The solution to the Social Security mess

by Leif Johnson

Nothing but the bankruptcy of the federal Treasury itself could warn Americans more powerfully that the economy is approaching anarchy than does the imminent collapse of the Social Security System. With the Jan. 17 promulgation of emergency recommendations by the President's National Commission on Social Security, it is necessary to look at why there is a crisis in the fund and what must be done. As the system is faced with an ever-increasing gap between income and payments, the political and economic decision must be made by the nation whether it will maintain the generation now retiring from productive work, or whether it will descend to the outright savagery of killing older Americans to "balance" the federal budget.

The stakes are high. Thirty-six million Americans draw monthly checks from the fund into which they and their employers have contributed a flat rate payroll tax that began in 1935. These 36 million Americans derive an estimated 78 percent of their total incomes from that monthly check. Under present economic policy, the short-term palliative for the system which the National Commission has proposed—all bad—will only lead to collapse once again sometime in 1984, forcing a new national debate on Social Security. Each Social Security panel that has convened since 1978, when Congress realized that something was wrong, have made increasingly harsh recommendations, undoubtedly believing they were responding to "reality" as will those who ultimately ask for a "final solution" to the problem.

The Commission has recommended a mixture of benefit cuts and tax increases. The major items: taxation of benefits going to those earning $20,000 or more, delaying the payment cost of living increases (which permanently depresses the amount of benefits), increasing the self-employed tax to equal the combined employee/employer rate (a $20 billion tax increase alone), moving the tax increase of 1985 up to 1984, and giving various income tax rebates in return for increased OSDI tax payments (a form of subsidy to Social Security from income tax revenues). The general thrust of the recommendations is to take the first step in chiseling benefits, and to transfer taxation from companies to the individual employee or self-employed person.

The immediate purpose of the Social Security debate is the drubbing of President Reagan. The liberals, including the Socialist International-controlled senior citizen organizations, are set to condemn the President as being more interested in war preparations than in the lives of senior citizens.

The "privatization" of Social Security, by dissolving the Government System and giving the contributions to private insurance companies or banks, would facilitate the looting of these funds. Under government control, the tax revenues are put into the Social Security Fund in the Treasury. Under private control, they could be invested in off-shore securities, as are an increasing portion of private pension funds, and subsequently looted by manipulating those securities. Or the private institutions receiving the pension tax receipts could go bankrupt.

One asks whether any pension fund can work which is designed to pay constant or even slowly increasing benefits to a population whose longevity is increasing.

Any good pension system—and all individual company schemes are inherently unsound—must be based on two assumptions: that the real product of that economy is expanding at a reasonable rate for an industrial country, and that the demographic growth of the nation is normal. Obviously if there is a severe, prolonged depression, the system will collapse, or if one generation has very few children, at some point in the future there will be insufficient tax revenues to support payments to the Social Security recipients.

Both these calamities have befallen the American Social Security system. This can be seen if we project expected revenues and pay-outs from 1945, the year production and employment were close to their natural full levels.

If industrial growth had been 8 percent per year, a reasonable, if low, potential growth rate which is close to the Japanese post-war rate, and if we assume a 2 percent per annum population growth, a rate below that of 19th-century America but equal to that of the first, second, and sixth decades of the 20th century, we would find that the present debate would center on whether benefits be increased, or the tax rate reduced, or both. It would have been found that the original 6 percent tax rate was too high and could have been gradually cut to about 4.5 percent.

Instead the nation suffered serious demographic twists such that it is entering a period of heavy payout to beneficiaries with a declining workforce from whom to collect Social Security taxes. This demographic rollercoaster was caused by the painful boom-bust cycles of the post-war economy as it progressively succumbed to the ravages of oligarchic financial manipulation and depletion.

There is no cure for Social Security but the revival of the U.S. economy. As for the question of immediate funding for the Social Security System, there are some creative answers. Why not tax speculative investments at higher rates than productive investment, tax off-shore accounts, flight capital, real estate speculation, gambling casinos, movie houses, and money market funds, and the quasi-banks like American Express?