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Does Population Aging Drive Up Pro-Elderly Social Spending?

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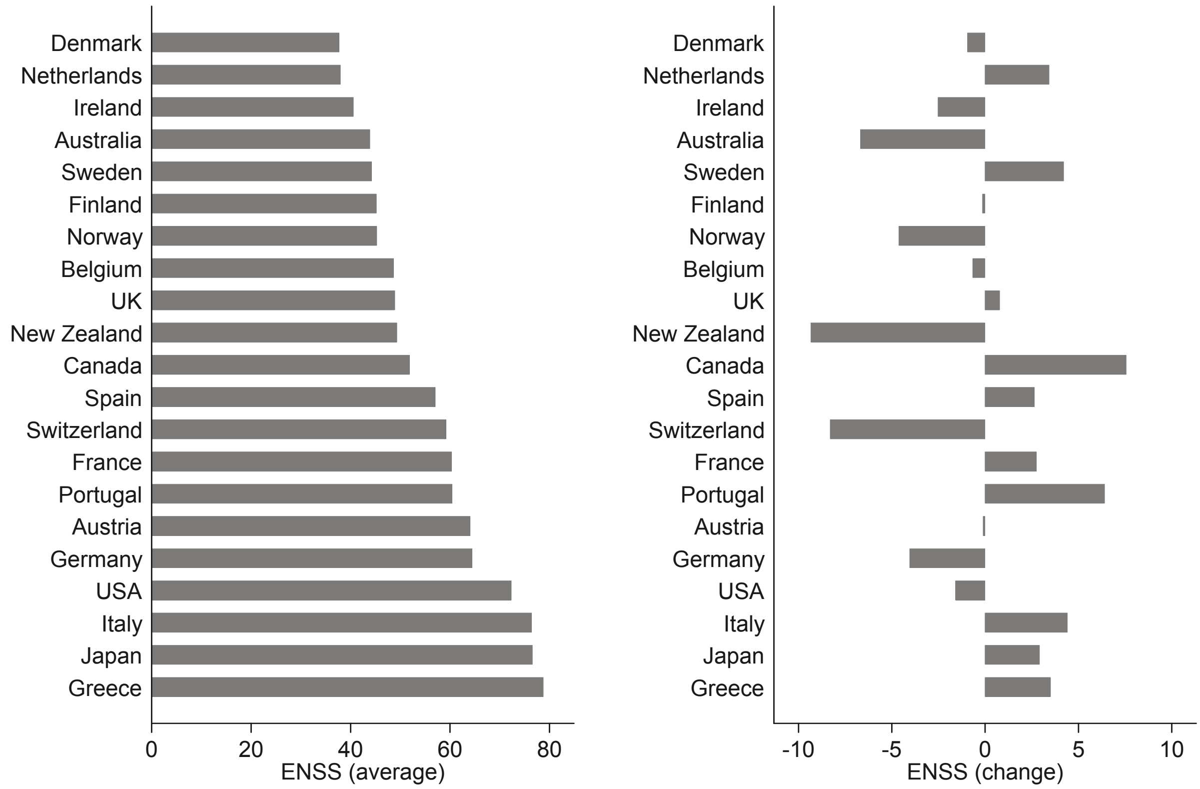
Introduction

Since the last three decades, most EU and OECD democracies have been coping with accelerating population ageing, as a combined result of longer life spans and lower fertility rates. This has led to aging electorates and, directly and indirectly, to a rise in the demand for old-age related cash and in-kind spending, and possibly also to a lower pressure for spending on younger generations. Many studies have investigated how welfare spending towards particular social programs, such as health, pensions and elderly care, has evolved over time as a result of population aging. But, some rare exceptions notwithstanding (e.g. Lynch, 2006), few scholars have investigated how welfare state as synthetic 'wholes' or 'models' have evolved. Has population aging led to more pro-elderly biased patterns of welfare spending? Is increasing elderly power a main causal factor behind these processes? Which particular countries are the most pro-elderly biased – and which the least?

1. Evidence: estimating the pro-elderly bias of contemporary welfare states

To start answering these questions, Tepe and Vanhuysse (2010) have computed an aggregate measure of the relative overall spending bias towards elderly age groups of 21 OECD welfare states since 1980 - the *elderly/non-elderly spending share,* henceforth the *ENSS*. The *ENSS* is defined here as the total spending share of two clearly identifiable pro-elderly programs (pensions and survival benefits) within a larger 'six-program welfare state'. The latter also includes spending on less clearly pro-elderly programs such as incapacity benefits, family programs, active labor market programs and unemployment benefits. Figure 1 shows average values for the *ENSS* between 1980 and 2003 (left panel) as well as changes in these values between the periods 1998-2003 and 1986-1991 (right panel).

Figure 1. Elderly/non-elderly spending share (ENSS).



Source: Tepe and Vanhuysse (2010: 223).

Exploring changes over time, it is clear that there have been mostly relatively small changes in *ENSS* in both directions in recent decades. But some salient outlier cases serve to qualify this statement. Canada and, within the EU, Portugal have both seen large increases (of more than 5 percentage points) in the relative pro-elderly bias of their welfare states. The welfare state in Australia, New Zealand and Switzerland (obviously none of them EU Member States) has actually become far less pro-elderly biased since the late 1980s. Another interesting observation is that the cross-national variance in average *ENSS* values is remarkably large. Averaged over the entire period considered, the five EU countries *most* heavily biased in their public policy spending patterns towards elderly generations are Greece, Italy, Germany, Austria and Portugal (in addition to countries such as Japan, the USA and Switzerland). By contrast, the Netherlands, Belgium, Ireland and all Nordic countries figure among the least pro-elderly regimes (see also Lynch, 2006; Gamliel-Yehoshua and Vanhuysse, 2010).

2. Theory: towards a comparative political science approach to generational policies

One way of making sense of the cross-country ENSS variance evident in Figure 1 is by looking at the political, electoral and institutional processes – i.e. the 'welfare state cultures' - that lie behind different countries' social spending patterns. It is here that a comparative political science research lens can be of great use. A politically fine-grained research focus is likely to provide insights that are more theoretically refined and institutionally complex than the increasingly shrill and alarmist assertions being voiced recently about allegedly 'gerontocratic' welfare states dominated by unholy baby boomer alliances of 'greedy grey' voters and 'myopic' or populist politicians (see, for instance, Beckett, 2010; Kotlikoff and Burns, 2004; Sinn, 2005; Sinn and Uebelmesser, 2003). For instance, as regards pension spending, far from boosting pensioner power ever further, population aging since 1980 has actually led to something like the cutting of smaller slices out of larger cakes. It has, quite naturally, increased overall pension program macro-spending, but it has also led to freezes or cutbacks in the generosity of individual pension benefits (Tepe and Vanhuysse, 2009). In other words, Tepe and Vanhuysse argue that it is the constraint of double, and contradictory, fiscal-electoral straitjackets, not gerontocracy, which reigns supreme in public pension politics today (see also Natali, 2008).

Similarly, at first glance one might surmise that the pro-elderly social spending patterns in Figure 1 must reflect spending needs in the form of elderly voters' numerical clout. After all, a low-ENSS country such as Ireland also happens to be a demographically relatively young society; the fifth-youngest in the OECD and the youngest in the EU-27. Ireland still has a high old-age support ratio, with as many as 5.6 Irish persons of working age having to support each single Irish person aged above 65 today. By contrast, high-ENSS countries such as Italy, Germany and Japan also happen to be the three demographically oldest societies in the entire OECD world today, no matter how one measures population aging. These three societies have very low old-age support ratios of respectively 3, 3 and 2.6 (meaning the number of people of working age having to support each person aged above 65), and very high prospective old-age dependency rates of respectively 20, 21 and 18 (meaning the number of people in age groups with life expectancies of 15 or fewer years, divided by the number of people at least 20 years old in age groups with life expectancies higher than 15 years) (Sanderson and Scherbov, 2010: 1287) ([1]).

1. An innovative alternative way of measuring population aging, Sanderson and Scherbov's (2010) *prospective* old age dependency ratio, works by aggregating people's residual life expectancies rather than their chronological ages. After all, as a result of better health technologies and healthier behavior and lifestyles, a chronological age of, say, 75 today simply does not mean the same thing as it did four decades ago. While this alternative measure tends to produce *less* dramatic trends in current and projected levels of population aging than do standard old age support ratios, Italy, Germany and Japan do stand out as demographically very old societies also by this measure, with values of 20, 21 and 18, compared to a mere 13 for the USA (Sanderson and Scherbov, 2010: 1287).

However, rather counter-intuitively, it appears that population aging actually cannot explain much of the variance between countries in their ENSS values. In fact, once one controls for other relevant socio-economic factors such as GDP growth and the size of the service sector economy, demographically older countries simply do not have significantly more pro-elderly biased welfare states (Tepe and Vanhuysse, 2010). Take countries such as Denmark, Finland and Sweden, which today are demographically relatively old societies, with lower old age support ratios (3.7, 3.7 and 3.3) than, for instance, the USA (4.7). These three Nordic countries nevertheless boast much lower, not higher, ENSS values than the USA, in great part thanks to their greater and longstanding commitment to investment in various family-friendly policies, active labor market policies and similar pro-young policies. Long-run political and institutional processes stand a better chance at explaining pro-elderly policy biases across countries than do old-age support ratio snapshots.

In this spirit, a recent comparative political science attempt to study generational policy processes is Ageing Populations in Postindustrial Democracies (Vanhuysse and Goerres, 2012), which was published to coincide with the start of the European Year of Active Ageing and Solidarity between Generations on January 1st, 2012. Contributors to this volume find, for instance, that population aging may lead to delays in the implementation of large and radical pension generosity cutbacks, but simultaneously also to the *acceleration* of more incremental medium-size cutbacks (Tepe and Vanhuysse, 2012). This may be because aging populations today function as powerful 'alarm bell signals,' urging policymakers to take incremental action through incremental retrenchment sooner rather than later ('muddling through'). But perhaps politicians do so in order to avoid more radical and electorally more risky retrenchment. In contexts of creeping socio-demographic crisis, politicians may thus revert to incremental cutbacks and thereby delay more far-reaching measures.

Similarly, contradicting frequent claims about their alleged policy sclerosis and reform-inability, all three of the demographically oldest (and high-ENSS) democracies mentioned earlier - Italy, Germany and Japan - have actually managed to impose significant policy reforms that directly hurt the interests of older voters in the past decade (Sciubba, 2012). And, in a first-ever analysis of the emergence and success of pensioners' parties in 31 democracies, Hanley (2012) finds that narrow-issue pensioners' parties have been successful only in those democracies that combine adequate levels of self-organization of older people with *already* existing high levels of pro-elderly spending.

At the other side of the generational spectrum, high levels of intergenerational solidarity inside the family in caring for children tend to also increase the demand of young families for the *state* to provide childcare – but only in those welfare states that are already highly active in providing public childcare (Goerres and Tepe, 2012). This may be because the demand for public childcare by younger people is embedded both in welfare state institutions, personal family structures and the socially constructed nexus between the family and the welfare state. Young citizens are cognitively constrained in their expectations for policies that benefit their own age group. In welfare states that do little to support families, according to Goerres and Tepe, the individual involvement with the family does not impact on what these young citizens expect - perhaps because they have learned to expect little from the state in this regard. In other words, generational policy models developed in the past can powerfully shape the generational policy expectations of young and old voters today.

Looking towards future research, historically well-informed work on how cultures and institutions of governance and electoral coalitions at historically critical junctures have crystallized over time into different 'worlds' of pro-elderly spending (as showcased in Lynch 2006) promises to furnish rich hypotheses for understanding the deeper causes of old-age bias in OECD welfare states.

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