Neil Howe

AMERICA IN THE YEAR 2007

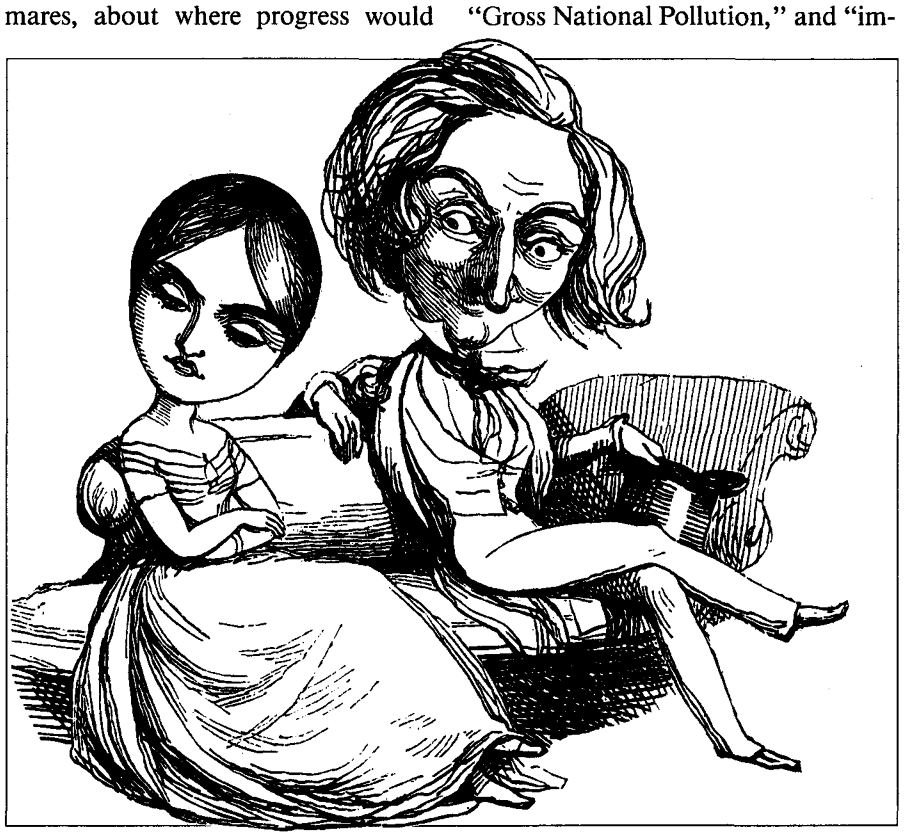
We'll be lots older, paying huge taxes, producing less and less, unless . . .

Over the course of the 1960s, it grew increasingly difficult to talk about the future without apocalyptic visions and rhetorical overkill. First we saw movies about nuclear holocaust, then we read books about the horrors of overpopulation, novels about ecological disaster, and popular studies forecasting the end of all raw materials. A further gush of steam was generated by major works of science fiction in the last gasp of its golden age: the wedding of the Second Coming with blow-me-away psychedelic end-games. In retrospect, it all seems a kaleidoscope of fragmented hysteria. Which came first, *On the Beach* or *Silent Spring*? *Dr. Strangelove* or *Childhood's End*? The Club of Rome or *Stranger in a Strange Land*?

But today the smoke has cleared and things have settled down; looking at the future, we are a lot calmer than we were twenty years ago. One reason for the change, of course, is the aging of the culturo-centric Baby Boom (for whose benefit so many artists and writers, even those much older, have labored). Two decades ago the Boomers needed a vision of the world that blew up at the end of a very late adolescence; today they need a vision that matches check number 360 of a 30-year mortgage. Another reason may be the declining interest, among all age groups, in serious public life or political action. With Reagan's retirement, the World War II generation is packing it in. The upcoming Boomers, who would like to be dutiful but found that politics "didn't work out" after Watergate, are busy pursuing private "lifestyles." The post-Boomers, meanwhile, are trying madly to get rich. Since 1982, voter participation rates are again in steep decline and most Americans view Gramm-Rudman and the approaching primaries with the same bemusement and detachment with which one watches the Saturday-morning cartoons. It's hard to have a collective vision of the future without a collective vision of the present.

This emptiness at the heart of our future self-image ought to be at least some cause for concern—since it is without many precedents over the last hundred years (the 1960s included). In both good times and bad—from the Victorians through the Yippies, from H. G. Wells and Jules Verne through the Chicago Century of Progress Exhibition of 1933 and then on through Orwell and Huxley, Kubrick and Asimov—America and the West have been obsessed with the future as purposeful direction. We called it "Progress," and it meant the forward transformation of our physical and social environment according to iron laws of civilized development. To be sure (especially in the 1960s), there were sometimes grave worries, even nightmares, about where progress would lead. Progress might be dehumanizing, a "machine in the garden." Yet like an unquestioned premise, it remained inevitable.

No longer. Progress presupposes that we see ourselves as borrowers from the past and investors in the future. Increasingly, however, we see ourselves as borrowers from both past and future. Thus, instead of progress, we sense somehow that the ultimate direction must be stasis or retrogression. Over the past twenty years, our highbrow interest has switched from renaissance to dark ages; our escapist genre from hi-tech sci fi to swords and sorcery; and our futurist cinema from planetary exploration to escapades by renegades (with names like Max, Road Warrior, Blade Runner, and Snake) amid the slow- or fast-crumbling ruins of civilization. From today's vantage point, the 1960s has a nineteenth-century charm about it. To worry about apocalypse, you at least have to think you're going somewhere. Slogans such as "ZPG," "Gross National Pollution," and "imperialist pig" could only be popular in an era when Americans were still reasonably adept at having kids, saving, producing wealth, and projecting a formidable presence in world affairs.



Over the next twenty years, I think it's fair to say, events will force us to reevaluate our attitude toward precisely these activities, especially raising children and investing materially in the future—activities which are, after all, the ingredients of the progress we once took for granted. We will, in the year 2007, be facing much clearer and much harder choices than we are today. In this essay I will discuss those choices, primarily in terms of the demographic and economic trends that we are likely to be experiencing and debating over the next two decades.

One obvious fact must be emphasized at the outset: the year 2007 is only twenty years away. Barring catastrophe, therefore, our world is bound to resemble very much the one we're already living in. Then as now, we'll be driving cars, fixing leaky faucets, filling out W-2 forms, and decorating Christmas trees. By most standards, we will remain an affluent nation. But that doesn't mean that we won't be a different nation. Twenty years from now we may be so burdened by demographic and economic liabilities that visions of a better future will seem practically unattainable without onerous and long-term sacrifices in both our public and private lives. The unthinking progress of the 1960s may seem exotic beyond recapture, and the frightful doomsday we then saw approaching will look strangely like the cultural artifact of an era of innocence.

Aging versus the Youth Illusion

Over the past twenty years, America has been quietly overtaken by two demographic revolutions. Both of these—an unprecedented decline in U.S. fertility rates and an explosion in U.S. longevity—show no signs of abat-

Neil Howe, director of research at Americans for Generational Equity, is co-writing a book on America's thirteen generations.

ing any time soon. What remains is to figure out exactly how they will change our future. So at the risk of seeming a bit technical, let me offer at the outset the fertility and longevity scenarios that I think most likely.

At its Baby Boom peak in 1957, the average total fertility rate for U.S. women (the number of children born to each woman over her lifetime) was 3.68. It declined slowly to 3.17 in 1964 (the last year of the Boom) and then rapidly to a low of 1.74 in 1976 (far beneath its earlier nadir in the "baby-bust" 1930s). Since then, despite the surge from late-birthing Boomers, it has risen only slightly to about 1.84 today. Hereafter, we can expect it to fall gradually to about 1.65 by the year 2007 and to 1.60 by the year 2050.

The social and economic factors causing such a gradual decline appear overwhelming: later marriage ages, higher divorce rates, the renewed rise in the use of cheap and effective oral contraceptives (now that the medical worries over their use has abated), and, perhaps most importantly, the female rush into the labor force. These trends seem especially powerful among younger women, i.e., those who still have future children to bear: polls indicate that a very small and declining proportion of them want to have more than two children, and recent census surveys indicate that a higher proportion of them are planning full-time careers—a marked shift from the part-time work habits of their mothers. Several large industrial countries including West Germany and Italy already have total fertility rates below 1.60.

As for mortality, we can expect a percentage gain nearly equal to the dramatic improvement we have already experienced over the past couple decades. The main reason will be a continued decline in age-adjusted death rates from cardiovascular disease (which now accounts for about 50 percent of all deaths), due to better diets and the delayed impact of swift advances in drug therapies for hypertension (in the 1970s) and for high blood cholesterol levels (during the late 1980s and early 1990s). The decline in the popularity of smoking will also, of course, have a delayed and favorable impact. The overall result will show up mainly in longer life expectancy for the elderly. In 1967, the typical 65-year-old could look forward to 15.1 years of life; today, it's 17.4 years of life; in the year 2007, it will be 19.9 years of life.

That leaves immigration, and here let's keep it simple and take the "middle" census estimate: 450,000 immigrants per year (somewhat higher than the average for the past two decades).

With these assumptions, let's crank out the numbers. Between now and 2007, 44 million Americans will die, 62 million will be born, and 9 million new immigrants will become Americans. Our total population, now about 243 million, will rise to 271 million. Most of those leaving our company, of course, are now already in advanced old age—which leads to a question that may interest some readers: what is the chance that any of us will still be around in the year 2007? If you're now age 25, the chances are 97 out of 100; if you're now age 40, the chances are 89 out of 100. Even if you're now age 60, you can cheer up. Odds are you will indeed witness the brave new world. The improving actuarial tables say that over half of today's 60-year-olds (53 percent) will yet see the numbers "2007" inscribed at the top of their Social Security checks.

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In terms of generations, America will have advanced another notch. The "Lost" generation (born between 1883 and 1900—many of whom fought in World War I, bought Model T's, and voted for Harding) will of course have disappeared from the ranks of today's "old old." We will think of them then as we now think of the veterans of Teddy Roosevelt's charge up San Juan Hill, a group lost to living memory. The ranks of octogenarians and nonagenarians will be filled by the "Swing" generation (born between 1901 and 1925), the parents and grandparents of the Baby Boomers. Tales of the Depression and Iwo Jima will be heard from the creaky voices of the sizable number of them (11 million) still alive.

Meanwhile, the "young old" age-brackets will be filled by the so-called "Silent" generation (born between 1926 and 1945); in the year 2007, the very youngest of this generation will be hitting the age of 62. Today we are already talking about a "Baby Boom" President. If history is any guide, however, the White House, Cabinet, and senior congressional committee posts will be dominated by Silents until some years past the turn of the century. In 2007, the Silents will be just beginning to relinquish their political leadership.

As for the Baby Boomers (born between 1946 and 1964), they will be sitting squarely in middle age. In 1996 we will see the predictable *Time* magazine cover "The Baby Boom Turns 50." And just as predictably, in 2006 it will be "The Baby Boom Turns 60." Boomers will span the ages of 43 through 61 in the year 2007. Behind the Baby Boomers are a generation I call the "Thirteenth" generation (they are, in fact, number thirteen since the first American generation of Ben Franklin). The oldest of them were born in 1965—the ones who came of age in the midst of Madonna melodies, trade-deficit headlines, and overflowing B-schools. Though we don't yet know where to cut them off, let's just draw a plausible line at 1987. By the year 2007, the Thirteenth generation will be age 20 through 42.

The kids and teenagers of the year 2007, of course, remain as yet nameless, faceless, and unborn. One thing we do know about them, however, is that they will be small in number. Today Americans are giving birth to about 3.5 million children yearly—a number that will shrink to about 3 million by 2007. In the midst of the 1950s Baby-Boom creation, by contrast, a much smaller population of adult Americans was giving birth to well over 4.0 million children yearly.

The far-reaching consequences of our current population trajectory—many of which will be fiercely debated over the next twenty years—promise to live up to the celebrated remark that "demography is destiny." It is not exactly a pretty picture: the final exhaustion of our population growth; the unprecedented aging of our population as a whole; and the exploding resource costs that the multitude of us who are older will pose to the declining number of us who are younger.

Though any fertility rate beneath about 2.1 children per woman must inevitably lead to a declining population (absent a large stream of immigrants), the delayed impact of our fertility decline means that the peak years for different age brackets will be decades apart. The peak population year for American children, for instance, is already more than fifteen years behind us. That year was 1971, when over 77 million children and teenagers filled our schools and nurseries. (With Cambodia and all, you might have missed the news.) It is highly unlikely that any of us will again see so many kids in our lifetimes.

The turnaround in the size of the U.S. labor force will hit much later. In fact, it may hit precisely in the year 2007. Thus far during the 1980s, with a torrent of women as well as the tail-end of the Baby Boom looking for first jobs, our labor force has been growing by about 1.5 million per year. By the early 1990s, the growth will slow to about one million yearly, and then, by the turn of the century, to about 500,000 yearly—or just about the level of annual immigration. Six or seven years later, even our immigration margin will be unable to close the widening gap between retiring workers and new native 20-year-olds. Sometime near 2007, say the projections, our total labor force of full- and part-time workers will hit its historic high of about 140 million workers. Thereafter, the numbers will decline. Twenty years further on, when three out of every four Baby Boomers will still be alive, the size of our labor force will have already dropped to about 127 million.

Something else will happen in the year 2027: assuming our demographic engine remains on steady course, the total U.S. population will reach its apogee of about 283 million and then enter a gathering, inexorable decline. For decades thereafter, more than the entire decline will be due to ever fewer children and working-age adults; the elderly population over age 65 will keep rising. (And just in case the gloom-and-doomers are wondering, the elderly population doesn't peak until the year 2060, according to these projections—just ten years before our total population has fallen back to its 1987 level. That will be about the time when most grandchildren of the Baby Boom are themselves contemplating retirement.)

Demography, in short, is getting ready to hand us an event we are already calling the "aging of America." Here it helps to have some perspective. During most of America's colonial era and through the Revolution until about 1820, the median age of the American population held steady at about 16 years of age. Thereafter, due mainly to falling fertility, it rose more or less continuously—to 19 by 1850, 20 by 1870, 25 by 1920, and 30 by 1950. The advent of the Baby Boom temporarily reversed the trend and pushed the median age back down to 25 by 1965. Thereafter it has been rising again. In 1980, we passed our earlier high point of 30. In 2007, we will reach 40. Twenty years further on, in 2027, we will reach 45.

These are the sorts of numbers which overturn our popular historical stereotypes. We think of the America of our Founding Fathers, for instance, as a country of crusty-faced patriarchs and white hair. We forget that the image was deliberate: young men wore wigs and lied about their age in order to appear older and thereby gain respect and honor. In reality, early America was overflowing with huge families and a teeming abundance of kids. Nearly two out of five Americans were age 9 or younger (twice the proportion that prevails today). Captains of sailing ships were in their early 30s. And in the frontier territories—Kentucky in the 1830s, Oregon in the 1850s, and Nebraska in the 1860s—the median age was even younger than the national average. A full 75 percent of the inhabitants were under age 25; a mere 2 percent to 3 percent were over age 45.

Two centuries later, after the cumulative impact of youth-idolizing writers from Emerson to Dylan and youth-idolizing Presidents from "Teddy" to "John" to "Jimmy," we see ourselves as a nation of eternal youth and adolescent aspirations. In fact, we have become a much older people. While the average age of the Virginian Presidents and their cabinets in the early 1800s was in the early 40s, the average age of that same group in the 1970s and 1980s has been in the early 60s. Today, about 32 percent of our population is over age 45, a share that will rise sharply to 43 percent by 2007 when the Baby Boom matures, and rise further to 49 percent by 2027. At that point, nearly half of our entire population will be eligible (after age 50) for membership in the American Association of Retired Persons.

One certain outcome of this collision course between nature and self-image is a dramatic expansion in the share of America's total economic resources publicly devoted to compensating for the infirmities of age.

To grasp the magnitude of the expansion, let's jump forward forty years to the year 2027—when nearly all the Baby Boomers are past retirement age. The number of working taxpayers will by then be a mere 5 million larger than it is today (a growth of about 4 percent); the number of retirees, on the other hand, will be 30 million larger (a growth of nearly 90 percent). Today, each Social Security retiree is supported by a 10.1 percent payroll tax on 4.8 workers; but by the year 2027 he must be supported by a 17 percent payroll tax on 2.3 workers. In addition, Social Security disability benefits will grow inexorably due to the aging of the workforce: from 1.1 percent of payroll today, to 2.6 percent of payroll in 2027.

This is not to mention the growing pay-as-you-go burden of far more generous public-worker retirement programs—federal military and civil service retirement, and state and local retirement. Here we're talking about the equivalent of an additional 4 percent of taxable payroll. And then there are the unfunded liabilities of private-sector retirement plans, liabilities that sooner or later will call for a taxpayer bailout. All told, public cash transfers for retirement and disability are due to rise from an aggregate burden of about 15.7 percent of payroll today (to use a convenient yardstick) to about 29.1 percent of payroll by 2027.

Yet the growth in cash benefits will by no means be the biggest burden of our collective aging. Far more explosive will be the growth in health-care spending on behalf of the elderly. Here we face not only the arithmetic of retirement—longer lifespans and fewer working children—but an arithmetic accelerated by three extra multipliers: the rising number of treatable acute and chronic illnesses; the rising real cost of skilled labor and technology per treatment; and the rising incidence of illness among the elderly due to the "aging" of the elderly themselves.

The first two multipliers are self-evident, and receive ample media attention every time someone receives a second triple bypass or every month the medical price index rises five times faster than the CPI. But the last multiplier deserves some explanation, for its long-term effect is especially explosive. Longer life expectancy means a disproportionate growth in the oldest age groups, and it is well documented that every measure of health-care utilization rises exponentially from age 50 on. In 1984, for instance, the average reimbursed hospital cost for Medicare enrollees over age 80 ($1,781) was more than double the cost for enrollees age 65 to 75. As for nursing-home care (for which the average cost in 1986 was $22,000 per year), we need only to review the incidence of Alzheimer's disease (5 percent of those age 65 to 74; 20 percent of those age 80 and over) or of activity-limiting disabilities (24 percent of those age 65 to 74; 48 percent of those age 80 and over).

Now consider: over the next forty years, the elderly population as a whole (age 65 and over) will grow by 121 percent, but the population age 80 and over will grow by 178 percent, and the population age 90 and over will grow by 405 percent. By the year 2040, alas, there will be more Americans over age 80 than there are now Americans over age 65—and with fewer taxpaying workers than we have today.

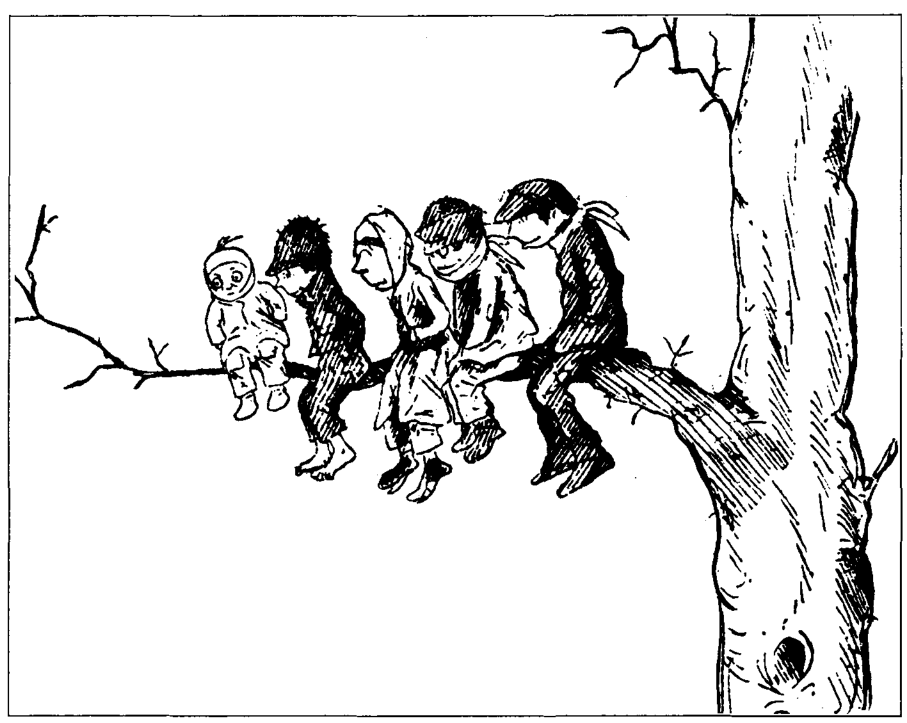
There is, to be honest, no believable projection for public health-care benefits in the year 2027. Even conservative ones tend to spin off the chart. The official Social Security projection that matches our demographic assumptions estimates that the cost of Hospital Insurance alone (Part A of Medicare) will rise from 2.6 percent to 11.1 percent of payroll. Yet this projection is a mere tip of the iceberg, since it assumes (what has already been happening since 1983) that prospective payment regulation will push the high cost-growth items into Supplementary Medical Insurance (Part B of Medicare), which is three-quarters funded out of general federal revenues. How fast will Part B grow? Here there are no estimates, though one unofficial projection by the Health Care Financing Administration (HFCA) says that Part B, which is now two-thirds the size of Part A, will already be *double* the size of Part A by the year (yes, you guessed it) 2007.

We have not yet talked about the ballooning cost of Medicare copayments and deductibles, as yet paid out of pocket by beneficiaries. Nor about the number of nursing home beds, which will quadruple over the next forty years—adding another 6 percent of payroll to total spending. But even ruling these out, since we don't yet know the extent to which public budgets will cover them, it's easy to see how current-law health benefits could cost 20 percent to 30 percent of payroll forty years from now. Adding them to cash benefits, the total public transfer burden of aging will reach 50 percent to 60 percent of payroll, and this is before any other taxes. Just to mention such an absurd figure is to conclude, of course, that we will drastically change the system between now and then. Yet this conclusion is itself a prediction, and it begs the question of just how and when we will change it.

In 2007—to return to the year in question—most of this spiraling cost scenario will lie in the twenty years ahead of us. The burden of cash benefits will still be only slightly higher than it is today. Faster-growing health-care benefits, however, will already have plagued us with many a fiscal crisis, and I suspect that Congress in the meantime will have traded sporadic cost-control with benefit expansion, leaving the overall spending path little changed. By 1988 or 1989, for instance, Congress will pass a "catastrophic" Medicare package to cover more of the out-of-pocket costs of beneficiaries. In the early 1990s, it will be forced to construct a prospective payment scheme for doctors under Part B; but it will come back in the mid-1990s with a nursing-care benefit. By the late 1990s, it will have to do something to save the Part A trust fund (now scheduled to go bankrupt around the year 2000); but again it will come back several years later with a bailout for private-sector retirement health-care programs (whose unfunded liabilities are now estimated in the $1 trillion range).

The media in 2007 will be full of editorial debate on such issues. We will be sick of hearing about the never-ending health-care "crisis," but the issue just won't quit. If current HCFA projections are on track, total U.S. health-care spending (now about 11 percent of GNP, up from 6 percent in 1967) will pass 15 percent of GNP by the year 2000 and by 2007 will be closing in on 17 percent of GNP. The health-care industry itself will be gargantuan: several times larger than defense; bigger than farming, energy, utilities, transportation, and construction combined.

As for Social Security cash benefits, the idea that we can live off our "trust fund" surplus will by then be recognized as a cruel joke. Since such surpluses will be entirely invested in Treasury debt—and will, for the past twenty years, have merely relieved the



federal budget from even greater deficits—any attempt by the Social Security Administration to cash in its paper will force the Treasury to raise taxes to cover the cost. Our Social Security trust-fund mountain will only have one effect: to push the rising cost burden from payroll taxes to income taxes once the system begins its deficit crash just five years later (in the year 2012).

The year 2007, in short, will find the enormous Baby Boom perched on the edge of retirement and staring into a bottomless abyss of dependency costs. As a generation unreputed for its foresight, the Boomers may be waking up to the prospect for the first time. And as a generation whose household savings rate has not, thus far, matched that of its parents, it may also be finding the responsible options—much later retirement and benefit cuts—most unpalatable. Indeed, the Boomers will already be grousing about the one-year increase in the Social Security retirement age (now scheduled to go completely into effect by 2008). Most middle-aged Boomers will still have two living parents in retirement; more, in fact, will have a grandparent still alive than a child still rooming at home. Letting taxes rise for younger workers, therefore, may seem to be a less visible evil than cutting their parents' benefits. Perhaps not. Yet the only way the Baby Boom can both grandfather its parents and hold harmless its children is to shoulder the full burden itself.

Much will depend on whether birthrates exceed or fall short of our projections over the next twenty years, since these births will determine the rate at which new workers are entering the labor force during the same period (2007-2027) in which the Baby Boomers are exiting. Much will also depend on the health-care benefit reforms that we enact during the 1990s. Yet it is likely that the most important choices—social as well as political—will still await this mammoth generation in the year 2007. Will the Boomers confront demographic reality by forging a new vision of aging as a period of productivity and contributory wisdom and experience past age 65? Or will they hunker down to protect the right—a right which only a youthful society can afford—to spend the last quarter of their lives in detached and publicly subsidized leisure?

The choices made will not only influence the economic cost of aging; they will ultimately influence the shape of the family as an institution and the direction of our fertility rate. A policy which socializes the cost of aging while keeping private the cost of raising children ultimately makes every childless citizen a free-rider. Today we can only hypothesize whether such a policy tends to weaken one of the strongest age-old incentives to have kids, familial security in old age. By the year 2007, however, the tendency may become obvious—for by then every couple of childbearing age will face a far more acute choice: whether to raise a child who may need expensive preparation and financial assistance well into adulthood against mounting tax rates, or whether to forgo the travail at little personal cost. We can easily imagine the Thirteenth generation—at the peak of their child-bearing years in 2007—waiting attentively for their Boomer elders to make up their mind on the direction of policy. And as the Baby Boom chooses, so will the Thirteenth act.

Over the past twenty years, America has been overtaken by two demographic revolutions, and neither shows signs of abating any time soon.

That the choice will be the Boomers' to make there can be no doubt. The Baby Boom will dominate the electorate in 2007. Their large numbers—combined with the very high voter participation rates typical of middle age—promise by then to make their vote an overwhelming electoral force. In the presidential election of 1984, the 40-to-65 age bracket constituted some 36 percent of the electorate. In the '08 presidential campaign (the one we'll be warming up for in 2007), this bracket will provide about 54 percent of the electorate; in the off-year election of 2010, when younger Americans tend to have better things to do than vote, it will provide a stunning 60 percent of the electorate. Never before and never again (or, if ever, not at least until the late twenty-first century) will the middle-aged pull of the lever so dominate our vox populi. Nor, perhaps, will any of the colorful choices already made by the Boomers quite match this one in importance.

Deficits versus the Prosperity Illusion

Future demographic trends and current benefit habits virtually guarantee an accelerating growth in resource transfers to older generations over the next forty years. How will younger Americans—the Thirteenth generation in particular—be able to afford this increase without a sizable decline in their standard of living? In the past, our answer to such a question was simple: the way we afford any growth in our dependency burden is by generating even greater increases in goods and services produced per worker. By splitting our "productivity dividend" between the private and public sector—or more precisely (in this case) between working and nonworking generations—everyone can emerge a consumption winner. A hard look at the current direction of our economy, however, is enough to tell us that this method is no longer viable.

The most important reason for this gloomy prognosis is, quite simply, that productivity growth in the U.S. is stagnating. The per-worker output growth we now generate annually (about 0.6 percent in the 1970s and 0.4 percent in the 1980s) is only a small fraction of what it was during the earlier postwar era (2.9 percent in the 1950s and 1.9 percent in the 1960s). At the 1950s growth rate—just to illustrate the difference—real national income per worker doubles in only twenty-five years; at the 1980s growth rate, on the other hand, it doubles in 175 years. If we imagine thirty years, starting now, at the former growth rate, we would end up with an extra $35,000 per year per U.S. employed person to divvy up by the year 2017. At the 1980s growth rate, which seems far more likely, we would end up with only $4,500 extra per worker.

But fading growth rates are by no means our only economic obstacle. It is also becoming apparent that most, if not all, of the modest productivity growth we generate over the next decade will not get translated into consumption growth. Instead, it must be dedicated to the reconstruction of our collapsing foreign and domestic investment balances—or, to put it more simply, it must all go into exports, into private-sector plant and equipment, and into public-sector R & D and construction. Allowing production to "catch up" with consumption is the inevitable sequel to two decades of public policy tilted ever more steeply toward demand-side stimulus.

To say that the U.S. is going to redirect its production toward unrequited exports—or more strongly, that the U.S. will necessarily become a net exporter—is not interpretation, but a matter of arithmethic. It follows from the fact that we have become a net debtor of growing proportions (by the end of this year, we'll hit minus $400 billion). Since our indebtedness cannot grow indefinitely as a share of our GNP—beyond some point, foreigners will regard us as a prohibitive credit risk—our current-account deficit (i.e., our net foreign borrowing) must eventually decline to nearly zero. And when that happens, we will have to export more than we import just to service our debts. When will it happen? It's fair to conclude that once our debt approaches $1.5 trillion by the mid-1990s, rising interest rates, a falling dollar (or, perhaps, a global crash) will push us painfully to a trade surplus no later than the year 2000.

To say that the U.S. is going to redirect its production toward investment does require interpretation. But the interpretation is not very controversial if we expect to close the trade gap by expanding our manufactured exports and at the same time to improve productivity even moderately. Despite the growth in borrowing from abroad (an estimated 3.5 percent of GNP in 1987), the U.S. net investment rate, at 5.3 percent of GNP over the 1980s, ranks near the very bottom of the industrial world: only one-half the average rate for all other developed countries (10.8 percent) and one-third the rate for Japan (16.1 percent). The gap in public-sector investment is even wider. The U.S. is the only industrial country in which the per-worker net stock of public works is actually declining. This is why our bridges collapse, our trains chug slowly, and our firms are now bidding for European and Soviet rockets to take their payloads into space.

Just consider a few of the numbers. Putting an end to capital inflows from abroad will force us to substitute our own production for the $1,300 per fully-employed American that we are now borrowing each year from foreigners; restoring our anemic rate of net business investment here at home to what it was in the late 1970s (it is now at its lowest rate since the Great Depression) will cost us another $700 per worker. Altogether, we thus have to find an extra $2,000 in unconsumed real output per worker. Twenty years ago, we could have managed this task with four or five years of fast economic growth and modest consumer belt-tightening. Yet at our current productivity growth rate—with net output per worker rising by less than $150 each year—the arithmetic hardly justifies optimism, even if we allow no growth at all in per-worker consumption for more than a decade.

It is more likely that we will see an absolute decline in our consumption living standards, perhaps by as much as $100 to $150 yearly per worker, for many years to come. Part of the decline may take the form of higher household savings rates; most, undoubtedly, will take the form of increased taxes, reduced public spending, and an erosion in the real value of personal income due to swifter inflation (which in turn will be led by higher import prices). Neither the public nor our politicians are yet facing this prospect. By comparison, during the 1970s—a decade now known to most of us as "hard times"—U.S. consumption per worker nonetheless rose by $200 per year in real terms.

It might be argued, plausibly, that economic savings is not the most important vehicle by which we endow our future with higher living standards. "Smokestack" capital, we often hear, is overrated: what is more important is the human capital we endow to our children. Yet clearly this is where we are experiencing our biggest failure—at least by any objective measure. The past two decades have seen a visible weakening in every type of security and nurturing—economic, familial, and emotional—once considered necessary for a child's development. Not surprisingly, when we talk about children today we refer to a laundry-list of pathologies as diverse as the hardships they suffer: not just to the problems of uninspired teachers and rising poverty rates, but to problems of suicide, drugs, "latchkey kids," abuse, teenage pregnancy, absent fathers, emotional depression, inadequate discipline, and inner-city welfare dependency.

This is especially true when we talk about minority children, who—due to immigration and the racial differential in fertility rates—will constitute over 30 percent of all young adults entering the labor force by 2007, and well over 40 percent by 2027. Today, more than 40 percent of black and Hispanic children live in poverty; 60 percent of black children live in broken homes; and last year 75 percent of all black infants were born to unwed mothers (of these, half were to teenagers). We must, to be sure, be respectful of the natural pluck and energy of children; perhaps our Thirteenth generation can overcome the handicaps we have left with them, especially since they are already turning out to be (quite unlike the better-endowed Baby Boom) a group of waste-no-time career strivers. Yet it's clear that if they succeed, it will be despite their elders rather than because of them.

No one can say, of course, just where this leaves us economically by the year 2007. My own suspicion is that, over the next five years, America's greatest struggle will be to extricate itself from our growing foreign indebtedness—a process which currently requires that we "export" IOUs equivalent to one percent of our national net worth each year in return for foreign savings. Before we escape it completely, it is likely we will suffer a serious recession sometime in the early- to mid-1990s. One hopes that, without lasting damage, we will emerge a net exporter. By the mid- to late-1990s, we will therefore be free to pursue our next agenda: raising our domestic investment rate to levels comparable with other industrial countries. Accomplishing this task will take us nearly to the year 2007, one of the last comfortable years we will be able to enjoy before the unrelenting gale winds of demography rip over us. Over the previous two decades, most Americans will have produced considerably more than they will have consumed—a fitting regimen, perhaps, for the traumatic adjustments that yet await us.

We would like to believe that this is all just a "worst-case" scenario. But it is not. It is one of the best scenarios—based, for instance, on the premise that we take immediate and decisive action to reduce our budget deficit, raise domestic investment, and expand sales of manufactured exports at a record pace for many years. It is also based on the smooth and enthusiastic cooperation of our trading partners, no sharp rise in the price of our oil imports, no widespread default by debtor countries, and, of course, no major war. A much worse scenario would assume, on the other hand, that one or more of these conditions do not hold, in which case the Baby Boom is bound to feel all the more disillusioned and all the less generous by the time it receives its last paycheck.

It is hard to overemphasize the key role the Baby Boom's retirement will play in shaping policy in the year 2007. If the cost of investing in our children and our economy seems onerous to our society today and for the next twenty years, when a "boom" generation is working and a "bust" generation is retiring, we can only imagine how unaffordable it will seem thirty years from now when the situation is reversed. Let us be forewarned: the Boomers will realize that sacrificial altruism will not be their only option in the year 2007. The alternative will be to protect the economic expectations of older age groups—their illusions of prosperity—by forcing the full burden of our insufficient productivity growth to fall on the backs of younger age groups. This alternative, unfortunately, can only work for those already alive and mature. It would set up all future generations for a vicious circle of declining opportunities: poorer young families, which means still fewer and less productive children, which darkens still further the prospects for workers and retirees alike by early next century.

No one wants such a future, yet the trends are already ominous. Consider, for instance, how the dramatic slowdown in overall living-standard growth since 1973 has masked a vast disparity in the trends for different age groups. The elderly, at one extreme, have hardly been affected—thanks, in part, to an extraordinary growth in federal benefit income over the past two decades (now making up nearly 60 percent of all federal benefits, or an average of $12,500 per elderly household). Their average real household net worth and after-tax per-capita income (now the highest of any age group) are still climbing vigorously; their poverty rate (now the lowest of any age group) is still falling.

Working-age adults, in turn, have done less well—with the incomes of older adults (age 45 to 65) just keeping up with inflation and the incomes of younger workers (age 25 to 45) falling far behind inflation. During the 1980s, younger workers have experienced declining rates of home ownership, rising rates of poverty and low-wage service employment, and increasing income discrimination due to "two-tier" contracts. And this is despite the massive shift of young mothers from the household economy to the market economy. The advantages of the shift have already shown up in the GNP; the disadvantages have yet to be witnessed, but may include children ill-equipped in character and learning for the much-heralded "information economy" that some experts say is bound to usher us comfortably into the twenty-first century.

It is hard to overlook the parallel between our demographic and economic direction. Obsessed with youth, Americans act like a young nation when we are in fact aging rapidly—a misperception which may yet accelerate aging. Likewise, obsessed with a self-image of prosperity, America acts like a thriving nation when the fundamentals of economic growth have in fact stagnated—a misperception which has induced massive borrowing against the future. By the year 2007 we will realize that whatever is available for consumption tomorrow must be produced tomorrow. Nothing we do today can change that equation except by creating more producers, or by dedicating resources—in the form of human and physical capital—toward easing their productive task. What we hope, surely, is that the realization does not come too late.

"The prophesying business," wrote H. L. Mencken, "is like writing fugues; it is fatal to everyone save the man of absolute genius." That depends, of course, on what we are trying to prophesy. Here, I have been sketching out the certain or highly-probable constraints which demographics and economics will impose on our future. No one can foretell, on the one hand, exogenous "surprise" events that will improve or worsen this scenario or, on the other, which way America will respond to these constraints. The outcome, therefore, remains a questionmark. What we can foretell, however, is that Americans will have to face these constraints and ultimately will have to make momentous and perhaps irreversible choices about their national destiny. This alone will change America's mood, its politics, and its culture.

It is possible that the Baby Boom, at the middle-aged crest of its political influence, will turn out to be a principled and self-confident generation—ready to confront big issues and, if necessary, make sacrifices. The danger lies in the nature of the choices the Boomers will have to confront, choices involving aging, death, and economic self-denial. These are hardly the sorts of issues their Woodstock rite of passage has prepared them for. Likewise, it is good that the Thirteenth generation is just the type for working, saving, and striving. If ever we needed an ample supply of Horatio Algers (and even a few bridge-building robber barons), 2007 will be the time. One hopes that the Baby Boom, as it grows older, may provide comfort to the Thirteenth by shifting roles and serving as its moral anchor, a living repository of memories of a stabler and more confident era—much as Gertrude Stein was able to comfort the rootless luminaries of the Lost Generation. In that case, visions of apocalypse are the last thing the Boomers will want to mention about the year 1967. □

Mark Falcoff

LET'S BE HONEST ABOUT VIETNAM

If we are to have a foreign policy, liberals and conservatives cannot go on politicizing the war, crying "No more Vietnams!" and hiding behind the Paris Peace Accords.

Was the Vietnam war a crime, a mistake, or—as President Reagan has said—"a noble cause"? If it was an effort of which Americans can be proud, then why is it that we did not prevail, or in the end, even wish to? If it was a mistake, was it wrong because it was immoral in its purposes, or merely in execution? If the United States erred in Vietnam, when precisely did it cross the line that sent it down "the slippery slope"? If the original purposes of American intervention were sound, when did conditions make those purposes unacceptable? And finally, what are the lessons to be learned from the greatest American tragedy since the Civil War?

In the more than ten years since the fall of Saigon, hundreds of books and articles—and an apparently endless succession of motion pictures—dealing with various aspects of the war have appeared, and there is no sign that public curiosity (or passion) has been abated. Instead, it continues to be one of the most explosive themes in the national debate over foreign policy and, also, over the country's basic nature and purposes. Almost nothing about the war, including the shape of the Vietnam Veterans' Memorial on the Mall in Washington, is free of controversy.

Unfortunately, as a topic the war continues to generate more heat than light. This is certainly not from lack of material: it is simply that the vast outpouring of scholarship has been largely ignored by both liberals and conservatives, who continue to use the war for their own purposes. Thus in spite of the incalculable price that America paid for the loss of its international innocence, our Vietnam experience is still not terribly useful to us. In fact, until we address its central questions, it is unlikely to become so. And as long as *that* condition persists, the United States will not possess the moral resources to pursue a foreign policy, in Central America, the Persian Gulf, or anywhere else.

Mark Falcoff is a visiting fellow at the Council on Foreign Relations.

II

The term "historiography" applies to the particular interpretations scholars bring to bear in their recounting of past events. As normally practiced by academic historians, it is a harmless shell game for the delectation of specialists. But in the case of Vietnam, it refers not merely to the particular way that specialists construe their materials, but to deeply held convictions by members of the political, academic, and media elites who shape our attitudes and also, eventually, our policies.

It is perhaps a bit much to call the latter "schools" of historical interpretation—they are, rather, *notions* of what happened in Vietnam, falling rather conveniently into two large and variegated boxes. One, cherished by people who think of themselves as liberals, emphasizes the mendacity of the U.S. government and military authorities, in both the inception and continuing conduct of the war; the atrocities committed by American troops in the field; the horrendous impact of the war upon those who fought it; and the decadence of the South Vietnamese government and people, who, in spite of the vast resources transferred to them over many years, collapsed within a few days in the early spring of 1975.

Often argued in the white heat of righteous indignation, this interpretation loses much of its moral grandeur in the light of events in Southeast Asia since the war—the Viet Cong turned out to be just what the Johnson and Nixon administrations always said they were, namely, puppets of the North Vietnamese. And the political order that Hanoi has imposed not only on Vietnam but on Cambodia—where one-fourth of the population was liquidated—raises serious doubts whether "our side" was really as "bad" as often represented during years of direct American involvement. Liberals feel uncomfortable with this point because once conceded, the case for non-involvement (or withdrawal) must then be made on pragmatic rather than moral grounds, where it is far more difficult to determine what course should have been taken, and when.

The conservative approach emphasizes the basic decency of American purposes, but also the fundamental soundness of our strategy. In its purest form, it argues that U.S. policy had turned something of a corner somewhere between 1968 and 1973, but that Congress, the media, and the American public abandoned their government and thus, in the lapidary phrase of Richard Nixon, "seized defeat from the jaws of victory." In effect, it reverses the liberal argument—instead of the government being at fault, the failure lies with the American people and its representatives. This approach, too, has its problems, since those who take it must demonstrate that at some point the war was "winnable," at any rate at a price the American people could reasonably be expected to pay. Given the terms upon which we had determined to fight the war, the price would have had to exceed the more than 50,000 lives and the $300 billion that were expended. So far this task has eluded all commentators, including, obviously, Nixon himself, but also his co-architect of the policy, Henry Kissinger.

Presumably some sort of synthesis might eventually be possible. One worthy first attempt was made nearly ten years ago by Guenter Lewy in his pathbreaking study *America in Vietnam.*[1] According to Lewy, the U.S. strategy was fundamentally flawed up to 1968, so long as MACV Commander General William Westmoreland insisted the war be fought along conventional lines he knew from World War II; the war, in effect, became one of attrition,