
The book is a complete and comprehensive analysis of the economic and financial problems involved with population ageing; a computable model is used in order to quantify projections and to formulate policy suggestions.

The first part of the book starts from a historical perspective (1960–2000) of demographic developments. Five areas are separately considered: the European Union (EU, 15 countries), the US, Japan, the fast ageing countries (Russia, China, Eastern Europe and some smaller ones: altogether 1765 million people in year 2000) and the slow ageing ones (all the others, altogether 3505 million people). The consequences of demography on public finances, savings, labour supply, capital accumulation, total factor productivity and interest rates are carefully examined; particular emphasis is devoted to global capital movements.

The authors present next an ageing scenario for 2000–2050 (the central scenario), where, again, the impact on the previously mentioned magnitudes is assessed with the help of the ECFIN model produced by the Economic Policy Committee of the European Union. As compared both with the 1950–2000 experience and with a baseline scenario of no change in population trends, the outlook for the EU and Japan is gloomy: the rate of growth goes down, public expenditure increases, the share of these countries in world GDP over the world aggregate decreases dramatically.

The final section of the first part asks: how can the challenges of ageing be dealt with? Four measures are considered (the first three focus on the EU): an action to expand labour supply by raising from roughly 60 to 65 years the effective retirement age; a pension reform with partial shift to funding (on which more later on); a comprehensive scenario including the two mentioned measures plus a set of policies aimed at improving productivity. In the final projection, attention is again addressed to the whole world: a higher degree of globalization is assumed, incomes converge more significantly and the less developed areas improve their relative position.

The second part of the book concentrates on forecasts and policy options relating to pensions in the EU, looked at as a single unit (only EU averages are dealt with). The central scenario – i.e., what would happen without any kind of intervention – is a sad one: between 2000 and 2050, equilibrium social security contributions would rise by 11 percentage points (from 16 to 27%), public pensions expenditure from 10 to 18 percentage points of GNP.
Several simulations follow: a reduction in generosity; an increase in effective retirement age; a broad package of parametric and labour market reforms; the latter package plus a total or partial shift to funding. For every simulation, detailed results are given for the years 2030 and 2050. The authors’ final suggestions for an optimal reform are:

(i) to stabilize the PAYG system by reducing its generosity, reforming the labor market and raising the effective retirement age to 65; this should stabilize the contribution rate at its present level;

(ii) to induce a partial (perhaps 25%, but possibly more at each nation’s choice) shift to funding.

This book deserves being praised for many reasons. Although the past and present trends of world population have been very often emphasised in recent times, economists still have a tendency, if not to forget the problem, at least to set it aside and proceed in a “business as usual” fashion. This book is entirely framed in the context of the population forecasts, and draws all the necessary consequences from the premise that “a generalized and significant ageing of populations will be an inescapable global phenomenon”.

Within this framework, the analysis is strongly grounded in a general equilibrium perspective. All forecasts are based on a model, and the results of each set of hypotheses are separately set forth. Income (aggregate and per capita), its distribution between workers and pensioners, savings, capital accumulation and TFP are simultaneously evaluated. The perspective is often world-wide, which also permits international capital movements to be assessed. In this context, current account imbalances and the ensuing net foreign wealth positions are connected with the difference between savings and investment of each country (or group of countries), where savings depend, in a life-cycle framework, from the age composition of the population.

When they come to pensions, the authors repeatedly and properly emphasize that the problems of pensions in an ageing society can be tackled only by not taking the present state of the labour market for granted, and by acting first of all in the direction of increasing the participation rate and raising retirement age; interventions on the generosity of the system come second. Due attention is given to the incentive/disincentive aspects; under this viewpoint the introduction of a notional defined contribution method for calculating benefits is strongly (and correctly) advocated.

The authors do not fall victim to the fascination of funding, as many well-known scholars (such as Franco Modigliani, Martin Feldstein, Lawrence Kotlikoff) have recently done. Although setting the expected rate of return at a considerable level (between 4.25 and 6.25 per cent, with a preference for 5–5.25), they point to the drawbacks of funding (management costs, vola-