Too Many (Older) Americans

Numbers of seniors and numbers of dollars

Book Review by Lincoln H. Day

Peter G. Peterson, banker, chairman of the Council on Foreign Relations and the Institute for International Economics, director of the Federal Reserve Bank of New York, co-founder of The Concord Coalition, advisor to Presidents from Nixon to Clinton, and former Secretary of Commerce (1972-3) is no one-dimensional zealot. He recognizes the existence of such "great hazards" as the proliferation of nuclear, chemical, and biological weapons; extreme global climate change; and the "financial, economic, and political aftershocks of globalization."

Yet, on the (rather surprising) contention that they will possibly do more "to reshape our collective future" than any of these others, he chooses to focus, here, on the hazards he sees inhering in demographic "graying" — current and anticipated increases in the numbers and, especially, the proportions of old people in national populations in consequence of: marked recent increases in life expectancy (particularly at the upper ages in developed countries, and at the lower ages in developing countries), marked recent declines in fertility (even to below-replacement levels in developed countries), and, in developed countries, the aging of those swollen "baby boom" cohorts born in the first 0 to 15 years after World War II.

Gray Dawn: How the Coming Age Wave Will Transform America — and the World
by Peter G. Peterson
New York: Times Books, a division of Random House
280 pages, $23.00

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Peterson shows a good awareness of demographic principles and processes, and not a little sociological insight, as well. Compared with that of the general run of economists so often heard from on these matters, his perspective is broad and long-term; compared with that of ecologists, however, it is somewhat narrow and short-term.

Peterson's focus is on the money. As he describes it, the nature of the graying threat is essentially fiscal: there will not be enough money to pay for the old age pensions and medical care people have been promised or led to expect. The cause of this threat — apart from population aging — is inappropriate public policies: policies formulated for the most part when the proportions surviving to advanced old age were far smaller, expectations about levels of living were substantially lower, and medical knowledge and technique were less advanced and considerably less expensive than they now are. Not only have these policies failed to keep up with changing conditions, but, despite claims to the contrary, they — everywhere, according to Peterson — operate essentially on a "pay-as-you-go" basis: the trust funds purportedly underwriting them consist largely of "unbacked claims on future tax revenue," while their solvency depends on being able to continue taxing younger people to pay the costs entailed in providing for older people. The relevance of aging in this is that declines in the proportion of younger people relative to older people decreases the pool of those who can be taxed to pay these costs.

Focusing on the money can bring some useful insights (some of Peterson's specific policy recommendations are very much to the point), but is can also result in a narrowing of vision. Peterson is no "environmentalist." He evinces little concern about either overall population growth itself or the pressures on finite resources and the ability to maintain ecological sustainability arising out of the combination of population growth and rising levels of consumption and waste creation. Despite an emphasis on the future, he evinces no concern about the likely consequences — for both "developed" and "developing" countries — of rising levels of material aspiration. Nor, though he is doubtless aware of it, does he mention the ultimate necessity of halting population growth, or the fact that the graying he is so concerned about is the inevitable result of a great human achievement: the extension of control over mortality and fertility.

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Nor is he a boat-rocker. Apart from those involving welfare, present budgetary priorities go unquestioned: NASA, the "war on drugs," the massive subsidies to the oil, automotive, construction, and real estate industries, for example. As for the military, he, at least twice, specifically expresses concern that the mammoth expenditures on this item might not yet be high enough. (At least he calls for paying off the national debt — which, be it noted, was mostly militarily-incurred.) Because of graying, the public must pay more than it does now for its pension and health coverage, and there is to be no seeking of a lessening of this additional burden in some realignment of government priorities.

Peterson supports his argument with statistics. The book is full of them. Most are from sources like the UN, OECD, and the U.S. Census Bureau — often channeled to Peterson via various secondary sources ranging from scholarly books and journals to newspapers. These statistics make interesting, if not always comforting, reading. Here is a sampling:

1. "Today the ratio of working taxpayers to non-working pensioners is around 5 to 1. By 2030, absent reform, this ratio will fall to 1.5 to 1 — and in some countries, such as Germany and Italy, it will drop all the way down to 1 to 1, or even lower."

2. "Over the next thirty years, global life expectancy is projected to rise by another seven or eight years. This advance alone will raise the number of elderly by roughly one-third."

3. "Over the next fifty years, while the number of people aged 65 to 84 is projected to triple, the number of those aged 85 and over is projected to grow sixfold. In the United States, these old old consume twice as much hospital care per capita — and over twenty times as much nursing-home care — as elders between ages 65-74."

4. "By the year 2050, all the developed countries will likely shrink from 15 to 10 percent of the world population — while the Mideast, Central Asia, Africa, and Latin America will climb from 48 to 60 percent."

5. "Early in the next century, many developed countries will have more grandparents than grandchildren."

6. By 2050, the number of Chinese age 65 and over is projected to reach 330 million (equal to the total that age in the entire world in 1990).

Peterson admits that, from the standpoint of fears about population aging, his statistics almost always present a worst-case scenario — with, e.g.: fertility continuing at well below replacement levels, upper age longevity rising to levels far beyond anything known today, and medical and long-term care costs continuing to soar.

Preparing for the worst is often a prudent course. ("Let us arrange our affairs as if the coming age wave is a profound challenge," Peterson commonsensically writes. "If we are wrong … no great harm will have been done, and we will probably leave behind a better world for posterity.") But it isn't amiss to inquire about the definitions underlying such a scenario and the likelihood of the scenario's taking place.

For example, old age for Peterson commences at age 65: not an unreasonable assumption given the importance of that landmark as the customary pension eligibility age. But the argumentative force of statistics on aging would be lessened if, in recognition of the marked changes in longevity that have occurred recently in industrialized societies, old age were defined, instead, as beginning at, say, the age at which remaining years of life expectancy equaled 10. Peterson, himself, recognizes this fact in proposing that the pension eligibility age be gradually raised to 70 and from there to still higher levels on the basis of increases in longevity. But in his statistics he persists in defining old age as commencing at 65.

Or take “support” and “dependency,” which Peterson defines almost wholly in economic terms: people paying taxes vs. people receiving pensions and other benefits paid for by these taxes. Only obliquely does he admit that old people might not be quite as dependent as he suggests, let alone that they might actually be providing a good deal of support to others, both “dependents” and “non-dependents” — sometimes in the form of money, more often by way of care-giving and the provision of emotional support.

As for the likelihood of his scenario, Peterson is aware that things can change. And he knows about demographic momentum: correctly pointing out, for example, that old people for the next 65 years are already here. He is less than forthcoming, however, about noting that a significant component of the aging trend he describes — that arising from the post-WWII “baby boom” — is temporary.

As for mortality, Peterson is within his rights to criticize the Social Security Administration's working projections of only modest future increases in longevity (citing cancer research in support of this criticism). But he is on slippery ground in accepting the markedly upward longevity projections made by a handful of demographers and economists that seem to consist of little more than straight-line projections of recent trends, and to have been calculated without considering such countervailing possibilities as: heightened virulence of infective organisms, declines in the effectiveness of current means of prevention or cure, the possible advent of new diseases, increased exposure to disease, and general deterioration of the environment.

As for fertility, despite more than 50 years' research, demographers are still at a loss to account for different patterns of childbearing — especially, as is increasingly becoming the case, where fertility is subject to a large measure of direct control. Birth rates might well remain low, but they could also go back up, thereby lessening the extent of graying.

But even if Peterson's statistics make the situation appear worse than it might actually be, there is no denying that aging will present problems, and that it is taking place on a global scale — most especially in the developed countries, where the transfer of provision for aging from private to public means has proceeded furthest. So what can we do about it?

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Peterson mentions some consequences global aging will have on family structure, but as already noted, the problem, as he sees it, is essentially a fiscal one, and it is fiscal conditions that he addresses. What might be done to enable these larger numbers and proportions of old people to look after themselves more effectively; to enable them to live lives of dignity and reasonable comfort as participant, respected members of society; or how, at all levels of society, we might further develop those elements of personality and lifestyle, of social organization, of physical layout and functioning that are associated with being both able to cope oneself and willing and able to render assistance and comfort to others — are matters outside his purview.

Peterson contends that the first task of developed countries is to “confront the truth” that “their pay-as-you-go entitlements cannot survive the coming age wave” and “the generosity of these entitlements must be greatly reduced.” He sees no easy choices: “Everything will have to be on the table: from retirement age hikes and COLA (cost of living adjustments) cuts to new benefit formulas and universal means-testing. Health technology will have to be rationed, health budgets capitated, or health insurance voucherized.”

He begins by ably dismissing a number of the possibilities that have been suggested: Faster economic growth he plausibly defines as a “hoax.” Even were it to take place (and Peterson thinks it might not), it could not occur fast enough. Allowing workers to invest their current contributions in the stock market he (again plausibly) terms a “free-lunch fallacy,” inherently both illogical and irrational. Spending less on doctors misses the main forces driving health costs upwards, namely, people's rising aspirations and such medical advances as new methods of diagnosis, new drugs, and new surgical procedures. *Relying on declines in youth dependency to counterbalance increases in age dependency* overlooks the fact that the latter is far more costly to public budgets; and also that money spent on senior benefits is “essentially pure consumption, while money spent on children is “an investment.” Because, in Peterson’s view, no country’s present pension system is adequately funded, simply doing nothing is “not a realistic choice,” either. It would be “economically ruinous” for any one country, and “impossible” for the developed world as a whole. Raising taxes would help, but, in Peterson's view, most developed countries (with the possible exceptions of Japan and the U.S.) are already “at or beyond their threshold of efficient taxation.” Inflation won't work because it ends up destroying social trust and ruining the economy, and, even as a “short-term palliative” would not work in developed countries because their public pension benefits are indexed to the price level.

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His recommendations are several:

(a) Encourage workers to continue working (and, therefore, paying taxes), mainly by gradually raising the normal retirement age to 70 and indexing it to longevity increases thereafter. This illustrates the emphasis Peterson puts on fiscal aspects of the issue. It also begs such questions as whether an older person is able to work or get a job, or whether what he or she might now be doing (e.g., caring for an aged spouse, providing daycare for the children of a self-supporting divorced daughter) is of greater social (or even fiscal) significance than the taxes that might be paid. Nonetheless, in a detailed and comprehensive discussion, Peterson persuasively argues that much could be gained by at least removing some of the present encouragements to early retirement (especially in Europe).

(b) Increase the size of the working-age labor force. There are two general approaches to this: Increasing labor force participation and increasing the population of working age. The first would be accomplished by encouraging and enabling more women to work and by removing such discouragements to working as disability, unemployment, and welfare programs that (especially in Europe) “offer generous benefits but few incentives to find new jobs.” He would also remove national policies that reduce the number of hours in the work week.

The second — immigration — is another matter, and Peterson recognizes that fact. After enumerating the respective costs and benefits, and noting the complexity of the issue and the competing interests in play, he concludes that “...the biggest problem with higher immigration as an aging strategy lies in the numbers … [I]mmigration would have to double, triple, and even quadruple over today's levels — and remain at these higher levels permanently — to sizably reduce the fiscal burden of aging. This would be wrenching for any society, but … especially traumatic for host populations that are no longer reproducing themselves, since even a small influx will cause the foreign-born to grow rapidly as a share of the labor force.”

(c) Raise more — and more productive — children. There are no limits in Peterson’s philosophy. He is, however, aware that pronatalist policies have been notably unsuccessful, and that they raise many questions about privacy and civil liberties. His choice — while admitting that the demographic returns will not be immediate — is to make children more productive. He puts particular emphasis on those “societies that have been hit hardest by changes in family structure and that have the weakest traditions of public involvement in child welfare … the English-speaking countries in general and the United States in particular — that affluent superpower whose youth indicators on infant mortality, poverty, nutrition, functional illiteracy, math and science test scores, drugs, and crime often define the outer edge of pathology for the developed world."

(d) Stress filial obligation so as to be able to rely more on children to help support their parents. The means Peterson proposes to this end for Western societies are "creating and expanding tax incentives and social services (like respite care and assisted home care) that help hard-pressed working families tend to the needs of their frail parents.

(e) Target benefits on the basis of financial need.

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This could be done by, e.g., imposing a comprehensive means test on all retirement benefits, lifting the caps on payroll taxes, eliminating cost-of-living adjustments above some minimum benefit, or making benefits fully taxable.

(f) Require people to save for their own old age by substituting fully funded private programs outside government reach for the current, in Peterson's view, essentially unfunded pay-as-you-go programs from which governments have taken funds for other than pension uses. These fully funded programs would be compulsory for all but the self-employed, closely regulated by government, and shored up by a minimum safety net provided out of taxation. During the transition to a genuinely funded system, the economy as a whole would have "to save more and consume less" because workers would be funding their own retirements while simultaneously continuing to pay for their parents' retirements and closing the fiscal gap in the existing system. As the transition progressed — and it could take place slowly or rapidly — they would eventually be paying only for their own retirements. In Peterson's view, "transitioning to a funded and mandatory system of personal retirement accounts is probably the most essential strategy of all." Certainly it is necessary to have a higher rate of saving and full funding — for all the reasons Peterson mentions. But one worries that, with a private system, too much would depend on having a sound private economy, and too much be lost to administrative costs and inefficiencies associated with private profit-making. And what might be the effects on inequalities of wealth: would a private, profit-making system maintain, increase, or decrease them?

Most of Peterson's proposals would be parts of any rational well-administered program, government or non-government. As Peterson contends, the essential element is maintaining full-funding. My own guess, however, is that (Peterson possibly to the contrary) this can be ensured more readily — and at less cost and greater possibility for social gain — by a stable democratic government than by a plethora of private profit-making institutions. TSC