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*(From the Institute of Industrial Relations, University of California, Berkeley)*

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## AGING AND THE NATIONAL ECONOMY

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(From the Institute of Industrial Relations, University of California, Berkeley)

THE Institute of Industrial Relations is conducting a long-range research program dealing with aging, and reports concerning this research will be completed during 1954.<sup>1</sup> This present report may be considered as a preliminary view of some of the aspects of the economic portion of the research, together with some observations concerning issues in public policy. It is in no way a preview of the final reports and conclusions of the researches, and all data reported here are subject to correction.

Adequate treatment of aging and the national economy should cover the following areas, indicating in broad averages and percentages the magnitudes involved in so far as possible, and also the gaps in the data: 1) the proportion of the population in the aged group, 2) the needs of the aged and the adequacy of resources to meet these needs, 3) labor force status, 4) market demands and shifts in demands as related to aging, and 5) important general economic issues in private and public policy in providing for the aged.

There are important problems in defining "the aged." Until chronologic age can be related to physiologic, psychologic, and other factors, aging must be largely analyzed in simple chronologic terms, especially in so far as quantitative data are concerned, even though this approach oversimplifies the processes of aging. Therefore, in this report the aged for the most part are defined as those

members of the population aged 65 and over. It should be realized, however, that many persons under 65 are in fact "older" than those above 65, and vice versa; thus persons should be considered as multiaged instead of merely as at one age level if full appraisal were possible. In other words, the traditional chronologic classification does not comprise a truly homogeneous group. Furthermore, from the standpoint of economic analysis, it is preferable to deal not in terms of individuals but rather in terms of aged economic units. We have found it useful to consider aged economic units as aged couples or as single individuals who do not have spouse present; likewise, we define an aged couple as one in which the man is age 65 or over, regardless of the age of the woman member of the couple.

In 1951 there were 9,800,000 aged economic units in the United States, of which 3,800,000 were couples; 1,800,000 were men, spouse absent; 4,200,000 were women, spouse absent. Although about 52 to 54 per cent of all persons 65 or over are women, single women outnumber single men by more than 2 to 1.

1. *The proportion of the population in the aged group.*—Table 1 indicates the number and percentage of total population of the United States aged 65 and over by 10-year intervals, 1900 to 1950, and two projections to the year 2,000 on the basis of the low birth rate of the 1930's and of the high birth rate of the 1940's.<sup>2</sup>

It is important to analyze the economic problem of the aged both in absolute and relative terms. The absolute figures indicate the total magnitude of the problem while the proportionate figures indicate its relative size.

<sup>2</sup> These projections should not be taken as predictions. They represent the upper and lower ranges commonly used by demographers.

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<sup>1</sup> The reports on the various aspects of the Institute's research program will be completed during 1954. Preliminary reports on some aspects of the large study on the *Economic Implications of an Aging Population* were presented before a meeting of the American Economic Association, Washington, D. C., December 28-30, 1953. These papers were published in the Spring, 1954, *Proceedings* issue of *The American Economic Review*. The authors and titles of the papers are: Robert Dorfman, "The Labor Force Status of Persons Aged 65 and Over"; Peter O. Steiner, "The Size, Nature and Adequacy of the Resources of the Aged"; Melvin Reder, "Age and Income." The authors are all associated with the Institute of Industrial Relations, University of California, Berkeley.

TABLE 1—UNITED STATES POPULATION

Number (000) 65 Years and Over		Percentage of Total Population	
1900	3,080	4.0	
1910	3,950	4.3	
1920	4,933	4.7	
1930	6,634	5.4	
1940	9,019	6.8	
1950	12,332	8.2	
		Low Birth Rate Pro- jection (30's)	High Birth Rate Pro- jection (40's)
1960	13,900	8.4	8.3
1970	16,100	9.8	8.7
1980	18,500	11.2	9.0
1990	20,800	12.4	9.2
2000	20,300	12.1	8.0

The relative magnitudes are more significant for public policy than the absolute amounts. Thus, although the number of persons aged 65 and over quadrupled from 1900 to 1950, their percentage of total population merely doubled. According to the projection used here, the number of aged 65 and over will have increased by almost 7 times by the year 2,000 over the year 1900, but the relative increases will have been only 2 or 3 times, depending upon the assumption as to birth rates. Presumably our capacity to meet the economic problems of the aged is related much more directly to the relative figures than to the absolute ones.

2. *The needs of the aged and the adequacy of resources to meet these needs.*—Our final reports will consider the size of the gap between the receipts of the aged in dollar values and the amounts in dollars, under various assumptions, required to meet their needs. Even in terms of the recent period of high prosperity and near-full employment we know that there is a sizeable aging receipts gap on the basis of estimates of reasonable minimum needs.

In our society a reasonable standard of living can never be an absolute or determined by administrative fiat. To begin with, it will

be influenced enormously by the actual consumption experience (plane of living) of the persons involved and of others with whom they make comparisons. J. B. Peixotto, the pioneer in the field of budget studies at the University of California, once remarked that poverty is largely income contrast rather than an absolute state. Thus, agreement as to the content of reasonable minimum needs inevitably involves sociologic, psychologic, and political factors, as well as economic. There are, of course, reasonable minimum physiologic and health requirements or adjustments and creative adaptations in housing as related to aging, but the end product of research cannot and should not be a simple dollar figure applicable to all persons, times, and places. In pointing this out I do not wish in any respect to cast doubts upon the value of the contributions of the specialists who are at work in the field, or at the estimates of the costs of maintenance. More and better evidence on all aspects of requirements, especially those uniquely related to the processes of aging, are needed.

Our knowledge of the receipts of the aged available to provide for their needs is more adequate than is our knowledge of the needs themselves. Our special studies on a sampling basis indicate that in 1951 about 20 per cent of the aged economic units either had no source of money receipts or such receipts were less than \$200 a year. The remaining 80 per cent had money receipts from at least one source divided approximately as follows as to primary sources:

Earnings .....	30 per cent
Assets and savings .....	20 per cent
Pensions (including OASI) .....	25 per cent
Public and private relief and contributions .....	25 per cent

That is, about one-half of those with measurable receipts received them from private earnings and assets, about one-fourth from pensions, including OASI, and about another one-fourth from public and private relief programs and contributions.

Unfortunately we cannot indicate exactly the magnitude of the receipts available to the

aged from these sources. Information concerning potential receipts available from some forms of assets, including savings and property, is fragmentary and inadequate. We recommend strongly that agencies such as the Federal Reserve Board, which study savings and assets, include a larger proportion of the aged in their samples.

Likewise, we cannot now provide adequate estimates of the sharing of receipts among members of family units. Our survey indicates that approximately one-third of all aged economic units live with their children. Obviously under these circumstances the total income of the family unit is shared to some extent. We hope eventually to have something to present in quantitative terms concerning the contribution of such sharing toward bridging the aged receipts gap. It should be noted that this process is not unilateral, for the aged may also contribute to the income of the other members of the family group. Our sample data indicate, however, that the money contributions of the aged to the group as a whole are relatively small in contrast to the contributions to their support. This conclusion, of course, does not allow for services performed by the aged within the family unit, such as household work, baby sitting, and gardening. Much of this type of activity, important though it may be, must remain outside the bounds of national income estimating.

It is evident, however, that there has been a sizeable gap between the dollar resources required to meet the needs and the receipts available even under recent conditions of high prosperity. Our sample data for the total money income of aged economic units reporting income for the year 1951 indicates a medium income of only \$682, with 41 per cent reporting annual incomes under \$500, and 24 per cent within the range of \$500 to \$999. Only 25 per cent had money incomes of \$1,500 or larger and but 6 per cent enjoyed incomes above \$4,000.

3. *Labor force status*:—It is commonly assumed that there is an enormous reservoir of unutilized manpower among the aged which

represents a wasted national resource. Similarly, it is sometimes held that if the aged were employed they could themselves carry much of the burden of their support. There is the general belief also that the creative energies of the aged are stifled, thwarted, or deflected by compulsory retirement from employment.

Our national sample for April, 1952, indicates that about 28 per cent of persons 65 and over were still in the labor force. Approximately 20 per cent had never worked, (or were women without work experience since age 50), 42 per cent were not well enough to work, 4 per cent were able to work but not interested, and 6 per cent were able to work and willing to take occasional employment. Another analysis disclosed that during 1951 about two-thirds had not been employed and only 20 per cent had worked from 26 to 52 weeks during the year. The remainder of those employed had worked only part-time or at most less than 26 weeks. These two sample results suggest that about one-fourth of persons 65 and over may be considered in the labor force in a full sense. This percentage contrasts with about 65 per cent for all persons aged 25 through 64 and 58 per cent for the total population aged 14 and over in the civilian labor force. In 1950 almost the entire able-bodied male population aged 25 through 54 was in the civilian labor force in contrast with 38 per cent for women. At age 65 and above, 45 per cent of the men were still in the labor force and 10.5 per cent of women. A strange and perhaps paradoxical aspect of labor status is that about twice as many men who have wives are still in the labor force than are men who are living alone. This phenomenon well illustrates the necessity for interdisciplinary analysis for it clearly cannot be explained merely in economic terms.<sup>1</sup>

Our sample results suggest that the majority of the aged cannot be expected to be active, regular members of the nation's work

<sup>1</sup> Discussion of the occupational distribution of those gainfully employed is omitted. The published reports will include evidence in terms of 3 classifications: present occupation, longest occupation, and last occupation. The last 2 classifications represent innovations in data collection.

force. The existing participation of about one-fourth may represent approximately the optimum, but we are not now prepared to reach a final conclusion. Clearly, however, there is not presently a large unutilized reservoir of man power. This tentative conclusion suggests the contrary issue in public and private policy as to the ability of this proportion of the aged to remain in the work force of the nation. Personally, I believe that those who are physically and mentally capable of full participation should be allowed to do so regardless of pension rights.

4. *Market demands and shifts in demands as related to aging:*—As indicated previously estimates of the needs of the aged must begin with their recent and current consumption behavior. For this purpose and others, studies are needed of the degree to which effective demand in our markets is modified by aging. Effective demand reflects both the economic ability of the aged to enter our markets as well as their specific wants and desires. Detailed knowledge of effective demand is the foundation stone of all endeavors to estimate needs and for the determination of public policy in a free society. If public policy assumes that the aged will continue to have free choices as consumers, then knowledge of the existing patterns of market demands is mandatory. This is not to say that consumption behavior may not be influenced and perhaps even considerably directed by expert counsel and assistance. But we must not fall into the trap of setting up programs of care for the competent aged which run counter to the principles of democratic choice. Thus, in addition to the budget studies of needs we also must investigate more thoroughly the existing patterns of consumer choice. Presently, our knowledge of the behavior of the aged as consumers is illuminated largely by hypotheses for testing and more or less informed speculation.

5. *Important issues in public and private policy:*—From the standpoint of the functioning of the economy as a whole and the relevant issues of private and public policy, we should have an adequate estimate of the

magnitude of the gap between the money receipts available from private sources and the total reasonable estimated dollar needs of the aged. Knowledge of this so-called aging receipts gap and of the effect of aging upon the aggregate consumption functions would provide a basis for a reasonable discussion of economic policy at any given time. Eventually our reports will present data on the relative magnitudes involved under various sets of assumptions. We will also be able to throw considerable light upon the problem of the degree to which the gap represents submarginal living by American standards or is bridged by intrafamily sharing of income and facilities.

It should be noted that the conclusions reached concerning policy could not be universally applicable for all economies or for all time periods in a given economy. The ability of an economy to bridge the aging receipts gap and the impact of such outlays upon the relative stability of the economy are influenced by both the quality of resources available and the degree of utilization of resources in the broad swings of economic fluctuations. Important also are the standards of living prevalent in the economy. In the United States, reasonable minimum requirements must be higher than elsewhere in the world in order to fulfill not only physiologic needs, but psychological, political, and other requirements.

Although the magnitude of the responsibility even in good times and especially in poor times, should not be underemphasized it may be surmised that once we have reasonable quantitative estimates, we shall discover the essential outlays entirely manageable in terms of the functioning of the economy as a whole, especially if public and private pension programs are properly planned and integrated. Although the outlays undoubtedly would be sizeable, it may turn out that they would represent a relatively small proportion of the national income. Unless our productive capacities have been greatly depreciated by war or in other ways, it should be entirely possible to fit a program of reasonable pro-

vision for the aged into our national economic scheme of things. The issues are largely political and sociologic, rather than economic.

From a political standpoint the issues primarily concern our ability to keep such programs from becoming the footballs of politics, and to integrate local, state, and federal public programs and private programs. Particularly important is the political ability and willingness to integrate such programs appropriately into the total functioning of the economy throughout the broad fluctuations of employment. We have not as yet fully demonstrated in the field of social security that we have the political capacity to make the wiser moves in terms of both national economic policy and the needs of recipients. For instance, our unemployment insurance program is not on a sound basis in terms of reasonable adjustments to broad economic fluctuations in employment.

It seems possible to generalize safely with respect to other issues also, so far as economic factors are concerned. In our society there should be no discouragement to individual and other private means of providing for the needs of old age. All persons should, if at all possible, contribute to systematic programs for providing incomes for their old age. A soundly conceived national program in an over-all sense must integrate both public and private means. We are now well on the way toward working out such a broadly integrated program, but much remains to be done in integrating private pension schemes and public programs. The combination of private and public systems for providing for old age should be planned and integrated so that the

total income at the appropriate age of retirement will provide for reasonable minimum needs, both of recipients and their dependents.

It is probable that eventually the total gap between the minimum reasonable needs of the aged and their regular receipts and resources will be much smaller than at present. Obviously, there are numerous means of accomplishing this objective. The expansion of coverage and benefits under the federal O.A.S.I. beginning in 1951, and again in 1952, was a step in the right direction, as is also the further expansion now proposed by the President of the United States. Other means will not be discussed in this report except to reiterate the importance of maintaining private incentives for providing for old age, and to add the equivalent importance, therefore, of allowing those individuals who have done so to enjoy a differential above the minimum when their accumulations so allow.

#### SUMMARY

A report is presented on aspects of the economic portion of research being conducted at the Institute of Industrial Relations of the University of California, together with some observations concerning issues in public policy. The following aspects of aging and the national economy are touched upon: the proportion of the population in the aged group, the needs of the aged and the adequacy of resources to meet these needs, labor force status, market demands and shifts in demands as related to aging, and important general economic issues in private and public policy in providing for the aged.