THE TAXONOMIST

What If We'd Already Privatized Social Security?

By Robert S. McIntyre

Late in the fall of 1999, presidential candidate George W. Bush began talking up the idea of investing the Social Security trust fund in the stock market. What would have happened if his wish had immediately come true?

Bush's idea was—and apparently still is—that by investing in stocks, Social Security could enjoy such a high rate of return that all of its long-term financial problems would be solved. As he put it on *Meet the Press* on Nov. 21, 1999, shifting toward personal stock-market investment accounts was necessary "in order to make sure there are benefits available in the long term."

Bush's argument has some gaping holes. He double counts payroll taxes as available both for stock market investments *and* to pay benefits for current retirees. He fails to explain how a (supposed) boost in Social Security's investment return would somehow make future benefits more affordable—gee, if that works, why not just arbitrarily raise the interest rate the government pays to the trust fund?

But let's put those weighty problems aside. Let's see what would have happened if we'd accepted Bush's theory whole hog, and moved the entire Social Security trust fund into the stock market.

At the end of 1999, Social Security had accumulated $893 billion in its trust fund. Since then, payroll taxes have exceeded benefits by $234 billion and the fund has earned $182 billion in interest. That combination brought the fund's total value to $1.3 trillion by mid-August of this year.

That's what really occurred. But suppose instead that starting on January 1, 2000, we'd taken the entire trust fund, along with all subsequent surpluses, out of those stodgy 6.6 percent annual interest government bonds and dumped every penny into a plain vanilla S&P 500 index fund. Where would we be today?

Well, despite the big excess of taxes over benefits, by mid-August of this year the value of a privatized trust fund would have actually fallen—to only $776 billion. Compared to earning 6.6 percent interest, Social Security would have lost a staggering $533 billion, leaving the trust fund 41 percent lower than it actually is.

When Bush began pushing Social Security privatization, the Dow-Jones Industrial Average was over 11,000, the NASDAQ Index was heading toward 5,000 and the S&P 500 Index exceeded 1,400. My wacky right-wing friend (and *Washington Post* investment-advice columnist!) Jim Glassman had just turned a silly arithmetic error into a fast-selling book that predicted *Dow 36,000* in the near future. But as I write this, the Dow has fallen to 8,800, the NASDAQ has plummeted to 1,345 and the S&P Index has drooped to 930. Reflecting those dismal statistics, a typical S&P index fund has fallen by a third since January 1, 2000.

Of course, Bush never specifically proposed to put every penny of the Social Security trust fund into the market, although his logic supported such a move. But even if only two points out of the 12.2 percent Social Security payroll tax rate had been diverted to the market—a popular way station to full privatization among the right-wing think tanks advising Bush—then the losses still would have been enormous.

From the start of 2000 through mid-August of this year, two percentage points of the Social Security tax equaled $223 billion. Invested in government bonds, that has grown to $238 billion. Invested in an S&P Index fund, it would have fallen to only $170 billion—costing Social Security some $68 billion over just 2½ years.

As the fall elections approach, the unsettling stock market news has many Republicans at least pretending to repudiate their previous enthusiasm for dismantling Social Security. The chutzpah award goes to South Dakota Republican Rep. John Thune, a longtime advocate of private accounts who hopes to unseat incumbent Democratic Sen. Tim Johnson. Despite the fact that Johnson has signed a pledge to oppose privatization while Thune refuses to do so, Thune's television ads falsely accuse Johnson of being the real privatizer!

But Bush, whose stock investments all seemed to have been rigged to do well, is unrelenting. Indeed, his Treasury Secretary Paul O'Neill told the Associated Press on August 13 that Social Security privatization will be at top of Bush's domestic agenda next year.

"This country has gone through tough times before, and we're going to do it again," Bush said at his Waco Economic Summit in August. Bush's harebrained approach to Social Security (not to mention my usual topic, taxes) seems designed to fulfill that ominous prediction.