

# Honoring the Compact, Keeping the Trust

Report of the Social Security Subcommittee of the  
Sudbury (MA) Democratic Town Committee

February 18, 2005

## Contents

<b>1</b>	<b>Introduction</b>	<b>2</b>
<b>2</b>	<b>The facts</b>	<b>2</b>
2.1	Who benefits from Social Security? . . . . .	2
2.1.1	The “three-legged stool” . . . . .	2
2.1.2	It’s not just the elderly . . . . .	3
2.1.3	Do African-Americans get a fair shake? . . . . .	3
2.2	Is there a crisis? . . . . .	4
2.2.1	The argument that the economy is slowing down . . . . .	4
2.2.2	The “demographic imperative” argument. . . . .	5
2.2.3	The argument that there is no real guarantee that Social Security payments will actually be made. . . . .	6
2.2.4	What happens if the Trust Fund runs out? . . . . .	7
2.3	The costs and consequences of privatization . . . . .	7
2.3.1	Privatization would force an immediate tax increase and/or a massive increase in the national debt. . . . .	7
2.3.2	Private accounts would not be insured. . . . .	8
2.3.3	Private accounts are not insurance. . . . .	8
2.3.4	Early withdrawals . . . . .	8
2.3.5	Overhead costs, and efficiency . . . . .	9
2.3.6	Predicting the future . . . . .	9
2.3.7	The effect on other investments . . . . .	10
2.4	Will there be a future bonds crisis? . . . . .	11
2.5	Actual ways to ensure the solvency of the Social Security Trust Fund. . . . .	11
<b>3</b>	<b>What lies behind the controversy: two world-views</b>	<b>12</b>
3.1	The history of opposition to Social Security . . . . .	12
3.2	Two world-views . . . . .	13
<b>4</b>	<b>Their strategy, and ours: framing the issue</b>	<b>15</b>
4.1	Death by a thousand cuts . . . . .	15
4.2	Framing the issue . . . . .	16

# 1 Introduction

This report is intended to serve as a resource guide. As such, it is not a self-contained article. It can, however, be used as a basis for writing articles, speeches, and opinion pieces. It is in three sections:

**The Facts** Many claims have been made about the Social Security system and its supposed failings and long- and short-term weaknesses. We can't address them all here, but we do consider the major ones, from a purely factual point of view.

**What Lies Behind the Controversy: Two World-Views** This section discusses a larger issue that lies behind much of the debate, and explains why we need to talk about it explicitly.

**Their Strategy and Ours: Framing the Issue** What can we expect to see politically in the next few months, and how should we attempt to frame the debate?

The facts reported in the first section are of course not new, and are all derived from secondary sources, which we have been careful to reference. So you can find all these facts elsewhere, although we have tried to organize them in a manner which we hope will be useful.

The remaining two sections, however, have been much less widely discussed. We feel they are quite important, because without them many people are completely befuddled by the intensity of the debate and the large number of facts and pseudo-facts that are tossed around. Those two sections may be the main contribution of this document.

People who have contributed to this report include Don Chauls, Jerry Glass, Tom Hollocher, Bruce Langmuir, Carl Offner, Sue Offner, and Claire Schlosser. We also thank many others who have contributed articles and other information, particularly Stas Gayshan, Henry Noer, and John Thomas.

## 2 The facts

### 2.1 Who benefits from Social Security?

#### 2.1.1 The “three-legged stool”

It is often stated that retirement is funded, or should be funded, in three ways:

- by pensions,
- by savings, and
- by Social Security.

However, since the 1960s, corporations have systematically dismantled pension systems, to the point where today only 16% of workers are covered by pension plans (Orr, November/December, 2004). Pension plans, i.e., “defined benefit” plans, which guarantee a benefit for the life of the retiree have largely been replaced by “defined contribution plans”, which only ensure a fixed corporate contribution to an investment account. There is no guarantee of benefits, and when the person's investment account has been emptied, there are no benefits at all.

How significant is Social Security? Well, in 2003, 34 percent of the elderly relied on Social Security for at least 90 percent of their total income. (Anrig, Jan. 26, 2005)

Further, except among upper income people, the savings rate is abysmally low. Since 25% of all Americans earn less than \$10/hour, those people in particular have no way at all to save. (According to the Bureau of Labor Statistics, the median wage for all workers is \$13.53/hour. For food preparation and serving workers, the median wage is \$7.40/hour.)

So Social Security is the single most important component of retirement security for most American citizens. (And it is the *only* source of retirement income for 40% of elderly African Americans.) It is likely to remain so (see Section 2.3.3 below below for more reasons for this).

### **2.1.2 It's not just the elderly**

Further, it's not just the elderly who benefit from Social Security.

Their middle-aged children are also major beneficiaries since they do not have to support their parents while they are raising their own children and saving for their own retirement. Further, the entire economy benefits since the middle-aged children can remain in the work force rather than having to stay at home taking care of indigent parents.

Social Security also provides significant survivors benefits, which go to spouses, help put dependent children through school, and so on. In fact,

- 70% of Social Security benefits go to retirees,
- 15% go to disabled workers, and
- 15% go to survivors.

Finally, having elderly people receive an income through Social Security yields another benefit for the economy: It creates jobs providing services for the elderly, such as aides and assisted living.

### **2.1.3 Do African-Americans get a fair shake?**

Recently, the administration, including the President, along with right-wing think tanks such as the Cato institute, have stated that Social Security is unfair to African Americans, because since they have a shorter life expectancy, they can expect to receive less in Social Security payments than white Americans.

There are several things wrong with this argument:

- The shorter life expectancies of African Americans are due almost entirely to deaths early in life. Among those of retirement age, black and white life expectancies are very close.
- Since many African American males work in more dangerous jobs and have a higher death and disability rate when they are relatively young, survivor and disability benefits go proportionally more to African American families: While African Americans make up 12% of the population, 23% of children receiving Social Security survivor benefits and 17% of disability beneficiaries are African American.

Sources: Krugman (Jan. 28, 2005) and Spriggs (November/December, 2004). The Spriggs article also disposes of a number of other incorrect assertions concerning African Americans and Social Security. The demographic figures come from Center for Disease Control (Nov. 10, 2004).

## 2.2 Is there a crisis?

According to our president, there certainly is. Here is what he says:

As a matter of fact, by the time today's workers who are in their mid-20s begin to retire, the system will be bankrupt. So if you're 20 years old, in your mid-20s, and you're beginning to work, I want you to think about a Social Security system that will be flat bust, bankrupt, unless the United States Congress has got the willingness to act now." (President Bush, quoted by Rex Nutting, CBS, MarketWatch.com, Jan. 11, 2005)

President Bush has used words like "crisis" and "bankruptcy" to describe the Social Security system. (New York Times, Jan. 26, 2005).

Joshua Bolten, head of the administration's Office of Management and Budget, says, "The one thing I can say for sure is that if left unattended, the system will be unable to make good on its promises." (Lowenstein, Jan. 16, 2005).

... by the year 2042, the entire system would be bankrupt. ...

Social Security will go broke when some of our younger workers get ready to retire, and that is a fact. (President Bush, in his weekly radio address on Feb. 12, 2005)

There are several justifications given for this notion of a crisis:

### 2.2.1 The argument that the economy is slowing down

The first argument is that the economy is slowing down, and that therefore contributions into the Social Security system will be insufficient for its needs. Two main economic projections are popularly used to justify this position:

1. The Social Security Administration has made a number of estimates. The main one quoted is their "intermediate" estimate, according to which the Social Security Trust Fund is depleted in 2042. The assumptions they make to justify this are that there is a
  - 1.6% growth in labor productivity, and a
  - 0.2% growth in the U.S. workforce

which together result in a 1.8% growth rate for the economy as a whole for the next 75 years. This is well under the historical average. In fact, "in no 20-year period, even including the Great Depression, has the U.S. economy grown that slowly." (Orr, November/December, 2004)

Further, the estimate of a 0.2% growth in the workforce is based on workers retiring and not being replaced. But they probably would be, by increased immigration. The historical figure for workforce growth from 1960 to 2000 is 2.17%, far greater than 0.2%.

Actually, the Social Security Administration has a history of making pessimistic assumptions. “In 1996, they projected the trust fund balance would go to zero in 2030. In 2000 they projected a zero balance in 2036, and today they project a zero balance in 2042. The projection keeps changing because the trustees continue to make unrealistic assumptions about future economic conditions.” (Orr, November/December, 2004)

2. The Congressional Budget Office estimates that full benefits will run out ten years later, in 2052. They base their estimate on the assumption that there will be a
  - 1.9% growth in labor productivity

Together with a lower unemployment rate, this boosts wages, leading to greater Social Security contributions.

However, this assumption is also dubious. According to the Bureau of Labor Statistics, from 1947 to 2003, non-farm productivity rose at 2.3%/year. Reducing by 0.2% to account for lower farm productivity, this still is 2.1%/year

3. There actually is a third projection—the Social Security Administration’s “optimistic” scenario, which is rarely quoted. It assumes
  - a 1.9% growth in labor productivity (like that of the CBO, this is still probably conservative),
  - a lower unemployment rate (4.5%), and
  - higher net immigration (1.3 million/year).

This results in a 2.6% average growth rate (still rather sluggish in historical terms) which wipes out the rest of the imbalance in the system and leaves a sizable surplus in the system.

Source: Miller (November/December, 2004) This article also contains some useful references to follow, and there are other articles as well.

### **2.2.2 The “demographic imperative” argument.**

In 1950, there were 16 workers for each beneficiary. Today, there are 3.3 workers for each beneficiary. By the time today’s younger workers reach retirement, there will be only 2 workers for each beneficiary. Unless Social Security is saved, the system will not remain solvent for current and future generations of American workers and retirees. (House Republican Conference and Senate Republican Conference, 2005)

“... instead of 16 workers paying in for every beneficiary, right now it’s only about three workers, and over the next few decades, that number will fall to just two workers per beneficiary. With each passing year, fewer workers are paying ever-higher benefits to an ever-larger number of retirees.” (George W. Bush, State of the Union Address, Feb. 2, 2005)

According to this argument, as the baby boomer generation retires, there will be fewer workers per retiree, and so the Social Security system, which depends on income from current workers to fund payments to retirees, will be stressed beyond its capacities.

The facts are these: It is true that there will be fewer workers per retiree:

Year	Workers per Retiree
1960	5.1
1998	3.4
2030	2.1 (projected)

However, these numbers are misleading. The significant statistic is the number of workers *per dependent* (i.e., per non-worker). Here are those figures:

Year(s)	Workers per non-worker
1960s	1.05
2030	1.27 (projected)

These figures reflect the fact that while in the 1960s there were fewer older people, there were a lot more younger people, in particular dependent children. These children were the baby boomers. It's at least arguable that dependent children "cost" just as much as most elderly people. (We're not counting terminal illnesses and dementia, of course, but Social Security doesn't even pretend to pay for those.)

And no one said there was a demographic crisis in the 1960s.

Source: Orr (November/December, 2004)

### **2.2.3 The argument that there is no real guarantee that Social Security payments will actually be made.**

Those pushing privatization often say that Social Security is not safe because of two possibilities:

- Social Security is a "pay-as-you-go" system and therefore is an "unfunded liability."

Social Security has a total unfunded obligation under current law of more than \$10 trillion. (House Republican Conference and Senate Republican Conference, 2005)

The Social Security Trust Fund does not contain cash or assets. Much of the money collected in taxes is actually spent on other programs. Instead, it contains special issue government bonds that function as IOUs between one part of the government and another. (Heritage Foundation, 2004)

The argument here is that the Social Security Trust Fund is invested in government bonds, and that the government can just somehow cancel the debt.

Actually though, Social Security is just as safe as any other government obligation. For the government to default on its borrowing from the Social Security Trust Fund would be the same

as for it to default on any other piece of financial paper. This would cause a fiscal meltdown of unprecedented scale and is simply not going to happen. Government securities are far, far safer than any investment in the stock market.

- The government can just renege on its promise to pay Social Security benefits; private accounts provide the only guarantee of real returns.

Best of all, it [i.e., a system of private accounts] would replace the empty promises of the current system with real assets of ownership. (President Bush, in his weekly radio address on Feb. 12, 2005)

This is of course a political question. But as we have shown above (and also see Section 2.5 below) Social Security is in remarkably good financial shape, fills a real need, and enjoys widespread popular support. Why would the government cut or eliminate Social Security benefits under these conditions?

#### **2.2.4 What happens if the Trust Fund runs out?**

The term often used is “bankruptcy.” But that is extremely misleading. Even if the Trust Fund were completely emptied, under the worst-case scenario, which as we have argued above is highly unlikely, there would still be enough money coming in to pay over 80% of all benefits (Krugman, Dec. 7, 2004), and this could be raised to full payment of benefits by a 2% increase in the Social Security tax, and even that not until 2030, by which time we would have a much better idea of what was likely to happen (Orr, November/December, 2004). Further, there are much better ways of making up any actual deficit, which we discuss below.

### **2.3 The costs and consequences of privatization**

#### **2.3.1 Privatization would force an immediate tax increase and/or a massive increase in the national debt.**

Since Social Security revenues would be drastically cut by any privatization plan, additional money would be needed to pay outstanding obligations to those already retired or about to retire.

This money would have to come either from new taxes or from new borrowing.

The New York Times in a January 24, 2005 editorial states 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<sup>1</sup>. 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’s 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.” By 2030, “the national debt would be as big as the economy itself.” Not only would this erode living standards, but it would force the government to make cuts in essential programs, including Social Security benefits and Medicare. “Everything would be on the table.”

---

<sup>1</sup>According to Krugman (Jan. 11, 2005), “By the time privatization started to save money, if it ever did, the federal government would have run up around \$15 trillion in extra debt.”

### **2.3.2 Private accounts would not be insured.**

They would be entirely equivalent to the savings that people had in bank accounts that all vanished in the Depression.

### **2.3.3 Private accounts are not insurance.**

Social Security is. You can't "run out" of your Social Security account, because you don't have an account. But a private account is just that. There's a fixed amount in it, and if it runs out, that's just too bad for you.

For example:

What can someone who tries to put aside some money for savings expect to have upon retirement? Suppose someone in the lower income quartile, earning say just under \$21,000 per year at today's wages, was able to contribute to a 401(k) program at their company, putting aside 3% of their income and receiving a 3% match. Assuming a 2% wage growth and a 5% annual return on investment, such a person would have accrued something on the order of \$175,000 after 30–35 years in the workforce. If the person's final income was on the order of double that at the start of the employment period, (achieved with a 2% wage growth), such a person would then be earning about \$40,000 per annum. Let's further assume that the drawdown of the retirement fund is at 75% of the final salary, so that \$30,000 per year must be withdrawn. With such a withdrawal rate, the retirement fund would be exhausted in 7–8 years. Since the life expectancy for a woman at age 65 is about 20 years, such a woman would outlive her savings by about 12 years. For a man the situation is somewhat better in that his life expectancy at age 65 is only 15 years; thus, he would outlive his savings by about 7 years.

And this assumes a favorable investment climate throughout the years that withdrawals are made. If returns are negative for only a few years it is likely that funds will be depleted more rapidly, thus increasing the likelihood of a person outliving his/her savings. If Social Security was not there for such a person, even one fortunate enough to have accumulated a small nest egg, how much more dire the plight of those individuals who had no savings.

Even for higher income earners, say those at the median level, the situation isn't that much better. Even though they would have a larger investment pool, they would also be withdrawing a larger dollar amount since their standard of living is proportionally higher. Moreover, the life expectancy of higher income earners might be expected to be greater since they would have had access to better medical care over their lifetimes. It isn't until one reaches the upper few percent of income earners that substantial savings pools can be created.

### **2.3.4 Early withdrawals**

Private accounts would probably be like 401(k) or 403(b) accounts—they would probably be subject to withdrawals in cases of crises. There are many people who have to deal with job loss, catastrophic illness, or other crises in their lives. They would have to withdraw money from their private accounts, leaving them destitute later.



### 2.3.5 Overhead costs, and efficiency

The overhead costs of administering Social Security are minuscule—under 1%. HMO overhead, by comparison is about 40%. After 9/11, Social Security checks to survivors went out within a week. Private insurance companies were still haggling about benefits months later.

Administrative costs for Social Security are less than 1 percent of benefits. According to the American Council of Life Insurance, administrative costs for private insurance are between 12 and 14 percent of annual benefit amounts. Public opinion polls conducted by the Roper organization, however, show that the public’s “median” guess for the administrative costs of Social Security as a percentage of benefits was more than 50 percent. (Century Foundation, 2005)

Under any scenario, overhead costs, both monetary and bureaucratic, for private accounts would be much greater than the current overhead costs of Social Security<sup>2</sup>

Here is the experience of two countries who have tried the experiment of private accounts as a substitute for government insurance programs:

**England:** “Britain’s experiment with substituting private savings accounts for a portion of state benefits has been a failure. A shorthand explanation for what has gone wrong is that the costs and risks of running private investment accounts outweigh the value of the returns they are likely to earn. On average, fees and charges can reduce pension lump sums by up to 30 percent on retirement. The nation’s savings industry, which sells those private accounts, has already acknowledged this.” (Cohen, Jan. 11, 2005)

In the same article, it is reported that hundreds of thousands of persons are going back into the government system, because their return has not been dependable and they financially get more return from the government.

**Chile:** The New York Times (Rohter, Jan. 27, 2005) reported that hidden fees in the Chilean private investment program (which President Bush has held up as a model to be emulated) “may have soaked up as much as a third of [the] original investment.” (And roughly half the Chilean labor force is either outside the system altogether, or their contributions are not sufficient to ensure even what is regarded there as a minimum pension. Those who stayed in the government’s original plan are getting monthly pensions “twice as high as everyone else.”)

### 2.3.6 Predicting the future

The case for private accounts depend on an annual rate of return of 6.5 or 7 percent after inflation for the next 75 years. Now given the official gloomy prediction of economic growth, and given the fact that profits grow about the same as the economy, this means that stock prices would have to grow considerably faster than profits for the next 75 years. This would make the price-earnings ratio of stocks ridiculously high. Right now it’s about 20. In 75 years, by these predictions, it would be

---

<sup>2</sup>There is an argument that if the government makes all the investment decisions and in effect treats all the accounts as one big account, the overhead costs would be much lower. This is true, but in that case, you really can’t say that people have individual accounts over which they have any control—which is a major goal of every privatization proposal. (Source: Krugman (Dec. 10, 2004). Also see Coy (Feb. 8, 2005).)

about 100. This—even if it were to happen—is nothing but pure speculation, and a sign of extreme economic instability.

So one of two things is true:

- either the Social Security Administration’s actuaries are grossly underestimating future economic growth—in which case there is no problem at all,
- or the whole privatization computation collapses.

(Krugman, Feb. 1, 2005)

### 2.3.7 The effect on other investments

The success of private accounts will also depend on the “investment climate.” What kind of investment climate are we likely to experience over the coming decades? This area is the most difficult to assess since it involves market predictions, which are subject to many factors that can not all be fully anticipated. However, it is clear that with the growing number of retirees, there will be a shift toward liquidation, rather than accumulation, of financial assets in order to pay for retirement. For example, a retiree will be drawing down the nest eggs accumulated in 401(k), 403(b), and IRA accounts, as well as other personal accounts. Moreover, the Trust Fund will also have to liquidate assets in order to provide the flow of funds for the growing obligation of monthly social security checks. In the face of such an investment climate it is not clear how the additional borrowing of, say, two trillion dollars to finance privatization is likely to affect the markets.

It is possible that the bond markets will be pressured under such an additional burden and that there will be an imbalance of sellers over buyers, thus driving down the price of bonds. (The Social Security Trust Fund, in particular, is invested entirely in U.S. Government bonds. To access the money invested in these bonds, they would have to be sold. This would tend to drive down the price of bonds.)

When the price of a bond declines, its yield increases, driving interest rates higher.

For example: If I have a bond that I bought for \$100 and which pays 15% interest each year, then I get \$15 a year over the life of the bond. If I have to sell the bond before its due date, and if there are so many bonds being sold that I can’t sell it for \$100, I will have to sell it for less. To make the example simple, suppose I have to sell it for \$50. The buyer of that bond now has a bond which cost \$50, and which still pays \$15 per year—that’s an interest rate of 30% per year. And no one is going to invest in anything paying a lower interest rate as long as they can buy such bonds. So increasing the number of bonds for sale drives down the price of bonds, which in turn *raises* the general interest rate.

This increase in interest rates will increase the cost of any additional borrowing that may be needed to finance the social security obligations that are no longer covered by current payments into the system when a portion of such payments is diverted into private accounts. When interest rates increase, it can force equity prices (such as the prices of stocks) lower, as capital is attracted to the higher-paying less risky bond instruments. If equity prices fall, it can force retirees to sell their stocks and other equity at a faster rate to cover their expenses.

Thus, it is possible that a privatization scheme could result in a lowering tide that could affect all ships negatively. Additional borrowing during a period when the boomers switch from asset accu-

mulation to asset distribution is not necessarily a prescription for healthy markets. It is important to remember that professional money managers always stress the importance of diversification in allocating one's financial assets. Too heavy a reliance on favorable assumptions for the financial markets can place one's assets at risk, which is precisely the condition that should be minimized during retirement.

## 2.4 Will there be a future bonds crisis?

This brings up a related point: The reasoning in the last section could be used to support an argument that Social Security is facing a crisis in any case because there is no way its bonds can be sold without degrading their value.

This is actually Alan Greenspan's main concern (Orr, November/December, 2004).

To the extent this is true, that is only because the Social Security Trust Fund is invested entirely in U.S. Government bonds, and this has been used to balance the budget (in years past) or to provide tax breaks to the wealthy (under the current administration). In effect, the Bush administration's tax breaks "have given away revenues meant to provide for workers' retirement as tax cuts for the wealthiest 10% of the population." (Orr, November/December, 2004)

However, these funds could have been (and still could be) invested productively by the government, in ways that would stimulate the economy. For instance, they could fund the training of more doctors and nurses, and the construction of elder facilities, all of which will be needed in the future. These (as opposed to spending money on the war in Iraq) are investments that build our economic infrastructure and that result in increased payroll tax revenues.

## 2.5 Actual ways to ensure the solvency of the Social Security Trust Fund.

John Miller's article (Miller, November/December, 2004) mentioned above, has a good discussion of this. For instance:

- Raise the cap on wages subject to payroll taxes. Right now only 84.5% of all wages are subject to this tax. (As of 2005, anything you earn over \$90,000 per year is not taxed.) Historically, however, 90% of all wages were subject to the tax. Raising the cut-off to 90% would eliminate nearly 2/3 of the deficit projected *by the Social Security Administration* (and as we already pointed out, this projection of a deficit is seriously flawed). So eliminating the cut-off completely would solve any problem anyone could think of.

If this results in "too much" money, we then have an opportunity to increase benefits, or provide better funding for Medicare.

- Restoring the estate tax (taxing any inherited wealth over \$3.5 million per person—this would affect only the wealthiest 0.3% of taxpayers) would bring in more than enough to handle any problems.

In fact, according to the Congressional Budget Office, the money necessary to extend the life of the Trust Fund into the 22nd century, with no change in benefits, would require additional revenue about equal to 1/4 of President Bush's tax cuts, which again overwhelmingly benefit the extremely wealthy. (Krugman, Dec. 7, 2004)

- Bring newly hired state and local government workers into the system. This alone would eliminate 30% of the Social Security Administration’s projected deficit.

### 3 What lies behind the controversy: two world-views

#### 3.1 The history of opposition to Social Security

One could go on answering with ever more facts the reasoning put forward by those who claim that Social Security is facing a crisis. There are many people, however, who faced with two sides dueling over facts, will just throw up their hands and say to themselves that either both sides are lying or that maybe both sides are partly right—to split the difference, as it were. This leads to a feeling that the right thing to do is to “compromise.” We have already begun seeing this kind of talk—see for instance Thomas Oliphant’s op-ed in the Boston Globe on Feb. 6, 2005; more on this below.

It does seem implausible that a person would say something in extremely strong and heated terms—using loaded and powerful words like “bankrupt”—unless there were some sound justification for what they were saying. And in the other direction, it seems equally implausible that a person would make arguments that are misleading at best, and for the most part just false, *unless there is something else going on*. We have to address this, because otherwise the debate can seem overwhelmingly confusing and we won’t really reach people.

It’s important for us to point out that the attacks on Social Security have a long history, having nothing to do with theories of a present-day crisis.

When Social Security was first instituted in the 1930’s, a former head of the U.S. Chamber of Commerce called it one of many “attempts to Sovietize America.” The editor of Forbes magazine wrote, “It has not been established why politicians should invade the field of voluntarily subscribed annuities, since this field is already equitably covered by thoroughly trustworthy insurance companies.” (Gross, Jan. 16, 2005)

Playing on the fact that each worker was to receive a government number, the Hearst papers published front-page illustrations of a man wearing a chain with a dog tag. Henry Ford said Social Security could cost Americans their basic freedoms, like the right to change jobs or to move from one town to another. (Lowenstein, Jan. 16, 2005)

Speaking for Goldwater in a 1964 televised speech that helped launch his own political career, Ronald Reagan endorsed the idea of turning retirement security over to the private sector.

“Can’t we introduce voluntary features that would permit a citizen to do better on his own?” Reagan asked. “We are against forcing all citizens, regardless of need, into a compulsory government program.” (Thomma, Feb. 5, 2005)

In 1983, the Cato Institute devoted an entire issue of its journal to Social Security. An article (Butler and Germanis, Fall 1983) that became very influential in right-wing circles

suggesting ways of turning over at least some of Social Security to the private sector. It recommended:

- Consistent criticism of Social Security to undermine confidence in it.
- Building a coalition of supporters for private accounts, including banks and other financial institutions that would benefit from them.
- Assuring “those already retired or nearing retirement that their benefits will be paid in full.”
- Legislation making private savings plans such as individual retirement accounts more available and thus more familiar.

(Thomma, Feb. 5, 2005)

In the introduction to that same issue, the editor wrote (Dorn, Fall 1983),

Social Security is ultimately a manifestation of the welfare state. Real reform, therefore, may require constitutional change that effectively limits the taxing and spending power of government.

... We must also address the question of whether individuals have a right to social welfare and insurance.

More recently Peter Wehner, an aide to Karl Rove, wrote in a widely leaked memo, “For the first time in six decades, the Social Security battle is one we can win.” (Krugman, Jan. 11, 2005)

In other words, this is not an attempt to shore up some minor problems (which may well not even exist) in an incredibly successful system: it is a long term objective of people who fundamentally disagree with Social Security in its entirety.

### 3.2 Two world-views

The reason they do so is not that they are evil—certainly not in their own terms, at least. It’s that they really think that Social Security is bad—bad for people individually and bad for the country. They think this because they subscribe to an extreme version of a particular world-view, which we are going to call the “second world-view.” Here are the two world-views:

**The first world-view: We all have some responsibility for each other.** Social Security was founded during the Great Depression. It is a compact between the generations in this country. In religious terms, it is an expression of the commandment to “honor your father and mother.” It is a way of respecting and giving dignity to the life and work of every citizen in our country. This is a world-view, and a powerful one. So even when Ronald Reagan was sneering at “welfare queens”<sup>3</sup>, he was careful to claim (falsely, as it turned out) that his cuts in services would not shred the “social safety net.”

This world-view does not hold that everyone is entitled to a free lunch, or that lazy people are entitled to live high. But it does hold that we all, as a society, have a responsibility to make sure that everyone has an opportunity to an education, to have a job with dignity and a living wage, to obtain adequate medical care, and to enjoy some respect and care in old age.

---

<sup>3</sup>Just to remember, Reagan made up a story about a Chicago “welfare queen” who had ripped off \$150,000 from the government, using 80 aliases, 30 addresses, a dozen social security cards, and four fictional dead husbands. No one in the press could find this person, but Reagan continued to use the story, and the damage had been done (Dreier, Jun. 10, 2004; Baldenegro, Jun. 11, 2004).

**The second world-view: Individuals are all that matter.** Sometimes, however, we hear people say things like this: “It’s my money. I should be able to decide how to invest it, not the government.” Of course this can be refuted simply as a matter of fact: It’s not “my money”—it’s “our money.” But the real force behind this idea is that the notion of “our money” is somehow suspect. This is part of a second, rather different, world-view.

In this second world-view, social compacts and social programs are by their very nature bad things, maybe even unethical. In this view, such programs encourage laziness. They amount to a subsidy of people who are lazy, stupid, or unproductive, by the rest of us, who are smart and work hard and save our money, and should reap the full benefits of our labor.

This second world-view does not value a society in which people care for each other, except as individuals. The clearest statement of this comes from Margaret Thatcher: “There is no such thing as society. There are only individuals and their families.” The Peter Wehner memo asserts that “... We have it within our grasp to move away from dependency on government and toward giving greater power and responsibility to individuals...” (Strope, Jan. 6, 2005)

President Bush’s notion of an “ownership society” draws precisely on this notion that the government has no useful role to play in the public welfare. After all, if he were motivated by the need to “fix” Social Security, he wouldn’t have the need to contrast it with “ownership.” And the memo by Wehner makes it clear that he saw a good opportunity right now to finally achieve a long-term “conservative” goal—getting rid of social security; and the first step in doing that would be to convince people that the system was in crisis. The point being that the “crisis” came second. The long-term goal was the real motivation.

In our view, this is what lies behind the Administration’s proposal to privatize Social Security. It’s not a proposal to “fix” Social Security—it is a proposal to weaken it, and ultimately to destroy it, because according to the second world-view, it is an inherently bad thing.

These two world-views are similar to what George Lakoff has characterized as the “nurturing parent” vs. the “strong father” model.

They are not in their essence completely incompatible: each of us no doubt accepts part of each. For instance, one can easily believe strongly in the importance of Social Security as a bond between the generations and an institution that holds us together as a decent society, and still believe in the importance of personal initiative and responsibility. But it is fair to say that those opposed to Social Security have bought into an extreme form of the second world-view. It’s important to realize that this is in no way an *ad hominem* argument. It is a fair representation of a point of view which is explicit and commonly discussed in right-wing circles. It deserves to be taken on its merits, and not ignored.

It’s important that we discuss these issues, because if we don’t, then it can easily seem like there are these two opposed sides throwing numbers at each other, and who can tell who’s really right? It’s important for people to realize that those who are trying to “reform” Social Security are really trying to do away with it because of a vision they have of an country which is not a society but a collection of atomized individuals.

## 4 Their strategy, and ours: framing the issue

### 4.1 Death by a thousand cuts

The right-wing program to demolish progressive social programs is not a one-time effort. It is a long-term program. They really do see things in a historical perspective.

One of the things that makes Social Security so successful is that it directly benefits everyone. So any attempt to touch it is correctly regarded as outrageous.

If the opponents of Social Security act as they have acted in the past in many similar circumstances, we can expect something like the following to happen:

- The Bush administration, together with a number of right-wing think tanks, will continue to attempt to convince people that there is an imminent crisis in Social Security. In the words of the Wehner memo, the administration “must establish an important premise: The current system is heading toward an iceberg. ... We need to establish in the public mind a key fiscal fact: Right now we are on an unsustainable course. That reality needs to be seared into the public consciousness; it is the precondition to authentic reform.” (Strope, Jan. 6, 2005)

This sort of fear-mongering has been going on for some time, and many people believe it. The United Food and Commercial Workers (an AFL-CIO union) recently polled their members and found that 34% believe Social Security won't be there when they retire and 28% are not sure. (<http://www.ufcw.org/worker.political.agenda/social.security/ssresults.cfm>)

- The Bush administration will put forth a proposal that is in fact regarded as outrageous, and will justify it dishonestly by appeals to a non-existent “crisis.”
- But rather than confronting this directly, there will be a significant number of spineless Democrats who will be all too ready to “compromise.” We will hear that we are only making “a few adjustments” to Social Security; that the “social safety net” is being preserved. Those in poverty will still get their payments. Anyone over 55 will still get what they are expecting. Some legislators will tell us, “I didn't like it, but I voted for it because otherwise even worse changes would have been made.”
- The effect of this will be to peel off one or more groups of people who right now should be able to count on Social Security, but who no longer will be able to. This will drastically diminish the appeal of Social Security as a broad-based popular program. It will turn it into a “welfare program.”
- At the same time, it will ensure that the next time—which may be in 5 or 10 years—that a right-wing administration goes after what's left of Social Security, their plan will seem just a little less outrageous. It will make a little more sense to many people. And so on.

The New York Times has already said in an editorial that Social Security could be fixed by a modest tax increase and modest benefit cuts. Maybe we will hear of proposals to cut back Social Security benefits but add funding to Medicare. The Wall Street Journal reported on Feb. 1, 2005 that congressional Democrats were looking for a “bipartisan compromise” to Social Security.

Our position should be that any such proposal is the road to the destruction of a national treasure. It is the unreasonable posing as reasonable.

We have to oppose this kind of capitulation in the name of “compromise.” There is nothing to compromise on.

## 4.2 Framing the issue

Words are important. The words that are used to talk about an issue frame the way people think of it. So when the right-wing Cato Institute (<http://www.socialsecurity.org>), which is referred to as an authoritative source of information by the House and Senate Republican Conferences (House Republican Conference and Senate Republican Conference, 2005), refers to those opposing privatization as “anti-choice” and as “the anti-ownership crowd”, they are tapping into some powerful images of the government as the enemy of ordinary people. This is rhetoric that has been repeated for so many years that we often aren’t even aware of it. But it is tremendously significant in many people’s thinking. In a very similar way, the American Heritage Foundation (<http://www.heritage.org>) (also referred to by the Republican document) talks about allowing “younger workers to invest a portion of their Social Security payroll taxes in personal accounts that they own and that the government can never take away.”

Many of us are not used to this kind of careful attention to wording, and as a result we often fall into the trap of using the language of those who are opposed to Social Security. For instance, a set of talking points put out by House Democratic leader Nancy Pelosi refers to “Social Security reform.” (Pelosi, Jan. 24, 2005) Using the term “reform” already concedes the main point. The Bush administration has framed the issue as one of a broken system needing reform. There is no reason to agree to speak in these terms.

An op-ed column by New York Times columnist Nicholas Kristof (Kristof, Feb. 5, 2005) starts out by stating that “Liberals are making a historic mistake by lining up so adamantly against Social Security reform.” The entire premise of his article is that Social Security is in trouble—“... there is a real problem out there”—and that it needs “rescuing.” Without giving any real details, he holds up Singapore as a model of how private investment can help individuals and help the economy<sup>4</sup>. Kristof characterizes the Democratic response to Bush’s proposal as “just say no.” In fact, many Democrats have made concrete suggestions such as we have done above in this report, and Kristof himself makes some of the same ones, such as reinstating the estate tax. But the main impression given by his article is that there is a real problem, and that liberals have to be willing to compromise.

Thomas Oliphant in a Boston Globe op-ed (Oliphant, Feb. 6, 2005) claims that the Democratic party is “blinded by its distrust of [Bush].” He reports approvingly that “a small group of moderate senators from both parties began meeting to start a good-faith search for common ground, including Democrats like Joe Lieberman of Connecticut and Republicans like Olympia Snowe of Maine.” This kind of language paints us as unreasonable people who are acting in bad faith. Oliphant is saying that there are two camps: those of us who want to preserve Social Security as it is, and the Bush administration privatization proposal. In the language he is using, both these positions are extreme, and so we need “moderates” who will act in “good faith”. We do not need to concede the term “moderate” to people like Joe Lieberman. If “moderation” means compromising on Social Security, then there is really nothing more to say.

---

<sup>4</sup>The case of Singapore is actually quite problematic. It’s true that Singapore instituted a system of private accounts. But these accounts can be used before retirement to pay for housing, medical expenses, and education. This has indeed benefited the economy and led to 90% of people owning their own homes. But these early withdrawals have also resulted in the situation that only 40% of Singaporeans are in a position to retire on their savings. (Davis and Moffett, Feb. 3, 2005)



It is actually quite likely that a privatization plan cannot really succeed politically, at least not right now. It is also quite likely that the Bush administration knows this. A lot of what they are doing is really meant for the long term. They are trying to set the terms of the debate, to characterize Social Security in people's minds as a "problem." A "moderate", "bipartisan solution" is quite likely exactly what they are looking for right now.

To be specific: any time we hear talk of a "bipartisan compromise" in order to be "reasonable", or to solve the Social Security "crisis", or to avoid "bankruptcy", or to "reform" Social Security, we are hearing the framing of those who want to destroy Social Security.

How do *we* frame the issue? We frame it as a matter of preserving a compact between the generations; as a matter of honoring your father and mother, of providing for the disabled, the widow, the orphan; as a matter of keeping the trust that makes us a society and not a pig pile.

Social Security is not a program in crisis. It is not a problem to be solved.

Social Security is the most wildly successful social program in history. It needs to be strengthened and extended, not weakened or "reformed."

And we need to say this, and our representatives in government need to say this.

## References

- Anrig, Gregory, *Ten Myths About Social Security*, Jan. 26, 2005. Published on-line by the Century Foundation; available at <http://www.socsec.org/publications.asp?pubid=507>.
- Baldenegro, Salomón R., *Reagan's legacy falls short with unions, the poor*, Tucson Citizen, Jun. 11, 2004. Available on-line at [http://www.tucsoncitizen.com/index.php?page=opinion&story\\_id=061104b5\\_baldenegro](http://www.tucsoncitizen.com/index.php?page=opinion&story_id=061104b5_baldenegro).
- Bush, George W., *President Discusses Social Security in Radio Address*, weekly radio address, Feb. 12, 2005. Available on-line at <http://www.whitehouse.gov/news/releases/2005/02/20050212.html>.
- \_\_\_\_\_, *State of the Union Address*, Feb. 2, 2005. Available on-line at <http://www.whitehouse.gov/news/releases/2005/02/20050202-11.html>.
- Butler, Stuart and Peter Germanis, *Achieving a "Leninist" Strategy*, Cato Journal, Fall 1983. Available on-line at <http://www.cato.org/pubs/journal/cj3n2/cj3n2-11.pdf>.
- Center for Disease Control, National Center for Health Statistics, *National Vital Statistics Reports*, Nov. 10, 2004. Available on-line at [http://www.cdc.gov/nchs/data/dvs/nvsr/nvsr53/nvsr53\\_06.pdf](http://www.cdc.gov/nchs/data/dvs/nvsr/nvsr53/nvsr53_06.pdf).
- Century Foundation, *Social Security Reform (Revised 2005 Edition): A Century Foundation Guide to the Issues*, 2005. Available on-line at <http://www.tcf.org/publications.asp>.
- Cohen, Norma, *A Bloody Mess*, The American Prospect Online, Jan. 11, 2005. Cohen is senior corporate reporter at the Financial Times (London) and is currently responsible for coverage of pension issues. The article is available on-line at <http://www.prospect.org/web/page.wv?section=root&name=ViewWeb&articleId=8997>.
- Coy, Peter, *Whose Social Security Stash Is It?*, Business Week Online, Feb. 8, 2005. Coy is economics editor for Business Week. The article is available on-line at [http://www.businessweek.com/bwdaily/dnflash/feb2005/nf2005028\\_8485\\_db045.htm](http://www.businessweek.com/bwdaily/dnflash/feb2005/nf2005028_8485_db045.htm).
- Davis, Bob and Matt Moffett, *From Nations That Have Tried Similar Pensions, Some Lessons*, The Wall Street Journal, Feb. 3, 2005.
- Dorn, J. A., *Social Security: Continuing Crisis or Real Reform?*, Cato Journal, Fall 1983. Available on-line at <http://www.cato.org/pubs/journal/cj3n2/cj3n2-1.pdf>.
- Dreier, Peter, *Urban Suffering Grew Under Reagan*, Newsday (New York), Jun. 10, 2004. Quoted on-line at <http://www.commondreams.org/views04/0610-01.htm>.
- Gross, Daniel, *Social Security Bashing: A Historical Perspective*, New York Times business section column, Jan. 16, 2005.

Heritage Foundation, *Issues in Brief: Social Security*, 2004. The Heritage Foundation is a right-wing think tank referred to approvingly by the House and Senate Republican Conference document *Saving Social Security*. This article is available on-line at <http://www.heritage.org/research/features/Issues2004/socialsecurity.cfm>.

House Republican Conference and Senate Republican Conference, *Saving Social Security: A Guide To Social Security Reform*, 2005. This is a 103-page strategy document with talking points and model speeches in the service of Social Security privatization. The document was leaked and is widely available on the web.

Kristof, Nicholas, *Social Security Poker: It's Time for Liberals to Ante Up*, New York Times op-ed, Feb. 5, 2005.

Krugman, Paul, *Borrow, Speculate and Hope*, New York Times op-ed, Dec. 10, 2004.

———, *Inventing a Crisis*, New York Times op-ed, Dec. 7, 2004.

———, *Little Black Lies*, New York Times op-ed, Jan. 28, 2005.

———, *Many Unhappy Returns*, New York Times op-ed, Feb. 1, 2005.

———, *The Iceberg Cometh*, New York Times op-ed, Jan. 11, 2005.

Lowenstein, Roger, *A Question of Numbers*, New York Times Magazine, Jan. 16, 2005.

Miller, John, *The Social Security Administration's Cracked Crystal Ball*, Dollars and Sense, November/December, 2004. Miller is Professor of Economics at Wheaton College. The article is available on-line at <http://www.dollarsandsense.org/1104econ.html>.

Oliphant, Thomas, *Beyond Social Security*, Boston Globe op-ed, Feb. 6, 2005.

Orr, Doug, *Social Security Isn't Broken*, Dollars and Sense, November/December, 2004. Orr is Professor of Economics at Eastern Washington University. The article is available on-line at <http://www.dollarsandsense.org/1104orr.html>.

Pelosi, Nancy, *Risky GOP Proposal will cut Social Security Benefits*, Jan. 24, 2005. This is a set of talking points put out by the House Democratic Leadership. Available on-line at <http://democraticleader.house.gov/document.cfm?documentID=53>.

Rohter, Larry, *Chile's Retirees Find Shortfall in Private Plan*, New York Times, Jan. 27, 2005.

Spriggs, William E., *African Americans and Social Security*, Dollars and Sense, November/December, 2004. Spriggs is a senior fellow with the Economic Policy Institute and former executive director of the National Urban League Institute for Opportunity and Equality. The article is available on-line at <http://www.dollarsandsense.org/1104spriggs.html>.

Strope, Leigh, *E-mail details case for cuts in Social Security*, Boston Globe, Jan. 6, 2005.

Thomma, Steven, *Social Security Overhaul is Long-Standing Conservative Dream*, Knight-Ridder Washington Bureau, Feb. 5, 2005. Thomma is Knight-Ridder's chief political correspondent. The article is available on-line at <http://www.realcities.com/mld/krwashington/news/columnists/steven.thomma/10820193.htm>.