

Economics essay examples

[Law](#), [Security](#)



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Should Social Security be privatized? (YES or NO)

Position Statement

My position is that the social security should not be privatized. For long, there have been extensive debates on the issue of privatizing social security. Proponents and opponents of the issue of privatizing social security have argued for their reasons. These arguments cut across economic, political and social aspects. However, I argue for the economic reasons related to the privatization of Social Security. The privatization will have certain economic consequences on the society.

Economic arguments against my position

The arguments against my position are that the Social Security should be privatized. First, there is a pending downfall of Social Security in the existing system. In order to avert this pending collapse, there will be a need for deep cutting in the benefits, hikes in the substantial taxes and heavy borrowing (Cooley and Soares 22). Therefore, a better solution to avert the downfall will be to switch to the accounts of private investment funded by the existent

payroll tax. As such, there will be an avoidance of any tax hikes or benefits cuts.

Second, the medium income worker can expect an estimated return rate of 1.93% to 2.71% with the existent system of Social Security. The privatization of the Social Security will increase the marginal propensity of the retirees, translating to an approximate return rate of 6.9% to 9.0% (Feldstein 28). As such, privatization of Social Security will increase the marginal income of the retirees, which will increase the total earning of the retirees including other individuals.

Third, putting the Social Security into the private accounts will not expose the retirement money to risks. In the personal accounts that are federally regulated, individuals would only be allowed to invest in approved and diversified mutual funds and not in the highly volatile or single stocks (Kotlikoff, Smetters, and Walliser 12). Moreover, switching into the personal and private retirement accounts will not lead to burdensome costs of transaction because the growth rate of the year-over-year with time of the investments will offset the extra costs that the accounts will incur.

The federal government in the past has been using the surpluses in the Social Security to fund its government spending. Privatizing the Social Security will keep the retirement money and benefits in the private accounts preventing it from being diverted to other purposes that are non-Social Security.

Economic arguments supporting my position

First, privatizing the Social Security will lead to substantial reductions in the traditional benefits of social security. That is; the privatization would reduce

the level of benefits by 44% below the 2005 levels (ANRIG and WASOW 20).

As such, it will reduce the marginal propensity and income levels of the retirees and other involved parties in the Social Security programs.

Second, starting the privatization system will be too costly. The costs of transition of setting up the new personal accounts while providing the benefits to the current beneficiaries of Social Security would require an additional and estimated cost of \$1 to 2 trillion (ANRIG and WASOW 28).

Third, the privatization of the Social Security will establish private accounts, which will reduce the protections of the special insurance. Some of these protections include survivor's insurance and disability provided by the Social Security. As such, the cuts will be made to the programs to fund the private accounts of retirement.

Privatizing the Social Security will essentially put the retirement money in the hands of individuals at the whim of the existent stock market. As such, it will weaken the retirement system of the federal government through the possible risky investments. Additionally, putting the Social Security funds of individuals in the private investment accounts will expose the workers to become victims of stockbrokers and their investment choices.

The upfront costs of establishing the individual accounts and advising the individuals of the emergent system would reduce or completely take away the fiscal benefits that the privatization would bring. Privatizing the Social Security by converting money into the private accounts will move the retirement savings from easy systems to complex structures of shares in the stock market and investment portfolios (Belan and Pestieau 24). The privatization will put money in management and brokerage fees into the

control of financial services and corporations such as in Wall Street. The Social Security issued payments in terms of benefits to more than 39 million retirees in 2008. Establishing and managing the numerous individual private accounts of retirement would lead to a generation of more bureaucracy. As such, the enterprise would need costly hiring and conducting training programs for many of the new employees in the government. Since the private accounts would have to be financed by the money from the Social Security, the privatization would increase the funding gap of the Social Security and move the date of the insolvency of the system.

Conclusion

In summary, I think my position and argument are the correct one for the various reasons of supporting my argument. My position is the correct one because of the drawbacks that the privatization will have on the economy. Therefore, the Social Security should not be privatized.

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