

Solidarity or conflict?

Facing up to the Social Security crisis

By KEVIN E. SCHMIESING

Economist John Maynard Keynes famously dismissed an exclusive concern for the future with the quip, "In the long run we are all dead."

No doubt true, but after we die, our children and our grandchildren live on, and in many ways reap the consequences of our decisions.

That is one among other truths expressed in the Genesis account of the sin of our first parents.

Reflection on the long-term impact of government policy is, therefore, always a necessary exercise.

Proper treatment of issues such as Social Security and Medicare is especially important for ensuring harmonious and beneficial relations among people of varying ages.

But too often, even the suggestion that Social Security and Medicare might be ripe for reform is a cause of disharmony and strife in policy circles.

Fortunately, there are indications that awareness of the connection between policy and the common good of young and old together is increasing.

In May, the Pontifical Academy for Social Sciences, an organization founded by John Paul II in 1994 and composed of outstanding scholars from around the world, took up the subject of "intergenerational solidarity."

The proceedings show that concern about the prospect of balance and harmonious interaction between generations extends far beyond the borders of the United States.

On issues ranging from welfare policy to health care to Social Security, systems inadequate to meet the long-term needs of national populations threaten to weaken intergenerational ties and undermine the economic and cultural health of whole societies.

The problem was put into sharp focus at the academy meeting by Hans

Tietmeyer, president of Germany's Bundesbank.

Tietmeyer's thought-provoking presentation is worth reading in its entirety, but his central thesis especially deserves a closer look.

Tietmeyer points out that some programs designed to promote intergenerational solidarity are "in crisis" - in other words, they are financially unsound and cannot be sustained.

He cites specifically state pension systems, which in America we call Social Security.

Tietmeyer notes that, due to generous promises of benefits coupled with changing demographics, government obligations cannot be met without significant tax increases, which in turn would have profoundly negative effects on economic growth.

Long-term economic viability, therefore, requires reform.

Allowing for variations, the same problem can be seen across the industrialized world - from the United States to Germany to Japan.

Last month, for instance, the Congressional Budget Office issued a report that projected Social Security payouts would exceed revenue by 2019.

To elaborate on Tietmeyer's observation, the problem with programs such as Social Security is the same one that plagues so many government initiatives.

Exclusive focus on the good intention - making sure elderly people did not descend into poverty after their working years were past - led to indifference toward possible long-run negative effects, both economic and cultural.

The central economic problem, in both U.S. and western European systems, is that the viability of the program depends on a high ratio of workers to retirees.

That worked in 1940, but the ratio is now rapidly declining and the trend

shows no signs of reversing itself.

Culturally, the move to reliance on government to provide for old-age income too often severed the ties of dependence between parents and children and weakened the sense of social obligation.

For most of our history, the elderly had depended on a variety of sources such as personal savings, family support, religious charity, and benefits from mutual aid societies.

But, as Alexis de Tocqueville noted in the 1830s, the more government "stands in the place of associations, the more will individuals, losing the notion of combining together, require its assistance."

Social Security, intended as an expression of intergenerational solidarity, has ended up contributing to a culture of conflict in which familial and social bonds being dissolved, the elderly have become an interest group demanding an entitlement from a shrinking group of taxpayers who are increasingly unable to pay for it.

A number of reform-minded proposals have been voiced in recent years, including, for Social Security, shifting workers' retirement accounts into the stock market, and for Medicare, initiating medical savings accounts.

The point here is not to prescribe a particular reform. But as a nation, we need to acknowledge that, first of all, some kind of reform is necessary and that any reform must take into account its long-term economic viability and its cultural effects with respect to intergenerational solidarity.

In this light, the best reform will move away from government administration and control and toward personal and familial responsibility.

Kevin Schmiesing is a research fellow at the Acton Institute think tank.