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The Fallacy of the Lump of Labor: Adding to the Costs of Ageism

Introduction

It is commonly assumed that older people consume much more than their fair share of the economic pie. Based largely on stereotypes and misinformation, they are made scapegoats for society's ills, such as unemployment or the high cost of medical care. The theory of the lump of labor has helped to perpetuate such negative perceptions of older people. It rests on the notion that the economy has a fixed number of jobs available and that employment of one group—in this case older people—means unemployment of another group. The lump of labor argument has been used to advocate both a reduction in work hours and complete withdrawal from the labor force.

Among economists, the theory of the lump of labor is widely acknowledged to be a fallacy.¹ Alfred Marshall, influential economist of the late-nineteenth and early-twentieth centuries, cogently argued against the lump of labor in his *Principles of Economics* (book VI, chapter 13).² Though supported neither by theory nor by experience, policymakers and pundits who believe that there is a lump of labor conclude from the supposed limit on the number of jobs to go around that it is necessary for some workers to stop working in order to provide jobs for others.

A fundamental flaw underlying the lump of labor theory is that it ignores long-run labor market adjustments. The theory is fixated blindly to the short run. Only in the short run or in isolated instances can jobs *possibly* be created and filled by new cohorts of workers as former workers are induced to leave—only *possibly*, because even with inducements, as public policy experiments in some European countries have shown, there is no guarantee that people will take the jobs vacated by others.

In the long run, higher employment results in economic growth, which in turn leads to still more job growth. The lump of labor tends to be argued most loudly when (and where) unemployment rates are high or when technological advance, immigration, and women entering the labor force have made people fearful about their own jobs. But inducing one group to vacate jobs so that others may find work not only is questionable practice in the short run, but also comes at the expense of long-term economic growth.

The Fallacy of the Lump of Labor: Adding to the Costs of Ageism

By Kenneth A. Knapp, Ph.D.

The Theory of the Lump of Labor

The term *lump of labor* was probably coined in 1891 by economist D.F. Schloss, who refuted it.³ Variations of the argument in support of the lump of labor theory have been directed at various times in history against free trade, technological advance, and women entering the labor force.

In the early-nineteenth century, even before the lump of labor theory was so named, French political economist and satirist Frédéric Bastiat debunked the lump of labor idea when he suggested that one solution to dividing up the limit on the amount of work available would be to require people to use one hand—or to have one hand chopped off.⁴

Public policies that limit work hours of one group in an effort to reduce unemployment may have a paradoxical effect by reducing labor market efficiencies.⁵ For example, if the hours of workers were reduced by half, then the arrangement undoubtedly would be agreeable to workers as long as wages were not likewise cut. However, there would likely be resistance to any plans to cut both hours and wages. But if wages were not also cut, then the reduction in work hours would not reduce unemployment. The cost per unit of output would rise for employers, with each full-time equivalent unit of

labor costing more than before. The need to hire and train additional workers would also increase the cost of output per unit of labor. Consequently, employers might hire less labor, not more.

Theoretical models that best describe actual experiences of economic growth assume that as labor grows, economic output grows.⁶ Economic growth, in turn, increases the demand for labor. While high unemployment may exist in the short run, markets adjust in the long run—firms develop new technologies and production processes, labor moves into different lines of work and invests in education and training.

The Costs of Ageism⁷

The lump of labor theory and other misconceptions that affect older people contribute to the total cost of age discrimination in America—both monetary and nonmonetary. Monetary benefits that have been awarded since the passage of the 1967 Age Discrimination and Employment Act (ADEA) almost certainly amount to billions of dollars. From 1992 through 2006 alone, compensation to older workers totaling \$997.7 million was distributed either after litigation or in accordance with administrative resolutions. Even the significant monetary settlements awarded under the ADEA greatly undervalue

the total costs to society because the ADEA applies only to the workplace. Ageism in nonworkplace domains as health care, education, the marketplace, the media, housing, and transportation exact a heavy toll on society.

Even if we restrict ourselves to the workplace domain, the ADEA monetary benefits should be considered an underestimate of the cost of ageism. Not everyone who faces age discrimination in the workplace files charges under the ADEA. People may not even be aware that they have been the victim of age discrimination, especially in hiring practices, where job candidates often do not know one another and where it is nearly impossible for an outsider to determine the real reasons an employer chose one candidate over another.

Many discouraged job seekers choose retirement and exit the labor market completely. Older workers who remain often are employed in jobs that do not fully utilize their skills and experience. In a form of passive discrimination, employers fail to offer flexible work arrangements or make workplace modifications that could both increase labor force participation of older workers and improve productivity of all workers. The ADEA applies only to employers with 20 or more employees, so employees in smaller firms are not protected. Finally, the costs of managing and operating ADEA should be considered a monetary cost of age discrimination in the workplace.

Adherence to the theory of the lump of labor clearly has monetary repercussions to the workers who are being discriminated against. However, there are also nonmonetary costs. Ageism in the workplace results in the loss of a sense of purpose, of belonging, and of social connectedness. If societal welfare is defined as the sum total of the happiness of the individuals who compose society, then society is worse off when there is a reduction in one individual's happiness without some increase in the happiness of another.⁸ Societal welfare is both directly and indirectly affected by

discriminatory practices. Direct effects include such behavior as employers not hiring older people. Indirect effects are reactions to or negative expectations formed as a result of ageism, such as when older people avoid educational opportunities or job training because of perceived discrimination.

Perpetuating Ageist Attitudes

Labeling contributes to discrimination against older workers, who are often characterized as weak or incompetent. While positive images of older persons exist, negative images dominate.⁹ Discrimination, fed by derogatory labeling, leads to a reduction of job opportunities and promotes retirement. Labeling of older persons, economic deprivation, and the concept of work as the basis of self-esteem or social acceptance influence the roles of older persons and, hence, their decisions regarding productive activities.¹⁰

In addition to reflecting society's perception of older persons, the lump of labor fallacy perpetuates ageist attitudes. In American and other cultures, work is an important part of personal value, both through society's opinion of an individual and an individual's self-image. Notwithstanding the unfairness of any stigma that society may attach to older people who do not work, those of us who remain productive as we age are behaving in a way that improves chances for continued personal happiness.¹¹ In a no-win situation, older people are perceived as a burden to society if they do not work; if they do work, they are viewed as preventing younger workers from getting jobs. Either way, they are deemed not assets but liabilities.

Social Security and the Lump of Labor

The Social Security Act became law in 1935, during the Great Depression. In pushing for the creation of a social security system, Franklin Roosevelt was motivated primarily by a humanitarian desire to ensure that Americans would not "starve in their old age"¹²

and to offer “protection against the major vicissitudes of life which result in destitution and dependency for many individuals.”¹³

Putting aside the important humanitarian goal of social security, its creation provides an interesting example of the use of the lump of labor argument, for Roosevelt also hoped that the departure of older workers from the labor force would make room for younger workers. As historian David M. Kennedy writes: “Depression America had productive work only for so many, the president reasoned. Forcibly idling some [i.e., older persons] was the price of securing a living wage for others.”¹⁴

The Committee on Economic Security (CES), created by an executive order issued by Roosevelt “to study the problems relating to the economic security of individuals” and to “report its recommendations concerning proposals which in its judgment will promote greater economic security,” wrote that “at least three strong arguments” justified a national old-age insurance system:

(1) The worker, after years of productive effort, has earned the right to rest; (2) his advanced age or invalidity renders him incapable of an effective part in productive enterprise; (3) *his continuance at work prevents a younger man from filling his place and gaining occupational skills, experience, and promotion.*¹⁵ [Emphasis added.]

None of the preceding discussion is meant to discount the importance of social security in providing a strong safety net for Americans during their retirement years. Rather, I mean only to point out that part of the justification for passage of the Social Security Act was to reduce unemployment of the young by encouraging older workers to retire. The general consensus today is that social security has indeed operated as a retirement

incentive.¹⁶ However, today, the problem is not how to get older workers to leave, but how to get them to stay longer. In Japan, a labor crunch caused by low birth rates and a rapidly aging population is motivating policymakers to consider updating its employment and retirement system, including the termination of mandatory retirement.¹⁷ Given the nature of the current job market, few are making the assertion in Japan that older workers need to be convinced to leave the workforce in order to make room for younger workers.

During the 1990s, high youth unemployment led several European countries, such as Belgium, Denmark, France, and Germany, to implement public policies to move young people into jobs vacated by older people. The programs have not generally succeeded.¹⁸ The lesson is that older people exiting the labor force does not in itself pave the way for younger people entering the labor force—even in the presence of public policies aimed at accomplishing just that. Many European countries are now struggling to improve labor force participation rates among older people.¹⁹

Conclusion

Policies that encourage older people to leave their jobs so that younger people can find work reflect society’s perception that younger workers are more highly valued. This perception exists despite the fact that older workers are not as a rule less productive than younger workers.²⁰

It is important that Americans develop an understanding that the theory of the lump of labor is unsupported by empirical evidence or by widely accepted economic theory, and that policy based on this theory will likely result in short-run labor market inefficiencies, that long-run economic growth will suffer, and that it will help to perpetuate ageism at great cost to society.

Kenneth Knapp, Ph.D., is the ILC’s senior research analyst.

Afterword

By Charlotte Muller, Ph.D.

Propositions that underlie ageist practices both in the labor market and in public policies regarding retirement incentives, training for older workers, and substantive equal opportunity are hard to eradicate. Dr. Knapp's essay shows how the lump of labor assumption plays a part in blocking the economic prospects of older members of the labor force and, moreover, has attitudinal consequences that encourage a belief in the lesser value of older persons.

The lump of labor assumption lingers in policy discussions without being directly expressed. One example is making the value of older workers' labor to the economy dependent on the retirement of baby boomers; another is showing that this older labor force can compensate for a lower level of fertility. Still another appears in arguments against raising the eligibility age for social security.²¹ Short-term and long-term time frames are not always clearly distinguished.

Given the history of human ingenuity in devising institutions and policies, we should be able to envision a society that is able and prepared to benefit from the current ability and accumulated human capital of older workers in an age-diverse labor force.

Society's absorption capacity for older workers, as Dr. Knapp has pointed out, has been greatly aided by economic growth and the accompanying creation of jobs. Let's consider what it would mean for older workers if job creation fell short of the numbers of workers available for paid employment. While a certain amount of unemployment in the national economy is acknowledged as necessary to accommodate shifts in industry requirements, the capacity of individual households to deal with the earnings lost is a human welfare concern, as well as a problem for consumer spending.

The need to monitor and deal with unemployment among older persons is magnified by significant changes in the social and personal resources available for retirement security. For many years this age group has had the fallback option of exit from the labor force if—for whatever reason—jobs were hard to come by. This is less meaningful as weaknesses in the pension and investment systems have been observed and changes in age of eligibility for social security have occurred, even as the number of older persons who wish to work is rising.

The United States has had years of extremely rapid economic growth, but if the GDP growth rate in a given period is based on higher product per hour of labor not matched by an equal rate of emergence of new jobs, the blessings of technology may result in rising unemployment rates. Furthermore, there are periods in which GDP growth is low, with little job creation to rely on. It has been reported in various statistical studies that the burden of being jobless—duration, chances of reemployment, permanent reduction of earnings—is greater today for older workers.²² (At the same time, these authors find that older unemployment insurance claimants who do get new jobs have a longer attachment than younger workers to the new employer, which could be valuable to employers in terms of experience and avoidance of transaction costs.)

Between 2000 and 2005 the increase in the GDP in the United States (in inflation-adjusted dollars) was much greater than the increase in employment overall. In this period, therefore, GDP growth was not matched by employment growth. Unemployment increased for all ages by 20 percent. At age 65 and over, it rose at almost the same rate—19 percent. Although the numbers for age 65 and over were small, the increase may forebode a growing problem as the option to leave the workforce will not be as financially feasible as it was before Social Security changes (both in place and proposed) and other developments.

The increase in unemployment for women age 65 and over was less than for men, partially at least due to greater likelihood of discouraged women workers leaving the workforce (and perhaps to demands of caregiving).²³ But with more women having continuous work histories, their behavior may change.

Meanwhile many features of state unemployment insurance systems continue to limit their ability to protect older workers against impoverishment due to unemployment while preserving their work incentive.²⁴

A different scenario from the unemployment problem just described should not be excluded. Beyond baby boomer retirement, the diminished number of persons under 15 in the population today—unless compensated by immigration—will affect the total labor supply in future years and may be expected to sustain employers' interest in older workers, especially given improvements in education and health. Technology may spawn substantial use for older labor if industries attract consumer demand by new products sufficiently to replace—and more than replace—spending on products produced with less labor than before. In these more promising circumstances, efficient deployment of older workers can be maximized by heightening employer receptivity, provision of effective help in job search through public programs designed to serve older persons, and other improvements.

Job insecurity is affecting many workers in midlife as well as those over 60. If at some point a diminished labor input per dollar of product reduces the regular labor needs of even a growing economy, there are various ways in which society could use that efficiency—shortening the period of full-time work over the life course or within the workweek and expanding the role of paid and volunteer service to preserve and restore the nation's landscape and natural resources.

Meanwhile, attention should be given to studying trends in the occupational structure to determine where consideration of older workers' needs will be necessary, and the “public workforce system” should develop a rapid and fine-tuned response to full or partial unemployment among older workers.²²

Charlotte Muller, Ph.D., is the ILC's director of longevity research.

Notes

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7. For more information about this section, see International Longevity Center-USA, *Ageism in America*, 2006.
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The International Longevity Center–USA

(ILC–USA) is a not-for-profit, nonpartisan research, education, and policy organization whose mission is to help individuals and societies address longevity and population aging in positive and productive ways, and to highlight older people’s productivity and contributions to their families and society as a whole.

The organization is part of a multinational research and education consortium, which includes centers in the United States, Japan, Great Britain, France, the Dominican Republic, India, South Africa, Argentina, the Netherlands, and Israel. These centers work both autonomously and collaboratively to study how greater life expectancy and increased proportions of older people impact nations around the world.

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