

# The West is getting old

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It's the demography, stupid. There are a lot of different reasons this is turning out to be such a politically hot summer in so much of the Western world. But one way to understand this season's acrimony -- from the protests of the indignati in Spain and Greece, to the budget deadlock in Washington and even to the tragedy in Norway -- is as diverse symptoms of a shared condition: The West is getting old. That demographic fact is becoming a generational war, and there is every reason to believe that in the coming decades it will get worse.

The heart of the problem is arithmetical: The post-World War II social welfare state, created at a moment when the baby boom was still gestating, is built on a generational Ponzi scheme. As life expectancy increases and fertility declines, that population pyramid is being inverted -- and in some countries, that is causing the entire economy to topple.

That's true in Greece and Spain, where the young are taking to the streets partly because state pension commitments have become so heavy they are suffocating the economy and depriving the seniors' grandchildren of any chance of a job. Likewise in the United States, where, notwithstanding the national self-image as a laissez-faire land that has eschewed Europe's lavish social safety net, the budget battle is really a fight about the old: Programs for the elderly constitute almost half of non-interest government spending, about \$1.6 trillion in 2010, of a \$3.3 trillion total. That figure will swell as the baby boomers retire.

According to a paper by political economist Nicholas Eberstadt, who has done extensive research on the issue, "costs associated with population aging are estimated to account for about half the public-debt run-up of the OECD economies over the past 20 years."

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sovereign default. Ali Alich, an economist at the International Monetary Fund, argues in an essay published by the fund last month that "old folks may be less willing to repay sovereign debt." According to Alich, "As the number of older voters relative to younger ones increases around the globe, the credit-worthiness of borrowing countries could decline -- resulting in less external lending and more sovereign debt defaults."

This demographic crunch has transformed the way a lot of us think about the relationship between economic growth and population growth. Not so long ago, the conventional wisdom was neo-Malthusian -- for individuals, for families and for societies, one of the

keys to prosperity was having fewer children. Now, that thinking has been turned upside down.

In a speech at the Aspen Ideas Festival a few weeks ago, former Treasury Secretary Robert E. Rubin cited the United States' "favorable demographics relative to Europe, Japan and even to China and Korea" as one of the principal reasons to believe that the country has sunny economic prospects.

President Dmitri A. Medvedev is so worried about his country's shrinking citizenry that the Kremlin is offering families that have a third child financial incentives.

Even China, the most brutal apostle of population control, now fears it will

get old before it gets rich. Meanwhile, India, whose fertility was once seen as its national curse, is touted as a rising investment prospect thanks to its "demographic dividend."

One solution to the demographic dilemma is immigration. But absorbing immigrants can be tough. And that's true not just for the traumatized Norwegians, but also in US states like Arizona, which have less homogenous populations and a history of immigration.

Moreover, immigration is a zero sum game that can't work for everyone forever. As the world's poor countries get richer, their citizens have less reason to emigrate -- and they begin to suffer their own demographic squeeze.

Eberstadt points out that this is true not only of one-child China, but also of the economically prospering Indian south, where fertility levels are at, or already below, replacement levels.

The other answer is to persuade families to have more children. So far, that's something no developed country has really figured out. As women get richer, better educated and more autonomous, they have fewer babies. That decline in fertility is driven by harsher economic forces, too: Most middle class families in the West need a mother's wage to survive, and women in industrial and postindustrial societies can't bring their babies to work in the way their peasant great-grandmothers could.

As countries awaken to the demographic squeeze, their first instinct is often fiercely conservative. That is the case with Medvedev: As well as giving families incentives to have a third child, the Kremlin is restricting abortion and making common cause with Russian Orthodox Church activists and social conservatives who condemn "refusal of marriage and child-bearing" as a "social deviation."

But there isn't much evidence that a return to patriarchy will bolster fertility. After all, some of the societies where the birthrates are plummeting the fastest -- like Japan or Italy -- are the ones where women have made the least social and economic progress.

Yet there is one political movement that has long campaigned for societies to find a better way for women to be both workers and mothers: feminism. Until now, we have framed those efforts as being about expanding personal choice -- and government and business have paid them lip-service, but not much more.

As greying countries become angrier and more dysfunctional, that could change. We think the most pressing issues in the rich West are budget deficits and job creation. To fix our economies in the long term, what we should probably be talking about is maternity and paternity leave and workplace day care.

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*It is not just at home that greying societies are creating wrenching political and economic tensions: The demographic squeeze may be contributing to one of today's biggest dangers in international finance: the threat of sovereign default*

## US 'almost out of time' for debt deal: Obama

AFP, WASHINGTON

Spurred on by President Barack Obama, US lawmakers set the stage late Friday for a frantic beat-the-clock weekend effort to avert a catastrophic debt default sure to rattle the world economy.

In a grim warning of what may come if there is no breakthrough by Tuesday's deadline, US markets tumbled for a fifth straight day -- a month of gains wiped out in a week of losses due to poor US growth and the political stalemate.

"We are almost out of time. We need to reach a compromise by Tuesday so that our country will have the ability to pay its bills on time, as we always have," Obama said in appeal for Republicans and Democrats to carve out a deal.

The US economy hit its \$14.3 trillion debt ceiling on May 16 and has used spending and accounting adjustments, as well as higher-than-expected tax receipts, to continue operating normally -- but can only do so through Tuesday.

Business and finance leaders have warned that default would send crippling aftershocks through the fragile US economy, still wrestling with stubbornly high unemployment in the wake of the 2008 global meltdown.

The Republican-held House of Representatives late Friday passed Republican Speaker John Boehner's bill to avert a default, setting the stage for the Democratic-led Senate to set aside the bill or change it to suit its approach.

"Americans are worried about finding work. They're worried about our economy, and they're worried about the mountain of debt that's facing them," Boehner said. "Today, we have a chance to end this debt limit crisis."

Twenty-two House Republicans joined all 188 Democrats voting in opposing Boehner's legislation, while 218 Republicans backed in -- eking out the 216 votes needed for passage.

"It is time for Republicans to stop the political games and embrace compromise," Democratic Senate Majority Leader Harry Reid said, urging Republican Senate Minority Leader Mitch McConnell to now help build a way forward.

McConnell accused Democrats of "ginning up opposition to everything" Republicans offer -- but declared "I

eagerly await the majority leader's plan for preventing this crisis."

At the White House, spokesman Jay Carney warned "uncertainty" about a breakthrough had done "damage" to the fragile US economy, already suffering from slow growth and stubbornly high unemployment of 9.2 percent.

A key sticking point was the duration of any debt limit increase: Reid rejected Boehner's plan in large part because it would set the stage for another high-stakes showdown in a few months.

"We cannot be in this battle all the time," said Reid, whose own plan would spare Obama another politically fraught debt battle as he seeks a second term in the November 2012 elections.

Boehner's bill would pair raising the debt ceiling by \$900 billion with spending cuts of some \$917 billion over ten years, while requiring later debt limit increases be tied to congressional passage of a balanced budget amendment to the US Constitution for ratification by the 50 states.

Reid, whose Democrats oppose tying the debt limit to such amend-

ment, has offered a blueprint that would raise the debt ceiling by \$2.7 trillion while cutting spending by some \$2.2 trillion over 10 years.

He also called for a quick vote to set aside Boehner's plan, and took steps to set up procedural votes on the road to final Senate passage of a compromise on Monday or Tuesday, depending on the approach he chooses.

That would leave it up to the bitterly divided House to take the final step, a vote that would require Democrats and Republicans to pass the legislation in a down-to-the-wire endgame with unprecedented financial stakes.

Obama insisted both sides were "in rough agreement" on how much spending can be cut "responsibly," and on the steps to take in the coming months on tax reforms as well as some kind of enforcement mechanism.

But when a well-wisher at the White House told Obama that he owed him a poker game, the president responded: "I got some high stakes poker going on right now."

Chinese media attacked the United States over the debt wrangling, warning it could plunge the world into another recession.

China is the top foreign holder of US debt with holdings at \$1.16 trillion in May, according to US data, and has raised concerns about its investments.

But in more bad news for the US economy, struggling to recover from the 2008 financial crisis, government data released Friday showed economic growth had nearly stalled in the first half.

The US economy grew at a dead-pace 0.4 percent in the first quarter and only 1.3 percent in the second quarter of 2011, the Commerce Department said.

Markets around the world remained on edge as Asian stocks fell amid fears that US lawmakers will not break the deadlock.



A shopper walks by a shoe store on Friday in San Francisco, California. The US Commerce Department reported that the economy slowed in the second quarter with the GDP coming in at 1.3 percent, far lower than expected.

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