The New York Times

June 2, 2013

The Geezers Are All Right

By PAUL KRUGMAN

Last month the Congressional Budget Office released its much-anticipated projections for debt and deficits, and there were cries of lamentation from the deficit scolds who have had so much influence on our policy discourse. The problem, you see, was that the budget office numbers looked, well, O.K.: deficits are falling fast, and the ratio of debt to gross domestic product is projected to remain roughly stable over the next decade. Obviously it would be nice, eventually, to actually reduce debt. But if you've built your career around proclamations of imminent fiscal doom, this definitely wasn't the report you wanted to see.

Still, we can always count on the baby boomers to deliver disaster, can't we? Doesn't the rising tide of retirees mean that Social Security and Medicare are doomed unless we radically change those programs now now now?

Maybe not.

To be fair, the reports of the Social Security and Medicare trustees released Friday do suggest that America's retirement system needs some significant work. The ratio of Americans over 65 to those of working age will rise inexorably over the decades ahead, and this will translate into rising spending on Social Security and Medicare as a share of national income.

But the numbers aren't nearly as overwhelming as you might have imagined, given the usual rhetoric. And if you look under the hood, the data suggest that we can, if we choose, maintain social insurance as we know it with only modest adjustments.

Start with Social Security. The retirement program's trustees do foresee rising spending as the population ages, with total payments rising from 5.1 percent of G.D.P. now to 6.2 percent in 2035, at which point they stabilize. This means, by the way, that all the talk of Social Security going "bankrupt" is nonsense; even if nothing at all is done, the system will be able to pay most of its scheduled benefits as far as the eye can see.

Still, it does look as if there will eventually be a shortfall, and the usual suspects insist that we must move right now to reduce scheduled benefits. But I've never understood the logic of this demand. The risk is that we might, at some point in the future, have to cut benefits; to avoid this risk of future benefit cuts, we are supposed to act pre-emptively by...cutting future benefits. What problem, exactly, are we solving here?

What about Medicare? For years, many people — myself included — have warned that Medicare is a much bigger problem than Social Security, and the latest report from the program's trustees still shows spending rising from 3.6 percent of G.D.P. now to 5.6 percent in 2035. But that's a smaller rise than in previous projections. Why?

The answer is that the long-term upward trend in health care costs — a trend that has affected private insurance as well as Medicare — seems to have flattened out significantly over the past few years. Nobody is quite sure why, but there are indications that some of the cost-reducing measures contained in the Affordable Care Act, a k a Obamacare, are actually starting to "bend the curve," just as they were supposed to. And because there are a number of cost-reducing measures in the law that have not yet kicked in, there's every reason to believe that this favorable trend will continue.

Furthermore, there's plenty of room for more savings, if only because recent research confirms that Americans pay far more for health procedures than citizens of other advanced countries pay; that the price premium can and should be brought down, and when it is, Medicare's financial outlook will improve further.

So what are we looking at here? The latest projections show the combined cost of Social Security and Medicare rising by a bit more than 3 percent of G.D.P. between now and 2035, and that number could easily come down with more effort on the health care front. Now, 3 percent of G.D.P. is a big number, but it's not an economy-crushing number. The United States could, for example, close that gap entirely through tax increases, with no reduction in benefits at all, and still have one of the lowest overall tax rates in the advanced world.

But haven't all the great and the good been telling us that Social Security and Medicare as we know them are unsustainable, that they must be totally revamped — and made much less generous? Why yes, they have; they've also been telling us that we must slash spending right away or we'll face a Greek-style fiscal crisis. They were wrong about that, and they're wrong about the longer run, too.

The truth is that the long-term outlook for Social Security and Medicare, while not great, actually isn't all that bad. It's time to stop obsessing about how we'll pay benefits to retirees in 2035 and focus instead on how we're going to provide jobs to unemployed Americans in the here and now.