

CATO INSTITUTE POLICY FORUM

SOCIAL SECURITY AND AFRICAN AMERICANS

Race, Retirement, and Reform

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Panel 1:

Is Social Security Fair to African Americans?

Moderator: Wiley A. Hall,

Executive Editor and Columnist, "The Afro-American"

Panelists:

Michael Tanner, Director of Health and Welfare Studies,
Cato Institute;

Horace Cooper, Fellow, Center for New Black Leadership;

Maya Rockeymoore, Senior Resident Scholar,

National Urban League; and

Kilolo Kijakazi, Senior Policy Analyst,

Center on Budget and Policy Priorities

The Cato Institute

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P R O C E E D I N G S

MR. HALL: Good morning. I'm your moderator. My name is Wiley Hall. I'm the Executive Editor of the "Afro-American" newspapers. And as a commercial, the "Afro" will celebrate its 110th anniversary this year, so we're very proud of that.

(Applause.)

MR. HALL: Of course, I'm not 110 years old, so the applause isn't for me.

This panel, "Social Security, is it fair to African Americans?" we've already heard some of the terms of the debate and we will continue with our panelists. Before I introduce our panelists, I will give you a brief description of the format, since this is our first panel today. Each speaker will have from 10 to 12 minutes to speak. Then there will be a question and answer period after each speaker has spoken. As you have seen, there will be interns in the audience with microphones and they will bring the microphones to you.

The speakers on our panel are Mr. Horace Cooper, the Chief of Staff of Voice of America. Prior to this he served as Counsel and Director of Coalitions for Representative Dick Arme. In his present position Mr. Cooper acts as the chief administrator and senior advisor for the Director of the Voice of

America. In that capacity he oversees over 1,100 employees nationwide.

Mr. Cooper, if you will just give a nod to the audience.

Our next speaker is Maya Rockeymoore. Ms. Rockeymoore is the Senior Resident Scholar for Health and Income Security at the National Urban League Institute for Opportunity and Equality. Her professional background includes a three-year stint on Capitol Hill, where she served as a professional staff member on the Social Security Subcommittee of the House Committee on Ways and Means, and as Administrative Assistant and Chief of Staff to Congressman Charles Rangel of New York.

Ms. Rockeymoore, if you'll give a wave to the audience.

Next is Kilolo Kijakazi, Senior Policy Analyst in the Income Security Division for the Center on Budget and Policy Priorities. She has given testimony before congressional committees and participated on a panel for the Democratic Congressional Caucus on issues facing Social Security. She has written a number of papers on the subject

Ms. Kijakazi, if you'll give a brief wave.

Last but not least is Mr. Michael Tanner, who directs research on new market-based approaches to health, welfare and other "entitlements" at the Cato Institute. His approach is based on individual responsibility rather than government

control. And under Mr. Tanner's direction, Cato launched the Project on Social Security Privatization, which is widely considered one of the leading impetuses for transforming this system, or at least for providing the debate.

Mr. Tanner, a brief wave.

We will begin with Michael Cooper. And as I say, each speaker will have 10 to 12 minutes. And we will have a brief break after the presentations.

HORACE COOPER, FELLOW,
CENTER FOR NEW BLACK LEADERSHIP

MR. COOPER: Good morning. I'm happy to have the opportunity to participate in this panel discussion. I think there are some very, very important and critical issues that this topic today gives us a chance to address.

I have given myself a shorthand title, that the retirement divide in America must be ended, and the subtitle: Enron destroyed a few thousand; Social Security is destroying a generation.

We need reform. What I think could be easily understood in the context of Arthur Andersen would seem not to be so easily understood if we simply say that it's a retirement hoax. But it is and it must be confronted. Black America reaps

the unintended consequences of our country's devotion to this program and its continuation in its exact iteration. It has many flaws. But in particular one that today's focus brings to our attention is a very, very pernicious flaw. And that is that it exacerbates race-based income disparities.

Today, elderly blacks are much more likely than almost any other group in our country to be dependent on Social Security as their primary source of income during their retirement. I think our generation of senior citizens ought to be given a new alternative as we confront the 21st century.

If 75 percent, nearly three out of four, of blacks make Social Security their primary source of income during retirement, the 21st century confronts them with a very, very, very serious set of choices. Thirty percent of blacks today who live in retirement will spend their golden years in poverty because Social Security support alone is inadequate to provide them with their basic necessities. It's a fact that blacks receive a substantially lower return on their contribution -- called taxes -- to Social Security than other race groups.

Add to this the fact that blacks in general have a substantially shorter lifespan than whites and you see the truly perverse circumstance that we face. The minority group pays in at the same rate as everyone else but receives substantially less than everyone else.

Think of it this way -- if you live to be 90, you'll get more benefits than people who live to be 70. The life expectancy for black males is 66. For white males it's 74. Even if we could shrink that to as little as a three-year difference, that can mean as much as \$30,000 in lost income.

According to a study by the RAND Corporation, the net effect of just the age and life expectancy differential is the equivalent of a lifetime transfer of \$10,000 per black person to white people. The typical black male receives 88 cents for every dollar that he contributes to the Social Security program.

How, when faced with such stark statistics, can we say that this is a program that is wonderful, it is great, it is awesome, and it ought to just be continued as it is, with maybe a few minor changes? It can't be.

The very requirements of the Social Security program contributes to what I'm describing as a race-based wealth gap. Mandatory contributions, which are key to the ongoing operation of the Social Security program, prevent people from participating in alternative programs. The Social Security program's premise lie on the fact that it's mandatory. It's not a voluntary program; it's a mandatory program. You can supplement the Social Security program with your own savings or the savings of others or contributions from others, but it is a mandatory program that everyone must contribute to. But if you are a low-income earner,

it is especially difficult for you to set aside your savings so that you can come up with additional supplementary forms and also to be able to accumulate wealth.

Let's look at a few additional facts. The typical black household today has a net worth of only \$4,500. For white households the net worth is nearly \$50,000.

If you are going to come up with supplementary savings, the primary means, short of winning the lottery or having someone sign over to you a golden parachute, the typical means to accomplish that end is to take from your disposable income and set it aside. Lower-income wage earners have less disposable income. Blacks tend to be disproportionately included among low-income wage earners.

For a lifetime of earning, more than one-tenth, or exactly 12.4 percent of their income, is set aside as a mandatory contribution to the Social Security program, reducing for that period their ability to create supplementary savings. This poor rate of return -- remember, you get only 88 cents for every dollar you contribute -- eats away the very dollars that could be put into real assets.

But we have seen income increases take place because policy changes occur that have the net effect of benefiting black America. You only need to look at the 1990's to see a period when dramatic gains occurred in the income-earning potential for

black America. That income-earning potential is possible, but what it does is creates the perverse effect of preventing the increase of the wealth gap.

Our policies in America today punish -- through taxation primarily but through other means as well -- those who attempt to set aside savings, making it even harder for second and third and fourth generations to be able to have access to the wealth generation that a particular generation may create. So you are not allowed to pass along your Social Security benefits and contributions to future generations, and any other supplementary savings are taxed at a very, very pernicious rate.

Here is what we have to understand -- for too many people we treat Social Security as if it really is your funds, your savings, your money. But Social Security is not real wealth for an individual -- certainly not in any traditional sense. You don't own it. You can't sell it. It's not alienable. It's not legal property. In fact, its primary rationale and its primary basis for continuation is the political superstructure that is committed to maintaining it. But that structure is predicated on the ability of the government's wherewithal to fund it, to maintain it, and to continue it.

What are they discussing today, this same political structure? Should we delay retirement? Should we reduce the payments? Should we raise the Social Security taxes? Any of

these, or a combination of them, have the effect of exacerbating it for the particular group that we're speaking about today. If you delayed the period that you can receive the benefits, it just means that there is a shorter period that you can receive those benefits, and therefore you get less. If we reduce the payment, it merely means that you continue to pay more today while getting substantially less tomorrow. If we raise the tax, it means that we will crowd out potential benefits that you might be able to set aside through supplementary income for yourself.

Blacks who would live long enough to get the benefits would receive even less, since more would die before even getting the first dollar. Many of the remaining would die shortly after the payments are started. Reducing the benefits would make the minimal support that we already receive even less helpful and therefore looking at more stark alternatives.

This, my friends, is not what the American dream ought to be about. The American dream ought to be about dramatically reforming this program. Because, as a group, African Americans -- but Americans in general, the economy in general -- would have a lot to gain from dramatic Social Security reforms that changes the Social Security program into an individually owned, privately invested account, similar to those that operate like 401(k) programs or individual retirement accounts.

Because so many African Americans are disproportionately reliant on this, they would in fact be disproportionately the beneficiaries of this program and, in effect, would work to create greater resources in the economy, growing the amount and pool of resources available, creating greater investment vehicles for the country in general, encouraging greater asset growth in general.

I hope and desire a world where, as we approach the 21st century, that not just African Americans but all Americans understand that the Ponzi scheme that presently operates as the Social Security program must be changed, must be addressed. Let's not find ourselves in the Enron/Arthur Andersen consequence, where hundreds of thousands, if not millions, of people face the poverty and the consequences of a program that simply never was able to provide what it said it could provide.

Who are we going to call to Washington? Who are we going to grill? Who are we going to subpoena? Who are we going to arrest then?

Thank you.

(Applause.)

MR. HALL: Next up is Ms. Rockeymoore.

MAYA ROCKEYMOORE,

SENIOR RESIDENT SCHOLAR, NATIONAL URBAN LEAGUE

MS. ROCKEYMOORE: I am very pleased to be here today.

With no disrespect to Mr. Cooper, but it always amuses me to hear people on the other side of this issue or debate talk about Social Security in an ahistorical context and talk about African Americans' reliance on Social Security absent a discussion about how African Americans have been excluded for much of the 20th century from the mainstream labor market, from the housing market, from you name it. So when you talk about African Americans being more reliant on Social Security -- absolutely right -- because we have a history.

It wasn't until 1965 that we fully democratized in America. And it wasn't until after then that we began to enter the social and economic mainstream. So, yes, African American retirees are definitely more reliant on Social Security benefits, but it's because of the larger discrimination that has taken place in the American context over the past century.

So the title of my talk today is "Social Security and African Americans: Protecting Our Families and Maintaining Our Guarantee." First, I want to tell you who I stand here representing today. We are the National Urban League. We are a 92-year-old organization that has been in the African American

community, working to provide social and economic justice across a number of areas. Our movement is devoted to empowering African Americans to move into the social and economic mainstream of America. Our mission is to secure economic self-reliance, parity, power, and civil rights. And we pursue this through a three-pronged agenda: education, economic self-sufficiency, and racial inclusion.

It's important that you discern who the organizations are that are giving you the information about Social Security when you're wading through the piles of information on this issue. And as a part of that, I want to say that outside on the table -- it was not there before you entered but it is there now -- we have a number of publications that you should take advantage of that give our perspective on this issue.

What is Social Security? I know this sounds like a very fundamental question, but it's important to point out. Because somehow privatizers seem not to understand what the Social Security program means and what the content of it is. Social Security is the old age survivor and disability insurance program. This is what we refer to as Social Security. It's a comprehensive family insurance program that includes not only retirement coverage -- that's just one part of it -- it includes survivor coverage. When a breadwinner dies in the prime of his or her life, he or she leaves children, he or she leaves

dependents, he or she leaves spouses, and they are covered under survivor benefits.

Did you know Social Security survivor benefits covered children under 18 and children under 19 who are still in high school? They cover widows and widowers. They cover aged parents. If you were caring for an aged, elderly parent before you passed away, then Social Security will step in and provide that survivor benefit coverage for you. And it covers disabled dependents. If your child is a disabled dependent and he becomes an adult and you die in the prime of your life, Social Security covers that for you under survivors benefits. We cannot forget that.

Disability coverage is another very important segment of the Social Security program. It covers people who have worked in the prime of their lives and somehow they have managed to hurt themselves and they can no longer work to capacity. So disability coverage is another part of Social Security.

In short, Social Security is a family insurance program that is a family values program. It's very important to African American families and very important to the African American community.

Why is Social Security important to African Americans? Well, I can't cover this in one slide; it's going to take the next couple of slides. African Americans have a heavy reliance

on Social Security, just as Mr. Cooper mentioned -- but in a misleading and a fallacious way. While only 12 percent of the U.S. population, African Americans are 17 percent of those receiving Social Security disability benefits and 22 percent of all children receiving Social Security survivors benefits.

Now, I should say that this statistic covers the total comprehensive of all beneficiaries, and so I will proceed to tell you shortly about why Social Security disability and survivor benefits are even more important for African Americans. But, in the meantime, Social Security benefits are also progressive, which means that the formula is constructed in a way that replaces a greater amount of the pre-retirement earnings income of lower-income people than it does high-income people. And African Americans, as disproportionately low-income people, rely on the progressivity of the Social Security program for its benefits.

It provides a lifetime of cost-of-living adjustments and protects you from inflation for a lifetime. Those benefits are adjusted every year, to increase, to help you meet your cost of living. And it provides a guaranteed income that will come to you regardless of whatever is happening in the market.

This is what I was referring to earlier. While African Americans are 17 percent of those who receive disability benefits, they are 39 percent of new Social Security recipients.

And while they are 22 percent of child survivor benefits overall, new Social Security beneficiaries who are children, survivors, are 23 percent. Retirement benefits, 39 percent. So, as we can see, when looking at any one year, the importance of Social Security survivors and disability benefits becomes even more important for African American families. And we cannot forget that.

This is an illustration of why we are more likely to rely on Social Security benefits. It's because we have less asset income. As you can see in the first column, African Americans are twice less likely -- less than 30 percent of African Americans, as opposed to 65 percent of white Americans -- have other sources of income upon retirement. And that first column is important -- asset income -- because a lot of people, a lot of families, accumulate wealth through home ownership, and a lot of families build wealth in home ownership. And African Americans have historically had less access to that. While we're closing that gap, we haven't yet achieved our goals. And I'll tell you more about how the National Urban League is working to close that gap.

In pensions, African Americans have been historically discriminated against in the labor market, and so we are less likely to receive private pensions. So, yes, African Americans

are more reliant on Social Security because we don't get those private pensions in the private market.

And then, other earnings, you see here, less likely than whites. Of course, that number is low because elderly people tend not to work as much. But even earnings upon retirement are less for African Americans and Hispanics.

It is important to make this point, because privatizers would have us believe that African Americans do not receive retirement benefits. A majority of African Americans receive Social Security retirement benefits, 53 percent; 45 percent of minority beneficiaries rely on Social Security for 90 percent or more of their retirement income compared to 29 percent of whites.

Now, the privatizers would have you believe that African American men just drop dead and that they never receive or access Social Security retirement benefits. Well, African American men do tend to die younger. But this is because they die at dramatically younger ages due to factors like accidents, diabetes, and hypertension. That is not, folks, a problem of the Social Security program. That is a problem of health care and a lack of access to health care. Forty-two million Americans do not have health insurance benefits. African Americans are 23 percent of that 42 million. Think about it.

Proponents of private accounts also fail to talk about or clearly explain that when black and white men reach the age of

65, the actual difference in their life expectancy has increased to about two years. And African Americans tend to take early retirement at age 62, so that tends to decrease the number and the difference of those two years even further. And this is just an illustration of life expectancy based on race and gender. You may notice that black women and white men have the same life expectancy.

Without Social Security, the poverty rate would triple for African American retirees. Without Social Security, the poverty rate would more than double for African American disabled workers. Social Security keeps African American children out of poverty. The National Urban League conducted a study. It's outside on the table. I urge you to pick it up when you leave. It shows that African American children are almost four times more likely to be lifted out of poverty by Social Security than are white children.

So, Social Security protects African American families because, without it, we would be beyond poor. This is a family insurance program that, I must stress, would be unaffordable to our families in the private market.

I would like to say that Social Security is not broken. It is hyperbolized quite a bit, but the actual imbalance is only 25 cents on the dollar. And if we have dedicated policymakers and politicians, we can close that gap.

Plans to privatize Social Security are inadequate to meet the needs of African American families. And I believe that Dr. Kilolo Kijakazi will address this in a more detailed basis after my presentation. Outside on the table is a paper that I did that outlines all of the arguments, and provides a rebuttal to each of them put forth by privatizers. I urge you to pick it up.

I also urge you to pick up another study that we have outside, where we did an analysis of what would happen under a hypothetical private program that devoted 2 percent of Social Security funds into individual accounts. We looked at black workers and all other workers at the age of 25, 35 and 45. We calculated their current benefit under Social Security, and then we estimated the real value of what one of these private individual accounts, annuities, would mean under a privatized system.

As you can see, scenario 1 is assuming that all the children reach 18 and there is nothing left over for spouses benefits after that. Scenario 2 is assuming that 50 percent is left over once the children reach 18 for a spousal survivor benefit. And scenario 3 is assuming that the children can live off of the interest and that the spouse will have the principal amount to live off of in retirement. And so what we see is, under any of the scenarios, private accounts, an annuitized

private account, they would provide less of an income than what is currently provided by Social Security.

In closing, African Americans must be very, very wary of false prophets. And I should say we must be very wary of false prophets in black face as well. Proponents of privatization assume that future performance of the stock market will be equal to or greater than that of the past. They only promise an average rate of return on future contributions. Averages, by their very definition, assures us that some will fail poorly. We can't let our future rely on an average.

Privatization plans would not be able to protect the retirement income of vulnerable populations in the event of an economic downturn or a stock market crash. And as private pensions and retirement savings become increasingly exposed to the uncertainties of the market, Social Security's guarantees become even more important to African American families. Because African Americans earn less, it is very important that we have Social Security's guaranteed safety net to protect our families from a risky, unstable stock market.

Thank you.

(Applause.)

MR. HALL: We'll now hear from Ms. Kijakazi.

KILOLO KIJAKAZI, SENIOR POLICY ANALYST,
CENTER ON BUDGET AND POLICY PRIORITIES

MS. KIJAKAZI: Good morning.

In the interest of time, I brought copies of two papers describing the benefits of Social Security. They're outside on the table. One is a summary of the importance of Social Security to African Americans and Latinos and women. The second is a paper that refutes the kinds of myths that you're going to hear about Social Security being a bad deal for African Americans. The second paper makes use of an analysis by the Social Security Administration's Office of the Chief Actuary. The Office of the Chief Actuary is an independent source of research on Social Security and is highly respected by most people on both sides of this debate.

I'm very concerned that the African American community is being used as a pawn in the debate on Social Security. So during the time that I have, I'm going to take on some of the misleading promises about privatization that are directed towards African Americans and will likely be repeated throughout this conference. And in fact they have already begun to be stated. In addition, I will make some recommendations to African Americans about how to get involved in this debate and how to help determine its outcome.

Proponents of privatization have invested heavily in marketing research to find the right sound bites that will be most appealing when selling the idea of privatization to the public. I'm going to address four of these misleading sound bites.

The first misleading sound bite: Privatizing Social Security will create wealth.

Proponents of privatization claim that diverting some or all of one's payroll taxes into individual accounts and investing a portion of them in the stock market will result in large sums of retirement income. This claim is faulty on several levels. The reality is that Social Security is already facing a financial shortfall in the long term. If payroll tax revenue is drained from Social Security, the program has even less money to pay benefits. This means Social Security benefits for future beneficiaries will have to be cut even more under privatization than under current law. The President's Commission on Social Security confirmed this.

For example, the Social Security Actuary found that under Plan 2 offered by the Commission, a low-wage worker who is 25 years old today and who opts for individual accounts, would have their Social Security benefit reduced by 32 percent when they retire, compared to current law. Privatizers will argue that the individual account will make up the difference in the

benefit cut. But low-wage earners tend to invest conservatively, since they cannot afford to lose these savings. The Actuary shows that the combined income from the individual accounts for a low-wage conservative investor, plus the reduced Social Security benefit, will be 5 percent lower than the Social Security benefit under current law.

The benefit reduction will increase for future beneficiaries. A child born 10 years from today who opts for individual accounts when they begin working will have their Social Security benefit reduced by 57 percent upon retirement under this plan offered by the Commission. And that is if they are a low-wage worker. Their combined income from their individual account and their reduced Social Security benefit will be 23 percent less than the Social Security benefit under current law.

I want to address one other point that has been made by some of the previous speakers. The concern is about the payroll tax that is being paid by low-wage workers and how this takes away from what they could be saving. The 6.2 percent payroll tax paid by low-wage workers is reimbursed if these workers apply for the Earned Income Tax Credit. This is a refundable tax credit that was designed to restore the payroll tax for Social Security and the tax for Medicare coverage for low- and moderate-wage

workers. And millions of workers apply for this and get this credit each year.

The second misleading sound bite is that privatization would create an inheritance for workers to pass on to their heirs. The reality is every major privatization proposal, including the Commission's plans, requires workers to annuitize their savings in their individual account. This means workers would have to relinquish their savings in their accounts in exchange for monthly payments. The purpose is to ensure that retirees and their spouses do not outlive their benefits. However, once you annuitize an account, there is no inheritance to pass on.

Let me say that again, because this is a major point that is used to market privatization to the African American community. The notion of inheritance is important to us, and we want to be able to pass on something to our youth so that they don't have to struggle as hard as we do. But once an account is annuitized as is required by every major privatization proposal, there is no inheritance to pass on. What you get is a monthly payment and when you die it ends, just like Social Security.

If a worker dies before retirement, some privatization plans would allow the individual account to go to the worker's survivors. However, as Maya pointed out, African Americans die disproportionately in their twenties, in their thirties and their

forties; it's not like we live up to age 65, drop dead, and don't get Social Security. We are dying in early ages. If a worker dies early on, they will not have accumulated very much in their individual account, and especially if they're low-wage workers. When they pass this on to their heirs, this amount is not going to last this family very long at all. It's going to run out quickly.

But Social Security does provide an inheritance, and it's called survivors insurance. Given the higher mortality rate of African Americans, African American children and surviving spouses who care for those children benefit disproportionately from survivors benefits, as Maya has pointed out.

The third misleading sound bite: Privatization will not affect disability insurance benefits and survivors insurance benefits.

We've heard that this morning already. And you've heard a quote from the President. And if you pay attention to that quote, it instructed the Commission to preserve the components. Not the level of benefits but to preserve the components of disability and survivors insurance.

There is one benefit formula for retirement, disability and survivors programs. Any changes made in the benefit formula to reduce retirement benefits will also reduce survivors benefits. And the Commission report confirmed this in one of the

last sections of the report. I urge you to get that and read it. The report acknowledged that disabled workers are unlikely to accumulate sufficient savings in their accounts because they become disabled and then can't work a complete career to make up for the reductions in Social Security benefits.

Now, 46 percent of all African Americans receive disability or survivor benefits -- not retirement benefits. Consequently, African Americans would be disproportionately affected by the reductions in these programs. And let's take note of the mention of the 75 percent increase in survivors benefits that was proposed by the Commission. This is only for elderly spouses. This is not for children. This is not for young spouses who care for their children.

Moreover, this increase is in combination with the larger cuts that are being made in the program. As someone else put it, if you shrink the pie and then give a slightly larger piece of the pie to someone, that slightly larger piece of the pie is going to probably be less than what they would get under the current law.

The fourth misleading sound bite: Political risk under the current Social Security program is greater than market risk under privatization.

The reality is a major hurdle for proponents of privatization is market risk, especially given the volatility of

the market today. The NASDAQ lost 60 percent of its value between March of 2000 and March of 2001, and it has yet to regain that ground. Privatizers have attempted to deflect concern about the market risks with claims that Social Security faces a political risk because Congress can change the program. This argument fails to acknowledge the political power voters can and do exercise over members of Congress. There is no issue about which politicians are more sensitive to the wishes of their constituents than Social Security.

Members of Congress who go against the wishes of their constituents on this issue can be voted out of office. Workers do not possess the same kind of control over the market.

In conclusion, there is nothing more powerful than knowledge. Social Security reform is a complex undertaking. When anyone comes to you with a simplistic sound bite that sounds too good to be true, know that it is. The best way to avoid being used as a pawn in this debate is to be knowledgeable. Do your own research. Use the cooperative approach that the African American community has traditionally relied on in doing this research. Form study groups and discussion groups. Those of you who have access to the Internet and other research tools, form groups with those who don't.

Those who have facility with interpreting data and doing policy analysis, join with those who have real-life

experience with Social Security. Learn about this issue together. In addition to studying the issue, study the background of organizations and individuals offering different views on this debate.

My time is up, but I'm going to keep going, because I doubt that I'm going to be invited back here again.

(Laughter.)

MS. KIJAKAZI: Don't just study the issue. Study the background of the organizations and individuals offering different views on this debate. Go to their Web sites. And don't just go to the Social Security section. As a matter of fact, make your first stop their home pages. Read their mission statements. Determine whether the mission statements are consistent with the values and traditions of the African American community. Are they rooted in concerns about the whole community or are they solely concerned about the individual?

Remember the expression "it takes a village" is an African proverb. Find out what their positions are on issues of concern to African Americans. What would their positions be if workers near retirement lost most or all of their savings in their individual accounts? Would they support some form of assistance for these workers or would these workers be left to fend for themselves?

Social Security is a social contract. It is an intergenerational compact. We take care of our elders, and those who come after us help to take care of us. This is consistent with African American principles.

The final step is to go out and vote in large numbers. And beginning in the year 2002, don't let anybody turn you away at the polls.

Thank you.

(Applause.)

MR. HALL: And Mr. Tanner.

MICHAEL TANNER, DIRECTOR OF HEALTH AND WELFARE STUDIES,
CATO INSTITUTE

MR. TANNER: Thank you very much. And I want to thank our previous speakers.

And, Kilolo, you know you'll be invited back. This is not your first time here. We've always invited you back.

In that spirit, I want to thank the speakers who are going to have a slightly different viewpoint than mine. You're going to hear them throughout the day. That's part of Cato's dedication to debate on this issue and to the fact that we want a variety of voices heard on this issue and a variety of viewpoints discussed on this issue. And we have invited balanced panels

throughout the day for exactly that reason. We have attempted to ensure that throughout the day you will hear from a variety of viewpoints -- people who agree with me, people who agree with others, and people who disagree -- and what we think is going to be some very lively debates as the day goes on.

I also want to begin by offering one caveat and one response to something you just heard. And I have to, as Kilolo said, talk about where groups come from, look at where they come from, and I want you to know where the Cato Institute comes from. Very clearly we believe in individual liberty. We believe in the value and the worth of every individual and not necessarily the group. Because I believe we've had times in this country when we believed that the group mattered more than individual people, when we've categorized people as part of a group and we said that's how we'll treat everybody, we won't care about them as people with individual rights. We said people don't have rights because they are human beings and because they are an individual.

We've had that time in our society. We had it under slavery. We had it under Jim Crow. And I think that if we want to overcome that, it's because we believe in the worth and dignity of people as individuals. And that is what the Cato Institute is dedicated to. And that is where we are coming from on our research. And that is where we are coming from on all of our ideas. And you can disagree with our ideas, but I want you

to know straight up that that is what we believe in and that is where we are coming from.

That said, I want to offer one other caveat in terms of what you're hearing today in terms of a lot of the discussion. You're going to hear a lot of discussion comparing things on the various privatization proposals to current law. We just heard that this will produce less than current law, this will produce less than the benefits that are scheduled under current law. I don't necessarily agree with those characterizations. But even if you do, remember one thing. We can't pay the benefits that are under current law. The benefits that are promised under current law will not be paid unless we raise taxes, because it is simply impossible to do so.

We have promised things that we cannot deliver. I might as well promise you all a cruise to Bermuda next summer. And if I don't give it to you, then you can say that I've reneged on my promise. Well, maybe I have. You can compare other proposals to my trip to Bermuda. But the fact is, if I don't have the money to pay it, I can't send you there. And the fact is we don't have the money to pay promised Social Security benefits. Unless we raise taxes on Social Security, unless we raise taxes on working people, we are not going to pay the promised level of benefits. So when we start making comparisons,

we should compare what Social Security can actually pay, not what's promised, through privatization.

Now, let me get back to the main topic here today for this panel: Is Social Security Fair to African Americans?

I would like to suggest that there are several inequities built into the current system that make the overall result of the program unfair. One that you've heard a lot of discussion about is this whole question of longevity. The fact is that, at every income level and at every age, African Americans have a shorter life expectancy than do whites.

The result is that, strictly on a longevity basis, you get fewer Social Security checks. If you live to be 100, you get a lot of Social Security checks. If you die at 56, you don't get very many. And the fact is that if you look just at longevity, African Americans don't do as well in terms of retirement.

Now, that is offset to some degree by the progressivity of the current system. So you have to look at it in the context of the whole. You also have a problem with Social Security and African Americans in that your Social Security benefits are based on your 35 highest years of earnings. Essentially, other years don't count. You pay Social Security taxes on your 36th year, but you don't get any benefits in exchange for that 36th year.

What that means is that for those people who go to work early and work extra years, they don't necessarily receive any

additional benefit in exchange for the additional taxes they are paying. And African Americans tend to start work earlier than do whites for a lot of reasons, particularly the lack of education and the lack of educational opportunity we've had in our society. The fact is that only 13.6 percent of African Americans graduate from college compared to 24.3 percent of whites. And about 25 percent of African Americans don't complete high school. They go to work right away. They pay extra years of Social Security taxes without receiving any Social Security benefits in exchange.

In addition, the way the marriage benefit, or the spousal benefit in Social Security works, disadvantages African Americans. There is a spousal benefit in our Social Security which favors, in essence, single-earner couples, where a spouse receives 50 percent of her husband's benefits even if she doesn't go to work and she doesn't pay Social Security taxes. That favors families in which you have a working spouse and a nonworking spouse over two-income families. And the fact is African American women are particularly less likely to be married. If you look at women over the age of 15, 58 percent of white women are married and only 36 percent of African American women are married. They are less likely to be able to take advantage of that spousal benefit, and therefore they tend to lose out on that aspect of the program.

The net result -- you've heard a lot about the RAND Corporation, which is a nonpartisan group -- they have looked at this and they compared the events and they found that, on average, African Americans end up earning about a 1 percent lower rate of return than do whites overall. And this translated into about a \$10,000 transfer from blacks to whites under the current system.

Jeff Liebman, who was an official with the Clinton administration, went beyond the theoretical and he took a look at actual work histories. He got actual data on work and income histories and he compared that. He concluded that if you took into account like incomes -- so you're comparing like with like -- that you ended up with about a \$21,000 transfer from African Americans to whites.

Now, as I said earlier, you get something that offsets this to some degree in terms of progressivity. Because African Americans tend to have lower incomes, they tend to get a benefit from the progressive formula that offsets some of the other losses. But if you compare African Americans with whites in similar circumstances, there is absolutely no doubt that they are losers. If you take a black man and a white man who have exactly the same job history, they go to work on the same day, they work the same job, they earn the same wages, they pay the same taxes throughout the course of their life and they retire on the same

day, the African American will lose out compared to the white. I think that that makes the system inherently unfair even if you build in other progressive features.

I look at one other thing in terms of this, and that is the question of intergenerational unfairness. Because it's not just that the Social Security system is unfair to the current generations, but it perpetuates problems in future generations. The fact is that we have a growing wealth gap in this country. You've heard a great deal about we have a country in which 1 percent of the population controls 50 percent of the wealth and that gap is growing.

While actually the wage gap between blacks and whites is decreasing, the wealth gap is increasing. And one reason for that is inheritance. The fact is that wealthy people are able to pass down their income. Their assets are intangible assets in the form of inheritable wealth -- stocks, bonds, houses, and so on. And for low-income individuals, and African Americans in particular, it tends to be in the form of Social Security, which is not inheritable and can't be passed down from generation to generation.

Now, you just heard that all the privatization plans require that all the money at retirement be annuitized. I don't know where this comes from. Currently, the Cato Institute's proposal does not require annuitization. The Armev-DeMint bill

does not require full annuitization. And in fact none of the President's proposals requires full annuitization; they require partial annuitizations. They don't require that the entire amount in the accounts be annuitized at retirement. So there would be wealth available for inheritance.

Jagdeesh Gokhale, who is an economist with the Federal Reserve Bank of Cleveland, estimates that this would have a significant impact on reducing the inequality of wealth over generations and over time in America.

Finally, let me just conclude with one other thing. Let's assume that maybe African Americans and whites are treated the same under Social Security. And isn't that great; we all get the same lousy deal. We're all on the Titanic. I've always said that I thought that African Americans have been stuck down in steerage when it comes to Social Security. But let's assume we move up to first-class. It's still the Titanic.

The fact is the current Social Security still leaves 30 percent of African American seniors living in poverty. The fact is the current Social Security system still provides young workers with a rate of return of maybe 1.5 percent, far below what they could earn in the private market. The fact is under the current Social Security system, you have no legal right to your benefits. And while Kilolo says, well, you can always influence Congress, I have to look at history and say, wow,

African Americans have a great opportunity to influence the government so far.

Let's face it, the problems we have today exist because the government hasn't listened, in large part, to African Americans or workers or others. So I would suggest that we need a system in which individuals can do better. African American, white, Hispanic, Latino, whatever, everybody deserves a better opportunity. And that comes through investment and ownership, which is what individual accounts would do.

Thank you all very much, and I do appreciate your being here today.

(Applause.)

(End of Panel 1.)