Unsustainable Retirement Benefits

Jeffrey A. Miron *is senior lecturer and director of undergraduate studies in economics at Harvard University and senior fellow at the Cato Institute. He blogs at jeffreymiron.com and is the author of "Libertarianism, from A to Z."*

The debt crisis initiated by Greece's near default has subsided for the moment because of a trillion dollar bailout package from the European Union and the International Monetary Fund.

Tax increases will not fix things; only major cutbacks in entitlements can avoid fiscal collapse.

This is only a temporary respite, however; debt crises will recur soon, in more virulent fashion, and they will affect not just Greece and the other less economically robust countries of Europe but the United States, the rest of Europe, and high-income countries like Japan.

The fundamental problems are the interactions between demographics, technological progress in medicine, and entitlement programs.

The demographic "problem" is that life expectancy is increasing in rich countries while birth rates are low. So the fraction of the population receiving retirement benefits and subsidized health care is growing relative to the fraction that is paying taxes to support these benefits.

The technological "problem" is that medical innovation continues apace, but new medicines, devices, and procedures are expensive. So if policy provides state-of-the-art care to everyone at taxpayer expense, government health expenditure will grow without bound.

The retirement and health policies in rich countries are thus not sustainable over the long term, making debt crises inevitable.

Tax increases will not fix things, moreover, because they will mainly generate evasion and retard economic growth. Only major cutbacks in entitlements can avoid fiscal collapse.