

# Social Security and the 1%

October 17, 2011

*New Politics'* co-editor, Betty Mandell, recently championed Social Security as a fundamental universal right rejecting any recourse to selectivity through means testing. This is the first line in any robust defense of this "entitlement," the right to live in dignity with a modicum of comfort in retirement. What is upheld in this is the fundamental distinction between a social insurance program of deferred benefits and a social assistance program.

But reactionaries also occupy a larger alternative ideological universe that encroaches dangerously on the known material world. In this parallel firmament, Social Security is also attacked on other fronts: as a Ponzi scheme rip-off or as a trust fund that is demographically unsustainable or as a trust fund devoid of real assets. The first objection is easily answerable. Ponzi systems are also pay as you go schemes. But while all Ponzi schemes are pay as you go, not all pay as you go systems are Ponzi schemes. A Ponzi scheme depends on an unsustainable geometric progression of future investors to pay the gargantuan returns promised at the other end. It is demographically impossible for later entries to a Ponzi to be serviced. Social Security, on the other hand, is a matter of Peter paying Paul. As long as the sum of productivity gains plus the rate of growth of employed workers exceeds the growth in retiree claims, Social Security benefits in real terms can expand without any increase in inflation adjusted taxes.

This is what the rightwing base cannot seem to get straight. Right wing elites, of course, know better. Their studied confusion has a political purpose: to discredit the system. The political ploy—a ploy meeting with ever more success—is to plant questions in the minds of young workers both that the system will not be financially available to them in retirement and that therefore increasing percentages of what could be potential savings are being otherwise squandered on trust funds doomed to bankruptcy. Socialists have relied mostly on liberals to offer counterfactuals.

But liberalism does not offer robust responses. It approaches the problem by accepting the reactionary premise that social security is in peril, just not immediate peril. It seeks to defuse the right by reassuring the current generation that the trust funds solvency can be extended into the future by some combination of benefit reduction (introducing costs of living adjustments based on "chained" indexes that low ball the rate of inflation particularly to seniors); or raising the age of retirement; by increasing the rate of taxation or expanding the level of income subject to taxation. Work longer, collect less, be happy. Payroll taxes, it must be remembered, are wholly regressive in the first place. Their incidence falls not on personal income derived from the ownership of property but on wage labor starting at dollar one of earned income and embracing virtually every subsequent dollar most employees will earn during any given year. Insofar as business contributions are calculated as an overhead cost and passed along in the sales price of final goods and services, workers are compelled to subsidize FICA costs at both ends.

This is sufficient mollification for the liberal wing of the ruling class, insofar as social peace is funded by an intergenerational working class tax. It involves no top-down redistribution. Regressive as such taxes are, they nevertheless still fail to satisfy the right because such revenue proceeds diminish the flow of income that might otherwise be available for private capital formation if the surplus labor time diverted to pay FICA were left in the hands of employers or refunneled back to investors through social security privatization.

But the question never asked by the left is why there is a "trust fund" for social security in the first place. The public may likely believe that these trusts are contingency funds that the government

maintains as if they were individual bank accounts which we contribute to during the course of our working lives, and then access at age 62 or 66, etc. Seemingly then, if the economy should dip into recession this provides a cushion against the loss of contributions due to spikes in unemployment.

But this assumption is wrong. The payment of taxes merely qualifies future beneficiaries. Tax payments are not needed operationally to fund social security. The federal government pays benefits through a computer key stroke, not through drawing from a vast pool of savings. It is never, in other words, dependent on the prior collection of taxes to pay benefits. This is dictated legally, not financially. The state could in theory abolish the entire pay as you go system itself without for an instant imperiling the program. For that reason present or future revenue shortfalls present no threat, immanent or otherwise, to beneficiaries, despite the contagious chorus of right wing hysterics. As it stands, the trust funds are accounting ledgers keeping track of the surpluses or deficits in the flow of paid benefits projected over time. Monies collected in excess of benefits pass into the general revenue stream to finance other government operations and are simultaneously credited as special-issue bonds or IOUs that the government owes itself. But these bonds, unlike other treasury obligations, do not circulate privately and cannot be traded. They are an accounting device not an actual investment.

In this the right is correct. This observation is however, utterly banal. For of course in raising the question as to how these IOUs can be paid back, the right has effectively engaged in social misdirection. They may very well believe their nonsense, but, whether they actually do so or not, the question sets off a series of false alarms. State and local governments, corporations, businesses, Greece and Spain, are users of currency not issuers of fiat money. They must service their debt through the prior appropriation of funds. They cannot owe debt to themselves, but only to their private creditors. A debt owed at the federal level, on the other hand, never needs to be paid back because it circulates internally. Federal borrowing involves nothing more than shifting assets that the fed itself creates between its own accounts.

Let us rather return therefore to the original question: why is there a social security trust fund? Does the state maintain a trust fund for future imperialist wars? For future infrastructure expansion and maintenance?

Most European nations that have pay as you go systems do not have trust funds. The FICA tax, which is a universal tax on work, is in fact designed in its trust fund dimension to offer a massive offset to taxes on the wealthy. It is not merely a regressive tax, but, insofar as it can maintain revenue surpluses, an actual subsidy to the 1%. All the Wall Street histrionics about Social Security trust fund shortfalls are in effect nothing more than self-serving demands to assure the solvency of their personal social assistance program embedded in our social insurance program. It is, in effect, a demand to overtax the active working class and to short change that same class as it phases out of its commodity status as a seller of labor power. We are promised an ever more modest modicum of comfort in retirement, but only if we accede to a system that by design underwrites the rich throughout our working lives. And things will go from bad to worse if we accept any of the ruling class's proposed reforms.

So, in conclusion some modest suggestions. The OWS movement has called the very legitimacy of the system into question. Its reverberations have been felt across the globe. It will soon be necessary to analyze why a system based on exploitation can not consistently work for the 99%. Everything accepted must be rethought.

Start with the most simple entitlement, the entitlement that still enjoys overwhelming popular support. The problems with Social Security offer a keyhole glimpse into how capitalism twists and subverts the most straightforward of seeming benefits into a hybrid system of wealth preservation.

Consider first rejecting all funding reforms bandied about in the mainstream press. These are traps. They are based on the two party consensus that above all preserve elite interests.

Ask yourselves, do we need pay as you go? The state has the modern monetary tools through the fiat money system to provide access to a comfortable retirement without recourse to such regressive taxes.

But if we accept pay as you go, do we also need to accept a trust fund? Consider lowering FICA drastically and let workers keep the difference. You might even peel off some Tea Partyers in the process.

If we still accept the need for a trust fund, why not demand the overage be used for our class. We paid for it. Why not insist that the Social Security trust fund surpluses finance college and job training, early childhood care, mortgage relief, public transportation and the rebuilding of inner cities?

Reimagine how a system could work for the 99%.