Can We Afford Grandma and Grandpa?

by

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I. 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 survey raises questions of equity, but does not attempt judgements.

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

This paper focuses on the distribution of the national consumer product. Increasing quantities of goods and services appeared to be available to the nation's consumers during the decade. How they were distributed is the concern of this paper. How the growing consumption by retirees affected what was left for workers is the question. The conclusion is that the increasing portion of the economic pie taken by retirees is tantamount to a sort of "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 was 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. It accordingly is not concerned with such calculations as the values of imputed interest income, fringe benefits, and perquisites nor 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.

II. 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 declining real wages of most working Americans, particularly those with lower and middle incomes, have been a puzzle for analysts. A typical hourly-paid employee's real wage, both before and after federal income and social security taxes, 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. The rise in female labor force participation during the decade 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 gratifying 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. Howcvcr, 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 shrinkage in the standards of living of wage earners.[2] The decline in a typical wage earner's after-tax income was smaller than the decrease in this person's pre-tax income.

While 1980s' tax changes treated wealthy people generously, they benefited almost everyone.

The married person with three dependents who was paid for working 40 hours a week, 52 weeks a year and earned the average wage of hourly-paid workers suffered a decline in after-federal-tax income from 1980 to 1990. This person, 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 fall. 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 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. (1) The data studied by economists might be so faulty that they lead to false conclusions. (2) 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 information is confirmed by widespread day-to-day experiences. Young men and women for a decade 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 father 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 persona1 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 aged 65 and older are full-time workers and most of them are not part of the labor force. Persons in the senior citizen cohort comprised 2.8 percent of the labor force in 1992 and 16.5 percent of the population aged 16 and older.[4] Still, both their numbers and their real incomes and purchasing power have been rising 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 lcast to a large degree, the result of the rising consumption of the retired cohort of the population. These older folks 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 rcfinc the conclusions and deal with significant qucstions about the validity of at lcast some of thc data that arc availablc.

III. THE COST OF SUPPORTING **RETIREEES**

When I considered the “leak” that reprcsentcd workers’ seeming loss of part of their production, I suspected the 65 and older segment of the population, who 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 deplction in the portion left for youngcr households. By 1990, this IO-year gain of the older cohort amountcd to a substantial cost to the averagc younger household -- at least $1,000 and probably well over $1,500 a year.

I am dcsignating the 65-year old and older households as “rctirces” and the 64-ycar old and younger ones as “workers.” These categorizations are rough -- ovcr 3.5 million people who have cclcbrated their sixty-fifth birthdays are working, and a great many retirees are on the other side of this age boundary. Actually, as I shall explain, I am probably underestimating the population of the retirees considerably and therefore the size of the "leak."

Once upon a time, when grandparents 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 costs of supporting their elderly parents -- 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 doctors' 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. But the comfort of the 65-year olds and older 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 latter now live, often quite well, in Sarasota or Palm Desert. Their children have no notion that they are contributing to the payment of their parents' food, clothing, shelter, and amenities. Yet 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 retired grandparents' consumption is for their offspring. They may contribute to their grandchildren's educations 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, cspecially those who arc financially successful, may assume some of the expenses of their clderly parents.

Many intergenerational transfers are not visible in the data that measure consumption. For example, grandparents may providc childcare 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 exchanges of services between generations complicate the question: Is the economic pie distributed equitably between retirees and workers? Providing health care for thc 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 peoplc aged 65 and older is ostensibly for health care.[5]

But "health care" is not clearly definable. Approximatcly 20 pcrccnt of the retirees' aforementioned health expenditurcs is for nursing home carc. Many elderly are sheltercd and fed in such institutions. In fact, everyone finds that food and shclter arc good for health but no one claims, for cxamplc, that a hamburger at McDonalds or an omelet at home is health carc. Working in a gymnasium under the supcrvision of a registered physical therapist is health care. But the purchase of a treadmill for home cxercisc may bc rcgardcd by statistical authorities with a bent toward ghoulishness as a rccrcation and cntcrtainment cxpcnditurc. Another question is: what portion of the investments in such facilities as hospitals, nursing homes, and mcdical 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 happencd.

IV. RAPID GROWTH OF RETIREE AGED POPULATION

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

Table A

Retirement-Age Households Proliferating Rapidly (000s)

	Number of Households		Population	Population	Number of Consumer Units		Social Security worker
	64 & under	65 & older	18 to 64	65 & older	64 & under	65 & older	beneficiaries
1980	65,456	16,912	137,834	25,707	65,023	17,029	19,562
1990	73,785	20,527	154,006	31,224	76,889	20,079	24,838
% change 1980-1990	12.7	21.4	11.7	21.5	18.2	17.9	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 -- some households consist of more than one consumer unit.[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 over- and 64 and under-age categories increased at about the same pace from 1980 to 1990, 17.9 percent and 18.2 percent respectively (table A). 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 rctirccs 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 households and consumer units 65-years old and older; it increased 27.0 percent from 1980 to 1990 (table A). 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 age 62, when 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 segments of the population aged 45 to 54 and 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 45-54 years old apparently dropped out between the ages of 55 and 64. Based on this decline in labor force participation, 5.3 million persons aged 55-64 were retirees -- consumers but not producers in the labor force?

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 undcrcounts the actual population of rctirces, understates the cost to active workers of producing for retirees.

V. RETIREES' PURCHASING POWER RISES ABOVE WORKERS IN THE DECADE

During the 1980s, expenditures for goods and services consumed by the average consumer unit headed by a person 65-years old 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.' While the real expenditures of retirees grew 21.9 percent from 1980 to 1990, those of workers increased 7.1 percent, $1,849 (table B).

Table B

Expenditures of Average Consumer Unit
Constant (1990) Dollars

	64 & under	65 & older
1980	26,018	18,751
1990	27,867	22,859
% increase 1980 to 1990	7.1	21.9

(Source: Bureau of Labor Statistics, Consumer Expenditure Surveys. Expenditures omit personal insurance and pension outlays. Expenditures of 65 and over cohort include Medicare outlays.)

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 C).'

Table C

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

	total expenditures 65 & older $millions	cost of 65 & older to average 64 & under	percent of 64 & under's product for 65 & older
1980	319,315	4,911	17.4
1990	458,989	5,969	20.4
percentage increase 1980 to 1990	43.7	21.5	
percentage difference: 1990 less 1980			3.0

(Source: Based on Bureau of Labor Statistics data.
Sixty-five and older expenditures include Medicare, exclude payments for private pensions and insurance.)

The adverse effect on the real purchasing power of consumer units headed by persons 64-years old 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 C).

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 as large as the number of persons 65 and older, the latter's per capita Medicaid benefits are nearly five times as large as 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 of 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' personal saving rate, an item in the national income and product accounts (NIPA) slumped from 7.9 percent to 4.3 percent (table D). (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 over saved -9.3 percent of their income, that is, they "dissaved" in 1980. Ten years later these older CUs' saving rate was -0.7 percent (Table D). It fluctuated wildly during the decade, reaching a trough of -15.6 percent in 1984 and then increasing until it reached its peak of 1.9 percent in 1989. (These percentages were calculated without counting Medicare payments as either part of consumer units' income or expenditure.)

Table D

BLS Consumer Unit Saving Rates

	a Saving Rate personal FAA (percent)	b Saving Rate all CUs (percent)	c Saving Rate 65 & older (percent)
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: Column a, Bureau of Economic Analysis;
Columns b & c, BLS CU surveys)

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.

The increase from 1980 to 1990 in the mean pre-tax income of 65 and older households was 94.7 percent and of CUs, 96.0 percent. 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 -- then income 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 E). 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.O percent (table E). 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 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 E

Retirees' Income Versus Worker Household's Real Income (1990 dollars)

	total income 64 & younger 1990 $ millions	total income 65 & older 1990 $ millions	cost of 65 & older to average 64 & under	percent of 64 & under's income for 65 8 older	mean income 1990 $ 64 & under	mean income with Medicare 1990 $ 65 & older
1980	2,416,048	392,641	5,999	16.3	36,911	23,217
1990	3,022,875	605,597	8,208	20.0	40,969	29,502
percentage increase 1980 to 1990	25.1	54.2	36.8		11.0	27.1
percentage difference: 1990 less 1980				3.7		

(Sources: 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, annual 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.

VI. ETHICS AND THE INTERGENERATIONAL TUG-OF-WAR

Grandparents may be on their own and no longer occupying what used to be a child's room upstairs. But they continually have been absorbing a larger portion of the economic pie, leaving a relatively smaller share for the segment of the population that is creating the pie. Retirees paid Social Security taxes, bought life insurance, and received part of their income as workers 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 many 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 gage, 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 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, he 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 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 bc 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 brunt of the growing share of the economic pie of retirees 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 population aged 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 fewer automobiles and, perhaps, other products that require well-paid, skilled personnel to manufacture.

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

VII. THE IMPERATIVE: VIGOROUS GROWTH OF ROBUST ENTERPRISES

Analysts have been pondering the prospect of a disproportionately large retiree population and relatively few producers around the year 2025, when the wave of baby boomers reaching retirement agc is expected to crest. Thc problem that economists have anticipated, and which was recognized in the 1986 legislation that increased Social Security taxes, is, to a serious degrcc, already here. It dcmands that the Findings of this preliminary study be pursued and refined.

Enough is patently clear to warrant the adoption of policies that havc been advocated for years but are never truly on the political agenda. Retirement ages should bc raised. Moreover, rctirees should be encouraged to engage in public service activities. Many already arc voluntecrs in such fcderally sponsored programs as VISTA (Volunteers in Service to America), Foster Grandparents, and Rctircd Senior Volunteers. Many more engage in hospital- or church-rclatcd and other scrvice activitics. Rctirces improve the standards of living of many workers and their dependents by rcndcring services that national product and consumption data **ignore.**

Still the key issue in enlarging thc economic pie for cveryonc is fundamental; it is <u>unemployment</u>. Excessive labor supply has given employers the luxury of bcing needlessly choosy about whom they kcep on their payrolls. They can avoid the bother and expense of training less qualified personnel. And they push older people into early retircment. The aforementioned decline in the labor force participation of persons 55- to 64-years old reflects the opportunity to dispense with employees whose seniority and age may cncitle them co compensations and benefits larger than those received by less experienccd people. Employers, moreover, arc likely to prefer undertaking the costs incurred when workers learn to use newly installed equipment and co 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 businchss and finance.

In the early postwar era, policies wcrc determined by the nceds of youth, of thc young veterans of World War II. They nccdcd 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. Thc G.I. 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.

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 Rapping, Leonard A. (1994), "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), p. 176.

3. See Rapping, Leonard A. (1994), "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), 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 Blackbum, David Bloom, and Richard Freeman; and 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,*** pp. 31 ff, November 1993; ***Current Population Reports,*** Bureau of the Census, P25-1092, November, 1992.

5. Bureau of Labor Statistics, "Consumer Expenditure Survey, 1987" and Daniel R. Waldo, Sally T. Sonnefeld, David R. McKusick, and Ross H. Arnett III (1989) "Health expenditures by age group, 1977 and 1987," ***Health Care Financing Review, Health Care Financing Administration,*** summer, pp. 111 ff.

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.

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 examples, 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. Daniel R. Waldo, Sally T. Sonnefcld, David R. McKusick, and Ross H. Amett III (1989) "Health expenditures by age group, 1977 and 1987," ***Health Care Financing Review, Health Care Financing Administration,*** summer, pp. 111 ff.