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Chapter 6: Neoliberalism and the new politics of aging and retirement security

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Introduction

One of the major public policy achievements of the 20th century was the construction of an integrated public and private sector retirement security system for older Americans. The passage of Social Security legislation in 1936 and Medicare legislation in 1966 ensured the availability of a basic retirement income and comprehensive health care coverage for older Americans. The Medicaid program, which was also created by legislation in 1966, has evolved into the most important source of long-term care coverage for the elderly and younger disabled populations. Federal tax policies have supported private pension programs and employer-funded retiree health insurance since the 1940s. This mix of publicly and privately provided benefits constitutes the integrated infrastructure for retirement security in the United States.

The elderly and organizations created to represent their interests did not play the leading roles in the development of the U.S. system of retirement security. Labor unions and the Democratic Party were more important forces in the construction of the U.S. retirement security system. Organizations of older people, especially AARP, have played intermittently important roles in preventing reductions in the publicly funded programs or in supporting improvements. They have been less effective in preventing erosion in the employer-based pension and health insurance programs.

The history of the politics of retirement security, however, is not likely to be prologue to the future of the politics of aging. The preservation of retirement security will probably depend to a considerable extent on the capacity of these organizations and their allies to persuade the public to continue their support for Social Security and Medicare and other components of the retirement security system. In short, the politics of aging are about to become far more interesting than they have been until now.

This chapter is organized into six sections beginning with a brief overview of the political activities of older people historically. The second section provides a discussion of the current and emerging political economy and its potential effects on the politics of aging. The third section goes into more detail about the implications of the neoliberal (conservative) political economy for the future of retirement security. The fourth section is a relatively extensive analysis of the capacity of future retirees (the baby boomers) to meet more of the costs of retirement living on their own as recommended by neoliberal (conservative) critics of the current system of retirement security. The results of this analysis are then used in the fifth section to describe how neoliberal policy prescriptions threaten the economic well-being of future retirees. The sixth section presents the case for a new economic model that is better designed to address the economic needs of workers and retirees and to foster solid economic growth over the next several decades—growth at levels required to prevent declines in the living standards of workers and retirees. The final section addresses the implications of the 2008 elections for the future of aging politics and retirement security.

Is there a politics of aging?

The political behavior of older Americans, from voting patterns to donations to contacting policy makers, has historically varied relatively little from those between age 35 and 60. Those ages 65 and older vote at a substantially higher rate than those ages 18 to 44 and at about the same rate as those age 45 to 65. Sixty-five and older voters cast 19 percent of the vote in the 2004 presidential election, even though they were only 16 percent of the voting age population (Campbell, 2005).

Although older voters tend to vote at a higher rate than younger voters, they do not tend to vote very differently. They contribute more to campaigns and spend more time informing themselves about candidates and policy issues. They also contact policy makers and their staff a little more often than younger people. An analysis by Campbell (2002) shows, however, that older people, especially those with lower incomes and fewer assets, contact their representatives at very high rates in response to specific policy issues, which most commonly involve Social Security or Medicare. Lower income, less affluent persons are usually less involved in all forms of political activity than more affluent persons. Less affluent older people, however, are very well aware of how much they depend on the entitlement programs for their economic well-being and are prepared to become very active when they perceive threats to them. These programs, according to Campbell, have in effect become the essential framework within which less affluent older persons define themselves as citizens, as political actors in the American polity (Campbell, 2003).

The fact that older people do not vote very differently from younger people in the vast majority of elections is sometimes overshadowed by the perception that their membership in AARP makes them exceptionally influential in shaping public policy, especially regarding the entitlement programs. AARP is a very large and visible organization and about half of those age 65-plus are AARP members. However, most members join AARP for primarily material rather than political reasons, as pointed out by Binstock (2008):

> To be sure, AARP engages substantially in lobbying the federal and state governments regarding policies affecting older persons. In 2006 it spent $67 million, about 6.5 percent of its $1.04 billion budget, on public policy research and legislative lobbying (AARP,

2008). In addition, it sponsors a number of volunteer programs. But (unlike MCPSSM and the Gray Panthers) much of the organization is engaged in a large business operation that offers to its members: auto, health, prescription drug, and long-term care insurance; mutual funds; credit cards; and support for travel (including hotel and automobile discounts). The largest portion ($403 million) of AARP's revenue comes from "royalties and service provider relationship fees" on the products and services that it markets to its members.

AARP and the other smaller, older persons' interest groups have, however, been able, on a few occasions, to persuade lawmakers that they have the potential to organize a large number of older voters around certain issues that are perceived to be highly salient to older people. Binstock (2008) refers to this as the "electoral bluff strategy" which AARP utilized effectively during the debate over President Bush's 2005 initiative to partially privatize Social Security. During the course of the debate, AARP was able to run a very effective media campaign against the President's proposal that contributed to the steady erosion of support for the proposal from January to April of 2005 and turn what may have begun as an electoral bluff into a serious political threat with polls showing overwhelming opposition to privatization among those age 65-plus.

Fundamentally, however, older persons have rarely, if ever, voted as a bloc in an election and have only rarely expressed a strong majority preference on any policy issue through other political means. This similarity in voting patterns between the 60 or 65-plus population and younger age groups should not be surprising, given the extent of demographic and economic diversity among older people and the wide variance in the extent to which their own interests are affected by aging-related policy issues. This variance is reflected in Campbell's (2002) findings regarding the relatively high levels of political activity among lower income older people on

Social Security issues—findings not consistent with the documented tendency of lower income groups to be less involved than higher income persons in most political activities. This discrepancy is largely a function of the fact that among older people, the lowest income quintile depends on Social Security for over 80 percent of their total income and the next lowest quintile depends on the program for over 60 percent of their income. The highest income quintile depends on Social Security for only 19 percent of this income, which makes Social Security-related policy issues considerably less salient for them. One may conclude then that aging-related policy issues and the older voters have only rarely been major factors shaping the course of politics and policy outcomes in the U.S. This historical reality, however, may not be a very reliable guide to American politics and policy struggles over the next several years as aging-related policies regarding retirement security become dominant concerns.

The politics of aging in the emerging political economy

Although Social Security is likely to remain on a path-dependency course for the next five to ten years, health care cost increases are likely to make Medicare and Medicaid (long-term care coverage) increasingly contentious policy issues. The steady erosion of private retirement benefits and resources for many members of the baby boom generation will also contribute to making retirement security a top domestic policy issue in the near future. The significance of this issue for baby boomers and many younger persons as well is likely to be heightened by continuing uncertainties in the U.S. and global economies in the years ahead. The deepening recession of 2008 and beyond and the apparent unraveling of the financial sector may be harbingers of the kind of fluctuation in the economy we can expect more of in the future.

Persistently unstable economic conditions and rapidly increasing numbers of older people who will constitute about 30 percent of all voters by 2025, compared to 19 percent today, are likely to create new political currents around retirement security issues over the next several years. Moreover, the baby boomers in retirement are likely to be more politically active than their parents. They will be in generally better physical health, substantially better educated, and confronting retirement security issues related to income and health care costs that are likely to be even more urgent for many retirees than they are today.

The growing costs of Social Security, Medicare, and the long-term care services covered by Medicaid will increasingly make these programs targets of budget reduction efforts by neoliberal (conservative) policy makers, pundits, and the corporate community at the same time that a growing number of older people will be dependent on them for any measure of economic security. These conflicting forces could make the struggle over retirement security and the entitlement programs the dominant domestic political issue for most of the next 30 years, with major implications for the nation's overall economy. The potential conflict between ensuring retirement security through public expenditures and a conservative agenda of low taxes on higher incomes and asset wealth and maintaining a military budget that exceeds the combined budgets of all other countries could become the source of fiercely partisan politics with an intergenerational dimension. The conflict, however, is more likely to break along socioeconomic (class) and ideological lines as represented by the major political parties. Profound party differences (John McCain) on the retirement security issue are already clearly evident in the continuing support among Republican Party leaders for some level of Social Security and Medicare privatization (Kuttner, 2007).

The generational division over funding for the entitlement programs is likely to remain relatively muted. Baby boomer retirees may become gradually more homogeneous, for reasons described below, than current retirees in the scope and intensity of their dependency on and commitment to Social Security, Medicare, and Medicaid, as an increasing percentage of them begin to feel threatened by the erosion of private retirement benefits. The children and grandchildren of the baby boomers are not as likely to be as united in any potential opposition to increased entitlement funding. Younger people have historically been as supportive of these programs as their beneficiaries. After all, younger people benefit very substantially from public support for their older relatives.

This does not mean that neoliberal policy advocates and their corporate sponsors will back away from their campaign to reduce benefits and privatize the publicly funded retirement security infrastructure. A serious and extended downturn in the economy would probably provide opportunities for them to make their case more convincingly and expand support within the general public for their neoliberal, ownership society agenda for retirement security. On the other hand, however, a stagnant or declining economy will weaken private retirement accounts and erode other savings, making many or most retirees even more dependent on their Social Security and Medicare benefits creating possibly a scenario similar to the period of the Great Depression when the Social Security program was created. If this kind of symmetry were to emerge over the next several years, it would not be entirely surprising. The currently dominant neoliberal economic policies of financial and labor market deregulation, reduced expenditures for social, health, and educational programs, and their privatization when possible, tax cuts, especially for the wealthy, and the neoliberal social philosophy of maximum individual responsibility shares a family resemblance to the neoclassical, free market framework that was dominant during the pre-depression period. This framework reemerged with the Reagan Administration and has shaped the policy agenda ever since including the financial deregulation, trade, and reduced spending policies of the Clinton Administration.

A protracted period of economic decline could, in short, create an intense political struggle between supporters of neoliberal reductions in publicly supported retirement security programs and those committed to strengthening and even expanding these programs in the face of diminishing returns to private accounts and access to health care caused by increasing out-of-pocket medical costs. This struggle is likely to escalate into a broader conflict over the survival of the neoliberal economic model. For example, if a substantial majority of the public becomes convinced that Medicare and Medicaid cannot be sustained in the absence of a universal health care system designed to contain costs and maintain access to care, then the neoliberal economic model, which is inextricably tied to market-based health care, may be seriously threatened by the emergence of an alternative model based on the managed capitalism model which produced the private and public retirement security system of the post World War II period: a kind of "back to the future" economic model reborn from the ashes of Neoliberalism and its failure to preserve retirement security; to sustain strong economic growth and the equitable distribution of productivity gains; to prevent the meltdown of a recklessly deregulated and over-leveraged financial sector; to maintain a globally competitive goods producing sector; and, to avoid an explosion of unsustainable debt and trade deficits (Polivka, 2008).

Fear of the political consequences of a successful effort to achieve a national health care program was expressed by William Kristol, a leading conservative pundit, in a 1994 memo he sent to Republican lawmakers warning that if the Democrats were able to pass President Clinton's health care plan, the Democrats would be able to renew their Roosevelt era hold on voters and reenergize liberal politics (Kuttner, 2007). This same fear was one of the major motives for former Representative Newt Gingrich and his Republican colleagues' efforts to begin dismantling the Medicare program in the mid-1990s by introducing privatization provisions into the program, including a greatly expanded role for proprietary HMOs. Some of these provisions were successfully incorporated into the Medicare Modernization Act (MMA) of 2003, which also included the prescription drug benefit. If the Democrats were able to use the need to preserve the Medicare program as a major part of the rationale for pushing through a national health care program, the fear expressed by Kristol in 1994 would probably be confirmed. It would send a clear signal that the neoliberal model of the political economy was exhausted and a profound policy reversal was underway.

The politics of aging and retirement security have been only intermittently interesting and important over the last several decades. Relatively modest initiatives to protect Social Security in 1983, when Reagan proposed reduction in benefits and 2005, when Bush proposed partial privatization, have been sufficient to preserve the program without large expenditures of political capital. This is likely to change over the next several years as retirement security becomes one of the top domestic policy issues.

The rise of neoliberal economics and public policy over the last 30 years threaten the future of publicly funded retirement support programs in the U.S. The neoliberal policy agenda features initiatives designed to privatize public pensions (Social Security) and health care programs (Medicare and Medicaid) and reduce revenues through tax cuts for the wealthiest. Part of the rationale for the neoliberal policy framework for retirement is that current and future retirees are, or will be, capable of bearing the cost of privatization, of “owning” their own retirement. An analysis, however, of the economic status of current retirees and of baby boomers nearing retirement indicates that majorities of both groups do not have the capacity or the potential capacity to pay their own way in retirement.

President Bush's 2005 campaign to privatize Social Security by using a portion of the payroll tax to fund individual accounts was part of a larger campaign to diminish the role of the public sector in the U.S. political economy that was established during the 1930s and post World War II periods. This neoliberal campaign began over 30 years ago with successful efforts to deregulate the trucking, airline, and energy industries in the late 1970s, accelerated under the Reagan Administration with huge reductions in federal taxes, somewhat less dramatic cuts in social spending, further deregulation of the economy, primarily in the banking and finance sectors, and a relentless effort by President Reagan to discredit the public sector. These neoliberal initiatives were designed to support the spread of unfettered markets by reducing the role of the state in regulating the economy and providing essential services.

The neoliberal campaign to dismantle the public sector was not an explicit priority of the George Herbert Walker Bush and Bill Clinton Administrations. The Bush I Administration supported a major tax increase and Clinton proposed a program that would have moved the U.S. toward a universal health care system. The Clinton Administration, however, also supported further deregulation of the economy, a time limit on benefits in the Aid to Families with Dependent Children (AFDC) program and an overall reduction in federal spending as a percentage of the GDP. Clinton also announced that the era of "big government was over" in his 1998 State of the Union speech (Pollin, 2003).

The George W. Bush Administration (Bush II) essentially picked up where the Reagan and Clinton Administrations left off. The Bush II Administration went well beyond Reagan in reducing taxes and driving up deficits in the federal budget. Bush II, unlike Reagan and Bush I, refused to support any efforts to reduce deficits by restoring revenues. Until his 2006 proposed budget, however, Bush did little to restrain spending which increased as a percentage of the GDP during his tenure. His proposed cuts in the 2006 budget occurred almost exclusively in discretionary spending, including a wide range of social, environmental, health, and education programs. These proposed reductions would have equaled 20 percent or more of current spending levels in most of these programs. Policy makers who were largely responsible for the creation of long-term deficits used them as a major justification for these reductions.

The four major domestic policy goals of the Bush II Administration in its second term were: 1) rapid privatization of the Social Security program; 2) slower, more gradual privatization of the Medicare program; 3) making the first-term tax cuts permanent; and 4) reforming the tax code in a manner that preserves the tax cuts and further reduces taxes on the wealthy by shifting more of the tax burden from capital assets to income. The administration's highest domestic priority was the achievement of what the President has called the "ownership society," by shifting more of the responsibility for retirement income and health care from the public sector to individuals whose retirement prospects would be increasingly determined by market outcomes (Schulz & Binstock, 2006).

The three major entitlement programs constitute the foundation of retirement security for the majority of retirees and will cost more than $1.2 trillion in 2008, which is over 40 percent of the total federal budget. Achieving the neoliberal "ownership society" is greatly dependent on preventing the cost of these programs from increasing at the rates projected for the next 30 to 40 years as the baby boomers reach retirement age. If the costs of the Medicare, Medicaid, and Social Security programs are not sharply curtailed, the Bush era tax cuts cannot be sustained. Paying for these programs will require major increases in revenues. This fiscal reality is driving the neoliberal agenda and the vision for an "ownership society" in which individuals are increasingly at risk for generating their own retirement resources (Brown, Kuttner & Shapiro, 2005).

Advocates for the "ownership society" are well aware of how the opportunity to curb entitlements and shift retirement costs to individuals would be limited by a sharp decline in the already shaky support for their neoliberal retirement agenda. If conservative policy makers and their corporate sponsors in the securities and health care sectors are not able to fund individual accounts from the payroll tax, and accelerate the privatization of Medicare and Medicaid over the next few years, any political momentum behind the neoliberal agenda is likely to fade and be replaced by an agenda of increased reliance on the public sector for retirement security. This recognition of a potential reversal of fortune accounts for the sense of urgency and political risk taking that has characterized the efforts of the administration and the whole neoliberal infrastructure of political organizations, think tanks, and media outlets to privatize retirement.

We are quickly approaching the point when the intermittent movements over the last three decades toward a neoliberal policy regime will either become fully dominant or begin to unravel at an accelerating rate. The recent meltdown in the financial markets and the unfolding federal bailout will put even greater pressure on the federal budget and will probably accelerate the timeframe within which the fate of these programs will be determined as critics press for a speedy reduction in benefits and rapid privatization. The financial market meltdown threatens both neoliberal policies and retirement security. The need to use public revenues to pay for a bailout of the financial markets and the cost of maintaining Social Security and Medicare also threatens to undermine a neoconservative foreign policy based on military strength and steady increases in the defense budget.

The rise of Neoliberalism and the decline of retirement security

Support for neoliberal economics and public policy emerged from the widespread perception that by the mid-1970s the mixed economy of the postwar period was no longer able to sustain stable growth. The slow growth and high inflation of the 1970s began to erode the intellectual creditability of the neo-Keynesian demand side-oriented policies of the postwar period, which experienced the most rapid and stable growth of the 20th century. The stagflation of the 1970s, however, was less a result of conceptual flaws in the neo-Keynesian mixed model economy than changes in the international economic environment and exogenous shocks like the OPEC oil price increases in the early 1970s.

> . . . the OPEC price shocks introduced an external, structural source of inflation, which became embedded in the price system. This occurred just as the Bretton Woods system of stable currencies anchored by the USA dollar was collapsing. Central banks practicing orthodox monetary policy then responded to stagflation by raising interest rates, and putting all the major Western economies on a path of slower growth and higher unemployment. So reduced growth and rising prices collided for reasons that had little to do with Keynesian intervention or with the mixed economy. Eventually inflation was squeezed out, but at terrible cost. In the meantime, the more conservative interpretation, followed by a backlash of conservative policies, won the day. (Kuttner, 1997)

The recession of the mid-1970s led not only to the high interest rates implemented by the federal reserve in 1979, but to a number of initiatives designed to dismantle the "managed," welfare state capitalism of the postwar period, and the interventionist state brokered compact between capital and labor, which had played an essential role in the development of the publicly supported system of retirement security. The rising costs of this system and other welfare state provisions, the declining rate of corporate profits and share of income accruing to the wealthiest, and slow economic growth since the early 1970s generated growing support among U.S. corporate and political elites for a return to the neoclassical economic policies of the pre-depression period. These policies, in updated form, became the foundation of Neoliberalism, the organizing framework for shifting economic and political power from labor to capital. According to Harvey (2006), the vehicle for this shift in power is "accumulation by dispossession," which is designed to increase profits and restore corporate power even in the absence of high levels of sustained economic growth.

Harvey's (2006) conceptualization of Neoliberalism as "accumulation by dispossession" includes four main elements, each of which has major implications for the future of retirement security. The first element is privatization of public resources and services which is designed to create new opportunities for capital accumulation in areas once protected from the "calculus of profitability." Harvey notes that:

> The reversion of common property rights won through years of hard class struggle (the right to a state pension, to welfare, to national health care) into the private domain has been one of the most egregious of all policies of dispossession pursued in the name of neoliberal orthodoxy. All of these processes amount to the transfer of assets from the public and popular realms to the private and class-privileged domains. (Harvey 2006: 153)

The privatization initiative encompasses far more than public pensions and health care. The privatization of retirement benefits, however, may be the greatest threat to the security of most people.

Privatization is closely related to Harvey's (2006) second element of accumulation of dispossession which is the increasing financialization of economies across the world. Financial deregulation has facilitated the redistribution of wealth from workers and productive capital to finance capital through speculation, predation and fraud. The privatization of public pensions and health care would move hundreds of billions of dollars into the financial markets and increase the capacity of finance capital to control the international economy, extract speculative profits, destabilize selected economies, and further erode the economic security of workers through the management and manipulation of debt and disinvestment crises, which is Harvey's third element of accumulation by dispossession.

Harvey's fourth element is state redistributions, which goes beyond privatization of public resources and includes large reductions in taxes on high incomes and capital wealth, which has characterized tax policy in the U.S. for most of the last 30 years. This reduction in revenue not only benefits the wealthy, it also provides a part of the rationale for the privatization of public programs, most prominently the retirement security entitlement programs. This "starving the beast" strategy is designed to generate budget deficits massive enough to make public funding of retirement security and other programs unsustainable.

Neoliberal theory and ideological claims have been used by the Bush II Administration and the whole apparatus of right wing foundations and think tanks to justify attacks on publicly funded retirement programs (Social Security and Medicare) and to call for workers to pay for their own retirement through individual earnings, savings, and investments. As will be demonstrated in the following section, there is little evidence that the vast majority of current workers have the capacity to pay for or "own" their own retirement and considerable evidence that privatizing Social Security and Medicare would lower the standard of living for most future retirees. These empirical realities, however, are not likely to dampen the neoliberal attack on the current system of publicly supported retirement, which they claim has created generations of dependence on the public sector and perverted the natural order of society by making retirement security a collective endeavor. They are dedicated to making the financing of retirement a matter of individual responsibility and decision-making in a largely unrestrained market environment which they assume restores the natural order of efficiently allocated resources and individual rewards.

From Reagan to the second Bush Administration, the neoliberals have been able to achieve part of their agenda by persuading the media and a frequent majority of policy makers, including Democrats, that their core principles, assumptions, and policies are essentially valid in the modern global economy. The implementation of these policies has failed to produce the high levels of sustained growth which is usually offered as the rationale for Neoliberalism. They have, however, played a major role in the growth of inequality and the concentration of unprecedented wealth in the upper reaches of the U.S. class system. Even as the top 0.1 percent of income earners increased their share of national income from 2 percent in 1978 to 6 percent by 1999 and the ratio of the median compensation of workers to the salaries of CEOs increased from 30 to 1 in 1970 to over 300 in 2000, aggregate growth rates fell from 3.5 percent in the 1960s to 1.4 percent in the 1980s and 1.1 percent in the 1990s (Harvey, 2006, 148, 151).

These trends are consistent with Harvey's concept of Neoliberalism as accumulation by dispossession through the processes of privatization, financialization, the manipulation and exploitation of economic crises, and state-sponsored wealth redistributions. These processes are used by economic and political elites to shift wealth from workers to the wealthy and to take back the gains made by the working classes in the developed nations during the postwar period of managed welfare state capitalism. Among the greatest gains for workers during this period were the creations of public pensions like Social Security, privately funded, though publicly subsidized, defined benefit pensions, and publicly funded health care benefits. All of these gains were products of a class compromise that gave an equitable share of economic growth to workers and made retirement security a historically unprecedented reality for a majority of those living in the developed world. The private defined benefit (DB) pension system now covers less than 20 percent of all workers, but the publicly funded retirement security system is still fundamentally intact. The dismantling of this system, however, is a top priority of many policy makers, media pundits, and corporate sponsors of the neoliberal agenda who are prepared to use the tools of accumulation by dispossession, primarily privatization, financialization, and tax cuts to greatly reduce public funding of pensions and health care and force workers to pay for their own retirement. Wages, however, have remained largely stagnant for 30 years and savings have steadily declined leaving workers today with little more capacity to pay for their own retirement than any other generation since World War II (Hacker, 2006).

The economic status of current and future retirees

The neoliberal goal of making workers individually responsible for their retirement is fundamentally at odds with the economic realities of retirement. The neoliberal notion that most retirees will be independently well-off in the future is not supported by the facts of economic life among current retirees and the projected economic status of most future retirees.

In the U.S., the median household income of those ages 65 and older is $24,000 for whites and a little over $16,000 for African Americans and Hispanics and Social Security constitutes 41 percent of the mean income of all retirees on average, which is 6 percent greater than 40 years ago. Over two-thirds of all retirees depend on Social Security for 50 percent of their income; this percentage is 75 percent for female retirees and 77 percent for minority retirees (Wu, 2001). In terms of financial wealth, the median net worth (minus value of home) of the bottom three income quintiles of those age 70-plus (75 percent of total population 70-plus) is

$68,500, $15,000 and $1,000 respectively. The median net worth of minority elderly age 70-plus is less than one-third that of whites (Reynolds-Scanlon, Reynolds, Peek, Polivka & Peek, 1999).

The significance of Social Security to the economic well-being of current retirees is evident in the fact the median share of income from Social Security for those ages 65 and older is 67 percent, and for those ages 75 and older, it rises to 77 percent. For single women ages 65-plus, the share is 84 percent, for African Americans 82 percent, and for Hispanics 84 percent. Among single women age 75-plus, 39 percent rely on Social Security for 90 percent of their incomes and 73 percent for 50 percent or more of their income (Ettlinger & Chapman, 2005).

What about the income and financial status of the next generation of retirees, those now between ages 47 to 64? Will they have enough income and wealth to make them qualitatively better prepared to pay for their own retirement? A greater percentage of future retirees are likely to have high incomes and substantial wealth than among current retirees due to higher incomes and asset accumulation during their working years and continuing employment after age 65. An analysis by Weller and Wolff (2005), however, of projected retirement wealth among those ages 47 to 64 indicates that most retirees over the next 30 years will not be substantially better off than their parents. In their analysis of wealth trends from 1983 to 2001, Weller and Wolff found that Social Security was the most important source of additional retirement wealth for most Americans who have experienced rather small increases in their total wealth during this period (Weller & Wolff, 2005).

The median augmented wealth, which includes net worth, defined benefits and defined contributions [401(k) s], pensions, and Social Security wealth, for those ages 56 to 64 grew by only 5 percent from $436,500 to $458,100 between 1983-2001. Mean augmented wealth, however, for those ages 56 to 64 grew by 41.7 percent from $695,200 to $984,800, which reflects the trend toward growing wealth inequality. Median retirement wealth (private pension and Social Security wealth) grew by only 1.3 percent during this period for those ages 56 to 64, from $264,000 to $267,500, and by 32.5 percent for those ages 47-55, from $177,300 to $215,300. Increases in Social Security wealth ($31,000 for those ages 47 to 55 and $9,000 for those ages 56 to 64) were far more important sources of enhanced retirement wealth than private pensions for both age groups. In fact, median private pension wealth fell by 13.3 percent during this period for those ages 56 to 64 (Weller & Wolff, 2005).

Weller and Wolff (2005) also found that those in both age groups, with low net wealth ($0 to $99,999), lost ground between 1983 and 2001, while those with substantial net wealth ($500,000 plus) experienced very large gains. Those with $1 million net wealth at ages 47 to 55 had an 84 percent gain in retirement wealth ($415,000 to $765,000) and those ages 56 to 69 had a 106 percent increase ($491,200 to $1,012,000). These trends clearly demonstrate growing wealth inequality.

The race/ethnicity gap in retirement wealth also grew between 1983 and 2001. The median retirement wealth of non-Hispanic whites ages 47 to 55 grew by 33.9 percent from $188,100 to $251,800, and by 8.5 percent for those ages 56-64 from $279,000 to $302,700. Among African Americans and Hispanics, however, median wealth for those ages 47 to 55 fell by 7.4 percent from $109,000 to $101,700 and by 19.7 percent for those ages 56 to 64 from $168,700 to $135,400. In the absence of Social Security, these declines would have been greater, especially for those ages 47 to 55 whose private pension wealth fell by 33.6 percent. The same trends occur for augmented wealth with a 20.7 percent increase for whites ages 47 to 55 and 6.3 percent for those ages 56 to 64 and declines for minorities. These trends also characterize differences between homeowners and renters and, to a lesser extent, between married couples and single persons.

In terms of expected retirement income based on wealth holdings and pension and Social Security benefits, Weller and Wolff (2005) found that the percentage of those ages 47 to 55 who could expect income equal to or greater than 75 percent of their current incomes declined from 56.8 percent to 52.2 percent between 1989 and 2001, and from 62.8 to 57.5 percent for those ages 56-64. On the other hand, the share of households that could expect to have retirement incomes of less than twice the poverty level or less than half their current incomes declined between 1989 and 2001. Weller and Wolff conclude that:

> Social Security provided a larger addition to wealth than any other form of wealth between 1989 and 2001 for the average person near retirement. As labor markets tightened and annual earnings improved over that period, the expected value of Social Security benefits rose. Although stock market and home prices rose significantly over that timeframe, these increases had only a modest effect on the wealth of those in the middle of the income spectrum; their stock market holdings were too low to be affected, and increased borrowing kept home equity in check.

They also note that:

> Even among the households that have private pensions, savings are very unevenly distributed. Indeed, one of the most dramatic transformations over the last two decades has been the replacement of traditional Defined Benefit (DB) pension plans with Defined Contribution (DC) plans such as 401(k) s. This shift has actually been detrimental to a large share of the working population. Despite increased coverage by DC plans and the rise in the stock market, the total DB plus DC wealth of the typical person nearing retirement was no higher in 2001 than in 1983.

This shift from DB to DC plans is one of the major reasons that Munnell and Soto (2005) think that:

> . . . today is in some sense the "golden age" of retirement income. Today's retirees are claiming Social Security benefits before the rise in the retirement age to 66 and then 67, which is equal to an across-the-board cut in benefits. Today's retirees also do not face the huge deductions in their Social Security check to cover Medicare premiums for Parts B and D that tomorrow's retirees will. And today, the average retiree does not pay personal income tax on his Social Security benefits, whereas future retirees will increasingly see a portion of benefits subject to taxation. Finally, most of today's retirees are covered primarily by a defined benefit plan and do not face the uncertainty associated with the inadequate lump-sum payments from 401(k) plans.

These changes will reduce the average percentage of retirees' final wages replaced by Social Security payments substantially below the current percentage of 42 percent over the next 20 years and make retirees increasingly dependent on assets in their defined contribution plans. This is not a promising prospect for most future retirees. Just how uncertain and inadequate defined contributions to private pensions may be for the baby boomers facing retirement over the next several years is evident in the fact that of the 48 million families who hold one or more accounts, the median value is $27,000 and among those ages 55-64, the median value is only $55,000, which would be enough to purchase an annuity paying $398.00 a month. These meager accumulations occurred during the 1990s bull market of soaring stock prices. During the most recent decline in the stock market (2008), retiree accounts have lost about $2 trillion dollars, or 20 percent of their total value ((Orszag, 2008).

According to William Greider (2005), the true beneficiaries of the rapid shift from defined benefit pensions to defined contributions plans is corporate managers and large shareholders.[1] Defined contribution plans require much smaller employer contributions and reduce labor costs. Moreover, fewer employees participate in pension plans of any kind now than twenty years ago, down from 51 percent to 46 percent.

Greider (2005) refers to an examination of 700 companies over nearly 20 years by economist Teresa Ghilarducci, which found that their annual pension contributions dropped by one third—from $2,140 to $1,404 per employee—as they shifted from defined-benefit to defined-contribution plans. This trend is likely to continue to the point that defined benefits pensions will essentially disappear among future retirees as employers continue to close down their defined benefit plans. Munnell, Golub-Sass, Soto and Vitagliano (2006) state:

> Some U.S. companies are cutting pensions to reduce workers' total compensation in the face of intense global competition. The second explanation is that employers have been forced to cut back on pensions in the face of growing health benefits to maintain existing compensation levels. The third explanation, by contrast, points to the finances of the plans themselves—specifically, their market risk, longevity risk, and regulatory risk that make defined benefit pensions unattractive to employers. The final explanation is that with the enormous growth in CEO compensation, traditional qualified pensions have become irrelevant to upper management who now receive virtually all their retirement benefits through non-qualified plans. Each of these explanations contains a kernel of truth, and they all help explain the current trend.

As defined contribution plans steadily replaced defined benefit plans over the last 25 years, personal savings have declined from a total of $480 billion in 1982 to $103 billion in 2005, which is actually less than what the federal government now spends on tax subsidies to

[1] Only 21 percent of current employees now have defined benefit pension plans compared to over 40 percent 30 years ago and many of these plans are inadequately funded. Companies are increasingly inclined to dump their plans on the Pension Benefit Guaranty Corporation through bankruptcy proceedings.

encourage pension savings—$115 billion in 2004. Housing equity does not offset this decline in savings. The value of family homes rose by $3.3 trillion from 1999 to 2003, but actual equity value changed very little as mortgage borrowing rose nearly as fast (Greider, 2005).

A study by the Employee Benefits and Retirement Institute (VanDerhei & Copeland, 2003) found that retirees will have $45-50 billion less in income in 2030 than they will need to cover basic needs (food, housing, transportation, out-of-pocket acute care costs, etc.) and any costs arising from an episode of care in a nursing home or from a home health provider. The cumulative shortfall by 2030 will be over $400 billion. Increased savings could be used to cover or reduce this projected shortfall. For most, however, the increase would have to be very substantial equaling 5 to 25 percent more of earnings than they are saving now. Current average savings in the U.S. have fallen below 1 percent from 11 percent in 1983, with higher income groups saving up to 10 to 20 percent and lower income groups accumulating more debts than savings. For example, older, lower income women would have to save 25 percent of earnings to close the gap. In fact, all women in the lowest quintile (bottom 25 percent) income group, regardless of age would have to save 25 percent plus, which is highly improbable, given their low incomes. Furthermore, is it realistic to think that workers ages 47 to 64 will be able to increase their savings by 5 to 10 percent of income in order to have a 75 to 90 percent chance of achieving retirement income sufficient to cover basic expenses?

It should be noted that the EBRI model projections are based on very conservative assumptions, such as everyone works till age 65 (most workers now retire well before age 65) and individual retirement account balances are annuitized over a period of time that expands life expectancy by five years, even though annuitization rarely occurs now, and no changes in Social Security (VanDerhei & Copeland, 2003).

Basic expenses for future retirees are likely to be higher than those projected by the EBRI model, especially for health care. According to an analysis by Johnson and Penner (2004), out-of-pocket health care costs for the retiree population, given current policies and projected cost increases, will double for Medicare beneficiaries between 2000 and 2030. As a result, married couples in the lowest income quintile will see their net income shrink from $13,326 on average to $11,981 and those in the second quintile will see an increase of only $1,680, from $23,184 to $24,764. The same trends hold for the growing population of unmarried retirees as well, but at substantially lower income levels—$7,000 and $12,000 for the two lowest quintiles. These projections are somewhat less than those generated by the Urban Institute (2005), which estimates that health care costs for boomers will eventually reach one-third of their retirement income.

Rising health care costs is one of the reasons many baby boomers are increasingly less prepared for retirement. Furthermore, the amount of accumulated wealth is not likely to stretch as far into retirement in the future as health care costs grow, defined benefit pensions decline, along with interest rates on annuities, and life expectancy increases (Delorme, Munnell & Webb, 2006). Because of these trends, Munnell, Golub-Sass and Webb (2007) at the Boston College Center for Retirement Research have projected declining levels of retirement security for the baby boomers and younger workers, especially those born after 1960.

Any possibility that families will be able to save and invest enough to cover projected shortfalls in retirement income over the next several decades is seriously threatened by the current financial condition of most families which are caught in the vise of rising costs and declining or stagnant incomes (Hacker, 2006). Families now spend a lot more on houses than they did in 1980. Housing prices increased by 79 percent from 1983 to 1998 for families (from

$98,000 to $175,000 on average). Mortgage debt increased by 39 percent for the highest 10 percent of earners between 1989 and 2001, 94 percent for the middle 20 percent, 124 percent for the next lowest 20 percent, and 191 percent for the lowest 20 percent of earners. Owners' equity as a percentage of their real estate value fell from 70 percent in 1983 to 55 percent in 2003. With more flexible lending strategies and increased housing prices, mortgage costs have increased 69 percent (inflation adjusted) since the 70s (Warren & Tyagi, 2003). The recent meltdown in the housing market has left millions of families owing more on their mortgages than they have accumulated in equity value.

A recent analysis by Baker and Rosnick (2008) found that the collapse of the housing market will cause between a 26 and 47 percent decline in the asset wealth of the 45 to 54 age cohort in the middle quintile of the wealth distribution between 2004 and 2009. This massive loss of housing equity means that many of the middle-quintile homeowners would have to pay money to sell their homes in 2009. According to the authors:

> These projections show that the cohorts just approaching retirement will have very little to support themselves in retirement other than their Social Security. This means that any cuts in Social Security and Medicare below current levels are likely to impose serious hardships on all but the wealthiest families. (p. 2)

Education and health care costs have also risen rapidly. Tuition fees at public universities have doubled in 25 years (inflation adjusted). Tuition, room and board now cost $8,600 annually on average or 17 percent of the median family's pre-tax income, and private universities are two-to-five-times more expensive. Health insurance premiums have risen seven-fold since the 1970s and individuals are 49 percent more likely to be uninsured than 25 years ago. The number declaring bankruptcy in the wake of a serious illness has increased by 3000 percent since 1975 (Warren & Tyagi, 2003). Bankruptcy rates are growing faster among those ages 65-plus than any other age group (Thorne, Warren & Sullivan, 2008).

Trends toward increasing reliance on mortgage and credit card debt are substantially driven by declining or stagnant family incomes. Real wages declined from a high of $15.14 an hour for non-supervisory workers in the 1964-1967 periods to $13.91 in 1981-1992 and $13.60 in 1993-2000. Wage increases have lagged behind productivity growth since 1973. Wages tracked productivity only from 1997 to 2001, but returned to the pre-1977 pattern in 2002, as wages fell from 2002 through 2007 and profits rose (DeNavas-Walt, Proctor & Lee, 2005). In percentages, wages fell for most workers by 15 percent between 1973 and 2000 and the poverty levels increased, even as the per-capita GDP was 70 percent higher in 2000 than in 1974, productivity was 61 percent higher and the stock market was up 603 percent (Pollin, 2003). According to Steven Greenhouse (2008), the average fulltime worker would be earning $58,000 today if her wages had kept pace with productivity increases over the last 30 years. The average worker in 2007 earned only $36,000. As unions became defunct and government's role in the economy declined through deregulation and agency cutbacks, corporate managers were able to drive profits to their highest share of national income since the early 1940s and wages to their lowest share since 1929 (Greenhouse, 2008).

The latest recession may have ended in 2002, but new job growth remained slow and wages stagnant. The modest recovery was based on historically low interest rates, modest inflation and strong consumer spending which was debt driven. Average household debt reached 107 percent of disposable income in 2002—in the past, debt ratios have always fallen during recessions (Warren & Tyagi 2003). The currently (2008) increasing rate of unemployment, the rapid decline in the housing market, and the financial sector meltdown that began in late 2007 clearly signals another recession that is likely to further diminish the retirement prospects of the baby boomers and even younger workers (Kuttner, 2007).

In short, the economic status of most future retirees is likely to be about the same as current retirees and for many, it will be worse. Most future retirees will have no more private retirement wealth than the current 65-plus population and are likely to be as dependent as publicly provided retirement benefits (Social Security, Medicare, and Medicaid) for their economic well-being, which makes the preservation of these benefits a critical political challenge. It should be understood, however, that the economics of this challenge are less a function of rising payroll taxes and population aging per neoliberal doctrine than the rising cost of private health care and increasing income and wealth inequality. Dean Baker (1998) noted a decade ago that:

> The public attention given to the problems the nation will face as the baby boomers retire has been largely misplaced. By itself, the retirement of the baby boom generation will not prevent workers in the future from enjoying substantially higher living standards than do workers today. But tomorrow's workers still face another, more serious problem: rising health care costs and growing wage inequality threaten to greatly diminish the future living standards of most workers. In order to protect the well being of future generations, it will be necessary to bring health care costs under control and to stop, if not reverse, the trend toward greater wage inequality.

The future costs of Social Security and Medicare are not the most serious threat to the economic well-being of families over the next 30 years. In fact, these programs are essential to their well-being in that they ensure the financial status of older relatives. The greatest threat to the economic well-being of families arises from neoliberal policies of tax cuts for the wealthy, reductions in spending for education, childcare and other social programs, privatization and deregulation, anti-union measures and other neo-liberal policies of accumulation by dispossession that fuel rising inequality and economic insecurity.

Neoliberal threats to retirement security and the need for an alternative economic model

The future of retirement security rests on the preservation and improvement of the Social Security and Medicare programs. Neoliberal proposals to privatize Social Security would make it as risky as private pensions have become with the spread of defined contribution plans (401(k) and IRA plans) over the last 30 years. As noted earlier, less than half of all employees in the U.S. now have private pensions and most of these are defined contribution plans. The level of benefits generated by these plans is contingent on employee and employer contributions and their fate in the equity and bond markets, which have historically experienced long periods of stagnation or decline. The growth of these plans over the last 25 years has not enhanced the retirement security of most employees who cannot afford to maximize their contributions and are often forced to cash out their accumulations prior to retirement to cover family expenses and reduce debt (Kuttner, 2007; Hacker, 2006).

Privatizing Social Security would increase the economic insecurity of future retirees with defined contribution private pension plans or no private pension at all. Social Security, in its current form, may even be a more essential source of income for future retirees, especially women, minorities and lower income workers generally, than it is for current retirees. Privatization of Social Security along with the growth of DC private plans, would put retirement income at greater risk *without* solving the Social Security Trust Fund shortfall problem and creating a $2 to $4 trillion transition cost problem for which no one has offered a feasible solution. (Anrig & Wasow, 2005).

An analysis of the impact of the two privatization proposals developed by the President's Commission on Social Security in 2002 found that a sizable majority of future retirees would have lower retirement incomes under both proposals than under the current program (Diamond and Orszag, 2002). Those who had the misfortune of retiring during a downturn in the stock market would be especially disadvantaged. For example, during the 2001-2002 market declines, defined contribution accounts lost about 30 percent of their value (Weller, 2005).

The Bush Administration's proposal to tie the amount of the initial Social Security benefit to a progressive price indexing methodology would reduce benefits even further for future retirees. Progressive price indexing, in combination with President Bush's proposed private accounts, would reduce the Social Security benefit for a medium earner retiring in 2055 by 66 percent from $22,100 to $7,510 a year. For many middle-income workers retiring in 2055, Medicare premiums deducted from their Social Security checks would leave their benefits at or close to zero. These proposals (private accounts and price indexing of benefits) are essentially designed to dismantle Social Security (Furman, Greenstein & Sperline, 2005).

Medicare beneficiaries have been experiencing a steady growth in out-of-pocket spending for health care for several years. The percentage of discretionary income spent on Medicare premiums, copayments, and deductibles has increased from 12 percent in the 1980s to 20 percent on average (Caplan & Brangan, 2004) and is now over 30 percent for lower income beneficiaries. These increasing costs have put routine medical care beyond the reach of many less affluent older people, especially women. The Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA), which provides a relatively meager, bizarrely designed drug benefit, is fundamentally a neoliberal proposal which includes several provisions designed to privatize Medicare, including private sector administration of the drug benefit, health savings accounts and a lot more money for HMOs. What the MMA does not include is any plausible prospect of cost-containment.

The MMA essentially leaves the struggle over the privatization of Medicare unresolved, and guarantees that it will intensify in the future as health care costs continue to increase and the population ages 65 and older grows. As noted earlier, health care costs are projected to consume one-third of the average retiree's income by 2030, which is a clearly unsustainable trajectory.

President Bush's failure to gain support for his Social Security privatization (personal accounts) proposal in 2005 was a sign of majority opposition to the neoliberal agenda for unraveling publicly supported retirement security. This does not mean, however, that the threat is over. Social Security privatization will remain a neoliberal priority for the next several years and new initiatives will be introduced to reduce Medicaid and Medicare funding by limiting eligibility, shifting more costs onto beneficiaries and privatizing as much of both programs as possible. The fundamental contradiction between tax cuts, increased military spending, and adequate funding for Medicaid and Medicare cannot be managed through deficit budgeting indefinitely. Baker (2005) has noted that maintaining its current military superiority over China for the next several decades will require the U.S. to spend about 7 percent more of its GDP on defense ($1.3 trillion in current dollars) by 2050.

> This military spending shortfall is far larger than the projected Social Security shortfall. In the low-cost scenario, the present value of the military spending shortfall over the next 75 years is $26.7 trillion, more than six times the size of the Social Security trustees' projection of the 75-year shortfall in Social Security. The projected 75-year military spending shortfall in the mid-cost scenario is $35.7 trillion, nearly nine times the size of the projected Social Security shortfall. (Baker, 2005, p. 2).

The limited capacity of future retirees to cover the costs of retirement on their own and their predictable dependency on Social Security and Medicare for any measure of economic security is simply ignored by the critics of the entitlements. In their rush to claim that Social Security and Medicare are not sustainable and need to be dramatically reduced to preserve fiscal stability or to fund education and health care programs for younger people, the critics overlook the fact that many future retirees will not be able to maintain an adequate standard of living without maintaining the entitlements at essentially their current level of funding.

A new economic model and the future of retirement security

The struggle over entitlement policy is likely to become part of a broader debate about the need for economic policies based on an alternative to the neoliberal model of capitalism. This alternative model of managed capitalism will probably incorporate several features of the post World War II U. S. economy, which did a better job of sustaining growth and improving living standards than the neoliberal model of the past 30 years (Kuttner, 2007).

Supporters of the alternative model will argue that the neoliberal economic model has suppressed wages, spurred growing inequality and vast accumulations of public and private debt. Furthermore, they will argue that baby boomers and their extended families should not now be required to absorb more risk to their retirement security by having to pay for patching-up a failed neoliberal economic regime through accumulation by dispossession transfers to the wealthy and reductions in their Social Security and Medicare benefits. A growing majority of Democratic Party policy makers, the labor unions, and the now large number of progressive think tanks and advocacy organizations will press for fundamental changes in the core characteristics of the U.S. and global economies and use this initiative to recontextualize the debate over the future of the entitlement programs.

The success of this strategy may depend on the articulation of a model substantially different from the kind of relatively centrist Neoliberalism that characterized the economic policies of the Clinton Administration, which included selective deregulation of financial markets, reduced public spending, corporate-oriented trade agreements and serious consideration of partial Social Security privatization (Polin, 2003). The Bush II Administration filled in the neoliberal blueprint by cutting taxes on the wealthy and adding over $4 trillion to the national debt. The recent Wall Street bailout has placed entitlements in greater jeopardy and will almost certainly lead to reductions if neoliberal economic policies remain in place over the next decade.

The 30-year dominance of neoliberal economic policy has been characterized by the decline of the U.S. middle class, slow economic growth, ruinous debt accumulation, and the recent failures in the financial markets. This now widely recognized failure provides an extraordinary opportunity for opponents of Neoliberalism to make the case for rebuilding the role of the public sector in the economy and to extend its capacity well beyond the neoliberal strategy of limiting its role to backstopping Wall Street.

It is difficult to imagine the survival of Social Security and Medicare, the pillars of the U.S. system of retirement security, if the neoliberal policies are continued for the next several years and the resources required to sustain these programs gradually cease to be available. Survival of the entitlements, and the financial markets as well, will depend on the implementation of policies of sustainable growth through renewed regulation, enhanced revenues through increased taxes on higher incomes and wealth accumulations, increased public investments in science and technology, the physical infrastructure, education and training, renewable energy sources and environmental protection, and the implementation of a health care program focused on equitable access and greater efficiency. These initiatives will qualitatively expand the role of the public sector in the economy and increase taxes (revenues) as a percentage of the GDP. We have good reason to believe, however, that this new economic model will generate the levels of long-term economic growth necessary to raise the living standards of workers, ensure the future of retirement security, and maintain the competitive position of the U.S. in the global economy. The history of the U.S. after World War II, and the more recent history of the state-led capitalist economies of Asia and Scandinavia, which have achieved higher average growth levels with higher tax rates over the last 25 years than the U.S. offers compelling evidence that the managed capitalism alternative to Neoliberalism can generate a broader prosperity than the U.S. has experienced for the past three decades (Slemrod & Bakija, 2004).

Proponents of the new model can anticipate aggressive and sustained political resistance to its implementation and even more intensive efforts to curtail the entitlements and privatize the retirement security system. Neoliberalism has failed to improve the economic well-being of most Americans and preserve retirement security by maintaining high levels of equitable growth. Neoliberal policies of deregulation and wealth concentration have also failed to sustain the financial markets which must depend on a massive public sector intervention to avoid a complete collapse.

None of this means, however, that the new model of managed capitalism will replace Neoliberalism without a fierce political struggle over every dimension of the political economy, including financing of the public retirement security system. Neoliberal opponents of the entitlements will likely make a well-financed effort to organize this struggle along generational lines and try to pit the interests of the young against the old and workers against retirees. Intergenerational conflict has been on the neoliberal agenda for over two decades and is usually part of the rationale for Social Security and Medicare cutbacks and privatization. The greater stress on the federal budget generated by the Wall Street bailout will probably intensify the attack on the entitlements under the guise of reducing public debt and achieving greater intergenerational equity (Sawhill & Monea, 2008).

Making retirement security part of a larger campaign to achieve a new economic model of managed capitalism could play a major role in preventing the emergence of an intergenerational division over the Social Security and Medicare programs. These programs benefit a far larger percentage of the population than just retirees. In the absence, however, of a larger debate over alternative economic models, proponents of Neoliberalism might be able to isolate political attention on the affordability of the entitlements and successfully blame them for the systemic failures of the neoliberal model which could help prevent support for the managed capitalism alternative from reaching a political tipping point. In response, opponents of Neoliberalism should make protection of Social Security and Medicare part of a larger campaign for transforming the U.S. economy and achieving a new model of managed capitalism with broad appeal to workers of all ages.

Supporters of a new economic model designed to increase economic growth and make it more equitable should recognize that preservation of current retirement security programs in both the public and private sectors will not be sufficient to ensure the economic security of many future retirees. As noted earlier, Social Security is projected to cover a diminishing percentage of income earned while working due to several factors, including, most critically, increasing out-of-pocket costs for health care. Furthermore, private pensions and retiree health benefits are likely to provide increasingly less protection for future retirees. These trends mean that many future retirees will be less well-off than current retirees, unless major improvements are made in the Social Security and Medicare programs—improvements that should be included in the rationale for a new economic model of managed capitalism.

The currently dominant neoliberal model will not generate enough economic growth and federal revenues to sustain, much less improve, the Social Security and Medicare programs. Improved benefits under these programs then should be considered major justifications for a fundamental change in the governing economic model. Proposed improvements in these programs could include increased Social Security benefits for single women, minorities, and those over age 80, all of whom have disproportionately high poverty or near poverty rates; a cap of $2,000 to $3,000 on beneficiary out-of-pocket spending in the Medicare program, elimination of the prescription drug doughnut hole and the addition of a long-term care benefit in the Medicare program; and the development of a universal portable pension program, based on individual accounts as a supplement to Social Security and subsidized through refundable tax credits.

Even these improvements in current programs, however, may not be enough to support an adequate standard of living in retirement for many in the future and serious consideration should now be given to more far ranging, aggressively anti-neoliberal strategies. One example of such a strategy is Robin Blackburn's (2006) "share levy" proposal, which is a modified version of the Meidner plan originally introduced in Sweden in the 1970s. Under this proposal, corporations would be required to contribute shares to a regionally organized common fund, which would be used to make socially responsible and productivity enhancing investments and generate profits to fund uniform pensions for retirees. The share levy fund would be administered by boards that include ample and competent representation of workers and retirees. This form of "gray capitalism" could become an important part of a larger, anti-neoliberal, post

Keynesian program for a new political economy that protects the interests of workers and retirees and generates a higher rate of sustained growth than Neoliberalism has been able to achieve since the 1970s (Blackburn, 2006).

Blackburn notes that corporations benefit enormously from a variety of social expenditures (education, health care, physical infrastructures) that proponents of Neoliberalism would like for us to forget, from the shift to defined contribution pension plans and the dramatic decline in corporate taxes over the last 30 years and other neoliberal initiatives to shift wealth to the upper class and the costs of retirement to workers. It is now time for them to begin contributing fairly to the overall well-being of the general population in ways that do not raise labor costs and dampen employment or allow increased taxes to be passed on to consumers. Blackburn's share levy proposal runs directly counter to the neoliberal goal of wealth concentration by requiring corporations to give a portion of their profits to funds for secondary pensions and other socially oriented investments which could become signal features of a new model of managed capitalism (Blackburn, 2006, p. 169).

Policy implications of the 2008 elections

The results of the 2008 presidential and congressional elections may have major implications for the future of equitable economic growth and retirement security. The election of Barack Obama and larger Democratic majorities in Congress creates the opportunity for policy changes designed to rollback the most damaging, from the perspective of the middle class and the poor, neoliberal initiatives of the Reagan-Bush II era. A McCain victory and Republican capture of Congress would have probably ensured continuing support for the major Bush II priorities including: low taxes for the wealthy; public bailouts of large financial interests, with little in the way of performance accountability or taxpayer benefits; minimal increases or actual cuts in publicly supported programs, except for the military budget; relatively meager economic stimulus spending; weak, if any, regulatory reform proposals for the financial sector; support for continuing privatization of the Medicare and Medicaid programs and cost-shifting to beneficiaries; a renewed effort to privatize Social Security, which McCain never rejected; and, minimal, if any, efforts to restore the badly eroded private pension system. The economic downturn that began in 2007, which is likely to continue through 2010, if not longer, may have actually strengthened conservative support for these neoliberal policies, even as they deepened the economic crisis as indicated by early Republican opposition to a large economic stimulus package featuring spending rather than more tax cuts.

The Democratic ascendency does not guarantee the end of these neoliberal policies, which may retain enough political support, especially among corporate elites in both the productive and financial sectors and in the media, to force compromises designed to undermine the Keynesian thrust of any economic recovery proposal supported by Obama, the Democratic Congress, and a large majority of the public. Legislative compromises that include major tax cut provisions that significantly limit infrastructure spending and support for greatly stressed state budgets and dilute necessary enhancements of regulatory arrangements in the financial sector are not likely to generate a strong economic recovery, restore trust in financial markets, and confidence in the capacity of the federal government to govern effectively, which will be necessary to achieve health care reform and a stable system of retirement security.

Retirement security fundamentally depends on the ability of Obama and the Democratic Congress to avoid these kinds of legislative compromises and to take full advantage of the current and growing crisis of neoliberal capitalism by constructing a new Deal featuring public investments (health, education, and infrastructure) to shore up the real productive economy, and restore strong economic growth. The real economy has been undermined by neoliberal policies for many years, which has led to stagnant worker incomes, steadily increasing inequality, a 30-year decline in economic growth rates, the accelerating erosion of the private sector retirement security system, and huge increases in public sector debt.

The declining growth rates since the early 1970s reflects the persistent stagnation in the productive economy that is at least in part a result of reduced purchasing power among workers who do not have enough income to buy the products that increasing productivity makes plentiful, and the hoarding of productivity gains by the wealthiest 1 to .01 percent of the population. This unused productive capacity greatly diminishes investment opportunities in the slow growing (stagnant) real economy and increases the appeal of speculative investment in the financial sector, including such high risk financial instruments as collateralized debt obligations (CDOs) based on subprime mortgage loans and credit default swaps (CDSs), an unregulated form of speculative insurance which led to the ruin of the insurance giant AIG. The very notion of "speculative insurance" sums up the outrageous extent to which our financial elites have abused unregulated opportunities to take extreme risks with "other people's" money and turn the entire financial system into a kind of massive pyramid scheme. Much of this money was available to be destroyed through exposure to extreme risk because of the great concentration of wealth among the wealthiest 1 percent or .01 percent (11,000 households whose wealth increased by almost 400 percent since 1975) and the lack of investment opportunities in the stagnant productive sector, except possibly in emerging markets that are now in rapid decline.

The emergence of a neoliberal economy designed to destroy labor unions, suppress wages, polarize wealth, deregulate markets, decrease social expenditures, and increase military spending (military Keynesianism) has had a crippling effect on the productive economy and made financial speculation and financial bubbles the only investment outlet for the great accumulation of wealth at the top of the U.S. class system. This wealth, of course, has been greatly diminished by the ongoing meltdown of the financial sector, which has also greatly dimmed the economic prospects of many ordinary families and individuals who have lost equity in their homes or gone into foreclosure, lost 25 to 50 percent of the value in their retirement accounts and are now, in many cases, losing their jobs (Foster & Magdoff, 2008).

This is the economic landscape inherited by the Obama Administration and Democratic Congress in 2009—a landscape that profoundly threatens the future of retirement security (Blinder, 2009). Most Americans did not benefit from the return to economic growth following the 2001/02 recession, as average annual wages actually fell between 2003 and 2008, and inequality continued to increase. The dizzyingly rapid collapse of the financial sector between the fall of 2007 and September 2008 has led to the loss of over $14 trillion, and possibly several trillion more by 2010, in housing equity and stock market value (Baker & Rosnick, 2008). The unemployment rate may reach 10 percent by 2010, which will cause economic distress, including more foreclosures and bankruptcies, to spread. This economic scenario is likely to further erode the private sector retirement security system as more people lose benefits or experience substantial reductions caused by stock market losses and face increasing dependency on the public retirement security system (i.e., Social Security, Medicare, and Medicaid).

The calamitous collapse of the U.S. and, increasingly, the global financial system since 2007 was actually in the making for almost 25 years. The declining availability of investment opportunities in the real economy, where growth rates have declined for 30 years, led to the frantic and increasingly unregulated, or poorly regulated, search for relatively fast super profits in the financial sector where the share of total U.S. profits grew from 15 percent 30 years ago to over 30 percent in 2006 (Foster & Magdoff, 2008). This huge increase was a result of relatively stagnant growth in the real economy and the big increases in bubble-generated profits in the financial sector, especially from the latter 1990s to 2007. Among the conditions necessary to generate these financial bubbles were the steady erosion in regulatory oversight beginning with the Reagan Administration and continued through the Clinton and Bush II Administrations, and the development and explosive expansion of innovative and largely or wholly unregulated financial instruments, mainly credit derivatives like CDOs, credit swaps, and structured investment vehicles that were designed to facilitate the leveraging of debt and spread risk across multiple parties,. Spreading risk was supposed to dilute the level of risk to which any single party might be exposed but, in fact, actually achieved the opposite by spreading toxic debt through tens of thousands of CDOs containing securitized subprime loans. Many of these risky CDOs received Triple-A ratings from compromised rating agencies like Moody's, which received fees from the firms selling the CDOs (Lewis & Einhorn, 2009).

These financial innovations, which constitute what is now called the shadow (unregulated) banking system, were essentially the products of "the new Wall Street system" that has emerged over the last 25 years for the purpose of using a massive extension of leveraging (debt creation) to generate the huge amounts of borrowed money needed to create asset bubbles (Gowan, 2009). This new system, under the control of just five investment banks led by Goldman Sachs and J.P. Morgan/Chase, was fundamentally designed to create bubbles and then deflate them in a manner that permitted investors (mainly the five big banks) to make huge profits on both sides—from the blowing and bursting of asset bubbles. The subprime mortgage market became the biggest and riskiest bubble due in large measure to the removal of essentially all remaining leverage restrictions by 2004. Henry Paulson, then head of Goldman

Sachs achieved a notable success in this area in 2004 when, as head of Goldman Sachs, he led the Wall Street campaign to get the Securities and Exchange Commission to agree to relax the so-called ‘net capital rule,’ restricting leverage for large investment banks. Henceforth, firms were effectively allowed to decide their own leverage on the basis of their risk models. The result was a rapid rise in the big banks’ leverage ratios. Importantly it enabled them to transfer their capital base to new activities, such as collateralized debt obligations, which subsequently became such a significant element in their trading activities (Gowan, 2009, p. 15). (Activities that led to the huge credit crisis in 2007 and President Bush assigning his Treasury Secretary Henry Paulson the lead role in trying to fix with a massive bailout program—another of the many ironies of the Bush II era.)

Gowan (2009) points out, however, that the still unfolding credit crisis was less a product of the collapse of the housing market and the predatory lending practices that characterized the subprime mortgage market, as important as these factors were, than of the fundamental nature of the new financial system itself and its heedless pursuit of ever greater leveraging through the increasing use of credit derivatives like CDOs and CDSs, which totaled something in excess of $40 trillion by 2008, or almost three times the GDP of the U.S. Most of these CDOs had no market price or pricing mechanism, even though they received Triple-A ratings and were revealed to be extremely risky as the housing mortgage markets began to unravel in late 2006 and 2007. Money market and pension funds, sensing that the mountains of CDOs were or would soon lose much of their perceived value, refused to keep supplying the major Wall Street firms and their shadow banking system spinoffs (hedge funds and private equity funds) with the funds they needed to keep the CDO market from crashing and creating the worst credit crisis since the

Great Depression. This bubble-based operating model of the new Wall Street system and the stagnant real economy were the major sources of the crisis, not the mortgage markets.

This crisis represents the apotheoses of financial dominance in the neoliberal capitalist economy over the last 30 years—a neoliberal economy that failed to maintain post war growth rates, increase worker incomes and asset wealth, or ensure retirement security. Neoliberalism did, however, create much greater economic inequality by facilitating the concentration of enormous wealth, mainly through the new financial system, in the hands of a tiny minority. Neoliberalism fundamentally pumped up the financial sector while the real economy grew slowly or remained stagnant and essentially made debt the coin of the realm. As Gowan (2009) notes:

> . . . the bulk of the American economy, on which growth depends, has been marked by stagnant or even declining incomes amongst the mass of the population and no growth motor from new investment, whether public or private. With the partial exception of ICT investment in the late 90s, GDP growth in the US has not been driven by new investment at all. As is widely recognized, it has come to depend upon the stimulus of consumer demand; yet such household consumption was itself inhibited by stagnant mass incomes. (p. 24)

The problem of stagnant incomes was overcome until 2007 through the supply of increasing levels of consumer credit from the new financial system, which used asset-price bubbles to generate wealth effects among millions of families whose standard of living was increasingly dependent on credit card, can loan, and mortgage debt. The dominance of the dollar enabled the purchase of cheap commodities from abroad (especially China) through the accumulation of huge current account deficits that are rapidly becoming unsustainable in a declining global economy (Gowan, 2009, p. 25)

This debt-based economy of consumer spending and financial speculation fueled the emergence of the new Wall Street system and its dominant role in the U.S. and global economies. This Anglo-American economic model represents the full flowering of Neoliberalism as an unregulated/weakly regulated system of debt generation and management based on Ponzi scheme leveraging strategies designed to blow asset bubbles.

> . . . it was growth today, paid for by hoped-for growth tomorrow. It was not based upon strengthening the means of value-generation in the economies concerned. In short, it was a bluff, buttressed by some creative national accounting practices which exaggerated the extent of the American boom and productivity gains in the US economy. (Gowan, 2009, p. 25)

This bluff was sustained through the generation of unprecedented debt over the past 30 years of neoliberal economic policy. Aggregate debt as a percentage of GDP grew from 163 percent in 1980 to 346 percent in 2007, with household debt increasing from 50 percent of GDP to 100 percent, and financial sector debt increasing from 21 percent of GDP to 116 percent, as leveraging reached historic ratio levels.

As policy makers (Obama and the Congressional Democrats) survey the remains of this collapsed system and begin to develop a new regulatory framework for the financial system and policy initiatives to restore growth in the real economy and economic security for workers and retirees, the failure of Neoliberalism in both the financial and productive sectors must be fully acknowledged and qualitatively different strategies adopted. These strategies will, in effect, provide the foundation for a new economy of managed capitalism that will contain financial risk and support growth in the real economy that spreads the benefits of growth far more equitably than has occurred since the 1960s. The economic well-being of workers and retirees should become the principal criterion for judging the effectiveness of economic policy. Most immediately, this would mean rigorously re-regulating financial markets and implementing a massive and sustained stimulus programs featuring public investments, limited tax cuts and tax credits for middle- and low-income workers, and enhanced Social Security benefits for retirees, many of whom have lost much of the value in their private retirement accounts. According to James Galbraith (2009), we should:

> . . . support the incomes of the elderly, whose nest eggs have been hit hard by the stock market collapse. We can't erase those losses case by case (nor should we), but we can sustain the purchasing power of the group. The best way is to increase Social Security benefits. Useful steps would include boosting the formula for widowed spouses, ensuring a minimum benefit for retirees who worked their whole lives in low-wage jobs, and allowing college students to receive survivors' benefits up until the age of 22. But let's go further and raise benefits across the board, which has not been done for a generation. I'd say raise them 30 percent, and let the federal government make the contributions for five years. This would be good for the elderly, who could retire; good for working-age people, who would replace the retiring; and good for the economy, since people who need money spend it when they get it. (p. 35)

Effective re-regulation of Wall Street may not mean a return to the third-party regulation schemes of the past—schemes that corresponded fairly well to the kind of financial system that emerged during the postwar period. The explosive expansion of the financial system, however, and its migration to the center of U.S. and global economy since the mid-1980s, and the emergence of the federal government as the system's funder of last resort on a massive scale have probably outstripped the capacity of traditional regulatory laws and agencies to regulate financial markets. Responsive regulatory legislation (capital requirements, limits on leveraging, oversight of the shadow banking system, much greater transparency, rigorous compensation rules, etc.) is certainly necessary, but in the absence of effective enforcement capacity (organizational resources and will), new laws will not be sufficient. The excesses of the financial system now threaten to strangle the domestic and global economy in an expanding credit crisis requiring a huge taxpayer bailout. These events call for a public utility model of financial regulation designed to protect the public interests and not just the interests of a tiny financial elite who must be bailed out when their mistakes (or criminal acts) threaten to capsize the entire economy. We need the financial sector, but it does not need to be as massive, unregulated and dominant as it has become since the mid-1980s.

> Thus public ownership of the credit and banking system is rational and, indeed, necessary, along with democratic control. A public-utility model along these lines can, in principle, operate within capitalism. Even now the bulk of the German banking system remains in public hands, through savings banks and *Landesbanken*. The Chinese financial system is overwhelmingly centred on a handful of huge, publicly owned banks and the Chinese government does indeed steer the credit strategies of these banks. (Gowan, 2009, p. 22)

In addition to restoring effective financial regulation, Obama and the Congressional Democrats will need to avoid policy compromises that sacrifice the scope and magnitude of their economic stimulus package in the pursuit of bi-partisan support. A stimulus package weakened by tax cuts, reductions in current programs, including Medicare and Medicaid, but not the military, insufficient increases in new spending will, in all likelihood, fail to end the recession or what may become a true depression and further erode retirement security, which will discredit Obama and his Democratic colleagues as managers of the economy. The neoliberal attack on the pillars of the publicly supported retirement system (Social Security and Medicare) will become even harsher in the face of escalating budget deficits caused in large measure by years of reckless fiscal policy, the Wall Street bailout, and the 2009/2010 stimulus package. The retirement resources of the baby boomers have been very substantially weakened by the long-term trend toward defined contribution private pension plans, the loss of employer health insurance for retirees, the collapse of the housing market and major losses in the stock market (Baker & Rosnick, 2008). These growing threats to the retirement security of future retirees are occurring at the same time that taxpayers are being asked to spend as much as a trillion dollars to cover Wall Street losses caused by the failures of the neoliberal model of unfettered capitalism (deregulation, privatization, and tax cuts for the rich). We can now expect the critics of the current retirement security system to augment their case against the entitlements by arguing that federal revenues are not sufficient to cover the bailout, "necessary" military spending, more spending on education and health care for the young, and maintaining Social Security and Medicare, while keeping taxes low on the wealthy and their investment income. This mix of conservative (neoliberal) and liberal arguments will be used to create an apparent consensus among elite think tanks on the right (Heritage) and from the center (Brookings) in support of reduced entitlement spending even in the face of growing retiree dependency on Social Security and Medicare (Sawhill & Monea, 2008; Kuttner, 2008).

The neoliberal right will try to combine the fear of growing deficits with the claim that the entitlements are the source of the deficit crisis to create a panic over the neo-Keynesian growth of the public sector in the economy. The failure to restore healthy economic growth because of inadequate re-regulation of financial markets, insufficient stimulus spending and compromises that target cuts in current and future entitlement spending, which would help legitimize the neoliberal view of Social Security and Medicare, could restore the eroded credibility of neoliberal economic doctrine and short circuit a return to a neo-Keynesian form of managed capitalism designed to support steady, equitable growth and retirement security.

Shunning unnecessary compromise with neoliberal forces in both parties would clear the path to passage of a large, spending-oriented stimulus package designed to restore economic growth by containing and reducing unemployment, reversing the long-term decline in the U.S. infrastructure and building the foundation for a new energy regime that will reduce the nation’s dependency on oil and begin to reverse global warming—a package that will immediately expand employment opportunities and make the investments in long-term economic growth (infrastructure and clean energy) that the diminished credit markets can provide. Many economists now recognize that the U.S. economy now needs a very large stimulus program, at least $2 trillion more than the Democrats’ proposal of $800 to $900 billion (Godley, Papadimitriou & Zezza, 2008), over two years to contain unemployment and support consumer spending by providing the states with funds to reduce public sector layoffs and cover more of the costs of Medicaid, and fund to cover the cost of COBRA health care insurance for laid-off workers, to subsidize people between 55 and 64 who want to buy into Medicare, expand unemployment coverage and increase benefit levels, increase Pell Grants for college students, declare a temporary suspension of the worker’s share of the Social Security tax, and have the government make up the loss to the Trust Fund—this would give workers an immediate raise of 6.2 percent (Kuttner, 2009).

These initiatives would have an instant effect on the economy and curtail the escalating unemployment rate. The stimulus should also include initiatives to strengthen the economy over the long-term, including direct federal lending to refinance distressed mortgages; and, as necessary, reduce the outstanding principal amount, which would help millions of people keep their homes and put a floor under collapsing housing prices; and funding for infrastructure programs, from traditional outlay on roads, bridges and mass transit to spending on 21st century infrastructure such as retrofitting homes, green energy, universal broadband, and smart-grid electricity systems which would lay the foundation for sustainable long-term prosperity. (Kuttner, 2009)

An effective stimulus that restores strong (3 to 4 percent annual increase) and equitable (fairly shared productivity grains) economic growth is fundamentally necessary for rebuilding retirement security for current and future retirees. Longer term viability of retirement security, however, is also dependent on the development of a national health care system that substantially reduces the fiscal pressure on the Medicare program by containing the growth of health care costs overall. Cost increases have actually been greater in the private insurance sector than in Medicare or Medicaid; but in the absence of a substantial decrease in the overall growth of health care costs over the next several years, Medicare beneficiaries are likely to face increasing out-of-pocket medical expenses, which are already unaffordable for many low- and middle-income beneficiaries and represent at least as great a threat to the economic security of retirees as eroding private pensions.

The return of strong economic growth would help blunt neoliberal attacks on the entitlement programs and create a favorable political and financial environment for progressive initiatives to rebuild retirement security including the following:

- A dual initiative to strengthen the financial foundation of Social Security by adjusting the income cap in the payroll tax, as Obama has called for, and instituting a gradual increase in the payroll tax (i.e., 2 percent over 20 years), and to increase benefits, especially for low-income beneficiaries (Diamond & Orszag, 2002).

- A federally guaranteed and administered, forward-funded secondary pension designed to gradually replace current defined contribution private pensions which have proven to be too risky to be an effective substitute for traditional defined benefit plans (Ghilarducci, 2008).
- An overhaul of the Medicare program, including changes in the 2003 Medicare Modernization Act (MMA) designed to reduce the cost of the Medicare Advantage (MA) program (private managed care); contain prescription drug costs (allow price negotiations); and the implementation of a new Medicare Part E program that would consolidate and impose an annual cap on all out-of-pocket costs (premium, co-payments and deductibles) as recently recommended by Davis, Moon, Cooper and Schoen (2005).
- Finally, a comprehensive program for strong and equitable economic growth should include specific strategies to raise wages which would allow employees to increase their retirement resources through enhanced savings and asset wealth.

These progressive alternatives to the neoliberal model of a fully privatized retirement security system are likely to be the issues around which the politics of aging will unfold over the next several years. We should anticipate fierce and sustained neoliberal resistance to increasing revenues through higher taxes on the wealthy, to a stimulus package large enough to be effective, to preserving and strengthening Social Security, Medicare and Medicaid, which is the largest source of public support for long-term care services; to restructuring the private pension system; to containing military expenditures that are needed for other priorities, like retirement security; and, to changing an aggressively neoconservative foreign policy that depends on high military expenditures. If this resistance is successful, the future of retirement security and the overall

U.S. economy is not likely to be bright; elderly poverty rates could escalate and the standard of living of the general population could decline substantially.

With the election of Obama and the Democratic Party majorities in Congress, however, neoliberal resistance to fundamental changes may well fail and the politics of aging could take a progressive (a new New Deal) course over the next several years, especially if the baby boomers and many of their children recognize the neoliberal threat to their retirement future and create an organized opposition within and outside the Democratic Party. This opposition should be based on two overriding facts. First, neoliberal economic policies have failed to achieve sustained growth, to protect the income and asset values of workers, to maintain retirement security, and to preserve the competitiveness of the U.S. in the global economy. Second, the golden era of U.S capitalism was founded on the emergence of the New Deal during the Depression and WWWII, which greatly expanded the role of the public sector in the economy through fiscal, social, and regulatory policies. Neoliberal failures have created opportunities to pursue 21st century incarnations of these policies and the potential for a new politics of aging based on the restoration of retirement security.

This potential is considerably enhanced by the fact that the failure of neoliberal economic policies has not only diminished the economic and retirement security prospects of working class families, but of a growing number of the middle-class families as well. David Callahan (2008) has noted that:

> . . . the middle-class squeeze is now serious enough that it could mean big changes in U.S. politics. The professional middle class has tended to be liberal on social issues but turned off by populist economic appeals—views that are nearly the reverse of those held by white working-class voters. This has made for persistent tension within the Democratic coalition and partly explains the inability of Democrats to articulate a

> powerful message about economic equity. But what if the professional middle class became seriously disenchanted with America's present form of capitalism? What if the squeeze on this group was so severe and sustained that the same economic appeals that resonate with laid-off factory workers also play well in suburbia? (p. 90)

Callahan (2008) thinks that a serious equity agenda can resonate with both workers and professionals and become the basis for a coalition that could survive the current economic crisis. The new equity agenda, however, must appeal explicitly to working and middle class concerns and interests alike, especially in the areas of health and retirement security, "two acute anxiety points for Americans across nearly all classes" (p. 91).

Callahan (2008) goes on to note that:

> The harder work lies in formulating an economic agenda that goes far enough to fully reconstruct the social contract around work and opportunity. Portable universal pension or asset building accounts would be great, for instance, but not if workers aren't earning enough money to contribute much to these accounts—just like more education and training won't get us very far if the U.S. economy isn't creating enough good jobs for skilled workers. (p. 91)

The new politics of aging will become especially contentious in the debate over the future of Medicare and health care reform, which will likely pit the interests of corporate elites (insurance, finance pharmaceuticals, and the media), and to a lesser extent, professional elites (physicians, high-level administrators) with powerful lobbies against the interests of beneficiaries with considerable voting power, at least potentially. The elites will attempt to prevent any legislation that significantly reduces costs by containing profits and reimbursement levels and imposing broad efficiency measures that could reduce expenditures in high cost/high service use regions of the country (Wennberg, 2008). This resistance may take the form of pushing for higher beneficiary out-of-pocket responsibility, and expanding the role for the private insurance and premium support strategies in Medicare. Part of the rationale for this elite initiative will point to the growing budget deficits, much of which would have been generated by tax cuts for members of the corporate elite, continuing bailouts of the financial and other corporate sectors, and high stimulus spending necessitated by irresponsible and unaccountable decisions by the titans of Wall Street and policy makers in both political parties. Workers and retirees will need to understand exactly what their interests are in this high stakes struggle over the future of Medicare, and eventually the Medicaid long-term care program as well, in order to avoid having to pay for the deficits incurred in bailing out corporate interests and for an increasing share of their Medicare benefits which are already projected, under current law, to take 30 percent plus of retiree income by 2030.

The power of the corporate elites is virtually a given. The essential variable in this high stakes struggle will be the extent to which workers and retirees are able to grasp the significance of the struggle and to give this awareness organized expression through political activity, including participation in campaigns and voting. The Democratic Party is probably the best available vehicle for this activity, but only if the party and its candidates are pressured by public opinion and advocacy organizations, including labor unions, religious organizations, and re-invigorated aging interest groups, to articulate a clear commitment to the interests of retirees and to support legislation that fully reflects this commitment. The Bush Administration's failure to gain much traction on its Social Security privatization initiative in the face of Democratic Party opposition and the strengthening of the party by capturing the White House in 2008 and the Congress in 2006 would indicate that neoliberal attacks on the Medicare program can be defeated.

Conclusion

The economic interests of American workers and retirees have been betrayed by the corporate and political elites which have supported a neoliberal political economy for the last 30 years. Neoliberal policies have undermined wages and retiree benefits, spurred the growth of inequality and are now largely responsible for the collapse of the financial sector and the worst recession in decades. Neoliberal strategies for managing the financial sector led to the wild proliferation of unregulated derivatives, sky high leverage, an absurd surge in subprime mortgages, and a blundering response to the devastating effects of these policies between 2007 and 2009—a response that largely ignored the distress of ordinary people caused by foreclosures and the neoliberal refusal to help prevent them. According to Alan Blinder (2009), the current crisis may have been prevented or at least made far manageable if:

> . . . derivatives were traded on organized exchanges, if leverage were far lower, if subprime lending were smaller and done responsibly, if strong actions to limit foreclosures were taken right away, if Lehman were not allowed to fail, and if the TARP funds were used as directed. (p. 7)

Blinder (2009) also notes:

> For this litany of errors, many people in authority owe millions of Americans an apology. Richard A. Clarke, former national security adviser, set a good example when he told the commission investigating the 9/11 attached that he wanted victims' families "to know why we failed and what I think we need to do to ensure that nothing like that ever happened again." I'm waiting for similar words from our financial leaders, both public and private. (p. 7)

The struggle between supporters and opponents of Neoliberalism over the future of public policy for the elderly is likely to play a major role in shaping the direction of politics for the next several decades. The future of Social Security and Medicare has already been placed in great jeopardy by the emergence of enormous long-term deficits in the federal budget and the possibility of large, continuing increases in military spending necessary to sustain a system of international security based on large and growing U. S. military expenditures.

Neoliberalism, of course, is not limited to an agenda of privatization of public pensions and health care for the elderly. The neoliberal agenda includes the privatization of public programs for all age groups, from education and child care to housing, health care, and employment.

A progressive anti-neoliberal policy agenda based on an expansive program of social investment is more likely to achieve growth and a high quality of life for the vast majority through a comprehensive family support program, a high priority on gender and ethnic equality, and public provisions for old age security. A family support program designed to prevent poverty and featuring extensive investments in early childhood cognitive development can qualitatively reduce levels of educational failure and increase employability and overall productivity. Gender equality has several dimensions; but from a growth and development perspective, programs that help to harmonize child rearing with employment can prevent child poverty and reduce the labor force shortages confronting many developed countries over the next several decades. These growth-oriented social investments can better position countries, including the U.S., to meet the increasing costs of ensuring retirement security and enhance the labor force participation of women through publicly supported caregiving programs for the growing population of frail elderly persons in all developed countries.

Neoliberal proposals to privatize education, health and caregiving activities would greatly increase the economic and psychological burdens on families already short of resources, generate greater inequality, diminish the employability potential of many people, especially minorities and women, restrict longer term productivity growth, and undermine the nation's capacity to meet the income and health care needs of retirees (Schulz & Binstock, 2008; Hacker, 2006). The damaging consequences of neoliberal policies for education, health care and public welfare can already be seen in the U.S. and in countries across the developing world where the accumulation by dispossession policies of privatization, deregulation, and cuts in public spending have occurred in tandem with stagnant or negative growth and declining living standards since 1980 (Polivka & Borrayo, 2002).

The rapidly unfolding and disorienting events of the past year (2008) have left many people feeling as if they are staring into an economic abyss that could qualitatively reduce the standard of living of families for the next several years. This collective sensation has eroded support for the neoliberal economic model that has dominated policy from the Reagan Administration to the George H. Bush Administration and diminished the prospects of the Republican Party since 2005. This does not mean, however, that a more progressive, equitable and rationally managed form of capitalism organized to rebuild the economic security of workers and retirees will emerge from its long liberation to fill the vacuum left by the discrediting of Neoliberalism. The massive bailouts of the financial sector and extensive restructuring (consolidation of banks) could concentrate control of credit in a few huge banks subsidized by a generation of public debt that, in combination with relentless increases in military spending, could necessitate a level of domestic austerity that precludes neo-Keynesian spending on public investments like health care, education, and greater retirement security.

There are several other factors that could complicate the transition to a post-neoliberal political economy and that may diminish the utility of lessons from the New Deal of the 1930s and 1940s and the managed capitalism of the postwar era. First, the contemporary political economy is, in many ways, substantially different from these previous periods. The U.S. manufacturing base has withered through outsourcing since the 1970s, after a century-long period of steady growth, which preceded the Depression and was rapidly reconstructed during WW II. The current recession comes after 30 years of decline in manufacturing, mounting trade deficits, and the growth of a largely low-wage/low-benefit service economy. The erosion of the huge financial sector has occurred at a much faster rate than 80 years ago as financial engineering and information technology have spread toxic assets across the world with alarming speed. Will unemployment spread with similarly greater speed? Secondly, Obama and the Democrats may not have Roosevelt's capacity to deploy Keynesian strategies in the absence of unions gaining in membership and influence in the world's most productive factories, as in the 1930s, or of powerful social movements like those led by Dr. Francis Townsend and Father Charles Coughlin, and inspired by Huey Long, which generated enormous pressure from the left and helped Roosevelt maneuver around corporate opposition on the right.

Finally, the massive military-related spending of the 1940-45 period, which pushed public spending to 70 percent of GDP in 1944 and ended the Depression is now not an option. The Iraq and Afghanistan wars have been expensive and, in substantial measure wasteful, but neither they nor any other conceivable intervention or fantastical new weapons' systems could conceivably reach the spending levels of WWII. Furthermore, contemporary military spending does not generate nearly as many domestic jobs as 70 years ago, in part, because of the extent of outsourcing. In short, large military expenditures have the capacity to reduce spending on domestic programs without providing much of a boost to overall economic growth and job creation, as first became clear when spending on the Vietnam War undermined President Johnson's plans for The Great Society.

According to Mike Davis (2008), these factors have the potential to reduce the Democratic agenda to a merely bare bones health care program that falls far short of a robust universal system of care and a "clean coal" program rather than a new green energy regime. President Obama will also encounter entrenched support in both parties and the media for the continuation of a neoconservative, militarily oriented foreign policy that will leave few resources for new domestic initiatives, especially after accounting for the costs of the bailouts for the financial and, possibly, other sectors. Failure to overcome these barriers to achieving a new 21st century New Deal could lead to an electoral resurgence of neoliberal economic policy and neoconservative foreign policy in 2012 or soon thereafter.

These potential barriers, however, to the successful implementation of a genuinely progressive policy agenda are offset by the widely held view that Neoliberalism is now intellectually and morally spent and that a neo-conservatism foreign policy is unaffordable, anti-ethical to America's interests, and fundamentally incapable of achieving its own agenda—unilateral military domination of the world or at least that part of it that the neoconservatives think is important, which occasionally includes China and Russia. The slow 30-year decline of the middle class, enduringly high poverty levels, and the current economic collapse have created new political realities and opportunities for change, including a new politics of aging anchored in a campaign to restore retirement security.

Furthermore, President Obama and the Democrats can draw on 70 years of economic history in implementing Keynesian, demand-side policies that were still too new to be embraced fully by Roosevelt in the 1930s, when fear of deficits kept spending below levels necessary to reduce unemployment below 15 percent on a sustained basis. President Obama, however, will probably have to take steps that Keynes never anticipated. As John Judis (2009) has noted:

> Keynes did not foresee government deciding which industries to subsidize. Government, he wrote in *The General Theory*, should be concerned with "determining the volume, not the direction, of actual employment. But facing the threat of global warming, finite oil supplies, and a large trade deficit, Obama will have to make decisions about the direction, as well as the volume, of domestic investment. He is going to have to pick winners and losers. Which industries will aid in reducing greenhouse emissions? Which will reduce the country's dependence on oil? And which will help reduce America's trade deficit? Obama won't be able to avoid these kinds of choices. Wittingly or not, he will be putting government in a position to shape private capitalism according to "general social advantage." (p. 22)

By drawing on the lessons of the New Deal and updating the Keynesian strategies of postwar managed capitalism, President Obama and the Congressional leadership have a chance to create a more civil, prosperous, equitable society that is once again prepared to offer essential and effective leadership at a critical moment.

The challenges of the 21st century are enormous, but then so were those of the 1930s and 1940s. Climate change and global economic decline will be very difficult to re verse but so were the scourges of an unprecedented depression and a spreading fascism. We may have ended the reign of Neoliberalism just in time.

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