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My Birthday Wish: Not Burdening Our Children

By N. GREGORY MANKIOW

IT'S official. As of today, at 6 a.m., I am a half-century old. Special thanks go to my mom for bringing me into the world back in 1958 and for looking after me all these years. But she doesn't need to worry about me anymore. My welfare now falls within the mission statement of AARP.

Some years ago, I read on a birthday card that you know you are old when you spend more time thinking about money than sex. If so, we economists must age prematurely. After all, it's our job to think about money, both our own and other people's.

As I reach this particular milestone, it is hard not to be worried about the economy. No, I am not talking about the subprime meltdown and the possible recession that looms on the horizon. I am confident that the team at the Federal Reserve can contain that problem.

Moreover, from the broad vantage point of history, the next recession, whenever it occurs, will likely be a minor blip. My guess is that it will be similar to the recession that was enveloping the economy the day I was born.

Don't remember the recession of 1957-58? Most people don't. It was a garden-variety slump — painful to those who lived through it, but short-lived and leaving few lasting scars. Today it is remembered only by the few experts who crunch the numbers in the study of macroeconomic history. My parents' recession is not my problem, and our next recession will not concern our children when they reach adulthood.

What worry me are the problems that we will bequeath to our children.

Long before I was born, Franklin D. Roosevelt established a compact among the generations. Families had long cared for their elderly members, but Roosevelt federalized that responsibility in the form of the Social Security system. Social Security is sometimes viewed as a pension plan, but it is mostly

pay-as-you-go. The working-age population taxes itself to support its parents, in the hope and expectation that its children will do the same. On the day of my birth in 1958, the payroll tax to pay for this program, including both the employer and employee shares, was 4.5 percent.

Around the time I started grade school, Lyndon B. Johnson expanded the generational compact to include health care for the elderly. The Medicare system increased the payroll tax, but only modestly at first. Health care technology was far more primitive back then and, as a result, less expensive. By 1968, when, like my younger son today, I was in third grade, the payroll tax for both programs had risen to 8.8 percent.

Today, the payroll tax for these programs is 15.3 percent, far higher than the programs' creators ever imagined. More worrisome is that this 15.3 percent is nowhere near enough to maintain solvency in the future. When my generation of baby boomers retires in large numbers and starts claiming benefits, spending on these programs will far outstrip revenue at the current tax rate.

Two problems are working in concert. The first is demographic. Because people are having fewer children and living longer than past generations, the number of working-age people supporting each elderly person has fallen and will continue to fall. (But I am doing my part to fix this: I have three children.)

The second problem is that the cost of health care has risen significantly and is expected to continue rising.

From one perspective, these problems are really blessings. Life expectancy in the United States has risen by about eight years over my lifetime — a fact that I appreciate more with every passing year. Part of this improvement is attributable to technological advances in medicine, which sadly do not come cheap. But they are worth it nonetheless. I doubt that many people would give up modern health care at today's prices in exchange for 1958 health care at 1958 prices.

THE big question for the green-eyeshade crowd is how to pay for these blessings. It is an issue that no presidential candidate has taken up in earnest.

Republican candidates are fond of saying we should cut tax rates because doing so would incentivize more rapid economic growth (true) and raise tax

revenue (wishful thinking). But unless we figure out a politically acceptable way to reduce the benefits now promised to future retirees, taxes are going up in the coming decades. The national debate will have to shift from which tax cuts do the most good to which tax increases do the least harm.

Democratic candidates like to talk about expanding the social safety net with universal health insurance. But they blithely ignore the fact that the safety net we already have was bought on credit and that the bill is almost due.

The Democrats claim fiscal responsibility by advocating taxes on the rich, but the numbers don't back up the rhetoric.

The campaign of Hillary Rodham Clinton, for example, wants to raise income taxes for those making more than \$200,000 a year. Even by the campaign's own reckoning, however, this tax increase would bring in only \$52 billion a year — a mere one-third of 1 percent of G.D.P. And if higher taxes on society's most productive members discourage economic growth, even this tiny number is an overestimate.

Inside the Beltway, meanwhile, in a rare outbreak of election-year bipartisanship, checks are being prepared to send to voters nationwide. If all goes as planned, a few months before the November elections, a typical family of four will get a windfall of \$1,800. Whether the economy needs a short-run fiscal stimulus is debatable. But there's no doubt the stimulus will add to the national debt we are passing on to future generations of taxpayers.

My birthday wish is for all of us to stop asking what the government can do for us today. Instead, we should focus on what we can do together to prepare the economy for our children and grandchildren. That means getting ready to care more for ourselves in old age, perhaps by retiring later, perhaps by saving more. I hope that when I celebrate my 100th birthday in 2058, my descendants won't look upon Grandpa and his generation as the biggest economic problem of their time.