Supporting our Elders and Youngers

Keith Rankin, 8 November 2014

On Sunday I participated in Radio NZ's 'NZ2030' Sunday Morning feature. In the twitter feed I got one very negative comment, and one quite positive.

> Keith Rankin is batshit crazy. My generation not going to sacrifice lifestyle to subsidize asset rich boomers.
>
> Bravo Keith Rankin! 1st sensible thing I've heard from an economist for decades!

I would like to think there was a range of comments in between, but that was it basically. (The programme competed with the All Blacks.) The young panellists were not very positive to my view. To them, it would seem, universal welfare makes about as much sense as travelling to the moon and back. Something loopy from the 1960s.

My approach to the issue is to emphasise the economic view which is completely different from the financial view. (The guy who thinks I'm crazy is very much a person who earns his living in the finance sector, and has a definite 'money is wealth' view of the world that's associated with the finance industry; a view diametrically opposite from the 'goods and services' as wealth view held by economists.)

(In relation to the supportive tweet – thankyou – I would note that many economists wear more than one hat, which is why some economists sometimes sound like their finance-sector employers.)

The financial view is that money is like acorns or jars of preserved fruit, and that saving for retirement is akin to creating a stash or hoard of money that can be drawn down in old age, drawing on that stash when you are too decrepit to continue gathering and preserving. (This concept of work is akin to the gathering of acorns or fruit, and the concept of saving is of putting aside some of those acorns 'for the future' or of preserving some of that fruit.) In the financial view, those stashes are our wealth.

The economic view is that we have resources, one of which is paid labour, which are employed to produce the goods and services that constitute our economic wealth. The resource of paid labour – we tend to emphasise paid over unpaid labour – is a 'labour force' that is itself drawn from a segment of the population that we call 'working-age'.

The International Labour Organisation's definition of working age is 15+, end of story. Thus, officially, a 111-year-old is of working age. For practical policy concerns however, we tend to start at the school leaving age (now 16, formerly 15) and finish at the age of entitlement to a public pension, or the age of entitlement to draw on a retirement fund such as Kiwi-Saver (65).

For historical analysis, going back to 1938, we can think of 15 to 65 as 'working age'. However age boundaries have become increasingly fuzzy. Some people don't enter the fulltime labour force until their mid-twenties. And retirement is better thought of as a phased process that occurs when people are aged between 60 and 70. Thus the labour force is really a very elastic resource, even more so, historically, when we consider gender as well as age.

Precedents

In the 1960s and 1970s, the most elastic variable in the labour force was gender. Now it is age. Thanks to this elasticity, the labour force will cope with the demands placed on it, unless today's young become structurally unemployed, as many of them are in Europe. Universal pensions at 65 enhance that elasticity, by not penalising older people who would rather be productive outside the paid workforce than within it, but may be encouraged to participate in paid work by not facing prohibitive effective marginal tax rates. My maternal grandfather, a railway worker, was pensioned off during the Great Depression when he was in his late 40s. He was subsequently re-employed and worked until he was over 70, while also receiving universal superannuation, the precedent of New Zealand Superannuation.

In the 1950s and 1960s New Zealand had a dependency ratio far higher than in any era that preceded it, and somewhat higher than what New Zealand will face in the 2030s, even if our life expectancy continues to rise in the face of inequality and ineffective antibiotics. (Richard Wilkinson and Kate Pickett's work suggests that increasing inequality will be associated with increased premature mortality. Everything that I see tells me that inequality will get worse before it gets better.)

In 1956 the baby boomers of the 1870s and 1880s were aged 65-85. I have strong memories of great-aunts and great uncles born in the 1880s. There were many others from that generation who I never met, on other sides of the family, who were very much alive in 1956. (Indeed the sprightly but really old dude I remember at the top of Ocean Road in Paekakariki I understand was born in the late 1860s.)

In 1956 the post-war baby-boom was at its peak. As well as old people, New Zealand had Humber-loads-full of children, working dads, and very much fulltime (unpaid) mums.

There was also another group of pensioners: war pensioners. The main group of men and women who served in World War 1 were born in the early 1890s. In 1956 the survivors, including those who never fully recovered, were aged 60-65, still a working age cohort. Then there was the WW2 generation, which sustained losses of men, and of many women who went to America.

There was also an unusually small generation born in the early 1930s, the years of the Great Depression. Many children were not conceived then; others were aborted. Others suffered from poverty-associated life-long conditions such as rheumatic fever.

In terms of our concerns today, the demographics of New Zealand in the 1950s and 1960s were as close as you could get to a 'perfect storm'. And, yes, in the late 1930s there were debates about the coming demographic problem. But with World War Two, more pressing worries took hold. (The next demographic perfect storm will be China in 2040! That's where Filipino nurses and age-care workers will go then.)

Looking back, do we see the 1950s and 1960s as an era of economic crisis that we just struggled through? Hardly. On the contrary, not only did we support all our dependents with a dignity that was the antithesis of the humiliations many faced in the early 1930s, we also constructed much of the public infrastructure that we still depend upon today. The secret of the 1950s and 1960s was that our ***young*** men were fully employed and valued, and those young men then continued to be productive throughout their working lives. (In 1966, young wen's wages were nearly as high as their fathers'; a little remarked upon historical oddity.) Then they – sometimes known as the 'builders' who preceded the 'boomers' – retired in their sixties, along with their wives who re-entered the labour force while in their forties (after brief stints of paid work before marriage). In their early retirements they manned and womened the not-for-profit sector; a sector that remains a critical (if creaking) part of our social infrastructure.

Nobody is suggesting that we seek to recreate a carbon-copy of the 1950s. But if we think about the achievements of the labour force during that perfect storm, we must look back in wonder; we must wonder what on earth we are worried about today. (We might note that Japan in the 2010s is already in the state we expect to be in in the late 2020s. It has perhaps the most equal distribution of income in the world, it has public debt at 230% of GDP [compared to our puny 36%], an AA credit-rating like us, and all sorts of public infrastructure projects on the go. It's a modern post-industrial society; not a basket-case.)

Today's 'debate' is not really about the 2030s. It's about justifying and extending today's neoliberal practices that created the immense inequalities of income and financial wealth that we now 'enjoy'. (Refer to Fred Hirsch's 1977 book, *The Social Limits to Growth*, to understand much about today.)

References for an earlier blog on Labour's Superannuation policy, and for Radio New Zealand:
http://thedailyblog.co.nz/2014/08/29/labour-and-new-zealand-superannuation/
http://www.radionz.co.nz/national/programmes/sunday/audio/20155618/nz-2030-a-panel-discussion
http://thewireless.co.nz/themes/change/saving-for-the-silver-tsunami