

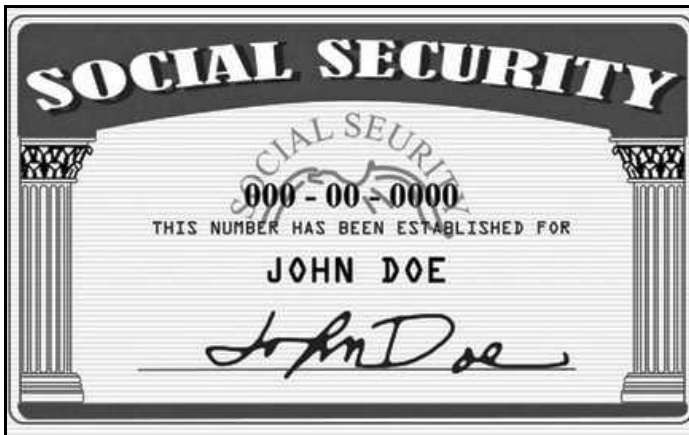
# Simple Steps to Fix Social Security: The Program Isn't Broken

By Teresa Ghilarducci

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Because baby boomers pay more payroll tax than the system is paying out in benefits, boomers have saved for their own retirement most of their working years.



They may have run up their credit cards, but they saved through the Social Security system. These excess payroll taxes bought special-issue government bonds that always paid above the market rate for risk-free government noncallable bonds; these bonds were created especially for

the Social Security taxpayers.

In 2016, we are going to cash them out like every retired person does with their retirement money. When a person cashes out their pension fund it is not called "a problem" and neither is redeeming the assets in the Social Security system a problem.

In another 25 or so years, the system will not have enough money in the system to pay full benefits. Now, that would be a problem. And there are two types of fixes: cut benefits or raise revenue. Given that pensions have collapsed and are not getting better any time soon and more old people are going to be poor, benefit cuts are off the table.

Since most of the earnings growth in the last two decades went to the top paid people, those earning much more than the Social Security taxable salary of \$106,800, the system lost revenue. A quick fix is to gradually increase the taxable earnings base from the current coverage of just 85 percent of earnings to 100 percent by 2045. That would solve the entire predicted Social Security deficit for 75 years.

Done.

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## Whacking The Old Folks

by William Greider ❖ The Nation ❖ June 7, 2010

In setting up his National Commission on Fiscal Responsibility and Reform, Barack Obama is again playing coy in public, but his intentions are widely understood among Washington insiders. The president intends to offer Social Security as a sacrificial lamb to entice conservative deficit hawks into a grand bipartisan compromise in which Democrats agree to cut Social Security benefits for future retirees, while Republicans accede to significant tax increases to reduce government red ink.

Obama's commission is the vehicle created to achieve

this deal. He ducks questions about his preferences, saying only that "everything has to be on the table." But White House lieutenants are privately talking up a bargain along those lines. They are telling anxious liberals to trust the president to make only moderate cuts. Better to have Democrats cut Social Security, Obama advisers say, than leave the task to bloodthirsty Republicans.

The president has stacked the deck to encourage this strategy. The eighteen-member commission is top-heavy with fiscal conservatives and hostile right-wingers who yearn to dismantle the retirement [continued, over]

program. The Republican co-chair, former Senator Alan Simpson, is especially nasty; he likes to get laughs by ridiculing wheezy old folks. Democratic co-chair Erskine Bowles and staff director Bruce Reed secretly negotiated a partial privatization of Social Security with Newt Gingrich back when they served in the Clinton White House, but the deal blew up with Clinton's sex scandal. Monica Lewinsky saved the system.

Any recommendations require 14 votes, and Obama has at least five loyalists who will protect him—Senators Dick Durbin and Max Baucus, Representatives Jan Schakowsky and Xavier Becerra, and former SEIU president Andy Stern. On the other hand, if Obama really wants to make a deal, these commissioners will very likely support him.

The people, once again, are kept in the dark. The Obama commission will not report its recommendations until after this fall's elections—too late for voters to express objections. Both parties assume they can evade blame by holding hands and jumping together.

What's extraordinary about this assault on Social Security is that a Democratic president is leading it. Obama is arm in arm with GOP conservatives like Wall Street billionaire Pete Peterson, who for decades has demonized Social Security as a grave threat to the Republic and has spread some \$12 million among economists, think tanks, foundations and assorted front groups to sell his case. If Obama pulls the deal off, this will be his version of "Nixon goes to China"—a leader proving his manhood by going against his party's convictions. Even if he fails, the president will get some protective cover on the deficit issue. After all, he is targeting Big Government's most beloved and trusted program—the New Deal's most prominent pillar.

Obama's initiative rests on two falsehoods spread by Peterson's propaganda—the notion that Social Security somehow contributes to the swollen federal deficits and that cutting benefits will address this problem. Obama and his advisers do not say this in so many words, but their rhetoric implies that Social Security is a big source of the deficit problem. Major media promote the same falsehoods. Here is what the media don't tell you: Social Security has accumulated a massive surplus—\$2.5 trillion now, rising to \$4.3 trillion by 2023. This vast wealth was collected over many years from workers under the Federal Insurance Contributions Act (FICA) to pay in advance for baby boom retirements. The money will cover all benefits until the 2040s—unless Congress double-crosses workers by changing the rules. This nest egg does not belong to the government; it belongs to the people who paid for it. FICA is not a tax but involuntary savings.

As a candidate, Obama assured voters that any shortfall was in the distant future and could be easily resolved with minor adjustments. As president, he has abandoned this accurate analysis and turned rightward without explaining why. He faces an awkward problem, however. Despite conservative propaganda, cutting Social Security will have no impact on the deficit problem that so stirs public anxiety. The White House knows this, and some advisers admit as much. So why is the president targeting Social Security?

Paul Volcker, former Federal Reserve chair and adviser to the president, declares, "In my view, we can deal with the Social Security problem fairly promptly." Cutting benefits, Volcker adds, "is not going to deal with the deficit problem in the short run, but it's confidence building." John Podesta of the Center for American Progress, another adviser, agrees but says, "Reforms could starkly demonstrate to skeptical debt markets that the United States is willing to take on a politically difficult fiscal issue."

In other words, targeting Social Security is a smokescreen designed to reassure foreign creditors and avoid confronting the true sources of US indebtedness. The politicians might instead address the cost of fighting two wars on borrowed money or the tax cuts for the rich and corporations or the deregulation that led to the recent financial catastrophe and destroyed vast wealth. But those and other sources of deficits involve very powerful interests. Instead of taking them on, the thinking in Washington goes, let's whack the old folks while they're not watching.

This issue is a seminal fight with the potential to scramble party politics. If Democrats can no longer be trusted to defend Social Security, who can be? The people from left to right overwhelmingly support the program (88 percent), and a majority (66 percent) believe benefits should be increased now to cope with the loss of jobs and savings in the Great Recession.

Citizens can win this fight if they mobilize smartly. We can do this by arousing public alarm right now, while members of Congress face a treacherous election and before Obama can work out his deal. Some liberal groups are discussing a "take the pledge" campaign that demands senators and representatives sign commitments to keep Hands Off Social Security Benefits. If politicians refuse to sign, put them on the target list for November. Barack Obama is standing on the third rail of politics—let's give him a warning jolt.

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