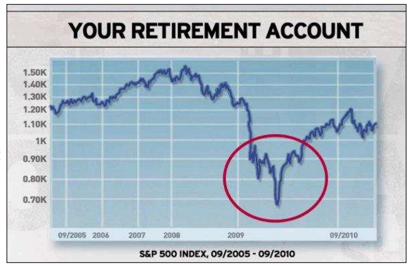
Revisiting Social Security Reform

Like

by Steve Buckstein *Friday, January 7. 2011*



Recently I made a comment on an OregonLive column and was accosted by someone who asked:

"Aren't you the same guy who said roll all of our Social Security dollars out and let everyone invest on their own? Yeah – how would that have worked over the last couple years?"

While I normally don't respond to ad hominem attacks, in this case it gave me the opportunity to revisit a topic that we should all be thinking about again. Here's my response:

It would have worked out rather well, actually. For those interested in more than just sound bites, here's an explanation from a recent Reason Foundation post:

For one thing, under the privatization plans backed by the Cato Institute and others, retirees and near-retirees wouldn't have been affected by the 2008 stock-market decline. Only younger workers would have diverted some of their money from government to capital markets. They would have had time to recover (unless government continued to screw up and cripple the private sector).

Second, even with the 2008 decline, the picture is not nearly as bad as Obama implies. Andrew Biggs of the American Enterprise Institute ran the numbers for a hypothetical worker who retired in 2008, right after the market crash, after a career under a partially privatized Social Security program.

"A typical retiree in 2008 would be entitled to a traditional Social Security benefit of around $15,700 per year," Biggs writes. "For workers who chose personal accounts, this traditional benefit would be reduced by around $7,800. However, the worker's personal account balance of $161,500 would pay an annual annuity benefit of around $10,100. This $2,300 net benefit increase would raise total Social Security benefits by around 15 percent."

Biggs adds: "While today's retiree would have faced the subprime crisis and the tech bubble earlier in the decade, he also would have benefited from the bull markets of the 1980s and 1990s. The average return on his account—4.9 percent above inflation—would more than compensate for a reduced traditional benefit."

Source:
Obama Demagogues Private Enterprise
The president's misguided attacks on privatization
- by John Stossel

Steve Buckstein is Senior Policy Analyst and Founder at Cascade Policy Institute, Oregon's free market public policy research center.

Posted by Steve Buckstein at 10:00 | Posted in Social Security | View Comments

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Sittingpretty 2 days ago

I suspect only a fool would want the government in charge of their retirement.

--> -->

1 person liked this. Like Reply

Valid 2 days ago

Social Security is an insurance plan that not only sets money aside for retirement, but is also intended to protect workers who become physically disabled. Most proponents of these privatization schemes tend to conveniently ignore that fact.

As for "SittingPretty's" comments... Why don't you ask any of the millions of workers in this country who have had their retirements wiped out when a company went bankrupt or merged with another company whether they trust their social security and medicare more than the plan they got through their company.

As to Steve's original post: Workers had lost more than $2 trillion in retirement savings by october of 2008, according to the Washington Post, so I would question whether Reason was just cherry-picking data in its analysis to make its corporate funders happy.

Like Reply

valley person 2 days ago in reply to Valid

I trust Bernie Madoff more than the government. He had unbelievable investment returns. So did Enron. And then there is AIG. I mean, the private investment world can't be beat.

Like Reply

Steve Buckstein 2 days ago in reply to valley person

The fact that you and others recognize the names Madoff, Enron and AIG imply that they are the exception, not the rule in the markets.

While its true that Madoff's Ponzi scheme touted fantastic (although made up) rates of returns, Social Security data make it very clear that returns are dismal and will be less than zero for younger workers.

Like Reply

Jimkarlock 2 days ago in reply to valley person

Hi Valley person (Dean Apostle),
Just a note to congratulate you and your fellow Damascus residents on your choice of a mayor who is not a Metro zombie, and presumable not a global warming fool or a deluded high density supporter.

Thanks
JK

Like Reply

Bob Clark 2 days ago

I think maybe young workers would favor such a transition to private accounts and away from social security and its tax. I have nephews and nieces who say they don't trust in social security because of the raping it's gotten from the free spending federal government.

As it is, young folk are going to get had as the undersaving baby boomers draw on young workers' social security taxes at a bumped up pace.

Like Reply

valley person 2 days ago in reply to Bob Clark

Polls say you are wrong Bob. Younger people are not interested in privatizing social security, despite years of fear mongering about its finances.

True Steve, not all of Wall street is irresponsible or criminal. But it was Wall street banks that crashed the entire world economy a few years ago, not the government, which came to the rescue.

People today are free to invest as they see fit. Most people, including yours truly have an IRA or 401K in addition to their future SSI. Some are lucky enough to have a pension, though your side is working hard to stamp that out. Putting all eggs in a single retirement basket, Wall street, is a very bad strategy for securing retirements for the American people. A crash like the one we had a few years back would wipe out a big chunk of income overnight, and would have compounded the problem. SSI is a rock of stability in an unstable economy.

Like Reply

SteveBuckstein 2 days ago in reply to valley person

"SSI is a rock of stability in an unstable economy."

I can't help mentioning that rocks sink. Unfortunately, that's where your "stable" SS rock is headed unless we find a way for it to generate real earnings for future beneficiaries.

Like Reply

valley person 2 days ago in reply to SteveBuckstein

There is no more secure investment on the planet than US treasury securities. That is why so many people, including China's government, buy them even when they yield zero interest. This is a rock that is pretty much unsinkable, though it is erodable. If we go into a long term productivity decline, then the ability of the US to pay its debts will also decline. But look at it this way Steve, if the US government ever gets to a point where it can't or won't pay its debts, then there is not a single private company or investment option that would be secure. The whole ship would go down together.

Yes, you have to have future workers being productive and chipping in. That is also true for the economy as a whole. Oil companies, banks, utilities, you name it. None can survive economically on stored capital for very long. Even Mormons have only a 2 year canned food supply.

Like Reply

Jimkarlock 2 days ago in reply to valley person

Valley person (Dean Apostle): But it was Wall street banks that crashed the entire world economy a few years ago, not the government, which came to the rescue.
.JK: Will you never learn to look deeper into anything?
The Wall Street banks (and other banks) got greedy in the housing market. They lent money to people they shouldn’t have because of federal rules and the constant increase in housing prices. “Heck, he can’t pay for this house, but it will be worth more next year and that will bail him out.”

What you didn’t want to ask is what caused the bubble in the first place. Simple. Artificial shortages of houses caused prices to rise which attracted speculators which multiplied the rise.

Now, some may ask, what was artificial about the housing shortage? Simple:

Land use restrictions like urban growth boundaries, restrictive zoning and lengthy permitting processes.

All government policy caused by ignorant government planners.

Don’t believe me? Would you believe Paul Krugman:

In Flatland, which occupies the middle of the country, it's easy to build houses. When the demand for houses rises, Flatland metropolitan areas, which don't really have traditional downtowns, just sprawl some more. As a result, housing prices are basically determined by the cost of construction. In Flatland, a housing bubble can't even get started.

But in the Zoned Zone, which lies along the coasts, a combination of high population density and land-use restrictions - hence "zoned" - makes it hard to build new houses. So when people become willing to spend more on houses, say because of a fall in mortgage rates, some houses get built, but the prices of existing houses also go up. And if people think that prices will continue to rise, they become willing to spend even more, driving prices still higher, and so on. In other words, the Zoned Zone is prone to housing bubbles. (nytimes.com/2005/08/08/opinion...)

See portlandfacts.com/krugmanbubbl... for more evidence that government planning “ crashed the entire world economy”. You know, the planners like at Metro which you worship.

Thanks
JK

Like Reply

valley person 1 day ago in reply to Jimkarlock

And how many states have urban growth boundaries? Nevada? Arizona? Georgia? Florida? All places where the housing bubble and crash was worse than in Oregon lack urban growth boundaries.

I think you need a new theory. Or new facts.

Like Reply

Jimkarlock 1 day ago in reply to valley person

Are you saying that Krugman is wrong??

You can';t disagree with him - he is a liberal like you and he even got himself a Nobel prize in economics, the field he is writing about here.

BTW, you are wrong about Florida - very restrictive.
And you forgot the big time bubble in California, a very restrictive state
Thanks
JK

Like Reply

valley person 19 hours ago in reply to Jimkarlock

I think he is right that much of the country lacks land use controls and can freely (sort of, because sprawl is not free) sprawl away. But in places where sprawl is allowed, like Arizona, Nevada, metro Atlanta, and yes, Florida (I know because me parents retired to a sprawling new non city stuck in the middle of nowhere) prices went up anyway and the crash was very deep.

The middle part of the country did not boom or bust because its population is stable or declining. This has been the case for many decades. Supply and demand are in balance. There is pretty much zero real estate speculation in Iowa or the Dakotas or Kansas. The places that boomed are the places with growing populations, Oregon being among them.

Like Reply

Bob Tiernan 2 days ago

Valid mentioned that "Social Security is an insurance plan that not only sets money aside for retirement..."

I don't see any money being "set aside" at all, unless you count the few days
in between when it comes in from payrolls and then out again as SS checks.

Also mentioned was the fact that Social Security "is also intended to protect workers who become physically disabled."

Not that there's an argument here, but I believe that (unless it has been changed in recent years) Social Security checks for disabled people do not in theory use the SSI payroll revenues but use general fund dollars which are provided to the Social Security Administration which cuts these checks as well. This was a point made by the Concord Coalition to calm down people accusing the government of dipping into Social Security funds to cut checks not being sent to retired people.

The additional comment that "most proponents of these privatization schemes tend to conveniently ignore that fact" means little, since the retirement planning and checks for disabled people can be easily separated. No one is ignoring anything about this.

Bob Tiernan
NE Portland

Like Reply

Rupert in Springfield 2 days ago

I love when people retort that privatization would not have worked out so well in recent years.

Yes - that is true - If you had invested all your retirement money at once in 2006 and put it in an index fund and then retired in 2008 you would have seen your retirement cut in half. That would be a worse return than SS.

Ok, so maybe two people on the planet would have used this investment strategy. Boo Hoo.

How else is this claim by anti investment fanatics true?

Well - If you had invested all your money in one or two stocks, and that company went bankrupt, you would have lost all of your retirement.

Ok, so all of us should have our retirement crippled by SS because some idiots might invest all their retirement in single stocks.

That's stupid.

Ok - So in two cases - bizarre work situation in the first,abject idiocy in the second, the anti savings crowd might be right.

That's it.

How is the anti savings crowd wrong?

Well, if you had invested in an index fund, and worked or were planning on working a normal amount, call it 40-50 years, the recent market downturn would have wiped out ten years of growth. thats bad, but no where near as bad as SS screws you over.

With SS, if you are currently working, SS wipes out all growth, since current workers face a negative return on their SS contributions. Thats right, you dont lose ten years growth, which you wold have with the current situation, your lose 40-50 years worth of growth!

With absolute certainty according to SS actuarials, younger worker will receive less than they put in. They are being ripped off to pay phenomenal benefits to those now retired.

Can we find a 40-50 year period, the normal working span, where investing in an index fund would would yield a negative return? No.

Can we show that SS for current workers will return a negative yeild for current workers? Yes.

So please, lets stop the yammering about SS being a better investment than private investing would be.

It's simply not true.

Argue with the facts all you want, but SS currently guarantees the absolute worst return of anything out there.

Ninny alert - Yes, I said something bad about SS that is factual - please begin strategy of talking about hatred of old people, torture of small animals, women and minorities affected the most by conservative death rays and the like. Let the boobishness begin!

Like Reply

valley person 2 days ago in reply to Rupert in Springfield

"Can we find a 40-50 year period, the normal working span, where investing in an index fund would would yield a negative return? No."

Index funds did not even exist until 1975, so their track record is only 35 years, the past 10 of which have been pretty crappy.

I'm curious why you would even compare what is not an investment, SSI, with investments in any case. SSI is basically old age and disability insurance. You could maybe compare it with buying insurance against poverty in old age. What would that cost? What would it return?

SSI is not a better or worse investment than a mutual fund because it isn't an investment. Its an obligation to pay for today's geezers, with the promise that when you are a geezer you will get your monthly check from the most secure source known to man, the US government. As taxes go, its pretty darn good. You don;t get a cent back from your taxes that pay for defense unless you are a defense contractor. You don't get a cent back from what you pay for prisons, fire fighting, schools, or just about any other government service (you do get the service, but not the money.)

With SSI you get checks in the mail. And if you live long enough, you get a lot of checks.

"Argue with the facts all you want, but SS currently guarantees the absolute worst return of anything out there."

Well, it isn't a fact simply because it isn't an investment. Its dollars for your grandparents so they can keep a rood over their heads and food on the table. If you want the government to give them less so you can keep more for yourself, then fine, make that argument.

Otherwise stop whining and invest in a 401K.

Another point you and Steve might think about. If you took all the money we are taking from some and giving to others through SSI tomorrow, and you put that into stocks and bonds, you would probably crash the value of stocks and bonds. Corporations have trillion of capital sloshing around that they are not even using. Handing them trillions more is not going to cause them to make more stuff. Only demand for products can do that. SSI is like a perpetual, steady flow of demand. Sure, a lot of it pays for walkers and hearing aids, but in economics one product is as good as another.

Like Reply

Jimkarlock 2 days ago in reply to valley person

Valley person (Dean Apostle): Index funds did not even exist until 1975, so their track record is only 35 years, the past 10 of which have been pretty crappy.
JK: What???? The Dow goes back to the late 1800s and the S&P has been rebuilt back to about the same time. That history tells us what we might expect going forward. But you knew that!

OF course our SS returns would be dramatically higher if the politicians hadn't stolen the money for their pet projects instead of giving the SS "fund" the same rate as government bonds.

Thanks
JK

Like Reply

valley person 1 day ago in reply to Jimkarlock

The Dow goes back. Index funds do not. If you want to track index fund performance you can't go back to the 19th century.

History does not tell us what to expect going forward. History tells us what happened in the past. We can project forward, but can't really predict.

What you and Steve and Rupert seem to think is that the US government could have invested past SSI surplus funds in a market index fund well before these even existed. It couldn't have. Prior to 75 it would have had to buy specific stocks, which would have meant the government was buying up private companies, which is exactly what you all complained about last year when we took GM, Chrysler, and AIG stock.

Going forward, index funds have been around, we can measure their performance, and maybe it makes sense to invest some portion of SSI surplus funds there. But to morph this into what individual investors do with their own money is fantasizing about what does not exist.

One additional point. The right wing has your collective knickers in a twist over the government forcing people to buy a private product, namely health insurance, claiming this is unconstitutional. How then would you enforce the government taking peoples money through a payroll tax and forcing them to buy private index funds to finance their retirement?

Like Reply

Bob Tiernan 1 day ago

Valley Person pointed out that, "The right wing has your collective knickers in a twist over the government forcing people to buy a private product, namely health insurance, claiming this is unconstitutional. How then would you enforce the government taking peoples money through a payroll tax and forcing them to buy private index funds to finance their retirement?"

I agree that they are the same, more or less, which is why I don't consider such a proposal to be "privatization". Sadly, most people on both sides think this is privatization when it is not. Saying (or believing) that it is allows the left to easily demonize real privatization in any activity, while allowing the right to define quai-socialism, croney capitalism, mercantalism, etc. as actual privatization when it is not.

B Tiernan
NE Portland

Like Reply

valley person 19 hours ago in reply to Bob Tiernan

Ok, so it isn't "privatization." What is it then? What do you propose doing with Social Security?

Like Reply

Reactions

summermeg 2 days ago

From Twitter via BackType

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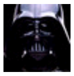

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Bertromavich 2 days ago

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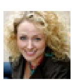
Revisiting Social Security Reform: I trust Bernie Madoff more than the government. He had unbelievable investmen... http://bit.ly/eoXgxN

jhncghm 2 days ago

From Twitter via BackType

RT @ORlibertygal: Revising Social Security? Nah...that'll never work http://bit.ly/g1i6TP Buckstein is a genius! #tcot #economy #ss #sgp



ORlibertygal 2 days ago

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