Public Policy Brief

The Economics of Aging

Can We Afford Grandma and Grandpa?

S Jay Levy

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Preface

The population of the United States, not unlike that of Canada, Europe, Russia, Japan, and Australia, is growing older. As the age structure of the population shifts, issues concerning the "economics of aging" arise. In the United States during the late 1970s a combination of high unemployment and high inflation contributed to several Social Security funding crises. When policymakers were forced to confront these immediate crises, they became aware of the long-term implications of an aging population.

The Social Security amendments of 1983 solved the short-run financing problems of the system. Since then there have been a number of studies and reports on the economics of aging. Early reports warned of the unmanageable crises that would result from a population of too few workers supporting too many retirees. More recently, the conclusions have been mixed. There are still plenty of doom and gloom assessments, but some assessments have been downright cheerful.

Many of the early reports based most of their conclusions solely on demographic ratios. Later reports broadened the scope of information they studied to include expenditure patterns of various age groups, general economic growth, early retirement programs, changing

societal expectations regarding retirement income, and other topics. Although the studies arrive at a wide range of conclusions, most approach the consequences of an aging population as a problem that will not occur until the first quarter of next century. One of the distinguishing features of S Jay Levy's study in this *Public Policy Brief* is that he finds that the problem has already emerged and that it must be dealt with at the policy level now, however politically distasteful that confrontation will be.

What will be the economic impacts of the population structure resulting from the demographic changes occurring in industrialized countries? The answer to this question has serious policy implications. In this preliminary study of the United States, Levy examines the decline in standards of living for many low-income and middle-income wage earners during the 1980s. He finds that studies of the tax changes, the widening income disparity, and other economic conditions of the 1980s do not offer a satisfactory explanation for this decline. He explores the hypothesis that there has been a "leak" of goods and services whereby they were becoming increasingly unavailable to workers, the people who are the producers of those goods and services.

Levy's focus is on consumption and not income distribution. In comparing the consumption patterns of workers and retirees, he finds that retirees are absorbing a proportionately higher share of the "economic pie." Levy concludes that the enlarging portion of the national product consumed by retirees is the equivalent of a tax on nonretirees, a tax that is especially burdensome for lower-income workers.

Levy advocates raising the retirement age and encouraging retirees to engage in public service activities. He states that today's policies are directed toward the interests of retirees and the preservation of their wealth and income. Policymakers have the opportunity to alter this direction with policies more concerned with the interests of workers and the reward of production and enterprise.

Because society has already begun to feel the effects of the changing population, a number of policy initiatives currently underway could directly address this issue. We recognize that many of the issues concerning the economics of aging are highly complex and politically charged. Nonetheless, there are issues of fairness that need to be considered. We believe that Levy's findings will contribute to the debate and stimulate further discussion.

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Can We Afford Grandma and Grandpa?

Introduction

The 1980s left a legacy of troubling economic, social, and other questions. Among them are trends in the division of the nation's product of consumer goods and services, the "economic pie." The pie grew quite nicely in the decade, but poverty nonetheless became more prevalent. This paper raises questions of equity, but does not attempt judgments.

Retirees have been consuming a growing portion of the pie. Their share, as we shall see, increased 43.1 percent from 1980 to 1990. They took so much that while the average working household's piece of the pie rose 9.6 percent, many households suffered a decline in standard of living. Particularly affected were households in the two lowest income quintiles. The standard of living of some households was augmented when two spouses went to work. The female

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The author, S Jay Levy, is a grandfather.

labor force participation rate, 51.5 percent in 1980, was 57.5 percent 10 years later.

Increasing quantities of goods and services appeared to be available to the nation's consumers during the decade. This paper is concerned with how the national consumer product was distributed and how the growing consumption by retirees affected what was left for workers. The conclusion is that the increasing portion of the economic pie taken by retirees is tantamount to a "tax" on nonretirees that falls especially heavily on lower-income people. An important portion of retirees' consumption was health care. Since most of their health care was paid for by the federal and state governments, the tax on nonretirees is not just a figure of speech, but often an actual out-of-pocket cost.

What this paper does not focus on is the distribution of income and wealth. Accordingly, it is not concerned with such calculations as the values of imputed interest income, fringe benefits, and perquisites or with bequests and other transfers of assets. At one point I use income as a proxy for consumption in order to check on consumption data in a way that I believe has some reasonable validity.

The Puzzling Loss of Purchasing Power in the 1980s

A worker's real wage, of course, determines how much of the economic pie he or she is able to obtain. The decline in real wages of most working Americans, particularly those with low and middle incomes, has been a puzzle for analysts. The real wage, both before and after federal income and Social Security taxes, of a typical hourly-wage earner declined from 1980 to 1990. However, mean real income of workers' households increased 11 percent during this period largely because of gains made by the top quintile and the increase in the proportion of two-income families. Female labor force participation was encouraged by the growing inadequacy of the volume of goods and services that could be purchased with a single income.

Rising productivity should have been lifting the standard of living during the 1980s. The gain in manufacturing productivity was especially gratify-

ing and explains, in large degree, why consumer goods production (Federal Reserve Board index) rose 25.8 percent from 1980 to 1990. Since output was depressed in 1980 by the recession, a fairer comparison may be the production in 1978, a peak year, with that in 1990;[1] the gain was 21.4 percent.

Even the balance of trade deficit, a seriously burdensome drain of jobs and profits from the economy and a still unresolved problem, brought a current benefit to consumers during the 1980s. Compared to previous decades, Americans were the recipients of a substantial net inflow of goods from abroad. Data from the National Income and Product Accounts (NIPA) on merchandise exports and imports indicate that real net imports of consumer goods increased somewhat more than 100 percent, about 110 percent, from 1980 to 1990. The volume of what the NIPA terms "consumer goods" rose 163 percent over the decade. However, this category does not include foods, automobiles, and petroleum, much of which is properly classified as consumer products, but how much is not clear.

Changes in the tax laws and their effect on the distribution of income have been closely studied by economists who have widely concluded that these do not explain the decline in the standard of living of wage earners.[2] The decline in a typical wage earner's after-tax income was smaller than the decrease in his or her before-tax income. While tax changes of the 1980s treated wealthy people generously, they benefited almost everyone.

The married person who had three dependents, was paid for working 40 hours a week and 52 weeks a year, and earned the average wage of hourly-wage earners suffered a decline in after-federal-tax income from 1980 to 1990. This worker, after withholding and Social Security taxes, experienced a decline in annual after-federal-tax income from $18,995 to $18,190 (1990 dollars), a 4.25 percent decrease. The Social Security tax rates for everyone rose during the decade, but this worker's withholding tax rate declined. Overall, 12.85 percent of his or her income went to the federal government in 1990, down from 13.63 percent in 1980.

Studies of both the policies of the 1980s and the widening of the wage and salary gap between lower- and higher-paid personnel do not yield a satisfactory explanation for the loss of real income of the majority of wage earners.[3] Two hypotheses could explain this phenomenon. One, the data studied by economists might be so faulty that they lead to false conclusions. Two, to a growing degree, goods and services were not available to their producers, the workers who created them, but were floating away into unnoticed hands—there was a leak!

I am hardly a devout believer in the accuracy of economic and social statistics, and, as I shall explain, I have problems with some of the data used in this study to locate the "leak." But I do not find that the data are misleading us. Indeed, their implications are confirmed by widespread day-to-day experiences. For a decade, young men and women have been having difficulty in matching the standards of living of their parents. Not infrequently, households with two working adults have been struggling to achieve as much purchasing power as a middle- or upper-middle class male wage earner alone attained a generation earlier.

We turn to the possible "leak" of goods and services away from wage and salary earners. One facet of the personal income and consumption research has been neglected. Little attention has been given to the rapidly growing cohort of retirees and their dependents. Relatively few people age 65 and older are full-time workers, and most of them are not part of the labor force. Persons in the 65 and older cohort made up 2.8 percent of the labor force in 1992 and 16.5 percent of the population age 16 and older.[4] Both the numbers and the real incomes and purchasing power of the senior cohort rose during the past decade at rates considerably faster than those of the rest of the adult population.

This paper concludes that the declining purchasing power of the wages and salaries of the lower-income half of the population was, at least to a large degree, the result of the rising consumption of the retired cohort of the population. These older people were consuming a growing portion of the economic pie, seriously cutting into the share of the working cohort. Although I have little doubt about the validity of this conclusion, my exploration of the issue is only a beginning. Further studies will refine

the conclusions and deal with significant questions about the validity of some of the data that are available.

The Cost of Supporting Retirees

When I considered the "leak" that represented workers' seeming loss of part of their production, I suspected the age 65 and older segment of the population, which contributes proportionately little to the current economic pie. My surmise was that the consumption of the older cohort left substantially less goods and services for many younger households in 1990 than it did in 1980.

I have found that my suspicions were correct. Consumption by the 65 and older segment was indeed growing at the expense of younger people. Between 1980 and 1990 the increasing share of the economic pie consumed by the older group was reflected in a significant depletion in the portion left for younger households. By 1990 this 10-year gain of the older cohort amounted to a substantial cost to the average younger household—at least $1,000 and probably well over $1,500 a year.

I am designating the 65 and older households as "retirees" and the 64 and younger households as "workers." These categorizations are rough—over 3.5 million people who have celebrated their sixty-fifth birthday are working, and a great many retirees have not reached this age boundary. I am probably underestimating the population of the retirees considerably and therefore the size of the "leak."

Once upon a time, when grandpa and grandma were beyond the age when they could support themselves, they typically moved into the home of one of their children. The persons who were wholly or partially supporting an aged parent or both parents were well aware of the cost of maintaining these old folk—who nowadays, perhaps because they effectively use their votes, are called "senior citizens." Feeding, clothing, and sheltering aging parents put a visible dent in their children's household budgets. Paying their doctor and hospital bills often caused a family budget crisis.

Our society has advanced in some respects. It has Social Security and widespread pension plans that enable older people to live in separate dwellings, often in some inviting climate a long distance from their offspring—perhaps in Arizona or Florida. Moreover, Medicare and Medicaid pay most of their health care expenses. But the comfort of the 65 and older cohort is still costly for working men and women.

Many contemporary households include two adults who work hard to maintain what they regard as an adequate or satisfactory standard of living, who anxiously seek day care for their small children, and who spend little time worrying about the economic well-being of the grandparents. The grandparents now live in retirement, often quite well, in Sarasota or Palm Desert. The working adults have no notion that they are contributing to paying for their parents' food, clothing, shelter, and amenities. Yet the retirees, those who produce little or nothing and consume goods and services of substantial value, are consuming what active workers are producing—leaving less for the workers. The financial flows that cause such a phenomenon may or may not provide a moral basis for this distribution of consumption, but they do not alter the fact.

Sometimes retirees' consumption is for their offspring. They may contribute to their grandchildren's education and in other ways subsidize younger generations. Nonetheless, retirees are not producers, and they consume the product of workers even when members of workers' households are the beneficiaries of their consumption. On the other hand, offspring, especially those who are financially successful, may assume some of the expenses of their elderly parents.

Many intergenerational transfers are not visible in the data that measure consumption. For example, grandparents may provide child care for working parents, run household errands for them, or tend their gardens. On the other hand, adult offspring frequently care for ill or infirm parents. The exchange of services between generations complicates the question: Is the economic pie distributed equitably between retirees and workers?

Providing health care for the elderly would seem a prima facie ethical imperative unless doing so deprives young children of such services.

About two-fifths of the consumption of the households headed by people age 65 and older is ostensibly for health care.[5] But "health care" is not clearly definable. Approximately 20 percent of retirees' health expenditures is for nursing home care. Many elderly are sheltered and fed in such institutions. In fact, everyone finds that food and shelter are good for health, but no one claims, for example, that a hamburger at McDonald's or an omelet at home is health care. Working in a gymnasium under the supervision of a registered physical therapist is considered health care. But the purchase of a treadmill for home exercise may be regarded by statistical authorities with a bent toward ghoulishness as a recreation and entertainment expenditure. Another question is: What portion of the investments in such facilities as hospitals, nursing homes, and medical schools and in research and development should be considered the costs of people who may not live long enough to benefit from them?

The real cost of retirees to workers, which is reflected in declining standards of living of the workers during the period studied, would have been less noticeable if the output of consumer goods and services had increased at a faster pace. Greater productivity, higher employment, or both reflected in higher output could have ameliorated this situation. This paper concentrates on what occurred, not on what might have happened.

Rapid Growth of Retiree Population

According to the Bureau of the Census, the 1980s was a decade of rapid growth for retiree households, that is, those with "householders" age 65 and older. (The Bureau of the Census uses the term householder for the owner or renter of the dwelling or one of them if, say, a husband and wife are joint owners or lessees.) Retiree households increased in number considerably faster than the rest of the nation's households, those 64 and younger. The older households increased 21.4 percent from 1980 to 1990; the younger 12.7 percent over the same period. These figures closely parallel the increases in the segments of the population age 65 and older and age 18 to 64, 21.5 percent and 11.7 percent, respectively (Table 1).

Table 1 Proliferation of Retirement-Age Households (in thousands)

	1980	1990	Percent Change, 1980 to 1990
Number of households			
64 and younger	65,456	73,785	12.7
65 and older	16,912	20,527	21.4
Population			
18 to 64	137,834	154,006	11.7
65 and older	25,707	31,224	21.5
Number of consumer units			
64 and younger	65,023	76,889	18.2
65 and older	17,029	20,079	17.9
Social Security worker beneficiaries	19,562	24,838	27.0

Source: Bureau of the Census; Bureau of Labor Statistics; U.S. Department of Health and Human Services, Social Security Administration.

I have concentrated on households and what the Bureau of Labor Statistics (BLS) calls consumer units (CUs), which are slightly different from households.[6] The data on CUs provide an opportunity to observe the income and expenditures of the working and retired segments of the population. Unlike households, the number of consumer units in the 65 and older and 64 and younger categories increased at about the same pace from 1980 to 1990, 17.9 percent and 18.2 percent, respectively (Table 1). In view of the figures mentioned in the previous paragraph and the rise in the number of workers receiving Social Security benefit payments, the accuracy of this aspect of the consumer unit data is suspect.

An indication of the number of retirees is the number of former workers receiving old-age benefits under the Social Security program. This population has been larger and growing faster than the number of 65 and older households and consumer units; it increased 27.0 percent from 1980 to 1990 (Table 1). A problem with the Social Security roster for my purposes is that a household or a consumer unit may include more than one worker currently receiving Social Security benefit payments.

An actual count of retirees would considerably exceed the number of Social Security beneficiaries. Many people in these times of early retirement become retirees before they reach 62, the age at which they are eligible for Social Security benefits. An insight into the number of early retirees is indicated by the drop in labor force participation between the segment of the population age 45 to 54 and the segment age 55 to 64. In 1992 about 81 percent of the former and 56 percent of the latter were in the labor force. About one-fourth of the people who had been in the labor force when they were 45 to 54 apparently dropped out between the ages of 55 and 64. Based on this decline in labor force participation, 5.3 million persons age 55 to 64 were retirees—consumers but not producers.[7]

Because of the absence of data on both the incomes and expenditures of Social Security beneficiaries, this appraisal concentrates on households and consumer units. The figures derived from the use of these two categories, which undercounts the actual population of retirees, understates the cost to active workers of producing for retirees.

Retirees' Purchasing Power Rises Faster Than Workers'

During the 1980s the expenditures for the goods and services consumed by the average consumer unit headed by a person 65 or older rose 21.9 percent from $18,751 to $22,859 (in constant 1990 dollars), an increase of $4,108. Net Medicare benefit payments (payments less premiums) are added to the BLS data for this cohort's expenditures.[8] While the real expenditures of retirees grew 21.9 percent from 1980 to 1990, those of workers increased 7.1 percent, $1,849 (Table 2).

The gain for the retirees reflected an increase in their consumption of the goods and services produced by the workers. Conversely, workers were losing a growing volume of the goods and services that they were producing—a leak of expanding volume. In 1980 17.4 percent of the output of the average worker CU was consumed by retiree CUs; in 1990 retirees were taking 20.4 percent of the workers' product (Table 3).[9]

Table 2 Expenditures of Average Consumer Unit (in constant 1990 dollars)

	1980	1990	Percent Increase, 1980 to 1990
64 and younger	26,018	27,867	7.1
65 and older	18,751	22,859	21.9

Note: Expenditures exclude personal insurance and pension outlays. Expenditures of the 65 and older cohort include Medicare outlays.

Source: Bureau of Labor Statistics, *Consumer Expenditure Surveys*.

The adverse effect on the real purchasing power of consumer units headed by persons 64 and younger, the working consumer units, was the same as if government had taxed them an additional $836 or 3.0 percent of their expenditures (Table 3).

Problems with the costs and even the definition of health care thwarted the desirable refinement of the data. Overcoming these difficulties would probably have slightly reduced the cost to workers of supporting retirees' consumption. I am assuming that accounting for Medicaid would not significantly change the foregoing conclusions because this federal program distributes funds to both worker and retiree consumer units. Although the population 64 and younger is more than seven times larger than the population 65 and older, the latter's per capita Medicaid benefits are nearly five times larger than the former's.[10] Employer-paid health insurance policies cover both workers and retirees and the distribution of the premiums between these two groups is obscure.

Whereas the missing health care data suggest that retirees' share of total consumption was not quite as large as indicated above, the saving statistics for consumer units hint otherwise. The latter data indicate savings that should delight all those who have been shaking their heads in dismay over Americans' lack of frugality. In 1980 CUs saved 5.8 percent of their after-tax income, and by 1990 the saving rate had climbed to 10.9 percent. Meanwhile the authoritative Bureau of Economic Analysis's personal saving rate, an item in the National Income and Product Accounts (NIPA), slumped from 7.9 percent to 4.3 percent (Table 4).

Table 3 Retirees' Consumption of the Product of Worker CUs and Cost of Retirees to Workers (in constant 1990 dollars)

	1980	1990	Percent Increase, 1980 to 1990	Percent Difference, 1990 Less 1980
Total expenditures, 65 and older (millions of dollars)	319,315	458,989	43.7	
Cost of 65 and older to average 64 and younger	4,911	5,969	21.5	
Percent of product of 64 and younger for 65 and older	17.4	20.4		3.0

Note: Expenditures of 65 and older include Medicare and exclude payments for private pensions and insurance.

Source: Bureau of Labor Statistics.

(If saving is defined to include the net flow of funds into the state and local government employee pension funds, the fall in NIPA personal saving over the decade was from 9.3 percent to 5.9 percent.)

Consumer units 65 and older saved –9.3 percent of their income, that is, they "dissaved" in 1980. Ten years later the saving rate of these older CUs was –0.7 percent (Table 4). The rate fluctuated wildly during the decade, climbing to a peak of 8.8 in 1982, descending to a trough of –15.6 in 1984, and then slowly increasing to 2.0 in 1989. (These percentages were calculated without counting Medicare payments as part of either consumer units' income or expenditure.)

The accuracy of these saving rates is suspect. The staggering difference between the NIPA and the CU data on saving trends and the rather erratic fluctuations in the latter raise questions about the expenditures of CUs. If the NIPA data, which show an overall decline in saving during the 1980s, apply to the 65 and older cohort and this group, too, had a lower saving rate in 1990 than in 1980, these retirees would have taken even more of the available goods and services in 1990 than the above figures indicate.

Table 4 BLS Consumer Unit Saving Rates (percent)

	Saving Rate, Personal FAA	Saving Rate, All CUs	Saving Rate, 65 and Older
1980	7.9	5.8	-9.3
1981	8.8	11.3	3.0
1982	8.6	15.6	8.8
1983	6.8	13.0	3.6
1984	8.0	9.9	-15.6
1985	6.4	6.2	-2.8
1986	6.0	6.5	-0.5
1987	4.3	10.6	-0.6
1988	4.4	9.6	1.4
1989	4.0	11.1	2.0
1990	4.3	10.9	-0.7

Source: Bureau of Economic Analysis and Bureau of Labor Statistics, *Consumer Unit Surveys*.

The increase from 1980 to 1990 in the mean before-tax income was 94.7 percent for 65 and older households and 96.0 percent for 65 and older CUs. This close agreement at least superficially suggests that these data are accurate. A useful, working hypothesis may therefore emphasize income as the determinant of changes in consumption and relegate saving to an insignificant role. If saving were zero in 1980 and 1990, income then would be a perfect proxy for expenditures.

The Bureau of Census data show that the total income of the 65 and older households (net Medicare benefits added) in 1990 dollars increased 54.2 percent, more than twice as fast as the total income of the rest of households, which rose 25.1 percent (Table 5). Over the same 10 years the average income in 1990 dollars of retiree households rose 27.1 percent, while that of worker households increased 11.0 percent (Table 5). The zero saving hypothesis indicates that the retiree cohort took 16.3 percent of the average worker household's income in 1980, 20.0 percent in 1990. The zero saving rate supposition thus leads to the conclusion that the increase of retiree real income over the decade would have had the same effect on the working households as a tax increase of 3.7 percent on their income. Based on this analysis, the increasing income of the retirees cost the average active worker household $1,516 (1990 dollars) more in purchasing power in 1990 than in 1980.

Table 5 Retirees' Income Versus Worker Households' Real Income (in constant 1990 dollars)

	1980	1990	Percent Increase, 1980 to 1990	Percent Difference, 1990 Less 1980
Total income (millions of dollars)				
64 and younger	2,416,048	3,022,875	25.1	
65 and older	392,641	605,597	54.2	
Cost of 65 and older to average 64 and younger	5,999	8,208	36.8	
Percent of income of 64 and younger for 65 and older	16.3	20.0		3.7
Mean income, 64 and younger	36,911	40,969	11.0	
Mean income, with Medicare, 65 and older	23,217	29,502	27.1	

Source: Bureau of the Census, *Current Population Reports*, Series P-60: Money Income of Households, Families, and Persons in the United States; Bureau of Labor Statistics, *Consumer Expenditure Surveys*; Bureau of Economic Analysis.

Of course, saving was not zero. Still the zero saving rate hypothesis gives a reasonable clue to the degree to which the share of the economic pie going to retirees was eroding the workers' portion. Until further research is able to produce better data, the 3.0 percent or 3.7 percent "tax" on the worker cohort stands as a fair explanation for the poor growth in its standard of living during the past decade.

Ethics and the Intergenerational Tug-of-War

Grandpa and grandma may be on their own and no longer occupying what used to be a guest's room upstairs. But they continually have been gobbling up a larger portion of the economic pie, leaving a relatively smaller share for the segment of the population that is creating the pie. While they were workers, grandpa and grandma paid Social Security

taxes, bought life insurance, and received part of their income in the form of employer contributions to their pension funds. Based on the conventions of our society, they certainly have a right to the comfortable retirements that most of the elderly enjoy.

We conventionally tend to stress money even when a focus on physical output and consumption would clarify the issue. People do tend to measure the value of their incomes and the amount of their consumption in terms of specific goods and services when inflation rapidly devalues money. Then, because money is failing as a gauge, we complain about how few pounds of steak, pairs of shoes, yards of carpeting, and so forth we are able to buy. Let us think for a moment about workers' saving and retirees' consumption, not in dollars, but in terms of goods and services.

Take a person, for example, a man who goes to work at age 25, retires at 65, and dies at 75. During his forty years of work, his earnings presumably measured his contribution to the production of goods and services, the goods and services he produced. As a retiree, he consumes two-thirds of the goods and services that represented his average standard of living during those working years. (In 1990 the average expenditures of retiree CUs was 64 percent as high as those of worker CUs.)

In terms of goods and services, our retiree would have had to save one-sixth of his average income, maintaining a 16.7 percent saving rate, during 40 years of work to allow him two-thirds of his average working years' standard of living in 10 years of retirement. Right now the NIPA saving rate is well under 5.0 percent of income. Looking at the issue in this manner, retirees are unfairly consuming too large a share of the economic pie. However, with employer and employee Social Security taxes, including Medicare, running at 12.4 percent of wages and salaries (a form of saving omitted from the NIPA figure), the average worker may be justifying his future consumption as a retiree. Moreover, we must weigh the wishes of the working cohort. Its members may be glad to sacrifice a slowly increasing portion of their standard of living in order to increase the comfort and especially to maintain the health of their parents.

The working population in the 1980s was not uniformly affected by the growing share of the economic pie consumed by retirees. Economists,

sociologists, and others generally have recognized and have been pondering the implications of the growing disparity in compensation between those whose occupations demand considerable skill, education, or both and the rest of the active labor force. Further studies should determine whether or not the retirees' growing share of the economic pie is a significant cause of the decline in the standard of living of the less-skilled and less-educated workers, the part of the population that clearly has had a declining standard of living.

Explorations into this area may find that a shift in the demand for labor toward lower-paid workers is partly attributable to the growing segment of the population that is 65 and older. These people demand more personal services than the rest of the population, services that in many instances can be provided by persons with little skill or education. At the same time older people buy relatively few automobiles and, perhaps, other products that require well-paid, skilled personnel to manufacture.

Certainly suffering from a diminishing portion of economic pie are adults under the age of 35, especially those below 25. The average real consumption expenditures of consumer units age 24 and younger declined 3.0 percent from 1980 to 1990. One might wonder whether grandpa and grandma are devouring their children. The 25- to 34- year-old CUs had a slight 1.1 percent increase in constant dollar consumption outlays. The rise in two-income households made this gain possible.

The Imperative: Vigorous Growth of Robust Enterprises

Analysts have been appalled for a long time over the prospect of a disproportionately large retiree population and relatively few producers around the year 2025, when the wave of baby boomers reaching retirement age is expected to crest. The problem that economists have anticipated, and which was recognized in the 1986 legislation that increased Social Security taxes, is, to a serious degree, already here. It demands that the findings of this preliminary study be pursued and refined.

Enough is patently clear to warrant the adoption of policies that have been advocated for years, but are never truly on the political agenda.

Retirement ages should be raised. Moreover, retirees should be encouraged to engage in public service activities. Many already are volunteers in such federally sponsored programs as VISTA (Volunteers in Service to America), Foster Grandparents, and Retired Senior Volunteers. Many more engage in hospital- or church-related and other service activities. Retirees improve the standards of living of many workers and their dependents by rendering services that national product and consumption data ignore.

Still the key issue in enlarging the economic pie for everyone is fundamental; it is *unemployment*. Excessive labor supply has given employers the luxury of being needlessly choosy about whom they keep on their payrolls. They can avoid the bother and expense of training less qualified personnel. And they push older people into early retirement. The decline in the labor force participation of persons age 55 to 64 reflects the opportunity to dispense with employees whose seniority and age may entitle them to compensations and benefits larger than those received by less experienced people. Employers, moreover, are likely to prefer undertaking the costs incurred when workers learn to use newly installed equipment and to exploit new techniques if the pupils are young and will use the new skills longer than those approaching retirement. Youth is an attraction in this dynamic era of computers and global business and finance.

In the early postwar era policies were determined by the needs of youth, of the young veterans of World War II. They needed education and jobs and most of them had opportunities for both. Policies emphasized robust economic growth and thriving enterprise. Government contributed significantly to productivity by investing in both human capital and public infrastructure. The GI Bill subsidized college and vocational educations. The interstate highway system contributed to industry's efficiency. Low interest rates encouraged enterprise and enabled an unprecedented proportion of young families to buy their own homes.

In contrast, today's policies, both fiscal and monetary, are greatly influenced by the interests of retirees in preserving their incomes and wealth. The enemy of both fixed incomes and financial asset values is inflation. An enhancement of the former is high interest rates.

However the United States and, indeed, other industrialized nations deal with problems arising from the real costs to working people of supporting retirees, they should recognize that the problem is not something that will burst upon us a quarter of the way into the next century. It is here already. And they must remember that a nation's future depends on the vigorous growth of robust enterprises.

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Notes

1. 1990 was hardly a year of roaring prosperity; a business cycle contraction was occurring during the last five months of the year.
2. See Leonard A. Rapping, "The Rise in Income Inequality: Causes and Possible Responses," in Dimitri B. Papadimitriou, ed., *Aspects of Distribution of Wealth and Income* (New York: St. Martin's Press, 1994), p. 176.
3. See Rapping, "The Rise in Income Inequality," p. 180. Rapping cites the research of John Bound; McKinley Blackburn; David Bloom and Richard Freeman; George Johnson; Lawrence Katz; Kevin Murphy and Ana Revenga; McKinley Blackburn, David Bloom, and Richard Freeman; and W. Ferguson, who have not been able to explain most of the increased inequality in the 1980s.
4. Howard N. Fullerton, Jr., "Another Look at the Labor Force," *Monthly Labor Review*, November 1993; and Bureau of the Census, *Current Population Reports*, November 1992.
5. Bureau of Labor Statistics, *Consumer Expenditure Survey*, 1987; Daniel R. Waldo, Sally T. Sonnefeld, David R. McKusick, and Ross H. Arnett III, "Health Expenditures by Age Group, 1977 and 1987," *Health Care Financing Review, Health Care Financing Administration*, Summer 1989.
6. Consumer unit: (1) all members of a particular housing unit who are related by blood, marriage, adoption, or some other legal arrangement, such as foster children; (2) a person living alone or sharing a household with others, or living as a roomer in a private home, lodging house . . . but who is financially independent; or (3) two or more unrelated persons living together who pool their income to make joint expenditure decisions. Students living in university-sponsored housing are separate CUs.
7. Fullerton, "Another Look at the Labor Force."

8. Medicare is for persons eligible for Social Security. It is essentially a "retiree" program. Medicare benefit payments are not included in CU income or expenditures. Funds that benefit consumers from many government aid programs, for example, unemployment compensation, public assistance, and food stamps, are included in income and are reflected in expenditures.
9. The percentage indicated by the actual Bureau of Labor Statistics data for 1990 is 19.1. Idiosyncratic, out of trend declines, both in the number and expenditures of retired CUs, occurred in 1990. In both 1989 and 1991, 20 percent of the average working CU's product was consumed by retiree CUs.
10. Waldo, Sonnefeld, McKusick, and Arnett, "Health Expenditures by Age Group, 1977 and 1987."

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