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THE ECONOMIC STATUS OF THE ELDERLY: IS THE PROBLEM LOW INCOME?

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The thesis of this paper is that poverty among the elderly[1] is increasingly becoming a problem of relative as opposed to absolute economic deprivation. Many of the elderly (persons age 65 and over) are oppressed by the absolute poverty they must endure, but for most of those for whom inadequate income is a source of concern, the real problem seems to be relative economic deprivation. If present trends continue this will be increasingly the case in future years.

By the early 1900's the issue of old age poverty had become a major social concern. The first effort to investigate the economic status of the elderly was a study carried out in Massachusetts in 1910; investigators found that nearly one quarter of the aged were public paupers, inmates of almshouses, or dependent on some other form of institutional support. In the years that followed conditions got worse, not better.

> By roughly comparable measures, dependency of elderly Americans was 23 percent in 1910, 33 percent in 1922, and 40 percent in 1930 -- before the Great Depression began to take effect. When the Depression struck, the situation grew even worse. Old age dependency rose nearly to 50 percent in 1935, and to two-thirds in 1940 (Fischer, 1977: 174).

With the Great Depression of the 1930's poverty among the elderly had reached crisis proportions. This was a major factor contributing to passage of the Social Security Act in 1935. Most European nations had enacted compulsory old age insurance programs long before this: Germany in 1889, Austria in 1906, England in 1908, France in 1910, and Sweden in 1913.

There are many ways to describe the economic status of the aged and, as we shall show, they do not all yield the same conclusions. Some statistics indicate that the aged tend to be disadvantaged relative to other age categories, but other statistics would seem to suggest that the aged as a group are not disadvantaged. As we shall see, it can be quite misleading to consider statistics

describing poverty rates for the aged as a whole; the rates vary considerably from one category of the aged to another. Of all federal programs, Social Security contributes more to the economic well-being of the elderly than does any other. For this reason we will want to take a close look at the program and how it has evolved over the years. We will also find it informative to take into consideration the impact of such macro economic phenomena as inflation, economic growth, and unemployment levels. We begin with an overview of the trend in the economic status of the elderly since the end of the Second World War.

THE ECONOMIC STATUS OF THE ELDERLY

Are the elderly getting less than a fair share of the nation's economic resources? Some argue that they are already getting more than their due; others feel that the aged are being unfairly denied an adequate share. As a group the aged receive a proportion of the nation's aggregate personal income[2] that is about equal to their proportion of the population. In 1973 approximately 11 percent of the nation's $95 billion in personal income went to the elderly.[3] In the same year they constituted approximately 10 percent of the total population.[4]

As indicated in Table 1, one of the largest sources of aggregate personal income received by the elderly is retirement benefits, of which Social Security is the major contributor (31 percent). Notice, though, that earnings (39 percent) and income from assets (16 percent) account for more than half the aggregate personal income of the elderly.[5] How then can we explain the common conception of the elderly as being retired and living on Social Security? Clearly there are some serious inconsistencies in this stereotype. The confusion arises out of the use of aggregate statistics to describe the economic status of the elderly.

When interpreting the 39 percent of the aggregate income derived from earnings, it is important to realize that it is all going to a minority of the elderly (20 percent of men and 8 percent women) who still remain in the work force. Similarly, the substantial asset income is accounted for by a very small proportion of the elderly. In fact, in 1967, two thirds of elderly couples had less than $5000 in income earning assets (Murray, 1972). Very few of them derived anywhere near 16 percent of their income from assets.

Table 1 Sources of Aged's Aggregate Personal Income, 1972[a]

Source	Percent
Retirement Benefits	37
Social Security (31%)	
Other[b] (6%)	
Earnings	39
Income from assets	16
Welfare (public assistance)	2
Other income	7
	101

[a]Head or spouse 65 or over

[b]This includes government and veterans' pensions

SOURCE: Moon (1977: 8)

Median income statistics can be used to obtain a more representative description of the economic status of the elderly. In 1975 the median income for elderly families was $7,400. As is indicated in Table 2 this was far below the median for all two person families ($13,000). As we can see, the picture from median income statistics is very different than that obtained from aggregate income statistics. This discrepancy is due to the tendency for a small number of very prosperous elderly to contribute a disproportionately high amount to the aggregate income of the elderly as a group.

However, even median income statistics can be misleading if we do not take into consideration the reality that the elderly population is made up of a variety of subgroups in very different economic situations. Three of the most important factors specifying such subgroups are race, sex, and employment status. As indicated in Table 2, the $4,400 median income for elderly black families is considerably below the $7,700 median for elderly white families and only one-third the $13,000 median income for all two person families.

Table 2 Median Family Income by Race, Age of Head, and Size, 1975

	All Races	Whites	Blacks
Aged[a] Families	\$7,400	\$7,700	\$4,400
All Families	\$13,700	\$14,300	\$8,800
Two-person Families with Head Under Age 65	\$13,000	\$13,600	\$8,000

[a]Head Age 65 or Older

SOURCE: Based on Table 22, U.S. Bureau of the Census (1977a).

When comparing the incomes for women with those for men, we must also consider statistics based on the individual (person) as the unit of analysis rather than the family. The median income in 1975 for all persons (including men and women) who reported at least some income was \$5,700. Based on what we know about relative incomes in the general population, we would expect to find lower incomes for elderly females than for elderly males. The relevant statistics are presented in Table 3 and confirm this expectation. We find that \$2,800 median income for elderly females is much below that for elderly males (\$5,300). We have found, as might have been expected, that the income effects of past discrimination based on race and sex follow one into old age.

When considering the economic status of the elderly, it is essential to take into consideration the extent of the person's attachment to the labor force. Most persons over age 65 have retired, but a substantial minority are still at work and in some instances earning more than at any prior time in their lives. The \$11,700 median income for elderly men who work full-time all year round is far greater than the \$5,300 median for all edlerly men independent of employment status (See Table 3). Similarly, for elderly women the \$8,600 median income for those who are fully employed is far greater than the \$2,800 median for elderly women independent of employment status. While fully employed elderly men earn somewhat less than fully employed men in the general population (\$11,700 vs \$13,900), this is not the case for

Table 3 Median Income of Persons[a] by Sex, Work Status, and Age, 1976

	All Persons	Fully Employed Workers[b]
Males		
Age 65 and over	$5,300	$11,700
Age 14 and over	$9,400	$13,900
Females		
Age 65 and over	$2,800	$8,600
Age 14 and over	$3,600	$8,300

[a]Excludes persons without any income.

[b]Persons employed full time all year.

SOURCE: Table 7, U.S. Bureau of the Census (1977v)

women. On the contrary fully employed elderly women actually earn a bit more than fully employed women in the general population ($8,600 vs $8,300).

When we compare the incomes for different age groups, we find the relationship between age and income follows an inverted u-shaped curve (see Figure 1). It is important to bear in mind that this is the relationship between age and income that we obtain on the basis of information describing a cross-section of the population at one point in time. The relative advantage of white males over the other three groups tends to be most pronounced for the 35 to 59 age range. For white males there is considerable variation in income across the various age categories, but for females of both races the variation takes place within a much narrower range. For the 70 and over age category the income gap between men and women as well as that whites and blacks is substantially smaller than it is for persons in the middle years. The median income for white men over age 70 is only one-third that of white men in the highest income age category. In contrast the median income for white women over age 70 is one-half that of white women in the highest income age category. On the basis of this evidence we might speculate that while women experience greater absolute economic deprivation in old age, it is possible that men experience greater relative deprivation

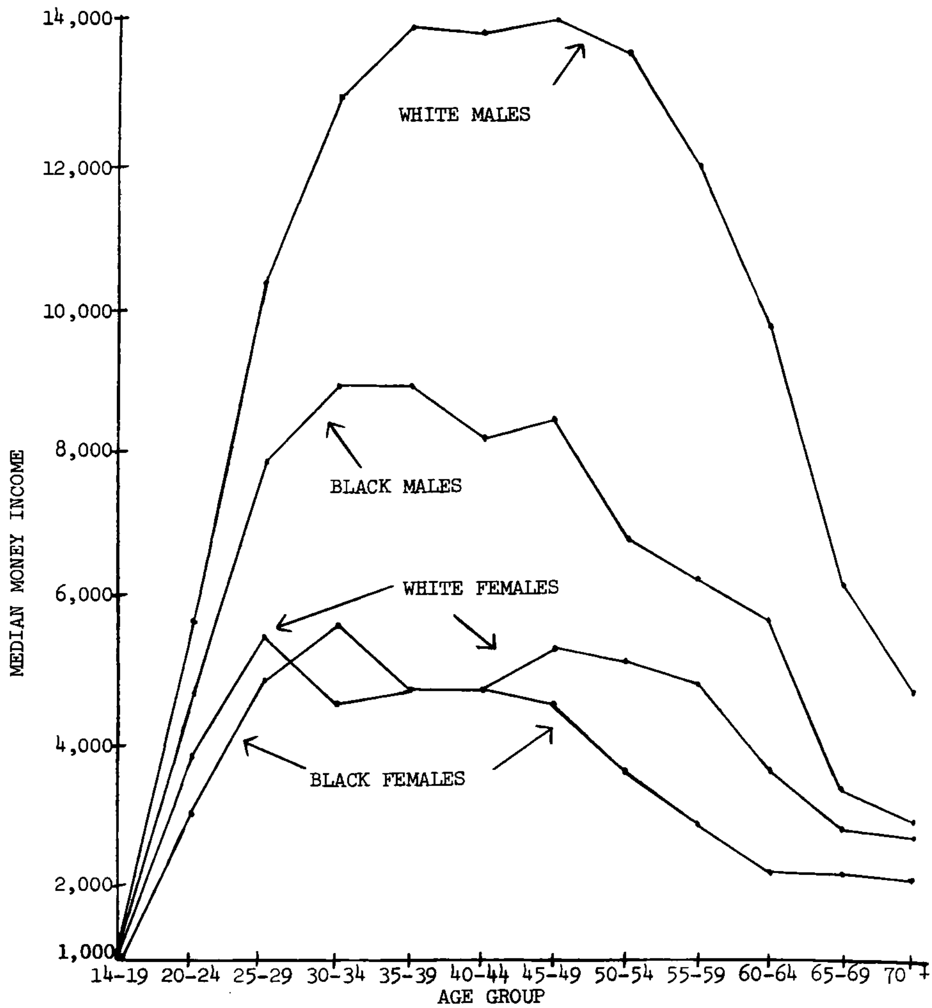

Figure 1 Median Income of Persons[a] by Age, Sex, and Race, 1975.
[a] Excludes persons without any income
SOURCE: Table 46, U.S. Bureau of the Census(1977a)

Data such as that presented in Figure 1 has led some to argue that old age has a leveling effect on income. Such a conclusion is valid at the level of aggregate subgroups, the income gap between different race and sex subgroups does decrease. However, old age does not have the same leveling effect when we look at the extent of inequality in the distribution of income among individuals. Some people retain high incomes well beyond their mid 60's. As a result there is actually more inequality in the distribution of income among the elderly than there is among other age categories (Riley and Foner, 1968).[6]

We must be cautious when making generalizations about the relationship between age and income on the basis of cross-sectional data. Consider, for example, the limitations of such data for those who seek to make generalizations about persons moving through the lifespan. In Figure 1, we note that the highest income age category for white males is 45 to 49. Does this mean that incomes generally start to decline from age 50 on? This might appear to be the case on the basis of the cross-sectional evidence presented in Figure 1, but such a conclusion is not supported by the available cohort data.[7] It is clear from studies based on cohort analysis that incomes tend to rise up to the point of retirement. This is illustrated by the cohort data presented in Table 4. Note that the income for those who were age 45 to 54 tended to increase between 1949 and 1959. This is a very different conclusion than one might be led to expect on the basis of the cross-sectional evidence in Figure 1.

Table 4 Cohort Analysis of Income by Age for Males,[a] 1949 to 1959 (in 1959 dollars)

Age in 1950	Age in 1960	Mean Income 1949	Mean Income 1959	Percent Change 1949 to 1959
25-34	35-44	$3,556	$6,212	+75
35-44	45-54	4,396	6,136	+40
45-54	55-64	4,540	5,522	+22
55-64	65-74	4,008	3,415	-15

[a]Excludes persons without any income

SOURCE: Table 4.12, Riley and Foner (1968: 82).

If the preceding analysis is correct, why then does cross-sectional data indicate that incomes go down after the age of 50? One reason is that those who have entered the labor force more recently (younger workers) started at higher wage levels. Another reason is that they have experienced more rapid pay advances.[8] Even after adjusting for inflation today's 40-year-olds earn considerably more than 40-year-olds twenty years ago. Thus, because wages continue to rise full time workers still in the labor force at age 60-64 are typically earning more today than at any prior time in their lives despite the fact that they are earning less than workers in the 40-44 age category.

There are many problems associated with determining whether an old person is retired or not. This is particularly true of those who are presently out of work but who would return to work if they could find a suitable position, and those who found a job for a few hours a week but would prefer to be working full time. This is one of the reasons why it is difficult to offer a precise estimate of the decrease in income that accompanies retirement. A reasonable estimate is that incomes typically drop by 40 to 50 percent at retirement.[9]

Most people do not require as much income after retirement as they required prior to retirement, to maintain their preretirement standard of living. There tend to be reductions in certain costs associated with employment such as clothing and transportation. According to one estimate the typical retired couple can maintain their previous standard of living on approximately 75 percent of their preretirement income (Henle, 1972). However, less than 10 percent of male workers retire with Social Security and other pension benefits that equal as much as 70 percent of their preretirement income (Schulz, 1976a).[10]

In recent years has the economic status of the elderly been getting better, getting worse, or has it remained virtually unchanged? The way in which we answer this question depends in large measure on how we measure change in economic status. If we look at trends in the median income for the elderly, we find evidence of considerable improvement. In 1947 the median income for elderly families was $3,300 (measured in 1971 dollars), by 1975 it had increased to $7,400. This represents an increase of 125 percent in purchasing power. However, if we focus on the incomes of the elderly relative to other age groups we get a somewhat different picture. In 1947 the median income for elderly families was 60 percent of the median for all families. By 1966 this had dropped to 49 percent and by 1975 it had risen again to 54 percent. Over this period of almost thirty years there has been no net improvement in the economic status of the elderly relative to other age groups.

In this sense they remain as disadvantaged today as they were in 1947.

The elderly have a higher poverty rate than any other adult age category. In 1976 of the 22 million persons aged 65 and over 3.3 million or 15 percent were classified as poor by the federal government.[11] This is significantly greater than the 12 percent poverty rate for all categories and more than double the 7 percent poverty rate for those 45 to 54, the age group with the lowest risk of poverty. In 1976 the federal poverty line for a non-farm family of four was $5,800. For an elderly couple it was $3,400 and for an elderly person living alone it was $2,700. Some critics point out that the government's poverty measure fails to take into account many of the "hidden poor," that is, elderly persons who would have been taken in by relatives who are not poor. One estimate is that if the hidden poor were included as many as 5 million, or approximately one quarter of the elderly, would be classified as poor (U.S. Senate, 1977).

As we have argued earlier, the elderly population is made up of a variety of subgroups in very different economic circumstances. On the basis of our previous analysis of median income statistics, it would be reasonable to expect a higher poverty rate among elderly women than among elderly men and a higher rate among elderly blacks than among elderly whites. In 1976 some 18 percent of elderly females were poor. The figure for elderly males was 11 percent. In the same year 35 percent of elderly blacks were poor, in contrast to 13 percent of elderly whites. When we combine these characteristics as we have done in Table 5, we find even greater discrepancies. Only 8 percent of families headed by elderly white males are poor as against 46 percent of those headed by black females. These results are for the most part consistent with our earlier findings based on median income statistics.

There are a number of other observations that can be made from the information presented in Table 5. Probably the most important of these is the evidence of a sharp reduction in the prevalence of poverty since the late 1950's. In 1959 some 7 out of 10 families headed by black women were poor, by 1976 less than 5 out of 10 were poor. In 1959 almost half of families headed by white women were poor, but today less than a quarter are poor. There are also corresponding decreases for families headed by elderly males of both races. These statistics point to the marked improvement in the economic status of the elderly that has taken place in recent decades. But these same statistics also point out that poverty continues to be a very common fate to many of the elderly, particularly white women and blacks of either sex.

Table 5 Poverty Rates[a] Among Aged[b] Families by Race and Sex of Head, 1959 and 1976

	1976	1959
Male Head		
Whites	8%	28%
Blacks	27%	59%
Female Head		
Whites	24%	47%
Blacks	46%	70%

[a] Percent poor

[b] Age 65 or older

SOURCE: Table 16, U.S. Bureau of the Census (1977b)

To this point we have relied heavily upon income statistics provided by the Bureau of the Census. It is important to interpret these statistics with caution and an awareness of their limitations. For example, there is a tendency for people to underestimate their incomes. In addition the measure we have used (unless specified otherwise) is pretax money income. It does not take into consideration certain forms of asset income (e.g., capital gains income), and it does not take into consideration the differential impact the tax system has on different age groups. The elderly are, for example, eligible for a variety of tax benefits. They are eligible for a double personal exemption on their federal income tax. Social Security benefits, a major source of income for most of the elderly, is not taxed at all. In many states the elderly can claim property tax reductions. These are just a few of the tax benefits that accrue to the elderly. However, the net effect of all the available tax benefits does not do much to alter the overall economic status of the elderly.

To the extent that we are interested in economic well-being as opposed to income status alone, we must consider the various non money government transfers to the elderly. Of relevance here are health insurance benefits, food stamps, public housing subsidies, and a wide variety of social services (Moon, 1977; Moon and Smolensky, 1977). Similarly, we must take into consideration personal

services, transportation, and lodging provided by relatives. Needless to say, it is very difficult to make reliable estimates of the economic value of all these benefits.[12] While we cannot expect to make actual adjustments for more than a few of these benefits, it is important to keep in mind that they are not taken into consideration in the income statistics generally used when describing the economic status of the elderly.

SOCIAL SECURITY

The Social Security program contributes more to the economic well-being of the elderly than do all other federal, state, and local income and in-kind (non money benefits and services) programs combined (Williamson et al., 1975: 66-67).[13] Today most of the elderly are eligible for at least minimal Social Security pension benefits. Many of those who are not, such as people who have not contributed to the program for the required minimum of ten years (forty quarters), are eligible for pension or welfare benefits from other sources. For example, federal government workers and railroad workers have their own independent pension programs; they do not participate in the Social Security program. Of those who are not eligible for either Social Security or one of these alternative pensions, many are able to be eleigible for benefits from Supplemental Security Income (SSI), a (welfare) program administered by the Social Security Administration.

As mentioned earlier the Social Security Act was passed in the midst of the Great Depression of the 1930s. A major objective of the old-age pension program created by the Act was to reduce the extent of economic destitution among the elderly.[14] However, another important objective was job creation. Old-age pensions were seen as a mechanism to encourage older workers to leave and remain out of the work force (Schulz, 1976b). The goal was to open up new positions for younger workers, positions that were at a premium when one quarter of the labor force was out of work.

The first Social Security old-age pensions were paid in 1940. At the time only a small fraction of the elderly were eligible for benefits, but many of those who were got a very good return on their "investment."[15]

Over the years there has been a marked increase in the proportion of the working population covered by the Social Security program. In 1940 it was restricted to approximately 60 percent of

the labor force, those in industry and commerce. During the 1950's and 1960's coverage was steadily expanded to other categories of workers. Among those added were regularly employed domestic and agricultural workers as well as most of the self-employed. Today more than 90 percent of workers are in "covered" employment. Those still not covered include agricultural and domestic workers who do not hold regular jobs as well as self-employed persons with very low incomes. Also excluded are the railroad workers and civilian government employees mentioned earlier who have their own pension programs.

The categories of persons eligible for Social Security benefits has also expanded. When first enacted in 1935 Old Age Insurance (OAI) was to provide benfits only to retired workers. But before any pension benefits were actually paid, it was modified in 1939 to extend benefits to a covered worker's dependents and surviving spouse. To reflect this change the program was renamed Old Age and Survivors Insurance (OASI). In 1956 benefits were extended to disabled workers and their dependents (OASDI). In 1965 health insurance (Medicare) was added (OASDHI). In 1974 the Supplemental Security Income (SSI) program went into effect. Although the program is administered by the Social Security Administration, it is kept as a separate program. The name Social Security has not been modified to include this component. The conscious effort to keep SSI as a distinct program is due to it being so explicitly a welfare program.

As a consequence of this expansion of the Social Security program there has been a steady increase in the proportion of the elderly who are eligible for Social Security pension benefits. In 1948 only one out of eight of the elderly were eligible; today nine out of ten are eligible.

In 1940, the average Social Security pension to a retired worker was just under $300 per year; by 1977 it had increased to just over $3,000. As is evident in Table 6 there has been a marked increase in both Social Security pension benefits and in median family incomes since 1940. The ratio of the Social Security pension benefits to the median family income can be interpreted as a measure of the relative purchasing power this pension provides. This ratio was relatively constant between 1950 and 1970, but it has increased substantially during the early 1970s suggesting an improvement in the relative purchasing power of Social Security pensions.

When we consider the period from 1940 to 1976 we find that Social Security benefits increased at a rate greater than the cost of living (as measured by the Consumer Price Index) during each

decade (Table 7).[16] However, these increases in pension benefits did not always keep pace with increases in the overall standard of living (as measured by median family income). During the 1940s and the 1960s the overall standard of living increased more rapidly than Social Security pension benefits. In the early 1970's this trend was reversed and social security pensions increased more rapidly than the overall standard of living. During each decade since 1940 there has been an increase in the absolute purchasing power of the Social Security pension, but it was not until the 1970s that there was an increase in the relative purchasing power of this pension.[17]

As the number of Social Security recipients and the level of pension benefits have increased, so has the cost of the program. In 1950, 0.3 percent of the nation's GNP was spent on the Social Security program. Today if we include the health insurance component, it represents 5 percent of GNP. In 1940 it was paid for by a payroll tax of 1 percent of the first $3,000 of the employee's income and by a corresponding contribution by the employer. By 1978 the tax on both the employer and employee had increased to 6.05 percent of the first $17,700 of the employee's income. During this period the maximum Social Security tax on employees increased from $30 (1940) to $1070 (1978) per year. Present legislation calls for continued increases in the Social Security tax through the 1980's. By 1987 the tax is scheduled to be 7.1 percent of the first $42,600 for a maximum yearly employee contribution of $3025.[18]

For many years Social Security was one of the least controversial federal programs. But in recent years this has changed. The sharp increase in cost is one reason. The combined impact of the trend toward earlier retirement, increased life expectancy, and smaller families is creating a situation in which the ratio of those who are retired and drawing pension benefits to those who are in the labor force and paying for these benefits is increasing. This increase in the burden on those in the labor force could become a very explosive issue in the not too distant future. Another reason that the Social Security program has become controversial is the increase in awareness that it is being financed by a regressive payroll tax. In 1978 those who earned $10,000 paid just over 6 percent of this as a Social Security payroll tax; but those who earned $100,000 paid just over 1 percent of their income.[19]

Social Security has some of the characteristics of private insurance programs and some of the characteristics of welfare programs.[20] The conflict between these two aspects of the program has become increasingly evident in recent years. When first enacted

Table 6 Social Security Retired Worker Pension Benefits as a Proportion of Median Family Income, 1940 to 1976.

	Social Security Retired Worker Pension Benefit[a] (Dollars/Year)	Median Family Income [b] (Dollars/Year)	Ratio of Pension Benefit to Median Family Income
Year			
1940	271	1231	.22
1945	290	2390	.12
1950	526	3319	.16
1955	744	4418	.17
1960	888	5620	.16
1965	1007	6957	.14
1970	1417	9867	.14
1975	2486	13719	.18
1976	2698	14958	.18

[a]Source: U.S. Department of Health Education and Welfare (1978:47). These figures are for the average retired worker and do not include spouse benefits.

[b]Source: U.S. Bureau of the Census (1977b: 440), for 1950 through 1976. The statistics for 1940 and 1945 are based on data from U.S. Bureau of the Census (1975: 303) and only include wage income.

Table 7 Percentage Increases in Social Security Pension Benefits, the Cost of Living, and Median Income, by Decade 1940-1976.

	Percent Increase in Social Security Retired Worker Pension Benefit[a]	Percent Increase In Cost of Living[b]	Percent Increase in Median Family Income[c]
Decade			
1940-49	94%	72%	170%
1950-59	69	23	69
1960-69	60	31	76
1970-76	90	47	52
1940-76	896	306	1115

[a]Source: U.S. Department of Health, Education, and Welfare (1978: 47). These figures are based on estimates of the average benefit to retired workers. They do not include spouse benefits.

[b]As measured by increases in the Consumer Price Index

[c]Source: U.S. Bureau of the Census (1977b: 440), for 1950 through 1976. The statistics for 1940-49 were estimated on the basis of data from U.S. Bureau of the Census (1975: 303). The 1940 estimate is based on wage income only: this would tend to give an upward bias to our estimate of the percent increase for the decade.

the insurance objectives were predominant. But over the years the program has been modified to accommodate an increasing number of welfare objectives.

A major source of Social Security's popularity has been in its image as an insurance program. Covered employees are required to make "contributions" to this "social insurance" program which are paid into a "trust fund" during their working years. Upon reaching retirement age they in turn can expect to be paid a pension out of this trust fund. In general those who have higher preretirement incomes and who have made larger contributions to the program over the years can anticipate a larger pension upon retirement. Being a Social Security recipient has none of the stigma associated with being a welfare recipient. One reason is that these pension benefits are viewed by all as having been earned. Another reason is that the benefits are not restricted to those with low incomes. In fact, there are some very wealthy people who collect Social Security pension benefits.

However, this is only part of the picture. The program has a number characteristics that are not at all consistent with principles of private insurance.[21] In some instances these characteristics are linked to various welfare objectives. In others the objective seems to be cost cutting.

In private insurance programs there is a clear actuarial correspondence between the amount people pay in premiums and the size of the pensions they are eligible for upon reaching retirement age. While some will live longer than others and end up collecting more in pension benefits, on the average the expected pension benefit corresponds to the premiums one has paid. But with the Social Security program the relationship between prior contribution and the size of the pension benefit is more tenuous. The tenuous link between contributions and eventual benefits is illustrated by the provision that calls for at least minimal benefits to all persons over age 72 regardless of whether they have paid Social Security payroll taxes.

Social Security pension levels are set by Congress and can be modified at any time. The extent to which these benefits reflect prior contributions is entirely up to Congress and is influenced as much by political as by actuarial considerations. Benefits are automatically adjusted each year to correct for increases in the cost of living (inflaction), but adjustments for increases in the overall standard of living (median income) are still at the discretion of Congress.

State laws require private insurance companies to set aside a proportion of their assets as policy reserves to guarantee that policyholders will be paid the benefits promised them, a provision made necessary by the checkered early history of private insurance. With Social Security, however, the trust fund reserves, though worth billions of dollars, would provide benefits to today's recipients for little over a year if those presently in the labor force were to cease making contributions through payroll taxes.

Where did all the money go? It was paid out over the years to those who were retired at the time contributions were made. This pay-as-you-go financing systems harks back to the days of unregulated private insurance companies which often went bankrupt if insufficient new premiums were sold to pay for the benefits of today's recipients. They are not paying into a trust fund from which they will one day draw benefits that correspond in any direct actuarial sense to the contributions made over the years.

Some people pay Social Security taxes for thirty years or more and end up with the same pension benefit they would have been eligible for had they not contributed any Social Security taxes at all. This is often the case with widows. A woman may find that her deceased husband's work history makes her eligible for a pension larger than it would have been, had it been based on her own work history. In this situation she has a choice. She can select which ever pension is larger, she may not take both.

The Social Security program includes a retirement test. Persons under age 72 who are eligible for Social Security pension benefits cannot earn more than $4,000 per year without having benefits reduced $1 for every $2 earned above this amount.[22] This provision helps cut Social Security pension costs, but it does so by discriminating against lower income recipients. People who have had low incomes over the years are likely to have little in the way of outside unearned income (such as interest on savings or stock dividents) to supplement their generally lower Social Security pension benefits. Many of these people are forced by economic necessity to remain in the labor force despite the penalty associated with the retirement test. This provision is entirely inconsistent with principles of private insurance. A private insurance pension would be paid regardless of other sources of income the policy holder might have.

By this point it should be evident that the Social Security program is based on a somewhat contridictory mixture of welfare and insurance objectives. However, it is unlikely that any major effort will be made to resolve these contradictions in the forseeable future.

There is little interest in making Social Security into an outright welfare program consistently structured around welfare objectives. Similarly, there is little interest in eliminating the welfare provisions that contradict the basic principles on which private insurance programs are based.

If the program were to be restructured more in accordance with social welfare objectives, one of the first changes would be in the mechanism used to finance it. A shift would be made away from the payroll tax which tends to have a regressive impact (taxing those with the lowest incomes the most) to financing it out of general federal revenues.[23]

However, some fear that if this change were made Social Security would take on some of the stigma presently associated with welfare programs. It is generally argued that the clear link between the payroll tax and the pension benefit is necessary to avoid the stigma of a welfare program.[24] If changes were made in the structure of Social Security programs that did increase the stigma associated with being a recipient, it is possible that many of the elderly would do without rather than apply for benefits they clearly needed. Today many more older persons are eligible for Supplemental Security Income benefits than the 14 percent currently on the rolls. The reason for this, some believe is that SSI carried the stigma of welfare despite its being administered by the Social Security Administration.

Suppose on the other hand that the Social Security program were restructured in accordance with the principles of private insurance. Pension benefits would then be actuarially based on prior contribution. One consequence would be that those with poor work histories, who tend to have the lowest Social Security pensions, would end up with even less adequate Social Security pensions than they get today. It would be necessary to substantially expand the Supplemental Security Income program to compensate for this drop in Social Security pension benefits. Many who today can make ends meet on their modest Social Security pension would have to apply for SSI benefits. The elderly poor might be worse off in the long run because Congressional support for increasing SSI (welfare) benefits is likely to be weaker than for raising Social Security benefits. The poor tend to fare better when included as recipients of more universalistic programs such as Social Security and Medicare than when they are isolated into special programs such as SSI which have been created to provide income or income in kind for the poor alone.

Because of the tenuous link between contributions in the form of Social Security tax contributions and the pensions retired workers are eventually paid, the selection of Social Security benefit levels is very highly political matter. In arriving at a decision it is necessary to strike a balance between the interests of the retired elderly and the interests of persons presently in the labor force, to say nothing of the employers who are also being taxed. Many of the elderly find themselves with few if any options for supplementing this pension income should it prove inadequate to meet their needs. On the other hand, many of those who are being asked to pay for these benefits have their own legitimate economic needs. Under the present system some workers who are attempting to provide for a growing family on a near poverty income are paying Social Security taxes that get distributed, at least in part, to elderly persons who are financially much better off than they will ever be.

How do we decide on the minimum standard of living that it is reasonable to ask the elderly to accept in this society? How in turn do we decide how much it is fair to tax those in the labor force in an effort to assure the elderly this standard of living? Important as these questions are, there are no simple answers. They call for ethical and political judgments that are unavoidably colored by one's age, social class, and ideology.

The Social Security program has had a major impact on the standard of living available to the elderly. However, it is also true that a number of othermacro economic changes have taken place while Social Security had been expanding. Economic growth, for example, has contributed in a significant way to the increase in funds available to the elderly. Such macro economic phenomena as inflation, unemployment rates, and economic growth all have major impacts on the elderly's standard of living.

THE IMPACT OF THE ECONOMY ON THE ELDERLY

Inflation, unemployment levels, and rates of economic growth are all aspects of the economy which affect the lives of the elderly.[25] It is common knowledge that inflation is a threat to the elderly's standard of living, but as we shall see the degree of vulnerability varies considerably across different income groups. A substantial minority of the elderly are still in the labor force and for this reason vulnerable to fluctuations in unemployment rates. Economic growth turns out to have both positive and negative consequences for the standard of living available to the elderly.

Many older persons find themselves living entirely or in part on fixed incomes such as pensions that are not periodically adjusted for inflation. Many private pensions specify that the recipient is entitled to a fixed monthly benefit for life without any provision for the reduction in purchasing power that will occur over the years. Even a pension which provided an adequate income at the time of retirement may fall far short of adequacy some fifteen or twenty years later. As an increasing proportion of workers are retiring earlier and living longer, the erosion of purchasing power due to inflation becomes an increasingly serious problem.

In discussions of categories of persons living on fixed incomes, it is common to mention those who depend primarily on their Social Security pension; but this example is not entirely accurate. As noted earlier in the chapter, Social Security pension benefits have more than kept pace with inflation over the years. For the past several years legislation has been in effect which calls for automatic increments in benefit levels each year to compensate for reductions in purchasing power due to inflation. Similar escalator clauses are being written into an increasing proportion of private pension plans, but today many of the elderly are still dependent on pensions which have no such provision.

Those who are in the middle income category just prior to retirement are likely to be more adversely by inflation that are those with relatively high incomes. This middle income category includes many who have little in the way of asset income from savings and stocks, but who do have a private pension to supplement Social Security. While their Social Security income is protected against inflation, their private pension income often is not. As a result they may experience a reduction in purchasing power over the years.

Those with low preretirement incomes are likely to have little more than their Social Security pension to live on. While their purchasing power at the time of retirement will be lower than that of the middle income retiree, it is well protected against inflation. Such persons should not suffer a significant erosion in their purchasing power over the retirement years. Those with high preretirement incomes may likely to have acquired substantial income producing assets. These assets tend to increase in value at a rate that at least keeps pace with inflation. For this reason retirees with high preretirement incomes can be expected to be more protected against the effects of inflation than those in the middle income category.

Since many of the elderly are no longer in the labor force, the elderly as a group tend to be less vulnerable than other age groups

to shifts in unemployment rates. But to the twenty percent of elderly males and the ten percent of elderly females who are in the labor force, high unemployment rates are as much a threat as they are to other age groups. Many elderly workers are forced into the job market by mandatory retirement regulations. Due to discrimination against older workers in the hiring process, they typically find that most jobs are closed to them. The employment opportunities available to the elderly are likely to be particularly limited during periods of high unemployment. During periods of unusually tight employment, by contrast, the elderly find their services very much in demand; this was the case during World War II.

While automatic cost-of-living increments protect Social Security pensions against any inflation produced erosion in absolute purchasing power, this increment does not deal with any erosion in relative purchasing power due to economic growth and the tendency for incomes to increase with growth. During periods of economic recession there is no growth in the economy; that is, there is no increase in "real" GNP.[26] But over the long run our economy continues to grow. This growth is reflected in the increase in real GNP, the Gross National Product after adjusting for inflation. This real increase in GNP contributes to an increase in personal incomes over and above the increase due to inflation. Not only do people have higher incomes, but they can also buy more with these incomes; their purchasing power has increased. Economic growth is generally looked upon favorably as it increases the purchasing power of workers and provides the funds necessary for expanding government benefits to the elderly and other economically deprived segments of the population.

Ironically, the economic growth, which is so important as a factor contributing to the increasing standard of living available to the elderly, does have some adverse consequences for those who are retired. The increase in incomes due to economic growth tends to go disproportionately to those who are in the labor force (Kreps, 1976). Economic growth contributes to increases in the absolute standard of living available to the elderly, but the impact is generally not as great on them as on persons still in the labor force. Thus the income gap between the retired and those still at work tends to increase during periods of economic expansion (Kreps, 1976). This would not be a serious problem if the elderly could avoid making comparisons between their own purchasing power and that of the typical American family. But many cannot avoid making such comparasons and as a result they are vulnerable to feelings of relative deprivation. For those who have been retired twenty years or more the reduction in relative purchasing power can be quite substantial.

CONCLUSION

The elderly receive at least their proportionate share of the nation's aggregate personal income; however, the favorable aggregate income picture is due in part to the high incomes of a relatively small proportion. For this reason median income statistics present quite a different picture. The median income for the aged is only between fifty and sixty percent of that for the general population. It can be somewhat misleading to emphasize statistics describing the aged as a whole as there are marked income differences for various race and sex subgroups.

The median incomes for whites are substantially greater than those for blacks for all age categories. Similarly, median incomes for men are considerably higher than those for women for all age categories. These income gaps increase during the early years reaching a maximum during the middle years and declining during the later years. This trend points to the leveling effect of retirement which we might expect would contribute to a reduction in the extent of income inequality among the elderly. But such is not the case. Income is more unequally distributed among the elderly than it is in the general population.

On the basis of cross-sectional data describing the income status of persons in different age categories, it would appear that income starts to decline after age fifty. The median income for persons age 60 to 64 is substantially below that for persons age 40 to 44. However, when we consider cohort data it is evident that incomes continue to rise as a cohort passes through each successive age category up to the point of retirement. The incomes of persons age 60 to 64 are substantially higher than the incomes for the same people when they were age 40 to 44. The lower income for the older age categories observed in cross-sectional data are due in part to the tendency for the cohorts that entered the labor market more recently to have started at a higher wage level. It is also in part due to the tendency for incomes to rise more quickly during the early years.

Approximately fifteen percent of the elderly have incomes that fall below the federal poverty line; this is more than double the poverty rate for the 45 to 54 age category. There are marked differences in poverty rates for various race and sex subgroups. Only 8 percent of families headed by elderly white males are poor in contrast to 46 percent of those headed by elderly black females. Some argue that the standard government poverty estimates are too conservative because they fail to take into consideration the so-called "hidden" poor. One estimate is that if the hidden poor are counted,

one-quarter of the elderly are poor. Others argue to the contrary that the standard government estimates tend to overstate the prevalence of poverty because they do not adequately take into consideration the effects of preferential tax treatment and the value of in-kind programs (Watts and Skidmore, 1977).

Today most of the elderly are eligible for Social Security, the largest single source of income for most retired persons. Social Security accounts for more than half of the income for one out of two elderly couples and an even greater proportion of the unmarried elderly. Despite rumors to the contrary, Social Security benefit levels have more than kept pace with inflation over the years. During the first half of the 1970's not only did Social Security benefits keep pace with inflation, but they actually increased at a greater rate than incomes in the general population. However, automatic cost of living increments in Social Security benefits do not deal with the effects of economic growth on purchasing power.

Economic growth which makes possible increases in governmental benefits to the elderly also reduces the aged's purchasing power relative to other segments of the population particularly those who are still in the labor force. Despite the clear trend toward higher incomes for the elderly and toward reduced poverty reates, there is no evidence of a long term trend toward a reduction in the economic deprivation of the elderly relative to other age groups. Clearly it is going to be this relative economic deprivation of the elderly which is going to become increasingly problematic in future years. Since the end of the Second World War our economy has shown a great deal of real growth. This has made it possible to markedly improve the absolute standard of living available to the aged; because of this it has been possible to satisfy many who are elderly without facing the problem of relative economic deprivation. But should there be substantially less real economic growth (as opposed to growth in inflated dollars only) in years to come, we should not be surprised to find the elderly more actively pushing for action to remedy their relative economic deprivation. The economic redistribution called for will most certainly be a source of sharp political conflict.

NOTES

1. Throughout this article the terms "elderly" and "aged" are used interchangeably; the reference is to persons age 65 and over. Such a designation is somewhat arbitrary being based on the age at which persons become eligible for full Social Security benefits, Medicare, Supplemental Security Income, and other such government programs for the elderly. I have selected this same age criterion because so much of the research literature and so many government income statistics use it.

2. The term "aggregate personal income" refers to the total personal income of all elderly persons (families and single individuals).

3. See Table C, U.S. Bureau of the Census (1974:2). Fried et al (1973) offer a somewhat higher estimate of 14 percent for 1972.

4. Today approximately 30 percent of the federal budget is spent on the elderly; however, much of this money goes to nursing home operators, hospitals, physicians, and others who provide services to the elderly.

5. Asset income includes dividends paid on shares of stock, bonds, and mutual funds; it also includes interest on savings, rent on property, and the like.

6. Based on Census data for 1960 Riley and Foner (1968:76) report a Gini index of .47 for families with elderly heads and values ranging from .29 to .40 for other age categories. The Gini index for all age groups combined was .37. The Gini index is a measure of inequality which ranges from .00 (perfect equality, all families have exactly the same income) to 1.00 (perfect inequality, one family has all the nation's family income).

7. Recall that one obtains cohort data by tracing the income history of a specific birth cohort over a period of years on the basis of two or more cross-sectional studies. In Table 4 those who are 55 to 64 in 1960 are the same cohort as those who were age 45 to 54 in 1950.

8. From the evidence presented in Table 4 note that the income of those who were age 25 to 34 increased by 75 percent between 1949 and 1959 while those who were 35 to 44 increased by 40 percent and those who were 45 to 54 increased by 22 percent. Incomes increased for all three of these age cohorts, but the increase was greatest for the younger cohorts. In 1959 the mean income for those who were 55 to 64 was lower than it was for those who were 45 to 54 despite the 22 percent increase in income over the previous ten years.

9. On the basis of the data in Figure 1 we would estimate a drop of 40 percent for white males if we compare the income for the age 60 to 64 group to that for the 65 to 69 age group. On the basis of the data in Table 4 we would estimate a more modest 15 percent decline. For other evidence on the issue see Schulz (1976a:569).

10. The study referred to was conducted in 1970. Only about half of workers were eligible for pension benefits other than Social Security. For this group 47 percent had pension incomes equal to at least half their preretirement earnings. For those eligible for Social Security only, 19 percent had pension incomes equal to at least half their preretirement earnings and 60 percent had pension incomes equal to between 31 and 50 percent of preretirement earnings (Schulz, 1976a:569-570).

11. For a discussion of the way in which the government measures poverty, a critique of this measure, and some of the alternatives that have been suggested, see Williamson et al. (1975:13-18) as well as Williamson and Hyer (1975).

12. However, this does not stop some from trying. One study attempts to come up with a more accurate estimate of the prevalence of poverty among the elderly (U.S. Senate, 1977:6). To this end the income estimates are adjusted for the value of various in-kind and third party payments such as food stamps, medicare, and rent supplements. The study also adjusted the income estimates to take into account the net effect of taxes. For a second similar study see Moon (1977).

13. The reference here is to income programs such as Supplemental Security Income and in-kind programs such as subsidized public housing for the elderly.

14. The goal was to provide an income floor for the elderly. It was assumed that people would need income from other sources if they were to maintain their preretirement standard of living. Today the Social Security pension for the average recipient replaces approximately 40 percent of earnings just prior to retirement.

15. One estimate is that persons who retired in 1974 could expect a return on their contributions to Social Security equivalent to interest at a rate of between 6 and 17 percent depending on such factors as marital status, preretirement earnings, and years of covered employment. By contrast, those entering the labor force in 1974 could expect a return on their contributions of between 1 and 8 percent depending on various assumptions (see Chen and Chu, 1974).

16. Because the median income statistics for the years prior to 1950 are not entirely comparable to those for 1950 and after, it makes the most sense to base our comparison of the long term trends for the three components on the data for the period from 1950 to 1976. During this period Social Security pension benefits increased by 411 percent, the cost of living increased by 136 percent, and the median family income increased by 351 percent.

17. To calculate the increase in "absolute" purchasing power, subtract the increase in the cost of living from the increase in pension benefits. For the period from 1940 to 1976 this would yield: 896% - 306% = 590% (Table 7). During this period the absolute purchasing power of the Social Security pension increased by almost 600 percent.

18. It is quite possible that Congress will decide to reduce this projected increase in the Social Security tax burden. Consideration is being given to shifting some of the burden to so-called "general federal revenues."

19. The employee who earned $10,000 was taxed at a rate of 6.05 percent on all of this income. The employee who earned $100,000 was taxed at the same rate, but only on the first $17,700; this comes to $1070, approximately 1.1 percent of $100,000.

20. Many life insurance companies provide policies for those who want to be assured an annuity income when they reach retirement age. The annuity is a pension usually paid for life. The size of the pension is based on the amount of income paid into the program as premiums over the years and on the policy holder's life expectancy at the time when payments started.

21. The reference here is to such principles as: (1) benefits actuarially linked to the amount one has contributed and (2) benefits paid independent of the amount of income one has from other sources.

22. The amount is scheduled to gradually increase to $6,000 by 1982. There is no retirement test for persons age 72 and over.

23. General federal revenues includes the federal personal income tax, federal corporate taxes, and federal excise taxes. The net effect of general federal revenues is progressive, that is, taxing those with more income at higher rates.

24. Some have proposed that the pensions for retired workers continue to be funded on the basis of the Social Security payroll tax, but that the expenses related to health insurance and disability be shifted to general federal revenues. The goal is to reduce the burden on the payroll tax while at the same time avoiding any stigma that might result were the link between the payroll tax and benefits entirely be eliminated.

25. In this section I draw extensively on the work of Juanita Kreps (1976).

26. GNP may show an increase, but the increase is due to inflation rather than increased output (real growth).

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