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Luncheon Address:

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## P R O C E E D I N G S

J. KENNETH BLACKWELL,  
SECRETARY OF STATE, OHIO

MR. BLACKWELL: Thank you, Deroy, and good afternoon, ladies and gentlemen. It's indeed a pleasure for me to be with you this afternoon to speak to such a distinguished and spirited audience. I am grateful to Cato for the opportunity.

Now, I am particularly grateful because it is once again an opportunity to dispel one of the demons that has been following me for about 35 years or so. I played football at Xavier University, and every year we played the Quantico Marines. In my junior year, a staff sergeant playing across the line from me gave me a physical education lesson that was superior to the intellectual mind-stretching lessons that the Jesuits gave me in class. So much was his beating of my head that I prayed every day in chapel in the next year that he be not sent to Vietnam so that I could return the lesson in kind.

(Laughter.)

MR. BLACKWELL: Sure enough, God heard my prayer and he returned him. For two-and-a-half quarters I was returning the lesson. Halfway through the third quarter, instead of tackling a 230-pound Marine fullback with my shoulder, I tackled

him with my chin. I was knocked out for two minutes. They took me to Good Samaritan Hospital where they did x-rays for a concussion. The x-rays came back negative. They then sent me back and I rooted my team to a 7 to 6 victory, seeing the last three minutes of the game.

The next day the Cincinnati Inquirer gave me the most substantial headline in my political and athletic careers. The headline simply read: "Blackwell, Head X-rays Show Nothing."

(Laughter.)

MR. BLACKWELL: I've been trying to work my way out from under that for about 30-something years.

I recently celebrated my 51st birthday. That makes me one of about 76 million baby boomers who grew up, went to work, and supported Social Security. In 11 years, we begin to retire, hoping Social Security will return the favor. It won't.

That concerns me not just because retirement looms on the horizon and not just because as a black man Social Security tells me I will live only another 13 years and receive benefits for the last 2. Yes, lower life expectancies for blacks and lower-income Americans do offset what is supposed to be Social Security's progressive benefit structure.

What really concerns me, however, as a former State treasurer, is the inefficient use of tax dollars. When money is invested, it is working, not idle. I was once held accountable

for every idle minute in the life of an Ohio tax dollar. In light of that, I am alarmed by any public program that takes money and does not make money.

Consider Social Security. As a major Federal program supported by a piece of almost every paycheck, it impacts our national and household budgets. Social Security takes 12.4 percent out of every paycheck, up to \$86,000, as has been reported here on some other panels. Today 76 percent of wage earners pay more in payroll taxes than Federal income taxes. Every day low- to moderate-income families suffer the costs of Social Security, but they might never -- underscore "never" -- enjoy the benefits.

Due to the continuing increase in beneficiaries and the decrease in contributors, the system will be bankrupt within 30 years. That is not speculation. It's not even a threat. It's just math.

Social Security is a tax transfer system that takes a dollar from every worker and gives it to a retiree. At worst it's death. At best it's limited, limited because it relies on a relatively small work force to support a growing number of increasingly long-to-live retirees. In 1950, 16 workers supported every Social Security check. Today there are 3 workers per check. By 2030, the ratio will be less than 2 to 1.

Limited because it transfers rather than invests funds. One dollar goes in for every dollar out. In contrast to a dollar invested at age 20 with a real return of 7 percent that turns into \$16 at age 60 and \$32 ten years later. Again, that's just math. And any broker can reel off the names of 10 mutual funds that have performed at that 7 percent return rate or better than that 7 percent return over the past 20 years.

The question is not whether Social Security will fail. It will and people know it. Two to one, young Americans, as has been mentioned, like my three children, expect to see a UFO before they see a benefit check, and at this rate, they will.

If we reform Social Security now, the system will still have enough money to pay benefits during a transition. Very shortly we lose that luxury. Sooner or later, we will be forced to revamp this system. The sooner, the better, and less painful.

As has been mentioned, in 1995 I traveled with Deroy and former Delaware Governor Pete DuPont to research this very issue in Chile. We were surprised at the success of Chile's economic safety net. In the 1970's, the Chilean Social Security taxes exceeded 26 percent. The government had to appropriate large subsidies to meet benefit requirements. The national deficit skyrocketed. In 1981 the Chilean Government offered a choice -- underline "a choice" -- to workers: pay into a

government pension with guaranteed full benefits or pay into a privatized system where benefits depended on individual contributions. A 10 percent contribution was mandatory, but workers could choose to save as much as 20 percent. Today no less than 90 percent of the work force has enrolled in the voluntary market system.

The results have been spectacular. By 1996, after 15 years of the new system, Chileans had saved \$25 billion. The net worth of the average Chilean worker in 1998 was four times their annual salary. Four times their annual salary. Compare that to the average worker in America. The average worker's net worth is only equal to one year's pay.

In Chile, privatization and competition produced investment accounts averaging 10 percent annual returns over a 15-year period. By contrast, the lifetime yield for a 45-year-old worker under the current U.S. system barely exceeds 2 percent, and it's even less for younger workers. Clearly young Americans have everything to gain from a retirement system where investment time is the greatest asset. Melody's analysis during the last panel from their survey was right on the money. Investment time is a great asset for young people.

Maintaining benefits to older workers will be the toughest part of any transition. Older Americans, workers in their forties, their fifties, and sixties, don't have a lifetime

to save. I want a Social Security system that provides for my children without leaving their father in the poorhouse.

Although present surpluses could help, they won't cover the cost entirely. Anybody talking about reform must begin to think strongly and toughly about the solution to their problem. And the solution may be to supplant retirement accounts of older workers with Federal bonds. The bonds should be paid off through cutbacks in general spending, not just cuts in Social Security. Privatization offers huge benefits for most of the country, increasing personal wealth, savings, and tax revenue. Since individuals and broader Federal budgets will gain from privatization, those gains will offset Social Security's transition costs.

Understand that how we tax and spend are not entirely separate issues. As a matter of fact, as we talk about the solution to the Social Security transition issue, they are inseparable. They are, in fact, two halves of America's whole economic well-being. You don't ignore your weekly take-home pay when thinking about buying a house, and you don't ignore national spending in a discussion of national Social Security reform. Income and expense are two sides of the same coin. The income from privatization justifies the expense of its transition.

Privatization is working in Chile and elsewhere. That country is making money work for people through private enterprise. We should consider doing the same thing now in the world's model of private enterprise, the American economy. That would be math that works for all of us.

No group has as much at stake in Social Security reform as African Americans. We are disproportionately dependent on Social Security for our retirement income. Three out of four older black households rely on Social Security for half or more of their retirement income, and a third of older African Americans rely on Social Security for all of their income.

As a long-time advocate of Social Security reform, I believe it is promising to see these red flags finally being heeded. Social Security reform is beginning to get the attention that it deserves as a 21st century civil rights issue. My friends and colleagues, Hugh Price, President of the National Urban League, and Julian Bond, Chairman of the Board of the NAACP, have addressed the need to improve and strengthen our current system. Unfortunately, they dismiss private individual investment accounts as recommended by the Social Security Commission.

Mr. Price and Mr. Bond are correct, that our higher mortality rate for young blacks affect African Americans'

aggregate rate of return on Social Security contributions. But it is wrongheaded to leave the impression that this alone causes the low rate of return. Simply stated, high mortality rates for the young do not have a big impact on Social Security returns. Many of the young blacks who die have not had time to develop substantial earning histories and have not paid a substantial or significant amount of money into the system. Moreover, there are many factors that make Social Security in its current form a bad deal for African Americans.

As was mentioned in an earlier panel, family structure is one factor. To understand, one needs only to look at the demographic group that benefits most from Social Security -- married couples with children and a stay-at-home spouse. This is a living situation far less prevalent among African Americans than other races.

The list of Social Security disadvantages for blacks goes on. African Americans are less likely than whites to have other forms of savings or wealth. The previous panel went into that in great depth. This is a condition exacerbated by the 12.4 percent Social Security tax. After paying their living expenses, few low income workers have the discretionary income needed to invest. Social Security taxes squeeze out other forms of savings and investment.

As a result, many African Americans are unable to accumulate real wealth. Moreover, since Social Security benefits are not inheritable, the downward spiral of wealth in equity is compounded from generation to generation. Let me underscore that. Given that Social Security benefits are not inheritable, this downward spiral of wealth in equity is compounded from generation to generation.

Any Social Security reform should take into consideration the needs and circumstances of African Americans. The only proposal to thoroughly do this is the partial privatization strategy advocated by President Bush and his commission. Their strategy, too, has been laid out, I think, very clearly in a previous presentation.

And while this issue will be largely debated along partisan lines, similar reform strategies have found non-ideological appeal across the globe. The Labor Party privatized in Australia. Social Democrats in Sweden are implementing private accounts. Even the former communists in Poland and Hungary have privatized. Policymakers in those countries chose private accounts not based on political ideology but because they understood it was the best way of building wealth and security for workers in their retirement.

Transforming the system to one based on individually owned, privately invested accounts would treat African Americans

far more fairly. There is nothing partisan -- nothing partisan -- about that.

By changing the system from an unfunded defined benefit system to a defined contribution plan, based on real wealth, privatization would disconnect total benefits from life expectancy. That is again a point worth discussing and debating. You must separate real wealth and wealth accumulation from life expectancy.

The benefits any individual receives would depend on what was paid into the system plus the investment return on those payments. Benefits under the current program are dependent solely on how many years those benefits are received. This would not be the case under a partially privatized system. Individuals would have a property right to their Social Security benefit. Underscore "a property right to their Social Security benefit." This account would become part of the contributor's estate, able to be passed down as an inheritance. Survivor and disability benefits, which are received by many African Americans, would not be affected by any of the privatization plans that have been proposed by the President's commission.

And as for providing a fair rate of return for African Americans, nothing could be more capable of doing so than a privatized Social Security system. Compounded interest, as Albert Einstein once said, is the most powerful force on earth.

It could work magic on both economic and social levels. A higher rate of return would create wealth and lift many African American seniors out of poverty.

It is time for our national leaders to consider the current and long-term consequence of our unfair Social Security system for African Americans. The stakes are high, but so are the opportunities.

Now I want to just build on and close on a point that was advanced in part by Tony Brown. One of the things that we have to do in terms of getting African American interests lined up with the market economy, lined up with American positioning in the global economy, is the secret to not only fixing Social Security but is part of the secret of greater wealth development in the African American community. The discussion of Social Security is part of a broader argument of how America is poised to compete in the global marketplace of the 21st century.

In the last 20 or 30 years, we have seen Third World countries develop into economic powerhouses. Japan's recession and Asia's currency crisis have checked enthusiasm. But the truth is that the economic slowdown is just a bump in the road to Asian economic ascendancy.

Over 44 years ago, Japan was a destitute nation scorched by atomic fire, and China was locked into a communist system of distributing poverty. Today these countries and their

Asian neighbors have orchestrated a dramatic reversal of fortune, with economic growth two, three, or four times that of the United States.

The Asian Tigers use various methods to introduce a free market in performing economic miracles, but they all had two things in common going back to the previous panel: an educated population, and a savings ethic and a high rate of savings.

The United States has the lowest rate in the industrialized world. Our public education system is near the bottom of the list. If we want to compete in the next millennium, we as a nation must make our investment in human capital a serious investment, and we start by taking human capital as a serious issue.

Ironically, foreign governments are going to school on market-based reforms originating in American universities. Meanwhile, our own government, perhaps due in part to the complacency that really accompanies success, resists those same reforms and potential benefits.

At the recent National Summit on Retirement Savings, I joined more than 200 political and financial leaders in discussing the future savings in America. The dialogue on savings is well under way. Social Security will be privatized and transformed into a true market system. It is time for the

world's foremost market economy to put the market to work for the future of America and for all Americans.

I will close on one story. When my father came back from World War II, he came back to an America that was struggling between its promise and its practice. There was a housing shortage. There were still vestiges of segregation. And as a consequence, we lived in a public housing community.

Now, my mother and grandmother thought my brother and I could be educated from the lower rungs of the economic ladder. My father took a look at my fists and thought I might accelerate the process in the boxing ring like a kid down the road, Cassius Clay, now Muhammad Ali. I won my first four bouts with relative ease. The fifth bout, I got hit so hard in the nose that I had to go home and tell my dad, who was a meat packer, that I was going to find a more scholarly career to pursue.

(Laughter.)

MR. BLACKWELL: And I stayed away from boxing arenas until I was a freshman in college. And Father E.J. O'Connor, a 72-year-old Jesuit, asked me and a Jewish friend of mine, Benji Schwartz, to go to the Golden Gloves amateur bouts with him at the old Cincinnati Gardens. We went out and we watched about 10 fights. The 11th fight, the young boy from the western side of Cincinnati, a neighborhood called Price Hill, came out and before his fight, he made the sign of the cross. Benji leaned

over to Father and said, Father, what's the significance of that? Father said, Tiger, not a damned thing if he can't fight.

(Laughter.)

MR. BLACKWELL: And I would suggest to you that the beauty of this program today is not in the exchange of ideas, but in fact we are witnessing an engagement, a true engagement, over the battle of ideas. For all too long, many of us who want to challenge the status quo have been attached at the hip through our organizations to the status quo. This is a struggle of ideas. This forum has been an open forum of exchange. The beauty is not in its sharpening of partisan division, but it is the synthesis that comes from the struggle of competing ideas.

Thank you for letting me be a part of it.

(Applause.)

(End of Mr. Blackwell's presentation.)