

Testimony on Social Security to New York City Council Committee on Civil Service and Labor

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Doug Henwood

Social Security: leave it alone, there's no crisis

My name is Doug Henwood. I'm an economic journalist who's been writing about Social Security and related pensions issues for over a decade. I edit *Left Business Observer*, a newsletter on economics and politics, and am the author of three books, most recently *Wall Street: How It Works and for Whom* (Verso, 1997), and *After the New Economy* (forthcoming in paper in June from the New Press). I also host a weekly radio show on WBAI.

I'd like to make several quick points; I'll be happy to refer anyone who's interested to other pieces I've written for more detail.

The bankruptcy projections are bogus. All of the debate around Social Security proceed from the near-universal assumption that it's headed for the rocks. There are differences on the details, but few challenges to the alleged certainty of the prediction.

The source of this prediction is ultimately the annual report of the Trustees of the Social Security system, issued every spring. On close examination, these projections are, to put it kindly, dubious. On almost every count, the Trustees make the gloomiest assumptions imaginable.

First, the demographic assumptions. Of course, as my generation, the baby boom, ages, the share of the elderly in the total population will rise. But by how much? Today, about 12% of the population is over 65; the Trustees project this rising steadily to 23% in 2080. The Census Bureau, by contrast, projects that rising to less than 22%. That difference, slightly over a percentage point, may not sound like much, but if the Census Bureau is right and the Trustees are wrong, that would reduce the system's projected deficit by one-quarter.

But that's not all. The Trustees project a sharp falloff in population growth — a 60% decline from current levels, meaning fewer young people and more older people. Part of the reason for this is decline that they project immigration to fall sharply from current levels — important because most immigrants are

young, and therefore net contributors to Social Security. Why these assumptions, so at odds with history? They don't really say.

That sharp falloff in population growth is partly responsible for a sharp decline in the projected growth of the labor force. But it's not just a matter of slower population growth — they're projecting that the labor force will grow more slowly than the population, even though the workforce has been growing twice as fast as the broad population for the last 45 years. Again, why should the future be *that* different from the past?

The economic assumptions are equally gloomy. Even though we've been hearing a lot about the productivity revolution of the last decade, that's nowhere in the projections: they see productivity growth over the next 75 years as being 20% slower than it's been over the last century. Since economic growth is the sum of the growth in the labor force and in productivity, they're projecting that economic growth will average 2.0% over the next 75 years, compared with 3.4% over the last 75 years — a rate comparable to that of the 1930s. If we're really facing a 75-year near-depression, we should be having a conversation about that. But if the economy grows in line with historical averages, Social Security faces no funding shortfall at all. The System is sound as far as even the youngest eyes can see.

Enough number-crunching. In closing, I'd like to emphasize the different visions of society between the privatizers and the architects of the Social Security system. The privatizers see a world in which we're all lone individuals, in ceaseless competition with each other, with no responsibility to anyone but ourselves. Behind Social Security is a vision of solidarity between people of all ages, races, and incomes. Do we really want to throw scores of millions of older people on the mercies of a volatile and pitiless stock market? Or do we want a society in which our elderly are guaranteed that they won't have to decide between buying food and buying medicine?

June Zaccone

My name is June Zaccone, and I am an economist speaking for the Executive Committee of the National Jobs for All Coalition, a group working toward jobs for all at decent pay. Our work on Social Security stems from the direct relationship between the health of Social Security and employment. The more people at work and the better their pay, the more funds flow into the Social Security Trust Fund through the payroll tax.

Congratulations to the City Council for its resolution on Social Security. It recognizes Social Security as our most successful and popular social insurance program for seniors and for younger people, too. That you have taken it up also suggests its significance for local government. Social Security keeps many seniors out of poverty and off welfare. Now, one in twelve seniors are poor. Without Social Security, nearly one in two would be poor. Social Security also supports local finances by keeping businesses healthier, even during recessions. With seniors continuing to have income, local governments have the advantage of higher sales and business tax collections.

Despite the resolution's excellent support of Social Security, it concedes an important argument that may leave an opening for changes in Social Security. Privatization is not the only way to destroy Social Security. It can also be destroyed by benefit cuts which weaken its political support. The resolution states that the President's plan does not "solve for the predicted short fall of finances that may, in the long term, create huge deficits in the program". As Robert Reich, former Labor Secretary and Social Security Trustee says, "I don't believe Social Security needs fixing." [http://www.usatoday.com/news/opinion/2005-03-09-older-benefits_x.htm]

There is no reason to change Social Security in any way right now. No one can forecast accurately for even one year ahead, much less for 75, as the Trustees are obliged to do. Except for the current year, their predictions about the health of the Trust Fund have been underestimates every year for nearly a decade. Using Trustee economic growth projections, which fall far short of our actual growth rates of the last 40 years, nearly everyone agrees that beneficiaries are

fully covered until at least 2041. These projections build in the decline in numbers of workers per retiree that are said to cause the funding problem. [I have appended a summary of these predictions and their consequences for the Trust Fund.] It would be prudent to wait and see what our economic experience will be over the next few decades. The Trust Fund is sufficient for the next 35 years. If, as the Trustees assume, our growth rate averages little more than half that of the previous forty years, there will be time to adjust Social Security, or better, to improve our economy's performance. If their more realistic assumption—growth at about 80 percent of our previous experience—is accurate, the Trust Fund will grow without limit. If the economy is healthy, so too will be Social Security.

Occasionally someone describes the crisis year as 2017, the year that we are projected to begin tapping the Trust Fund. President Bush has described the Fund as "worthless IOU's", but our creditors in China and Japan, and corporations around the world expect to be repaid. Why not seniors? Further, the President recently said, "I know some Americans have reservations about investing in the stock market, so I propose that one investment option will consist entirely of treasury bonds, which are backed by the full faith and credit of the United States government." I think it is safe to say that the second statement is the more accurate one. If the President believes that the Trust Fund is worthless, he should propose an immediate reduction in payroll taxes. Otherwise, his proposed benefit cuts seem to be an attempt at deficit reduction using the Social Security Trust Fund, with payroll taxes paid by ordinary workers.

Social Security benefits have already been denied to college students who are children of disabled or deceased workers, and by 2027, workers will have to work to age 67 for full benefits. At a time when increasing numbers of workers have no health insurance and no pension, when jobs are less secure, and when wages have lagged, forcing many people to cut into their savings, cutting Social Security benefits will shrink or destroy the last safety net. Thank you for giving me this opportunity to speak to you.

Paddy Quick

I appreciate this opportunity to contribute to the deliberations on Social Security by the New York City Council's Committee on Civil Service and Labor. I hereby submit an outline of my testimony, and will elaborate briefly on the major points of my testimony if time allows.

1. The Bush administration's proposals on Social Security constitute an assault on the basic principle that a society should be structured to ensure a decent standard of living for all of its members.

2. The claim that the Social Security System will be "bankrupt" in 2041 is the second of the Bush Administration's big lies. (His first big lie was that there were weapons of mass destruction in Iraq which posed an imminent danger to the US.) A large proportion of young workers, such as the students I teach, have become convinced by the use of this word "bankruptcy" that they will receive *zero* social security benefits when they retire. But even if nothing were to be done, and even if we were to accept the dire predictions of the Bush administration, the current Social Security law would provide future retirees with around 80% of promised benefits. And this would provide them with an income substantially higher than that of current social security recipients.

3. FDR's New Deal, with Social Security as its center piece, was opposed by conservatives. It was enacted, after bitter fights, as the result of an alliance between an active working class and the liberal wing of the capitalist class, that like John Maynard Keynes, believed that compromise was necessary to preserve capitalism. This compromise was, however, bitterly opposed by conservative economists, who have continued their organized opposition to the present day. Milton Friedman (writing in 1962 in his classic work *Capitalism and Freedom*) and the present day ideologues in the Heritage Foundation and the Cato Institute, have long been committed to the destruction of Social Security. Friedman listed among the government activities that could not be justified:

"Present social security programs especially the old age and retirement programs com-

prising people in effect (a) to spend a specified fraction of their income on the purchase of retirement annuity (b) to buy the annuity from a publicly owned enterprise." (p.35)

Thus he advocated not merely the establishment of private accounts but also the abolition of the entire social security system. (He also opposed minimum wage and rent control, and advocated the "denationalization" of public schools, i.e. the complete replacement of public schools with private schools, to be financed by school vouchers set at a "minimum" level.)

4. The neo-liberals of today are not interested in "reforming" Social Security. They want to destroy it. They argue that this country's Social Security system denies individual members of our society their freedom to allocate their income as they choose (although they display no such solicitude when it comes to the use of taxpayers' money to finance war.) They assume that the income that each individual receives is a just reward for his or her contribution to production, and that there is no such thing as involuntary poverty. People then, they argue, have a "choice" as to whether or not to provide for old age:

Those of us who believe in freedom must believe also in the freedom of individuals to make their own mistakes. If a man knowingly prefers to live for today, to use his resources for current enjoyment, deliberately choosing a penurious old age, by what right do we prevent him from doing so?." [Friedman p. 168]

5. I apologize for subjecting members of the Committee to what I regard as the rantings of a lunatic, but there is a frightening consistency to the right-wing agenda of Friedman and his followers. The proposed privatization of Social Security, and the drastic cuts in benefits currently proposed are, I believe part of a long-run strategy by the right to abolish an entire system of protection of human and labor rights established as the result of enormous struggle and the sacrifice of many lives. The undermining and eventual abolition of the Social Security System is only the first part of the agenda of the right. Part two, which is well

underway, is an assault on Medicaid, and this will be followed, I predict, by step three, an all-out war on Medicare. We must do everything we can to stop this juggernaut by protecting our Social Security system today.

6. Social Security was not set up to challenge the fundamental nature of capitalism, but to protect it. The injustices of a system which provided, and continues to provide growing wealth for the capitalist class through ongoing exploitation of the working class was particularly apparent in the Great Depression. Thus a section of the capitalist class was willing to join with masses of working people to provide a very small, but significant protection against poverty. Now, as much as we need to defend the Social Security Program, we need to acknowledge two flaws within the program, and a more fundamental flaw in the program itself.

7. One basic flaw in the program took the form of “fine print.” Domestic servants and agricultural workers were not “in the system.” Thus the “generosity” of the New Deal did not extend to the overwhelming majority of wage-earning African-Americans and Latinos, let alone to Native Americans. And today it does not cover the many undocumented workers who pay into the Social Security system but are unable to draw benefits. A second flaw was in its failure to cover women whose work had taken the form of household work. Married women who had never engaged in wage labor were entitled to social security benefits when their husbands died (if their husbands were within the system), but were and still are unable to claim benefits on the basis of their own un-waged labor.

8. But the fundamental problem with the system is one which we have to recognize today as we take up the task of defending it. Social Security was structured as a “contributory” program, rather than one financed out of general tax revenue. This meant that the Social Security program was presented to the people of the United States as a program in which those who paid money into the system could later draw on it. The alternative would have been a system which pro-

vided for the people of our society on the basis of a recognition of their humanity. A just society is one in which people who do work earn a living wage, in which everyone is provided for, if they are old, sick, or unable to work, and in which people are able to retire and enjoy their old age after a lifetime of work. Benefits could, as now, be designed so that retirement benefits were linked to previous income, but with a progressive element to favor those whose incomes during their working years were low.

9. The decision to structure Social Security as a contributory program, with the appearance of an insurance system, was made to avoid the charge that the program was a “socialist” one. This was undoubtedly essential for the passage of the Social Security law in a period when “socialism” was synonymous with evil, as it still is for many. Nonetheless those who designed our Social Security system included the word “social” in the title of the program. But they did not want to open the floodgates to those who looked at people as forming a social group, a society, rather than a collection of self-centered and selfish individuals. In this they agreed with the future assertion by a former-Prime Minister of the United Kingdom, Margaret Thatcher, that “There is no such thing as society.”

10. While most people have been content to view the program as one which guaranteed a decent standard of living to the elderly and disabled, the right-wing opponents of Social Security have continued to reassert that the program is merely a compulsory savings program. This lays the foundation for their argument that people could get a higher yield on their money in private accounts and that “freedom” requires them to be able to do so. And the next argument, of course, is that “freedom” should permit them to opt out of the system altogether if they so wish, i.e. to opt out of their responsibilities as members of society.

11. In immediate, practical terms, the conclusion I draw from my analysis is that in fighting to preserve Social Security we can move forward. We have an opportunity now to argue not only that there should be no cuts at all in future benefits and no extension of the

age at which people can draw full benefits, but that *we not only can but must draw on general tax revenue* in so far as this is necessary to finance future benefits. Many people have pointed out that a roll-back of the top-income tax cuts of 2001 and 2004 would be more than sufficient to deal with any projected shortfall. But I favor a more specific proposal: namely that we should restore the estate tax to its pre-2001 rate (as opposed to eliminate it as Bush has proposed) and put all of the revenue from this tax into the Social Security trust fund. Then our actuaries could get to work and put before us alternative proposals on how to increase Social Security benefits rather than how to cut them.

Thank you for allowing me to share my ideas with you.

Dr. Paddy Quick holds a B.A. degree in Philosophy, Politics and Economics from Oxford University, and a Ph.D. in Economics from Harvard University. She is currently employed as a Professor of Economics at St. Francis College, Brooklyn. She is a member of the Union for Radical Political Economics (URPE), the International Association for Feminist Economics (IAFFE), and the American Economic Association (AEA).