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Anti-Social Security

by Dean Baker

The battle for Social Security's survival is under way. In a key maneuver recently, N. Gregory Mankiw, George W. Bush's chief economic adviser, explicitly floated the idea of cutting benefits, a necessary but unmentioned part of the White House's privatization plan. More details will be presented to the public in the weeks ahead, but the outlines of the Bush plan are already clear, having been laid out by his 2001 Social Security Commission. As Mankiw suggested, the Bush plan would require a large reduction in the benefits provided by the existing system. A worker who is 20 today would see a cut of approximately one-third in his or her retirement benefit, although workers would theoretically more than recoup this loss by investing a portion of their Social Security taxes in a private account.

The President's main pitch is that these accounts will yield higher returns than Social Security does. The pitch also includes rhetoric about the accounts being "your money," and giving every worker a stake in the "ownership society." These claims are mostly bad math, faulty logic and deception. Advocates of private accounts assume that the stock market will give the same returns in the future as it has in the past, even though price-to-earnings ratios in the stock market are far higher now than in the past, and the Social Security trustees project that profits will grow at about half the rate they did in the past. None of the proponents of privatization have

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yet passed the "no economist left behind test," which asks them to show the set of dividend yields and stock price increases that add up to the stock returns they assume in their analysis.

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Private accounts also have high administrative costs. According to Bush's Social Security Commission, their private accounts will cost about ten times as much to administer as in the current system if they're handled through a single government-managed system. If Wall Street gets its hands on this money, with everyone going to his or her local bank or brokerage house--as is the case with the privatized systems in England and Chile--the costs could be thirty times as high as the cost of our Social Security system. When the administrative costs are combined with real numbers on stock returns, the individual accounts will provide no better returns on average than the government bonds currently held by the Social Security trust fund. The accounts just add risk--individuals may invest poorly or retire during a market downturn, leaving them with much less money than they'd have under the current system.

The faulty logic is telling workers that the dollars in their accounts are "your money." When money is genuinely "your money," you do what you want with it. This is a real problem--restrictions on existing private retirement accounts have consistently been relaxed to allow withdrawals for education, starting a business or other purposes. These are legitimate uses of workers' money, but not the way to secure money for retirement. The only way to preserve money for retirement is if the government requires that it stay in the account--but then it is not really "your money."

Under Bush's plan, workers will even be able to pass their private accounts on to their children, which raises the same problem. If the account will be there to support a worker's retirement, then the money can't also be passed down to children. While a small number of wealthy people may be in a position of not needing their accounts, creating this opt-out option will add further to the administrative costs for everyone--reducing benefits by another 5 to 10 percent, according to an extensive body of research.

Of course, the only reason anyone is even talking about cutting benefits and privatizing the program is that the right has managed to convince the public

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that Social Security is on its last legs. For more than two decades they have spread stories about the baby boomers bankrupting the system and multitrillion-dollar debts left to our children and grandchildren. In reality the program can pay all scheduled benefits long past the boomers' retirement. According to the Social Security trustees report, it can pay full benefits through the year 2042 with no changes whatsoever. The nonpartisan Congressional Budget Office puts the date at 2052. And even after those dates, Social Security will always be able to pay a higher benefit (adjusted for inflation) than what retirees receive today. Those scary multitrillion-dollar debts translate into a deficit equal to 0.7 percent of future income--presented in very precise form in the Social Security trustees report for those who care to look.

Social Security is the country's most important and successful social program. It provides a large measure of economic security to the whole country, uniting the interests of the poor and the middle class. The program not only keeps tens of millions of retirees out of poverty, it also provides disability and survivors insurance to almost the entire working population. More children receive benefits from Social Security than from the Temporary Assistance to Needy Families program (the revamped welfare program). Social Security is also extremely efficient and has a minimal amount of fraud and abuse.

It's a hugely popular program. Close to 90 percent of the public regularly affirms that we spend either too little or the right amount on Social Security. While polls also show majority support for private accounts, that's only when the question is asked, Would you like a private account? When the real-world question, Would you like a private account if it means a cut in your Social Security benefits? is asked, substantial majorities say no. Bush's Social Security plans are grounds for a decisive battle early in the Administration's second term. The public is overwhelmingly on our side; they just need to know the truth.

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