

# A billion shades of grey

An ageing economy will be a slower and more unequal one—unless policy starts changing now



**W**ARREN BUFFETT, who on May 3rd hosts the folksy extravaganza that is Berkshire Hathaway's annual shareholders' meeting, is an icon of American capitalism (see next leader). At 83, he also epitomises a striking demographic trend:

for highly skilled people to go on working well into what was once thought to be old age. Across the rich world, well-educated people increasingly work longer than the less-skilled. Some 65% of American men aged 62-74 with a professional degree are in the workforce, compared with 32% of men with only a high-school certificate. In the European Union the pattern is similar.

This gap is part of a deepening divide between the well-educated well-off and the unskilled poor that is slicing through all age groups. Rapid innovation has raised the incomes of the highly skilled while squeezing those of the unskilled. Those at the top are working longer hours each year than those at the bottom. And the well-qualified are extending their working lives, compared with those of less-educated people (see pages 18-20). The consequences, for individuals and society, are profound.

## Older, wiser and a lot of them

The world is on the cusp of a staggering rise in the number of old people, and they will live longer than ever before. Over the next 20 years the global population of those aged 65 or more will almost double, from 600m to 1.1 billion. The experience of the 20th century, when greater longevity translated into more years in retirement rather than more years at work, has persuaded many observers that this shift will lead to slower economic growth and "secular stagnation", while the swelling ranks of pensioners will bust government budgets.

But the notion of a sharp division between the working young and the idle old misses a new trend, the growing gap between the skilled and the unskilled. Employment rates are falling among younger unskilled people, whereas older skilled folk are working longer. The divide is most extreme in America, where well-educated baby-boomers are putting off retirement while many less-skilled younger people have dropped out of the workforce.

Policy is partly responsible. Many European governments have abandoned policies that used to encourage people to retire early. Rising life expectancy, combined with the replacement of generous defined-benefit pension plans with stingier defined-contribution ones, means that even the better-off must work longer to have a comfortable retirement. But the changing nature of work also plays a big role. Pay has risen sharply for the highly educated, and those people continue to reap rich rewards into old age because these days the educated elderly are more productive than their predecessors. Technological change may well reinforce that shift: the skills that complement computers, from management expertise to creativity, do not necessarily decline with age.

This trend will benefit not just fortunate oldies but also, in some ways, society as a whole. Growth will slow less dramatically than expected; government budgets will be in better shape, as high earners pay taxes for longer. Rich countries with lots of well-educated older people will find the burden of ageing easier to bear than places like China, where half of all 50-to-64-year-olds did not complete primary-school education.

At the other end of the social scale, however, things look grim. Manual work gets harder as people get older, and public pensions look more attractive to those on low wages and the unemployed. In the lexicon of popular hate-figures, work-shirking welfare queens breeding at the taxpayer's expense may be replaced by deadbeat grandads collecting taxpayer handouts while their hard-working contemporaries strive on.

Nor are all the effects on the economy beneficial. Wealthy old people will accumulate more savings, which will weaken demand. Inequality will increase and a growing share of wealth will eventually be transferred to the next generation via inheritance, entrenching the division between winners and losers still further.

One likely response is to impose higher inheritance taxes. So long as they replaced less-fair taxes, that might make sense. They would probably encourage old people to spend their cash rather than salt it away. But governments should focus not on redistributing income but on generating more of it by reforming retirement and education.

Age should no longer determine the appropriate end of a working life. Mandatory retirement ages and pension rules that discourage people from working longer should go. Welfare should reflect the greater opportunities open to the higher-skilled. Pensions should become more progressive (ie, less generous to the rich). At the same time, this trend underlines the importance of increasing public investment in education at all stages of life, so that more people acquire the skills they need to thrive in the modern labour market. Today, many governments are understandably loth to spend money retraining older folk who are likely to retire soon. But if people can work for longer, that investment makes much more sense. Deadbeat 60-year-olds are unlikely to become computer scientists, but they could learn useful vocational skills, such as caring for the growing number of very old people.

## Old power

How likely are governments to make these changes? Look around the rich world today, and it is hard to be optimistic. The swelling ranks of older voters, and their disproportionate propensity to vote, have left politicians keener to pander to them than to implement disruptive reforms. Germany, despite being the fastest-ageing country in Europe, plans to cut the statutory retirement age for some people (see page 10). In America both Social Security (the public pension scheme) and the fast-growing system of disability benefits remain untouched by reform. Politicians need to convince less-skilled older voters that it is in their interests to go on working. Doing so will not be easy. But the alternative—economic stagnation and even greater inequality—is worse. ■