Conflict, Crisis, and the Future of Old Age Security

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During the decades following World War II the rapid growth in old age security entitlements in all capitalist democracies was widely hailed as a necessary, indeed inevitable, consequence of industrialization and economic growth. Industrialization, it was thought, had simultaneously rendered the labor of older workers redundant (Graebner 1980) and provided the wealth to make it unnecessary (Wilensky 1975). A retirement wage sufficient to permit or induce withdrawal from the labor force in advance of physiological decline could, and should, be made available to all.

In the mid-1970s, however, a contrary view began to take form. Rather than being natural or inevitable, it was argued that the combination of rising entitlements and an increasing number of retirees was part of a long-term process bound to self-destruct. In the long term, the old age security systems that were the pride of the post-war welfare state were doomed to collapse under the weight of changing demographic and fiscal realities. The "crisis" of old age security had been discovered.

In the usual formulation, the roots of the crisis are attributed to demography; the system of old age security entitlements currently in place in the capitalist democracies simply cannot withstand the rise

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in the number of old people projected for the decades ahead. Just as Wilensky (1975) argued that changing demographic realities gave rise to the modern welfare state, so too, it is now argued, demography will bring about its demise.

But what is the nature of this demographic imperative? In the pages that follow, I shall argue that the usual formulation of the demographic argument is, at best, highly misleading. This is not to say that demography is irrelevant to our understanding of the current situation. The size and composition of populations represent real constraints on any national political effort, whether for warfare or welfare. What is required, however, is to correctly identify the forms of social organization and institutional arrangements that make a particular demographic formation into a "problem." To understand the current situation, I will suggest, it is necessary to situate it within the broader context of the postwar welfare state and the political and economic foundations upon which it was constructed. The current conflict over the future of old age security is a symptom of a larger conflict over the proper role of the democratic state in a market economy. The postwar Keynesian consensus upon which the welfare state was constructed has broken down with the result that the various social institutions it spawned, including retirement benefits for the elderly, have now become the focus of renewed debate and political confrontation. The implication of this is that the long-term future of old age security—and, hence, of old age as we now know it—depends less on innovative fiscal management practices than on the eventual political realignments of a post-Keynesian political economy.

Population Aging and the Crisis in Old Age Security

In the conventional formulation, the crisis of old age security is explained by a rather straightforward exercise in demographic accounting. As Keyfitz (1980) has argued, the current generation of adults is simply not producing enough children to support it in its old age. Due to declining fertility, the size of the elderly population will grow to a point where the economic burden on the young will become intolerable. Eventually, the demographic bubble will burst, old age

security programs will go broke, and an intergenerational class struggle will ensue (Davis and van der Oever 1981). To avoid this eventuality, it is necessary to show restraint now (Clark and Barker 1981). Promises should not be made to the current generation of workers which future generations will be unwilling or unable to keep (Laffer and Ranson 1977).

To evaluate this argument, it is necessary to identify its core assumptions. Old age pensions, in this view, are the product of an implicit social contract made between sequential age cohorts (Friedman 1978). Each cohort, as it were, agrees to support the cohort it precedes, under the assumption that it will receive similar treatment from the cohorts that follow. But since age cohorts vary in size, the contract is inherently unstable. While it is relatively easy to provide generous benefits to a small retired population, to provide the same benefits to a very large cohort of retirees may become an intolerable burden (Keyfitz 1980). The result is a conflict between cohorts leading to dissolution of the contract.

The notion of a social contract between age cohorts is clearly intended as a metaphor that will enable us to understand and predict changes in popular support for old age entitlement programs. The question to be answered is whether the empirical evidence gives any indication that the metaphor captures reality. Where the conditions specified by the model have been met, it would seem reasonable to expect some evidence of the intergenerational conflict and resistance to public spending on the elderly that it predicts.

Several western nations are already quite old by demographic standards. The elderly constitute more than 16 percent of the populations of West Germany, Austria, and Sweden, a figure which is not far from the 18 to 20 percent level at which the North American population is expected to peak in the next century. As Heinz and Chiles (1981, iii) observe:

> Western European social security systems have already experienced the impact of population aging for some time now. The Federal Republic of Germany, for example, currently has a ratio of social security contributors to beneficiaries of less than 2:1, which is the level not projected to be reached in the United States until the year 2030, when the postwar baby boom generation reaches old age.

Moreover, the tax burden necessary to finance old age security in these countries has already reached levels that exceed those projected for the United States in the next century. Prior to the recent amendments to the Social Security Act, the United States Social Security tax rate was expected to peak at 20.1 percent in the year 2035 (Leimer 1979). But by 1978, the effective tax rate to support old age security was already 18 percent in Germany, 20 percent in Sweden, 23 percent in Italy, and 25 percent in the Netherlands (Torrey and Thompson 1980, 43). The experience of these nations, however, provides little evidence of the growing backlash and intergenerational hostility anticipated by the proponents of the conventional view.

Although a number of countries experienced a "welfare backlash" in the late 1970s, Wilensky (1976, 1981) has shown that this pattern was unrelated either to the size of the elderly population or to levels of public spending and taxation. Indeed, according to Wilensky's estimates, the very oldest of the capitalist democracies—Germany, Austria, Sweden—were among the countries that experienced the least amount of popular resistance to rising welfare expenditures. And informed observers (Ross 1979; Tomasson 1982) generally agree that, despite official concern over rising costs, public support of old age security systems remains high in these countries.

There are some obvious reasons for such widespread support of old age security, even in the face of rising costs. First, familial bonds provide a strong basis for solidarity between generations. In the absence of suitable public provision for the elderly, adults of working age would be required to provide for their aging parents directly. For these individuals, a generous old age security system is experienced not as a burden but as relief from a burden. Should recent efforts by the Reagan administration to revive the tradition of filial support laws be successful, Americans will have the opportunity to rediscover this fact. In a new reading of the Medicaid law the administration has affirmed the right of state officials to require children to help pay for their parents in nursing homes. This return to the Elizabethan Poor Law tradition of family responsibility does not do away with intergenerational transfers; instead, it restores the uncertainties and increases the financial disruption within working-age families that are eliminated when risks are pooled in a public transfer system.

Less obvious, but more important perhaps, is the fact that the key claim of the demographic model—that population aging increases the

burden of dependency on the working population—is incorrect. Throughout the postwar years, population aging was not generally associated with a rise in either total or age-based dependency in Western Europe but, rather, with a decline (Organization for Economic Cooperation and Development, 1972, 1981). This was due to a decline in the size of the very young population and an increase in female labor force participation. Canadian and American projections indicate a similar trend for the future. While the size of the elderly population will continue to grow, total age-dependency ratios will first decline and then rise slowly back to current levels (Clark and Spengler 1980, 25; Health and Welfare Canada 1978, 17). At no point are they projected to reach the levels achieved during the early 1960s, the peak of the baby boom period.

The issue for the future then is not the size of the dependent population but rather its changing composition—fewer children and more retirees. The usual strategy in evaluating this change is to compare public expenditures on the old with public expenditures on the young. Since public expenditures on the old are, on average, three times public expenditures on the young, it is clear that total public expenditures on the nonworking population must increase as the population ages. But to assess the true economic impact on the working population, it is necessary to establish total expenditures on the young and old, not just that portion passing through the public purse. Wander (1978) concludes that the total cost of raising a child to age 20 is one-fourth to one-third higher than that necessary to support an elderly person from age 60 to death, indicating that total intergenerational transfers (public plus private) may well decline as the population ages.

It is necessary to be precise about the point of the preceding arguments. It would be naive to assume that the dramatic transformation of the American age structure projected for the decades ahead will be without effect. Any major social transformation is likely to generate conflict between those who stand to lose and those who stand to gain from such change. The trick is to correctly identify the likely winners and losers. In the conventional formulation, the political fault line produced by population aging is a new cleavage between old and young, a claim for which the historical record provides precious little empirical support. Among the reasons for this is a less than complete reading of the demographic accounts upon which the conventional analysis is

based. The main result of population aging is to alter the composition of the nonworking population, not its size. To correctly identify the origins of the crisis, therefore, it is necessary to locate those actors and institutions for whom this demographic reality represents a problem.

The Anatomy of the Crisis

As Marshall (1964) pointed out in his now justly famous essay, the postwar period was a time of remarkable optimism that the traditional problems and conflicts of the capitalist democracies could be resolved and reconciled. In the developed countries of western Europe and North America, it appeared that a truce had been called in the ongoing war between the principles of citizenship and those of class. With an appropriate blend of Keynes and Beveridge, the rights of persons and the rights of property could be reconciled to the advantage of both. Welfare expenditures were construed as an investment in human capital, that would improve the quality of the work force and reduce the waste of human resources produced by inadequate diet, health care, and education. Public pension systems would help regulate unemployment and allow employers to replace older workers with more efficient, and less costly, younger workers. Most importantly, redistributive policies would provide the means to regulate the traditional boom and bust cycle characteristic of the capitalist economies.

Such optimism about the compatibility of a welfare state and a market economy was not without foundation. Throughout the 1950s and 1960s both experienced unprecedented levels of real growth. As the economies of the capitalist democracies grew, expenditures on social welfare grew even more rapidly. Even among the so-called welfare laggards, the rate of growth was impressive. In the United States, income maintenance expenditures alone grew from 5 percent of the gross national product (GNP) in 1957 to 14 percent of the GNP in 1977. One could, it seemed, socialize consumption while retaining private ownership of the means of production to the mutual advantage of both.

By the mid-1970s, however, this optimism was beginning to wane. A protracted economic slump, characterized by declining output, rising unemployment and inflation, and a shift in the international division of labor brought about a radical reassessment of the postwar

welfare state. Rather than a means to reinvigorate capitalism, the welfare state came to be construed as a fetter on capital accumulation. As Heclo (1981, 32) observes: "What came to be labelled as the welfare state was an arrangement for living with mutually inconsistent priorities, a system of tolerated contradictions." Or as Geiger and Geiger (1978) pointed out, meeting human needs and maximizing economic efficiency had become mutually incompatible goals.

The problem was not due to state intervention in the economy as such (it is always possible for the state to intervene in a manner that is market-conforming) but, rather, to the fact that the state which was intervening was a democratic state—one in which workers in their capacity as citizens can lay claim to a share of the social product over and above any claims they possess in their capacity as wage earners. While a democratic polity may choose to respect the norms of the market—that is, to link benefits to contributions—it is by no means constrained to do so and, in general, has not done so. All national pension systems, as they have evolved in the western capitalist democracies, have incorporated democratic principles of equality, need, and adequacy into their distributional practices: all redistribute income, to a greater or lesser degree, from high wage earners to low wage earners; the majority make allowance for need in the form of supplements for dependent spouses and survivors; and, historically, the majority of countries have legislated increases for the elderly to provide them with a larger share of a growing economic pie. Throughout the postwar period, labor discovered that wage gains that could not be won at the bargaining table could be won through legislation. Among the more politically acceptable ways to achieve this was to legislate an increase in the value of the wage to be received after retirement. As a labor strategy, this practice has been more overt in Europe but its effects have been no less real on this side of the Atlantic.

The result was a rapid growth of income entitlements as well as health care and social service entitlements which were quite independent of market capacity or performance. On the distributional side, the market was being made increasingly irrelevant. For progressives, this was the achievement of long sought after objectives; for conservatives, it was democracy run amok.

Given this context, it is not surprising that old age security programs should come in for particular scrutiny. By the mid-1970s, old age and disability pensions averaged 62 percent of all income maintenance

expenditures in the Organization for Economic Cooperation and Development (1976, 20) area. In the United States, the figure was 73 percent. And this does not take into account the in-kind and social service expenditures, including health care, which go to the elderly. In the areas of health care and income transfers, the modern welfare state has in large measure become a welfare state for the elderly. As the Reagan administration recognizes, it is exceedingly difficult to dismantle the one without also dismantling the other.

It is also apparent why population aging is perceived as a problem in this situation. Although more old people do not necessarily mean more transfers from the working to the nonworking population, population aging does change the composition of these transfers. A larger percentage of transfers will pass through the public purse, giving government an even greater role in distributing the nation's income. Accordingly, old age security has become the object of attack, particularly in the United States where it is the most important nonmarket mechanism for the allocation of income in the national economy. To an outsider, the scale and intensity of this attack appear quite remarkable but it is hardly surprising that the system is now in crisis, a consequence of the severe trauma induced by this attack.

What of the future? I can foresee three possible scenarios. First, it may well be that the system will right itself again; the current economic crisis will pass; the wind will be taken out of the neoconservative sails; and we shall continue much as we have in the past. Neo-Keynesian demand management strategies will again hold sway; the welfare state will return to favor; and people will grow old in the future much as they have in the recent past. This seems to be the hope of the traditional postwar liberals, a hope, however, which is hard pressed in the face of current economic realities.

The second is that history will be rolled back: the gains in social citizenship achieved during the past several decades will be dismantled or, more likely, allowed to slowly suffocate, while the market is restored to a position of preeminence. Old age pensions would not necessarily disappear, merely made market conforming: distributional practices based on need, adequacy, or equality would be abandoned; accessibility to entitlements made more difficult (e.g., by raising the retirement age), and a larger share of the pension industry returned to the private sector where benefits are calculated according to strict market criteria. Tax incentives to encourage private pension saving

(IRA's) and the recent adoption of the recommendations of the bipartisan committee on Social Security are indicative of this trend in the United States.

The third solution being advanced, particularly among some European social democrats, is the one proposed long ago by Al Smith when he remarked that the "only cure for the evils of democracy is more democracy." If democratic control over distribution is incompatible with the efficient functioning of the market, then one might conceivably restrict the latter rather than the former. Rather than contract democratic control of the economy, one should expand it; rather than abandon the principles of social citizenship, the rights of citizenship should be extended to include economic citizenship. We can anticipate seeing some interesting experiments in this direction in Sweden in the next few years.

Whether in the long run the current crisis produces a restoration of the rights of property, further expansion of the citizenship principle, or a restabilization of the status quo, in the short and medium term old age policies will reflect the halting and contradictory attempts at reform characteristic of all public policy formation. But the "muddling through" that frequently seems to characterize the policy process should not blind us to the fact that now, as in the past, old age policies are not produced randomly nor in a political-economic vacuum. Old age policies, whether in the field of pensions, health care, or social services, are ultimately distributional policies. And in an era when the politics of distribution have intensified—marked by increasing conflict—it is not surprising that they have become subject to special attention. As with all distributional policies, social programs for the elderly reflect current arrangements for managing the contradictions of a democratic state in a market economy. If there is now a crisis in old age security it is because the existing arrangements for managing this relationship have been brought into question. As Marshall (1964) anticipated, the principles of citizenship and social class are once again at war.

Whatever the outcome of this confrontation, the future of old age is uniquely tied to the future history of the welfare state. This is hardly surprising since the social character of old age in the contemporary period is very much the product of the welfare state. After World War II, as Xavier Gaullier (1982) has remarked, "old age became retirement." The cause, at least the proximate cause, of this development

was the advent of the retirement wage, an income entitlement sufficient to allow or induce the elderly worker to withdraw from productive activity in advance of physiological decline. And for a variety of reasons, it is the state that has assumed primary responsibility for the administration of this wage. Both the right to retire—and hence to become old—and the rights of retirement are today the product of national legislation. Politics, not demography, now determines the size of the elderly population and the material conditions of its existence.

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