A Gray Christmas?
The Impact of Global Aging
on Transatlantic Economic Cooperation

A working paper prepared for
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on Europe and Transatlantic Relations

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For, even if the habitable land is the property of the whole human race the multiplication of that race must, as we have seen, sooner or later, bring its numbers up to the maximum which the produce can support; and then the interesting problem in casuistry, which even absolute political ethics may find puzzling, will arise: Are we, who can just exist, bound to admit the newcomers who will simply starve themselves and us? If the rule that any one may exercise his freedom only so far as he does not interfere with the freedom of others is all-sufficient, it is clear that the newcomers will have no rights to exist at all, inasmuch as they will interfere most seriously with the freedom of their predecessors. The population question is the real riddle of the sphinx, to which no political Oedipus has as yet found the answer. In view of the ravages of the terrible monster, over-multiplication, all other riddles sink into insignificance. (Huxley [1890] 1968, 328-9)

So argued Thomas Henry Huxley, the great 19th century British biologist, that population growth threatened to undermine natural rights. Would Huxley be relieved or no less concerned today to discover that much of the industrial world faces an equally confounding riddle— the problem of global aging? The population question facing policy makers in London, Paris, Berlin, Brussels, Tokyo, and Washington today is not over-multiplication, but rather the emerging problem of under-multiplication. Global aging presents dilemmas for leaders that are paradoxically both more mundane than Huxley’s musings, and yet quite profound. How are governments going to pay for the ballooning entitlement and public health care programs that support aging populations? Will governments need to abridge the social and economic rights of both pensioners and current workers in order to sustain some degree of social protections? Rather than Huxley’s hypothetical
newcomers, will the oldtimers starve (metaphorically) not only themselves but younger populations as well? Clearly, global aging will present both profound political and ethical dilemmas for policy makers who face considerable budgetary shortfalls in welfare and health care programs.

It is well established that in much of the industrialized world today, birth rates have dropped to historical lows that threaten to undermine the economic foundation of “pay-as-you-go” social welfare systems. Soon there will not be enough working-age members of societies to pay the taxes that fund entitlements for the elderly and the young. Given the growing number of pensioners, it is clear that governments face numerous challenges to keep their entitlements and public health care programs funded. The economic drain of such programs and shrinking labor forces raise the possibility not just of stagnant economies but of actual economic contraction worldwide. What is less clear, however, is the impact of these global demographic and economic trends on international economic institutions—or perhaps more accurately, on the political will in the United States and in Europe to nurture and sustain current international economic institutions like the World Trade Organization. In this paper, I look at the impact of global aging on three elements of the international economic system: (a) cooperation among world’s largest economic powers to regulate the natural cycles of their macroeconomies, which they currently manage through the annual G-8 meetings; (b) transatlantic trade liberalization; and (c) cooperation in the management of the global economic order. In addition to the direct effects of aging on these three areas, there are two important indirect effects. This is because the economic consequences of global aging will have differential
impacts both within states and between them. First, as the economic costs of sustaining social benefits crowd out new productive investment, new political coalitions may arise in opposition to open markets. Certain societal sectors--most notably labor and pensioners--are likely to feel these economic costs more acutely than others are. New coalitions may arise both within states--such as a possible alignment of labor, environmental, and elderly groups in opposition to global free trade--as well as transnationally, much like the anti-globalization movement. Second, the budgetary pressures and decline in savings caused by global aging likely will impact European democracies differently than it will the United States. This difference may make it more difficult for traditional transatlantic allies to cooperate on the management of the global economy. One irony of this differential impact is that those countries with the most severe aging problems--Germany and Italy in Europe and Japan in Asia--may have the greatest influence over the management of the international economic order. As I discuss later, their economic weaknesses may prove to be a negotiating strength.

It is important to note the difficulty of predicting the political impact of these economic trends. England (2002c) noted:

Economic forecasts of economic growth rates, productivity, inflation, interest rates, savings, investment and consumer spending frequently turn out to be wrong even in the short term of only a few months. The level of uncertainty rises steeply the further into the future the forecast projects. (p. 1)

No doubt forecasts of political behavior are equally uncertain if not more so. Who could have forecasted in 1963, for example, the United States’ abandonment of the gold standard a decade later? If anything, political coalitions and alliances both within democracies and between them are more fluid and unpredictable than are changes to international
economic institutions. The analysis I offer therefore is admittedly speculative; I try to maintain an appropriate tone of uncertainty. Rather than offering predictions, I propose a scenario that projects possible changes to international economic institutions within the next twenty years. Though it is only one scenario of many, it illustrates how the budgetary pressures of global aging may lead to significant changes in the transatlantic partnership and the global economic order.

Nowhere are the perils of global aging more profound than in the relationship between the United States and the European Union. This historic transatlantic partnership has provided the foundation for a global economic order that reconstructed open markets after the devastation of World War II. With the rise of common foreign and economic policies in the European Union, the norms of cooperation between Washington, Paris, London, Berlin and Brussels already face considerable challenges. U.S. and EU representatives have failed to negotiate agreements on competition policies, and the recent spat over the Bush Administration’s steel tariffs may portend future disagreements between these historic partners. Unfortunately, the demographic differences in the aging populations of Europe and the United States suggest that policy makers on either side of the Atlantic are likely to feel different political pressures, and consequently may disagree over policy responses. This may make it more difficult in the long run to manage the natural cycles of expansion and slowdown of national economies, to nurture transatlantic free trade, and to sustain the economic institutions that are the foundation for the global open market. For these reasons the transatlantic relationship’s approach to the challenges of global aging likely will be central to the future openness of the global market—or to its closure.
Economic Consequences of Global Aging: A Brief Overview

Within the last decade, scholars and policy makers have started to consider the impact on national economies of the aging populations in Western Europe, the United States and Japan. Already there is a considerable body of scholarship that assesses the possible consequences for future economic growth (see inter alia Masson and Tyron 1990; Turner et al 1998; McMorrow and Roeger 1999; and England 2002a, 2002b, 2002c). Rather than discussing the possible macroeconomic trends, then, I focus instead on the scenarios that may have the most significant implications for macroeconomic management, free trade, and the stability of the international economic order.

The growing cohort of retirement-aged individuals in many industrialized countries will result in a declining “dependency ratio”—that is, the ratio of working-aged individuals to retirees and children. This is a serious problem in states with pay-as-you-go social welfare systems, since fewer workers will shoulder the greater economic burden of supporting this growing population of pensioners. Governments will face stark policy choices, including raising the age at which individuals can claim public retirement benefits, raising taxes, cutting health care programs, and deficit spending funded by borrowing on capital markets to offset shortfalls in social welfare programs. While the aging of populations and constriction of labor forces in Europe, North America and Asia alone might result in an economic slowdown, the growing tax burden and the government’s redirection of capital to non-productive social benefits programs threatens to further retard economic growth, and may even result in an economic contraction. Similarly, as aging populations begin to consume
their retirement savings, national economies will face a decline in the savings rate and consequent rise in interest rates. Though gains in worker productivity and immigration of younger workers may offset some of these losses in productivity, most economic forecasts are nevertheless fairly pessimistic. Masson and Tyron (1990) predict that by 2025 Germany’s real economic output will fall nearly 6 percent below baseline estimates (that is, assuming no decline in the dependency ratio) while Japan’s output will fall by 13 percent below baseline. Turner et al (1998) forecast that living standards in Europe, the United States and Japan will continue to grow, but much more slowly than they have grown historically.

Governments undoubtedly will adopt new measures to minimize these economic impacts. Yet Masson and Tyron (1990) and Turner et al (1998) both suggest that policy options will only marginally improve macroeconomic performance in the United States and European Union. Liberalized immigration controls and an increase in retirement age will only marginally improve the labor participation rate. It is therefore likely that governments will face stark choices, none of which is likely to please voters. While governments can borrow heavily on capital markets to fund existing benefits programs, this policy choice will crowd out private investment. The resulting higher interest rates not only will affect long-term capital formation, but also will impact voters immediately: banks may offer more expensive mortgages, and industries likely will create fewer jobs. Alternatively, governments may choose to curtail welfare and health benefits, though governments may be hesitant to test the will of the voters; already Germans in large numbers have protested Chancellor Gerhard Schroeder’s attempts to reform Germany’s welfare system (Moulson 2004). No matter how one
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slices the economic consequences of global aging, it appears that voters and governments alike probably will feel some adverse affects that may have profound political consequences.

A Gray Christmas (Coalition)?

These difficult economic choices are likely to lead to domestic political realignments that could have significant consequences for the transatlantic relationship. While some possible realignments may favor free trade (particularly in the United States, where the dollar’s long-term depreciation will enrich American exporters), it is reasonable to assume that during the coming era of fiscal stringency we likely will see growing opposition to open markets. In Europe and the United States, who will advocate increased controls on capital flows and higher tariffs? One possibility is a coalition of labor, environmental groups and pensioners.

Already, labor and environmental parties have found common political ground and enjoyed considerable electoral success as a coalition. In Germany, Schroeder’s so-called “Christmas coalition” of social democrats (reds) and environmentalists (greens) has won two elections, most recently in 2002, on a platform that expresses skepticism about the impact of global free trade on jobs and on the environment. It is noteworthy, furthermore, that Schroeder’s government reversed its flagging electoral fortunes in the fall of 2002 by assertively opposing U.S. policy toward Iraq. The Christmas Coalition’s recent electoral success is predicated, in other words, on a foreign policy course that is independent of, and at times contrary to, that of Washington. Two other aspects of the Christmas Coalition are noteworthy. First, whereas the Greens once were a decentralized
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movement, they now are an established political party with a portfolio in German government. They are a model of political success for other anti-market movements, including the diverse but increasingly assertive interests embodied in the anti-globalization movement. Second, at the polls in 2002 Schroeder’s social democrats actually lost seats in the Bundestag; it was the Green’s electoral gains that won the coalition a second government. Already, social democratic and green parties elsewhere have sought to capitalize on a similar alliance (most notably in Austria, see Boggis 2002). The Christmas Coalition embodies, to a degree, a skepticism of American foreign policy and of the economic and environmental consequences of free trade.

The political staying power of the Red-Green coalition is an open question. The Social Democrats differ with their Green partners over structural reforms to Germany’s economy, including tax cuts. Some have also speculated that the Social Democrats’ poor showing in the 2002 election renders them more dependent on trade unions and their left-wing members, making future structural adjustments in Germany politically unfeasible. This spring’s large protests in Berlin, Munich, Cologne and elsewhere illustrate the unpopularity of such reforms and the political dilemmas for Schroeder’s government. There is reason to suspect, in short, that the Christmas Coalition may not last. It is intriguing to speculate, nevertheless, whether or not the demographic changes underway in Germany in particular, but in Europe and the industrial world as a whole, will make future Red-Green coalitions more robust. In other words, we may see aging voters, or “grays,” joining the reds and greens as a political force—what one might call a “Gray Christmas” Coalition.
Aging voters may find considerable appeal in a political coalition that is critical of free trade and, in Europe at least, of American foreign economic policy. As governments borrow on private capital markets to compensate for underfunded retirement plans, macroeconomic management may become more difficult. As current accounts fluctuate wildly, the dollar depreciates, and the euro appreciates, there may be considerable political pressure on both sides of the Atlantic but particularly in the European Union to increase trade protections to preserve jobs and industries. Given the pre-existing skepticism of the global trade regime frequently expressed by protesters in Washington and Davos, political alignments of social democrats, greens, and aging voters—not just within democracies but between them as well—may actively seek to reorder the institutions and rules for managing the global economy. They may prefer, in short, greater closure of the international economy, irrespective of the overall economic contraction this likely would cause.

**Challenges to Macroeconomic Management**

It is conceivable that the economic burdens of global aging will make it more difficult for governments to manage their macroeconomies. For two reasons, governments in Europe and the United States may find it harder to coordinate their fiscal and monetary policies to minimize the impact of economic downturns. First, European populations are aging more quickly than those in the United States or Canada, and will begin consuming their life savings more rapidly than their North American counterparts. This will create a decline in real savings rates that is more pronounced in Europe than in the United States. This relative imbalance in savings will stimulate the demand in Europe
for American-manufactured goods. Second, heavy government borrowing in private capital markets likely will result in higher interest rates in Europe than in the United States. These higher interest rates in turn likely will result in an appreciation of the euro. As with declining savings rates, this relative depreciation of the dollar will stimulate demand in Europe for American goods.

A strong euro coupled with shallow capital markets does not bode well for European governments’ efforts to manage the natural cycles of the macroeconomy. Historically, both France and the United States have faced a similar confluence of recession, open markets, and a strong currency. For the United States, it was in 1977, when the Carter Administration’s repeated attempts to reflate the economy led only to import substitution. France experienced a similar failure of fiscal stimulus in 1981 during Mitterand’s strong-franc policy. When coupled with France’s shallow capital markets, the “fort franc” rendered fiscal stimulus of the economy ineffective. The Mitterand government’s repeated attempts to stimulate demand led French consumers to take advantage of favorable exchange rates to import goods from overseas (Feigenbaum 1989). The effective result of French policies was to stimulate all other economies except that of France—until the Mitterand government twice devalued the franc.

Of course, governments today attempt to coordinate fiscal and monetary policies at the annual meetings of the G-8 precisely to avoid these situations in which governments are exporting their stimulus. Yet the G-8 mechanism relies upon the cooperation of member governments—and by extension their electorates. For several reasons, it is conceivable that twenty years from now European and U.S. governments may be either unwilling or unable to work within the G-8
framework. For one, governments may find fiscal stimulus an unattractive option given the budget deficits they likely will run up as they compensate for declining dependency ratios. For another, unlike France’s experience with the strong franc in 1981, a strong euro may not necessarily be a policy choice of European governments (Morgan 2003; “Raffarin backs Schroeder’s call . . .” 2004). It may result, rather, from disparities in savings and investment rates between the United States and the European Union. Given these structural features of macroeconomies in the era of global aging, national governments may have few options for stimulating growth.

It is conceivable, therefore, that policy makers and voters alike, in Europe and in the United States, will come to view the G-8 as irrelevant to the management of macroeconomies. To put it another way, the structural economic consequences of an aging workforce may seriously circumscribe governments’ discretionary economic policies—precisely the mechanisms upon which the G-8 consultations rely. Admittedly, today the G-8 is not an institution that generates the political passions of anti-globalization activists in the way that the IMF or the World Bank does. It would seem to be an unlikely target of the coalition of labor, environmentalists, and pensioners about which I have speculated. Yet the relative indifference of policy makers and voters alike to the G-8 mechanism, both now and possibly in the future, illustrates how the economic consequences of global aging may push European and American governments down the path of policy independence rather than coordination. Since the barriers to macroeconomic stimulus increasingly will be structural rather than discretionary, European and American governments may have neither the ability nor the desire to coordinate their economic policies. One dire consequence may be a
general decline in the traditions of transatlantic cooperation that are the foundation for the global economic order.

**Transatlantic Free Trade**

Policy makers on both sides of the Atlantic regularly propose liberalization of trade between North America and Europe. In December 2003, for example, UK Chancellor of the Exchequer Gordon Brown and U.S. Treasury Secretary John Snow launched a study to examine the feasibility of a North Atlantic Free Trade area (Kaletsky 2003). Yet despite a principled commitment to free trade on both sides of the Atlantic, the recent imbroglio over the Bush Administration’s tariffs on European steel illustrates the potential for traditional allies to disagree, particularly during times of economic downturn. Unfortunately, these types of conflicts between Washington and Brussels over trade rules may become more frequent as European societies age more quickly than American society does.

Unlike the recent conflict over steel tariffs, however, it may be European governments that feel the pressure to erect trade barriers for three reasons. First, as already noted, the costs of supporting aging populations in Europe may cause both the long-term depreciation of the dollar relative to the euro and lower savings rates in Europe. If so, European consumers will increasingly import goods, leaving European producers hard pressed to compete with cheaper foreign competitors. The structural differences between the dollar and euro are thus likely to create new protectionist pressures. The long-term strength of the euro may exacerbate, furthermore, trade tensions not just across the Atlantic but also within the European Union. Sweden’s referendum against joining the euro in September 2003 suggests that other
Eurosceptic countries, notably the United Kingdom and Denmark, may choose to remain outside the common currency as long as their existing currencies protect their current account balances. The European Union may thus face internal divisions in the future over a strong euro, worsening trade deficits, and the central coordination of new tariffs. Will these divisions give rise to bilateral free-trade agreements with the United States, such as those in air services, in lieu of multilateral U.S.-EU free trade agreements? Perhaps not, but policy makers on both sides of the Atlantic are likely to face considerable uncertainty about transatlantic free trade that likely will make trade liberalization more difficult.

Second, in the last decade the U.S. work force has enjoyed productivity gains from the so-called “new economy” (largely based on information technologies) that European economies have yet to realize. For this reason, in the long run Europe may enjoy greater gains in productivity from the new economy than the United States will. But the faster aging of the European labor force relative to the United States may undercut these productivity gains. There is some uncertainty, furthermore, about whether European governments will undertake the necessary regulatory and labor-market reforms to enjoy the full productivity gains of the new economy (England 2002c, 104-107). If not, then the United States may continue to enjoy gains in factor productivity that outpace those of European Union states. To the degree disparities in productivity between U.S. and European labor become long-term features of transatlantic trade relations, European governments may feel increasing pressure from labor groups to protect indigenous industries from more productive overseas competitors.
Related to this is an obvious third concern: newly industrialized countries outside of Europe and North America increasingly will become sources of cheaper capital and more productive labor. While these newly industrialized countries also will compete with American goods in global markets, European workers and industries may feel the competitive pressures most acutely due to the relative appreciation of the euro.

It is worth considering whether or not labor groups in Europe will tolerate both trade deficits with the United States and declines in capital formation. With European capital increasingly spent on non-productive social welfare and health programs, and with European consumers taking advantage of the strong euro to import goods from abroad, EU governments may face the prospect of considerable economic dislocation (albeit gradual rather than sudden). Such dislocation is likely to give further impetus to political coalitions that oppose unregulated capital markets--such as the Gray Christmas coalition about which I have speculated. While labor, environmentalists, and pensioners may have different reasons to oppose the unregulated flow of capital and goods between the United States and Europe, they nevertheless may embrace a common commitment to greater protection from American imports and businesses.

Management of the Global Economic Order

Can the World Trade Organization survive repeated efforts on both sides of the Atlantic to protect their domestic industries from the economic consequences of global aging? Any answer must be highly speculative, but there are some reasons to suspect the WTO may in fact endure these challenges. Some theorists argue that states today
already make macroeconomic policy adjustments for the perceived needs of the global economic order rather than for their voting publics (Cox 1994). If so, then it is unclear what impact, if any, emerging political coalitions of any stripe may have on states’ management of the global economic order. The prospect of a Red-Green-Gray coalition may make little difference: governments will continue to finance budget deficits through debt financing, making them beholden to bond markets rather than to voters, interest groups, or coalitions.

It seems reasonable, nevertheless, to suppose that in the face of rising interest rates and declines in capital formation, European and American governments are more likely to negotiate a more managed approach to the global economy. Just as the “satanic mill” of unfettered markets gave rise in the 1930s to the New Deal and social democracy (Polanyi [1944] 1957; Ruggie 1982), governments are likely to face increasing pressure from a confluence of domestic groups who seek greater protection from open markets. The political activism and influence of pensioners will be one such source of this pressure. Disparities in interest rates, government spending, and exchange rates due to the public-sector burden of retirement plans may lead to some agreement between the United States and Europe on new approaches to managing global trade. If so, one source of Europe’s economic weakness—the political clout of labor—may ironically be its greatest negotiating asset. Coalition governments of red, green and gray may enjoy considerable bargaining leverage when negotiating revisions to the global economic order. Several researchers have highlighted how a coalition government’s vulnerability to party defections gives it little room for maneuver in international negotiations, and hence considerable strength to dictate terms (Putnam 1988; Evans et al 1993;
Odell 1993). The United States therefore may face some stark choices when dealing with Brussels and EU governments over the parameters of global trade. While Washington may wish to preserve the access of American producers to European consumers, it may not be willing to bring down European governments in the process. Coalition governments in Paris and Berlin therefore may be able to extract certain compromises from the United States that they otherwise would not achieve. The result may be a more managed approach to the international economic order based largely on terms stipulated by the Gray Christmas coalitions that govern in Europe.

What is more intriguing is the possibility of a coalition of labor groups, environmentalists, pensioners and the anti-globalization movement. Already there are some apparent similarities in the interests and organization of the Red-Green coalition and anti-globalization protesters. As the success of the Red-Green coalition in Germany demonstrates, voters share the concerns of these groups for the impact of global free markets on job creation, local communities, cultural diversity, and ecological sensitivities. Even in the United States, there is evidence that elites increasingly view globalization as undermining localities, cultures, economies and the environment (Rosenau and Earnest 2004; Rosenau et. al. forthcoming). Just as the Green movement has enjoyed recent political success, furthermore, the anti-globalization movement has evolved from sporadic protests to a cohesive, organized political force. One can imagine, in short, a convergence of interests in industrialized democracies that oppose an open global economic order. Labor will oppose the loss of jobs and associated dislocations, Greens will oppose the environmental impact of unregulated capital arbitrage, retirees will be concerned about
unfunded pensions, all of whom will find political support from anti-
globalization protestors.

Greens and the anti-globalization movement increasingly are
organized transnationally, furthermore. Indeed, the rise of
transnational political groups may be a permanent feature of global
politics in the coming decades (Sikkink 1993; Klotz 1995; Wang and
Rosenau 2001). Will we see a transnational movement of the aged? Time
will tell, but the political success in Europe first of Green parties,
and more recently the growing assertiveness of anti-globalization
protestors, suggests that transnational political movements continue to
thrive. In April, labor and pensioners’ groups organized a “European
day of action,” a series of protests in Berlin, Stuttgart, Cologne,
Paris, Lyon and Rome to protest planned cuts to welfare and pension
These protests seem particularly portentous, since the hundreds of
thousands of German protestors specifically oppose the Agenda 2010
pension reforms proposed by the ruling Red-Green coalition of
Chancellor Gerhard Schroeder. Pensioners may begin to see international
nongovernmental organizations, furthermore, as a useful arbiter between
them and governments. Already the American Association of Retired
Persons (AARP) has a global aging program. AARP also is nurturing
relationships with similar associations of retirees in Europe,
including AGE-Europe’s Older People’s Platform, which is funded by the
European Commission to act as an advocate within the European Union for
the interests of retirees and the elderly. The AARP also has NGO
consultative status to the United Nations Economic and Social Council.
As international norms increasingly legitimate the participation of
NGOs both in the domestic politics of states and in international
forums like the WTO, pensioners’ organizations like the AARP and AGE may become significant transnational actors in the politics of aging. Governments in Europe and in the United States therefore not only will negotiate with each other to manage the economic impact of the costs of declining dependency ratios, but also may negotiate with an increasingly assertive transnational gray movement.

Finally, it is important to note that newly industrialized states may have a greater say in management of the global economy in the future than they do today. China and India may emerge as the world’s two largest creditors; though both have historically criticized open markets, they may nevertheless come to oppose manage trade when they hold much of the debt of the United States, European Union and Japan. Without the support of these emerging creditors, the United States and the EU may have little ability to raise tariffs or to prevent the flight of capital. This possibility highlights an important difference between the global economy of the 21st century and that of the 20th: unlike the last half century, management of the global economy will require the cooperation of policymakers outside of Washington, London, Paris, Berlin and Tokyo. Attempts to manage the economic impact of global aging may depend in part on capital markets in Hong Kong, Mumbai and Singapore. If so, the United States and European Union will find it more difficult to negotiate bilaterally to reform international economic institutions.

These uncertain speculations about the future of the global economic order highlight one likelihood. Governments in Europe and the United States increasingly may face more actors in the management of the economic consequences of aging, not fewer. This proliferation of new levels of governance has become a more-or-less fixed feature of
global politics today (Rosenau 1990, 1997). If the United States and
the European Union are to find a way to preserve both open markets and
social protections, they must do so in conjunction with global capital
markets, new and powerful creditors among the emerging industrialized
states, domestic political coalitions, and transnational
nongovernmental actors. Whether or not the United States and Europe
can manage an open global economic order in the face of this multitude
of interests and actors is an important but daunting question.

Conclusions

When speculating about the future, perhaps it is useful to recall
the past experiences of Europe and the United States that gave rise to
the current global economic order. The prospects of, first, economic
stagnation induced by aging populations and, second, of a new era of
protectionism recalls previous times of economic crisis. Though the
causes of the Great Depression were considerably different and more
sudden than the prospect of a “permanent aging recession,” the
political consequences may be similar. After the collapse of financial
markets in 1929 and the beggar-thy-neighbor policies of the early
1930s, the United States and Europe devised a global economic system
that provided for some open markets but also for measures to contain
and spread the social costs of adjustment that such markets require.

Polanyi ([1944] 1957) noted:

... a deep-seated movement sprang into being to resist the
pernicious effects of a market-controlled economy. Society
protected itself against the perils inherent in a self-regulating
market system—this was the one comprehensive feature in the
history of the age. (p. 76)

In the United States, this reaction to open markets led to the New Deal
and later to the Great Society; in European democracies it gave birth
to social democracy. These were policies based on a broad new social compact: popular support for open markets in exchange for broader social protections from the costs of adjustment to free trade. This social compact attempted to reconcile “the efficiency of markets with the values of social community that markets themselves require in order to survive” (Ruggie 2003). Yet it took European and American societies over a decade—and one war that arguably arose in part from the economic crises of the 1920s and 1930s (Carr [1946] 1964)—to devise this social compact. Societies and governments endured a decade of suffering and conflict before they struck the bargain that founded the global economic order.

Today several commentators have observed that the globalization of capital markets and the liberalization of trade have undermined the terms of this historic social compact (Ruggie 2003). Whereas governments once could mediate the impact of markets with tariffs and exchange rates, the globalization of production and finance has taken these tools out of the hands of policy makers. Governments today have fewer policy mechanisms to protect their societies from the “satanic mill” of unfettered markets. It consequently is no surprise that citizens have protested more assertively against trade liberalization. From a decentralized body of protesters at the World Trade Organization meetings in Seattle in November 1999, today the anti-globalization movement is a fixture at the annual IMF and WTO meetings in Washington, and the World Economic Forum in Davos, Switzerland. Just as the 1920s and 1930s gave rise to a broad social opposition to open trading systems, then, we may be observing the beginning of a similar movement to re-construct national tariff regimes and capital controls.
It is in the context of this growing opposition to an open economic order that one must consider the implications of global aging. The macroeconomic consequences of aging populations—shrinking workforces, declining savings, rising public sector debt, shallow capital markets, the depreciation of the dollar—will only add fuel to the smoldering popular opposition to free trade. With a strong euro, weak dollar, and heavy public debt burdens, the U.S. and EU may have difficulty coordinating Keynesian demand management to reflate their economies. Rising European trade deficits with the United States along with political powerful labor, environmental and pensioner movements in Europe may give rise to pressures to erect new tariff barriers to American imports, suffocating the nascent movement for transatlantic free trade. If as forecast the United States and European Union experience large swings in capital accounts, governments on both sides of the Atlantic may reconsider the wisdom of unregulated capital markets.

These macroeconomic pressures no doubt will reshape the political landscape in Brussels, Paris, Berlin, London and Washington in ways that we cannot foresee. I have suggested one possibility, however, that seems plausible: that the growing number of pensioners in the European Union and the United States may find common political ground with labor and environmentalists. Together, such a political coalition could exert profound pressure on national governments to reassert their sovereign control of global markets. Will such a movement lead to the re-establishment of a social compact along the lines of social democracy or the New Deal? Or will governments and societies seek more restrictive markets, leading to a cycle of retaliatory tariffs and eventually a collapse of the global economic order? Perhaps most
importantly, at what cost will governments negotiate such a new social compact with the coalition of red, green and gray? Given the decade it took European and American governments to move beyond the crisis of the 1930s, and given prognostications of an economic “hard landing” resulting from global aging (England 2002b), the costs—lost efficiencies, social disruptions and conflict—may be considerable, even unfathomable.

While Huxley is no doubt correct to call attention to the perils of overpopulation, it is clear that the ravages of global aging may be no less terrible. The growing number of pensioners in the United States and the European Union may give rise to new economic conflicts between these traditional partners. Given the historical importance of the transatlantic relationship to global economic growth and stability, these conflicts may have profound consequences for the economies of the United States and Europe, for transatlantic trade, and international economic institutions. But just as policy makers have little control over population growth, they have few policy choices to minimize the impact of global aging on economic and political institutions. The “terrible monster” that Huxley could not foresee consequently may ravage global economic institutions in ways we cannot anticipate.
Works Cited


