The Future of Retirement in Aging Societies

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Abstract and Summary:

National pension spending increases when a nation’s population gets older. Mathematically, the only way pension spending could fall is if pensions got smaller and people died sooner after they stopped working. But, over the course of human history, the hallmark of a civilized society was that people lived longer and entitlement to leisure at the end of one’s life expanded to both the rich and poor. Now, as pensions become more expensive in wealthy countries, a developing political rhetoric suggests work is good and retirement is not wanted, not healthy, and not fair to children. The last point, that pensions take resources from children, is so pervasive that defending retirement is demeaned as a suspicious task of labor unions -- poignantly those of public employees -- and a too powerful elderly voting bloc.

This chapter addresses three false ideas that call for the end of retirement. First, evidence from 58 nations reveals pension and education spending increase together, which undermines the notion that a greedy elderly steers resources away from kids and supports the idea that workers unite to increase social spending. The second myth is that older people are working more because they want to be young again. Instead, changing retirement norms are signs of governments and advertisers linking youth with work and consumption. The third myth is that work is good for older people, despite strong evidence that people are healthier and happier when they have more free time.

Continuing promotion of these 3 myths that reposition retirement as a negative event gives advantages to certain groups in society: employers, commercial financial interests, and well-educated and well-cared for professionals. In fact, it is possible that expanding retirement could lead to economic growth and fairer distributions of national output. Despite the dominant idea that retirement has to be retrenched in order to grow economies, the fact of aging societies does not automatically determine who gets leisure and who has to work.

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1 Pension spending as a percent of real GDP per capita increases as more people collect pensions and as more people live longer.
Demography and Destiny: Introduction

Populations are aging but demography does not destine economic policy. Making people work longer and give up retirement time is not the only policy reaction that is sensible and sustainable in the face of population aging. The changing elderly-to-worker ratio may startle national budgeting agencies, but it is an expected result of an aging society, population aging is a classic demographic transition – economic wealth lowers fertility, reduces infant mortality, and increases adult longevity (Lee 2003). It is thus inevitable that pensions become more expensive as the number of workers for every retiree falls. But that fact is demography, not a clear cut proscription of economic policies because we live in democracies and those policies are a result of political choices.

Repositioning the Retirement Idea in the United States

Despite common place wisdom that American elders have been working more for decades, it was only in the 2001-2003 recession that older people’s labor force participation rates increased (compared previous recessions [see Hermes and Ghilarducci 2006]). This rise in elderly work occurred as various policies towards older Americans have, since the 1980s, reinforced working during older ages. For example, the United States is the only Organization for Economic Co-operation and Development, OECD, nation that bans forced retirement, pays full Social Security benefits to people who have not retired, and has raised the normal retirement age to 67, a much higher age than its European counterparts. There are signs of convergence in European policy arenas as some European groups push for age discrimination laws and different pension designs.

Despite the well-known, intense pace that Americans work, or because of it, American policymakers have persisted in presenting longer work lives as a solution to the problems of rising Medicare and Social Security costs and to the predicted upward pressure on wages when the baby boomers retire and shrink the labor force (this is viewed as a problem). “Making retirement shorter” is also an emerging political rhetoric in Europe, coming from all ends of the political spectrum. Commercial interests define retirement as a choice between time and work – like choosing between apples and French fries – that should be financed by individuals. The World Bank, the O.E.C.D., etc. advocate reducing pensions and raising the retirement age norms to achieve practical and needed economic goals. Liberals advise the elderly to fight age discrimination, demand work training, and to obtain higher living standards by working.

Repositioning retirement rests on a conviction that, culturally, the current elderly are very different from the generations who came before. That future retirees’ life expectancy is increasing is always cited. True. But that has always been true. Longer lives do not mean the future elderly should, could, and want to, work longer. Most Americans surveyed say they expect to work after age 65, which is often interpreted as people WANTING to work longer, but it could mean they don’t expect to have enough income to retire on. Redesigning pension systems so that a worker has to continue to work longer to get full benefits is a policy prescription shared widely among policymakers and academics. But workers (and voters) tend to reject it overwhelmingly.
Motives Behind Repositioning Retirement

Before I address the underpinnings, the three foundational beliefs of the “working retirement” agenda, it is important to note which groups have material incentives to have the elderly work more. There are clear financial winners if and when retirement is repositioned as an event to avoid.

One group of winners of a “work-longer” culture are educated professionals, who likely began working full time in their mid-twenties, not their teens, and who, by age 65, have worked fewer years than non-college-educated workers, and who are more likely to enjoy and control their work pace and work tasks. In the U.S., not all longevity improvements were distributed equally: white-collar male workers’ longevity has grown faster than any other group’s longevity. In fact, older American white women’s longevity growth is a flat line Ghilarducci 2008 forthcoming Chap. 6). The study on the linkages between these characteristics has barely begun (see Ghilarducci 2008 forthcoming Chap. 7) yet; it is likely that workers with high socioeconomic stature lose the least when working longer is a norm.

The second group of winners is the multi-billion financial services industry, personal finance counselors, and many other niche businesses in retirement planning: the money managers, consultants, and other private sector vendors.

Third, employers clearly benefit from a new retirement norm, and that’s why employers are the biggest champions of the new norm for retirement, which is a working retirement. The pressure faced by employers to raise wages is relieved when more people are in the labor force. An increase in the supply of labor invariably redistributes income toward profits away from wages. In general, an expanding labor supply helps employers tame pressure to pay more, to improve working conditions, or to conserve labor by investing to boost labor productivity. The human resource industry reassures its clients that the feared coming labor shortages will partially take care of itself: 75% of older workers they would continue working, when they got older because they did haven’t sufficient financial resources to retire (The Conference Board. 2005).

An expanding labor supply improves and expands the pool of applicants for jobs, making it cheaper to hire good workers. Working “retirees” help manufacture healthy profits. ²

Despite the fact the winners are powerful and the losers are not, the ideas that people want to keep on working, that work is good for people, and that pensions aren’t fair to the young are forceful, widespread, and influential. The life force of these three ideas, despite the unpopularity of raising retirement ages and otherwise reducing pension benefits, is the subject of the next section.

² Advocates for longer work lives should not be confused with advocates like the National Center for Black Aged, who argue for better working conditions for elderly people forced to work after age 65.
Three Myths Selling the New Working Retirement

Myth One: Pensions are a Form of Fiscal Child Abuse; the Old Eat the Young

Economist Laurence Kolitkoff told hundreds of college students, in 2005 that the high taxes necessary to make Social Security solvent would be “fiscal child abuse” because they would never get the promised benefits. Therefore, he declared, Social Security benefit cuts would enhance intergenerational justice which is as clear as any statement that the “old-eat-the-young.” The claim positions the young as winners when pensions erode and the elderly work longer. In 1997, Economists Gruber and Wise’s influential paper for the OECD showed that pension systems across the world are designed so that people retire “too” early. (Gruber and Wise (1997) found that participation rates for men in the workforce aged 60 to 64 have dropped from above 70% in the early 1960s to under 20% during the 1990s.)

The complications with these arguments is that there is little hard empirical evidence for the claim that pensions systems are designed to transfer funds from relatively powerless younger workers to older, more politically astute, elderly. Instead I find support that pension spending is best explained from a “social democratic perspective” that views generous pensions and Social Security policy “the outcome of a struggle between organizations and political parties representing the interests of capital and those representing the interests of labor” (Williamson and Pampel 1993, 3)

Before I turn to the evidence supporting the social democratic explanation for pensions, it is important to be clear on how, mechanically, the unfair transfers may occur if powerful elderly write the pension rules.

Why Pensions Can Be Unfair to Future Generations

The conventional view of intergenerational equity examines three generations, the “child generation” (C), the “parental generation” (P), and the “grandparental generation” (G). The “child generation” and the “grandparental generation” are viewed as dependent on the “parental generation” because “children must support their parents when they can no longer support themselves in return for having been procreated and nurtured by those parents” (Laslett, 1992, Chapter 1). Intergenerational equity can be measured by the benefit ratio:

\[ Benefit \text{ Ratio} = \frac{Benefits}{Contributions} \]

If there were to be intergenerational equity, the following must be true:

\[ BR_p = BR_c = BR_G \]

But this equality outcome does not happen is populations age and contributions increase. When welfare states are relatively new, cohorts’ contributions vary. Cohorts that were middle-aged when the welfare system was established have benefitted the most because, their lifetime financial contributions to the program are small relative to the value of the benefits they collect (Thompson 1989). The benefit ratios are no longer equal, which creates intergenerational inequity:

\[ BR_G > BR_p > BR_c \]

The claim is that it is not fair to younger generations that were not part of the planning process because they shoulder the costs, while the designers reap most of the
benefits. And population ageing can make the imbalance worse -- a larger older cohort makes the younger, smaller cohort contribute more to meet the promised benefits. For example, under a fixed replacement rate system – like the U.S. Social Security system -- all costs associated with demographic change fall on retirees” John Myles (2002, 141) brands this cohort size factor as the “intergenerational lottery” and if societies want intergenerational equity they need to set pension rules to achieve fair-burden sharing. Otherwise, social benefits aren’t created, just “lucky” and “less lucky” generations are created.

But Myles and others are quick to recognize that the distributional aspects of pension systems do not define the distribution in a nation’s welfare system. The elderly may get fixed replacement rates, but could “give back” through other kinds of spending on the young. The “nature and goals” of welfare systems are played out in national politics.

Urban Institute economist Lawrence Thompson, responding to the need for a comprehensive measure of the transfers between generations, projected out to 2030 and predicted the net wage (after social insurance contributions) will be 35 percent higher, while the average retirement benefit in 2030 will be only 18 percent higher than the same benefit in 2003 (Thompson 2005, 117). This means, in the U.S., workers will have a greater increases in living standards than retirees. He also finds families, after education and Social Security taxes are accounted for, transfers, on average over $27,0000 to younger generations (Thompson 2005, 123). Bommier, Lee, Miller and Zuber’s NBER paper (2004) compares education spending in the U.S. to Social Security and Medicare spending for various cohorts to find that young people do not have lower rates of return on their taxes than the older cohorts. Axel Boersch-Supan (2006), examining 16 countries, concludes that the generosity of the countries towards the elderly (proxied by social expenditures to the elderly) does not reduce the young’s share of total social expenditures.

Ghilarducci (1999) using 1986 data from 65 nations estimated an ordinary least squares regression, to test whether pension spending (government spending as a percent of GDP per old person), is affected by education spending (government spending as a percent of GDP per child) and found education spending was an insignificant factor explaining pension spending. Only the years women spent in retirement significantly raised pension spending. The younger the population, the lower the amount of pension spending. The study’s evidence did not support, nor refute, the “old eat the young” hypothesis.

But since neoliberal policies have taken root in all economies over the past 20 years, I expect class strength had weakened and that pension spending might take away from spending on education. To explore this idea that social spending has become more difficult to get and pension spending may have to come at the expense of other forms of spending Ryan Taylor (2007) updated Ghilarducci (1999).

More recent data – circa 1995 – reveals rich nations that spend a lot of their GDP on education also spend a lot on pensions. Though the correlation is not a perfect one to one correspondence – the correlation is about 30.8% -- the relative size of the youth population affects how much GDP is devoted to pensions and education. Please see Table 1 that ranks the rich nations by the youth of their populations and displays their pension
and education spending, as well as the average number of years a retiree spends retired (this number is explained below).

Germany is the oldest nation – there are two people over the age of 60 for everyone under, and it spends a considerable (but not the most) amount on pensions 8.39%, as well as on education (but not the most!). See Table 1.

Table 1:
The Average Years of Retirement and Pension and Education Spending in Wealthy Nations, ranked by the age of the population (circa 1995)

<table>
<thead>
<tr>
<th>Country</th>
<th>Ratio of young persons for every old person</th>
<th>Average number of years a person spends in retirement</th>
<th>Pension Spending (% of GDP)</th>
<th>Education Spending (% GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>0.5</td>
<td>16.05 Years</td>
<td>8.39%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Italy</td>
<td>0.7</td>
<td>19.8</td>
<td>13.04%</td>
<td>3.75%</td>
</tr>
<tr>
<td>Spain</td>
<td>0.7</td>
<td>17.4</td>
<td>7.19%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.7</td>
<td>19.3</td>
<td>5.23%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>0.8</td>
<td>12.95</td>
<td>11%</td>
<td>5.65%</td>
</tr>
<tr>
<td>Belgium</td>
<td>0.8</td>
<td>16.65</td>
<td>7.67%</td>
<td>5.45%</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.8</td>
<td>18.2</td>
<td>12.26%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Austria</td>
<td>0.8</td>
<td>14.75</td>
<td>10.12%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Denmark</td>
<td>0.9</td>
<td>15.15</td>
<td>12.29%</td>
<td>7.55%</td>
</tr>
<tr>
<td>Finland</td>
<td>0.9</td>
<td>15.8</td>
<td>9.55%</td>
<td>6.35%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.1</td>
<td>14.65</td>
<td>11.08%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Canada</td>
<td>1.1</td>
<td>17.95</td>
<td>4.53%</td>
<td>6.15%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.2</td>
<td>16.1</td>
<td>10.01%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>1.3</td>
<td>18.89</td>
<td>9.76%</td>
<td>3.3%</td>
</tr>
<tr>
<td>United States</td>
<td>1.3</td>
<td>13.55</td>
<td>6.29%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Norway</td>
<td>1.3</td>
<td>16.24</td>
<td>7.93%</td>
<td>7.125%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>1.3</td>
<td>11.1</td>
<td>5.71%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Ireland</td>
<td>1.5</td>
<td>9.35</td>
<td>3.56%</td>
<td>4.65%</td>
</tr>
<tr>
<td>Iceland</td>
<td>1.6</td>
<td>11.55</td>
<td>2.35%</td>
<td>6%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>1.7</td>
<td>13.95</td>
<td>4.46%</td>
<td>4.45%</td>
</tr>
<tr>
<td>Israel</td>
<td>1.9</td>
<td>11.95</td>
<td>2.49%</td>
<td>6.85%</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.2</td>
<td>21.1</td>
<td>1.25%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>2.2</td>
<td>12.35</td>
<td>1.19%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

In order to determine is pension spending does increase with education spending I controlled for the wealth of a nation, the years people spend in retirement, and the relative age of the population. (See Appendix 1 for a complete description of the data.)

The model estimated is the following:
The Future of Retirement in Aging Societies, Teresa Ghilarducci, January 2008

Pension Spending = \( B0 + B(a \text{ dummy for a nations wealth, education spending per capital, average years of retirement, ratio of young population to the old (post 65) population.}) \)

A nation’s wealth is controlled for because wealthier nations have less extended family ties the elderly can rely on and pensions are a normal good – demand rises with income so.) Education spending is the proxy for a society’s spending on the young (Bommier, Lee, Miller and Zuber (2004) and Axel Boersch-Supan (2006) also use this measure). Years of retirement can affect the pension expense and the ratio of the young to the old takes into account the pressure of an ageing society on national budgets and politics.

Table 2 displays the results of the OLS regression on pension and education spending.

<table>
<thead>
<tr>
<th>Table 2: The Relationship Between Pension and Education Spending: OLS regression</th>
</tr>
</thead>
<tbody>
<tr>
<td>DV: Pension Spending per GDP per older person</td>
</tr>
<tr>
<td>Intercept</td>
</tr>
<tr>
<td>Education per GDP per child (under 15)</td>
</tr>
<tr>
<td>Ratio of young to old (under 15/over 60)</td>
</tr>
<tr>
<td>National Wealth Classification (1-4, 4 = wealthiest)</td>
</tr>
<tr>
<td>Years in Retirement</td>
</tr>
<tr>
<td>Observations</td>
</tr>
<tr>
<td>R squared</td>
</tr>
</tbody>
</table>

The results do not support the conclusion that the elderly are taking resources away from the young, which undermines “the old eat the young hypothesis.” The strongly significant and positive coefficient on education spending possibly means that pension spending and education go together and that political support for social spending promotes spending for all generations. This could be thought of as social democratic politics or “self-interest” solidarity; that workers support higher pensions, or preserving pensions, because they too will get old and support transfers to workers, young and old. Can we think of class solidarity as younger workers forming alliances with their older selves?

There are other interpretations of the results. Others have argued, Larry Kotlikoff, and others, that countries have been expanding their welfare states at the expense of fiscal prudence, which brings in the question of sustainability, which is a generational issue. (The model could be also be specified incorrectly of course, perhaps combined with the spending on education, the growth rate of GDP makes more generous pensions affordable and I should have controlled for growth rates or some left-out but important factor.)
In sum, the grim specter that strong-armed generational politics forces fewer and more low-paid workers pay high taxes to pay for the leisure of healthy older people is not supported.

**Myth Two: Work Is Good For Older People**

In the 1970s and 1980s, retirement norms subtly shifted in the U.S. as sociologists were concerned that men lost their sense of identity and life’s purpose when they retired (see review of the literature in Neuman (2003). Social scientists interpreted statistical linkages between ill health, depression, and early death, among retired men as meaning that retirement caused these ill fortunes. The problem with the research is that the causation can clearly run the opposite way -- that is, negative health could cause retirement, not retirement as the cause for negative health. When the cause of retirement is accounted for University of Wisconsin Kevin Neuman (2003) found that retirement improves women’s health and slows down the deterioration of men’s health. Women and men reported increases in well-being, more time sleeping, preparing food, and eating, and doing things they like to do when they retired. This means it is likely that the so-called explosion in early retirements, which Gruber and Wise write about, is causing the increase in longevity and it is not happening in spite of it. The implications of the retirement-health ink are that the two trends -- earlier retirement and longer lives -- cannot be thought of as two unrelated events. More time in retirement may actually be the cause of longer lives! If retirement leads to healthier outcomes, then pension reform aimed at getting Americans (and others) to work longer might inadvertently cause people to die sooner and working more could slow or reverse longevity gains.

The belief that the health and vigor of the elderly workforce is greater than ever before makes raising the retirement age a favorite choice in retirement policy proposals among both liberal and conservative entities (see the liberal institutes -- Urban Institute, Center for Retirement Research at Boston College, AARP – for their agenda) But, no one really knows because there is no reliable long-term data if and how the physical and mental capacities of Americans to work have changed and that older people can work longer just because they live longer. We do not know if longevity is increasing because we are extending the lives of frail adults or because we are healthier at older ages, and we do not know how well matched older people are to today’s jobs. (This state of knowledge is certainly true for the United States, I have not reviewed the literature in the OECD.) Here is what we know in the U.S:

- Surveys of workers on their limited ability to work has been collected since 1981 reveal that the ability to work decreases with age;
- Since 1981, the share of older workers reporting limitations in their ability to work has stayed steady (the rate fluctuates according to economic activity – it averaged 9.37 % during the economic expansion of 1983 through 1990 to over 10.81 % in the economic boom of the 1990s (Clark et al. 2004, 21–22).
- In 2000, 11.3 % of people aged 55 to 64 reported physical limitations that prevented them from working or seeking work two years in a row. (In any one year, the share of older adults who report work limitation for just one year is almost double.)
- While the share of jobs demanding physical effort is declining, especially for men, the share requiring good eyesight or computer skills is increasing (Johnson 2004).
• Working longer is often not a choice for workers who develop health problems or are laid off late in their careers. According to a recent McKinsey & Company survey, 40% of workers are forced to retire earlier than they had planned, with health, or the health of a family member, the reason cited for over half of these early retirements.

• Age discrimination, layoffs, and plant shutdowns adversely affects older people’s ability to work (Rotenberg 2006).

• Many older workers do not stay in their career jobs. Instead of 60 being “the new 50,” it has become the new 17, as older people re-enter the job market as retail clerks or in other low-paid occupations. Elderly workers over age 65 have jobs with less status than workers aged 55-64. (They are less likely to be in occupations classified as “executive,” “professional,” or “technician” and more likely to be in “sales” and “service” occupations. (Rix, 2004.)

Advocates for raising the retirement age, including liberal economist, Alicia Munnell, are aware of the physical limitations older blue-collar workers have, the changing nature of jobs, and the existence of chronic age discrimination. And it is not controversial to advocate that workers get the jobs they want at all ages. However, it is less likely that older workers will obtain jobs on their own terms if their retirement income is more insecure.

Last, a discussion of retirement must recognize that distributing leisure at the end of one’s work life has a special meaning that doesn’t take away from the importance of vacations, weekends, and holidays. There is considerable evidence that the elderly enjoy free time, like we all do, but for a reason that is particular to older people – time is getting scarce. Berkeley economist Clair Brown (1994) ranks living standards along a continuum, with a chronic state of want at one end and extreme comfort at the other. Being extremely comfortable requires more than material goods: comfort means mobility, the freedom to “change your mind,” and the resources to blunt the consequences of a mistake. If every relevant aspect is the same, a retired person is better off than an older worker because the retiree has more time to change her or his mind. An older worker may need time off from work to recover from a mistake. The boost in time can help compensate for many losses in the aging process.

Myth Three: It’s the Youth Culture Promoting Work and Not the Other Way Around

A third question is whether personal tastes and cultural norms – the rules of thumb people use to determine what age is “old” and when people should retire -- are behind the increase work among the elderly. If people are seeking youthful activities and are preferring to work over having free time then nothing is amiss, and government need not act. However, if the elderly are working more because they need to compensate for

\[\text{3 After Gary Becker’s 1971 treatise on time most economists stopped using the word “leisure” (individuals were either producing time-intensive goods or goods-intensive goods) and stopped dealing with leisure as any special source of well-being. The political struggles for the eight-hour day, sick leave, vacations, lunch breaks, and retirement time became irrelevant to economic inquiry. Leisure consumption merely represents personal decisions about how to spend an endowment of time and skills.}\]
pension erosion, then rules of thumb about when to retire have merely been accommodated to cope with a negative economic reality. Cultural norms developing for later retirement could be collective cognitive dissonance – people faced with a change that is not wanted and inevitable – like not being able to retire – will grow to consider the change is acceptable, not accepting it causes psychological dissonance. (A good example collective cognitive dissonance is people working in a job they need but not complaining about the health hazards, preferring to think the job is safe.) A growing acceptance of later retirement could represent a coping strategy and acquiescence to the decline in retirement income security.

A growing acceptance of later retirement could also be a product of cultural norms that were manipulated because the norms were direct targets of social policy. In 1983, Congress moved to change retirement norms. In addition to political safety, Congress cut benefits for retirees 17 years in the future by incrementally raising the normal retirement age starting in 2000. (The normal retirement age would rise gradually from age 65 to age 67 by 2022.) Besides the primary goal to reduce future Social Security pension liabilities, Congress aimed to raise the age Americans use as “anchor” for what they consider to be the “normal” retirement age.

Retirement norms are also established by marketing strategies, such as those for a geezer nation, that promote the idea that old is not so old anymore. A 2003 issue of the AARP, magazine, Maturity, has a sultry Lauren Hutton on the cover with the caption, “Is 60 the new 30?” (Reynolds 2004). This fetching notion supports the idea that if work is what young people do, older people should be doing it to.

At the same time Naomi Wolff, known famously in the 2000 presidential campaign as a fashion advisor to Al Gore, warned in the first chapter of Beauty Myth of an insidious form of labor market discrimination – discrimination against the “unattractive.” The chilling example was an older news anchor being fired because her appearance did not “match viewers’ expectations.” Viewers expect women to look how? We can only imagine. But it was clear that an older physical appearance was not acceptable. Wolff wanted women to take to the streets and mobilize politically against this specific kind of bias -- grey hair and wrinkles. Instead Americans took to the spas and helped create a $80 billion health and beauty industry which successfully taps into the anxieties of aging Americans.

Concerns to achieve satisfying personal appearance are not unconnected to anxieties about pensions. Fear of age discrimination and failing pensions can help explain (what vexes the World Health Organization and public health advocates) pharmaceutical companies pursuing cures for hair loss while research projects on diseases affecting the impoverished young go begging for funds. Perhaps the unique American obsession with youthful looks is that Americans, alone among the globe’s wealthy citizens, have to work and look ready to work at older ages. In this light, paying for Botox is not a vain frivolity

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4 The Greenspan Commission did not recommend the increase in the retirement age!!; testimony before the Social Security Trustees suggested that longevity trends did not indicate that the elderly were able to work longer. Congress added the provision in order to gain more revenue and to play it safe by cutting benefits for future retirees (Ball 1999, 175).
but a case where low-dose botulism can help a person get and keep job.⁵ In this light, might we expect a growing obsession with youthful looks among nations with threatened pension systems? Will individuals with threatened pensions spend more to make themselves as employable as possible at older and older ages?

The rise and maintenance of a youth culture connects to economic global agendas in profound ways; what appears to be social and cultural, actually reinforces the interests of those who want us to work longer. The pain of diminished pensions is met with less resistance if the financial threat of having to work until age 70 is muted with flattery. Believing 70 is the new 40 helps older people psychologically repress the negative feelings that come with having to work longer than they wanted.

Retrenching Retirement and the Global Economic Agenda

Global economic agendas are expressed both by governments and by international organizations. The World Bank’s report on pensions in 1994 became a manifesto for more individual responsibility in retirement planning, for changing social norms to reward and make legitimate longer work lives, to penalize “early” retirement, and for private individual pension accounts to replace national social security and company plans. In short, one clearly expressed global agenda is to retrench—to get the elderly to work more.

I have argued that political leaders are being forced to make decisions dealing with the expense of aging populations. Many are tempted to obscure future expenses with rosy economic projections; I am not advocating that we do that. Political economist Kent Weaver (2002) represents the mainstream, World Bank, OECD view that societies only have three options—all politically unpleasant: (a) retrench, usually by raising the normal retirement age; or (b) refund, by raising taxes; or (c) restructure, by privatizing. These are upheld as the three “r’s” of political reality. For twenty years (barring the exception of the Medicare expansion), the U.S. system of retirement income security has retrenched, starting with the 1983 Social Security cuts, continuing with employer pensions eroding in the 1980s and 1990s when defined contribution pension plans ( that is, 401(k)-type plans) usurped defined benefit pension plans.

I am certain the politics of retrenchment will vary in intensity across nations. One reason is that some nations are aging faster than others (see Table 1 above). The United States “problem” is mild comparatively (our fertility rates and our immigration rates are higher than in other developed nations -- in 2050, the United States is projected to spend only 5.5 % of our Gross Domestic Product, GDP, on pensions and health care, compared to Italy, which is projected to spend 18.5 %); but, the growth of elderly work is skyrocketing.

It is clear that nations that have the largest projected expenses associated with aging, also have the smallest labor force participation rates, barely above 1 % for older

⁵ Economists have argued that beauty spending is rational because of the discrimination against those among us considered less comely (Harper 2003, Hamermesh et al. 2002, and Biddle and Hamermesh 1998.) It, thus, can be considered rational that, in 2006, most women, as revealed in a small survey of women over 30, said they would choose Botx injections than a trip to Paris for a romantic weekend(Alvarez, Manny. 2006. Fox News November 17).
men. For instance, among German men, 4% over the age of 65 work, compared to 16% American older men who work. But it doesn’t mean that more work will reduce old age spending. Japanese older men who work more than any other men in rich nations, but their projected pension expenses are still high relative to the projected expenses for elderly in the United States (People 2004 and Whitehead and Whiteford 2006).

Actually, the United States has a lot in common with poor nations. Old people in nations with per capita GDP half as ours, work just as much as they do in the U.S. In 2001 in the United States, the labor force participation rates of men between ages 65 and 70 ranged from 38.7% to 24.5%, which is similar to rates in North Africa at 29.2%. In Asia, 42% of men over age 65 work; in Europe 14.9% work. (Clark 2004, 118)

Retirement retrenchment is not the obvious choice in the U.S., Americans could aim to increase voluntary work among the elderly and lower normal retirement ages in America.

Conclusions: Policy Implications of Repositioned Retirement Norms

There are many possible scenarios for responding to population aging; but, political and economic forces in European and American societies are fashioning a response that goes in only on one direction – towards the rise of elderly work.

The U.S. General Accounting Office warns that European nations’ zeal to encourage the elderly to work is causing “overwork” – a concept not recognized by the economics profession, though it is absolutely clear that it means people working because they have lost income. It is not ideological, a matter of dogma, to argue that if workers have less free time at retirement ages because they have to make up for lost income -- pensions and health care (in the U.S.) are eroding -- they are worse off.

Conspicuously, policies, cultural norms, etc. aimed at delaying retirement create classes of winners and the winners are prone to overstate the benefits to society from changes that benefits them. The policies and retirement norm changes also create losers, and it remains to be seen if the losers will speak up.

This chapter addresses the new social contract on retirement in wealthy nations. I described the old social contract on retirement as one where people could choose to retire or not even if they were healthy and able to work past a certain age. This expectation had just developed in the post World War II period and came about because of economic growth and negotiations about where the fruits of that growth would be distributed among labor and capital.

Perhaps it is true, as many would have us believe, that older people everywhere want to have less retirement and I support sensible changes to pension rules that increase pension benefits as people work more or balance taxes and benefits to avoid huge payoffs in what Myles calls cohort lotteries. But reducing pensions, promoting the scientific veracity of economic trade-offs that don’t exist, and manipulating popular culture to promote work as a way to avoid aging and to demean old age leisure as indulgences of greedy geezers, is an veiled reversal of fortunes for the working-class and middle-classes.
Appendix: 1 Data Description for the Regression

The data in part one was collected by Ryan Taylor. It is from 1995 or from the closest year in case data was not available.

**The country code classification** was collected by using the United Nations Statistical Yearbook to obtain GNI per capita. The World Bank’s country classification criterion was used to assign the code of 0 or 1 as discussed earlier in the paper. Pension spending as a percentage of GDP was obtained through the International Labour Office and all figures are from 1995. Education spending as a percentage of GDP was obtained through the World Bank. Data from 1995 proved to be troublesome for some countries. For countries that data was no available from 1995, data was taken from 1999 and 1991 and then averaged. The average was then used as a substitute for 1995. The World Bank aligns nations on the bases of their Gross National Income (GNI) per capita. A country with higher middle or high income is defined as a developed nation, that with a GNI per capita of $875 or less is considered a low-income country; between $875 and $3,465 is considered a lower middle-income country, and a country with a GNI per capita between $3,466 and $10,725 is considered an upper middle-income country. A country with a GNI per capita over $10,726 is considered a high-income country. Once a country was classified, it was assigned a 1 if it was a low-income country, a 2 if it was a lower middle-income country, a 3 if it was an upper middle-income country, and a 4 if it was a high income country.

**Years of retirement** were calculated by subtracting the retirement age from life expectancy. Life expectancy was obtained from the United Nations Demographic Yearbook of 1999. The data is not from a uniform year because the life expectancy reports are sporadic and the closest to year to 1995 was used. Retirement age was obtained through the Social Security Programs Throughout the World and used the early retirement as the measurement for the retirement age. The ratio of the young to the old (over 60) was compiled by using the United Nations Statistical Yearbook, where population and cohort sizes were obtained. The data used for this variable was taken from whatever year possible since it depended on censuses, which are only done periodically at best. So while all of the data may not be directly from the year 1995, the data used probably best represents the data for 1995.

Table 1:1:

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of young persons for every old person (ratio of young to old)</th>
<th>Wealth of a Nation (4 is the richest)</th>
<th>Average number of years a person spends in retirement</th>
<th>Pension Spending (% GDP)</th>
<th>Education Spending (% GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>0.5</td>
<td>4</td>
<td>16.05</td>
<td>8.39</td>
<td>4.5</td>
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<td>Greece</td>
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<td>16.1</td>
<td>8.65</td>
<td>2.95</td>
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<tr>
<td>Italy</td>
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<td>4</td>
<td>19.8</td>
<td>13.04</td>
<td>3.75</td>
</tr>
<tr>
<td>Spain</td>
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<td>4</td>
<td>17.4</td>
<td>7.19</td>
<td>4.4</td>
</tr>
<tr>
<td>Japan</td>
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<td>3.5</td>
</tr>
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<td>2</td>
<td>9.7</td>
<td>7.31</td>
<td>5.4</td>
</tr>
</tbody>
</table>
| Country               | Distance | Age | Level | GDP | Population
|----------------------|----------|-----|-------|-----|-------------
| Switzerland          | 0.8      | 4   | 12.95 | 11 | 5.65        
| Belgium              | 0.8      | 4   | 16.65 | 7.67 | 5.45        
| Portugal             | 0.8      | 3   | 14.5  | 4.4 | 5.1         
| Sweden               | 0.8      | 4   | 18.2  | 12.26 | 7.3        
| Austria              | 0.8      | 4   | 14.75 | 10.12 | 5.9        
| Hungary              | 0.9      | 3   | 9.35  | 6.36 | 5.4         
| Denmark              | 0.9      | 4   | 15.15 | 12.29 | 7.55       
| Finland              | 0.9      | 4   | 15.8  | 9.55 | 6.35        
| Czech Republic       | 1.0      | 3   | 12.5  | 5.67 | 4           
| Estonia              | 1.0      | 2   | 5.55  | 6.43 | 6.9         
| Romania              | 1.0      | 2   | 4.5   | 5.51 | 3.5         
| Belarus              | 1.0      | 2   | 9.7   | 7.13 | 5.85        
| Croatia              | 1.1      | 2   | 15.4  | 4.88 | 5.5         
| United Kingdom       | 1.1      | 4   | 14.65 | 11.08 | 4.7        
| Lithuania            | 1.1      | 2   | 7.95  | 5.74 | 5.5         
| Canada               | 1.1      | 4   | 17.95 | 4.53 | 6.15        
| Netherlands          | 1.2      | 4   | 16.1  | 10.01 | 5.2        
| Luxembourg           | 1.3      | 4   | 18.89 | 9.76 | 3.3         
| United States        | 1.3      | 4   | 13.55 | 6.29 | 5.1         
| Norway               | 1.3      | 4   | 16.24 | 7.93 | 7.125       
| New Zealand          | 1.3      | 4   | 11.1  | 5.71 | 6.5         
| Ireland              | 1.5      | 4   | 9.35  | 3.56 | 4.65        
| Iceland              | 1.6      | 4   | 11.55 | 2.35 | 6           
| Slovakia             | 1.6      | 2   | 12    | 5.81 | 4.9         
| Cyprus               | 1.7      | 4   | 13.95 | 4.46 | 4.45        
| Moldova, Republic    | 1.7      | 1   | 5.25  | 6.98 | 4.65        
| Israel               | 1.9      | 4   | 11.95 | 2.49 | 6.85        
| Singapore            | 2.2      | 4   | 21.1  | 1.25 | 3.1         
| Korea, Republic of   | 2.2      | 4   | 12.35 | 1.19 | 3.8         
| Dominica             | 2.5      | 2   | 14.87 | 1.07 | 5           
| Albania              | 2.7      | 1   | 6.9   | 5.03 | 2.8         
| Chile                | 2.8      | 3   | 9.45  | 3.18 | 3.15        
| Argentina            | 2.9      | 3   | 7.15  | 2.88 | 3.9         
| Trinidad and Tobago  | 3.0      | 3   | 12.85 | 0.51 | 3.9         
| Turkey               | 3.0      | 2   | 12.35 | 2.48 | 3.2         
| Brazil               | 3.9      | 3   | 6.25  | 1.01 | 4.3         
| Indonesia            | 4.0      | 2   | 7.75  | 0.03 | 1           
| Colombia             | 5.0      | 2   | 8.65  | 0.67 | 3.4         
| Guyana               | 5.0      | 1   | 4.6   | 0.75 | 5.5         
| Sri Lanka            | 5.0      | 1   | 15.8  | 2.04 | 3.2         
<p>| Mexico               | 5.3      | 3   | 11.5  | 0.48 | 4.1         |</p>
<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
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<th>2050</th>
<th>2070</th>
<th>2090</th>
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<td>4.1</td>
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<tr>
<td>Saudi Arabia</td>
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<td>14.3</td>
<td>0.12</td>
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<td>Nicaragua</td>
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<td>1</td>
<td>6.5</td>
<td>0.01</td>
<td>6.6</td>
</tr>
</tbody>
</table>
References


Country Classification. World Bank Online.


Hermes and Ghilarducci. 2006.


Whitehouse, Edward and Peter Whiteford. 2006. “Reforms In OECD Countries.”