
SOCIAL SECURITY AND ITS DISCONTENTS:

PERSPECTIVES ON CHOICE

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The “third rail” of politics, Social Security, is without doubt an extremely controversial political issue. Reforming Social Security, however, is not a complicated policy matter. *SOCIAL SECURITY and Its Discontents*, published by the CATO Institute, is an outstanding collection of seventeen erudite chapters that are written by thirteen notable scholars and policy professionals. Separated into five parts (Part I: The Crisis; Part II: Women, the Poor; and Minorities; Part III: Solving the Problem; Part IV: The Tough Questions; and Part V: The Public), the book exposes the numerous flaws, misconceptions, and harmful effects of the current Social Security system. Collectively, the book’s chapters also provide policy and political guidance to enable reform. Edited by Michael Tanner, director of health and welfare studies at the CATO Institute and director of CATO’s Project on Social Security Choice, *SOCIAL SECURITY and Its Discontents* is a must read for anyone concerned about the future (or lack thereof) of this irrational program.

Mr. Tanner’s introduction is exceptionally written because it succinctly explains the critical content of each chapter, thereby allowing the reader to be immediately well versed on the repercussions of the Social Security system. Much to my chagrin, I must admit that before reading this book, I was unaware that workers do not have any legal right to Social Security benefits, despite paying into the system. Indeed, there is widespread belief that workers are contributing to their future retirement, but in fact they have no legal rights to any future benefits [*sic*].

Chapter four, entitled “Property Rights: The Hidden Issue of Social Security Reform,” elaborately discusses the legal justification as to why workers do not have a property or contractual right to Social Security benefits. Written by Charles Rounds, Professor of Law at Suffolk University, the chapter cites two U.S. Supreme Court cases that establish the fact that the federal government is the only entity that has a property interest in Social Security. First, in 1937 the Court in *Helvering v. Davis*¹ upheld the constitutionality of the Social Security Act. In doing so, the Court deferred to Congress the ability to decide which welfare programs are part of the General Welfare Clause. Additionally, the Court explicitly stated that Social Security is not an insurance program. The Social Security tax goes into the treasury just like any other tax. Despite the “lock box” rhetoric, the receipts of Social Security are not segregated; indeed, they are commingled with all general

assets. Then, out of general assets Congress authorizes benefit payments to persons deemed to be eligible. Second, in *Fleming v. Nestor*² the Court noted that termination of Social Security benefits is not a taking of property under the Fifth Amendment. Professor Rounds points out that the Court merely reaffirmed the intent of Congress that workers had no contractual rights to Social Security benefits, because in the original Social Security Act Congress reserved the “right to alter, amend, or repeal any provision.” In fact, this happened when Congress raised the retirement age. Congress could also cut benefits, invoke cost-of-living adjustments, or conduct alternate means testing. In its current form, by 2018 the Social Security system *will* run a deficit, and the aforementioned options are well within Congress’ authority. Other options might include raising taxes, cutting programs, or borrowing money. Simply put, Social Security is an unfunded liability.

A policy issue that has been around for some time but is beginning to gain political momentum is the privatization of the Social Security system. Presently, because Social Security benefits are not the property of workers, the money is not inheritable. When a worker dies their Social Security benefits are not part of his/her estate and the money remains with the federal government. Alternatively, under a private system this would not be the case. Private accounts would be the equivalent of IRA, 401(k), and Keogh accounts. Professor Rounds correctly notes that much of the opposition to individual accounts is the faulty premise that the current Social Security system is less risky than private capital markets. Chapter eleven, “Empowering Workers: The Privatization of Social Security in Chile,” proves why this assertion is correct. José Piñera, president of the International Center for Pension Reform in Santiago, Chile, and co-chair of the CATO Project on Social Security Choice, incisively describes through his personal experience as Chile’s minister of labor and social security how labor force participation, pension fund assets, and benefits have all grown because workers could opt out of the government-run pension system and put the former payroll tax in a privately managed personal retirement account. Interestingly, Chile’s pension reforms were passed in 1980.

With specific regard to market volatility, John Zogby, president and CEO of Zogby International, notes in chapter seventeen “Public Opinion and Private Accounts: Measuring Risk and Confidence in Rethinking Social

Security,” that a majority of people surveyed feel that “the Enron scandal shows that people need more choice and more control over their retirement savings, including allowing workers the option to invest part of their Social Security taxes in a personal retirement account.” Most Americans have, justifiably, a basic desire to control their own money. Mr. Zogby also makes the valid point that younger voters, Republicans, and Independents could provide the groundswell support necessary for privatization. Younger workers, in particular, are extremely skeptical that they will receive “benefits” that match what was taken in taxes. This skepticism exists because as Nobel Prize recipient Milton Friedman writes in chapter fourteen “Speaking the Truth about Social Security Reform,” “Social Security has become less and less attractive as the number of current recipients has grown relative to the number of workers paying taxes, an imbalance that will only get bigger” as the baby boomer generation retires. “This explains the widespread support for individual investment accounts.”

Professor Rounds’ analysis of property rights affects all workers, but the inability to pass property onto heirs disproportionately affects low-income workers, women, and minorities. Mr. Tanner, Jagadeesh Gokhale, a senior fellow at the CATO Institute, and Leanne Abdnor, national chairman of For Our Grandchildren, all address in detail in the aptly titled “Part II: Women, the Poor, and Minorities” the disparate impact the Social Security system has on these respective groups. In short, rather than helping the needy, the current system creates unnecessary obstacles for social mobility. For example, because low-income and minority demographics statistically have lower life expectancies, when a worker dies they are unable to pass their “benefits” to their heirs.

SOCIAL SECURITY and Its Discontents is a seminal body of work. It’s potential to influence serious-minded policymakers is great, in large part because of the thoughtful input from professionals of diverse pedagogy; namely, economists, lawyers, and public relations professionals. The fact that so many experienced scholars have contributed to this book only adds to its credibility. Reforming Social Security has been and will continue to be a daunting and arduous task. *SOCIAL SECURITY and Its Discontents* demonstrates that politics and public relations are the only obstacles in the way of much needed reform. Privatization, which will benefit *all* citizens, can only occur if the American public sees Social Security for what it really is. This book brings us one step closer to that day.

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¹ *Helvering v. Davis*, 301 U.S. 619 (1937).

² *Flemming v. Nestor*, 363 U.S. 603 (1960).