REFRAMING THE SOCIAL SECURITY REFORM DEBATE AS OWNERSHIP VERUS WELFARE

Charles E. Rounds, Jr.

May 18, 2005

The President’s means testing proposal, if implemented, would cause social security to look and feel more like what it actually is, an unfunded entitlement program (or in the words of the U.S. Supreme Court, a welfare program) that is loaded with political risk for workers and their families. As the public digests the proposal, will it come to appreciate the true nature of the current system? Will it, for example, appreciate the fact that there is no earmarking of FICA taxes? Not if the AARP and others who oppose personal accounts have their way. The folks at the AARP would have the public believe that the current system is a retirement program funded with segregated entrusted assets, the integrity of which is guaranteed and backed by the “full faith and credit” of the U.S. government.

It is encouraging that supporters of a personal account carve-out option are at last focusing their advocacy on ownership, rather than on avoiding “insolvency” or “bankruptcy.” One cannot “bankrupt” a federal welfare program supported by general tax revenues. For personal accounts to gain political traction, however, it is not enough just to extol the virtues of ownership. The foundation needs to be laid. The public needs to appreciate that the current system is nothing more than welfare. There is, of course, the risk that the seniors will kill any messenger who even utters the “W” word. The problem is that such euphemisms as social insurance and intergenerational contract are only working for the propagandists at the AARP. With time running out, the only option left may well be to put out the unvarnished truth about how social security is currently structured and hope for the best.

Even assuming the public can be made to understand that the debate properly framed is “market risk versus political risk,” not “market risk versus government guarantees,” there still remains one final obstacle to clear thinking about social security reform, and that is the popular misconception that the social security bonds in the fictitious trust fund have economic value either for the U.S. or for workers and their families. They have value for neither. This somewhat esoteric legal issue is important because to suggest that there is some kind of “full faith and credit” obligation on the part of future congresses to honor these “bonds” aids and abets the AARP’s disinformation campaign. (The 2018 versus 2042 crisis issue also turns on whether the “bonds” themselves have any economic value).

Yes, the social security statute provides that on the face of the “bonds” memorializing the spent surplus there shall be a notation that they are “supported by the full faith and credit of the United States.” But this provision can only kick in if the bonds
are actually issued by the U.S. to another party. The statute, however, does not provide for this. In other words, the “full faith and credit” language is illusory. For a bond to be a real bond, there needs to be at least two parties, for example, the U.S. and a citizen who owns a treasury bond in a personal account. The U.S. cannot enter into a contract with itself that would bind future congresses. These “bonds” are neither assets of the U.S. nor property of workers and their families.

Until the day comes when the public somehow comes to appreciate that social security is just welfare and that the bonds in the fictional trust fund are bogus, personal accounts will continue to be a tough sell. However, when that day comes, if it ever does, there will no longer be any need for impassioned op-ed pieces extolling the virtues of ownership. The advantages of the voluntary personal account will be self-evident.