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ECONOMIC VIEWPOINT

By Jeffrey E. Garten

Thorny Questions For The Next President

Three economic issues -- and answers I'd like to hear

Political conventions and Presidential debates are too driven by opinion polls and sound bites for us to know how well the candidates grasp our long-term challenges. If I could privately ask President Bush and Senator Kerry just three questions about economic policy for the next decade -- questions that go beyond their hyped campaign pledges on health care, deficit reduction, and energy independence -- here's what they would be, and here are the answers I would hope to hear.

How are you thinking about the upcoming retirement of the baby-boom generation?

By 2040, the population will be heavily skewed toward the elderly -- with 20.3 million people of college age, vs. 77.2 million people over 65. In 1960, there were 5.1 taxpaying workers for every Social Security beneficiary; by 2030, there will be 2. With Social Security benefits escalating, Medicare costs growing twice as fast as the economy, fiscal deficits soaring, and our savings rate plummeting, we are headed for wrenching economic and social tensions.

To get out of this bind, we must eliminate budget deficits to accommodate future spending needs. Every new tax break and spending increase should be offset by a corresponding budget cut, and taxes will have to rise gradually. Social Security solvency will have to be strengthened by some combination of reducing cost-of-living increases, means testing, and upping the legal retirement age.

Reforming Medicare will be infinitely more difficult. Unless major changes are made now, Medicare will overrun our entire federal budget. Those changes include driving down prices by letting government negotiate drug discounts, eliminating waste and exorbitant litigation costs, requiring the well-off to pay more for care than the poor, and reducing selected costly interventions to prolong life in the last few months. The latter absorbs 25% of all Medicare payments.

How important is the rise of China and India to the well-being of U.S. citizens?

Hundreds of millions of young Asian workers will soon be entering the global market. They will be energetic, educated, and paid a fraction of U.S. wages. Whether they build aircraft or design software, millions of Americans will be under assault either from imports or offshoring.

We must enhance the flexibility and skills of our workforce by improving schools at all levels. This means reversing the decline in financial support for higher education among most state governments. We must redirect substantial levels of research from the military to commercial applications to open the way for more sophisticated jobs. We must ensure

the portability of pensions and health care and provide wage insurance against temporary layoffs. And we must push harder for more open markets for our exports.

How will you deal with the economies in the developing world?

Of the earth's 6 billion people, 5 billion live on less than \$2 a day. Three billion are under age 25. Over the past decade, no improvement has occurred in the poverty levels for the 50 poorest nations, where health-care delivery systems are collapsing. This is a catastrophe with implications, including an even more heightened terrorist threat, for us all.

The U.S. must do more to mobilize rich countries to help on trade, education, and financial assistance. We must strengthen the World Bank and other institutions. To do that, we must fulfill existing aid commitments -- such as providing \$15 billion over five years to combat HIV/AIDS -- and go well beyond them. (Consider: Last year's congressional appropriation for Iraq was more than five times U.S. official development aid.) In 2000, the U.S. agreed to support the U.N. Millennium Development Goals for education, health, and food security by 2015. Congress should endorse these targets and create a Cabinet-level department to implement them.

Could we expect such far-reaching responses from our Presidential candidates? I'm skeptical. But even with bold answers, the highly partisan and short-term nature of our government policies still needs to be overcome. Moreover, our politicians would have to unite behind the longer-term national interest as they did right after World War II. That could never happen without a farsighted and truly courageous President to lead them. Right now, I'm worried that neither Bush nor Kerry is up to that challenge.

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