The Great Depression Essay, Research Paper

Social Security: Its History, the controversy, and my impressions Historical Background:The Social Security system that we know today was founded in 1935 with the adoption of the Social Security Act. Even as it was enacted, President Franklin Roosevelt described it as a cornerstone in a structure which is being built but is by no means complete. (Longman 26) This description proved accurate, as the system has undergone numerous overhauls over the past sixty years. In it s original state support for Frances Perkins, Roosevelt s secretary of labor, spearheaded the Social Security Act. When she took office, national employment was approaching thirty percent. (Mitchell 860) She viewed social security as a vehicle through which she could alleviate some of the crushing poverty that affected many retired senior citizens after the depression era. President Roosevelt adopted the plan, both as part of his emphasis on social reform and as a means to finance his other New Deal programs. The plan outlined in the Social Security Act called for the program to start taking in money through taxes on income in 1937, but not to begin paying out money until 1942. While the money was idle, it would be invested in U.S. Treasury bonds to finance other government projects. (Driver 12) This system was greeted with criticism for several reasons. Republicans cried foul and pointed out that the money taken in under the guise of social security insurance would likely be frittered away on other government projects. Some seniors were disgruntled that they were not allowed to benefit from the system because they had never paid any of their wages into it. Roosevelt was adamant about creating a system where only those who paid into the system through wage taxes would be allowed to collect benefits. Because of this, even thirty years later most people over sixty-five were unable to collect Social Security. (Longman 26) He felt that this established it as something more than a welfare system. Keynesian economists were concerned at the idea that the government that the act called for the government to take in large amounts of money through taxes and stockpile it, thereby reducing the money supply in an economy still recovering from a major depression. The $47 billion dollar reserve Roosevelt hoped the program would compile by 1980 would at the time have been enough money to buy every farm in America. (Driver 12) In 1938 a Senate Committee commissioned to look into financing options for Social Security released a report on its findings. They reported that the Social Security Act should be amended to extend more benefits to widows and children, and to reduce the size of the financial reserve that would be compiled. (Driver 12) They suggested that the massive financial reserve that Roosevelt had envisioned be cut back to a reasonable contingency reserve. These suggestions were incorporated into the Social Security Amendments passed in 1939. As a result of these changes Social Security shifted to a system where recipients do not receive the money that they had put into the system; rather they receive money contributed by people who are still paying money into the system. This came to be known as the pay as you go system, and it is still in force today. A problem which has cropped up from time to time over the years is that, technically speaking, an American who pays money into Social Security is not assured that he will be ever be able to collect Social Security. Many people, including the federal government, have fallen into the trap of looking at Social Security as an insurance policy, which it isn t. The Social Security Commissioner, Arthur Altmeyer, in 1953 admitted to Senate panel that a person paying into Social Security had no contractual right to benefits. (Longman 26) Since it s establishment in 1935, however, Social Security has been regarded as a permanent institution because Americans precisely because American s have come to view it as something the government owes them because of the wage taxes they paid. As Roosevelt said, With those taxes in there no damn politician can ever scrap my Social Security program. (Driver 12) Controversy Today: Today 44 million Americans receive payments from Social Security. But the controversy about Social Security today focuses on it s future. Although there is currently enough money in the Social Security reserve to fund a year or more of payouts, the amount of benefits paid out by the system is scheduled to increase dramatically as more and more baby boomers retire. ( Social Security ) Social Security payouts are scheduled to increase so dramatically, in fact, that in current projections the system will become insolvent by 2034. ( Bankruptcy ) To compound issues, the United States is projected to run a decade of substantial budget surpluses. Some congressmen see these surpluses as a way to pump new life directly into the Social Security system, while others have different plans. President Clinton is spearheading a plan that would direct large portions of the next fifteen years budget surpluses to shoring up Social Security. Under his plan, Congress would devote 62 percent of this year s surplus to the Social Security trust fund. This would add over $70 billion dollars to the fund this year, and even larger sums in coming years. ( Social Security ) These additions would help Social Securities expenditures though 2055 and possibly even put it on a sound footing for 75 years at least if you follow the president s numbers. ( Social Security ) Clinton s plan also calls for investing a significant portion of the Social Security trust fund in the stock market. Proponent s point out that investing the money on Wall Street has significant advantages to traditional investment in bonds. The most immediate advantage is that the average return on funds invested in the market has been around 7%, while the return from bonds is only 2.5%. (Mitchell) Opponents point out, however, that this rate may well be exaggerated. In fact, accounts of this nature controlled by state and local governments have experienced significantly lower returns because these government-controlled funds tend to be invested very conservatively. Many House Republicans would prefer to see the projected budget surpluses recognized as a means to offer tax breaks to Americans. As a result, while those in the camp opposing Clinton s proposal still prefer a strategy that would devote some portion of the upcoming surpluses to Social Security but would like to see a somewhat different investment strategy placed into effect. This strategy would begin to direct potions of each wage earner s payroll tax payments into individually owned accounts, with contributing individuals having some control over how much of their taxes are directed into this account. The funds in these accounts would then be turned over to private institutions for investment. (These institutions would be selected through the usual competitive bidding process.) Americans would no longer be guaranteed government benefits; instead the money they receive from Social Security would be dependent on the investment strategy they choose as well as their lifetime income. For people who earn a lot over their lifetime and choose the right investment strategy, this could be preferable. However, this would come at the expense of those who don t contribute a lot to their account because of either low earnings or an early disability. Linking Social Security directly to the high return potential of the stock market would provide a way to ensure that payments keep ahead of inflation, which has historically been a problem as seniors find that their payouts purchase less and less with each coming year. (Mitchell)

Daniel Patrick Moynihan, who chairs the Senate Finance Committee s subcommittee on Social Security, presents a different argument. According to Moynihan, the current concerns about the Social Security system are groundless. His study reveals that an increase in the Social Security Wage tax of only 2.2 percent would keep the current Social Security System functioning indefinitely into the future. For a person earning $50,000 a year, a 2.2% wage tax increase would mean an extra $10 per week, or $520 per year. (Mitchell) If the system were also modified to accurately account for inflation, the Social Security System would provide a guaranteed annuity indefinitely into the future which is protected against inflation and even provides adequately for today s seniors, something which the other plans overlook. Plans which require wage earners to build their retirement accounts do not ensure income for their parents, who are already retired and collecting their payouts. However, this option has been somewhat difficult to digest for many congressmen, who prefer to consider only options for extending the life of the current Social Security System without raising current tax rates. ( Bankruptcy ) What I ve Learned: Before beginning this project I had only very limited knowledge of the problems regarding Social Securities future. As a person who is still preparing for his career, I have not yet begun to even consider retirement. I did know, however, that our current Social Security system was in serious jeopardy. From what little I had skimmed though in newspapers or overheard on CNN, I considered the situation to be terminal. I was more or less committed to the idea that Social Security was a dying institution, and that even though I might be paying money towards Social Security today I would generally be responsible for financing my own retirement later in life. The first thing in my research that gave me any hope to the contrary was a quote from FDR. When Social Security was first enacted, he told a visitor to the White House that with those taxes in there no damn politician can ever scrap my Social Security Program. (Driver 12) For me, this brought up an excellent point. I would certainly not be the only American outraged if, after having always financed other people s retirement with a portion of each of my paycheck, I was denied the same benefits during my retirement. That was enough to assure me that Social Security will likely remain an American Institution in some shape or form. With that assured, the only question that remains is in regard to how Social Security will change to face the problems that threaten to sink it today. I was somewhat surprised to find that in reality the situation was not entirely dire. By simply raising the Social Security wage tax by 2.2%, the program could cover all of its payouts well into the future without a foreseeable end. With that in mind, the idea of creating elaborate stock market investment vehicles to extend the life of the current system for 30 or even 75 years began to seem absurd. This served to assure me that any perceived controversies are purely political in nature. While congressional republicans are looking to install an individual retirement account system that favors the wealthy while using budget surpluses to offer tax cuts, the democrats are just struggling vainly to maintain the current system without having to raise tax rates. I was consoled by evidence that ulterior motives are not a new thing where Social Security is concerned. Even FDR, a president for whom I have the utmost of respect, had goals for the Social Security Act that went well beyond social security. Part of the reason that he was so fixated on creating a Contingency Reserve for the program is that the reserve would be invested in government bonds, and would provide funding for his other new deal programs. Overall, completing this project has instilled me with a sort of pride in our Social Security System. For all of its problems, it has been one of the most successful social programs in the history of the world. For millions of Americans over the years it has provided a source of dependable financial support, either in times of hardship or after retirement. In a way, the idea of the younger generations financing the retirement years of their parents seems so praiseworthy that even the political maneuvering that surrounds the program doesn t phase me. Social Security to me is one of a few government institutions that are so unquestionably noble that it would be a shame to see it diminished.

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