

# Social Security: Myths and Facts

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I have written this essay because I am tired of hearing the same irrelevant arguments in the Social Security debate. Although I mostly agree with the Bush administration's objectives on the matter, I believe their arguments are weak, misleading, and sometimes outright false. This unfortunately gives critics an opening to defend the system, purely by the distraction of opposing the Bush administration.

Here I will address some of the common arguments against the privatization or elimination of Social Security, as well as give and respond to more important economic arguments that cut to the core of the program's justification. (Note: this is a work in progress, and there are many references missing.)

1. Social Security isn't in trouble because it can be saved by tax increases and/or benefit cuts.

This statement is vacuously true, in a way: any government program can be preserved by perpetual increases in taxes, or inflationary pressures like the printing of money or the issuance of government debt. What these all have in common is they rely on squeezing the populous harder. If this reasoning is going to be used to defend Social Security, the criterion of "savability" is completely meaningless.

What should be under consideration instead is the issue of cost-benefit: is society getting what it is paying for, relative to what the private sector has to offer?

2. Private financial devices are "too risky" for retirement purposes.

Private retirement (401k, IRAs, 403b, etc.) already dwarfs Social Security, by at least a factor of three. Is this a case of colossal stupidity?

The answer is no. Despite isolated setbacks (including the great depression), the financial markets have historically averaged a 7-9% growth per year. On multi-decadal scales (precisely what should be considered for retirement purposes), this rule has no exception.

There *is* risk involved. This is the flip side of the investment coin, and is the price that is paid for the wealth private markets create. However, the investment world abounds with tools to manage this risk, chiefly

through various kinds of diversification and aggregated financial devices (like exchange-tradable index funds) and mutual funds.

What the defenders of Social Security like to ignore is the risk inherent in the government system. The government can always pay current benefits by raising taxes, inflating the dollar, or issuing debt. But these things have socialized, and delayed consequences. The price *is* eventually paid, and thus the risk is simply hidden.

Further, the continual pay-in and benefits adjustments to Social Security are themselves a tremendous manifest risk. Were Social Security under private contract, the insurance provisioner would have been hauled off to jail by now (or perhaps burned at the stake) for blatant breach of contract. In private finance, this kind of risk is catastrophic, and is the exception rather than the rule.

People who think the government can protect them from risk are fooling themselves. Inasmuch as they are right, their children and grandchildren will pay the price.

3. Social Security is backed by assets in a trust fund.

In fact, there is a Social Security trust fund, which allows SS defenders to make this claim, but there are no *real* assets in it. There are \$1.4 trillion of treasury bonds in the fund; however, the money backing these has long been spent by the government, and to redeem the principal would require taxation or inflation. Further, the interest on the notes has been paid for by inflationary pressures all this time.

If you don't believe me, look at this excerpt from the summary of the Social Security Board of Trustees 2004 report[1] (the "horses's mouth"):

Since neither the interest paid on the Treasury bonds held in the HI and OASDI Trust Funds, nor their redemption, provides any net new income to the Treasury, the full amount of the required Treasury payments to these trust funds must be financed by increased taxation, increased Federal borrowing and debt, and/or a reduction in other government expenditures. Thus, these payments—along with the 75- percent general fund revenue contributions to SMI—will add greatly to pressures on Federal general fund revenues much sooner than is generally appreciated.

Even worse, the government has no obligation to set aside any "real" money, nor keep pay-in to the Social Security system separated from the general fund.

4. Social Security is a safety net.

Social Security was supposed to be a retirement insurance program, not a universal safety net. If it was a safety net, it would be a needs-based program, and it would require means-tests in order to extract its benefits.

If it were actually made into a safety net (a welfare program) with means tests, two important things could happen.

One, the money which is currently paid into the system as a separate, regressive tax, could be combined with the general tax system and accounted for properly and in a nonregressive fashion.

Two, much less would be required to be paid into the system, since there would be far fewer beneficiaries. These beneficiaries would have to apply for benefits, and prove that they need them, as is currently the case for welfare and unemployment.

5. Social Security is an insurance-based retirement program.

Nobody much believes this anymore, because it is trivially true that there would be no structural problems with an insurance-based Social Security program. However, Social Security is still often called “insurance” by its defenders, in the same breath in which they claim it doesn’t need to operate like a real insurance program.

In fact, Social Security was sold to the American public as an insurance program. That was always the only way it would be permitted. Unfortunately, when one looked at the actual text of the Social Security legislation, the deception became apparent: there was to be no fixed structure that would apply the necessary discipline to the government. Even some congressional deliberations, preserved in the official record, reveal that lawmakers, and FDR, knew that the beneficiaries of the system would eventually have to be supported directly by payors [?]. If this had been admitted to widely, it probably wouldn’t have gone over well with the tax-paying public, as Ponzi’s scheme had been well-known since about 1920.

6. Retirement is a natural right.

Much of the Social Security debate presumes that retirement is some sort of natural right. However, everyone in society consumes resources, and has to make up for these resources somehow, to keep society in equilibrium. The bulk of the working-age make up the difference through employment. Many people (young and old) make up the difference through investment. Those that cannot do either of these may be provided for via welfare, an arrangement which has to come under special scrutiny in order to prevent breakdown and collapse of the system.

The point is, the resources which support retirement have to come from somewhere. An expectation of a “right” to retirement is rather ludicrous in light of this fact. Legitimate retirement plans can only work via investment, with each individual supporting one individual: themselves.

A related viewpoint is that retirement is a physical necessity. In FDR’s time, when Social Security was created, this was somewhat true: most people still labored physically, making continued work impractical or impossible for the elderly. However, the vast majority of work in the US

has been knowledge-based for many years, the tipping point having been reached in the 60s! Further, it has been shown that the elderly can retain high mental ability simply by continuing to use their minds, so there is no mental decline anywhere near the severity of the typical physical decline [2, 3, 4, 5].

Therefore, claims there is a “need” to retire in today’s information age also look pretty flimsy.

7. Social Security is demographically feasible.

Considering Social Security purely as a redistributive welfare program, one might argue it is still feasible. Indeed, at its inception, there were about 30 payors into the system for each beneficiary, making the cost to each payor minor.

However, there are a few major trends that quickly dashed hopes that this arrangement could continue. The first is that people are living longer, due to medical and nutritional advances. Simultaneously, birth rates are falling, as tends to happen in the modern developed world (sometimes even below the replacement rate). As a result, the balance of ages in the first world is changing, such that it will not be long until there are comparatively many people we now consider “of retirement age” as there are “of working age”.

There is also the special problem of cyclic population trends, the largest and most well-known of which is the baby boom. This cohort of people born soon after the second world war is about to enter retirement in mass quantities.

The unavoidable effect of these trends is that, in a few decades, each beneficiary of Social Security will need to be supported by 1.7 payors into the system. In other words, there will be only 1.7 people of working age available for each person who is “retired,” by Social Security’s definition.

There is no way around this ratio: the consequences of it can only be distributed around society through taxation and inflation, distributed through time intergenerationally via debt, or converted into the broken contract of benefit cuts.

Had the promise of a risk-free retirement been avoided, and the boomer generation forced to fully and privately bankroll its own retirement, this imbalance would have been avoided and we would all be a bit wealthier for the additional investment.

8. Ending Social Security will renege on a promise made to historical payors.

You can’t have it both ways: either cutting benefits and raising rates was renegeing on a promise, or government can arbitrarily set any rules it likes. Let us drop the charade and acknowledge that the latter is true in practice (unfortunately).

I have already pointed out how Social Security is not investment-based, and hence is not a true retirement insurance scheme. Instead, and despite the illusion of held treasury securities, the money paid into the program has already been combined with the general fund and spent. This means that everyone has already collected the benefits of this money (inasmuch as the money government normally spends has any benefit).

It is therefore not still required to pay out an equal or greater amount as that which was paid in: this would amount to double-charging the government. Instead, worries about the destitute elderly should be addressed by supporting those, and only those, who need support.

## 1 Conclusion

I recommend that the government Social Security program be abolished. There is no need for privatization of the current program, as there is already an ample private sector retirement industry. The recovery of both the employee and employer contributions to Social Security will also lead to a significant rise in wages.

Social Security can be partially replaced with an old-age welfare program, the benefits of which would require a means test to access. This will ensure that those who don't need Social Security won't be causing a socialized drain on resources. Further, no "promise" is being reneged on: these people have paid their money into a system which hasn't set the money aside and has already spent the money on everyone.

As a final benefit, a major regressive tax would be eliminated, improving the situation of the poor significantly.

Please contact me if you have any questions, comments, or ideas for extensions to this page.

## 2 Articles That Miss The Point

- Social Security scare, <http://www.thejournalnews.com/newsroom/011605/16edsocial.html>
- One man's retirement math: Social Security wins, <http://www.csmonitor.com/2004/1227/p01s03-cogn.html>
- New way to pay for Social Security pursued, <http://www.furl.net/forward.jsp?id=1775465>
- (More surely to come. I am collecting these, so please forward them to me, along with any you think are genuinely challenging.)

## References

- [1] Social Security and Medicare Boards of Trustees, A SUMMARY OF THE 2004 ANNUAL REPORTS, <http://www.ssa.gov/OACT/TRSUM/trsummary.html>.
- [2] Study Shows Cognitive Decline Is Not Normal In Aging, <http://www.sciencedaily.com/releases/1999/07/990709083306.htm>.
- [3] Brains Of Elderly Can Compensate To Remain Sharp, Study Indicates, <http://www.sciencedaily.com/releases/2002/11/021108072441.htm>.
- [4] Sudden Cognitive Decline Is Not Part Of Normal Aging, <http://www.sciencedaily.com/releases/1998/04/980413000344.htm>.
- [5] Daily Social, Physical Activity Improves Sleep And Cognition In The Elderly, <http://www.sciencedaily.com/releases/2004/12/041220004234.htm>.
- [6] reference to congressional deliberations on social security (should be in FDR's folly)