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Unless a number of fundamental trends are soon reversed, the Baby Boomers are headed for a disastrous retirement.

JUSTICE BETWEEN GENERATIONS

by Phillip Longman

Not all analysts agree that some benefit programs for the elderly should be means tested while others should be universal once a certain age is reached. Some contend that in a time of federal budget deficits and a fast-growing elderly population, the day is approaching when benefit programs must ***have eligibility criteria based on economic circumstances. Representing that viewpoint is Phillip Longman, research director at Americans for Generational Equity, a Washington-based advocacy group. He is currently writing a book for Houghton-Mifflin on the idea of generational equity. Reprinted here are excerpts from an article he published in*** The Atlantic Monthly ***in June 1985.***

The amount of help that each generation requires from its children may vary, but the demand for assistance in old age never vanishes. Today Social Security and Medicare are all but universal programs, with the typical recipient collecting benefits costing at least three times as much as the taxes he or she contributed. This year nearly 28 percent of all federal spending is going to the 11 percent of the population that is 65 and older. The budgets for all of the federal government's various retirement programs, including Medicare, are four and a half times bigger than the budgets for means-tested welfare programs.

Despite the huge cost of old-age subsidies, one hears only a modicum of complaint from taxpayers. It is easy to understand why. Not only would people in the work force, regardless of class, prefer to be relieved of direct financial responsibility for their parents, but also they themselves expect someday to take advantage of Social Security, Medicare, special tax breaks, reduced bus fares, and the like. For these reasons the majority of voters are inclined to favor generous benefits to the old. But there may be a point at which the young say "enough" and rise up in revolt against their elders. Today's older generation need not worry; though the cost of their entitlements is extraordinarily high, it is bearable, because it's spread across an unusually large working-age population. The 75 million members of the Baby Boom generation—all those Americans born between 1946 and 1964—have good reason to fear desertion by their successors, however. Unless many fundamental trends are soon reversed, the Baby Boomers are headed for a disastrous retirement.

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The idea that Americans are bound by destiny to experience ever-greater affluence has been an article of faith since the Second World War. That idea helps to explain why until recently almost nobody considered that public borrowing might encumber future generations. It seemed to follow that as long as the economy continued to grow at a robust rate, the transfer of debt from one generation to another would be painless. Borrowing against the future would be like taxing the rich to help the poor.

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F. Scott Fitzgerald, famously, defined a generation as that reaction against fathers which occurs about three times a century. In discussions of political economy, however, the more useful distinction is between dependent youths, working-age adults, and the also dependent retired population. In the United States today these three generations share the stage, and each, according to law, has its own set of rights and privileges. Members of each generation begin life entitled to public subsidy from their elders for the cost of education if nothing else. They end life entitled to subsidy from their juniors—specifically, for the full public cost of health-care and retirement benefits.

The long-term interdependence of the three generations makes questions of reciprocity, and therefore of justice, inevitable. The middle generation in any given era either must strike a prudent balance between the demands of its parents and the demands of its children or prepare itself for an unhappy retirement. If, for example, the government spends so much on the elderly that it must skimp on the education of the young or on investment in economic growth, then when it is time for the young to govern, they may be unable to provide their elders with enough support. Alternatively, if the government is stingy with the elderly, the young may come to feel free to shirk their responsibilities to the old.

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(continued from page 48)

federal income taxes, exemptions from capital gains in certain housing sales, and tax breaks in state and local tax systems (see tax break chart, page 59). The prices to the elderly of certain publicly provided goods and services are sometimes reduced through the use of "senior citizen" rates, such as lower fares for public transportation.

Generally, the implications of these very specific measures to provide benefits to all older persons are less desirable as a means of income redistribution than transfers to the poor, among whom are many of the elderly. These welfare or income maintenance programs were developed because of society's concern for the poor. Benefit programs solely for older persons may have been justified in times when a larger proportion of the elderly were poor. However, in recent years, as the poverty rate of older persons has fallen, these programs have become an increasingly inefficient method of transferring resources to the poor. In addition, some of these programs probably are more valuable to the higher income elderly. The tax deductions provide a greater net benefit to wealthier persons in higher tax brackets. High income elderly are also more likely to use the reduced fares for such items as admission to national parks.

Table 1. Estimated Federal Outlays for Persons 65 and Older, by Program, Fiscal Year 1982 (in Billions of Dollars)

Program	Outlays
Social Security	111.8
Medicare	39.7
Other federal retirement and survivor programs	21.1
Medicaid	6.5
Veterans benefits	4.3
Housing assistance	3.3
Supplemental security income	2.9
Other federal health programs	2.3
Administration on Aging	0.7
Food Stamps	0.6
Title XX social services	0.4
Energy assistance	0.2
Other	2.4
Total	196.2

Source: U.S. Congressional Budget Office, *Work and Retirement: Options for Continued Employment of Older Workers* (Washington, D.C.: Government Printing Office, July 1982). p. 55.

Within a family transfers of wealth between the generations are usually based on need. A rich father is not likely to receive payments from his children merely because he has reached his sixty-fifth birthday. In contrast, almost all federal benefits to the elderly are distributed with no consideration of need. Yet as the senior-citizens' movement constantly stresses, many retirees continue to be active, healthy, creative, and useful until very advanced ages. Moreover, as we have seen, many are affluent, as well. Why, then, should we persist in subsidizing them as generously as we do? More than a tenth of all Social Security spending goes to households with independent incomes totaling $30,000 or more a year. Much of this independent income is in the form of interest payments and capital gains. To demand across-the-board benefits merely on the basis of age is in effect to advocate welfare for the rich.

Americans have good reason to make such a demand, however. From the start politicians have described Social Security programs as forms of insurance—a conceit in no sense justified by the actual financial mechanisms underlying the system. Naturally, the elderly have based their retirement strategies on the assumption that the government will keep its promises to them, come what may. It would not be right to change the rules of the game on those already collecting or soon to collect benefits, however expensive it may be to keep those rules in force.

continued, p. 52

If age is not a good criterion for income maintenance programs, can a specific age be a useful eligibility condition for social insurance programs such as Social Security and Medicare? To answer this question, we must examine the economic rationale for these programs and assess their cost relative to depending on private savings for retirement income and medical care.

There are several economic rationales for Social Security. First, Social Security may enhance economic efficiency through risk-pooling and the absence of, for instance, selling costs associated with the sale of commercial insurance. Second, some analysts contend that, on average, people's expectations regarding their needs for retirement income are unrealistically low, and inadequate preparations are made for health catastrophes or long life. The resulting extreme poverty in old age creates severe personal hardships and may result in society having to provide assistance to these individuals.

Social Security has both social insurance and redistribution components in its current structure. With respect to the insurance function, the issue becomes whether the government or the private sector can most efficiently provide this service. An "adequate" retirement income depends upon several factors that are beyond the

Table 2. Annual Federal Expenditures for Persons Aged 65 and Older, 1960-82

Year	Total Expenditures (Billions)	Total Expenditures in 1967 Dollars[a] (Billions)	Percentage of GNP	Percentage of Federal Budget
1960	$ 12.8	$14.4	2.5	13
1965	18.8	19.9	2.7	16
1970	38.2	32.8	3.9	19
1975	75.7	47.0	4.9	23
1978	112.5	57.6	5.3	24
1982	196.2	67.9	5.9	27

Source: Robert Clark and John Menefee, *"Federal Expenditures for the Elderly,"* The Gerontologist 21 (April 1981): 132-37. The 1982 figures are based on estimates from U.S. Congressional Budget Office, *Work and Retirement* (Washington, D.C.: Government Printing Office, July 1982); and Barbara Torrey, "Guns vs. Canes: The Fiscal Implications of an Aging Population," *American Economic Review* 72 (May 1982): 309-13. The 1982 data pertain to fiscal year 1982.
[a] Nominal dollar values are deflated by annual averages of monthly figures of the CPI.

Many younger readers are likely to ask, Why should the burden of reform fall only on us and our children? Why should the old escape the consequences of their own shortsightedness as a generation? Whether or not one can see a moral justification for preserving the older generation's entitlements, one should consider a purely political reason for doing so. The power of the Gray Lobby is overwhelming. No reform is possible unless today's senior citizens are largely exempted from sacrifice.

In any case, the challenge for members of the Baby Boom generation will be not how to meet the demands of their parents but how to provide for their own retirement without putting an impossible economic burden on their children. In the 1960s economists called into question the need for one generation to provide for the future well-being of its descendants. Today the more pertinent question is how much one generation can rightfully *borrow* from its descendants to subsidize its own consumption.

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Some people have optimistically observed that the cost of supporting the Baby Boom generation through retirement may be offset, at least in part, by a decrease in expenditures for the young as they decline in numbers. But if current spending patterns persist, we will be left nevertheless with a huge gap. The most recent study on the subject to date, by Robert Clark, an economist at North Carolina State University, was published in 1977. In 1975, according to Clark's estimates, total per capita expenditures for the elderly, at all levels of government, exceeded the

control of individuals. For example, the individual has an uncertain lifetime. By pooling risk through insurance, annuities, or pensions, the risks of long life and of exhausting one's savings can be reduced. Much the same argument can be made to explain the existence of health insurance, public or private. Of course, inflation is another important determinant of an adequate retirement income that is beyond the control of the individual.

Both government and the private sector provide mechanisms for reducing risk. Social Security benefits, which are paid as long as the recipient lives, and Medicare provide essentially the same service as would annuities or private health insurance. At present, the private sector has no financial instrument that, like Social Security, is explicitly keyed to the rate of inflation. However, there are variable annuities whose yields have been highly correlated with the rate of inflation. Other investments also can serve as hedges against inflation. Thus, the private sector is capable of providing mechanisms that can reduce the effects of the three forms of uncertainty—longevity, health, and inflation—that may determine the adequacy of an individual's retirement income. However, the individual may lack important information relevant to his choice, and the private sector may encounter substantial problems in offering a constant real level of benefits.

The benefits of social insurance programs are achieved at the expense of individual diversification. The preferences of people clearly are not identical. Some are willing to assume more risk than others. In addition, some people

Table 3. Annual Federal Benefits for Persons Aged 65 and Older, 1960-82

Year	Actual Expenditures	Benefits Rise to Reflect Price Increases	Benefits Rise to Reflect Growth in Per Capita Disposable Income
1960	$ 768	$ 768	$ 768
1965	1,019	818	966
1970	1,902	1,007	1,337
1975	3,379	1,396	2,002
1978	4,678	1,692	2,592
1982	7,948	2,516	3,663

Source: Table 2 and U.S. population and economic data. The price increases are determined using the CPI.

amount spent for children 17 and under—including the total spent on public education—by more than three to one.

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The long-term solvency of these programs depends on robust economic growth. Barring extraordinary good luck the only way any generation can bring about such compounding prosperity for its children is to build up capital and invest it wisely. In effect, then, the terms of the social contract have remained the same. Each generation, in exchange for support in old age, still must provide its children with a legacy. All that has changed is that the necessary sacrifice falls not just to the individual but to the whole of his generation.

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Giving to each according to his circumstances rather than his age seems the fairest principle. Such a policy may encourage some people to be spendthrifts, but if we provide a strong incentive to save for retirement, the problem should be manageable. As currently written, the tax code rewards large borrowers, by allowing full deductions of interest payments, and discourages most forms of saving. Given the Baby Boom generation's long-term need for capital formation, this is a perverse arrangement.

What becomes of Social Security, Medicare, and other retirement programs in the future is not an issue for senior citizens. It is an issue for their children and grandchildren to decide, before time runs out. ☐

prefer to save more for their later years than do others. Social Security maintains a relatively constant relationship between income and savings (through Social Security taxes) regardless of the preferences of an individual with respect to risk and savings.

Another argument for a mandatory Social Security program is that, on average, people are overly optimistic about their needs for retirement income. In other words, people will generally save too little. As noted, an "adequate" retirement income is dependent upon several factors (longevity, health, inflation) that are partially outside the control of individuals. Forecasting events is always difficult even if accurate information is available. For those who *over*estimate the income in retirement necessary to satisfy their desired lifestyles, the private and social costs are minor. Such is not the case for those who *under*estimate their income requirements during retirement.

The presence of other social support systems means that people who have suffered adverse health events, planned poorly for late life, or chosen to consume early in life will be cared for at some level by the state. Within this system of social welfare, mandatory savings for a minimum retirement income are a prudent social policy which requires individuals to "save" for their own retirement through Social Security.

Being old should not be equated with being poor.

Social Security includes two redistribution components. First, current tax revenues are used

Table 4. Change in Real and Relative Income, 1950-80

	Percentage Increase in Real Cash Median Income	
Period	Family Head Aged 65 and Over	Family Head Aged 45 to 54
1950-60	23.8	42.9
1960-70	33.0	42.7
1970-80	20.0	5.9

Source: Robert Clark, George Maddox, Ronald Schrimper, and Daniel Sumner, *Inflation and the Economic Well-Being of the Elderly*, Baltimore: Johns Hopkins University Press, 1984, p. 46.