
IRET Op Ed

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Come Back, Jack

Many of our leading conservatives are bewildered by Congressman Jack Kemp's enthusiastic endorsement of Social Security and his rejection of proposals advanced by Pete DuPont and others to privatize the provision of retirement income. True conservatives, for whom Jack Kemp has long been a national leader and role model, have always opposed the socialized system for providing retirement income introduced by Social Security in the mid-1930s. Jack's rejection of the privatizing proposal and defense of the status quo has made a lot of conservatives wonder about how consistent and sturdy is his free-market orientation on domestic economic policy issues after all.

A true conservative might endorse government intervention in the private market's system for providing retirement income if some significant defect in that system could be identified and if it could be shown that the government's participation would improve the functioning of that market. Private provision for retirement income, however, is not a failure. It continues to flourish despite the impediments to its effective functioning that public policy frequently imposes. It is, rather, the socialized security system that periodically courts financial disaster. What we need is private sector intervention to remedy the failures of Social Security.

It's difficult to believe that Jack Kemp is not fully aware of the manifest deficiencies of the existing socialized security system. Surely he must know that the system's payroll tax, which finances the benefit payments to retirees, is an excise tax on the employment of labor, and that by raising the cost of using labor services, this excise reduces employment and after-tax real wages below the levels that otherwise would prevail. If memory serves, Jack was so much aware of these unwholesome effects of the system's financing that the tax reform bill he designed a few years back included a wage income exclusion intended explicitly to cancel the burden of payroll taxes.

Surely Jack also knows that employer and employee payroll taxes -- misnamed "contributions" to the

socialized security trust fund -- are not saving, in any meaningful sense of the term. In sharp contrast with private provisions for retirement income, these "contributions" don't add a dime to the stock of the Nation's capital; they add nothing to the economy's capacity to produce goods and services. They generate no addition to total income. Surely he knows, therefore, that there is no such thing as Social Security wealth and no return on that nonexistent wealth. And knowing this, he must also surely know that comparing estimates of the rate of return afforded by socialized security "annuities" with those provided by private retirement vehicles is pure nonsense. Any positive return, no matter how low, realized on private saving exceeds the zero return afforded by socialized security.

If we were comparing authentic retirement insurance systems, a true conservative might claim that socialized security enjoys some administrative cost advantages because of the economies of scale it might realize. Socialized security, however, isn't an insurance system at all. It is a ponderous and unfair inter-generation tax-and-transfer system. Whether its costs of administration are, in some relevant sense, high or low, they are nonetheless dead-weight losses for the economy as a whole.

One of the most bewildering claims that Jack advances in defense of socialized security is that it is pro-family. This characterization surely must give everyone pause, because one of the principal attributes of the system is that it transfers responsibility for providing for our parents, other elderly relatives, and survivors from us as private persons to the government, therefore to other persons who don't know our parents or relatives and who would not willingly assume the burden for their care. Surely this socialization of the responsibility for caring for the older members of our families is the very antithesis of pro-family. When we recall that the burden for financing that socialized care rests on the active members of the labor force, most of whom have family responsibilities during their working years, the claim that socialized security is pro-family has to be seen as a cruel, no-think joke.

One rationale provided for Jack's anti-private, pro-government retirement income system position is that it would be too costly to privatize the present socialized security system. Considerations of both fairness and political practicality dictate that present Social Security annuitants could not be abruptly cut off the benefit rolls as the system is privatized. For the same reasons, people now at work who are relatively close to retirement age could not be cut out of eligibility for Social Security benefits. This means that younger workers would have to continue to pay for the retirement benefits to be distributed to both current retirees and those soon to be retired, until there no longer were any persons eligible for Social Security benefits. These workers, the so-called transition

generation, would also be required, under most of the privatization proposals, to make their own private provisions to finance their own retirement annuities. It is this last requirement that, presumably, is too heavy a burden to impose on the transition generation, even if their saving for retirement were tax-sheltered.

But wait a minute. Requiring workers to undertake additional private saving for their own retirement may impose on them a different allocation of their current incomes between consumption and saving than they would make in the absence of the requirement. There is, indeed, a cost entailed by the imposition of this constraint on their freedom of choice. In contrast with paying taxes to finance benefits to currently retired persons, however, being required to buy and own assets that will provide one's own retirement income imposes a very modest cost. No reasonable person will treat that cost as excessive in light of the benefit to be obtained -- ridding the economy of one of its most onerous exercises in big brotherism.

Finally, Jack, before rejecting privatization, think about the costs that the present socialized security

system will impose on future generations of workers. According to a recent IRET study, the payroll tax rate that will be needed to fund officially projected retirement and survivors benefits along with present-law Medicare benefits will soar to 27 percent by the year 2020. That's under the standard actuarial assumptions about productivity growth and economic growth rates. Under the pessimistic assumptions that the Social Security actuaries lay out, the payroll tax rate will have to total 40 percent. Now there's a cost that realistically can't be borne, next to which the supposed cost of transition to a private system is utterly inconsequential.

Jack, conservatives need your leadership and creativity now more than they have for the past seven years. Please come home.

Norman B. Ture
President