NPG Forum

SOCIAL SECURITY AND THE FEAR OF AGING

by Lindsey Grant

For a decade or so, we have been besieged by stories about impending population decline in Europe and Japan, the prospect of a worsening dependency ratio and too few workers to support the aged. To this chorus there have now been added urgent proposals to "reform" U.S. Social Security because it is supposedly running out of money -- although our Social Security system is presently working well and generating a large surplus to help reduce our unconscionable national budget deficit.

Those fears have silenced concerns about population growth because of the widespread belief that industrial countries need more immigration or higher fertility to support the old. Europe and Japan need to return soon to replacement level fertility, but the United States' fertility is, if anything, too high, and more immigration is a solution for none of us. I have dealt earlier with the question of aging in Europe.[1] Here, I will focus on the United States and attempt to show that Social Security is solvent, that there are ways to keep it solvent, and that fears about it should not stand in the way of actions to address our growing problems with energy, water and agriculture. Retirement policies must be integrated with other policies. That approach is conspicuously missing right now.

Let me assert and then undertake to defend ten propositions.

#1. An Older Population Is a Goal, Not a Threat. We want to live longer, and we have been. As we do, the average age rises.

There is really very little we can do about it. Immigration in the United States is driving our population up, but it isn't having much effect on the dependency ratio (the number of dependents per 100 people of working age).[2] More immigration would drive population to unthinkable levels, without making Social Security solvent.

Higher fertility would have similar consequences. If we choose to lower fertility to stop population growth, it will actually improve the dependency ratio for awhile, but then the working population will age.

We can't have a low dependency ratio and long lives.

#2. The "Dependency Ratio" Is a Flawed Measure. It suggests that all "working age" people are working, and that nobody else is. Implicitly, it suggests that prosperity is closely linked to the ratio. Neither assumption is correct.

And it uses an arbitrary definition of “working age.” (The UN definition is 15-64 years of age, but college bound people are potentially the most productive workers, and they don’t enter the work force until their 20s.)

The dependency ratio in the United States is now about 50. It was up in the middle 60s in the 1960s. The UN Population Division expects it to rise to 61 in the 2040s, but that of course depends on how accurate its population projection is. Other figures for 2000 were 47 (Japan), 48 (Italy), 47 (Germany) and 54 (France). In theory, the lower the dependency ratio, the more favorable it should be. In fact, the correlations are very loose. All those figures are very “favorable” -- and those countries’ central problem perversely enough is unemployment.

A dependency ratio of 50 suggests that each working age person is supporting 0.5 dependents. If that seems onerous, remember that the wage earner in a single-income, two child family is personally supporting three dependents.

As a worst and best case, I once ran the projection for dependency ratios in Italy. Worst case because Italy has one of the lowest fertility rates in the world, and the problem of aging should be most acute there. Best case because I assumed that Italy will promptly bring fertility back up to replacement level, resulting in a population stabilizing in the 2070s at about 40 percent of the present level. The dependency ratio rises to the high 70s for two decades and then recedes to a respectable level around 65.[3] There is no reasonable prospect that the ratio in the United States could go so high, given our present demographics. In short, fear of a soaring dependency ratio is not a valid reason for refusing to address the population turnaround that the United States must undergo to deal with its energy, resource and environmental problems.

A more meaningful figure is the percentage of the total population actually working (“economically active”). The ILO figure for the population over 16 is 42 percent in Italy and 52 percent in Japan. In the United States, the ILO puts it just over 50 percent; the U.S. bureau of Labor Statistics suggests it is higher, with 65 percent of those over 20 employed.[4] Unlike the dependency ratio, a high percentage is supposedly favorable. There is room for improvement throughout the world. In the United States, the most serious problem is the idle young people. In recent years, about one-third of young White men 16-24 have been idle -- not employed, or in school, or in jail. The proportion has been rising. For young Black men, it has been over one-half; for young Hispanic women, over two-thirds.[5] Those are dangerous levels. Idle young men tend to go into crime. We need to help them find jobs, not just because they would contribute to Social Security, but for their own well-being and that of our society.

Another question is, how much do workers work? In France, the 35 hour work week is the standard cap. In most of Europe, paid annual leave is a month or more, and six weeks in Germany. Retirement age is usually 60. European labor has had a great ride for two generations; it has the slack to provide for its aging, if it adopts a work week more like ours.

The principal determinant of economic output is the productivity of labor, which is determined largely by investment, technology, efficiency, computerization and mechanization. Obviously, a hundred productive workers can support more dependents than a hundred unskilled workers living close to the margin. Equally obviously, some of their productivity must go to support the aged and dependent. Systematic investment in productivity to provide for all is essential for a decent future, particularly if we get serious about stopping population growth.

#3. Social Security Is Not in a Crisis. We will need to accommodate the aging baby boomers in the United States, but the crunch is years away. Social Security is running a large and rapidly rising surplus right now (unlike Medicare, which is in much worse shape, partly because of the ill-advised new prescription insurance program). It will be collecting more than it disburses until 2017 or 2019, according to different actuaries. It will not run through its accumulated reserves until about 2041, but that figure is somewhat illusory. Retirement must be supported by current production. Simply drawing down an accumulated reserve is legitimate bookkeeping, but it does not necessarily generate the flow of commodities to support the retired.

The policy issue is how to prepare to keep the Social Security cash flow in balance in the decades after 2020.

#4. Growth Means Poverty, Not Prosperity. Humankind faces diminishing water supplies, stagnating agricultural production and growing damage to our environment and resource base. We are entering the transition from fossil fuels to renewables. We must bring populations down to fit the coming decline in energy. We are in a condition of overshoot, with populations already too large to be sustainable for long by our natural support systems, and the energy transition makes that overshoot far more serious.[6] We cannot "solve" the changing dependency ratio by growth. Our problem already is population growth. From 296 million now, the Census Bureau expects the United States to pass 400 million in about 40 years and 600 million around the end of the century -- if we can support so many people.[7]

And Census projections have regularly been too low.

We must go the other way -- find ways to man the work force while we deliberately reverse population growth.

There is a vast difference between the United States and the other industrial countries. Their fertility levels are far below replacement level, even below 1.2 children per woman in Italy and Spain. They must soon bring fertility up to replacement level (about 2.1 children), or welcome levels of immigration that will transform their very nature. Otherwise, they will simply disappear -- some of them within a century or so. In the meantime, however, those countries have the option of shrinking to a level that their energy supplies, water and agriculture can support. By those fundamental measures, smaller is better.

The prospect of continual growth has been very attractive to those who profit from it, or hope to. That belief will fade, but not soon enough. Right now, a "successful" economy is thought to be one that is growing four percent or even (like China) eight or nine percent a year. Even four percent means a doubling in less than 18 years and a 16-fold increase in 70 years. In earlier times when the scale of the human enterprise was much smaller, that may have seemed like a good idea. Not now. China is generating major disturbances in the world energy and raw materials markets as it moves onto the world stage, and that is a tiny foretaste of the problems that sustained growth will generate in a world already pressing against its resources.

A static, older population is likely to be more risk-averse than a younger one. That may not be all bad. The disastrous wars and conflicts of the past century were hardly the consequences of risk aversion.

#5. Fertility Is Not the Problem in the United States. Among non-Hispanic Whites in the U.S., the total fertility rate is 1.84 children, and steady. Among American Indians, it is even lower: 1.75 and falling. For non-Hispanic Blacks, it is 2.05 and falling.[8] The last two figures are particularly noteworthy, since those groups are generally poorer than average -- and poor people traditionally have had larger families. At those rates -- and in the absence of large immigration flows -- U.S. population would stop growing during this century. If we could bring the rates somewhat farther down, to 1.5, we would start sooner to reverse growth.

We have one specific fertility problem: to bring the level for Hispanics, now 2.75, down to the general average. If we don't, they will gradually replace the others and vitiate any hopes for stopping growth.

#6. Mass Immigration Is the Problem, Not the Answer. Immigration is offered as a solution, but it is part of the problem. It is driving U.S. population upwards by the immigrants' numbers, by the numbers of their children and descendants, and by the high average fertility of the immigrants. Two thirds of the Census Bureau's projected U.S. population growth through 2050 is the result of post-2000 immigration.

Mass immigration -- particularly the immigration of unskilled people that U.S. policy now encourages -- makes the management of retirement more difficult, not easier. It drives down wages and thus weakens Social Security. Low-wage workers, when they retire, draw more from Social Security than they had put into it. Better paid workers, on the other hand, make a net contribution to the system over their lifetime. Well-paid workers thus subsidize ill-paid ones.

Employers welcome mass immigration because it lowers their costs. Prosperous householders like it because it provides cheap household labor. It may or may not lower other prices, but it certainly holds wages down, particularly for the less skilled workers with whom most immigrants compete. And it retards the investment in labor saving techniques that is essential to maintaining a high wage labor force.

#7. Free Trade Exacerbates the Problem. We are learning a new axiom: in a world with free movement of capital, goods, technologies and marketing systems, entrepreneurs will move their production to the places where production costs are lowest. That process has been going on for several decades under the banner of "globalization." The high labor cost nations have been losing out to low labor cost producers. In one commodity after another, the United States has been moving from exporter to importer. Our annual current account deficit rose in 2004 to an unprecedented $668 billion -- six percent of our GDP, or nearly $2300 per capita. We are living beyond our means, and we stay in business only because foreign governments, particularly Japan and China, prop us up by buying Treasuries, to avoid a collapse of the trading system and the loss of their export market.

Apologists for globalization argue that the trend will stop "because we (the high wage countries) will concentrate on high-tech exports." Those apologists have lost touch with reality. Right now, Asia is supplying a rising fraction of the high-tech goods and services that American labor once produced. For one shocking example, China and Taiwan now produce 85 percent of world-wide laptop PC production. The United States produces one percent.[9] And Asia poses a particularly intractable problem: it has an almost unlimited reservoir of trainable labor seeking work, which will preserve the wage differentials that attract foreign entrepreneurs.

Free trade is eroding the job base on which American labor has depended. Retirement costs are going up, not down, but the financial base -- the contributions to Social Security by employers and workers -- suffers. And that imperils the future of Social Security.

Globalization of trade has other and perhaps even more ominous dangers. With world population pressing harder and harder on resources, the idea that nations can rely on other nations for basic resources is fast becoming an anachronism worshiped only by free-trade economists and the transnational corporations (TNCs) they serve. Witness the difficulty that the big American oil companies are presently having gaining access to promising oil and gas fields abroad, or the riots in Bolivia against gas exports. But that is really the topic of another paper.[10]

#8. The Erosion of Wages and Benefits Is the Problem, Not Social Security. The United States and Europe are feeling the competition from low wage countries. Corporations are presently scaling back their labor force and the wages and perks that labor had come to enjoy. In industries which had heretofore paid high wages, workers are forced to choose between a reduction in wages or unemployment.

The United States is going the wrong way. Productivity is rising, but not hourly real wages, which have been stagnant since the mid-1970s. The income of the rich is rising astonishingly, as Management siphons off the money that in a healthier situation would go to labor.[11] That process in turn siphons off Social Security taxes.

We must protect Social Security. U.S. business is sowing the seeds of class warfare in the United States. American labor has been remarkably passive in the face of the worsening deal it has gotten, perhaps because we are an optimistic nation, and working people hope themselves to become capitalists -- despite the evidence that social mobility is decreasing. Several major corporations in recent years have abrogated the private pensions on which workers relied, and there are more to come. The federal Pension Benefit Guarantee Corporation calculates that private American companies' pension plans are $600 billion in arrears.[12] In these circumstances, governmentally protected or created programs become more and more important. Social Security remains a bastion on which workers can rely in retirement. To allow it to fail would be to invite sharpening class divisions from which the country has heretofore been spared.

#9. There Is Not a Single Solution, But a Mix of Measures. Various proposals have been made for making Social Security solvent over the long term by raising the tax or raising the top salary that comes under it. Those proposals usually come from Democrats, who want to see the poor covered, and are resisted by Republicans, who seek lower, not higher, taxes for the wealthy. Other proposals involve recalculating the benefits or imposing a stiffer means test. Some such changes may be needed when funds run short in two decades, though it will be very difficult to pass legislation to implement them.

However, those proposals are based on actuarial calculations that assume that population growth will continue, usually along the lines of the Census Bureau middle projection. If we do in fact experience such growth, we will be facing disasters that will make the problem of Social Security solvency seem picayune. Let me focus on several proposals that will help keep Social Security robust even if the population structure changes as it must when we go through the necessary process of halting and then reversing population growth.

Raise the definition of the "working age", and adjust Social Security accordingly. Current law calls for a gradual rise in the retirement age from 65 to 67. Perhaps it should be 70, with some provision for early retirement at reduced benefits. That alone would solve much of the shortfall in future generations, and the change is justified. In the 1930s, when Social Security was created, men of 65 could expect to live another 12 years or so. Their expectancy is now over 16 years. For women at 65, life expectancy has gone from about 14 years to nearly 20. And the proportion of women in the work force has risen dramatically, so they now expect larger pensions than they did as their husbands' survivors. The cost of Social Security has risen because retired workers are dependent on it for a longer time.

Retirement may not necessarily be welcome. Over one quarter of Americans 65-69 years old choose to continue working even now, 15 percent of those 70-74, and 6 percent of those over 75. More would probably do so if the labor market were adjusted to make it easier.

Restructure the labor market to accommodate older workers. The government cannot simply say "work longer and wait longer for your retirement checks." It needs to promote the changes that would encourage older people to continue working. We should restructure employment so that they can work in jobs that match their skills and experience but take account of their reduced stamina. Policemen, firemen, soldiers and sailors, and hazardous duty workers regularly retire in their 40s. They would be ideally suited to tasks such as desk sergeants in police stations, who do not need to go out on call but who understand the system. We are faced with teacher shortages. Retiring teachers who would like to continue teaching should be encouraged to do so, but perhaps on reduced hours.

What about a "buddy system?" Encourage two or three people with comparable backgrounds to team up and promise to cover a single job. They would be a bargain, because they would cover each other's absences, sick leave and vacations.

Get more "working age" people to work. I have cited the statistics on the idle young. How do we get them and other "discouraged workers" into the labor market? I suspect that reasonable wages -- not depressed by immigrant competition -- would help. Even more important: how do we educate and motivate them? For that, I would turn to experts familiar with the problem.

Bring immigration under control. Europe must do it to preserve its identity. The United States must do it to stop runaway population growth, to preserve our high wage structure and thus save Social Security. There is a major difference: Europe will need immigrants if it cannot raise fertility quickly enough. The United States needs immigrants only for the leavening which foreigners, particularly the educated ones, bring to our society.

Modify our foreign trade policies. We are presently addicted to free trade. I do not propose autarky. Trade can be useful to both partners but, where labor constitutes an important part of the costs of the commodity or service, we face a rough choice: either allow U.S. wages to sink to levels that will eliminate the wage differential; or introduce systematic tariff barriers sufficient to minimize the differential. The first choice would be attractive only to a doctrinaire One Worlder. The second choice would permit an orderly change to a trading system that allows mutually beneficial trade based on comparative advantage but does not tend to erase wage differentials -- and which, incidentally, takes account of the growing resistance to exporting scarce resources. It would require that the World Trade Organization be reassembled on very different lines. So be it.

Raise the productivity of labor. Tax and immigration policies should encourage investment in labor-saving processes and techniques.

Don't pauperize the working class. The suggestions above would encourage more productive labor. We need to assure that labor is rewarded for its productivity, and that better wages lead to more receipts for the Social Security trust fund.

Re-invent the traditional family. We have separated the generations because modern economics, modern transportation and Social Security itself made it possible. Most of the modern provisions for the old represent costly but unsuccessful attempts to reproduce the support structure that the family once provided. In the traditional family, the old and young lived together. The oldest occupied an extra bedroom and imposed very little cost on the family. (Medical care was much less advanced but much less expensive.) It would not be hard to promote the idea again. Houses have gotten larger as families have gotten smaller. There are spare bedrooms, particularly after the children leave. When the children are young, a grandmother (and many of the old are grandmothers) makes a great baby sitter, and at no cost to the working mother. Social Security payments in a reunited family situation would help pay the bills for all the family. This would not necessarily save money for Social Security, but it would make better use of the money.

In an energy-short future, re-consolidating the generations under one roof would lead to important energy savings. The reversion to the traditional family can hardly be made mandatory, but it may become attractive for many people if they consider the idea.

#10. We Are Making All the Wrong Moves. We face an astonishing set of current problems: a collapsing balance of payments; a budgetary deficit gone wild; the creation of an oligarchy of plutocrats as the gap widens between the ultra-rich and the rest of us; stagnant or declining returns to labor; an economy geared to cheap energy even as cheap energy disappears; a doubling of real household debt since 1990; a sluggish economy dependent on foreign governments to keep us afloat; the possibility of economic collapse; and a President who seems unaware that those are problems. He advocates extending the tax cuts, more immigration to provide the labor that business says it needs, more free trade, and more growth in the face of our resource problems.

The fate of Social Security will depend on whether we work our way out of those problems more than upon any tinkering with the program itself. But President Bush has plans for that, too. He proposes to privatize Social Security even though the direct budgetary cost would literally be $1 trillion or more in the first decade and much more later. His proposal would pump that money into the stock market, which would benefit the rich but offer only insecurity to those dependent on Social Security. It is a bet on a rate of economic growth that we have not sustained in the past and are less likely to enjoy in the future.

People should be encouraged to save and invest more. We should raise our miserable national savings and investment rates, so that people can save for their future and business can invest in higher labor productivity, so that we have funds to protect our resource base and the environment that supports us and to prepare for the enormous costs of the energy transition. But to take it from our national safety net is a proposal to undo an advance in the social contract that is now 70 years old.

I offer the proposals in section #9 as a better alternative.

The problems I described are ones of policy. The longer term resource and climate issues (see Note 6) are more fundamental and more difficult. They require a whole new mind set about growth, and about conspicuous consumption. Perhaps the most serious impediment to a wise national population policy is the fear that "Nobody will be there to support ME!" There are ways to manage Social Security as society ages. If people understand them, perhaps that fear will subside. Social Security "solutions" are unworkable unless we connect them with the demographic policies that we must follow for survival in what promises to be a turbulent century, at best. Adjusting to the energy transition is imperative. Success or failure in that effort will determine the future of Social Security far more than the choices presently being debated.

NOTES

1. See for example "Replacement Level Fertility: Is it A Solution to Declining and Ageing Populations?" (UN Dept. of Economic and Social Affairs, Population Division, ESA/P/WE.160, 3-21-00) and my comments in Chapter 13 of "Too Many People", (Santa Ana: Seven Locks Press, 2000). Or see the NPG FORUM "The Wrong Apocalypse", my commentary on Peter G. Peterson's "Gray Dawn" (Random House, 1999). FORUM articles are available at www.npg.org.

2. Steven A. Camarota, "Immigration in an Aging Society". Center for Immigration Studies (CIS) Backgrounder, April 2005.

3. See Chapter 13, Too Many People, note 1.

4. Data on dependency ratios are from the UN Population Division, World Population Prospects, the 2004 Revision, Medium Variant. The comparative working population figures are from the ILO online LABORSTA 1969-2003. The U.S. Department of Labor, Bureau of Labor Statistics, News, 6-3-05, Table A1 has a higher figure and also calculates unemployment among those over 20. In April 2005, 72 percent of the male civilian, noninstitutional population was working, and 58 percent of women. Turned around, the figures mean that 35 percent of that population is not employed.

5. U.S. Department of Labor, Bureau of Labor Statistics, Employment & Earnings series, Tables 3 (in 1990s) and News, Table A2. The new tables are less complete than Table 3, but the trends are clear.

6. See Lindsey Grant, "The Collapsing Bubble: Growth and Fossil Energy" (Santa Ana: Seven Locks Press, 2005.)

7. "The Collapsing Bubble", op cit, Chap.2, note 1.

8. Derived from 2001 data in NCHS, National Vital Statistics Reports, Vol 51, No.4, 2-603, February 2003, Table 2.

9. Jason Dean & Pui-wing Tam, "The Laptop Trail", Wall Street Journal, 6-9-05, p.B1.

10. See NPG FORUM paper "The New American Century?", May 2004.

11. The top 0.1 percent of American taxpayers' income in 2002 was 2.5 times their income in 1980, adjusted for inflation, and their share of total income more than doubled to 7.4 percent, while the share of 90 percent of taxpayers declined. 53 percent of the Bush tax cuts are going to the richest 10 percent of taxpayers, and 15 percent to the top 1/1000th. And these figures do not include tax sheltered income. David C. Johnston, "Richest Are Leaving Even the Rich Far behind," New York Times Magazine, 6-5-05.

12. Michael Schroeder, "Pension Agency Faces a New Front", Wall Street Journal 5-26-05, p.B2.

About the Author

Lindsey Grant is a writer and former Deputy Assistant Secretary of State for Population and Environment. His books include *The Collapsing Bubble: Growth and Fossil Energy*, *Too Many People: The Case for Reversing Growth, Juggernaut: Growth on a Finite Planet, How Many Americans?, Elephants in the Volkswagen,* and *Foresight and National Decisions: the Horseman and the Bureaucrat.*

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