An Open Letter to the US Congress
Special Report 2001/04

CFEPS

An Open Letter to the US Congress

Special Report No. 01/04

We believe that the Interim Report approved by the President's Commission on Social Security Reform is a biased and flawed report. It grossly exaggerates the financial problems that might be faced several decades from now. More importantly, it seriously overstates the increase of the burden of providing for future retirees that will be experienced through mid-century. Its claim that the program is "broken" and requires an "overhaul" before 2016 is tantamount to arguing that Congress will not put the full faith and credit of our government behind America's most popular social program. The Report appears to have adopted a tone of urgency, and even scare tactics, in an attempt to push an agenda that favors privatization. We do not believe that privatization is necessary or prudent, nor do we believe that it can reduce tomorrow's burden. Rather than looking to such a fundamental change to the nature of the Social Security program, we believe that relatively minor changes to be made at some point in the future will fully resolve any problems to be faced. We urge that Congress reject the arguments made in this report and that it refuse to take unnecessarily drastic action.

BACKGROUND AND ANALYSIS OF THE INTERIM REPORT

On July 24, the President's Commission on Social Security Reform approved its interim report proclaiming that the Social Security system is unsustainable and requires a "fundamental restructuring". While the Co-Chairs carefully avoided endorsing "privatization", it is clear from the report as well as from committee discussion and the list of questions soliciting responses to the report that the Committee is predisposed toward "reforms" that include a substantial privatization component. Critics have rightly questioned the overall tone of the report, which exaggerates the program's financial and demographic problems to be faced in the future. For their part, the Co-Chairs have labeled their critics "know-nothings" and "Luddites". We believe the critics have pointed to real deficiencies in the report and urge that Congress seek a broad range of ideas and proposals, soliciting a more thorough analysis before it changes a popular and essential public program.

The Commissioners have attempted to move forward the date on which

Social Security faces its first "funding gap", from the previously accepted date of 2038 to 2016, contributing in great measure to the urgency apparent throughout the report. Much of the discussion of the report has centered around the program's Trust Funds, with many Democrats objecting to the Commission's claim that they are little more than an accounting gimmick that cannot really provide the Treasury with funds to pay retirees in the future. Even some economists have revived Candidate Gore's proposal for "lock-boxes" to preserve the Trust Funds for use after 2016. We believe that it is unfortunate that discussion has become sidelined by the debate about the Trust Funds. While it is true that they cannot be a source of funding to the Treasury (and they were never designed to be a source of general revenue to the Treasury), the notion that the Treasury may not be able to make good on its promises to Social Security cannot be taken any more seriously than a claim that the Treasury will default on its debt held in private hands.

As the report makes clear, the entire Social Security program today absorbs about 5% of GDP, and this will rise to about 7% of GDP over the next 60 years. To achieve the necessary two percentage-point increase of GDP going to Social Security will require an increase of the payroll tax from today's 12.4% to 19.3% in 2075. This is the "financial" half of the justification for claiming that Social Security is unsustainable. However, what the Commissioners fail to acknowledge is that over the past 60 years, Social Security grew from zero percent of GDP to the present 5% (and from 0% of payroll to 12.4%), without engendering any crises. On this basis, it is surely an exaggeration to claim that our nation cannot devote 2% more of its GDP toward Social Security programs. The coming decades will provide plenty of time to discuss the appropriate manner of achieving such a shift-raising payroll taxes is not the only, and probably not the best, way to accomplish this. Given that the number of retirees relative to the number of workers will rise (and given a shrinking percent of national income that is subject to the payroll tax), the financial burden should probably be more widely shared. This can be achieved through a broadening of the Social Security tax base-for example by eliminating the wage cap subject to the tax, or by taxing nonwage income.

This brings us to the "real" burden of supporting future beneficiaries. Today, as the report emphasizes, we have three workers for every retiree; this will gradually fall to only two workers per retiree. Those are the "facts" of the unsustainability of Social Security with respect to the ability of tomorrow's workers to bear a rising burden of producing real goods and services to be consumed by retirees. However, as the report also makes clear, in 1940 there were 42 workers per retiree, which fell to five workers per retiree by 1960 and to the current three workers per retiree. Thus, over the past 60 years that ratio has fallen from 42 to three, and over that span of time, the real living standard of workers has increased significantly. Further, when one adds together the over-age-65 population and the under-age-18 population, the average worker in 1965 supported more "dependents" than a worker will support through the next 75 years. Again, the rising "real" burden on workers does not appear to approach crisis proportions. So long as worker productivity rises-even at the relatively low average growth rates seen since 1973-workers of the future will enjoy higher real living standards even as they support more retirees.

Finally, while it should be apparent that a Trust Fund cannot help to reduce future financial burdens or real burdens, it should be just as obvious that privatization cannot help, either. Even leaving aside the obvious questions about volatility of financial markets as well as substantial management fees that reduce returns, society does not and cannot provide for its future through such financial means. Tomorrow's workers will have to provide the goods and services required by tomorrow's retirees. Note that no amount of privatization can reduce the amount of GDP that will need to be shifted. Even if tomorrow's retirees were to hold financial assets that provide greater monthly income than retirees would have had in the absence of Social Security "reform", this will not directly reduce the burden on tomorrow's workers. Indeed, it will increase the burden if it succeeds in raising real living standards of future retirees. Of course, some claim that privatization today will lead to a higher growth path by leading to more saving and investing, and thereby reducing the real burden tomorrow. However, economists are divided on the best ways to encourage such investment, with many doubting that reforms centered around privatization could lead to a net increase of national saving. In any case, the government has at its disposal a wide variety of other methods of encouraging saving and investment-from favorable tax treatment of personal savings accounts and capital purchases to direct support of investment (for example, through provision of funding for R&D; and for public infrastructure). There is no need to change the basic structure of Social Security to achieve such national, macroeconomic, goals.

For the past six decades Social Security has served us well, providing a system of social assurance that guarantees a minimum standard of living for the retired, for survivors, and for disabled workers. Social Security is one of the most effective and comprehensive social assurance programs in the world. It is a bulwark of our economy, providing strong and stable sources of employment in meeting the needs of our elderly population, while relieving younger families of much of the financial burden that private care of the elderly would otherwise impose. With only comparatively small adjustments that might be required in the future, Social Security will serve us well for another six decades and more.

SIGNED BY:

* *Nobel Prize winner in Economics.*

1. **James Galbraith** -- LBJ School of Public Affairs, University of Texas at

Austin *(Austin, TX, USA)*

2. **Paul Davidson** -- University of Tennessee *(Knoxville, TN, USA)*
3. **Lawrence R. Klein*** -- University of Pennsylvania *(Philadelphia, PA, USA)*
4. **L. Randall Wray** -- Department of Economics, University of Missouri - Kansas City *(Kansas City, MO, USA)*
5. **Basil Moore** -- Wesleyan University *(Middletown, CT, USA)*
6. **Kenneth Arrow*** -- Stanford University *(Palo Alto, CA, USA)*
7. **Tracy Mott** -- Department of Economics, University of Denver *(Denver, CO, USA)*
8. **William Hildred** -- Economics Department, Northern Arizona University *(Flagstaff, AZ, USA)*
9. **Mario Seccareccia** -- Professor, Department of Economics, University of Ottawa *(Ottawa, ON, Canada)*
10. **Charles J. Parrish** -- Department of Political Science, Wayne State University *(Detroit, MI, USA)*
11. **John Henry** -- Department of Economics, California State University -; Sacramento *(Sacramento, CA, USA)*
12. **Don Goldstein** -- Department of Economics, Center for Economic and Environmental Development, Allegheny College *(Meadville, PA, USA)*
13. **John P. Burkett** -- Department of Economics, University of Rhode Island *(Kingston, RI, USA)*
14. **Sally Weaver Sommer** -- Department of Economics, Bluffton College *(Bluffton, OH, USA)*
15. **Steve Fazzari** -- Department of Economics, Washington University *(St. Louis, MO, USA)*
16. **Laurence Shute** -- Department of Economics, California State Polytechnic University *(Pomona, CA, USA)*
17. **Fritz Efaw** -- Department of Economics, University of Tennessee at Chattanooga *(Chattanooga, TN, USA)*
18. **Mathew Forstater** -- Department of Economics, University of Missouri -; Kansas City *(Kansas City, MO, USA)*
19. **Ethel Larsen** -- *(Tucson, AZ, USA)*
20. **Marcy J. Gordon, Esq.** -- *(New York, NY, USA)*
21. **Mayo C. Toruño** -- Department of Economics, California State University *(San Bernardino, CA, USA)*
22. **Daniel W. Bromley** -- Department of Economics, University of Wisconsin *(Madison, WI, USA)*
23. **J. Barkley Rosser, Jr.** -- Department of Economics, James Madison University *(Harrisonburg, VA, USA)*
24. **Matthew Kane Parker** -- North Texas Socialist Party *(Oak Cliff, TX, USA)*
25. **Brent Buell** -- National Action Network *(New York, NY, USA)*
26. **Truman Beckley Brown, Ph.D.** -- Economist & Financial Planner, P & A Financial Securities, Inc. *(Buffalo, NY, USA)*

27. **Gunnar Tómasson** -- Institute for Creditary Economics *(London, UK)*
28. **Jim Sturgeon** -- Department of Economics, University of Missouri - Kansas City *(Kansas City, MO, USA)*
29. **Pavlina R. Tcherneva** -- Department of Economics, University of Missouri -; Kansas City *(Kansas City, MO, USA)*
30. **Eva Booker** -- *(Chicago, IL, USA)*
31. **Arnetta Grable** -- *(Detroit, MI, USA)*
32. **Reynold Nesiba** -- Department of Economics, Augustana College *(Sioux Falls, SD, USA)*
33. **Deborah M. Figart** -- Department of Economics, Richard Stockton College *(Pomona, NJ, USA)*
34. **Sumner Rosen** -- National Jobs for All Coalition *(New York, NY, USA)*
35. **William Van Lear** -- Belmont Abbey College *(Belmont, NC, USA)*
36. **David Zalewski** -- Providence College *(Providence, RI, USA)*
37. **Yngve Ramstad** -- Department of Economics, University of Rhode Island *(Kingston, RI, USA)*
38. **Eric Hake** -- Department of Economics, Eastern Illinois University *(Charleston, IL, USA)*
39. **Constance Mulcahy** -- *(Boston, MA, USA)*
40. **Kimberly Lawson** -- International Rep. with the United Electrical, Radio & Machine Workers (UE)
41. **Steve Pressman** -- Monmouth University and Co-Editor, *Review of Political Economy*
42. **James L. Starkey** -- Economics Department, University of Rhode Island *(Kingston, RI, USA)*
43. **Ira Firestone** -- Department of Psychology, Wayne State University
44. **Dolores Furtado, Ph.D.** -- Professor of Microbiology, Molecular Genetics & Immunology, University of Kansas Medical Center
45. **John Dennis Chasse** -- Department of Economics, SUNY College at Brockport
46. **Richard Du Boff** -- Bryn Mawr College (Emeritus)
47. **Jane Slaughter** -- Co-Editor, *Labor Notes*
48. **Jim Peach** -- Department of Economics, New Mexico State University
49. **Rudy Fichtenbaum** -- Department of Economics, Wright State University
50. **Anthony Russo** -- Pentagon Papers Peace Project
51. **Barbara Hopkins** -- Department of Economics, Wright State University
52. **Jim Swaney** -- Department of Economics, Wright State University
53. **Stephen Block** -- McGill University *(Montreal, QB, Canada)*
54. **Philip A. Klein** -- Penn State University *(University Park, PA, USA)*
55. **William Dugger** -- University of Tulsa *(Tulsa, OK, USA)*
56. **Howard Sherman** -- University of California - Riverside *(Riverside, CA, USA)*

57. **Ken Reichstein**
58. **Scott T. Fullwiler** -- James A. Leach Chair in Banking and Monetary Economics, Wartburg College
59. **Anne A. Rice** -- *(Highland, NY, USA)*
60. **Doug Henwood** -- Economic Consultant *(New York, NY, USA)*
61. **Mark Lautzenheiser** -- University of Minnesota at Duluth *(Duluth, MN, USA)*
62. **James G. Devine** -- Loyola Marymount University *(Los Angeles, CA, USA)*
63. **Ingrid Rima** -- Department of Economics, Temple University *(Philadelphia, PA, USA)*
64. **Robert Scott** -- Department of Economics, University of Missouri Kansas City *(Kansas City , MO, USA)*
65. **Gary Dymski** -- Department of Economics, University of California--Riverside *(Riverside, CA, USA)*
66. **Geoffrey Gardiner** -- *(Knutsford, UK)*
67. **Don Williams** -- Grand Valley State University *(Allendale, MI, USA)*
68. **Myrna Fichtenbaum** -- Social Security Committee, Gateway Chapter, Older Women's League *(St. Louis, MO, USA)*
69. **Robert E. Lucore** -- International Brotherhood of Teamsters *(Washington, DC, USA)*
70. **Douglas Koritz** -- Buffalo State College *(Buffalo, NY, USA)*
71. **Ellen Frank** -- Emmanuel College *(Boston, MA, USA)*
72. **Marilee Martin** -- Gateway Chapter OWL *(St. Louis, MO, USA)*
73. **Emil Haney** -- University of Wisconsin-Richland *(Richand Center, WI, USA)*
74. **Justin A. Elardo** -- University of Utah *(Salt Lake City, UT, USA)*
75. **Steven A. Waller** -- Economics and Finance Information (web-site) *(Kansas City, MO, USA)*
76. **Stephanie A. Bell** -- University of Missouri, Kansas City *(Kansas City, MO, USA)*
77. **Milton D. Lower** -- Retired Senior Economist, US House of Representatives
78. **Scott Simpson**
79. **Dorene Isenberg** -- Department of Economics, Drew University *(Madison, NJ, USA)*
80. **Bernard A. Hamblin, III** -- *(Kansas City, MO, USA)*
81. **Elaine McCrate** -- Department of Economics and Women's Studies Program, University of Vermont *(Burlington, VT, USA)*
82. **Jane D'Arista** -- Financial Markets Center *(Philomont, VA, USA)*
83. **Sophie Barnes** -- The Union for Radical PoliticalEconomics *(New Haven, CT, USA)*
84. **Nancy Goldner** -- Green Party
85. **Paddy Quick** -- Economics Department, St. Francis College *(Brooklyn Heights, NY, USA)*
86. **Warren Berger** -- Green Party

87. **Steven Cohn** -- Department of Economics, Knox College *(Galesburg, IL, USA)*
88. **Douglas Dowd** -- Johns Hopkins University
89. **Martha Herman** -- *(New York City, NY, USA)*
90. **Laurie T. Johnson** -- University of Denver *(Denver, CO, USA)*
91. **Joel Kupferman** -- NY Environmental Law & Justice Project *(New York City, NY, USA)*
92. **Germai Medhanie** -- The Union for Radical Political Economics *(New Haven, CT, USA)*
93. **Susan Metz**
94. **Paul Peloquin**
95. **Rocky DeMaio** -- United Electrical, Radio & Machine Workers of America (UE) *(Minneapolis, MN, USA)*
96. **Fadhel Kaboub** -- University of Missouri, Kansas City *(Kansas City, MO, USA)*
97. **Sam Pavel** -- Western Michigan University *(Kalamazoo, MI, USA)*
98. **Janet T. Knoedler** -- Bucknell University *(Lewisburg, PA, USA)*
99. **Dieter BC6genhold** -- University of Saarland *(SaarbrC*
100. **William Waller** -- Hobart and William Smith Colleges *(Geneva, NY, USA)*
101. **Frederic S. Lee** -- University of Missouri-Kansas City *(Kansas City, MO, USA)*
102. **Peter B. Lund** -- Professor of Economics *(Sacramento, CA, USA)*
103. **Peter Eaton** -- University of Missouri-Kansas City *(Kansas City, MO, USA)*
104. **Karen Vorst** -- University of Missouri-Kansas City *(Kansas City, MO, USA)*
105. **Charles B. Keller, Jr.** -- *(Quartz Hill, CA, USA)*
106. **Paul D. Bush** -- Professor of Economics (Retired) *(Fresno, CA, USA)*
107. **John T. Harvey** -- Texas Christian University *(Fort Worth, TX, USA)*
108. **Marc R. Tool** -- Department of Economics (Emeritus), Cal. State Uni. *(Sacramento, CA, USA)*
109. **Ben Young** -- University of Missouri - Kansas City *(Kansas City, MO, USA)*
110. **Max J. Skidmore** -- University of Missouri-Kansas City *(Kansas City, MO, USA)*
111. **Chris Niggle** -- Department of Economics, University of Redlands *(Redlands, CA, USA)*
112. **Andrew Larkin** -- Dept. of Economics, St Cloud State University *(St Cloud, MN, USA)*
113. **Tom Jankowski** -- James Madison College, Michigan State University *(East Lansing, MI, USA)*
114. **Byron Pearce** -- Sigma Six *(Palmdale, CA, USA)*
115. **Committees of Correspondence for Democracy and Socialism** -- *(New York, NY, USA)*
116. **Irene Culver** -- citizen *(Rocklin, CA, USA)*

117. **Irv Thomas** -- citizen *(Seattle, WA, USA)*
118. **Patricia Walker** -- citizen *(Folsom,, CA, USA)*
119. **Karen D. Reed** -- citizen *(Albuquerque, NM, USA)*
120. **Sue Owens Wright** -- citizen *(Sacramento, CA, USA)*
121. **Mason A Clark** -- Frontal Lobe (small business) *(Los Altos, CA, USA)*
122. **Raymond E. Walker** -- Veteran WWII *(Folsom, CA, USA)*
123. **Elsie M. Mendes**
124. **Glen Atkinson** -- Department of Economics *(Reno, NV, USA)*
125. **M. L. Arave** -- *(Blackfoot , ID, USA)*
126. **Curtis Vaughan** -- IWW, Labor Party *(Seattle, WA, USA)*
127. **Carroll L. Estes, Professor of Sociology** -- Institute for Health & Aging, Univ Calif, San Francisco *(San Francisco, CA, USA)*
128. **David Gold** -- Center for Global Change and Governance, Rutgers University-Newark *(Newark, NJ, USA)*
129. **Ilene Shaw** -- San Francisco Office on the Aging *(San Francisco, CA, USA)*
130. **Marjorie H. Stern** -- Commission, Office on the Aging *(San Francisco, CA, USA)*
131. **Stuart Elliott** -- Webmaster, Kansas Workbeat www.ksworkbeat.org *(Wichita, KS, USA)*
132. **Aaron Yager** -- University of Missouri-Kansas City *(Kansas City, MO, USA)*
133. **Yonathan Dessalegn** -- Student, St. John's University School of Risk Management, Insurance & Actuarial Science *(Forest Hills, NY, USA)*
134. **Meg Nguyen** -- concerned citizen *(Denver, CO, USA)*
135. **Alfonso Palacio Vera** -- Universidad Complutense de Madrid *(Alcorcón, Madrid, Spain)*
136. **Benton Wolverton** -- University of Missouri- KC *(Kansas City, MO, USA)*
137. **Natalia Sourbeck** -- Department of Economics, University of Missouri - Kansas City *(Kansas City, MO, USA)*
138. **Jon Samuel Coleman** -- University of Missouri - Kansas City *(Overland Park, KS, USA)*
139. **Ethan Hatchett** -- citizen *(Fort Collins, CO, USA)*
140. **Joelle Leclaire** -- University of Missouri - Kansas City *(Kansas City, MO, USA)*
141. **Monika D. Wood** -- Rutgers University *(Camden, NJ, USA)*
142. **Prafullkumar K. Pandya** -- *(Ahmedabad, Gujarat, India)*
143. **Plamen Nikolov** -- Economist at the Lewin Group *(Falls Church, VA, USA)*
144. **David Busch** -- member, "Making Change...", the homeless newspaper of LA *(Santa Monica, CA, USA)*
145. **E. Ray Canterbery** -- Florida State U. *(Tallahassee, FL, USA)*
146. **Sandra E. Jiles** -- *(Kansas City, MO, USA)*
147. **Arno Mong Daastoel** -- Institute for Creditary Economics *(Kolbotn, Norway)*
148. **James Collins** -- *(New York, NY, USA)*

Request a copy of this publication