

ON SOCIAL SECURITY

I live with my sister, and we have a long-standing tradition of letting each other know what we want for Christmas. I normally ask for a book which I choose on the basis of reviews I have read. For some reason, I always select a grim, distressing book which is calculated to make me suicidal. After I finish it, I plunge into deep despair; then I slowly make my way out of the abyss and ultimately get on with my life. I go through this ritual every Christmas, though I can't explain why.

Last year, however, it went differently. The book that I chose was entitled The Looting of Social Security, by Allen W. Smith, published in 2004. Although the title sounds a bit sensational, the book is a serious, well-documented account of the fate that has befallen our national retirement system. It was a book like most of the others that I have read at Christmas. But this time, instead of becoming suicidal, I got angry. Very angry. I do not believe that most of us fully understand the chain of events that has produced an apparent crisis in Social Security. But it is very important for us to become aware of the history. Only then can we make appropriate decisions about the national program upon which so many people depend. That is why I have asked for permission to speak to you today.

Briefly, the Social Security program began operations in 1937 under the administration of Franklin Roosevelt. A small tax was collected from workers so as to build up a reserve, and the payment of benefits was phased in over the next three years. Originally a program for retired workers, Social Security expanded to include survivors' and disability benefits. It now also covers the spouses and dependents of retired and disabled workers. In addition, it contains an annual cost-of-living adjustment—a feature that has vanished from virtually all private pensions. There are currently about 48 million beneficiaries.

During the early years of the program—as indeed through most of its existence—Social Security operated at a surplus. Originally its budget was kept separate from the rest of the government. But in 1968, during the Johnson administration, Social Security was incorporated into the regular federal budget. The purpose here was to use the surplus in Social Security to conceal the mounting deficit in government operations caused by our involvement in Vietnam.

The involvement in Vietnam ended, and in 1990 a law was passed mandating the removal of Social Security funds from the federal budget. Since then, theoretically, no surplus within Social Security may be used to balance that budget. However, all administrations since Lyndon Johnson have continued to report the federal budget as a single entity, combining Social Security with all other government operations. This practice is in defiance of the law. And since Social Security has generally operated at a surplus, this practice also masks the true size of any federal deficit. The adoption of the consolidated budget was a huge mistake, with major consequences down to the present day.

In 1983 Social Security ran into a short-term funding crisis caused by specific problems of that period. A commission was convened under Alan Greenspan, and after much negotiation a solution was devised. The solution sought to fix the immediate problem, and also to institute measures that would prepare the system for its biggest long-term challenge: the retirement of the Baby Boomers. The retirement age was raised, though not drastically, and certain benefits were cut. But most important, the Social Security tax was increased substantially—way over what it needed to be—so as to build up a reserve for the Baby Boom. The commission understood that if the system remained on a “pay as you go” basis, the Boomers would break the bank. It was imperative therefore to build up a surplus, a large surplus, and to keep it inviolate. Fortunately, there was one bright spot on the horizon: The generation immediately preceding the Baby Boom—the generation born during the Depression—was a small one. This provided an ideal opportunity for the system to accumulate the kind of surplus that it needed.

Well, perhaps you can guess what happened. A surplus began to build up, but under the cover of the unified budget it was siphoned off to pay for other governmental operations. As you may recall, the Reagan administration ran huge deficits. Money from the Social Security system was used to cover them, though it could not cover them all, and the national debt increased sharply. The administration of the first George Bush continued this practice, draining off whatever existed of the Social Security surplus, but even then falling short and sinking further into debt.

Then came Bill Clinton. Although irregular in his personal life, Clinton was highly responsible in his economic policies. He put together a deficit reduction package which eventually proved effective. Toward the end of his administration, the annual deficits disappeared, and the government actually achieved surpluses for three consecutive years. Clinton is to be commended for his accomplishments. However, he also made a huge error of omission. Here again, the culprit was the unified budget, which lumped Social Security in with everything else. Clinton neglected to mention that most of the surplus recorded during his presidency was Social Security money. (There was also a surplus in other government operations, but it was small by comparison.) And here is the point: Social Security was *supposed* to be operating at a surplus. This money was being set aside for the Baby Boom; *it was not supposed to be spent*. In addition, there remained the national debt, composed of the accumulated deficits of previous administrations. We had barely begun to pay that off.

Clinton should have mentioned these things, but he didn't. Then came George W. Bush. Seizing on Clinton's error of omission, he conceived the idea of returning the surplus to the people in the form of a tax cut. He also promised to begin paying off the national debt and to leave Social Security intact. In actuality, though, there was no way to finance the tax cut except by using the Social Security surplus; and there was no way he could even dream of paying off the national debt. On the contrary, he increased it. When we consider that his tax cut was primarily for the most affluent, and not for broad mass of Americans, we must question the wisdom of his policies.

Just to give you some perspective, our national debt now stands at 7.9 trillion dollars. More than two trillion of this amount was incurred during the administration of George W. Bush. 24 years ago, when Ronald Reagan took office, our debt stood at less than a trillion. Since that time it has increased nearly eightfold.

Against the backdrop of these depressing figures, Mr. Bush has declared that Social Security is broke and must be overhauled. But let us take a closer look.

Officially, the money drawn from the Social Security system was not pilfered but borrowed. In return for the money that it has loaned the government, the Social Security Administration holds Treasury bonds totaling approximately 1.8 trillion dollars. More will accumulate over the next twelve years. Officially this money is to be paid back when the Social Security Administration begins to need it. However, some conservative pundits have argued that these bonds are a sham--that they are merely a transfer of funds from one government agency to another, and not likely to be repaid. Without the repayment of these funds, Social Security will start running a deficit in 2018. If they are repaid, the system will be solvent until about 2042.

I have two comments. First, let me say that in most places Treasury bonds are considered a very solid investment. Those who hold them expect to collect on them. Why should the Social Security Administration be any different?

And secondly, if the money that was borrowed from Social Security is not going to be repaid, then it has not been borrowed; it has been *stolen*. In that case, those who took the money in brazen defiance of the law, and plundered the reserves of our national retirement system, should have to face criminal charges. Let that money be paid back first; then we can see what changes are needed to ensure long-term stability after 2042.

Or, if those funds are not going to be repaid, then let the officials who squandered them be brought to justice. String them up and hang them high! They deserve no less.

Oh my, I'm starting to sound like a Texan! I'd better sit down.

Prepared by Eric Saunders for presentation at the Unitarian Universalist Church of the Restoration in Mount Airy, Philadelphia. October, 2005.

