



## Social Security: Clearing Up the Financial Nonsense

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The threat to Social Security has been in and out of the public discussion for decades now. Most recently this threat made national headlines when our new President put forth a budget that calls for a \$72 billion cut to the program. Before that, it was when Senator Bernie Sanders took to the floor of the Senate with a large printout of a pre-presidential Trump tweet asserting that he was the only genuine Republican candidate who would not make cuts to Social Security, Medicare, or Medicaid.

The fight on television, in newspapers, and in Social Media is almost always portrayed as between Democrats who believed in cutting New Deal protections like Social Security to “save” them and Republicans who believed in cutting government to “save” the Constitution. Entitlements are construed with bogeymen like deficits and the federal debt to stoke the fear of large numbers.

American’s have been thoroughly trained to respond to financial figures from public institutions with their swollen amygdalas. The context or meaning of these figures in the world’s largest economy is rarely explained. The monetary system in which they exist is rarely explained. Your children will have to pay this back goes the mantra. That those of us today have *never* had to pay back the public debts incurred by our ancestor’s federal government’s is far too much history for a society with no memory.

So it has become an aberration for politicians like Senator Sanders to be trotted out on mainstream outlets to make the case that social programs should be strengthened, or even preserved.

It should be noted, for some historical context, that it was during the Great Depression that we implemented the New Deal, not the Roaring 20’s, and decided that deficits were not frightening enough to stop us from instituting Social Security or planting a billion trees through the CCC, or employing over 8 million people through the WPA.

No serious politician made the case that deficits were a reason not to fight the Second World War, even when they reached well over 20% of GDP. To argue that the State should cut back in the midst of the war would leave you derided as unpatriotic and in opposition to the war effort. Rightfully so. The Nations finances are no more constrained than in 1944, since the official dropping of the gold standard by Richard Nixon in 1971, they are less so. Still, the myth of

suicidal deficits is used to shackle the State – the one national instrument of the American people that can be used to act- and therefore the citizenry.

Before disentangling financial matters let us discuss, in reference to our society, what Social Security *is*. Social Security is the explicit agreement in our society, enforced by law and implemented by the Social Security Administration, that individual members of our national community have the right to live, and live with dignity, even after they have aged out of the labor market or if, by birth or accident, they are unable to work.

Whether voluntarily or due to the ill luck that is time and chance there comes a point in every person's life where they cannot maintain the vivacity that marked what is referred to in the economic literature as their "prime working age." Some are unfortunately burdened from birth and are denied the opportunity to contribute from the start of their lives. Some are injured along the windy path. Either way, we have agreed to the basic principle that everyone has the right to live and since we live in a monetized society, to live requires and income. So for those covered by this agreement an income is provided. This definition clearly extends to programs such as WICK, unemployment insurance, SNAP, Medicare, as well as others. Social Security marks the first social agreement with a national character and so it is the special consideration of this essay. That they are all financially affordable follows from the same disentanglement of the financial nonsense used to attack the pioneering program.

That passing such a point in life, being allowed to receive social benefits, means individuals are derisively referred to as "entitled," or "moochers," speaks volumes to the publically regarded value we give those who have lived long lives and refuse to stop doing so. Or those that survive them once they are claimed by inevitability. It follows that attacks against the idea of "entitlements," particularly Social Security, are attacks against the entitlement to life itself, for those who are biologically capable of carrying on but not financially.

On their face, such attacks should present themselves as egregious insults to any self-aware American with a cursory familiarity with the founding documents of our nation. Life and Liberty, Justice and the General Welfare, are to be found juxtaposed to the peculiar absence of entrepreneurship, wealth, or even "financial responsibility," whatever that means. In fact, once measures to enhance the official purpose of the founding of our Republic have been created, and the material capacity to maintain them are in place, the very language in documents such as the Constitution would imply that We the people are entitled to them. Taxing, spending, and the issuance of the currency being the domain of the State, once material capacity is reached, such as in our nation, a concerned citizen should be inclined to wonder if the financially responsible thing to do, in line with the stated purposes of the Constitution, would be to protect and expand such entitlements. Meanwhile, the currently dominant Republican Party and the dwindling minority Democrats are oblivious to our Nations stated purpose.

Despite professions to the Twitterverse, President Trump nominated several individuals to his Cabinet who have either supported legislation to privatize Social Security, cut the program, or have promoted such actions through their work and remarks while outside of government. As

mentioned above, the President has put forward a budget that would cut the Disability Insurance section of Social Security by \$72 Billion between 2018 and 2027.

There is, of course, no way to tell what the President actually thinks. However, we can take a look at those who are running the many tendrils of his Executive branch to see where our future lies, particularly since Donald Trump has written that he himself is “not an operator.”

For example, on February 16th Mick Mulvaney was confirmed in a 51 to 49 vote as the Director of the Office of Management and Budget. The only Republican to dissent was Senator John McCain whose opposition stemmed from Mulvaney’s “support for firm spending limits on the Defense Department.”

As director of the OMB, Mulvaney will be primarily responsible for administering the President’s annual budget requests to Congress. He is a Fiscal Hawk who while in Congress co-sponsored a Balanced Budget Amendment which would automatically limit the Federal Government’s capacity to fund all programs and has supported multiple bills which would directly cut Social Security and Medicare throughout his tenure in the House or Representatives. The Budget currently dominating headlines is his work.

For the post of Secretary of Health and Human Services Donald Trump successfully nominated Tom Price, a man whose prior occupation was serving as Chairman of the House Budget Committee where he put forward a Budget Process Reform the day after Trump’s election which would remove “ the assumption that entitlement payments continue at current levels even if trust funds are insolvent.”

On Valentine’s day, the Senate confirmed Linda McMahon as the Administrator of the Small business administration. McMahon previously made headlines during a 2012 Town Hall where she proposed attaching a Sunset Provision to Social Security legislation which would last 10 to 15 years. If such a measure is ever passed it would cause Social Security to disappear, entirely, at a designated future date should Congress fail to pass an extension, or to be cut, depending on how the Sunset Provision is written.

Finally, there is the too racist to be a Federal Judge, but just racist enough to be Attorney General, Jeff Sessions who has voted to privatize social security and “vigorously supports the Balanced Budget Amendment.”

Outside of the Cabinet, there is the possibility of John Allison becoming Daniel Tarullo’s replacement as Vice Chair of Federal Reserve, an institution that Mr. Allison has openly called to be abolished.

From 2010 to 2015 John Allison served as the President and CEO of the Koch-funded Cato Institute which has long maintained that there is a “financial crisis” in Social Security, and which regularly publishes proposals to cut and privatize the program by shifting the allocation of Payroll taxes to personal accounts, a transition that Allison has also personally advocated for.

The benefits, according to the Cato Institute, of privatizing Social Security is that it “could produce a large net increase in national savings,” and “would increase investment, productivity,

wages, and jobs.” These benefits are derived from economic models based on fixed exchange rates, which we do not have. Models that exclude money, banks, or private debt, which in reality are a part of modern capitalism in the United States. Models, by the way, that mainstream Democrats, Republicans, and their respective economists refer to when justifying their macroeconomic policy.

“‘National savings’ is a term applicable fixed exchange rate policies, like the gold standard, but is inapplicable and devoid of meaning with today’s floating exchange rate policy,” according to economist Warren Mosler, who responded to questions via email.

The idea put forward by the Cato Institute and others is that the capital stock of the country would go up because of the increase in available money from the private accounts, but “the proposals I’ve seen only allow ‘investments’ of existing large cap equities. That means those stocks change hands from today’s holders to the new buyers. So all that happens is that portfolios shift within the economy, with no new investment.”

The point of Privatization schemes is not to benefit recipients or even the economy as a whole. The interest of the Cato Institute is to discredit all government, regardless of efficacy. Social Security is bad because it is a government program. That’s it.

Mosler is one of the founders of a growing school of economics known as Modern Money Theory, whose proponents include Stephanie Kelton, the former chief economist appointed by Bernie Sanders on the Senate Budget Committee, and economic advisor during his campaign for president. They were both profiled recently in the Nation Magazine.

Fortunately, these nominees are working through the executive branch of Government whereas the power of the purse is designated to Congress and Congress alone.

Unfortunately, the Speaker of the House – who has the power to select which legislation gets a vote on the House floor- is Paul Ryan. A man who is an avid and longstanding supporter of both privatization and a Balanced Budget Amendment.

The possibility of a Balanced Budget Amendment has never been higher, the Republican Party is only one state legislature away from having the two-thirds majority necessary to call a constitutional convention. In which case, there is no telling how the United States may be re-written.

Currently, as the sole issuer of the US Dollar, the Federal Government of the United States can never run out of Dollars. That is not to say that it can spend money without consequence. The consequences are real but they can be either positive or negative depending on how resources are applied and whether or not they exist to be utilized. If our Congress were so inclined, it could vote for the necessary measures to deliver full employment of workers and resources and if it spent passed that point we would get inflation. Seeing as the Federal Reserve has been trying to cause inflation for nearly a decade and has failed, getting to that point is more difficult than is commonly imagined.

“Having to make spending cuts or increase taxes to achieve ‘balance will most likely mean cutting those programs,” said Mosler. But that is just the beginning, “the spending cuts and tax increases will reduce GDP growth causing revenues to fall short and transfer payments to rise, meaning more cuts and more tax hikes will be required, with no end to the ‘unvirtuous cycle,” wrote Mosler.

We would go from being able but unwilling to preserve and expand social programs and promote economic growth to actually being Greece: condemned to Depression forever.

This is the third time since the election of Donald Trump that the topic of Social Security preservation has become major news. The first came when Congressman Sam Johnson Proposed the Social Security Reform Act of 2016 last December.

Considering the support for “reform” held by Speaker Ryan and the Cabinet officials who will be advising (and governing for) the President, the bill is worth going through as an example of the vindictive legislation we are *already* accustomed to, which both ignores the financial constraints faced by a sovereign currency issuing government and makes dubious claims about benefits for recipients.

Johnson begins his legislation with the claim that Social Security is “running out of money – fast.” While the Trust Fund is facing a shortfall in funds by 2034, there is no reason why that shortfall cannot be covered by general revenues. All that is required to plug the hole is for Congress to pass a bill authorizing the spending. The decision not to guarantee full payment to recipients is a political choice made by Congress, not a financial constraint on the government’s ability to make these payments. There is no support for the claim that the Federal Government faces “the prospect of drastically cutting benefits for all,” as the congressman claims.

The trustees report is explicit about this when discussing the lack of crisis for Medicare part B and D. Since payments for these programs are paid out of general revenues: “for Supplementary Medical Insurance (SMI), the Trustees project that both Part B (which pays doctors’ bills and other outpatient expenses) and Part D (which pays for prescription drug coverage) will remain adequately financed into the *indefinite future because current law provides financing from general revenues* and beneficiary premiums each year to meet the next year’s expected costs.” (emphasis mine)

The call for “reforms” serve only to restrict public discourse on the national social and economic direction we want our government to take, which means to restrict the government from enacting policies that are favored by a majority of the people. The need to achieve and maintain financial balance is something that is of serious concern for state and local governments, even more so for individual firms and citizens. We are users of the dollar; we must earn or tax before we can spend. The Federal Government must issue – that is, spend into existence – those very same dollars before they can be earned by workers or “taxed away” by state and local governments.

Since the Federal Government can always afford to make payments to social security recipients, the relevant question is whether or not proper investments are being made today to ensure these

payments can be used to buy goods and services in the future. This was actually explained to Speaker Paul Ryan in March 2005 by then Chairman of the Federal Reserve Alan Greenspan.

What does it mean when Johnson asserts that Social Security is “built on an aging population,” and therefore “many Americans will not be able to count on Social Security to be there for them like it has been for generations before?” Nothing. The assertion doesn’t even make sense. Why would the age of the population in any way impact the ability of a government employee to type numbers into a recipient’s bank account? Yet these are assertions made by Democrats and Republicans all the time because they fail to acknowledge what Alan Greenspan of all people told Paul Ryan over a dozen years ago. The fear of large numbers trumps fiscal responsibility.

We do actually face problems with an aging society but they are just variations and exaggerations of currently existing problems. Problems such as: will there be enough resources in the future to equitably distribute so that workers and their retired parents can maintain secure and meaningful lives?

Whether or not living standards are maintained has to do with the productivity of our future workforce and how we structure our institutions to cope with a population which has a larger cohort or older people. If public investment in our citizens, productive capacity, and public infrastructure is inadequate today, then a shortage of resources will manifest itself as a lower standard of living and financially as inflation- a shortage of resources relative to the amount of money in the system- not Government bankruptcy. Life will suck worse but the balance sheet of the State will be just fine.

Making sure that such resources are in place could mean providing lifelong job opportunities to young people in the care sectors by funding much-needed improvements in housing, nursing homes, ensuring access to local culture, and community programs such as providing healthy meals. Such a departure from current austerity would only require the passage of laws by Congress and the signature of a willing President.

Likewise, it is a political choice to gentrify neighborhoods in order to build luxury apartments while deliberately neglecting elderly and/or poor citizens who live in rat-infested public housing in a country as rich in resources as the United States, not an economic necessity.

Unfortunately, Johnson’s proposal continues: Social Security is “relying on higher taxes on workers and job creators in order to stay afloat,” noting that the original payroll tax was “was only 2 percent on the first \$3,000 in wages,” around \$50,000 after adjusting for inflation, but today “the payroll tax is a staggering 12.4 percent and applies to the first \$118, 500 in wages,” and “for many low-income workers, this is the biggest tax they pay” and yet are “not enough to keep Social Security solvent.”

Surprisingly, this is not entirely false. While as discussed above it is not true that there is a crisis in terms of guaranteeing Social Security payments to recipients, the tax on working individuals to bolster the fund is quite high in an economic climate where growth is anemic at best and incomes for the majority of working people are too low.

It is actually possible to go back to that previous rate as a permanent Payroll tax holiday. Something like this was temporarily passed Congress and signed by then President Obama in 2010 as a means to increase take-home pay for working families during the depths of the Great Recession. Temporarily returning to the original tax rate of 2 percent, or permanently doing so would immediately increase the take-home pay of every working individual in the United States and lower the cost of hiring employees for businesses. Whether or not you are in favor of Capitalism, Capitalism runs on sales and a Payroll tax holiday would increase the money with which Americans are able to purchase the stuff Capitalism produces.

Among the flimsiest claims made in Johnson's proposal, even by conventional wisdom, is the need to decrease benefits to higher income earners in order to provide the funds to increase payments to lower income earners because the program fails to "help many low-wage workers stay out of poverty in retirement." Social Security, in conjunction with Medicare, is the most successful anti-poverty program for seniors in American history. According to Center on Budget and Policy Priorities, Social Security currently keeps 22 million people out of poverty, including over 1 million children and 15 million senior citizens. This can be little more than a backdoor cut to recipients who are not wealthy but are classified as high earners if the scale is made arbitrarily low.

Not to mention that means testing by looking at lifetime earnings opens up a hornet's nest of potential problems for retirees. It blatantly ignores recent history, as a financial crisis like 2008 can wipe out someone's lifetime savings over the course of a few weeks and it doesn't take into account that those who live in different regions of the country have very different costs of living. For example, someone who lives in San Francisco may have earned more in dollar terms than someone who lives in Buffalo, but that does not mean that their quality of life, or ability to save was greater because costs in the two cities are drastically different.

The purpose of programs like Social Security is to guarantee a minimal level of decency for the lives of the elderly. If the money recipients receive is not enough to keep them out of poverty it is up to Congress to legislate either an increase in their nominal payments or to ensure that public resources are applied to lower their costs of living through targeted programs such as the provision of low-cost housing. Congress is the only National entity empowered by the constitution to do this and its failure to do so, when there are people willing to work and resources available to be provisioned, is only because Congressional leaders do not want to, or their constituents do not force them to do so. Affordability is not a valid concern when you create the necessary money by passing legislation.

Finally, Johnson's Bill proposes a backdoor cut to future recipients by switching the way benefit increases are calculated from the current CPI-W to the Chained CPI.

Stephanie Kelton calculated in 2005 paper, when George W. Bush attempted to 'defend' Social Security using the same method, that the loss of an average worker would be "a reduction of \$8,184 in her annual benefit ( $0.628 \times \$22,000$ ), which translates into a \$170,000 reduction over the course of her lifetime!"

It's actually mind blowing that those in power, or anyone at all, views living longer as a bad thing. But this is what every proposal to cut Social Security is effectively saying. We live in a society so rich that there is nothing stopping us from making investments in our young and in our infrastructure to build caring communities that would both take care of the elderly and allow them to continue contributing to society, yet we find ourselves viewing the fact that they keep breathing as a cost.

As horrible as such Republican proposals are the Democrats haven't shown that they are likely to put up much of a fight. Yes, they will oppose Trump. Yes, they will call out Republican leaders like Paul Ryan. But those that make up the Democratic Party Establishment agree with Congressmen like Sam Johnson on policy. And they agree with Paul Ryan. They just don't want to be seen agreeing with them and most of all they don't want to be seen agreeing with Trump.

Not only haven't Democrats seriously expanded Social Programs since President Lyndon Johnson signed the 1965 Medicare Amendment to the Social Security Act- or even seriously tried- the current establishment has been at the forefront of rolling back the safety net while coasting on their predecessor's image as the working man's only political defender.

While Obama's pretentious ambivalence to the plight of non-professional class Americans wasn't as bad as Clinton's vicious attacks- Clinton ended welfare "as we know it," doubled the prison population and pumped cyanide into the weak heart of Labor by implementing NAFTA – enough people felt his neglect that it only took two years for Democrats to lose Congress. Rather than moving to the left in response to the rising Tea Party we saw Barack Obama doubled down on austerity and tried to strike a Grand Bargain with Republicans which would have cut Social Security, along with just about everything else.

He failed and we ended up with the Budget Control Act (BAC) or the Sequester, an act that was conveyed as so atrocious, so damaging to the public, that it was only passed as an incentive for Congress to make slightly less crippling cuts to federal expenditure.

Any sane person would question the logic of this. Our government pulled the equivalent of holding a gun to its head to make sure that it amputated a perfectly healthy left hand. It was an idiotic plan that predictably backfired, meanwhile proving that the loony vanguard of the country's richest Republicans could defeat the President while both wearing funny hats and believing what the nonsense coming out of their mouths.

But the response by elected Democrats was to commit ahead of time to harming *other* people! Think about it, they stole money from Aid for Women, Infants, and Children by an act of Congress because the Tea Party pointed to a clock on West 44th Street in Manhattan and used a big number to scare people and the Democrats big move was to roll over and negotiate which slab of *our* hide was going to be sliced off.

Democrats get away with this because evidence-based economics- economics that takes into account history as well as where the money comes from and what money is- does not reach the average citizen. Instead, they stoke the fear of large numbers, what was once just a Republican strategy, while they play a sadistic- and taking food away from children in any national



context *is* sadistic- game with the programs that keep America from falling back into developing nation status even during times of economic prosperity.

At the Presidential level, this goes back at least to Bill Clinton. As Historian Thomas Frank notes in his new Book *Listen Liberal*, President Bill Clinton was secretly cavorting with Newt Gingrich to cut and privatize Social Security, even initiated the agreed upon process during a state of the Union address, before a stroke of luck distracted the Republicans from passing the required legislation i.e. Monika Lewinsky happened.

This is the Democratic Establishment that is supposed to protect the Party's greatest legislative achievements during a time of economic insecurity? When Paul Ryan controls the House, Mitch McConnell the Senate, and the White House is in the hands of an Insane Clown President who judges the veracity of the press depending on whether or not they like him, whose Chief Strategist is a former Goldman Squid that stepped into his newly created post after running Breitbart, a President who cut off his sick newborn nephew's health insurance to negotiate the divvying up of his father's Will, Chuck Schumer is supposed to save us?

Paul Ryan was right to say after the election that this is a historic moment. Because now he's got his greedy hands wrapped around Social Security with only Trump's whims and penmanship preventing him from legislating it away. It is obvious the President is not up to the task and the Neoliberal, anti-democratic dream of destroying the New Deal is ever more palpable. So far we have been spared by party infighting and the President's incompetence. But who knows, the President's Budget, the wishes of his Cabinet, of the Speaker of the house and – to varying degrees- the ruling factions of both Major parties are currently aligned. We may be forced to make our own luck.