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The Payoff in Delaying Retirement

By EDUARDO PORTER

It's remarkably difficult to find an economist who thinks the spending cuts ripping through the budget since last Friday amount to a good idea.

"It's a disaster, but a slow rolling one," said Jared Bernstein, former chief economic adviser to Vice President Joseph R. Biden Jr.

N. Gregory Mankiw, the former chief economic adviser to President George W. Bush, wouldn't disagree. "Other than being precisely the opposite of the kind of fiscal changes we need, what's not to like?" he told me, with more than a touch of irony.

Yet despite the broad criticism, what the impasse between Democrats and Republicans just did to the federal budget is not at all atypical. It follows to the letter the most ironclad rule of American politics, which has held sway for the last three decades: spare the old.

The impasse was portrayed as a doomsday machine that went off unexpectedly — the consequence of an intractable divide in Washington over taxes and spending. It led to the so-called sequester, the product of a longstanding bipartisan reluctance to tinker with the social safety net erected to maintain the living standards of the elderly. Why? Because the old vote at much higher rates than the young.

It's true that Republicans have offered plans to limit spending on Medicare and Social Security by turning them into voucher-type programs, letting seniors buy their own health insurance with a set amount of money and manage their own pensions. But they never dared pay the political cost of turning these ideas into law even when they controlled Congress and the White House.

Democrats, meanwhile, have been reluctant to put up an all-out fight for the large tax increases needed to pay for the expanding entitlement programs demanded by an aging population, without any cuts. Usually champions of progressivity, they have nonetheless resisted proposals to direct benefits for the elderly more specifically to low and middle income Americans.

This fixation on defending entrenched positions is getting us nowhere. The problem — a growing cohort of retirees, born during the baby boom, now claiming Social Security and Medicare — is only getting bigger.

But what if there were a way for the government to ease the strain that the aging place on the budget while actually increasing their income in retirement, at little or no cost to their benefits? A well-designed reform would even improve the nation's rate of economic growth. The way to do it is simply to encourage older workers to spend a larger share of their increasing life spans in the work force.

Reform along this line might even garner bipartisan support. But it requires Democrats and Republicans to overcome their fear of disturbing the old.

Spending on Medicare, Social Security's old age pensions and retirement programs for civilians and military on the federal payroll will hit almost 9 percent of the nation's total economic output by 2023, according to baseline projections by the Congressional Budget Office. It will consume about 38 percent of the federal government's entire budget, up from 25 percent four decades ago, according to the Office of Management and Budget.

Meanwhile, the C.B.O. expects the discretionary part of the budget — which includes every program requiring annual appropriations, from the budgets of the Pentagon and the National Science Foundation to worker training programs and early childhood education — will shrink to its smallest share of the economy since the Eisenhower administration. Forty years ago discretionary programs, including much of the spending aimed at improving the economy for future generations, consumed more than half of the budget. In 10 years they will consume less than a quarter.

Senior citizens, to be sure, merit protection. Social insurance to keep retirees from dropping out of work and into poverty is as necessary today as when President Franklin Roosevelt signed the Social Security Act in 1935. But an income support system meant for a society where people retired in their late 60s and died in their late 70s is under strain as Americans take to retiring earlier and living well into their 80s and beyond.

Encouraging more senior workers of able body and sound mind to remain in the work force, many economists suggest, would not only improve their finances and those of the government. It could underpin higher economic growth over the long term.

For instance, a study published several years ago by C. Eugene Steuerle, Barbara A. Butrica and Karen E. Smith of the Urban Institute found that working just one more year would increase retirees' income in retirement by 9 percent. Working an additional five years would lift their incomes by 56 percent.

Retirees wouldn't receive fewer Social Security benefits, on average, because their annual benefit would increase with each year they delayed retirement. Nonetheless, government finances would improve through increased income tax revenue.

What's more, a growing cadre of older workers could counter to some extent the slowing growth of the labor supply, which in the next decade is expected to expand at less than half the pace of the 1960s, 1970s and 1980s, slowed by the retirement of the boomer generation and the tailing off of women's long march out of the home and into the workplace. The C.B.O. expects that slow growth in the labor supply will reduce our potential growth rate over the long term, to 2.25 percent a year, a full percentage point less than the average since 1950.

The magnitude of the effect is uncertain. Legislation passed during the Reagan administration in 1983, which started a gradual increase in the full retirement age to 67 from 65, encouraged more workers to stay in their jobs. But the effects weren't enormous. The Congressional Budget Office estimates that raising the early retirement age by two years would increase the labor force only by 1 percent.

The Reagan-era reform, however, left the official Social Security early retirement age — when more than half of workers who are not disabled retire — unchanged at 62. Mr. Steuerle argues that C.B.O. estimates of the muted increase in the labor supply fail to consider the growing demand for older workers in the future, as the pool of younger workers dries up. "We are underestimating the labor supply of these older groups," he said.

Encouraging workers to work longer won't be politically easy. Not only must it overcome Democrats' and Republicans' fear of older voters. Many Democrats oppose it on the grounds that the poor die younger and could thus lose from the reforms. Change would disproportionately benefit the better off.

This is hardly the final word, though. Poorer workers stand to gain the most from the income produced by more years at work. And there are other ways to favor the less well off — like introducing a minimum pension or granting survivor or spousal benefits to single women.

What's more, early retirements mostly benefit the rich, who live longer and draw bigger pensions. Defending this arrangement for the sake of the poor makes for a peculiar argument.

In any event, a real debate over how to ease the strain on the American economy caused by increasing longevity would undoubtedly be more fruitful than cutting the budget for park rangers.

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This article has been revised to reflect the following correction:

Correction: March 7, 2013

The Economic Scene column on Wednesday, about the benefits of encouraging workers to delay retirement, misidentified a science organization that receives an annual appropriation from Congress. It is the National Science Foundation, not the National Academy of Sciences.