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Letters to the Editors:

Brent Kramer

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To the Editors:

Teresa Ghilarducci's Spring 2009 *New Labor Forum* article, "The Goldless Years: How to Save the Nation's Retirees from Bankruptcy," has provided a valuable stimulus for a long-overdue discussion about retirement insecurity in the U.S. The "three-legged stool" that we were supposed to rely on after retirement (Social Security, employer-provided pensions, and private savings) has been collapsing, and labor activists need to address this issue.

The Guaranteed Retirement Accounts (GRAs) that Ghilarducci proposes have many positive features. But they share two serious faults with current private retirement programs. First, they retain individual accounts, continuing and encouraging the individualization of collective good that the recent expansion of individual retirement accounts (in place of defined-benefit plans) has exacerbated. We must avoid sustaining the illusion that any of us can be secure in retirement without *everyone* being secure.

Second, public savings should never be used for speculative private purposes, such as investing in stock and financial markets. Fiduciary rules prohibit trustees from considering public benefits (such as investing in socially responsible projects), no matter whose money they are using. Public retirement savings must be invested in U.S. Treasury securities (this should apply as well to the large state employee retirement funds currently invested in markets). As with the current Social Security system, our retirement security would then be as strong (or as weak) as the nation, not dependent on the

vagaries of markets.

Since all the rationales for GRAs apply to Social Security as well, why not "just" expand Social Security so it represents adequate savings for everyone's retirement? Ghilarducci fails to answer this except by arguing that "the GRA is a way to expand Social Security." Were Social Security reformed to be adequately financed and to provide sufficient income to retirees, there would be no need for such a plan. And while some parts of the GRA proposal deserve attention (such as compensating credits for low-income workers and ensuring broader annuity rights for survivors), there is no logical barrier to adding these measures to a progressive reform of Social Security.

Is expanding Social Security off the political agenda? Clearly, at the present political moment, there are other priorities for progressives. But the struggle around health care reform is very instructive. Even though polls show that a majority of Americans favor "Medicare for all," and even though such a plan would solve the cost issues facing other proposed reforms, President Obama and congressional leaders have refused to advocate such a plan, ostensibly because they believe it could not pass. The result of this hedging is that even the next-best plan may not even pass, and—if it passes—may not result in any real change. The obvious lesson: when compromise is anticipated, one had better not start from an already second-best position.

Labor should be advocating better and stronger retirement security. Shore up and expand the plan that is already working, that

most Americans understand and are comfortable with, that has the most collectivity, and that uses its savings to provide working capital to the commonwealth we call the United States: Social Security.

—*Brent Kramer is a longtime labor activist and an economist. Send comments to: bhkramer@aol.com.*

Teresa Ghilarducci responds:

Thanks to Brent Kramer for his comments on my Guaranteed Retirement Accounts (GRAs) proposal. I agree that if GRAs shared two aspects of the current system, GRAs would be seriously flawed. Happily, they don't.

Although GRAs are individual accounts, they do not individualize the collective good of retirement security. Unlike with current retirement accounts—IRAs and 401(k)-type plans—workers' contributions to GRAs accumulate in a pooled sovereign wealth account. The government guarantees a 3 percent rate of return. The contributions and earnings accumulate to form an account balance that is converted into an annuity as soon as workers start collecting Social Security.

Mr. Kramer objects to investments in stocks and bonds. He says "public savings should never be used for speculative private purposes." Does he suggest that the \$3 trillion in public employee pension funds is wrong? Kramer asks: "why not 'just' expand Social Security so it represents adequate savings for everyone's retirement?" Social Security should be expanded by reinstating the minimum benefit that Congress shrank during the Reagan administration to help the poorest and the oldest of our citizens. Social Security is different from a typical savings program—it also provides life and disability insurance.

Moreover, it is redistributive, replacing 90 percent of pre-retirement income for the lowest-paid worker and replacing 25 percent (or less) of pre-retirement income for the worker earning the cap.

The GRA plan provides the same rate of return, the same guarantees to workers of all income levels, and the same federal subsidy (\$600 per year). GRAs also correct the problems of the second tier of retirement security, the employer-based pension system. GRAs provide universal coverage—only half of today's employees have a pension. Under the GRA plan, workers get the same tax breaks that the very highest-income workers receive. Right now, the top 20 percent of all earners receive 76 percent of the benefits from the tax favoritism given to 401(k)s and other IRA-type plans.

In sum, GRAs provide two public options: (1) they give all workers an optional, non-commercial-based place to save for their retirement; and (2) since GRA contributions will be pooled into a sovereign wealth fund managed by public employees, businesses and other enterprises seeking long-term patient capital would have a public option to a commercial-based investment bank from which they could borrow funds—the GRA sovereign wealth fund.

Labor organizations have historically advocated for a stronger and fairer retirement security system. Social Security needs more revenue and higher minimum benefits, to be sure; but all workers need a safe pension vehicle. The employer-based pension system and 401(k)s have failed. The GRA system provides a sound retirement plan for all Americans.