

Ending Welfare as We Know It

Description

Chapter Four: The Social Security Shuffle^[1]

Social Security is a federal insurance program that, not by accident, implies a contract or pact with the government to provide for people in their retirement or during disability. The fact that we pay taxes to fund Social Security signals to most people that a benefit is to be gained from an investment already made. Journalists and researchers have shown time and again how Americans resist the implication that Social Security represents a form of government welfare. They feel that they get, or should get, what they've been taxed to pay for.

Contrastingly, Supreme Court rulings have favored the opinion that what one pays into Social Security in the form of FICA taxes is just that—a tax. The payor has no more redeemable interest in his or her FICA contributions than a citizen has in relation to any other tax. By the same token, no American citizen has the right to direct the investment of said taxes in any manner that may or may not be wealth-producing.^[2] In a “pay-as-you-go” system, the government taxes the non-retired to cover its Social Security outlays and anything left over is routinely spent by the government.

This was not the original vision of those who created the system.

The Inception of Social Security

When plagued by the Great Depression, President Herbert Hoover's unwillingness to create entitlements of any sort stemmed from his belief that government solutions to people's problems would only serve to undermine economic liberty and individual freedom.^[3]

Nevertheless, his insistence on small government and his reliance on the market to resolve the Great Depression resulted in widespread problems the longer the issues persisted. Nationwide hunger, joblessness, and homelessness induced the erection of shantytowns, particularly near the capitol, where the Veterans of WWI gathered after their bonus march. Having tried unsuccessfully to achieve early redemption of their \$1,000 dollar post-war bonus certificates, the Veterans' peaceful demonstration represented no threat to the nation's security, yet Hoover ordered it to be dispersed with tanks and bayonets.^[4] In short, Hoover was not moved by the plight of the homeless and destitute.

It would take the ascendance of President Roosevelt and his willingness to try *anything*, just so long as the government tried *something*, to abate the Great Depression.

In the first place, Roosevelt helped millions of unemployed workers by expanding the tasks and categories of government employment, most notably by creating the TVA, or Tennessee Valley Authority. In the second place, he put a floor beneath wage scales, abolished child labor, and set reasonable parameters for everyday working hours. In the third place, he created Social Security for the retired, disabled, and aging poor. He was also willing to assist agribusiness by paying farmers to enrich their crop soils during periods when they were allowed to lie fallow, to store surplus production,

and to grant part of that surplus to the poorest among the public.[\[5\]](#)

But it was still true that the Great Depression lingered until America entered World War II and the President was led to mobilize the economy in pursuit of its prosecution. This, as we have seen, meant that price controls, coupled with rationing and full employment, produced a glut of savings which led to a post-war boom for manufacturers and consumers.

The Ghost of Herbert Hoover

When President Reagan took over in 1981, he embraced Hoover's callousness with a return to small government that created record levels of homelessness and brought to mind the shantytowns, called Hoovervilles, which housed hundreds of thousands of people living in slum conditions during Hoover's 1930s. Deriding every public program, including Social Security, as wasteful government welfare, Reagan proceeded to gut government programs with unprecedented savagery.

In Peter Dreier's words:

Reagan eliminated general revenue sharing to cities, slashed funding for public service jobs and job training, almost dismantled federally funded legal services for the poor, cut the anti-poverty Community Development Block Grant program and reduced funds for public transit....[He also] halved the budget for public housing and Section 8 to about \$17.5 billion and for the next few years he sought to eliminate federal housing assistance to the poor altogether.[\[6\]](#)

Afterward, Reagan said that "people who are sleeping on the grates...the homeless...are homeless, you might say, by choice."[\[7\]](#) He also downplayed the number of homeless, saying, "Well, it's been so exaggerated. Millions, there aren't millions. Real research reveals probably 300,000 or less, nationwide. And a lot of those are the type of people that have made that choice. For example, more than 40% of them are retarded, mentally deficient people..."[\[8\]](#)

Not that Reagan had much empathy for the disabled. In fact, no one was more zealous and effective in getting them off the government rolls.

The Social Security Disability Purge

Based on a small government study and Social Security's own research, it was assumed that anywhere from 18 percent to 24 percent of Social Security's disability insurance was being paid to beneficiaries who were no longer disabled. As such, legislation was passed in 1980, which mandated review of those receiving benefits and the removal of those who no longer qualified. The process, scheduled to start in January 1982, was accelerated by Reagan, who believed that disqualifying beneficiaries could save the government as least \$10 million over 5 years or, according to a study by the GAO (Government Accounting Office), as much as \$2 billion a year.^[9] As a result of Reagan's zealous backing, recipients were dropped from the rolls without proof of medical improvement or even being interviewed. Nor were the disabling effects of multiple conditions considered in combination. With "higher initial cessation rates than Congress or the public expected, the SSA [Social Security Administration] was accused of engaging in a wholesale "purge" of disability beneficiaries."^[10] The courts became swamped with lawsuits that overturned the denials of benefits. In response, the Social Security Administration didn't change its position. Instead, it issued its own ruling of arbitrary "noncompliance."

Ultimately, it took the rebellion of nine state governors to halt and reverse the policies initiated by Reagan.

The 1977 Social Security Legislation

Under President Carter, the stagflation of the 1970s had a deleterious effect on Social Security's long-range actuarial balance, which was projected over a 75-year period. In the near term, "the program was already in annual deficit, and assets of the trust funds had to be redeemed to make up the shortfalls."^[11]

As such, Congress passed legislation in 1977 to increase the Social Security payroll tax to 6.2 percent (which is still the current rate) while simultaneously reducing benefits for those who had other retirement plans. In terms of government savings, 26 percent stemmed from the payroll tax increase, whereas 74 percent stemmed from benefit cuts.^[12]

According to a report from Social Security:

[The legislation was] said to have restored solvency to the program for the next 50 years, rather than the full 75 years that had traditionally been used as the projection period. Clearly, the long-term financing issues had not been fully resolved by the 1977 legislation.^[13]

This, at any rate, was the government's official position. The situation was said to become worse when price inflation hit 13.5 percent in 1980 and wage growth declined by 4.9 percent—"producing a double blow to the program's financing by simultaneously increasing costs as revenues declined."^[14] The trustees of the Social Security Trust Fund called for more drastic measures.

Never mind that the Trust Fund's income was already back on the upswing by 1983, due to rising employment^[15] and increased payroll taxes.

The Reagan-Greenspan Effect

In 1981, Reagan inherited a budget deficit of \$74 billion from President Carter. When this was added to the effects of Reagan's tax cuts (a reduction of 25 percent on average, phased-in over three years),

the deficit ballooned to \$200 billion.[\[16\]](#)

Having promised to cut taxes and increase military spending while balancing the budget, Reagan's standing as a fiscal conservative demanded a funding solution.[\[17\]](#)

As one author put it:

A man with the talents of Ronald Reagan could tell a lot of big lies and possibly never get caught...His first one was straight out of fantasy land. Reagan said he would cut income tax rates by 30 percent over a three-year period, and end up with more revenue than before the cut in rates. [This lie] led to the biggest lie of all. Once it became clear that supply-side economics was not working, Reagan had a big crisis on his hands...He desperately needed to find a new source of revenue to offset the revenue which had been lost because of the cut in income tax rates. Alan Greenspan...came to the rescue...[He] told Reagan that they could raise payroll taxes, and say they were doing it to strengthen Social Security. Then they could use the surplus revenue just like income-tax revenue.[\[18\]](#)

Accordingly, Greenspan went to work. In his letter to Congressional leaders of May 21,

1981, Greenspan wrote:

As you know, the Social Security System is teetering on the edge of bankruptcy. Over the next five years, the Social Security trust fund could encounter deficits of up to \$111 billion, and in the decades ahead its unfunded obligations could run well into the trillions. Unless we in government are willing to act, a sword of Damocles will soon hang over the welfare of millions of our citizens.[\[19\]](#)

Reagan then proclaimed that saving Social Security was his number one priority.

This, combined with Greenspan's scare tactics, resulted in the "rescue" legislation of 1983, which adopted the 16 proposals of the Greenspan Commission.

In terms of specifics, the bill:[\[20\]](#)

- Extended coverage to all new employees of the federal government and to employees of nonprofit organizations. States were prohibited from opting out of Social Security if they previously had opted in.
- Shifted the payment date of the annual COLA [Cost of Living Adjustment] from July to January (meaning no COLA was paid in 1983).
- Raised the FRA [Federal Retirement Age] from age 65 to 67, on a phased basis beginning in 2000.
- Introduced the Windfall Elimination Provision, drastically reducing Social Security benefits for individuals receiving a pension from employment not covered by Social Security (principally government employees).
- Advanced the implementation of the tax rate schedule from the 1977 law (but did not change the top rate).
- Increased the self-employment tax rate to twice that of the individual rate (previously it had been lower than the combined employee/employer rate).
- Included up to one-half of Social Security benefits as taxable income, with the proceeds to flow back into the Social Security trust funds.

- Made the operations of the Social Security trust funds “off-budget” starting in 1993.

Upon signing the bill, which was said to have closed the gap in Social Security’s long-term actuarial balance, President Reagan said, “This bill demonstrates for all time our nation’s ironclad commitment to Social Security.”

In real terms, Reagan and Greenspan worked together to create a massive buildup in Social Security’s trust fund, not to cover the future costs of retiring baby boomers (although they were now pre-funding their retirement), but to spend it.

This meant that his successors, George H.W. Bush, Bill Clinton, and George W. Bush, could blithely do so too.

Voodoo Economics and the Pooring of American Workers

To justify and protect the enormous tax cuts afforded to the wealthy (with the hope that later administrations could extend them in perpetuity), Reagan and Greenspan resorted to the most regressive tax policy possible.

As Ravi Batra put it:

The Greenspan proposal would prove to be a crippling burden for the poor and the self-employed, because it sought to lift rates over and above those provided by [the] 1977 law. Today, a full-time minimum-wage worker... earns about 41,000 annually. On that she has to pay a Social Security and Medicare tax of 7.65 percent... [plus] state and local sales tax averaging 8 percent in big cities... This sum of over \$1,500 in taxes can make a difference between homelessness and living in an apartment, between three meals a day and malnourishment, between a doctor visit and living with illness. This is why the commission’s tax proposals amounted to coaxing money out of the destitute, i.e., the millions who subsist on the minimum wage.[\[21\]](#)

Moreover:

A worse outcome awaited those working for themselves. Today a self-employed individual... has to pay nearly 15 percent in Social Security taxes. Once \$4,500 is deducted in self-employment contributions, an individual is left with little to support a family, especially when his income is subject to the sales and income tax as well.[\[22\]](#)

In the final analysis, the Reagan-Greenspan plan for “saving” Social Security was inextricably linked to coercing the self-employed and millions of minimum-wage workers into paying the lion’s share of tax cuts for the wealthy.

As such, it should come as no surprise that all subsequent calls for tax cuts are preceded (or offset) by news of yet another crisis facing Social Security.

Onward Reagan’s Soldiers

Whether it was President Clinton embracing neoliberalism or President George W. Bush laying claim to Reagan’s mantle, all Presidents after Reagan worked to dismantle public programs. The baton for “reforming” the nation’s “freeloaders” simply passed from one to the next and they proceeded in

lockstep down the path created by Reagan.

They even used his language to do it.

The Republicans' "Contract with America," which successfully packed the House with a majority of Republicans during Clinton's presidency, derived at least half of its language from President Reagan's 1985 State of the Union Address.^[23] As a result, the issues in the "Contract," taken straight from Reagan's playbook, included "shrinking the size of government, promoting lower taxes and greater entrepreneurial activity, and both tort reform and welfare reform."^[24] The Republicans' most coveted change (second only to tax cuts) was the Personal Responsibility and Work Opportunity Reconciliation Act, passed by President Clinton.

Nevertheless, Reagan's most popular speech was given at the Republican Convention in Detroit:

"For those without job opportunities," [Reagan said,] "we'll stimulate new opportunities, particularly in the inner cities where they live. For those who have abandoned hope, we'll restore hope and we'll welcome them into a great national crusade to make America great again...We have to move ahead, but we're not going to leave anyone behind."

In practice, Reagan did nothing of the sort, but the quote makes it easy to see why President Clinton focused on inner-city initiatives to promote and facilitate workfare. It also shows where President George W. Bush derived "No Child Left Behind" while leaving enough wiggle room for Obama's "hope and change." Most literally, it provided Donald Trump with "make America great again."

The Slippery Slope to Brazil

Since everyone wants to be Reagan, the job of subsequent Presidents is to lead American citizens down the slippery slope of losing rights, benefits, jobs, assets (and ultimately their retirement funds), with a great hip-hooray for free-market ideology. With their so-called infallibility, free markets remove social safety nets and reduce the roles of government. Above all, they absolve the wealthy of responsibility to provide for the less fortunate.

The problem is that it doesn't *look* good when America rivals Brazil in terms of income inequality.

It also doesn't *feel* good when more than forty percent of America is threatened with real poverty.

For those who can't, or won't, deny that everything Reagan inspired is demoralizing and dangerous, it takes a special kind of cheerleader to promote more of the same without being held to account for the top-down swindling of America. It takes...

Compassionate Conservatives

President George W. Bush peddled a "soft side" for conservatives that enabled him to push more of everything Reaganesque. Once he achieved his tax cuts by holding town hall meetings all over the country, Bush went back on the stump, hoping to "reform" Social Security.

Seemingly shocked and appalled, Bush announced to the world at large that the government had spent the surpluses created by Social Security. Worse, the government's IOUs to Social Security weren't even remotely redeemable. They were just pieces of worthless paper.

Had Bush been able to make this stick, he would have been the perpetrator of the government's next great theft. The money owed to Social Security would have been repudiated to reduce the National Debt (or at least not increase it, since Bush was spending trillions to wage war on Iraq).

For Bush, this was important because his trillion-dollar tax cuts were supposed to increase the taxable pie to generate more revenue and thereby balance the budget. Needless to say, this didn't work for Bush any more than it did for Reagan.

By October 2008, "the national debt had risen to \$11.3 trillion, an increase of over 100 percent from 2000 when the debt was only \$5.6 trillion. Most debt was accumulated as a result of...the Bush tax cuts and increased security spending."[\[25\]](#)

Social Security and the Privatization Argument

It was, coincidentally, the year 2008 when I started to listen seriously to the whole Social Security privatization argument. Given that Social Security's surpluses were being routinely spent by the government, the odds that the government would (or could) borrow to redeem the special Treasuries issued to Social Security to pay retirement benefits in years of income deficits seemed unlikely at best. As such, I decided to devise a privatization compromise, while borrowing language from everyone. If I did, admittedly, have to gag myself in the process, at least it can be said that I made it an inclusive exercise.

The point of reproducing it (after the chapters on welfare reform and the subprime mortgage meltdown) should become fairly obvious. On the one hand, it embraces conservative arguments, hook, line and sinker, with language that I would never use. On the other, it envisions a protective privatization of Social Security (reminiscent of the GSEs created by President Roosevelt), which conservatives would never allow.

Even if it is imperfect, the exercise is a useful one. So I'll start the following chapter by providing some background discussion before defining the terms and conditions of protective privatization, which also applies to Medicare and Medicaid, since the projected costs of these programs are often lumped together with Social Security to produce more dire predictions than might otherwise be the case.

Notes

[\[1\]](#) This chapter contains updated excerpts from a tract that I published in 2008, entitled "Marketing Transition: Underwriting the Cost of Change."

[\[2\]](#) Hogeboom, Willard, "Social Security: 'Sacred Cow' of Entitlement Programs," *USA Today*, November 1995, http://findarticles.com/p/articles/mi_m1272/is_n2606_v124/ai_17606156/pg_1?tag=artBody;coll

[3] Bryant, Joyce, "the Great Depression and the New Deal," *Yale-New Haven Teachers Institute*, April 4, 1998, <http://www.yale.edu/ynhti/curriculum/units/1998/4/98.04.04x.html>

[4] "The Bonus March," U.S. History Pre-Columbian to the New Millennium, ushistory.org/us/48c.asp.

[5] Ibid.

[6] Dreier, Peter.

[7] Ibid.

[8] http://www.ontheissues.org/Celeb/Ronald_Reagan_Welfare_+_Poverty.htm.

[9] DeWitt, Larry, "The Development of Social Security in America," *Social Security Bulletin*, Vol. 70, No. 3, 2010, <https://www.ssa.gov/policy/docs/ssb/v70n3/v70n3pl.html>.

[10] Ibid.

[11] Ibid.

[12] Ibid.

[13] Ibid.

[14] Ibid.

[15] Batra, Ravi, *Greenspan's Fraud: How Two Decades of His Policies Have Undermined the Global Economy*, (Palgrave Macmillan: New York, 2005), p. 16.

[16] Batra, Ravi, p. 13.

[17] Ibid.

[18] Smith, Allen W., Ph.D., "Raiding the Trust Fund: The Big Lie," <http://www.thebiglie.net/id5.html>.

[19] Ibid.

[20] Ibid.

[21] Batra, Ravi, p. 17.

[22] Ibid.

[23] "Contract with America," Wikipedia.

[24] Ibid.

[25] "Economic Policy of the George W. Bush Administration,"
https://en.wikipedia.org/wiki/George_W._Bush