

Bush Math or When is 4% Really 32% ?

By Michael Coblenz

The Bush Administration is gearing up for their sale of “Social Security Reform,” and if the early leaked reports are any indication, it will not be a model of honesty and clarity. The earliest reported blurb is a brief and thoroughly muddled bit of numerical trickery. According to published reports, the Administration is suggesting the diversion of 4 percentage points of the 12.4 percent federal payroll tax to private savings accounts. That makes it sound like only a trivial amount of money would go into the private accounts, and implies that the amount is so small that it won’t have much impact on payments to current retirees or the federal deficit.

A closer look at the numbers indicates that this is not really correct. Actually the Bush Administration is proposing shifting over 30 percent of each individual’s contribution into private accounts. This would mean that current employees no longer will be adequately funding current retirees and the social security trust fund, which means that it is inevitable that money will have to come out of the general fund, meaning further deficit spending.

Let me explain. First, money for Social Security comes out of each employees pay check in what is called the “payroll tax.” Each employee contributes 6.2 percent of income, and the employer contributes an equal 6.2 percent, for a total “payroll tax” of 12.4 percent of the employee’s income. Bush is proposing shifting 4% of the individuals 6.2% to private accounts. That’s not 4 % of the total; it’s 4% of the 12.4% or 32% of the total.

This money goes to the Social Security Administration, which uses it to pay the Social Security benefits of current retirees, and puts the excess into a ‘trust fund.’ This trust fund is a general fund intended to keep social security solvent into the future, and is not money set aside for individual employees.

One of the great inaccuracies in reporting on social security is the seldom mentioned fact that the system was not set up as an individual retirement system; it was set up as a system to keep retired workers from becoming destitute. The name of the program is “Social Security” not “Individual Retirement Security.” It was intended as a program to prevent those who could no longer work from falling into abject poverty and destitution. Politicians from the days of the ancient Romans understood that poverty was socially disruptive. Roman Emperors routinely opened the public granaries to prevent starvation. They did this not because they were worried about the poor, but because they knew that starving people are often desperate people, and large numbers of desperate people often do socially disruptive things, like riot in the streets. A few bowls of grain was a small price to pay for social stability. The first modern social welfare program was created by Otto von Bismark in Germany in the 1870’s, largely to address the social upheaval created by industrialization. The United States didn’t adopt a social welfare program until the economic disruption of the Great Depression created large numbers of unemployed. Like Roman emperors opening the granaries, FDR and his administration knew that social stability could be secured by ensuring that people did not starve or become desperately poor.

Social Security took a small amount of money from workers, and gave it to those who could no longer work. It has been the most successful government program to come out Franklin Roosevelt’s New Deal. Republicans hated it back then, and they hate it today. Now, under the guise of “reform” they are attempting to destroy the program. They ignore the purpose of its creation by suggesting that it is a retirement system, and say that it could make more money for beneficiaries by investing in public equities in the stock market. But again this ignores the very purpose of the system.

We shouldn't be surprised that Bush and his Republican allies are willing to twist numbers and misstate history to get their way. We've seen them do it in the past, most notably with weapons of mass destruction in Iraq. Then dissenting voices were shouted down. Many people couldn't believe their own government would be so blatant with misstatements and half truths. Bush got away with it, but the results have been terrible. We can't afford to let him get away with it again.