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Good afternoon, Mr. Chairman, Ranking Member Heitkamp, and members of the subcommittee:

It is an honor to be invited to testify before this subcommittee and its distinguished members. Moreover, it is a privilege to testify alongside former-Senator Kent Conrad. I congratulate the subcommittee on its interest in creating a sustainable and viable retirement system for the 21st century.

My testimony today is divided into three parts. In the first, I look at the history of federal policy with respect to the economic security of the American people, how that policy changed in response to changing economic conditions, and how our current set of retirement programs and policies emerged from these changes. In the second section, I draw the subcommittee’s attention to the ways in which the economic changes our country is currently undergoing are deep enough and pervasive enough to require fresh thinking about economic and retirement policy. Finally, I offer some suggestions that I hope will assist the subcommittee’s distinguished members as they work to craft novel retirement security policies for an approaching economic order while preserving programs like Social Security that remain essential to the economic security of older Americans. In a time of transition like ours, wise government policy should promote innovation and flexibility.

The American Dream & Government

Many believe that the federal government’s promotion of the economic security of the American middle class is a relatively recent development, dating back to Franklin Roosevelt and the New Deal. This is far from the truth. From the revolutionary period to the present day, American presidents and congresses have worked to develop policies and laws that promote the American Dream – to help the American people build dignified and secure lives through hard work. Our understanding of the American Dream has changed over the centuries, and successive generations have changed the methods by which they seek to promote the common welfare, but the prosperity and the security of the American middle class has remained at the center of national policy from the time of George Washington into the 21st century.

For most of our history, the majority of the American people earned their living in agriculture. In the 18th century, farmers comprised approximately 90 percent of the American labor force. Only
in the 20th century did the percentage of agricultural workers fall well below 50 percent of the labor force. For both American citizens and the immigrants drawn to our shores, the American Dream at this time meant a freehold family farm; elected officials understood that the opportunity to own a farm was what constituents most wanted, and they made it their business to ensure that federal policies supported that goal.

Politicians also understood that the independence and security of family farming was the foundation of the American political system. Political theorists like Thomas Jefferson believed that independent free farmers made the American democratic system possible. Freed from the servile dependency that characterized so much of peasant agriculture in Europe, and trained in the habits of responsibility and hard work by the requirements of property owning, American farmers could be safely entrusted with the choice of elected officials. Federal support for the independence and prosperity of farmers was not just in the country’s economic interest; such support strengthened the foundations of American society in line with Jefferson’s belief that “Agriculture...is our wisest pursuit, because it will in the end contribute most to real wealth, good morals, and happiness.”

Indeed, the Land Ordinance of 1785 and the Northwest Ordinance of 1787, both of which were adopted by Congress before the Constitution was signed, already envisioned a future of independent, yeoman farmers in early America. These ordinances helped create a system that organized the sale of federal land west of the Appalachians to private citizens, and remain a basis of the Public Land Survey System and the Bureau of Land Management that we know today.

The federal government continued to promote the establishment of the family farm throughout the 19th century with a full range of economic, diplomatic, and even military policies. President Jefferson’s Louisiana Purchase opened up over 800,000 square miles of land for Americans to settle west of the Mississippi River. Likewise, the 1862 Homestead Act gave away millions of acres of land to settlers who were willing to brave the treacherous westward journey and settle in the interior.1 The early diplomatic emphasis on gaining free access to the Port of New Orleans for western farmers, like the later promotion of railroads to open up the vast western territories, intended to ensure that farmers in the remote American interior were able to sell their goods on world markets. The establishment of land grant colleges at the end of the 19th century sought to both train young farmers and to conduct important research into new farming methods. Taken together, these policies, among others, formed what might be called the “Green Model” – a coordinated government effort to provide Americans, who lacked opportunities to own large

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1 It is important to note that, although the Homestead Act essentially provided free land to settlers, the westward journey inflicted heavy physical, emotional, and fiscal costs on settlers. It would be incorrect to view the Homestead Act as a handout.
tracks of farmland on the coast, with the ability to seize the 19th century American Dream if they moved to the interior.

By promoting land ownership at low cost and encouraging agricultural education, the Green Model sought to deliver for Americans the unique financial and societal security that a family farm could provide. Besides the revenue and sustenance from working the land, family farming helped Americans accumulate wealth. Additionally, family farms provided for retirement. Grown children could continue tending the land while taking care of their elderly parents, or the family farm could be rented or sold, providing an income for farmers who could no longer work.

The security provided by the family farm began to erode in the late 19th century. As more settlers took advantage of Green Model land policies, the remaining unsettled land became ever more marginal. At the same time, a more competitive, large-scale, and capital-intensive farming model emerged, which gradually made family farming economically obsolete. As a result, the share of farmers in the labor force declined from approximately 64 percent in 1850 to 27 percent in 1920.

As the American economy shifted away from American agriculture and toward mass production, Americans experienced growing inequality and uncertainty between 1865 and 1900. Following the Civil War, portions of American society clung to the “Green Model” way of life even as the rural economy fell behind the manufacturing economy of the great cities.

Farmers lobbied for federal assistance to achieve ‘parity’ with urban workers, but the relative decline of the agricultural economy continued. While pro-farm policies aimed to preserve Jefferson’s idyllic vision of a nation of yeoman farmers, they were no match for larger economic trends that made this vision impossible to attain.² It became increasingly clear that the Green Model had lost relevance, but, at the same time, the dynamics of the new economy were not well understood and its full wealth creating potential had not yet been realized.

As the twentieth century witnessed a clear departure from the agricultural era to the industrial era, a new version of the American Dream appeared and a corresponding federal policy model began to take shape. Teddy Roosevelt capitalized on populist calls for reform and ushered in an era of progressivism aimed at leveling the playing field between working Americans and the plutocratic class of robber barons that emerged during the preceding Gilded Age. Franklin Roosevelt’s New Deal policies further advanced the evolution of a new system tailored to the 20th century economy.

² It is worth noting that a disproportionate number of policies seek to aid American farmers today despite the fact that less than 2 percent of the American labor force works in agriculture. One can argue that these policies harken back to Jefferson’s vision of America and the Green Model.
The policies of the Roosevelt cousins advanced the economic transition from agriculture to industry. By 1950, both blue-collar and white-collar workers found themselves in stable, lifetime jobs in an industrial economy. Within this new economy, high school graduates were essentially guaranteed lifetime employment in a job that, at a minimum, provided a comfortable, lower middle-class lifestyle. Likewise, college graduates could expect an equally secure future with an even greater standard of living.

The new economy transformed the American Dream. Americans no longer dreamed of owning a family farm, rather they dreamed of owning a suburban “homestead” accompanied by a consumer lifestyle. Within this context, the United States government created a novel policy system during the 1950s and 1960s – a novel policy system sometimes called the “Blue Model.” New transportation measures, like the Federal Aid Highway Act of 1956, aimed to link cities and employment centers with cheap, suburban housing, so that geography would not prevent Americans from achieving the new American Dream. Likewise, thirty-year mortgages with low interest rates allowed lower- and middle-class Americans to own suburban homes and accumulate wealth.

The United States government demonstrated its commitment to promoting opportunities for working Americans. While Blue Model policies vastly differed from those of the Green Model, both models aimed at the same goal – to provide as many Americans as possible with the opportunity to realize the American Dream in accordance with the economic and societal conditions of the time. Neither model sought to accomplish this goal through ‘handouts’ or guaranteed outcomes. Rather, they provided Americans with the ability to accumulate wealth through hard work.

Sadly, both the Green Model and the Blue Model developed policies to the exclusion or even the detriment of American minorities and particularly African-Americans. American slavery and the share-cropping era under Jim Crow meant that free black farmers were virtually absent from the independent yeoman-farmer vision of Jefferson and his 19th century successors. In the 20th century, red lining prevented many African-Americans from attaining the financial security and independence of home ownership, while New Deal programs often excluded domestic workers, wait-staff and farm-hands – occupations that were disproportionately held by minorities or women. Nonetheless, for a large majority of Americans, these policies contributed to the enormous growth of economic prosperity of 19th and 20th century America.

Like the Green Model, the Blue Model began to fail over time. As foreign manufacturers recovered from the devastation of World War II, German and Japanese companies challenged complacent American firms.
In this new and often more challenging environment, companies had to become more flexible. Industry became more competitive, private-sector managers shed bureaucratic habits of thought, and defining characteristics of the economy, like lifetime employment and defined benefit pensions, began to disappear. Additionally, the combination of low wage competition from the developing world and automation in advanced country manufacturing began to cut into manufacturing employment in the United States.

An Economic Crossroads

Today’s economy is in the midst of a transformation, as challenging and far-reaching as the shift from the agricultural economy of the 19th century to the industrial economy of the 20th. Old jobs and old industries are disappearing, and new ones are beginning to emerge. The percentage of nonfarm workers in manufacturing has declined from a World War II-high of approximately 38 percent to approximately 8.6 percent in 2016. Many clerical jobs have also disappeared.

New technology and competition also have pushed out, and will continue to push out, many legacy 20th century employers and the jobs and job security they provide. For example, nearly 88 percent of the employers featured on the 1955 Fortune 500 list did not make the 2014 Fortune 500 list. The rise and fall of companies like Blockbuster highlight the pace and intensity of change in the 21st century economy.

In addition to the decline of prototypical Blue Model companies and associated jobs, the traits that define jobs today vary significantly from the traits that defined mid-20th century jobs. Notably, unlike in post-World War II America, workers today are no longer guaranteed long careers with a single employer or within a single industry, nor do many of them want to be confined by a lifetime job. Indeed, the percentage of workers who have been employed by employers for twenty years or more has decreased over time.

Workers today, especially millennial workers, are more likely to “job hop” than past generations. For example, according to the employment-based, social networking website LinkedIn, “the number of companies people worked for in the five years after they graduated [from college] nearly doubled” from 1.6 jobs in 1986 to 2.85 jobs in 2010. Polling data also has shown that millennials view job hopping more favorably than other generations. For example, Gallup found that 60 percent of millennials are open to a new job opportunity (as compared to 45 percent of non-millennials) and that millennials are the “least engaged generation in the workplace.”

The advent of the technologically-facilitated gig economy also has added to the high level of “churn” in the workplace today. The McKinsey Global Institute estimates that between 20 and
30 percent of working-age Americans currently participate in the gig economy. As apps and websites like Uber, Lyft, Airbnb, TaskRabbit, Ebay, and Etsy have become commonplace in our society, there has been a growing acceptance of gig jobs. Indeed, out of the 68 million independent workers in the United States, McKinsey estimates that 72 percent of them chose to be independent workers by choice. As technology continues to engrain gig work into the ethos of American workers—especially younger workers—I believe that gig work will contribute to an increased restlessness in the future workplace and become a defining characteristic of the information era.

The structural employment changes that have taken place in the information era have coincided with important societal changes. Americans have a dramatically different concept of retirement than previous generations. American living standards and life expectancy have increased. Now, Americans need enough retirement income to provide a potentially decades-long nest egg that will facilitate an active lifestyle defined by travel and leisure whereas previous generations only needed enough retirement income to suffer through a few years of ill health.

The conceptual change of retirement has come at a time when Americans are spending more time in school than past generations, thereby placing a greater burden on Americans to earn enough income during their working years to fund both their children’s education and their increasingly long retirement. The increase in average American life expectancy from 61 years old in 1935 to 78 years old today without any substantial change to Social Security eligibility requirements has further increased this burden. In essence, Americans, today, are burning both ends of the retirement candle.

The combination of these societal changes with the economic conditions of the information era leads the United States government to a fork in the road. On the one hand, if the government wants to continue down the path of the Blue Model, it will need to rely on unsustainable income transfers to fund an outdated policy model meant for 1950s and 1960s America. Taking this route would ignore nearly 250 years of historical precedent, in which the government periodically reconfigured its policy model.

The second, more preferable route entails the government abandoning many of the “Blue Model” policies in a controlled fashion. A re-imagined vision for retirement would allow younger and future generations of Americans to have the same opportunity to accumulate wealth as their parents and grandparents. The government must also uphold its responsibilities for Americans who will not reap the full benefits of a new retirement savings system during this transition by decreasing the current costs of retirement.
A New Vision for Retirement

Today, we are caught between an old policy system that is getting less effective and a new one that is still developing. This is true of the economy and society at large, and this situation has placed the retirement system, along with much else, under stress. To put it simply: Our three-legged retirement system—public savings (i.e. Social Security), employer-provided retirement plans (e.g. pensions), and private savings and investments—is failing Americans.

Indeed, Social Security is facing numerous solvency and structural issues, and it was never designed to be the final answer on retirement. Meanwhile, the private sector has abandoned the once-prominent defined-benefit pensions of the past. Of the 58 percent of workers with access to employer-based retirement plans, fewer than half of those workers participate. At the same time, only 10 percent of workers contribute to private savings plans (e.g. IRAs, Roth IRAs, etc.), which were meant to help augment employer-provided retirement plans and Social Security.

As a result, we now face a retirement problem that is both serious and complex. Our existing system is coming under increased strain even as it serves fewer people well. More and more Americans are approaching retirement age without having the savings needed for the kind of retirement they want. Moreover, the millennial generation is currently set on a dangerous course that would make this generation even less well prepared for retirement than their parents and grandparents.

Addressing these problems requires the following steps:

- Strengthening Social Security;
- Regulating, strengthening, and insuring state and local public employer plans;
- Creating a retirement system that works better for younger workers; and,
- Addressing the problems of the ‘gap generations’ who will be facing retirement in the gap between the old system and the new.

My testimony today is confined to some thoughts about the last two topics. First, I will begin with some thoughts on the design of a system that will work for the youngest generation. Then, I will offer some ideas about what can be done for older workers and the retirement issues they face.

The employer-based retirement plans predominating today are not going to be compatible with the emerging 21st century economy. While the private market offers a variety of plans, these plans often do not contain the same elements that encouraged workers to save in employer-based plans. We therefore should not assume that individual retirement savings plans can plug the
current and future retirement savings gap.

What’s more, our current retirement savings system hurts small businesses and independent workers. These businesses and workers often do not have the time or resources needed to scour the marketplace to find the savings plans best suited to their needs. This has created a perverse economic reality, in which saving for retirement has become a perceived benefit of working for a large corporation that is less attainable for small businesses and the independently employed.

In order to remedy this situation, the government must put forward a policy system to fit the time. As was the case during the transition from the Green Model to the Blue Model, our new system will differ significantly from the existing one. Just as policy made at the end of the 19th century could not fully account for the needs of the 20th century economy, our new policy model will have to adapt to the profound but unpredictable changes that are likely in the coming century.

Given this background, I believe that we need to depart from the status quo and propose a bold, fundamental reform; namely, to begin shifting the tax collection onus and the retirement savings apparatus from employers to private-sector financial institutions. At the same time, we need to blend retirement savings with other forms of savings, so that Americans have multiple, clear-cut avenues toward wealth accumulation in the information era. The creation of a flexible and multifaceted retirement savings system that better aligns with our current and near-term economic conditions and can adapt to the unknown economic conditions of the future will be critical to the 21st century success of the United States.

Specifically, we should adopt a system in which every American citizen and green card holder has the ability to open an account known as an “American Mobility Account” (AMA). These ‘one-stop-shop’ accounts would be managed and administered with a financial institution, in which employers or independent workers would deposit gross, pre-tax income. Financial institutions would collect and withhold the variety of different taxes that businesses and contractors are currently required to withhold, thereby shifting the tax collection onus from employers and the self-employed to third-party financial institutions. In addition to managing tax collection and withholding, financial institutions would be able to provide a variety of government-regulated and tax-advantaged financial options within AMAs that promote retirement savings and human capital formation.

3 “American Mobility Account” and the other, subsequent account names are merely descriptive placeholders. Ideally, these programs would be swept into a simpler package, as the proliferation of programs with complicated names, rules, and eligibility requirements itself becomes a disincentive for individuals to participate.
With the introduction of AMAs, our tax regime would be better able to accommodate the increasing amount of “gig work” and job-hopping that I believe will take place in the future. Since all earned income would be deposited into one AMA, an individual could earn income from a variety of different employers, and have a streamlined accounting process. For example, instead of multiple employers filing a collection of W-2 and 1099 forms on behalf of an employee working several gigs, the financial institution would be responsible for compiling all streams of earned income and filing a single reporting form on behalf of the worker.

This system would benefit employers, workers, and government. On the employer end, AMAs would largely shift the accounting and compliance burdens from employers to financial institutions: an important change that would be particularly beneficial for small businesses and startups. Additionally, AMAs would help workers comply with tax laws and simplify the task of tax preparation while ensuring that they receive all benefits and credits to which they are entitled. Finally, federal, state, and local governments would benefit from the increased transparency and accountability that AMAs would provide them. As part time work and multiple sources of income proliferate (e.g. combined income from Uber driving, eBay sales, Airbnb rentals, etc.), tax collection will become more difficult and less fair without reforms along these lines.

The ability to better accommodate self-employed workers who will play a large role, if not a defining role, in the 21st century innovation economy is another benefit of an AMA-centered system. In many ways, our current retirement system hinders self-employment since self-employed workers have to pay the regressive Self Employment Tax of 15.3%, which covers both the employee- and employer-end of the payroll taxes levied against traditional businesses and their employees. While this high tax rate discourages many individuals from pursuing self-employment opportunities, it incentivizes others to avoid taxes altogether. Making AMAs cheap and easy to understand for the self-employed population and increasing penalties for those who pay self-employed individuals outside of the financial system will improve tax collection and reduce monitoring and enforcement costs for the government.

Additionally, to promote retirement savings, a Supplemental Retirement Account (SRA) would be embedded within an AMA. In turn, a certain percentage of an AMA-holder’s monthly income would be deposited automatically into the SRA. The deposited income could only go toward saving for retirement, with all SRA holdings initially defaulted into a Roth IRA savings plan. AMA-holders would be able to opt out of their monthly SRA deposits, change to a different retirement savings plan with different tax preferences (e.g. a traditional IRA), or further diversify their SRA holdings into several different savings plans.

An SRA would solve the issue of workers lacking access to employer-supported retirement plans. Moreover, employers could be given tax incentives to encourage contributing toward
employee SRAs, thereby addressing some of the major issues with current individual retirement savings accounts. Further, SRAs would reduce costs for employers since they will no longer need to maintain retirement plans of their own, thereby leveling the competitive playing field for small businesses and startups.

Finally, AMAs would promote human capital formation to augment the financial security provided by retirement savings. For example, much like an SRA, a worker could choose to deposit a certain percentage of his or her paycheck into an embedded Human Capital Account (HCA). In turn, individuals could spend HCA monies on certain items deemed important to enhancing individual financial security (e.g. job training, professional licensing, college education, etc.) in a tax-free, or tax-preferred, fashion up until a lifetime maximum limit.

The formation of human capital will be vital to growing wealth in the future. Giving Americans the opportunity to use savings to take the future version of today’s coding class, for example, will be imperative to both their success and to the success of the nation and is in line with past social policies like the creation of land grant colleges during the Green Model years.

Following the example of the very successful Singaporean Central Provident Fund, the accounts can also contribute to wealth creation. Through its public social security scheme, which allows Singaporeans to finance the purchase of homes with retirement savings, the Singaporean government has increased home ownership to 90 percent. A simple homeownership savings account option would encourage financially sustainable homeownership and wealth accumulation in the United States. During the housing bubble, well-intentioned lawmakers and officials tried to promote better access to home ownership by relaxing the criteria needed to qualify for a mortgage. It would be much better policy to encourage home ownership by helping more people to qualify legitimately under existing, prudential rules.

In sum, the introduction of AMAs would better fit the current and future direction of our 21st century economy. The transition would not happen overnight, and a variety of regulatory mechanisms and changes would need to be put into place to make sure that this plan would benefit all Americans in a fair and transparent way. Finally, there would need to be incentives to encourage the adoption of AMAs among employers, workers, and financial institutions, as an outright mandate would be too disruptive in the near-term.

Reducing the Costs of Retirement

While the introduction of AMAs would help transition the United States from an outdated, employer-based system and increase saving for retirement, the reform is primarily geared toward younger, and future, generations of workers. In order to enhance retirement security for
Americans, policymakers must enact reforms that help older generations of workers successfully retire during the transition.

On the front end, we should allow workers later in their careers to accelerate their savings. It is human nature to postpone thinking about retirement, and, in any case, younger people often have more immediate needs, whether this involves paying off student loans, buying a home, or caring for their children. Older workers often have more discretionary income, fewer calls on their resources, and a greater focus on the need to save for retirement. Government policy should aim at creating more tax deferred savings opportunities for these people. It is good social policy to encourage savings, and greater savings equate to retirees being better prepared to handle retirement costs.

Many seniors today are not only physically capable of working longer, but they also want to work longer as they find work fulfilling and intellectually stimulating. Advances in medicine and in technology, such as driverless cars and enhanced telework capabilities, will make it easier for older generations of Americans to continue to work well into old age. To encourage more capable seniors to work longer, the government should eliminate the Social Security Payroll Tax for seniors and delay the age-requirement (generally 70 ½ years old) that triggers mandatory withdrawals from retirement savings plans.

Government could also enhance the menu of retirement options available to seniors who cannot or do not want to work longer. Promoting retirement abroad, where income that can barely cover a trailer home in Florida can equate to a luxury condominium in Costa Rica or Mexico, is an easy way to give seniors comfortable retirements. Today, Medicare does not cover health care received abroad, except for in an extraordinarily limited set of circumstances. This lack of health care coverage is a major barrier to retiring abroad. Though health care and prescription drugs can be far cheaper in Latin America and the Caribbean (LAC), serious illness is a financial issue anywhere, and, as younger and active retirees become older and more frail, they often have to return to the United States to obtain better services, which hinders permanent and/or semi-permanent retirement abroad.

Helping seniors move to countries where costs are low could reduce Medicare costs and give seniors more choices during the transition from the Blue Model retirement system to a new retirement system. To that end, the federal government should smooth the path for seniors looking to retire abroad. Congress should pass legislation to allow Medicare to cover eligible seniors using certified, inspected, and qualified providers. Medicare payments should be lower to these providers, reflecting different cost levels.
Conclusion

Much as they did during the transition from the Green era to the Blue era, Americans find themselves at an important, historical inflection point. Like the Industrial Revolution, the Information Revolution has disrupted the economy in unpredictable, complex, and far-reaching ways. Not all of the changes to come can be accounted for, but there is an immediate need to craft policies to account for those changes we can discern before the failures of the current system become unbearable. Adopting a system of retirement policies that shifts the burden of taxation and collection from employers to financial institutions while protecting the retirement security of those caught in the gap would do much to bring forth a new and more financially secure American Dream in the 21st century.