

The Aging Workforce and the Next Turning Point

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As we shift from the twentieth to the twenty-first century, the baby boom of the former is now becoming an aging population in the latter. Aged boomers will cause the next turning point in the employment relationship and related social policy.

Turning Point I: The 1930s

Before the 1930s, the American economy was laissez-faire in character. The Depression, however, produced a turning point in the employment relationship. Moves toward government intervention and unionization resulted in mutual reinforcement. Public policy supported unionization; unions supported a wider government role in the economy.

Demographics played a role in creating new institutions in the 1930s. Elderly assistance had previously been the responsibility of local authorities and private charities. For men, working until health or death forced an end to such activity was common. But the Depression made work unavailable and families, localities, and charities much less able to care for elderly persons.

The result was the formation of what was termed an "army of the aged" that sought government pensions. Mainstream history points to Social Security as the response to the elderly. Yet even when enacted, Social Security did not

pay benefits until the 1940s, and many elderly were ineligible. In fact, the army of the aged backed radical schemes such as the federal Townsend Plan, inadvertently providing Roosevelt's Social Security proposal with a critical margin of support.¹ California, home of Townsendite agitation, saw the rise of "Ham and Eggs" and other wacky movements aimed at harnessing electoral strength of elderly voters behind state-level pension plans.²

Postwar America saw a new employment relationship centered on collective bargaining in major industries. Government provided social insurance for *non*-workers, for example, Social Security pensions for retirees. Welfare capitalism revived with government tax subsidies. Employers provided health insurance and pensions to be paid on top of the Social Security entitlement. Workers could win benefits through bargaining or employers might choose to provide them. For workplaces where neither bargaining nor employer beneficence prevailed, government set minimum wages and limited labor standards.

Turning Point II: The 1980s

The 1980s began with a severe slump that pushed unemployment above 10 percent. Union representation declined by 3.1 million workers between 1980 and 1985, and concession bargaining

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blossomed. Wages were frozen or cut at many union workplaces. De-unionization was pursued. Other aspects of the postwar employee relationship began to crumble, too. Contingent work grew, and job-based health care and defined-benefit pensions slipped. Much rhetoric circulated about workers managing their own careers, saving for their own retirements, and being responsible for themselves. Security was said to be outmoded, and job tenure of older male workers dipped. A mild recession in the early 1990s produced layoffs among managers and professionals.

Although the prevailing view was that the labor market had become more "competitive" by the 1990s, there was a puzzling element in pay determination. In the late 1990s, a notable drop in unemployment occurred as part of the Internet/stock market boom. Employers around the country complained of labor shortages and not just for high-tech employees. Construction workers, truck drivers, and restaurant personnel were all said to be in short supply.³ In truly competitive markets (e.g., gold futures, pork bellies), shortages bring about sharp price rises. Surely, in a competitive labor market, a wage explosion should have occurred in the late 1990s, but it did not. Employer power retarded upward wage responsiveness.

The Coordinated Labor Market

The United States has relatively decentralized labor market institutions. Yet the American labor market has certain propensities for coordination. In a formal sense, postwar pattern bargaining produced imitation across certain union set-



"By the way, Sam, as someday you'll be paying for my entitlements, I'd like to thank you in advance."

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tlements. But informally, wage and personnel practice norms spread wider, spilling over from the union to the nonunion sector. Providing health insurance and adjusting wages for inflation—even during recessions—were examples of such norms. Norms were reinforced through government action, for example, tax-favored treatment of "fringes," timely publication of the CPI so that wage setters could respond. The Depression experience fostered a loose "employee cartel," activated through unions and government action and coordinated through imitation. But like OPEC and other cartels, the employee cartel could overreach. And it did in the 1970s when the union/nonunion wage premium was pushed up in the face of adverse market conditions, setting the stage for the second turning point.

American employers, too, can behave as an informal cartel. Through trade associations, personnel publications, management consultants, and the popu-

lar press, they discover and imitate what other employers are doing. At times employers, too, can harness government action. Business-friendly think tanks foster ideas about deregulating the labor market. Columnists and TV talking heads push the idea that old postwar employment norms are dead. They popularize the idea that employees should manage their own careers and not expect security or benefits from employers. As these ideas circulate, employers are cued to act, implementing the new norms. No conspiracy is implied, just imitation and "benchmarking."

It is not surprising that the 1980s should have seen the ascendancy of employer power. The cost to employers of providing job security had risen. By the 1980s, uncertainty over economic conditions such as inflation and exchange rates was greater than before.⁴ Profit variability was also rising, in part because of the marked shift to debt finance.⁵ Product market deregulation in key sectors made the outlook there more uncertain from the employer perspective. The postwar deal became increasingly costly.

To summarize, the twentieth century saw jockeying between *de facto* employer and employee cartels. Starting in the

Table 1: Labor's Percentage Share of Corporate National Income

1929	74.5%	1979	82.3%
1949	76.6%	1989	81.8%
1959	78.1%	2000	79.6%
1969	80.3%		

Source: U.S. Bureau of Economic Analysis

1930s, the employee side exercised power through unions and favorable government regulation. As Table 1 suggests, once strengthened by the Depression experience, employees managed to increase their share of the corporate pie through the 1970s. Thereafter, the employer side weakened unions, countered government regulation, and attenuated commitments entailed in postwar employment norms. Table 1 suggests that employers checked employee power during the 1980s and rolled it back in the 1990s. But this employer success will collide with demographics.

Demographics of the Twenty-First Century

As the boomers move through the labor force and into retirement, they will pose two problems. As aging workers, they will want job security, a commitment from which employers have sought to escape. As retirees, they will want adequate income and health care, demands that require diverting consumption from younger workers.

If employers persist in pushing their current advantage, they will soon meet resistance from the aging boomer workforce. Although some resistance might take the form of union revival, it is much more likely to take political and legal shape. Left/right political leanings of boomers concerning other socioeconomic issues may not be determinative. Neither liberals nor conservatives want to be laid off. Neither wish to have their health care denied or rationed. Neither wants practices at work that threaten mortgages, junior's college tuition, or support of elderly parents. Glimmers of resistance can already be seen in legislative battles over health care and litigation over "cash balance" pension plans. Look for matters related to age discrimination and job-based pensions and health care to be future issues of choice for litigants, Congress, and state legislatures.

And what happens when the boomers

retire? Who will provide resources for their consumption, health needs, or long-term care? None of the current proposals to "privatize" Social Security do much to enlarge the economic pie in, say, 2030. They mainly restructure the way in which consumption tickets are provided to retirees. If the individual accounts that such proposals entail provide boomers with more retirement income than they would have obtained from the present system, there will be less of the pie available for active workers. That real-wage squeeze—however it occurs—could well trigger employee dissatisfaction aimed at employers. If the accounts do not pay off, the boomers will feel cheated. A new army of the aged of the twenty-first century will push for legal and legislative remedies regarding employer pensions and whatever Social Security has become. As in the 1930s, the elderly will become a third force, along with employees and employers, demanding a share of the economic pie. Unless the "new economy" provides so much prosperity that everyone will be satisfied—an increasingly dubious proposition—the 2030s may well be as exciting as the 1930s.⁶

NOTES

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1. The Townsend Plan promised persons over sixty \$200 a month if they did not work (leaving jobs for the young) and spent every penny during the month (stimulating the economy). At the time, \$200 a month (\$400 per couple) was an enormous sum.
2. See Daniel J. B. Mitchell, *Pensions, Politics, and the Elderly: Historic Social Movements and Their Lessons for Our Aging Society* (Armonk, N.Y.: M. E. Sharpe, 2000). The Ham and Eggs proposition on the California ballot in 1938 and 1939 offered those over age fifty "\$30 Every Thursday" to be paid in a new California currency. As in the Townsend proposal, recipients were

forbidden to work. Pensionite movements in California, an elderly state at the time, roiled state politics in the 1930s and 1940s. Related movements developed in other parts of the country, such as Colorado and Ohio, also elderly states.

3. In 1995, the number of Nexis/Lexis media citations in the Midwest, Northeast, Southeast, and West were, respectively, 211, 52, 124, and 106. In 2000, the figures were 610, 566, 525, and 545.
4. The standard deviation of GDP price index inflation over the prior ten years had fallen below 1 percent by the early 1960s. By the mid-1980s, it was about 2.5 percent. The standard deviation of the percentage share of before-tax profits in corporate national income over the prior ten years rose from 2 percent or less in the 1960s to about 4 percent in the mid-1980s.
5. Net interest as a percentage of capital's share of corporate national income was essentially zero until the mid-1960s. By the 1980s, it varied within the 20–30 percent range.
6. Foreign equivalents of the baby boom have been accumulating claims on the United States thanks to large American net export deficits. Thus, active American workers will be supporting both foreign and domestic boomers.



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