Letters to the Editor

Editor:

The editorial by Professor Richard Burkhauser on "Touching the Third Rail: Time to Return the Retirement Age for Early Social Security Benefits to 65" in the December 1996 issue contains two erroneous assumptions:

First, he assumes that returning the retirement age for early benefits to 65 would "trim Social Security liabilities." This is not true because the early benefits are actuarially reduced to compensate for the early starts. That means that it makes little or no difference in the total lifetime benefits paid (for the average person) whether they start early or wait until they are 65.

Second, he assumes that "Raising the earliest age of eligibility would push labor force participation dramatically upward at ages 62 through 64, and thus overall productivity and the labor earning base on which Social Security taxes are collected" (italics added). It probably would push labor force participation up at ages 62 through 64, but unless the number of jobs is increased (which would be difficult to do, if not impossible), greater labor force participation at 62–64 would simply increase unemployment at all ages — and thus the earnings base would remain about the same.

In contrast to Professor Burkhauser's futile proposal, an effective way to "trim Social Security liabilities" would be to speed up the scheduled increases in normal retirement age at which one gets full benefits (currently scheduled to increase from 65 to 67) — and/or to further increase the normal retirement age (to age 70, for example).

This is certainly a serious problem and I am glad you have encouraged its discussion by publishing this letter; we need to correct these erroneous assumptions before we jump to erroneous conclusions.

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Professor Burkhauser replies:

It is often remarked that if you laid economists from end-to-end they would never reach a conclusion and that economics is the dismal science. On fundamental economic principles, economists actually seem remarkably in agreement (Siegfried & Meszarus, in press) and are, in general, much more optimistic than noneconomists in their view of human behavior (The Washington Post, 1996). Professor Palmore agrees with me that raising the early Social Security retirement age from 62 to 65 would push labor force participation up at these ages, but argues that "unless the number of jobs are increased (which would be difficult to do, if not impossible), greater labor force participation at 62–64 would simply increase unemployment at all ages — and thus the earnings base would remain about the same." Unfortunately, this fear seems widespread among noneconomists. Few economists, however, believe that there are a fixed number of jobs in the United States economy or that only when an older worker is induced to give one up will a place be available for a younger worker.

Most economists would argue that the wealth of a nation is increased when more of its citizens enter the labor market. The tremendous rise in the labor force participation of women has been the most dramatic change in the United States labor market in the last half-century. Surely no one would argue today that this was made possible by a one-for-one decline in the employment of men. Yet there was a surprisingly large number of people after World War II who feared that this would occur.

The real economic problem caused by us graying Baby Boomers in the next century will be our premature departure from the labor force at a rate which is faster than the entry of new workers. We will be healthier and better skilled than any previous generation of "older" workers, but we will continue to be induced out of the labor force by a retirement system whose age limits were set in another era.

With respect to the effect of raising the earliest age of Social Security benefit acceptance on the overall tax base, Professor Palmore is correct that Social Security benefits are approximately actuarially fair between ages 62 and 65, and hence this change would have a small effect on Social Security System liabilities. However, when combined with employer pensions, our retirement system is not actuarially fair and clearly encourages retirement. Furthermore, when the scheduled increases in the normal Social Security retirement age from 65 to 67 go into effect, which Professor Palmore urges be done sooner than scheduled, the actuarial penalty at age 62 will be weakened.

More fundamentally, and from an overall government budget perspective, the premature exit of healthy productive workers from the labor force at age 62 reduces federal, state, and local income tax revenues and, hence, the overall tax base. It will also increase the future liabilities placed on general revenues to raise the income of the survivors of those workers who in the future will have to survive on only 70% of the yearly benefit they could have received had their spouse continued to work until normal retirement age.

For these reasons, I continue to believe that it is no longer sensible policy to encourage the vast majority of healthy employed workers to leave their job via the Social Security System at age 62.

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References