

DISCUSSION: THE ECONOMIC WELL-BEING OF THE ELDERLY

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The three papers presented address subtopics of the economics of aging which may have important implications for public policy. Because each paper concerns a different subtopic, my discussion addresses each paper separately.

Young Sook Chung and Frances M. Magrabi  
"Age-Related Changes in Expenditure Patterns"

As life expectancy of the population increases and the baby boomers age, the age distribution of the population is changing. Expenditure patterns may also be expected to change. Each stage of the baby boomer's development seems to bring with it new "fad goods" consumed in large quantities by that generation.

As this generation becomes elderly, predictions of increased demand for certain goods, in particular those with short-run inelastic supply, may be important for two reasons: 1) predictions of change may allow a more timely adjustment of market supply, and 2) if necessary, public policies to facilitate availability of these goods at reasonable prices may be implemented. Examples might include medical care and housing.

To study differences in expenditure patterns of younger vs. older households, Chung and Magrabi have estimated separately a series of ad hoc linear equations regressing expenditure for single categories of goods on a series of socio-demographic variables and a measure of permanent income. In each equation the explanatory variable of interest is age.

Although the empirical analysis appears to be accurate for each single equation, I have two criticisms of the methodology: 1) Although a linear estimation of determinants of expenditures may be quite satisfactory, an appropriate theoretical construct should be presented to justify the empirical work. Several estimable models have previously been developed from classical demand theory and might be considered, for example, Linear Expenditure Systems (LES) or the more recent Working and Leser model.<sup>2</sup> 2) The true model of expenditures across categories of consumption should be an interrelated system where expenditures on the various categories are jointly determined. Therefore, the simultaneity issue must be addressed to prevent bias in the estimates.

In summary, the paper deals with relevant issues regarding changing expenditure patterns as the age distribution of the population shifts. A more sophisticated model based in demand theory and accounting for simultaneity may increase the accuracy of the estimates and provide deeper insights into the exact nature of expenditure patterns.

Karen C. Holden and Richard V. Burkhauser  
"The Joint Impact of Retirement and Widowhood"

This paper provides information about the income changes of married couples as they experience two critical life changes--retirement and widowhood.

The findings are consistent with Marilyn Moon's comment that the most economically vulnerable subgroup of the elderly are widows. These findings may provide direction for further refinement of income-related policies.

The study is primarily descriptive in nature with an income-to-need ratio calculated and compared as couples experience the critical life events. My discussion focuses on the income-to-need ratios. The paper should specify whether the income measure employed is gross or net. The possibility that the ratios are sensitive to the income measure used should be explored.

Holden and Burkhauser defined need as the SSA's poverty thresholds. Although this measure may be the only standard available with enough flexibility for the subgroups studied, it may not be a very accurate measure of actual need. The SSA poverty thresholds are criticized for being, at best, a very crude measure and for being outdated in terms of expenditure patterns portrayed.<sup>3</sup>

In spite of these limitations, the study provides insights into the precipitators of income declines for the elderly and offers significant direction for further study. In particular, further study on changing levels of living of the vulnerable group is indicated. Relevant research questions include: Are widows experiencing a decline in level of living? If so, how great is it and how is it experienced? What goods are given up?

The decline in widow's income is the culmination of a much broader societal problem--the financial status and security of women in

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<sup>2</sup>Angus Deaton and John Muellbauer, *Economics and Consumer Behavior*, Cambridge University Press, 1980.

<sup>3</sup>James H. Shulz, *The Economics of Aging*, 3rd Edition, Wadsworth Publishing Co., Belmont, CA, 1985.

general. The policy implications of this study may directly involve retirement income policies, but there are many indirect implications as well. Other relevant policy issues include income security for full-time homemakers and comparable worth issues in the labor force.

Shelley I. White-Means  
"Allocation of Labor to Informal  
Home Health Care Production"

This paper addresses an issue relevant to the frail elderly--production of home health care by a relative. The paper is well organized and well written. The theoretical model is an extension of Becker's theory of household production. Instead of viewing an individual's utility simply as a function of commodities produced with market goods and time in home production, White-Means incorporates two additional dimensions of time allocation--home health care production and leisure time. Although Becker groups home production and leisure as a single, indistinguishable use of time, it seems reasonable to separate it to gain insights into exactly what is foregone in spending time in caregiving to the frail elderly.

White-Means' hypotheses concerning the determinants of the caregiving, home production, employment, and leisure decisions are well defined and consistent with the theory. Although her empirical findings are not totally consistent with her hypotheses, she is able to provide reasonable explanations for the results in most cases.

I have the following comments regarding her conclusions: 1) She concludes that the caregiving hours equation shows a significant negative relationship between caregiving hours and nursing home ratings; however, the regression results she reports actually show a significant negative relationship between home health care rating and caregiving hours. A result she had earlier presented and discussed. 2) She concludes that the finding that lower income caregivers are more likely than higher income caregivers to leave or reduce market work to provide home health care indicates a need for financial compensation for informal, family caregivers. She indicates support for a Senate bill establishing tax deductions for such activities. A more effective public policy in the case of low income providers might be a tax credit or even a direct subsidy. Either would be more likely than a tax deduction to benefit lower income families.

The White-Means paper is well researched and well written. It provides insight into the especially pressing social concern of support for extended care of frail, elderly citizens.

In conclusion, the three papers address relevant issues and areas of concern regarding aging persons. These studies, together with the relevant bodies of literature in each case, provide information for policy makers and

significant direction for further research on the topics of income levels and sources and expenditure needs of the elderly population.