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How to handle gerontocracy

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Abstract

Purpose – The article demonstrates the dangers of gerontocracy and offers solutions.
Design/methodology/approach – The article combines desk research, literature review and economic analytical reasoning.
Findings – Gerontocracy in developed countries is a threat to financial, labour market and political sustainability of care for older people. Without actions today, the problem will become bigger every year, not least because of increased electoral weight of older people. This article proposes to handle gerontocracy in two ways. First is by using the potential of healthy retired people as volunteers, thereby mitigating the intergenerational solidarity challenges. Second is by taxing part of the windfall profits on the housing market, where older generation profited disproportionately.
Originality/value – The added value of the article is twofold. First, it signals a serious problem in affluent societies that is largely ignored, both in the academic world and in politics. Second, it offers original solutions that mitigate the problem.

Keywords Gerontocracy, Intergenerational solidarity, Integrated care, Sustainability

Paper type Viewpoint

1. Introduction

All western societies suffer from gerontocracy. The term points at a relatively broad phenomenon. Current old generations are richer than ever, increase in electoral weight every year, pay relatively low taxes and are very costly for society in terms of health care and social security spending (Bovenberg, 2008).

Notice that in itself this is a positive phenomenon. Year after year we can afford higher standards of care and people simply live longer and healthier lives. Nothing to complain about?

Gerontocracy has a serious and urgent downside. This is best exemplified by the developments in care for older people. A country like the Netherlands spends more than 2.5% of GDP on care for older people. If the Dutch want to sustain their current level of care in the future, projections indicate spending will increase from 17 billion Euro in 2015 to a whopping 70 billion Euro in 2060 (RIVM, 2020).

Without doing anything, most of that money will have to be coughed up by younger generations. Alternatively, the quality or access (or both) of care for older people has to decrease, which will not be a popular thing to do for any government. Or, equally unpopular, spending on other domains such as education or defense, will have to decrease. Moreover, sustaining current levels of care will face serious challenges on the labour market, with shortages being visible already today.

The current system is already out of balance in terms of intergenerational solidarity. Young people have substantial difficulties in acquiring a decent house in many parts of Europe, while the older generations have benefitted from substantial housing price increases for decades. Younger generations also face the burden, both physically and financially, of the climate crisis.

The Netherlands is no exception in the Western world. True, the Dutch spend a lot on care for older people and have broadly accessible high quality arrangements. True, as a result of a well-funded pension system, the older generation in the Netherlands is even richer than
elsewhere. But the direction is the same everywhere. In almost all parts of Europe housing prices have increased over longer periods. Population ageing kicks in everywhere. And systems that rely on informal care for older people will find fewer people to deliver that care in an ageing society while the demand for complex care grows.

No matter how you organize your tax, pension, housing or care for older people, the system is fundamentally imbalanced, with the imbalance automatically becoming worse every year. This puts an unreasonable burden on younger generations. This calls for action today. Each year that we wait with rebalancing the intergenerational solidarity makes it harder to do something. Ageing also implies that the voting power of older generations increases every year. If we wait too long, any decent proposal of rebalancing will simply be outvoted.

Our paper suggests two ways of restoring the balance. Our first suggestion is to use the increasing pool of recently retirees to deliver informal care. An increasing part of care for older people is not health care but social care that can be delivered with relative ease by people with fewer qualifications and lower salaries than nurses and doctors. This pool can be activated and integrated.

Activating and integrating this pool is clearly in the spirit of the broader literature on integrated care, where integration between social work and health as well as formal and informal care is rife. For example, Di Bailey and Mutale (2022) find that when social work was embedded or attached to a primary care team; costs of care delivery were lower than in their social-work-only team, and more indicators of good quality care outcomes were recorded. Equally so, Kermode (2021) concludes that multi-agency services including both formal and informal care leads to more effective coordination of care.

Our second suggestion is to tax the increases in housing prices that come in the form of manna from heaven. Taxing part of those windfall profits does not hurt the incentives as badly as many other taxes and reverses the trend of increasing wealth inequality. Both suggestions help to restore the balance of intergenerational solidarity, with the older generations profiting as well: applying principles of integrated care leads to care for older people that can be sustained, they can be employed in a meaningful way to society reducing inter alia loneliness and as a bonus their children become happier.

2. Gerontocracy, its sources and consequences
So far we have not formally defined gerontocracy. It literally means a form of oligarchical rule where the leaders are significantly older than most of the adult population. In its most extreme form gerontocracy is a system in which the older population can impose their will with force on society.

In the context of our (more realistic) setting in developed democratic countries, gerontocracy means that the voting power of the older generation can imply that public policy choices disproportionately favor older generations. There is quite some empirical evidence to back this up. Older voters not only participate more than younger voters in elections, they also prefer older politicians because they correctly expect them to defend their own interests (Raul and Panel, 2021).

Are elderly likely to vote pro health care spending? It is often asserted that the votes of elderly are more sensitive to a politician’s stance to old age subsidies than are the votes of any other group to any other issue (Mulligan and Sala-i-Martin, 1999). Evidence that same holds true for health care spending is comparatively sparse. A large 22 country study by Sørensen (2013) showed clear evidence for a pro health care spending life-cycle effect. That is to say as people age, their preferences shift towards higher health care spending levels. However, this preference shift was minor compared to other life-cycle changes, like the reduction in the preference for spending on public old age pensions or public education. Moreover the
variation between countries was comparatively large, and included an inverse preference shift in the country with oldest population: Japan.

It is not objectively possible to draw an exact line when gerontocracy is there. It is quite defendable to claim that we are already in the middle of it. What is clear, though, is that the voting power will increase every year with certainty.

Gerontocracy is not just about voting power but also wealth inequality. The wealth consequences of developments on the housing market can lead to further imbalances. In virtually every European member state prices have increased substantially. Between 2010 and 2020 house prices on average increased with 26%. In only three member states housing prices have dropped over that period (Eurostat, n.d.) Since most people see their income increase over time, older generations have disproportionately benefitted from the price increases. An exemplary manifestation of the disbalance is the problem for starters to buy a house almost everywhere in Europe [1].

In part because of the housing market development, the median net wealth of households in 2014 for people 55–64 years was 57.1% higher than the median for all households. And even higher (59.8%) for people aged 65–74 years. Add to that older people are less likely to hold debt and pensions increased as well (Eurostat, 2019).

As a result, in many member states the older generation is well off, both compared to similar age groups in the past and compared to younger generations. Moreover, the disbalance becomes larger every year.

Gerontocracy, like any form of democratic deficiency, can lead to the lowering of welfare for younger people. This is particularly true in the context of ageing. Each year there will be proportionally fewer members of the younger generation that can create tax revenues. At the same time, older generations will demand higher proportions of budget spending. There can become a moment when there will be a genuine threat of a serious shifts in expenses from education and climate change towards safety and health.

In these scenarios, there will not only be misallocation of tax expenses. Intergenerational solidarity can be seriously thwarted, leading to unrest and societal imbalances. Before we will land in this dark world, there are ways to avoid problems.

3. Gerontocracy and integrated care

For a variety of reasons integrated care seems to be the obvious candidate to counteract gerontocracy. First of all, by integrating health with other domains of life, people can postpone severe health issues, which releases pressure on the system. Second, by integrating social activities between people with needs and people without needs, many smaller problems can be solved locally in their social network without the interference of expensive health professionals. Third, by integrating formal and informal care, the burden on the labour market shrinks. Integrated care clearly has the potential of releasing the pressure on younger generations in more than one way.

Whilst many protagonists of integrated care are likely to subscribe to this, it has not fulfilled this potential at all. One of the reasons is that economic evaluations of integrated care are either of relatively poor quality, provide disappointing results or are simply not there (Vondeling, 2004; Tsiachristas et al., 2016; Kadu et al., 2019).

Various authors point at the reasons for these disappointing outcomes. The reasons vary from the complexity of integrated care, methodological challenges and data issues. Even the relative lack of appetite by health economists for evaluating integrated care was mentioned.

Whilst we do not disagree with this, we offer another compelling reason why integrated care has not been more widely mentioned as an answer to the challenges of gerontocracy. Both the policy world and the scientific world are dominated by an excessive preference for numbers and Euro’s. Can we calculate QALY’s? Now we are talking. Monodisciplinary interventions can often be easily calculated in relatively standard outcome measures.
Integrated care is by nature more fuzzy, less quantifiable and more multilayered. Moreover, the benefits can often only be reaped after a few years or do not reach the parties who have invested in integrated care. Typically, innovations like this have a hard time convincing policy makers and payers. The obstacles are numerous. “We already do this!” “It is not legal to integrate!” “If you cannot prove it reduces health spending in the short term we won’t finance it”. We have all been there. As a result, if you are lucky enough that your project is financed, there is often no structural finance follow-up even in cases of success, which makes evaluations even harder. Let us see if we can come up with an integrated care plan that can overcome these arguably formidable obstacles.

4. Sustainability: the case of care for older people in the Netherlands

Section 2 explained gerontocracy and its consequences. Section 3 discussed why integrated care might be the solution, but that it suffers for lack of evidence. This section illustrates on the basis of the Dutch situation in care for older people what needs to be done. We claim that similar conclusions can be drawn for other European countries.

Sustainability in the context of gerontocracy not only means financial sustainability. Even if a country is able to finance the consequences of ageing and maintain the same access and quality of care for older people, there can be serious issues on the labour market. Moreover choices that are made need political support. For example, suppose that you solve the financial and labour market challenges by huge tax increases. That may me sustainable in those two dimensions, but is unlikely to achieve political support.

4.1 Financial sustainability

The percentage of people in the Netherlands over 65 years, relative to the total population, increases from 19.1% in 2019 to 25.2% in 2050. More importantly, the people over 80 more than doubles from 4.6% in 2019 to 10.5% in 2050, which makes the Dutch situation worse than the OECD average (OECD, 2021).

Increasing age leads to increasing numbers of people with dementia. Roughly 25% of the people over 80 suffer from dementia (Alzheimer Nederland, 2021). Dementia is an invalidating and expensive disease. In 2020 the Netherlands spent 11.8 billion Euro on dementia (Vektis, 2021). Without any further action care for older people spending will increase from 17 billion Euro in 2015 to 70 billion Euro in 2060 (RIVM, 2020).

4.2 Labour market sustainability

Recent projections on the labour market shortages for nurses sketch a gloomy picture. There will be more demand for district nursing in the context of ageing, the trend of older people staying in their own home as long as possible, with health care becoming more complex. As a consequence, there will be more demand for district nurses, in particular the highly qualified ones.

Unfortunately, it is expected that instead of more there will be less district nurses available. The current pool is relatively old and the expected entry of new district nurses lags behind. The result is an expected shortage of about 10,000 district nurses in 2027 (Panteia, 2020).

4.3 Political sustainability

Actions that influence financial or labour market sustainability need political support. In particular in the light of the serious challenges, it is not given. ‘Easy fixes’ are often unpopular. Think of higher taxes, higher out of pocket payments, reduced package or crowding out of outer public expenses.
There can be different reasons for the erosion of support of a certain policy. Either solidarity is reduced, quality is decreased or political preferences are not respected.

4.4 Interplay
Policies that influence sustainability can either lead to tradeoffs or to potential win-wins. Most policies lead to trade-offs. An example of a trade-off is higher wages. It will be good for the labour market but not for financial sustainability. Or think of increasing out of pocket payments. Good for financial and labour market sustainability but lowering solidarity. The only potential win-win can occur in substitution between formal and informal care or in smart taxes. The next section will develop these policies. Whilst the previous section showed that European countries differ in the size of their gerontocracy challenge, the policy challenges and mechanisms are similar everywhere.

5. Handling gerontocracy
The previous section showed that it is not so easy to find a political sustainable road to win-win. Very often there are financial issues, problems on the labour market or unpopular choices. The only two viable routes that we see are informal care substitution and smart taxes.

5.1 Elderly for elderly: informal care substitution
Research showed that providing informal care can negatively affect carers’ health and well-being (European Commission, 2021). Spouses and children of older people in need are often overburdened and face financial consequences. Hence there is little room for putting extra burden on this group.

However, in many countries there are ample possibilities to substitute formal care with informal care. Take people with dementia. Most of the services delivered to them and most of the needs they express themselves have little to do with health care. There seems to be a serious mismatch in demand and supply of informal care. There is great demand for informal care, but the delivery is either in the form of formal care (which is expensive) or in the form of overburden relatives while informal care can be a cost effective substitution for formal home care services for people with dementia (Bremer et al., 2017).

Our suggestion is to exploit an unused reservoir of potential informal caregivers. Many pensioners (age group 65–75) are fit to deliver services. In this sense pensioners are not the consumers of elderly care but service providers to their peers. Although there are several reasons not to volunteer as informal caregiver (older people retire later, some prefer to travel and others have to take care of their relatives) the senior human resource capital is still growing (Schippers and Conen, 2014). In the Netherlands, the healthy life expectancy at age 60 increased from 16.62 in 2000 to 18.44 in 2019 (WHO, 2020). However, the system has very little ways for them to become active. For those of them who are willing and able, we see an opportunity to kill two birds with one stone. First of all, it will be good for themselves since they can still contribute in a meaningful way to society and receive a supplement to their pension. Second, it will relieve tension on the labour market. Third, it yields financial returns, since the pensioners are much cheaper than formal care.

A tentative calculation shows that elderly for elderly can yield substantial returns. The Dutch spend 16 billion Euro on care for older people staff. If we realize a substitution of just 5% of that staff, annual savings amount to 400 million Euro. Substantial, but not enough to fill tall the financial gaps. More is needed.

The elderly for elderly idea benefits the elderly in need. Alternatives imply either increased inequality, lower quality or budgetary problems. Elderly for elderly also benefit the
volunteers themselves, because they will engage in a meaningful contribution to society and it contributes to their own health. Several studies found positive relations between volunteering by older individuals and (self-reported) health (e.g. Lum and Lightfoot, 2005). And it benefits the younger generation since it releases pressure on the budget and labour market. As a consequence, the intergenerational solidarity increases without it being outvoted.

5.2 Efficient and fair taxes
Whilst informal care substitution yields financial and non-financial returns, it will not be enough to maintain the level and quality of the package in the light of ageing. As a supplementary idea, we suggest to tax the windfall profits on the housing market.

As we concluded above, the older generation has substantial wealth in the form of property. Part of that wealth is not ‘earned’ but simply windfall profits. To illustrate: the average price increased with 6% over a period of 27 years, way above inflation. The wealth increase in 2022 alone is about 110 billion Euro in the Netherlands alone. There is hardly any homeowner in the Netherlands that has not benefitted over a life span from price increases.

You only have to tax roughly 10% of the wealth increases to cover all care for older people costs.

Homeowners who sell their house can keep 90% of the wealth increase even if those increases are not ‘earned’. The tax does not alter any incentives, unlike almost any other tax. We don’t expect to win popularity prices with this tax, but no tax does. This one is not only more efficient but also corrects for intergenerational disbalances.

Windfall taxes on the housing market also correct for the consequences of gerontocracy. Other than the elderly for elderly idea, which remains a good idea even when the electoral power of the older generation increases, the windfall tax idea has more sense of urgency. Whilst older generations profit from the increased tax revenue, they also pay for it through the windfall taxes. Such plans can easily be outvoted if gerontocracy increases.

Let us confront the choices we made with the integrated care challenges illustrated in section 3. To summarize, integrated solutions often suffer from lack of quantifiable evidence and as a result of it, initiatives have difficulties to be financed on a structural basis. The windfall tax is clearly not related to the integrated care challenges since it can be easily calculated. The problem is more political than anything else. The elderly for elderly idea is a bit more challenging. Yet it is still less challenging as many promising integrated care ideas. First of all, it does not cost any money. Second, there are already numerous existing institutional and non-institutional initiatives that go in this direction. Third, it is increasingly acknowledged that this will be the only show in town in the coming decades.

6. Conclusion
All European member states suffer from gerontocracy, in one way or the other. The older generation is rich (both income, wealth and burden of debt) and profit from lush packages of care. The unbalance that this creates becomes worsener every year, inter alia leading to frustration by younger generations that they have to carry all the burden. Moreover, the older generation becomes an increasingly powerful electorate, rendering quick policy responses.

We suggest two solutions that have a great potential for win-win and at the same time correct for intergenerational unbalances. The integrated care solution sees elderly for elderly. The idea substitutes formal care with informal care. The winners are the tax payer, the labour market, the active elderly themselves, the elderly in need of care and informal care takers that are overburdened.

Taxing the windfall profits on the housing market also sees many winners. The quality and access of care for older people can be financed in an efficient way and at the same time
correcting for intergenerational disbalances. The ones paying the taxes also benefit from it, while alternative taxes are clearly worse.

Note
1. Buying a house as a starter, this is also difficult in other EU countries - World Today News (world-today-news.com)

References


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