retirementrevised

Q&A: Eric Laursen on The People's Pension

Posted on 02 May 2012
By Mark Miller

Eric Laursen is an independent journalist who's been covering political and financial news for more than a quarter-century. He's been studying Social Security for the past 15 years, and just published a smart and exhaustive (800-page!) book called The People's Pension: The War Against Social Security from Reagan to Obama (AK Press, Spring 2012).

If you want to put the current struggle over Social Security's future in context, read this book. Eric chronicles the history of Social Security from the 1930's to the present, with a special focus on the ideological and political attacks on the system. He starts with the Reagan years and connects the dots to the current efforts to undermine Social Security from the right. (I also recommend highly Nancy Altman's The Battle for Social Security).

I asked Eric to talk about Social Security's history in the context of recent politics and media coverage.

Q: As a journalist covering Social Security, I'm always shocked to see the extent that the notion of a "Social Security crisis" has become accepted truth among most mainstream American media, even though the idea is wrong. How do you think this happened, and why do Social Security's defenders have such a hard time getting their views heard?

A: There are a couple of reasons. The first thing is that the numbers lend themselves to misunderstanding. Every year, the Social Security trustees release a report that includes projections of the program's solvency over a period of 75 years. They include optimistic, pessimistic, and intermediate projections, and the intermediate projections are always the ones the media pick up on as being, presumably, the most reasonable. How the projections are arrived at is very complex, so I'll just point out that they bounce around quite a bit, because obviously, 75 years – or even 30 years – is a long time and a lot of things can change.

It's important to make these projections, because we need some idea of where Social Security is headed, but a lot more importance is attached to them than is warranted, I believe. The numbers lean heavily on trends in the recent past, which include several very severe recessions. As a result, the trustees' projections for economic growth over the next 75 years are very dismal – depression-level, according to my perspective. Another feature of the past four decades, which impacts the projections very heavily, is that real wages in the U.S. have stagnated for the vast majority of this period. Low wages means lower payroll taxes, which means less money to pay for Social Security. Now, my perspective is that the solution isn't to cut Social Security but to implement policies that will create better paying jobs, nurture a better educated, more skilled population, and thus make Social Security more affordable. Why don't ideas like these get more of a hearing? One reason is that the American business and financial communities have been able to do quite well for themselves for some year now without supporting policies that encourage a more balanced domestic economy, by focusing on financial speculation and outsourcing to non-U.S. markets. Why would these powerful groups want it any different, when the alternative would probably mean more government spending and higher taxes on themselves?

So one reason that Social Security's defenders have such a hard time being heard is that they have to compete against some very powerful interest groups that are well represented in the mainstream media and have a very different point of view. But let's look at it from the media's perspective as well. Social Security's critics frame their argument as being about "fiscal responsibility," which sounds awfully virtuous and serious. Politicians and the Washington press corps love to be seen as virtuous and serious. Also, kind of perversely, the Social Security "doomsday scenario" is actually quite appealing in a superficial way, from a journalistic perspective. Its a classic wag-the-dog story: The poor aren't driving the country into bankruptcy. It's the middle class, who are addicted to "middle-class entitlements" like Social Security! The heedless young aren't the villains, it's those greedy oldsters! Who knew? It makes for good headlines, even if it's a distortion.

Q: Proposals to cut Social Security are nothing new – it's been tried in one way or another by every president since Jimmy Carter, and a succession of congressional leaders. Which party is a bigger threat to Social Security – Democrats or Republicans?

A: I'm much more concerned about Democratic politicians than Republicans. Just for some perspective, the Democrats today are split between two fairly distinct groupings: progressives and the center-right. Progressives are generally supportive of Social Security in its present form – although, to my judgment, they don't do enough to promote improvements. The center-right are deficit hawks. They see Social Security payroll taxes as a cash cow that could be used to reduce the federal debt if only they could find a way to slip benefit cuts through the political process.

Center-right Dems are the most dangerous group because they enjoy the "halo effect" that their party earned from creating Social Security and building it into the system it is today. They wouldn't do anything to damage it, would they? Actually, they have, and they do – as you note, every president since Carter has tried to cut Social Security. That includes Barack Obama, who tried to cut a deal with Speaker John Boehner last summer that would have cut benefits over time.

Republicans, when they've tried to go to work on Social Security, have generally been turned back by grassroots opposition. When George W. Bush tried it in 2005, it was a debacle – one of the biggest domestic-policy disasters for any president since Herbert Hoover, in fact. It led directly to the Republicans losing control of Congress the following year, and the presidency in 2008. The only way they can dismantle Social Security is if they have cover and collaboration from the Democratic center-right – which, unfortunately, the latter are only too eager to give them.

Q: How does Social Security figure into the periodic negotiations in Washington for a "grand bargain" on taxes and deficit reduction?

A: Republicans and center-right Dems agree on a couple of things: first, that in attacking the deficit and the national debt, tax increases are to be avoided at all costs, and second, that when it comes to cutting federal spending, the mother lode is Social Security and Medicare. Together, these programs make up a little over 40 percent of federal spending. So every time the idea of a "grand bargain" pops up, the players inevitably turn to Social Security and Medicare.

Q: Advocates of Social Security privatization – individual investment accounts and the like – often mention the success Chile has had with privatization. Has Chile really succeeded in this area, and to what extent are Chile's retirement system and Social Security really comparable?

A: The Chilean story is important not because it's been such a big success, but because it was the first of its kind – the first country with a national retirement system to turn it into a system of private accounts. The World Bank, the Cato Institute, and other groups with an agenda against guaranteed pension benefits devoted enormous resources to promoting Chile as the new way to provide for workers' old age, and this energized the privatization movement in the U.S.

In fact, Chile's private accounts haven't worked that well and there's a lot of discontent with the system. The fees on the private accounts are crazy high – absorbing from 15 percent to one-third of contributions, by some estimates. Only two-thirds of workers participate in the system; others are too poor to contribute to accounts. That includes a lot of younger workers. So a big chunk of the public bears the cost of a giant tax break for the others. Even those who have accounts, seldom accumulate enough to retire on – more than 40 percent have to keep working. Women, with spottier work histories and lower wages, get a raw deal from the system. In 2008, Chile partially retreated, setting up new, guaranteed payouts to the low-income elderly.

Could the same thing happen in the U.S.? The U.S. is a far richer country than Chile, which has some of the worst income inequality in the world. But inequality is expanding here, too. A Chilean solution in the U.S. could turn out the same way, with a few winners and a lot of losers.

Q: What's the role of Wall Street in supporting the movement to privatize Social Security?

A: There's no question that major financial services firms like Fidelity Investments, State Street Bank, Merrill Lynch, and others have supported privatizing Social Security. The reason is simple: They stand to earn a great deal of money by managing individual workers' accounts. In fact, the whole idea of privatization could be thought of as welfare for Wall Street: private accounts would guarantee a steady flow of money management fees to the Street – some estimates put it as high as, potentially, tens of billions of dollars a year – which would help them to cushion the risk from the high-wire trading strategies that periodically force them to go to Washington for bailouts.

But the interesting thing I discovered in researching The People's Pension is that Wall Street is a relative latecomer to the movement against Social Security. Until the mid-1990s, financial services firms weren't interested in administering millions of tiny investment accounts. It would have been too expensive. They only got interested after the rise of IRAs and 401(k) plans forced them to acquire the computer capacity to do so. And even in the years since, they often tread softly when it comes to Social Security, for fear of offending the labor unions that invest a lot of pension money through them. So while a few big firms – State Street bank in particular – have been promoters of privatization, the biggest champions still tend to be wealthy free agents like the Koch brothers and hedge fund baron Pete Peterson.

Q: How do conservative and center-right think-tanks and wealthy, behind-the-scenes donors like the Koch brothers and Pete Peterson figure into this?

A: They've been vital to the movement against Social Security from the early days, but in rather different ways. The Koch brothers bankrolled the Cato Institute and, to a great extent, the Libertarian Party starting in the 1970s. Cato's first important public policy study was a 1981 book called Social Security: The Inherent Contradiction, by Peter J. Ferrara. It's still the best compendium of the right-wing arguments against Social Security, and it included ideas for privatizing the program that the right and center-right still draw on today. Other conservative think-tanks have adopted Social Security privatization as a basic principle since then, but Cato – backed by Koch money – got the ball rolling.

Peterson's a somewhat different and more complex story. He's very much an enemy of Social Security, and has supported private accounts on occasion, but his real focus is the national debt, the deficit, and the supposedly urgent need to reduce them. He sees slashing Social Security as a way to accomplish this, not an end in itself. He's spent a considerable fortune – even by today's standards – to push his ideas, and he was the main bankroller of the Concord Coalition, the first big anti-deficit pressure group. But a lot of his money has gone to organizations he didn't found, like the Brookings Institution, the Committee for a Responsible Federal Budget, and Public Agenda. He then uses his personal influence to "bend the curve" within these groups in the direction he prefers, pulling together their experts on projects that create a sort of echo chamber effect in favor of debt reduction, fiscal austerity, and cutting "entitlements" like Social Security.

But Peterson actually played his most important role back in the 1980s, when the movement against Social Security was first coming together. He was extraordinarily well placed in Washington and on Wall Street, and even though he was a Republican, cultivated close ties with the "liberal" mainstream media. Through a series of articles that he wrote in the early '80s and through his friendships with everyone from the Washington Post editorial board to producers at 60 Minutes, he was crucial at making it politically acceptable for key figures in Democratic Party leadership circles to start adopting anti-Social Security positions. His influence in bringing about a rightward drift within traditionally "liberal" elites was profound.

Q: Opponents of Social Security and Medicare have tried to convince the public that these programs are creating "generational warfare" between parents and children. Are they right?

A: No. The funny thing is that despite all the talk of generational warfare, and all the critiques that have been launched against Social Security as being unfair to younger workers, none of this ever shows up in the polls. Consistently – and to me, this is one of the most reassuring things about the Social Security debate – younger workers express little or no hostility about having to pay for old-age benefits for their parents and grandparents. If they express doubt about Social Security, or uncertainty that it'll be around for them, they never rate this very high on their overall list of political concerns.

Social Security may be the most heavily polled topic in American history – at least over the past 30-40 years. I've had to study quite a lot of it. And the results suggest strongly that young and middle-aged working people have absorbed the message of intergenerational solidarity that's the foundation of Social Security and Medicare. The right and center-right still haven't figured out how to crack it.

Q: What changes should we make to Social Security to keep it strong and vital in the years ahead?

A: The quickest and easiest thing would be to simply raise the cap on income subject to payroll tax, which currently stands at a little over $110,000. Depending whether you raise the cap or eliminate it entirely, most of the 75-year Social Security deficit could be eliminated. But there are plenty of other options. Some have suggested restoring the estate tax and adding it to Social Security's cash flow, taxing flexible spending accounts – a bigger part of overall compensation these days – including all public-sector workers in Social Security. A fallback would be to raise payroll taxes for everyone, but so slowly that it would have little impact – say, by 0.01 percent a year. A lot of these ideas – even that last one – have been poll-tested and play very well with the public.

But I think the more urgent need is to improve Social Security. Retirement is becoming hugely expensive in America, because of health care and other rising costs. Benefits need to be raised for people who work almost their entire careers in low-wage jobs. They need to be improved for widows and divorcees. Survivors' benefits should be extended through the end of college, not just until age 18. Same-sex couples should be covered by Social Security. And there are other needs. The real tragedy of the Social Security debate, which I try to illuminate in The People's Pension, is that a program that was set up to help working people hasn't been updated in almost 40 years because we've instead been subjected to an endless, circular argument about solvency in the less-than-foreseeable future. Does it really make sense to shift more of the cost of care in old age from society, collectively, onto hard-pressed working families? What will that do to their ability to survive economically? Instead of constantly asking if we can afford Social Security, I think we should be questioning whether we could possibly afford to do without it. These questions almost never get asked anymore on Planet Washington, and I hope my book can help put them back in circulation.