

# Inventing A Crisis

By PAUL KRUGMAN

*New York Times*, December 7, 2004, Tuesday

Privatizing Social Security - replacing the current system, in whole or in part, with personal investment accounts - won't do anything to strengthen the system's finances. If anything, it will make things worse. Nonetheless, the politics of privatization depend crucially on convincing the public that the system is in imminent danger of collapse, that we must destroy Social Security in order to save it.

I'll have a lot to say about all this when I return to my regular schedule in January. But right now it seems important to take a break from my break, and debunk the hype about a Social Security crisis.

There's nothing strange or mysterious about how Social Security works: it's just a government program supported by a dedicated tax on payroll earnings, just as highway maintenance is supported by a dedicated tax on gasoline.

Right now the revenues from the payroll tax exceed the amount paid out in benefits. This is deliberate, the result of a payroll tax increase - recommended by none other than Alan Greenspan - two decades ago. His justification at the time for raising a tax that falls mainly on lower- and middle-income families, even though Ronald Reagan had just cut the taxes that fall mainly on the very well-off, was that the extra revenue was needed to build up a trust fund. This could be drawn on to pay benefits once the baby boomers began to retire.

The grain of truth in claims of a Social Security crisis is that this tax increase wasn't quite big enough. Projections in a recent report by the Congressional Budget Office (which are probably more realistic than the very cautious projections of the Social Security Administration) say that the trust fund will run out in 2052. The system won't become "bankrupt" at that point; even after the trust fund is gone, Social Security revenues will cover 81 percent of the promised benefits. Still, there is a long-run financing problem.

But it's a problem of modest size. The report finds that extending the life of the trust fund into the 22nd century, with no change in benefits, would require additional revenues equal to only 0.54 percent of G.D.P. That's less than 3 percent of federal spending - less than we're currently spending in Iraq. And it's only about one-quarter of the revenue lost each year because of President Bush's tax cuts - roughly equal to the fraction of those cuts that goes to people with incomes over \$500,000 a year.

Given these numbers, it's not at all hard to come up with fiscal packages that would secure the retirement program, with no major changes, for generations to come.

It's true that the federal government as a whole faces a very large financial shortfall. That shortfall, however, has much more to do with tax cuts - cuts that Mr. Bush nonetheless insists on making permanent - than it does with Social Security.

But since the politics of privatization depend on convincing the public that there is a Social Security crisis, the privatizers have done their best to invent one.

My favorite example of their three-card-monte logic goes like this: first, they insist that the Social Security system's current surplus and the trust fund it has been accumulating with that surplus are meaningless. Social Security, they say, isn't really an independent entity - it's just part of the federal government.

If the trust fund is meaningless, by the way, that Greenspan-sponsored tax increase in the 1980's was nothing but an exercise in class warfare: taxes on working-class Americans went up, taxes on the affluent went down, and the workers have nothing to show for their sacrifice.

But never mind: the same people who claim that Social Security isn't an independent entity when it runs surpluses also insist that late next decade, when the benefit payments start to exceed the payroll tax receipts, this will represent a crisis - you see, Social Security has its own dedicated financing, and therefore must stand on its own.

There's no honest way anyone can hold both these positions, but very little about the privatizers' position is honest. They come to bury Social Security, not to save it. They aren't sincerely concerned about the possibility that the system will someday fail; they're disturbed by the system's historic success.

For Social Security is a government program that works, a demonstration that a modest amount of taxing and spending can make people's lives better and more secure. And that's why the right wants to destroy it.