

Social Security Privatization

In May 2001, George W. Bush created the “President’s Commission to Strengthen Social Security.” The main qualification for serving on the Commission was allegiance to the idea of dismantling Social Security through privatization. To no one’s surprise, in December 2001, the Commission recommended privatization of Social Security as the “answer” to the question of how to privatize Social Security.

The President’s Privatization Commission

The Commission released an interim report in July, 2001 that characterized the current Social Security system as “broken.” When this reckless allegation, based almost entirely on the false propaganda previously published by the Cato Institute (a libertarian, corporate-funded “think tank” in Washington) was published, the Commission and its staff were roundly repudiated. In the weeks that followed, a more accurate description of Social Security’s solvency was quietly made.

Perhaps because of the firestorm of criticism of the Commission’s interim report, or because prominent Republicans warned of the electoral consequences of having to run on something as indefensible as any Social Security privatization plan would be, the Bush Administration instructed members to avoid releasing one definitive Commission-endorsed Social Security privatization plan in December. The Commission complied, and released a set of options without specifying how any of them would be paid for.

One privatization option would allow diversion of 2 percentage points of payroll taxes into individual accounts in exchange for a 3.5 percent reduction in benefits. A second privatization option would allow diversion of 4 percentage points of payroll taxes up to \$1,000 and would lower benefits in numerous ways that for some workers would amount to a 40 percent reduction in lifetime benefits. In spite of the drastic cuts in guaranteed benefits, the second option requires the infusion of hundreds of billions of dollars over the next thirty years beyond what Social Security would spend to maintain the existing system. The third option asks for an additional 1 percent in payroll taxes to accompany a 2.5 percent diversion of payroll taxes into an individual account in return for a decline in benefits and raising the retirement age. AFL-CIO President John Sweeney described the package of options accurately as a “radical plan to dismantle Social Security.”

The President’s Commission was a failure, but the issue of Social Security privatization is far from dead. The advocates of privatization will continue to try to exploit American workers’ fears about their retirement income security by suggesting that their only real and guaranteed source of income in retirement—

the Social Security system—is either somehow inadequate or in danger of bankruptcy.

The Economics of Social Security

The most important fact to know about the Social Security system is that it is economically sound and more than 100 percent solvent for the next four decades. There is no reason to expect that the Social Security system we currently have, with its guaranteed, inflation-adjusted benefits for retirees, survivors, and the disabled, will ever become unaffordable to our nation. Indeed, in spite of the fact that we are in the midst of a recession, our economy is larger and richer than it has ever been. What was affordable even one decade ago is even more affordable today, and will be increasingly affordable as long as there is either any economic growth at all or even economic stagnation.

Advocates of privatizing or dismantling Social Security have tried to make the case that Social Security is going broke, but they cannot succeed. The only way to make their case is to lie, or to make the ridiculous assumption that America's economic growth over the next 75 years will be just half that of the past 75 years. It is this unrealistically pessimistic assumption on which projections of insolvency 40 years from now are made.

This unfounded assumption is the “Achilles heel” of the privatizers' argument. Some privatizers claim that handing over Social Security's finances to Wall Street is the only way to accumulate sufficient funds to pay full benefits over the system's 75-year planning horizon. The idea is that the stock market will guarantee a higher rate of return to the Social Security Trust Fund's assets than its current portfolio of U.S. Treasury Bonds. But of course, in order for the stock market to exceed the return on Treasury Bonds, economic growth must grow at least as fast as it has over the past 75 years in the next 75 years. If their stock market “solution” is correct, then their insolvency projections have to be incorrect.

Other privatization plans, such as those proposed by Bush's Commission, call for diversion of Social Security revenues into private individual accounts. In order to pay for this, these plans all require tax increases, benefit cuts, increases in the retirement age, or some combination of these. Yet the Bush Administration and its economists—who are either dishonest or incompetent—refuse to acknowledge this fact and insist that the trillions of additional dollars necessary to maintain benefits and privatize are a mere footnote. As Princeton University economics professor and New York Times columnist Paul Krugman wrote of the President's Commission recommendations: “During the 2000 election campaign, George W. Bush was able to get away with the nonsensical claim that private accounts would not only yield high, low-risk returns, but save Social Security at the same time. For whatever reason, few reporters pointed out that he was claiming that 2-1=4. But when it came time to produce concrete plans, the arithmetic could no longer be avoided.” (NYT 6/21/02).

There is no economic justification for any cut in Social Security's guaranteed benefits, and no economic arguments in favor of privatization. If economic and wage growth over the next 40 to 50 years is inadequate to support Social Security benefits for a population with a longer-than-forecast life expectancy, then numerous options to increase funding for the program are available.

Social Security Administration Funding

Wall Street firms that support Social Security Privatization would make billions in profits from the establishment of hundreds of millions of individual accounts. It is the administration of Social Security accounts that entices them, not the prospect of "higher rates of return" from stock market investments *per se*. It is in that context that the continued excellence of the administration of the program by federal employees and the Social Security Administration is tied into the debate over privatization of the program itself. In fact, Social Security's success is a continuing rebuke to government-bashers because they cannot call Social Security either wasteful or inefficient.

One easy way to undermine the satisfaction and support of the American people for Social Security in its current form is to deprive the agency of needed administrative funds so that it begins to stumble. In just the past few years, numerous programmatic changes have added to the Social Security Administration's administrative costs and responsibilities. But no supplemental administrative funding has been provided to accommodate these programmatic and workload expansions.

The administrative funding for the Social Security Administration has been subject to the spending caps imposed on discretionary spending as part of the plan passed in 1991 to balance the federal budget by 2002. These caps were set arbitrarily by Congress as a means of balancing the budget solely through spending controls. While the federal budget came into balance, and eventually surplus in 1998, these caps were never lifted and the funding legacy of the caps was never rectified. Indeed, the past use continues to be felt in the form of inadequate agency budgets.

The Social Security Administration has its own dedicated funding mechanism: Administrative funding for Social Security is provided by the Social Security Trust Fund. This Fund is sufficient not only to pay all promised benefits through at least 2037, but is also sufficient to fund fully and adequately the administration of the program throughout the planning period.

AFGE is not suggesting that Social Security abandon its efficiency standard of administrative costs of less than one percent of benefits paid, which continues to compare quite favorably with the private sector insurance standard of 15 percent administrative overhead. AFGE does support off-budget administrative funding,

in recognition of the fact that this program and agency need not be held hostage to arbitrary spending caps Congress may once again impose on areas of the budget without their own dedicated funding sources now that deficits have returned.

Conclusion

The failure of President Bush's Social Security Privatization Commission does not mean that the threat of dismantling the crown jewel of the federal government's social insurance has passed. Plans to invest Trust Fund monies in private equities (stocks and corporate bonds) rather than public needs are alive and being considered as a first step toward eventual privatization through individual accounts. Privatization of Social Security will mean the privatization of the administration of the program. AFGE, the other labor unions of the AFL-CIO, and numerous Civil Rights, Women's, Religious, Senior, and Community groups have been successful in efforts to work together to refute the misinformation surrounding the privatization movement.

The truth is that privatization has no good arguments in its favor. It continues to be—after labor unions—the most successful anti-poverty program in America. Social Security provides economic security to millions of Americans who become disabled, survive the death of a breadwinner, or retire from a job. Privatization would undermine that economic security. Social Security is also our government's most popular and successful program. Every AFGE member has a stake in fighting to protect and defend Social Security from privatization.