

Remember Charles Percy? The man who rose much too fast and young, first to President of Bell & Howell, then to US Senator defeating long time Illinois Senator Paul Douglas, then for a brief period was considered a serious candidate for President of the nation—then, suddenly disappeared from the political scene.

Well, here's a long article from Bell & Howell's bi-monthly *Across The Board* publication.

In keeping with their name, it's difficult to tell if this article was written for the Concord Coalition, the group following the doctrines of Paul Tsongas, or in support of the Democrats.

You should read this in conjunction with TUFF's pages on the baby-boomer myth under "Scare Stories." The "76 million baby boomers" are alive and well—and coming to get you.

Ed Henry

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Across the Board

July, 2001 / August, 2001

**SECTION:** Vol. 38, No. 4; Pg. 70-78; ISSN: 01471554; CODEN: ACBODW

**B&H-ACC-NO:** 76427342

**DOC-REF-NO:** CBR-2055-26

**LENGTH:** 2692 words

**HEADLINE:** Are we heading for intergenerational war?

**ABSTRACT:**

By the 2030s, over half the adult population of today's developed countries will be near or beyond today's eligibility age for publicly financed retirement. The late US Senator Paul Tsongas warned that, as increased resources are expended on the older "haves" at the expense of the younger "have-nots," an intergenerational war would ensue. Richard Thau, executive director of Third Millennium, says that this concern is possible but avoidable. On the other hand, Theodore Roszak, professor emeritus of history at California State University, says that this is not a real concern, and that scare tactics should be stamped out.

**BODY:**

Yes: Possible but Avoidable

RICHARD THAU is executive director of Third Millennium, a New York based, nonpartisan Generation X think tank.

Imagine a future where most of the tax dollars collected by the federal government are redistributed to senior citizens. Also imagine workers paying FICA taxes 30 to 50 percent above today's record-high rates. Fantasy? Hardly: Some of the government's leading economists forecast just such a scenario.

The United States is on the cusp of a dramatic demographic transformation, one that-combined with the promises being made to today's workers-carries the seeds of a potential generational war.

The first of the nation's 76 million baby boomers will reach the early eligibility age for Social Security benefits in just seven years. Within a decade, the oldest boomers will become eligible for full Social Security and Medicare benefits. By failing to plan for this inevitability-one that will require a massive redistribution of wealth from the young and middle-aged to the oldour country is now gradually placing tomorrow's workers and tomorrow's seniors at loggerheads sometime during the first third of the 21st century.

The risks are real, and not unprecedented in other advanced industrialized countries. In a worst-case scenario, young and old might lock themselves in a sudden, violent struggle, reminiscent of the youth riots that brought Paris to a standstill in April 1994 in response to the French government's attempts to legalize a sub-minimum wage for those under age 25.

Admittedly, it's doubtful that angry mobs of young Americans will start lobbing Molotov cocktails at AARP headquarters anytime soon-though thousands of passive young Parisians were never expected to riot either. A far

likelier scenario for the United States is that organizations representing different age groups will, over time, more energetically attempt to defend their generational interests at the expense of others, and do so noisily and angrily.

The retirement of America's baby boomers will dramatically change the way the country looks. By 2030, America's population will include the same percentage of senior citizens overall that Florida has today. The ratio of workers paying taxes to fund each retiree's Social Security and Medicare benefits will drop from today's level of 3.4-to-1 to a mere 2.1-to-1.

In other words, the average young working couple faces the prospect of completely supporting a retiree through their FICA taxes while also trying to pay their bills, purchase a home, and save for their children's college expenses and their own retirement. Absent an unrealistic increase in productivity and wages between now and then, this task will be impossible for tomorrow's young workers to meet.

The graying of America says a great deal about the success of our society. More than 90 percent of our senior citizens now live above the poverty line, and the vast majority of them remain vital, contributing members of society. While we should celebrate this success, we must not blind ourselves to the hefty fiscal pressures facing the U.S. Treasury in the not-too-distant future.

By 2030, Social Security alone is projected under current law to run an annual deficit of \$260.8 billion (in inflation-adjusted 2000 dollars). Medicare's Part A (Hospital Insurance) program is expected to run a deficit of \$110.2 billion, and its Part B program will require a cash infusion of billions more from general tax revenues.

The costs are particularly striking if one examines the projections over the next 75 years-as far into the future as the Social Security and Medicare trustees make their estimates. Over the next 75 years, Social Security is projected to run a cumulative \$20.58 trillion deficit, according to the 2000 Trustees' Report. Medicare's cash deficits and general tax needs, meanwhile, are projected to tally \$28.18 trillion, according to an analysis of Health Care Financing Administration data by the Concord Coalition, a budget watchdog group.

As U.S. Comptroller General David M. Walker recently testified before the Senate Budget Committee: "To move into the future with no changes in federal health and retirement programs is to envision a very different role for the federal government.... Absent changes in the structure of Social Security and Medicare, some time during the 2040s government would do nothing but mail checks to the elderly and their healthcare providers."

Walker noted that the models used by the General Accounting Office (GAO) both "overstate and understate" the problems. The problems are overstated because there is no way, of course, that Social Security and Medicare would be allowed to consume all or most federal revenues. Taxes would be sharply raised or benefits deeply cut (neither a positive outcome) at some point in the interim to avoid a crisis.

Of course, if the government decides to raise taxes, economic security will become much more difficult for tomorrow's young Americans to achieve. If benefits are suddenly and drastically cut, the younger generations will face the prospect of supporting parents and grandparents who were counting on Social Security's promises and lacked adequate time to prepare.

The GAO's projections also understate the problem because they do not include the likely addition of an expensive prescription-drug benefit to Medicare or the potential lengthening of life expectancies thanks to medical advances.

Today's younger Americans do not realize how great a stake they have in this debate. Discussions over the future of Social Security and Medicare are often framed in terms of what is best for today's senior citizens, even when the most radical of proposed changes is harmless to those currently receiving benefits.

The decisions made, or not made, in the next few years will help determine whether tomorrow's younger generations

will be able to support their families during their working years and then enjoy a retirement of comfort and dignity when they get old. Barring advance planning, tomorrow's young adults could just as easily face a protracted battle with a growing cohort of politically powerful elders demanding that workers support retirees at all costs-what Age Wave author Ken Dychtwald calls a "gerontocracy": a society run by, and for, the aged.

Today's young adults have abdicated their responsibility to press their elected leaders to take preventative measures when it comes to future retirement costs. This is not surprising, considering that Campaign 2000's youngest voters will not be eligible for full Social Security benefits until 2049. Tomorrow's young workers may not be as complacent, considering they may get socked with much higher taxes.

Young people today would do well to realize that they have started paying tens-if not hundreds of thousands-of dollars into the Social Security and Medicare systems during their entire working lives. Roughly one out of every seven dollars they'll earn from now until age 67 will go toward these two programs.

The burden of the FICA tax should provide enough incentive for younger voters to pay attention to the status of the Social Security and Medicare programs it funds. It is in the best interest of young people to focus on what that "FICA thing" on their paychecks actually means and does. No doubt if these taxes were to rise dramatically, these same folks would pay greater attention.

Retirement is expensive, and we must prepare now for the likelihood that most Generation Xers will grow very old. Furthermore, health costs rise with age. The older a person is, the greater the chance that he will face hefty medical bills. For example, nearly half of everyone over age 85 today suffers from Alzheimer's. The cost of treating this disease and most others is borne by a Medicare system that is now scheduled to go broke long before any young adult gets old.

Some people have argued that Social Security and Medicare represent inviolate intergenerational contracts that should not be changed or reexamined regardless of circumstances. Those who wish to ignore the approaching storm clouds say that the deal younger generations were given by their parents and grandparents today is the same that the young will get when they reach their retirement years. In other words, if young adults just wait their turn, they will automatically get their benefits too.

While that may sound like a sound argument, it is simply wrong. As Third Millennium managing director Craig Cheslog contends, this "inviolable" intergenerational contract already has been revised repeatedly over the years, to the benefit of the retired generations and at the expense of younger ones.

How? Since Social Security's creation, total benefits provided to recipients have increased many times over. To pay for these larger benefits, the payroll tax that funds the Social Security program, as well as the total amount of annual income on which the tax must be paid, have increased multiple times. As retirees benefit from increased largesse, workers face a higher-than-ever tax burden in return. Assuming there is a "generational contract," its terms have been repeatedly rewritten at the expense of the working generations.

According to the Congressional Research Service, the average earner with a dependent spouse retiring at the age of 65 in 1940 received back in benefits all of the taxes paid by the worker and his employer, plus interest, in 0.2 years. By 2000, the length of time had increased to 14.7 years. By 2030, it is expected to take 20.2 years to recoup all of the taxes paid, plus interest.

The Social Security Administration, meanwhile, projects that life expectancy for people reaching the age of 65 in 2030 will be only 17.1 years for males and 20.4 years for females. In other words, even under fairly optimistic assumptions, males with a dependent spouse are not expected to live long enough to recoup the taxes they paid, plus interest, into the Social Security program.

The outlook is even worse for those expected to retire after 2030, if benefit cuts or tax increases are required to close

future deficits.

Will the burden of providing benefits to the increasing senior population grow so large that the younger generations will fight to defend their own economic interests? I believe the answer is yes, but here's what should be done to prevent it from happening in the first place:

Young adults need to press their leaders to overhaul Social Security and Medicare. Both programs should institute higher eligibility ages to reflect longer life spans, and these eligibility ages should be indexed to reflect subsequent improvements in longevity as they occur. Next, benefits need to be pre-funded by allowing workers to build retirement wealth with some of the money they are currently paying in FICA. Doing this would lower the government's future obligations, add investment dollars to the economy, and allow workers to retire in greater security and dignity. Third, annual cost-of-living adjustments for Social Security need to be based on more accurate inflation data than is currently being provided by the Consumer Price Index.

Finally, 100 percent (not 85 percent) of Social Security benefits for wealthier seniors should be subject to taxation, and Medicare premiums should be means-based.

The distribution of America's bounty will change as the country ages. If we act today to fix the looming fiscal problems, the changes and sacrifices can be relatively minor and people will have time to adjust. If we wait until Social Security and Medicare expenses are crowding out other government expenditures, adding great amounts to the national debt and resulting in huge tax increases, the changes needed will be potentially devastating.

Author Irving Stone once quipped that President Coolidge made "laissezfaire seem like a plan for dynamic action." In the face of all the demographic and budgetary projections cited above, we must abandon our collective laissez-faire attitudes and adopt a dynamic plan of action or else face a generational war.

Theodore Roszak replies: Stamp Out Scare Tactics

Odd how we select our statistics. Richard Thau cites the ratio of workers to retired people to make his case, but I'm not persuaded. Thinking I have a clincher that proves we have money to burn, I reply that Americans annually gamble twice as much on sports as they spend on Medicare, but he is unmoved. All of which proves that numbers never speak for themselves. They take their meaning from their ethical and ideological context.

The numbers used to prove entitlements are unsustainable have been disputed by people of considerable authority, among them Robert Ball, Richard Leone, Dean Baker, Robert Eisner, Jerry Mashaw, Robert Kuttner, and the Social Security actuaries. All believe the Social Security crisis is phony. These people are neither fools nor knaves. They are simply good liberals who recognize right-wing propaganda when they see it. I side with them because liberalism's willingness to share wealth more equitably makes ethical sense to me-and also because they have no financial stake in keeping entitlements publicly funded. On the other hand, most privatizers stand to make a pretty penny from dumping billions of new dollars into the stock market and collecting fees on private accounts.

That doesn't mean that privatizers should be dismissed out of hand. I agree with a few points they make. I agree with Thau that the payroll tax should be more progressive to avoid the further enrichment of wealthy retirees-though I favor having their benefits credited back to the **Social Security trust fund**. That, combined with including capital gains under the payroll tax and removing the tax cap, would help eliminate the shortfall the system may run after 2050 due to growing longevity.

The trouble with debating such choices is that critics insist we have no choice. By inventing dire estimates about economic growth, the discount rate, real wages, and healthcare inflation over the next 50 years, they offer predictions intended to stampede us into privatization. In turn, they predicate privatization on stock-market projections that are pure whimsy. Prognostication like this is so speculative as to be arbitrary.









