

Carnegie Council Privatization Project

**Facing Up: What
We Need to Do to
Get Our Economic
Act Together**



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Facing Up: What We Need to Do to Get Our Economic Act Together

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Peter G. Peterson

The essence of my talk this morning—this business of getting our long-term economic act together—requires us, unfortunately, to talk about probably the dullest, grayest word in the American vocabulary: productivity. It is at the heart of the issue of getting our economic act together because it's got everything to do with our standard of living.

In this book that I've written,¹ I tried to avoid the short-term—whether we're in a recession or not—but rather focus on the longer term. If you look over the last 20 years, what you see is productivity that's relatively stagnant; you see the lowest productivity growth in the industrialized world; and you see real incomes, on the average, stagnating. What troubles me more than that is how this affects the prospects of the American Dream. You see the incomes of our young workers falling very substantially in real terms, about 25 percent for young workers under age 30. You see something else among the very young that should disturb us all: We now have three times more poverty among children than among the elderly, and we have about three times more poverty for children as the average of the rest of the industrial world. So we have a situation confronting our young people—our young workers and our young children—that ought to command our attention and our consciences if we're really serious about the future.

The American Dream had many components, but one of them was the notion that our income would double about every generation or so; about every twenty-five years. At the current rate of growth in real income, however, it would take over 250 years for income to double. It is that stagnation in the standard of living and the societal consequences of exploded expectations that we're now beginning to experience.

¹*Facing Up: How to Rescue the Economy From Crushing Debt & Restore the American Dream*, published by Simon & Schuster, 1993.

I argue in this book that if we're going to get our act together, there are three imperatives: an economic imperative, a moral imperative (I know it's beyond *chutzpah* for an investment banker to talk about morality), and a political imperative.

Let's talk briefly about the economic imperative. How did all this come about, and when did it happen? It has become customary in economic journalism to imply that America has always been a land of big spenders and big borrowers—living, more or less, by luck and pluck. But that's historical nonsense. For much of America's history, we were the biggest savers and the biggest investors in the world. It was some time after World War II that this current trend began. Then, it really accelerated ten or twenty years ago, when we became, instead, the biggest consumers and the biggest borrowers in the world, and the smallest investors.

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Investment is the key to productivity growth. As to America, it doesn't seem to matter what kind of investment we look at. If you look at investment in plant and equipment, the average industrial country is now investing two to three times as much as we are; in some cases, Japan, for example, there are ten to fifteen times robots per worker. If you look at public infrastructure—“crumbling public infrastructure” has become almost a redundancy—the rest of the industrial world is putting in five to fifteen times more money than we are, which explains, for example, why they have high-speed trains and we don't. If you look at research and development, the average leading industrial country is now putting about 50 percent more of its GNP into research than we are. When I was in the Commerce Department, we started collecting data on the source of origin of patents, which is a leading indicator of research and development. As recently as 1979, all top four patent-creating companies were American, but beginning in 1991, the top four were not American. So wherever we

look in terms of investment, we see this tendency not to invest as much as the rest of the world.

Where are we headed? I have been taught that you can have two visions, one positive and one negative. There was a time when I weighed a lot more than I do even now. I remember, after a long series of failed diets, going to a medical doctor who was also a psychiatrist who specialized in weight control. He asked me what my diet history had been. I told him it had obviously been a continuing abject failure, and he said, "Tell me what happens." "Well," I said, "I can usually make it through breakfast but at lunch I begin getting a bit uneasy and by dinner, as a very eager eater, I'm angry at whoever imposed this horrible atrocity on me. And the next day, I'm off my diet again." He said, "It was Hegel who reminded us that it's very difficult for people to sustain a denial, or a negative vision that's imposed on them by someone else, except under the most terminal circumstances. You need a positive vision that you yourself are committed to." He got me focused on what *I* wanted: what I want to look like, and we talked about why I wanted to weigh less, and, finally, we talked about how much I wanted to weigh. He had concocted a wonderful version of the type of mirror that we used to see at county fairs. You stand in front of this mirror, which had no distortion, and he dials in your desired weight. You are looking at how you would then look at your desired weight. And there it was: the positive vision of this leaner, sexier, younger looking Peterson. He would say, "Now is that what you had in mind?" I said, "My God, what a vision that is! Yes, that's it!" And he said, "Now you're sure that's what *you* want to

"If you take Social Security and Medicare as they are currently projected and take a range of scenarios, the payroll taxes implied for my grandson when he hits the work force are an unsustainable 38 to 50 percent of pay just for those two programs."

do?" He taught me how to recall this vision. This diet was successful.

One of the things I try to do in the book, therefore, is to show what America would look like twenty years from today if we were to get halfway back to the productivity growth we had from 1947–1973, and back to what our historic average of productivity growth has been. In my book, I paint a specific picture of what the real incomes of Americans would be and how much more we'd have in our federal budgets for all kinds of public projects that we're now ignoring . . . a positive vision, if you will.

Let's assume, therefore, that we have really decided how much we want to increase our nation's productivity; how much investment would it take? I got the counsel of the best economists I could find. They indicated it would take shifting about



(Left to right) President Rick Dowden, president and CEO, Volvo North America Corporation; Robin Henry, president, The Rau Foundation; and Andrea Botta, president, IFINT-USA.

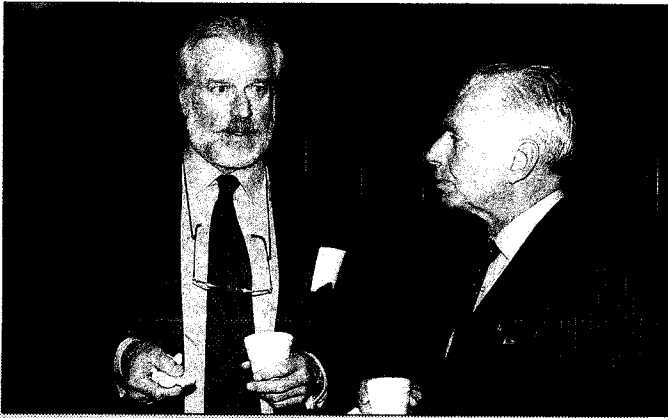
6–8 percent of our GNP from consumption to savings and investment, which is about \$400 billion a year.

We then must ask: Where do we get these savings? There are some people who say it doesn't matter, just borrow it from foreigners. I would like to argue that this is not a sustainable or a wise course for several reasons. I was presumably educated at the University of Chicago and they indicated there that the purpose of economic activity is to increase the real wealth of the participants; if it's not *our* savings you're counting on, then we're not going to benefit nearly as much from them. Secondly, great countries do not put their destiny in the hands of others. We have seen what has happened in the

Mideast, what's happening in Japan, and what happened in Germany after reunification. In other words, situations arise where domestic priorities overseas can assume top priority over ours. Finally, as part of this book, I looked at every high-productivity, high-growth country in the world, and I could not find one that was not a

high-savings, high-investment economy. So, essentially, we have to decide whether we are satisfied to be this country which has the highest consumption rate in the world by far—about 10 percent more of the GNP than the typical industrial country—or whether we're prepared to make some choice about shifting consumption to savings and investment.

Another question follows. That's a lot of savings. Where in America do you get it? A lot of people will say, "Well, why don't we just increase private savings?" I chaired a commission on capital formation, and I got the leading experts from MIT, Harvard, Stanford, Brookings, and elsewhere to confront the question, "What do we know about what it would take to increase private savings in America?" The answers I got back were immensely ambivalent: "It's kind of, on the one hand, this, and on the other hand, this. On the one hand,



Peter Lusk (left), COO, Forstmann-Leff Associates, and Dale Jenkins, Council on Foreign Relations, at breakfast for Mr. Peterson.

we think if we have IRAs we can increase savings this much, but we don't know what the net increase is, because it costs a lot to get it," and on and on and on. After three months of listening to these experts, I concluded some of the following about U.S. savings patterns: that there are some deeply cultural things going on; that the results are likely to be ambiguous; that it's likely to take a long time; and if we try to solve this problem by simply stimulating private savings, it would be a very uncertain and perhaps costly outcome.

Thus, I don't confront deficits because I am a masochist or a puritan but rather because I think that when you have something that's swallowing about two-thirds of the savings of the country and you desperately need those savings productively invested, you *have* to look at the deficit as the surest and fastest way.

Thus, as part of this book, I come up with a goal of balancing the budget by the year 2000, and ask how would we do that.

Earlier I had the presumption to inject a moral imperative. Let's talk a little about the morality of what we're doing on the road to becoming the biggest debtor in the world and mounting these huge debts. As part of the Concord Coalition effort, I began reading Thomas Jefferson's early writings. As you read some of his letters and writings, you see that he felt that amassing public debts was a violation of natural and moral law. Here's the way his reasoning went: The Revolutionary War was all about "taxation without representation." When we have huge debts and we pass them on to subsequent generations, we're essentially passing on huge taxes and interest bills to future generations who had nothing to do with the creation of this debt. Therefore, future generations are being robbed of their right to life, liberty, and the pursuit of happiness. Jefferson had a wonderful exchange of letters with James Madison in which they seriously considered making it a part of the Constitution that you could not pass on public debt from one generation to the other because, as he said, that would be

"swindling futurity" and "the earth would then belong to the dead rather than the living generations."

There is also the German philosopher, Bonhoeffer, who said that "the ultimate test of a moral society is the kind of world that it leaves to its children."

As I've gotten into these subjects, I've concluded that if we don't confront the moral imperative of what we're doing to future generations by our consumption and our greed and our borrowing, we're going to have trouble solving this problem.

Speaking of future generations, among the books I read a few years ago that made an impression on me was a book by Laurence J. Kotlikoff, of Boston University, who wrote a book called *Intergenerational Accounting*. He takes all the federal benefit promises that have been made and all of the debts and looks at them intergenerationally. He computes what the tax bill will be on each generation.

My first grandson was born in 1990 so I asked Larry if he could compute for me what the tax bill would be for my grandson's—Peter Cary's—generation, if we continued on the current path. The average taxes on my generation were about 28 to 30 percent; on the more recent generations, they're about 32 to 35 percent. I was stunned to see that by Larry's computation, Peter Cary's generation would have to pay taxes on 71 percent of income in order to pay off all the liabilities, bills, and contractual obligations that we have undertaken. I don't present these numbers to suggest they could happen. Among my mentors in the Nixon administration was Herb Stein, who had a very wry sense of humor. Herb Stein said one day, "If something's unsustainable, it tends to stop." I've taken that philosophy through life. There is no way that our kids are, should, will, or could pay 71 percent of income in taxes, so what we're talking about here is something that's truly unsustainable. The brute question is, when do we confront it? Early on, so that we can be humane and gradual about it, or do we have to wait until we get our economy and society into the intensive care unit?

As I joked at the outset, you can pull out your guns now and commit suicide if you wish, but there are many reasons I obsess with entitlement spending. It is the item that's pure consumption since most of it goes to the elderly; it has nothing to do with the future; and it is what has been the engine behind this huge drive toward consumption in our economy and in our public budget. I'll give you an idea of how fast it's growing. As recently as 1960, 27 percent of the U.S. budget was entitlements. By the year 2000 it will be 60 percent. You "ain't seen anything yet," as the baby boomers retire, beginning about the year 2012. The liberal segment of our society has long complained about the defense budget during the Reagan-Bush years. However, you may be interested in knowing that entitlement spending grew over three times faster during that period than did the defense budget. I don't want to get into an argument about the size of the defense budget, but

I can assure you that it's entitlement spending that has been, is, and increasingly will be, driving this budget.

Let's take a different look at this negative vision of the future and try to get a sense of what it implies so that you can see the utter unsustainability of the entitlement and deficit spending path we're on. Every economist that I have any respect for says that the thing you want to look at in an economy is not just the absolute level of debt but debt as a fraction of the GNP. Let me give you a few numbers. In 1980, when Ronald Reagan took office, 27 percent of the GNP was in debt. It's now 54 percent. Economists have taken the current path of spending and they have estimates that will curl more than your hair: 59 to 60 percent of the GNP by the beginning of the century; 125 percent by the year 2020.

A lot of what's driving this is the spending on programs that are related to demographics. About the year 2012, the baby boomers retire and the young work force is expected to pay these bills that are growing by only 10 to 25 percent annually. For recipients aged 65 to 75, the growth is up as much as 100 percent. Over 85, it's as high as 400 percent, depending on the scenario you pick. It actually makes no difference which scenario you pick, the rate of growth of the recipients is many times faster than the rate of growth of the young workers who are expected to pay the payroll taxes. Now, inevitably, what this amounts to are unbelievable projections of what the payroll taxes would be for young workers. You appreciate, I am sure, that these entitlement liabilities are not funded; there isn't any money there, it's all been spent. It has to come, essentially, out of current receipts. If you take Social Security and Medicare as they are currently projected and take a range of scenarios, the payroll taxes implied for my grandson when he hits the work force are an unsustainable 38 to 50 percent of pay just for those two programs.

There is another way of looking at all these retirement programs, which are unfunded liabilities. If I can use the word *chutzpah* once again, let me tell you about a debate I had with my friend New York State Senator Patrick Moynihan on television the other day. I said, "You know, there is no shortage of hypocrisy, Pat, in Washington. You guys in Congress have expressed deep anxiety about private sector pensions where unfunded liabilities for workers in America went up \$8 billion last year (from \$49 billion to \$58 billion). I didn't notice you expressing deep concern about the fact that unfunded pension liabilities for Congressmen, their staffs, and federal workers—in other words, the federal pension system—are 25 times that number for many fewer workers." And yet Congress has the *chutzpah* to suggest that we have a pension-funding crisis in the private sector. They suggest we speed up the funding period from 30 years to 15 years to make up for this. But at the same time that you're alarmed about the private sector pension funding, I've computed what

the funding would have to be annually to fund just federal pensions on the same basis as private sector pensions: it would add \$100 billion a year to our spending. Unfunded liabilities for all of our various entitlements, pensions, and so forth, is a staggering \$14 trillion, which is several times the entire public debt.

The solution to this problem obviously is to cut benefits and cut these future deficits and liabilities in a way that is as humane and gradual as they can be. Otherwise, we'll never get the savings we need. Both Ronald Reagan and Bill Clinton, in my opinion, have tended to scapegoat the issue. Ronald Reagan would have had us believe that it was the unworthy poor. If we could just stop spending on that mythical Welfare Queen who, as you recall, presumably wore a mink coat, drove Cadillacs, and used the welfare money to buy vodka, we could get this situation under control. That, however, was in violation of the Willie Sutton factor: if you rob banks, you go where the money is. You could take all of the money away that goes to the poor and make minimal impact on a \$400 billion problem; the percentage of our budget that goes into it is small and has not been growing.

Bill Clinton comes along, and he at least has a juicier target, which is the rich. He increases taxes for those with incomes above \$200,000. At least that target has the appeal

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of having some money. I hired the best researcher I could to take apart the entire federal budget and try to find out who gets what benefits by income. I looked at people making above \$200,000, which is where the Clinton tax increase is, and that accounts for only 1 percent of the population, and only about \$5 billion of benefits go to those people. You can take all of the benefits away—and indeed, in my proposal I take most of them away from fat cats like myself. You can argue to do that for moral reasons—but it doesn't solve the problem. I then went down the income categories, to the median income, which is about \$33,000 a year. I wondered how many benefits and tax expenditures there are between the median income and \$200,000, and discovered it's roughly \$375 billion a year, and growing very rapidly. So, the real third rail of American politics is not just entitlements and Social Security, it is this quaint notion that you can solve this problem without involving the broad middle class. Every politician talks about the beleaguered

middle class and how they deserve a tax cut and everybody wants to attack the rich. However, there is no solution to this problem that does not involve the broad middle class.

I've come up with something that I call an affluence test—not a means test, an affluence test. Among my reasons for doing this is the utter absurdity of the current system, where, for example, the average Social Security retiree today gets $3\frac{1}{2}$ times what he or she put in, plus interest. Medicare recipients get 5 to 20 times their contribution, tax free. You can't have everybody on welfare. How can we all be on the wagon? Somebody has to pull it. In my affluence test I take the median income and, to avoid the cries that I am attacking the poor, I leave all of the benefits alone for anybody below the median income, and I put all entitlements programs together. I think it's very important to not just look at elderly programs, but also farm programs, federal pensions, and veterans' programs, so we can regenerate the idea that it's America's problem and we're all in it together; it isn't one group that is absorbing all this. So I put all these programs together and on a progressive basis reduce the entitlement benefits. For the first income group above the median income, the benefits are cut about 2 percent, or a few hundred dollars, and in Pete Peterson's category, they're cut about 75 or 80 percent, or \$16,000 per person. It's a steeply progressive notion that I would hope would make this proposal morally and politically tolerable.

What happens if you do something of that type is that because you're cutting the spending, demographics are going with you. By the year 2000 you're saving nearly \$100 billion annually, but by the year 2020 you're saving about \$300 billion a year, because so many more people would be receiving benefits then. If you try to solve this problem just by increasing taxes, a huge tax increase becomes necessary every five years.

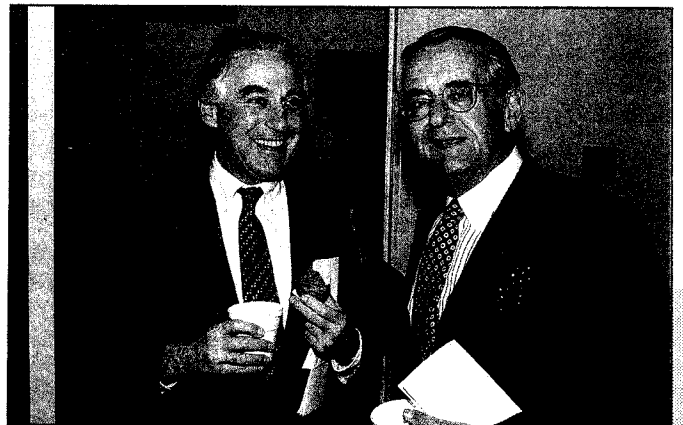
Finally, a few words about health care because the president talked about it again last night in his State of the Union address and because, as a huge consumer of America's resources, it's going to be a central item. I always try to be politically even-handed and independent, and I want to praise the president for finally putting this issue on the table. It's long overdue. We're the only country in the world where this many people do not have health care. For the richest country in the world, this has always been a bit bizarre to me. I think the president is right, personally, to advocate universal coverage and portability. He's even right rhetorically to say that unless you control health-care costs, you're never going to get control of the budget. But there's always a gap between rhetoric and reality; there is an unusually large one in the Clinton health-care plan that I'd like to talk about very briefly—i.e., cost control.

In the first place, the plan that they've proposed is modeled essentially on the Fortune 500. This is not a minimum basic plan, it is a generous plan. But what bothers me more is the years of experiences we have had with entitlements: we

grossly underestimate their cost. When President Johnson announced the Medicare program, he said that this program might cost \$500 million some day, but it's now costing \$150 billion. Without exception, we underestimate costs by five, ten, fifteen, or twenty times. It doesn't make any difference what the programs are.

The president announced four new health-care entitlements, including prescription drugs, long-term care, and a particularly perverse one, which is providing for the government to pay the bulk of health-care costs for early retirees. What on earth that has to do with controlling health-care costs, I don't know, because early retiree health benefits are a major item. Someone from the AFL-CIO praised the plan, which was enough to concern me. I looked into some of his comments, and his reasoning was the following: early retiree health benefits are 5 to 6 percent of all employee costs in the auto industry. Now that the government is going to take those over, what we ought to do is go back and renegotiate to increase our benefits by 5 to 6 percent. This, in the name of reducing health-care costs. I get the politics, but I don't get the connection to cost control.

Secondly, the health-care plan does not really talk about what I think are two of the major problems, and it doesn't address them because it's difficult to do so politically. It is my thesis that one reason our health-care costs are out of control is that Americans have developed what pollster Daniel Yankelovich calls "the maximum right" attitude toward health care. We are Americans and even though it would not occur to us to go to the Four Seasons to provide food for welfare recipients, we somehow have gotten the notion that because we are the developers of all this high-tech medical technology, we are "entitled" to use it. As I've traveled around the world to try to understand how we can be spending up to twice as much as the rest of the world on health care, one of the big answers is that wherever you look at high-tech, high-cost health care, Americans use far, far more of it. For example, in intensive care units, if you go to most cities in the rest of the world, you will notice that their intensive care units are a fraction of



Enzo Viscusi (left), ENI representative for the Americas, with Mr. Peterson at the Privatization Project breakfast.

the size of ours. Ours tend to be filled with septuagenarians, many of them in the last few months or days of their lives and living on all kinds of high-tech, heroic care. This is not true in many other countries in the world. We have about eight times the magnetic resonance imaging (MRI) units as the rest of the world. We have four times the open heart surgery of other countries. Our expenditures on neonatal costs are extraordi-

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nary by any world standard. This has become part of the American culture. It’s a subject that you haven’t heard much about in the various reform plans because it is politically painful. But I don’t think there is an answer to America’s health-care cost problem that does not address the problem of using vast amounts of health care which have some benefits but where the ratio between costs and benefits is not very attractive.

The second issue is cost consciousness. We’ve developed a cost-blind system. Every economist in the world will tell you it’s very important to have cost disincentives. Under the Clinton plan, as best as I can compute it, the deductibles go down, not up. I asked my friend, Senator Warren Rudman, how could it be that you have this plan with all these new entitlements, and it does nothing about the excessive use of high-tech medicine, and yet with a cigarette tax, we’re going to reduce the deficit by \$91 billion. Warren said, “Well, Pete, I thought you were smarter than that. I ran the 1300-page plan through my computer, and it’s easy. You just require everybody to smoke. The cigarette revenues go up dramatically, and you don’t have to pay out those early retiree health costs. It’s really quite simple, you see.” Well, I’m not sure that’s the way it’s been presented to us.

I would have thought it would have been more prudent to do something like the following: Address the universal coverage issue, but start out with a much more basic, or a “no-frills,” plan, and induce every incentive we can think of to reduce costs, including more cost-sharing and capping corporate health-care exemptions. I’ve become a great advocate of living wills, and I would go so far as to not only standardize living wills, but maybe even provide some incentives. And, of course, we must reform our malpractice system. My point is that before we launched all these new entitlements it would have been far more prudent to start out small, find out how much money they cost and how much our cost disincentives were, and then decide whether we wanted to add any more — in other words, more incrementally and experimentally.

Let me finally come to the political imperative, if I may.

I’ve been at this deficit problem for about ten years, and even I can learn something in ten years. Ten years ago I helped organize a group which consisted of five other Cabinet officers, 400 CEOs, and the head of nearly every accounting firm, legal firm, major university, and so forth. What we found was that Congress was impressed that, on a bipartisan basis, you have Democrats like Cy Vance, Felix Rohatyn, Bob Strauss, and Vernon Jordan as well as Republican-establishment figures supporting this. For the moment it makes an impact. Then, the power of grass roots constituencies who are receiving their benefits start making their weight felt, and the thing kind of evanesces, politically speaking.

I’d like to end up on a somewhat hopeful note politically because people ask me, “You know, do you think there is a chance?” In the

first place, The Concord Coalition now has 100 chapters in every state in the country. We have several hundred thousand members, and we’ve become almost a reference point for budget projections and all kinds of budget actions in Congress. Secondly, something has happened recently that I would have thought impossible—and this is to the credit of the Clinton administration. They have recently proposed something that would have been thought of as unthinkable: an entitlement reform presidential commission, co-chaired by Senator Bob Kerrey, a Democrat, and Jack Danforth, a Republican.² It’s going to be a bipartisan commission composed of ten senators, ten representatives, and ten private-sector individuals. I think the president has realized that quite apart from balancing the budget, unless we get at this metastasis of entitlement spending, there won’t be any money left to do anything that he would like to do. Every time they talk about any positive program, the obvious question is: How are we going to pay for it? And, they can’t pay for it with this entitlement spending going out of control.

The second encouraging thing that’s happening is the response of the young people of this country. You recall the old joke, “Which is worse,” the philosophy professor asks, “ignorance or apathy?” and some kid from the back of the room says, “I don’t know, and I don’t care.” That has characterized, by and large, young people’s involvement in America’s political process. I’m beginning to see some very encouraging signs. A year ago two great young kids came into my office and said, “Mr. Peterson, we’ve been reading what you’ve been saying. We’ve looked at the numbers, and we’ve decided our future is at stake. We’ve been accepted at two Ivy League law schools, but we’d be willing to give up several years if you would just pay us enough to live and get started.” They started an organization called Lead...Or Leave, which is beginning to have some real impact. No less than a month ago, another young person tied to the Kennedy family called

²Editor’s Note: President Clinton appointed Mr. Peterson to the commission on February 10, 1994.

saying that he wanted to devote his life to what's happening to future generations. He set up a group called Third Millennium, and they are organizing chapters all across America's colleges to get young people involved in this process. I have never seen this happen before, so I'm very encouraged.

I'd like to end on this note. At the University of Chicago, Professor George Stigler used to say, "If you have no alterna-

tive, you have no problem." I've gone through life with that maxim. Thus, for those who say, "Peterson, you must be crazy to be putting money, time, and energy into Concord Coalitions and writing books," I say, "But what's the alternative?" The alternative that I picture is no alternative at all. So I have no problem plugging away on this, and I hope you don't either. ■

Questions and Answers

Q As opposed to "I don't know and I don't care," a lot of us in the room do know and do care. Could you describe some of the specific things we might be able to do to help?

A People who are willing to look into their own pocket-books, particularly if they are well off, and say there is no solution that does not involve taking away some of the welfare from those of us who don't need it, is a start. In other words, there have to be a few principles that you agree to. The details are less important than the principles. You then have to decide whether you are willing to get involved in the political process in some way. In 1987 I thought we were making great progress with this bipartisan budget appeal, and we ran these double-page ads and there was a budget summit. You remember there was the stock market crash in October and we said, "Boy, they had the hell scared out of them, it's the time to move." And the two sides got together at a budget summit and they looked at this ad, and they said, "My God, let's do something." Senator Claude Pepper heard about this meeting. He sent in a video tape and, according to the *Washington Post*, the essence of the tape was, "If you guys dare to reform these entitlements, we're going to demand a roll call vote, and we'll get you next November." So the meeting broke up.

Fundamentally, until the politics of this thing change, so that it's safe to do the right thing—or safer to do the right thing—you're going to have an awful time making change. What has to happen is millions of Americans have to start getting involved, saying, "By God, I'm going to hold your feet to the fire on this subject." The perception in Washington is that it's suicidal for anybody to propose the kind of reforms that I am proposing. Until it changes so that

it's not suicidal, they're going to keep putting this off until we're in the intensive care unit. And if you wait that long, we're going to pay an awful price. So the long-winded answer is, you have to get involved in the political process.

Q After the Greenspan Commission reformed Social Security in 1983, it began generating huge surpluses. I think this year it is close to \$100 billion. The federal government counts that as revenues and, in effect, reduces the true operating deficit by \$100 billion. This is outrageous, but one shouldn't blame the Social Security program for the federal government's disgraceful handling of this issue.

A Yes, that's correct. However—and it's a big however—it seems to me that to say that the system is in surplus because temporarily we have a very small cohort of retirees and a very large number of young workers is erroneous. This is supposed to be a pension system, an accrual system. Do you think a large multinational corporation would say their pension fund was in surplus if it had a multi-trillion dollar unfunded liability? You'd say that's absurd. It's in temporary surplus, but it's in huge actuarial deficit. I'm not focusing on what the impact is this year; I'm trying to lay out where we are headed as the baby boomers hit in the next century. So I don't think I said that Social Security caused this year's deficit. What I'm trying to suggest is that the whole program called "entitlement spending" is at the heart of the problem and you ain't seen nothing yet until you see the baby boomers retire in the year 2012. So you are correct. There is a large cash surplus now; but there sure in God's earth is not going to be a large surplus 15 or 20 years from now when the bills come due. ■

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