How the Left Can Win Arguments and Influence People

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It’s common to hear those fearful about the future fiscal stability of Social Security cite a poll claiming that more young adults believe in the existence of aliens on Earth than believe that they will receive Social Security benefits.

I believe it, too.

Well, not the nonsense about aliens, although Steve Forbes has shaken my firm belief that we are alone on Earth. But I do believe—or perhaps hope is the term—that I will never receive a penny from Social Security. That’s because I hope to be very rich when I grow old, and I also hope Social Security will be means tested, so that someone who’s appallingly wealthy (namely, the future me) won’t receive a government check.

Of course, that’s not why so many young adults imagine that Social Security won’t be a part of their retirement. They believe
a lot of nonsense about the Social Security “crisis,” a crisis that is no more real than the tabloid stories about extraterrestrials probing and impregnating Earthlings.

The Social Security “crisis” is created by making lowball estimates of the growth of the American economy. The crisis predictors imagine that GDP growth in the future will be below 1.5 percent. But if GDP growth averages only 2.07 percent—far below its productivity in the past decade—Social Security will be financially secure for the next seventy-five years. Considering that GDP grew 2.2 percent during the weak 1979–1995 period, it’s impossible to believe that 1.5 percent GDP growth is likely in the twenty-first century, and if the economy does turn out to be this weak, the stock market will fail to continue its massive increases, so a “privatization” scheme wouldn’t help anyone.

Nor are today’s workers going to be left penniless if for some reason the economy grows slower than 2 percent per year. The only result of a Social Security shortfall would be marginally lower benefits for retirees. There would be no problem at all in meeting the future obligations of Social Security unless conservatives “privatize” Social Security by allowing young workers to partially opt out of the system.

Even if there were a crisis in Social Security, an easy solution would be to eliminate the ceiling on payroll taxes. Currently, the wealthy don’t have to pay any payroll taxes on income above $80,000. As a result, poor and middle-income workers actually pay a larger proportion of their income in payroll taxes than the rich do, even though the wealthy end up with biggest Social Security paychecks when they retire. A worker who earns $50,000 pays the 6.2 percent payroll tax, which is matched by her employer. A CEO making $15 million, by contrast, only pays 0.03 percent of his income for payroll taxes. The regular worker in this case pays 200 times as much of her income in payroll taxes as the CEO does.
The payroll tax also subsidizes employment of the rich because of the company’s contribution to Social Security. Because of the low cap on Social Security, companies—like their employees—pay much more for low-wage and middle-income workers, whereas millionaire CEOs are virtually untaxed.

Social Security is not a perfect progressive system, even if it is an improvement on the free market without a safety net. The biggest problem with Social Security is the regressive payroll tax that for many of the working poor represents the largest tax they pay. A progressive program for Social Security ought to lift the cap on payroll taxes for the wealthy (but put a cap on payouts when they retire) and use the money to sharply reduce the payroll taxes on the poor (while still giving them credit in the Social Security system). Lower-income workers would have a bigger paycheck while still keeping the Social Security system financially secure.

The fears about Social Security are being promoted by a lot of people who want to see Social Security “privatized”—that is, cutting a big hole in the social safety net and hoping that the stock market will rise high enough for everyone to buy a trampoline to put in its place. It’s not only risky to tie so much of our economic health to the stock market, but it could create the very crisis in Social Security that is feared.

Social Security works as a pay-as-you-go government program: today’s workers provide the money to support current retirees. A thirty-year-old worker who pays 2 percent of her income (about 15 percent of the payroll tax revenue for that worker) in Social Security taxes may end up slightly better off when she retires. But for the next forty years, the Social Security system will be deprived of that 15 percent of its income. For a system supposedly in crisis (and in reality at a breakeven point), losing 15 percent of the money from current payees makes future cuts in Social Security virtually inevitable. The
result will be a fiscal crisis in Social Security when this money isn’t immediately available to pay current retirees who haven’t had the opportunity to privatize their Social Security.

The only way to “privatize” Social Security without wrecking it is to raise payroll taxes for twenty or thirty years and use the added revenue for personal savings accounts. Many of the plans to privatize Social Security are nothing more than a tax increase to compel investment. The conservative Cato Institute has attacked Republican congressmen Bill Archer (R-Tex.) and Clay Shaw (R-Fl.) for proposing a Social Security “reform” of this kind that would increase payroll taxes by $2.6 trillion more than the current system through 2034. But since workers can already use 401(k) plans and IRAs to save privately for their retirement, no one is demanding to privatize Social Security except those who want to destroy the program. At least the conservatives who plan to raise taxes in order to privatize Social Security are honest about its costs; the ones who must cut Social Security benefits to afford “privatization” are lying to the public by refusing to confront this economic inevitability.

Another phony plan to “privatize” Social Security is to invest the funds from the Social Security trust fund in the stock market, which will mostly enhance the money taken by brokers. The wisdom of investing government funds in a volatile stock market is debatable, especially because there is no Social Security trust fund. It’s an accounting fiction. In reality, the money from Social Security surpluses is used to counter deficit spending or maintain a surplus for loans to cover the national debt. All government money goes into the same pool: if Social Security funds aren’t used to pay off the debt, then the government must increase its borrowing.

In essence, the plan to invest Social Security money in the stock market is the equivalent of somebody’s borrowing money for stock speculation and hoping she’ll make more money play-
ing the stock market than she’ll lose paying interest on the loan. There’s a reason that banks are reluctant to loan money for stock speculation: the stock market is too risky to be certain of large profits from it. Although a stock market crash right now would be a disaster for the American economy, and if substantial amounts of government money were lost with it, the Social Security system could easily collapse. Stock investments are an excellent way to use surplus funds; but no stock adviser recommends that anyone in debt (such as America is) borrow more money and hope that the stock market will provide a big payoff.

Rather than “saving” Social Security from this phony crisis, the political establishment in Washington is giving away more money to the wealthy, apparently hoping to weaken Social Security. In 2000, Congress passed a law to pay out more Social Security benefits to the 6 percent of wealthy senior citizens who are still earning a high salary. This was justified as removing some of the “penalty” on people who continue to work. But is Social Security a retirement program or a subsidy for the wealthy? People who love their work still can make more money working than retiring. Why give away so much money to the richest elderly people who do not need it to survive? There are good reasons to allow poor senior citizens to work without penalty, especially if their Social Security benefits are below the poverty line. But it seems very odd to pass large tax breaks for the rich on Social Security at a time when hordes of Chicken Littles are shouting about the financial sky falling.

Robert Kuttner of the liberal American Prospect argues that unless the elderly working rich are paid high benefits, “the broad popular support for Social Security would simply evaporate.” Progressives should challenge the belief that one must pay off the well-off in order to help the poor.

The public is far more concerned about the financial future of Social Security than about the prospect of redistribution.
Changing the rules to give money away to the working elderly who are rich will drain Social Security’s funding even more, and the sole fiscal benefit of this decision (potentially higher tax revenues from having a few more senior citizens working) will probably be returned to the wealthy in a tax break.

Too many progressives fundamentally distrust democracy. They believe the American public is too self-interested to actually help the poor. Hence, the need not only to have universal programs but also to allow the distribution to be distorted so that the well-off benefit more than the poor.

The problem is not that we provide Social Security and public schools and public parks to the wealthy but that the rich almost always get a greater share of public resources than the poor do. Go to almost any wealthy area in America, and you’ll find well-financed public schools, nice public parks, and retirees making a livable wage from Social Security. Go to almost any poor area in America, and you’re likely to find underfinanced, inadequate schools, neglected public parks, and retirees struggling to get by on far less money from the government than their wealthy counterparts.

America spends much more money on building and maintaining roads for the commuting needs of well-off suburbanites than on providing adequate public transit for the working poor. We spend far more money on public schools for the average rich kid than for the average poor kid, despite the greater need to help impoverished students. We spend more money on parks catering to the wealthy and neglect the public space in poorer neighborhoods. In a thousand different towns, you can see the disinvestment in public institutions for the poor. In most of America, the
potholes in the streets, the cracks in the broken sidewalks, and the decrepit state of the public schools correlate almost perfectly with the poverty of the population.

Government benefits from universal programs do not simply “leak” to the rich; they pour out in a massive flood, leaving little left to help the poor. Imagine if the money spent building high-tech labs and Olympic-sized swimming pools for schools in wealthy areas with low tax rates could instead be devoted to buying up-to-date textbooks in poor schools.

Trickle-down theories were thoroughly discredited during the Reagan administration, when huge tax breaks for the rich and corporate subsidies never trickled down to the poor. Progressives have adopted a trickle-down philosophy about government programs. Big benefits for wealthy communities are deemed necessary because the poor will get a small piece of the pie. Like trickle-down economics, trickle-down government is failing the poor. Too much of the money is going to the wealthy, and the political constraints on enlarging the government make it impossible for the poor to catch up.

The unequal distribution of government resources is not only unjust, it’s also inefficient. Many Americans work long hours trying to make enough money to afford a house in a wealthy neighborhood with nice parks and excellent schools. Imagine how much money we could save the country if we provided enough public investment in all our schools and parks to benefit everybody where they already live.

Perhaps it’s time for progressives to change their tactics. Instead of making sure that every government program has a massive “leak” to the well-off in order to gain public support, we ought to try fixing some of these unfair leaks. If progressives demanded equal treatment of rich and poor in government-financed schools, roads, sidewalks, garbage, police, parks, pollution, health care, libraries, and Social Security, the response from
the public would not be a complete abandonment of public institutions in favor of a libertarian fantasy. On the contrary, equality would probably increase public support for these services and a demand for more improvements.

If paying all Social Security recipients equally is too radical for anyone to contemplate, at the very least progressives can demand that all workers pay the same percentage of their income for Social Security taxes—instead of the current system, which offers a huge tax break to the rich by capping the payroll tax. With the massive influx of money gained from lifting the cap, we could greatly improve the financial health of Social Security and offer a cut in payroll tax rates to 90 percent of working Americans. Would that leave universal social insurance in shreds?

Progressives need to realize that the biggest barrier to reform of government institutions (such as the regressive payroll tax) does not come from the public but from our corrupt political institutions. The problem is that the wealthy have too much power in Washington (and the state capitals and localities around the country). The old adage that “power corrupts” perhaps should be updated to “power allocates money.” The wealthiest Americans have enormous influence to block progressive reforms.

The case is not hopeless. Progressives can sometimes become so pragmatic that the most persuasive arguments about equality and fairness aren’t even voiced. If the idea of equality for government benefits is pushed and gets a fair hearing, there’s an opportunity to sway public opinion without sacrificing our beliefs to the mundane world of politics run by the wealthy.