Tax Cuts as a Route to Cutting Social Security

Pete Dolack

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Conservatives are fond of saying that if you give a man a fish you can feed him for a day, but if you teach him how to fish you can feed him for a lifetime. This is supposed to tell us that social benefits, such as government programs, are bad for people. A much better example of conservative thought would be to say if I put a fence at the entrance to the pier and don't let anyone else have access to the water, I can have all the fish for myself.

Let those peasants starve! Such a privatization of fish isn't distant from the actual mechanics of class warfare as it is practiced, unfortunately.

Take the latest salvo in ongoing class warfare, United States edition: The coming assault on Social Security. Curious as to why the Republican Party's mania for balanced budgets suddenly vanished? I mean, besides the mind-boggling hypocrisy we can expect from the Right. The immediate cause was to placate their billionaire donors who issued marching orders last June. A "donor retreat" at a Koch brothers' compound in Colorado was attended by 400 people, and, as *The Guardian* reported, the "price for admission for most was a pledge to give at least $100,000 this year to the Kochs' broad policy and political network. Donors decreed that Republicans must pass "tax reform" and reverse the Affordable Care Act (because health care is a socialist plot?) or their checkbooks would be shut.

That the Trump/Republican tax plan will be a bonanza for the wealthiest is well documented by this point, with the "Corker kickback" not only giving "dissident" Republican Senator Bob Corker a multimillion-dollar payday to ensure his vote but giving Donald Trump himself tens of millions of dollars thanks to the special rule benefiting real estate speculators. But lurking behind this devastating corporate offensive is the little matter of the extra $1.5 trillion to be added to the deficit. When Republicans (probably assisted by the more spineless among the Democrats) decide in the near future that deficits matter after all, social benefits will be in the cross hairs, with Social Security and Medicare likely to be the prime targets.

In advance of this, we will be treated to a rerun of horror stories designed to convince United Statesians that Social Security is unsustainable. The claim will once again be that either we'll have to accept steep cuts to Social Security payments or privatize it, putting our retirements in the hands of Wall Street. This has been the wet dream of financiers for decades, and as an added bonus, Wall Street is another major beneficiary of the Trump tax cuts. "Heads I win, tails you lose" is always the way of Wall Street and here we have it again, pocketing untold millions from tax cuts and then taking away your Social Security when the ensuing deficit mounts.

One way of promoting privatization is to allege that there isn't enough being paid into the system to cover future claims. It is true that in recent years Social Security has been paying out more than it is taking in, although it is far from broke. Concomitant with that argument is the claim that everybody takes out much more than they pay into it over their working lives. But that isn't necessarily true — a Congressional Budget Office (CBO) report, issued in 2006, found that people earning near the median income get back about the same as they pay into the fund. Low-income earners do receive more than they pay, but conversely high earns get back less. But Social Security is supposed to be progressive. Indeed, the CBO's report says, "The Social Security benefit formula is designed to provide beneficiaries who had lower life-time earnings with monthly benefits that are higher, as a percentage of their lifetime average earnings, than those received by higher-earning beneficiaries."

The corporate interest in gutting Social Security

Those saddled with a lifetime of low or median earnings have spent a lifetime being exploited on the job, so whatever extras are received are pennies on the stacks of dollars extracted from them. Remember that profits come from the usually wide gap between what you are paid and the value of your work, and what financiers haul in is skimming off that pot collected by employers dealing in tangible services and products. There is a symbiotic relationship between financiers and industrialists and although there is much wrangling between them (which is why corporate press releases so often proclaim "enhancing shareholder value" as an important part of their mission), they have a mutual interest in exploiting employees.

That mutual interest extends to gutting Social Security, even if financiers have the more immediate interest. The challenge of funding Social Security isn't a difficult one. An important reason why that is so is because Social Security taxes are only imposed on income up to $127,200. Anything above that is untouched. So why not raise the bar? Senator Bernie Sanders has introduced a bill that would apply this tax to all income above $250,000. This plan would eliminate 80 percent of the projected shortfall, according to an analysis from the Social Security office of the Chief Actuary. For whatever reason, Senator Sanders' plan wouldn't touch income in between. Taxing all income would raise still more money.

Another method is suggested by Dean Baker of the Center for Economic and Policy Research. He argues that a payroll tax increase of four percent would be sufficient to fully fund Social Security and Medicare for another 75 years. He acknowledges that such an increase would be difficult for many workers, but he estimates that the loss of income from decades of upward distribution of income to be 40 percent — a loss ten times greater. That figures comes from the gap between the rate of earnings increases for working people and the rate of increases in productivity. He explains:

"[U]pward redistribution over this period has reduced wage growth by more than 40 percentage points. In short, our children are 40 percent poorer than they would otherwise be because of the money going to people like Bill Gates and Steve Zuckerberg rather than ordinary workers.

So by very conservative estimates, a typical person in their twenties or thirties has seen their income reduced by more than 40 percent because of all the money redistributed to those at the top. However, the generational warriors want young people to be upset about the possibility that a bit more than one-tenth of this amount could be used to pay for their parents' and their own Social Security and Medicare. (This upward redistribution is also responsible for about half of the projected shortfall in Social Security, as more income going to profits and high-income workers escapes the Social Security tax.)

It is also important to understand that government action was at the center of this upward redistribution. Without government-granted patent monopolies for Windows and other Microsoft software, Bill Gates would probably still be working for a living."

A trillion dollars for Wall Street

Privatizing Social Security would additionally cut benefits because financiers would take hefty cuts. The administrative costs of the retirement portion of Social Security (the bulk of the program) is 0.4 percent. In contrast, Dr. Baker reports, "even relatively well-run privatized systems, like those in Chile or the United Kingdom, are 10–15 percent of benefits."

Such ratios were Social Security privatized would cost nearly $1 trillion in a decade, he calculates — $1 trillion taken from Social Security benefits and diverted into Wall Street's bottomless pockets. Consider that the standard payment for hedge-fund managers is to receive an annual fee of two percent of the value of the total assets under management and 20 percent of any profits. The fee gets paid even when the fund loses money. In 2014, the top 25 hedge-fund managers hauled in $11.6 billion despite collectively underperforming the stock market.

Fees for ordinary money managers are not this high, and a privatized Social Security wouldn't pay fees as exorbitant as those charged by hedge funds. But it would still be huge sums of money. That is why Wall Street has long lusted to get its hands on it.

Then there is the matter of returns. Would gambling Social Security funds on the stock market really result in better results? Not necessarily. In studying the stock market's long-term returns for an article I wrote a decade ago, not long after the 1990s bubble had burst, I found that you would have to time your retirement to the peaks of bubbles. When adjusted for inflation, the Dow Jones Industrial Average — the ultimate index of stock-market health and which has its components continually adjusted so as to replace low-performing stocks with high-performing ones — was below its 1929 peak as late as 1991. Here are some long-term results:

- The Dow peaked at 995 in February 1965. Adjusted for inflation, that was 42 percent more than it was worth at its previous bubble peak in 1929, not so impressive when it took 36 years to get there.
- The ensuring crash bottomed out in December 1974. At this point, the Dow, adjusted for inflation, was worth only half of what it was worth in 1929 and little more than one-third of its 1965 peak.
- The most recent crash bottomed out in March 2009, at which point the Dow was three percent below its 1965 peak, adjusted for inflation.

The stock market is edging into bubble territory as we begin 2018, and stocks are priced high by historical standards. The basic measure of stock-price sustainability is the price/earnings ratio of the S&P 500, representing the largest companies on U.S. stock markets. The ratio's average, calculated back to 1872, is 14. Prior to the 1990s bubble, the S&P 500 P/E ratio rose above 20 four times; each time it subsequently fell below 10. A standard measurement of the P/E ratio today is 26. One way to understand that number is that an investor is essentially paying $26 for each dollar of corporate profit, which is considered too high. It is true that the P/E ratio has been almost continually above the historic average since the 1990s bubble, but nonetheless this more recent rise indicates that a stock collapse is looming.

Goodbye retirement, goodbye disability payments

There aren't any free lunches. A Center on Budget and Policy Priorities study notes that Social Security is not only a retirement program, but also an insurance program that could not be duplicated if privatized:

"Social Security is not only a retirement program but also an insurance program. About one-third of payroll taxes go to fund Social Security disability insurance and survivors insurance. Comparable insurance products would be extremely expensive to buy in the private insurance market, if one could even find such products. Social Security also provides an inflation-indexed annuity: Social Security benefits are adjusted each year for inflation and are paid until death, regardless of how long a beneficiary lives. These features of Social Security provide a valuable form of insurance against the risks of inflation and of outliving one's savings."

Nor would sinking funds into stock markets necessarily be a wise gamble, the Congressional Budget Office has said:

"Government investment in private securities does not offer a free lunch: although it would increase the expected value of budgetary resources, it would do so at the cost of exposing the government, future taxpayers, and beneficiaries of federal programs to greater risk. If that risk was taken into account, the returns on private securities would be no greater than the returns on government securities. … Using risky investment portfolios to finance spending by government agencies could weaken budgetary control of federal financial resources."

That last item, however, is a lure of Republicans and their corporate masters. Create a larger deficit, cut social spending, repeat. This reduces lifespans, reducing payouts through Social

Security and corporate retirement plans, for those lucky enough to still have one. Earlier deaths has already been declared a "silver lining" by U.S. corporations.

And let us not forget the sometimes bipartisan nature of Social Security cuts — Barack Obama had proposed a change to the way inflation is calculated for the determination of cost-of-living increases that would have resulted in lower adjustments for inflation, effectively a small yearly reduction. He did so as a bargaining chip in an effort to force Republicans in Congress to agree to modest tax increases. Ultimately, a Democratic Party revolt, spurred by grassroots opposition, forced an end to this plan, but this episode does serve as a reminder that social movements, not hoping for political office holders to do good, is the key to being able to retire some day.

In Chile, in 1998, the government actually asked workers not to retire because of a sustained economic downturn. (The Chilean retirement system was forcibly privatized under Pinochet). Think it can't happen elsewhere? Keep in mind these words by Stephen Moore of the far right groups Club for Growth and Cato Institute: "Social Security is the soft underbelly of the welfare state. If you can jab your spear through that, you can undermine the whole welfare state."

You'll work until you drop, but Wall Street will profit.