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BUSINESS REVIEW

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AFTER THE GOLD WATCH

An Economic Discussion of Older People and Retirement

What first comes to mind when we say "retirement"? Is it a word like Florida, travel, relaxation, hobbies? Do you picture older people carefree and happy in a sunshine world of fishing, gardening, and good books?

Or do you think of words like loneliness, boredom, poverty, sickness? Do you see a frail woman staring out a back-room window, shawl drawn tight against the cold, living on milk toast and memories?

It is not surprising if your image of the aged runs to one of these extremes. Few subjects today are more controversial and, it seems, few subjects are presented in such black or white terms. Authorities on the aged are given to strong positions on both sides. In researching this article, we found older people described in such phrases as:

"Self-reliant and disdainful of efforts to single them out for special attention."

"Unable to afford decent housing, proper nutrition, or medical care."

"Able to solve all their own problems."

"Stripped of their value as human beings."

"Healthy and well-cared for."

"Living in a desperate world."

Such divergence of opinion may exist because many writers have an emotional or political axe to grind. They often take positive stands to prove their points. This is understandable but it also is confusing. The nonexpert doesn't know what to believe. Will his December years be bleak or bountiful?

The fact is that an objective discussion of the aged calls for delicate shadings. As in most "hot" controversies, the truth probably lies somewhere near the middle of the road. The typical older person has serious problems, to be sure, but they are not so great as some experts would have you believe. Economically, at least, significant progress has been made and there is promise of more to come.

THE END OF THE PATRIARCH

Old age hasn't always been a difficult time of life. In centuries past, old age seldom caused serious economic and social problems. Not too many lived to see it but those who did found that age brought status, respect, and independence. It's only been in modern times, that older people have run into serious, nonphysical problems. Two big and basic changes have created this situation.

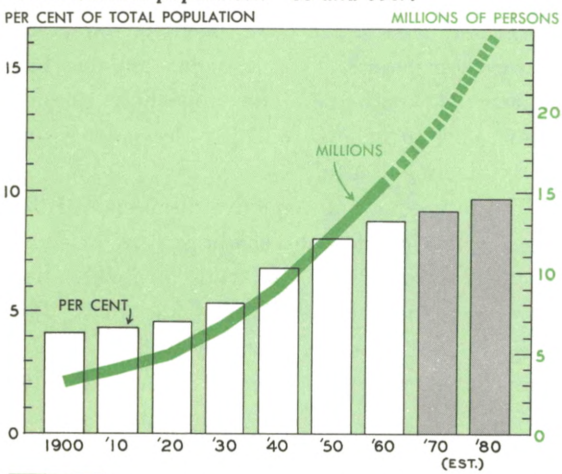
An elderly explosion

One reason why we hear so much about older people these days is simply that there are so many more of them—both in actual numbers and relative to other age groups. In the United States we now have 17 million people 65 and older.* Since 1900 this age group has grown three times as fast as the population as a whole. As a result, it now accounts for over 9 per cent of the total.

Senator Pat McNamara emphasizes the numerical importance of the elderly population in a striking way. He says that one quarter of all the human beings that have ever reached the age of 65 are alive right now.

THE FAST-GROWING SENIOR SECTOR

United States population—65 and over.



* In this article we conform to the usual definition of older people —those 65 and older.

Miraculous advances in medicine, nutrition, and sanitation are principal causes of the "explosion" of the elderly population. The average American is living 22 years longer than he did at the turn of the century.

But increased numbers is not the only cause of the controversy about the aged. More important is the sweeping change in the older person's position in society.

The bitter world of cities and machines

Throughout most of recorded history older people were important, highly useful members of the community. Families were the basic productive unit and older men were the centers of authority—the bosses, the chieftains. Agriculture was predominant and older men had the wisdom and know-how that only years of experience can bring. The grandfathers made the important decisions—what crops to plant, when to harvest, and so on. Even when their physical powers were diminished, there was still plenty of essential work that required their skill and craftmanship. The younger generations held these white-bearded patriarchs in awe.

Older women had a vital role in the household. They, too, had status, authority, and plenty to do—weaving, cooking, "doctoring," and sewing.

But things began to change as the country became more and more industrialized. Farmers flocked to the cities for jobs in factories. Older people found themselves in a new, harsh environment. A man's worth in a factory was judged by what he could produce. Older men often found they could not compete with younger men. Efficiency began to drop with age. Many older men were forced to retire, frequently without any means of support.

The elderly also became less important as a fountainhead of authority and wisdom. Authority and direction in the factory were supplied by a class of professional managers. Knowledge and experience were institutionalized. Training films, classes, and booklets showed the proper way to do things. Down on the farm, the Department of Agriculture, not grandfather, explained when and how to harvest.

In the home, grandmother's once-respected remedies became merely "old fashioned." Nor was there much for older women to do in modern households. Smaller city houses were easy to care for, and appliances and convenience foods made meal preparation a snap.

As the twentieth century wore on many older people, deprived of usefulness, became burdens on families and community. Older people were the victims of one of the most important events of all time—the shift from an agricultural to an industrial economy—and for a long time there didn't seem to be much they could do about it.

In California, a catalyst

Older people were especially hard hit by the depression of the 1930's. They were often the first to lose their jobs and the last to be re-hired. Many saw their savings wiped out. At least a million people over 65 lived exclusively on public aid.

Fighting to lift the millstone of depression, older people began to develop their political muscles. A would-be messiah from the West named Francis E. Townsend rallied nationwide support for his plan which was pretty hard to be against—if you were old. Each person over 60 was to get a pension of $200 a month. There was only one string attached; the $200 had to be spent within 30 days, before the next check came. The plan was to be financed by a 2 per cent tax on all business transactions. The whole idea may have been impractical but it jelled the discontent the elderly had been feeling for years.

The Townsend Plan was never passed into law but the ground-swell demand for political action that nurtured the Plan did result in the Social Security Act, Old Age Assistance, and other important governmental benefits. The political power of the aged has continued to grow since the 1930's and their problems are still much in the limelight.

It is our purpose in this article to focus some facts on the present problems of the aged. Since money can solve many problems and the lack of it can create others, we shall weave a financial thread through our story. We shall hang our discussion on the older person's budget—where the money comes from and where it goes.

INCOME AND THE EGG-CUP EFFECT

Income analysts are given to the use of geometric figures. They talk of pyramids, diamonds, and bell shapes. In this tradition, we say that the proportion of the elderly in each income class is shaped like an egg cup. Older people bulk large in the low-income categories. This is the base of the cup. Relatively few old people are found in the middle-income ranges —the waist of the cup. Finally, older people make up a disproportionately large share of all those with high incomes and this represents the top of the cup. Though the very wealthy are likely to be old, this should not obscure the fact that few old people are wealthy. Our egg cup holds only a very small egg.

The vast majority of older people have low incomes—definitely lower than any other adult group. As you will see, however, the income picture of the elderly can be painted in different hues depending on the eye and objectives of the artist.

It is estimated that people over 65 had a total money income in the neighborhood of $32 billion in 1960. Since there were about 16 million older people then, this income averages to roughly $2,000 a person. In comparison, the nation's per capita income was about $2,200 in the same year. Pretty close, isn't it? Older people don't seem too badly off—only $200 a year below the average.

But averages can be tricky. They make the situation look better than it actually is. In the first place, the national average includes many children with no income at all. In the second place, the older-person average is distorted by those few with king-size incomes. For every elderly widow with a big block of A.T.&T. stock, there are hundreds, maybe thousands, who don't even have a telephone.

The median or middle-most figure gives us a different tinge. The median income for all persons over 65 was only $900 in 1959. But the median includes many older women with no income at all who are supported by spouse, children, or an institution.

The White House Conference on Aging has done some interesting work with medians. It has roughly adjusted the median income of various age groups for differences in family size. It found that the 1958 median family income per equivalent adult* is as follows:

AGE OF FAMILY HEAD	MEDIAN FAMILY INCOME PER EQUIVALENT ADULT
25–34	$1,680
35–44	1,630
45–54	1,740
55–64	1,840
65 and over	1,070

People who want to cast the income picture in its most unfavorable light often use percentage distribution data. In 1959, for example, 78 per cent of those over 65 had an income of under $2,000; 55 per cent were under $1,000; and 15 per cent had no income whatsoever.

Far from affluence, but . . .

Perhaps the most encouraging thing about the income situation is its recent improvement. Older people are financially much better off now than they were ten years ago. In the short span of a decade, the median income of all older people has jumped from $400 to $900, an increase of 125 per cent. The median income for the nation has risen only 70 per cent during the same period. There has been equally heartening improvement in the no-income-at-all figure. In 1949 it was 31 per cent of the elderly population. Now, as we mentioned, it is down to 15 per cent. We shall point out later that there is reason to expect this improvement to continue.

The fuzzy matter of adequacy

Obviously, the income of the aged is inadequate. But then, whose income is adequate? Is yours? We won't speculate on how inadequate the income of older people actually is. We shall, however, mention some of the things that should be considered.

Low incomes are not necessarily inadequate incomes. Adequacy should be judged in terms of needs. Older people generally need less

* Children under 13 are assumed to be equivalent to one-half an adult. Other children are treated as adults.

money to live on than do their younger counterparts. Older people usually don't have children to support and educate nor do they often have the expenses of holding a job—clothes, union dues, cafeteria lunches, etc. Everybody over 65 is entitled to a double exemption on their Federal income tax, and all medical expenses of the elderly are deductible. Social Security pensions are exempt from Federal tax and other retirement income receives special treatment. Some older people get support in kind from children and others which is not included in the income figures. Furthermore, almost 70 per cent of the older families own their own homes and eight out of ten of these houses are mortgage free.

Older people also are likely to have more financial assets. In a 1959 survey, 45 per cent of the elderly spending units had over $1,000 in assets compared to 32 per cent for all spending units. Speaking in medians again, the middlemost amount for aged asset holders was $1,800 compared to only $750 for all holders.

The United States Department of Labor has figured out a "modest but adequate" budget for a retired couple. The average yearly budget in 1959 prices for 20 large cities is just over $3,000. The median for urban families with heads over 65 was about $3,300. This means that somewhat under half of all aged families had less than what was considered a "modest but adequate" money income.

In judging just how inadequate the income of older people really is, remember you must think of more than bare subsistence needs. Consider what is required to maintain a "decent, healthful, self-respecting standard of living." Consider also whether older people should be required to downgrade sharply the standard of living to which they became accustomed during their working years.

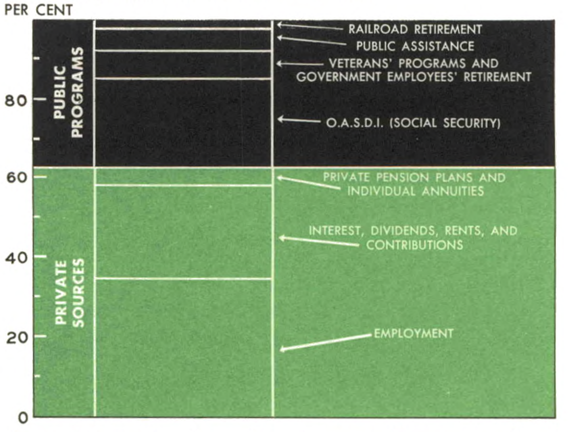
The striking shift in sources

Since 1950, income sources have changed dramatically. The importance of employment has dropped sharply as older people have left the work force. In 1950 a third of those over 65 had some income from a job. By 1960 the figure had dropped below 25 per cent.

The skyrocket rise in income from the governmental sources more than offset this decline. The number of people receiving Old Age Survivors and Disability Insurance—better known as Social Security—leaped from 2.1 million in 1950 to over 10 million in 1960. Those draw-

HOW THE COFFERS ARE FILLED

Percentage distribution of estimated aggregate income of people 65 and over—1958.



ing veteran's benefits increased more than four times in the decade. The Railroad Retirement Program administered by the Federal Government and the various governmental employees' retirement programs also scored big increases in the 1950's.

As might be expected, the rise in public pensions has brought about a decline in the number of old folks receiving Old Age Assistance payments. To be eligible for this program, an older person must be a hardship case.

Mainly because of the big jump in public pension payments, the majority of the aged now receives a small but regular income. Nevertheless, earnings and other income from private sources still bulk larger than income from governmental sources. Taking the optimistic end of the 1958 estimates, slightly less than two-thirds of all income received by people over 65 came from private sources. In other words, more older people get income from the Government but private sources generate more income.

We shall now devote considerable attention to one private source of income—company pensions—not because of its present importance but because of its potential.

THE FROSTING WITH A FUTURE

Cecil worked for the company for 35 years—most of that time in the accounting department. Cecil was a hard worker but he had just turned 65. In this company, like most of the others with formal plans, 65 meant retirement—like it or not. So Cecil's fellow workers got together and had a banquet.

It was pretty much the same as thousands of other retirement banquets. Cecil's boss made a touching little speech. While he was speaking, Cecil couldn't help wondering, if he were as good a worker as the boss said, why hadn't he been promoted more often? Next the company presented Cecil with a gold watch and there were handshakes, arms around the shoulders, and all sorts of good wishes. Then, all of a sudden Cecil was home—retired. No more alarm clocks, no more deadlines, no more pay checks.

But Cecil was lucky. He could draw Social Security, of course, but in addition his company had a liberal pension plan. This would make a big difference. Cecil could look forward to a retirement of modest comfort.

Not too many retired workers are so fortunate. Of the 16 million over 65, only about 1⅓ million are receiving payments from a private pension plan. These payments accounted for less than 5 per cent of the total monetary income of the aged.

Gaining momentum

The first known private pension plan was started in 1875 by the American Express Company. A handful of companies followed suit but by the turn of the century private pension plans were still as scarce as unhedged statements at an economists' convention.

The early plans were better than nothing—but not much. They were paternalistic; the company paid the entire cost, sometimes as a weapon against the spread of unionism. Qualifications were high, payments were low and strictly at the discretion of management.

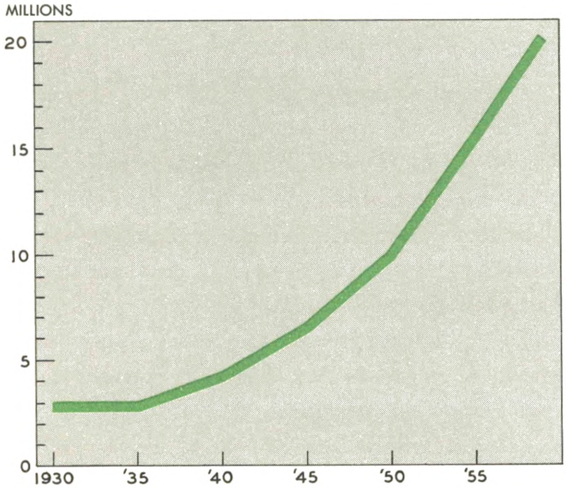
Private pension plans grew sluggishly but steadily until 1930, when about 2.7 million workers were covered. The depression brought havoc and many plans foundered, compounding the economic misery so prevalent at the time.

But the spirit of social reform and the interest in the problems of the aged which came to the fore in the mid-thirties brought a revival of private pension plans. A further impetus came in 1938 when the Federal income tax laws were revised to make pension plan contributions by companies deductible.

The second surge came during World War II. Labor was scarce and booming companies had to scratch vigorously for extra workers. But how to compete? Wages were frozen by Government decree. Many companies turned to pensions to lure the workers they needed. Pensions were a natural competitive

DOUBLED IN THE LAST DECADE

Number of employees covered by private pension plans.



tool; they were not frozen and a company's excess profits were only taxed away.

In the late 1940's the National Labor Relations Board ruled that employer contributions to pension plans were really deferred wages and, as such, subject to collective bargaining. Unions needed no further encouragement and bargain they did. This third stage of growth has continued to date.

At the present time about 20 million workers out of a total civilian employment of 67 million are covered by private plans. The 20 million looks considerably better when you figure that a good portion of the work force is ineligible for private pensions—Government employees, for example, and railroad workers who have their own Federal program. There are other groups "clearly not suited" for private pension plans—farmers, domestic workers, self-employed, strictly temporary workers, etc. Considering these limitations, somewhere between 40 and 50 per cent of all potentially coverable workers are now enrolled.

Small firms and security-sopped workers

Most of the articles we have read seem to feel that the future growth of private pension coverage will slow. "The more likely situations for the introduction or extension of pension plans have already been tapped; and only the harder cases remain," says Daniel M. Holland in the *Harvard Business Review.*

The harder cases, we presume, are industries in which these three pension-inhibiting factors are prevalent—spotty or ineffectual unionization, high labor turnover, and typically small-size firms. Trade and service industries are good examples. They are lightly pensioned—due largely to these inhibitors. It is beyond the scope of this article to predict what will happen in the fields of unionization and labor turnover. (This is a convenient way of saying we just don't know.) But we venture to guess that more and more small firms will be offering private pensions.

The profit-sharing technique is especially applicable to small firms. The company promises to contribute a certain share of its profit to a pension fund. In this way the company is not saddled with an oppressive burden in bad years —no profits, no contributions. Of course, the employee cannot plan on a certain sum when he retires. Another way small firms can provide for their employees' old age is through the purchase of a group annuity, probably from an insurance company.

Thus the ability of small firms to offer pensions is not a matter of mechanics. It is more a problem of costs. Many small firms claim they cannot afford to pay for a pension plan and stay in business.

It seems certain, however, that they will be under increasingly heavy pressure to offer some sort of plan. Workers are becoming more and more security-conscious. They are demanding and getting assurance of steady income, both during and after their working years. If the quest for security continues, as we think it will, most small firms may be forced to afford pension plans.

We therefore don't agree with the writers who say the number of workers covered by private plans will not rise above 50 per cent of the potential. True, growth may come harder from now on but growth is likely to continue indefinitely—on up to 60 per cent of the potential and beyond. Never underestimate the power of millions of workers who have tasted prosperity and who will refuse to be reduced to penury when they retire.

So much for our discussion of the income of older people. We shall now see what they do with that income.

HOW DIFFERENT IS THE OLDER CONSUMER?

Businessmen usually ignore the older consumer. Sure, merchants will take their money but few manufacturers and retailers have yet made an effort to develop the over-65 market.

Most businessmen really don't know whether older consumers differ from their younger counterparts. And, if the older consumer is different, what does a merchant or manufacturer do about it? What do older people need? What appeals are effective? In short, how do you go about selling to older people?

Facts are scarce, possibly because older consumers themselves haven't cooperated. Nobody likes being marked old and singled out for special attention. The older consumer may indeed be different but is often reluctant to admit it. This is, in part, the result of the changed sociological position of the older person and the premium our society puts on youth. We have been able to unearth some information, however, which should help to illuminate the older consumer.

The senior shopper

A recent study by Robert E. Dodge of the University of Oregon, published in the *Journal of Retailing*, highlights the shopping habits of older consumers. This study covered only the Portland, Oregon, area but the findings could have national application.

Mr. Dodge discovered that older people prefer to shop in central shopping districts and they favor department stores. Special sales seem to have relatively little appeal to older people. In spite of their low incomes, they are willing to pay for quality goods. Possibly a lifetime of consuming experience has taught them that quality, in the long run, is the best bargain.

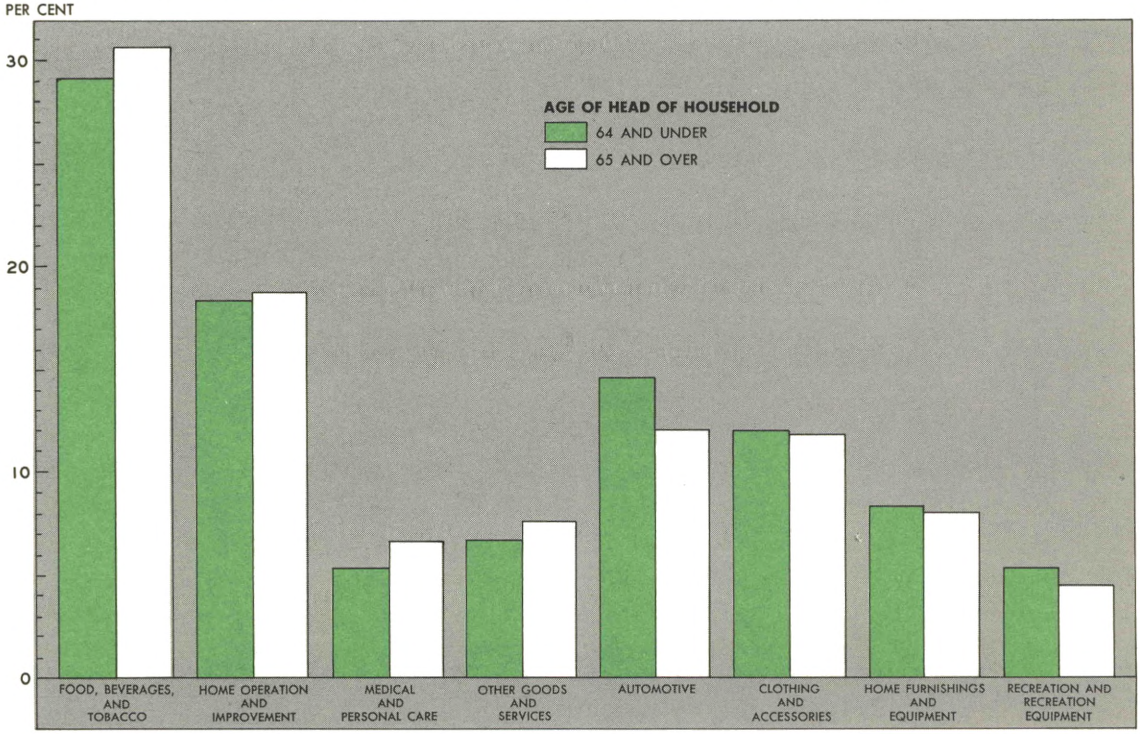
Older people in general are hard to influence by advertising and are most swayed by appeals that stress the services offered and the integrity of the merchant. The senior citizen prefers to shop alone and, according to this study, prefers stores with wide aisles, well-trained sales persons, and chairs for resting.

WHAT GOES INTO THE SENIOR MARKET BASKET?

We could discover only two major studies which show how older people spend their money. The first was made by the Bureau of Labor Statistics and the Wharton School of the University of Pennsylvania. It was comprehensive, detailed, and thorough, but it was made in 1950 and, as we have pointed out, the income situation of older people has changed greatly since then. The other study was sponsored by *Life* magazine and shows the situation as it existed in 1956.

WHERE THE MONEY GOES

Percentage distribution of household expenditure (*from the 1956* LIFE *magazine study*).



We wish we had more up-to-date information but we shall have to make do with what is available. We'll use the more recent *Life* magazine study for broad breakdowns and then flash back to 1950 for some detailed analysis possible only with the B.L.S.-Wharton School data. Here are some of the high spots in the older consumer's budget.

Food

In 1956, households headed by persons over 65 spent a greater share of their consumption dollar on food than did all other households. At first this doesn't ring true. After all, older people are likely to be less active physically and presumably have less need for nourishment. But as we dig deeper, this finding begins to make some sense.

Older people often have dietary needs—less salt and starch, more proteins and minerals, etc.—that only relatively expensive special products can fill. But far more important is the fact that any low-income group spends a relatively greater proportion of its income for food. Food is a necessity and the lower income, the more of that income will be spent for necessities. It's an old economic law.

The National Industrial Conference Board has adjusted the B.L.S.-Wharton School data for differences in family size and in income. Their food figures are entirely different. Older families with high incomes ($7,500 to $10,000 a year) spend only 70 per cent as much for food as comparable younger families.

Clothing

Clothes are an absolute necessity, if you haven't got any, but once the requirements of modesty and climate have been met, the amount spent on clothes is pretty much up to the discretion of the consumer. Cloth can be just as warm as fur, but just try to convince your wife.

Older households devote a slightly smaller share of their budget to clothing than do younger families. The differences between age groups become much more striking when variations in family size are eliminated. In 1950, for example, older families in the $1,000-$2,000 income range spent only 55 per cent of what a similar younger family spent on clothing. Other income levels show a similar spending pattern.

Older people, of course, have different clothing needs. Retirement eliminates work clothing and emphasizes casual attire. Older people require more warmth in their clothes, even in summertime, than they did when they were younger.

We think we have discovered a "law" about clothing preferences. Men seem to become less and less conservative about their clothes as they grow older. Look at a man in his thirties. At work he is often a "grey flannel lemming"; at play he favors muted stripes and paisley prints. But as he ages, he begins to blossom out—a bold plaid here, a bit of botany there. By the time he retires, he is often a sartorial sunburst.

Women, it seems to us, are exactly opposite. Their clothing tastes often become more conservative as they grow older. Elderly ladies seem to favor dark-colored dresses—blues and blacks, mostly. Have you noticed this, too?

Medical care

You've read reams about the medical problems of older people. Medical care and how to pay for it are by far the most publicized facets of old age at the present time. There is no question that medical expenses are a burden for older people. They do spend more of their income for medical care than any other age group but according to the *Life* study the difference is not striking; older households allocate 6 per cent of their budget for medical and personal care while younger families spend 5 per cent. Differences in family size and lumping in personal care distort the figures, however. The B.L.S.-Wharton School study, when adjusted for income and family size, shows that older families spend from 13 to 37 per cent more for medical care than do other families. The White House Conference on Aging reports that in a one-year period in 1957 and 1958, older people spent out of their own pockets an average of $177 per capita on medical care compared to $94 for the total population.

The reason for this extra expense is simple. People over 65 are particularly susceptible to sickness and accidents. They have twice as many extended illnesses as younger people and are likely to be hospitalized twice as long for each illness.

Housing

The older consumer seems to be causing more excitement in housing than in any other field. Many builders and real-estate men are coming to the conclusion that the elderly make up a vast, largely untapped market.

It is true that a high percentage of older people already own their own homes. But these homes are usually hangovers from younger days —unsuited to present needs. Existing homes were often purchased when there were children in the family and space needs were greater. Now with the children married and with the reduction in physical vigor that comes with the years, the homes are too big and too hard to maintain.

Large equities in their present homes, plus their savings, plus a reduction in other expenses make the elderly an important market for suitably designed homes.

Just what is a suitably designed home? According to the experts, it should be small and it should be all on one level. It should have plenty of storage space for lifetime accumulations of "things." There should be space for hobbies and projects. The house should be warm, for older people like temperatures up to 80° the year 'round. Lastly, the builder should include a number of special features and conveniences: extra-wide doors, electrical outlets high off the floor, low kitchen counters for sitdown meal preparation, non-skid bathroom floors, and grab bars in the tub.

Contrary to popular belief, the market for retirement housing is not restricted to the warmer climes. In fact, most older people don't move away even if they can. They prefer to stay in the old community, near family and friends. And they don't favor neighborhoods exclusively for older people. Most elderly couples would rather integrate into a full spectrum of age groups. As a result, the Northeastern states, not the "sunshine" regions, have the largest percentage of their populations over 65.

Older families devote a somewhat higher-than-average percentage of their income to housing and household operations. Housing is also a necessity and bulks large in low-income budgets in spite of the high percentage of mortgage-free home ownership.

Older people, on the other hand, do spend less for household durables such as appliances and furniture. Durables are considered semi-luxuries and many older families must do without if they don't have furniture and appliances acquired earlier in life. The same line of reasoning—doing without or using a pre-retirement model—goes a long way toward explaining the aged's relatively low expenditures for the most famous durable of them all, the automobile.

Recreation

It seems paradoxical: older people have plenty of time on their hands yet they spend less than other families on recreation and leisure activities. It's the tyranny of low incomes again. No doubt older people would spend much more on "fun" if they could afford it.

Older people with means do go in for many none-too-cheap leisure pursuits. Travel is one of their favorites. Many "see America first" but a surprising number visit foreign lands. In the 1959 tourist season, 19 per cent of all passports issued were for people over 65.

For many retirees, just keeping busy is a real problem. Lack of income accentuates the problem, of course, but does not necessarily create it. Take the man who has been wrapped up in his job for 40 years or more, then, with the passing of a birthday, he has nothing to do. Maybe he had been looking forward to lazy, carefree days; at least half of the people approaching retirement do. But then he finds that golf is not much fun alone, that daytime TV soon gets tiresome, that one can only spend so much time reading, that he and his wife are beginning to get on each other's nerves.

Workers themselves can do much to prepare for the satisfying use of retirement leisure. While they are still on the job, they can cultivate new hobbies, learn new skills, and buy necessary tools and equipment.

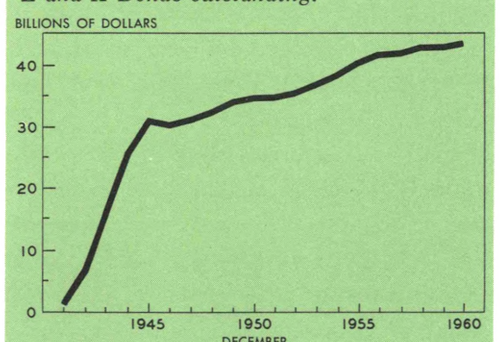
(Continued on Page 16)

THESE OLD SOLDIERS AREN'T FADING AWAY

Savings bonds—veterans of war—have made good in peacetime. Once it was feared that the program would slump badly without patriotic, win-the-war appeals. But savings bonds have surprised the cynics. Sales have held up well during the postwar period as buyers found these investments both convenient and competitive. The 20th birthday of the mainstay E Bond, celebrated this year, finds the program well adjusted to civilian life.

A SUMMIT IN '60

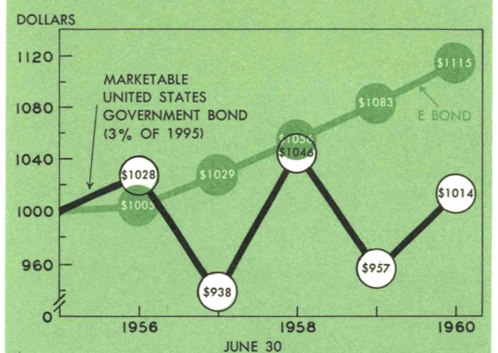
E and H Bonds outstanding.



The E Bond, which served so well against the Axis, and the H Bond introduced during Korea have just reached an all-time peak. In December 1960, a record $43 billion of these bonds was outstanding. Tens of millions of people now own E or H Bonds, the only series now sold. The main difference between the two series is in how interest is paid. Interest on E Bonds is paid only when the bond is finally cashed; interest on H Bonds is paid by a semi-annual check from the Treasury.

HOW SAVINGS BONDS PROTECT YOUR INVESTMENT

A case history.

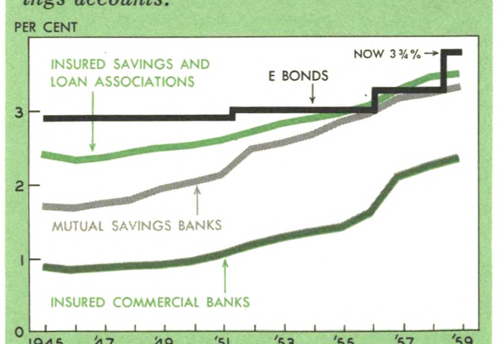


Suppose you had invested $1,000 in E Bonds and $1,000 in a marketable U. S. Government Bond (a 3% of 1995) on June 30, 1955. The above chart shows what your investment actually would have been worth, including interest to date, on succeeding June thirtieths.

Savings bonds are tailor-made to protect the small, financially unsophisticated investor. Savings bonds are not marketable. If you want to get rid of one before maturity, you must cash it in with an agent of the Treasury. This means the value of the bond does not fluctuate with market conditions.

THE RATE RACE

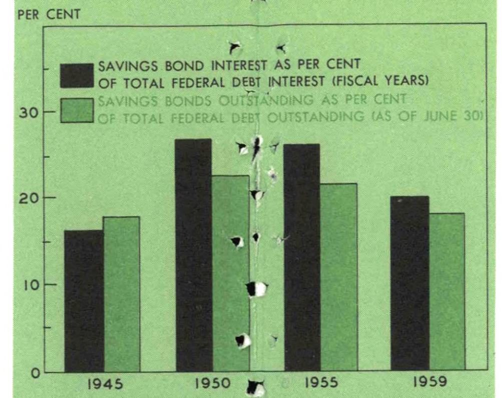
Average interest rates on E Bonds and savings accounts.



The Treasury has increased the rate of E Bonds three times to keep it competitive with other forms of investment popular with small savers. There are hazards in comparing interest rates. The various institutions shown above do not offer identical "products." For example, the rates for E Bonds shown above apply only if the bond is held to maturity (the average savings bond is outstanding for about seven years). If you should cash an E Bond from six to 12 months after purchase, you would get a return of only 1.71 per cent per annum.

THE IMPORTANCE TO THE TREASURY

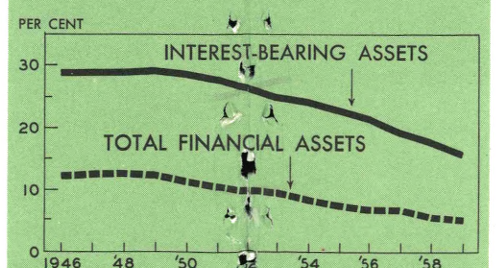
Savings bond interest and outstandings as percentages of total Federal interest payments and debt.



The above chart points up two trends. First, the declining importance of savings bonds in the Federal debt mix since 1950. Second, the percentage of savings bond interest—paid and accrued—has been larger than the savings bond share of the total debt.

WHERE SAVINGS BONDS SAG

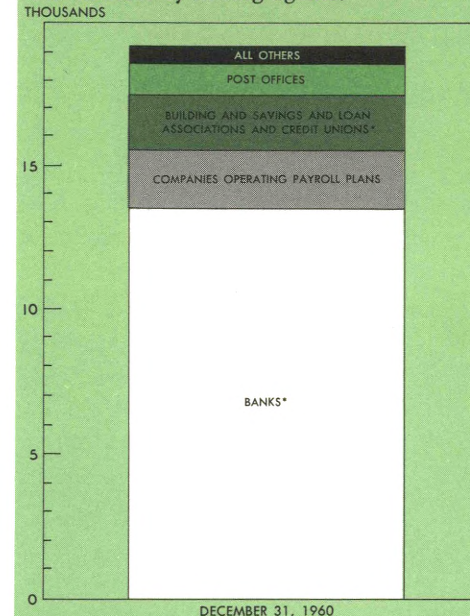
Holdings of savings bonds as a percentage of consumers' . . .



Savings bonds have done well in attracting savings since the war but their competition seems to have done better. Although record amounts of E and H Bonds are now outstanding, savings bonds account for a declining percentage of interest-bearing assets and of total financial assets (including stocks, pension rights, etc.) held by consumers. The decline reflects the explosive growth of other assets, much of which is to be expected in a prosperous, peacetime economy.

HOW SAVINGS BONDS ARE SOLD

The number of issuing agents.

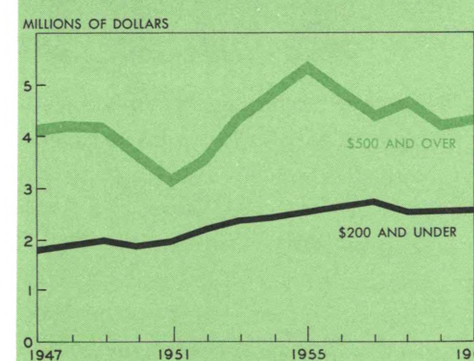


* Excludes branch offices.

The Treasury "manufactures" savings bonds, the Federal Reserve wholesales them, and the issuing agents retail them to the public. The small number of company issuing agents understates the importance of the payroll savings plan. In many instances, a local bank, not the employing company, does the actual issuing. More than 8 million workers are enrolled in payroll savings and they buy 40 per cent of all bonds sold.

NEST EGGS vs. FORTUNES

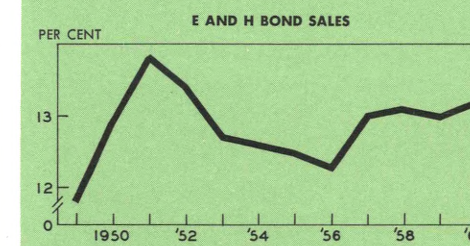
Denomination trends in E and H Bond sales.

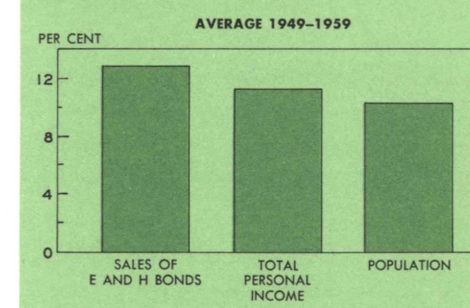


Smaller denomination bonds account for a growing percentage of total sales. The popular payroll savings plan, where the $18.75 bond is most common, is a big factor. Large investors, on the other hand, seem to have shifted away from savings bonds. In recent years, people with substantial savings have tended to favor common stocks and higher-yielding marketable securities such as the famous "magic 5's."

A LOCAL PAT ON THE BACK

Delaware, New Jersey, and Pennsylvania as a percentage of the nation.





Savings bond buyers in the Third District states have been digging deep. From 1949 through 1959 the three states averaged 12.8 per cent of all E and H Bond sales. This is higher than the local share of population and income would indicate. The three states accounted for an average of only 10.2 per cent of the nation's population and 11.2 per cent of its income during the period. Local bond buyers seem to have done particularly well since 1956.

(Continued from Page 13)

Nevertheless, the problem of keeping mind and body busy in retirement is a serious one. The problem may even intensify because of the trend toward earlier retirement and the advances in medicine which will make older people more vigorous.

Selling should be subtle

It seems that older people *do* constitute a definite and distinct market. Their spending pattern is dominated by two factors—the small size of the typical older family and its relatively low income. But when these differences are minimized, older people still seem to spend their money somewhat differently than do younger families.

The older market is hard to sell. It is complex and tricky. It calls for subtle appeals. You can't advertise products "for the aged" because many people are self-conscious about being old. Nevertheless, older people do have many different needs. Health foods, special housing, budget-tailored recreation, cheerful clothes, conveniences and work-savers of all sorts are just a few of the products older people favor.

AN EFFECTIVE PARTNERSHIP FOR THE FUTURE

Our aged population will continue to grow both in absolute numbers and as a percentage of the total—the latter in spite of the new baby-boom expected when the present tidal wave of teen-agers reach marrying age. Actually, today's forecasts of the future aged population may miss the mark on the low side. Think what a few major breakthroughs in curing disease would do to the size of the over-65 age group.

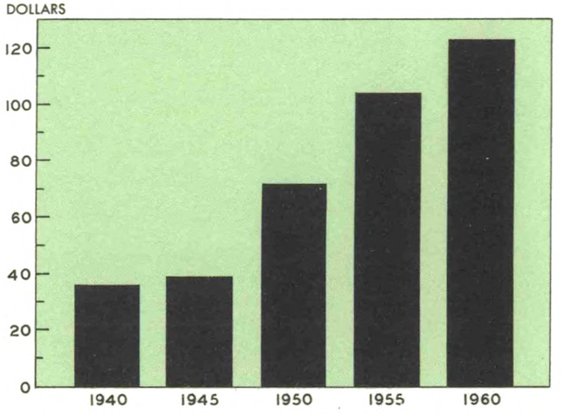
Edward L. Bortz, past president of the American Medical Association, believes that in a couple of decades the average life expectancy will leap from the present 70 years to 100 years. People will be fit enough to work until they are 85 or 90, he suggests. It's a wonderful thought but it could intensify economic problems. Where will the jobs come from for a work force expanding so rapidly at both ends?

Interesting as it is to speculate about 1980 and beyond, there are more concrete questions in the short-run future to discuss. What can we expect in the line of efforts toward solving the income problem of the aged during the 1960's?

No doubt governmental efforts on behalf of older people will continue. The number of veterans drawing pensions should swell as more and more of those who participated in World War II become eligible. It is true that Social Security coverage is nearing a saturation point —over 90 per cent of all paid workers are now eligible. Yet Federal and many state and local programs seem slated to increase in scope.

SWEETENING THE MONTHLY CHECK

Average monthly social security benefit for retired worker and aged wife.



The private sector of the economy, we think, offers at least as much promise for the future. A rising percentage of retirees should be drawing private pensions as each year goes by.

Though only $1\frac{1}{3}$ million people are now receiving benefits from private plans, 20 million are now covered. The spread of private pension coverage should continue, as we mentioned earlier, though not necessarily at the rate of the past ten years.

In spite of the economic security offered by "Big Daddy" government and "Big Daddy" corporations, workers themselves are taking important steps to provide for their own retirements.

There are no figures that show earmarked savings. Often savers don't save for a specific purpose. But it is safe to assume that a significant share of the money workers now are putting aside will be available for retirement.

And consumers are saving more than ever before. Their total holdings of financial assets —life insurance, pension plans, savings accounts, stocks and bonds, etc.—reached a trillion dollars in 1960, double the 1950 figure. Even when these holdings are deflated for price changes and put on a per capita basis, there is still a whopping increase. Real financial assets per person over 14 were about $3,800 in 1950 and were well over $6,000 in 1960.

The workers of the future should be retiring with ever-larger accumulations of savings. Many of the people who are now retired saw their savings wiped out in the great depression of the 1930's. These people didn't have much time to recoup their losses before they turned 65. The more prosperous years that occur between the catastrophic 1930's and a person's retirement date, the better chance he will have had to save up to a higher standard of retirement living.

There are, however, two big question marks in the income situation. First, prosperity must continue. People must have steady work in order to save and to build up an interest in a pension plan.

Second, and this is vitally important, inflation must be checked. Inflation has a cruelly uneven impact and there is no segment of the population more vulnerable than retired people with their low, relatively fixed incomes. When prices rise many workers expect, and get, a compensating rise in wages. Not so with older people. It is true that Social Security benefits have more than kept pace with inflation in the postwar period, but private pension plans are usually a fixed amount as are insurance proceeds, annuities, and accumulated savings. Think how discouraging it must be to have your retirement nicely planned—so much for this, so much for that, and a little left over; then comes inflation. In a spate of marked-up prices, it takes you off the shuffleboard court and puts you at the door of the poorhouse.

It's little wonder that some experts on the aged and many older people themselves rate inflation as the number one problem of retirement—ahead of low income, ahead of health, ahead of finding useful activity.

One of the most important things the Federal Government can do to improve the well-being of older people is to help harness inflation. This older people cannot do for themselves. But perhaps with their increasing political power, they may be able to pressure the Government to do it for them.

The economic problems of older people will be with us for some time. We believe, however, that they will diminish. A blend of Government programs, corporate pensions, and self-help in preparing and saving for retirement will continue the economic improvement shown in the 1950's.

And as the economic positions of older people improve, so will their social problems. As they become more financially independent, they will feel less discarded, useless, and self-conscious. Maybe by the time you and I retire, people will be proud to be old just as they once were before the machine downgraded the patriarch.

WILL SUCCESS SPOIL THE BUSINESS OUTLOOK???

Aspirin tablets, tranquillizers, and other pain relievers frequently can make a sick man feel a lot better, but they are not cures for an illness. However, they often bring such a feeling of betterment as to be considered just that. When this happens the patient may return to his normal activities too fast and, perhaps, aggravate his basic illness. Sometimes, therefore, palliatives can postpone a real cure.

When used properly, however, palliatives give the doctor and the patient a vital ingredient—time. The doctor has time to analyze the nature of the illness and locate its source, time to think out and prescribe the most appropriate remedial regime. The patient has time away from preoccupation with how bad he feels, time to restore his equanimity and sense of purpose.

This little preachment has a place in a discussion of our business future. The American economy is somewhat sick. Soon it will feel a lot better. There is evidence of this already.

End of the recession

At present the economic scene is dominated by two forces: buoyant hope for an upward spurt in business; relief at the slowing of the gold outflow.

At the heart of the business situation, the inventory correction is nearly completed. Output has remained below the level of current consumption for some time. Serious consequences on income that a decline in production brings about have been moderated by what have come to be called "automatic stabilizers" (e.g. tax payments decrease more than proportionally as incomes decline, and unemployment compensation payments rise). Monetary managers have seen to it that investment is not postponed for want of credit. These and other measures seem to be working—as they have in other post-war downturns.

The rapid gold outflow has been stemmed, too. Achieving this has involved some techniques not used before. Short-term interest rates were kept higher than in previous post-war recessions. Political leaders promised fidelity to the dollar at present valuation, and through a variety of moves and postures apparently convinced the world that our balance-of-payments problem would be dealt with in a sober, realistic manner. These actions seem to have been sufficient to halt speculation concerning gold and the dollar.

In short, some of the more obvious signs of economic distress are passing. Now, as long as the patient doesn't think that he is cured, everything is fine. No more rapid alleviation of symptoms could have been expected. To some extent, however, the ease with which the symptoms have passed may militate against a longer-run cure for what ails us.

Now is the time to take the cure

For some time now the rate of economic advance in this country has not been rapid enough to keep unemployment at minimum levels. Also, for some years now we have been running a balance-of-payments deficit. Neither of these problems has been solved despite the fact that the recession is ending, and the gold outflow has been halted, at least temporarily. Both of these problems should be dealt with directly, while the palliatives are working and providing the necessary time and favorable environment.

It is difficult to prescribe cures for economic illnesses unless the causes are known. First, why has our rate of economic growth been lagging? Answering this question is not, of course, easy. Perhaps, briefly running through a recitation of the history of the recent past will bring us to some understanding.

A new era begins

At some point four or five years ago the forces that propelled the economy through a strongly expansionary post-war decade weakened. War-created vacuums were filled, war-created liquidity dried up, and war-created seller's markets abroad became competitive. Sales of such post-war bellwethers as cars, houses, and big-ticket appliances grew stickier. At about this same time increases and shifts in our population brought with them a new set of demands. Schools, especially in the fast-growing suburban regions of large metropolitan areas, became inadequate and overcrowded. Transportation facilities, including highways and public transportation systems, strained under new loads. Water and sewage systems had not kept pace with requirements. In fact, public investment in a general sort of way seemed ripe for expansion.

This suggested that over-all demand might continue to grow at the accustomed pace, but for different reasons—as a result of a new "demand mix." And this might well have eventuated—we might have begun a new growth trend at full employment levels—except that at about that time it was evident to nearly everyone that the notion of perpetual creeping inflation was catching fire. An inflationary psychology, the economists called it. Businessmen and consumers were convinced that steadily rising prices were inevitable. This feeling began having an increasing influence in our markets. The price upcreep in the face of the 1957–1958 recession reinforced this notion. And as if to confirm domestic fears, gold began flowing out of the United States in earnest as financial experts in foreign countries easily read the portents.

This inflationary psychology had important implications for the crucial transition period—the period of weakening private and awakening public demand. Within an environment featuring a psychology of inflation and rapid outflow of gold, Government spending proceeded more slowly than it otherwise might—more slowly perhaps than needs warranted. There was a kind of subconscious fear that a surge in demand would really let loose inflationary forces. Monetary managers also adopted a cautious attitude toward a too-rapid rise in demand.

In addition, structural imbalances showed themselves as our industrial machine tried to fit its pattern of production to the new pattern of demand. It is one thing to observe that the demand for cars is down, and the demand for education is up. It is quite another thing for an economy to keep running smoothly through a transition of this sort.

Partly as a result of somewhat cautious public policies and the difficulties involved in shifting the production pattern to the new demand mix, the resurgence in economic activity following the 1957–1958 recession was the most modest since the war.

Can total demand be substantially and safely increased?

We find ourselves today in circumstances similar to those which confronted us three years ago. The stock market and some other so-called leading indicators have been signalling an upturn. The essential question facing our public policymakers is also the same—"Can total demand be increased substantially without stepping up price rises, worsening our balance-of-payments position, and restimulating an outflow of gold?" And equally important—"What role should Government spending play in stimulating demand?"

Fortunately, experience of the recent past provides important clues that might enable us to answer the fundamental questions. Three years ago we had no real convincing experience to substantiate the theoretical notion that a shift in the demand mix had occurred or was occurring. It was more than mere wishful thinking, then, that caused many to believe that private sources of demand would be adequate to bring the economy back to full employment. Not so many of us today can *reasonably* expect that demand for the old post-war bellwethers will ignite and carry the economy through a period of surging growth and activity.

One further factor of real importance has been clarified since 1958. A good bit of excess capacity overhangs the economy. Even the stepped-up rate of industrial activity that preceded the steel strike of late 1959 did not threaten to burst beyond the bounds of capacity. Thinking about this point leads to some interesting conclusions, and indicates how, given this enlarged capacity, demand could be increased substantially.

Arguments are still being waged about causes of rises in the wholesale and consumer price indices since 1956. Although no final answer has emerged, there is by now considerable agreement that one important factor is the power over the market exercised by business and organized labor in some concentrated industries. This power has helped drive up prices and wages in the absence of strong demand for the product and helped hold them high, even in the face of sharp declines in demand. Of course, prices and wages tend to rise faster as demand brings the economy closer to full employment. But without downward flexibility in wages or prices of some products, the price indices have developed an upward bias under almost any circumstances.

The only method by which public authorities can now curb rising prices is through moderating demand. But if the major source of price rises in the near future is "cost-push," demand may have to be checked short of bringing the economy back to full employment.

If the domestic problems we face during the transition to full employment seem at first almost overwhelming, the international ones hardly suffer by comparison. And just as the end of the recession tempts us to forget other domestic business problems, so, too, does the abrupt slowing of the gold outflow give us an excuse to dream that all is well with our international economic position. Actually, however, all is not well.

Balancing the balance of payments

Firm short-term interest rates and official pronouncements have taken the "heat" off our gold position. The alleviation of this symptom of distress is not to be taken lightly. It represents a real accomplishment. But the balance-of-payments problem that underlies this symptom has not been cured. Speculative fever surrounding gold may flare up at any time until it is clear to the world that we are succeeding in fulfilling our intentions.

Our balance of payments has become a problem largely because the rest of the industrialized world has grown spectacularly from its abnormally depressed state at the end of World War II. Many now question whether our policies toward the rest of the world have been outmoded by this transformation and, until recently, changed too slowly. They may not actually plead for a reduction in our defense and foreign aid expenditures, but do think that our proportionate share of this spending should decline, and the recovered nations of Europe and Asia should find their share rising.

War devastation in Europe and Asia dramatized the need for rebuilding and sacrifice in these areas. As a consequence, the United States industrially unscarred by war aided their recovery. Business and labor leaders in these countries indulged themselves less in higher profits and wage rises than they might have otherwise. These nations devoted a larger share of their national product than has the United States to plant and equipment expenditures. The result of all of this is that for perhaps the first time, in many cases, other industrialized nations have a newer physical plant than this country. New plant and machinery in some foreign lands have succeeded in narrowing the "quality gap" between their manufactured goods and ours.

Restraint on the part of our business and labor leaders is a necessity. If prices and wages are "administered" higher than increases in demand warrant, the effect will be to depress our exports and increase imports. Unquestionably, this eventuality would increase the likelihood of a "run" on our gold position.

Statesmanship, fragmentization, and direct controls

A clear understanding of the problems involved in bringing the economy back to full employment and solving our balance-of-payments deficit may hasten a solution. Certainly, it is possible to theorize that those business and labor leaders holding a good bit of power over the market will use this power gingerly if as a society we come to understand that wage and price pushes are retarding economic growth and worsening our foreign position. Already there may be some evidence suggesting a new public mood toward administered wages and prices. It could be that this new public mood will bring about a statesmanlike attitude toward prices and wages by business and labor leaders.

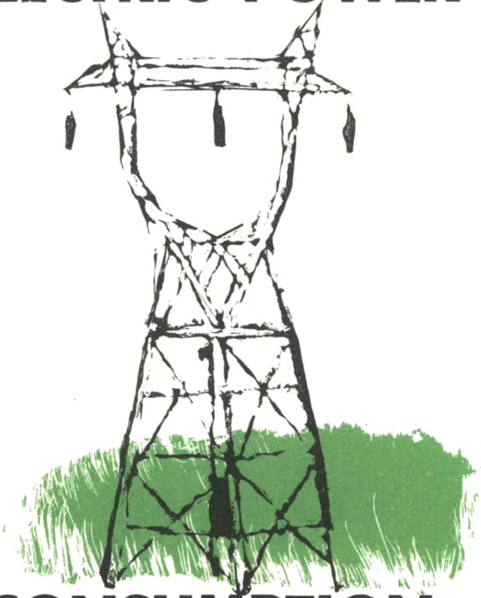
But if as the economy recovers from the recession it appears that nothing has changed, new public policies may be called for. Some undoubtedly will advocate fragmentizing huge unions and giant corporations. This would come about in an effort to restore dominance to the market place itself. Others will seek a solution through more direct means of control over wages and prices. It is not necessary to spell out the exact nature of direct controls that might come into being. Suffice it to say that at the very least the Federal Government would come to have more influence over wages and prices.

It is well to remind ourselves that only if business and labor leaders discipline themselves can we have maximum growth and a "balanced" balance of payments. The other methods of dealing with the problem of administered prices and wages would be most unsettling. For the short-run, at least, a smooth-running economy would be out of the question.

Thus, at the present moment it would be

dangerous indeed for the nation's economy to adopt a "whoopee,-I'm-well-again" attitude. The recession may be over and gold speculation halted, but now is not the time to resume business as usual. Business over the past five years or so hasn't been good enough. Business in the near future will not be good enough unless we recognize our illness and do something about it.

ELECTRIC POWER



CONSUMPTION IN MANUFACTURING

A New Indicator of Economic Activity in the Third District

People and power, directing and energizing the processes of industry, produce goods. If we knew how many of these inputs of human and nonhuman energy went into the manufacturing sector of an economy during a period of time, we could guess roughly how much that economy produced. If we knew, further, how many average units of output result from each possible combination of man-hour and power inputs, we could estimate total production quite closely. In this article, we introduce new statistical series which constitute a step toward these goals.

On a national scale, substantial resources of statistical talent and economic knowledge constantly are brought to bear on the problem of estimating production. The result is the Federal Reserve monthly index of physical volume of industrial production. But in particular regions of the country, the considerable resources required for the painstaking task of estimating industrial output are scarce. Consequently, approximate measures such as total manufacturing employment or, better, total man-hours employed in manufacturing have been the best available for most regions, including the Third District.

But employment or man-hours grow more slowly than industrial output, because machines are continually replacing people in production processes. The input which energizes this new machinery typically is electric power. Electric power consumption therefore is an important indicator of industrial activity. For some time this Bank has been collecting data directly from utility companies and from manufacturing concerns which generate power on site, with the aim of developing estimates of manufacturers' electric power consumption in the Third Federal Reserve District. We now have several useful sets of comparable data for the period from 1954 to date. The purpose of this notice is to describe these series briefly and to announce their availability.

Releases

A monthly release is now available to anyone requesting it from the Department of Research of this Bank. It shows, in the form of indexes based on 1957, the electric power consumption in the 20 major divisions of manufacturing activity in the Third Federal Reserve District, in nondurable and durable goods industries, and in all manufacturing. Both seasonally adjusted and unadjusted indexes are given for the latest two months and for the latest comparable month of the previous year.

On request, historical data also are available from January 1954 to date, showing electric power consumption in the Third District in the all manufacturing, durable, and nondurable goods classifications.

Data and coverage

The data from which the indexes of electric power consumption are computed come from two sources: utility companies and manufacturing firms which produce electric power for their own use. Sales to manufacturers by utilities account for approximately three-fourths of total consumption in the Third District; the remainder is self-generated. This proportion varies widely among industries, however. Self-generated power is most important in the primary metals, paper, stone, clay, and glass, petroleum refining, food, textile, and chemical industries. Only four of the 20 major manufacturing industries buy all their power from utility companies.

The utility companies reporting account for 90 per cent of all electric power sales to manufacturing concerns in the Third District. Companies reporting self-generated power account for about 75 per cent of all manufacturers' consumption of such power in the Third District. These companies are heavily concentrated in the industrial classifications—enumerated above—in which self-generated power is most important.

The series are not adjusted, except for seasonal adjustment. They represent, in each industrial classification, the total of kilowatt-hours consumed each month by firms reporting and by firms to which utility companies reporting sold power that month, converted to an index based on 1957. The indexes for durable, nondurable, and all manufacturing are computed from simple totals of kilowatt-hours for all the relevant industry groups.

The all-manufacturing series each month represents approximately 85 per cent of total electric power consumption by manufacturing concerns in the Third District.

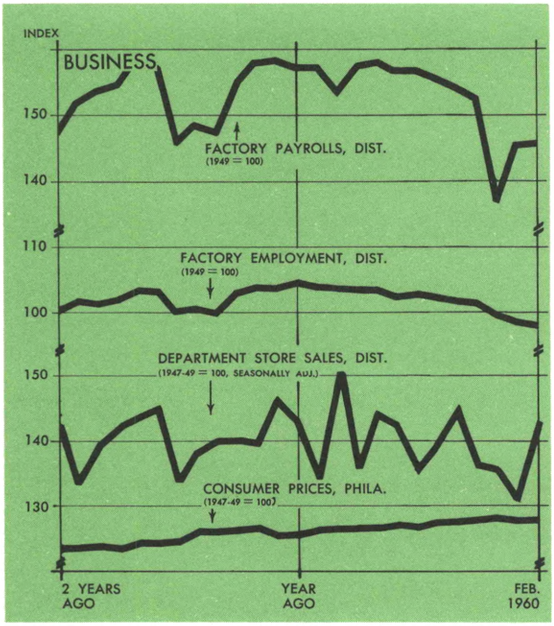
Uses

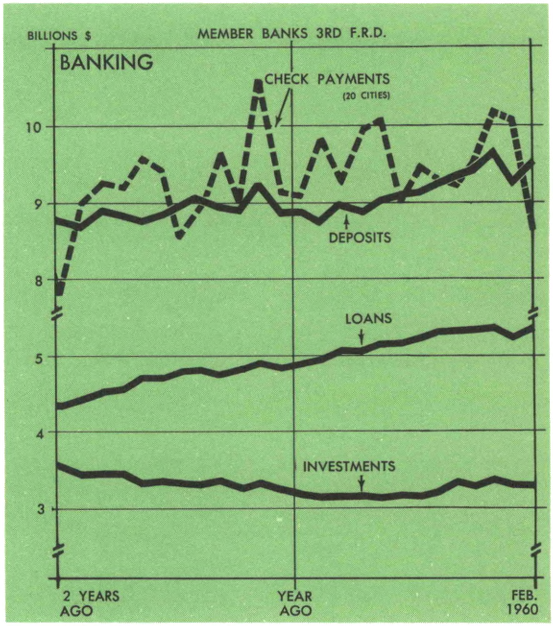
Electric power consumption statistics will be used to improve the accuracy of national measures of physical volume of output, particularly for industries where physical product data are not available. Production-worker man-hour statistics formerly were the main basis for compiling current production in those industries; now the electric power data will provide an independent check.

Electric power consumption by manufacturers reflects not only changes in output, but also changes in techniques of production. For example, a factory which shifts to a new, automated assembly line may be substituting more power—most often electric power—for labor in order to achieve a desired volume of output. The growing use of air conditioning, improved lighting and heating systems in industry all add to electric power consumption. For reasons such as these, electric power statistics tend to overstate changes in the output of a number of important industries.

Increases from any benchmark date in electric power consumption will in all probability overstate increases in production of manufactures during that period; increases in production-worker man-hours are likely to understate production. The two series then can be employed to fix upper and lower limits to changes in the manufacturing output of the District.

FOR THE RECORD...





SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Feb. 1961 from		2 mos. 1961 from	Feb. 1961 from		2 mos. 1961 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
OUTPUT						
Manufacturing production.	+ 1	− 8	− 9	+ 1	− 9	− 9
Construction contracts ...	+ 5	+ 1	+10	−10	0	+ 6
Coal mining	− 4	−19	−18	0	−11	−13
EMPLOYMENT AND INCOME						
Factory employment (Total)	− 1	− 6	− 5	− 1	− 6	− 6
Factory wage income.....	0	− 7	− 8	....	....	....
TRADE*						
Department store sales ...	+ 8	0	− 7	+ 2	+ 2	− 3
Department store stocks ..	− 3	− 2	....			....
BANKING (All member banks)						
Deposits	+ 2	+ 7	+ 6	+ 2	+ 7	+ 6
Loans	+ 2	+10	+ 9	+ 3	+ 5	+ 4
Investments	0	+ 3	+ 3	0	+11	+ 9
U.S. Govt. securities.....	0	+ 4	+ 3	− 1	+12	+10
Other	− 1	0	0	+ 2	+ 7	+ 5
Check payments	−14†	− 5†	+ 3†	−10	0	+ 4
PRICES						
Wholesale	....	....	....	0	+ 1	+ 1
Consumer	0‡	+ 2‡	+ 2‡	0	+ 2	+ 2

*Adjusted for seasonal variation. †20 Cities ‡Philadelphia

LOCAL CHANGES	Factory*				Department Store†				Check Payments	
	Employment		Payrolls		Sales		Stocks			
	Per cent change Feb. 1961 from		Per cent change Feb. 1961 from		Per cent change Feb. 1961 from		Per cent change Feb. 1961 from		Per cent change Feb. 1961 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Lehigh Valley	+ 2	− 5	+ 4	−10	....	....	....	....	−14	− 3
Harrisburg ..	+ 3	−12	+ 7	−13	....	....	....	....	−13	−10
Lancaster ...	0	− 5	+ 4	− 4	+ 1	0	−12	− 3	− 9	−19
Philadelphia	− 1	− 4	− 1	− 3	+ 8	+ 2	− 3	− 2	−12	− 5
Reading	− 2	− 7	− 2	−12	+ 8	− 5	− 7	− 3	−12	+10
Scranton	+ 1	− 2	+ 2	− 1	+ 5	− 5	− 4	− 3	−11	− 9
Trenton	− 3	−14	− 3	−17	+19	− 4	+ 3	+ 6	−17	− 1
Wilkes-Barre	− 1	− 6	+ 3	− 4	− 2	− 9	+ 3	− 8	−18	− 3
Wilmington .	− 1	− 8	− 2	− 9	+ 5	− 3	− 8	− 1	−37	− 7
York	+ 1	− 2	+ 1	+ 1	+14	− 4	+12	− 6	−16	− 7

*Not restricted to corporate limits of cities but covers areas of one or more counties.
†Adjusted for seasonal variation.