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Posted on: March 12, 2010 1:07 AM, by [Razib Khan](#)

The New York Times has a [scary but numerically rich](#) piece on the impending pension crisis in Europe. As in the days of yore Greece looks to be a pioneer. Here's an interesting pair of numbers:

According to research by Jagadeesh Gokhale, an economist at the Cato Institute in Washington, bringing Greece's pension obligations onto its balance sheet would show that the government's debt is in reality equal to **875** percent of its gross domestic product, which is the broadest measure of a nation's economic output. That would be the highest debt level among the 16 nations that use the euro, and far above Greece's official debt level of **113** percent.

The article goes on to survey the problems in much of Europe, and even hints at the impending issues with the retirement of the Baby Boomers in the United States (yes, I know Medicare is the short-term problem, not Social Security, but for people my age Social Security is something we're not too confident of gaining return on to the same extent as past generations). But the issue is bigger, declining fertility rates are occurring across much of the world. Here are a few nations with sub-replacement fertility:

Maldives - 1.87
 Burma - 1.92
 Turkey - 1.87
 Lebanon - 1.87
 Vietnam - 1.86
 Algeria - 1.82
 Puerto Rico - 1.76
 Tunisia - 1.73
 Finland - 1.73
 Trinidad - 1.73
 Iran - 1.71
 Sweden - 1.67
 Armenia - 1.35
 Bosnia - 1.24

I assume many of these surprise some of you. Much of the world is *projected* to [get old before it gets rich](#). These issues with pensions aren't going to be a problem for nations without a robust public pension system, but it will be an issue if the productive labor force is matched in number by those who are retired and must be supported by their children. Additionally, in nations with low fertility in the future many retirees will have had no children who can support them, or their children may die or become ill before they do.

Last fall Peter Thiel gave a talk at the Singularity Summit where he noted that institutional investors are now aware of the problems with taking on higher risk for higher yield. **But**, pension funds are being driven to look for these high risk investments nonetheless because their guaranteed payouts are just too big to fulfill with low risk strategies. Last week *The New York Times* reported on just this issue, [Public Pension Funds Are Adding Risk to Raise Returns](#).

These looming issues can seem like inevitabilities. But Thiel noted that there is a way out: **a return to productivity gains comparable to what was the norm before 1970 through technological innovation**. One can't magically make this happen of course, but at least unlike the world before 1800, which was constrained by Malthusian parameters, we are aware that innovation outrunning population growth is a possibility (though to be fair, the demographic transition was probably as big of a factor as the technological takeoff, though it was probably contingent on greater productivity, health and wealth). The other obvious options, pushing up retirement ages so that many of the aged die before they can collect, raising taxation on the productive to massive levels, or a [Logan's Run](#) system of social engineering, probably entail the collapse of our current liberal civilization. Consider:

Greece has proposed raising its average retirement age to 63, and that may be just a beginning.

The French president, Nicolas Sarkozy, has met with union leaders and broached the prospect of raising the normal

retirement age from 60. Spain has gone further, proposing to raise the retirement age to 67, from 65. **In the face of union opposition, however, the government is wavering.**

Old people vote, young people do not, young people are economically productive, old often do not wish to be, even if they could be:

He is a full-throated proponent of a system that pays him a yearly pension of 30,000 euros, or \$41,000, more than he was making when he retired 13 years ago at the age of 60. He has even written a book in defense of it, "The Guide to Granting Civil Service Pensions in Greece."

"We have to protect our standard of living," Mr. Bourdakis said. "The pensioners should not have to pay for the crisis created by the bankers."

Can democratic governments dependent on the votes of the retired enact legislation against their interests but which might maintain the system as a whole? I assume autocracies whose legitimacy is only backed up by the hard-power of military might can make these "hard decisions." Most of recorded history has been characterized by the dominance of undemocratic institutions and power arrangements as well as a Malthusian world where affluence was the expectation of the few.

Only the machines can save us, just as [they](#) saved us [before](#).

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In the U.S., economic conditions are driving a fair number of baby boomers to postpone retirement, (<http://www.sunlife-usa.com/unretirementindex/index.cfm>.) That should ease the pressure on Social Security. Of course, it also indicates that fewer jobs will be available for young people just entering the the work force -- most likely, not a positive outcome. Perhaps, indeed, only technology can save us.

Posted by: ancientTechie | [March 12, 2010 9:14 AM](#)

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