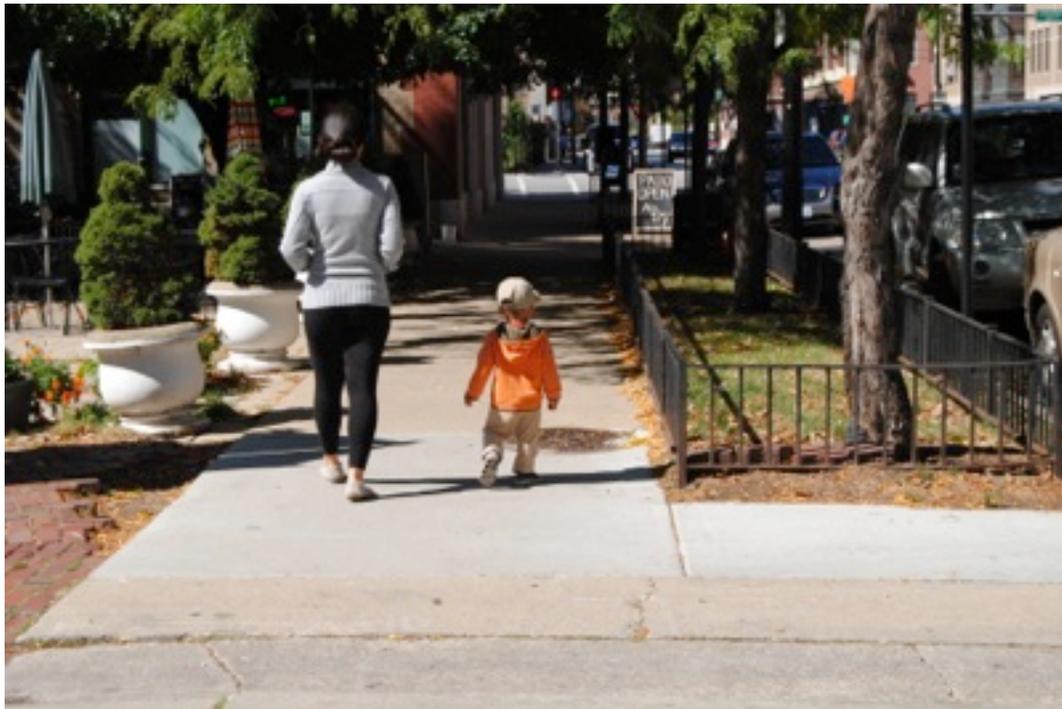


INTERGENERATIONAL COHESION AND THE SOCIAL COMPACT



POLICY BACKGROUNDER
November 2012

MacArthur
Foundation

The MacArthur Foundation Network on an Aging Society brings together scholars who are conducting a broad-based analysis of how to help the nation prepare for the challenges and opportunities posed by an aging society. Research focuses on how major societal institutions, including retirement, housing and labor markets, government and families, will have to change to support the emergence of a productive, equitable aging society. www.agingsocietynetwork.org

Network members

Director: John Rowe
Columbia University
Mailman School of Public Health

Toni Antonucci
Institute for Social Research
University of Michigan

Lisa Berkman
Harvard University
School of Public Health

Axel Boersch-Supan
Director, Munich Center for the
Economics of Aging
Max-Planck-Institute for Social Law
and Social Policy

Laura Carstensen
Stanford University, Center on
Longevity

Linda Fried
Dean, Mailman School of Public
Health, Columbia University

Frank Furstenberg
University of Pennsylvania,
Department of Sociology & Population
Studies Center

Dana P. Goldman
Director, Leonard D. Schaeffer Center
for Health Policy and Economics
University of Southern California

James Jackson
University of Michigan
Institute for Social Research

Martin Kohli
Visiting Scholar, Dept. of Demography
University of California, Berkeley

S. Jay Olshansky
University of Illinois at Chicago
School of Public Health

John Rother
President and CEO
National Coalition on Health Care

For supporting evidence and deeper background on the issues raised in this brief, see the accompany Network on Aging backgrounder, “Intergenerational Cohesion and the Social Compact.”

Policy briefs in this series include:

Supporting Informal Caregiving in an Aging Society
Ensuring Generational Cohesion in an Aging Society
Improving Health Care and Support for Older Americans
Promoting Productivity in an Aging Society
Promoting Lifelong Learning in an Aging Society

Issue backgrounders in this series include:

The Scope and Effects of Informal Caregiving
Intergenerational Cohesion and the Social Compact
Improving Health Care and Support for Older Americans
Productivity in an Aging Society
The Scope and Benefits of Life-Long Learning

Successfully aging societies necessarily rest on a strong social compact between generations. Just as families are mutually supportive across generations, societies also need to form strong, legitimate bonds between generations by supporting and protecting those who are not self-supporting— the young, the disabled, the retired. The American social compact, based on the traditional belief that each generation will be better off economically than the one before it, has sustained those bonds throughout our history.

Although racial and socioeconomic divisions represent traditional barriers to social cohesion, intergenerational tensions are becoming more prevalent today. Age-based social divisions, particularly in the current economic environment of budget deficits and fiscal tightening, threaten the sustainability of the American social compact. Indeed, the false perception that one generation's gain is another's loss pits generations against each other, endangering support for social insurance programs such as Social Security and Medicare.

This paper explores the current political and economic climate relevant to generational cohesion in the United States, while offering an overarching narrative and set of policy areas to be explored in the other documents of this series. Taken together, these policies are designed to build a new path forward that can help sustain the American social compact.

60 percent of Americans are dissatisfied with the opportunities available to the younger generation and many believe the younger generation will not do better than their parents

Public Opinion

Even in today's challenging economy, Americans of all ages strongly support policies and programs that reinforce generational cohesion. Social Security and Medicare, for example, are the largest, most significant public programs that promote family and generation-based cohesion. Still, danger signals are evident.

There is widespread dissatisfaction today with the prospects for the future of the American social compact. The Gallup Poll found that 60 percent of Americans are dissatisfied with the opportunity for the next generation to live better than their parents.¹ Surveys of high school and recent college graduates found that 56 and 58 percent respectively feel that they will not be financially more successful than their parents.²

¹ Gallup Politics, "Majority in U.S. Dissatisfied with Next Generation's Prospects" (June 2012), www.gallup.com/poll/155021/majority-dissatisfied-next-generation-prospects.aspx.

² Ibid.

The “Lump of Labor” Fallacy

The opinions from these poll results do not lead directly to generational conflict. However, when combined with a common misperception about the economy—called the “lump of labor” fallacy—they can induce generational resentment and undermine social cohesion.

The term “lump of labor” refers to the concept that the amount of work available to laborers in society is a fixed quantity. Within the context of intergenerational relations, this idea suggests that older workers who remain in their positions “block” younger ones from finding work³ and “force younger people to put careers on hold.”⁴ While the concept of a “lump of labor” may seem like a reality on an individual or firm scale, does not hold at the societal scale.

Even looking more precisely at the push and pull of labor markets finds no support for the idea that older workers hanging on to their jobs displaces younger workers.

Empirical evidence shows little direct competition for jobs in the aggregate between older and younger workers. If the lump of labor argument were correct, a high employment rate among the oldest section of the workforce (ages 55–64) would be offset by a low employment rate among the younger section (ages 15–24). Instead, the U.S. National Bureau of Economic Research has found little evidence that trends in elderly labor force participation have had an impact on the younger labor markets.⁸ Furthermore, an analysis of employment trends among OECD countries shows that high elderly employment rates are actually

associated with high youth employment.⁵ Such studies clearly show that employment rates between both age groups may move in the same direction rather than oppose one another. Acquiring jobs is not a zero-sum game for either the young or the old.

The Current Economic and Political Climate

The framing of the current budget and fiscal debates in America plays an important role in fueling intergenerational tension. Under the current terms of the debate, America appears to face a choice between maintaining the current commitments to older generations—as reflected in Medicare and Social Security—and making the economic and educational investments needed for the success of younger generations, such as in infrastructure, research, and technology. These options illustrate the zero-sum mentality applied to balancing the budget, where one generation’s gain is perceived as another’s loss. Moreover, a politically active demographic bloc of seniors can use its political leverage in certain places to divert resources away from programs like education that serve less politically active or aware younger people. To preserve the social compact, however, it is imperative

³ See also Christopher Brooks, “A Lump of Fallacy, Or Two Plus Two Does Not Equal Five.” AgeUK blog. (March 2011). <http://ageukblog.org.uk/2011/03/25/a-lump-of-fallacy-or-two-plus-two-does-not-equal-five>.

⁴ Joel Kotkin, “Are Millennials the Screwed Generation?” *The Daily Beast / Newsweek*, July 2012. www.thedailybeast.com/newsweek/2012/07/15/are-millennials-the-screwed-generation.html.

⁵ J. Buttonwood, “Keep on Trucking.” *The Economist*, Feb. 11, 2012. <http://www.economist.com/node/21547263>

to strive for equilibrium between supporting initiatives that benefit younger people and those that support the social insurance programs benefitting seniors.

To reduce the potential for intergenerational tension, a clearer understanding of generational economics is needed.

First, the focus on federal-level spending in isolation is misleadingly narrow. This view neglects the generational impact of tax expenditures on state and local programs and overlooks the full range of cross-generational supports over the life course: both public and private, both monetized and not. The average senior, for example, is a net contributor to the broader economy well into his or her 80s.⁶

Second, even if federal spending and politics are considered in isolation, the premises of this framework are still false. The empirical evidence confounds the notion that seniors vote as a bloc in defense of social insurance programs,⁷ and analyses of actual spending patterns across industrialized nations show that spending on seniors does not in fact crowd out investments in the young.⁸

Today's poorly framed budget debate arises amidst great economic challenges for younger generations and a growing misperception arising from the "lump of labor fallacy." Together, these factors contribute to a political environment that has the potential to undermine generational cohesion and threatens the American social compact.

The focus on federal-level spending in isolation is misleadingly narrow. This view neglects the generational impact of tax expenditures on state and local programs and overlooks the full range of cross-generational supports over the life course

The Path Forward

Current laws largely reflect the intergenerational commitments inherent in the American social compact. For example, an exemption of up to \$13,000 per year is allowed for taxes related to generational transfers (i.e., gifts to children). Most prominently, Social Security offers lifetime protection to workers in the form of life insurance and disability protections, as well as retirement benefits. Medicare benefits the young, the disabled, and those over age 65, while Medicaid benefits families with young children, the poor, and those who need long-term care services regardless of age. The future of Social Security and Medicare is fraught with difficulty and uncertainty, but those programs are undeniably still the most important sources of cross-generational economic support.

⁶ Antoine Bommier, "Who Wins and Who Loses?" Working paper no. 10969 (Cambridge, MA: National Bureau of Economic Research, December 2004), www.nber.org/papers/w10969.

⁷ Robert Binstock, "Attitudes and Politics of the Elderly." *The Public Perspective*, December 1991, <http://www.ropercenter.uconn.edu/public-perspective/ppscan/31/31009.pdf>.

⁸ Axel Borsch-Supan. "European Welfare State Regimes and their Generosity Toward the Elderly" (Munich: Mannheim Research Institute for the Economics of Aging, November 2006), www.levyinstitute.org/pubs/wp_479.pdf.

Policies for the future, too, reflect strengthened measures for intergenerational support. The Affordable Care Act, for instance, allocates major resources toward the health insurance needs of those younger than age 65. It will ban coverage denials based on health history, impose limits on the pricing of insurance policies based on age, and provide tax credits for individual adults with incomes below 400 percent of the poverty level to help finance the purchase of insurance. These provisions could prove particularly beneficial for those approaching retirement age and lacking access to employer-provided coverage.

Innovative programs to foster generational cohesion extend beyond the government sphere: a growing number of community programs explicitly promotes generational ties. The Experience Corps assigns and commits low-income, older adults to work in elementary schools, where they mentor at-risk children. Many senior housing developments, too, are now based next to college campuses, and their residents participate in classes to become an integral part of the college community.

The mutual generational benefits of all these efforts, both public and private, need to be valued and framed for public audiences in explicitly generational terms in order to foster greater appreciation for social and generational cohesion.

Innovative programs to foster generational cohesion extend beyond the government sphere: a growing number of community programs explicitly promotes generational ties.

National leaders must implement public policies that protect and even strengthen these programs crucial to the American social compact. By refuting generation-based criticism, reaffirming the value of generational cohesion, and promoting policies that embody that cohesion, we can discard the misperception that older workers “block” younger workers from entering the workforce or that pension and health programs for the old starve investments in future generations.

The President can play a particularly important role in this reaffirmation of the American social compact. The President is the symbol of a united country and has the responsibility to help bridge societal divisions, including generational ones. Such a rhetorical and policy approach can be applied to several topics, including:

- Job creation and job training
- Education throughout the life course
- Health care
- Housing
- Neighborhood social services

The accompanying publications in this series will discuss each of these topics in turn.

Conclusion

The next four to ten years will be a critical time for reinterpreting and perhaps reformulating the American social compact. The future of our health and retirement programs, our tax code, and the role of government in supporting generational cohesion is under scrutiny. Large federal deficits are unsustainable if health costs continue to grow and if early retirements continue to be the norm. Investments in the future through support for infrastructure, research, and education cannot decline without placing today's youth at risk. The future success of the United States' aging society will require the perception of shared sacrifice and benefit among each age group, as well as policies that promote economic growth and job opportunities for young and old alike. The American social compact can be strengthened only if all generations participate and benefit from federal policy initiatives.