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The Policy Challenges of Population Ageing

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About the author

Kenneth Howse is a Research Fellow at the Institute of Ageing at Oxford. He previously worked at the Centre for Policy on Ageing and has written about a wide range of ageing issues, including health promotion strategies, the problems of chronic illness and disability, and the place of religion in later life. His interest in ageing began in the late 1980s, when he was a Research Fellow with the Institute of Medical Ethics and worked on rationing problems in health care and the ethics of psychiatric research. Since this time he has retained a close interest in the connection between moral philosophy and social policy research. Recent research includes work on the refusal of social care by older people (for a Medical Research Council project on disability in later life) and the needs of older prisoners (for the Prison Reform Trust).

Foreword

This Leveson Paper looking at the policy challenges posed by an ageing population was specially commissioned from Kenneth Howse with funding from a local Quaker charity. A shorter version was presented at a Leveson Seminar in June 2003 when a multi-disciplinary audience had the opportunity of discussing some of the issues raised by it.

Statements about the implications, and in particular the financial implications, of an ageing population are commonplace. Many have an apocalyptic ring to them, suggesting that we are 'sitting on a time bomb' or facing consequences comparable in scale to those anticipated from global warming. When such statements come from prestigious international bodies such as the Organisation for Economic Co-operation and Development (OECD) they may easily acquire an aura of infallibility.

In this paper Kenneth Howse draws on a wide range of academic research to show that this is a contested area. There is a division between those who believe that the costs of supporting increasing numbers of older people threaten to become impossibly burdensome and those who believe that this threat has been massively exaggerated. Those who take the first view see the problem as primarily an economic one to be tackled by cost containment measures: pension reform, raising of the retirement age, tight control over health and social care expenditure. Those who take the second view tend to have a wider agenda: there is a 'big enough pot' but it needs to be shared more equitably. They advocate greater redistribution of wealth to correct persistent inequalities, the improvement of health and social care services which, by keeping more people healthier for longer, will actually reduce the overall burden, and the promotion of the participation of older people in society, seeing them as a resource rather than a problem.

Although the financial implications of demographic change cannot be ignored (and much of this paper offers detailed financial analysis) these cannot be seen ultimately as economic issues. The key questions are questions of justice. What can older people rightly expect from society? How far should their care fall upon members of their families? In broader terms, where should the balance lie between the generations in terms of paying taxes and receiving benefits? These questions take us beyond economics into ethics and political commitment.

We are grateful to Kenneth Howse for presenting such a wide-ranging survey of both the relevant evidence and the divergent values which contribute to this complex debate.

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1 Introduction

Over the last half-century the populations of all the affluent countries in the world have aged considerably. More people are living longer, and older people make up an increasingly large proportion of the population – to the point where, in many countries, they now outnumber children. Over the next half-century, as the post-war 'baby boom' generations start to reach retirement in 2010–2020, the pace of population ageing will accelerate.

This same process of population ageing is now clearly under way in what are sometimes called 'middle-income' or 'less developed' countries. In Mexico, for example, the ratio of old to young is projected to increase fivefold over the next 50 years.[1] This is rapid demographic change on a large scale. By 2050 the age structure of the middle-income countries will be more or less the same as that of Western Europe now (with about 14% of the population in the 65+ age group). There are also indications that a similar shift in the age structure of the populations is beginning to occur even in the world's poorest countries. Although they will still have relatively young populations in 2050, they will nevertheless have to deal with some of the implications of population ageing.

It is the combination of upward trends in life expectancy with declining fertility rates that causes population ageing. We are not only living longer, but we are also having fewer children – successive birth cohorts are shrinking in size. These days economists and demographers generally describe the phenomenon of population ageing as part of what is called the 'modern demographic transition'. This is the change from a steady state with high fertility and high mortality to a steady state with low fertility and low mortality. The first stage in the transition is marked by declining mortality (increasing life expectancy) and accelerating population growth – fertility remaining more or less unchanged. The second stage in the transition is marked by declining mortality *and* declining fertility; population growth decelerates. This second stage is the main period of population ageing: the proportion of older people in the population increases and the proportion of younger people decreases. Most of the more affluent countries in the world, especially those in Europe, have been experiencing population ageing for several decades, and are well on the way to a new, more aged steady state population. The least developed countries in the world appear, on the other hand, to be on the cusp between the first and second stage of the transition: population growth, which has been very rapid over the last fifty years or so, is beginning to decelerate. The process of demographic change is global. In fifty years time, across the world as a whole, the older and younger populations will balance each other out: there will 101 older people for every 100 people under 15. At the moment, there are almost 3 people under 15 for every person aged 65 or more.

No one who writes about this shift in the age structure of populations doubts that it is a powerful engine of social change, nor that it will continue to be so during the coming century. Certainly there can be no doubt that the growth in the older population has presented policy makers in the UK and other affluent countries with many challenges over the last twenty years or so; and it is widely thought that the effects of this demographic revolution are likely to be considerably more marked in the next fifty years than they have been in recent decades. There is, however, considerable disagreement about the nature of these challenges, especially in the wealthier countries of the world.

Table 1: The changing age structure in the UK

	1950	2000	2050
Total numbers aged 65 yrs+(millions)	5.5	9.4	16.1
% total population aged 65 yrs+	11%	16%	27%
% total population aged 80+ yrs	1.5%	4.1%	10.8%
Numbers aged 65+ for every 100 people aged less than 15 yrs	70	109	227

Source: United Nations 2000

Opinions on this issue tend to fall into two broad camps. On the one hand, there are those who regard population ageing as one of the major problems confronting the economies of the developed and the developing world in the twenty-first century. Seen in this light, it is not, as some people would have it, a cause for unreserved celebration. If increased life expectancy is rightly seen as a massive social achievement, something which marks a large step forward in our collective ability to control our natural environment and social affairs, it does not follow that the changing balance between young and old is not also rightly seen as a cause for concern. What underlies this concern is the threat of an unsustainable or crippling economic burden; and if we fail to avert this threat by making whatever adjustments are necessary, then the achievement of declining mortality will start to seem increasingly hollow. If population ageing has rightly moved out of the shadows of academic debate into the political limelight, it is – from this point of view – because of the concern over economic costs. The point is that the policy implications run much broader and deeper than a concern with the interests and well-being of one section of the population: it is the future prosperity of society as a whole that is at issue. And this is why the threat that the prospect of a shrinking or static labour force and a growing dependent elderly population represents to the economies of developed countries is *the essential challenge* of population ageing. There may be plenty of other issues and problems associated with the phenomenon, but they are all subordinate to this.

The argument, cast in its most abstract form, undoubtedly has a rather brutal ring to it: the increase in the proportion of older people in the population represents an increase in the proportion of people who are unproductive and dependent on others for their support. What is needed to flesh out the argument is of course a detailed account of the magnitude of the threat and the nature of the adjustments that are necessary to avert it.

In the opposite camp are those who argue that population ageing does not represent a serious threat to the flourishing of national or international economies. It is accepted that there are genuine and serious policy challenges associated with population ageing, but none of them come from this quarter at all; the economic case is vastly exaggerated. We can concede that population ageing will cause public expenditure to increase without seeing this as grounds for serious alarm. It is even suggested that warnings about the economic costs of population ageing are best construed as moves in a neo-liberal strategy for dismantling the welfare state. Does this mean then that population ageing is not really a major policy challenge at all? If it does not constitute a threat to the general prosperity, there is no need to consider ways and means of averting the threat, and therefore perhaps no *major* policy challenge. Although this is a perfectly coherent line of argument, the contrast I want to highlight depends on an alternative view of the way in which population ageing constitutes a major challenge for government and civil society. The challenge lies in the fact that the scale of institutional adjustment required by this level of demographic change is not much short of revolutionary – and the significance of population ageing for policy makers will be defined by the nature and content of this social revolution.

Looked at from this point of view, many of the challenges associated with population ageing remain what they were twenty years or so ago. There are many injustices attached to the social position of older people. The challenge is to remedy them, and thereby ensure that older people get a fair deal in societies which tend to deny them resources, rights, and power. In the developing world it is relatively easy to see why this might require large-scale institutional change. The welfare programmes of these relatively youthful societies tend to be geared towards child rearing and young people – and the traditional support networks for older people are fragmenting under the pressures of modernisation. In the more affluent countries of the world the arguments about social justice tend to take a rather different form. After all, older people are not the only group in society to suffer social and economic disadvantage, nor would we expect commentators and analysts who hold these views to pick them out as such. What they are likely to emphasise is the fact that population ageing will increasingly displace immigration as the main 'demographic driver' of social change in countries like the UK. Is it not reasonable therefore that the problem of ageism should occupy the sort of central position in political debate that the problem of racism has occupied over the last 20 years or so? In other words, population ageing is important – or will be increasingly important – because of the part it plays in a broader egalitarian agenda. The position of older people will become emblematic of all the various groups in our society that suffer from disadvantage and injustice. It is not surprising therefore to find that this alternative view of the challenges of population ageing usually appeals to a set of broad egalitarian values which would extend the benefits of social and institutional change to other disadvantaged groups in society. It is the continuing relevance of these values as a source of social criticism that lends significance and weight to the phenomenon of population ageing.

In recent years this broadly egalitarian agenda has been modified in two important ways. Arguments about inequalities in the distribution of economic resources have shifted their emphasis so that the distribution of income within the pensioner population has become a more prominent issue than the distribution of income between pensioners and the working population. The problem of inequality – as it effects the older population as a whole – is now conceived more in terms of status, rights and power than material resources. It is also argued that we should not think of the challenges of population ageing simply as a cluster of problems associated with providing for the needs of a section of the population that is growing in numbers. There is more to it than that. There is a sense in which it implicates the whole of society – and not just because we all grow old. The policy challenges reach beyond the older population to embrace the idea of an ageing society. The sense and point of the criteria we use to distinguish between old and not-old is being eroded. What is at issue here is the way in which social institutions frame and shape the whole of the human life course.

My aim in this paper is not to adjudicate between these opposing views of the challenges of population ageing, and certainly not to pass under review a comprehensive list of issues that have been brought into the public domain as candidates for the title 'social policy challenge presented by population ageing'. The intention rather is to survey the current state of debate with respect to a shortlist of policy challenges selected from among the various issues highlighted by commentators in these opposing camps in order to determine where there is controversy and where there is consensus.

Chapter 2 will summarise some of the issues that arise in attempting to explain why and how population ageing is a threat to the general prosperity. Chapters 3 and 4 will take a more detailed look at pensions and long term care – where the clash of views about the policy implications of population ageing is most marked. Chapter 5 will consider in more general terms some of the key features of the controversy (and consensus) over the challenges of population ageing. What this report offers is an overview of two alternative and competing policy agendas on the medium- to long-term implications of demographic change.

2 Can we afford to grow older?

The problem of escalating costs

In 1999 the prestigious and semi-scholarly American journal *Foreign Affairs* published an article which offers a fairly extreme version of the argument about the economic costs of population ageing. In order to make sure that we are under no illusions about the magnitude of the threat represented by population ageing, the author, Peter Peterson, compares it to global warming.

> Unlike with global warming, there can be little debate over whether or when global aging will manifest itself. And unlike with other challenges, even the struggle to preserve and strengthen unsteady new democracies, the costs of global aging will be far beyond the means of even the world's wealthiest nations – unless retirement benefit systems are radically reformed. Failure to do so, to prepare early and boldly enough, will spark economic crises that will dwarf the recent economic meltdowns in Asia and Russia … Global aging will become not just the transcendent economic issue of the 21st century, but the transcendent political issue as well. It will dominate and daunt the public policy agendas of developed countries and force the renegotiation of their social contracts. It will also reshape foreign policy strategies and the geopolitical order.[2]

According to Peterson, what makes population ageing a problem is the projected cost of welfare and social security provision – public pension schemes and health care, including long-term assistance for people with chronic disabilities. The problem, in other words, arises out of excessive public expenditure commitments. Peterson produces the startling estimate of $35 trillion of unfunded pension liabilities (that is, promises to pay today's workers out of tomorrow's taxes) across the Organization for Economic Cooperation and Development (OECD), which comes out as an extra 9 to 16 per cent of GDP. It is, Peterson thinks, 'unfeasible' to increase tax rates by the amount required to raise this kind of money, and it would be 'disastrous' for governments to try to cover the deficit by borrowing.

> Failure to respond to the aging challenge will destabilize the global economy, straining financial and political institutions round the world … The total projected cost of the age wave is so staggering that we might reasonably conclude that it could never be paid … In all probability economies would implode and governments would collapse before the projections could ever materialize.

For Peterson, and the point is worth some emphasis, the policy challenges that arise out of population ageing are global as well as national or regional. Even if a country like the UK were to find that relatively small adjustments were required to 'put its own house in order', the interdependence of modern national economies would still leave the country open to the repercussions of unresolved problems elsewhere. We can already see signs of the potential regional impact of these problems in, for example, current debate about Germany's position in Europe. Germany's economic problems have implications for the rest of the European Union (EU), and it is certainly arguable that these problems are seriously aggravated by the failure of the German Government to deal with public pension finances.[3] It is precisely this kind of circumstance that lends colour to Peterson's argument that population ageing is a phenomenon of international significance, not just in the sense that it will be seen in every country in the world during the course of this century, but also in the sense that it presents policy challenges which require concerted action by the international community.

Peterson's vision of looming global economic crisis is one of the more recent variations on a theme that has been sounded with varying degrees of urgency since the mid-1980s. Although much of the argument and analysis has been produced by individual experts and has concentrated on the position of individual countries, the issue is also clearly of considerable concern to influential international agencies such as the World Bank, the OECD, the International Monetary Fund and the European Union. The very fact that organisations like these have concerned themselves with population ageing tells us a great deal about the nature of the threat that they wish to avert. It is furthermore important to appreciate the weight of authority carried by the pronouncements of these organisations. They may be wrong, but they cannot easily be ignored or dismissed. On the contrary, they tend rather to intensify the debate, which was indeed what happened in this case, certainly with the publication in 1994 of the World Bank report *Averting the old age crisis*.

As early as 1988, the OECD had warned that action by member countries was needed to avoid what it then judged to be 'unsustainable' fiscal deficits[4], and since then it has maintained the pressure with a fairly steady stream of reports on the various policy implications of population ageing. One of its more recent and relatively optimistic reports on this issue argued that

> Population ageing in OECD countries over the coming decades could threaten future growth in prosperity. Governments should take action now across a broad range of economic, financial and social policies to ensure the foundations for maintaining prosperity in ageing society. While reforms are already underway, much deeper reforms will be needed to meet the challenges of population ageing.[5]

More recently still, the Washington-based Centre for Strategic and International Studies published what it called an Aging Vulnerability Index, arguing that

> … global aging is pushing much of the developed world towards economic and fiscal meltdown. There is still time to avert crisis. But time is running short, and the problem is worse than is generally supposed.[6]

Although the World Bank and the OECD undoubtedly offer a more nuanced view of population ageing than Peterson, they do still share the view that the policy challenges associated with population ageing deserve to be brought into the very centre of political debate because of their implications for the creation and distribution of wealth in society. In other words, they share the view that there is an underlying economic case for reforming the systems and institutions that are designed to support and maintain the well-being of older people. It is likely, in the absence of reform, that an unviably large proportion of the goods and services produced by society as a whole will be channelled to older people.

Demographic dependency ratios and the costs of population ageing

The most common, and at the same time, the most controversial indicators of population ageing are *demographic dependency ratios* (or their inverse, *support ratios*). What makes this particular statistic controversial is that it is readily taken as an answer to the question – what's the problem with population ageing? The point about demographic dependency ratios (DDRs) is that they show the relationship not between young and old, but between the old (or young and old) and the 'population of working age'. Age is being taken as a proxy for economic activity or productivity. It is the change in the ratio of people who are economically inactive to those who are economically active that is seen to be the heart of the problem posed by population ageing.

Statistics on population ageing generally use three different kinds of demographic dependency ratio:

- The total dependency ratio is the ratio of the population aged 15–64 years to the rest of the population, which includes younger people less than 15 years and older people who are 65 years or more. How many people in the 0–14 and 65+ age groups for every 100 people in 15–64 age group?

- The old age dependency ratio is the ratio of the population aged 15–64 years to older people who are 65 years or more. How many people in the 65+ age group for every 100 in the 15–64 age group?

- The youth dependency ratio is the ratio of the population aged 15–64 years to younger people who are under 15 years of age. How many people in the 0–14 age group for every 100 in the 15–64 age group?

In discussions of population ageing the most commonly cited of these three ratios is the second – the old age dependency ratio. All the countries of the developing world have seen their old age dependency ratios increase over the last 50 years – and they will increase even more over the next fifty years. What the old age dependency ratios leave out of the picture are, of course, dependent children. If successive birth cohorts are getting smaller, then there should be a decrease in the ratio of children and young people aged less than 15 years to people of working age. Will this change in the youth dependency ratio not compensate for the old age dependency ratio? The answer is not entirely. Total dependency ratios have in fact dropped slightly over the last 25 years as the 'baby boomers' have grown older and reached working age. As they start to reach retirement age, however, the increase in the older population will more than outweigh the drop in numbers of dependent children. The decline in the youth dependency ratio partially offsets the increase in the old age dependency ratio, but not completely.

In the developing world the picture looks quite different. There are some countries – such as Mexico – which have had considerably higher total dependency ratios over the last 50 years than are projected for Italy in 2050. In all these countries – middle income and poor – it was the high fertility rates that produced the high total dependency ratios (that is, high ratio of dependent children to people of working age), and in all these countries the total dependency ratios are set to drop over the next 25 years. Between 2025 and 2050 they will continue to drop in Africa, but in Latin America and South Asia they will start to increase.

Another statistic on population ageing which is starting to appear with increasing frequency is the *potential support ratio*. This is the reciprocal of the old age dependency ratio. Instead of telling us how many older people there are in the population for every 100 people of working age, it tells us how many people of working age there are in the population 'as a source of potential support' for each person aged 65 years or more. In the UK, between 1950 and 2000 the potential support ratio decreased by about one third from 6.2 to 4.1 (persons of working age for every person aged 65+). Over the next 50 years the ratio will shrink by one half from 4.1 to 2.1. The change in potential support ratios between now and 2050 will be much steeper and sharper in East Asia, Africa and Latin America than in Europe and North America.

What is evident from comparisons like these of population trends in different countries and regions of the world is that there are large and important differences to be taken into account. A great deal of this international variation can be put down to the fact that rich countries have proceeded much farther along the demographic transition than poor countries. These is more to it than this, however.

In the first place, there are substantial differences in the *rate* of population ageing between different countries. The process is moving more rapidly in some countries than others. This is particularly evident if we compare Japan with France or the United Kingdom. Over the 75 years from 1975 to 2050 the UK will see the proportion of the population aged 65+ increase almost twofold – from 14% to 27.3%. In Japan, over the same period, the proportion of the population aged 65+ will increase almost fivefold. Japan is not alone in this, moreover. Whether or not the compression of population ageing into a shorter time span will make for greater difficulties of adjustment is perhaps questionable[7], though it does seem plausible to suggest that these are 'differences which make a difference'. Certainly much of what is written about population ageing in the developing world assumes that this is so.

Secondly, there are fairly large differences among the more affluent OECD countries, and once again it is often argued that these are ‘differences which make a difference’. International comparisons of statistics on population ageing generally show Japan to have the ‘oldest population’ – or rather it will have by 2050. The balance between young and old is projected to swing farther towards the old than elsewhere in the OECD. Western Europe as a whole will have a more aged population in 2050 than either North America or Australia. This is due mainly to the relatively high fertility rates in these countries rather than any differences in mortality/life expectancy (fertility rates in the USA are projected to stay above replacement levels). Russia and Hungary, along with the other transition economies of eastern and central Europe, are projected to have a higher proportion of older people than the USA or Australia. Within Europe, there are several countries which are set to see larger changes in the age structure of their populations than the United Kingdom, most notably Italy and Germany.

Why are dependency (or support) ratios controversial? They are controversial because they are used as the basis for judgements about the positions in which different countries find themselves, as, for example, when it is said that the changing support ratios in the UK are evidence of a *worsening* situation or that demographic projections for the USA (or the UK) are more *favourable* than those for Italy or Japan.

> They dichotomize the population into dependent and independent groups on the basis of a single age threshold, usually the statutory retirement age, and use no information other than age to assign people to a dependent status.[8]

Variations in old age dependency ratios are supposed to tell us something about the relative size of the *economic* burden that the older population constitutes for each person of working age. A projected increase in dependency ratios is taken to imply an increase in the burden on the economically active or independent population. In other words, if the dependency ratio doubles, then each person of working age has to be twice as productive if standards of living (and levels of available support for older people) are to be maintained. As William Jackson and others have pointed out, the problem with dependency ratios lies in their adequacy as summary indicators of the ‘burden of the ageing population’ on the working population: they tell part of the story, but not all of it. They overstate the closeness of the link between age and economic activity, on the one hand, and economic activity and economic dependency, on the other. It seems absurd, for example, to ascribe ‘economic dependency’ to people who may have saved enough income over their working lives to have a much greater degree of financial independence than the typical unemployed person.

The concern that lies behind dependency ratios is the fact that the goods and services consumed by those people who are not economically active has to be met from the productive activities of those who are – just as social and welfare expenditure on people who are economically inactive has to be met through the tax contributions of people in work. What really concerns us therefore is the ratio of workers to the retired population, and this is not quite the same as the old age dependency ratio. What dependency ratios leave out of account are labour participation rates – and these may vary considerably between different countries and within the same country over time. In the UK, as in other European countries over the last 50 years, female participation in the labour market has increased enormously. Projections of dependency ratios assume, however, that female labour participation rates will remain unchanged (just as they assume that labour participation rates in the 55–64 year old population will remain unchanged).

Over the last 50 years, old age dependency ratios have increased by about 50% in the UK. They are set to double over the next 50 years. If we put to one side offsetting decreases in the youth dependency ratio and uncertainties about labour participation rates, it is still far from clear what inferences we should draw from these changes. If the country has adjusted, without undue strain, to a 50% increase in ODRs in the last 50 years, why should it not adjust just as happily to a 100% increase in the next 50 years? Should we be concerned about the size of the change over this period – or the absolute level that will be reached at the end of it? The answer presumably is that both figures *may* give cause for concern (and indicate the need to make policy adjustments), but that neither figure, by itself, can tell us whether or not the situation is 'unsustainable'.

What is needed, therefore, to complete (and correct) the picture outlined by dependency ratios is a lot of detail about the economic and policy background in the countries for which the figures are being supplied. In most European countries, with their relatively generous welfare programmes, it is the prospect of substantial increases in the tax burden on the working population that feeds concern over the unsustainability of present policies and programmes. Increasing dependency ratios tell us that *other things being equal* the tax burden on the working population will increase, and by themselves they do not tell us much more than this.

By combining projections of increases in dependency ratios with information on social expenditure for older people (which varies considerably between different countries), it is possible to estimate the effect of population ageing on the 'financing burden' per person of working age. OECD estimates made in 1988 for the period 1980–2040 show just what large differences there are between the 12 major OECD countries.[9] The projected increase in the financing burden per person of working age is five times higher in Germany (54%) than in the UK (11%). Even for Germany, however, the growth rate in real earnings that would be required to absorb the effects of demographic change appeared to the OECD to be 'quite manageable when spread evenly over the 60 year projection period'. In other words, the growth rate in real earnings that the OECD countries have seen in the past 50 years gives reasonable grounds for optimism over their ability to absorb the increased costs of social and welfare programmes for older people. There was, however, one very important caveat to this judgement: it assumes that per capita benefits (especially pension benefits) within these programmes are held constant in real terms.

> The implication of this assumption is that a substantial gap would be allowed to develop between the living standards of the working population and the levels of benefits provided in social programmes … Clearly it is unrealistic to assume that benefit levels can be held constant in real terms over a long period of time. In the past, average benefit levels have generally risen as fast or faster than productivity.[10]

There are two important conclusions that we should draw from this. Firstly, the devil is in the detail. To the extent that the argument turns on the public expenditure costs associated with population ageing, it matters a great deal whether any projected increase in the fiscal burden is relatively large or relatively small. Secondly, to borrow the title of a recent US report on this matter, 'demography is not destiny'. The future costs of social programmes for older people will be determined by other factors besides population ageing, and it may even turn out that these factors have a greater impact on costs than demography. Policy choices matter – and so do the unit costs of programmes offering health and social support to older people.

The UK and the rest of the OECD

Various OECD reports have consistently affirmed that the UK looks to be in a relatively favourable position as far as the costs of population ageing are concerned, and a recent attempt to rank major OECD countries by their vulnerability to the fiscal pressures of an ageing population concluded that the UK, the USA and Australia were the least vulnerable on a number of counts.

Total public spending on benefits to older people in the UK is projected to rise about 50% between now and 2040 (from 12.1% of GDP to 17.6% of GDP) – a considerably smaller increase than will be seen in most other OECD countries. Italy, for example, already spends 17.3% of its GDP on public benefits for older people – and this figure is projected to rise to 32% by 2040. Nor is the overall tax burden in the UK so high as to deny the government 'fiscal room for manoeuvre' in its efforts to accommodate spending increases. The older population is also relatively independent of public benefits for its income in later life, which means that the government would be less likely (compared say to France or Germany) to face serious political opposition if it tried to reduce their generosity.

Population policy

It is a natural consequence of considering the statistics of population ageing apart from the economic and policy background that population policy – government efforts to influence population trends – should present itself as one possible response to population ageing. If further increases in old age dependency ratios are thought to be problematic in themselves, why not adopt policies which aim at preventing these changes in the age structure of the population? There are two main levers that the Government might try to pull as a way of influencing the age structure of the population. They could try to encourage increased fertility; or they could try to encourage increased immigration.

In 2000 the United Nations published a report estimating the numbers of migrants that would be needed in various countries[11], including the UK, in order to achieve three different population outcomes:

- keeping the total population constant;
- keeping the working age population constant;
- keeping the old age dependency ratio/potential support ratio constant.

To keep total population constant in the UK (at around 59 million) would require average net inflows of approx 100,000 migrants per year in the second quarter of the century (which is when the total population level would start to decline). To keep the total working age population constant would require slightly larger average net inflows of 130,000 migrants per year. Since current net inflows are in fact larger than this, both these policy aims would seem to be easily achievable. To keep the potential support ratio at its 1995 level of 4.1 people of working age for every person aged 65+ years is not so easy. This would require average net inflows of over 1,000,000 per year over the same period, which would of course lead to very substantial increases in total population. As a policy aim this seems entirely unrealistic. The UK, after all, has never experienced net inward migration of over 200,000 in any one year. The calculation was not intended as a recommendation to policy-makers, however; it was a projection, an attempt to fill in the detail of one possible scenario. (The absurdity of this particular policy aim is amply demonstrated by calculations for Korea in the same report. If Korea were to use immigration as a mechanism for maintaining support ratios at their current level, it would require would net inflows of 100 million per year – which would give it a total population of more than 6.2 billion in 2050!)

Besides, even if the UK were to receive unprecedentedly massive *constant* net inflows of population and the new migrants provided a satisfactory short-term boost to elderly support ratios, these same would still eventually fall. And in the long-term they must fall for the simple reason that migrants grow old as well.[12]

The age structure of the population is much more sensitive to likely variations in future fertility than future net migration. Projections from the Government Actuary's Department show that changes in migration assumptions have a relatively minor impact on support ratios when compared with changes in fertility assumptions. A long-term fertility rate of 2.0 children per woman (the projection assumes a rate of 1.8) would produce much the same support ratio in the year 2100 as a net annual immigration of 0.5 million people per year – but with a total population of 75 million rather than 120 million.

Fertility rates in the UK have halved in the hundred years since the 1901 census. Average family size is shrinking. The cohort of women born in the mid-1930s had an average of 2.5 children per woman (the 'baby boom generation'). Since then average family size has been in steady decline, and the latest population projections assume that it will flatten out at about 1.8 children per woman for women born in or after the mid-1970s, which is well below replacement levels for the UK population. The UK, though, has by no means the lowest fertility rate among the countries of Western Europe. Italy, Sweden and Germany, for example, all have considerably lower rates – at around 1.2–1.3 children per woman.

The UK government position on population policy

The United Kingdom government does not pursue a population policy in the sense of actively trying to influence the overall size of the population, its age structure, or the components of change except in the field of immigration. Nor has it expressed a view about the size of the population, or its age structure, that would be desirable for the UK….The prevailing view is that decisions about fertility and childbearing are for people themselves to make, but that it is proper for government to provide individuals with the information and the means necessary to make their decisions effective.

Strategies for cost containment

If we suppose (or fear) that population ageing is likely to result in potentially unsustainable increases in the cost of providing support and care for the older population, then the main strategic aim of policy reform in this area (other than the attempt to minimise the increase in dependency ratios by population policy) will be cost containment. In the words of the 1988 OECD report, 'the relationship between increases in real per capita social benefits and increases in productivity will have a major impact on the evolution of the financing burden'.

Although there are three kinds of provision that are usually taken into account when attempting to calculate public expenditure on support and care for older people - pensions, health care and long term care – detailed proposals for the reform of social and welfare expenditure on older people have mostly concentrated on pensions; and there are good reasons for this.

Firstly, in most countries with public pension schemes, pensions take the lion's share of social expenditure on older people (though health expenditure often runs a close second). Secondly, since pensions take the form of cash payments to older people, it is relatively easy to identify workable mechanisms for containing increases in pension expenditure. Thirdly, it is part and parcel of the nature of pension schemes to make commitments or arrangements *now* for the payment of income in the future – 20 or 30 or 40 years hence. It is reasonable, therefore, to argue that we should ensure that commitments made 'today' for the payment of income to 'tomorrow's' pensioners will be affordable when the time comes to make the payments. In other words, the case for acting now to avert future (fiscal) problems is stronger with public pensions than with health care or long term care.

Fears over escalating health care costs are in some respects analogous to fears over future pension costs, though there is one very important difference. Even if it is accepted that population ageing is a major factor driving up the demand for health care and hence also health costs (as the prevalence of ill-health increases steeply with age, so does the need for both chronic and acute health care, especially among the 'older old'), it is not at all clear what the appropriate policy response might be. Although there is plenty of discussion in the academic literature about the justifiability of explicit age-based rationing in health care, all the political pressure on this matter is pushing the other way – towards the dismantling of policies and procedures that tend to institutionalise age-based rationing. In other words, proposals to adopt age-based rationing as a way of containing health care costs under conditions of population ageing are not under serious consideration by policy makers, at least not yet. There is, besides, a fair amount of consensus among health policy analysts that new technologies and drug therapies – rather than population ageing – are the most important factors driving up health expenditure. Although cost containment is undoubtedly high on the agenda in all health services in the developed world, strategies for reform tend therefore to focus on the possibility of increasing the efficiency and effectiveness of the overall system rather than picking out one segment of the population.

The prospect of large increases in the 'older old' population that lies behind worries over health expenditure is part – but only part – of the worry about long term care for frail elderly people. Ill-health in later life is usually associated with conditions that are degenerative and disabling, leading eventually to the need for additional help with household activities and personal care. Historically, the bulk of personal care and household support for older people in this position has been provided by members of their close family, usually a spouse or an adult child. If we suppose that the next fifty years will see a significant decline in the ability or willingness of adult children to provide this kind of additional help to their elderly parents, then it would seem to be unavoidable that the costs of provision will increasingly fall on formal services, and will have to be met through either public expenditure or private income.

Proponents of cost containment generally push some combination of the following strategies:

- pension reform to reduce future commitments;
- employment reform to increase participation of older people in the work force;
- keep tight rein on expenditure on health care and long-term care;
- moderate the demand for health and long-term care by improving health life expectancy.

An artificial dilemma?

The temptation to represent these problems as a set of connected crises – connected by the phenomenon of population ageing – is clearly hard to resist. The plausibility of arguments like Peterson's (see above) depends very heavily on our willingness to treat looming pension crises, escalating health care expenditure and worries over declining provision of long-term care by families as different, yet connected, aspects of the same underlying problem. It lends weight to the case that what is threatened is something of a different order – a kind of 'economic meltdown' – from the financing difficulties that regularly beset welfare and social security budgets in most of the developed world.

To pose the problem in these terms – to sketch an extreme scenario and ask whether or not the fears it arouses are justified – does seem, however, to make for a rather artificial dilemma. It is surely possible – and may indeed be quite reasonable – to argue that the likely escalation in the overall cost of social programmes for older people requires a policy response now rather than in ten or twenty years' time – without conceding that they threaten to impose on our society a 'crippling and unsustainable' economic burden, or that this is the one overriding and essential challenge of population ageing. Quite apart from the difficulty of reaching agreement about the level at which social expenditure becomes 'unsustainable' (Is this really a matter of expert consensus?), it is surely wrong to suppose that cost containment can only be justified by the threat of extreme fiscal crisis or economic meltdown. This anyway would seem to be the position of the OECD when it argues that reform is justified because population ageing 'could threaten future growth in prosperity'. We know that the populations of the OECD countries expect growing prosperity. Each generation expects to be more prosperous than its predecessor, and it seems only sensible therefore to try to minimise the impact of the costs of population ageing on these expectations. What is desired therefore is a set of reforms that achieve their aims and are fair. And fairness here means making a judgement on the extent to which retired people should share in the costs of population ageing as well as the benefits of economic growth.

It is also possible to argue that most of the world's affluent countries are likely to face serious fiscal problems which will be exacerbated by population ageing but are not really caused by it.[13] Although expenditure on the two big items in the welfare budget – pensions and health – is clearly related to population ageing, and it is equally clear that many affluent countries face serious problems with these programmes, the diagnosis of these problems should not rest content with pointing the finger at changing dependency ratios. It is, for example, much more plausible to argue that Italy and France are heading for a fiscal crisis than to argue that the UK is in this position. Why? Not really because of dependency ratios, or at least not entirely because of dependency ratios. What makes the difference between different countries is not so much their demographic position as the policy choices they have made or to which they seem tied.

3 Pensions and retirement income

Averting the old age crisis

> As we grow old we work, produce and earn less, and therefore need a secure source of income to see us through life. Societies and governments have developed mechanisms to provide income security for their older citizens as part of the social safety net for reducing poverty. But these arrangements are a concern for all of us – rich as well as poor, young as well as old – because the arrangements adopted can either help or hinder economic growth.
>
> Today, as the world population ages, old age security systems are in trouble world-wide. Informal community- and family-based arrangements are weakening. And formal programs are beset with escalating costs that require high tax rates and deter private sector growth – while failing to protect the old. At the same time, many developing countries are on the verge on adopting the same programs that have spun out of control in middle- and high-income countries.[14]

The publication of the World Bank's 1994 report on pensions was important not only because of its provenance, but also because it has set the terms for much of the subsequent debate on the necessity of policy reform in this area. It advanced arguments and made proposals that academic experts and policy makers have felt bound to endorse or reject by way of defining their position on pension reform. Moreover, its concern with the connection between population ageing and pensions reached beyond the 'high income' countries that are members of the OECD to include:

- countries in Africa and parts of Asia where older people still make a relatively small proportion of the population and 'security in old age' depends almost entirely on extended family arrangements, mutual aid societies and other informal mechanisms;

- Latin American and Eastern European countries which can no longer afford the formal pension programmes that were introduced decades ago with liberal early retirement arrangements and generous benefits.

The World Bank is as much concerned to forestall emerging problems in poorer countries as to resolve the difficulties of the more affluent countries that belong to the OECD, and it considers the problems in Latin America and Eastern Europe as in many ways more severe than those in the OECD. Their claims about a pension crisis have to be assessed in the context of this kind of global perspective. Different countries find themselves in very different circumstances, which means that the challenges they have to face are also different, and there are some countries no doubt (such as the UK) in which it might seem quite inappropriate to suggest that reforms are necessary to avert a crisis.

- The challenge for countries with poorly developed pension programmes is to move toward formal systems of income maintenance without accelerating the decline in informal systems and without shifting more responsibility to government than it can handle.

- In many countries in Latin America and Eastern Europe the challenge is to devise a new formal system to replace an old one which has more or less clearly failed. The problem is to map out a 'transition path' which is (i) acceptable to the older population who have been led to expect more than they receive and (ii) sustainable and growth-enhancing for younger people.

- Many OECD countries are already implementing reforms that combine publicly managed pension schemes with privately managed occupational schemes or personal savings accounts to satisfy the higher demands of middle- and higher-income groups. The challenge is to introduce reforms that are good for the country as a whole in the long run, even if this involves taking expected benefits away from some groups in the short run.

Despite these differences, however, there is a connecting thread, namely the pressure of population ageing. It is this which justifies the attempt to develop a common analytical framework for different sets of circumstances in different countries as well as the claim for urgency (though of varying degrees) in the need to resolve different sets of problems. Some of the critics of the World Bank's report – and they include other major international agencies such as the International Labour Organization – have taken issue even with this first stage in the argument. Paul Johnson, for example, wonders why the World Bank is so worried about the prospects for ageing populations in the developing world.[15] Why should we suppose that the ability of these countries to cope with demographic change over the next fifty years will be less than that displayed by more affluent countries over the last fifty years?

What makes the difference, according to the World Bank, are three important features of the circumstances of poorer and middle-income countries. Their populations will age much more quickly than those of Western Europe have done over the last fifty years. The sheer number of older people in countries such as India and China also seems likely to create significantly greater difficulties for the formal welfare systems that have to support them. And finally, there is the problem of poverty. Surely the ability of a country to establish effective systems for income transfer to the non-working population is dependent on the overall level of resources that are available for this purpose. Johnson in fact queries the relevance of all of these aspects of the circumstances of the developing world. For him therefore, the World Bank's argument does not even begin to get off the ground.

Nor does he think that demographic change *per se* is likely to be the cause of undue strain on the economic institutions of the wealthier OECD countries. This is not to say that everything is everywhere in order as far as pensions are concerned. Johnson does not deny that there are some countries with public pension systems on the verge of collapse. Their problems are to be explained, however, not by population ageing, but by the design of the public pension schemes in those countries, or perhaps by the health of the economies which underpin the schemes. A similar view is taken by Richard Disney, another leading pension economist in the UK, who accepts that 'public pension programmes in OECD countries are in difficulties', but contests the view that population ageing is the main cause of the problem.[16]

The real heart of the World Bank report does not lie with its historical analysis, however, but rather with the criticisms it advances of so-called 'single pillar' pension systems. The report distinguishes between three different functions of pension systems – saving, redistribution and insurance – and argues that governments go wrong when they combine these functions in one 'single-pillar' system.

- Pension systems are devices for saving some portion of the individual's income until the time of retirement from paid work, when it is spent.
- They redistribute lifetime income from individuals with relatively high incomes to individuals with relatively low incomes.
- And they provide insurance against some of the common risks that threaten the ability of individuals to make effective provision for their own retirement – such as recession, poor investments, high inflation or unexpected longevity.

The World Bank's point is not that all pension systems happen to perform these three functions, but rather that they should all be assessed on the effectiveness with which they perform all three functions. None of this is especially controversial. The Bank acknowledges the importance of the redistributive function of pensions (that is, it is unfair not to channel lifetime income from the more affluent to the less affluent members of the community) as well as the problems of 'market failure' that can undermine the attempts of individuals to save for themselves. The controversy comes with the recommendation to move from single pillar to multi-pillar systems as the best way of ensuring that these functions are performed effectively. The multi-pillar system should include:

- a publicly funded scheme based on a payroll tax with the limited objective of alleviating old age poverty and co-insuring against risks;
- a fully funded mandatory savings scheme;
- a voluntary scheme which would allow individuals to make additional provision for income protection in retirement should they so choose.

In effect, what the World Bank is recommending is a shift in the balance of provision from tax-funded schemes to schemes based on private savings (and in broad terms the stated strategy of the UK Government follows this line of thinking – its aim is that the proportion of pensioner income which comes from private sources should increase from 40% to 60% between now and 2050). The Bank argues that the entire earnings-related component of pensions should be handled through privately managed and fully funded schemes, which is why they say that public pensions should have the *limited objective* of alleviating poverty and co-insuring against risk. It also explains why their recommendations would require substantial reforms in most countries with well-established public pension schemes.

Funded and unfunded pension schemes

Pay-as-you-go pension schemes pay retirement benefits to the present generation of pensioners out of current tax receipts – usually in the form of a payroll tax (like National Insurance) but sometimes also from general taxation. Future pensioners rely on the government's commitment to raise taxes to pay for their retirement benefits as and when they are needed – and most governments will want to cover the cost of current expenditure on benefits by current contributions. The main reason why economists worry so much about the impact of population ageing on public pension schemes is the size of projected tax increases that will be required to keep schemes in balance. In some OECD countries (for example Austria, Italy, Japan, Germany) an additional 10–15% of GDP will be required to meet the costs of benefits.

Funded schemes aim to accumulate assets to meet future liabilities, which is why pay-as-you-go schemes are said to accumulate unfunded pension liabilities. Individual contributions are placed in an investment fund; and what determines the ability of the fund to meet future commitments is the level at which contributions are set plus the return on investment. Funded schemes may be privately or publicly managed (as with the National Provident in Singapore). Some governments (for example the USA) run partially funded pension schemes. A fully funded scheme will aim to accumulate sufficient assets to meet all its liabilities.

Defined benefit and defined contribution schemes

Defined benefit pension schemes promise to pay a retirement income at a certain level so that the individual knows what levels of benefits to expect. Many of the funded occupational pension schemes in the UK are defined benefit schemes (with benefits defined as a fraction of earnings before retirement); and many of the unfunded public pension schemes in OECD countries have an earnings-related component which is a defined benefit scheme. The final amount of the pension paid out under these schemes usually depends on the number of years that the individual has been contributing to the scheme. The flat rate state pension in the UK is also a kind of defined benefit scheme – and here again the level of final benefits depends on the number of years over which contribution are paid.

Under a defined contribution scheme the level of benefit is determined by the value of the assets that have accumulated as a result of the individual's contributions to the scheme. A defined contribution scheme that is fully funded makes no promise that falling returns on investments may make it difficult to keep. If the return on investment falls, then benefits levels are adjusted accordingly. This is why so many UK occupational pension schemes are abandoning defined benefits.

Pension finances in the OECD

The OECD countries that are facing the most serious problems with their public pension programmes are those which provide a substantial proportion of pensioner income through unfunded earnings-related schemes with generous levels of defined benefits. They are in effect single pillar systems – and there is a general consensus that some of them require urgent reform to avoid crisis. The UK is not in this position.

Why should this shift away from heavy reliance on public provision be thought desirable? Because it is the best way of ensuring that formal arrangements for the provision of retirement income will be able to cope with the pressures of population ageing. This kind of multi-pillar system is not only more efficient but fairer than a single-pillar system which funds for retirement income from taxation.

Much of the expert disagreement about the World Bank recommendations has turned on claims about the respective advantages and disadvantages of 'fully funded' and 'pay-as-you-go' pension schemes. The Bank offers three arguments for its recommendation that every pension system should be supported by a fully funded and mandatory savings scheme – and they have all been contested.

- Funded schemes diminish the size of the tax increases that would be required to pay for increases in public expenditure on pensions (as assets are created to match liabilities); it also makes pension costs 'clear up front so that countries will not be tempted to make promises today that they will be unable to keep tomorrow'.[17]

- Funding would reduce some of the undesirable distributional consequences of pay-as-you-go schemes under conditions of population ageing (for example the change in the ratio of workers to retirees means that the workers whose taxes pay for the baby boomers' pensions will pay more in contributions and receive less in benefits than the baby boomers themselves).

- Funding helps to build long-term national savings, which means more money available for capital investment, which in turn promotes economic growth.

What distinguishes the pension system in the UK from the systems in those OECD countries which come under the most sustained criticism of the World Bank and other international agencies is the high level of participation in fully funded savings schemes for retirement. In other words the situation in the UK approximates quite closely to the kind of multi-pillar system savoured by the World Bank.

> We want to encourage people to save and invest. We want to build the savings culture. That is good for individuals. It is good for businesses and it is therefore good for the country as a whole. (From a speech by Alistair Darling, Secretary of State for Social Security)

If the arguments about the problems of unfunded pension liabilities are accepted, what are the alternatives to the kind of reform package advocated by the World Bank? Richard Disney[18], one of the leading pension economists in the UK, suggests that there are basically two other options to be considered for those countries that 'face potentially enormous fiscal liabilities' through their 'unfunded' public pension programmes:

- to tinker with the existing scheme by cutting benefits, raising the pensionable age and trying to increase labour force participation;
- to link entitlements very closely to contributions (by some sort of personal pension account that simulates a defined contribution scheme) while maintaining the unfunded nature of the scheme (as has happened in Italy and Sweden).

Pension policy in the United Kingdom

Up until quite recently, most pension economists writing about the public pension system in the United Kingdom would have inclined to a fairly optimistic view of its ability to withstand the cost pressures of population ageing without overstraining government finances. In this respect at least, the system compared quite favourably with many other OECD countries, and particularly those in Western Europe.

Table 2: Projected spending on public pensions as % of GDP for selected OECD countries

	2000	2010	2020	2030	2040
Australia	4.2	4.3	5.2	5.8	6.1
Belgium	8.8	9.1	11.0	13.7	15.0
Canada	4.9	6.0	8.0	10.5	11.7
France	11.3	12.8	15.5	17.5	18.2
Germany	10.3	9.9	11.2	14.2	15.4
Italy	12.1	13.1	15.2	18.2	20.0
Japan	6.9	9.7	11.3	12.1	14.5
Netherlands	6.5	7.7	9.9	12.3	13.8
UK	6.5	6.2	6.1	6.6	6.5
USA	5.2	5.5	7.4	8.8	9.1

Source: CSIS Aging Vulnerability Index 2003– using OECD data and projections from 2000

What makes the UK system sustainable from the cost point of view is (i) the relatively low level of benefits and (ii) the relatively small proportion of the population covered by the state-run earnings-related scheme. The basic state pension was designed largely as a flat-rate subsistence level scheme to be topped up from various other sources, and what has kept it that way is the decision (taken in 1980) to raise benefits in line with prices and not wages. In 1998/99 the basic pension would provide a retirement income equal to 15% of average male earnings for a single pensioner or 24% of average earnings for a couple. The other main sources of pensioner income are:

- means-tested benefits (more than one in three pensioners in the UK are reliant on means-tested benefits to top up the basic pension);
- occupational pensions and personal pension schemes (about 90% of people in continuous full-time employment have private pensions);

- a publicly managed earnings-related scheme (SERPS replaced by Second State Pension).

The importance of the decision to increase benefits in line with prices can be seen from projections made by the Government Actuary's Department (GAD) on the financial position of the National Insurance Fund over the next 60 years. GAD estimates that the number of contributors per pensioner will decline from 1.8 to 1.3 in the period from 2000 to 2060. On the face of it, this would seem to require a hefty increase in contribution rates to maintain the *status quo*. However, because basic pension benefits are price-indexed rather than wage-indexed and average earnings have tended to increase slightly faster than price inflation, the required contribution rates are in fact projected to decline over the next 60 years.

If the policy of price indexation for the basic state pension is accepted, then the main problem for the UK system is not the overall cost of public pensions, but the fact that some people will have a retirement income that is 'unsustainably low'. It is also likely that income inequalities among the retired population will increase (with the value of the basic pension set to drop well below 10% of average earnings). People with good private pensions will do rather well; those without may retire on very low incomes.

So how does the Government ensure that all of the next generation of pensioners will have an adequate retirement income whilst maintaining the fiscal sustainability of the system as a whole? Although there is a fair amount of consensus that this is what the UK system has to do, there is much less consensus about how best to resolve the two main policy issues that it raises, namely:

- the respective roles of the basic pension and means-tested benefits as a way of guaranteeing that no-one is without an adequate retirement income; and

- the role of 'second-tier' pensions in ensuring that everyone has an adequate retirement income.

The Institute of Public Policy Research provides a good example of a centre-left think tank that disagrees with the Government over the use of means-tested benefits as way of topping up the basic state pension.[19] For IPPR the key question is whether or not price indexation of the basic pension is necessary in order to maintain fiscal sustainability. They think not, and argue that it is feasible to set basic pension benefits at a level which would obviate the need for the kind of complicated means-testing arrangements that are contained in the proposals for the Minimum Income Guarantee (as a top-up for the basic pension). The justification for means-testing is of course that scarce resources are targeted to those who need them most.

> The Government's first priority has been to help those in greatest need. The pattern of pensioner incomes today reflects that of earners. Like

> earners, the richest fifth of pensioners are now three times better off than the poorest fifth. Too many pensioners have not shared in the rising prosperity of the country. (From *Pre-Budget Report 2001: tackling pensioner poverty*)

There are, on the other hand, equally well-recognised disadvantages. There is the problem of 'take-up'. Not everyone who is entitled to means-tested benefits applies for them. And there is also the fact that it is impossible to devise a mechanism for means-testing that does not create disincentives to saving for some people.[20] The essence of the IPPR argument is that the Government can afford to sweep these problems to one side (and be more generous with the Minimum Income Guarantee to boot). A great deal turns, therefore, on their costs projections, which come out at about 6.5% of GDP in 2050. It is arguable, of course, that this kind of universal pension is the best option even if the cost projections turn out to be somewhat higher than this and require corresponding tax increases.[21]

> Old people are off the hook. Social policy's big scare of the last two decades is officially over. In an ageing society spending is not going to rise inexorably. (From *The Guardian*, 3 December 2001)

> Labour [is] blowing away the last vestiges of the ageing Britain scare story that was so enthusiastically published by the Conservatives in the 1980s. (David Walker, *The Guardian*, 4 December 2002)

The principal intended beneficiaries of the argument about the respective roles of the basic pension and means-tested benefits as a way of guaranteeing that no-one is without an adequate retirement income are future pensioners who will retire without any kind of second tier pension – let alone a 'good' private pension. Although the Government recognises that there are some people who are unable to save anything towards a reasonable private pension, they also think that too many people are not saving anything for their own retirement. In other words, they think that there is significant scope for extending the coverage of second tier pensions – and they hope by this means to effect a significant reduction in the numbers of people who will be reliant on means-tested benefits on retirement. Government policy on the encouragement of savings has in fact been very heavily criticised, and for two quite different reasons. Firstly, and most publicly, there are many commentators and politicians who would urge the Government to adopt the kind of *mandatory* approach to private pensions advocated by the World Bank. Clearly though, the move towards compulsion is one that the Government is extremely reluctant to make. Secondly, there are those who wonder whether there is much scope for extending the coverage of second tier pensions to the people with low incomes who are the main cause for concern. People on low incomes have good reason not to save in pension schemes. If they cannot save enough to make much of a difference to their retirement income and they can expect government to come to their aid if they do not save, they would seem to have no good reason to save.

These disagreements about how to handle second tier pensions, important as they are, do not really warrant the claim that there is a looming pension crisis in the UK. To that extent at least, especially if we go with the cost projections that assume a continuation of price indexation for the basic pension, the comments from *The Guardian* would seem to be justified (and it is on these terms that the Government has made a substantial increase in the level of means-tested benefits). There is, however, another aspect to the pension issue which has emerged into prominence over the last couple of years and lends some colour to claims about a rather different kind of crisis.

Pension projections for people on average earnings with private pensions

PricewaterhouseCoopers is one of many large consultancy firms that are keeping a close eye on what is happening to pensions in the UK. They recently published a set of projections for the total pension (public and private) that would be received by various 'typical' individuals retiring at the age of 65 years or 70 years in the middle of this century.

These projections indicate that in the year 2045 a man with an unbroken 45-year work record at UK average earnings and pension contribution rates (a relatively optimistic scenario for most people) is likely to retire at 65 with a private pension of around 30% of his final salary (and therefore of UK average earnings at that time). The basic state pension (assuming that it is still price-indexed) would top this up to around 37% and he would immediately become reliant on means-tested increments from the pension credit to give a total of just under 40% of average earnings. As he gets older he will face a steady decline in his relative income to about one third of average earnings by the time he is 85 years (an age that half of his generation are expected to reach).

The situation is worse for women who take a break from their careers to look after children. They face a 'triple whammy' from lost earnings (and so pension contributions) during career breaks, a probable lower income level on return to work, and a lower annuity rate on retirement. For a woman initially on average earnings in her 20s, her private pension on retirement might be only 60% of that of a male counterpart with the same initial earnings but an unbroken career record. The pension credit will provide some help in bridging the gap provided that women take up their full entitlements.

By delaying retirement until the age of 70 years a man on average earnings (with the unbroken career record) will increase his private pension on retirement to about 45% of average earnings. If, however, he wished to avoid later retirement and bridge the gap by saving more, he would increase his private pension on retirement (at 65 years) to 50% of the average earnings if his lifetime contributions (including employers' contribution) increased by about 40%.

Source: *Live long, die poor? Pension projections for the millennial generation*, John Hawkesworth, PricewaterhouseCoopers 2002.

The worry here is not just that too many people are not saving anything, but also that too many savers are not saving enough. The problem lies with the ability of funded schemes to deliver a satisfactory 'top-up' income in retirement.[22] As life expectancy increases, payouts from funds have to increase (individuals spend more years in retirement and so require more money to fund their retirement) – and when returns on investments are falling this looks like a very serious problem. Certainly this is how it looks to those numerous company schemes that are closing their defined benefit pension plans. Unless 'something is done', a very large proportion of people in the middle of the income distribution will find their retirement incomes 'pushed down' to levels at which they will require means-tested benefits. Not only would this have quite a big knock-on effect on public expenditure on means-tested benefits, but it also represents a serious blow to the expectations of a very large chunk of the population. What people expect to be able to do in their retirement has changed massively in the last ten or twenty years. It is no longer a small minority of the population who expect to carry over some portion of their prosperity and affluence into their retirement.

Maintaining prosperity in later life: the importance of labour participation

> Most adults [now] expect to spend an appreciable fraction of their life in retirement, enjoying relatively good health and a relatively comfortable standard of living.[23]

The current state of equity markets throughout the OECD has made it clear that not too much faith should be placed in the ability of private pension funds to resolve all the difficulties that pension finances are likely to face in the next twenty years or so. This is not to say that the continuing expansion of these funds is not a good thing, but rather that the problem of pension finances needs to be tackled from several different angles at the same time. For the OECD – and a growing number of governments in the member countries including the UK – the outstanding issue here is that of participation in the labour market. As life expectancy has been increasing over the last few decades, the amount of time spent in work (by men) has been decreasing. It is not just that the proportion of the average lifetime spent in work has decreased as the length of the average lifetime has increased – but also that the number of lifetime years spent in work has tended to decrease (among men).

When the British welfare state was set up at the end of the nineteen-forties, the average working life was expected to last for at least forty years. What has happened since then is that more and more people are staying longer in full-time education and more and more people are leaving the workforce before the statutory pensionable age, with the result that it has become quite common to have a working life as short as thirty years. In most OECD countries, however, over the last twenty or so years, total labour participation rates have tended to increase, or at least remain stable. This is because the trend towards declining labour participation among older *men* has been offset by the trend towards more lifetime years spent in work by *women*. The worry is what happens when the baby boom generation start to retire and the labour force starts to shrink. If current trends in the pattern of lifetime employment continue, there will be two major consequences for pensions: firstly, the change will erode the tax base for pay-as-you-go pension schemes, and secondly, it means that individuals will have fewer working years in which to build up private savings for a longer period of retirement.

Changes in pattern of employment in the OECD

In Canada in 1970 the average male spent 44 years in paid work and 26 years doing other things (school, retirement etc). Canada has now reached the cross-over point where the number of years in and out of work are equal. By 2030, if present trends continue, men will spend 35 years in paid work and 44 years not in work. The position for women is quite different. In 1970 women spent 19 years in paid work and 58 years not in work. By 2030 they will be spending 38 years in work and 47 not in work. Canada, like the UK, is close to the OECD average for these figures.

The OECD view is that changes in the pattern of lifetime employment could do a great deal to offset the effects of population ageing. This means adopting policies that will reverse the trend towards fewer lifetime years in employment for men.

Source: OECD (2000) *Reforms for an ageing society*

Since most OECD governments want to extend participation in full-time education as a way of ensuring that their economies have access to the kind of highly-trained workforce required by technological change, the problem of the shrinking amount of time spent in work has to be tackled at the other end of life. The aim must be to encourage continued participation in the work force among older people – rather than earlier participation in the work force among younger people. The development and implementation of policies to reverse the trend towards early exit from the workforce – and to extend the period of life spent in work through later retirement – should therefore be a major priority in any strategy which aims at relieving future problems with pension finance.

Labour participation among older men in the UK is around the average for the OECD as a whole. There are a few countries (Sweden, Norway, Switzerland, Japan, Iceland) where more than 80% of older men are still in the workforce, and several countries with fewer than 45% of older men in work (France, Italy, Belgium, Netherlands, Austria for example).

What is the explanation for declining employment among older men?

- More people are choosing to retire early. 'Each generation is more prosperous than its predecessors, and one corollary might be that people choose to increase the amount of leisure during their lives.'[24] 'The fact that retirement ages have fallen everywhere as real incomes have risen might imply that leisure in later life is a luxury good which individuals consume more of as they become richer, trading off increased leisure against lower material living standards.'[25]

Table 3: Employment, unemployment and inactivity among people of working age (18+) in the UK, 1979 and 1997 (%)						
		All men	Men aged 55–65	All women	Women aged 55–60
Employment	1979	90.8	79.4	60.2	50.9
	1997	80.6	58.3	68.9	5.4
	Difference	-10.2	-21.2	+8.6	-0.5
Unemployment	1979	4.3	3.8	3.7	2.2
	1997	6.2	4.6	3.9	2.2
	Difference	+1.9	+0.9	+0.2	0.0
Economic Inactivity	1979	4.9	16.8	36.0	46.9
	1997	13.3	37.1	27.2	47.4
	Difference	+8.4	+20.3	-8.8	+0.5

Source: Campbell 1999 (from British Household Panel Survey)

- Early exit from the work force may have been encouraged by the more widespread availability of occupational pensions – together with financial incentives to take early retirement. The fact that most occupational pension schemes are salary-related also gives employers an incentive not to offer continuing employment to someone who is quite close to retirement age.

- Older people may be forced out of the workforce by ill-health and disability. Between 1979 and 1997 there was a threefold increase in the number of older people in the UK claiming disability benefits. The Audit Commission has commented on the unusually high proportion of people who take early retirement from local government jobs on health grounds.[26] It is, however, most implausible to suggest that the trend towards early exit from the work force is to be explained by increasing levels of ill-health and disability among older people of working age. All the epidemiological data point in the other direction. Older people are becoming healthier. Some OECD countries are indeed quite explicit about their use of disability benefits as a means of providing financial support to people who leave the work force early for other reasons besides ill-health and disability.[27] One third of people aged 55–64 years in Austria receive disability benefits – where they are equivalent in value to 70% of the average wage.

- Older men may be less employable than younger men either because they are less likely to have the skills that employers require or because they cost more to employ. Older workers are certainly less likely to have formal educational qualifications than younger workers and may also be perceived as harder to retrain. Systems of age-based seniority payments may work against the employment of older people; and it seems likely that most older people would be less productive in some kinds of heavy manual labour.

- As job mobility increases across the whole of the labour market, age discrimination – as something distinct from the application of legitimate criteria of suitability for a job – may make it much harder for older people to find new employment. In an analysis of data from the 1994–5 Family and Working Lives Survey[28], it was found that 5% of people aged 49–64 years believed that they had been discriminated against in one or more job applications because of their age. More recent surveys by both Help The Aged and Age Concern England put the figure much higher than this. It is of course quite hard to interpret this kind of data. As age discrimination achieves more prominence as a public issue, it is to be expected that more older people will attribute their difficulties in finding employment to age discrimination.

In its recommendations for reforms to maintain prosperity in an ageing society, the OECD highlights (i) the structure of financial incentives and disincentives around early exit and (ii) the employability of older workers. 'It is evident', they say, 'that public and private pension schemes as well as income support programmes have made work at later ages less financially attractive.' Legislation on the age at which people become entitled to receive state pension benefits is important, but it is by no means the whole of the solution to what is undoubtedly a complex problem. The OECD would like to see pension systems moving towards what they call 'actuarial neutrality' – so that individuals who work beyond a minimum retirement age receive increased benefits to reflect the longer period of contributions and the (expected) shorter period over which a pension must be paid.

If legislation to raise the so-called statutory retirement age is not to be regarded as a panacea, neither is legislation on age discrimination in employment. The evidence on the significance of age discrimination as a factor in the non-participation of older people in the work force is unclear. The justification for legislation on this issue is that it will remedy an injustice – not that it will make a great difference to labour participation rates among older people.

Reforms to encourage continued labour force participation among older workers are not – and this perhaps is one of the most important points that the OECD has to make – simply a device for averting a potential crisis in the finances of public pension schemes. By adjusting lifetime patterns of employment so that they reflect changes in *healthy* life expectancy, government is helping 'to make active ageing a reality' and 'to achieve a better balance among various income sources to support the fundamental goal of ensuring adequate incomes in old age.' The real challenge, though, is to find some way of resolving the tension between the expectation of increased prosperity in later life and the desire for a more pleasurable and fulfilling retirement. Democratic societies will want to find some way of letting individuals make these trade-off decisions for themselves without jeopardising the general prosperity.

4 Long-term care

Introduction

The way we solve the problems associated with the care of increasing numbers of frail elderly people will undoubtedly be a major public policy issue in the coming century.[29]

The numbers of older people with a level of disability which makes help with personal care or domestic tasks more or less indispensable is projected to increase steeply over the next fifty years. What makes this demographically driven increase in the demand for care appear especially problematic, in rich and poor countries alike, is growing uncertainty and concern about the continuing capacity of family networks to sustain their traditional role as the main providers of long-term care.

In many of the poorer countries of the world, the policy problem resolves itself into a consideration of the ways and means by which this traditional role can be sustained. There is, quite simply, no feasible (or affordable) alternative to a system in which families carry most of the burden of long-term care by acting as unpaid caregivers.[30] The world's richer countries find themselves in a rather different position – not least because an attempt to shore up family caregiving is not the only option for policy. With systems of provision already in place which relieve families of some of the burden of long-term care, they have the option, after all, of simply 'going with the flow' – by using existing systems to provide whatever additional resources are necessary to meet the increased demand for help with personal care and household tasks. Wealthy countries may, however, have various reasons for not 'going with the flow' – which means accepting the case for reform including:

- concern about the overall costs of future provision;
- disagreement about the way these additional costs should be distributed across the community;
- concern about the present unfairness of the system or its ability to cope withincreased demand.

Recent reforms in Singapore, for example, have been driven almost entirely by concern about the future costs of provision[31]; and it is arguable that state provision of long-term care in some European countries is so generous that cost pressures alone are likely to force adjustment on them in 20–30 years time.[32] In Germany, on the other hand, the reforms of the mid-1990s were a response largely to widespread dissatisfaction with the current system; and in the UK it was the conjunction of all three concerns that led to the establishment of the Royal Commission on Long-term Care.[33]

Future demand for long-term care and the problem of costs

The OECD, having expressed considerable anxiety about long-term care expenditure in its 1988 report on ageing policy[34], now takes a fairly relaxed view of the ability of the world's wealthier countries to meet the increased costs of providing long-term care to more older people.

> It appears from the available data that the costs of long-term nursing care are still rather modest, even if they are rising. They are usually less than 2% of GDP in total. A major increase of around 50% in the next two or three decades may hence only increase public spending by around 1% of GDP. With careful planning and adaptation, such an increase should be reasonably met by most care systems, provided that the resulting burden is spread among workers and older people.[35]

Even though the OECD points out that 'careful planning and adaptation' will be necessary to meet these costs, it clearly rejects the view that the main policy challenge presented by long-term care is that of meeting the total burden of costs, arguing instead that the priority is to develop a system that is flexible in its ability to respond to an increase in demand for care and to a wide variety of care needs.

Projections for the UK: the overall costs of care

One of the earliest attempts to quantify the future costs of long-term care in the UK was made by the Institute of Actuaries in the mid 1990s[36], and its conclusions were much less sanguine about the prospects of adjusting the provision to increasing demand than those of the OECD. There seems little doubt that this report was highly influential at the time – if only to the extent that it set alarm bells ringing.

What is immediately striking about the Institute's estimate for the total costs of long-term care is that it is much higher than the OECD's upper limit figure of 2% of GDP. The total bill for 1991 was estimated to be £44 billion, which is 7.3% of GDP – and this was projected to increase to 10.8% by 2031. The reason for the difference is that the Institute's calculations incorporate an estimate for the 'costs' of informal care – what it would cost to pay informal carers for the care they provide unpaid – which was reckoned at that time to be more than three quarters of the total. The cost of formal services (met by public and private expenditure) was estimated to be £10.1 billion – the other £33.9 billion being provided free of charge by informal carers. Why incorporate the costs of informal care into these calculations? The point is not to provide an inflated cost estimate, but to highlight the question that arguably constitutes the main issue for the future: what will happen to the share of the total costs that are currently borne by informal carers?

The report's 'optimistic' scenario assumes that:

- the provision of informal care will expand to meet the increase in the demand for care among older people at the lower end of the disability scale,

- but that formal services will have to expand to meet increase in demand for intensive forms of care by more severely disabled people.

On the basis of these assumptions, the report argues that the proportion of total cost borne by formal services would increase from 23% to 34% (even though the *amount* of care being provided free of charge would increase by 25%) – from £10.1 billion in 1991 to £20.9 billion in 2031. If all of this increase in demand for formal services were to be met through public expenditure, the State would increase its share of provision from 15% to 26% of the total costs, which is a real increase in *public* expenditure on long-term care of about 150%. The 'pessimistic' scenario, on the other hand, assumes that there will be no increase in informal care to meet the increasing demand for care by disabled older people. Hence, the amount of care provided free of charge would account for an even smaller share of the total – with the result that the proportion of total *cost* borne by formal services would increase from 23% to 47%, from £10.1 billion to £28.9 billion. If the State makes up all the shortfall, public expenditure on long-term care would increase by about 250%.

The problem, as the Institute of Actuaries sees it, is to reach political consensus on apportioning the costs of the increased demand for long-term care. They think it unlikely that the informal care sector will be able to maintain its share of the total costs of care, and they see that government is very reluctant to pick up the bill for the shortfall. There is therefore a serious cost problem – in the sense that the increase in costs cannot be readily absorbed by the current system.

Projections for the UK: the costs of formal services

The mostly widely cited estimates for the future costs of long-term care come not from the Institute of Actuaries, however, but from the Personal Social Services Research Unit at the University of Kent.[37] If the Institute of Actuaries projections set the alarm bells ringing, then the PSSRU projections have helped to silence them. Their work has formed the basis for the relatively positive conclusions that have been drawn about the affordability of long-term care in the future by the Royal Commission on Long Term Care, and, more recently, by the Institute of Public Policy Research in its own report on the financing of long-term care.

There is little doubt that the PSSRU model is more sophisticated than that of the Institute of Actuaries, certainly in its ability to incorporate projected trends in factors which influence the supply of informal care (for example marital status and household structure). What the model produces is an estimate for the likely increase in the volume of *formal* services used by disabled older people; and from these results it derives a figure for the cost of supplying this volume of services. It is assumed that the pattern of service provision will remain more or less the same, which is to say that formal services will be provided in the same circumstances as they are now – and will respond in the same way as they do now to perceived need.

The prevalence of disability and the need for care

Disability, as epidemiologists are at pains to remind us, is a matter of degree. It is not an 'all or nothing' category, which is why estimates of the prevalence of disability in a population can vary so much: they work with different thresholds for counting an individual as disabled. Moreover, not everyone who is counted as disabled will be in need of care.

The Institute of Actuaries' projections for the prevalence of chronic disability among older people were based on an OPCS study which used a fairly low threshold for disability, and produced relatively high prevalence estimates – with a large proportion of the disabled population being 'physically independent'.

- In 1991 about 37% of people aged 60 years or more had some degree of disability and about one third of these required care and support daily.

Working on the assumption that there will be some *small* improvement in the health of the older population, they estimate that

- in 2031 there will be 6.8 million disabled older people in the UK – with about 2.8 million requiring more or less daily care.

The most robust of recent estimates of the prevalence of disability uses a higher threshold of disability than the OPCS survey – with the result that fewer older people are counted as disabled and fewer disabled older people are 'physically independent'. In this later study, which provides data for the PSSRU estimates, people who were classified as disabled were unable to perform at least two out of a list of everyday tasks (for example cutting toenails, getting on and off a bus, going up and downstairs) without help and could only perform the other tasks with difficulty. It is not surprising then that more than 80% of the disabled older people in this study were in need of daily care: one fifth needing *constant* care or supervision, and another 62% needing some form of care or assistance every day. Using these criteria, it was estimated that

- about 16% of people aged 65 years or more are 'severely disabled' – with more than one third of these being cognitively impaired.

This means that in the mid 1990s there were around 1.3 million severely disabled older people across the country as a whole – and most them were at least 80 years old. If it is assumed that age-specific prevalence rates of disability are going to remain unchanged over the next half century, then

- by 2050 there will be about 2.3 million severely disabled older people in the UK, which will be just under 4% of the total population.

It comes perhaps as something of a surprise to find that the majority of older people who live in the community and receive regular care and support are *not* disabled, though this is of course yet another result of setting a fairly high threshold for disability. By no means all the older people in the community who are disabled receive regular help and support. Among those who do however, most of the help comes from their family, usually a spouse or adult child, and in most cases it takes the form of assistance with household tasks rather than personal care. Even so, the contribution of formal community support including, for example, home help, care workers, meals on wheels, and community nurses, is still quite substantial. Formal services were the sole reported source of support for a quarter of all disabled older people – and a further 8% received formal services in addition to informal care.

Sources: Martin, J *et al* (1988) *The prevalance of disability among adults*. OPCS.
Melzer, D (1999) Profile of disability in elderly people, *British Medical Journal* 318, 1108-11.

The expansion of formal services that would be required to keep pace with population ageing between 1996 and 2031 is:

- a 65% increase in residential care places
- a 48% increase in the provision of domiciliary care (measured in home care hours).

Over the same period, the real costs of formal long-term care services would increase from £9.8 billion to £24.3 billion. If it is assumed that GDP will grow by 2.25% per annum, then the proportion of GDP that is devoted to formal long-term care will increase from 1.6% to 1.8%. About two-thirds of the total cost comes from public expenditure, which makes for an increase in public expenditure on long-term care of 138% – slightly lower than the Institute of Actuaries' 'optimistic' scenario and much lower than its 'pessimistic' scenario.

Projections for the UK – uncertainty about the future

The projections made by the Institute of Actuaries and the PSSRU are not, strictly speaking, forecasts. They are the results of a modelling exercise which tries to say what will happen to a particular quantity if a given set of conditions and assumptions about trends is satisfied – if we assume, for example, that mortality rates will decline by such and such a rate; and that the average age of onset of serious disability will remain constant; and that the numbers of older people living alone will stay the same; and that the unit costs of formal care services will increase by no more than the increase in GDP. It is of paramount importance to be clear about the assumptions that are built into the model that makes the projections – and one of the main uses of the model is to enable policy makers to see what happens when the assumptions are varied. By this means, it is possible to take account of uncertainty about the future. Population projections by the Government Actuary's Department have, for example, consistently under-estimated the numbers of older people in the UK. What happens if the population estimates are revised upwards to take account of this? What happens if the prevalence estimates for disability in later life are revised downwards to take account of unexpectedly large health improvements in the older population? What happens if the unit cost of services rises by more than the rise in GDP? What happens if the proportion of older people who live alone increases or decreases?

These are all reasonable and pertinent questions – and we look to experts to provide the answers. What these answers tend to show is that fairly small and plausible variations in assumptions about trends in factors like mortality rates or healthy life expectancy or the unit costs of care can make for very large variations in estimates of the future costs of formal care. Pessimists here will worry about trends (such as labour shortages and user expectations) which would tend to drive up the unit costs of formal services. On their view, it is not at all implausible to suppose that the OECD's cost projections (a 50% increase on an expenditure base that amounts to 1-2% of GDP) might turn out to be way off the mark. Optimists, on the other hand, will look for substantial (and not implausible) improvements in healthy life expectancy which would reduce the prevalence of disability and the need for help – and so keep the overall costs within more acceptable limits.

How should policy makers respond to such large variations in cost estimates and the arguments of the optimists and the pessimists? They could either sift through the various assumptions that are built into the projections with a view to selecting what they think are the *most* likely – in other words to narrow the range of uncertainty as far as possible – or they could decide to accept that there is a very wide 'funnel of doubt'. Where the Royal Commission and the IPPR adopt the former strategy and work with relatively optimistic (but still not implausible) assumptions, the Joseph Rowntree Foundation[38] and the minority commissioners adopt the latter (and more conservative) strategy. What really worries the JRF and the minority commissioners is the *possibility* that unit costs might increase quite a lot more than GDP. The point is not so much that they think this will happen – as that they think it would be imprudent to make policy on the assumption that there will be no substantial increase in unit costs. It is evident that the practical implications of this way of thinking are considerable: it is a matter of accepting or rejecting proposals to pay for most of the projected increase in demand for formal long-term care out of general taxation. On one view, this is 'affordable'; on the other, it is not.

Is long-term care a public or a private responsibility?

The form of this question is taken from a summary of the 'issues for the UK' raised by the Royal Commission's review of arrangements for long-term care in other countries. Although the Commission's arguments tackle the question head-on, there are some advantages to be gained by taking a more oblique approach to the matter and breaking it down into two separate parts:

- To what extent - and in what ways – should we expect family members (or friends) to act as unpaid carers for frail elderly people?

- To what extent – and in what ways - should the costs of formal services be shared between current users and non-users?

The first question will surely appear as a pressing and important practical issue in any country with a growing older population. Only, however, in countries with well developed formal services will the second question be of more than theoretical interest. Although both questions are couched in a way that implicitly appeals to ideas of social justice and shared responsibilities, it seems clear that they are likely to receive different answers in different countries. The differences between liberal and conservative politics will no doubt have some part to play in this. Think of the differences between the USA and Sweden, for example. There is more to it than this, however, since it is difficult to see how either question could be answered in abstraction from a fairly detailed account of the resources and institutions that are available for the provision of care in different societies.

> With the global ageing of society, a new framework for the sharing of public/private responsibility is clearly needed. Equitable access to a standard package of long-term care services and ensuring their quality will be key responsibilities of government. (OECD 2003)

The role of the family in providing long-term care

In 1989 Singapore introduced a National Policy on Ageing ‘to ensure that the needs of the elderly are met’. Although the policy covers more than long-term care (it includes measures to increase labour force participation by older people), it is nonetheless rather dominated by the determination to:

- encourage individual responsibility for old age; and
- preserve the family as the primary care giving unit.

According to a recent report for the Nuffield Trust in the UK[39], the policy goes *with* the grain of the dominant values in society, though there is little doubt that it is also designed as a bulwark against the increasingly invasive values of ‘western individualism and materialism’. The fact that in the future there will be ‘fewer sons and daughters to act as caregivers’ makes it all the more important to shore up a system founded on the values of ‘filial piety and reverence for the elderly’.[40]

It seems, though, that there is still a broad consensus in Singapore that families should take care of individuals who cannot care for themselves. In 2000 only 6% of elderly people lived on their own, with the overwhelming majority living in multi-generational households. Government policy uses a fairly imaginative mixture of ‘sticks and carrots’ to keep it this way – including tax relief measures and housing grants schemes. What catches the eye of the outsider, however, is the Maintenance of Parents Act 1995, which provides a legal remedy for parents whose children are unwilling to support them. If the parents are aged 60 years or more and are unable to maintain themselves, they may apply for a court order requiring their adult child (or children) to provide them with *financial* assistance.

Singapore is not alone in its willingness to countenance the legal enforcement of filial responsibilities. Nor should we suppose that this particular approach to some of the problems of long-term care is confined to East Asian countries with deep-rooted (and yet increasingly fragile?) traditions of filial piety. About half the States in the USA have laws that can be used to compel children to give financial assistance to aged parents, though cases are rarely brought before the courts. What these laws require of children is of course money – which can be used as payment for services provided by someone else – not that they act as unpaid caregivers. If the children will not provide unpaid care, they should pay for the purchase of formal services.

Willingness to use the law as a means of enforcing the duties of children to their parents does not by itself tell us how extensive these duties are. The existence of such a law affirms that children have a duty to provide unpaid care for their aged parents and that it is the proper business of the state to ensure that the obligation is fulfilled. There is no reason, however, why the law should not make this affirmation and at the same time recognise limits on the duties of children to provide care for their parents. Are there no limits to the amount or kind of care which children might be expected to provide? Clearly it would be wrong to expect them to provide forms of care that it was beyond their *competence* to provide (for example medical care). It is arguable, moreover, even within the framework of a law like the Maintenance of Parents Act, that the duties of children to act as unpaid carers for their parents should not extend as far as their competence. There is a great deal of difference between providing regular help with domestic tasks for someone who is mildly or moderately disabled and providing regular help with personal care for someone who is severely disabled. There is also a great deal of difference between providing the latter kind of help for a few months to someone who is terminally ill and providing it for several years to someone who is not terminally ill.

In most (not all) European countries, of course, there is no question of the legal enforcement of the duties of children to parents, which means that these issues do not present themselves in quite the same form as they do in Singapore. It is not thought to be the proper business of the state to enforce the moral obligations of adult children to their parents. What we do find throughout Europe, however, with only a few exceptions, is that the availability of informal care affects the provision of publicly provided long-term care services. In France, for example, eligibility for home help services requires that a spouse should be incapable of providing informal care, and in Italy no home help is provided when a social network is available.[41] Here in the UK, the link between the availability of family care and the supply of formal care is perhaps less explicit, but no-one doubts that decisions about state-provided formal care take family circumstances into account.

Although most governments in Western Europe would agree that it is not their proper business to enforce the moral obligations of children to parents, their arrangements for the distribution of publicly provided formal services do nevertheless rely on the willingness of close family to provide informal care to their elderly relatives. Only if we think that elderly people have legitimate expectations of care and support from close family will we also think that it is fair for government to control the supply of publicly-provided long-term care in this way. Even if we suppose, however, that there is a broad social consensus on the view that it is reasonable for elderly parents to expect *some* kind of care and support from adult children, it seems clear that there is no such consensus on the *nature and extent* of the care and support that is reasonable to expect.

Are our views on these matters changing and will they change even more over the next fifty years? There are two main angles from which we should consider this question of a shifting social consensus on the role of the family as 'the primary care giving unit'. On the one hand, there is the point of view of elderly people with close family. If we ask about the extent to which older people *should* be able to rely on close family for care and support, we have also to consider their own preferences in their matter. And on the other hand, there is the point of view of family members who might be expected to act as unpaid carers. What should we say about their continuing ability and willingness to take on this kind of responsibility?

As far as elderly people themselves are concerned, it seems clear that their expectations and preferences in this matter depend on the range of possible sources of care and support that is available to them. There is quite a lot of evidence to suggest that many older people with adult children would rather receive help from publicly provided formal services than from their children.[42] They think it unfair that their children should be obliged to take on a responsibility which might seriously interfere with the lives they have chosen for themselves. What worries them, in other words, are the 'opportunity costs' incurred by their children through the regular exercise of this responsibility. It is one thing to expect daily visits from a child that lives round the corner and quite another to expect even weekly visits from a child that lives two hundred miles away. And there seems little doubt that for many families social change is driving up the opportunity costs involved in acting as an unpaid caregiver – and that it will continue to do so.

Does this mean that older people's expectations are adapting themselves to the increasing reluctance of families to look after their frail elderly relatives? Most of the respondents to the Eurobarometer Survey conducted by the European Commission in 1993 agreed with the statement that families are less willing to care for older relatives than they used to be. Many social scientists, however, would want us to take this particular finding with a pinch of salt.

> One of the numerous myths characterising ageing societies is that families are increasingly reluctant to care for their frail elderly relatives.[43]

Is it a myth? The judgement is one that I find 'hard to call'. Even if there is no change in willingness of families to support frail elderly relatives, demographic and social change will ensure that the potential pool of available family caregivers will shrink as the number of frail elderly people increases. We might say therefore that the question is something of a red herring. What matters is the overall supply of informal care; and there are various factors at work which have caused the supply of informal care to shrink over the last fifty years. We can be fairly sure furthermore that many of these factors, if not all of them, will continue to operate over the next fifty years.[44]

- When the baby boomers reach their eighties, there will be fewer children 'to go round' – and more elderly people with no children.
- More people are remaining unmarried and are likely therefore to enter retirement without a spouse/adult child as a potential caregiver.

- It is quite likely also that the proportion of women in full time employment will increase.
- Geographical mobility is on the increase, which means that fewer families are in a position to provide regular ‘hands-on’ care.
- The increasing incidence of divorce and remarriage is also quite likely to disrupt patterns of family care.

We should distinguish here between two quite different claims. There is the relatively uncontroversial claim that the proportion of elderly people receiving informal care will shrink over time as fewer elderly people will have close family to whom they might turn as potential caregivers; and then there is the more controversial claim that even among elderly people with close family (spouses or siblings or adult children) there will be a decline in the proportion who receive informal care. What makes for controversy is the suggestion that the decline in informal care is being driven by a change in the values that inform and structure this particular aspect of family life – a change that is symptomatic of precisely the kind of ‘individualism and materialism’ that is deplored in Singapore’s National Policy on Ageing.

Is there any evidence to suggest that families are becoming increasingly reluctant to provide ‘hands-on’ care for their frail elderly relatives? Scharf[45] thinks not, though the evidence base for the UK is rather weak. For the USA, the picture is slightly different. Here there is fairly robust evidence of a small decline in family caregiving for older people with chronic disabilities.[46] Potential family caregivers are less likely than they were to be active caregivers, and there has been a corresponding increase in the use of formal services by older people. What explanations might be offered for the change? The authors of this particular study make no appeal to changing values among the potential caregivers. They point instead to the increasing availability of Medicare benefits for long-term home care services as well as changing preferences and higher incomes among the elderly. It seems that older people who can afford to purchase formal services may prefer to hire help rather than rely on adult children, especially for high-intensity personal care.

Does this mean that we should accept the mythical status of the belief that families are increasingly reluctant to care for their frail elderly relatives? Not entirely. If we think that some older people with adult children might prefer formal services rather than rely on their children, is it not plausible to suppose that some adult children might prefer their parents to rely on formal services rather than them? This does not mean that adult children do not want to do anything for parents, but rather that there are limits to the costs and sacrifices they are prepared to incur. And that these limits should change is perhaps as much an aspect of our growing affluence as the ability of increasing numbers of older people to purchase formal services. What I have in mind here is the connection between the *legitimate* expectations of older people for help from potential family caregivers and the other responsibilities and circumstances of these potential caregivers. It is not that these responsibilities (family and professional) and circumstances make them *unable* to take on the role of 'primary carer'. It is rather that they are unable to do so except at considerable cost to themselves and their own families (if they have dependent children).

Consider, for example, what kind of care and support we might think it 'reasonable' for an elderly parent to expect from an only child who is a barrister or professor, lives fifty miles away, is married to another professional and has dependent children. Most of us would think the child to be perfectly justified in preferring to pay for home care services rather than provide them in person. If the child also made regular social visits – together with the occasional shopping trip – and kept in touch by phone, would we not think that the responsibilities of child to parent had been amply discharged? What distinguishes this particular family from that of most of the people in this country is of course their relative affluence. Where the problems start to arise is with families whose position is similar in most respects except for the ability to pay for formal services. The point I want to drive home, however, is that we cannot determine what it is reasonable for elderly parents to expect from their children apart from an account of their resources and circumstances. Under the pressure from growing affluence and changes in family life, the preference for formal services seems bound to increase – and the outstanding question becomes the apportionment of costs for these services.

A final point. The Royal Commission on Long-term Cares thinks that the Government should not rely as much as it does on the ability and willingness of children to provide unpaid care for their elderly parents when making policy on publicly provided formal services. This is partly a matter of realism in making policy. Given the shrinking pool of potential family caregivers, it is not sensible to suppose that informal care can expand to meet the increasing demand for long-term care that will come with accelerating population ageing. There is, however, another question to be considered here – namely, whether or not the availability of informal care should be taken into account in determining the distribution of publicly provided services; and it is one of the main recommendations of the Commission that services should be 'carer blind', that the need for services should be assessed without taking any account of the availability of informal care. The recommendation is based on the view that the present system is unfair in the extent to which it relies on the provision of unpaid care by close family members.

Apportioning the costs of formal long-term care services

As population ageing drives up the demand for long-term care, it becomes necessary for the Government to consider what to do about the balance between formal and informal care; and there are only three broad policy options to be considered:

- to meet increased demand by increasing the proportion of informal care;
- to meet increased demand by increasing the proportion of formal care;
- to keep the balance between formal and informal care more or less the same.

Social insurance for long-term care

The German scheme

Before 1994 there were four payroll-funded social insurance schemes in Germany: the retirement fund; the unemployment fund; the disability fund; and the sickness fund. Health care insurance covered only acute health care costs, and increasing numbers of elderly people were having to use private savings or to apply for means-tested social assistance in order to pay for institutional long-term care. Many elderly people regarded social assistance as a welfare programme for the poor and resented having to call on it at the end of their lives. Although the law stipulated that offspring as well as spouses could be held responsible for these costs before social assistance was payable, this was increasingly seen as anachronistic and patchily applied in practice. It was also thought that these arrangements encouraged over-dependence on institutional care. For all these reasons health care insurance was extended in 1994 to cover long-term care for people with chronic disability.

- Contributions for the working population are split 50/50 between employees and employers.
- Insurance covers members of the employee's family not otherwise covered.
- Pensioners are required to make contributions from their own pensions – matched by a contribution from the pension funds.
- Benefits are 'nominal and capped'. They do not always cover the actual costs of care and the recipient is often left with a balance to pay. Some recipients will still have to claim social assistance to pay the outstanding balance.
- The minimum level of disability covered by payments from the fund is quite high: the individual should need help at least daily with two Activities of Daily Living (ADLs) as well as help with household maintenance several times a week. Low level preventive support is not covered by the scheme.
- Home care benefits are available either as a directly provided service or as a cash allowance (which can be used to purchase care privately or to reimburse informal carers).
- Informal carers may have their own pension contributions paid under the scheme.
- People receiving home care benefits have the right to respite care for four weeks a year. This is available either as a directly provided service or as a cash allowance (which need not be used to reimburse another informal carer).

The reforms have largely settled the debate on long-term care in Germany, certainly for the time being. The system is regarded as much fairer than it was before; and it seems to be widely accepted that the reforms have been reasonably successful in bringing long-term care costs under control. This is partly because of the relatively high threshold for disability; and partly because of the decided preference of recipients for cash benefits rather benefits in kind (as directly provided services) – even when the cash benefits are actually worth less than the directly provided services.

The Joseph Rowntree Trust proposals

The Rowntree Trust Inquiry into Meeting the Costs of Continuing Care, which pre-dates the Royal Commission, recommends a compulsory social insurance scheme for long-term care in the UK. They estimate that for someone on average earnings the full costs of continuing care in old age would be fully covered if 1.5% of salary was paid into the fund over a normal working life (slightly less than the contribution level in the German scheme).

- The proposal is for a fully funded scheme rather than the 'pay-as-you-go scheme' which was adopted in Germany. In other words, the contributions would be paid into an investment fund which would accumulate over the lifetime of the individual who made them. The main advantage of a funded scheme over an hypothecated tax is that it would ease the costs incurred by the next generation of taxpayers.
- The scheme distinguishes between care costs and accommodation costs in the case of individuals whose contributions did not cover the full costs of care. Shortfalls in care costs are paid entirely out of general taxation. Any outstanding balance on accommodation costs would be the responsibility of the individual – with means-tested social assistance for people who could not meet the shortfall from their own resources.

The Royal Commission, along with most other commentators, think that the first option is clearly unworkable or impracticable, mainly because of the shrinking pool of potential caregivers. The third option, as the Institute of Actuaries showed as early as 1994, could only be a partial solution: it would still leave a large and growing gap in the supply of care. The only real option therefore is to shift the balance between formal and informal care by increasing the proportion of formal care. On this the Commission and the Government would seem to agree. Where they differ is in their view of the way that the costs of these additional formal services should be distributed between the older people who are receiving care and the rest of the community. The OECD, it will be remembered, argued that the costs of long-term care should present its member countries with no insuperable problems *provided that the costs are shared between workers and older people*. The question is – how should this be done?

The Royal Commission's case for reforming the financing of long-term care rests heavily, as do those of the Joseph Rowntree inquiry, on the unfairness of the present arrangements, which can only be exacerbated by population ageing. The problem lies in the way that these costs fall on the users of care at the time of need.

> The system at the moment helps people who are poor, demands that people of modest means make themselves poor before it will help, and affects people to a lesser degree the richer they are and better able to afford the sums required.

The argument is more or less the same as that which persuaded the German Government of the need for reform in the early 1990s. The very large sums that are required to cover the costs of institutional care in particular (£17,500 per year for nursing home care in 1996) are way beyond the private means of most people. What seems especially unfair is that the people who lose out most are those who have managed to accumulate a *moderate* amount of savings and other assets over their working lives. If they have to 'spend down' all their accumulated assets, they lose their ability to pass on resources to the next generation and then find themselves relying on means-tested benefits. Looked at from this point of view, the recommendations of the Rowntree inquiry (see box opposite) may be presented as a form of insurance for the protection of assets rather than for the payment of continuing care.

Even, however, if we accept the force of this argument in respect of today's pensioners, it remains to ask about its applicability to the baby boom generation, those among us who will be retiring in fifteen or twenty years' time. Does it make any difference if we suppose that this next generation of pensioners will have considerably greater financial resources than people who are now retired? To answer this we would need to know (among other things) whether it is realistic to expect that a significant proportion of the next generation of pensioners will be able to afford to pay for all or most of their own long-term care (which would include for example consideration of the extent to which they might be able to use housing equity to raise funds).

A second argument that carried a great deal of weight with the Royal Commission and was also highlighted in the more recent deliberations of the Institute for Public Policy Research concerns the distinction within the present system between different kinds of need for care. The point is that someone who has a need for what is usually called 'social care' as a result of dementia is treated differently from someone who has a need for 'health care' as a result of cancer. Whatever the rationale for charging for one kind of care and not the other, the distinction is widely perceived as arbitrary and unfair.

> Many people who have submitted evidence to us do not understand the supposed difference between these needs for care. This is the basis of the widespread perception of unfairness by those suffering from chronic disabling disease who thought that they were entitled to free care at the time of need just as they would be if they needed a joint replacement or treatment for cancer.

That this is no small problem is made clear by Raymond Plant[47] when he suggests that it constitutes a major breach in the 'contract' between state and citizen that is embodied in the modern Welfare State. The point is not so much that people are being treated unfairly as that they feel badly let down by a system in which they had placed their trust. If people believe that their legitimate expectations have been betrayed, this in itself constitutes a serious political problem – irrespective of our views on the legitimacy of these expectations. Plant suggests that what is required by way of response is a 'new welfare contract' for the twenty-first century. Similar arguments have also been put forward by the Kings Funds (for a 'new compact for care in old age') and by the Institute for Public Policy Research (for a 'new contract for retirement').

The suggestion that we need a new contract for care in old age is undoubtedly a useful one. It enables us to ask in very general terms what 'we want' from this contract. What do we think that it should do? Clearly if the critics of the old contract are right, then one thing it has to do is to repair and retain public trust. This means that the public should know what they can expect from the system. It is also necessary – if the contract is not to break down again - that the system should be widely regarded as fair. There should be a reasonable level of public support for whatever arrangements are chosen for the provision of care and the distribution of costs.

There are, however, two other important conditions to be met by this 'contract'. Firstly, we want the system to be fair, which is not at all the same thing as asking that it should be widely regarded as fair. It should be perceived to be fair because it is fair – and we want the terms of the contract to take account of *relevant* social change. On the one hand, there are those (such as the Royal Commission) who would argue that the main changes to be taken into account are (i) the emergence of serious flaws in the original contract creating excessive hardship for far too many pensioners (ii) the likely increase in the demand for long-term care. On the other hand, there are those who

The main options for financing long-term care

The safety net system

Singapore and the USA (and to some extent also the UK) are examples of countries with long-care term systems which place the main responsibility for the costs of long-term care on the individual who uses the care. It is also an accepted point of principle, however, that people who cannot afford to pay for their own care should receive financial assistance from the state. There is a safety net for people who do not share in the general affluence.

This kind of system tends to assume

- that only a minority of the people who require formal long-term care cannot afford to purchase it out of their own resources; and
- that the role of the family as the primary care giving unit will control the demand for formal services.

If the growth in demand for formal services starts to outstrip the growth in general affluence, the system will become increasingly unstable. The hope, in countries like the USA, is that the uptake of private insurance schemes will suffice to close the gap.

The rights of citizenship and the need for care

Denmark is probably the best example of a country which regards provision for long-term care needs as a collective responsibility in the same way that provision for health care needs is regarded as a collective responsibility. People are not expected to pay for their own care. Rather the full costs of care are to be met out of general taxation.

Formal long-term care services are provided as a right of citizenship, so that access to these services is quite independent of the availability of potential (or actual) family carers.

Insurance systems

Insurance-based systems differ from safety net systems in that they accept the principle of 'risk pooling'. About a quarter of people aged over 65 years will require institutional long-term care services before they die, and there are some people who will never require any formal long-term care services. By pooling risks we accept

- that we do not know whether or not we will require formal long-term care (though we do know roughly what the chances are); and
- that it is prudent to contribute to a fund which ensures that everyone who needs formal long-term care services will have enough money to pay for them.

Insurance-based systems differ from citizenship systems by linking entitlement to contributions. Participation in an insurance scheme for long-term care may be either voluntary or compulsory (as in Germany). Voluntary schemes will generally require a safety net for people who cannot afford or choose not to make contributions. Compulsory schemes will require that special provisions are made for people who cannot afford their own contributions.

would highlight the growing affluence of older people as one of the most important factors to be taken into account in re-writing this part of the 'welfare contract'. What is at issue therefore, besides the *factual* question of the changing financial position of pensioners in the UK, is its *relevance* to a fair solution of the problem.

Secondly, the overall costs of the system should be set at a level which is sustainable – otherwise the contract will break down again. Most of the public argument about the Royal Commission's proposals – and especially the proposal for 'free' personal care – turns on the second of these conditions. Will the costs be affordable in twenty or thirty years time when the demographic projections suggests that they will really start to bite?

As I have already suggested, our answer to this question depends largely on what we think of the 'funnel of doubt' argument. The choice, presented in this way, is not between higher (more pessimistic) and lower (more optimistic) cost projections – but rather between a narrower and a wider range of plausible costs projections. But what about the first condition – the requirement of fairness? And how does it relate to the requirement for affordability?

The Royal Commission, the minority commissioners, the Joseph Rowntree Inquiry and the Institute for Public Policy Research all claim of course that their proposals meet the requirement for fairness. So how are we to decide between them? What counts as a fair solution to the problem of apportioning the costs of long-term care? As Plant points out, the members of the Commission all agreed on a set of moral principles to guide their choice of approach to apportioning the costs of long-term care, but this did not prevent a minority of commissioners from rejecting its main recommendations. So where do they disagree? Is it only over the question of affordability?

No, it is not. They also disagree over the way in which the requirement of fairness and the requirement of affordability relate to each other. For the minority commissioners the choice of system is not to be made by *first* deciding which model best satisfies agreed criteria for fairness, and *then* applying a test of affordability. The link between affordability and fairness is more intimate than this. Contrary to the views of the majority, Lords Joffe and Lipsey argue that we have no independent criteria of fairness (independent that is of the question of cost) to which we can make appeal in settling the disagreement about the distinction between health care and personal care which underlies the current financing system. It is a matter of making trade-offs between different desiderata and finding the balance of advantages.

Plant, who is a political theorist and not a social scientist or policy analyst, argues that this whole issue of a fair 'contract for care in old age' raises knotty and 'deep' questions about distributive justice. The conclusion, for what it's worth, is hard to fault, and it is no part of my purpose here to cut my way through these issues in order to decide between the various proposals that have been made for apportioning the costs of long-term care. Plant argues indeed that my efforts would be of limited value anyway. This is not the kind of issue that can be solved by dialectic.

> There is no way in which these problems about what sorts of goods should be funded, what should be left to private responsibility, and what constitutes a just or fair share in resources can be resolved by invoking moral principles independently of politics. These have to be a matter of political dialogue in an attempt to secure consent.

The dialogue does not take place in a moral vacuum, however, and this is where the principles come in. We need to spell out the boundaries which define the range of acceptable solutions and have a clear sense of the trade-offs that have to be made within them. How, for example, should we balance our sense of what is unfair in the present system with our sense of what it is fair or reasonable to expect from future generations of taxpayers?

5 Social justice and individual well-being

Contested and uncontested agenda

It is easy to see that much of the disagreement about the major policy challenges posed by population ageing turns on the issue of costs. On the one hand, there are commentators and analysts who argue that most of the world's wealthier countries will not be able to absorb the cost pressures of population ageing without significant reform to their pension and welfare systems; and on the other hand, there are those who argue that reform is indeed necessary, but for quite different reasons and with different objectives. On one view, it is imperative to act now to ensure that the cost pressures of population ageing will be manageable in the future. On the other view, the prospect of these cost pressures turning out to be unmanageable is regarded as something of a chimera – an illusion conjured up by the reflex responses of capitalist economies that have an inherent aversion to any kind of increase in welfare expenditure. Between the views put forward by an agency like the OECD, and those of some of its critics, like Professor Alan Walker of the University of Sheffield[48], there would be seem to be only a small sliver of common ground.

For the OECD the main challenges of population ageing flow from the 'central objective of reform', which is 'to ensure that the way that societies transfer resources to a rapidly growing number of retired people creates neither major economic nor social strains'.[49] The challenges are:

- the threat of a reduced growth in living standards (for everyone) posed by a shrinking workforce and an increasingly large older population;
- the fiscal issues and issues of intergenerational fairness raised by the fact that fewer workers will have to support more retired people;
- the fundamental issues about the allocation of work and leisure over the lifetime raised by the fact that a growing proportion of the average life is spent out of contact with the labour market

Walker, rejecting the assumptions that lie behind the OECD 'central objective', has identified five key social and economic challenges for the EU region. These are:

- ensuring economic security in old age;
- maintaining intergenerational solidarity;
- combating the social exclusion caused by age discrimination;
- providing long-term care in the context of changes in family and residence patterns;
- enabling older people to participate in society as full citizens.

When the OECD says that population ageing in its member countries requires policy reform if they are 'to maintain the economic well-being of the retired population and to protect vulnerable groups', Walker presumably would not demur. The suggestion, however, that if governments are to achieve this end, they must 'change the mix among different forms of retirement income provision' (so as to diminish reliance on public benefits) remains controversial and is rejected by most commentators on the left of the political spectrum, such as the Working Group on the Implications of Demographic Change.[50]

Reframing the welfare contract between the generations

There is, however, one point on which the OECD and its critics would seem to agree, namely, that the reframing of the welfare contract between the generations is one of the major policy challenges of the coming century. They agree that there has to be reform in the public institutions that channel resources and services to older people. The way in which this should be done and the values that should inform the doing of it are, however, highly contested. Here in the UK the argument focuses on two items of public expenditure – pensions and long-term care.

For one side of the argument the objectives of reform are to rein in public expenditure commitments on welfare programmes for older people and redistribute the costs of provision. The cost burden to the taxpayer is to be made lighter by ensuring that individuals make better advanced provision for their own future care and support. It is population ageing requires us to change the terms of the welfare contract in this way. The generation in work will still pay taxes to support the generation that is retired or in need of care, and it will do so on the understanding that it will receive similar benefits, in its turn, from the next generation of working people. What should change is the balance between individual and collective responsibility.

The other side of the argument wants to reaffirm collective responsibility for welfare provision, and argues that this is necessary because the welfare institutions that channel resources to the older population have *already* shown themselves to be inadequate to the demands of an ageing population. The value of the basic state pension has been allowed to decline to the point where it can no longer provide older people with a decent standard of living. Provision for long-term care – the other main component of the welfare contract between the generations – has failed to adapt to the increasing demand for formal services from older people. Population ageing will make a bad situation worse.

For the critics of the kind of policy agenda being advanced by the OECD, most of the case for policy reform rests squarely therefore on the unfairness of present institutional arrangements for older people. As far as pensions are concerned, there is a serious injustice in the distribution of income and wealth in later life. The argument that average pensioner incomes (in the UK as well as the rest of the OECD) have risen faster over the last twenty years than average incomes in the working population[51] doesn't cut much ice from this point of view; and certainly there are plenty of commentators who would argue that there is still too much poverty in the United Kingdom's pensioner population – or, more broadly, that the retired population as a whole still receives an unfairly small share of the national product.

Differences of opinion about what should happen to pensions in the UK cut much deeper than estimates of the extent to which population ageing is going to constrain the spending plans of future governments, as Professor Chris Phillipson of Keele University, acknowledges.

> Establishing the framework for additional pensions remains important, but this is less significant than the task of rescuing the state pension: this must be a central goal for social policy for older people as we move into the twenty-first century. In a broader context, the case for restoring the value of the pension must also be linked with the kind of future we want to have for older age. Here it is important to remind ourselves that the state pension has never been linked to a realistic standard of living for older people, one that would allow their full participation in society … Restoring the value of the pension is actually as much an issue about the kind of old age we want to develop as a straightforward financial issue … People are seen to earn pensions as 'employees' rather than 'citizens'; pensions have become as much a personal undertaking as a social right.[52]

Concern over the impact on the public finances may be the main reason behind the government resistance to wage indexation for pensions, but clearly there is another issue here (for Phillipson). The real driving force behind the proposal is the idea of social justice – where the costs of population ageing should fall and how the benefits of economic growth should be distributed.

Many of the arguments that are advanced about the need to reform the provision of long-term care are analogous to arguments about pensions. The need for reform is accepted – but the case for reform rests not on concern about the increasingly burdensome costs of providing care to more older people, but rather on the inadequacy and unfairness of the current system of provision, and these, of course, are problems which can only be exacerbated by population ageing. From this point of view, the challenge associated with the fact that growing numbers of older people will need long-term care is to ensure that the *public* provision of care bridges what will probably be an increasingly large gap between the demand for care and the supply of *informal* care. Reform is required, however, not only to guarantee adequate provision at a time of accelerating demographic and social change, but also to ensure that the system of provision is *fair* in the way it distributes costs and burdens. What is unfair about the present arrangements is that the burden of provision falls too much on the individuals who need care and their families. It is unfair that older people should have to rely so heavily on informal provision by family caregivers, just as it is unfair that they should have to pauperise themselves in order to be entitled to public assistance with the costs of provision.

These criticisms of present institutional arrangements for pensions and long-term care appeal to the idea that the right to a decent standard of living and adequate support and care in later life is a non-negotiable benefit of citizenship to be underwritten by the redistribution of collective resources. To the extent that current welfare policies do not succeed in securing these benefits to all older people, they fail to achieve their proper end. If we think of the commitment to provide a decent standard of living and adequate support and care to all older people who need them as part of the contract that links the different generations within society, then these arguments present the case for reframing the welfare contract with a view to ensuring that a larger share of society's resources is channelled to the older population. If we accept that the right to a decent standard of living and adequate support and care is a right of citizenship, then the problem is to devise ways and means of ensuring that the benefits of our growing affluence as a society are fairly distributed – more fairly than at present – between people who are retired and people who are still in work. The fact that people now spend more of their lives in retirement than they did fifty years ago and have greater expectations of their quality of life in retirement only adds to the challenge. From this point of view, population ageing changes nothing. Certainly it gives us no reason to compromise our commitment to the egalitarian values that underpin collective responsibility for welfare provision in later life.

Looked at from the point of view of the OECD and the World Bank, the problem with these criticisms is the way they seem to put the costs of population ageing to one side. This is not to say that they are neglected. Rather they are seen as a threat to the non-negotiability of the right to a decent standard of living in retirement as well as adequate care if and when the need arises. To say that the costs are affordable is to say that this threat can be seen off. But if we are going to reframe the terms of the generational contract, is it not fair that we should take account of the way in which the costs of population ageing are shared between the generations – as well as the benefits of economic growth? The claim here is that the costs of population ageing should be distributed fairly between people in work and people who are retired or in need of care. It is *fair* that some of these costs should fall on retired people who are in a position to spend down assets they have accumulated over their working lives (and hence also fair to require people to accumulate sufficient assets to put them in this position). And what makes it fair to reframe the welfare contract in these terms are the cost pressures of population ageing *and* the growing affluence of society.

On one side of the argument then, there is the desire to implement the kind of policy agenda that flows from a rights-based approach to welfare in later life. Reform should be based on a restatement of strongly egalitarian values that affirm collective responsibility for welfare provision. On the other side, there is the view that social conditions are changing in a way that should lead us to rethink the distribution of benefits and burdens between the different generations.

Intergenerational fairness and intergenerational solidarity

For the OECD the idea of the welfare contract between generations unavoidably raises the problem of intergenerational fairness. For its critics, however, the problem is a red herring, and the challenge is to 'maintain intergenerational solidarity'. What concerns the OECD (and the World Bank) is the possibility that population ageing – combined with the threat of a shrinking work force - will cause future generations of pensioners to lose out in comparison with the relatively affluent current generation.

This decline in the absolute size of the working population will not only raise the ratio of contributions to benefits for current generations of contributors, but will also impose a negative rate of return on future contributors who will receive less than they pay in contributions.[53]

The OECD fears that the working people whose taxes will pay for the public benefits received by the baby boom generation will resent this 'burden' if their own expectations for increasing affluence are disappointed as a result. It is arguable, moreover, that their grievances will not be entirely groundless. To its critics, this issue of intergenerational equity is really a non-issue, or rather a fabricated issue. It makes a mountain out of a molehill. There is indeed a great deal of injustice in the way that resources are distributed between different groups of people in society. To highlight inequities in the distribution of resources between different generations is, however, to ignore the obvious fact that any such differences are dwarfed by the inherent tendencies of capitalist economies to lead to gross inequalities of income. It lends fuel to a form of political conflict that can only serve to divert attention away from the real problems. It also (mis)represents the relation between the generations as one of dependence rather than interdependence.

> The way the intergenerational justice issue is typically framed – in terms of age-group interests and conflicts – obscures the class interests that are involved.[54]

But why, if intergenerational equity is a non-problem, does Alan Walker (and many others) attach such importance to maintaining intergenerational solidarity? The danger, he thinks, is essentially a political one. It is quite possible that the working people whose taxes will pay for the public benefits received by the baby boom generation will come to feel seriously aggrieved by the size of the tax burden they have to carry in an ageing society. The solution, however, is not to lighten the burden on people in work, but rather to challenge the view of intergenerational relations which nourishes a sense of conflicting interests where there should be a sense of solidarity and interdependence.

> [We] should acknowledge ageing as a public concern to be shared equally across the life course. Above all, we should not 'off-load' the responsibilities for an ageing population to particular generations or cohorts – whether old, young or middle-aged. Ageing is an issue for generations, but it is one to be solved with generations. Integrating older people across and within different social groups and institutions must rest upon this framework of generational co-operation and support.[55]

Exclusion, participation and citizenship

Pensions and long-term care are not the only domains in which older people are thought to suffer social disadvantage. Arguments which rest essentially on claims about social justice – on the treatment received by older people or their access to various social goods - extend much more widely than this. This is evident, for example, in the way that the importance of rights and participation have gained increasing prominence in analyses of the social position of older people.[56] By the same token, arguments about poverty in later life have become increasingly subsumed in more general discussions about 'social exclusion' among older people – so that the problem of poverty is seen as an instance of a broader problem of access to social and cultural resources and social marginalisation. It is argued that we can only understand the social position of older people when we understand the whole range of structures and institutions that stand in the way of their full participation in society.

The application of these ideas to the social position of older people turns on the argument that older people in our society are marginalised and disempowered by various forms of age discrimination, and that they find themselves pushed into positions of dependency and disadvantage because of their age. Old age is stigmatised as a time of declining competencies and growing needs. To the extent that this view remains embedded in the institutions and structures that shape our common social life and determine the distribution of basic social goods within it, then there remains a great deal to be done to overcome the exclusion of older people from their rightful position as full members of society.

It may be useful here to distinguish between two different kinds of barrier that might prevent older people from having equal access to goods and services – equal, that is, to the access enjoyed by younger people. On the one hand, there are various institutional or administrative barriers that use age as a filter for access to goods and services. Age is taken as a proxy for competence (in the workplace or the committee room) or capacity to benefit (in health care). These barriers are in a sense 'external' to older people themselves: they depend on the decisions and policies of institutions with which older people seek to engage. There are other kinds of barriers to participation, however, which say something about the ability of older people to exercise the right to participation. Lack of income and lack of physical mobility undermine the ability of people to participate in what we might describe as mainstream society. If one of the goals of social policy is to *enable* older people to participate in mainstream society, then it is necessary to do something about both kinds of barrier. It is, even so, useful and important to distinguish between them – not least because arguments about social policy tend very often to turn on arguments about their relation to each other.

We do not have to look far in policy debate on older people to find voices which would argue that one of the main policy challenges of the coming century is to remove the barriers that prevent older people from enjoying their rightful position as full members of society – equal access and active participation in the life of the community. To do this, it is necessary not only to tackle age discrimination, but also to 'empower' older people to participate in society.

How serious and extensive is the problem of age discrimination in a country like the UK? Most of the people who write about ageing or the position of older people in society would probably agree with Help The Aged that the removal of institutional barriers to equal participation in society should be a major priority in an ageing society.[57]

> The insidious impact of ageism, together with the more familiar forms of discrimination such as [those] linked with race and ethnicity, with gender, with sexual orientation and with physical and mental disability, is something which still needs to be countered at every opportunity. We live in a society in which, despite the inroads made by legislation and codes of practice over recent decades, is still at bottom riddled with inequalities and with hostile and discriminatory attitudes and practices.[58]
>
> There is no doubt that age discrimination is widespread and, in the context of an ageing society, it represents a huge challenge that must be overcome for both social and economic reasons. Social, because it creates stigma, social exclusion and the denial of full citizenship. Economic, because if older people are discriminated against purely on the grounds of age, they are denied the chance of making an economic contribution.[59]

If there is anything controversial in these judgements, it clearly has nothing to do with any problem of costs. It depends rather on whether we agree that the problem is as serious and extensive as these writers suggest. The OECD, as we have already seen, argues that the evidence on age discrimination in employment is unclear; and not everyone agrees with Help The Aged's conclusions on the extent to which older people in this country are unfairly denied access to medical care because of their age. It can be (and has been) argued by some health economists that advanced old age should be taken into account when assessing someone's ability to benefit from a medical intervention.[60] The judgement that our society has a *huge* problem with the 'denial of full citizenship' to a large proportion of its citizens is likely therefore to be politically contested. It is certainly arguable that most western liberal democracies (including the UK) do not have a serious problem with institutional ageism – which is not to say that other factors, such as lack of income or lack of mobility, may not be real barriers to full participation in society by some older people. The solution to this second problem, however, is not to change the policies and procedures of the institutions with which older people seek to engage, but to provide (through redistribution) more support and resources to older people who lack them. And our views on *this* issue will surely divide in line with broad political sympathies – and the view we have of the relation between the different kinds of barrier to access and participation.

What are we to understand by full participation in society? It has become customary over the last few years to distinguish between the rights of citizenship and the responsibilities that go with being an active citizen. Older people may participate in social and civic institutions as beneficiaries or as contributors. When we are concerned to remedy inequalities in access to goods and services which are regarded as basic entitlements by the mainstream of society, we are concerned with older people mainly as actual or potential beneficiaries of institutions that distribute the benefits of collective effort. The problem is that they are being prevented from drawing on these benefits to the same extent as younger people. It is with older people as actual and potential contributors to the welfare of others that Alan Walker is concerned when he says,

> The main question here is what roles should older people occupy in modern society. The challenge … is to develop new roles and statuses and attitudes commensurate with our new more age-balanced societies.[61]

The form that Alan Walker gives to his ‘main question’ here really hits the nail on the head, I think. There is, after all, a close link between status and roles. If there is an underlying problem about the status that society confers on older people, it has its origins in the sense that older people receive more than they give. As our powers and abilities decline, our contribution to the collective welfare diminishes. A great deal has been written on this topic, and much of what goes under the academic label of social gerontology is concerned to rebut this view of old age as a time of decline and loss. It is argued, for example, that retired people can and do make positive contributions to the collective welfare; and that economists should take account of this.

> Recognising (and quantifying) the unpaid but productive contributions of older people, for example as carers or volunteers is important when gauging the true extent of transfers from ‘productive’ to ‘non-productive’ members of society.[62]

The point highlighted by Alan Walker’s question, however, is that the problem is not to be resolved simply by documenting - and setting a proper value on - the *existing* contributions of older people. What is required is the development of *new* roles. It is not enough to recognise the ways in which older people already participate in the life of the community; our society has to find new ways of enabling people older people to make a valued contribution to the welfare of others. Is this controversial? Probably not, though once we make the connection between this idea of active participation in the life of the community and the world of work, it is possible to discern significant differences of emphasis between the two competing policy agendas that have been outlined above.

There is no question but that a reversal in the declining labour force participation of people in their fifties and early sixties together with an increase in participation by people older than 65 years would be a very effective means of ‘making “active ageing” a reality’. Support for measures to achieve these aims unites commentators and analysts who would take opposing views of the significance of the cost pressures of population. Those who are worried about pension finance see this particular form of active ageing as a way of helping older people to secure an adequate income in later life, and also of relieving unwanted pressures on public expenditure. Those, on the other hand, who are relatively relaxed about the cost pressures of population ageing – but worry about rights and citizenship – will see it as a way of enabling older people to continue to make a contribution to the common good.

Although both points of view provide us with arguments that underline the importance of finding ways to harness the energies and skills of older people, they are likely to adopt a somewhat different approach. For one side of the argument, the priority must be a package of measures to open up the labour market for older people – to provide them with better opportunities for jobs and training. These are measures that would *enable* older people to participate more fully – and on more equal terms – in the market.

The other side sees the matter of labour market participation as complementary to pension reform. These are two parts of the same strategy – reducing public expenditure on pension benefits and redistributing the costs of population ageing. The priority must be to change the balance of time that people spend in work and retirement. Just as it is fair to require individuals to save more in private pensions, so it is fair to require them to work longer before they are entitled to receive public pension benefits. The point is that our healthy life expectancy is increasing along with life expectancy – and it is fair that this should change our entitlement to a retirement income. Our ability to trade off increased prosperity for increased leisure is curtailed by population ageing. Looked at from this point, the issue here is not the freedom of older people to participate in the labour market (which ought to be extended) – but rather their freedom not to participate in the labour market (which ought to be curtailed). The cornerstone of the policy must therefore be a mixture of financial sticks and carrots that would make later retirement the only real option for the majority of the workforce. Opening up the labour market to older people is important – but no less important is the requirement to manage the economy in a way that minimises overall unemployment.

There is, therefore, considerable consensus about the desirability – both for older people themselves and for society as a whole – of policies which would 'make "active ageing" a reality' through the continued participation of older people in the work force – even if there is some disagreement about how this should be done. Measures such as the elimination of age discrimination in employment, the abolition of mandatory retirement ages and the raising of the pensionable age, now common throughout the OECD, are only a small part of what is required.[63] It will be necessary also to restructure employment practices in a way that harnesses the abilities and skills of older workers and makes their continued participation in the work force worthwhile. On this both sides agree. It seems likely, however, that the role of 'compulsion' (by withholding public pension benefits) in promoting later retirement will prove controversial. It does sit rather uncomfortably with the idea that people should be able to enjoy their transition to the Third Age. After all, if our societies really can afford to let people make their own choices on this matter, why should government do something as unpopular as increasing the pensionable age? Surely it should be aiming to extend the range of choices available to older people (including work opportunities) rather than narrow them.

One of the more fascinating contributions to this debate comes from Robert Fogel[64], probably the eminent of the new school of quantitative historians in the USA, who combines a strong affirmation of the value of freedom in the Third Age with a strong critique of the place of consumerism in later life. Taking as he does an optimistic view of the capacity of OECD countries to finance earlier retirement and provide 'retirees' with an adequate income, he asks about the content of a 'postmodern egalitarian agenda' for older people. It lies, he thinks, within the power of affluent societies 'to extend the quest for self-realization from a small fraction of the community to the majority', and the Third Age is the time to do it. The policy problem (if this is how it should be described) is to find ways of encouraging the majority of leisured people 'not to waste their leisure in the pursuit of consumerism'.

Healthy ageing

A major challenge facing society is how we can maintain health and quality of life in an aging population.[64]

Economists and policy analysts who worry about the financial costs of population ageing often seem to take a rather sceptical view of the benefits of increased life expectancy. Even if it is conceded that a gain in years of life confers an undoubted benefit on the individual who lives those extra years, this does not dispose of the problem posed by the costs of providing support and care during these extra years. Looked at from this point of view, the downside to population ageing is external to the individual who gains extra years of life. Because older people tend to require more health care than younger people, it seems inevitable that population ageing must drive up total expenditure on health care. The percentage of the national product that is spent on health care will increase unless the economy grows fast enough to absorb these additional costs.

A report from the Institute of Fiscal Studies for the UK estimates that the growing number of older people in the population will increase the total health costs (not including long-term care) by about one third between 2001 and 2051.[66] This is what population ageing alone is projected to add to the cost of providing health care to people in the UK – quite apart from other factors which tend to drive up health care spending. This means that over the next fifty years in the UK population ageing will push health care spending up from 5.6% of GDP to 7.3% of GDP.[67] When these kinds of figures are considered in isolation from other forces acting on health care spending (mainly wage costs and therapeutic innovation) and from other items of age-related social expenditure (pensions and long-term care), it seems quite misguided to take alarm at the future costs of treating the health care problems of the older population. It is when these other considerations are 'factored in' to the equation that the situation starts to look more worrying. It seems sensible, for example, to assume that growth in per capita health care spending will continue to outstrip growth in per capita GDP – just as it has done over the last few decades; and important not to forget that increases in one item of public expenditure usually act as constraints on increases elsewhere. This is not to say that the UK economy will be unable to absorb the increase in health care spending that will be required as a result of population ageing. What it does mean, however, is that the prudent policy maker will want to make it a priority to improve the health of the older population in such a way that they need less health care (and less long-term care).

> People are living longer and healthier lives. Nevertheless population ageing means that health and long-term care costs are likely to rise, although perhaps by less than once was feared. The central challenge is to ensure that these expenditures are cost-effective and meet the most pressing requirements – reducing the time spent in dependence and the time in chronic care.[68]

> The debate over financing care resembles in many respects the debate over financing pensions, but the opportunities to delay dependency are a point of difference. Expenditures on social care, unlike those on pensions, can be reduced through improvements in efficiency of services – the balance of care question – or reductions in the need for services.[69]

There is, of course, another reason for wanting to moderate the older population's demand for health care apart from its impact on public expenditure. It is possible that increased life expectancy might impose an unwanted burden of ill-health and disability on the ageing individual. There is, after all, a very close connection between the extent to which health problems interfere with everyday life and the individual's sense of well-being. The benefit that an extra year of life confers on the individual may therefore be undermined by increasingly severe health problems – to the point where the extra year seems quite devoid of benefit to that individual. Although it is important not to exaggerate this problem, it seems incontestable that we want our extra years of life to be as healthy as possible. This may sound like a truism. Does not everyone want to be as healthy as possible? What makes it more than a 'mere' truism is the high prevalence of chronic ill-health and severe disability in later life. I am thinking here not of people in their sixties and early seventies – but of people in their late seventies and beyond. Nor am I thinking of complaints like asymptomatic hypertension or mild arthritis. What I have in mind are the kinds of severe and oppressive health problems that often make life very, very hard. It may be true that only a minority of older people (as they are normally counted) fall into this category at any one time, but it is not true that only a minority of older people experience these kinds of health problems before they die.

If we suppose that the average age of onset of ill health remains unchanged while life expectancy increases, the gain in life years will mean more years of ill health before death for the individual and a greater proportion of people in the population with disability. If, however, the age of onset of ill health should rise more quickly than life expectancy, the result is a 'compression of morbidity' – a shorter period of disability and ill health before death. It is rather hard at the moment to discern clear population trends on this matter. It certainly looks as though the average age of onset of chronic ill-health and disability is increasing along with the increase in life expectancy – but what matters are the relative rates of change. If life expectancy is increasing more quickly than the average age of onset of disability, we will see the opposite effect from a compression of morbidity.

It would be quite wrong, however, to suggest that the association between human ageing and increasing ill health and disability is something outside human control – so that all we can do is read the epidemiological data and interpret the trends. There is a general consensus in the medical profession that it is *possible* to prevent or postpone the onset of disability and chronic ill health in later life. In other words, it should be possible to devise and implement health promotion policies which have the effect of compressing morbidity in later life into a significantly shorter time span than at present. The aim is to ensure that individuals spend a smaller proportion of their increasingly long lives in a state of ill-health and disability.

Once it is granted that it should be possible to come up with a set of policies which would help us achieve this aim, it is hard to resist the conclusion that this *must* be one of the major policy challenges of the coming century. Even if we cannot take for granted a consensus over the desirability of extending life expectancy at 60 by another five or ten years, we can take for granted a consensus over the desirability of extending *healthy life expectancy*. On the face of it, therefore, this is what we might call an essentially technocratic policy challenge. The only question with which we need concern ourselves is how to achieve a policy goal we all consider desirable and worthwhile. The suggestion, however, that there is no room for politics here would be misleading. Politics come in because there is disagreement about the extent to which the improvement of the nation's health depends on social and political change. If the best way of improving the health prospects of people in their fifties and sixties is to improve the material conditions of life for the people with worst health prospects, then it is arguable that an effective strategy for healthy ageing should incorporate a shift towards a more egalitarian society.

The general consensus on the importance of policies to promote *healthy* ageing is matched by a general consensus on the importance of policies to promote *active* ageing. The two aims are indeed closely connected, especially if we think of 'active ageing' as a matter of freely chosen leisure activities. It is now medical orthodoxy to regard the maintenance of physical activity and social participation as one of the foundations of health and well-being in later life. Lifelong learning and volunteering are high on the list of the activities that policy makers want to encourage among older people – and there are of course other benefits besides health improvement to be expected from policies that succeed in promoting these kinds of activity. Policies to extend the opportunities for older people to remain active through participation in leisure activities are unlikely therefore to provoke much dissent – except insofar as they consume public resources. If there is a focus for disagreement here, it will turn largely on the level of public resources which should be devoted to improving the range of opportunities available to older people for active leisure pursuits.

Revolutionary thinking for an ageing society

In a report published at the beginning of the new millennium, the United Nations argued that the magnitude of the social change implied by population ageing

> … parallels the magnitude of the industrial revolution … [which] marked the beginning of a sustained movement towards modern economic growth in much the same way that globalization is today marking an unprecedented and sustained movement toward a 'global culture'. The demographic revolution, it is envisaged, will be at least as powerful.
>
> While the future effects are not known, a likely scenario is one where both the challenges as well as the opportunities will emerge from a vessel into which exploration and research, dialogue and debate are poured. Challenges arise as social and economic structures try to adjust to the simultaneous phenomenon of diminishing young cohorts with rising older ones, and opportunities present themselves in the sheer number of older individuals and the vast resources societies stand to gain from their contribution.
>
> This ageing of the population permeates all social, economic and cultural spheres. Revolutionary change calls for new, revolutionary thinking, which can position policy formulation and implementation on a sounder footing. In our ageing world, new thinking requires that we view ageing as a lifelong and society-wide phenomenon, not a phenomenon exclusively pertaining to older persons.[70]

What does all this mean? It means that the ramifications of population ageing are so far-reaching as to require a reformulation of the basic aims of policy in this field. It is a mistake to suppose that the challenge set by population ageing is exhausted by developing policies to meet the needs and promote the welfare of a section of the population that is growing in size. That the UN recognises such policies to be *part* of what is required is clear when they say that population ageing 'may lead to compelling changes in the way a society's resources are shared between the generations'. They are thinking here of a major redistribution of resources in favour of the growing older population, which would include a significant re-allocation of expenditure on social and welfare programmes – away from programmes geared towards children and young people and towards programmes geared towards older people. But why is this only *part* of what is required?

It is only part of what is required because societies will have to rethink the way that they spend their collective resources more radically than this would suggest. The problem lies in the assumption that social expenditure on children and young people is to be justified in different terms from social expenditure on older people. We can – and do – think of social expenditure for children and young people as a kind of investment for the future. We tend not to think of social expenditure for older people in the same way. Their claim on our collective resources rests entirely on the recognition of their needs – and has little or nothing to do with the development of their capacities to contribute to the common good. Children and young people have yet to develop their ability to make a significant and valued contribution to the collective resources of society; old age is reached when people start to lose this ability. The revolutionary thinking of which the UN speaks starts from the position that older people (the change in language is significant) are able to retain their ability to contribute to society's collective resources for much longer than is usually assumed. What this means is that it is worthwhile 'investing' in institutions and programmes that will enable society to realise the potential contribution that older people have to make to its collective welfare. The problem is to devise policies that will develop, maintain and utilise the abilities of people as they enter the last third of their adult lives. This is where the revolutionary thinking is required.

Conclusion

There is not a great deal to be said about the challenges of population ageing that is uncontroversial. Much of the disagreement turns on the matter of costs and their consequences for the general direction of policy reform. Is population ageing over the next fifty years likely to impose constraints on public expenditure which are significantly greater than those we have experienced over the last fifty years? Different experts do indeed differ in their estimates of the magnitude of the constraints that population ageing will impose on the spending plans of future governments (though there is a consensus that the UK is in a more favourable position than most of the other wealthy countries in the world). Arguments about the challenges of population ageing cut much more deeply than this, however, and it is by no means the only point at issue. Differences of opinion on how society should adapt to the pressures of population ageing reflect different views about the preferred direction of social and political change. The values and ideals that inform these preferences are for the most part quite independent of any insights we may have into the phenomenon of population ageing. This can be seen plainly enough in the debate over the balance between individual and collective responsibility in the provision of care and support in later life. We tend to approach this issue with prior commitments and allegiances – if only in respect of the inequalities which we think our society should be prepared to tolerate. It can also be seen in the uses we want to make of the idea of the 'rights of citizenship'. And there are, I think, other differences of 'social vision' to be found between the arguments of an agency like the OECD and those of many of its critics – even if they lie somewhat below the surface. There seems little doubt, for example, that the OECD would have no time for Robert Fogel's vision of a society in which older people have put the pursuit of consumerism behind them.

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