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## Social Security: Truth or Useful Fictions?

By [L. Randall Wray](#)|Aug 12, 2009, 2:45 AM|[Author's Website](#)

[via [CFEPS](#)]

### I. SOCIAL SECURITY IS AN ASSURANCE , NOT A PENSION PLAN

Social Security is an intergenerational assurance plan. Working generations agree to take care of retirees, dependents, survivors, and persons with disabilities. Currently, spouses, children, or parents of eligible workers make up more than a quarter of beneficiaries on OASDI. A large proportion will always be people without “normal” work histories who could not have made sufficient contributions to entitle them to a decent pension. Still, as a society, we have decided they should receive benefits.

Further, the program is not means tested. One need only meet statutory requirements to receive benefits. Indeed, as the Bush Commission’s Report emphasizes, the Supreme Court has twice ruled Social Security does not make intergenerational promises to the dead, but, rather, only to their survivors. The Bush Commission sees that as a weakness; I see it as a strength.

### II. TRUST FUNDS DO NOT INCREASE GOVERNMENT’S ABILITY TO MEET COMMITMENTS

year actuarial balance is positive or negative. No one knows or cares whether the defense program runs actuarial deficits — because we don't pretend that a particular tax pays for defense. In reality, Social Security benefits are paid in exactly the same way that the government spends on anything else-by crediting somebody's bank account. Social Security cannot be any more financially constrained than any other government program. Only Congress can establish a financial constraint.

#### **V. SOCIAL SECURITY DOES NOT APPEAR TO FACE REAL CONSTRAINTS, (America Can Afford 7% of GDP for Social Security)**

Today OASDI benefits equal 4.5% of GDP; that grows to 7% over the next 75 years. Does anyone doubt that we will be able to afford to devote 7% of our nation's output to provide a social safety net for retirees, survivors, and disabled persons? That leaves 93% of GDP for everything else. We have easily achieved larger shifts of GDP in the past without lowering living standards of the working generations. I cannot imagine a future so horrible that we won't be able support OASDI in real terms.

#### **VI. PRIVATIZATION IS NOT NEEDED, NOR CAN IT HELP TO PROVIDE FOR FUTURE BENEFICIARIES (Any Future Problems Are Not Financial; Financial Fixes Cannot Help)**

Future beneficiaries cannot eat stocks or bonds, and we can't dig holes today to bury Winnebagos for future retirees. Whatever beneficiaries consume in 2050 will have to be produced for the most part in 2050. Financial Fixes cannot change that. Whether the stock market outperforms Treasury bonds is irrelevant. Whether future retirees have amassed \$100,000 in personal accounts is irrelevant. All that matters is future productive capacity plus a method of distributing a portion of output to the elderly in 2050.

To accomplish that, all we have to do is credit the bank accounts of the elderly in 2050, and then let the market work its wonders. I am frankly shocked that the Cato Institute refuses to trust the market, backing what amounts to tax credits for playing in equity markets.

#### **VII. PERSONAL ACCOUNTS ARE FINE, BUT ARE NOT RELEVANT TO DISCUSSION OF SOCIAL SECURITY (A Targeted \$40 Billion Give-Away is Probably a Good Idea!)**

I also find it ironic that the Bush Commission wants to increase government spending by \$40 billion a year to give money away to encourage the poor to save. Hey, let's give them \$80 billion a year. I'd prefer that the poor spend it, but if they want to sock it away in personal accounts, that's fine by me. But, please, let's provide Big Brotherly advice that they keep it out of Telecom stocks. And leave Social Security out of it!

#### **VIII. SOCIAL SECURITY IS, ALWAYS HAS BEEN, ALWAYS WILL BE, SUBJECT TO CONGRESSIONAL GOODWILL (Maintained At the Ballot Box)**

Only Congress can decide who deserves support, and what level of support. Only Congress can decide how much of GDP ought to be devoted to support of the elderly. That's Democracy and I'm willing to live with it. The Bush Commission says this generates insecurity, but I expect the elderly will continue to use the ballot box to hold the feet of Politicians to the fire of Social Security.

#### **IX. HONESTY IS THE BEST POLICY (Convenient Fictions About Finances Cannot Help)**

In spite of all the complex financial fictions, the truth is simple. In 2041, Social Security's beneficiaries will have to rely on the working population, just as they do today. No financial scams can change that. Trust funds, actuarial balances, privatization, and relative rates of return don't change it. There ain't no crisis; there ain't no urgency. We've got two generations to increase our capacity to produce.

#### **X. TOWARD A PROGRESSIVE REFORM (Stop Taxing Work!)**

In 1960 it might have made some kind of twisted logic to levy a tax on payrolls and to pretend this paid for Social Security benefits. There were few benefits to be paid, but lots of payrolls to tax, so the tax rate was low.

Today, and increasingly in the future, there are more benefits to pay relative to taxable payrolls. In just a few years, only 1/3 of National Income will be subject to the payroll tax- hence ever-higher payroll tax rates will be required to maintain the delusion.

Let's stop pretending. Payroll taxes simply discourage work-which is as perverse as policy can get. We need people to work to provide all the goods and services the elderly need. Abolish the payroll tax, abolish the Trust Fund, abolish actuarial gaps, and let's recognize that Social Security is an intergenerational assurance program.

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