Journal Of Investment Management, Vol. 10, No. 1, (2012), pp. 103–104

JOIM
www.joim.com

CASE STUDIES

"Case Studies" presents a case pertinent to contemporary issues and events in investment management. Insightful and provocative questions are posed at the end of each case to challenge the reader. Each case is an invitation to the critical thinking and pragmatic problem solving that are so fundamental to the practice of investment management.

Jack L. Treynor

BABY BOOMERS IN RETIREMENT

The retirement of the baby boomers is an unprecedented event, big enough to have macroeconomic consequences. Will the US economy be able to cope?

Our premise is that, when the baby boomers retire, their consumption won't change, except in one respect: they will commute less. Accordingly, the problem for the US is not providing for increased consumption but rather maintaining the old level of output. The key to the problem is the fact that, when the baby boomers retire, they leave their jobs behind. The machines abandoned by the baby boomers will be waiting for someone to put them to work.

Fortunately, the US economy has a substantial supply of workers in the public sector. Because the function of government employees is merely to reduce the country's unemployment rate, those workers can be removed from their current jobs without reducing the country's output. But then we can put them to work in productive, private-sector jobs.

To be sure, some of the retiring baby boomers are civil servants, rather than productive, private-sector employees. But because they aren't productive, they don't have to be replaced.

Before World War I, government employees were only one percent of the work force. So it is clear that the current number can be reduced without interfering any essential government function. The challenge for policy makers is how to make the shift of government workers to the private economy as expeditious and painless as possible.

Questions

How would you deal with the fact that the machines are in Pittsburgh and the workers are in D.C.? Would you move the jobs to the workers or the workers to the jobs?

How would you deal with the fact that government employees are paid more than the people who operate the machines?

If policy makers decide that the former civil service workers have to be paid their old compensation, won't that be inflationary?

How would you enlist state employees, who also don't have machines?

If government employees consume without producing anything of economic value, don't they hurt the trade balance? Won't the trade balance actually improve when government employees become productive?

What if policy makers resist this solution?