

FOUR

Time bombs and agequakes: the economics of ageing

It is excellent news: more people are living longer! What's more, they are living longer in good health. But this good news is often drowned out by misconceptions and scaremongering about the economic consequences. In Chapter Two we set the record straight about why the population is ageing and how this is affecting, albeit in different ways, every part of the world.

We went on, in the next chapter, to assert that perceptions of age and ageing are culturally influenced and have changed over time. We suggested that current ideas about ageing have not caught up with research and lived experiences. For example, the idea of relentless decline in old age is a very strong one, and it reinforces the idea that expensive care will be necessary for longer. Yet the HALE statistics, quoted in Chapter Two, indicate that people are living longer with a good quality of life.

Building on these ideas, this chapter challenges the scaremongering talk of an impending economic catastrophe, arguing instead for preparation for the changes. We point out that there are political choices to be made about social

and economic responses, noting that the short-termism of domestic politics discourages longer-term plans.

We argue that there are political reasons for orchestrating doubts about the capacity and willingness of our society to care for an increased number of older people, and for hiding other truths about the causes of and solutions for wider economic problems. It is easier to blame people than to face up to challenges. It also encourages ageist and derogatory attitudes and implies justification for discriminatory practices.

The scary story

The raw figures do indeed suggest that we are in for trouble. Two sets of figures are used to evaluate the burden of the ageing population: the absolute figures on the number of people alive, and the proportions of older versus younger people. Both sets of statistics have implications for society, but it is the proportional figure that is most used to justify the idea of catastrophe.

The age pyramids in Chapter Two show the population's changing age structure. The base of the pyramid, the younger generation, is shrinking, which leads to rectangularisation of the population structure. This shrinking reinforces the impression of instability.

Population figures related to age are relevant because a society has to support its dependent people through the economic activity of its working population. This is most frequently expressed as a ratio between the number of people over 65 and those of working age. It's called the old-age dependency ratio or age-dependency ratio. The simplistic version of this ratio is both misleading and frightening, as it suggests that the moment is very near when the burden of financial dependency of the old will be too great for the young to carry. This is the argument for the time bomb. The catastrophe prediction has been around for 35 or so years,

since the 1980s, and it has not yet materialised. So perhaps we should take a closer look at what is happening.

Unpicking the scare stories

The age-dependency ratio

The age-dependency ratio requires close scrutiny, for it is crude and misleading. The crudeness in the calculation is a function of the assumptions upon which the calculation is made.

The age-dependency ratio is expressed as a percentage. Today there are 310 people of pensionable age for every 1,000 of working age and therefore the old-age dependency ratio is 31%. It is expected to rise to 37% in 2035, even allowing for planned rises in the State Pension Age (SPA) to 68. How bad is that? Should we be worried by a ratio of 37%, or even of 31%? Where is the breaking point?

Age is a poor predictor of dependency, and the critical word here *is* dependency. But to simplify the calculation, the most-quoted ratio does use age as an indicator of dependency. It sets those over the SPA against the working-age population. Using age as a proxy for dependency inevitably calculates that as the population ages a greater economic burden will fall upon younger people.

To assume that economic dependency starts at the age of 65 flies in the face of reality. The evidence is everywhere. Many people over 65 continue in employment. About 3.5% of the total workforce is over 65 and the proportion is increasing. Since the abolition of the Default Retirement Age DRA in 2011 people have been able to choose to continue in work until they are ready to leave. We should not be surprised by the willingness to work among a group whose health has been improving. Further, some older people need to continue in work for financial reasons. We explore the need and willingness to work longer in more depth in Chapter Six.

The word ‘dependency’ conjures up ideas of poverty and benefits. However, over-65s continue to make substantial contributions in many ways. Those still in paid employment continue to pay income tax, and about five million over-65s are paying income tax on their pensions and other income. Even those who have left the workforce, or who reduce their hours, frequently have increased spending power, as compared to previous generations. The spending power of the over-65s, the ‘grey pound’, is itself a major contribution to the national economy and, as we argue in the next chapter, is frequently overlooked by those who could benefit from better attention to older consumers.

Many older people make a substantial contribution of their time and money to charities and to the care of family members, reducing the costs for both the state and the family. Nearly two million grandparents have given up a job, reduced their working hours or taken time off work in order to look after grandchildren. Grandparents make substantial financial sacrifices as well: 12% have spent over £1,000 on their grandchildren and 3% say that they have reduced the amount they have saved for a pension in the previous year, in order to support their grandchildren, according to a poll for Grandparents Plus in 2014.¹

The other side of the ratio also needs re-examining – the people of working age who have to support the dependent old. The ratio as it is usually given relies upon the assumption that everyone aged between 16 and 64 is economically productive, and fails to take account of those who are unable to work due to disability, lack of employment opportunities or unpaid care responsibilities. In fact there are more dependants of working age (9.5 million) than there are older people who are not employed. A truer picture of the dependency ratio would use the number of people in employment, including the one million over-60s.

Economic productivity, rather than age, provides a more meaningful and accurate calculation, allowing us to see that dependency has actually fallen by one third since 1976, and in the future may stabilise, probably at about 29% in 2050. It also indicates that at no point will it reach the levels experienced for most of the twentieth century. In the last three decades of the twentieth century the figure was 30%.² The care of dependent members of society is a matter of competing political choices, discussed below. However, inaccuracy, scaremongering and exaggeration are not the best basis for discussion of the challenges to be met.

The numbers

A second set of statistics to fuel the concept of a time bomb or agequake are the numbers themselves. More people are living longer. The argument of impending catastrophe rests on the assumption that because they are living longer they will need care for longer. For the population as a whole, however, the periods of chronic dependency will continue to occur in the final years of life; that is, dependency will be delayed, not increased. The WHO's measure, known as HALE, reveals that most people aged 65 in the Western world can expect to have about nine more years in good health. While healthy life expectancy is not rising quite as fast as life expectancy, the prediction of catastrophe relies on the argument that the increased number of older people puts unsustainable strain on health and social care provision.

'We should not assume that population ageing itself will strain health and social care systems,' warn the authors of an article in the *British Medical Journal (BMJ)*, 'Population ageing: The timebomb that isn't?'.³ They argue that most acute medical care costs occur in the final months of life, and that the age at which these months occur has little relationship to numerical age. The figure for dependency of

older people would be more accurate if based on remaining life expectancy.

Will there be an inevitable crisis?

The scare story implies the inevitability of an explosion, and also responses to the challenges of the ageing population. But there are choices to be made at every level: by policy makers, local communities, families and the individual.

The increase in the older population is widely presented as problematic. During the winter of 2014–15 the news frequently contained items about a hospital crisis in acute care. We learned that beds were being ‘blocked’ – that is, that no appropriate provision had been made for people who were fit to leave hospital but still needed care. This is a crisis of funding, of priorities and a function of the lack of coordination of healthcare and social care for older people. But in this version of the time-bomb story older people are perceived to be causing the crisis in public expenditure by ‘absorbing more than their fair share of tax-payers’ money’, to quote the bishop of London.⁴

The emphasis on state provision for older people is especially pernicious when it is contained within ideas about intergenerational fairness. There is a perception that older people are being protected, especially their pensions and age-linked benefits such as winter fuel allowance and bus passes. It is assumed that governments seek electoral advantage by favouring the older voters, who are known to exercise their right to vote in greater proportion than younger people. Whatever the electoral advantages, there are good reasons to continue to support the old and not simply to transfer benefits to the younger generation.

- Older people have contributed throughout their working lives to their pensions, and it is more accurate to refer to the state pension as an entitlement than as a benefit.
- Older people deserve care, support and respect for their lifelong contribution.
- It is cheaper to provide some benefits in the short term than to pay for the more expensive consequences later. For example, there are benefits to free public transport in preventing isolation and loneliness, as well as enabling access to healthcare and other services. It is both more humane and more efficient to prevent loneliness and poor health than to deal with chronic but preventable conditions.
- Many older people are already suffering from the austerity cuts and are still among the poorest in our society. They would be badly affected by any removal of benefits.
- Economic analysis suggests that transferring public spending from the old to the young would ‘have very little impact on intergenerational inequalities and the long term prospects of younger cohorts’.⁵ To put it another way, the answer to these problems isn’t to make older people worse off. The benefits provided for older people come to younger people in the future.
- Other policy options than denting the older generation are available to improve the economic outlook for younger people.

Because there are greater inequalities between classes or income groups than between generations, it is a distraction to frame the economic policy choice as one of supporting the young at the expense of the old, or vice versa.

So, there are social changes and economic challenges as a result of ageing for longer, but the story of the time bomb is an exaggeration. The scare stories are based on age rather than dependency, and fail to take account of increased healthiness in old age. Since the start of this century, academic research

has challenged the Doomsday scenario.⁶ We now turn to consider the reasons for the persistence of the idea of the time bomb.

An explanation for the repetition of the time-bomb story

The idea that the increase in the older population is a time bomb can be shown to be exaggerated and a distortion. Who is promoting the idea of a fearful future, and why? The media as well as politicians are accused of operating in an ‘evidence-free zone’ by Professor Alan Walker, the leader of the biggest social research project, the New Dynamics of Ageing.⁷ A consequence of the ‘evidence-free rhetoric’ is that it allows distorted versions of the challenges and causes, including the idea of the time bomb, to gain traction in public discussion.

In whose interest is it to perpetuate the idea of an impending crisis?

- It makes good headlines.
- It diverts blame and criticism by obscuring some of the effects of recent policies.
- It dodges serious economic analysis.
- It diverts attention from the inequalities in our country that still leave many older people in extreme want (although fewer than before).
- It favours short-term blaming over long-term planning, which suits election-conscious politicians with an eye to the next election.

Above all, it feeds the prominent discourse that blames older people for the difficulties of the younger generation. We have lost count of headlines that begin ‘Boomers to blame for ...’, including increased rudeness in society, shortage of hospital beds, difficulties in getting decent jobs or promotion, and

student loans. You can add any social problems to this list. The discourse is not limited to politicians.

Our parents had free education, fat pensions, early retirement and second homes. We've been left with student debt and a property ladder with rotten rungs. And the only career choice is a crap job or no job. Thanks very much. (Andrew Hankinson)

This comment comes from an article about a 'lost generation' in the *Observer Magazine* in January 2010. The article laid the cause of the younger generation's difficulties at the door of the older generation. Selfish and greedy are frequent descriptions of the spoiled so-called 'boomer' generation.

We should note the sense of entitlement of the younger generation, and that some commentators have gone as far as claiming that an established social contract between generations has been broken because the old have held on to their wealth. This new ageism reflects a shift away from the idea that the old, dependent population is deserving of our care and interest, and toward a feeling of entitlement by the young to the wealth of the older generation.⁸

These arguments that blame the older generations were advanced in 2010 by Conservative MP David Willetts in his book *The pinch: How the baby boomers took their children's future – and why they should give it back* – a clever title, implying both a financial squeeze and theft.⁹ The premise of his argument is that an intergenerational contract has been broken. Others have contributed to this idea of the entitled younger generation, for example *Jilted generation: How Britain has bankrupt its youth*.¹⁰ Culprits can quickly be identified: people born between 1945 and 1965, the 'boomers'.

The rational approach to an impending crisis is to make plans to mitigate its worst features, not to stand on the

side-lines and throw blame. All this talk of intergenerational conflict and projection of a crisis waiting to happen is a diversion from necessary action.

However, we should acknowledge that some government policies are already shifting to encourage people to work for longer, and that changes are under way that are intended to improve and coordinate social and medical care in local communities.

A different story about the economics of ageing today

Although the media often present the spectre of a time bomb, informed citizens are not convinced. When we spoke to Richard (70), who had had a career as an international corporate banker, he told us about his suspicions of talk about time bombs. At a public event Caroline, one of the authors, was gently upbraided by a GP for her intemperate talk about a looming crisis in care for the elderly. He referred her to the *BMJ* article mentioned above that questions the time bomb scenario.¹¹

Professor Sir John Hills, professor of social policy at the London School of Economics, spoke at an event at the Royal Academy in February 2014 about the burden or benefit of the ageing society. He suggested revised titles for the books mentioned above.

The pinch: How some of the baby-boomers took other people's children's future – and why they should give it back to more of them, not just their own.

Jilted generation: How Britain has bankrupt some of its youth, but others will be OK.

Thomas Piketty, the French economist, has made a detailed and long-term study of sources of capital and wealth in *Capital in the twenty-first century*.¹² He traces the changes in wealth over the last century, and from this we can draw some interesting trends.

First, social class remains more significant than generational differences.

To be sure, older individuals are certainly richer on average than younger ones. But the concentration of wealth is actually nearly as great within each age cohort as it is for the population as a whole. In other words, and contrary to a widespread belief, intergenerational warfare has not replaced class warfare. (pp 243–4)

Wealth inequality exists, but it is not a function of generations. Piketty's analysis concludes that inequalities were reduced, or 'compressed', as a result of two world wars and the Great Depression of the 1930s, and with a little help from progressive taxation, but that over the last 25 years they have been increasing again.

Second, Piketty reveals that inherited wealth is not being squandered by greedy so-called boomers, although it is contributing to the increasing inequalities in wealth. Again, this contradicts the claims of those who promote the idea of generational conflict. In 1880, 24% of wealth was inherited. By the 1950s this had decreased to 4%. It has now risen again to 14%. These figures are from France, but it is likely that the British figures follow the same pattern. Piketty states:

Inheritance is playing a larger part in their [younger people's] lives, careers and individual and family choices than it did with the baby boomers. (p 381)

Given that people are living for longer, the older generation need to provide for themselves for longer. The so-called boomer generation received less in inheritance than the generations before or since, but need to hold on to their wealth for longer before passing it on at death. It is ill-judged to criticise those who make provision for more years in retirement.

That is not the end of this part of the story. The average age at inheritance has risen from 30 years to 50 years and you might think that this explains the discomfort of the younger generation. The older generation may have delayed some of the inheritance they give to their offspring by dying later, but they have increased the amount that they transfer to their offspring during their lifetime, and to such an extent that Piketty calls it 'a golden age of gift-giving' (p 393). The average age for receiving this bounty from living parents is 35–40 years, and for the most part it is in the context of real estate (property) investment. And when the younger generation do finally receive their inheritance it is larger than it would have been 20 years previously, because capital tends to reproduce itself and accumulate over time.

We see the evidence of intergenerational assistance all around us, and not just in inheritable wealth. Two-thirds of first-time house-buyers get financial help from their parents, according to the Council of Mortgage Lenders. And parents help in other ways. Three million younger people are staying at home for longer, unable to afford to buy a property for themselves (an increase of 20% since 1997). We have also already noted that many older people provide care and financial support for their grandchildren. Referring to the poll about grandparents, Bobby Duffy of Ipsos Mori said,

The survey illustrates very clearly that the idea of there being a 'war' between the generations is very far from the day-to-day reality for most people. In

fact, it's the opposite – it shows how many young families rely heavily on grandparents for support.¹³

The myths of intergenerational conflict and the time bomb are promoted for political purposes. They drown out the reporting of the beneficial economic effects for our country of the increased number and proportion of older people. These are happening now.

Older people already make a disproportionately large contribution to the Big Society. As a group they do more than their fair share of volunteering, charitable giving, voting and other forms of civic engagement, from petitioning to becoming councillors.... The fact that older people already volunteer, vote, donate and engage in the community more than other age groups is itself a route to further progress.¹⁴

This is taken from a report that suggests that older people will continue to play a significant part in the resolution of our economic difficulties. And this while the proportion of GDP (Gross Domestic Product) spent on social care is much lower than in other European countries. The UK's expenditure was 6.1% in 2012, compared to Austria's 12%, Sweden's 9.4% or Denmark's 8.4%, and among the lowest in Europe.¹⁵

What needs to change?

Public debate about the economic consequences of increased longevity needs to be much better informed. There are economic costs to the ageing society, but just as rabbits are startled in the headlights, people's responses are frozen by the domination of the catastrophic scenario. The debate

has become polarised as the old are blamed, or considered favoured, or people feel helpless.

More knowledge will provide better discussion and dialogue and lead to better policy. Our book is intended to help with this de-obfuscation. Politicians and the press, in particular, need to become more familiar with the research and to promote more research. And we could benefit from looking at what is being done in response to the challenges in other countries throughout the world.

Economic discussion that is based on age categories should be challenged. The older generation includes such a diversity of people, especially in terms of wealth, that age categories are frequently irrelevant. Such categories also mask inequalities, especially in income and wealth.

We need to challenge the out-of-date story of doom and gloom. In its place we need to tell a different story. This one would celebrate what the active older generation are contributing to society: increased economic activity through their employment, payment of taxes, care provision, charity work and their buying power. This different story would explain that older people are holding on to their wealth (if they have it) for longer because they need to, but that they are also giving more during their lifetime to their offspring. Indeed, the generation who benefited least from inherited wealth (the so-called boomers) are giving more to the next generation than they received. Talk of greed and blame should stop.

Planning needs to replace blaming, especially in political discourse.

Planning for the implications of an ageing population needs to be long term. At the moment, arguments for planning are obscured by talk about intergenerational conflict.

Long-term policy planning is difficult in the face of political time, where an election is always less than five years away. Planning for social changes needs to look ahead further

than five years. This is also true at local community level, especially where health, social care and accommodation are concerned.

Alternative solutions to the social problems of inequality need to be given wider consideration; for example, taxing assets more, looking again at what people give away tax free to their offspring or looking at equity gains from property.

Individuals need to plan for a longer life, with longer time in employment as well as in retirement.

Providing for a longer life makes sense. So does talking less about an impending and inevitable crisis, and doing more to prepare for the problems and opportunities that we can expect from increased longevity.