People of the western world begin to see broken promises

By Henri Erti
Contributor

The older generation may have deserved their retirement under the palm trees, but the consequences of the current pension schemes for the next several generations are far more detrimental than previously believed.

The main concern of the pension funds has been forgotten in the public press, while economists have been warning about the next bubble for years. Figuratively speaking, the current generation, which is entering the workforce or has recently begun working, is walking on broken promises.

This generation, alongside with many more in the future, will most likely witness a substantial delay in their retirement. Furthermore, the current and next working generations will contribute from their meager incomes to the existing pension funds to support the next and existing retiring age groups.

In addition to such unsustainable investment schemes, which have been based on rhetorical promises rather than real quantitative calculations, young people have little chance of accumulating similar wealth due to the lack of jobs and issues in the housing markets.

Unfortunately, the burden will get even heavier. As the population of the Western world ages and consequently exits the labor force, the shrinking skilled workforce must support the expanding number of unproductive retirees.

Pointing the blame on the retirees would be both foolish and unfair. Regardless, we must ask, are the Baby Boomers a lucky generation or just a selfish one? Drawing conclusions based on assumptions or bitterness cause further tensions in the existing debates. However, it must be noted that the retiring generation is at least a careless one.

Assuming that long economic growth makes future generations richer is a hasty generalization and such reasoning ultimately has led to the diminishing contributions to the younger generations from the soon-to-retire generation. For example, the currently working generation, which is going to retire in soon, is not going to contribute to the future generations or open opportunities for them. All they will do is add to the deficits of the current system.

Of course, the younger generations need to face their shortcomings as well. Gaining education, for example, in creative writing, (least likely to find a job upon graduation) until the age of 28 is utterly pernicious to the economy in the long- run, because the average time spent in the workforce ultimately decreases as time spent in education and retirement increases.

Below is a rather pessimistic, yet truthful representation of the dependency ratio, which illustrates the current situation.

During the 1950s, time spent in education was lower than in 2004, which may propose an argument that longer education with longer life-expectancy can decrease the time spent in workforce. This pattern is also exhibited in the graph when time spent in labor has decreased during this period by close to 6 years.

On top of this the time spend in retirement has increased due to the improvements in standard in living, hence people live longer and enjoy the benefits of pension funds. An increase of over 9 years spent in retirement, in addition to a 6 year decrease in labor is by every measurement an unsustainable scheme, which is more of a ticking time bomb than a bubble.

Furthermore, a popular mantra is dominating among the younger generations, which states that as the Baby Boomers retire, more jobs will be available for the emerging workforce.

Unfortunately, such a belief is a serious fallacy because there is not a constant stock of jobs. Simply by arguing that as retired people exit, the industries these jobs are located would automatically open, is a simplistic explanation. Improvements in technology drive productivity, thus some jobs previously held are no longer needed.

The issues regarding the pension funds are multidimensional. That being said, so are the possible solutions, which involve

See 'Pension funds,' page 8

UK: Life Course, Men Retiring in 1950 and 2004
(years spent in education, work, and retirement)