

HI EVERYONE! I'M MICHAEL GOODWIN, AUTHOR OF *ECONOMIX*,*
HERE TO ANSWER THE QUESTION:

WHAT'S GOING ON WITH SOCIAL SECURITY?

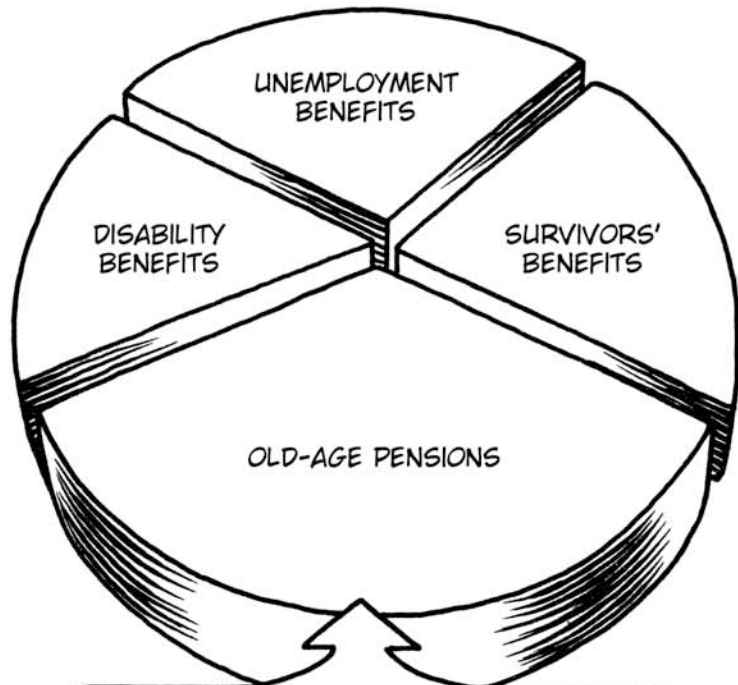


* *Economix: How the Economy Works (and Doesn't Work) in Words and Pictures*. From Abrams ComicArts. In stores now!

FIRST, SOME *BACKGROUND*.

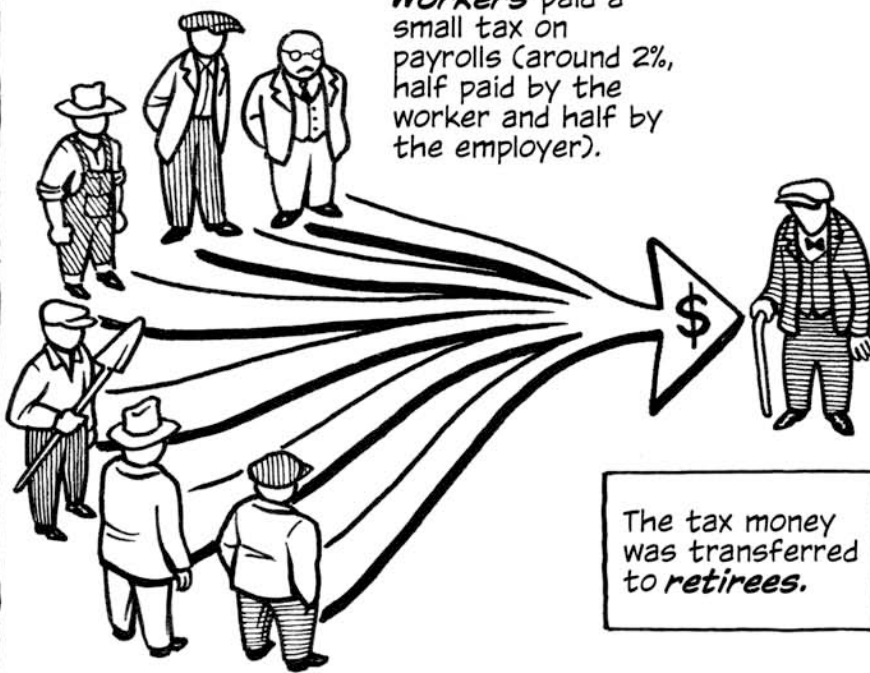


Social Security dates from the 1930s; it's a big old *insurance program*.



THE PART WE'RE CONCERNED WITH.

The pensions originally worked like this:



BACK THEN, EVERY YEAR'S TAX PAID FOR THAT YEAR'S BENEFITS - A "PAY AS YOU GO" SYSTEM.



For decades things worked just fine, but trouble started brewing in the late 1960s. For one thing, people were living longer.

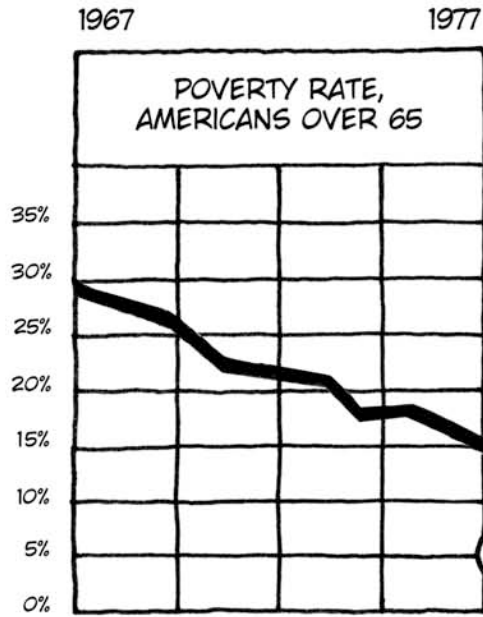
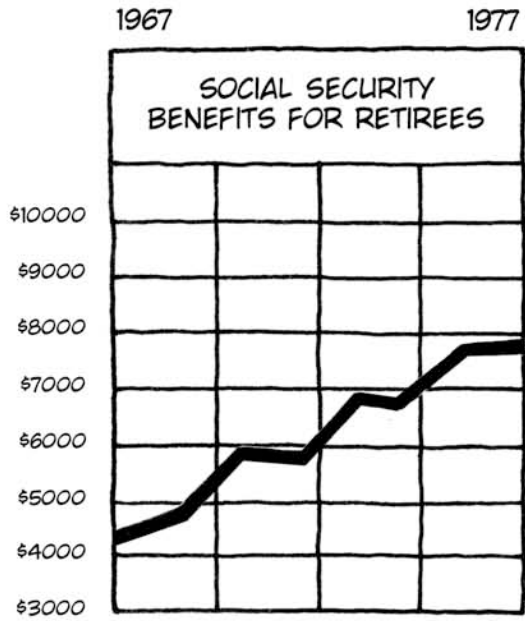


Congress also raised benefits.

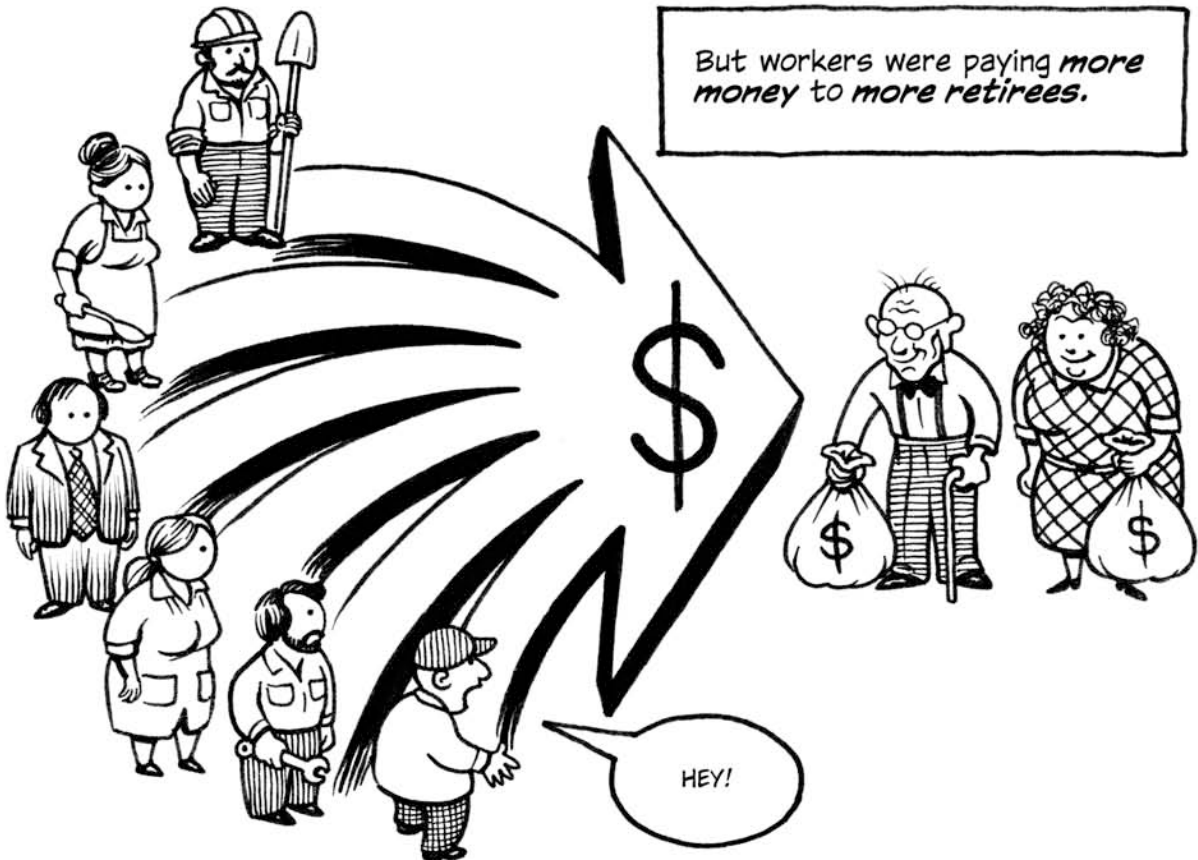


MORE RETIRED PEOPLE MEANS MORE RETIRED VOTERS!

As a social experiment, this *worked*.



POOR PEOPLE WITH INCOMES STOP BEING POOR PEOPLE!



More trouble on the horizon: the Baby Boomers - all the kids born between 1946 and 1964.



I CAN'T SUPPORT THEM ALL WHEN THEY RETIRE! WE GOTTA PREPARE!

Things got more urgent in 1981 when President Reagan cut taxes and raised spending, covering the difference with unheard-of *borrowing*.



THAT'S PREPARING?

SOMETHING HAD TO BE DONE, AND SOMETHING WAS.



THE TRUST FUND

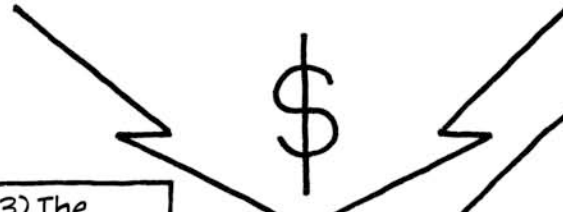
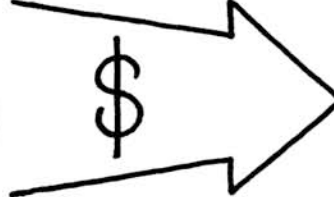
In 1983 Social Security started putting money away for the future, like so:

1) The tax went way up - soon it hit 12.4% of payrolls *

ON TOP OF INCOME TAX? THAT'S HIGH.

IT'S WORTH IT TO SAVE SOCIAL SECURITY!

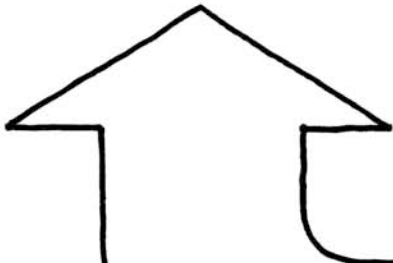
2) Some of the money paid for benefits.



3) The rest went into a "trust fund."



4) The fund didn't sit in a vault - the money was loaned to the Treasury...



IOUS

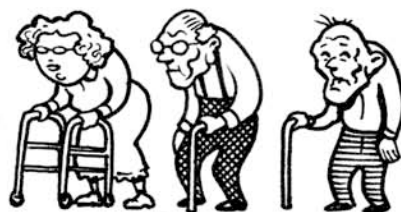
5) ...in exchange for government bonds.

6) The bonds earned interest, which was paid in more bonds.

* Still half from the worker and half from the employer; self-employed people paid it all.

That meant that when the Baby Boomers retired:

The tax wouldn't cover all the benefits anymore...



but that wouldn't be a problem because the trust fund would make up the difference...



after getting the money from the Treasury...



by cashing in bonds.

IOUS

VERY NEAT!

FOR DECADES SOCIAL SECURITY PUT MONEY AWAY; LET'S FAST-FORWARD TO...



1983 1984 1985 1986 1987 1988 1989 1990

... THE EARLY 2000S. BY THAT POINT THE TRUST FUND HAD ALMOST \$2 TRILLION WORTH OF GOVERNMENT BONDS.



So why did we keep hearing this?

SOCIAL SECURITY'S BANKRUPT! IT'S A CRISIS!



THE BANKRUPTCY THAT WASN'T

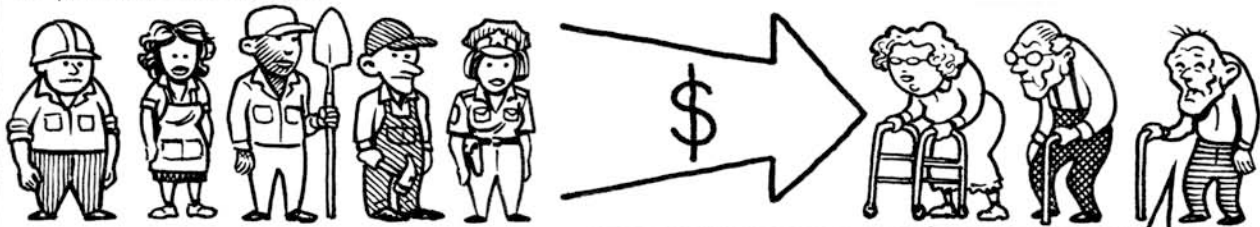
Here's what the doomsayers *professed* to be worried about:



BUT THAT WAS A *GUESS*; THERE WAS A GOOD POSSIBILITY THAT THE TRUST FUND WOULD NOT RUN OUT OF MONEY.



And even if it *did*, the system would still be raising enough money to pay around 70% of promised benefits.

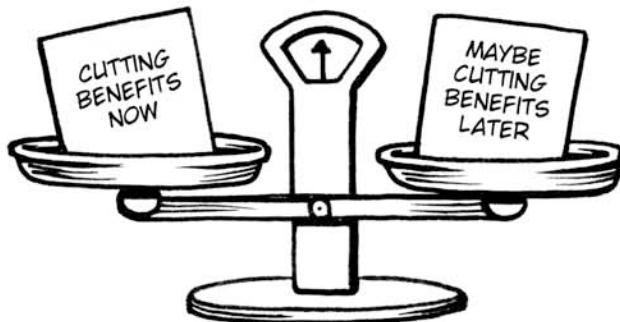


And anyway, it was odd that our politicians were so concerned about this *one* possibility, considering how they couldn't think past the next news cycle in *other* cases.

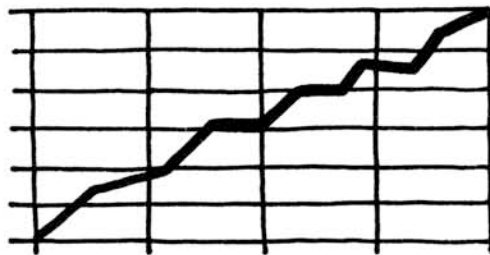
YOU MIGHT NOT BE ABLE TO RETIRE TO FLORIDA IN 40 YEARS!



Also, the *solutions* on offer didn't even make sense. One - cutting benefits - was worse than the problem.



The other - putting our retirement money into *private accounts* in the stock market - sounded okay (back before the 2008 crash, at least)...

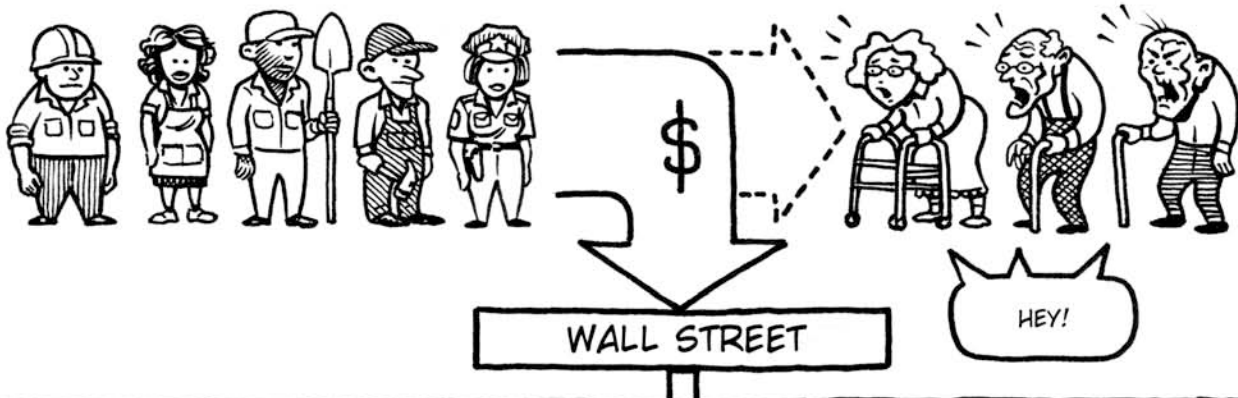


Until one remembered that *some* people, in any market, will lose everything.



In fact, that was why we created Social Security in the first place: Many people had worked hard all their lives and then lost their savings in the Great Depression. Social Security made sure everyone had *something* to live on.

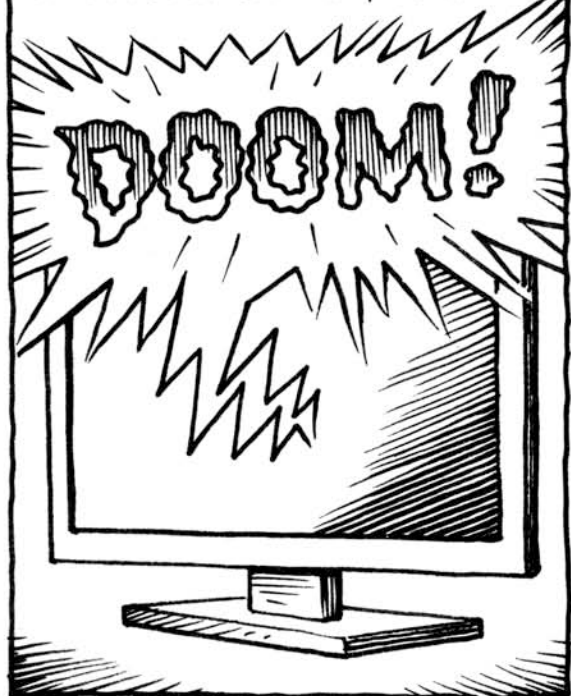
A bigger problem with putting our money in private accounts: a lot of that money *pays today's benefits*.



MAKING UP THAT REVENUE STREAM WOULD HAVE COST AROUND A TRILLION DOLLARS - MORE THAN THE SHORTFALL THAT OUR POLITICIANS PROFESSED TO BE WORRIED ABOUT.



So what was the real problem?



THE BANKRUPTCY THAT WAS (AND IS)

The *real* problem was pretty obvious: What would happen when the government actually had to pay those bonds back? Where would the cash come from?



IN OTHER WORDS, IT WASN'T SOCIAL SECURITY THAT WAS IN TROUBLE. IT WAS THE *REST* OF THE GOVERNMENT.

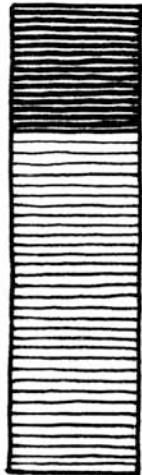


How did we let things get so bad? One reason: a bizarre *accounting trick*.

In 1989, for instance, the government borrowed:

\$53 billion from the trust fund

\$152 billion from other sources



The deficit - the yearly shortfall - was obviously the total: \$205 billion.



BUT THE GOVERNMENT, INCREDIBLY, *DIDN'T COUNT BORROWING FROM THE TRUST FUND WITH THE REST OF THE DEFICIT*. SO THE OFFICIAL DEFICIT WAS ONLY \$152 BILLION.



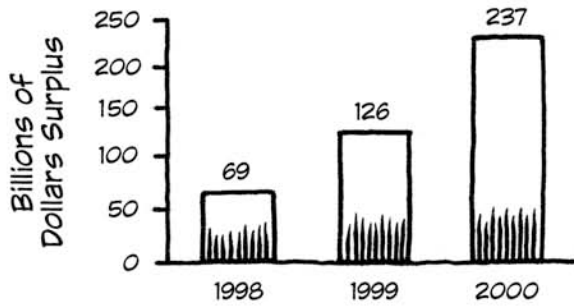
The deficit was a big *political issue*. Making it look smaller made it easier to ignore.



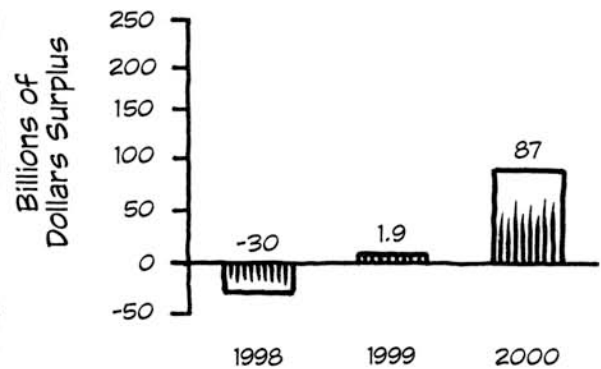
In 1990 Congress did the responsible thing and made this accounting trick *illegal*. But President Bush kept doing it.



Since Bush did, Clinton did. Remember Clinton's surpluses?



When you count borrowing from the trust fund as borrowing, not as income, it turns out that those surpluses were mostly *imaginary*.

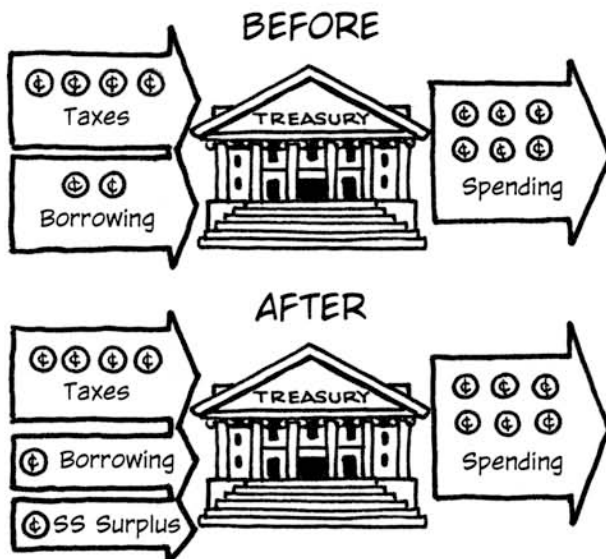


But imaginary or not, they justified George W. Bush's *tax cuts*.



And then the Social Security surplus helped *mask* the true *consequences* of those tax cuts.

All of which means: Increasing our Social Security taxes in 1983 was supposed to reduce the government's *borrowing*...



But it reduced *other taxes* instead.



LOOTING THE PENSION FUND

Here's the thing: the Social Security tax falls much harder on the poor and middle class than on the rich. That's because incomes past a certain point are *not* taxed. In 2007, for example, the limit was \$97,500. So:

Meanwhile, the tax *cuts* - on high incomes, high inheritances, and capital gains - went almost entirely to the very rich.



INCOME: \$9,750
SS TAX
(THE WORKER'S
HALF):
\$604.50



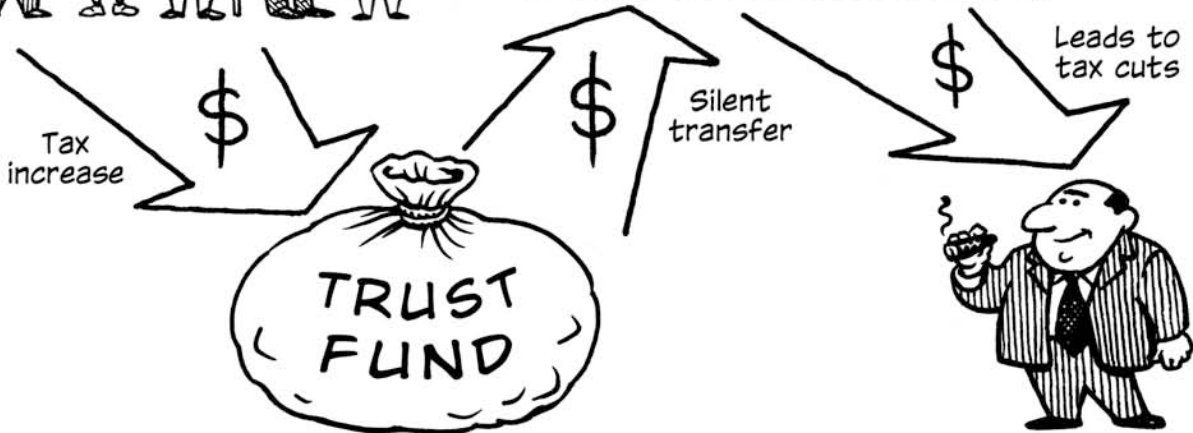
INCOME:
\$97,500
SS TAX:
\$6045



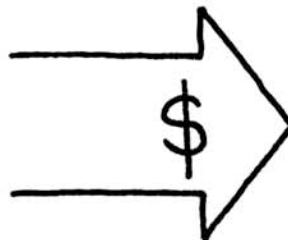
INCOME:
\$97,500,000
SS TAX:
\$6045



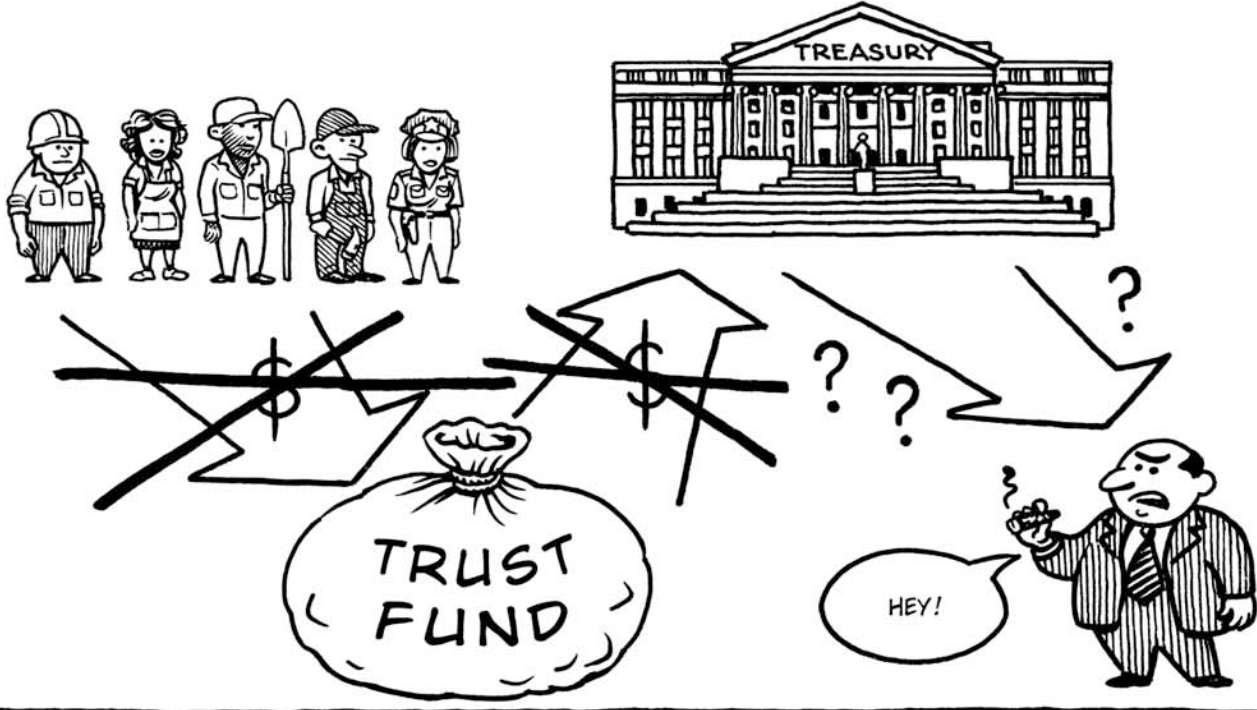
And *this*:



Was just *this*.



But what would happen when the trust fund stopped taking in money?



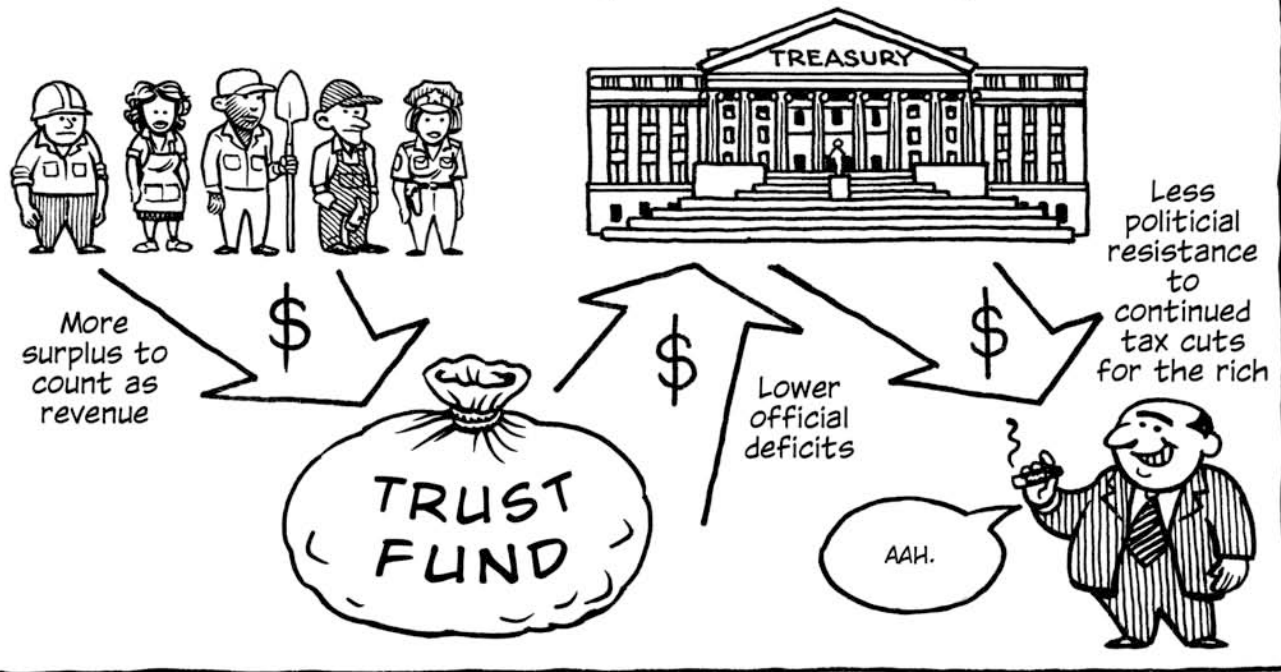
A CYNIC MIGHT EXPECT RICH PEOPLE TO TRY TO **CHANGE THE SYSTEM** TO KEEP THE MONEY FLOWING.



AND BY A WACKY COINCIDENCE, THAT'S EXACTLY WHAT THOSE "SOLUTIONS" TO THE SOCIAL SECURITY "CRISIS" WOULD HAVE DONE.



If we'd taken a cut in benefits, the money would have kept flowing for a while.



And check out what would have happened if we'd thrown the money at Wall Street.



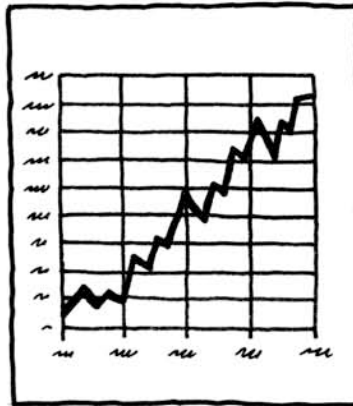
WALL STREET



Some of the money would have become **fees** for Wall Streeters.

\$

A COINCIDENCE!



The rest would have flooded the markets...

\$



bidding up the prices of financial assets like stocks...

and bringing a windfall to the people who owned those assets.

And oh, yeah - then we would have **lost** our retirement money in the 2008 crash.

WALL STREET



THE CRASH SHOWED WHAT A GOOD IDEA SOCIAL SECURITY WAS IN THE FIRST PLACE, AND HOW SMART WE'D BEEN TO NOT CHANGE IT. BUT THE CRASH ALSO SPARKED **NEW ATTACKS** ON SOCIAL SECURITY.



AFTER THE CRASH

All the recent attacks come down to:

WE CAN'T AFFORD ENTITLEMENTS LIKE SOCIAL SECURITY ANYMORE!



LET ME JUST POINT OUT THAT SOCIAL SECURITY IS AN "ENTITLEMENT," IN THE SENSE THAT WE REALLY ARE ENTITLED TO IT. IT'S A PENSION THAT WE ALREADY PAID FOR, AND WE'RE NOT SOMEHOW WRONG TO DEMAND IT.



Now: it's true that Social Security's financial position isn't what it was. With fewer people working, less tax has come in.



That means that the trust fund will run out quicker. Right now the guess is that it will last till 2033.

Still, as of mid-2012, Social Security is hardly in bad shape: it holds **2.6 trillion** in government bonds.



after getting the money from the Treasury...

by cashing in bonds.

IOUS

AND THE **ONLY WAY** THE TRUST FUND CAN RUN OUT IS IF WE PAY IT BACK WITH A FLOW OF MONEY OUT OF GENERAL REVENUE.

There's no law against keeping that flow going if the trust fund runs out.

TREASURY

IN FACT, WE'VE TEMPORARILY **LOWERED** THE SOCIAL SECURITY TAX, TO GIVE PEOPLE MORE MONEY IN THEIR POCKETS DURING THIS RECESSION. RIGHT NOW WORKERS PAY 4.2% OF THEIR INCOME, NOT 6.2%. AND WE'VE MADE UP THE DIFFERENCE FROM GENERAL REVENUE.

Of course, the recession has cut **overall** tax revenue, too, making the real problem - the government's finances - worse.

THAT'S WHY WE NEED TO CUT SOCIAL SECURITY! WE HAVE TO CUT SPENDING!

But there's plenty of *genuinely* wasteful spending we could cut before we started stealing from our old folks.

POINTLESS WARS, SUBSIDIES FOR BIG BANKS, MAGIC SPACE LASERS...

And anyway, we didn't get into trouble by spending too much; the big problem was that we taxed too little. Specifically, we *cut taxes on rich people*.

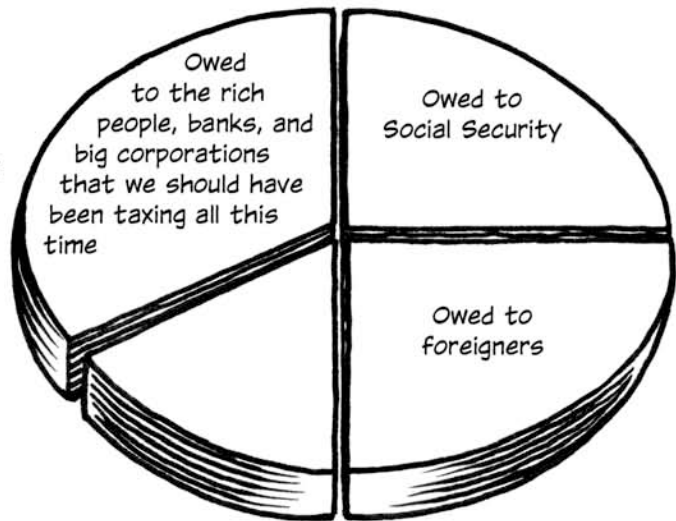


Those tax cuts haven't helped anyone except the rich. It follows that *reversing* them wouldn't *hurt* anyone except the rich.



Also: remember that the trust fund is *government bonds*. That makes it part of the *national debt*. Not paying back the trust fund means *defaulting* on part of the debt.

If it comes to that, then let's have a debate on *which* part to default on.



SO THERE YOU HAVE IT. SOCIAL SECURITY IS BASICALLY HEALTHY, BUT ITS HEALTH HAS *MASKED* THE TROUBLE THE REST OF THE GOVERNMENT IS IN. PROPOSALS TO "REFORM" SOCIAL SECURITY ARE REALLY WAYS TO *DISTRACT* US FROM FIXING THE *GOVERNMENT'S* FINANCES, WHICH IS OUR REAL TASK.

