YES! Magazine Fall 2005 Issue: Respecting Elders, Becoming Elders
Retirement Crisis, Real or Imagined? Moral and Economic Questions on Social Security
by Gar Alperovitz

Social Security is in crisis, according to some. Private pension systems—like United Airlines' and Enron's are also unraveling. And Americans' rate of savings is dropping through the floor. Will you have the money to retire? Will anyone?

What is missing from our national conversation on Social Security is a sense of outrage. My own all too slow-burning sense of outrage was kindled recently when I took over the affairs of an elderly relative after she went into a nursing home in Wisconsin. Her Social Security check, after a lifetime of work as a baker, was $760 a month. What would happen to her and to others who had worked all their lives if payments were cut by as much as a third, as would occur under some of the Bush Administration's schemes? And what if our retirement security relied on risky stock market bets like those involved in various privatization plans? Social Security is the sole source of income for one-third of Americans over age 65.

The present "pay-as-you-go" Social Security system operates on the principle that today's workforce will pay benefits for current retirees - just as current retirees once paid for those who retired before them.

This system works well when both the economy and the work force are growing. When the economy stalls, though, or when the cohort of retirees grows faster than the workers who pay the bills, problems begin to multiply. Projections now suggest that the ratio of retirees to workers - which was 5-to-1 in 1960 and 3.3-to-1 in 2004 - will move to 2-to-1 in 2040.

Additional challenges stem from the increase in average life spans. Current male life expectancy is 74 years but is expected to grow to 85 years by the end of the 21st century.

Nonetheless, the claim that there is a crisis that forces us to undermine a system that has brought so many seniors out of abject poverty is a vast overstatement. The Social Security crisis "is a crisis in the same way that a car headed westward in the middle of Kansas faces a crisis," says economist Dean Baker. "If it doesn't stop or turn, the car will eventually fall into the Pacific Ocean, but it's hard to get too worried about that possibility."

Conservative projections indicate that it will be necessary to begin to tap the Social Security Trust Fund to pay benefits by 2017, and the fund will be exhausted by 2041. Thereafter, if nothing is done, benefits would be reduced to the amount being paid into the system by those in the work force at the time - meaning benefits would be about 74 percent of what they would otherwise be.

Baker and other analysts point to modest changes, like raising the $90,000 limit on income subject to payroll taxes, postponing the age of retirement a bit, and other adjustments that could easily manage the short- and medium-term problems.

Even if such proposals were to be enacted, they would provide only partial solutions for seniors. Our retirement problem goes far beyond these commonly discussed questions.

Retirement's three-legged stool

Social Security is just one leg of the three-legged stool of our retirement security. Private pensions and private savings make up the other two legs, and both have begun to decay as income has stagnated, as corporate practices have shifted, and as labor's power and progressive politics have faltered.

Further complicating the picture is the severe under funding of many plans. Retiring workers in companies facing bankruptcy are unlikely to receive full retirement benefits even if their pension plans are taken over by the Federal Pension Benefit Guaranty Corporation - a painful reality that others faced earlier in connection with the LTV Steel, National Steel, Bethlehem Steel, and Pan Am bankruptcies. Those working for United Airlines are the most recent casualties.

Which brings me back to my Wisconsin relative. Shouldn't the richest country in the history of the world be increasing, not decreasing, its support for those in the final years of life?

The Nobel prize-winning conservative economist Robert Fogel proposes that we should begin retirement earlier (routinely at age 55), not later, and that the number of years free from work at the end of one's career should increase as the nation's wealth increases over the course of the century.

Fogel does not flinch from the implications. Greater personal savings would finance the changes for middle- and upper-income groups. For low-income people, his plan would be financed in part by a tax of 2 or 3 percent "applied progressively to the top half of the income distribution."

Former Bush Treasury Secretary Paul O'Neil has also recently proposed a system of savings and investment that would yield the equivalent of a $1 million annuity for every American. It too would be financed in significant part by taxes based on the idea that "those of us who are more fortunate can help those of us who are not."

Especially in times of economic uncertainty, shifting investment risk onto individuals through private accounts could create many losers. But over the long haul, with progressive taxes, institutional investment of some portion of enhanced social security assets could yield higher benefits than a pay-as-you-go system. All tradi–tional private pension plans and public employee pension plans are based on this understanding.

Economist Thomas Michl has pro–posed revoking the Bush income tax cuts to begin funding a system that could return participants the same yield as a diversified portfolio of stocks. He has also concluded that a progressive wealth tax dedi–cated to funding Social Security should be considered.

Fixing the private pension system

Sociologist Robin Blackburn has offered a partly public, partly private system that would revolutionize retirement financing. A first tier would simply expand and increase Social Security. A second would seek to make existing private pensions more secure by, among other things, requiring companies to con–tribute stock to pooled funds in order to maintain investment diversification.

Blackburn's third strategy would require firms to issue and set aside stock equivalent to 10 to 20 percent of profits each year in order to increase pension fund capital. The stock would be managed by publicly accountable agen–cies. Financing through a "share levy" of this kind (like current stock options given to top executives) dilutes the value of outstanding stock and, in practice, is thus similar to a wealth tax.

A proven success story

These proposals, some by leading conservatives, all use some form of tax on the wealthy to fund long-term retirement security, which is appropriate in an economy that has been systematically redistributing wealth from low- and middle-income workers to the wealthy for the last decades.

Still another approach, with a proven track record, is employee ownership. An employee making $20,000 a year in a typical ESOP (Employee Stock Ownership Program) accumulates $31,000 in stock over 10 years, according to a 1990 study by the National Center for Employee Ownership. That's no small feat considering that the median financial wealth was just $11,700 during this period. A Massachusetts survey done in 2000 found that ESOP accounts average just under $40,000. More workers are now involved in such companies than are members of private-sector unions in the United States.

If the United States merely does as well in the 21st century as it did in the 20th, the economy will be producing an estimated $1 million a year for every four people by century's end. There should be more than enough to go around if we get our priorities straight. The 20th century saw two world wars, the Great Depression, and the Korean, Vietnam and other wars, so the projection of the trend is by no means extreme. But even if we discount the estimate, the idea that we cannot afford a decent life for our seniors is absurd.

It's time for all of us to confront the moral as well as the economic questions at the heart of the Social Security debate. I'm one blue state American who is ready to join hands with conservatives like Robert Fogel and Paul O'Neil and get on with building a morally valid retirement system commensurate with America's inherent economic strength.

This articles draws on Gar Alperovitz's book America Beyond Capitalism (www.americabeyondcapitalism.com). See review in YES!, Summer 2005. Gar Alperovitz is Lionel R. Bauman professor of political economy at the University of Maryland.
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