Generational Equity or Privatization of Social Security?

Eric R. Kingson and John B. Williamson

In recent years important policy discussions have been framed in terms of fairness in the distribution of resources between generations. In response to this approach to framing policy discussions, a debate—termed the generational equity debate—has emerged.

At one level, the debate takes form over differences between those who would use generational equity as a major criterion for policy decisions and those who would place much greater emphasis on other criteria such as fairness between richer and poorer members of society. Involved too are differences between those framing policy issues in terms of competition between different age groups as opposed to those who build on the idea that the generations are interdependent.

At another level, the debate is linked to the concern that today’s children, especially poor children, are not getting their fair share. To some it is tied to discomfort over large federal deficits and to their view that too many resources are directed toward the elderly. To others it is related to concerns about how to distribute health care resources among different age groups. For yet others, it is tied to questions of the fairness of financing Social Security for future generations, especially baby boomers.

Why has the Debate Emerged?

The generational equity debate emerges from, and has taken form in a context of population aging, large federal deficits, health care crisis, growing inequality among various segments of the population, income stagnation, loss of faith in institutions, interest group competition, and frustration over economic change. As a report of the Gerontological Society of America points out, century-long public health, biomedical and nutritional advances have, in combination with economic development, resulted in more people living into old age. The population of those sixty-five and over, and even to a greater extent, that of eighty-five and over is expected to grow rapidly over the next sixty years—both in absolute numbers and as a percentage of the entire population—as a result of birth and mortality trends, and the aging baby-boom generation. In its middle series projection, the United States Bureau of the Census projects a population of 65.6 million (21.8 percent) age sixty-five and over by 2030 compared to 31.6 million (12.6 percent) in 1990. More significantly, the Bureau projects that by the year 2050, 15.3 million people (5.1 percent) will be eighty-five and over compared to 3.3 million (1.3 percent) in 1990.

Discussions about issues associated with an aging society—particularly those framed in terms of competition between generations—often ignore many of the opportunities afforded by population aging, and focus instead on nettlesome concerns surrounding the needs of current and future elders for adequate incomes and health care. The more strident advocates of a generational equity approach to public policy, such as former Colorado Governor Richard Lamm, view these population trends as clear evidence that the nation will be overwhelmed by an aging society unless a new course is adopted.

The generational equity debate has also emerged in the context of anxiety over a large and growing national debt. During the 1980s the nation pursued a policy of federal income tax reductions and increases in defense expenditures that resulted in large yearly
deficits. Moreover, federal deficits have combined with the large international trade deficits of recent years to reduce national savings and potential investment. Many fear that unless we substantially reduce these deficits, the standard of living for Americans in the future will decline.

Awareness of health financing and access problems have also fed the generational equity debate. Simply put: The American health care system is heading toward crisis, a crisis that will be exacerbated by a growing population of elderly persons. Between 1960 and 1988, annual expenditures (in constant 1987 dollars) grew from 108.6 billion dollars (5.3 percent of the Gross National Product) to 539.9 billion dollars (11.1 percent of GNP). Current and anticipated increases in the costs of health insurance are straining the ability of employers, individuals, and governmental providers of health insurance. Even so, 37 million Americans (15.1 percent) were not covered by any health insurance—public or private—in 1988.

The generational equity debate has emerged in a period of growing economic inequality fueled, as economists Barry Bluestone and Bennett Harrison suggest, by the loss of higher-paying manufacturing jobs coupled with the growth of low-wage service sector jobs and part-time work and, as economist Frank Levy suggests, by slow economic growth and wage stagnation. While some Americans have, on average, done quite well—for example, married couples with college degrees and those in the upper 20 percent of the income distribution —since 1974, for most household incomes have stagnated or declined. Census Bureau data indicate that median household income (in 1988 dollars) declined from $28,008 in 1973 to $27,225 in 1988. Thus, as Levy observes, compared to the experiences of the twenty-five years preceding 1974, most groups did not do well. One exception was the cohort of people, age sixty-five and over, whose household incomes rose relative to previous cohorts of the elderly from $12,699 in 1974 to $14,923 in 1988.

Most tragically, the percentage of children under eighteen who reside in households with incomes below the federal poverty threshold rose from 14.4 percent in 1973 to 19.7 percent in 1988—14.6 percent of all white children, 44.2 percent of all black children, and 37.9 percent of all Hispanic children. By contrast, only 12 percent of persons aged sixty-five and over (and 7.7 percent of persons of the age of forty-five and fifty-four) had below poverty incomes in 1988. However, among elderly widows, minority elderly, and the very old rates of poverty are a great deal higher than for the elderly as a whole.

The generational equity debate also emerged during a period when Americans have lost considerable faith in institutions—public and private alike. The assassinations of the 1960s, discord over the war in Vietnam, Watergate, negative campaign tactics, the Iran hostage crisis, anti-government political rhetoric, two Social Security financing crises, economic growth that is minimal by historical standards, a stock market crash, and the savings and loan crisis, all served to undermine public confidence in institutions. Thus, according to the Gallup Report, between the early 1970s and the late 1980s confidence in the United States Congress, organized religion, the banking industry, and other major institutions decreased.

The generational equity debate emerged in a period of growing inequality.

Given recent history and a growing cynicism of the populace, it is not surprising that the public is skeptical about the ability of governmental and private institutions to solve problems and do so in an equitable fashion. Not only do periods of stagnation or slow growth lend themselves to distrust in government, they also result in increased social tensions—including often a search for scapegoats. In fact, the emergence of the generational equity debate may signal, as Case Western Reserve University political scientist Robert Binstock suggests, the replacement of the old stereotype of elderly persons as weak, ill, and poor with a new and equally false stereotype of the elderly as healthy and well heeled. Plainly, as Boston College economist Joseph Quinn has noted, neither stereotype is correct; the reality is that elders—like other population groups—are remarkably diverse. But policy discussions and media presentations often proceed with little regard for such complexities.

Why is the Debate So Confusing?
The generational equity debate is difficult to characterize because, as Eric Kingson has previously suggested, it revolves around competing —and not always clearly defined— notions of "fairness," and because "generational equity" represents for some both an approach to framing policy questions and a political slogan. Those involved in this discussion often carry different implicit notions of generational equity. Certainly, no one opposes the idea of equity (or justice or fairness) between generations. Disagreements tend to