Volume Title: The Evolution of Retirement: An American Economic History, 1880-1990

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1 The Problem of Old Age

> In 1930 there were 6,500,000 people over 65 years of age in this country, representing 5.4 percent of the entire population. This percentage has been increasing quite rapidly since the turn of the century and is expected to continue to increase for several decades.
>
> U.S. Committee on Economic Security (1935)

Not only are more men living past age sixty-five in America today than ever before, but American men have also been abandoning the labor force at ever younger ages. The retirement rate of American men older than sixty-four has risen rapidly from a mere quarter at the end of the last century to over 80 percent today. At the same time the very nature of retirement has changed. For most individuals retirement is no longer a time of withdrawal from all activities and of dependence on family and friends; rather, it is a time of discovery, personal fulfillment, and relative independence. In the past, such an experience of retirement was limited to the wealthy few who could afford it. Now it is an option available to the majority of workers.

That most men can now look forward to a period of personal fulfillment at the end of their working lives is one of the achievements of our century, but such a retirement is expensive, and financing it poses budgetary dilemmas. Most retirees today rely primarily on the Social Security system, and this system is facing a fiscal crisis. Because so many children were born during the baby boom of the 1950s and 1960s and so few during the subsequent baby bust, the number of retirees is expected to increase much more rapidly than the number of workers. If men continue to abandon the labor force at ever younger ages—and retirement rates have been rising for over a century—the crisis posed by financing their retirement is likely to be even more acute. To understand whether retirement rates will continue to rise we must examine the origins of retirement.

At the beginning of this century few men retired—and certainly not early. In 1880 over three-quarters of men older than sixty-four were in the labor force and in 1900 65 percent. These were men who had begun their work lives when the U.S. economy was predominantly agricultural. When they did retire, it was, therefore, most likely to be from farming, and then from a nonagricultural manual occupation, since relatively few white-collar jobs were available. The availability of retirement income was a powerful inducement to leave the labor force, but, because wages were low, few men had such prospects. Many men left the labor force because of poor health or diminished employment prospects, becoming dependent on their children for support. But, poor health or not, most could not afford to retire. Instead, they continued to labor in pain. This pattern prevailed in the face of their high probability of becoming unemployed—on losing old jobs, they quickly found new ones.

On retiring, men who were well off continued to maintain households independent of those of their children. Farmers would often move from the farm to the local county seat, spending their time socializing with other retirees or reading newspapers. Those who were less well off or those few who were widowers and needed support would move into their children's households.

By mid-century rising incomes allowed many more men to retire. In 1950 only 47 percent of men older than sixty-four were still in the labor force. More of these men came from white-collar occupations than at the beginning of the century and fewer from farm occupations. The availability of retirement income was still an important factor in these men's decision to leave the labor force, but now retirement was no longer primarily self-financed. It was financed instead by Social Security Old Age Assistance and Insurance. However, most men still could not afford to retire because these programs were not very generous and because they had little in the way of other retirement income.

Men who retired at mid-century faced a much more enjoyable retirement than their predecessors. Fewer than 20 percent were dependent on their children for support, whereas close to 40 percent of their predecessors had been. Some of these men migrated to Florida or California to enjoy the warmer weather. Even without migrating they were able to enjoy many more recreational amenities than their predecessors. In addition to socializing with other retirees and reading, they could spend their time listening to the radio, at movie theaters, or touring in their own cars.

Today most men retire. Fewer than 20 percent of men older than sixty-four are in the labor force, and an increasing proportion of these men are working part-time. Most men who left the labor force worked in a white-collar job prior to retiring. A large fraction of retirees now state that they have retired to enjoy leisure. Health, unemployment, and income all have a smaller effect on the retirement decision of men older than sixty-four than they did at the beginning of the century. Income levels may now be high enough that incremental changes in income are no longer pushing men into or out of retirement. In addition, the institution of Social Security may have made age sixty-five, and later age sixty-two, the "normal" retirement age, thereby increasing men's desire to retire.

At the same time retirement may now be much more attractive relative to work than it was one hundred or even fifty years ago. The retired are now very unlikely to live in their children's households. Instead, they may have moved to a community with better recreational amenities, a better climate, and a lower cost of living. Their retirement can be spent in activities that include mass tourism, such low-impact sports as golf, and such mass entertainment as television.

In this book I present an economic history of retirement. My focus is on the evolution of retirement from 1880 to the present. Throughout this period retirement rates have been rising. In fact, much of the long-run rise in retirement rates occurred before the postwar growth of Social Security and private pension plans. I therefore investigate the factors that fostered rising retirement rates at the beginning of the century. Examining the origins of the decrease in the employment of older men will help us understand why retirement rates have risen in recent times and allow us to determine whether retirement rates are likely to continue to rise.

One possible explanation for the increase in retirement rates is rising household income. I study this in chapter 3 by estimating the income effect of a large government transfer—the Union army pension program, the first major pension program in the United States, covering Union army veterans of the American Civil War. Using a unique longitudinal data set that follows Union army recruits from youth to death, I find that pensions had a substantial effect on labor force participation rates. My findings suggest that the high labor force participation rates of men prevailing at the turn of the century arose because retirement incomes were too low to support older men fully and that, as retirement incomes have risen, so have retirement rates. I attribute much of the long-term increase in retirement rates to secularly rising incomes.

In chapters 4 and 5 I investigate several alternative explanations for increased retirement rates, including the shift from agriculture to manufacturing, reduced opportunities for part-time work and nonfarm self-employment, and the worsening average health of the population. Not only has the burden of chronic disease fallen tremendously, but health has also become less of a factor in the retirement decision. An increased proportion of the older workers who remain in the labor force are part-time workers. Low retirement rates among the self-employed relative to wage and salary workers and among farmers relative to nonfarmers are a recent phenomenon.

Increased income is not, however, the sole explanation for the rise of retirement. In fact, I show that, over time, men's retirement decision has become less sensitive to increases or decreases in income. Retirement has become much more attractive because the retired are no longer dependent on family and friends for support. They can now afford to maintain their autonomy even when no longer working. By examining data on the living arrangements of elderly men, I show in chapter 6 that, while at the beginning of the century men would have preferred to remain independent of their families, they simply could not afford to do so. Retirement has also become more attractive because men have more leisure-time activities among which to choose. I show in chapter 7 that rising income and technological change have made the complements of leisure, recreational goods, more affordable. The lower price of recreational goods and their increased variety have made retirement much more attractive than it was in the past. This, in turn, may have induced more retirement.

The elderly have in part financed retirement through public-sector resources. At the beginning of the century Union army pensions were the most widespread form of assistance to the elderly, serving about a quarter of the population older than sixty-four in 1900. In the late 1920s and early 1930s, many states provided pensions to the needy aged. These pensions were later replaced by Social Security Old Age Assistance and Social Insurance. As I discuss in chapter 8, the growth of these programs was made possible by the availability of revenue resources and was spurred in part by increasingly well-organized pressure groups. As the population ages, the elderly may become an even more powerful political force. But, as their numbers rise, it will become increasingly harder for the young to finance a lengthy retirement for the old.

We are not the first generation faced with an aging population and a rising number of retirees. The Committee on Economic Security, appointed by President Roosevelt to draft what later became the Social Security Act, used the 1930 population and trends to predict that, by 1990, 12.6 percent of the population would be older than sixty-four. Although the committee did not foresee the postwar fertility increase, declines in mortality at older ages were large enough that its predictions proved correct. The committee believed that the increasing size of the elderly population necessitated an old-age security program because modern industry had no need for older workers and, other than their labor, these workers had no other means with which to support themselves. It did not view the projected increase in the size of the elderly population as a cause for alarm because it was believed that only modest provisions were necessary to maintain the physical needs and health and comfort of the aged (e.g., Rubinow 1934, 223–24).

Aging had, however, emerged as a public issue even earlier. The first public commission on aging was instituted and the first major survey of the economic conditions conducted in Massachusetts around 1910. Other states soon followed suit. In the 1919 report of the Ohio Health and Old Age Insurance Commission, Dr. John O'Grady wrote, "Very few wage-earners can expect to be able to work until the end of their lives. They ordinarily look forward to a few years before death when they will no longer be able to earn wages. How are they to obtain a livelihood during those last years of life? This is the problem of old age as it affects the working-man" (p. 201). The elderly no longer face the problem of obtaining a livelihood. Social Security provides a safety net for even the poorest of the old, while pension wealth makes many elderly households relatively well off. In fact, many of the elderly now look forward to retirement. The new problem of old age is that the elderly population is likely to be so large that their pension and health care costs may impoverish the young. When D. W. Griffith titled his 1911 film *What Shall We Do with Our Old?* the common answer was to establish a system of social insurance to provide the old with pensions. Now that our system of social insurance faces a fiscal crisis, the common answer is to get the old back in the labor force. But is this likely to happen?

I seek to answer this question by examining the evolution of retirement since the end of the last century. My focus is, therefore, on the retirement of men. Until recently, relatively few women devoted their prime to market work. Women who entered the labor force early in their lives withdrew to work in the home on marrying, and, if they reentered once their children reached adulthood, they withdrew again in their late forties or early fifties. As late as the 1970s, interviews revealed that retirement was not a meaningful concept for most older, married women (Sherman 1974, 58). The majority of women continued working as homemakers. The important life event that they faced in old age was widowhood. At the end of the last century, 58 percent of women older than sixty-four were widowed, and many were dependent on their children for support. Although the fraction of women older than sixty-four who are widowed is still a high 50 percent, Social Security programs have reduced widows' dependence on their children. The experience of future cohorts—cohorts that have spent their entire careers in the labor force—is likely to be different. For them retirement will be a meaningful concept.