Letter from America -

Star Wars and the Wrinklies

In his latest 'Letter from America', Angus Deaton of Princeton University, takes a look at the tensions created in public spending by President George W Bush's election promises, and in particular at the difficulty of providing adequate social security for the elderly at the same time as pursuing the 'Star Wars' project.

AUTUMN IS tax rebate season, at least the autumn of 2001. Those of us who are sufficiently well-heeled to have paid enough tax are about to receive our rebate cheques, the first instalment of a multi-year tax cut. We have already received a letter from the Internal Revenue Service, telling us to expect it, and prominently featuring President Bush as our benefactor. Interestingly, the dates on which the cheques are being mailed is set on a quasi-random basis, tied to the digits of social security numbers, providing an opportunity for consumption gurus to study the effects. Meanwhile, as the economy slows, and the tax rebate works its effects, the long-anticipated chickens are coming home to roost. The huge federal surplus of only a few months ago, stretching out as far as the eye can see, has all but vanished, leaving only the surplus from Social Security which, in the US, is included in the current Federal accounts. But the tax cuts were only one of President Bush's election promises; among the others were increased spending on the military, particularly the construction of a missile defence ('Star Wars') system, the preservation of Social Security, and the provision of prescription drug benefits for the elderly. (The last is a bigger item than it might seem, given that drugs are becoming a relatively more important item in health care, and because that trend is likely to accelerate in the future, partly for technological reasons, and partly because of the effects of providing the pharmaceutical manufacturers with the unlimited money machine that prescription drug benefits might become). But the immediate clash is between the military and the elderly. Secretary of Defence Rumsfeld, recommissioned from the museum of cold warriors, is determined both to begin construction of the missile shield, and to expand other areas of military expenditure. His budget request for the appropriations season later in the autumn can only be financed at the expense of funds that are otherwise earmarked for social security. Laying down investments to fund the forthcoming retirement of the baby-boomers is surely a good idea, but it might be hard for the retirees to consume the yields from the missile shield, whatever those might be. My colleague Paul Krugman has sardonically proposed that the problem should be solved by consolidating the Pentagon with pensions, thus presumably creating a new catchall 'Department of Security'.

There is also activity on the Social Security front itself. President Bush has set up a high-level bipartisan commission to make recommendations for reform, co-chaired by ex-Senator Daniel Patrick Moynihan and CEO of AOL Time Warner Richard Parsons. Its members, including economists John Cogan, Estelle James, Olivia Mitchell, and Thomas Saving, are picked from those known to support another campaign pledge, the creation of Personal Retirement Accounts. (Cogan and Saving are publicly-declared Republicans, James and Mitchell Democrats.) The commission is still early in its deliberations, but it is becoming increasingly clear that, while it has a mandate to create PRAs, it has no mandate to enforce the pain involved in funding those who have been promised benefits, but have no one to pay for them. The political convulsions of trying to square the circle still lie ahead of us, and will be immeasurably more painful in the absence of a budget surplus.

Meanwhile, behaviour is changing in ways that might make it easier to make reforms, at least in the long run. One helpful adjustment for Social Security would be to increase further the retirement age so that the continuing increase in life expectancy is shared between work and retirement. The proposal is generally opposed by the unions, many of whose members do not think of work as a positive part of their lives, and who regard retirement in their 60s as an important part of the promise of Social Security. Over the whole population, Americans, like Europeans, have seen a prolonged trend to earlier retirement. But there are signs that things are changing, and that the trend has recently slowed, if not actually stopped.

Closer to home, retirement in American academia provides a preview of the future. When the baby-boom generation started going to college in the late sixties, a generation of professors was hired to teach them, and they are currently passing through the transition from work to retirement, well ahead of the baby-boomers themselves. When Congress passed the Age Discrimination Act in 1986, outlawing compulsory retirement, colleges and universities were granted an exemption allowing them to retain compulsory retirement at 70 until 1994. This exemption was based on the argument that compulsory retirement was necessary to make space for young faculty, especially women and minorities. Based in part on studies that showed that the removal of compulsory retirement would have little effect on actual retirements-the last thing that a professor wants to do is to go on teaching when there is no need-the exemption was allowed to expire. But it turns out that the studies were wrong, and that college professors are staying on in large numbers.

A recent paper by Orley Ashenfelter and David Card shows that before the change, essentially all professors reaching their

70th birthdays retired while, after it, only 30 per cent did so. As a result, while only ten per cent of 70 year-old faculty would still be at work at 72 (there were some states in which mandatory retirement was always prohibited), now about a half do so. The effects are muted by the fact that three-quarters of working sixty-year olds retire by age 70 in any case, but the effects are still substantial. One friend in a relatively passive university was stunned to discover that the chair of his tenure review committee was someone he had long supposed to have not only departed the university, but also the planet. At less passive universities, administrations have actively tried to promote the retirement of older faculty, with flexible part-time bridging arrangements, and some supplementation of pension funds for those whose salaries (or investment decisions) have left them unable to depart in comfort. Ashenfelter and Card find that professors in private research universities are a good deal less likely to retire than those in institutions where teaching is relatively more important, as are those with higher salaries or lower pension wealth. Interestingly, a high salary relative to others in your own institution discourages retirement, even conditional on wealth and absolute salary; power and status are fun, and vanish at retirement. Presumably because of lack of variation across their sample, they report no effect of missile defence on the probability of retirement.

Academic assessors - Government Economic Service

The Civil Service Selection Board would like to recruit a number of academic economists to serve on selection boards for the Government Economic Service. The Boards are held in February/March, July and October. An assessor would normally be asked to serve for 4-6 days following initial training. The current fee is £225 per day, plus travelling and overnight expenses. The main role of the academic assessor is to advise on candidates' capabilities in economics - on how much they have benefited from their degree course, on their understanding of economic concepts and their ability to apply them.

Those interested in being considered for appointment as an assessor, or who would like more information, should contact Anne Cooper at the Economist Group Management Unit, HM Treasury, Parliament Street, London SW1P 3AG.

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More on ELSSS

ELSSS is the ELectronic Society for Social Scientists, established by the initiative of Manfredi la Manna at St Andrew's University. The project promotes the electronic publication of journals under the control of the academics who contribute so much to them. A full description of the project appears in Newsletter no. 112 *(January 2001). This is a brief update.*

Thanks to support from the Royal Economic Society, ELSSS is moving on to its next phase - designing and implementing the ELSSS Publishing Template (EPT), the first state-of-the-art software that integrates all the tasks involved in editing, producing, and distributing economics journals that are truly innovative in the use of the Web (specialised technical staff is being hired now to develop the EPT).

We are also reasonably confident that additional funding will be forthcoming shortly that will enable ELSSS to implement its principle of free access to its journals for all researchers and students in developing and transition economies.

ELSSS will also be collaborating closely with top University libraries to ensure that its publications meet the most stringent tests of library- and academic-friendliness (as well as various technical standards).

I am very grateful for your support so far, but would like to call on you to spread the word about the ELSSS initiative as widely as possible. If anything, the recent merger between Elsevier and Harcourt (including Academic Press) makes the success of initiatives such as ELSSS even more necessary to restore principles of fair publishing and efficiency in the journals market.

If you have any queries about ELSSS or wish to know more about the EPT, please get in touch with Manfredi la Manna at St Andrew's University. Email: mlm@elsss.org.uk

Passage(s) from India

We are delighted to announce that the *Newsletter* will shortly take another step towards enlarging the range of its international contributions. Starting with next April's issue, Professor Kanchan Chopra of the Institute of Economic Growth, University of Delhi, will be making a regular contribution to add to those from Angus Deaton (USA), Ray Rees (Germany) and Alan Kirman (France).