

Generational Theft Needs to Be Arrested

- Economics
- Budget & Spending

We come from different backgrounds, parties and pursuits but are bound by a common belief in the promise and purpose of America. After all, each of us has been the beneficiary of the choices made—and opportunities created—by previous generations of Americans.

One of us grew up poor in the South Bronx of the 1960s and went on to lead a children's antipoverty program in Harlem. Another grew up in a small town in South Jersey, and went on to be a leading money manager. The third grew up in a small suburb in upstate New York and found his way to serve in the government amid the financial crisis.

One of us is a Democrat; one, an independent; another, a Republican. Yet, together, we recognize several hard truths: Government spending levels are unsustainable. Higher taxes, however advisable or not, fail to come close to solving the problem. Discretionary spending must be reduced but without harming the safety net for our most vulnerable, or sacrificing future growth (e.g., research and education). Defense and homeland security spending should not be immune to reductions. Most consequentially, the growth in spending on entitlement programs—Social Security, Medicaid and Medicare—must be curbed.

These truths are not born of some zeal for austerity or unkindness, but of arithmetic. The growing debt burden threatens to crush the next generation of Americans.

Coming out of the most recent elections, no consensus emerged either to reform the welfare state or to pay for it. And too many politicians appear unwilling to level with Americans about the challenges and choices confronting the United States. The failure to be forthright on fiscal policy is doing grievous harm to the country's long-term growth prospects. And the greatest casualties will be young Americans of all stripes who want—and need—an opportunity to succeed.

Three main infirmities plague Washington and constitute a clear and present danger to the prospects for the next generation.

First, the country's existing entitlement programs are not just unaffordable, they are also profoundly unfair to those who are taking their first steps in search of opportunity. Social Security is one example. According to Social Security actuaries, the generational theft runs deep. Young people now entering the workforce will actually lose 4.2% of their total lifetime wages because of their participation in Social Security. A typical third-grader will get back (in present value terms) only 75 cents for every dollar he contributes to Social Security over his lifetime. Meanwhile, many seniors

with greater means nearing retirement age will pocket a handsome profit. Health-care spending through Medicare represents an even less equitable story.

The government has an obligation, of course, to support needy seniors. But this pension system is ripe for common-sense reforms, including changing eligibility ages and benefit structures for those with greater means, ridding the Social Security disability program of pervasive fraud, and removing disincentives for those who would rather work in their later years.

Powerful, vested interests portray reformers as avowed enemies of seniors. But, the status quo is, in fact, tantamount to saddling school-age children with more debt, weaker economic growth, and fewer opportunities for jobs and advancement.

Second, while many in Washington pay lip service to the long term, few act on it. The nation's debt clock garners far less attention than the "fiscal cliff" clock. Elected officials continue to allow the immediate to trump the important. Washington appears poised to forego fundamental reform at the altar of the expedient, yet again. This could have tragic consequences.

In successive administrations, the country has spent trillions in temporary tax credits and short-term "stimulus" to goose growth by the next election. What do we have to show for this spending surge? Modest growth, declining incomes and a level of national debt that undermine our long-term prospects.

The Federal Reserve's policies reinforce this short-term orientation. To offset weak economic conditions, the Fed's principal policy objectives appear to be twofold: suppress interest rates and raise stock prices. As a result Congress may be missing market signals and failing to see the costs of its spending addiction in time to undertake real reforms. Ultimately, economic fundamentals—not the promises of central banks—will determine the prices of stocks and bonds.

But the deeper failing is one of essential fairness. The benefits of rising stock prices accrue to those who have already amassed wealth at the expense of those who are struggling to save. And failing to deal with runaway spending will burden the country's children with higher interest rates and a debt bomb that will come due in their lifetimes.

Third, too many politicians appear more eager to divide the spoils of electoral victory among their own than to increase the size of the economic pie for all. The grab-bag of special tax favors under the guise of the recent fiscal-cliff deal is only the latest example.

Crony capitalism and corporate welfare aren't just expenses we cannot afford. They are an anathema to economic growth. They deny opportunities to aspiring people and companies who seek to better their lot. They ration opportunity based on things other than merit and hard work. They further ensure that poor children—who already are disadvantaged by failing schools, inadequate health care and little access to necessary resources—will never get the chance to break the cycle of generational poverty through education.

Some individual Americans are surely better off than they were many years ago. The more probing question is whether America is better off. That can only be true if the hopes and aspirations of the next generation are achievable.

The country must find the courage, conviction and compassion to fix what ails it. The opportunity to advance real reform is still possible. But failure to reform the entitlement culture, reaffirm long-run objectives, and re-establish a common purpose will mean a dimming of opportunities for American children today and for future generations. And a great nation will have ceded more than its greatness, but its goodness.

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