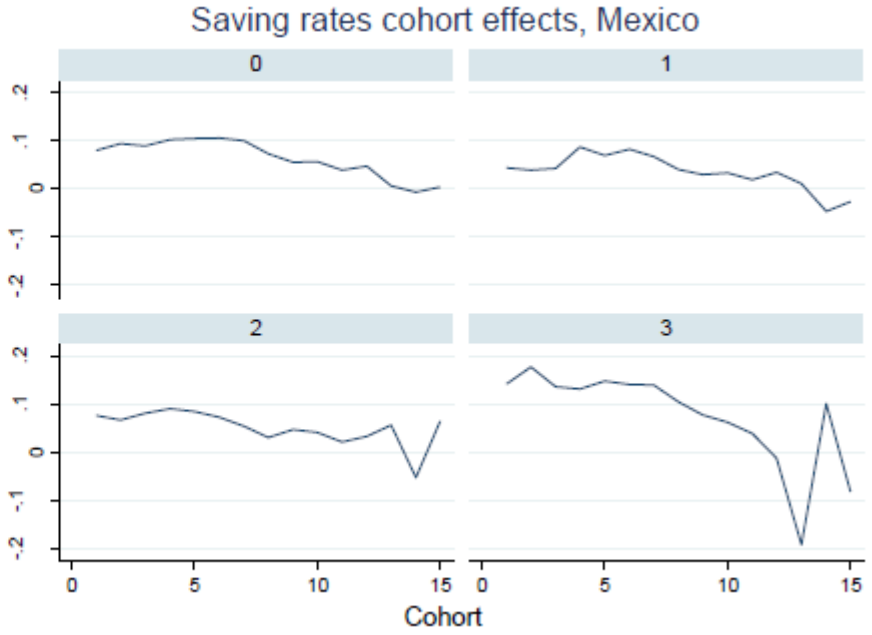
Scenarios for six developing countries with NTA data: demographic change alone; convergence to US; to Sweden

Country	Public transfers per person in each cohort, relative to GDP per working-age adult:	Pensions (% GDP)			Health care (% GDP)			Education (% GDP)			Total change (% GDP)
		2010	2030	2050	2010	2030	2050	2010	2030	2050	2010-50
Brazil	constant	9.1	14.0	20.9	3.0	3.5	4.5	2.6	1.9	1.7	*12.4*
Brazil	→Sweden	9.1	10.9	12.8	3.0	5.9	13.2	2.6	4.9	6.9	*18.2*
Brazil	→U.S.	9.1	14.2	11.0	3.0	4.6	8.8	2.6	3.0	3.6	*8.7*
Chile	constant	5.5	8.8	11.7	2.2	2.6	2.9	2.2	1.7	1.5	*6.3*
Chile	→Sweden	5.5	11.1	18.2	2.2	6.3	15.0	2.2	4.8	7.2	*30.5*
Chile	→U.S.	5.5	9.5	11.8	2.2	4.7	9.8	2.2	3.0	3.8	*15.5*
China	constant	3.4	5.9	8.1	1.7	2.2	3.0	2.1	1.6	1.5	*5.4*
China	→Sweden	3.4	13.6	33.7	1.7	5.4	14.3	2.1	4.0	6.4	*47.2*
China	→U.S.	3.4	7.0	12.8	1.7	4.2	9.7	2.1	2.5	3.3	*18.6*
Costa Rica	constant	4.3	7.1	11.0	4.7	5.4	6.8	4.2	3.0	2.6	*7.2*
Costa Rica	→Sweden	4.3	9.8	20.3	4.7	6.8	13.4	4.2	5.4	6.7	*27.2*
Costa Rica	→U.S.	4.3	7.3	11.1	4.7	5.6	8.9	4.2	3.6	3.5	*10.4*
India	constant	1.0	1.2	1.4	2.3	2.4	2.6	1.7	1.3	1.0	*0.1*
India	→Sweden	1.0	1.6	2.9	2.3	4.4	8.1	1.7	5.7	8.2	*14.3*
India	→U.S.	1.0	3.6	6.9	2.3	3.4	5.7	1.7	3.3	4.4	*12.0*
Mexico	constant	1.5	2.3	3.2	2.1	2.2	2.6	3.5	2.5	2.0	*0.8*
Mexico	→Sweden	1.5	8.0	22.0	2.1	5.0	11.9	3.5	5.9	7.6	*34.4*
Mexico	→U.S.	1.5	4.1	9.8	2.1	3.8	8.0	3.5	3.7	4.0	*14.8*

The dynamics of saving: panel vs cross sections





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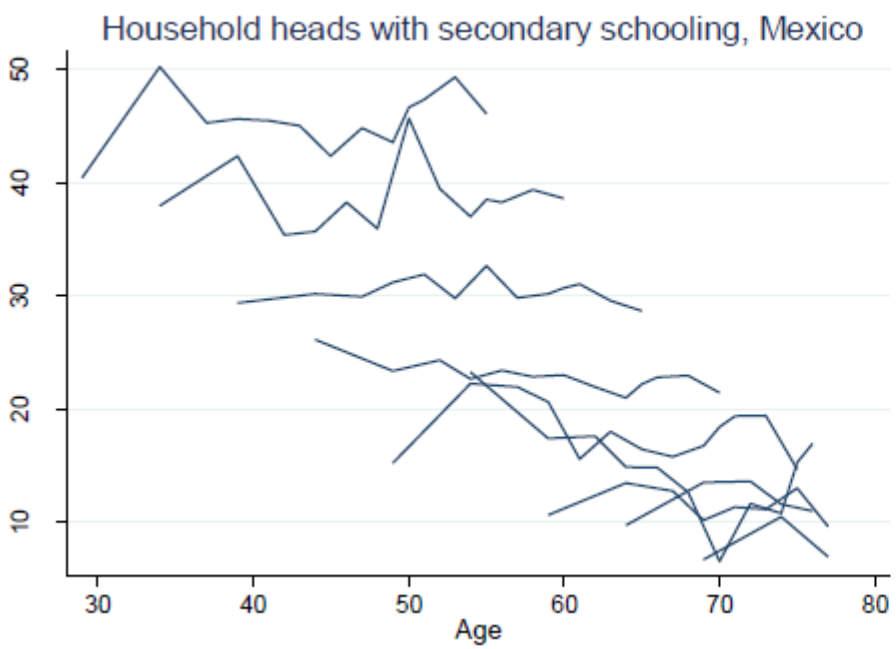
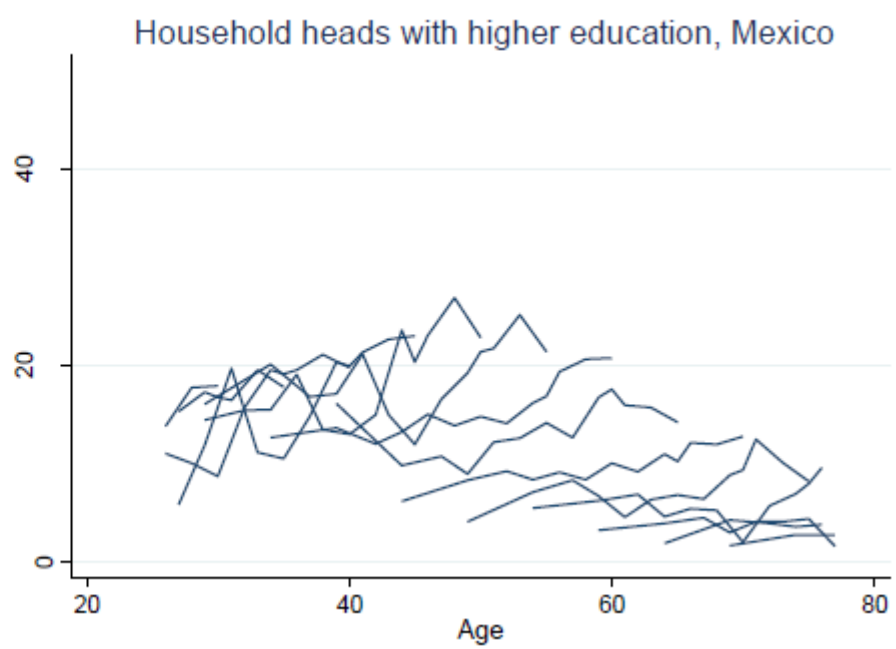
The dynamics of saving: the role of education





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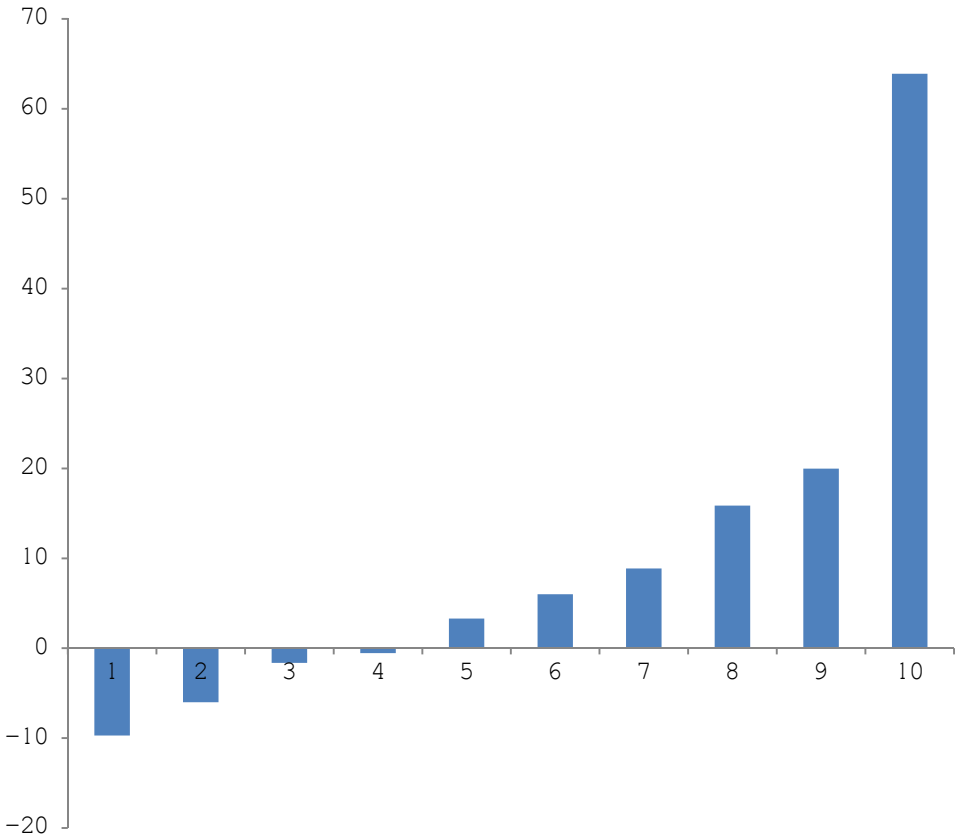
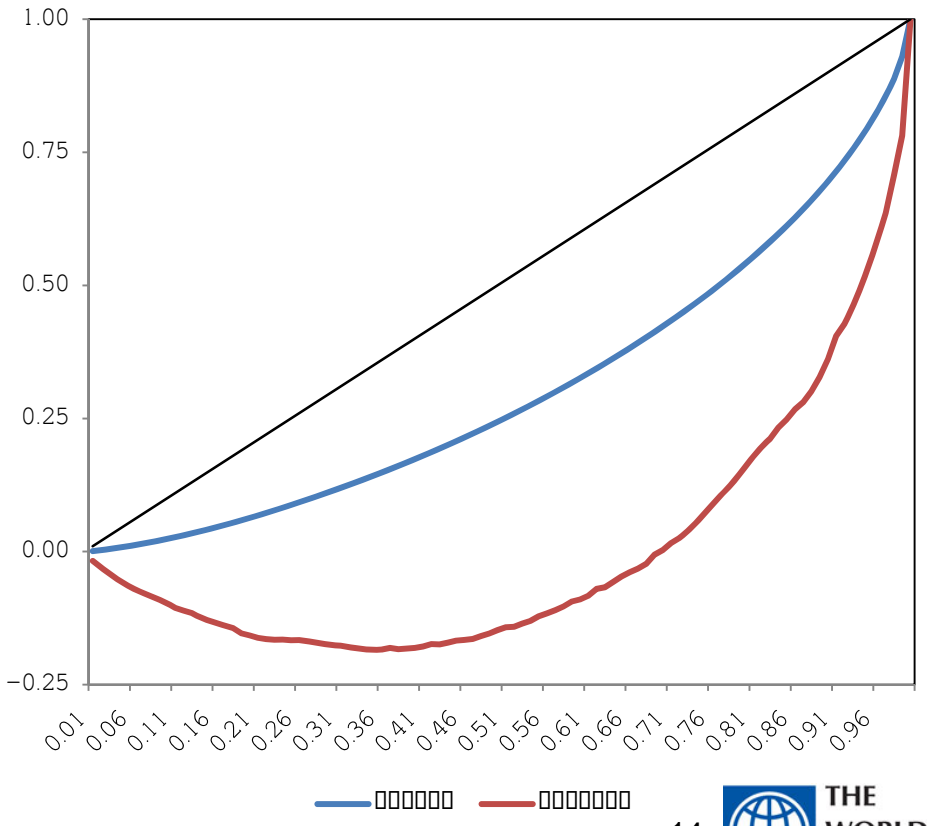
While inequality across countries will reduce, inequality within countries may not

Saving by decile, as a percent of total saving. Mexico, 2010



Lorenz curves, income and saving. Mexico, 2010



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How will savers and investors be matched in the future?

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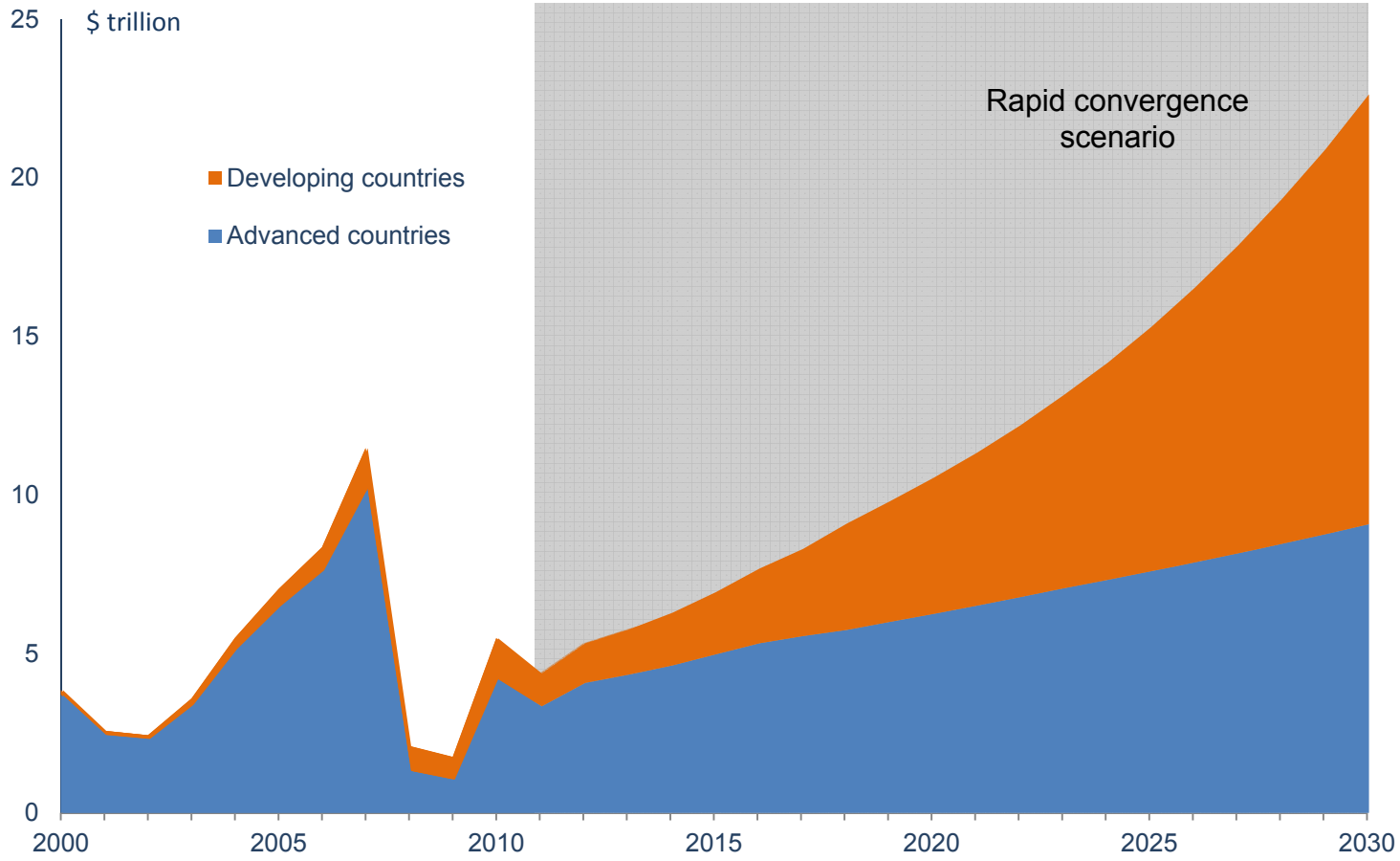
Developing countries will increasingly be the main savers and investors, but will they become key players in the international financial arena?



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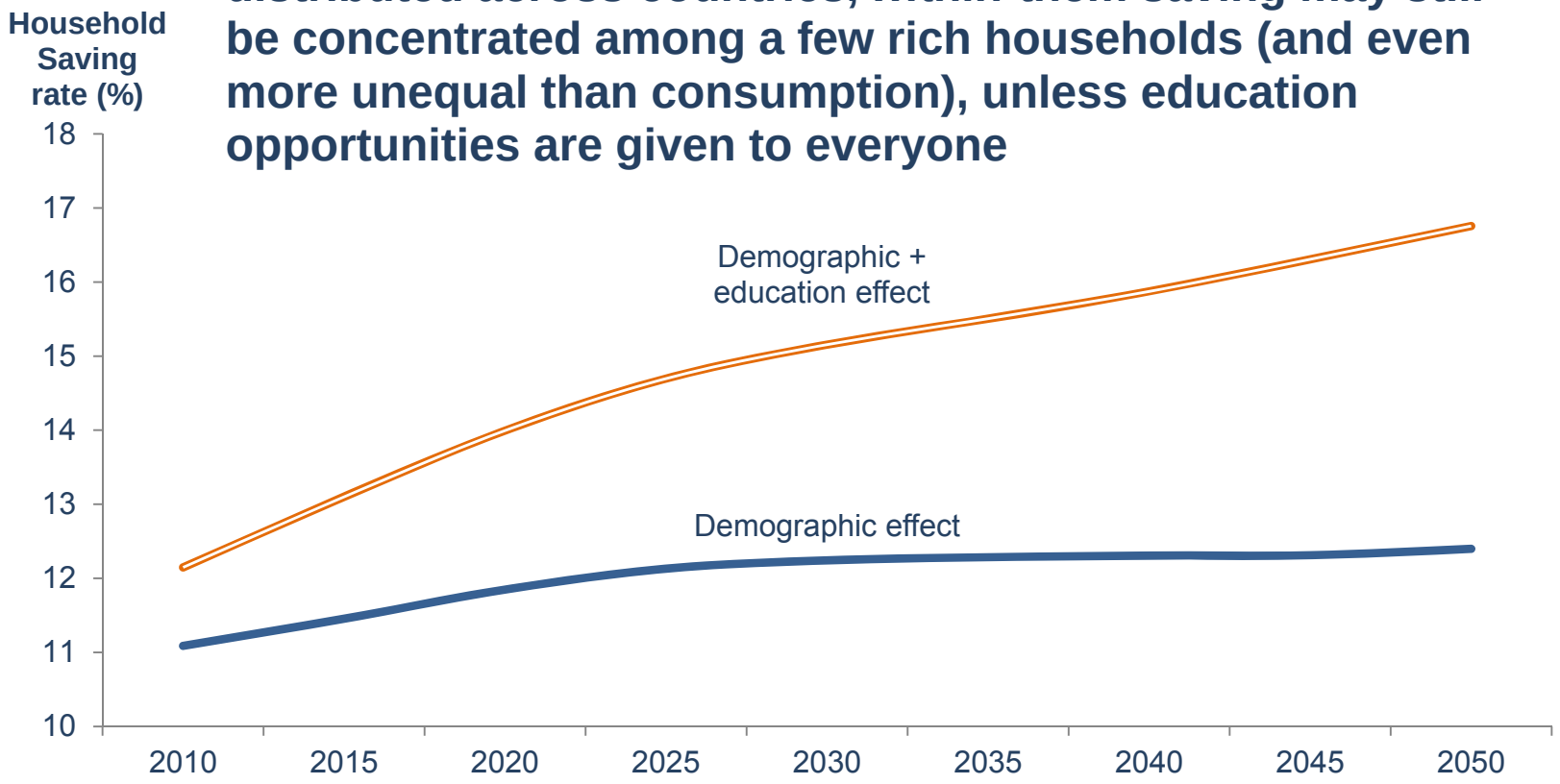
These outcomes will only be realized if policymakers take active steps in terms of policy and institutional reform

- For example, even though saving will be more equally distributed across countries, *within* them saving may still be concentrated among a few rich households (and even more unequal than consumption), unless education opportunities are given to everyone



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