CONSUMER MOVEMENT ARCHIVES

Richard L. D. Morse, Ph.D.[1]

The Consumer Movement Archives (CMA) at Kansas State University was selected by the Board of Directors of the American Council on Consumer Interests at its November 24, 1988 meeting to be the official repository for the records of ACCI. This thirty-four year collection will be separately identified as the **American Council on Consumer Interests Records** and cataloged along with the other collections donated by national and international leaders and organizations in the consumer movement.

The mission of the archives is to preserve records of people solving their everyday problems through the democratic process. The records highlight the problems, the people who understood them, and the processes that were used. These people, usually called consumer activists, sought remedies by helping others to be less accepting of mediocrity, and to exert their power on businesses and governments to serve the public interest, that is, the consumers' rather than the providers' interests.

The archives provide a rich resource for scholars of the political process: political scientists, sociologists, historians, economists, and other social scientists as well as students of such professions as law, social work, home economics, community planning and public administration.

The records are under the direct supervision of a professional archivist and administered in the Special Collections and University Archives of Farrell Library at KSU. They will be preserved in acid free folders and boxes, stored under proper environmental conditions, and organized and inventoried for access to visiting researchers. Information about the collection will be disseminated through announcements in professional journals, newspaper articles, specially prepared inventories, and national data bases describing holdings at various depositories, including the MicroMARC:amc computer system.

I am pleased that the Dean of Libraries, Dr. Brice Hobrock, recognized the historic significance of the consumers movement. It was only last year that he made the announcement of the establishment of the CMA, and invited others to add their collections to my initial donation.

The response has been gratifying. Its timing seems to have met a need of many consumer leaders who had not wanted to trash their papers, yet were reluctant to part with them to a non-public institution that was not prepared to give them proper care, make them readily accessible to the public, or identify them specifically with the consumer movement. Even before a descriptive brochure was printed, word of the CMA was spread informally and by the COCO and ACCI newsletters. Inquiries from many persons resulted. And specific collections were donated by Marjorie Shields, Louis Meyer, Lee Richardson, Nancy Nolf (Consumer Education Resource Network), and Florence Mason, the "mother" of the consumer movement in Third World nations and recently honored in Madrid by the International Organization of Consumers Unions.

The materials include correspondence, books, memoranda, minutes, speeches, reports, brochures, photographs, periodicals, and tape recordings. Some are well organized, while others, like mine, will take considerable effort to organize and inventory.

A scholarship fund, established in my name by former students, will provide some support for graduate and undergraduate students interested in the consumer movement. One sizable gift has been received to facilitate processing new collections; further contributions will be solicited. The CMA is in the process of establishing an advisory group to provide whatever counsel the archivist needs to collect additional material and assist consumer historians.

In closing, the question of why Kansas took this leadership role can be addressed by pointing out that the state has a long history of populism and respect for free speech. It has been a leader in consumer protection legislation and enforcement of food and drug and child care laws. And, for many years, the administration of KSU permitted its faculty to take controversial public positions which would not have been tolerated on many campuses. The KSU Libraries recognizes the importance of the consumer movement in the nation and the world, and has made a commitment to support the CMA for scholarly research.

The brochure mailed with the March Newsletter to all ACCI members describes the details of the CMA. It should be noted that the consumer movement is not defined; instead, the types of materials and emphases which might qualify for inclusion in the Archives are listed. This leaves for future historians to define the broad scope of consumerism. Its mission is people oriented; its mandate is to serve students in all professions that have a concern for people, not as vendors, but as consumers.

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A Tribute to Colston E. Warne (b. August 20, 1900 d. May 20, 1987)

by Edward J. Metzen

We are gathered in the footprint of a giant. Colston Warne -- whom we honor with the series of lectures at our annual conferences -- left many significant tracks as he journeyed his way through life. He was a person without peer in terms of his many and varied contributions to the consumer movement. He was large in physical stature, but more importantly in his ability to see the big picture and to be visionary in developing responses to significant problems and issues. He was a quiet, soft-spoken person -- shy, almost -- but a powerful force for the causes to which he was committed.

A professor of economics at Amherst College for many years, Colston is best known for the fact that he was a driving force in the founding of Consumers Union and served as its president for 43 years, and the prime mover in the formation of the International Organization of Consumers Unions, which he served as president for the first 10 years of its existence.

We who are gathered at this conference of the American Council on Consumer Interests might well ask ourselves what we would be doing this day had it not been for Colston Warne, for it was from his fertile mind that the idea for formation of a national organization devoted to consumer education and the dissemination of consumer information came forth. His steadfast support of our annual requests for grants from Consumers Union during the first decade and a half was in large measure responsible for the funding which made our continued existence possible until our organization could become self-sustaining. Founded as the Council on Consumer Information, with the purpose of providing the general public with objective information about consumer issues and concerns, the organization evolved into the American Council on Consumer Interests, the professional association we know today. Through all the years and all the developments, the organization enjoyed Colston's avid interest and support. The fact that never once did the financial support from Consumers Union over those many years bring with it any kind of pressure or direction regarding ACCI developments or activities speaks highly of Colston's principles. He cared greatly that we be a significant force in the consumer interest, but the fate of the organization was in our own hands. He shared himself in the affairs of the association. At our business meetings, he cast his vote in quiet fashion, taking the floor to speak only on rare occasions. He graced our conferences with his very presence, shared his wisdom as a speaker when requested to, and enriched the insights of many who were fortunate to be engaged in conversations with him between sessions, at mealtimes, or in late evening dialogues. He was at his best, I think, in a small group situation, expounding on the philosophy of the consumer movement, the basics of some consumer issue, or his visions of potential developments for the future. His verbal reminiscences of the flow of events in the consumer movement were eloquent in terms of both mode of expression and quality of insight, and he could convey the heart and soul of the consumer cause as no one else could.

Despite an extremely busy life, Colston was a family man. His children share remembrances of the challenging, stimulating dinnertime conversations which broadened their horizons. During much of his activity and travel in this country and around the world, his beloved Frances was close by his side.

Colston was, for those who were privileged to know him, a role model in terms of concern for his fellow human beings and for fundamental issues in society, of integrity and high principle, unwavering commitment to the consumer cause, respect for the worth and dignity and rights of each individual, and appreciation of a sound idea regardless of the status of its source. In all of his endeavors, he was characterized by the enviable combination of passionate caring and a calm demeanor.

Colston Warne left a significant legacy, the fruits of which will continue to accrue to current and future generations in this country and around the globe. The world is a better place for his having been here.

Please join me in a movement of silent reflection on the qualities and contributions of Colston Estey Warne. Thank you.

ACADEMICS AND ADVOCATES: A PERSPECTIVE ON THE ROLE OF CONSUMER RESEARCHERS IN PUBLIC POLICY-MAKING

Stephen Brobeck, Consumer Federation of America

I stand before you this morning with mixed feelings. On the one hand, it is a great honor to be chosen the Colston Warne lecturer. This selection was made by a sister organization to CFA for which I have the greatest respect. It allows me to join a distinguished group of persons who have served the Consumer Movement longer and with greater distinction than I. And I have an opportunity to give a lecture named after that person who, along with Ralph Nader, has made the greatest contribution to consumerism in the history of our nation.

It was with Colston in mind that I selected the topic, "Academics and Advocates: A Perspective on the Role of Consumer Researchers in Public Policy-Making," for he was not only a respected academic, but also an influential advocate on behalf of the consumer interest. Among his many contributions, he helped found the two consumer organizations, ACCI and CFA, with which most academics and advocates, respectively, are affiliated. Moreover, Colston firmly believed that consumer researchers should play an important role in public policy-making.

On the other hand, I confess great feelings of inadequacy in addressing this topic. My understanding of what many of you do is incomplete: My academic background is in social history. I have never formally studied economics, consumer economics, or home economics.

Also, in my present position I have little opportunity to reflect on issues beyond those considered by public policy makers. During the nine-year period that I coordinated Cleveland Consumer Action while holding a full-time appointment at Case Western Reserve University, I thought I worked hard. But these 60 to 70 hour workweeks hardly compare to those in Washington that, while no longer, seem twice as intense and demanding.

Finally, although I've managed to fill a whole filedrawer with speeches on consumer topics, none of these has much relevance to the subject I've selected to address today. So the initial test of my ideas about consumer research and public policy-making will be by the toughest audience imaginable -- several hundred consumer researchers and educators. In the advocacy world, this is akin to trying out a new issue analysis on The MacNeil-Lehrer News Hour.

Nevertheless, despite my lack of qualifications for the task, the subject is so important and relevant to our mutual concerns that I believe it should be addressed. I do so, however, with the knowledge that what I offer is only a perspective, not a definitive analysis, and that if this perspective has any value, it will be more for the questions it raises than for the answers it supplies.

In this lecture, I will attempt to do the following: first, review the current relationship between academics and advocates; second, explain why there should be closer cooperation with greater academic involvement in policy-making; third, suggest a specific role for researchers in this policy-making; and fourth, propose measures that will provide researchers with an enhanced role and greater influence in the public policy arena.

Before undertaking these tasks, however, I should define one term. By consumer advocates, I refer principally to those persons affiliated with nonprofit organizations who seek to influence public policy to the benefit of the consumer interest. In their professional capacities, most corporate consumer representatives, consumer reporters, government officials, and consumer academics have somewhat different goals which, I should hasten to add, also serve the consumer interest.

The present relationship between academics and advocates is, in my view, a good one. It is rooted in our shared commitment to the consumer interest and is reinforced by institutional ties. In my opinion, ACCI has done more to maintain this relationship than has any other institution. Four of the last six Colston Warne lecturers are advocates. Other activists are frequently invited to address sessions at your annual conferences. The "ACCI Newsletter" regularly reports on the activities of national consumer groups and the actions of federal and state legislative and regulatory bodies. The Journal of Consumer Affairs sometimes reports research on public policy issues. Your new journal, Advancing the Consumer Interest, will direct even more attention to these issues, and in fact was created in part to increase communication between academics and advocates. Both goals underlay your 1986 Wingspread conference, the publication of whose papers many of us eagerly await. Finally, there is ACCI's participation, as an organization, in CFA.

CFA's contribution, and that of other consumer advocacy groups, is more modest. The executive director of ACCI serves on the CFA Board. We invite consumer researchers to speak at many of our conferences. At our most recent Consumer Assembly, for example, both Stewart Lee and Charlotte Scott made presentations. Then in June, at our Awards Dinner, Stewart will be recognized for Outstanding Consumer Service, an award usually given to an advocate.

CFA and its state and local affiliates also provide opportunities for consumer researchers and educators to influence public policy. In fact, academics such as Helen Nelson, Currin Shields, Dick Morse, Clinton Warne, Lou Meyer, Father McKuen, and Lee Richardson have founded or led grassroots organizations. Moreover, several of these consumerists helped establish CFA and later, the Conference on Consumer Organizations.

Academics and advocates have also worked closely to support more effective consumer education. In the mid-1970s, both joined to advocate successfully the creation of a federal Office of Consumer Education. Then in the early 1980s, when the existence of this agency was threatened, both groups organized a defense through the Coalition for Consumer Education. This organization, which has always included academics and advocates on its board of directors, continues to support the efforts of consumer educators.

Still, while the relationship between academics and advocates is a good one, it is not that close. There is limited cooperation between the two groups, most of which involves the activity of persons who play both roles. Only a small minority of the members of ACCI participate in consumer advocacy organizations. Well under half of all ACCI members conduct research with important public policy implications. Increasingly, it seems, your research is theoretical, directed towards using mathematical models to understand consumer behavior, rather than employing simpler methods to evaluate the complex relationship of current and proposed public policies to the consumer interest.

Advocates are even more responsible for the lack of cooperation. Few attend ACCI meetings, except as speakers. I am as guilty as most of my colleagues. Most advocates do not look for consumer research, or seek the advice of consumer researchers, in analyzing consumer problems or evaluating public policies.

Consequently, particularly at the national level, consumer researchers have little influence on public policy-making. When advocates need research, we usually do it ourselves or rely on the work of other advocates.

While regrettable, this lack of cooperation between academics and advocates is reinforced by several factors. One is geographical. Academics are spread all over the country, whereas most national advocates are based in Washington, D.C., and most state advocates work in state capitols. It takes time and money for most of us to meet face-to-face. Most of you will use limited travel funds to attend research conferences. Most advocacy groups, including CFA, do not even have out-of-town travel budgets.

A second factor is educational. Most academics are trained in graduate schools, often in economics or consumer economics. Most advocates have graduated from law school. I would suggest that the two educational experiences tend to shape different world views. For academics, at least in theory, knowledge is often an end in itself. Therefore, they are oriented to finding "truth." For lawyers, knowledge is only a means to serving an interest, usually that of one's client. Accordingly, they are oriented towards power.

There are additional differences between those practicing economics and law. To the economist, consumers tend to be rational and autonomous. To the lawyer, they tend to be dependent on the specialized knowledge and skills of the legal profession. More importantly, for many economists, the most important goal is efficiency. For most advocates trained as lawyers, it is equity, or perhaps even the maximization of consumer benefit regardless of any larger social cost.

The most important factor differentiating academics and advocates, however, is occupational. Primary roles differ. For academics, these are teaching and research. For advocates, the principal roles are lobbying or litigation. There are also differences in the extent to which the two groups can specialize. Academics are often able to do so, particularly in their research. In fact, other factors being equal, specialized research is easiest to complete and get published. Most advocates, on the other hand, are generalists. They work on several issues at the same time, and typically are involved in communicating with legislators, talking to the press, building legislative coalitions, activating grassroots networks, or even conducting research.

A third difference between the two groups is their degree of independence. Academics are relatively autonomous. They usually can choose their research topics and often their own courses. Advocates, by contrast, frequently must react to issues created by others, often with little opportunity to thoroughly study their implications for consumers. It is not uncommon for advocates to have one week to prepare testimony on a topic about which they know nothing, or to have only an hour, or no time at all, to review a subject before discussing it with a reporter. Why not follow our first lady's advice and "just say no"? Because we feel that the potential benefit of influencing news coverage on an issue, gaining visibility which can increase our influence, and cultivating a reporter outweigh the potential cost of not getting our analysis and quote exactly right.

These differences create distance between academics and advocates. They also allow the development of critical stereotypes of the other group. Some academics see advocates as relatively uninformed and often careless in developing policy. A number of advocates view academics as so caught up in theory and methodological precision that their research lacks practical relevance.

To academics, I would say that many advocates, particularly those with graduate degrees, such as myself or our research director who has a Ph.D. fromYale, are painfully aware of the limitations of our knowledge, but must act in the face of this uncertainty in order to influence public policy. To my fellow advocates, especially those who have legal training, I would urge them to appreciate more fully the importance of research on the consumer interest and its relation to specific public policies. History is replete with examples of intelligent, well-intentioned advocates, who did not take the time evaluate carefully the social impacts of their proposed policies, imposing net costs on society even when accomplishing their objectives.

There are, however, other aspects of these stereotypes that have greater validity. Some academics

believe that advocates are biased against corporations and against conservatives. These biases clearly exist within the advocacy community, and are reinforced by our political experiences. Corporations and conservatives often ignore the consumer interest, even when it is damaged by the policies they support. Over the long run, the interests of corporations and consumers converge. But in the short term, they are frequently opposed, particularly when business pursues profit-maximization strategies.

Both conservatives and consumer advocates should strongly support antitrust enforcement and information disclosures to ensure competitive markets. But the aversion of many conservatives to any marketplace intervention pits them even against advocates who support limited interventions to increase competition and reduce serious longterm health and safety hazards.

Nevertheless, despite some justification for anti-business and anti-conservative biases, advocates must remember that the positions these two groups take are not always anti-consumer or anti-social. We must keep in mind that many policies advocated by business are neutral or beneficial to the consumer interest. Furthermore, we must recognize that corporations and conservatives often correctly point out that the social costs of a proposed consumer policy far outweigh any consumer benefits. Most importantly, we must remember to concentrate on advancing the consumer interest, rather than thwarting the policy objectives of business.

If the principal temptation faced by advocates is ideological, that of academics is professional. There is always a danger that academics will neglect commitments to the pursuit of knowledge or the advancement of the consumer interest, and lapse into careerism -- a preoccupation with the attainment of professional advancement and prestige. Unfortunately, at many institutions these goals can be attained most easily by conducting methodologically sophisticated research, using the latest mathematical models and statistical procedures. I have nothing against these models and procedures. In fact, I've taught quantitative and qualitative methods courses to graduate students, and have used these methods in my own historical research. But a fascination with methodology can obscure important substantive issues and even bias one against research on complex public policy issues where data-sets are incomplete. These issues are usually not susceptible to neat tests.

What I am suggesting then, at the risk of sounding like the minister my mother wanted me to become, is that both advocates and academics rededicate themselves to the lifelong goal of Colston Warne -- serving the consumer interest. For consumer researchers, I would argue, this requires more active involvement in the making of public policy. There are several reasons for doing so.

The first is that there is a great need to evaluate both those marketplace imperfections alleged to harm consumers, and those public interventions intended to correct these imperfections. In all capitalist societies, the following marketplace imperfections exist to some extent: bottlenecks that seriously hinder or prevent competition; predatory marketing practices restricting competition; insufficient consumer information or ability to process information that hinders effective competition; products containing hidden or delayed adverse health or safety impacts; deceptive or unconscionable sales practices, often directed at the least well-informed and lowest income groups; and inadequate marketplace pricing of essential, but rapidly depleting natural resources.

Because of these imperfections, consumers have demanded appropriate public interventions: regulatory bodies like public service commissions to discipline natural monopolies; antitrust statutes and agencies such as the Department of Justice and Federal Trade Commission to curb anti-competitive behavior; information disclosures and consumer education to prepare consumers to make rational consumption decisions; health and safety regulations and agencies like the Consumer Product Safety Commission, Food and Drug Administration, and National Highway Traffic Safety Administration to enforce them; anti-fraud and deception statutes and agencies such as the FTC and state attorney general offices to ensure compliance with them; and increasingly, regulations requiring conservation of scarce resources such as efficiency standards for cars or appliances.

The problem is that these interventions, like the functioning of an unfettered capitalist marketplace, are far from perfect. In some cases, they may go too far, requiring excessive and confusing disclosures, health and safety regulations that impose costs far exceeding benefits, or price caps that restrict the availability of products to the detriment of consumers. In other cases, these interventions may not be sufficient, failing to check growing concentration, the increasing use of chemicals in our food supply, or the thousands of small frauds perpetrated daily on individual consumers.

Because of their training and disinterest, consumer researchers are well-suited to examine these critical public policy issues -- particularly the consumer impact of market imperfections and the public interventions designed to correct them. In doing so, they have the potential to save consumers and our society billions of dollars, to prevent thousands of product-related deaths and millions of injuries and illnesses, and to help ensure fairness in the marketplace.

The second reason that consumer researchers should involve themselves more in public policy-making is that there is ample opportunity to do so. Our democratic society offers unparalleled opportunities to influence public policy at local, state, and federal levels. In last year's Colston Warne lecture, Mike Pertschuk demonstrated that Washington-based advocates can make a difference. I would emphasize that these opportunities exist not only for activists, but also for researchers. The old bromide that knowledge is power is in fact true within the public policy arena. Some legislators may be unduly influenced by campaign contributions

and personal ties to special interests, but in general, policy-makers pay attention to research with significant implications for policies under consideration. Dick Morse, who for decades has influenced consumer banking legislation at the state and federal levels, illustrates this truth. So does any success achieved by national advocacy groups, who derive much of their influence from the interest of policy makers and the press in their research and analysis.

Consumer researchers are better able to take advantage of these opportunities to influence public policy than are most other citizens. Most have the freedom to choose research with relevance for public policy. Many can find time to present this research to policy-makers. Some may even realize professional benefits from this research activity. Socially relevant research can enrich courses, increasing student interest and productivity. Bringing this research to the attention of policy-makers, particularly at the state level, could help convince legislators that any funds they allocate to your institution are well spent.

The final reason all of us should rededicate ourselves to serving the consumer interest is that we have an ethical obligation to do so. Certainly this is the case if our morality is based on religious commitments, for nearly all of these require service to our fellow men and women. But this obligation also exists for those whose humanism has a secular basis -- whether rooted in the belief that the practice of humanistic values give significance to life, in the idea that individuals and their children only advance when society does, or simply in the sympathy felt by one person for another, especially a victim. Our society has been learning that greed is not enough, but neither is "doing your own thing." Certainly our primary social obligation is to our family. Yet, we have responsibilities to our community and society as well. Those of us who have the opportunity to discharge these obligations through our professional work are exceedingly fortunate. I would suggest that most consumer researchers can do just this.

So need, opportunity, and morality all justify active involvement of consumer researchers in public policy-making. What should this involvement entail? In brief, I would suggest, conducting socially relevant research and communicating research results to consumer advocates and public policy makers. Relevant research is that which has important implications for current or proposed government policies affecting the consumer interest. Virtually all the research you do has some relation to these policies, but some is much more relevant than others. From my perspective as an advocate, research that has the greatest potential impact treat three subjects: first, business practices impacting consumers -- those affecting product quality, safety, pricing, sales, and payment terms; second, current or proposed public policies of two types -- those proposed by advocates that are intended to humanize these practices, such as information disclosures, health and safety standards, product recalls, antitrust standards, and price controls, and those proposed by business that are intended to rationalize markets, such as uniform national product standards, or to avoid government regulations; third, the consumer impacts of these business practices and public policies -- their effect on health and safety, on consumer costs, on convenience, and on product availability.

As I mentioned earlier, much of the influence of advocates depends on our ability to find, or generate, this kind of research and to communicate it effectively to policy makers. Increasingly, we at CFA have been conducting this research ourselves, and I think it useful to summarize some of our recent studies to illustrate what kind of research we believe to be the most relevant to policy making.

Many of our studies have examined business practices. These include:

> An annual survey of bank fees, conducted with the help of state and local groups, which not only reports distributions of these fees, but also estimates annual consumer expense. These reports have been used by members of Congress to help justify check hold and truth in savings legislation which have passed both houses.
>
> A survey of home equity loans and HEL advertisements. This helped stimulate Congressional interest in HEL protections which have passed the Senate and arelikely to be approved by the House.
>
> An historical analysis of credit card rates compared to other consumer rates, market rates, and government rates. This provided some impetus to the passage of credit card disclosure legislation in both houses.
>
> A survey of prices at check cashing outlets. This has provided support to members of Congress who are proposing mandatory check cashing by federally-regulated banking institutions.
>
> A survey of life insurance sales practices, which demonstrated the reluctance of agents to supply important price information.
>
> Finally, annual analyses of post-divestiture local phone rates. These have encouraged state regulators to restrain future increases, have helped persuade Congressional leaders to pressure the FCC to reduce proposed access charge increases, and have stimulated interest in lifeline proposals.

Other CFA research analyzes proposed or current government policies. We have conducted a series of studies on the impact of railroad deregulation on competition and pricing; a study on the impact of proposed oil import fees on price and supply; an analysis of proposed bank sale of insurance that has been widely used by policy-makers at federal and state levels; and an assessment of the consumer impact of a proposed antitrust exemption for beer wholesalers, which helped justify Senate Judiciary Committee opposition to proposed legislation.

Other research assesses the performance of federal consumer agencies. We have prepared a major report

on the performance of the Consumer Product Safety Commission. This document contains reform proposals which were added to legislation in both houses reauthorizing the commission. We have also conducted an analysis of changes in jury awards, which has implications for proposed changes in our civil justice system.

In my review of refereed papers presented at the last three ACCI conference, I found a number relevant to specific public policies. These include 1987 papers by Morse on truth in savings, by Richardson and Grazer on local measured phone service, by Burns on Medigap insurance,by Hadden on product labelling, by Kramer and Penner on food safety attitudes, and by Brown, Crown, and Marshall on attitudes toward fire resistant products; 1986 papers by Zick, Mayer, and Burton on lifeline pricing in banking and telecommunications, by Rudd on nutrition labelling, by Haldeman,Tripple, and Peters on consumer conservation, by Swagler on rent-to-own programs, and by Richardson and Lazar on cable TV; and 1985 papers by Johnson and Fain on adjustable rate loans, by Ursic on Magnuson-Moss, by Dardis and Hersh on motorcycle helmet laws, and by Perch on consumer comprehension of credit insurance, and estate planning.

As well as research on specific topics, several more theoretical papers with important public policy implications have been presented by academics at ACCI conferences. Of special interest to me are Morgan's Colston Warne lecture on the consumer interest in 1985, Mayer's paper on the social impacts of regulation in 1983, and Biven's paper on consumer policy criteria in 1982. What could be especially helpful to advocates and policy makers is application of the methods they propose to specific cases.

The problem, however, is that most of this academic research and analysis has had little impact on the thinking of advocates, let alone policy-makers. There are a couple barriers here.

Much consumer research has failed to address the most pressing public policy issues. In the area of banking, for example, there were many unanswered questions as we developed policy proposals that recently have been incorporated into laws or legislation.

Concerning credit cards: How aware were consumers of rates averaging 18 percent? If they were, why did they so willingly pay them?

Concerning savings: How well understood were all important factors influencing yield and cost of deposit accounts? What kind of disclosures would be effective?

Concerning check holds: Would clear disclosures of hold periods satisfy most consumers, or were check hold limits necessary?

Concerning lifeline banking: Why have low and moderate income households been giving up savings and checking accounts? Would removing specific barriers stop, or reverse, this decline?

Lacking definitive answers to these questions, we were forced to rely on incomplete research, anecdotal evidence, and personal experience to develop policy proposals.

Perhaps the greatest barrier to the use of academic consumer research, however, is the lack of communication between researchers, on the one hand, and advocates and policy-makers, on the other. Academics typically present research to each other at conferences and in scholarly journals. Advocates, by contrast, tend to use studies generated specifically to inform the public policy debate. While they are sometimes biased, this research has the virtue of addressing key policy points at issue.

The critical question then is, how can these barriers be removed? What can be done to facilitate the active involvement of consumer researchers in the public policy process? I would offer a number of specific suggestions. These are intended to help academics identify needed research and disseminate findings to advocates and policy-makers.

There is much that,as an individual, you can do to discover relevant research topics. You can, for example, subscribe to national publications by advocacy groups such as "CFA News" or "Public Citizen," or to newsletters published by state organizations. Also, you can attend conferences sponsored by advocacy organizations. In a typical year, for instance, CFA organizes not only Consumer Assembly, but also single-issue conferences on telecommunications, financial services, electric utilities, and indoor air quality. For each of these conferences, we offer several thousand dollars of travel assistance for which many of you qualify. Furthermore, you can approach consumer groups directly to ask them what research might be useful.

ACCI can also assist its members in the identification of public policy research issues. Already, at annual conferences you hold sessions that consider issues debated by policy-makers. You might also consider a session on public policy research needs featuring presentations by advocates and by policy-makers such as Congressional committee staffers. This session might be strengthened if it were organized by a new ACCI public policy committee, or subcommittee of your existing research committee. Such a group could also take other initiatives to open lines of communication and promote cooperation between academics and advocates. What might be especially welcome to advocates would be any willingness by academics to supervise their students in collecting data related to public policy issues.

What mechanisms can academics employ to report research results to advocates and policy-makers? Since a large number of the latter are unlikely to attend ACCI conferences,Mohammed must travel to the mountain, in this case, meetings of advocates. Even at consumer conferenceswhere you do not have the chance to make formal presentations, there are opportunities during discussion periods, and in individual conversations, to share research results. But I would like to see more academics addressing

policy issues at our conferences, so offer to make available to ACCI a session at Consumer Assembly for this purpose. Of even greater significance are conferences like Wingspread. It is my hope that such meetings will be held periodically.

The journal, Advancing the Consumer Interest, also offers promise of facilitating communication between advocates and academics. I congratulate ACCI and editor John Burton for supporting this venture, and only hope there will be many contributions on important public policy issues. This publication could serve as the most important outlet for consumer research with policy implications. Such articles would encourage advocates and policy-makers to read the journal.

A new ACCI public policy committee could also play a role in disseminating research results. It could collect this research and pass it on to advocates and to policy-makers. Or it could offer researchers suggestions about communicating research results.

Unquestionably, the most effective way for academics to affect public policy is for them to participate in advocacy groups. I have been encouraged by the growing participation by academics in CFA policy subcommittees and Annual Meeting. Here there are opportunities to shape the policies that guide CFA lobbyists.

I would also urge you to participate in local or state consumer advocacy organizations. Within these groups, you can make substantial contributions. In most, you will be able to take part in a variety of activities including giving testimony, writing op ed essays, or releasing policy-oriented research to the press. What these groups usually offer, in addition to good advice about influencing the public policy process, is credibility among policy makers. In most cases, your access to policy makers will improve if you present yourself as a member of a consumer group, rather than of an academic institution. But do not try to hide your academic credentials -- they will enhance your credibility.

Earlier, I suggested that there was a great need for consumer research involvement in public policy-making. In closing, I would argue that this need will only grow as the marketplace becomes increasingly complex. New technologies, economic instability, and deregulation are transforming telecommunications, transportation, and financial services into extraordinarily complex, and more variable, products. Advocates need academic research and analysis to understand and develop any public policy responses to these changes. Only ACCI can effectively mobilize such academic support.

Within the advocacy community, CFA pledges its strong support for such efforts, to include institutionalizing mechanisms for giving researchers access to other advocates and to policy-makers. Together, we can help realize one of Colston Warne's visionary goals -- the active cooperation of academics and advocates to serve the consumer interest.

AN ECONOMIC PROFILE OF THE YOUNG AND THE ELDERLY

Paul Ryscavage, U.S. Bureau of the Census

One of the great national concerns of this century has been the economic well-being of the elderly. Beginning with the enactment of Social Security in the 1930s and carrying through to the 1960s and the advent of Medicare, our society has placed the welfare of its oldest members high on its list of priorities. And by and large, it has been successful. Today, a series of programs and policies exist which aid, supplement, or insure the economic health of our senior citizens.

But as is true in any modern and industrialized society, the list of national priorities is a long one, and each competes for attention and, more importantly, the available resources. This competition, in the case of our society, has been heightened by the Federal government's efforts to reduce the national deficit in recent years. Consequently, we frequently see special interest groups vying with one another over whose Federal appropriation should be increased or decreased.

Because the elderly do receive a significant share of public monies, their economic situation is continually under scrutiny. Indeed, in recent years a plethora of studies have been produced focusing on the income trends of the elderly and nonelderly (Radner, 1987, 1988; Grad, 1984; Hurd and Shoven, 1982). In general, these studies have found that the incomes of the elderly have increased relative to those of the nonelderly. These findings take on added significance since in the 1970s and early 1980s, high unemployment, spiraling inflation, and low productivity checked growth in the real incomes of most Americans.

Complaints have been heard that the favorable economic situation of the elderly has occurred at the expense of the younger generation (Longman, 1982). As evidence, attention has been drawn to the disproportionately large Federal government outlays going to a relatively small, elderly population. Furthermore, economists have shown how the younger generation in the recent past has been struggling to secure an economic foothold in society relative to the ease their parents had 25 to 30 years earlier (Levy and Michel, 1985). Although the interest groups of this generation are not as numerous and vocal as those for the older generation, the possibility of generational conflict has emerged.

To provide some perspective on this issue, this paper presents an economic profile of the young and elderly. The paper reaches no conclusions concerning the merits of the generational equity issue. Rather, it fulfills a need for those persons interested in the debate and its various dimensions. Together with the data presented here and with information obtained from other sources, it is hoped that an informed and responsible position can be taken on the topic. The profile begins with a brief overview of the demographics of the young and elderly and then proceeds to a discussion of their labor force, income, net worth, and consumer expenditure characteristics.[1]

WHO ARE WE TALKING ABOUT?

If we define the young and the elderly as persons age 20 to 34 and persons age 65 and over, respectively, we are talking about two segments of our population that are of unequal size. The Census Bureau population estimate of the young in 1986 was 63.6 million and the estimate of the elderly in that year was 29.2 million. In other words, the young are a little over twice as large in number as the elderly.

Another demographic fact about these two groups, which is commonly known, is that while the young consist of roughly equal proportions of men and women, almost 60 percent of the elderly are women. This proportion rises among the older age groups of the elderly and reflects the different mortality rates between the sexes. Racially, there are proportionately more persons of black and other races among the young than is the case for the elderly (16.2 percent vs. 9.9 percent).

Another well-known fact about the elderly, of course, concerns the large proportion of widows and widowers among them. Slightly more than one-third of the elderly in 1986--9.6 million persons--were widowed. Very few of the young are widowed. But one fact that perhaps is not well known is that both groups have roughly the same proportion of persons in them who are married and living with their spouse--50.0 percent for the young and 53.6 percent for the elderly.

Nevertheless, living alone is still a more common experience for the elderly than it is for the young. In 1986, the Census Bureau estimated that 30.4 percent of the persons age 65 and over lived by themselves--and this proportion was 41.3

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[1]Overviews of the elderly population are most likely to be more numerous than overviews of the young, although the young have not been ignored. An example of the former is a special report by the Census Bureau on the Demographic and Socioeconomic Aspects of Aging in the United States (1983). An example of the former is a book by Louise B. Russell, The Baby Boom Generation and the Economy (1982).

percent among women. For young persons, on the other hand, only 8.5 percent lived alone.

One last demographic fact about the young and the elderly relates to their size in the future. As was mentioned above, the young were twice as numerous as the elderly in 1986, but Census Bureau population projections (1984) indicate this situation will change dramatically in the future. By the year 2000 the young population will be only approximately 1 1/2 times as large as the elderly, and by the year 2030, there will be more elderly persons than young (the Census Bureau middle-series projection indicates that in 2030 there will be 55.8 million young persons and 64.6 million elderly). This turnaround reflects, in large part, the aging of the baby-boom generation.

LABOR FORCE ACTIVITY

Significant changes have occurred in the rates of labor force participation for both the elderly and the young in the last 35 years or so. Among the elderly, labor force participation for elderly men declined from roughly 46 percent in 1950 to 16 percent by 1985. The work activity rate for women, however, has remained relatively stable during this period ranging from only about 7 to 11 percent of their civilian noninstitutionalized population. The long-term decline in the participation of older men has been studied extensively (e.g., Rones, 1978; Parsons, 1980). It is generally believed that the reason for the decline has been the growing financial ability of older men to retire. The spread of pension plans, the expansion in Social Security coverage and indexing of benefits, and the expansion of disability coverage, have frequently been mentioned as specific factors.

For the young, the major development has been the rapid growth in labor force participation of young women beginning in the 1960s and continuing up to the present. The participation rate for women age 20 to 24 increased from 46 percent in 1960 to 72 percent in 1985, and for women age 25 to 34 the rate went from 36 to 71 percent over the same period. Participation rates for young men have been relatively stable at fairly high levels--upper 80s to mid 90s--throughout the period. The dramatic change in labor force activity for young women has also been the topic of much analysis (e.g., Cain and Dooley, 1976). A couple of the factors that have been discussed related to these developments have been the slow growth in the real earnings of men in the 1970s and 1980s and the drop in birthrates in the 1960s and 1970s. Of course, many other factors have been mentioned, such as legislation against sex discrimination, the feminist movement, and advances in technologies associated with household work.

With respect to unemployment, in 1987 the rate of unemployment for the young was more than twice as high as the rate for the elderly--7.1 percent vs. 2.5 percent. One researcher (Rones, 1983), however, has pointed out that the situation for the elderly may not be as favorable as it appears because their unemployment rate does not account for "discouraged" workers. Many elderly persons do give up looking for work because they think they can't find any that is suitable for them. The unemployment problems of the young, especially those just entering the labor market, of course, have been the topic of much analysis. Despite rising educational attainment, the lack of significant work experience and job skills has made the transition from school to work a difficult one for many young persons. This is reflected in the jobless rate of 20 to 24 year olds which was almost 10 percent in 1987.

INCOME

Perhaps the one economic indicator that has received the most attention in the generational equity debate has been income. As mentioned earlier, a number of economists have examined the income trends of the elderly and nonelderly. The major source of income statistics they have used has been the income information collected in the income supplement to the March CPS. The income data relate to the "money" incomes of households, families, and persons in the previous year. One limitation of these data is that they exclude the value of certain nonmoney income benefits received in many households, such as food stamps, Medicare, Medicaid, employer-provided health insurance and pension plans, and so forth. These items have become more common in recent years. Another limitation of the income data is that they relate to incomes before taxes. A more rigorous analysis of the income situation of the young and the elderly should take into account their relative tax liabilities.

Table 1 presents the median money income levels of the young and the elderly for selected years since 1950. All of them have been adjusted for inflation and are in terms of 1986 dollars. Before examining trends, it would be useful to look at the levels as they stood in 1986. Young families, in which the householder is between 25 and 34, had the highest income--$26,894. [2] (The median for all families in that year was $29,458.) The income of all elderly families was $19,932 and for very young families, (in which the householder was 18 to 24) it was $15,026. So in terms of families, incomes of the elderly are between the young and very young families. (If income per family member is considered, however, the elderly would have the highest income because their families are the smallest in size.)

With respect to unrelated individuals, or persons living by themselves or with other nonrelatives, the elderly have the lowest income on average. In 1986, the median for the elderly was $7,731,

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[2]The householder is the person in whose name the residence is owned or rented. If the house is owned jointly by a married couple, either the husband or the wife may be the reference person or householder.

Table 1. Median income of families and unrelated individuals who are "young" (householder/individual, age 18 to 34) and "elderly" (householder/individual, age 65 and over)--1950 to 1986 (selected years)
(In 1986 dollars)

	Young				Elderly	
	Families		Unrel. indiv.		Families	Unrel. indiv.
Year	Age 18-24	Age 25-34	Age 18-24	Age 25-34	Age 65 and over	Age 65 and over
1986.............	$15,026	$26,894	$ 9,440	$17,581	$19,932	$7,731
1985.............	15,576	26,224	9,388	17,542	19,531	7,714
1980.............	18,432	27,161	10,275	17,250	17,141	6,781
1975.............	17,909	27,862	9,828	18,304	16,414	6,745
1970.............	19,871	27,822	8,206	19,258	14,268	5,509
1965.............	18,762	24,468	7,701	17,032	12,024	4,684
1960.............	14,861	21,066	6,198	13,380	10,726	3,899
1955.............	12,853	18,406	5,446	10,089	9,524	3,448
1950.............	11,902	15,327	3,790	9,784	8,668	2,942
Percent change:[1]						
1970-86.......	-1.7	-0.2	0.9	-0.6	2.1	2.1
1950-70.......	2.6	3.0	3.9	3.4	2.5	3.2

[1]Compounded annual rate of change.

Source: Bureau of the Census, Series P-60 Current Population Reports (and author's calculations).

but for the very young age 18 to 24 it was $9,440 and for those 25 to 34, $17,581. Further, a higher proportion of the elderly live as unrelated individuals as compared to the young.

As is well known, real income growth in the Nation slowed in the 1970s and early 1980s relative to what happened in the 1950s and 1960s. Table 1 contains real income growth rates for the young and elderly in two periods, 1950 to 1970 and 1970 to 1986. In the earlier period, when all family incomes rose on average by roughly 3.0 percent a year, elderly family income rose somewhat slower than was the case for young families. In the later period, when annual family income growth averaged only 0.3 percent a year, incomes of elderly families continued to rise, but the young's declined. With respect to the elderly, the indexing of Social Security benefits to the Consumer Price Index has been cited as a reason for the growth in their income, while wage stagnation in the 1970s and early 1980s was the cause of the poor performance in incomes of the young (Levy and Michel, 1986). What all this meant, of course, was that the income gap between the elderly and young had narrowed in the 1970 to 1986 period. In 1950 and 1970, the median family income of the elderly was only half as large as for families in which the householder was 25 to 34, but by 1986 it was three-fourths as large.

Radner (1988, 1986) has studied the relationship between the incomes of the "aged and nonaged" over the last 20 years in some detail. He also found, even after adjusting for difference in family and household size, that the income of the elderly had risen faster than the incomes of nonelderly groups. In the most recent period--1979 to 1985--he showed that the closing of the relative income gap occurred because the incomes of the elderly rose between 1979 and 1982 while those of the nonelderly fell--and that between 1982 and 1985 the relationship remained largely unchanged.

Because both the incomes of the young and elderly are below the average for the country, attention is often directed toward the low-income recipients of each group. Almost one-third of the families with householders age 18 to 24 and almost one-third of the unrelated individuals of the same age group had incomes below the poverty level in 1986. Poverty rates among families and individuals in the 25 to 34 year old range were considerably lower--15.2 percent for families and 12.5 percent for unrelated individuals. Among the elderly, the poverty rate is 25.2 percent for unrelated individuals but only 7.0 percent for families.

NET WORTH AND ASSETS

One dimension of economic well-being that is sometimes not examined in analyses such as these is the net worth and asset position of individuals and their households. This dimension is important since it too can influence consumption and savings patterns. Obviously, one would expect the elderly to have accumulated more assets and have a greater net worth, on average, than the young simply because they have lived longer. The elderly, however, are less likely to

be able to replace assets once they have been depleted.

As mentioned above, we would expect to find the net worth position of the elderly to be much larger than that of the young--and data from the Census Bureau's Survey of Income and Program and Participation (SIPP) bear this out. In 1984, the median net worth of young households was $5,764 and for the households of the elderly, $60,266. If data for all household age groups had been presented, one would see the median rising with age up to $73,664 for households in which the householder was 55 to 64, and then dropping to the level for elderly households.

One of the largest components of a household's net worth is its equity in its home. According to the SIPP data the median net worth of all households in 1984 was $32,667, but when the equity in the home is excluded median net worth drops to $7,783. Table 2 reveals the impact of this exclusion on the net worth of the young and elderly by monthly income. Clearly, the decline in net worth is greater for the elderly--but still, even after this exclusion, the elderly's net worth, on average, is over six times as great as the young's.

The elderly's net worth position vis-a-vis the young's, however, appears less favorable (at least for some of the elderly) when we compare these group's net worth (excluding home equity) by monthly income.[3] Table 2 shows that for elderly households with monthly incomes of less than $900, net worth after excluding home equity was $3,727; for young households with monthly incomes in the $2,000 to $3,999 range, net worth minus home equity was $5,851. (It was even much higher for young households with incomes of $4,000 or more.) The elderly households in this comparison comprised 43 percent of all elderly households, while the young's made up 38 percent of their total. In other words, many low-income elderly households also have relatively low net worth positions.

Attempting to measure changes in net worth and asset holdings over time is difficult. While a number of attempts have been made to collect such data, their periodicity is uneven. Some researchers, nevertheless, have made comparisons of net worth over time. One group (Avery, et al, 1984) compared estimates from the 1970 Survey of Consumer Finances, the 1977 Consumer Credit Survey, and the 1983 Survey of Consumer Finances. They found that for all families, median net worth, adjusted for inflation, rose by 12 percent between 1970 and 1977 and by 18 percent between 1977 and 1983. The increase between 1977 and 1983 they reported "...reflects the net effects of the economic expansion in the late 1970s--which had a particularly heavy impact on home equity, a large component of consumers' balance sheets--and of the recession in the early 1980s." Although they did not directly discuss the changes in net worth across age groups, they implied that the increase in the number of elderly households may have helped boost the overall increase in real net worth.

CONSUMER EXPENDITURES

The Consumer Expenditure Survey of the Bureau of Labor Statistics (BLS) is the major source of information on consumer expenditures. According to the data from the 1985 Consumer Expenditure Survey, consumption patterns of the elderly and young are quite different. Furthermore, consumption patterns among the elderly differ and these differences have been discussed in detail by others (Harrison, 1986).

Consumption of goods and services among the consumer units with a reference person under 25 was characterized by relatively high proportions of annual expenditures on vehicles and rented living quarters--14.6 percent and 13.3 percent respectively.[4] (See Table 3.) These proportions are smaller for the consumer units with reference persons age 25 to 34 and much higher proportions are expended for one's own dwelling and personal insurance and retirement programs--10.8 percent and 9.5 percent. These latter consumption items are commonly associated with "settling down." By age 65 to 74 the distinguishing characteristics of the consumption pattern has shifted towards more health care (9.1 percent), utilities (9.6 percent), and food (17.2 percent)--the basic necessities of life. And finally, in the most advanced age group, age 75 and over, a large proportion of expenditures are for health care (12.2 percent) and cash contributions to persons outside the consumer unit and charitable organizations (10.7 percent).

Some historical perspective on consumer expenditure patterns of the young and the elderly can be obtained from BLS's Consumer Expenditure Survey for 1972-73. The comparison here is for consumer units in which the reference person was 25 to 34 and 65 and over. For the young, there appeared to be only small changes in the distribution of annual expenditures. Perhaps the most noteworthy was the rise in the proportion of expenditures for transportation--an increase from 19.1 to 21.6 percent. For the elderly taken as a whole, Consumption patterns appear to have shifted somewhat more. Proportionally less was spent on food and shelter-furnishings (excluding utilities) and more went toward transportation and health care costs, perhaps reflecting the increases in their real incomes.

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[3] According to SIPP the median monthly income of households in which the householder was under 35 was $1,596 and for households in which the householder was 65 or over, $1,021.

[4] A consumer unit is similar in definition to a household and reference persons in consumer units are analagous to householders.

Table 2. Median net worth of households that are "young" (householder under 35 years old) and "elderly" (householder 65 years old and over) by monthly income--1984
(Households in thousands)

Groups and net worth	Total	Monthly income			
		Less than $900	$900-1,999	$2,000-3,999	$4,000 or more
YOUNG					
Householder under 35 years old . . .	25,730	6,973	8,916	8,250	1,691
Median net worth	$5,764	$855	$4,686	$15,343	$44,424
Median net worth excluding home equity	$2,966	$626	$2,531	$5,851	$18,158
ELDERLY					
Householder 65 years old and over. .	18,151	7,934	6,672	2,802	743
Median net worth	$60,266	$25,863	$74,775	$162,900	$344,518
Median net worth excluding home equity	$18,790	$3,727	$29,849	$80,327	$212,710

Source: Bureau of the Census, Current Population Reports.

Table 3. Distribution of expenditures of consumer units that are "young" (reference person under 35 years old) and "elderly" (reference person 65 years old and over)--1985

Expenditure	Young		Elderly	
	Less than 25	Age 25-34	Age 65-74	Age 75 and over
Total	100.0	100.0	100.0	100.0
Food	15.1	14.2	17.2	16.4
Alcoholic beverages	2.3	1.6	1.1	0.7
Housing	27.4	33.0	30.6	33.7
Shelter	17.7	20.3	15.5	16.7
Owned dwelling	3.1	10.8	9.9	8.3
Rented dwelling.	13.3	8.5	3.3	7.0
Other	1.3	1.0	2.3	1.4
Utilities.	5.5	6.5	9.6	10.9
Household operation	0.8	2.0	1.7	3.4
Housefurnishings	3.5	4.2	3.8	2.7
Apparel and services	6.0	5.4	4.4	2.9
Transportation	26.7	21.6	18.9	14.4
Vehicles	14.6	10.1	7.4	5.9
Gasoline/oil	5.3	4.6	4.6	3.3
Other vehicle expenses	5.7	5.7	5.4	3.8
Public transportation	1.0	1.2	1.5	1.4
Health care	3.0	3.2	9.1	12.2
Entertainment	5.2	5.5	3.9	2.6
Personal care	0.8	0.7	1.2	1.2
Reading	0.5	0.6	0.8	0.8
Education	0.4	0.9	0.5	0.2
Tobacco	1.0	1.0	1.0	0.6
Miscellaneous.	1.3	1.3	1.7	1.5
Cash contributions	0.8	1.5	4.9	10.7
Personal insurance and pensions	5.8	9.5	4.9	2.1
Life and other insurances	0.4	1.0	1.4	0.7
Retirement, pensions, social security	5.4	8.5	3.5	1.4

Source: Bureau of Labor Statistics, Consumer Expenditure Survey.

SUMMARY AND CONCLUSIONS

Assessing the economic well-being of any group of persons is complex since so many factors must go into the assessment. Not only must one consider the obvious elements, such as the ones we considered here, but others must be factored in as well. For example, taxes have not been considered nor the receipt of noncash benefits. In addition, issues can be raised about the quality of economic life, that is, how adequate the housing is of the young vis-a-vis the elderly. And beyond these issues are the more philosophic questions about interpersonal utiltity comparisons. Does an extra dollar of economic resources have the same impact on the elderly as it does on the young, even after controlling for their many economic differences? Because of these omissions and conceptual matters, it is not a simple matter to answer the question, "Who has fared better, the young or the elderly?"

What we can do, and what we think we have done here, is to lay out, side-by-side, important economic characteristics of the two groups--and compare them. For this comparison, we have found some of the obvious differences and similarities between the young and elderly but also some other findings that may add to our assessment.

The major ones are:

--While some of the elderly still rely on the labor market for their economic suport, labor force activity rates are very low. In contrast, the participation rates for young women continue to advance strongly, and the young men's remain high.

--The young have higher incomes than the elderly, but in recent years the income gap has closed because of the faltering growth rates in the young's incomes and continuing increases in the elderly's.

--Although the net worth of the elderly is much greater than that of the young's, a large proportion of the elderly have net worth below those of the young after home equity is excluded from the comparison.

--In recent years, the consumption pattern of the elderly has shifted slightly towards proportionally larger expenditures for health care and transportation and smaller expenditures for food, while the young's has remained relatively stable.

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AN ESTIMATION OF SAVINGS NEEDS TO ADEQUATELY FUND BABY BOOMERS' RETIREMENT

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Early in the 21st century members of the Baby Boom generation will enter retirement. The life expectancy of these individuals at age 65 is fifteen to twenty years. The large number of people in the boomer age group, coupled with their longevity and current consumption habits, implies that large amounts of funding will be required for retirement in the years 2011-42. The purpose of this paper is to find out whether the diversion of income into retirement funds of the boomer generation is adequate to support consumption patterns based on current lifestyles. Estimates of whether a "retirement gap" exists were made by application of data from the 1983 Survey of Consumer Finances to a framework developed by Duncan, Mitchell and Morgan (1984). Sizable retirement gaps do exist for members of the Baby Boom generation. In many cases, savings rates needed to meet retirement needs exceed current savings rates exhibited by this group.

INTRODUCTION

In 24 years' time (2011) the first of the Baby Boom generation will begin retiring. Based on current projections, if an individual reaches age 65, he has a life expectancy of 15 to 20 years (American Council on Life Insurance, 1987). The questions to be asked here are whether the baby boomers are currently accumulating the funds required for financial security during retirement, and which assumptions can be made to produce realistic information about the amount one needs to save to fund retirement consumption.

Popular studies suggest that the Baby Boom generation is the first generation in recent history to have less economic security than its parents. This may be due to smaller wages and salaries than parents, to difficulties in entering the labor market, or to increased costs of living (Russell, 1982). It could also be due to increased debt loads. This group sent a larger proportion of its members through college than previous groups and consequently incurred large amounts of educational debt (U.S. Bureau of Census, 1985). Yet data also suggest that boomers are consuming at the level of their parents' generation, thanks in part to enhanced short-term credit capabilities (Bureau of Labor Statistics, 1986). The implications for retirement funds accumulations are evident.

At the present time, the boomer generation's members range in age from 24 to 42 years: they are therefore at various stages of retirement planning. The median family income in 1983 for this cohort is $21,018 (Bureau of Labor Statistics, 1986). A comparison of the cohort with its immediate predecessors reveals that it has married later and had fewer children, born later in life (National Center for Health Statistics, 1984). It should be mentioned that a significant majority of boomer families (67 percent) have two earners, and many are able to enjoy relatively high consumption standards.

The large number of people in the Baby Boomer cohort, coupled with their longevity and current consumption habits, implies that large amounts of funding are required for retirement in the years 2011-2042. The group is now beginning the stage of its life cycle when it should be planning for retirement.

The study has important ramifications for those concerned with retirement planning. There is an urgent need for any data on retirement plans of boomers in view of the forecasts of impending doom of the Social Security system, the increased reliance on Social Security as a major part of one's retirement income, and the concern that as the boomer group begins to receive income from its retirement programs, asset levels in private industry and the banking system could be severely depleted.

From a financial planning point of view, if there is a retirement gap, it is important to know its extent. It is also important to use a model which accurately assesses one's financial standing at the point of analysis. Planners can then assess what adjustments would need to be made to change either current savings or future consumption, to close the gap. It would also be of interest to know if the retirement gap is different for people with different income levels.

METHODS

Estimates of whether a retirement gap exists among the boomer age group were made by application of data from the 1983 Survey of Consumer Finances to a framework developed by Duncan, Mitchell, and Morgan (1984).[1] The Duncan, Mitchell, and Morgan (henceforth DMM) model is essentially an application of the lifetime income approach to retirement

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planning. In the lifetime income model, a portion of current income is set aside for retirement during the income earning years, to accumulate a stock of assets which becomes the fund out of which consumption will be financed in retirement. Under this model, consumption is evened out over the person's expected lifetime, with the idea of leaving a zero asset stock at the termination of one's life.

Model

The first step in estimating the retirement gap involved calculating the assets available to an individual or family at retirement. Following DMM, the assets available were:

(1) $A = (SS * R) + (P * R) + HE + OS$

where SS was annual Social Security benefit; P was annual pension benefits; R was expected years of retirement; HE was housing equity, and OS was other savings.

In a second step, assets needed for retirement were calculated. The DMM method required the nomination of a percentage of annual income that would provide for an even stream of consumption throughout life. Needs were:

(2) $N = kY * R$

where Y was income, and k was a constant representing the desired portion of current income for consumption purposes. Once supply and demand for assets for retirement had been calculated, the retirement gap followed:

(3) $D = N - A$

If the gap, or deficiency, was greater than zero, then additional annual savings were needed to fill the gap by the time of retirement. The annual requirement was:

(4) $S = D/W$

where W was the years to retirement. These savings could be figured as a percentage of income:

(5) $SR = S/Y$

As DMM pointed out, the requirement of additional savings would reduce current consumption below its kY level. To even out consumption over the lifetime, the following adjustment was performed:

(6) $ASR = SR/(1 + SR)$

and ASR was termed the adjusted savings ratio. The adjusted savings ratios that result from using various assumptions in the model became the dependent variables in further analysis.

Data

The 1983 Survey of Consumer Finances contained data of the kind necessary to estimate whether a retirement gap does exist among boomers, and if so, to calculate what additional rate of savings, ASR, would be required to fill the gap and even out consumption over the lifetime. The unit of analysis was the family, defined as anyone living in the same household.

Four asset types constituted assets available for retirement. The supply of private pensions at retirement was the current value of respondent's and spouse's employer pension plans plus the value of IRA and Keogh pension plans. Housing equity was the current market value of the house less outstanding mortgage balance and home improvement loans. Other savings included the value of savings accounts, money market and mutual funds, stocks, bonds, and real property owned as an investment. The Social Security part of supply of retirement funds presents a problem since it was not included in survey data. Assuming that household expectations for Social Security entitlement are based on the current system, a proxy for Social Security was projected by taking the median monthly benefit awarded in 1983 for a retiree in each of three groups. The three groups were delineated based on the distribution of Social Security entitlements. These figures were then multiplied by 12 to give annual benefit, and the annual benefit was multiplied by the number of expected years of retirement, R. If the respondent was married, spouse's entitlement was included in family benefit.

On the asset needs side, two levels of k were used, namely .75, the level adopted by DMM, and .80, the average ratio of total expenditures to income before tax of the boomers in 1983, the sample year (U.S. Bureau of Labor Statistics). Income was total family income.

A modified DMM model was formulated because two problems were seen with the straightforward estimation of retirement gap using the data described above. A new figure, termed financial net worth, was calculated by netting out from other savings existing short-term debts. This term was substituted for other savings in the assets available calculation. Second, it was recognized by DMM that income can vary over the life cycle. Accordingly, an estimate of permanent income was substituted for current income in the asset needs equation (Widdows and Johnson, 1986).

The modifications described were incorporated into a supplementary estimate of retirement gap, termed DMM*. Both the DMM and DMM* estimates were carried out with 0 and 3 percent appreciation of assets available until retirement, with R set at 20 years, and with k equal to .75 and .80.

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[1]The Survey of Consumer Finance was conducted by the Survey Research Center of the University of Michigan. It contains financial data and attitudes toward credit for a random sample of over 3,000 families/households.

In 1983, the Baby Boom generation was in the age group 19-37. It was felt that it would be hard to generalize the experience of this entire age group because many of its members would either still be in school in 1983, or would only just have entered the workforce and may not yet have geared up for retirement planning. There exists, however, an apt breaking point in the group because the population surge peaked about 1956. Those born between 1946 and 1956, often called the early boomers, would have been in the age range 27-37 in 1983. This group comprised the study group: any family whose household head or spouse was in this age group qualified for admission. In addition, a permanent income figure must have resulted from the earlier regression to be admitted into the sample. Results will be presented in the form of averages for the early boomer group.

RESULTS

Table 1 gives the retirement gap in 1983 dollars. To provide further information on retirement gaps, boomers were distinguished by age and income groups. Group 1 members had incomes less than one-third of the Social Security taxable income distribution ($11,900). Group two included those with income between one-third and two-thirds of the Social Security taxable income ($23,800). Those in group three had incomes above $23,801.

Sizable retirement gaps were forecast under all models. For those in the highest income group the greatest gaps were estimated using the DMM model. Under the DMM model, smaller gaps were forecast for those in the middle and low income groups. If retirement assets were not assumed to grow at a real rate of interest, the resulting retirement gaps were larger.

Those in the lower income group had negative retirement gaps. This anamoly resulted from the model. Social Security benefits were assumed for all respondents. In many cases, the Social Security benefit would replace a large portion of the low income person's salary. Therefore, low income persons may not experience a retirement gap.[2]

Larger gaps resulted when an 80% replacement rate was assumed. There were small patterns of change in retirement gaps as age increased. Middle income groups had larger retirement gaps than upper income groups on average. If

[2] The low income respondents could have a high percentage of their current income replaced by Social Security. But, they must be eligible for the program which requires forty calendar quarters of paid employment over a lifetime. If they qualify, members of this group would have to rely less on private savings and employer related pension plans to replace their income. However, this does not guarantee a retirement income above poverty level.

Table 1. Mean Retirement Gaps In Dollars (Replacement Rate, Real Growth Rate on Other Savings or Net Worth) for DMM and DMM* by Baby Boomer and Income Groups.

	Late Boomers[a]			Early Boomers[b]		
	Income			Income		
Method	1[c] n=33	2[d] n=44	3[e] n=85	1 n=25	2 n=42	3 n=128
(75%, 0%)						
DMM	10,702	222,937	488,005	-20,214	235,858	502,186
DMM*	294,861	303,414	311,165	327,137	354,514	325,562
(80%, 0%)						
DMM	14,168	240,594	526,962	-17,499	254,582	545,240
DMM*	317,206	326,358	338,198	352,981	381,092	356,656
(75%, 3%)						
DMM	-49,206	169,805	349,491	-96,251	190,497	323,874
DMM*	236,669	252,479	176,171	251,734	310,337	151,332
(80%, 3%)						
DMM	-45,740	187,466	388,448	-93,536	209,221	366,928
DMM*	259,014	275,423	203,204	277,577	336,915	182,427

[a] Late boomers are respondents between 27 and 32 years of age.

[b] Early boomers are respondents between 33 and 37 years of age.

[c] Annual income less than $11,900.

[d] Annual income between $11,901 and $23,800.

[e] Annual income greater than $23,801.

Table 2. Mean Adjusted Savings Ratios (Replacement Rate, Real Growth Rate on Other Savings or Net Worth) for DMM and DMM* by Baby Boomer and Income Groups.

	Late Boomers			Early Boomers		
	Income			Income		
Method	1 n=33	2 n=44	3 n=85	1 n=25	2 n=42	3 n=128
(75%, 0%)						
DMM (.34)	.65	.26	.26	-.13	.29	.27
DMM* (.25)	.28	.27	.24	.30	.31	.20
(80%, 0%)						
DMM (.33)	.65	.26	.25	-.11	.29	.27
DMM* (.27)	.29	.29	.26	.31	.32	.23
(75%, 3%)						
DMM (.52)	-.30	.21	.15	-1.13	.24	.51
DMM* (.16)	.24	.23	.06	.24	.28	.12
(80%, 3%)						
DMM (.12)	-.29	.22	.17	-1.06	.26	.22
DMM* (.19)	.25	.25	.09	.26	.29	.15

retirement assets were not assumed to grow at a real rate of interest, the resulting retirement gaps were larger.

Table 2 shows the adjusted savings ratios required to fill the retirement gap by individuals in various age and income groups. Using the DMM* model, the groups as a whole would anticipate a positive adjusted savings ratio. In other words, the average family unit needed to increase its savings plans to supplement the income that will be provided by pension plans, and Social Security benefits.

In almost all cases, as anticipated, families would have to save at a higher rate if they wished to replace 80% of their current income instead of having a level of living at 75% of their current level.

DISCUSSION

Intuitively, the results of the analyses makes sense. As one ages, one's accumulation period decreases relative to the retirement period and one who has not saved for retirement will experience a larger retirement gap and adjusted savings ratios increase. The earlier one starts to plan and save for retirement the lower the retirement gap. Therefore, the adjusted savings ratios for younger respondents are less than those of older respondents. As one's replacement rate increases (the percentage of retirement income desired relative to current income), the adjusted savings ratio increases. The DMM* model results suggested lower adjusted savings ratios because the model took into account future income increases while decreasing the savings amount by the debt load of the respondents. In the case of the average higher income person, future income increases offset the short term debt. However, on average, middle income consumers' short term debt load was greater than expected future income increases.

The data suggested that lower income respondents on average had negative retirement gaps and negative adjusted savings ratios. These rates may be because the median Social Security benefit was used in the analysis and thus, was equal for all respondents in the income category, while the retirement gap was estimated using current, below poverty income levels. While Social Security benefits replace a larger portion of a low income person's income than that of a person in the higher income group it does have a ceiling on the percentage of income it will replace.

The results suggested that middle and upper income respondents had similar adjusted savings ratios. This may be because the middle income consumers are more cautious in their consumption habits.

Those in higher income groups had relatively large adjusted savings ratios when using the DMM model or when assuming 0% growth rates on assets or net worth. It is harder to replace high income from standard retirement income sources. The higher the income, the less will Social Security replace income. Pension plan benefits are often determined based on one's income. Those with higher incomes may need a lower percentage of that income during retirement - replacement rates are often lower for people in the higher income group - in which case current savings needs are not so pressing.

Some of the adjusted savings ratios are worrisome. It would be difficult for anyone to save 10% or more of current income just for retirement. And yet, the results suggest that this should be done by many segments of the sample. However, it appears that the DMM* model does suggest lower savings ratios than the DMM model. The DMM* model should be more realistic because it accounts for increases in future income.

As the Baby Boom generation closes in on retirement, the funding of retirement for this group should be of increasing concern to families as well as educators, researchers and economists. This research suggests that earlier planning for retirement is necessary to avoid lowering retirement expectations, postponing retirement, or having to save an unusually high amount of current income in the later years of employment.

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SAVING AND DISSAVING IN RETIREMENT

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ABSTRACT

This paper explores patterns of saving and dissaving during the first 8 years of retirement, using the Longitudinal Retirement History Study. Nearly half the sample (46 percent) had higher financial asset holding after 8 years of retirement, contrary to life cycle theory predictions. over half the sample dissaved during retirement, nearly one-fifth dissaved at rates faster than predicted by actuarial life expectancies. Factors associated with faster-than-expected dissavings were income, initial value of financial assets, marital status, living in an urban area, and education.

The life cycle hypothesis posits that households will save during peak earning years and then dissave during retirement years. It follows that households would annuitize assets at retirement and draw down their assets in proportion to their life expectancy.

While this approach is intuitively appealing, it has been shown that households do not behave exactly according to this hypothesis. Many researchers found that although dissaving did occur, it was at a lower level than expected, given the life cycle hypothesis predictions.

Dissaving in retirement does not necessarily represent "bad" financial management. However, dissaving at rates which cannot support the household for its expected lifetime is a dangerous practice. In order to determine appropriate educational programs and public policies, the purposes of this study were to explore determinants of saving and dissaving with regard to financial assets in retirement and the factors affecting disproportionate dissavings, relative to life expectancy.

PREVIOUS WORK

Early studies of the life cycle hypothesis were conducted by Ando and Modigliani (1963), Lydall (1955), and Sharrocks (1975). Other studies have been conducted on the asset accumulation of persons prior to retirement, the "savings" portion of the life cycle. Research by Hemming (1977), Munnell (1976), and Sobol (1979) are representative works in this area. Recently, much work has been done on the dissavings side of the life cycle. Empirical evidence using "macro" data (i.e. data aggregated at the national level) shows some support for this dissaving-at-retire ment hypothesis (Davies 1981; Mirer 1980), albeit at low levels.

Using net worth as a dependent variable, Davies found persons aged 65 to 85 dissaved at a rate of 2.9 to 3.7 percent per year, a rate significantly lower than the rate of 7 to 9 percent predicted by the life cycle hypothesis (Davies, 1981). He indicated that uncertainty about life expectancy was a major factor in the difference between the expected and actual dissaving rates. However, his findings were based on cross-sectional data and it may not be appropriate to infer the behavior of one cohort from the behavior of another.

Similarly, Mirer (1980) found a median dissavings rate of 1.2 percent, using the saving/wealth ratio as the dependent variable and cross sectional data. He also found that households with lower levels of wealth and income had greater dissavings than those with higher wealth and income. Mirer did not include present values of Social Security and pension benefits in his wealth measure, thus his estimates may have an upward bias.

Kotlikoff, Spivak and Summers (1982) studied the ratio of consumption during old age to lifetime consumption as a measure of the adequacy of lifetime savings using Retirement History Study data. Their results indicate that over 90 percent of married couples can afford old age consumption levels of at least 80 percent of their lifetime consumption level, 85 percent of couples could afford to purchase a larger annuity in their old age than they could at age 30, and that 73 percent of couples could afford to consume at a higher level than their lifetime consumption level, but only until age 88. Further, they found the determinants of the ratio between the two consumption streams to be a function of age, education, race, home ownership, Social Security (the ratio of Social Security to the present value of lifetime income resources), pensions (a similar present value ratio), future value of earnings, and lifetime income resources interacted with Social Security. They conclude that there is no evidence of under-saving among the elderly. However, they include the present value of Social Security benefits as part of the savings portfolio of the elderly. And while this may be an appropriate measure for this particular cohort, it may not be an appropriate measure to use with future cohorts.

Hammermesh (1982) examined the effects of life expectancy on the timing of retirement and consumption during retirement. Life cycle theory posits that persons will consume less and work more if they expect to life longer. However, he

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