



## Social Security Sham

*The Buffalo News continued:*

*Former President George W. Bush put entitlement reform at the top of his second-term agenda, but neither he nor the Republicans who then controlled Congress could have been considered friends of Medicare or Social Security....*

*Now, with program-supportive Democrats controlling the White House and Congress, the country can have greater confidence that the people pursuing these painful reforms at least recognize the value of Social Security and Medicare to millions of older Americans.*



**ITEM:** *Testifying before the House Budget Committee on January 27 was economist Alice Rivlin, the former budget director under President Clinton, a senior fellow at the Brookings Institution, and a visiting professor at the Georgetown Public Policy Institute. Rivlin's testimony ("Budget Policy Challenges") was posted by Brookings on January 30.*

Rivlin sees the current economic turmoil as a welcome opportunity to "fix" government entitlement programs, including Social Security. Said Rivlin: "The crisis may have made Social Security less of a political 'third rail' and provided an opportunity to put the system on a sound fiscal basis for the foreseeable future. Fixing Social Security is a relatively easy technical problem. It will take some combination of several much-discussed marginal changes: raising the retirement age gradually in the future (and then indexing it to longevity), raising the cap on the payroll tax, fixing the COLA [cost-of-living allowance], and modifying the indexing of initial benefits so they grow more slowly for more affluent people. In view of the collapse of market values, no one is likely to argue seriously for diverting existing revenues to private accounts, so the opportunity to craft a compromise is much greater than it was a few years ago."

**CORRECTION:** Born during the hard times of the Great Depression, Social Security is to be saved during the current recession. Or so its apologists hope.

In this case, the political left wants to use the opportunity to craft a "compromise" as a way to drive a stake through their bogeyman — the private market — trying to permanently kill the chances of even partial privatization of Social Security. Alice Rivlin has long maintained that Americans will just not save enough without the government's twisting their arms. But the changes the program's saviors want to make won't fix the program. Keep in mind, pretensions to the contrary, Social Security is *not* insurance, where premiums are invested. With Social Security, politicians spend today's so-called contributions as quickly as they can get their hands on the money.

Crises breed big government, and big government is primarily concerned with saving itself. Consider



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the present downturn: after driving the economy into the ground through too much state spending, borrowing, and acting as if the bill would never come due, big-government activists in Washington have reacted by proposing additional spending, more borrowing, and again pretending that the piper will never have to be paid. The presumptive rescuers of Social Security have mapped out a similar path, having never met a tax they didn't try to hike.

When the smoke clears, the program will be even larger and harder to control.

The growth of entitlements — to include Social Security — has become a real problem, and promises to get even uglier the longer it goes unaddressed. As a percentage of the federal budget, entitlements have doubled over just three decades. Such entitlements already make up 62 percent of the federal budget. The two largest of these, Social Security and Medicare, account for 33 percent.

Citing projected figures from the Congressional Budget Office, Representative Randy Forbes (R-Va.) pointed out last year that "over the next ten years, Medicare, Medicaid, and Social Security spending combined will grow 39 percent after adjusting for inflation and population growth, and by almost 2 percentage points as a share of GDP (Gross Domestic Product) as the baby boomer generation reaches the age of retirement."

The Social Security snowball is rolling down the hill and getting bigger by the year. Just a few months ago, when the bank bailout was the crisis of the moment, budgetary expert Brian Riedl of the Heritage Foundation wrote:

Think \$700 billion to bail out Wall Street is expensive? Just wait. The mortgage meltdown is cheap compared with the coming fiscal firestorm fanned by unfunded Social Security and Medicare costs.

Together, these programs hold unfunded obligations totaling \$41 trillion — 60 times larger than the proposed Wall Street bailout. And even this understates the difference, because \$41 trillion is the current net value of the unfunded obligations over 75 years. The actual cumulative yearly deficits these programs face over the next 75 years are several magnitudes larger than \$41 trillion....

The entitlement problem is simple to understand. In the 1960s, five workers paid the taxes for each retiree's Social Security and Medicare benefits. Today that ratio is just 3-to-1. The coming retirement of 77 million Baby Boomers will drive that ratio down to 2-to-1 by 2030. That means every two children born this year and who marry in 2030 will have to support themselves, their children — and the Social Security and Medicare benefits of their very own retiree. The cost will be staggering.

Upping Social Security taxes merely postpones the day of reckoning. When the system is defective from the beginning, making it more expensive just adds to the pain. Free-market economics professors J.R. Clark, of the University of Tennessee at Chattanooga, and Dwight Lee, of the Cox Business School at Southern Methodist University, have correctly observed: "Social Security is a fundamentally flawed system. If a private firm offered such a retirement system and made the same claims for it that the federal government makes for Social Security, that firm would quickly become a poster child for corporate fraud, and its managers would soon be convicted of criminal charges."

Specifically, the professors wrote in *The Freeman* for October 2008:

The advocates of Social Security are defrauding American workers in two ways. First, claims



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which leave the impression that money paid into Social Security is being saved for our retirements lead workers to believe their benefits are more secure than they are.

Second, persistent claims that workers pay only half the Social Security tax [and their employers pay the other half] lead them to believe their benefits cost them less than they really do. [When the employers pay the S.S. tax, they pay workers less income.]

Of course, just calling something an "entitlement" doesn't make it so. In fact, workers actually have no legal binding right to what they may consider their Social Security benefits. Those who view the government as more dependable than private interests don't want you to know that Social Security benefits can be curtailed or even terminated at the whim of Congress, as the Supreme Court ruled in *Fleming v. Nestor*. Said the court: "To engraft upon Social Security a concept of 'accrued property rights' would deprive it of the flexibility and boldness in adjustment to ever changing conditions that it demands."

The current political and economic climate no doubt makes more difficult an argument for privatization, especially when raising taxes to "save" programs seems to be Washington's first response. Nevertheless, even permitting a partial privatization of Social Security would be better than depending on the government to take ever larger cuts of revenues from the younger generations to keep the chain-letter scheme from crumpling under its own weight.

An example is offered by Andrew Biggs, a scholar at the American Enterprise Institute, as cited by the *Washington Times*: a "person who began working in 1965 and retired in September 2008, even in this difficult economy, would receive \$15,700 per year under the traditional Social Security. But if that worker were permitted to invest 4 percentage points of the 12.4 percent payroll tax in a personal account, he or she would have increased their total Social Security benefits by 15 percent."

Alice Rivlin doesn't believe in individual fiscal responsibility, but why does she believe the government is any better?

*Photo: AP Images*



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