Greenspan Déjà Vu

FROM AN ARTICLE IN THE OCT. 3, 1983, *Christian Science Monitor:*

> Worrying about your Social Security pension?
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> Don't, says Alan Greenspan, the head of a presidential commission that studied the Social Security system and saw many of its recommendations passed into law by Congress this spring.
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> Some analysts still forecast a failure of that system. But Mr. Greenspan . . . said it would take "a very adverse economic scenario" to create major financial problems for the retirement-disability side of the Social Security system. In other words, he views retirees' Social Security pensions as secure.

Indeed, the famous Greenspan commission had in 1983 assured the American people that Social Security had been "fixed" for at least 75 years—through 2058. Fast forward just 13 years to 1996 and things are not so sanguine. Social Security is in crisis again, with at least a $6 trillion unfunded liability.

Under those circumstances one would assume that Alan Greenspan, successful chairman of the Federal Reserve Board, would be, if not contrite, at least assuming a low profile on Social Security. One would be wrong. The day after he gave his now infamous speech suggesting the stock market was a bit pricey, Greenspan was speechifying again at the Union League of Philadelphia. His subject? Social Security. His solution to the current crisis? Exactly what he recommended in 1983: higher taxes and lower benefits. Please. That is what got us into the mess we're in today .

"Economic prosperity is a happy consequence of allowing Americans the dignity of providing for their own retirement."

The answer to the Social Security crisis, as readers of *Cato Policy Report* are well aware, is privatization. In 1983 privatization was not even considered by the Greenspan commission, despite Greenspan's statement on *MacNeil/Lehrer* that year that the commission was "really made up of a spectrum of individuals which come pretty much across the extremes of American politics from one end to the other." Yet it was in 1980 that the Cato Institute published Peter Ferrara's 500-page epic, *Social Security: The Inherent Contradiction,* which laid out a case for privatization of Social Security that holds up very well today.

In fact, when in 1983 Greenspan was assuring everyone that he had fixed the system well into the second half of the 21st century, *Cato Policy Report* published an issue devoted to debunking that myth. In it, Ferrara wrote, "It was obvious that there would be a disaster as soon as the names of the members of the National Commission on Social Security Reform were announced. The Washington establishment was firmly in control." We summarized the views of the contributors to that issue as "general agreement that Social Security's long-run financial problems have not been solved and that privatization should be carefully considered when Congress is next faced with reforming the system."

Not to belabor the obvious, we were right and Greenspan was wrong. And the same holds true today. In Philadelphia, he made no mention of individual liberty—of the idea that privatization allows individual Americans to control their own retirement instead of being dependent on the federal government. His one nod in the direction of privatization was to suggest that the "strongest argument" for it is that "such a change could boost domestic saving."

That and much more. According to a Cato study by Martin Feldstein of Harvard University, the present value of privatizing the future cash flow of Social Security taxes is about *$15 trillion.* But, again, liberty is the issue. Economic prosperity is a happy consequence of allowing Americans the dignity of providing for their own retirement.

Perhaps the greatest fallacy that Social Security fine-tuners have in common is the idea that there is a Social Security "trust fund" that somehow is going to put off the day of reckoning. Greenspan explicitly endorsed that fallacy in his speech by referring to an "unfunded liability . . . [that] has reached a staggering $3 trillion." But the true unfunded liability of Social Security is at least $6 trillion. The difference derives from the Fed chairman's belief that there is going to be a $3 trillion surplus in the Social Security "trust fund." Read my lips: there is no Social Security trust fund.

To prove my point, consider what will happen if I am correct and there is no such fund. By the year 2010 the Social Security cash flow turns negative. There are more payout liabilities than incoming taxes. The Social Security Administration then goes to the federal government and says, in effect, we've got this cash flow problem, what are you going to do to fulfill the promises you've made to these retirees? Assuming the federal government decides to live up to those promises (which is quite an assumption), it has three choices. It can increase taxes, cut spending, or borrow more money.

Now consider the options of the federal government when the $3 trillion in so-called trust fund assets is presented to the federal government to make up for the negative cash flow. How does the government come up with the money to pay off those Treasury notes? It can raise taxes, cut spending, or borrow more money. *Precisely* the same options if there were no trust fund. Which there isn't.

Privatization of Social Security may well be the most important issue confronting our nation. It will lead to higher retirement income, greater economic growth, more personal freedom, and less government involvement in our lives. We've listened to the fine-tuners long enough. It's time to listen to our common sense.

Ed Crane

—Edward H. Crane