The Elderly: An International Policy Perspective

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As a contribution to the World Assembly on aging (Vienna, 26 July to 6 August 1982) the Sandoz Institute for Health and Socio-Economic Studies undertook a 16 nation survey on the problems of the elderly (defined as persons aged 60 and over) in consultation with the United Nations Center for Social Development and Humanitarian Affairs. The participating advanced industrial countries were Australia, the Federal Republic of Germany, France, Italy, Japan, Sweden, the United Kingdom, and the United States and the less industrialized countries included Brazil, Egypt, India, Israel, Kenya, Nigeria, the Philippines, and Poland (Selby and Schechter 1982).

Questionnaire responses were provided for each country by a small working group of three experts representing the broad areas of health, sociology, and social policy. There were two rounds of questions, the first focused on a ranking of the following problem areas—health, housing, health services and social services, family, community activities, income, work and employment, and retirement. The second round focused on the diversity of the elderly, employment, research, and political factors in policy making.

I was invited by the Sandoz Institute to prepare an economic com-

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mentary. Since it was not published, presumptively because it was judged not congruent with the aims of the assembly, I have taken the opportunity of making some changes and clarifications in preparing it for the present issue of the *Milbank Quarterly.*

Many of the returns from the sixteen nations were downbeat because of the anticipated rapid rise in the number of the elderly during the next twenty years, the anticipated high levels of unemployment, and the presumption of slow economic growth in the future.

Although economics in its formative years had earned the sobriquet of "the dismal science" because one of its founding fathers, the Reverend Thomas Malthus, saw famine, disease, and war as the great equilibrators when population expands faster than the food supply, the gerontologists and the sociologists who answered the questionnaire appeared to be unduly pessimistic. In my view, they were extrapolating from the unsatisfactory present for too many years into the future. A moderation of inflation together with renewed economic growth and an improved employment outlook, at least in the economies of the advanced industrial nations, is surely possible, even likely, before the end of this century.

In developing my commentary, my approach was to review critically the assumptions and conclusions of the experts who contributed to the survey, to delineate realistic parameters within which future policies for older persons should be designed, and, finally, to make a limited number of concrete suggestions for constructive action in the public and private domains that hold promise of contributing to the well-being of older persons. Each of the respondent nations is unique, but this analysis will proceed with a simplified typology in which the developed nations are distinguished from the faster and slower growing less-developed countries (LDCs).

The Present Unfavorable Economic Environment

The respondents from the developed countries noted the following trends that threaten the viability of existing economic supports for the elderly and that will impede efforts to improve their circumstances in the future. The combination of slow economic growth, high inflation, and high unemployment represents a triple threat. Slow economic growth means that there will be only a small surplus available for improving the well-being of the total population, including the elderly, and in some years there will be no surplus. Under such strained circumstances, one cannot expect a society to use its small surplus solely to improve the well-being of the elderly to the exclusion of competing groups such as children, minorities, families with low incomes, and, especially, the working population who are producing the surplus and require incentives to increase it.

Continuing inflation is the second serious threat. On the one hand, inflation increases the difficulties that national pension schemes face in their efforts to remain solvent, by distorting the rates of savings, interest, and investments. On the other hand, inflation erodes the value of private pensions. If employers act to index these private plans, the costs to them through raising wage and benefit payments can result in the loss of future markets and jobs. If the costs of indexing private plans are absorbed in the national budget, taxes will increase, the nation's competitive position will be weakened, and income and employment are likely to decline. High inflation also leads to the erosion of personal savings that individuals accumulate during their working years to help them through their later years when they are no longer employed.

The respondents were also pessimistic about the future trends in employment. The combination of slow growth and high inflation are almost certain precursors of a low level of new job creation. Slow growth of new jobs at a time when more young people and women are entering the labor force points to continuing high unemployment. Moreover, automation is likely to result in displacing considerable numbers who currently hold jobs and further job losses will follow as additional manufacturing jobs are lost as a result of plant relocations from developed to less-developed nations. Since an inadequate number of jobs will be available for persons of prime working age, older workers will face increasing pressures to retire early.

A second set of adverse economic developments identified by the respondents included: the increasing costs of health care; the growing determination of governments to bring and to keep their budgets under control; and the difficulties of finding sources of funding in the private sector to provide improved services for the elderly as well as for other priority groups who need assistance.

The respondents from the developing nations cited many of these same factors: the difficulties of assuring the financial viability of embryonic pension schemes in periods of high level inflation; the growing imbalance between a rapidly increasing work force and a slower growth of employment opportunities; the intensified pressures to keep governmental expenditures under control. The developing nations called attention to additional problems to which they were particularly vulnerable, such as: the large-scale inflow of the rural population into crowded urban centers; the erosion of the extended family which had formerly provided for its elderly members; the acute competition for limited resources between economic development goals and the maintenance needs of many groups, including the elderly.

A More Optimistic Economic Scenario

No economist will minimize the dangers of a prolonged period of high inflation such as has characterized most of the developed and developing nations since the early 1970s. Governments are now increasing efforts to contain and reduce such inflationary pressures. With a reasonable admixture of continuing fiscal restraint and the absence of renewed oil or other raw material shortages, inflation could by 1990 represent a considerably reduced threat.

The assumption of continued slow economic growth can also be challenged. Included in the sixteen nations surveyed are several that have been able to sustain high or satisfactory levels of growth in recent years even though most nations have experienced a slowing in their previous rates of growth. For the developed nations, the 1950s and 1960s represented an epoch of above-average growth because of the rapid rebuilding of capital plant and equipment after many years of war and economic stagnation. For many LDCs these decades saw rapid growth aided and abetted by much enlarged international lending, following their achievement of national independence. After two decades of rapid expansion some slowdown was to be anticipated. However, the attraction of low-cost labor that has proved its ability to cope with modern technology points to an eventual quickening of investment in LDCs once the world's economy again begins to expand.

Attention must also be called to a subtle factor imbedded in the ways in which growth is measured. Some economists believe that the actual growth in both developed and developing economies may be considerably higher than the official statistics suggest. In developed economies we have seen a rapid growth in tax evading, illicit and illegal activities, as well as an expansion in noncash transfers as when dentists and accountants exchange professional services. In developing countries the shifting boundaries between the money and the nonmoney economies also create doubts about how well the statistical reporting systems provide a true reflection of real growth in employment and income.

There are also good reasons to question the forecasts of respondents from the developed nations about continuing weaknesses in the job market resulting from the continued rapid growth of the labor force. The odds favor increasing pressure from the side of adult women who are currently not working. More and more of them are likely to seek paid employment and to increase their years in active employment. But the situation is different with respect to young persons. In some developed nations the surge in the numbers of youth has already crested and in other countries the crest will occur shortly. Manpower planners in Germany are presently designing policies that will help compensate for the substantial decline in the absolute number of young people who will be entering the labor force some years hence. In the United States the number of young people reaching the working age of 16 to 24 will decline by 15 percent in the 1980s.

Technological advances usually cut both ways. Along with the benefits come dislocations; some workers lose their jobs and others find their skills obsolescent. But over the long pull, technological advances—a substitute term for automation—are likely to expand the total number of jobs and raise the skill levels of the labor force. That is the only reasonable deduction to be extracted from the record of the last two centuries.

The developed regions of the world do face a challenge from the loss of jobs incident to the relocation of manufacturing plants to the less-developed nations. But these job losses in manufacturing are the beginning, not the end of this important transition. The evidence favors Adam Smith's insight that a broadening of the market results in expansion, not contraction, of both income and employment for all who trade.

Two developments—the expansion of the service sector and increased bilateral and multilateral trade—have, in the past, helped to cushion the relative decline in manufacturing employment that has been occurring in most developed nations, and there is every reason to assume that these trends will continue.

In the more rapidly growing developing countries—such as Brazil, Israel, and Nigeria—continuing inflation, some slowing in economic growth, and a surplus of job seekers represent threats to large-scale improvements in the standard of living, including better prospects for the elderly. But these potential threats are not to be equated with certain evils of stagnation and high unemployment and reduced funding for the elderly. If developed nations experience an easing of inflationary pressures, the same forces will contribute to moderating inflation in the developing world. Many of the developing countries should be able to continue to make good progress because of, among other reasons, the expansion of manufacturing incident to the transfer of plants from the developed nations. However, even if several LDCs are able to achieve a continuing satisfactory rate of growth, they will not be able to provide regular jobs for all of the new entrants into their labor forces, because of: the larger numbers of young people who will reach working age; the many rural migrants who are relocating to the cities to find jobs; and the increased numbers of urban women who want to work outside their homes. But if past is prelude, these countries will also face selective shortages of skilled workers even while they are encountering difficulty in absorbing the large numbers of unskilled workers.

The prospect is definitely bleaker for the LDCs at the lower levels of income because even a much reduced inflation rate, a satisfactory economic growth rate, and reasonable gains in total employment will fall far short of providing adequate jobs and income for their rapidly increasing populations.

It may be that the survey respondents will be proved right by events and their bleak forecasts confirmed. But I, for one, see little basis in history or in theory to accept their pessimistic forecasts. The human and material bases for continuing gains in productivity, particularly if assisted by reductions in the rates of population growth, remain strong.

At the beginning of the 1970s, a group of futurologists, who came to be known as the Club of Rome, put forward a number of highly pessimistic forecasts about the interaction of population, raw material, and economic trends which suggested that the world would soon start becoming poorer, not richer (Meadows et al. 1972). They and their forecasts have been discredited. Only a major collapse of the international financial system and a long-term shrinkage in world trade would restore their credibility.

Key Elements in Improving the Position of the Elderly

The survey focused on obtaining critical information on a selected number of key elements including income, work, medical services, and social services, which I will address seriatim, primarily with respect to the advanced industrial countries with occasional specification for the developing countries as well.

Income

If older persons want to enjoy a standard of living in retirement approaching the level they enjoyed in the years preceding retirement, they must continue to work past the age of 60 and the economies of which they are a part must be restructured to make room for them. No national pension plan will be able to transfer from the working population the income required to keep retirees at a desirable standard of living for 20 or more years. Once the different age groups within a population are no longer growing or declining, active workers would have to pay over a third of their annual income solely to cover this one societal obligation. The financial pressures that currently afflict most national pension plans are a warning of worse trouble ahead, when the ratio of contributors to beneficiaries will decline as the longevity of the beneficiaries continues to increase and the proportion of active workers diminishes.

The pension enthusiasts will question this alarmist conclusion and point to the prospects of encouraging more personal savings (easier to do in a noninflationary period) and more private pensions (costly to fund and even more costly to index for inflation) to relieve some of the pressures on the public treasury. I see relatively limited scope for either or both of these alternatives to provide significant amounts of income to retirees without squeezing the working population. The simple fact is that income for retirees can only come out of current production. Only the cost of housing can be covered from earlier production and this disregards the costs of maintenance, heating, and taxes. While a higher rate of savings on the part of employed workers can broaden and deepen the nation's capital stock above what it would otherwise have been, and thereby increase its future GNP, the claims of workers when they retire can be covered only from current output.

Work

The only prospect for large numbers of older persons to enjoy a satisfactory level of income is to remain at work as long as possible and thereby reduce the years when they are dependent on pensions. But the survey respondents are pessimistic about jobs, full-time or part-time, that will be available to older workers if by choice or necessity they want to work until their late sixties or even into their seventies. True, if the current high levels of unemployment were to continue over many years, the prospects of older persons to continue to work would not be bright. But if the unemployment rate were to decline, the prospect for older workers could improve quickly and dramatically. Their employability would be assisted by their improved health, the lowered demand for physical labor as the economy shifts from manufacturing to service industries, and the gains that will accrue to employers from retaining experienced workers knowledgeable about the ways in which their organizations operate.

Since lack of skill, experience, and know-how are among the constraints which impede the rate at which the modern sectors of developing countries are able to grow, one can stipulate that they too should encourage the productive members among their older workers to remain at their jobs as long as possible. Since larger employers using modern machines in developing nations are less constrained by government regulations and trade union agreements, they should face fewer difficulties in retaining such older workers.

Medical Care

The steadily growing sophistication of modern medicine expands the possibility for new useful interventions, many of which, such as open-heart surgery, carry a steep price and often an uncertain outcome. When it comes to the provision of medical care for the elderly, developed countries confront difficult decisions. For example, because of economic stringency the United Kingdom has found it necessary to deny access to the elderly to various costly procedures and other, more affluent countries are under increasing financial pressure to place limits on medical interventions on behalf of persons whose prospects of regaining functionality are problematic.

Broad access to improved medical care is clearly one of the ways in which developed nations can continue to contribute to the well-being of the elderly in the decades ahead. But an open-ended commitment to use all possible curative interventions on all older patients, without reference to their prospects of regaining functionality for self-care and work, should be reassessed in the best interests of both society and the elderly.

Developing nations should profit from the experience of the more affluent countries and proceed cautiously in developing sophisticated hospitals and staff and in committing themselves prematurely to broad entitlement programs for costly inpatient care not only for the elderly but for all their citizens. Improved health care has a significant role to play in economic growth and development but the investment should be focused primarily on classic preventive health measures, targeted in the first instance on children and young adults, including improved water supplies, the suppression of malaria and other scourges, immunization, family planning, and improved nutrition. To the extent that these interventions succeed, future cohorts of elderly persons will be better off.

Social Services

The fourth parameter is shorthand for a wide range of supports that older persons require or can utilize. These involve assistance in the maintenance of family ties, living in one's own home, participating in social and community affairs, admission when necessary to a nursing home, and much more. The guiding principle should be caution on the part of governments in designing programs that speed the shifting of responsibility from the family to the state, both because of the burdens that such shifts place on the public treasury and the further difficulty of the bureaucracy to deliver human services of high quality. The introduction of social service programs for the elderly has been limited to the more affluent of the developed nations. The developing nations, with small resources, cannot afford to follow in the footsteps of the affluent. Their governments must move circumspectly in taking on responsibilities that have long been carried by family and community. When conventional family ties are cut, as when migrants move from the countryside to the city, some modest new public services for the elderly may well be needed.

In Search of Policy

What policy directions for enhancing the well-being of older persons in both developed and developing nations can be extracted from the foregoing analysis? The earlier analysis suggested that the present difficulties facing the world economy—reflected in slowed growth, continuing inflation, and excessive unemployment—are likely to be reversed, and that many current economic difficulties will be eased. Even if this optimistic forecast proves to be more accurate than the pessimistic extrapolations that now dominate the thinking of most academicians and politicians, it does not mean that it will be easy to improve the status of the elderly. The most that can be claimed is that the environment in which future solutions are developed will be more propitious.

Before considering the specific recommendations that the leaders of developed and developing countries should weigh in designing new and improved policies to improve the welfare of older persons, I will review briefly a series of propositions that have wide currency.

- *Additional income at the command of retired persons will help to stimulate the economy and create jobs.* It is true that additional disposable income at the command of the elderly has created new demands and, therefore, new jobs, ranging from the development of retirement communities to the manufacture of prepared foods. The critical question is whether the additional income of the elderly comes from transfers from younger workers in a stagnant economy, in which case the latter will have less to spend, or from an expanding economy in which both workers and the retired are better off. The best case of all would be that in which the economy expands to a point where the heretofore unused labor of the elderly would be in demand and their increased income would stem from additional wages and salaries, not from income transfers.
- *Additional jobs for the elderly can be specified and governments can create them.* It is clear that as the elderly have more income they spend it on high priority goods and services, from nursing home care to recreation. It does not follow, however, that if governments decide to increase their outlays for improved housing, health, and other services for the elderly, this would be beneficial to the economy. Money spent on the elderly must be raised by taxes

that reduce the disposable income of other groups, so that jobs created to serve the elderly will, in large measure, be at the expense of jobs that would have been created to provide goods and services for children or young adults.

- *It is necessary and desirable to look to international arrangements and agreements among nations to "balance out" benefit levels for the elderly.* International trade has been expanding for the last two centuries to the advantage of both high- and low-wage countries. Because "fringe benefits" amount to between 35 and 50 percent of the basic wage, some developed nations are finding it increasingly difficult to compete with low-wage countries. But we must remember that consumers in high-wage countries are able to buy imported goods at lower prices. Large differentials in the labor supplies and cost structures of nation states will increase the mobility of both firms and workers, but it is doubtful that recourse to governmental interventions will lead to gains in efficiency or equity. With regard to benefits for the elderly, it is unlikely that they will reach a level where, on their own, they will have a seriously distorting influence on the international competitiveness of high income, high-wage nations.
- *Lessons can be drawn from the experience of developed countries with the highest proportions of elderly persons.* In several west European countries—such as the United Kingdom, France, Italy, the Federal Republic of Germany, and Sweden—about 1 in 5 of the population is 60 or older. Moreover, estimates by the United Nations point to substantial gains in the over-60 population by the year 2000. The optimists point to the success that the above-mentioned countries have had in supporting so many elderly persons, but the pessimists point to the vulnerable financial condition of their social security and health care systems. Policy makers should refrain from attempting to improve benefits for the elderly on the ground that enlarged expenditures will stimulate their economies, that international agreements will protect their countries from loss of competitiveness, or that their experience up to the present in supporting the elderly provides assurance of the long-term future solvency of their social security systems.

A more cautious approach would aim to increase the employment opportunities for the elderly, to constrain high-cost medical interventions that offer little promise of adding to the individual's functionality, and to provide more and better social services via family and community.

For more developed nations, the following agenda requires early assessment and action:

- Hard-nosed appraisals of the financial positions of the national pension plans well into the 21st century under at least two sets of assumptions—optimistic and pessimistic—which take into account such matters as future rates of inflation, unemployment, demographic trends, and labor force participation. If these prospective assessments reveal a growing gap between current commitments and potential resources of the pension system, politicians must explore alternative ways of closing the gap and initiate early corrective action (Ginzberg 1982).
- In several developed countries the marginal tax rate is already so high as to be dysfunctional. In others, there may be some room for selective new taxes from which part of the revenues might be used to raise benefits for the elderly, if analysis demonstrated that they were seriously in need. But the preferred approach, as indicated below, would be to reduce the pressures on the pension systems by encouraging or requiring older persons, if they are capable, of continuing to work longer.
- In many countries, the national pension plans have accumulated additional obligations, some of which violate the principles of social insurance. As part of the process of shoring up the financial viability of national pension plans, such additions should not be grafted onto insurance plans.
- Many west European countries that are faced with rising unemployment have resorted to special measures aimed at reducing the retirement age to 60 or even earlier in the hope and expectation that this action will open additional opportunities for young persons to find jobs. These policies should be reappraised in light of the following: young workers frequently cannot substitute for older skilled workers, surely not on a one-for-one basis; since more and more jobs are in the service sector, most men and women entering their sixties will not find continuing to work a strain on their health or capabilities; since longer periods are spent in skill acquisition both prior to initial employment and during an active career, the payout period should be lengthened;

when expectations of early retirement become entrenched, they are difficult to change; the costs of maintaining people twenty or more years in retirement status are prohibitive.

- The United States recently revised its Social Security System to raise the future age of retirement from 65 to 67, and to increase the monetary incentives for people to remain at work beyond 65.
- Reductions in the age of retirement will not bring the labor markets of countries with 8 to 13 percent unemployment into balance. Such approaches are doomed to failure and involve high, long-term costs. In an expanding economy, which alone can provide new jobs for the excessive number of unemployed persons and new entrants into the labor force, further gradual reductions in hours per week and per year hold some promise of contributing to long-term equilibrium. So too does paid time-off for continuing education and training which should result in higher productivity over an increased number of years. Another adjustment device that can contribute to a more balanced labor market is an increase in the number of less than full-time jobs. When both spouses work, many couples prefer to have one or both work less than full time.
- Employers should reassess policies and programs that currently contribute to forcing older workers out of jobs rather than encouraging them to remain.
- The Swedish approach, whereby workers have an opportunity to continue working part-time while drawing a part of their pensions is one of a number of innovations that commend themselves to study and replication. Employers in the United States are calling back retired employees to help out at peak seasons, but the heavy "penalties" (recently reduced) for earning more than the maximum allowed under the Social Security System currently limit this approach.
- There are many private and public policies that require modification if older persons are to be encouraged to remain at work. These policies involve such matters as group insurance rates, taxes, and future benefits from public and private pension plans for workers who stay on their jobs.
- Persons approach retirement in different health status, with different occupational skills, energy levels, income, prospects for employment. The fact that some may no longer be capable of working in their

long-term occupations—coal miner, steel worker, lumberjack, and other physically demanding assignments—should not be used as an excuse to retain the current, early retirement systems. Rather, national pension plans should be modified so that "spent" workers can retire without encouraging all others to stop working prematurely.

- We need an early dialogue among political leaders, the medical profession and other providers of health care, and the public about the range and depth of medical interventions for the elderly which the public treasury is expected to underwrite. A developed nation can surely afford to pay for basic ambulatory, inpatient, and home care for its older citizens, even though it may decide to draw the line at costly therapeutic interventions of questionable efficacy. A major frontier, where sizable economies and little loss of welfare (possibly even some gains) may be found, is in restricting major medical interventions among terminal patients.
- In most developed countries the feeble aged are institutionalized largely at public expense or continue to be cared for by relatives and friends at home or in the community where they have long lived. The United Kingdom probably has the most to teach other countries about caring for the feeble aged in their own homes and using public funds to supplement family resources by paying for a housekeeper when the family needs relief.
- More effort should be directed to developing programs whereby the functioning elderly can be employed part-time or full-time in assisting the home-bound. The costs of this kind of assistance are likely to be far below the costs of institutionalization. In the United States, large and small for-profit organizations are rapidly expanding personal services to the aged, most of whom prefer to remain in their own homes. The fact that more and more women are working and that increasing numbers of older persons live alone makes it necessary to look more to paid workers to provide essential services for the feeble elderly. There is also a continuing role for volunteers to help care for friends and neighbors.

Surprisingly, the principles underlying these suggestions require only slight modification to fit the agendas of developing nations. In brief:

- Developing nations should delay establishing national pension systems until they are well along on the path of economic development. Otherwise, deflection of limited tax revenues to improve the condition of the elderly can result in making everybody poorer.
- If and when they establish national pension schemes, LDCs should attempt to keep them actuarially sound and avoid encumbering them with desirable but costly benefits that should be dealt with outside the insurance framework, by government programs that are means-tested.
- LDCs should encourage public and private policies that aim at keeping older workers in their jobs as long as they are capable of performing effectively.
- LDCs should avoid sweeping commitments to provide sophisticated therapeutic care for all the population, including the elderly. Rather, they should use their limited health care budgets primarily to improve the health of the present and future working populations.
- LDCs should encourage the family, religious orders, and the local community to continue to provide services that they have traditionally made available to the elderly. When they are able to direct some public funds to the support of the elderly they should provide them through these established instrumentalities.

One concluding observation: The developed countries have commitments to the elderly which, even under our optimistic forecasts, are not likely to be fulfilled, surely not in their entirety. But the proposed shift in policy and tactics from income maintenance to work may be less disturbing than most experts suspect. The well-being of the elderly does not rest on a prolonged period of check-collecting and check-cashing, but on active engagement in a world where work remains the principal arena of social involvement. Those who can work should be encouraged to do so. They will be better off and society will be better off. If those who can work do so, the developed nations will be able to support those who cannot. The governments of the developing nations have little option but to leave most of the responsibility for the elderly with their families until such time that their annual economic surplus permits some transfer of responsibility to the state. As more and more of the developing nations increase their national and per capita income, they will surely want to devote some of their "surplus" to making life better for their elderly citizens who will have only a relatively short time to enjoy the economic and social gains that these nations are achieving.

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