
Bernanke Cites Fiscal Impact of Aging

By Editor Test *Wed, Jun 16, 2010*

"Among the primary forces putting upward pressure on the deficit is the aging of the U.S. population," the Fed chairman said.

Federal Reserve Board Chairman Ben Bernanke addressed the House Committee on the Budget on June 9 regarding economic and financial conditions and the federal budget. Despite improvements in the past year, he said, the long-term outlook is clouded by the aging of the Baby Boom generation. Here's an excerpt from Bernanke's remarks:

Our nation's fiscal position has deteriorated appreciably since the onset of the financial crisis and the recession. The exceptional increase in the deficit has in large part reflected the effects of the weak economy on tax revenues and spending, along with the necessary policy actions taken to ease the recession and steady financial markets. As the economy and financial markets continue to recover, and as the actions taken to provide economic stimulus and promote financial stability are phased out, the budget deficit should narrow over the next few years.

Even after economic and financial conditions have returned to normal, however, in the absence of further policy actions, the federal budget appears to be on an unsustainable path. A variety of projections that extrapolate current policies and make plausible assumptions about the future evolution of the economy show a structural budget gap that is both large relative to the size of the economy and increasing over time.

Among the primary forces putting upward pressure on the deficit is the aging of the U.S. population, as the number of persons expected to be working and paying taxes into various programs is rising more slowly than the number of persons projected to receive benefits.

Notably, this year about five individuals are between the ages of 20 and 64 for each person aged 65 or older. By the time most of the baby boomers have retired in 2030, this ratio is projected to have declined to around 3. In addition, government expenditures on health care for both retirees and non-retirees have continued to rise rapidly as increases in the costs of care have exceeded increases in incomes.

To avoid sharp, disruptive shifts in spending programs and tax policies in the future, and to retain the confidence of the public and the markets, we should be planning now how we will meet these looming budgetary challenges.

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