



## A PREDICTION: OLDER INDIVIDUALS WILL WORK MORE IN THE FUTURE

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THE SOCIAL SECURITY SOLVENCY PROBLEM extends far beyond the structure of the current system. The core dilemma is that many economists are projecting a very large drop in the percentage of adults who are working, a scenario that translates into a very large drop in the number of taxpayers supporting not just Social Security but education, defense, Medicare, and every other public program.

Many economists believe that a decline in labor force participation is inevitable as societies get richer. These economists see leisure and years in retirement as luxury goods that a society demands in increasing proportion over time. As evidence, they cite the continued drop in age-specific labor force participation rates among males over the past century, in particular among men at age 65. The leveling off in recent years, pointed out by economist Joseph Quinn of Boston College, is widely viewed as a temporary deviation from a clear downward trend.

Projecting future labor force participation on the basis of age-specific trends among males (and among females in the labor force) is a common method used by actuaries and economists alike. However, if we look at labor force participation for all adults at all ages, we find that labor force participation rates as a whole have not dropped for five decades. In fact, by

this measure, they have steadily increased since the early 1970s (see figure 1). Indeed, adult labor force participation rates have risen in almost every nonrecession year since World War II. These increases largely reflect greater labor participation by women, a phenomenon that has more than offset the rise in retirement rates among males.

One explanation for the increased participation of women is that social changes such as a reduction in gender discrimination and smaller family size have made it easier for millions of women to participate more fully in the formal labor force. This explanation, however, ignores demand's role in bringing new workers into the labor force. Recently, for example, business has pushed for an increase in the immigration rates of technical workers. In addition, welfare reform and the strong economy of the late 1990s likely contributed to a striking rise in labor force participation rates among single heads of households who did not work in the past.

But even if immigration rates double and welfare recipients work even more, these groups can only provide limited sources of additional labor. Moreover, growth in women's labor force participation rates will, at some point, peak. Who, then, can help fill the gap? One obvious answer is the large percentage of adults who are projected (of course, incorrectly, if we are right) to spend a large share of their adult lives in retirement.

Of course, demand isn't enough. Institutions and work arrangements must make it easier for individuals to accommodate that demand. Changes in immigration, welfare, and child care laws have helped boost the labor supply of other groups. Similarly, initiatives will be necessary to remove many of the work barriers for older people. Recent changes in employer pension arrangements, including migration to 401(k) plans and other defined contribution arrangements and the removal of the Social Security earnings test, have been steps in that direction (although these

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steps create policy concerns of their own). Establishing public and private policies that revisit the nature of seniority pay scales, making Medicare available to those who work after age 65, and other initiatives are also necessary.

Skeptics might balk, saying that currently retired workers are, well, too old. But the average person now retires for about one-third of his or her adult life. It's hard to believe that demand for middle-age retirement is the same thing as demand for retirement in old age, especially now that many people remain active far beyond the age of 65. The nature of the workplace and the definition of work have also changed over the years. Today, our information- and services-oriented economy offers many job opportunities that are more flexible and less physically demanding than in the past (see Straight Talk no. 5).

So what can we expect? Will future labor force participation among older individuals decline or at best remain level? Or will demand for labor push up total participation in the labor force and draw older workers into the labor market? No one can say for sure. But we would argue that the odds swing in our direction.

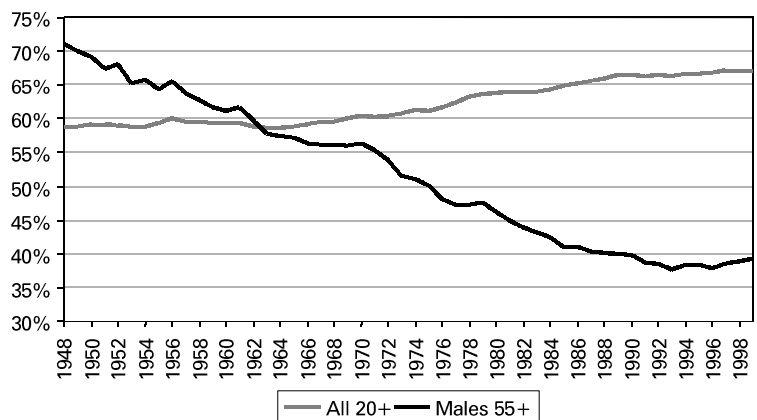
Let's return to the economists' take on leisure: They argue that as a society grows richer, citizens will opt for more free time. However, the broad data indicate a rise in labor force participation rates, or reduced leisure, among all adults in recent decades. Conceivably, individuals in a well-developed society might demand goods and services that provide similar benefits to leisure rather than leisure per se. Certainly, people aren't content to do nothing in retirement. In our view, as people's real resources grow, they do not necessarily want more free time as much as they want better living conditions, more exciting work, more stimulating recreation, and more freedom. These expectations, especially in today's relatively flexible workplace, can be met through jobs as well as through leisure activities.

If we are right and the labor force participation of older workers grows in response to demand, then society's adjustment to the aging of the population may not be as tough as anticipated. The process would happen largely as a response to the forces of supply and demand. It's true that the required insti-

tutional changes to free up those forces might cause great political wrangling. However, a compelling case exists for withstanding the political heat: Greater work participation by older individuals could reduce the costs of old-age programs and, more important, increase taxes and output. Consequently, there would be more to go around for all groups, including the truly old.

You heard it here. We'll let you know in another quarter-century or so whether we were right.

**FIGURE 1.** Labor Force Participation Rates: Males Age 55 and Older versus the Entire Adult Population, 1948-99



Source: U.S. Bureau of Labor Statistics.

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