Social Security going bankrupt?

by Leif Johnson

Office of Management and Budget Director David Stockman has managed to convince just about everybody in Washington, from conservatives to liberals, and business to senior citizens organizations, that the Social Security System is going bankrupt. He has even set a target date, Nov. 3, 1982, when the whole system, including a $35 billion reserve, will collapse.

Even those groups, like the National Council on the Aging and the American Association of Retired People, who most roundly criticized Stockman's proposed cuts of May 12 are now offering even larger ones, including an end to the cost-of-living escalator and elimination of spouse's benefits. As it is, Social Security provides only a modest average income of slightly over $4,000 a year to nearly 36 million Americans.

But the Social Security Fund is *not* on the verge of bankruptcy. If Congress wants to guarantee the promised (and paid for) incomes of retired citizens without raising the Social Security tax, it should pay for the very small deficits in the next two years out of general revenues. According to Social Security Administration estimates made in April, the total deficit from 1980 through 1982 would be $17.4 billion. That three-year deficit is only about half the increased interest payments on the public debt that the federal government must pay this year alone, thanks to the Federal Reserve's usurious interest rates. Lowering interest rates by 5 percentage points, for example, would save the federal government $50 billion.

In 1977, in the last revision of the Social Security laws, Congress had assumed a long-term inflation rate of 5 percent and a long-term unemployment rate of 5 percent. Thus, the Social Security tax rate and the taxable-income base set by Congress would produce minor deficits in 1978 and 1979, but would yield surpluses in subsequent years.

Then Federal Reserve Board Chairman Paul Volcker wrecked all those assumptions when, on Oct. 6, 1979, he set forth a monetary policy that raised the prime interest rate to 20 percent, boosted inflation to 14 percent, and cut credit that put 1.5 million people out of work, many permanently. Virtually the entire increase in the 1980 labor force wound up in the unemployment statistics.

Unemployed workers don't pay Social Security taxes; and they have no employer to pay taxes for them. The total loss from two years of Volcker policies, assuming that the present unemployment level holds through 1981, will cost the Social Security Fund $5.7 billion.

On top of all this, the increase in the rate of inflation has forced Social Security to pay substantially larger benefits just to maintain the purchasing power of retired citizens' existing allotments. This means that Social Security must pay out an additional $17.8 billion by the end of 1981. With the loss of tax revenues due to the increased unemployment, the Social Security System is out $23.5 billion.

Compare this $23.5 billion lost through Volcker's policies through the end of 1981 with the Social Security System's estimated $17.4 billion deficit through the end of 1982. Even had the economy remained in its poor 1979 condition, the Social Security System would have actually been able to build up its reserve through this period. Thus, it is clear that the current deficits in the Social Security System are a direct result of the Fed's policies. And obviously, if the economy is ruined, no long-term fund—be it Social Security, pension, or any other investment—can maintain its solvency.

A useless eaters policy

Given that, in Stockman's and Volcker's view, restoring to the United States a policy of economic growth is out of the question, then Social Security benefits are to be axed. Perhaps our elderly citizens are useless eaters, since they are that part of the workforce that is "used up," that will never work again. According to this view, these citiens will continue to be a drain on national resources until they die. If they die sooner, they will be less of a drain. Cutting their Social Security benefits will reduce the amount of heating oil they can buy, reduce medical outlays, and eventully reduce food consumption. This view bears a remarkable similarity to Hitler's useless eaters programs, and conforms to the Global 2000 population-reduction doctrine currently being infiltrated into Washington policy-making circles.

In the climate of crisis management, the U.S. Senate two weeks ago voted by an amazing 96 to 0 to make Social Security cuts that would "not be precipitous or unfair and . . . were not necessary to preserve the financial health of the Social Security Fund." In Volcker's and Stockman's economic world of permanent unemployment and permanent inflation, the Senate would vote to cut Social Security every time there is a "crisis" that must be met; if present economic trends continue, Social Security will end up as a small fraction of its current benefit.