

The Patriot Post · <http://patriotpost.us>

Obama Demagogues Private Enterprise

By John Stossel · Wednesday, August 18, 2010

Last weekend, President Obama pandered for votes by trashing Social Security privatization.

"I'd have thought that debate would've been put to rest once and for all by the financial crisis we've just experienced," Obama [said](#)¹. "(N)o one would want to place bets with Social Security on Wall Street."

Such demagoguery sells. It's probably been poll-tested. Many Americans fear privatizing anything they've come to view as government work. They object to privately managed roads, independent charter schools, private prisons, etc., despite private companies' repeated success at providing better service while lowering costs.

Private retirement accounts seem particularly threatening. Rep. Paul Ryan includes a version in his budget-reform [package](#)². But as The Washington Post said, "(F)ew GOP lawmakers today support the idea...."

What a shame.

Social Security is popular but unsustainable. Its [commitments](#)³ over the next 75 years exceed its expected revenue by \$5.3 trillion. Politicians know this, but pander anyway.

Senate Majority Leader Harry Reid accused Sharron Angle, who's challenging Reid's re-election bid in Nevada, of "raiding" the Social Security trust fund because Angle has talked about phasing out Social Security. There are two problems with that statement -- as Reid must know: First, there never has been a trust fund! Your FICA tax payments were not saved or invested. Social Security transferred them to current retirees. Second, in return for IOUs, Congress raided Social Security's budget surplus every year and spent like any other tax revenue.

Now the days of surplus are over. Unless benefits are cut and the retirement age is raised, the deficits will only grow. When Social Security passed in 1935, most Americans died before age 65. There were many workers and few retirees. Ten years later, there were still almost 42 workers for each retiree. Five years afterward, the ratio slipped to about 17 to 1. Now it's 3.4 to 1. Thirty years from now, the [ratio](#)⁴ is projected to be 2 to 1.

That won't work. Workers cannot afford to give up half their earnings to pay others' retirement benefits.

It would be far better to begin partial privatization now.

But what about Obama's point that President George W. Bush's privatization plan would have been a disaster because the market crashed?

Obama is just wrong. For one thing, under the privatization plans [backed](#)⁵ 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](#)⁶ 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."

No can say the future will be like the past, but we know what the future of the government's scheme holds: postponed retirement and/or reduced benefits and/or crushing taxes and (most likely, I think) a near-worthless dollar because politicians will print money to "keep" their deceitful pension promises.

Privatization is better. Everything that works well -- everything that brings innovation and prosperity -- comes from the private sector. Obama is irresponsible to campaign against that.

There's no ideal fix. But our best hope is separation of economy and government.

COPYRIGHT 2010 BY JFS PRODUCTIONS, INC.
DISTRIBUTED BY CREATORS.COM

Links

1. <http://tinyurl.com/28mkgqs>
2. <http://tinyurl.com/2u6jaw7>
3. <http://tinyurl.com/29nclg7>
4. <http://tinyurl.com/7zpktt>
5. <http://tinyurl.com/28t2xju>
6. <http://tinyurl.com/2wqtdd7>