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AMERICA'S GOLDEN YEARS

Ensuring Prosperity in an Aging Society

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No one can watch the news or read a paper these days without being warned that America is on the brink of a crisis stemming from the high costs of Social Security and Medicare. To make matters worse — or so the story goes — the retirement of the baby boomers will soon push the costs of these programs to new heights, triggering either massive federal government deficits, large tax increases, or both. In the end, we are told that these programs are simply no longer affordable and require radical change.

Although this gloomy scenario gets repeated often and its logic appears straightforward, in reality it is not only alarmist, but incorrect. Granted, the number of elderly will continue to grow over the next few decades, but the increase over the *next* 3.5 years (a rise of 65% in the number of retirees per worker) is not much larger than that of the *past* 35 years (a rise of 55%). If we make it a priority to take certain steps now — invest in America's productivity, ensure economic gains are widely shared, and fundamentally restructure the health care system — we can expect to be able to support the growing elderly population and enjoy steadily rising living standards far into the next century.

Productivity Is Key

One often-repeated argument is that, when the baby boomers retire, there won't be enough workers to support retirees. More important, however, than the *number* of workers available to support the elderly is how *able and well equipped* these future workers will be to support themselves or anyone else. Future living standards and society's ability to support the elderly depends primarily on the productivity of workers. Productivity rises when workers are well educated, use the best, most advanced equipment, and are supported by a sound economic infrastructure (such as adequate transportation systems and utilities). These factors, in turn, depend upon high levels of investment in many areas — education, training, research and development, new equipment and facilities, and the construction and maintenance of infrastructure.

Unfortunately, current investment levels are quite low. Compared to the size of the economy, government funding in all of these crucial areas is only about two-thirds of what it was in the late 1970s. Recent cuts in the federal government budget have contributed to this problem by squeezing the funds available for productivity-spurring investments, giving way to projections of another 35% decline in the next 10 years. It does not help that private sector firms are also investing at a relatively low rate, despite record high profits. Workers interested in living standards should be concerned about the low level of investment by firms and government.

The importance of investment tends to be ignored, however, when fiscal policy focuses solely on the federal budget deficit. Ultimately, workers and their future living standards are not helped by the recent obsession with balancing the federal budget. This focus on the deficit overlooks a basic principle that most families understand intuitively: sometimes you must go into debt now to make an investment that will pay off in the future. Since investments are made with the expectation of reaping future returns, paying for investments with borrowed money (to be repaid out of future earnings) is common practice and fiscally responsible. This is often how firms pay for new investments, and it is commonly done by families to pay for higher education. It makes sense that governments would responsibly borrow money (that is, sell bonds and run a deficit) for this same purpose.

Broadly Shared Economic Gains

Workers should also be worried about how the gains in national income are shared. If most gains go disproportionately to the highest-paid workers and are not shared with those at all wage levels — as has been happening over the past two decades -then the typical worker may fare poorly even while a wealthy minority of people, and the economy as a whole, are doing fairly well. When all workers share in the economic gains, then low- and middle-income workers will see their wages grow just as rapidly as those at the top of the -wage scale, allowing all Americans to better support themselves and the elderly. Ensuring that economic gains are widely shared should rank first on the list of issues important to workers and their families.

Health Care: The Real Problem

While the growing number of elderly is not necessarily a problem, the doomsayers are right on one point: we will face a budget crisis in the future, but not one related to the number of elderly. This crisis, which will affect both the budget of families and that of government, stems from the structure of our health care system in the public and private sectors.

It is well known that health care costs are a large and growing part of federal and state budgets. But high health expenditures are not just a problem for the public sector, which historically has done a better job of cost containment than the private sector. Data show that over the last 25 years, the average growth in expenditures per beneficiary has been lower in Medicare than in the private health insurance system (Levit 1996, 195).

The cost of health care is also demanding an ever-growing share of family budgets. Even if the cost of private health insurance were to continue to grow at the low rate of the past few years, by 2005, the typical family would be spending 17% of its income for health care (given it can afford insurance).' By 2030, health care spending would average 26% of income, or more than one dollar in every four. Fundamental reforms that restructure both the public and private systems (and provide health insurance for everyone) will be necessary to contain costs and ensure high quality care. Without such change, health care costs are the real ticking time bomb that threatens the budgets of both families and governments.

Conclusion

The Social Security dilemma is typically framed as a false choice between caring for the nation's elderly at the expense of living standards and fiscal responsibility or reducing our commitment to retirees by cutting back on Social Security and Medicare. The two goals of improving living standards for workers and their families and caring for the elderly do not have to be mutually exclusive. They can be achieved through sensible, equitable economic policies that include productivity-boosting investments, the broad distribution of economic gains, and the fundamental restructuring of the public and private health care systems.

Endnote

1. This figure includes both out-of-pocket expenditures and the cost of the average health insurance premium received on the job. While the premium may be paid by an employer, the expense is actually borne by the worker since wages are reduced to offset the employer's cost.

Reference

Levit, K., et al. 1996. National health expenditures, 199.5. *Health Cure Financing Review*. Vol. 18, No. 1, pp.175214.