Industrial revolution and social security

History, Revolution

Strengthen Social Security

Up until the Industrial Revolution, economic security for most people was maintained by working until old age and then being taken care of by ones' children and family members. This type of economic uncertainty drastically changed when President Roosevelt pushed for and signed into law the Social Security Act of 1935. During the ceremony for Social Security Act's signing, President Roosevelt stated that it is " a law that will take care of human needs and at the same time provide for the United States an economic structure of vastly greater soundness" (Roosevelt, 1935). Roosevelt also states in his speech that while the program is not a safeguard against all economic problems in our future, we do need it to protect our citizens who are or would be unable to work. Since President Roosevelt passed the Social Security Act, there has been much debate in reforming Social Security with many seeking privatization of the program. This paper aims to show why we should not privatize Social Security but, rather, search for alternative means to strengthen it. We need to strengthen Social Security because it has and still protects future benefits against inflation, has proven to reduce poverty for our elderly, and is efficiently and soundly administered.

Social Security appears quite similar to an employer-sponsored pension plan on the surface, but they are inherently different. The program calls for individuals to put part of their income aside in the form of a payroll tax while working in which they would receive monthly payments upon retirement. Balancing equity and adequacy is the primary benefit of Social Security. Equity allows people to receive more of what they put into Social Security. Hence, people with higher incomes would also put more into the program and also receive more benefits upon retirement. The Social Security plan, under the system of adequacy, dismisses periods of low income such as when a worker becomes disabled or unemployed. Instead, it uses an increased ratio of income for the poor than the wealthy. In addition, Social Security benefits are indexed against " uncertainties regarding length of life and inflation" and has proven to be America's most beneficial program against poverty (Goda, 2011, pg. 1).

If we privatize Social Security, we would surely erode the basis of ensuring a sufficient base income for people who've struggled their whole lives. Low-income workers would not be able to make enough money to invest into their accounts in order to maintain their standard living for when they choose to retire (Heiger, 1997). Also at a larger risk to poverty during their old age are the people in the middle-class. They would not get equal returns because of the inherent nature of the financial markets, and those who receive negative returns would not be able to survive from other sources (Heiger, 1997). The financial markets fluctuate up and down, and some people would retire with meager returns during long economic downturns such as the Great Recession of 2009. For those who live to be very old, some well into their 80's and 90's, they would just outlive their investments. For example, if they dumped their savings into investment vehicles such as annuities during their retirement, those investments would be greatly reduced by inflation the longer they live.

Before Social Security, the highest rates of poverty were in the elderly age group. People don't realize these days that the program had reduced the poverty of elderly Americans from 35 percent to about 10 percent (National, 2012). This percentage falls under the 12 percent value of the American population (Poverty, 2013). Social Security provides for the potentially destitute millions of American elderly, who are no longer able to work and in retirement, the financial stability they need to sustain their lives. Since the elderly do not have to depend on their working children, Social Security also provides an indirect benefit to their off springs. There are two other benefits in which Social Security provides to people under age 65. The first benefit is income during long-term disability and income for a worker's dependents who die before their retirement (ProCon. org, 2014). This type of benefit also doesn't carry the stigma of similar programs such as welfare.

For middle-class workers that have employer-sponsored retirement programs, Social Security was never meant be a singular source of income during retirement. Social Security's value is clear when looking at it as a means of income of a retirement investment group. The benefits from Social Security maintain their worth since they are adjusted for the annual cost-of-living while other types of investment assets get eaten away and used up as a person becomes older into retirement. In addition, workers will come to acquire greater individual risks as companies continue to move away from pensions towards 401(k) plans and other types of programs with unreliable payouts (Cammack, 2012). Against that backdrop, the Social Security program carries much more protection against the sway of the economic markets.

To denationalize Social Security would be to allow Americans the choice to withhold a small percentage of their pay as an investing into individual accounts, keyword being choice. So what is wrong with giving workers the choice to opt-in or not? This type of reform brings with it steep reductions for the younger workers who elect to stay in the program (Heiger, 1997). Wealthy individuals and workers who have higher incomes would not want to participate in the program but rather " choose the market-based system" (Heiger, 1997). While it may appear to be a choice, privatizing Social Security would make it such a bad investment for high-income people. They would just all bail out, so they don't have to invest their earnings to balance the pool for the low-income workers' retirement pensions (Heiger, 1997). In essence, without universal participation, " the financially less-well off" would be left " to fend for themselves" (Heiger, 1997). There would be a gaping hole of future benefits for low income funders who choose to remain in the program, and this would completely defeat the purpose of the program and eventually dissolve it.

The participation of individuals from all income brackets is the reason Social Security works and is sustainable. The program will be similar to welfare if the wealthy and high-income individuals choose to not participate. The participation of individuals from all age groups is another reason Social Security (Rose, 1990). For years now, the retirees of the program were paid by the taxes from workers which is the entire the basis of Social Security. Those workers would, in turn, be paid by the taxes in the next generation of workers for their Social Security retirement benefits. However, in 1983, an increase in age limit for benefits eligibility in addition to payroll taxes being increased were amended to the Social Security Act (Social, 2014). The tax increase brought in surplus money, more than the amount needed to maintain the Social Security benefits at the time. The purpose of the increase “ was to have the Boomers prepay part of their old age benefits” (Johnston, 2012, pp. 10).

The extra money generated from the increased taxes were also used to “ pay off federal debt” and purchase Treasury bonds (Johnston, 2012, pp 10). Essential, the government was lending itself money. This act generated controversy among proponents of Social Security privatization yet it is the same as workers using the money to buy the bonds themselves. The government is required to pay back what it owes and in this case, “ Social Security is virtually risk-free because it is backed by the full faith and credit of the government” (Heiger, 1997). In the end, this principally articulates that the program’s future recipients need the taxes of the workers who come after them to keep the Social Security benefits ongoing.

Since its inception, many people such as former Kansas Governor Alf Landon had outspoken views against Social Security (Landon, 1936). Landon and critics of Social Security have argued that the program is a fraud and that the overhead costs are too high to sustain the program. However, the program itself has only seen reductions in administrative expenses year after year and as of 2013 accounted for only 0. 7% of the fund’s total expenditures (Kunkel, 2013). This percentage is still below the costs of the average 401(k) fees of 0. 72% per year, with highs close to 2% per year, charged by plan administrators (Deloitte, 2009). With such a low overhead cost over private plan administration, the government clearly shows how efficiently it administers the Social Security program.

Social Security has definitely provided Americans protection against destitution with adequate supplemental income and allowed people who have worked their entire lives to maintain their standard of living during retirement. While Social Security has undergone many reforms and continues to need improvement, privatization is not the key. In its proven history of increasing efficient, decreasing the poverty of our elderly, and hedging benefits against inflation, Social Security must continue to be strengthened with centralized government policies and administration. To privatize Social Security, to fundamentally take it away from the whole of our nation's people, would be unconstitutional.

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