"Taking Care of Each Other: Social Insurance Manifested as Social Security" by Pat Conover

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The March 28, 1998 issue of the *New Republic* contained an article by Henry Fairlie that talked about the elderly in America as “greedy Geezers,” undeserving parasites who are destroying the American society and economy. The Concord Coalition, funded in part by Wall Street brokerage companies, is carrying this anti-entitlement message to the masses.

The welfare system in this nation was attacked with a series of unsubstantiated myths about "Welfare Queens who drive around in Cadillacs" and now the people who hate government are trying to do the same thing to Social Security. In a couple of minutes I'll respond to some of the false myths about Social Security that are being spread to generate anxiety and to create the climate for the divide and conquer tactics of intergenerational distrust. But, before I demystify the opposition to Social Security, it may help us to remember why Social Security is so precious.

The values at stake are the values of social insurance versus the values of private investment. Social insurance protects everyone against one or another disaster. Private investment is a strategy for those with so much disposable income that they think they can protect themselves. When you're thinking first about protecting yourself, it is pretty easy to oppose social insurance that protects everybody. It isn't surprising that the attack on Social Security comes from those who are already so well off that they think they do not need the Social Security protections against poverty. The fact that a lot of people are not as protected as they think they are may not make much difference because a lot of people do not like to be reminded of their vulnerabilities. When you add those who are short-sighted to those who are truly wealthy past any threat of economic disaster and to those who don't think they will live very long anyway and to those who hate government and to those who hate any appeals to community solidarity or to caring for those in need there are enough people to rend the fabric of civilization, to shred the mutual trust and cooperation that has created a strong society in the United States.

Saving for one’s later years is a good idea. From the beginning of Social Security, private savings have been seen as an important *addition* to Social Security. Now we have some people promoting private savings as *an alternative* to Social Security. Perhaps this isn’t so surprising since, in the 1990’s, private pension plans and individual savings are in a lot worse shape than Social Security. We should do more to encourage private pensions and savings while recognizing that the problems in private pensions and savings make it all the more important to defend the floor against poverty that has been erected in the Social Security system.

Far from being thought of as a problem for our society or government, Social Security should be thought of as one of the crowning achievements of the United States of America. When we measure the success of the United States in terms of what has been accomplished for the workers who have performed the multiple labors that have built this society, the list should begin with Social Security. Before 1935, the thought of growing old in the United States was not a happy thought for most people. Very few workers were in jobs that had any promise of pensions. Even for those who had pension promises, it was common for the promises not to be kept. Some companies required thirty years of work to become eligible and then routinely fired their workers after 29 years. Other companies went broke and never set any funds aside for pensions. The only redeeming factor is that a lot of people didn’t live into old age anyhow.

Social Security wasn’t much of a program when it was first created in 1935 and it wasn’t very popular. It promised only a small retirement benefit for workers and no payments were scheduled until 1942. The same act that created Social Security also created Old-Age Assistance, a welfare program for the needy elderly that was financed from general government revenues. It paid a lot more and the benefits started immediately. Without the repeated commitments of every succeeding generation of Americans to improving Social Security, through thick and thin, the program would be marginal, if it survived at all.

It wasn’t until 1950 that the United States really made a commitment to Social Security and began to raise the payroll tax on which it was based. More and more groups of workers were covered, benefit level were increased, coverage was extended to the spouses of workers, survivors insurance was added to protect children when the primary earner in the family died prematurely, and disability insurance was added. With all these additions and changes it took another 30 years for the system to substantially mature in financial terms. Now, most elderly people receive Social Security retirement benefits and young families, whether they know it or not, have disability and survivors insurance that is commonly worth about half a million dollars. Without Social Security, about half the nations elderly would be living in poverty. With Social Security only about 10 percent are in poverty and that number is decreasing as generational effects finish the maturation of the system.

Social Security is doing just what it has been designed to do – providing a floor against poverty for workers and their families who can no longer provide for themselves through employment because of old-age, disability or early death. A lot of the 44 million people who currently receive Social Security payments have little else in the way of cash income and, as a result, are living just a little above the poverty line.

A big part of the “magic” of the Social Security program is that it is social *insurance* rather than privately held *investment*. People who don’t live very long into their retirement years don’t get very much in payback for their long years of paying payroll taxes. That money stays in the Social Security system to provide better benefits. This “magic” works so well that even those who pay the highest levels of payroll taxes, and get the least for their tax dollars because the progressive benefits formula is focused on preventing poverty, still receive as much as if their tax dollars had gone into a typical private pension fund. The only downside, when measured against private investment schemes, is that there is no estate built up for the heirs of a worker, just a retirement benefit for spouses and survivors benefits for dependent children.

Social Security has gone through a lot of changes. Every generation has contributed to improving Social Security in one way or another. Only one President, Ronald Reagan, has fought for across the board cuts in retirement and disability payments. He was unsuccessful but he did manage to create a Commission headed by Mr. Greenspan, the current head of the Federal Reserve System. The Commission convinced Congress to make some small cuts in Social Security and to raise the retirement age to 67 on a phased-in basis beginning in 2003. While the challenges of the early 1980’s could have been handled in a more positive manner, the changes did help to improve the financial stability of Social Security. Now it is time for this generation to step up to the plate and do its part.

Fortunately, despite the common use of the word crisis, our current opportunity to improve Social Security comes at a time

when the Social Security System is in pretty good shape. It is only the predictions of a negative eco
nomic future that raise concerns about the long-term financial stability of Social Security. Fairly small changes are needed in comparison to the big improvements accomplished by previous generations. I realize that this statement leans against all the anxiety that has been stirred up by the Wall Street interests through the Concord Coalition and similar fronts. The facts are just not with those who are trying to create a lot of fear as an excuse for privatizing the Social Security system.

The most outrageous misstatement of Social Security opponents is that there is nothing there for the future. This statement is a lie that hides the fact that the current generation is the first generation that is both paying for the benefits of earlier generations and partially forward-funding their own collective retirement. Since the early 1980’s the Old Age, Survivors and Disability Insurance Trust Funds have grown from nearly nothing to about $800 billion. If no changes are made, it is predicted that the Trust Funds will grow to $3.78 trillion by 2020. That may not be enough, but it isn’t exactly spare change either. The outrageous lie of some of are attacking Social Security is that the money isn’t there because it is invested in Treasury Department Bonds and similar instruments. It is only unreasonable fear or dislike of the government that would lead one to believe that Treasury Bonds are not really there. Treasury Bonds are considered to be about the most secure form of financial instrument there is and that is why they can be sold to individuals and corporations at an interest rate that is lower than expected returns in the stock market or other investment opportunities. Social Security currently owns about 14 percent of all treasury bonds and individuals and corporations own a lot of the rest.

The second great misstatement that is commonly being passed around is that individual private accounts would be worth a lot more than Social Security benefits because the stock market offers higher returns than Treasury bonds. The reason this is a misstatement takes a little more explaining. The first point is that comparing investment to insurance is like comparing apples to oranges. Social Security has the advantage of a progressive benefits formula and takes advantage of the "lottery effect" that some people do not get much for their tax payments because they die early.

The second point is that those favoring individual private accounts unfairly compare the returns in the stock market for the *last* 75 years to the income on Treasury bonds for the *next* 75 years as predicted by the Social Security Trustees. The unfairness in that comparison is that the Trustees are predicting a gloomy economy with a growth rate that is about half of what it has been for the last 75 years. If the Trustees are right then the stock market will do about half as well as it did in the last 75 years. When you add on the high administrative costs for managing individual private accounts, the billions of dollars in potential income that is leading Wall Street to fund its campaign of disinformation and anxiety, you come out with similar projections of net income. This means that there is very little "padding" to protect against the risk factor that accompanies investment in the stock market. If retirement income was individually held and based primarily in the stock market, those who would reach retirement age in one of the down cycles of the market would be in deep trouble. And, remember, the Social Security Trustees are predicting an economy with a lot more down cycles.

There is another misleading mantra about Social Security that is chanted by friends as well as foes of Social Security. They say that there are really only two ways to correct for the under financing of Social Security: raise taxes or cut benefits. In fact, at the current time, there are two other important options for improving the financial base of Social Security.

The Clinton Plan is build around one option, increasing the investment in the trust funds. The Plan would add about $2.5 trillion to the $3.78 trillion that would be reached in 2020. There are two basic sources of the additional $2.5 trillion in the Clinton Plan. The smaller part would come from investing 15 percent of surplus payroll tax revenues in the stock market. Since there would be no administrative costs for individual accounts, the management costs would be relatively small and the risks would be smoothed out across generations. We'll skip over the other potential problems of government investments in the stock market that trouble some commentators.

The large increase in the trust funds, according to the Clinton Plan, would come from directing 85 percent of the surplus revenues from the payroll tax back into the trust funds at the cost of increasing the total federal debt. The fact that the federal debt would be increased for Social Security is no different than increasing the debt to finance more attack submarines or agricultural programs. This is what has been going on for the last twenty years until fiscal year 1998. Furthermore, because more of the federal debt would be financed by Social Security, less would be financed from public sources such as individuals and corporations. This money would lack the safe haven of Treasury Bonds but it would be available for investment in the private sector and would provide the same kind of economic stimulus that would be made available from tax cuts. The flow of money in the Clinton Plan is a bit complex, but it is just as sound as any other government spending. The details are spelled out in the handout I have made available.

The other basic path to the solution of Social Security financing has received very little attention from Republicans or Democrats. We need targeted social investments to solve the problem that has led the Trustees of the Social Security system to project a gloomy economy. To understand how effective this could be we need to look a little more closely at the reasons given by the Social Security Trustees for their prediction of a gloomy economic future.

The intermediate projection of the Trustees is the one that everyone is talking about. There are two very good reasons for thinking this prediction is too gloomy. The first reason is that the current economy has been substantially outperforming the Trustees predictions. The second reason is that over the last 75 years, including the Great Depression, the economy of the United States has done twice as well as what the Trustees predict for the future. I join those who think the Trustees predictions are too gloomy, but, for the sake of this discussion, let’s take the intermediate projections seriously. After reaching a peak of $3.78 trillion in 2020, the Trustees have predicted this amount would expend to zero in 2032. That is a very rapid spend-down. The common understanding is that the spend-down would be the result of the “Baby-Boomers” reaching their retirement years. That is only half of the picture painted by the Trustees. The other half is based on the very low birth rates that started in the 1970’s and, while they have increased, continue below zero population growth in the 1990’s. To illustrate the power of this factor in the minds of the Trustees, we can compare the intermediate prediction to their more positive “low-cost” prediction. The low-cost prediction includes a birth rate that is just above the zero growth level. Such a birth rate, they believe, would create a more positive economy, sufficiently positive so that there would be **no financial problem for Social Security for 75 years and beyond.**

You could do something about this birth rate problem. (Pause) Maybe you already are. 1998 saw a definite upturn in the birth rate despite decreasing teen-age births and decreasing out-of-wedlock births. Still, the birth rates of the 1990's hover below zero population growth but significantly above the rates in the intermediate predictions by the Trustees. If the rates of the 1990's continue, the United States would be about 200,000 births a year short of the level that the Trustees believe is essential to a more positive economy.

The Trustees think the birth rate is such a big problem because it is hard to grow an economy, whatever the financial sources of stimulation, if there are not enough workers to do the needed work. Furthermore, since the tax base for Social Security is payroll taxes, we need more workers to be paying those taxes.

The second major option for overcoming the shortfall in Social Security funding, as found in the usually quoted intermediate prediction of the Social Security Trustees, is to make up the 200,000 a year deficit in workers in other ways. This isn't impossible. We have been doing it throughout the 1990's even though the birth rates of the 1970's were much further below zero population growth than the current birth rates.

One obvious answer is that we could increase the immigration of workers. The rest of my comments, however, look to other answers.

Improving the work force is not the same thing as improving the economy in general. We need legal changes and targeted investments to improve the work force. We can start by ending all the ongoing discriminations against various classes of workers: racial minorities; women; gay, lesbian, bisexual and transgender people; those who have a mix of skills and disabilities; and older workers. We need to raise the minimum wage and achieve pay equity for elementary fairness now and also because it will help fund Social Security. We need to address the mini-recessions and depressions that have plagued troubled regions of this nation for decades. We need education and training, childcare, health care and other employment supports. We need to recover those who have been sent off to prison and we need to re-gather and empower those who have been struggling with emotional problems, alcohol and drug abuse.

We need to do these things anyway. We need to do them to reduce the growing unfairness of rewards in our economy. We need to do them so that each generation will thrive. We need to do them to reduce poverty. We need to do them to strengthen our social and cultural fabric and we need to do them because it will further under gird Social Security. At the end of day, Social Security can only do well if our society and economy does well.

If we think of our labor as a contribution to the common good, if we use our government to protect us all against the threats of disability, the limitations of our older years, and the disruptions that come with an early death, if we can claim our vulnerabilities in the face of those who say they do not need anyone else; we can create a great economy and society including a stable, even an improved, Social Security system.