

FUTUREtakes

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Futurist Book Group Discussion

Who Will Pay?

By Peter S. Heller

International Monetary Fund, ISBN 1-58906-223-X

Synopsis of the April 2005 Futurist Book Group Meeting; summarized by Ken Harris

On April 6, 2005, The Futurist Book Group discussed ***Who Will Pay?: Coping with Aging Societies, Climate Change and Other Long-Term Fiscal Challenges***. Readers of *Future Takes* will find this book a tough, but nevertheless important, read. It is tough reading because it is written by a professional economist primarily for other economists specializing in the arcana of government budgeting and taxation. Heller is Deputy Director of the International Monetary Fund's Fiscal Affairs Department. It is important reading because most of the book is devoted to the merits of various fiscal policy strategies for coping with long-term challenges that are mostly familiar to World Future Society members. So the reader willing to tackle a book that could be required reading in a graduate level political economy course will be able to evaluate legislative proposals for dealing with those long-term challenges.

Chapter 2 discusses the long-term challenges, which Heller calls "transformative issues in the 21st century", that require new fiscal strategies. First and foremost of these is *demographic change*. Demographic change, which is occurring in developed countries and which will emerge in developing countries, is a sharp increase in the elderly and an even greater increase in the very elderly, coupled with a decline in the proportion of the very young and the coming stabilization of world population size. Heller sets the stage for much of the rest of the book with two assertions. The first is that how demographic change impacts a country's long-term fiscal outlook depends very much on characteristics of its social and demographic variables and on a country's starting fiscal position. The second is that for most industrial countries population aging will require significantly higher future tax burdens or policies to significantly limit future spending.

Although chapter 2 discusses other long-term challenges – global climate change, globalization, urbanization, shrinking amounts of agricultural land, rapid technological change, HIV/AIDS, and global political tension and terrorism – the balance of the book mostly concerns strategies for coping with the consequences of demographic change for national social insurance systems. Indeed, the reader wonders if the book would have been written at all if the solvency of industrial country public pension systems were assured. Heller makes two interesting observations about the fiscal impacts of climate change. One is that climate change is likely to increase pressure on governments to provide subsidies for adaptation to

climate change (e.g., moving infrastructure away from endangered coastlines), and the other is that global climate change is likely to cause pressure on governments to provide reinsurance (i.e., insurance for insurers) against losses caused by extreme weather events. Globalization is seen as a limit on a country's policy options because of the potential for moving economic activity from high-tax to low-tax countries. Heller sees technological change as a long-term fiscal challenge because it is likely to increase the human life span and thereby increase the cost of social insurance and also because as a result of increasingly certain knowledge of a person's genetics, governments might be forced to assume health insurance risks now borne by private insurers.

Heller says that more long-term fiscal policy is needed because government involvement in the economy is greater today than formerly, society's understanding of the world is greater than it used to be, global economic activity has far more impact on the environment than in the past, and policy makers are both dealing with the lack of foresight of past policy makers and formulating policy in the context of larger uncertainties. He suggests that nations can adopt any of three fiscal policy stances for dealing with the long-term challenges. He favors beginning to deal with the challenges now despite great uncertainties to assure fiscal stability. Another possibility is to assume that economic growth coupled with higher tax rates later will provide the necessary means. Heller's argument against the second approach is that future generations may be just as unwilling to accept much higher marginal tax rates as we are, even though they will have greater ability to pay. Finally, nations can simply ignore the challenges and hope for the best on the grounds of the great uncertainties in all budgetary forecasts. Heller opposes this approach because the long-term issues are real and threaten future welfare.

The author opens the door to futurists' input into fiscal policy debates with a short paragraph on page 83, a paragraph that praises the potential contribution of futures studies to those debates and long discussions of the inadequacy of traditional econometric modeling for long-term fiscal policy. Of futures studies, he says, "Such studies, which are carried out with much interdisciplinary input, can provide a useful forum for thinking about issues that may not yet be on the screens of fiscal economists, let alone budget analysts." He also discusses new approaches to economic modeling, which could use the results of futures studies as input. Generational accounting is used to assure equality of fiscal burdens between present and future generations. Stochastic forecasting seeks to assess the probabilities of alternative future scenarios, and overlapping-generation, multi-country general equilibrium modeling examines the ramifications of an aging world population for living standards wages, asset prices, and interest rates in a global framework.

Also of interest to *Future Takes* readers are the discussions of what countries are actually doing to develop long-term fiscal policies. For example, New Zealand has established a Superannuation Fund, which partly pre-funds its public pensions, and Australia has instituted a Charter of Budget Honesty, which requires governments to present a medium term fiscal strategy with each budget. The European Union has instituted surveillance of the budgets of its member countries.

American readers will be left with the impression that none of the approaches tried so far is ideal, but that the US is behind other developed countries in its thinking about and implementing long-term fiscal policy. However, Congress, the President and concerned citizens could find much in the book to help them do so.