Reconsiderations

Warnings from the Immortals

by Gene Dattel

Today's wealth transfer—from the young to the elderly through Medicare and Social Security—was foreshadowed and brutally satirized in Jonathan Swift's *Gulliver's Travels* (1726). Senior citizens, according to Swift, "would in time become Proprietors of the whole Nation." They would seize the government, "which for want of Abilities to manage, must end in the Ruin of the Public."

Gulliver met the immense financial burden face-to-face when he encountered the *Struldbruggs*, or *Immortals*. This rare group of people could live forever in imaginary *Luggnagg* where Swift deftly outlined a fictional intergenerational conflict.

Swift's work may be satire, but it's instructive and relevant. The media have identified these federal government entitlements—Social Security and Medicare—as a veritable time bomb that is weighing heavily on American taxpayers and will be a painful legacy for the nation's youth. Public pension funds and benefits are having a similar effect on government entities. It is clear that the creation of additional millions of immortals through public pension funds is wreacking havoc on municipal and state budgets. Like Swift's observations, these problems have their origins in the eighteenth century. In this case, French magistrates were at the vanguard of the public pension movement.

The historian David Troyansky captured the French saga vividly in the *Journal of Aging Studies*. The story goes that Thouvenel, who had served thirty years as a judge in Sarrebourg starting in 1771, complained of blindness and poverty in an appeal for a retirement stipend. His salary, paid in worthless paper currency, led to destitution. Another judge, Cartault, claimed a pension after decades of service. His physician, in 1810, verified that his patient was "suffering from . . . a suffocating infection, as well as periodic spitting of blood."

It did not take long for the French, as could be expected, to bureaucratize the application process. In 1815, royal decrees established forms for judges to apply for pensions. The requirements were thirty years of service or "ten years of service with infirmity caused by work." If accepted, the pension was based on the formula of "the last three years' salary," a calculation which is very familiar and manipulated with impunity today. The entitlement state and its attendant bureaucracy had arrived during the dictatorship of Napoleon!

From its beginning in Swift's fiction to the humble French source of public pensions, the burden of old age has exploded. Stanley Druckenmiller, a well-known American investor and informed speculator, has embraced the entitlement dilemma with religious zeal. The wealthy Druckenmiller is sounding the clarion call of generational theft in his crusade on college campuses.

Druckenmiller, who made his money betting for and against securities, currencies, and macro-economic trends, stands at the crossroads of finance and philanthropy. The gains from his financial daring are recycled into charitable cause—Bowdoin College, the Harlem Childrens' Zone, and New York University hospital to name a few—and he is a committed, responsible, passionate supporter of causes in which he believes. Hi understanding of the market has attracted Druckenmiller to take on generational theft as his latest cause.

Students, he says while pointing to the deadly digits of his charts, need an awareness of the impending catastrophe. He argues that today's stated $16 trillion deficit actually represents a future obligation stream of $200 trillion created by senior citizens. This debt, when realized, will detonate the reliable financial fire alarm as interest rates approach 30 or 40 percent. He unabashedly whacks students with a barrage of statistics. Druckenmiller is convinced that the facts which he has generously supplied using numerous slides will arouse today's youth—his "future seniors."

For Druckenmiller, the student protests over the Vietnam War and the activism of this era provide a useful model, and as a result 1960s-style political mobilization is his solution. Druckenmiller reminds his audience that social media—Twitter and Facebook—are the turbo-charged vehicle for mounting an assault on the status quo.

Jonathan Swift was way ahead of Druckenmiller. Gulliver's optimism about the intentions of these experienced senior citizens soon dissipated. The children of *Luggnagg*, he initially thought, could witness "so many living examples of Ancient Virtue . . . and the Wisdom of former Ages!" If he could live forever, Gulliver fantasized about amassing a fortune in the first 200 years of his life. The naive Gulliver could then theoretically fund a counsel of "a dozen" *Immortals* to impart knowledge and leadership to "young Men."

Gulliver soon discovered that the *Immortals* were despised by their fellow citizens. The country's "future seniors" thought Gulliver to be merely gullible. Rather than perpetual youth, the *Immortals*' appearance evolved to a "ghastly" state. Teeth disappeared at ninety and diseases persisted. They had no memory. They could not understand the language of succeeding generations; after 200 years, they could not converse with their neighbors.

By the time that they had reached eighty, the *Immortals* were "Opinionative, Peevish, Covetous, Morose, Vain, Talkative, and uncapable of friendship. . . . Envy and impotent Desires are their prevailing Passions." Gulliver discovered that "Avarice is the necessary consequence of old Age." The newly enlightened Gulliver readily admits that he was wrong and had "fallen into a state of common Imbecility."

The youth of *Luggnagg* did not tolerate generational theft. They enacted laws that rendered the *Immortals* legally dead at eighty. Descendants would inherit estates with a small sum reserved for support of their ancestors. *Immortals* were not allowed to serve on juries. The poor among the *Immortals* received a "scanty Allowance" from the government. Begging was forbidden.

This was before AARP, the explosion of the elderly population, and the political power of suffrage. The Immortals are no longer a rare, quaint species. The *Immortals*, unlike today's senior citizens, did not have access to cardiac surgery, hip replacements, nursing homes, Lipitor, dental implants, and other costly medical innovations that prolong and enhance life. Swift's characterization of the *Immortals* is harshly caricaturist, but the generational impact on wealth is undeniably modern.

Stanley Druckenmiller deserves kudos for bringing the message to his "future seniors" in universities. Unfortunately, the prophecy of financial turmoil, decades hence, is hardly as compelling as Druckenmiller's Vietnam analogy. Student unrest in the 1960s was driven by the immediacy of the draft, death, and a war perceived to be unjust—not financial abstractions.

A New York University graduate student at one of his presentations in 2013 pointedly asked the astute money manager to supply a tangible image for his argument, rather than calculations. She wanted the equivalent of a cuddly "Polar bear," the symbolic victim of global warming, instead of catastrophic interest rate forecasts. He could supply no such motivational icon.

Mere information and charts will hardly dislodge the entrenched voting presence of senior citizens. And, in cases of senility presaged in *Gulliver's Travels*, the *Immortals* would be vulnerable and irresponsible voters—easy prey in their nursing home abodes. If one looks further back in history, the Homeric Hymn describing Tithonus provides yet another example of the pitfalls that accompany old age. Tithonus was made immortal, but his sponsor forgot to ask for eternal youth. Tithonus was confined to a single room where he could not move his limbs and continuously spouted gibberish. In our world, Tithonus would represent an opportunity for those canvassing for votes. (Swift, himself, succumbed to dementia and was declared "of unsound mind" in 1742.)

Druckenmiller, like Jonathan Swift, identifies the problems on the horizon. Swift dealt with the clash of generations through fiction; Druckenmiller's weapon is factual analysis. Statistics will not sway the reality of special interest politics. In addition, the Democratic Party wastes no opportunity to terrify the elderly with threats of Republican entitlement retrenchment. While the panacea of higher taxes and an active monetary printing press remain a political alternative, the signals of the marketplace remain nullified. Incidentally, this is the same monetary process which diluted Judge Thouvenel's compensation.

Druckenmiller's appeal to the elderly's sense of fair play will be equally ineffective. Material desires exist as strongly today as did "Avarice" among the *Immortals*.

American-style capitalism renders the clash of generations complicated. The free market and the entrepreneurial American system, in addition to economic growth, have provided a partial bridge between the chasm of today's youth and senior citizens. Jonathan Swift could not have anticipated the systematic philanthropic approach of America's businessmen. This much-maligned model has empowered many successful businessmen to benefit youth through philanthropy.

At his NYU appearance, the almost–senior citizen Druckenmiller was flanked by the senior citizen Kenneth Langone, one of the founders of Home Depot, and Geoffrey Canada, the founder of the Harlem Children's Zone. Langone, through the marvels of America's capital markets, amassed a fortune. He gave $200 million to New York University—hence, the NYU Langone Medical Center. Langone proudly announced that he had "millions more to give."

Druckenmiller's riches, estimated at over two billion dollars, were earned as a hedge fund manager. *The New York Times* columnist Thomas Friedman refers euphemistically to his friend Druckenmiller as the "legendary investor." In reality, investment and speculation are very closely related. For example, Druckenmiller and his colleague George Soros made a large bet that the British currency would plummet because of misguided government monetary policy. They were very, very right. As a result, their operation pocketed over $1 billion. This was a transfer of wealth from British taxpayers to American speculators.

This prosperity, in turn, has been generally recycled through philanthropy to many areas (other than art, multiple homes, and luxuries). Langone and Druckenmiller—the heirs of the uniquely American philosophy of philanthropists such as Andrew Carnegie, John D. Rockefeller, and Julius Rosenwald—are able to employ philanthropy to transfer wealth to youth.

Druckenmiller provided $100 million to NYU for a Neuroscience Institute. He has also contributed millions of dollars to Geoffrey Canada's comprehensive program to benefit Harlem's children. Canada has hugely profited from the largesse of market participants. In the circular route of money, the students whom Druckenmiller addresses are beneficiaries via alumni gifts, scholarships, travel grants, and investment returns from endowments. Every university president becomes a mendicant friar worshipping at the altar of American capitalism.

But philanthropy will not be enough. The distortions of government involvement in the marketplace and demography will override private sector solutions. Druckenmiller, as a practitioner, understands the danger, but his appeal to facts, social media, the generosity of senior citizens, and the judgment of youth in matters of future finance is Pollyannaish.

Generational theft is real, but intergenerational conflict will not materialize until a real crisis intervenes. At that point, the financial anesthesia administered by public policy can no longer mask the reality of market forces. The "future seniors" will be forced to confront the *Immortals*, engage in a serious discussion, and take action.