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A Graying World

The Dangers of Global Aging

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The ills of old age have always interested poets and philosophers, but until quite recently they did not interest governments. For most of human history, the elderly have comprised only a tiny share of the population. In the days of Hammurabi, Julius Caesar, or Thomas Jefferson, the odds of a random encounter with a person aged 65 or over were about one in 40. Older people mostly lived with their extended families, where they were integrated seamlessly into the economic and social life of the community. This pattern began to change during the 19th century, starting in the developed world. The growth in the number of elderly--together with industrialization, urbanization, and the breakdown of the extended family--turned "old-age dependence" into a social problem. Governments responded by establishing old-age benefit programs that, over time, were supplanted by universal social insurance for the aged. Meanwhile, society came to regard aging as a health problem, a progressive decline in function analogous to a debilitating and ultimately fatal disease. It is this view that justifies the elderly's claim to a large portion of government budgets, and it explains why voters in most countries believe that all benefits to the elderly are as sacrosanct as national health insurance. Most gerontologists reject this view, however, arguing that health is an age-related norm. But, this idea no longer has much popular appeal in the now-affluent developed world. Societies in which old people seek hip replacements and organ transplants and spend freely on Viagra and human growth hormone are not societies that accept declining biological capacity as natural and inevitable.

Very soon, however, most societies will have to change course. The world now stands on the threshold of a great demographic transformation with few parallels in human history. When this transition is complete, our children and grandchildren will live in societies demographically older than any we have ever known. The odds of meeting a person over age 65, once one in 40 and today one in seven, will climb to one in four in the developed countries by the year 2030. If fertility rates do not rise again, the median age in these countries will reach 51 by 2050. In Germany, the median age is projected to reach 53; in Japan, 54; and in Italy, 57. By way of comparison, the median age in Europe today is 38; and in Africa, it is 18.

Demographic aging is the most economically consequential health issue the world will face over the next century. National budgets and economies will come under pressure as growing numbers of aged persons must be supported by relatively fewer younger persons. How can the developed countries prepare for this challenge? At the most fundamental level, there are only two options. Societies can reduce the future old-age dependency burden by increasing available resources--that is, by pursuing policies that increase the size and productivity of tomorrow's working-age population. Or they can rethink the private attitudes and public policies that now equate old age with a loss of health that somehow entitles the elderly to government spending.

The Challenge of Global Aging

While the whole world is aging, some countries will grow older much sooner than others. In the developed countries of Western Europe, North America, Japan, and Australia, the elderly already comprise 15 percent of the population; the former Soviet bloc countries of Eastern Europe are just as old. By the year 2030, the proportion of the elderly in the developed world's population will near 25 percent and in some countries will be closing in on 30 percent.

In the developing world, the urgency of the aging challenge differs greatly among regions. In Africa, the Middle East, and Central Asia, aging poses few direct challenges for the foreseeable future. These countries have the world's highest fertility rate, at just over five lifetime births per woman, and the lowest life expectancy, at about 50 years for sub-Saharan Africa. Overall, fewer than one in 20 inhabitants are elderly, and of these fewer than one in ten are covered by any formal pension system. The great majority remain semi-employed in traditional kinship groups. Even in the more affluent Islamic societies, large and loyal families are still the primary old-age insurance policy.

The rest of the developing world--South and East Asia and Latin America--includes some 3.5 billion persons, or 60 percent of the world's population. Unlike Africa, these countries have experienced swiftly growing life spans and astonishing fertility-rate declines over the past few decades. Since the late 1960s, the fertility rate in Mexico has dropped from 6.8 to 2.8; in India, from 5.7 to 3.1; and in China (with its one-child-per-family policy), from 6.1 to 1.8.

Although these countries will remain much younger than the developed countries for decades to come, their populations are actually aging faster. In France, for example, it took over a century for the elderly to grow from seven to 14 percent of the population. South Korea, Taiwan, Singapore, and China are projected to traverse this distance in only about 25 years. This rapid aging is already preoccupying leaders, who realize that they will have to face developed-world dependency levels without developed-world affluence.

Timely reform will also not be easy in developed countries where demographic aging is already so advanced and where government old-age programs are so large and well established. How these countries confront this problem will have vast implications not only for their own futures, but also for those of developing countries. Any reform approach must overcome widespread public denial. In Europe, where the welfare state is more comprehensive, the public regards generous old-age benefits as the very cornerstone of social democracy. In the United States, the problem is not so much welfare-state dependence as the peculiar American notion that every citizen has personally earned and therefore is entitled to whatever benefits the government happens to have promised. A successful reform approach must therefore go beyond fiscal sacrifice and adopt an entirely new paradigm of aging that is adequate, affordable, and politically realistic in a rapidly graying world.

Unsustainable Projections

Graying means paying. According to the Organization for Economic Cooperation and Development (OECD), between 1995 and 2030 the average bill for public pensions in the developed world will grow by over four percent of gross domestic product (GDP). In nations that have the most generous pension systems or that are aging the most rapidly--for example, Japan and the countries of continental Europe--the extra cost will amount to over six percent of GDP. In the United States, the extra cost will be less, at about 2.5 percent of GDP. Britain and Australia face no significant cost growth, in part due to their modest pension benefit formulas and to new, personally owned savings programs that allow future public benefits to shrink as a share of average wages.

Yet pensions are not the only public costs that rise as populations age. Public-health benefits could turn out to be an even bigger burden. Not only are health costs rising faster than GDP, but the elderly consume three to five times more health-care services per capita than younger people. Moreover, the older people are, the more they consume, and it is precisely the population of the oldest of the old that will be growing most quickly. By 2050, in 13 countries people aged 80 and over will comprise at least 10 percent of the population. In Italy, the share will be 14 percent. By way of comparison, the world leader today is Sweden, with a mere five percent. This "aging of the aged" adds an extra multiplier to the burden of global aging, since virtually every measure of dependence and health-care expense rises with increasing age: not just more doctor and hospital visits, but more home health aides and nursing home beds.

It is of course possible that tomorrow's elderly will be stronger and freer from disease than today's elderly. Aging experts who take this view argue that we can expect health spans to lengthen along with life spans and that, eventually, we may see the ills of old age relegated to a brief and relatively inexpensive period of declining vigor at the very end of life. Other experts, however, assert that the main effect of ongoing medical advances, especially among the very old, is to postpone death without restoring people to full health. According to what is sometimes called the "failure of success" hypothesis, lengthening life spans will be accompanied by a rising incidence of disease, from diabetes and hypertension to arteriosclerosis and Alzheimer's.

Whichever medical model proves correct, the cost of at least one type of health care--long-term care--is sure to rise at least as fast as the number of the very old. Over the next few decades, the number of family "caregivers" available to help each dependent elder will decline steadily, increasing the time and money burden on mature adults and putting extra pressure on governments to pick up the slack. Today's midlife adults are typically able to share the task of taking care of aging parents with their siblings. But when they, in turn, grow old, they will be much more likely than today's elders to have had only one child or no children--or to have been widowed, divorced, or never married. What happens to families will thus have an enormous impact on health-care costs a generation from now.

Stir these multipliers together, and the likely cost trend is explosive. If health-care spending per capita grows just one percent faster per year than the average wage--a conservative assumption--public health benefits will rise by six percent of the typical developed country's GDP between 1995 and 2030. All told, the cost of public retirement benefits--pensions and health care--is on track to rise by between nine and 16 percent of GDP in most of the developed countries. This vast increase is three to five times what the United States currently spends on national defense and the equivalent of 25 to 40 percent of workers' taxable wages.

The massive challenge of global aging leaves the developed world no easy options. Deficit financing will not work. Government borrowing to pay for projected pension deficits alone would consume all the savings of the developed world by the 2030s. Cutting other public spending will not work. So great is the projected growth in retirement benefits that many governments could eliminate all nonbenefit spending (from defense and infrastructure to police and schools) and still run deficits by the 2020s. Raising taxes will not work. Most developed countries are now at or beyond their threshold of efficient taxation, and many European leaders warn that higher tax rates will slow the economy more than they will raise new revenue.

A New Paradigm of Aging

The developed countries must move toward a new paradigm of aging, one that is every bit as revolutionary as the demographic transformation they are facing. The objective of this paradigm is to make aging both more secure for older generations and less burdensome for younger generations. It can be implemented through policy reforms that fall into six basic strategies, each promising significant fiscal and economic payoffs.

First, reduce elder dependency by encouraging later retirement, longer working lives, and lower barriers to elder employment. Governments everywhere, especially in continental Europe, could generate enormous savings, without lowering elder living standards, by raising the eligibility age for public pensions.

Second, increase the size of today's economy and tax base by encouraging more work from the nonelderly--either by getting more working-age citizens to work or to work more, or by increasing the inflow of working-age immigrants. Nations with low immigration and relatively few women in the labor force (e.g., Japan) or with high labor costs and high unemployment (e.g., Germany) would be well advised to consider this "American" strategy.

Third, increase the size of tomorrow's economy and tax base by raising more productive children so that the cost burden is spread over a larger and more affluent rising generation. The Scandinavian and French tradition of generous public funding for pronatal incentives and investment in children is likely to spread to other countries, in part as a response to worries about population decline.

Fourth, reduce the fiscal cost of elder dependency by stressing filial obligation--that is, increase the willingness of tomorrow's grown children, however numerous or productive they are, to support their own elderly parents through informal and familial channels. Societies in which the extended family is weakest, elder poverty is highest, and long-term care costs are rising the fastest (e.g., the United States) have much to learn from countries such as Japan, where most elders still live with their adult children.

Fifth, reduce the fiscal cost of elder dependency by targeting benefits on the basis of financial need. Though Australia is now the only developed country where all public pension benefits are means-tested, many other countries may eventually return to this "floor of protection" strategy.

Sixth, reduce the fiscal and economic cost of elder dependency by requiring people to provide in advance for their own old-age dependency--by saving and investing more of their income earned while they are active in the work force. Britain, Australia, Chile, and Singapore are showing the developed world that there are many different ways to move toward this kind of funded retirement saving.

A number of these strategies will not only help overcome the resource challenge of global aging but will also lead to large economic gains for future generations, including faster growth in labor productivity and a higher standard of living for all age groups. On the other hand, many of the strategies will be quite difficult to implement. Some, like later retirement or adjusting benefits according to need, will challenge popular expectations. Some, like pronatal policies and stepped-up immigration, will trigger cultural and social controversy. Some, like investing more in children, may require more patience and wisdom than most governments now possess. And practically all of the strategies will be more acceptable in some countries than in others.

Stressing filial piety, for example, will be easier in Asia than in North America, while mandatory savings accounts will appeal more to North Americans than to continental Europeans.

Setting Limits on Health Care

Even if these six measures are successful, however, global aging may still impose an unsustainable fiscal and economic burden unless the developed countries confront the special and especially daunting problem of how to set limits on health care. This will require a sensible redefinition of just what "health" means for an aging population.

Health spending is not growing at its present pace due to the proliferation of useless medical services. It is growing because of the continuous introduction of new technologies and treatments that are beneficial but expensive. And the pace of innovation may be accelerating. Pointing to an enormous wave of medical research now on the horizon, health technology expert William Schwartz insists that few governments have any idea of what is about to hit them. "Everything that's happened up to now in medicine is a prelude," he reports. "What's really ahead is stunning. It's going to be very expensive."

"Health," moreover, is not a fixed target. It is a subjective standard that has risen over time as society has become more affluent, less tolerant of risk and discomfort, and more prone to see happiness as the ultimate goal of life. This rising standard has interacted with medical advances to transform the practice of medicine. While health care once meant an occasional visit to the doctor, it has today become a lifelong process of diagnostics and fine-tuning in which any extra dollar is likely to confer some benefit.

Global aging will compel the developed countries to answer some difficult questions. Is health care a right of citizenship to which every person must be guaranteed unlimited access, or is it something more like food or housing, for which the government simply establishes a floor of protection? As the pressure on public health-care budgets grows, the second view may gain more support. Governments must eventually recognize that at some point it is less important to spend another dollar on health care than to spend another dollar educating children, investing in infrastructure, or cleaning up the environment. But at what point will the limit be drawn--and who will draw it? Should cost or probability of survival matter? What about "bad" genes or risky lifestyles? In short, who lives, who dies, and who decides?

Societies will differ in how they set limits on health care. In Europe and Japan, where patients are accustomed to deferring to their doctors and complying with government health-care standards, reform may require less public debate. Limits will be set implicitly as providers try to allocate scarce resources within fixed overall health budgets. A more rights-oriented society like the United States would never find such an approach acceptable. Some believe that only explicit guidelines will satisfy Americans' traditional sense of fair play. It is far from clear how these dilemmas will be resolved. One thing, however, is certain. No aging society can avoid the dreaded "R-word"--rationing. Whether implicitly (through market prices or professional discretion), or explicitly (through government regulation), access to publicly funded health-care benefits will have to be rationed.

Rising above Ideology

Global aging will become the transcendent political and economic issue of the 21st century. By the year 2015, according to UN projections, over one-third of Western Europe's adult population will be at or beyond today's eligibility age for publicly financed retirement. No later than 2035, East Asia will pass the same demographic benchmark; by 2055, South America will as well. So we must ask: As global aging progresses, who will be doing the work, paying the taxes, saving for the future, and raising the next generation?

These questions are less urgent in the developing world, where the aging trend is delayed and where government pension and health-care programs are less entrenched. These countries have time to overhaul their social-insurance programs before they reach maturity by, for example, substituting funded pensions for pay-as-you-go financing and thus avoiding some of the dilemmas facing their older, more affluent neighbors.

In the developed world, however, the demographic transformation no longer lies on the horizon. It has already arrived and is about to redirect world history, perhaps in unpredictable ways. How will global aging restructure the economy as many nations with shrinking workforces experience a long-term stagnation or decline in their real GDP? How will it affect global financial markets and regional economic unions like the European Monetary Union as different nations respond to the aging challenge with divergent benefit reforms and fiscal policies? How will it transform attitudes toward progress and posterity--as young people become less numerous and influential a lobby? How will it influence the geopolitics of the next century and the capacity of the great powers to maintain their security commitments--as today's global divide between rich and poor nations is redefined as a divide between older nations with shrinking populations and younger nations with still expanding populations?

Before taking effective action, leaders must rise above ideology and engage the practical realities. The political left must stop defending the expansion of retirement benefits as the cornerstone of progressive government and realize that they are fast pushing all future-oriented spending out of public budgets. The political right will have to move beyond a program of mere fiscal restraint and offer a coherent blueprint for how society will cope with tomorrow's vast number of elders. The new paradigm of aging that emerges must repeal the assumption that old age itself is a health problem, an assumption that can only lead to the conclusion that the government must spend whatever it can to provide a solution. Unfortunately, the government can never spend enough because old age can never be cured. Nations that do not repeal this assumption are heading for fiscal catastrophe.

Is demography destiny? Is the rapidly aging developed world fated to decline and cede its leadership role to younger and faster-growing societies? If history is to record that the answer is no, the developed world will have to redefine its role around a new mission: to show those younger, but more tradition-bound societies, which will soon be aging in their turn, how a world dominated by the old can still make room for youth.