A Small Price to Pay to Save a Failing System

by James Edmonds

October 29, 1929. Black Tuesday. On this day the largest stock market crash in history preceded the Great Depression in America, a depression that mirrored those running rampant throughout Europe. A country in turmoil looked to its then-president, Herbert Hoover, for a solution to its economic problems. Hoover proposed several ideas that would help strengthen the economy over time, including his trickle-down economics policy, which involved tax breaks for business owners to keep them in business, and his pet project, the Hoover Dam, which would provide jobs for thousands. However, it was too little too late, and Hoover's projects seemed to have no effect upon the downward-spiraling economy. Needless to say, come Election Day Hoover was not re-elected. Instead the "Man With the Plan," Franklin D. Roosevelt, was elected into office based upon his "New Deal," a series of programs and plans for reorganizing parts of the government which would supposedly help the country out of its economic slump. Looking back from an historian's point of view, we see that it was World War II more than any of Roosevelt's programs that actually got our economy moving again, but we also see that many of his programs helped to ensure that our economy would remain stable for years to come. Among these are the TVA, or Tennessee Valley Authority, which still provides hydro-electric power to rural families; the SEC, or Securities Exchange Committee, which monitors the stock market daily for any signs of a crash; and the Social Security program, which provides retirement funding for elderly citizens. However, one of these is not like the others: while the TVA and the SEC are still going strong, Social Security is rapidly going bankrupt.

The 2006 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds reports that if current trends hold true, the total income from the social security tax will stop matching the total expenditures from the fund to the elderly by the year 2017, and that by the year 2040 all monies from the account, as well as a special fund that the treasury has put aside for this occasion, will be completely used up (2). The report goes on to state that while a 2.02 percent increase in the Social Securities Tax has been projected to be a plausible short-term solution, if Social Security is to be maintained beyond the next seventy-five years, then far more drastic measures must be taken (*The 2006 Annual Report* 2). The problem, as noted on the Bush administration's "Strengthening Social Security" webpage, is that in 1950, there were sixteen workers to support every single person who drew from Social Security; today there are 3.3. Under the current system, a thirty-year-old worker will face a twenty-seven percent cut in his or her benefits when he or she finally is old enough to claim them ("Strengthening"). Something has to change.

This data seems to suggest three very different possibilities in how we deal with our Social Security crisis. We can either (a) increase the tax even further beyond the 2.02 percent suggested and raise the funds that way, (b) completely get rid of all Social Security, or (c) privatize the social security fund, or at least a portion of it, and let people invest in their own futures rather than having the government control their money. To choose the best of these options, let us look at each of them individually and weigh their strengths and weaknesses.

First, option "A." It is clear that increasing the tax will allow the Social Security Fund to regain lost revenue, but one must ask, "at what cost?" To me, raising the taxes seems like an easy way out that will solve the problem initially but cause serious problems down the road. One serious criticism of almost every argument against a tax increase is that it seems to favor the rich; however, in matters of Social Security, any income that an individual acquires after the first $90,000 annually is not taxed (Grabianowski). Therefore, raising the tax would not really hurt the rich at all, as they are not really the ones being taxed. So who would a tax raise hurt? The answer: small businesses and working class employees. As Ed Grabianowski points out in "How Social Security Works," workers who are self-employed pay a total of 12.4 percent from their total revenue towards Social Security, and non self-employed workers pay 6.2 percent, while their employer pays the additional 6.2 percent to even it out. This means that small business owners who already pay 12.4 percent of their own income also have to pay 6.2 percent on each employee's salary on their payroll. To a large corporation this tax may be a small matter to take in stride, and an increase in the tax may be just as trivial. However, to a small business owner struggling to make ends meet and pay employees as well as the Social Security Tax, this option is almost unfeasible. Additionally, while regular workers do pay a reduced percentage of the tax, any increase in tax that takes away from their paycheck could easily amount to one less meal on the table in many families.

The only other way to raise taxes without hurting small businesses or the working class of America would be to tax all income, even that above $90,000 annually. However, according to the U.S. Census Bureau, all *households* that claimed more than $90,000 in 2006 accounted for just under twenty-three percent of the population (United States, "Table HINC0-6"). The Census Bureau defines "household" as including "all the persons who occupy a housing unit" (United States, "Households"). This suggests that, individually, the vast majority of these households contain at least one, if not several, working members who make less than $90,000, and thus pay Social Security on everything they earn. In fact, if you make over $100,000 annually, that puts you in the top four percent as far as individual income is concerned (Parenti), and I cannot condone forcing four percent of the population to pay more than the rest do, simply because they earn more. That just seems to be a different type of segregation. So while it may seem a simple solution, a tax increase is, in this instance, not a plausible solution to the Social Security crisis.

This brings us to option "B," where we just can the whole program and start off fresh. Option "B" also seems to be a plausible idea and one that has its own specific merits. After all, Social Security was never intended to be permanent: it was supposed to be dismantled after the Great Depression and after its purpose had been served. However, back then they ran into the same obstacles when trying to getting rid of it that we run into today. Firstly, if we do cut Social Security off, where do we do so? It is possible that we could pass a law that says if you have not made a Social Security payment by some pre-selected date, then you cannot pay the tax at all, and those who have made payments can either continue to do so until retirement, or elect to simply not pay any more and get nothing back. This way those who are just beginning to pay are not obligated to continue doing so for forty or more years, but can just cut their losses and get out, while those who desire to finish and ride it out can do so as well. However, it is obvious that someone will lose here. Those who elect to stop paying would lose all of the money that they have put into the system, while those who elect to wait it out would have no guarantee that the system will last long enough to pay them all; the approach does nothing to stop the system from crashing, but instead merely exempts a few individuals from being affected by said crash. To make matters worse, those who do not pay the tax will most definitely have an economic advantage over those who are left paying it. Between two people with the same job and same pay, one of those two could easily make almost seven percent more each paycheck, a definite advantage. So, while a gradual implementation of option "B" recognizes the futility of the Social Security system and attempts to make the best of a bad situation, it is actually a selective solution that will favor some over others and will still not actually solve the problem in that it brings no more money into the fund.

Finally, we have our third option: option "C." This is the solution that I believe will be the best suited to fixing the problem. The idea of "privatizing Social Security" basically means that, while the government will still take the money out of people's incomes, the people will be given limited control as to what is done with the money: they can choose to invest it in the stock market, even though they cannot withdraw it until age 67. Peter Ferrara, an Associate Scholar at the CATO Institute, offers a compelling version of privatization. In his proposal, a worker can choose to either pay the regular tax of 6.2 percent and receive the regular benefits of the program, or he or she can choose to pay a five percent tax instead, with the tax going into private investment accounts. The money gained from the accounts would then finance regular life and disability insurance, taking a great deal of the strain of providing for every single worker off of the system. Those who choose to take the privatization routes would also be given government bonds in the amount of however much the worker had already contributed to the system, redeemable at the same time that their social security payments would regularly become available.

Research has shown that the main problem with the system as it stands is that it has too few workers contributing to too many benefit recipients. Ferrara's approach reduces the strain on the funds by reducing the number of future beneficiaries, while increasing people's contribution to the stock market, and slowly weaning people off of a system doomed to fail.

However, implementing any version of option "C" is not nearly as easy as it should be. For some reason, people hear about privatizing Social Security and then, without even knowing what it really does, blame President Bush and his Privatization Bill for most of America's problems. When asked, almost everyone will say that the bill was "radical" but very few people know that the bill actually entailed allowing people a whole two percent of the money that they had invested back to invest as they please (Schalch). In exchange the government would split the market profits off of the money, some of it going to the whole Social Security fund, and the rest of it being directly attributed to the individual investor's Social Security reimbursement when they retire; everyone stood to gain. Some estimates have shown that privatizing even as little as four percent of Social Security could be enough to swing the system away from the precipice of bankruptcy.

For some, the Bush approach can be scary as it puts the investments in the government's hands. However, Ferrara's proposal takes a new angle on privatization that allows for all of the benefits of the partial privatization discussed above, with a few extra bonuses added in. This specific version allows people the choice of whether or not to privatize. The Ferrara approach puts the investments in the hands of the actual investor, allowing a worker to make his or her own choices regarding his or her hard-earned money, the only obligation being that the worker actually invest the money. This can be advantageous in that the individual worker gets a 1.2 percent tax break, which can be a serious benefit to some families, as well as the opportunity gain back more than he or she originally invested. Now, some claim, and rightly so, that the stock market can be a fickle beast with investors' money, and that some who invest in it may go broke. But under the proposed system, those who do not trust either the stock market or their own investing skills may choose to remain inside the Social Security blanket, and receive the funding as they normally would.

There are only two possible downfalls to this system, but I believe they are minor in nature and in most instances can be overcome, especially in light of the benefits gained by converting to privatized Social Security. The first is that the stock market could possibly crash, flushing investors' hard earned retirement funding down the economic drain. However, there are three reasons that a crash is almost entirely inconceivable. The first is the SEC, which can close the stock market immediately if a crash seems imminent, thus freezing all funds for the rest of the business day or until the crisis passes. This is useful because what really causes a market crash is when too many people try to sell shares at one time, which only occurs when people panic thinking they could lose money. By freezing the Exchange, the SEC gives time for the market to "cool off" and recover. Secondly, the addition of Social Security funds to the market will only help the market and the economy. As more money is invested into the market and, by extension, businesses, those businesses will have the opportunity to grow and flourish with greater reach. Thirdly, outside of the two devastating crashes of 1929, statistics have indicated that, while there are various peaks and valleys in the market, the main trend is that it has always risen over time.

The second and, I believe, most damning possible downfall of the system is that not enough people might choose to invest their money, and thus not enough strain will be taken off of the system. It is a well-known fact that the human population in general resists serious change, especially when it comes to their money. This problem, however, is easily overcome by two of the basic elements of the new system. The first is the reduced tax. It is not a stretch to say that very few people like paying taxes, and a reduced tax is always an incentive. Additionally, with the fear of a serious Social Security breakdown on the horizon, many people may see the possibility of a loss of five percent of their wages on the stock market as less of a risk than the almost guaranteed loss of 6.2 percent of their wages to the government. Also, the government bonds that guarantee the workers reimbursement for the taxes they have already paid add a sense of reassurance to the system, saying that the government endorses the new system, and guarantees a worker's prior wages back to him or her. According to Maslow's Hierarchy of

Needs, human beings, like any other animals, will only engage in social- and self- actualization, or personal growth and the helping of others, when their basic security needs have been met ("Maslow's"). The perceived security of government bonds goes a long way to reassuring people that their money is safe.

Even beyond the economics and the math of the issue, privatizing is simply a good idea. The money belongs to the people to begin with, so why shouldn't the people be allowed to invest at least some of it, to add to their own retirement funds? In this manner those who invest their Social Security may reap more of the benefits than they would have without privatization, and those who do not will either be supported by an unstressed social security fund, or at the worst will have had a better chance to save up for retirement through increased wages. The entire purpose of this idea is to give control of an individual's money back to the individual, where it belongs.

Now that the benefits of this system have been shown, it is time to implement it. To be honest, implementing the new system is the easiest part. Once you get past some of the negative bias that is out there about the idea, all that is required is that a law be passed. While there may be some initial expenses incurred from the cost of restructuring the system, it is a small price to pay to save a failing system that has become a deep-rooted part of the American economy.

Thus, out of all the possible solutions, privatizing a portion of Social Security is the best way to handle the coming deficit. The program was not meant to exist anywhere near as long as it has, but it is here, and it is here to stay, and like all modern entities it must adapt to the times. The people have a right to manage their own money, and the government has a responsibility to pay what it has promised its citizens. Through privatization both can be achieved.

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