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Book reviews

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The Economic Implications of Aging Societies: The Costs of Living Happily Ever After. By Steven A. Nyce and Sylvester J. Schieber. Cambridge University Press, 2005, ISBN 0-521-61724-3, 396 pages, $29.99. doi:10.1017/S147474720621254X

The typical outcome of a professional conference or annual meeting tends to be a series of disjointed, separately-authored papers, sharing little continuity or cohesiveness. And this is what some might have expected to emerge from the World Economic Forum's 2001 call for "greater high-level, international attention to be paid to the economic and financial implications of the demographic challenges facing most industrialized countries." What has emerged instead is, as this book's Preface notes, "perhaps the most comprehensive analysis to date of the macroeconomic implications over the next few decades of current demographic trends in a wide range of countries." The material is presented in a highly readable, informative, and non-partisan format that draws the reader inexorably through the maze of issues and their potential solutions. The authors cover health care as well as retirement systems, and then they examine the question of living standards and the production capability of nations in terms of potential supplies of labor and capital. They emphasize distributional issues, both within nations and cross-nationally between industrialized and developing countries, examine policies and funding options, and in the process they present a wealth of historical data and projections for almost two dozen industrialized countries.

After very effectively illustrating international age structure differences using population pyramids for Pakistan, Canada, Mexico, and Italy, the authors then devote three chapters to retirement systems. First they compare benefits and drawbacks of funded versus pay-as-you-go systems; next they discuss the three "tiers" in many contemporary pension systems; and then they examine the effects of aging populations under different systems and assumptions regarding fertility, life expectancy and labor force participation. A chapter on the "health dilemma" nicely highlights the problems of intergenerational equity that arise if increased productivity is used to finance additional health technology for the elderly, at the expense of growth in non-elderly standards of living. Four additional chapters then examine nations' ability to meet forecasted consumption requirements, given sources of labor supply (including immigration), forecasted productivity growth, and capital flows. Here the authors emphasize the potential benefits of cross-national capital flows, which might permit nations to take advantage of global differences in age structure around the world. The book is rounded out with four chapters addressing pension funding issues, macroeconomic policies needed to affect employers' hiring policies and employees' retirement patterns, and the risks associated with policy options. The authors conclude with an excellent chapter outlining the principles they believe should govern reforms of national pension systems, employer-based pensions, health care systems, and efforts to facilitate cross-national capital flows.

On the whole, the authors present issues and their potential solutions in an unbiased manner. Yet underlying their approach is an assumption that some might question. In particular, the authors posit "that a half-century of steadily improving standards of living has created an appetite in most of the developed world to continue the upward mobility." They cite numerous instances in which lagging economic growth has led to political upheavals, and they point to increasing US female labor force participation as evidence that individuals "will want to continue improving their standards of living and will be willing to make fundamental changes to their lifestyles if necessary." For this reason, the book explores many methods of increasing labor supply in an aging population, from increased participation for women, to delayed retirement, to "streamlining education systems" in order to increase participation at younger ages.

While this may indeed be the direction in which we are headed, this reader would have welcomed more evidence in support of their fundamental assumption that the historic level of increase in per capita consumption will continue for one segment of the population (either elderly or non-elderly); their simulations then what happens when the residual is allocated to the other segment. By contrast, they could have provided simulations of changes in living standards for more than one age group at a time. Growth in per capita consumption in an aging world may well slow, but by will it actually turn negative?

Despite excellent coverage of most topics, the volume does have a few technical shortcomings. Most significantly, it lacks a full bibliography, and references are given only in footnotes (which sometimes conflict with one another). Furthermore, throughout the book's almost 400-page text are scattered more than a dozen "brief analyses", usually about a page in length, written by other contributors including Ron Lee, Olivia Mitchell, and James Vaupel. These are similar to the boxed "real-world examples" one sometimes sees in textbooks. Although I found them informative on topics such as "Changing Life Expectancy", "The Swedish Premium Pension System", and "Early Retirement in Belgium", they strike an odd note in that Nyce and Schieber seldom if ever refer to them in the text; there is also no listing of them in the Table of Contents. A reader who wants to refer back to an item must page through the entire book in order to locate relevant entries.

Overall, the book is so informative and thought-provoking that it should be reissued in a second edition which opens with an "Executive Summary", cross-referenced to the more detailed discussions of each item in the summary. This would permit it to be better appreciated by a wider audience. In its current format, although it is clear and straightforwardly written, its wealth of detail makes it most appropriate for policy analysts, professionals, and graduate students; I also intend to make use of it in courses for advanced undergraduate majors.

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Analyses in the Economics of Aging. By David A. Wise, Editor. University of Chicago Press, 2005, ISBN 0-22690-286-2, 416 pages, $85.00. doi:10.1017/S1474747206222546

Scholars interested in the latest research on economics of aging now routinely turn to the compilations prepared by the National Bureau of Economic Research, most of which have been edited by David Wise since 1989. This most recent volume is the 10th in the series, and it includes a dozen articles in addition to an editor's introduction. Each chapter is followed by comments from an invited reviewer, which readers will find of great interest. Indeed, the reviewers' syntheses and critiques are sometimes even more interesting than the articles themselves.

Though the studies are not organized around any formal structure, an attentive reader will immediately notice six main themes. The first focuses on retirement saving accounts, primarily

US 401(k) plans. One study examines the utility value of retirement wealth under different investment scenario, while the second on this theme develops a model of enrollment decisions in saving plans that can account for psychological determinants of behavior, particularly procrastination and transition costs. Both papers are informative in explaining choices made by 401(k) participants and are valuable reference sources for policymakers and employers. A second set of chapters sheds light on potential ways to improve US Medicare expenditures in face of a growing aged population and increasing costs of medical technology. One of the chapters examines differences in Medicare utilization rates and costs for different cohorts, with an emphasis on high-cost beneficiaries. Another looks at the efficiency of Medicare expenditures with regard to health status and survival across geographical regions. Here in particular, readers are encouraged to review the commentators' views on measurement problems when interpreting the findings.

The health status of aged Americans is the third theme treated in the book. Three chapters examine trends and determinants of deteriorations in health in later life. Some of the findings will be of interest for a wider audience: for instance, one study shows that most of the decline in US disability results from lower disability rates among people with serious chronic conditions, rather than a lower prevalence of chronic conditions. Another interesting finding is the importance of education in predicting the onset of health declines, a result corroborating earlier analyses from other countries. Unfortunately, these three papers could have benefited from a more detailed literature review on the health of elderly populations. Readers seeking to understand recent research on disability and morbidity should consult gerontology, demography, and epidemiology journals for additional perspectives.

An examination of elderly living arrangements is also taken up, in a chapter that presents an interesting analysis of the interrelations amongst wealth, health, and living arrangements at older ages. Although this is a descriptive piece, readers will glean useful estimates of transitions in health and living arrangements at different levels of wealth and other socioeconomic conditions. There is also a single methodological chapter in the book, which is directed toward economists interested in analyzing subjective probabilities. That article provides a model to correct for problems of focal responses (i.e. probabilities equal to zero or one) that are typical of this type of questions. A final set of chapters turns to other countries. One paper offers a comparative analysis of the effect of institutional factors on saving behavior in Netherlands, Italy, and the US. Another article takes advantage of new data collected in the first wave of a German longitudinal study to evaluate saving behavior in that country. The third study examines the relation between cultures and norms and the wellbeing of Indian widows.

In sum, this book offers essential reading for economics professionals and graduate students, as well as for all seeking to learn about current research on the US economics of aging. Over the past 15 years, the NBER series on the economics of aging has evolved. Initially the volumes focused on social security, retirement behavior, housing wealth, and living arrangements. By contrast, this book reveals a shift toward other topics including health problems, Medicare, and 401(k) saving. This thematic change stems from the persistent decline in mortality at older ages, which has raised questions regarding disability and health care costs in later life. The growing availability of longitudinal databases on aging is another factor that has helped shape the new research in the series. Yet this is not a perfectly balanced book, nor is the series as a whole. More international and comparative analyses would be worth including, inasmuch as individual and population aging are now global phenomena. Future volumes should cover Latin America and Asia, where institutional, political, and socioeconomic contexts differ dramatically from those in the developed world.

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Pensions in the Middle East and North Africa: Time for Change. By David A. Robalino. The World Bank, 2005, ISBN 0-8213-6185-6, 525 pages, $35.00. doi:10.1017/S1474747206232542

While pension systems and pension reforms in Latin America and Central/Eastern Europe have been well-researched and documented, not much has been published about pension issues in the Middle East and North Africa region. This book is therefore a valuable contribution to the literature on international comparisons of pension systems. The author and his team work for the World Bank, and the volume draws on fieldwork in the region as well as previous World Bank and International Monetary Fund analyses.

Most of the nations in this region set up their pension systems recently, some in the 1970s, and few major reforms have been undertaken since. The book concludes that many of these pension systems are unsustainable: that is, if left unreformed, the systems will impose a heavy burden on fiscal budgets and, more broadly, on economic development in the region. Accordingly, the conclusion is that action is needed now, before the systems mature and more entitlements are earned under existing rules. The book starts by describing the pension systems in the thirteen countries of the region in great detail. This analysis is complemented by a series of very useful annexes that review key parameters, the tax treatment of pensions, and demographic and financial data for each country.

Following the overview, the authors offer general guidelines for comprehensive pension reform. Not surprisingly, their guidelines reflect the World Bank's stance on pension reform reflected in a recent position paper by Holzmann and Hinz. The strategy consists of by-now "standard" elements: scaling down the pay-as-you-go system by changing parameters such as the retirement age, accrual rates, indexation, and reference salary levels; moving to pre-funding; and improving the pension system's administration and regulation. There is also a short and mostly unconvincing section on the benefit of introducing what they call "virtual" accounts (more commonly known as notional—or unfunded—individual accounts). That section reads more like a generic summary of the position currently favored by some in the World Bank, rather than a serious attempt to fashion this model to Middle Eastern and North African countries.

The case for reforming the region's pension systems is made in a rather unusual way. Much of the argument rests on the fact that the internal rates of return promised by existing pension systems are too high. The authors, by contrast, argue that implicit rates of return should be set at the long-term rate of economic growth, which they further contend should be not higher than three percent. But experienced pension reformers know that the calculations of internal rates of return over contributors' lifetimes and projections of economic growth are subject to substantial uncertainty. Therefore resulting benchmarks are actually rather arbitrary. A stronger case for the systems' future financial instability flows from a comparison of gross and net replacement rates and, in particular, of projected pension wealth numbers. These show that the region's indicators are well above even those in the most generous OECD systems.

Using implicit rates of return becomes more problematic when the retirement incentives of pension systems are considered. The incentives to retire at a particular age are often computed as the change in pension wealth from deferred work, as compared to the pension wealth from retiring at the 'standard' pension age. This is not a comparison between different cohorts, but between different retirement ages for persons within the same cohort. In particular, a system is said to be actuarially neutral when pension wealth does not change for earlier or later retirement. Looking at the internal rate of return, however, leads to a different concept which incorporates both contributions paid and benefits received over the lifetime. The authors claim that the internal rate of return should be the same for everyone, both within and across generations, without explaining why this should be so nor offering an explanation for the level of this rate in the first place.

As is common in many World Bank documents on pension reform, this book devotes much space to a discussion of the advantages of funding, though it does admit that few countries in the region would be able to protect retirement capital through proper management, investment supervision, and pension fund regulation. A newer element in the proposed strategy is the discussion of a social pension provided to the 'uncovered' population. Given low coverage rates by pension systems in all of these nations, this issue is crucial: and it is a pity that only six pages are devoted to social pensions, versus many to financial sector issues.

The volume closes with a chapter on progress to date and prospects for reform. Unfortunately this reads like many internal World Bank documents, stressing the importance of "good analyses and diagnoses." It also underlines the importance of a reform driver in each country who "… understands the issues, takes the initiative to create awareness about the need for change, proposes solutions …". This wording may imply that the World Bank has only modest confidence in the capacity of its clients, and it stands in odd contrast to the many sophisticated technical requirements for pension reform outlined in the rest of the book. Finally, the book mentions only in passing how the general political climate influences pension reform. Accordingly the reader is led to wonder whether comprehensive pension reform could possibly be a priority in countries such as Iraq, West Bank, and Gaza. These criticisms, however, should not detract from the fact that this is a timely, rigorous, and comprehensive body of analysis, on an understudied region.

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The Greying of India: Population Ageing in the Context of Asia. By Rajagopal Dhar Chakraborti. Sage publications, 2004, ISBN 0-7619-9802-0, 467 pages, $54.95. doi:10.1017/S1474747206242549

This useful book by a demographer at Kolkatta University provides a comprehensive description of demographic trends in Asia and implications of aging for development. Developing Asian countries are in early stages of addressing longevity, inflation, and survivor risks. This is an area where considerably greater policy-oriented research is needed.

In the first chapter, the author provides an overview of individual and population aging in Asia. In Asia, many countries still have a relatively high mortality to age five and therefore life expectancy at birth understates retiree financing needs. Instead, life expectancy at retirement age particularly impacts on retirement and healthcare financing needs. The author finds that people age 80+ are the fastest-rising category among the elderly in Asia, and many Asian countries are particular affected, particularly those with Confucian traditions such as China, Singapore, Taiwan, South Korea and Japan. He also finds evidence for increasing feminization of the elderly in Asia. This has implications for provision of survivor benefits, since women in many Asian nations have low labor market exposure over their lifetimes, and even when they do work for pay, they earn less than men. Yet their life expectancy is longer, so most of the age 80+ will be women who will need to be supported for a longer period.

Next the author turns to an overview of the stages of demographic transition, examining Total Fertility Rates (TFR) and life expectancy at each stage. He provides projections for Asian countries to 2050 and regression analysis explores the relationships between population aging, fertility rates, and mortality rates. The case of Japan is examined intensively. He also reviews several traditional indicators of aging including the Old Age Dependency Ratio (OADR), defined as the ratio of persons age 65+ to those age 15–64, and he applies the measures to India.

Another chapter focuses on how aging may affect economic development in the region. Areas covered include the impact of ageing on productivity, the supply of labor, consumption and housing, healthcare costs, capital formation, intergenerational tensions, politics (i.e. voting behavior), the impact of ageing on society, family structure, women, and deprivation. Unfortunately this chapter is overly broad, so issues are not discussed in a nuanced manner or in much depth. A major omission has to do with the lack of attention to possible impacts of aging on financial markets and on asset prices in Asia. Also the role of immigration influencing augmenting labor supply and productivity is mentioned only in passing. Not discussed at all are the possible uses of outsourcing and rules for short-term labor flows to take advantage of demographic complementarities. For example, India will have a rising share of the world's working age population until about 2045, in contrast to labor-scarce Asian economies such as Japan, South Korea, Singapore, Malaysia, Hong Kong and Taiwan.

In two final chapters, the author focuses on the status of elderly in India and on 'graceful aging.' The Indian analysis does describe the social security system, but the discussion does not acknowledge recent analytical and policy relevant literature. The discussion of graceful aging provides a comprehensive list of financial and non-financial factors including self and community support by the elderly, the need for innovation in pension financing, and other factors to promote graceful aging. Some of the appendices (stretching over 74 pages) could have been substantially shortened or eliminated. A useful glossary will be appreciated by students and non-specialists.

Aspects of aging in Asia are critically important, particularly retirement and elderly healthcare financing. Indeed, by the year 2050, there will be nearly 750 million persons above 60 years of age in China and India alone. For this reason, understanding how Asia will address these challenges is of critical relevance to all nations, and this book is a welcome addition to the literature on aging in Asia. While the book would have benefited from greater familiarity with pension economics and finance, the author has raised awareness of key aging issues and suggests a sense of urgency for policymakers and pension/provident fund organizations in these countries. Students and researchers must undertake more rigorous empirical evidence-based and public policy research in Asia, and this volume will contribute to the knowledge base.

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