Modernizing Social Security

Bring this Great Depression relic into the age of investing, or watch it collapse

By Jeffrey Brown and Brian Jenn

A monumental demographic shift is taking place in the United States: The number of workers per retiree in this country will fall from 3.3 to just 2.1 over the next generation. This puts tremendous pressure on our Social Security system. Within just 15 years, Social Security will start to run cash deficits, and by 2050, the benefits promised under current law would cost nearly 18 percent of the nation's payroll, while revenues would be just over 13 percent. That yawning chasm represents an unsustainable shortfall of several *hundreds* of billions of dollars a year.

The aging of our population will also wreak havoc in other parts of the federal budget. The portion of the nation's resources eaten up by Medicare (which provides government health coverage to the elderly) will zoom from 2.3 percent of the economy today to 8.5 percent by 2075. Absent dramatic reforms, Medicare and Social Security together will then consume more than 15 percent of the Gross Domestic Product. All personal income taxes currently paid to the federal government amount to only about 9 percent of GDP.

With federal spending on the elderly consuming a skyrocketing proportion of the nation's output, it is imperative that we take action now to lessen the economic burden on future generations. Social Security's finances must be balanced, which will require committing new revenue or slowing the rate of growth of traditional

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benefits. Younger Americans will have to take greater responsibility for their own golden years—by increasing their personal saving. Higher personal saving will have two benefits: It will stoke individual retirements by fattening the personal wealth older people have accumulated. And it will improve the economy as a whole: More individual saving means more investment. The larger economic pie will make it easier for the nation to pay for the soaring old-age transfers that lie ahead.

Contributions to individual accounts within Social Security may represent the only chance many families have to build wealth.

Personal saving for retirement can take several forms. Individuals may put away money on their own initiative. This can be encouraged through tax incentives, as with Individual Retirement Accounts (IRAs). Personal saving can also occurr through employer pension plans, which likewise receive favorable treatment under the tax code. Finally, personal saving could take place through a government pension system that allows individuals to steer some of their income into private accounts.

President George W. Bush has proposed to modernize and strengthen Social Security by creating voluntary, individually controlled personal retirement accounts that would augment the existing Social Security safety net. While personal accounts alone will not eliminate Social Security's financial woes, they do offer many advantages over the current system. Under such a

Social Security Doublespeak

By Charles E. Rounds, Jr.

A Social Security "account" bears no legal resemblance whatsoever to a bank account. Social Security is not an insurance program. Social Security bestows no contractual or property rights on workers. There is no trust fund as that term is commonly understood, no funded segregated accounts, no IOUs or bonds stored away. These matters were settled by two U.S. Supreme Court cases years ago (*Helvering v. Davis* in 1937 and *Flemming v. Nestor* in 1960).

Legally speaking, Social Security is nothing more than an umbrella term for two unrelated schemes: a taxation scheme which vacuums up a noticeable chunk of every worker's compensation through a payroll levy, and a welfare scheme that sends monthly checks to millions of elderly people. The truth is, people who receive Social Security are mere welfare recipients—individuals with a hope or expectation of future benefits, but no enforceable right to them. The truth is that workers and their families have no legal claim on the FICA tax payments they make into the U.S. Treasury. Those funds are gone within days or weeks of when they are paid in, commingled with the general assets of the U.S. government and spent for whatever Washington is underwriting these days.

Politicians engage in horribly misleading doublespeak when it comes to Social Security. Al Gore went on about his "lockbox"; Edward Kennedy refers to Social Security as "social insurance." This leaves a confused public with the false impression that Social Security is already quasi-privatized, and that nothing needs fixing.

Of course, the Left strongly prefers the status quo. Any privatization would reduce the dependency of seniors on the state, and also trim the flow of tax revenues into government coffers. What better way to combat privatization initiatives than with private sector language?

The Right also obfuscates. It dances around the word "welfare," and talks instead of "promises" and "guarantees," because it doesn't want to insult the folks down at the senior center. Whatever those "promises" or "guarantees" may be in the politician's mind, they are not legally enforceable. One Congress cannot bind future Congresses when it comes to continuing a welfare program—which is, like it or not, what Social Security is. And it is inappropriate for politicians to call Social Security either "solvent" or "bankrupt." A welfare program funded by general tax revenues cannot go bankrupt because its sponsor is a governmental entity with the power to tax and print money, not to mention reduce or eliminate future benefits altogether.

Advocates of Social Security reform will be more effective if they tell the public the truth about the program. They should simply admit that a Social Security recipient is a welfare recipient, and that in this day and age the dole may not be the best way to achieve retirement security. Then they should ask the public to consider the advantages of the personal investment alternative. They may be pleasantly surprised by the response.

"Government can't create a trust fund by saving its own IOUs, any more than I could create a trust fund by writing '*I get a chunk of cash when I turn 21*' on a piece of paper. Social Security is just such a piece of paper, except it says, '*I get a chunk of cash when I turn 65, the government promises.*' Consult American Indians for a fuller discussion of government promises."

—from P. J. O'Rourke's new book *The CEO of the Sofa*

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