

# Voices From The Heartland

February 2005

Vol. XVI, No. 2

## Privatizing Social Security—Inventing a Crisis

Privatizing Social Security—replacing the current system in whole, or in part with personal investment accounts—has become a hot political topic and a top priority of President Bush's domestic agenda. It is a project whose scope and scale are hard to overestimate. The politics of privatization depends on convincing the public—and Congress—that the current system is in imminent danger of collapse and that we must destroy Social Security in order to save it. Upon closer scrutiny, this argument doesn't hold up.

Created in 1935 by Franklin Roosevelt, Social Security is America's biggest, most popular and successful government program, providing pensions to the elderly and disabled and their dependents. Thanks to Social Security, poverty among the elderly has been virtually eliminated. Most Americans rely on the program for much of their retirement income. Social Security is not just a retirement plan. It is a family protection plan, too, with benefits that cover all generations.

There is nothing strange or mysterious about how Social Security works. It is simply supported by a dedicated tax on payroll earnings, just as highway maintenance is supported by a dedicated tax on gasoline. Right now, revenues from the payroll tax exceed the amount paid out in benefits. This is deliberate, the result of a payroll tax increase recommended by Alan Greenspan two decades ago. At the time, his justification for raising a tax that falls mainly on lower, and middle-income families, even though Ronald Reagan had just cut the taxes that fall mainly on the very well-off, was that government needed the extra revenue to build up a trust fund. This fund could then be drawn on to pay benefits once the baby boomers began to retire.

As we now know, the tax increase wasn't quite big enough. As in most of the world, the combination of longer life expectancy and lower birth-rates in the United States will put increased financial pressure on this pay-as-you-go social insurance system. Over the coming decades, Social Security's payments will rise much faster than its revenues. Projections in a recent report by the nonpartisan Congressional Budget Office (which are probably more realistic than the very cautious projections of the Social Security Administration) predict that the trust fund will run out in 2052.

The system won't become bankrupt at that point. Even after the fund is gone, Social Security revenues will cover 81 percent of the promised benefits. Still, Social Security is on an unsustainable trajectory. It faces a long-run financial problem.

But it's a problem of modest size. The report cited above finds that extending the life of the trust fund into the 22<sup>nd</sup> century, with no change of benefits, would require additional revenues equal to only 0.54 percent of G.D.R.—less than 3 percent of federal spending, **less than we are currently spending in Iraq**. It is also only about one-quarter of the revenue lost each year because of recent tax cuts, roughly equal to the fraction of those cuts that goes to people with incomes over \$500,000 a year.

Continued on page 2

What is never mentioned is that privatization would require some \$2 trillion in new borrowing over the next 10 years and an additional \$4.5 trillion in the decade thereafter.

**Social Security**, continued

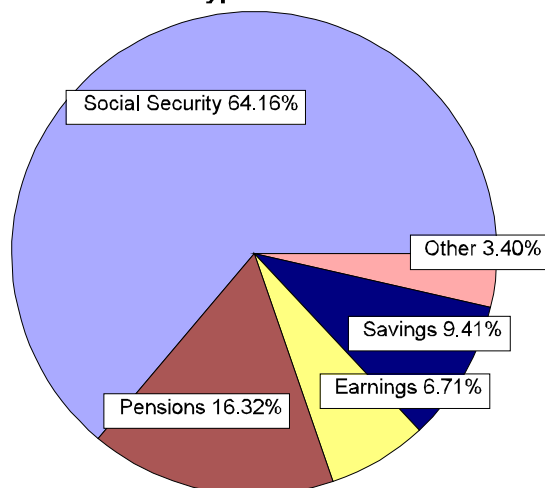
Given these numbers, it is not difficult to construct fiscal packages that would secure the retirement program, with no major changes for generations to come. But, as economist and New York Times columnist Paul Krugman pointed out in early December, "...since the politics of privatization depends on convincing the public that there is a Social Security crisis, the privatizers have done their best to invent one."

If people are rightly skeptical about claims that Social Security faces an imminent crisis, there is even more reason to question the supposed solution.

One of the main talking points in the drive to privatize Social Security is that retirees have nothing to fear. The president promises that under a private retirement scheme, anyone age 55 or older would continue to receive full Social Security benefits. What is never mentioned is that privatization would require some \$2 trillion in new borrowing over the next 10 years and an additional \$4.5 trillion in the decade thereafter. That's on top of the trillions that need to be found to cover the costs of Medicare and Medicaid, and if the president gets his way, to make this decade's tax cuts permanent.

It is foolhardy to assume that the government could continue to meet all of its obligations, including the payment of Social Security benefits, under such a mountain of debt. Proponents of privatization are like financial advisors who tell you that at the rate you're going, you won't be able to afford retirement, but that you shouldn't do anything simple like trying to save more. Instead, you should take out a huge loan, put the money in a mutual fund run by their friends (with management fees to be determined later), and place your faith in capital gains.

Once you cut through all the catch phrases about an "ownership society," that is how the proposed privatization plan works. Payroll taxes would be diverted into private accounts, forcing the government to borrow to replace the lost revenue. The government would make up for this borrowing

**Income for typical older Americans**

Social Security Administration, Office of Research, Evaluation and Statistics,  
*Income of the Population 55 or older, 2000*, February 2000  
 Ref: <http://aficio.org/issuespolitics/scialsecurity>

by reducing future benefits; yet workers would supposedly end up better off, in spite of reduced benefits, through the returns on their accounts.

"We are concerned," wrote the U.S. Catholic Bishops in their 2003 statement, *Faithful Citizenship*, "about the income security of low and average-wage workers and their families when they retire, become disabled or die. In many cases, women are particularly disadvantaged. Any proposal to change Social Security must provide a

decent and reliable income for these workers and their dependents." Social Security's benefits are essential to keeping tens of millions of older Americans out of poverty. The aim of the program is not to increase people's private investment income. Wall Street money managers and anti-worker politicians are selling individual accounts as a free lunch, but these accounts come at a high price—increased retirement age, large cuts in guaranteed benefits, reduced inflation protection and huge new federal deficits.

Social Security is a government program that works. It is a demonstration that a modest amount of taxing and spending can make people's lives better and more secure. With modest changes now, we can keep it working, thereby ensuring its protections are there for today's workers, our children and our grandchildren.

✉ Thomas M. Gannon, S.J.