Undermining Social Security’s Basic Objectives

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The real social security crisis is the possibility that the advocates of means-testing and privatization might succeed in “ending social security as we know it.” Should this occur, political support for social security will be eroded, the moral basis of this communitarian institution will be diminished, and America’s families—especially low and moderate income ones—will be placed at greater economic risk.

While an excellent political strategy for framing the policy debate by those seeking to shrink the public sector, the alarmist view that social security is heading toward financial disaster is wrong on several counts. Even if no policy changes were made, after 2029 incoming payroll taxes would still fund pensions at around 77 percent of current levels according to social security’s board of trustees. Given the current policy of making periodic adjustments to keep the system in projected balance seventy-five years into the future, it is reasonable to assume that some of the 23 percent gap that remained would be made up by moderate benefit reductions and payroll-tax increases well in advance of 2029. As Robert Ball, Tom Jones, Robert Myers, Joseph Quinn, and Olivia Mitchell point out, there are many reasonable ways of addressing the program’s financing problems without the radical transformation that critics are calling for.

Even so, this alarmist view is finding fertile ground. The Third Millennium, a media-savvy organization purporting to represent “generation X,” gleefully circulates its polling results showing that American adults under age 35 have more faith in the existence of UFOs than in the future of social security. Boston Globe columnist Jeff Jacoby and others regularly refer to social security as a huge Ponzi scheme that is bankrupting the young. Time magazine promotes “The Case for Killing Social Security” on its cover. The Concord Coalition makes the means-testing of social security and other entitlement programs the centerpiece of its deficit-reduction plan, arguing that the nation’s leaders should “stop wasting our money on programs that do not work and on entitlement payments for the well-off.”

The Changed Debate

Those calling for a radical restructuring of social security have been very successful in their efforts to shift the terms of the debate. They understand well the role of crises—real and artificially constructed—in fostering political change. Writing in 1983 in the journal of the libertarian Cato Institute, Stuart Butler, vice president for domestic policy at the Heritage Foundation, and Peter Germanis, then an analyst with the Heritage Foundation, discussed what they mischievously called a “Leninist strategy” to deconstruct social security. Butler and Germanis mapped out a strategy for “guerilla warfare against the current social security system and the coalition that supports it.” The advocates of radical change, must: (1) calm existing beneficiaries and older workers by assuring them that proposals such as privatizing or means-testing will not affect them; (2) take every opportunity to demonstrate weaknesses in the current program; (3) develop a fully privatized alternative; (4) work to sell this privatized alternative to the young, the majority of whom question the future of
social security; and (5) activate powerful private interests, including the banks, insurance companies, and other institutions that will gain from privatization.

Today this strategy extends to defining social security as a major cause of an "entitlement crisis" and a source of generational conflict. Republican pollster Frank Luntz advises in a 1995 memo to the Republican members of the House of Representatives that the budget debate should be framed "in terms of 'the American dream' and 'our children's future.'" Luntz turns "the issue of 'fairness' against the Democrats," by asking, "Is it 'fair' for Medicare recipients to have an even greater choice of doctors and facilities than the average taxpayers who are funding the system?" The 1994 Bipartisan Commission on Entitlement and Tax Reform warned that entitlement spending will "unfairly burden America's children and [stifle] standards of living for this and future generations." The Business Roundtable launched a national campaign to "help its member companies educate its 10 million employees and the citizens of the communities in which the companies reside" about the danger of the federal deficit and the growing costs of entitlements. The Roundtable advised making seniors more amenable to changes such as means-testing social security and suggested that "the baby boom bubble is a major cause" of the problem "and that seniors, as a group, are 'not guilty.'"

The Problems with Means-Testing and Privatization

Rarely do advocates of privatization or means-testing discuss how these changes would affect the current transfer of resources among different income groups. As currently structured, social security in effect provides a better return on contributions for low-income workers than for high-income workers due to its redistributive benefit formula. This redistribution is crucial to the low- and moderate-income elderly who depend most on social security. In 1991, the program provided two-thirds of the total income to nearly 11 million elderly households with less than $20,000, but one-fifth to the 600,000 elderly households with $50,000 to $74,999. Without this redistribution there would be a substantial increase in poverty among today's and tomorrow's elderly.

Until quite recently social security benefits were very generous when compared with private-sector pension alternatives, for both low- and high-wage workers. Those retiring today have generally paid in for many more years and have paid higher social security taxes than was the case for those retiring fifteen or twenty years ago. Pension benefits no longer compare as favorably as they once did with private-sector alternatives, particularly for upper-income workers. This is one of the major reasons that the idea of at least partially privatizing social security is attractive to many affluent workers. Advocates for privatization point out that upper-income workers will do well because a privatized social security system would be less redistributive. But what is going to happen to low-wage workers or to the overall level of political support for the program? And what about workers who make bad investments or who reach retirement age in a bear market? And what about the profits to be garnered by banks, insurance companies, and investment companies that are strongly supporting and in some cases bankrolling the efforts of those calling for privatization?

Advocates of privatization generally fail to point out that the focus on relative returns for social security versus a privatized alternative neglects the basic objective of social security—providing a floor of protection for all Americans and sharing the risk of doing so. Central to the original idea of social security was the assumption that in America workers who have been in the labor force for their entire lives should be assured an old-age pension adequate to keep them out of severe poverty even if they have been low-wage workers. Those who advocate privatization often neglect to take into consideration that social security is more than an old-age pension program. It provides disability insurance and benefits to surviving dependents. It provides protection from inflation, dramatic shifts in equity markets, and the lack of access to good investment advice. To neglect these aspects of social security when making comparisons with privatized alternatives...
or when assessing the likely impact of proposed changes on low- and moderate-income workers is more than a minor omission.

The new proposals to means-test social security (e.g., the Concord Coalition) call for the virtual elimination of benefits to the affluent, a reduction in benefits for many of those in the middle-income bracket, but no cuts in benefits for those of more modest income. At first glance this looks progressive, and if it were not for the long-term political consequences of such a strategy, it might be. However, it is very likely that this approach would be progressive in the short run, but regressive in the long run. Although presented by advocates as a fair way to target benefits and reduce

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program costs, means-testing would ultimately undermine the political support for the program and greatly reduce protections for those with low and moderate incomes. Universal coverage guarantees that all Americans participate and benefit from this program and have a stake in its continuity. Eliminating benefits for those who are better off would eventually lead to demands to opt out of social security in favor of a privatized alternative, which in turn would reduce the progressivity of the system. Moreover, if Congress accepts the principle that receipt of social security should be contingent on financial need, there is a danger that such means testing will later be extended to other less-affluent retired, disabled, and surviving family members. Yet another risk of means-testing that advocates generally neglect to mention is that it would also create disincentives for retirement income savings, since the prudent would be penalized by reductions in the value of their benefits.

The Need to Clarify the Values at Stake

There is a disturbing tendency in public discourse to reduce social security discussions to mere accounting exercises of the financial cost of the program, overlooking its value as a source of national social cohesion and as an expression of the obligations of all to each member of the national community, especially those at greatest risk. It has stood as a symbol of the kinds of programs that the federal government has been able to manage well. In a very fundamental way it is a statement of the moral commitment of our nation to protect the elderly, severely disabled, and surviving family members without forcing them to make a choice between enduring severe poverty or turning to welfare for financial support. Unfortunately, even many of social security's staunchest defenders have focused on technical changes rather than the profound debate taking place between two very different value systems—the communitarian values of the program's defenders versus the libertarian values of its critics, who call for shrinking the size of the government as well as shifting risk burdens and responsibility from the national community to the individual.

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