

Capital Management

As Washington policymakers begin to debate a potential move from tax-funded to market financed social security systems, a number of political and technical questions arise. To this end, the CSIS Global Aging Initiative (GAI) hosted on December 10 a half-day conference to address how retirement capital will be invested in an aging world. “Capital Management in an Aging World,” co-sponsored by the Financial Services Forum and the Pension Research Council of the Wharton School of Business at the University of Pennsylvania, featured presentations by Charles Blahous of the White House National Economic Council and James B. Lockhart, deputy commissioner of the Social Security Administration.

Experts addressed potential concerns, including how working age populations may combine with shrinking numbers of ever-thriftier consumers to undermine GDP growth in much of the industrial world. Among the questions examined: *Are rich nations prepared for an era when GDP growth will depend exclusively on rising productivity? What role will globalization play in sustaining equity returns? How can retirement risks confronting employees, retirees, employers, and governments be assessed in light of recent market volatility and governance? How can stakeholders work to reinvent pensions that perform well in a competitive global setting?*

Conference participants included Watson Wyatt President and CEO John Haley, who provided a startling look at the effect demography will have on labor supplies in developed economies. Haley demonstrated the inability of immigration to solve aging countries’ labor requirements. The numbers of migrants required by these countries to offset the effects of dwindling fertility would be overwhelming. In Japan alone, Haley asserted that immigration must be at least 54 times higher than current levels to maintain the current labor supply.

In addition, GAI Director Paul Hewitt elaborated on the potential benefits of investments of capital and technology in developing economies and how those investments could benefit aging populations in the developed world in the form of remittances. Lockhart provided a balanced analysis of the future challenges to Social Security, emphasizing the need for rapid reform: “The Social Security system, like an aircraft carrier, will not turn on a dime.”

Blahous, who delivered the conference’s keynote address, commented in great detail on the merits of personally owned accounts and rejected the notion that President George W. Bush’s plan called for a privatization of Social Security.

Blahous hailed the various proposed bills from both sides of the aisle to reform and bolster Social Security, arguing that a dialogue on the issue was progress in its own right. He also cited several hotly contested races from the 2002 elections, where candidates who endorsed Social Security reform came out ahead. Despite the great division over what should be done about the pending shortfall, he pointed out that, ultimately, both parties do not disagree over Social Security reform as much as they would like the public to think.

Information about the conference is available online. “The debate is no longer over whether—but, rather, how—to embrace market financing as the key to retirement security in the 21st century,” Hewitt said. “One only has to look at continental Europe to see the deep trouble societies get into when they succumb to the politics of wishful thinking.”

The CSIS Global Aging Initiative (GAI) explores the international economic, financial, political, and security implications of aging and depopulation—a global phenomenon predicted to occur first in the advanced industrial nations, but after 2020, expected to overtake much of East and Southeast Asia and Latin America.