BY PAUL GRIMES

THE GROWING CHALLENGE OF SHRINKING BIRTHRATES

Supporting Older Ages

As local government managers, it is not often that we are asked to give much thought to regional, national, or global demography. After all, those are the ways of economists or social scientists, and our job is to focus on the numerous local tasks at hand—or so goes conventional wisdom.

The United States and to a greater extent some of our peers among developed Western nations, however, are about to be overcome by a demographic tsunami that will greatly alter the way we do business. No, we're not talking about the now-quaint Malthusian fears of overpopulation from an incoming wave of people.

Rather, by the early 2020s, we will experience, metaphorically, the wave's retreat into the sea, drawing with it millions of older workers from a relatively younger, able-bodied, productive, and taxpaying workforce.

Authors Richard Jackson and Neil Howe, from the Center for Strategic and International Studies, best frame this transition in their 2008 book, *The Graying of the Great Powers*.

The Numbers

To best understand the drivers of this transition to an aging society, Figure 1 illustrates the projected shift over time. In 2005, the old-age dependency ratio was 21 elders for every 100 working-age adults. By 2050, it is projected to increase to 37 per 100. That means more load for each working-age adult to support elderly benefits.

If this sounds like a challenge, and it is, we can be buoyed by comparisons with other countries. By 2050, Western Europe's elderly dependency ratio is projected at 59, and for Japan, an astonishing 81.

As Figure 1 demonstrates, while the U.S. population is projected to continue to grow, the nature of that growth is what is telling. Growth is clearly tilted toward the aged category, while the percentage of the young, working-age population declines.

With a bulge in the older population, one can expect to see commensurate increase in pension and health care entitlement spending. Jackson and Howe have projected the increase in public benefits from 2005 to 2050 (See Figure 2). It should be noted that this projection predates the massive new Congressional Budget Office-estimated $1.6 trillion health care entitlement contemplated by the Affordable Care Act in just its first decade (Congressional Budget Office, February 2013).

FIGURE 1. U.S. DEMOGRAPHIC PROFILE PROJECTIONS.

United States

	2005	2030	2050
Fertility rate	2.0	2.0	2.0
Life expectancy	77.4	80.7	83.1
Total population (millions)	300	371	419
Working-age population (millions)	179	205	230
Median age	36.0	38.6	39.6
Youth-bulge share	18.0%	16.0%	15.5%
Elderly share	12.3%	19.1%	20.2%
Total dependency ratio	68	81	82
Youth dependency. ratio	47	47	46
Old-age dependency ratio	21	35	37

Source: *The Graying of the Great Powers*, Center for Strategic and International Studies, 2008.

Implications for Communities

There are indeed profound national and international security implications beyond the scope of this article that merit our close attention. But at the domestic level, we have our own challenges on which to focus. The challenges are manifold and reach far beyond just the most obvious mathematical calculations.

According to some scholars, our business culture will be impacted by having a relatively older population less interested in taking risks or fostering creativity. That means less innovation over the long run.

Our family structure will change and could lead to a shift to greater reliance on government as the traditional family support network weakens. Yet there will be limited resources for the government to take on any new roles.

For local government, our economic development strategies of chasing after the next great smartphone application developer or high-tech manufacturer will give way to investing in senior housing, home health care, and longevity initiatives. We may see certain dividends from aging. For one, older, wiser people commit less crime and tend to lead more stable lives. >>

On the other hand, the country's long-held enthusiasm for creative destruction of a dynamic capitalist economy may be tested as the appetite for risk gives way to perceived stability.

At the local level, the demand for investing in infrastructure for youth sports and recreation facilities will slowly make way for demand for investing in infrastructure for senior sports and recreation facilities. Investing in general will begin to make way for more consumption and spending, as seniors begin to spend down their savings in retirement.

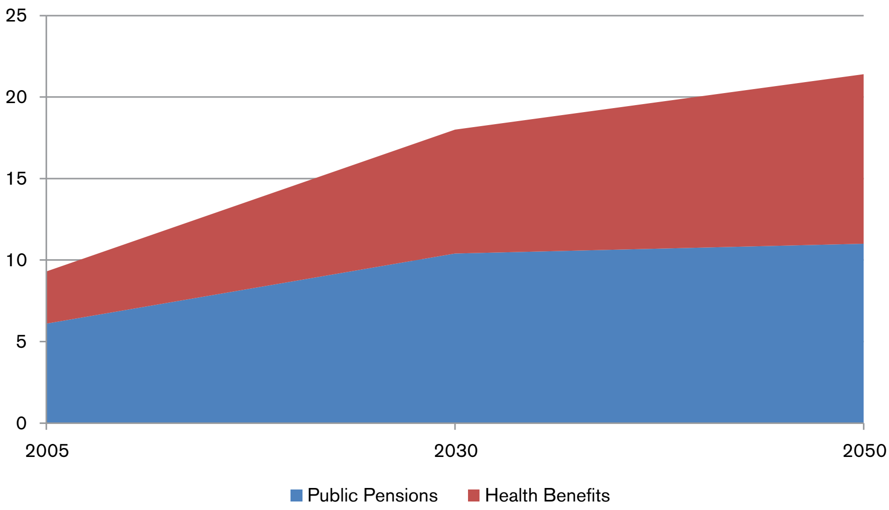
Investing in Children

There is an upside for the young, of course, and for those able to exploit the ensuing business niches. Fewer children means each is relatively more dear to us than, say, just as recently as the 70s and 80s. For those of us old enough to remember, "Eight Is Enough" was more than just a television show; it was a rather commonly held expression. Hand-me-downs were a way of life.

Contrast that with today and tomorrow, where middle-class children in a society with our current fertility rate of about 1.9 will be more invested with greater resources and with more ease than children in previous generations. From competitive sports, travel leagues, and musical and artistic training, to private tutoring and hyper-competitive test preparation, value-added activities will be standard fare for many middle-class children. These expenditures will not be considered optional, and parents will spend the money on ensuring that the investment is made.

Private investment in children will be welcomed, for the pressure at the publicly funded community level will gradually begin to turn away from investment in youth-centered activities. That is because the relative increase of investment per child won't offset the momentum of the generational steam train of the aging baby boomers, or those people born roughly from 1946 to1961, and the impact on local communities' collective decision making.

FIGURE 2. U.S. GOVERNMENT OLD-AGE BENEFITS, AS A PERCENT OF GDP, 2005–2050.



Source: *The Graying of the Great Powers*, Center for Strategic and International Studies, 2008.

One observation noted by Jackson and Howe is this: "Although parents may become more protective of scarce children, that very scarcity means that society will be more adult focused." With fewer children to care for during adult life, people will have more time to pursue their own interests and goals.

Dilemma Posed by Scarce Resources

Our collective decision making for even scarcer resources will face a sharp dilemma: how to reallocate resources with a growing bulge in our older generation and a relatively smaller cohort of youngsters. This may pose challenges to lower income communities, as the appetite for additional public spending on education will likely fade.

Even if the desire remains, the ability to pay will be shackled due to the exploding entitlement spending from the boomer pension and health care obligations, thereby crowding out the ability to pay for other public spending initiatives.

Pension discussions will accelerate from merely common public policy topics to become the public policy challenge of our time. Generation X'ers (born 1962 to 1981), Millennials (1982 to 2000), and the Pluralist Generation or Plurals (2001 to 2020)[1] will be tasked with learning to live with less (i.e., later retirements, fewer or less generous benefits, and higher taxes to pay for them) and existing within a prolonged state of fiscal crisis. Or what is more likely, hopscotching from one predicament to another in a series of fiscal crises.

Short of importing tens of millions of child-carrying immigrants, which is an unlikely scenario, we can't change the slow turn of history. Nor can we talk our way out of the changes, or convince the public to start having more children—the effects of which wouldn't be felt for decades anyway. In cases in which tax incentives or child care subsidies are used to nudge the fertility rate upward, the results have shown only a minor tick and are quite costly.

Generational Pressure Builds

Howe warns of trouble ahead beginning in the early 2020s, when Western nations begin to experience the most generational pressure as the full transition of baby boomers into retirement takes shape—around the same time that developing nations that have been willing to finance the pensions and benefits of the West begin to turn to their own aging obligations and begin to cash out their investments in Western nations.

Ethnic group immigrants will gain stature on the political and, ultimately, the public policy stage. According to the U.S. Census Bureau, residents of Hispanic origin as a share of population is projected to grow from 17.8 percent in 2015 to 27.9 percent in 2050, nearly doubling in number. Similar trends are projected for Europe's Muslim communities. As a result, local communities will have to become more adept in dealing with the growing influence from traditional ethnic minorities.

The demand for services for the advanced in age and a smaller pay-as-you-go working-age population to pay for those services also will challenge local government managers to maximize efficiencies in delivering those services. The fault lines between public sector labor and the need to maximize efficiency will come into fuller relief in the next decade. Given that public sector union membership is highest among the 55 to 64 age group, and lowest among younger workers, as those older workers begin retiring in the next decade, public sector labor membership will likely face enormous pressure.

Residents transitioning into their golden years will demand that services change too. The single biggest voting bloc in U.S. history is the current baby boomer generation. While they may indeed be from the "hip" generation, some things are unavoidable—and retirement is one of them.

Even the gradual, nearly imperceptible demographic aging swings are enough to shape voting implications and the associated shift to meet the needs of the aging. Much of this shift in pay-as-you-go public goods will be at the expense of the younger taxpayers who will be caught in a sort of public goods squeeze, having to pay and provide for them. As a result, demands for efficient government will reach a fever pitch and will place incredible strains on public services.

Economist Laurence Kotlikoff notes in *The Clash of Generations* (MIT Press, 2012) that history does not demonstrate that older generations necessarily make decisions with the younger in mind. No mathematical model, no matter how hard we try, will be devised to avoid this inevitable transition. Rather, political models to guide the way will have to be fashioned from the cauldron of tough public policy choices.

Model Going Forward

For our purposes, it is pointless to dwell on the upsides or downsides of an aging population. As managers, we will have to live with it, adjust to it, and work with our communities to prepare and endure this inevitable demographic storm. We will need to:

Build on existing research. We need to pay more than lip service to the work of important studies on this subject: We need to pay attention. The Center for Strategic and International Studies (CSIS) established the Global Aging Initiative and does fine work in tracking and studying this phenomenon. It is one of a number of good places to start examining the impact on local communities. State and local government policy arms should expand on this important work.

Encourage local laboratories. We can explore multiple public policy laboratories at the state and local levels and find out what works. Drawing from the research of the above-noted institutions, local governments should factor aging quotients into their strategic and long-term planning.

State governments should encourage local policy innovation on steps to balance the generational interests. Pension reform efforts are an obvious start, as the current pension leviathan is not only unsustainable but can lead to social unrest for future generations. If unchecked, class warfare could give way to generational warfare.

The federal government can assist with smart tax policies and fostering research and efforts at the state and local levels to deal with these challenges. It would be a mistake, however, to try to nationalize this issue beyond the obvious federal programs currently offered. It will be our state and local governments who will find, through trial and error, those policy solutions toward sustainability. Those states that don't will find themselves left behind and saddled, and, in time, will have little alternative but to adjust to those solutions that work.

Alas, the record thus far is spotty at best. In the case of my state, Illinois, for example, the inability thus far to meaningfully address its massive pension issues in advance of the coming storm does not augur well for the extraordinary demands that lay ahead. Each year lost to political stasis will only add to the challenge and, quite literally, mathematically subtract from the options available in the coming decades.

Think generationally. Beyond including an aging discussion into aforementioned planning efforts, local policy leaders should continue to include this topic in public conversations wherever and as often as possible. A helpful test for local and state governments in evaluating public expenditures also may be to ask not how we will pay for it, but how will today's grammar school children pay for it.

Those state and local governments that are better prepared to answer these questions will be better prepared to withstand the approaching storm—even if the storm clouds aren't yet visible. PM

ENDNOTES

1 Bruce Horovitz (5/4/2012). "After Gen X, Millennials, What Should Next Generation Be?" *USA Today*. Retrieved November 24, 2012.

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