

Transcript of Discussion on Social Security: Alicia Munnell, Boston College School of Management and former Assistant Secretary of the Treasury for Economic Policy under President Clinton and Mark Weisbrot, Co-director of the Center for Economic and Policy Research and Co-author of *Social Security: The Phony Crisis*. Alicia Munnell and Mark Weisbrot were guests on Amy Goodman's *Democracy Now*, Thursday, July 26, 2001.

Amy Goodman: Today we are going to have a discussion on whether the social security system is really in crisis. We'll start with Alicia Munnell who was the Assistant Secretary of the Treasury for Economic Policy in the Clinton Administration and former member of the President's Council on Economic Advisors, also former Senior Vice President of the Federal Reserve Bank of Boston. Alicia Munnell, you co-authored a study that was just put out by the Center on Budget and Policy Priorities that is critical of the White House Commission's report. Can you begin by explaining the report and then talk about your own?

Alicia Munnell: The study responds to the commission's report, which, in our view, was needlessly alarming. I think that both the commission and the people who co-authored the study start at the same place, which is an annual report put out by the Social Security Trustees on the health of the system. And the Social Security Trustees include Treasury Secretary O'Neill and the Secretary of Labor and the Secretary of Health and Human Services. And the calculations are done by the Social Security actuaries, which are a highly respected professional group. The Trustees report shows that under the intermediate economic and demographic assumptions, the system has enough money to cover benefits through 2038, and that thereafter the payroll tax is only sufficient to cover about 70% of benefits, so no one is denying that the system has a long-run financing problem that should be fixed. What we're concerned about is this attempt to create an early date for a crisis and trying to make the argument that the system needs to be dramatically restructured, and it needs to be dramatically restructured by cutting back on the predictable benefits that are provided under the current program and replacing them with individual accounts; where how much people get out of these accounts is going to be dependent on how well the stock market functions. And we think that's a bad idea.

A.G: And what about the focus on women and people of color?

A.M.: I think that those statements are factually incorrect and I'd be happy to discuss them. In the case of women, they do very, very, very well under the current social security system. And they do well for three reasons. One, women as a group have low earnings. Social security has a progressive benefit formula and gives higher benefits to them, relative to their contributions, than they do to higher earners. Two, social security is paid as an annuity, which means that you get a payment every year for as long as you live; women live longer than men, and so benefit from this fact that they've got this inflation-adjusted annuity for their very long lives. And third, while the system treats women exactly as men if they are earners, it also provides additional benefits for spouses who don't have much attachment to the labor force, for young widows of workers who die young, and for widows whose husbands die after they are in retirement. So a

progressive benefit formula, annuity for long-lived individuals and these supplementary benefits make it great for women.

In terms of African-Americans it's a more complicated a story. They benefit from the progressive benefit formula because they have low earnings; they have lower life expectancy, so that offsets it, but that's if you just look at the retirement portion of the program, where African-Americans do not do exceptionally well. But they get disproportionate benefits under the disability portion of the program and under the survivors' portion of the program for young widows and for surviving children, so if you look at Social Security as a whole, in the case of African-Americans, they do very well under the system.

A.G.: Do you think social security is in crisis?

A.M.: In crisis? No, I do not think that it is in crisis. Do I think that we should restore balance over the next seventy-five years? Yes. Because I think that as long as that financing gap remains, there is something for critics to point at and say we've got to change the whole system, we have to restructure the entire layout. So there is a financing gap, we need to fix that financing gap, but we do not need to restructure the whole program.

A.G.: Mark Weisbrot, you are Co-Director for the Center for Economic and Policy Research, and your book is coming out in paperback in the fall, *Social Security: The Phony Crisis*. What about this problem of the gap?

Mark Weisbrot: Well, in a very technical sense you can say there is a problem, in that sense that if you project out far enough for a seventy-five year period, there is a small gap after, as Alicia said, after 38 years. But I think it's misleading really to say that this is a problem or that we have to fix it. I think, you are talking about something, first of all, economists can barely project the federal budget surplus within a few years from now, within a margin of 80% sometimes. And so this is very uncertain, and the system is good for 37 years and it really ought to be the end of the story, it is only because people who really don't like social security have been pounding on this idea for years that we have a debate on how to fix social security.

A.G.: Who has been fueling this debate and the fears?

M.W.: Well you have the usual right-wing think tanks, Cato, Heritage, American Enterprise, and also the Wall Street interests who would stand to gain tens of billions of dollars if they could partially privatize it. But I have to say, in honesty, the Democratic side has played a major role in misleading people over the last few years because they too have pretended that there was a problem to fix. They did this for political reasons, not because they don't like social security but because they wanted to beat the Republican tax cut, and so they wanted to say that, we needed the money, we couldn't spend this money on the tax cut, we needed it for social security. And of course this doesn't even make any sense from an accounting point of view, because the money that comes in to social security that is not immediately spent on benefits is loaned to the Treasury and it has to be spent on something. And it doesn't really make any difference at all to social security whether that money is used to pay down the debt or whether it is it

is spent on something else. This is a very important problem, and that's why it isn't an academic question here. We have an enormous budget surplus projected over the next ten or eleven years, and half of it is social security and Medicare surplus. That money is available for very pressing human and social needs in this country and yet both parties are saying that that is off limits because they are pretending that has to be somehow used for social security, when in fact, again, it is freely available. So this whole debate is really quite farcical in a lot of ways...

A.G.: You talk about you talk about Wall Street being a main pressure pushing for privatization. Under the Democrats, under Clinton, wasn't Bob Kerry, the head of the commission, very much pushing for privatization?

M.W.: Oh, yes, he is very pro-privatization, and you know there was a conference on this recently and one of President Clinton's Advisors, Jeffrey Frankel, said that President Clinton was the one who took the electricity out of the third rail of American politics. And I think you know he did this again by pretending there was a problem. When he first ran for office in '92, he was quite honest about it; he said there is nothing here. And there really is nothing there. I think Alicia would admit this too; it's good for 37 years without any changes at all, now if you really want to take the 75-year projection seriously -- you know and this is really the science fiction future -- but just assume for the sake of argument, that everything, all the numbers that we are all using, and we are all using the same numbers, Alicia, me, President Bush, his commission, we are all using the same numbers here, and there is no dispute. Now even if we all use these numbers, the problem that social security faces, that Alicia just mentioned, over the entire 75-year period, is actually less than we dealt with in the 50s, the 60s, the 70s, and the 80s.

A.G.: Alicia Munnell, let's get a response, I mean, you were former Assistant Secretary of the Treasury for Economic Policy in the Clinton Administration. This sort of culminating with the commission report that the Republicans are saying, because the commission is a very much a Republican commission, saying we've got to privatize, that the system is broken, really got fueled during the Clinton years which was very much talking about privatization. If not the whole social security system, part of it.

A.M.: The Clinton Administration never embraced any privatization proposals. It did have staff inside that was looking at a host of alternatives. And within the privatization options, President Clinton never would have supported an option that involved cutting back what is called the defined benefit, traditional social security plan and putting individual accounts in its place. What I think the President might have considered, but it just all got derailed, was a system where you added on to social security. You kept the current level of social security benefits and put individual accounts on top, and in fact he did come out with something called the USA proposal. But, it's fun to talk with Mark on the other side, I'm so used to being in debates where we have commission representatives who say the whole thing is about to tank tomorrow.

A.G.: Well, we thought we'd do it a little differently.

A.M. So you really caught me by surprise. I don't have huge arguments with Mark. I think the social security system is one of the most valuable programs we have in the United States. It has done more for alleviating poverty among the elderly than any other program, or all the programs together. I think, despite the aging of the population it is going to function well into the future. I would like to see it off the table, and my sense is the only way to get it off the table is to restore balance so that nobody can point to it and say, oh it's got a financing gap, it's got a financing gap and we've got to do something.

And Mark is right; it is not a very big financing hole at all. If I could just take one minute to give you an idea of how big a hole it is, the Actuaries' numbers, which Mark is right, we all use, and the Commission uses too, looks at all benefits over the next 75 years and all taxes over the next 75 years and then collapses that deficit to a percentage of taxable payroll. So right now we pay a payroll tax, combined with our employer, of 12.4%. The deficit is 1.86% of taxable payroll, but let's call it 2%. And what that means is that if we raise the payroll tax today from 12.4% to 14.4%, we would have enough money to pay all benefits for the next 75 years. That means the employer would see a one percentage point increase in his tax, and the employee would see a one percentage point increase in his tax. Now, I'm not advocating that as a way of solving the problem, but that's how small it is, that is not a crisis, that is a manageable adjustment.

A.G.: Mark Weisbrot, it seems the media plays an absolutely key role here in the public's understanding of whether or not social security is in crisis.

M.W.: Yes, and it's a terrible role. If you pick up the Washington Post today, they have an editorial, here's a quote from it, I've got it here in front of me, it says the money in sight in social security won't cover the cost of the baby boomer's retirement. Well, the baby boomers start retiring in 2008, six and a half years from now, and the last of the baby boomers retire in 2031, and as Alicia just noted we don't have a problem at all until 2038. In fact, most of the baby boomers will be dead before there is a shortfall. So the whole idea that the baby boomer's retirement is going to put some kind of strain on the system, which is reported repeatedly, the Post doesn't say that in their news articles anymore because I sent letters talked to their editors, and you know they had repeated false statements of this kind in their news articles. But this goes on every week, so the public has a very false impression of the actual state of Social Security's finances. Probably 65-70% of the public thinks the system has such great financial problems that they are not even going to see their promised benefits.

A.G.: What is the press' interest in this?

M.W.: Well, the press is driven by the most vocal, the strongest voices out there, which are the ones who want to privatize and cut benefits. But again, the other problem is that the other side, the people on our side have not opposed them on the facts. They have not come out and said, look: this whole thing is a joke. People in the future are going to be living longer lives, a long time from now, they're going to have to choose whether they want to spend those lives in retirement; how much they want to spend in retirement and how they are going to pay for it, and really

you know there's a new congress every two years, and a new president every four years, and it's really going to be their business to decide this. And we really shouldn't be talking about this at all. Now Alicia thinks the best strategy is to close this obscure 75-year gap, that is a result of people probably living longer a long time from now. I don't, and I think the Democrats are finally coming around to, with this latest commission report, and I'm hoping things will change now, the best strategy is to just tell the truth. It's a very hard sell in Washington to get anyone to tell the truth about things like this, but you just say there is nothing here, that there has never been anything here, social security is literally more secure today than it's been throughout most of its 65-year history. And that Alicia would agree with me as well, because again we are all using the same numbers. If people on our side would just say that like they used to do in the past, we wouldn't have a problem here. You know, you can see actually, as they are finally fighting, the Republicans are running like scared rabbits right now with the commission because the Democrats are finally fighting back.

A.G.: Well, Mark Weisbrot, I want to thank you for being with us, and Alicia Munnell as well. Mark Weisbrot's book is coming out in paperback in the fall, *Social Security: the Phony Crisis*, Alicia Munnell, if people want to get your latest report that is just out, critiquing the commission report, where can they go on the web?

A.M. They can go one of two places, one is the Century Foundation, tcf.org or they can go to the Center for Budget Policy Priorities and that is cbpp.org.

A.G. I want to thank you both very much for being with us. You're listening to democracy now, back in a minute.