

# THE POLITICAL ECONOMY OF AGING

*The State, Private Power  
and Social Welfare*

LAURA KATZ OLSON

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The Political Economy of Aging  
*The State, Private Power, and Social Welfare*

*For My Mother,  
Dorothy Zager Katz*

## Preface

**S**arah Cohen, an eighty-three-year-old widow, has lived in her now deteriorating inner-city apartment for over forty years. She has no assets left; her sole source of income, Social Security, barely covers rent, electricity, food, and some winter clothing. Despite her poverty and chronic disabilities, she has managed to survive without public aid. Although her landlord has not repaired the building in years, and often fails to supply adequate heat, Sarah is grateful that the apartment is rent controlled. She has not been told yet that the landlord intends to convert the building into luxury apartments, assisted through city and federal tax benefit programs. She will not be able to find a new dwelling at a rent she can afford. Sarah Cohen will be forced into a nursing home.

PUBLIC OFFICIALS, BANKERS, DEVELOPERS, AND LANDLORDS ARE  
"REVITALIZING" THE CITY.

Alice Bartell, eighty years old, stares vacantly from her wheelchair parked against the wall of Tannerville nursing home. After two years of twice daily doses of tranquilizers and other drugs, she is not a demanding patient. Although a physician regularly bills the government for his visits to the home, she has not had an examination in over a year. She does not know that the lethargy, dizziness, and tremors she experiences are side effects of large doses of medication she may not actually need, or that her poor eating habits stem from a lack of proper dental care; she needs dentures. She is also unaware that Tannerville, like many nursing homes in the country, has major violations of health and fire safety codes. Alice Bartell entered the home as a private pay resident but the

\$16,000 annual cost has depleted her small savings account; she is now supported through Medicaid.

#### NURSING HOMES ARE A GOOD INVESTMENT.

Donald and Mary Simmons had achieved the American Dream—their own home. Five years ago the couple sent the final mortgage payment on their \$50,000 home to the bank. Except for two lengthy periods, Donald had worked steadily for over forty years at a series of low-paid jobs. However, at the age of fifty-nine, he was unemployed and in poor health. Unable to obtain work, and having exhausted his unemployment benefits and savings, he and his wife applied for Social Security as soon as they became eligible. There was an actuarial reduction of over 20 percent on their combined benefits since Donald “chose” early retirement, leaving the couple with \$5,300 per year. Donald had been covered under several private retirement plans but never long enough to become vested in any of them.

Since Donald’s “retirement,” the couple has not been able to afford the rising property taxes or badly needed repairs on their house. They also face mounting heating bills which last year totaled over \$600. Donald and Mary Simmons must sell their home.

#### OIL COMPANIES ACHIEVE RECORD-BREAKING PROFITS.

Robert Jones, seventy years old, has just retired from the presidency of a major company. He will receive over \$300,000 annually from his stocks, bonds, savings, private pension plan, and special company bonuses. Since he is over fifty-five, most of the assets from the recent sale of his \$180,000 home are tax-exempt. He also is entitled to the double exemption on his federal income taxes, and he does not pay any taxes on the couple’s \$14,000 annual Social Security benefits. He and his wife are looking forward to spending their retirement years on their newly purchased Florida estate.

ROBERT JONES IS CONCERNED ABOUT THE FINANCIAL HEALTH OF THE SOCIAL SECURITY SYSTEM; HE STRONGLY SUPPORTS COST-CUTTING MEASURES, INCLUDING LOWER BENEFITS FOR EARLY RETIREMENT, AN INCREASE IN THE AGE OF ELIGIBILITY FOR FULL PENSIONS, AND ELIMINATION OF THE MINIMUM BENEFIT.

This book is about growing old under capitalism.

Since the late 1970s, the media, political leaders, social scientists, and others have argued increasingly that American society is spending excessive amounts of its "scarce" public funds on the elderly, contributing both to the overall fiscal crisis and to the critical status of particular programs such as Social Security, Medicare, and Medicaid. At the same time, these sources provide us with compelling evidence on the social ills burdening growing numbers of older people.

My aim in this book is to uncover some of the structural causes of the current crisis in old age policies and programs, and to explore the reasons why a large percentage of the elderly continue to suffer from inadequate retirement income, housing, medical care, and other services, despite vast resources ostensibly committed on their behalf. I also study changes in the political, social, and economic order in the United States, and the deleterious effects of these changes on the elderly population.

My work in public policy over the last several years, and on aging issues in particular, has forced me to conclude that liberal reforms popular among gerontologists, no matter how well intentioned, are ineffectual tools for adequately solving problems faced by the elderly. Unquestionably, such solutions do ease some of their burdens. However, given the constraints of American capitalism, liberal remedies treat only the symptoms rather than fundamental causes of specific problems, generating new ones either for older people, other needy groups, or the economy as a whole. They also tend to enrich service providers, with only limited benefits trickling down to impoverished groups. On the other hand, conservative reforms, such as those proposed and enacted under the Reagan administration, have curtailed the already inadequate relief measures available to the elderly poor, thereby fostering even greater deprivation than had existed previously. The conservative approach also turns solutions over to the same private market forces that have created, and continue to create the social problems of old age.

I contend that the situation of disadvantaged sectors of the older population stems from market and class relationships, along with racist and sexist institutions, that negatively affect workers and families, to varying degrees, throughout their life cycle. Such forces engender even more oppressive conditions during old age. I further



argue that American capitalist institutions are not only inherently incapable of meeting the needs of older people, but also that they have fostered many of the problems commonly associated with aging in the United States.

If this book provokes a challenge to basic assumptions underlying aging issues and policies, and encourages greater recognition of factors linking the interests of younger workers with those of older people, it will have served its purpose.

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## *Chapter 1*

# The Aging Population Today and Tomorrow

**E**vidently, the American political economy has generated prodigious goods, services, and wealth. Equally clearly, increasing economic inequality, social deprivation, and unemployment coexist with growing affluence, and commodities produced exclusively for profit, despite their abundance, fail wholly to fulfill authentic human needs. The genesis and persistence of a sizable impoverished elderly population, and the multifaceted problems associated with its lack of an adequate income, exemplify dramatically major contradictions of capitalist development as well as demonstrate the inability of a market economy to respond adequately to pressing social needs.

American society abounds with serious problems affecting the elderly. Meager retirement incomes, dilapidated but expensive housing, escalating medical costs coupled with insufficient services and facilities, a paucity of social services in general, and high unemployment confront large numbers of older people.

It is my purpose in this book to examine age-based social programs and to explain why they have failed to solve the problems of the elderly despite the receipt of vast and increasing amounts of the nation's monetary resources. Neither the development of public policies for the elderly nor the allocation of immense resources for their needs has substantially improved the relative position of older people, particularly the most disadvantaged. I ask why pressing problems of income, housing, nursing homes, health care, and social services persist and have, in fact, intensified during the last several decades. These problems have proven highly resistant to amelioration through public policy measures. The most

serious problem faced by the vast majority of the aged is lack of adequate income. Income levels of all people, including the elderly, are inextricably tied to all other aspects of their well-being.

In my view, the persistence of problems associated with old age is a consequence of policy initiatives that fail to alter existing institutional arrangements and fail as well to redistribute power, income, and wealth in society. I shall argue that the principal barriers to change lie in the nature of capitalism itself. The political institutions that serve the market economy and its dominant interests preserve existing social values and distributions of power, privileges, and resources. Not only is poverty among large segments of the elderly population socially determined, but also their relative material and social deprivation arises from relationships of domination and subordination, power and privilege, dependency and autonomy, fostered by American political and economic structures. Alternative policy solutions for aiding the elderly have been circumscribed by institutional and ideological boundaries that prevent alterations in the basic class relations defining the political economy. I suggest that current age-based legislation tends to perpetuate and reinforce preretirement inequalities of income, wealth, and social benefits among the aged. This legislation also diverts resources and services from the disadvantaged younger population to older people, particularly better-off households. Finally, it benefits primarily entrenched private interests at the expense of both the working class and the low-income elderly population. Age-based classifications obscure class division within society and generate distorted perceptions of what has been and can be accomplished.

I assume that most gerontologists, and other policy analysts studying the aged, while adept at cataloguing and describing the multitude of urgent issues facing the elderly, fail to identify the roots of social ailments and the limits to reform imposed by existing political, social, and economic institutions. As Alford astutely concludes, in his study of health care in the United States:

The expansion of health insurance and the extension of federal funds to cover health costs for the poor and the elderly can be regarded as real and important, and yet one can still argue that health institutions have not changed and that the barriers to change vitiate those reforms. . . . More generally, reforms such as Medicaid have certain short-term benefits, but do not con-

stitute significant institutional change, since the additional funding they provide simply feeds into increased costs and soon leads to cutbacks of services and payments.<sup>1</sup>

Similarly, other public programs focusing on the elderly population have no substantial impact on the existing maldistribution of benefits in society. Social policies that attempt to address the pressing needs of older people through an accommodation to current political, social, and economic practices will fail ultimately to achieve the desired goals.

### AN ISSUE TO BE FACED: CURRENT PUBLIC POLICIES

Although myriad problems have afflicted the elderly for decades, the plight of older people has been, for the most part, invisible until recently. "Crisis" situations affecting the aged and the institutions serving them have erupted intermittently since the 1930s. During the last several decades these have occurred with increased frequency and intensity. Potential insolvency of the Social Security system, vastly insufficient assets to meet state and local pension obligations, corrupt financial administration of some union retirement trusts, periodic bankruptcy of companies and consequently their pension systems, Medicaid/Medicare fraud scandals, and exposures of unscrupulous nursing home operators are among many such crises.

An admixture of declining birth rates, increasing longevity, and a diminishing number of workers relative to the dependent elderly population has broadened the scope as well as highlighted the visibility of economic and social problems associated with old age in the United States. The 65-and-over population has grown dramatically not only in absolute numbers but also as a percentage of the population. In 1900, older Americans totaled 3.1 million people, representing only 4 percent of the population. By 1950, the percentage of elderly had doubled, had grown steadily to 9 percent in 1960, and had reached 11.3 percent by 1981. Currently, over 25 million Americans are sixty-five and over. Projections, varying with a number of factors, particularly fertility rates, indicate that the percentage of older people will soar anywhere from 14 to 22 percent

by 2030. That year, perhaps 55 million Americans will be sixty-five and over.<sup>2</sup> At the same time, life expectancy at age sixty-five has increased from 11.9 years to 16.7 years between 1900 and 1981.

The burgeoning of the older population has been coupled with *declining economic independence*. In the early 1900s, nearly two-thirds of the men aged sixty-five years and over were active in the labor force; most men lived only a few years after they became unable to continue working. The number of dependent elderly, such as the blind, disabled, and widowed, was relatively small. Although the percentage of older females in the labor force has *remained relatively constant, at slightly less than 10 percent, since 1950*, substantial numbers of older males have withdrawn from the labor market at increasingly earlier ages. While in 1950 46 percent of those sixty-five and over were still in the labor force, this figure steadily decreased to 33 percent, 27 percent, and 19 percent by 1960, 1970, and 1981, respectively.<sup>3</sup> The labor force participation rate of men aged fifty-five to sixty-four dropped from 83 percent in 1970 to 73 percent in 1979 and to 70 percent at the end of 1981. According to a recent study, the major cause of such changes in very early retirement is "chronic unemployment."<sup>4</sup> Most older workers, moreover, have only part-time or low paying jobs.

These trends, fostered through public and private policies, have created a number of serious "crises" for both society in general and the elderly in particular. Increasing numbers of dependent older people have placed substantial strains on the Social Security trust, other retirement programs, and health care delivery systems, all of which are supported, for the most part, directly by the working population. For every ten workers aged twenty to fifty-nine in 1977 there were approximately three nonworkers aged sixty and over.<sup>5</sup> Projections suggest that the ratio of taxpayers to beneficiaries of Social Security will drop from 3.2:1 in 1981 to 2:1 in the 2030s.<sup>6</sup>

Crisis politics has thrust problems related to aging and retirement to the forefront of public policy concerns. During the 1960s and 1970s it prompted political support for a broad variety of legislation and substantial funding commitments. Wide-reaching social policies at the national level attempted to respond to these crises and to ameliorate their impact. Estes has estimated that there are at present approximately eighty separate federal programs that directly or indirectly affect older people.<sup>7</sup> Undoubtedly, both de-

mographic changes and the proliferation of age-based pressure groups expedited recognition of and response to the elderly's plight.

Over the last several decades, Congress substantially strengthened the Social Security Act of 1935, which provided for a public system of retirement income. Amendments expanded coverage to nearly all working people; added survivor and disability benefits; increased payroll tax rates and the wage base on which they are calculated; lowered the age of eligibility; increased real benefit levels; and established automatic cost-of-living adjustments. The Old Age Assistance program, administered by the states, was replaced in 1972 by the Supplementary Security Income Program (SSI), the latter providing a national minimum income level for the indigent elderly.

During the 1960s, Congress instituted a system of health insurance for the aged under Medicare. The enactment of Medicaid made funds for health care services more readily available to the economically disadvantaged population, including the elderly poor, than previously. The Older Americans Act (OAA) of 1965 and subsequent amendments focused on community services and nutritional needs of the 60-and-over population. In 1967 the Age Discrimination in Employment Act prohibited discrimination in hiring, job retention, compensation, and other conditions of employment for those aged forty to sixty-five, and a 1978 amendment extended the protected age to seventy. The Employee Retirement Income Security Act (ERISA) of 1974 attempted to provide greater income security for private sector workers by liberalizing vesting requirements, requiring employers to provide information on retirement trusts and future benefit levels, and establishing the Guaranty Benefit Corporation to insure private systems against bankruptcy. Other legislation, such as the National Housing acts, Food Stamp program, and title XX of the Social Security Act (social services for the poor), provide benefits for older people as well as other needy groups.

As the Federal Council on Aging recently noted: "Without exception, the elderly are treated preferentially at all income levels by the Federal income tax structure."<sup>8</sup> Special provisions for the aged, which will be discussed in the next section, include exclusion of Social Security (and railroad retirement) benefits from taxation, the double exemption, and the retirement income credit. In addi-

tion, contributions to, and the accumulated assets of, private sector retirement trusts are exempt from taxation.

The executive branch and Congress also created a number of agencies to respond to the specific needs of the elderly. These include the Administration on Aging, Federal Council on Aging, Senate Special Committee on Aging, and House Select Committee on Aging. The first national conference on aging in 1950, and subsequent White House Conferences in 1961, 1971, and 1981 are additional indications of national attention to older people.

### DIMENSIONS OF FEDERAL EXPENDITURES

Age-based programs have entailed the mobilization of significant and rapidly increasing resources for the elderly. As table 1 demonstrates, total federal outlays for income maintenance devoted exclusively to the 65-and-over population in 1980 included approximately \$98.3 billion in cash benefits, \$41.3 billion in in-kind benefits and \$0.9 billion in social services and employment benefits, totaling \$140.5 billion. This figure represents about 25 percent of the total national budget accruing to an age group that accounts for 11.3 percent of the population. Estimates for 1981 indicate that these expenses have increased to \$162.8 billion, 26 percent of the national budget. This percentage of federal outlays for the elderly has nearly doubled since 1960; in that year older people represented only 13 percent of total national expenditures. An analysis of future changes by James R. Storey shows that "if one simply projects these current programs and assumes that overall Federal spending returns to the 'historic' level of 20 percent of gross national product (it is at 22.5 percent), then the elderly's share of the Federal budget will rise slowly during this century to 32 percent, then leap upward by another 10 percentage points in the next 15 years, and soar to 63 percent by 2025."<sup>9</sup>

Programs supported directly by the working class through payroll taxes account for the bulk of national expenditures for the elderly. Nearly 57 percent of federal outlays for older people in 1980 were allocated to Social Security benefits alone (\$79.9 billion), and Medicare represented an additional 21 percent (\$30 billion). In fact, increases in Social Security and Medicare outlays over the last fifteen years have accounted for most of the growth in federal fund-



**Table 1.** Federal Outlays for Income Maintenance, Social Services, and Employment Programs for the Sixty-five and Over Population (\$ billion)

<i>Program</i>	<i>1980 estimate</i>	<i>1981 estimate</i>
Cash Benefits		
Social Security (OASDI)	79.9	94.5
Other retired, disabled, and survivors benefits <sup>a</sup>	13.5	15.2
Veterans compensation and pensions	3.1	3.4
Supplementary Income Security (SSI)	1.8	2.0
Subtotal: Cash Benefit Outlays	<u>98.3</u>	<u>115.1</u>
In-Kind Benefits		
Medicare	30.0	33.7
Medicaid	4.8	5.5
Other federal health programs <sup>b</sup>	2.0	2.1
Food stamps	.7	.8
Subsidized public housing	2.1	2.6
Section 202 Elderly Housing Loans	.7	.7
Other	1.0	1.2
Subtotal: In-Kind Benefit Outlays	<u>41.3</u>	<u>46.6</u>
Social Services and Employment		
Administration on Aging (AoA) Programs	.6	.7
Action Older Americans Volunteer programs	.1	.1
Senior Community Service Employment Program and CETA older workers Initiative	.2	.3
Subtotal: Social Services and Employment Outlays	<u>.9</u>	<u>1.1</u>
Total Outlays	<u>140.5</u>	<u>162.8</u>
Total U.S. Budget Outlays	564.0	616.0
Total Outlays for Sixty-five and Over Population as Percent of U.S. Budget	24.9%	26.4%

SOURCE: Office of Management and Budget, in Federal Council on the Aging, *Toward More Effective Implementation of the Older Americans Act*, Staff Report, Washington, D.C., April 1981, p. 43.

<sup>a</sup> Includes the Federal Employee Retirement System, Uniformed Services Retirement System, and the Railroad Retirement System.

<sup>b</sup> Includes health programs administered by the Department of Health and Human Services (DHHS), and Veterans' Administration (VA).