

Social Security: The True Story

(A Preview Of A Soon To Be Released Publication)

The Bush Administration and its privatization confederates are spending \$50 million, blanketing the country with their propaganda message: Social Security faces a crisis (no, it doesn't); Social Security will soon be broke (no, it won't); Social Security won't be there for young workers (yes, it will); Social Security is a lousy investment (far from it). Many of the Bush pals stand to gain handsomely from investing and managing "personal accounts" (aka privatization). Others are fundamentally anti-government. They oppose Social Security not because it's in trouble but because it's a government program that has worked superbly for 70 years. Social Security provides basic inflation-proof security in old age, in the event a wage earner becomes disabled before retirement age, and for survivors of wage earners who die prematurely.

For 40 years, Social Security was pay-as-you go: current workers' payroll taxes paid for benefits of current retirees. In 1977 Congress anticipated the baby boomers' retirement and increased the payroll taxes by 30% to create a big surplus, the Social Security Trust Fund, invested in safe, interest-earning US Treasury securities. Today the privatizers gasp hysterically that, when the Trust Funds is, according to plan, used up and we revert to the original pay-as-you-go, Social Security is "broke," bankrupt. Nonsense. If nothing constructive is done, the Trust Fund might be used up in 2042 (Social Security Trustees' conservative projection) – for wage earners born after 1972 – or 2052 (the Congressional Budget Office estimate) – for wage earners born after 1982. At that time, the benefit would be 81% of its currently scheduled amount, still a good deal more than retirees receive today (corrected for inflation).

Every privatization option that has been offered would result in a drastically lower guaranteed benefit. Even after adding the likely return on a risky "personal account," the benefit will be lower than Social Security's modest-but-guaranteed benefit. No provision is made for inflation-protection, disability or survivorship. Buying a private annuity would be expensive, but essential to ensure that benefits last as long as a retiree and spouse live. Social Security is also the equivalent of a \$220,000 disability insurance policy and a \$328,000 life insurance policy.

George Bush insists he won't touch the benefits of anyone now over 55. If payroll taxes are moved into "personal accounts," no longer available to pay those benefits, we will incur trillions of dollars of additional debt to be paid off by our children and grandchildren. That debt will add to the current \$75 trillion debt that

is already making foreigners squeamish about the soundness of investing in US securities. Moreover, while privatization deprives all beneficiaries of security, it fails to address the post-2052 shortfall. Hardly a favor to young workers.

Problems facing Social Security are manageable, not imminent, and do not constitute a crisis. Workers and their families, who depend on weekly earnings, should not be asked to expose their retirement, disability, and survivor benefits to grave financial risk and slashed benefits. Privatization would undercut our future, breach the 70-year-old contract with America's elderly, and thrust on adult children the burden of caring for their parents and the tax burden of digging the country out of the scandalously unnecessary debt that has accumulated from the Bush Administration's reckless fiscal and Social Security policies.

We have some constructive suggestions:

- Make all wage and salary income subject to the FICA, not just the first \$90,000, or better yet, on all individual income – why stick only the wage earners? That would permit decreasing the FICA tax rate, which would stimulate employment.
- Raise the minimum wage and promote a living wage, increasing the flow of funds available to pay benefits.
- Invest in America's future: education, research, health care, and infrastructure, creating a vigorous full employment economy, which would also serve to increase the flow of funds into workers' pockets and available to pay benefits.
- If it becomes advisable to raise the Social Security tax a small amount, as it has on occasion in the past, so be it, if the rest of the tax system is made more progressive (addressed elsewhere by ADA). Any increase would be far less than the 3% that would be required to cover the transition costs of privatization.²
- Consider whether it would be advisable to invest no more than 15% of the Trust Fund in an index fund, where any risk involved would be pooled, rather than thrust upon vulnerable individuals.
- Credit the estate tax to the Social Security account.³

¹ That change would affect less than 10% of the workforce, according to Thomas L. Hungerford, "Saving Social Security From Those Who Would 'Save' It," The Levy Economic Institute of Bard College Report, vol. 14, No. 1, February 2004.

² Peter A. Diamond and Peter R. Orzag, *Saving Social Security: A Balanced Approach*, Brookings Institution Press, Washington, DC, 2004, propose an original plan to preserve all the essential characteristics of Social Security, addressing the long-term shortfall and taking into consideration current fiscal realities, and reject privatization.

³ James K. Galbraith. Salon.com, October 14, 2004. This would cover much of the shortfall. The estate tax is paid on only 1% of estates.

- Repeal the scheduled tax cuts that primarily benefit people in the upper brackets. We could then devote all the money saved to the Social Security Trust Fund. This would *more than cover any shortfall*, preserving all current benefit levels. In fact, just repealing the cut for people with incomes over \$500,000 would do the trick.⁴
- Liberalize immigration and naturalization laws, adding more young people to the workforce, altering the ratio of workers to retirees.

Any of these possible approaches would eliminate any shortfall, and preserve the basic principles of Social Security: providing a universal program of secure, portable, earned rights that is progressive, fair, and cost effective. We must preserve the old fashioned value of community, recognizing that government has an important role to represent the people and fill those needs people cannot handle alone. The myth of “every man for himself” is just that: a myth. It never really worked, and it certainly can’t work in today’s complex economy and risky world. We need to return to the traditional value that we Americans – rich and poor, old and young – are responsible for and to one another.

During World War II, on January 11, 1944, Franklin D. Roosevelt delivered his State of the Union address in a spirit that is not at all out of date. In that address, he proposed a Second Bill of Rights.⁵ “Security,” FDR said, “means not only physical safety from attacks by aggressors,” but also “economic security, social security, moral security.” “[E]ssential to peace is a decent standard of living for all individual men and women and children in all nations. Freedom from fear is eternally linked with freedom from want.” He urged taxing unreasonable individual and corporate profits, so the cost of the war would not burden our sons and daughters. Included in his Second Bill of Rights were the right to a useful remunerative job, a decent home, good education, adequate medical care, freedom from fears of old age, sickness, accident, and unemployment. These rights were included in the Universal Declaration of Human Rights, under the leadership of ADA founder Eleanor Roosevelt. Around the world people recognize these goals, but lack America’s wealth to achieve them. In this rich country, the goals remain unfulfilled, but not for lack of means. ADA’s agenda for Social Security is part of our continuing dedication to that Second Bill of Rights.

⁴Peter R.Orzag and Robert Greenstein, “Voluntary Individual Accounts for Social Security: What are the Costs? Summary,” Center on Budget and Policy Priorities, August 21, 2001. In another CBPP paper, “Social Security and the Tax Cut: the 75-year Cost of the Tax Cut is More than Twice as Large as the Long-Term Deficit in Social Security,” Dec. 13, 2001. <http://www.cbpp.org/12-13-01tax-fact.htm/> they note that the 75-year shortfall of Social Security is \$3.7 trillion. If Bush’s tax cuts were made permanent, the cost would be \$8.7 trillion. Senator Jon S. Corzine, “Privatization Guts Guarantees,” [Insight on the News – Symposium](#), June 24, 2002, reminds us that he made his fortune as an investment banker at Goldman Sachs, and states that investing in the stock market is a risky business. He should know.

⁵Cass R. Sunstein, “We Need to Reclaim the Second Bill of Rights,” *The Chronicle of Higher Education*, June 11, 2004. The article derives from Professor Sunstein’s, *The Second Bill of Rights: FDR’s Unfinished Revolution and Why We Need It More Than Ever*, Basic Books, 2004. Cass Sunstein is a professor of political science and jurisprudence at the University of Chicago.