Domestic Credit by Richard Freeman

Stockman's threat to Social Security

Payments to retirees will be slashed—and basic needs of our senior citizens won't be met.

During his campaign, President Reagan pledged to maintain the integrity of the Social Security system as the most important "safety net" in our economy. But during the last week, he has proposed, on the recommendation of Office of Management and Budget Director David Stockman, cuts between 1982 and 1986 from $81 to $111 billion. These cuts include cuts in benefits and eligibility, reducing the benefits of someone who retires at age 62 from the 80 percent paid if he were to retire at age 65 (current law), to 55 percent of the benefits he would receive if he retired at age 65.

The cuts closely parallel the report of the Carter administration's National Commission on Social Security, released in March 1981. Donald S. MacNaughton, former chairman of Prudential Life Insurance Company, the nation's largest manager of pension monies, sat on the board of that commission.

The proposed cuts are the harbinger of a dismantled or reduced benefit system. Social Security may be converted into a "private" pension system—as was recently done by the Chilean dictatorship. In Chile, workers who paid 5 percent of their income to social security now pay 17 percent into a private British-run system.

Few people—except perhaps the 12 percent of our population over the age of 65—realize the effect of slashing Social Security. Despite the increase in private pension assets in the United States, to $600 billion, private pensions cover only 17 percent of the total income of our retired citizens. Social Security contributes 76 percent of our elderly citizens' income, an average $4,000 a year.

More than a third of all retired persons in the U.S. have no other income than Social Security, an average benefit of $3,300 per year.

Social Security cuts mean loss of medical care, transportation, heat, home repair, clothes and even food for our elderly. Under the economic collapse that monetarists like Stockman have brought upon America, income loss means disease or death to retired citizens.

This brings us to Stockman's argument. The budget director argues that the Social Security fund will be bankrupt by 1984, because there are an increasing number of retirees relative to employed workers, and that the Social Security system is indexed to the Consumer Price Index while the wages that contribute to the system are rising more slowly.

This is true. The only way a pension can remain solvent under such conditions is to pay benefits non-indexed to inflation. But this would mean that workers who contributed real dollars receive valueless dollars in benefits.

Only in a growing economy can a pension plan work, since the beneficiary does not get out the actual money he puts in the pension plan, but puts in money invested to create more wealth that he may later draw from as a pension beneficiary.

The critics of the Social Security system are screaming that it will soon blow up, yet the Social Security system is at most a couple of billion of dollars into deficit. It is the *postindustrial policy outlined in the tax, budget, and monetary policy by Stockman that will significantly bankrupt the Social Security system.* At the moment, there are approximately seven to eight persons paying into the system for every one recipient. Stockman's alleged nightmare is that this proportion will be reduced by the year 2000 to two people paying into the system for every person getting payment.

However, there is no reason there should not be a growing and expanding labor force. It is Stockman's zero-growth ideology, expressed in real policy, along with Fed Chairman Volcker, Treasury Undersecretary Sprinkel, and others who are reducing the potential of a growing labor force.

If the labor force were expanding, with growing family formation and child rearing, and if wages consistently rose, then the Social Security system would be as financially sound as Fort Knox.

This is eminently possible with a gold-based, two-tiered Hamiltonian credit system. But under the Stockman plan, which includes the untargeted Kemp-Roth 10 percent per year, three-year tax cut, the majority of U.S. credit investment flows out of basic industry into real-estate speculation, insurance leasing, currency arbitrage, and so forth. Since Social Security compete with speculation, Stockman requires that payments to our nation's elderly be liquidated.