

Aging and the Labor Force

Issues in Contemporary Retirement. RITA RICARDO-CAMPBELL and EDWARD P. LAZEAR, Eds. Hoover Institution Press, Stanford, CA, 1988. xxvi, 427 pp., illus. \$35.95. From a conference, Stanford, CA, Feb. 1987.

As older workers become an "endangered species" the search for explanations goes on. Unfortunately, "a generally accepted theory of the decline of older-age labor participation has not been found," states Richard Ippolito in this volume, which joins an already substantial body of research on retirement. The papers here—by economists, sociologists, and policy-makers—seek to understand the phenomenon through empirical research.

One way of dividing up the research on retirement (and the chapters in this book) is to look at four of the major questions addressed: What explains the dramatic decline (especially among men) in labor force participation during the last quarter of life? Why is "early retirement" a growing phenomenon? How will we pay for the increasing number of years older persons spend in retirement? And who will pay?

Alex Inkeles and Chikako Usui present a broad framework for explaining the decline in labor force participation. We must, they argue, look at (i) changing demographic factors (population structure, health, and education patterns), (ii) legal regulations defining work and pension rights, (iii) a culture's views on older people and retirement, and (iv) the attitudes of individuals themselves. The problems are finding good data and a methodology capable of handling the diverse array of pertinent information. Inkeles and Usui adopt a comparative and historical approach, undertaking macro comparisons of developments in various industrialized countries (only four countries in their most detailed analysis; 31 in their largest table). Their results, though interesting, are far from conclusive.

Other papers in the volume are more narrow in their theoretical and methodological approach—better able to utilize the rich micro-data sets now available in the United States. Using the National Health Interview Survey from 1969 to 1981, Eileen Crimmins and Maria Pramaggiore investigate changing health and retirement patterns. They find some evidence to suggest that there is now more "accommodation" (that

is, reduced work) in response to diseases limiting activities. But, as in prior studies, they are unable to determine clearly whether the health of older workers and retirees has gotten better or worse over time. Hence the exact impact of health on the age of retirement remains unclear.

Strong evidence now exists that workers are very sensitive to the availability of disability and old age pensions (both public and private) and the mostly negative work incentives built into these programs. Roger Ransom and Richard Sutch find little or no decline with age in male participation in the labor force between 1870 and 1940. But statistics show a clear trend downward once Social Security and private pensions became widely available. For example, Nancy Brandon Tuma and Gary Sandefur examine census data from 1940 to 1980 and report:

We hypothesized—and our results corroborated—that the age-specific entitlements to Social Security benefits (and perhaps also to some private pensions) affect [the] labor force departure of aged workers and, to a much lesser extent, labor force entry of those not working.

The strong influence of pension programs on retirement should not be surprising given that these programs were created by governments, employers, unions, and workers in large part as a reaction to the evolving cyclical and structural employment problems arising in a market-oriented society. Any careful examination of the history of these programs (for example, William Graebner's *A History of Retirement*) will show that they were intentionally designed to discourage people from working. And, in this regard, they worked. In a society where it is clear that few people value work highly except for the money it provides, pension programs, together with rising personal wealth stemming from economic growth, provide an opportunity for an alternative life-style that many people seize at the first practical opportunity.

More difficult to explain is the sharp rise in "early retirement" in recent years. Michael Packard and Virginia Reno point out:

As recently as 1970, the most common retirement age for men was 65. In 1985, 62 was the more common retirement age for labor force withdrawal or for first receipt of Social Security benefits. This trend toward earlier retirement is not limited to those aged 62 and older, however. Between

1965 and 1985 the labor force participation rate of 60-year-old men fell from 86 percent to 71 percent and that for 55-year-old men fell from 93 percent to 84 percent.

Packard and Reno's excellent paper focuses on "very early retirees," defined as those retiring before age 61½ (that is, six months before Social Security early retirement benefits are available). Their analysis shows, again, that pension availability (military, civil service, disability, and private retirement pensions)—interacting with health, job loss, and declining work opportunities—strongly affects decision-making about retirement.

Few people realize how important private pensions are today in explaining the mushrooming early retirement phenomenon. Laurence Kotlikoff, in an innovative extension of his prior work (with David Wise), provides empirical support for the proposition that employers encourage early retirement through pension buy-outs of various kinds, attempting to deal with the problem that the productivity of older workers may often be much lower in relation to their earnings than the productivity of younger workers.

In several places in the volume the issue of how we will pay for future pension benefits is raised. Unfortunately, the discussion does not go much beyond references to crude statistics about rising numbers of elders relative to declining numbers of workers. Elsewhere I have referred to the use of these "dependency ratios" as a kind of "voodoo demographics"—which often deliberately misleads and frightens and which ignores the offsetting decline in the numbers of children. As Sherwin Rosen observes in his discussion of a paper by Peter Uhlenberg that is concerned about "the potential crisis" of population aging, there is a need to shift economic resources more than a need to find more resources. In this regard, writes Rosen, "Certainly resources are highly mobile in the time units of generations implicit in the paper. Over one or two generations it is not unthinkable to transform elementary school teachers to geriatric social workers."

Finally, on whom will (and should) the burden of payment rest? This is the question on which available research is most meager. The paper by Michael Boskin and Douglas Puffert extends their previous work on monetary transfers between and among cohorts of workers and beneficiaries in the Social Security old-age program. Though their methodology is controversial and the findings are highly sensitive to some of the many assumptions they must make, the results do support prior research in two respects. One is the finding that most, if not all, future beneficiaries will get lower but positive and generally reasonable returns from their So-

cial Security payroll tax payments. Boskin and Puffert's study also indicates that changes in the performance of the economy, the policies affecting the accumulation of trust fund reserves, and the rules of the program will have an impact (as one would expect) on who gains or loses the most in terms of future benefits relative to tax contributions.

What we know as retirement today is a relatively new social experience. Unlike the pension plans (both public and private) that emerged after World War II, early plans were not designed to allow aging workers to "retire"—that is, to withdraw from the labor market in advance of physiological decline. Rather, they focused on providing "survival" benefits if and when old age began to take its toll on an individual's earning capacity and sought to respond to the needs of government and business. From these early beginnings evolved a new view of old age and pensions, however, in which benefits were based upon years of service, rather than on need per se, and were designed to replace pre-retirement earnings. Pensions became an "earned right" and (as was pointed out by Eugene Friedman and Harold Orbach in their now classic article in *The Foundations of*

Psychiatry, vol. 1) became "instrumental in defining a retirement status as appropriate for the older worker."

In contrast, as is suggested in the papers by Kingsley Davis, Uhlenberg, and Malcolm Morrison, there currently seems to be a growing interest in employing older workers longer. In my opinion, Kotlikoff gets at the heart of the issues we now face when he says at the beginning of his paper:

The success of the new public policy toward employment of the elderly is predicated on two ifs. The first is that the elderly will choose to remain employed, the second is that they will remain employable. There is little evidence at the moment that the trend toward increasingly earlier retirement has slowed, let alone reversed. Although much of the postwar increase in early retirement may reflect a response to Social Security and private retirement incentives, much appears to reflect a strong desire of the elderly for significant leisure. But, even if the often substantial retirement incentives were eliminated and preferences shifted in the direction of more old-age labor supply, the question of the productivity of the elderly would remain.

I couldn't agree more. The biggest "retirement issue" of the next century will be whether both workers and employers see the need and are willing to modify the retirement "right" to include what each group

sees as viable work options in later life to complement the retirement life everyone now expects and almost all enjoy.

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International Relations

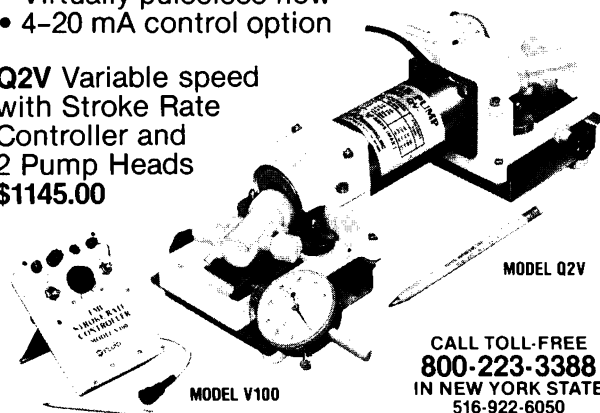
U.S.-Soviet Security Cooperation. Achievements, Failures, Lessons. ALEXANDER L. GEORGE, PHILIP J. FARLEY, and ALEXANDER DALLIN, Eds. Oxford University Press, New York, 1988. xii, 746 pp. \$42; paper, \$18.95.

The editors of this book set themselves the task of providing "the first comprehensive and systematic study" of efforts by the United States and the Soviet Union since World War II to develop cooperative arrangements to enhance security. They express the hope that the study will "stimulate serious discussion, reflection, and additional research" on the subject (p. vii). This is an ambitious undertaking, but the book well justifies the effort. It is an analysis based on what is now termed "cooperation theory" in

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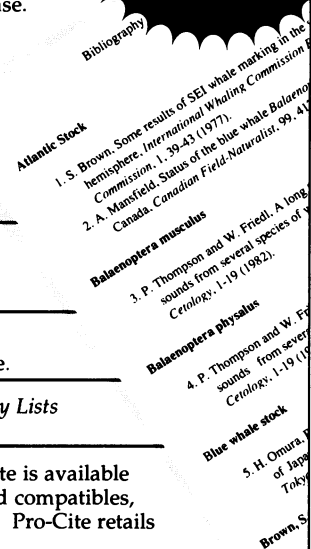
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