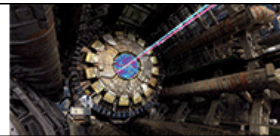


Decades of patient investment, for a moment of divine clarity



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If only the central banks could print babies

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Sir, John Plender's excellent analysis "Central banks' waning credibility is the real threat to confidence" (Insight, February 17) highlights the need for a new narrative to explain the economic slowdown of recent years. It was always rather surprising that investors ever believed central banks could control the economic destiny of the world's 7.3bn people, simply by adjusting short-term interest rates and printing electronic money.

Instead it is perhaps time to rehabilitate Masaaki Shirakawa, former governor of the Bank of Japan, who was retired in 2013 by prime minister Shinzo Abe's new government. His argument that demographics drive demand, not central bank money-printing, has certainly stood the test of time. Common sense, after all, suggests that a paradigm shift has been under way in the global economy since 2001, when the oldest baby boomers joined the low-spending, low-earning 'new old' 55-plus generation. The boomers were the largest and wealthiest generation in history, and it was no surprise they created an economic supercycle during the 1980s as they moved into the wealth creator 25-54 age group, when incomes rise exponentially and people often settle down and have families.

Now we are seeing the downside of this process, as the boomers also have the longest life expectancy in history. UN data suggest that a record one in five of the world's population will be new olders by 2025, while the collapse in global fertility rates (which have halved to just 2.5 babies/woman since 1950), means that relatively fewer wealth creators are now supporting an increasing number of new olders. Central bank stimulus programmes have succeeded in temporarily boosting the prices of financial assets, at the cost of increasing the debt burden for the future. But in terms of demand growth they are impotent, as they cannot print babies.

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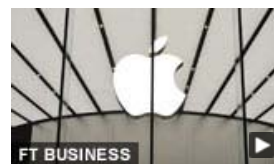
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