

The Impact of Ageing Populations: Summary

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Demographic trends and the rise in ageing populations are affecting the outlook and policy choices for much of the world, with large numbers of those born during the post-war 'baby boom' set to retire in the near future and lower birth rates pointing to a shrinking workforce shouldering the cost of supporting larger numbers of retirees. It is estimated that over-65s will account for 29% of the EU population by 2050, and for 30% of the Japanese population by 2030; the total population is set to decline in both, and the working population at an even faster rate. Although other areas such as the Americas and Africa are set to see population growth, falling birth rates and greater life expectancy will also shift the demographic balance (and indeed, some rise in longevity and affluence could lead to an increase in health problems associated with the developed world in parts of the developing world).

The following experts took part in a conference call on this topic:

Professor Sarah Harper, Contributor, *Oxford Analytica*
Director of the Oxford Institute of Ageing

Dr Adam Dixon, Contributor, *Oxford Analytica*
Lecturer in Human Geography, Bristol University

Dr Arthur Alexander, Contributor, *Oxford Analytica*
Visiting Professor, Georgetown University

Dr Reiner Klingholz, Contributor, *Oxford Analytica*
Director of the Berlin Institute for Population and Development

Panellists' opening remarks focused on the global ageing debate, pensions reform, ageing in Japan, and European responses.

Global ageing debate

Global ageing should be viewed not as only a tremendous growth in the number of older people, but as a general shift in demographic balances. This is because 'structural ageing' implies not only an increase in the global percentage of older people, but also a rapid fall in young people. Thus, the debate can be framed in terms of a shift in resources from societies which have predominantly relied on young people to drive economies to societies in which roughly half of populations will be over 50 and about a quarter of the developed world over 65, and about a quarter of Asia over 60.

It is important not to concentrate on 'absolute ageing', that is the absolute numbers of older people that can be expected over the next 40 to 50 years: probably 1.5 billion across the globe in about 20 years, 700 million of which will be in Asia. Rather, attention should

be given to 'structural ageing'. An important method for framing this debate is the concept of maturity, i.e. societies with more older than younger dependents. Europe became mature around the year 2000. Asia will reach the same point by about 2045.

Other important factors to consider are total dependency ratios, rather than exclusively concentrating on elderly dependants. For example, total dependency ratios in the UK between 1950 and 2050 will actually have shifted very little, with a small increase in elderly dependency ratios. Italy and Japan, on the other hand, will undergo a dramatic shift, from societies with most dependents being under 15-years-old, to societies where the vast majority of dependents are old. Within the next 40 years, China will witness a 250% increase in elderly dependants, while a 400% increase may be seen in many South-east Asian countries.

The policy objective for productivity in societies is to increase the number of active, healthy producers. This involves both increasing the number of younger workers and trying to encourage older people to remain in the labour market. For example, it is possible to drop the age at which youth enter the labour market by introducing apprenticeships that allow teenagers to join the labour market, while remaining in training until their 20s.

There are significant global economic implications from the migration resulting from structural ageing dynamics in different regions. Western Europe and the United States have thus far relied on importing human capital from the South in return for economic capital, but this cannot continue over the next 20 to 30 years as Asia and Latin America experience a tremendous fall in their fertility rates. As the effects are felt in the labour market, the availability of importable skills will drop.

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The next important area is health. There will be a change in the chronic disease burden, as societies, particularly in Europe and North America, will need to shift from dealing primarily with acute treatments to coping with long term care and chronic disease. Increasing life expectancies will not result in problems if the elderly are healthy, active and able to produce for most of their adult lives. However, current cohorts of young people as they age over the next 30 or 40 years may develop chronic diseases that were previously thought to be reducing in prevalence. If this is the case, it could come to pass that people in their 50s and 60s may soon have lower life expectancy than their parents.

Pension reform

In the advanced economies of Western Europe, North America and Japan, pension reform has not ended, particularly in those countries with relatively low pensionable ages. If efforts to increase fertility do not work, much policy will revolve around keeping older cohorts in the workforce. This will occur naturally as people come to realise that 30 or 40 years of retirement may be too long and also wish to maintain active lifestyles. Without effective policy reform, poverty in retirement will increase, particularly for low income groups and those that do not have a suitable employment history to have accumulated sufficient wealth.

Pension reform will undoubtedly take place. It is unlikely for massive welfare retrenchment to take place. Instead, the debate will focus not on whether or not to privatise public benefits, but rather *how* to privatise those benefits. For those countries with large public systems, pension reform is likely to develop voluntary systems of payment, whilst those with less generous public systems will likely develop mandated saving systems. This will involve the private as well as public sector. There is a noticeable shift in the developed world from defined benefits for occupational pensions to defined contributions. Unfortunately, most people do not pay enough into defined contribution pensions, and this will ultimately result in low levels of retirement income. One reason for this is that there is insufficient participation, so more auto-enrolment programmes – with the choice to opt-out – are likely to develop. Research has shown that such systems encourage people to save more, although do not solve the difficulty of determining an appropriate amount to save.

Another problem with pensions relates to the governance of retirement income institutions. In the recent financial crisis, several asset management organisations showed themselves to have poor governance structures for dealing with pension funds. If more privatised pension funds are created, the cost of such organisations must be considered, as to reduce the impact of compounded administrative costs in the long term, they should not reach above one percent.

Ageing in Japan

The Japanese population is getting older and there are fewer younger people, due to high life expectancies, fewer marriages and lower fertility. Economic demographers tend to joke that economists cannot explain fertility declines and rises consistently. However, it does appear that fertility might rise with higher incomes, greater female participation in the workforce, and greater contributions by husbands for childcare. All of these issues are problematic in Japan.

According to projections, Japan's population has already peaked, reflecting the last few years, which have seen small declines. Young and middle cohorts are shrinking, while the old cohort is increasing. However, there is some distortion if projected dependency ratios are considered purely on the basis of the demographics. For instance, demographic projections suggest that, while the ratio of working age people currently to dependants is two-to-one, it is expected to soon become one-to-one. However, the profile of those working has changed. The size of the workforce decreased in the early part of the century as younger people stayed in education longer, increased because of demographics in the 1980s and 1990s, and now is slowly declining. This current decline is not as drastic as raw demographics suggest, because females are entering the labour force in greater numbers.

On the other hand, female labour force participation is not as high as in most developed countries, and the positions and opportunities for women do not allow them to realise their full potential. Labour force dynamics will begin to change this, and better female participation in the labour market will facilitate a less severe change in the country's dependency ratio.

The proportion of older males working in Japan is still very high, and this has prevented the dependency ratio collapsing.

Also, older people are not necessarily a net drain on the financial resources of society. In terms of net transfers, older people still contribute through taxes and intra-family transfers; only the over 75 cohort consists of net absorbers.

Possible European responses

Western Europe has no choice but to face a future with ageing, stagnant or even shrinking populations. States must therefore find ways to maintain prosperity and wellbeing not on the basis of growth, but on stability. Therefore, with such unavoidable changes, discussion of European demographics should focus less on numbers and more on human capacity.

Thus, better integration of migrant populations is required, as improving their productivity will prove vital to improving the efficiency of European education and health systems. Public budgets and social security systems will need reforms in order to make them 'demography-proof'.

Europe, with its wide variety of cultures, concepts and ideas, already has many models for dealing with such challenges. All the same, it is apparent that some European nations are better prepared than others. For instance, prospering economies such as Switzerland and the Scandinavian states are coping better on the road to post-industrial status than others such as France, Italy or Greece. Working longer is one of the principal adaptations of this process, but without adequate education, people cannot be expected to work longer. Europe currently faces high unemployment rates among the poorly qualified, and fairly high employment rates in the higher-qualified 55-64 cohort. Therefore, life-long learning – as well as education for the young – will become crucial for all European countries. The participation rates in skill enhancement programmes in Portugal (4%) and Italy (6%) stand in stark contrast to Sweden (32%).

Key discussion points

We seem to be witnessing fertility increases in rich countries. Is this real, can we expect it to continue, and will it have any long-term effects?

Without any doubt, we are seeing minor increases in the total fertility rate. Some of these may be cohort-related. For example, in Europe, there are cohorts that have delayed having children, whilst another may be having children slightly earlier. When these two effects coincide, there is a lag that makes it appear as if the fertility rate is increasing. Migrants have a further distorting effect, as they tend to retain the fertility rate of their country of origin, although such tendencies often only last for one generation.

Involvement in the labour market also plays a role. As mentioned about Japan earlier, introducing women to the labour market alters dependency ratios, but probably reduces the number of children each will give birth to.

It may be the case that European and Asian countries with currently low fertility rates will return to an average approximately at replacement level – just over two children – but they are unlikely to ever return to averages of three or four children per couple. Thus, there is likely to be a levelling out of fertility, but it is probably impossible, and certainly unwise for policy makers to expect and/or rely on fertility to compensate for ageing effects. There are also environmental consequences, so fertility is certainly a cause for concern.

How will ageing affect the nature of innovation, assuming younger workers are more dynamic than older ones? How will it affect career progression in corporations with limited managerial positions?

There are many myths about how energy and innovation are constrained to the young. However, there is research suggesting that creativity and innovation are, to a great extent, related to personality. While some people are at their most creative when they are young, others have different types of creative energy that tends to come out when they are older. The key is education; people must be kept up-to-date with developments in science and technology and have a supportive environment in which people are not perceived – by others or themselves – that older people's creativity is not wanted.

What sorts of jobs will post-retirement populations be most suited to?

Hard physical labour is not one of those categories, but most other things are – teaching, research, and all kinds of office work are perfectly suited to older people. The ability to learn – getting to grips with new things – is open-ended.

Connected to the suitable varieties of employment are age-related physical and mental capacity changes. Within the 50-75 age range, evidence suggests that there is very little linear change, although working environments will need to be adapted. This is remarkably easy to achieve, and the benefits of employing older workers are apparent. One study of factory workers in Germany found that, in five out of eight measures, men in their 50s were more productive than men in their 20s, simply because their experience overrode the effects of any physical and mental decline.

What about ageing in the BRICs (Brazil, Russia, India and China) and other developing countries?

In China, the one child policy has certainly distorted future demographic structures. The drop in the fertility rate of the middle classes throughout South-east Asia and India is also going to have quite dramatic consequences.

China probably cannot raise the standard of skills needed for all its population through education alone, and will increasingly 'cherry pick' the rest of the world for the best skills. Asia is absolutely crucial for understanding demographic changes over the next 20 to 30 years.

How will population structure changes shift saving and investment dynamics, how will this effect the global imbalance problem?

When you look at global capital flows, although there is growth in emerging market investment, it is not as extensive as theory might suggest. For the most part, Europe is

investing in the United States and vice versa, but there is not enough investment in developing countries that have young populations now and may enjoy greater economic growth later on. This is partly because investing in emerging economies is still quite risky so, for the most part, wealthy countries are going to continue investing in each other. As these states will be ageing at the same time, this raises the issue of what will happen in the payout phase, when the baby boomers retire and the pull on private pension systems will be noticeable.

One critical issue is returns on capital. For instance, the United States and the United Kingdom have higher returns on financial flows are higher than other countries. Japan has had an outflow of capital since 1980, which was around the time rates of return fell below those available in Western Europe and North America. The things that drive such rates of return are what have resulted in managers and CEOs in US financial institutions receiving criticism for their 'myopia' and short-termism. Corporate governance in Japan has not focussed on profitability and returns, and have suffered as a result. This will be crucial in the future, and corporate governance is hugely important in that regard.