

THE WALL STREET JOURNAL - DECEMBER 18, 1979

OLD CONSUMERS VS. YOUNG PRODUCERS...by Peter F Drucker

How many older people, living on retirement pensions, can the economy afford without constant inflation and continuing loss of productivity? And how large a proportion of such people can society afford without risking serious political and social conflict between the working young and the retired old?

In 1935, when the United States adopted Social Security, there were 11 people in the adult labor force for everyone 65 and older. Today, the ratio is about three to one-94 million Americans at work as opposed to 32 million on Social Security and company pension plans, including people on early retirement, recipients of disability payments and elderly widows who receive survivor benefits.

As the proportion of retirees goes up, a conflict arises between the younger producers and the older consumers, corresponding almost perfectly to the classic Marxian model of "exploitation." The old are supported by the "surplus" taken away from the "toiling masses" by political "power." Old people can exploit young producers because they outvote them. People over 55, the people who vote in contemplation of their retirement benefits, already hold something like two-fifths

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of the voting power in every developed country (if only because older people tend to vote more heavily than do those under 35).

The present three to one ratio between working adults and older retired people is about the most economy and society can stand without debilitating pressures and serious harm. For the first time, last year, increases in Social Security taxes met such popular resistance that they had to be hastily postponed, if not abandoned. Yet Social Security taxes are already far too low, even without adjustment for inflation, to support those already retired, let alone the people who will reach the Social Security age of 65 within the next few years. Maintaining the present three to one ratio between adults at work and older adults living on retirement pensions will have to become a central goal of economic and social policy in the U.S. and in all developed countries, even in the Soviet Bloc.

Social Security and pension plans must be adjusted to demographic reality. There would be little problem today if we hadn't set a fixed retirement age of 65 in 1935, but instead had related pension age to life expectancies, or working-life span or the ability to function in work. In terms of ability to do jobs, age 65 in 1935 corresponds perhaps to age 75 today.

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In the United States today, a worker between ages 65 and 72 loses 50 cents in Social Security benefits for every dollar he earns. Anyone whose income would be lower than \$15,000 a year before taxes does better on Social Security alone than if he keeps on working. The rational thing is not to work. According to 1977 figures, 65-year-old white males were willing to work for wages of \$9.07, but 66-year olds had a "reservation wage" of \$18.06.

It's also time to change the practice, required by present union contracts, of guaranteeing the jobs of older people who have seniority, but who also can retire on a pension, at least for a period, while laying off in a recession younger people with a family to support and no retirement pay on which to fall back. This can only create social bitterness and unnecessary, indeed capricious, hardship.

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We don't know how many older people are working as "moonlighters" or "working black," as the Germans nicely describe it. But in all developed countries they now constitute a large proportion, as is evident in the growing discrepancies between the numbers of people who report they work, the numbers of hours worked, the cash in circulation and the income taxes paid. It's been estimated that "retired" older who don't report their incomes account for 7.5% of the hours worked in Great Britain, and 20% in Sweden. The U. S. is probably halfway between these figures.

Unless we legalize what is already reality, and encourage older people to keep on working, we face an alarming decline in the ratio of working adults to older people who must be supported-perhaps two to one within 15 years, if not sooner. Such a ratio would be unbearable economically and divisive socially.