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THE SOCIAL INSECURITY SYSTEM

By Gary North

The Social Security System is actuarially (statistically) bankrupt. It's only a question of **when** it will go under, and the **form** the bankruptcy will take. Without massive monetary inflation, there is no way that someone entering the program today will ever be repaid for the heavy taxes he will shell out. In order to postpone the statistically inevitable, Congress in late 1977 enacted the heaviest peacetime tax increase in U. S. history. Anyone doubting the magnitude of this tax burden need only turn the page and examine the table prepared by Huggins & Co., consulting actuaries. The table is based on the government's own figures.

Despite the increases, HEW Secretary Joseph Califano has admitted that the present tax rate is only temporary. It will, at best, keep the system solvent only until the year 2000, assuming that birth rates are as high as the Social Security actuaries predict (they are, in fact, much lower) and that price inflation is held to 4% per annum (it is, of course, presently far higher). In short, Califano's "pessimistic" prediction is woefully optimistic!

The most honest assessment of what is coming as a result of Social Security's expenditures was made in 1976 by Sen. William Proxmire. He had an exchange with James Cardwell, the head of the Social Security program (he retired in mid-1978). I need only reproduce this exchange verbatim to give you the picture:

PROXMIRE: There are 37 million people, is that right, that get social security benefits.

CARDWELL: Today between 32 and 34 million.

PROXMIRE: I am a little high; 32 to 34 million people. Almost all of them, or many of them, are voters. In my State, I figure there are 600,000 voters that receive social security. Can you imagine a Senator or Congressman under those circumstances saying, we are going to repudiate that high a proportion of the electorate? No.

Furthermore, we have the capacity under the Constitution, the Congress does, to coin money, as well as to regulate the value thereof. And therefore we have the power to provide that money. And we are going to do it. It may not be worth anything when the recipient gets it, but he is going to get his benefits paid.

CARDWELL: I tend to agree.

In case you think I am making this up, you can check it out: *The Social Security System*, Hearings Before the Joint Economic Committee of the United States, 94th Congress, 2nd Session, May 26, 1976, pp. 27-28 (Washington: Government Printing Office, 1977).

You have now been warned.

There is a marvelous aspect of the creation: God's moral laws serve as the foundation of cause-and-effect relationships in human action. When men continually violate basic principles of moral action, they or their heirs reap the whirlwind. We have allowed the substitution of a bureaucratic State "charity" system for the old system of family and church charity. We have violated biblical law. We substituted compulsion by an impersonal bureaucracy for loving, responsible care for our neighbors. We led people to believe that Social Security was a true insurance scheme, rather than a massive compulsory wealth-redistribution scheme. We led people to believe that the bureaucratic "family" would take care of them, as if it were a real family. Now the enormous bills are coming due. We will see how well the hedonistic, present-oriented younger workers respond to this statistical challenge. I think Proxmire has seen the future: total inflation of fiat money, and the destruction of our currency.

How far in the hole is the system? Dr. Rita Ricardo Campbell in 1977 estimated that it may be as high as \$17 trillion over the life of the program. This was before the huge tax increases were legislated. Now the deficit may only be a mere \$6 trillion or \$8 trillion, if prices only rise at 4% per annum.

As the figures on the next page demonstrate, the big jump came in 1973. It has snowballed ever since. The tax will reach a staggering combined payment (employer and employee) of \$4,544 on the top income level (if two family members work, then the total tax burden could actually hit \$9,088). The employee is not allowed to deduct his half, \$2,272, from his Federal or state income taxes, either.

Who will escape? If the law is not changed, these groups: all Federal employees, including Congressmen and Senators who voted to create this nightmare; ministers who opt out of the system within the first 24 months after their ordination;

state and local government employees who are not in the system; and employees of non-profit organizations whose directors have been wise enough never to have signed up for the tax. But you, my friend, are trapped.

If you are relying upon Social Security payments to get you through your "golden" years, you had better rethink

your future. If you are under age 55, you had better understand the rip-off that your parents and possibly grandparents supported at the voting booth. Like the Egyptians of Moses' day, who were spoiled of their wealth by the Hebrew slaves, penalties for the sins of the fathers are now coming home to the sons, compounded annually for two generations.

HISTORY OF TAXES AND SCHEDULED TAXES IN FUTURE YEARS

Years	Rates of Tax Employee and Employer (Each)				Combined Total	Self- Employed	Maximum Taxable Wage Base	Maximum Tax In Year	
	OASI ⁽¹⁾	DI ⁽²⁾	HI ⁽³⁾	Total				Employee	Self- Employed
HISTORY OF TAXES FROM 1937 THROUGH 1978									
1937-1949	1.00%	—	—	1.00%	2.00%	—	\$ 3,000	\$ 30.00	— ⁽⁴⁾
1950	1.50	—	—	1.50	3.00	—	3,000	45.00	— ⁽⁴⁾
1951-1953	1.50	—	—	1.50	3.00	2.25%	3,600	54.00	\$ 81.00
1954	2.00	—	—	2.00	4.00	3.00	3,600	72.00	108.00
1955-1956	2.00	—	—	2.00	4.00	3.00	4,200	84.00	126.00
1957-1958	2.00	0.25%	—	2.25	4.50	3.37½	4,200	94.50	141.75
1959	2.25	0.25	—	2.50	5.00	3.75	4,800	120.00	180.00
1960-1961	2.75	0.25	—	3.00	6.00	4.50	4,800	144.00	216.00
1962	2.87½	0.25	—	3.12½	6.25	4.70	4,800	150.00	225.60
1963-1965	3.37½	0.25	—	3.62½	7.25	5.40	4,800	174.00	259.20
1966	3.50	0.35	0.35%	4.20	8.40	6.15	6,600	277.20	405.90
1967	3.55	0.35	0.50	4.40	8.80	6.40	6,600	290.40	422.40
1968	3.32½	0.47½	0.60	4.40	8.80	6.40	7,800	343.20	499.20
1969	3.72½	0.47½	0.60	4.80	9.60	6.90	7,800	374.40	538.20
1970	3.65	0.55	0.60	4.80	9.60	6.90	7,800	374.40	538.20
1971	4.05	0.55	0.60	5.20	10.40	7.50	7,800	405.60	585.00
1972	4.05	0.55	0.60	5.20	10.40	7.50	9,000	468.00	675.00
1973	4.30	0.55	1.00	5.85	11.70	8.00	10,800	631.80	864.00
1974	4.37½	0.57½	0.90	5.85	11.70	7.90	13,200	772.20	1,042.80
1975	4.37½	0.57½	0.90	5.85	11.70	7.90	14,100	824.85	1,113.90
1976	4.37½	0.57½	0.90	5.85	11.70	7.90	15,300	895.05	1,208.70
1977	4.37½	0.57½	0.90	5.85	11.70	7.90	16,500	965.25	1,303.50
1978	4.27½	0.77½	1.00	6.05	12.10	8.10	17,700	1,070.85	1,433.70
Total for 20 years (1959-1978)							174,600	8,773.20	12,245.70
Total for 23 years (1956-1978)							187,200	9,046.20	12,655.20
Total for 28 years (1951-1978)							205,800	9,364.20	13,132.20
Total for 42 years (1937-1978)							250,800	9,799.20	13,132.20

SCHEDULED TAXES IN FUTURE YEARS

1979	4.33	0.75	1.05	6.13	12.26	8.10	\$22,900	\$1,403.77	\$1,854.90
1980	4.33	0.75	1.05	6.13	12.26	8.10	25,900	1,587.67	2,097.90
1981	4.52½	0.82½	1.30	6.65	13.30	9.30	29,700	1,975.05	2,762.10
1982-84	4.57½	0.82½	1.30	6.70	13.40	9.35	29,700 ⁽⁵⁾	1,989.90 ⁽⁵⁾	2,776.95 ⁽⁵⁾
1985	4.75	0.95	1.35	7.05	14.10	9.90	29,700 ⁽⁵⁾	2,063.85 ⁽⁵⁾	2,940.30 ⁽⁵⁾
1986-89	4.75	0.95	1.45	7.15	14.30	10.00	29,700 ⁽⁵⁾	2,123.55 ⁽⁵⁾	2,970.00 ⁽⁵⁾
After 1989	5.10	1.10	1.45	7.65	15.30	10.75	29,700 ⁽⁵⁾	2,272.05 ⁽⁵⁾	3,192.75 ⁽⁵⁾

⁽¹⁾OASI = Old-Age and Survivors Insurance

⁽²⁾DI = Disability Insurance

⁽³⁾HI = Hospital Insurance (Part A of Medicare)

⁽⁴⁾Self-employment tax began in 1951

⁽⁵⁾Does not reflect possible increases in maximum taxable wage base effective after 1981.

THE POPULATION IMPLOSION

By Lou Gasper, Ph.D

Perhaps the most important economic casualty of the coming depopulation of the United States will be the Social Security retirement pension system. That system, as everyone ought to know by now, is not an insurance scheme in any sense, but subsists solely on Social security payroll taxes which are not invested for future pension payouts but are disbursed almost as soon as received. In short, **present workers are contributing not to their own retirements but to the retirements of present pensioners.** Such a system is critically sensitive to population trends. If the number of workers paying taxes falls relative to the number of retirees collecting pensions, there has to be an increase in tax rates, or an increase in productivity, or a decrease in pension benefits, or some combination of the three.

We have been so bombarded with horror stories about overpopulation and so-called "limits to growth" that it takes a real effort to think clearly about the possibility of declining population and an even greater effort to imagine the consequences.

Of course, we don't have a declining population now. The most recent gross birth rate in the United States was 14.7 per thousand, which far out-strips the death rate of 8.9 per thousand. But those rates are dependent on what is called the age profile of the population — the proportions of the population in different age brackets. A population with lots of middle-aged people will find the birth rate decreasing, as these people inevitably move beyond child-bearing years, and the death rate increasing, as they get older and closer to the inevitable.

The best indicator of the long-term trend in total population is the fertility rate, which expresses the average number of children each woman will bear in her lifetime. It makes sense to think that a stable population requires 2 children per woman (she has to replace herself plus a male who, in the nature of things, bears no children at all). In actuality, 2.1 is the zero growth fertility rate, since some children will never bear children themselves. A rate greater than 2.1 entails progressively larger numbers of babies and thus a younger population on the average; a rate below 2.1 means progressively fewer babies and an older population.

The most important datum in public affairs today is our current fertility rate of 1.835, well below the zero growth level. Moreover, there is no indication that this rate is going to rise substantially. To the contrary, attitudes are definitely against children and child-bearing and rearing, as demonstrated by the more than one million contraceptive sterilizations performed in the United States last year, to say nothing of the abortions.

Projections of population have been made based on a fertility rate of 1.7, which is approximately the rate in 1975 and 1976. These projections show, for example, that the United States population will peak at 253 million about the year 2020. Consider what that means for a 25-year-old person just taking out a 30-year mortgage on a new home, counting on the equity for his retirement. What will the market for housing be like when he retires and there are fewer people to be housed?

Back to Social Security. The projections show that the

working-age population (21-65) will peak about the same time as the total population, but the number of those over 65 increases more rapidly and doesn't peak until around 2040, after which it declines less rapidly than the working-age group.

Using these projections, and assuming continuation of current experience with labor-force participation, I have made estimates of the ratio of retirees to adult workers for the next 70 years. This ratio will be 30 retirees to every 100 workers in 1980, will rise slowly to 33 per 100 in 2000, then jump to 47 in 2020, and to a colossal **64 retirees per 100 workers** in 2040, meaning 2 retirees for each worker to support.

If Social Security taxes are now over 12% of payroll costs (taking employer and employee contributions together), then we will be faced with a rate of more than 25% in the future, even assuming all other factors — such as productivity and labor force participation — remain the same. Moreover, this increase will occur suddenly, in the early years of the 21st Century, as the post-World War II baby boom is retiring and the working-age population is stagnating. The retirees will have been led for most of their lives — ever since 1969 — to rely on Social Security as a **replacement** for earned income, not as a supplement. They will not give up easily. But the relatively widespread, incoherent, and silent working class — the fleeced — will then be fewer, more oppressed, and predictably more vocal. The stage is thus set by these inexorable population trends for a titanic struggle between the generations, and a social cataclysm to be ranged alongside the break from England, the War Between the States, and the Great Depression.

Picture in your mind's eye that time of catastrophe: Vast numbers of old people (with rapidly escalating medical care needs) demand the support they have been led all their lives to expect as their due; a constantly declining number of workers brings progressive increases in the retirement taxes; as they rise more and more, people avoid the taxes by taking wage increases in the form of more holidays and more untaxed fringe benefits, thus requiring yet higher tax rates and a spiraling burden on the remaining effective work force; more and more couples decide they can't support both the taxes and children, so they elect to have fewer and fewer children; then it suddenly dawns on them that there will be no one to support them when they retire; growing resentment clashes with the spiraling tax burden and, a democracy being unable to act with foresight and moderation, there is a sudden collapse of the Social Security system, which by that time will be virtually the only retirement pension plan. Workers then try to take care of their own parents, but there are many over-65 "orphans." The philosophical ground having been cleared by permissive abortion, the pressures for permissive and then **mandatory euthanasia** become overwhelming. As the total population plummets, we experience all the appalling effects of negative growth, including tremendous pressures from the countries that maintained their high birth rates.

Then abortion and euthanasia are outlawed as contrary to public policy. If we survive.

THE CHRISTIAN BUSINESSMAN

by Tom Rose

For many decades, certain detractors have waged an incessant war against the concept of private enterprise. In schools young people have been indoctrinated with the ideas that:

- (1) the principle of private property is tantamount to theft,
- (2) the employment of workers amounts to unfair exploitation of labor, and
- (3) business profits come out of consumer's pockets.

That these anti-capitalistic ideas have gained precedence in American society is testified by the fact that our statute books are full of legislation that undermines and hampers the entrepreneurial efforts of private producers, simultaneously burdening the members of society with an expensive and initiative-stifling government bureaucracy. This incessant attack has even affected Christians who should, by their familiarity with biblical precepts, be among the staunchest supporters of private enterprise. But, sad to say, many Christians, because they have not thought issues through consistently on a biblical basis, are in the forefront of those who demand increased government controls and regimentation of the economy.

(1) The Bible upholds the principle of private property. Peter didn't upbraid Ananias and Sapphira for retaining control of the proceeds from their sale of land, but for **lying** about what they did. Rather than attacking private property, Peter's admonition constitutes a strong **defense** of private property (Acts 5:4). In Genesis 13:2 we read, in a favorable context, that Abram was very rich; and there are a number of passages that point out that the powers to accumulate wealth is a gift from God (Deut. 8:18; Chr. 29:12; Pr. 22:4; Ecc. 5:19).

When Jesus was approached by a coveter who wanted his brother to divide his inheritance, Jesus rebuked, "Man, who made me a judge or a divider over you?" (Lk. 12:14). Even in the parable of the rich man and Lazarus (Lk. 16:19-31), there is not the slightest hint of an attack against the rich man's perfect right to do what he wished with his own property. To do so would undermine the biblical principle of each person's direct responsibility to God for the use of wealth while sojourning on earth.

The principle of private property is centered on one's **personal trusteeship** to God for the gifts He has bestowed on us. Only by being free from **outside** (social) control can man be maximally self-responsible to God **spiritually** (i.e., in his psyche). As God owns us, so we own our bodies and the produce of our labor (Eph. 2:10), for we are His workmanship.

(2) Nowhere in the Bible is the private employee-employer relationship considered anything less than completely honorable (but the same **cannot** be said about employment by the civil government). It is admitted that unfair exploitation of the employee by the employer — or of the employer by the employee — **can** take place if one or the other is unjust. This is why each is admonished to do service with good will (Eph. 6:5-9; Lev. 19:13; Deut. 24:15; Mal. 3:5; Col. 3:22, 4:1; I Tim. 6:1; I pet. 2:18).

The employee-employer relationship is definitely an **honorable** relationship according to the Bible. And, rather than being unfairly exploited by the sale of his labor in the marketplace by making himself a "commodity," the labor market provides workers with the greatest **defense against** being enslaved. Those who aren't free to sell their labor to the highest bidder must be economically dependent on someone else (Gen. 47:13-26). This explains why slaveholders in the antebellum South generally opposed the practice of allowing slaves to sell their services in the marketplace. It tended to generate economic self-sufficiency and possibly produce an air of independence that would serve to undermine the system of slavery. But in communist countries, as in Pharaoh's Egypt, tyranny is certain to result when the **State** becomes the sole employer. The real question isn't whether the employee-employer relationship will exist, but whether the employer will be a **private** employer who must compete with other private employers for the needed services of workers, or whether the employer will be the **civil authority** who can act autocratically as the **sole** employer (I Sam. 8:10-18).

(3) The idea that business profits come from adding onto the price that consumers pay is both a popular delusion and Marxian in origin. It is based on the false assumption of **exploitation**, that the seller is a monopolist who has complete control over how consumers spend their money. Therefore, all the seller has to do is set his price at whatever level he wants, and the poor exploited consumer has no other alternative but to mechanically respond.

But even in the Soviet Union where the autocratic government is indeed the **only** seller of most items (i.e., a monopolist), consumers still have other options. Their common refusal to buy shoddy goods at high prices is attested to by warehouses full of unsold goods.

Business services provided to consumers in the competitive marketplace by profit-seeking entrepreneurs are just a practical way of fulfilling the "royal law" of Christ: "If ye fulfill the royal law according to the scripture, Thou shalt love thy neighbor as thyself, ye do well" (Jas. 2:8).

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