

WHY DEMOCRATS SHOULD EMBRACE PERSONAL ACCOUNTS

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Why are Senator Reid, Congresswoman Pelosi, AFL-CIO John Sweeney and other high-profile Democrats so adamant in their opposition to the President's proposal for an individual account carve-out option for Social Security? If they are truly concerned that personal accounts will "weaken" Social Security, they need not be. Personal accounts will actually strengthen Social Security and better serve the long-term national priority to continue a viable safety net for the elderly. Critics should stop looking the President's gift-horse in the mouth.

Their concerns may well be based on a misunderstanding of the facts and the applicable law: Social Security is not a funded defined benefit program along the lines of what a private company might establish for its employees. It is merely a federal entitlement program (the U.S. Supreme Court has referred to it as a welfare program) whose benefits are paid for out of general tax revenues on an ongoing basis. There is no "trust fund," and there never was.

As the baby boomers begin to retire, this growing entitlement program will have to compete for funding with other entitlement programs, as well as with the military and the highway lobby. The math is simple and stark: Numbers of recipients will soar, while working Americans funding Social Security will be proportionately fewer. Something will have to give. Tax rates can be raised or graduated only so much before the goose that lays the golden eggs keels over. Benefits will have to be reduced at some point, and in some cases perhaps eliminated altogether. Alternatively, age qualifications may rise further. It has already been happening. Congress, for example, already has been raising the retirement age. Moreover, the U.S. Supreme Court has ruled that an individual FICA taxpayer will be without recourse when Congress gets around to dispensing more such harsh medicine. (One wag suggests that a perfect cure would be to commence eligibility at age 90. That would work!)

What about those phantom bonds in the fictional Social Security trust fund that are memorializing the spent surplus? They are supposed to last until 2041. Unfortunately, despite the "full faith and credit" language of the Social Security statute, they have no intrinsic value. They impose on Congress no contractual obligation to see to it that they are exchanged for cash; and even if they did, the cash would still have to come from general revenues. By contrast, a treasury bond owned in a personal account would impose a contractual obligation on the government to honor its terms.

For Democrats and others truly concerned about the integrity of the inter-generational social insurance contract (which the U.S. supreme court has confirmed is

merely a euphemism for a welfare program), personal accounts should be just what the doctor ordered. Because benefit cuts (and/or raised age thresholds) are inevitable, such accounts can help cushion the blow for the individuals affected. They not only would enable Social Security to continue to be the government safety net that its New Deal authors intended it to be, but would also relieve pressure on other federal entitlement programs as well, such as Medicare. How could a good Democrat find fault with that?

Individual accounts are not a Trojan horse that will weaken Social Security. Rather, they could stand as a firm leg to buttress the permanence of a popular and important program and prevent what would be its ruination when our children come of age. Democrats should rest easy if undermining Social Security is truly their concern and embrace the President's proposal, unless they have other concerns that they are reluctant to express publicly.

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