
An Aging Population Is No Threat to a Free Society

BY ROBERT P. MURPHY

In an essay last year, economist Phil Mullan, the author of *The Imaginary Time Bomb: Why an Ageing Population Is Not a Social Problem*, addresses widespread concerns over the rising proportion of older people in Western societies due to falling birth and death rates.* In particular, many analysts conclude that government pension schemes will go bankrupt because of this demographic shift. Yet Mullan disagrees:

We are told we need to confront some pretty big questions. Can society cope with having so many more old people? Can we really afford our future? . . . But just because the mood of social pessimism is so ubiquitous does not mean we should simply accept it. If we address these questions seriously we find that we can cope with, and afford, an ageing society—and that it is something we should welcome as a challenge, rather than see as a problem from which we should shrink.

At this point, I am in perfect agreement with Mullan; it is great news that people are living longer, healthier lives. But he has unfortunately linked old age with government retirement and health-care programs. For Mullan, to argue that “ageing is affordable” is the *same thing* as arguing that the government will be able to finance its generous social programs:

[I]f providing a decent healthcare service for all, long-term care for those in need, and a reformed and generous state pension system requires a higher

taxation take over the next 40 to 50 years then this should be said openly. . . . Rising prosperity in the future makes the financial case easy to make—a failure of political leadership seems to be the issue holding society back, instead pandering to pre-sumptions about “unaffordability.”

Besides a few passing references to private pension plans, Mullan doesn’t even seem to realize that the market is capable of providing health care, pensions, insurance, and all of the other benefits that he assumes must be provided by the government. Relatively free markets can easily respond to shifts in age among customers. After all, nobody worries that an older population will force Hallmark to ration cards that say, “Happy Birthday, Grandpa!” The very idea is absurd, because we take it for granted that entrepreneurs will correctly anticipate consumer demand in these areas and will adjust their production plans accordingly. Because of his reliance on government, Mullan’s optimism is misplaced. Yes, “the future is affordable,” but *only if we return health care and pensions to the free market.*

Mullan seeks to comfort his readers by reminding us that aging “has been a remarkably constant feature of industrialised countries since the latter part of the nineteenth century, and societies have had no difficulties ‘coping’ with it in the past.” Ah yes, but that was *before* large-scale schemes such as Social Security.

The reason Social Security will eventually go bankrupt is quite simple: It is a giant Ponzi scheme. When Franklin Roosevelt implemented the program, seniors received (relatively minor) payments that were collect-

* “Ageing: The Future Is Affordable,” Spiked Essays, October 15, 2004, www.spiked-online.com/Printable/0000000CA4E3.htm, April 21, 2004.

Robert Murphy (Robert.Murphy@hillsdale.edu) teaches economics at Hillsdale College.

ed from existing workers' paychecks. Then, when the Depression-era workers retired, they received *their* Social Security benefits from the revenues taken from *new* workers. This is why demographic changes can alter the viability of programs such as Social Security.

In contrast, under a private pension plan it is your *own* contributions that roll over at interest and ultimately provide the fund to finance your lifestyle after retirement. Demographic changes have no effect whatsoever on this, since each worker provides for his or her own retirement.

No Worries

To his credit, Mullan (who writes from England) acknowledges this problem. He even concedes that Britain's "support ratio," which is "the number of working-age people for each elderly dependent," is currently 3.4 but is projected to fall to 2.4 in 40 years. Among other Western countries the forecasts differ, but Mullan grants that "the shorthand average often used is a fall in the ratio from four to two—meaning that each pensioner will be supported by half the number of 'workers' as pensioners are today."

It is forecasts such as these that lead to admittedly pessimistic conclusions, such as those of Adair Turner, chairman of Britain's Independent Pensions Commission. Turner believes society faces "essentially just three choices," which Mullan summarizes as "1) increased retirement ages; 2) poorer pensioners; and 3) bigger worker contributions."

Yet Mullan disputes these apparent choices. He argues that although "the trend of the statistical ratio might not 'lie'. . . it has so little bearing on the real world that any conclusions drawn from it are grossly misleading." Why does Mullan reject the standard statistic? First, not every member of the defined working-age population is actually a current contributor (some may be students or unemployed). Second, some members of the pension-age population are still contributing to the general support fund. Third, workers may become wealthier in the future and hence will be able to support more pensioners without suffering a drop in their own standard of living.

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As opposed to the standard support ratio figure, Mullan proposes instead an *economic* support ratio, "which would compare active workers and *non-workers*." Using this new definition, Mullan finds that the economic support ratio in the United Kingdom is currently 0.84: 27 million active workers divided by 32 million non-workers, the balance of the total population of 59 million. Then relying on forecasts of Britain's employment level and total population in 2030, he estimates that the economic support ratio will fall to 0.71, "an increasing support requirement per worker of less than one fifth. This compares to that dramatic near doubling headlined by the conventional support statistics."

At first, it seems that Mullan has a great point: The conventional statistics, which focus merely on age distributions, are indeed less relevant than what Mullan has called the economic support ratio. However, even after conceding this point, it is still the case that society is faced with the stark choices Mullan had earlier lampooned. What I shall argue below is that the only way society can hold down the economic support ratio is to implement some or all of these hard choices, that is, to increase the retirement age, cut pensions, and/or extract more from workers.

Changes in Proportions

Despite Mullan's emphasis that not all working-age people actually work, the fact is that it is only *changes* in those proportions that count, even if we use Mullan's preferred statistic. Suppose that initially half the population is working age, while the other half are retired pensioners. In this case, each worker supports two people: himself and one pensioner. Now if the population ages, such that only one-quarter of the population is working age while three-fourths are pensioners, then each of those future workers will support four people: himself plus three pensioners. Thus the aging of the population has caused the burden on workers to increase 100 percent.

Now suppose I tell you that in reality, only half the working-age population actually works, and that at any

given time, the other half of the people in this age group are students. Will this alteration affect the plight of the workers due to aging? No, it will not. In this case, under the original age distribution (where half the population was working age and half were pensioners), each actual worker supports four people—himself, two pensioners, and one working-age student. *Now* when the population ages, only one-eighth of the people are actually working. Thus each of these workers is supporting a total of eight people: himself, six pensioners, and one working-age student. As with the original scenario (where we assumed everyone of working age actually worked), in this case too (where we assume half of the working age people are students) the stipulated demographic change still causes the burden on workers to increase 100 percent.

Of course, if the proportion of full-time students in the overall working-age population should *drop*, then this would mitigate the effects of the aging population. And in the real world, if those who currently do not work (but are of working age) could be coaxed into working in the future, this would dampen the impact of an aging population on the “contributions” seized from those who currently work. On the other end of the age spectrum, the fact that people are now working more years of their lives also dampens the impact.

Let us sum up our discussion of the standard support ratio statistic versus Mullan’s preferred economic ratio. Suppose that we have a family composed of one breadwinner who plans on retiring at 63, one housewife, and one daughter in college who works during the summers. After reading the forecasts of a growing population of elderly, the breadwinner exclaims, “Oh no! My payroll deductions will go through the roof! Our family can’t afford this!”

In response, Mullan would calmly explain, “Not at all, my good man! So long as your wife gets a job, your daughter drops out and works full time, and you work until you’re 67, there’s no need for your payroll deductions to increase dramatically. The future is affordable.”


Higher Future Incomes

The other major element in Mullan’s analysis is that real incomes should rise in the future, such that each worker will have the ability to support more people and yet maintain his or her accustomed standard of living. Although certainly valid, this observation doesn’t change the fact that actual contributions from workers will have to increase.

Another important point is that the *reason* incomes rise over time is the accumulation of capital. That is, when workers have more and better tools and equipment, each hour of their labor is more physically productive, and hence they will be paid more by employers.

Now where does this capital accumulation come from? It results from genuine *saving*, when people refrain from current consumption. This allows resources to be diverted from the production of consumer goods, such as pizzas and TV sets, and switched to the production of capital goods, such as drill presses and tractors.

Indeed, it is capital accumulation that explains why genuine pension plans—where each worker *invests* his contributions into a fund that rolls over at interest—can function regardless of the changes in age distribution. In effect, when a privately financed pensioner retires, he then lives off the increased output due to his earlier savings. He is thus not burdening younger workers, because their productivity is itself attributable (in part) to the investments he made during his working career. It is ironic, then, that Mullan views increased worker productivity as easing the financial crunch of government pension plans, since it is precisely private pension plans that (in part) cause this phenomenon.

Phil Mullan is certainly correct that it is far better to live longer lives than the alternative. He is also correct that “an ageing population” poses no threat to pension plans, health care, and insurance. However, the one caveat that Mullan misses is that, to remain viable, these systems must be taken out of the government’s control and returned to the voluntary private sector. Only then can everyone hope for a secure future. 

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