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**Generational Equity and the
Reformulation of Retirement**

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SEDAP Research Paper No. 12

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OF RETIREMENT**

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ABSTRACT

Starting from an examination of the essential components of the long established 'contract' between the generations, the analysis moves on to examine public policy responses to the ageing of populations. Observing an international inclination to panic at the growth of old age and to restrict expenditure on services to older people, the paper addresses practical questions of political economy within the generational contract. On the one hand cuts to pensions and services are seen not to be economically inevitable. On the other it is argued that modern retirement breaches the compact between the generations and will need to be reformulated, enabling more people to earn income well beyond current retirement ages.

GENERATIONAL EQUITY AND THE REFORMULATION OF RETIREMENT

Immortality is what we leave behind which influences future generations. If some part of us, as individual beings, continues to live in lives beyond our own we have achieved one dimension of immortality. The motivation to leave such a mark is profoundly central to the human condition and to all cultures and societies. So when Groucho Marx so famously said ‘Why should I care about posterity?’. What’s posterity ever done for me? he encapsulated one of the most enduring philosophical debates. The contract between the generations is a notion as old as history and one re-formulated in every age. Today the twin forces of demographic change and the bundle of changes called post-modernity demand fresh thinking. Both the nature of social solidarity and what it means for people in later life require fresh thinking. Not least we need to re-consider the meaning of retirement.

Wherever people live in society together, they do so in relationships of differing kinds which bind them together both within and across generations. Whether these relationships are properly labelled family or kinship systems is a technical issue. But what universally characterises them is a set of rules or laws, guidelines and conventions which set patterns of obligation involving different degrees of reciprocity.

The nature of this solidarity between individuals and within the fabric of organised society has been articulated in recent centuries by Hobbes, Locke and Rousseau, through Bentham and Mill through to the contemporary writings of Rawls, McIntyre and others. The common ground between these

thinkers is their concern to link consent (to the social order and its protection of the citizen) with obligation (to be a tax paying, participating individual) as integral features of civil society. Philosophers and political scientists recognise this stream of social analysis as contractarianism - an acknowledged bond between people who are both kin and strangers to each other and to their children's children (for reviews of these arguments see Johnson 1995).

As Peter Laslett (Laslett and Fishkin 1992) points out in his book with James Fishkin, **Justice Between Age Groups and Generations**, there are profound difficulties in articulating the contractual nature of intergenerational exchanges; which in turn are magnified by attempts to consider the processual nature of justice over time. This is the essential conceptual element in the discourse about an intergenerational compact and the consequent issues of equity, which lie at the heart of this paper.

There are, of course practical concerns about the willingness and capacity of governments and economic systems to deliver the resources to support elderly populations.

These are more questions of political conviction than of economic possibility, in advanced societies. What will unlock the political uncertainty, based as it is on short-term strategies and misconceptions about the 'burdens' of an ageing population, is a newly refurbished notion of generational solidarity.

As Harry Moody (1992) points out, the character of generational giving and receiving is transitive. We 'repay' the generosity of the preceding generation by giving in turn to our successors' (p.229). Indeed this apparent paradox is virtually universal. It is to repeat Laslett's term processual. But even if life can be metaphorically depicted as a procession, it is also one which stops at points in the life path to engage in a series of ritual exchanges. Following nurture to adulthood there may be a period

of dependent 'apprenticeship' - college, low earnings early in a career or unemployment requiring support from the family. A parental transfer may also be needed to enable the establishment of an independent household perhaps through marriage.

The appearance of grandchildren may prompt further gifts as might financial misfortune or ill health. (Daniels 1988). But as the journey leads the older generation to their last years the often unspoken dialogue of emotional support and services in kind in the unspecified expectation of inheritance is acted out. Empirical evidence of this is to be found in long term care where relatives seek to restrict expenditure to minimise diminution of their inheritance (Crystal, 1982, McCallum and Howe, 1992).

So what has changed to bring these theoretical issues into the central area of debate about the young and the old? It is, of course, the spectacularly beneficial reduction in this century of premature death, which has led to what is now called an ageing population. In turn it gives rise to the question - can we afford to support so many old people?

For the first fifteen years of my time as a gerontologist, the struggle with politicians and policy makers was to get them to acknowledge the inevitability of the demographic explosion. But politicians rarely think more than three years ahead. So they listened politely and did nothing of any significance.

The more forward thinking were genuinely exercised by the scale of the issues raised and tried hard to place the new old age on the agenda. More money and skilled person power was put into health and social services. Special housing took a higher prominence. In America the gathered might of the

30 million members of the American Association of Retired Persons along with the feisty interventions of Maggie Kuhn and her Gray Panthers created what Henry Pratt (1976) called 'the Gray Lobby'. In Europe older people's organisations have had less impact, not least because they presented no electoral threat. But as the recognition of a permanently changed world population structure dawned on those who make public policy, fortuitously the world economy went into decline.

In the uncertainty about how to behave two kinds of reaction emerged; one operational and the other rhetorical. The rhetoric declared a continuing commitment to older people, but one which had to be managed down because the financial and caring burden would be unmanageably great. Unrefined extrapolations of steeply rising pensions, housing, health and social care costs produced by actuaries and statisticians, fuelled a sense of political panic.

Observing the consequences for national exchequers and therefore for taxation levels, a new vocabulary of individual responsibility grew in resonance with political shifts to the right.

Within a remarkably short space of time it became one kind of received political wisdom that making your own provisions for health care costs and for income in later life was a freedom.

In practice it meant two things - privatisation of public services and cost-cutting. To bolster the logic we were told that the collectivism of state welfare undermined personal initiative. In its place we needed free market disciplines, entrepreneurship and the cost efficiency which results from competition.

It was not only the pressure from a developing global capital market wanting tighter control of national budget deficits, which militated against the variety of welfare states in Europe. As Esping Andersen's (1990) penetrating analysis revealed, the social class, labour market and public - private balance had so markedly changed in the post World War II period that existing welfare regimes had less popular support both from those who had paid for them - the growing middle class - and those who were the recipients of non-employment benefits. He argues persuasively that the growing middle class (which resulted from increased education and changes towards a post - industrial economy) was well disposed to the market model. Their disposable income was potentially increased and they were provided with more choice in ensuring the well-being of their own families.

Class factors are important variables in the shift of attitudes, but so too are greater and more successful participation by women in paid employment and the success of a layer of ethnic minority people in education and work based income. It is too simplistic to suggest, as some commentators have, that the overwhelming threat to retired populations is market economics.

We shall return to these other variables and the role they play. Nonetheless the rapid impact of New Right thinking on services and income to the old was substantial. Restraints have been placed on state pension levels; encouragement to join private pensions schemes have massively expanded the personal financial service sector, and direct services have both been out-sourced and reduced.

What began as a localised infection became an international epidemic. Demographically induced gerontophobia began to manifest itself on an inter-continental scale. In most of the countries in Europe 50% or more of hospital beds were occupied by elderly people in addition to the 5-9% of the

retired population resident in long stay accommodation. (Walker and 1997).

To address the need to reduce expenditure, community care policies were introduced. The twin benefits of care at home where older people preferred to be, along with a presumed cost-effectiveness, drove a policy which few countries resisted. A late entrant, Canada, in its statement Future Directions in Continuing Care (1992) expressed the policy thrust with great clarity.

“.....community based care should be the service of first option where appropriate: public and professional attitudes consistent with this should be fostered” and goes on to say “Continuing care should be to supplement or support, not replace, family and community caregiving”.

Then the economic imperative follows:

“Continuing care services should be developed to support the lowest cost alternative appropriate to the needs of the individual”.

In Europe the evidence for economic rationing of care services is unequivocal. The European Commission Observatory Report (1993) draws attention to the commonality of European policy concerns. It indicates there are 5 main issues:

- * To contain the heavy growth of health expenditure
- * To define policy priorities for the rapidly growing group of elderly persons
- * To provide adequate coverage for the growing need for long-term care
- * To re-organise long-term care
- * To introduce new incentives for the development of community care and informal care.

Overall community based services across Europe have grown over the past decade, particularly in Denmark, Greece and Germany. But in Belgium the policy of blocked budgets has seen provision reduced. In Britain the number of home helps fell 30% between 1976 and 1988. (Johnson, 1994). Similarly in the Irish Republic the reduction in long stay beds was not matched by the expansion of community care. The report from Italy stresses that about 15% of elderly people need home care but only about 1% receive it.

In New Zealand a further episode of cost cutting followed dramatic across the board cuts in a whole range of public services and social security benefits. Remarkably the example of decimating welfare budgets provided by this small country with a population the size of Madrid, which managed its affairs so badly it was virtually bankrupt, became a model to be admired and reproduced by previously mature nations. Such a willingness to implement untested, unevaluated policies because of their potential to reduce the call on the middle class tax-payer should disturb us all as citizens as well as in our role of gerontologists.

These twists and turns in public policy designed to achieve cost reduction now represent a set of dilemmas in all developed societies. We can see in the literature a series of shifts in the principal life domains of family; work; health; well-being and housing; and income.

To take the last first, we have seen concerted attempts to curtail and reduce expenditure on social security payments and pensions. It must be acknowledged that in this century there have been significant improvements in the financial position of retired people. But researchers still report unacceptable levels of old age poverty. (Midwinter 1997). As on so many other dimensions of old

age provision, the Netherlands has low levels of official poverty with 17% below the poverty line. But in Portugal and Spain, Perista (1992) estimates the proportion is over 50%; in Britain Walker estimates 28%; whilst pensioners in France and Germany can be described in Alber's (1993) words as 'living in relative affluence rather than in relative poverty'.

Whether the reaction is placed within the overtly inter-generational contest represented by the middle-aged, middle class American pressure group, Americans for Generational Equity, or in the framework of Esping Andersen's class/structural arguments, a hiatus can be observed in the willingness to further improve the financial lot of older people. Combined with the marked shift away from state to private pension it is possible to detect a re-formulation of the bond between generations (Johnson 1995) which now requires further examination.

INTO POST MODERN RETIREMENT

The analysis so far has raised many issues both for the political economy agenda and for public policy. But there is one central issue which has ramifications for all of the others - retirement.

Retirement from regular paid employment can be traced back in Europe to the middle of the nineteenth century when civil servants were eligible to retire on a small pension. It was not until later in the century when Bismarck introduced a national system in Germany that the currently recognisable system began to appear. Bismarck chose the age of 70 because by that stage most workers were genuinely old and unable or becoming unable to work. Today the average expectation of life in Northern Europe, for men is about 68 and women about 72. A hundred years ago it was more than

ten years less and fewer than 4% of the population lived beyond aged 65 (today that figure is about 17% - it will reach 20% by about 2020).

So retirement was originally designed only for employed men; in selected occupations and with minimal financial support. Moreover, it was both the expectation and the reality that the vast majority lived for only a short time and in poor health.

Most workers carried out manual tasks in unhygienic and unsafe work places; so that over a work life of over 50 years they become progressively more sick. Those who survived to 65 were likely to be exhausted. Young and Schuller (1991) put it graphically in their book Life After Work when they say:

‘Retirement was a kind of postscript to work which only had to be defined negatively The watch or clock that employers traditionally handed over to their retiring workers was a deceit. It symbolised the gift of the time that was now to be their own rather than the employers! But the new owner was going to wear out long before the watch’.

So throughout human history, until recent times almost everyone worked either until they died or until they were physically incapable of going on. Life after work was only for a few survivors and for them it was an ante-chamber to death.

When the Old Age Pensions Act was introduced in Britain in 1908, the age of 65 was adopted - as it was in most countries of Europe; though a few delayed until age 70. Again it was only selected occupations and only for men. In the inter-war years the retirement concept extended across the

developed world eventually embracing all occupations and abandoning the exclusion of women.

The post second world war era of welfare states exemplified by those in Scandinavia and Britain made retirement and adequate state pensions available to almost everyone. Yet in this early post war period elderly women were still seen in black clothing, virtually excluded from social life and treated as invalids. Indeed retirement, old age and dependency became virtually synonymous both in the public mind and in public policy.

As an evangelist for the full citizenship of old people, I am now acutely aware that the contemporary patterns of retirement - beneficial as they are - are unsustainable in their present forms. More to the point, the life of extended leisure presently experienced by growing numbers of retirees is not what was ever meant in earlier conceptions of intergenerational support to the old. Such a contract must rest upon a principled reinterpretation of what is equitable and what is deliverable.

There should be no doubt whatever that the rich nations of Europe and North America can more than adequately provide for all their citizens of all ages. They will have to open closed and buttressed doors like those of the immensely wealthy pension funds and re-examine inheritance practices, to release more of our collective assets. But developed nations can - and will - sustain the whole population without damaging the well-being of the young and middle aged.

The essential elements of the present system of basic state pensions and largely free health care can be funded so long as there is a constraining realism about the limits of the rights and the responsibilities which are integral to the contract. In health care it will be necessary to adopt more

sensible, but socially sanctioned, rationing on the basis of the probability of real health gain and for doctors to share the treatment functions with other health practitioners. Such practices might build on the analysis - if not the conclusions - of Daniel Callaghan (1987).

As for retirement as we have come to know it over the past two decades - it will have to be radically re-assessed. Developed societies cannot afford to forego the direct contribution of so large a segment of their adult populations. Between two and three decades of living outside of the mainstream of economic life is a breach of the contract. The commitment younger generations have inherited is to support those who cannot support themselves, not to provide an ever growing sabbatical in the third age.

By the same token, third age people will not tolerate exclusion from full citizenship. Nor will many of them be willing or able to exist economically on fixed and diminishing incomes.

The capacity to continue to earn income will become an imperative for many young old, both for current living and the avoidance of a penurious late life. So in re-thinking the generational contract it is essential that there is a reliable platform of services and pension provision for all. But the post-60 phase of life will need to be greatly more flexible in offering:

- Flexible retirement between 55 and 75
- New opportunities for job changes in mid and late career - possibly to lower paying jobs; but ones which can go on much later e.g. in the service sectors of industry and in the expanding realms of social and health care.
- The care of the old old is increasingly the responsibility of over 55's. Mechanisms need to be

found to include some of this in the formal economy.

- New generations must - as in earlier times - make provision for their own old age through a lifetime investment. I say this knowing all too well that there are structural inequalities which will make this difficult or impossible for some. It is properly within the Contract for just and non-stigmatising provision to be made for them.

These proposals demand more justification and elaboration than can be provided within the confines of this paper. However, some more developed rationale is necessary for the key points about flexible retirement and the extension of remunerated employment well beyond current retirement ages. At one level the notion is one of simple practicality. If societies are unable or unwilling to make adequate financial provision for the growing population of older people, those individuals must make greater provision for themselves. There are only three broad ways in which this can be done:

- (i) Greater lifetime investment in savings, investments and private pensions
- (ii) Increased intra-family transfers to the old
- (iii) Continued earnings from employment or business activities

The post second world war trend has already produced major increases in the capital assets (notably in owner-occupied housing) and occupational private pension provision of current pensioners. (Dahrendorf, 1995). Yet as Taverne (1995) and Townsend and Walker (1995) warn, these provisions alone will not enable substantial segments of future generations of retirees to maintain adequate income.

It can be safely predicted that at least half of current pensioners across Europe have enough financial provision to maintain themselves above accepted poverty standards and meet the costs of any long term care they need to pay for. Across the European Union countries the evidence suggests that this proportion of self-sustaining pensioners will increase modestly. But there will be a group of around one third who will either run out of savings or face major care costs beyond state provision, for which they cannot pay.

It is inevitable that the practices of the past 25 years of enforcing early retirement will create a cohort of impoverished older people, who may have up to 40 years of living without earned income. Such a group will present a mixture of financial, social, health and psychological pathologies which will wholly negate the 'savings' made by their enforced exit from the work force. Both these individuals and the many others with little or no old age provision (notably those who have run modest small businesses) will find it imperative to earn money from economic activity.

In his volume The End of Work Jeremy Rifkin (1995) argues that computerisation and automation will diminish the need for labour altogether; producing even higher levels of unemployment. But his focus is only on the industrial, manufacturing and commercial sector of the formal economy. What he ignores is the growing need for human services; not least for the very old. However there will need to be an even greater development of such services as some parts of family care - currently unpaid - become commodified. Whilst the evidence for continued commitment by families to supporting all those who are sick, vulnerable or disabled remains strong throughout the developed world (Kosberg 1992, Wellman 1989, 1992). Even cohort studies which encompass multiple generations with extensive marital breakdown reveal sustained intergenerational support. (Bengtson

and Harootyan, 1994). Nonetheless, the twin pressures of family over-commitment and the need of older individuals to earn money will induce the creation of a new market in home based 'in situ' care which will provide one medium for the young old to increase their personal incomes.

Caring services for the very old will not be the only area of unremunerated activity to move into the economic sphere. Child care, leisure, domestic work, counselling and other non-medical therapies could all provide opportunities for those who wish to or must have gainful work beyond 65.

Contemporary thinking about employment and labour markets takes the view that opportunities for paid employment will diminish and this alone invalidates any claim by older people to remain longer in the workforce. Yet if Charles Handy (1985) is right about the changing patterns of work there will be a greater diversity of jobs and more possibility for older workers to take up part-time work on a flexible basis. Certainly, the transformation of unpaid tasks into remunerated work and the inclusion of more people in the paid economy will be on the international agenda. One increasing driving force will be the pressure from people in the 55 to 75 age band to avoid alienation and poverty.

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