

BOOK REVIEW

Handbook of the Economics of Population Aging, Volumes 1A and 1B

By John Piggott and Alan Woodland (eds.), North-Holland, 2016 ISBN 978-0-444-53842-0 (Vol. 1A) and 978-0-444-53840-6 (Vol. 1B), 1146 pages.

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The volumes under review contain seventeen essays on topics related to population aging. The articles treat micro- and macroeconomic issues raised by the increasing average age of the populations in rich and poor nations. The thirty-three contributing authors and coauthors include some of the best known academic authorities on the subjects treated in the essays. The handbook represents a considerable intellectual achievement.

The topics treated cover a broad range. The first essay, by David E. Bloom and Dara Lee Luca, reviews available statistics and forecasts on the worldwide rise in average population age. The age structure differs widely from country to country, even within the industrialized world. The differences are much wider if developing countries are included in the analysis, as is the case in this opening essay. Bloom and Luca summarize our current understanding of the economic and noneconomic factors behind the two main determinants of aging, namely, longer life spans and lower birth rates. Other essays investigate the macroeconomic impacts of rising population age, the contributions of cross-border migration to the age structure of the population, economic models that explain the migrant flows, and insurance arrangements to protect against hazards that are especially relevant to the aged, in particular, heavy use of medical care and long-term care services and the risk of outliving one's retirement savings.

Several of the articles review the current state of theory and knowledge about age-related aspects of economic behavior. These include lifetime consumption smoothing, retirement from paid work, investment and asset allocation in anticipation of retirement and over the course of old age, household responses to public and private incentives that affect retirement and the accumulation of savings for old age, and cognitive decline in old age. A handful of the chapters deal directly with the public policy issues that arise from population aging. Among these are the tax policies needed to deal with the fiscal demands of aging, optimal design of public pension and insurance programs, the regulation of private, workplace-based pension schemes, and policies to ensure the adequacy of future public or private provision of health services and long-term care to the aged.

Each of these policy issues has been the subject of a large research literature. The legal and institutional environment in which old-age pensions and insurance is provided differs across countries, of course. This can be an advantage if the policy variation is wide enough to help us identify the behavioral impacts of key policy differences. Usually, however, there are so many legal and institutional differences across countries that it is impossible to determine whether a difference in average outcome—say, the average age at retirement—is due solely or even mainly to a particular policy difference—say, the earliest claiming age for public pensions.

The cross-national variation in legal and institutional arrangements for providing old-age pensions and health insurance also poses a challenge for chapter authors. Although a few of the chapters devote proportionate weight to statistics and institutional arrangements in a wide variety of industrialized and

developing countries, most highlight findings and policy issues of particular relevance to wealthy, and especially English-speaking, countries.

The authors adopt different approaches to presenting their results. Most writers attempt to present an even-handed overview of key theories and findings on the topics they are charged with covering. In some cases, excellent literature reviews have appeared on the same topic within the past couple of decades. In such cases, most authors opt to focus on the main intellectual accomplishments of the recent past.

One essay of this kind is the magisterial survey of retirement incentives and labor supply written by Richard Blundell, Eric French, and Gemma Tetlow. In a clearly presented chapter, the authors first describe the main labor supply trends among older men and women in industrialized countries and outline economists' basic theory to account for labor force withdrawal in old age. They then describe the factors that might explain the discontinuous drop in work effort at specific ages. Finally, the authors present the principal empirical findings of the recent retirement literature. Not only does the chapter give readers a coherent and defensible overview of the retirement incentive literature, it also highlights some of the reasons behind the research progress it documents. Compared with the 1980s and early 1990s, we have better data, in part a result of heavy public investment in surveys and matched public administrative records. We also have more policy reforms to evaluate. Finally, analysts nowadays possess much greater computational power with which to analyze complicated decision-making in large samples. Like other essays in the volume, the chapter underlines the policy implications of recent findings as well as the limitations of the current research literature. It also contains an excellent and extensive set of references to the recent literature, an invaluable aid to scholars wishing to begin research in the area.

A contrasting style of presentation is found in the essay on "Complex Decision Making: The Roles of Cognitive Limitations, Cognitive Decline, and Aging" by Michael P. Keane and Susan Thorp. Much of the research literature on this topic is in psychology, but the authors are economists and mainly focus on economists' contributions to knowledge. These are related to economic decision-making when choices are complicated: how to select a health insurance plan when presented with multiple alternatives, how much to save for retirement, and how to allocate savings across different menu options in a 401(k) retirement plan. Experience and randomized controlled trials suggest that many people are uncomfortable making these decisions and frequently make logical errors that are inconsistent with their own interests or preferences. In a fascinating essay, the authors review this empirical research, describe economists' attempts to explain agents' decision-making in the face of confusion, and offer their own economic model that incorporates irrational behavior and confusion. Like the other essays, this one contains an excellent set of references, though one that would be regarded as incomplete by psychologists working in the field.

Economists and other social scientists will benefit enormously from consulting the essays in this volume.