Social security: The coming crash
Peterson, Peter G
The New York Review of Books (pre-1986); Dec 2, 1982; 29, 019; ProQuest Research Library
pg. 34

Social Security: The Coming Crash

Peter G. Peterson

Social Security's troubles are fundamental. Its financial problems are not minor and temporary, as most politicians, at least in election years, feel compelled to insist. Unless the system is reorganized, these problems will become overwhelming. To put the matter bluntly, Social Security is heading for a crash. We cannot permit this to happen, because it would put the nation itself in very serious jeopardy. Though in effect for only two generations, Social Security has become the defining link between citizen and state in modern America. It has such uniform and reverential support that if the system crashes, so almost certainly will civic harmony and the economy itself. The prospects for Social Security and for general prosperity are now inseparable.

The Social Security system has become a high-risk gamble on economic progress and population growth—a bet by today's workers that their children and grandchildren will be rich and numerous enough to foot the bill for another round of generous retirement benefits. Should this hope go even mildly awry, today's workers will retire into a Social Security system running deficits larger than the total benefits it pays out today.

Meanwhile the system—which spent over $190 billion in fiscal 1982—has already grown so colossal as to shape the entire future of the economy. Social Security spending has moved from 1 percent of the entire federal budget in 1950 to 26 percent today. By far the biggest government social program in world history, the system now spends each year more than the combined net investment in plant, equipment, research, and development of all the private companies in the United States.

During the past few years, we have witnessed a revolt against both the burden of rising federal taxes and the binge of spending which has made those taxes necessary. In many ways, Social Security is the prime mover of both. A little-known, but important, fact is that between 1955 and 1980 Social Security taxes more than accounted for the increase in federal revenues as a percent of GNP. The growth in Social Security outlays is responsible for almost all of the increase in federal outlays as a percent of GNP. Thus, were it not for the growth of Social Security, federal revenues as a percent of GNP would have *declined* and federal outlays would have remained virtually unchanged.[1]

There is of course more to the Social Security puzzle than economics. It raises questions of ethics as well. Is a "contract" between generations fair when it gives today's older people a vastly higher return on their contributed taxes than their children and grandchildren can possibly hope to receive? Is a welfare program that gives almost 30 percent of its tax-free benefits to the 20 percent of the elderly population with highest incomes what we want? (Incidentally, that 20 percent of the elderly population has a family income of $30,000 per year or more, and those over sixty-five who are married to nonworking spouses can expect to receive tax-free benefits that will total about fifty times their lifetime payroll tax contributions.)

Still, if Social Security's financial problems cause the entire economy to fall into perpetual stagnation, robbing our children and grandchildren during their working and retirement years of their rudimentary economic security and indeed of even their Social Security, such ethical dilemmas of the Social Security system will become irrelevant. One of the highest moral obligations facing us is to give our offspring a decent chance at prosperity. If we fail there, the Social Security system itself, and much else, will disappear.

1.

The US economy is suffering from a progressive disease—a spreading paralysis of those activities that raise the standard of living. I am not referring to the current recession. In discussing Social Security and our economy, we must learn to think of decades and generations. Americans, ever impatient, are inclined to mistake short-term cycles for long-term trends. But the economy's worst problem is not in fact today's high unemployment or yesterday's soaring inflation. Rather, it is described in the following comparison:

Annual Productivity Growth Rate[2]

1948-1967	2.5%
1967-1973	1.6%
1973-1981	0.1%

As these figures show, America's machinery for creating national wealth is slowing down. The ability of our workers to produce more each year is becoming weaker each year. This slump in the growth of productivity now has little visible effect on daily life. But the cumulative impact will be enormous. Consider the year 2020, when those who are now infants will be at their working prime. If productivity stays roughly the same—if the trend of recent years continues (but does not get worse)—the average worker in 2020 will produce $22,800 in goods and services, just about what he does today.[3] The country, for the first time in its history, will have stood still for a span of forty years. (By contrast, the last forty years have seen real income produced per worker rise from $10,000 to $22,000, or about 120 percent.)

If, on the other hand, productivity were now to start growing again at the 2.5 percent rate which prevailed from 1948 to 1967, the average worker in 2020 would produce $57,700 in goods and services, an increase of about 160 percent. In that case, our grandchildren would look back on us as relative paupers, and would by 2020 be enjoying a buoyant prosperity and widening social opportunities in a nation that was a strong force in the world's economic and political affairs. But we are instead on a course leading to unprecedented stagnation, almost certain social strife, and steadily diminishing international influence.

Why are we heading toward the wrong future? Many managerial and cultural factors are responsible, and their relative importance remains a matter of dispute. But one factor seems prominent in virtually every study that has been made: the productivity of US workers is stagnating largely because they are not being provided with an adequate flow of both new tools—modern plant and equipment, innovative techniques, improved methods of production—and new products.

New tools and ideas are provided by investment—by adding to the stock of capital, physical and intellectual, that will generate income in the future. We have been underinvesting in the future. A comparison with Japan during the Seventies is instructive, and sobering:

—Japan invested nearly three times as much in new corporate plant and equipment (9.8 percent of GDP vs. 3.4 percent in the US).[4]

—Japan invested over seven times as much in public "infrastructure" such as roads and waterways (5.0 percent vs. 0.7 percent).

—Japan invested 20 percent more in civilian research and development, exclusive of R & D for space and defense (1.9 percent vs. 1.6 percent).

—The differences between Japanese investment in scientific education for the young and that of the US are huge, if not as precisely measurable.

Instead of investing adequately in such productive activities, we have, to a dangerous extent, been creating huge debts for other purposes, notably private consumption, and particularly Social Security and public pensions. The true levels of national debt are different from what most people assume; the public believes that the federal debt consists of the loudly announced sum of $1 trillion. In fact, the Social Security system has an "unfunded" liability (i.e., the amount by which expected benefits to current participants exceed their scheduled future taxes) of over $6 trillion. The unfunded liabilities of the federal and military pension system approach another trillion dollars. Nothing could be more salutary for the prospects of long-term productive investment and indeed the global financial system than the news that these grotesquely large obligations to pay public retirement benefits were being reduced and brought under control.

Investment requires savings. One reason we are investing too little is that we are using up every year, in current and often imaginative consumption, far too much of the income we are producing. The national pool of savings available for investment is shallow. This is because the flow of personal and business savings into the pool has been inadequate and the federal government's burgeoning deficits have become an enormous drain on the pool. Compared to those of all other industrial countries, savings from individuals and families in the US have been a mere trickle. Between 1970 and 1979, for instance, the household sector of the economy saved on average only five cents of each dollar earned. The comparable figure for Japan was about fifteen cents of each dollar earned.

The chief explanation for this difference is very straightforward. The Japanese have consciously designed their entire system of economic incentives to reward savings and investment. We have largely rewarded borrowing and consumption. For example, no other major industrial country permits unlimited tax deductions for interest. In Japan, moreover, personal income derived from capital—i.e., from savings—is taxed either lightly or not at all. In the US, such "unearned income" suffered especially high taxes until recently, and still enjoys relatively small tax incentives.

In Japan, buying houses and durable consumer goods on credit is difficult and requires big down payments. In America, the tax laws and the banking system are heavily skewed toward financed consumption—i.e., toward keeping savings at the lowest possible level.

Pensions in Japan—both public and private—are meager, forcing workers to save for their retirement. Social Security in America now seeks to provide every eligible retired person, regardless of

---

[1]Between 1955 and 1980, federal outlays rose from 18.0 to 22.4 percent of GNP while Social Security outlays grew from 1.2 to 5.3 percent of GNP. Social Security payroll taxes rose from 1.3 to 5.4 percent of GNP, more than accounting for the increase in federal revenues from 17.2 to 20.1 percent of GNP.

[2]"Productivity" refers to real domestic income per employed person.

[3]All sums are computed in constant 1980 dollars.

[4]GDP (Gross Domestic Product) differs from GNP only by attributing all production to the country where it is located (i.e., ignoring international income flows). All investment is measured net of depreciation.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

need, with a stipend sufficient to cover all or at least most of the basic necessities of life. The need to save is accordingly weakened. As for American corporations, while their flow of savings (so-called "retained earnings") has traditionally been considerable, a sustained binge of corporate borrowing has been dangerously eroding that tradition.[3]

We have thus become a nation of spendthrifts and Japan a nation of savers. But it is an illusion to think that we could quickly or simply change our laws, institutions, habits, and culture so that they will more closely resemble those of Japan. The recent changes in the tax structure to encourage more saving by households and businesses will prove helpful, but further changes in the tax system, though necessary, will require a long and hard effort, and the amount of additional savings they might provide remains uncertain.

2.

Of necessity, we must turn to a surer and more direct strategy for enlarging the pool of savings available for investment: namely to stop the government from draining the savings pool. The government finances its deficits by using up—literally extinguishing—the savings generated by the country's citizens and corporations. This government "dis-saving" has taken on new and frightening dimensions over the last several years, and the problem is getting worse.

The recent rhetoric about the evils of deficit spending and the debate over the balanced-budget amendment have partly hidden a distressing reality. The US now faces federal deficits so large, so long-term, and so unprecedented that if or when an economic recovery occurs our shallow pool of savings would be substantially depleted. There would be little left to sustain the indispensable levels of investment we need to restore economic growth and international competitiveness.

In view of widely publicized efforts of the Reagan administration to reduce spending, this may seem surprising. In April 1981, the president stated his aim of reducing both spending and taxes to a bit over 19 percent of the Gross National Product by 1985—admirable goals, but only if they are achieved together. Regrettably, the goals have been pursued separately. Tax revenues have indeed been reduced to 19.1 percent of the GNP by the biggest, and, I fear, gaudiest tax cut in history. But spending, meanwhile, is now projected to rise dramatically from 22.4 percent of the GNP in 1980 to an intolerable 24.6 percent of the GNP in 1985 unless something is done.[4] This would amount to a rise from $577 billion to $967 billion, the latter figure being $123 billion above the president's 1985 spending target.

The explanation for this increase is hardly surprising, as the table on this page makes clear. The unprecedented rise in military spending amounts to more than $150 billion. Increases in "non-need-related entitlements"—that is, those, such as Social Security and federal pensions, in which the income of recipients is not a significant factor in their payments—are rising at a rate much faster than tax revenues.

As the table also shows, federal grants to state and local governments and federal operations have actually been cut back. The budget cuts in 1981 and 1982 have reduced projected spending on "need-based" programs nearly twice as much as in the much larger non-need-related programs, which go mainly to middle- and upper-income groups. A lopsided example: projected food-stamp outlays for 1983 were cut by about 20 percent in the 1981 and 1982 Reconciliation Acts, while projected federal employee retirement benefits were reduced by less than 3 percent.

These facts are gradually being recognized. There is a growing if muted agreement in Congress that the projected budgets for defense and for Social Security and federal pensions should not be immune to cuts. But by how much must these deficits be reduced? We have first to define the largest deficit that would be consistent with the minimum net investment needs of the economy. Suppose we wish to have sufficient net savings available to match the rate of private investment—"capital formation"—that prevailed during the 1960s. That would, in my view, be a modest goal. But to achieve it, the deficit must, according to careful estimates,[5] be reduced to less than 1.5 percent of the GNP if sufficient capital is to be freed for investment. Such a deficit would be about 4 percent of GNP lower than the current projection of the deficit for 1985 and would amount to a reduction of the 1985 deficit by about $160 billion. That would mean cutting 16 percent from total projected government spending in 1985.

A reduction so huge may sound politically impossible. But a deficit of about $220 billion, which is now projected for 1985 if current policies continue unchanged, is simply unworkable. First, it would be more than three times the largest deficit we had before 1982 ($66 billion) and would equal a record 5.5 percent of GNP. Second, deficits would be rising steadily over the next three years. The projected deficits are "structural"—not the result of recession. They would occur at the same time that the economy is supposedly growing

[3]Some facts on debt-heavy corporate balance sheets are set forth with admirable clarity in an article by Felix Rohatyn in *The New York Review of Books*, November 4, 1982.

[4]The projected budget figures are based on the analysis in "The First Concurrent Resolution and the Budget Outlook," by James Capra, in the *Quarterly Review* of the Federal Reserve Bank of New York, Summer 1982. Some adjustments to reflect congressional action since the publication of the Capra article have been included in the budget estimates.

[5]Assume that the savings incentives in last year's tax bill make it possible for gross private savings (personal, business, and state and local pension fund savings) to rise to 19.3 percent of GNP. Depreciation, or capital consumption allowances, could be expected to absorb 10.5 percent. Assume state and local deficits and net foreign investments have offsetting effects. Thus 8.8 percent is left for financing the federal deficit, residential construction, and investment in plant, equipment and structures. If the federal government deficit were cut to 1.5 percent of GNP, the residual left for net new business investment and housing would be slightly larger (0.3 percentage points) than the average for the 1960s.

Estimated Federal Government Outlays, Comparison of 1980 to 1985 as Now Projected

	In Billions of Dollars			In Share of GNP[1]		
	1980	1985[2]	1980-1985 Change	1980	1985	1980-1985 Change
National Defense	$123.9	$274.1	$+150.2	4.8%	7.0%	+2.2%
Benefit Payments for Individuals						
Need-related[3]	55.9	80.3	+24.4	2.2	2.0	-0.2
Non-need-related (Social Security, Federal Pensions, etc.)	227.1	380.1	+153.1	8.8	9.6	+0.8
Grants to State and Local Governments	57.2	53.6	-3.6	2.3	1.3	-1.0
Other Federal Operations	60.1	59.0	-1.1	2.3	1.5	-0.8
Net Interest[4]	52.5	120.1	+67.6	2.0	3.1	+1.1
TOTAL	$576.7	$967.2[5]	+390.5	22.4%	24.6%	+2.2%

[1]Assumes real growth of 3-4 percent in 1983-1985. 1985 GNP = $3935.4 billion vs. Reagan April 1981 "supply-side" target of $4,398.1.
[2]Outlay projections are based on congressional action to date.
[3]In 1981 and 1982, the growth in these need-related programs was cut over twice as much as the non-need-related (10.1 percent vs. 4.7 percent).
[4]For 1983-1985, the interest-rate assumptions are those specified in the first concurrent resolution on the budget, declining to an average rate of 7.4 percent on new Treasury debt in 1985. If interest rates turn out to be higher, each percentage point over the entire three years adds about $8 billion.
[5]Reagan April 1981 spending target for 1985 was $844 billion.

New Books in the
SUNY Press Series in
Modern Jewish Literature
and Culture
SARAH BLACHER COHEN,
EDITOR

Legacy of Night
The Literary Universe of Elie Wiesel
ELLEN S. FINE. Foreword by TERRENCE DES PRES. In an effort to understand Wiesel's fascination with the witness, Fine explores the network of recurring themes and images that first appear in Wiesel's memoir, Night, and subsequently evolve in his novels.
"One of the finest books on Wiesel or, indeed, on the literature of the Holocaust"—Daniel Stern.
"Fine clarifies Wiesel's intentions, especially illuminating the complex variations on the themes of speech and silence, fathers and sons, escape and return—in short, the ideas around which Wiesel organizes his literary universe. No one has done this before so thoroughly."—Lawrence L. Langer.
"By treating Wiesel's novels as literary-spiritual stages in the development of Wiesel's larger experience, as a survivor-witness-writer, Dr. Fine's book takes on an inherently dramatic character which makes it alive and exciting as well as instructive."—Terrence Des Pres.
200 pp. .... $10.95 paperback
$33.50 hardcover

The Slayers of Moses
The Emergence of Rabbinic Interpretation in Modern Literary Theory
SUSAN A. HANDELMAN. This groundbreaking study examines the theological roots of the modern science of interpretation, showing the relation of Rabbinic exegesis to Freud, Derrida, Lacan, and Bloom.
"Dr. Handelman's path is strewn with useful insights and striking connections. This book will be noticed, even debated."—James Kugel.
"Raises important questions about the relationship of literary criticism to rabbinical biblical exegesis and to Hellenic modes of abstract speculation"—David Hirsch.
"Very significant. I think this will be a widely-noted work. It is a breath of fresh air and should help get rid of some overworn pieties about the Western intellectual heritage."—Herbert N. Schneidau.
284 pp. .... $12.95 paperback
$39.00 hardcover

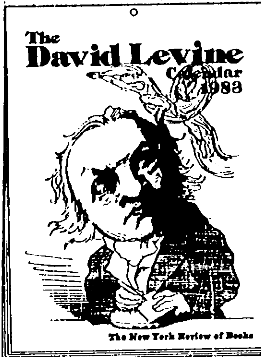
Israeli Humor
The Content and Structure of the Chizbat of the Palmah
ELLIOTT ORING. This pioneering work on contemporary Israeli folklore introduces chizbat humor, reconstructs its tradition, and deciphers its meaning, showing how the humor is a living expression of Israeli society and culture. Included are over 350 of the anecdotes themselves.
"Oring succeeds in obtaining insights and understanding that a member of Israeli society would have difficulty in reaching."—Dan Ben-Amos.
"Stimulates a reader to reconsider his or her assumptions about the nature and functions of humor."—Robert A. Georges.
"An invaluable addition to literature on folk narrative"—Come-All-Ye.
282 pp. .... $11.95 paperback
$39.95 hardcover

From Stereotype to Metaphor
The Jew in Contemporary Drama
ELLEN SCHIFF. After centuries of being stereotyped as villain or moneyman, or idealized as biblical patriarch, the Jew on stage has evolved into a latter-day everyman. This book traces his line of descent from Church drama to the works of such modern playwrights as Miller, Gibson, Pinter, Wesker, Anouilh and Woody Allen. Schiff shows that in the decades since the second World War, Jewish characters have emerged as figures representative of contemporary humankind.
"The first comprehensive study of the Jew in modern theater. Schiff is well read, well informed, and has an original, sensitive grasp."—Rosette Lamont.
"Fleshes out many questions concerning the theater's attitudes toward the Jew. Schiff presents her topic in a style which is alive, filled with zest and excitement."—Bettina Knapp.
275 pp. .... $9.95 paperback
$30.50 hardcover

State University of New York Press
Order through your bookstore or send check or VISA/MasterCard number, with expiration date, to State University of New York Press, P.O. Box 978, Edison, NJ 08818. Please add $2 for postage and handling. No cash refunds.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

The 1983 David Levine Calendar



Now is the time to order *The 1983 David Levine Calendar*—for your home, for your office, and as gifts for friends.

The calendar features David Levine's well-known pen-and-ink drawings, all previously published in *The New York Review of Books*, in a handsomely printed 8-1/2"x 11-1/4" wall calendar format. Its large date blocks allow plenty of space each month for notes and reminders.

You and your friends will appreciate the wit and distinctiveness of this year's *David Levine Calendar.* Each month it includes caricatures of literary, artistic, and political figures such as John Reed, Andy Warhol, and Margaret Thatcher.

The 1983 David Levine Calendar costs only $4.95 each, so why not order several calendars now? (When ordering 10 or more, the calendars are only $4.00 each.) Please don't wait until it's too late—simply complete the coupon below and return it with payment.

The New York Review of Books
Calendar Department, 250 West 57th Street, New York, N.Y. 10107

Please send me________copies of *The 1983 David Levine Calendar* at $4.95 each (1-9 calendars) plus $1.00 for postage and handling. (If I order 10 or more calendars the cost is $4.00 each plus $2.00 for postage and handling.) My check or money order for $________ is enclosed.

Name

Address

City State Zip

New York residents please add applicable sales tax.

at 3 to 4 percent per year. Rising deficits during a prolonged economic recovery are without precedent in this country. (Of course, the financial imbalances that would result from such large deficits call into question whether the economy would in fact sustain 3 to 4 percent growth for the next few years. If the economy is instead flat, the deficits would be much larger.)

Thus we have created a fiscal Frankenstein monster. If and when a strong recovery occurs, that monster would be aroused to devour immense amounts of available savings. One can question whether a normal cyclical recovery from the current recession can occur in the face of this monster. What clearly cannot occur is the necessary revival of investment everyone concedes we need.

Simple arithmetic alone makes it obvious that only a few parts of the budget are, by themselves, large enough to yield the kinds of savings that will be required. I would also hope that a sense of simple equity would not lead us to put the "need-related" programs for the poor under the axe once again. Most federal operations are also unlikely targets: minimum levels of law enforcement, Treasury operations, and government statistical reporting are necessary if the government is to be run efficiently. Further reductions in agricultural subsidies, such as dairy price supports and tobacco and sugar subsidies, may well be desirable. But the amounts involved in these programs, totalling $2 billion, are small relative to the size of the problem. Cuts in grants to state and local governments could result in more decay of our public infrastructure—highways, mass transit, and the dredging of rivers and harbors, to name only a few possible casualties.

What is clear is that, along with net interest payments on government borrowing, defense (28 percent) and non-need-related benefits (39 percent) represent about 80 percent of the total budget. Social Security alone accounts for 26 percent. Most of the deficit reduction should come from these three expenditures.

Before we examine how this can be done, it is useful to look briefly at the question of tax increases. Raising taxes is clearly one way to lower projected deficits—but most emphatically, in my view, not the preferable way. Moreover, tax changes would need to be carefully drafted or they would be self-defeating. It would be irrational to propose the kinds of tax increases that directly or indirectly discourage the very investment that we are trying to promote in this grueling fiscal exercise. Thus consumption taxes in general and energy consumption taxes in particular, e.g., on gasoline, would head my list of any tax increases that might be required.

The case for significant cuts in the defense budget goes well beyond the question of whether we really can spend wisely such unprecedented real increases—nearly 9 percent yearly in overall spending between 1980 and 1985 and over 14 percent yearly for military hardware. Furthermore, the decline in the inflation rate means that we should be able to buy more with the dollars appropriated for defense than was thought possible when the original plan for the buildup was put together in early 1981.

My own negotiating experience with the Soviet Union taught me that they will be far more impressed with a sustained approach to building defenses than by what they will perceive as an approach alternating between feast and famine. The Soviet Union, in any case, can plausibly assume that neither our economy nor our politics can sustain the vast increases now planned—particularly at a time when big cuts are being made in our politically most sensitive programs and when our economy is weak. Indeed it will be politically impossible to obtain cuts in the even larger Social Security and federal pension programs unless defense cuts are a significant part of a balanced "package" to reduce the budget.

But however clear one may feel the case for reduced military spending, the recent bipartisan budget effort of five former secretaries of the treasury and myself persuades me that it is unlikely that cuts much larger than $25 billion in 1985 can actually be achieved.

3.

This brings us to our central concern—the non-need-related programs, of which Social Security is by far the largest. Some experts have testified that the financial deficits facing Social Security during the next few years—$30 billion by 1985—may be only a temporary hurdle. Higher payroll tax rates for Social Security, they point out, have already been legislated for 1985 and 1990; these, along with the rising volume of wage payments to today's baby-boom generation, may push these funds into the black by the late 1980s and 1990s. Only after the boom generation begins to retire, and that's not until 2020 or so, can we be certain that the bottom will fall out of the Social Security system.

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

Why worry today about what you may be able to put off until tomorrow?

The problem with such complacency is that Social Security funds may *not* be sufficient to meet the system's obligations. Each year the Social Security trustees publish three or four projections of the system's future income and outlays, the so-called "optimistic," "intermediate," and "pessimistic" scenarios. For the period before the year 2000 the variations between these projections depend primarily on assumptions regarding real economic growth. According to the "optimistic" estimate, the Social Security retirement and disability funds will be solvent by the late 1980s and thereafter. But this "optimism" (based in part on the administration's near and medium-term forecasts) assumes an unbelievable rate of sustained growth in productivity—about 3.1 percent to 3.3 percent per year from 1985 to 2005. This far surpasses any comparable period in US history, even the boom years of the 1960s. The "pessimistic" scenario, on the other hand, will plunge our trust funds into deficits from which they will never recover—not in the 1980s, 1990s, or ever. The annual deficit of these two funds would exceed $100 billion by 2005; after which it would explode. And even this pessimistic estimate assumes that productivity will grow at a rate of 1.5 percent—a rate significantly higher than the 1.2 percent rate during the stagnant decade of the 1970s.

These calculations, moreover, consider only the retirement and disability trust funds. They exclude Hospital Insurance (HI, or "Part A" Medicare), the third and most rapidly growing component of the Social Security system. According to even the most favorable projections, HI will dive into the red permanently within the next two or three years. From 1990 on, HI's yearly deficit will deepen rapidly, perhaps drawing on and draining the other trust funds, should they still be solvent. If we add the problems of HI to the calculation, only the most "optimistic" projection can hope to keep Social Security in the black until the year 2000. The "pessimistic" projection—which is in fact plausible—yields a deficit projection for all three funds of a staggering $371 billion in the year 2000.

All of this may seem perplexing. Even though the members of the huge baby-boom generation are still entering the labor force or are now moving to the crest of their earning potential, our economy still cannot hope to perform well enough even to keep payroll taxes (at higher rates) on a par with retirement benefits. And it is too late to hope for population growth to do the trick. The "baby bust" that followed the postwar baby boom has ensured that we cannot expect enough growth in the tax-paying labor force to sustain the system during the next twenty years.

Why is this so? The explanation lies in the rapid and relentless growth of benefit outlays. First, Congress raised the initial benefit levels for newly retired persons (as a share of preretirement income) by nearly 50 percent during the past fifteen years. As more workers continue to retire, the aggregate cost of the system must continue to mount as well. Second, Congress has indexed all benefits currently being paid to the overly buoyant Consumer Price Index—whose yearly increases routinely exceed the yearly real-wage increases of tax-paying workers. Third, Hospital Insurance costs are climbing wildly because of the hyperinflation of health-care prices. Fourth, elderly people are living longer. Average life expectancy at age sixty-five is today one third longer than it was when Social Security was first enacted (16.6 years as against 12.3 years) and it is still rising. Finally, and perhaps inevitably, the elderly are leaving the labor force and cashing in on Social Security in greater numbers as they do so. In 1950, 46 percent of all elderly men were part of the labor force; by 1980, this percentage had dropped to 19 percent.

Therefore even if we look ahead only ten years or so, the financial integrity of Social Security is in grave doubt. In fact, it's going broke right away—contrary to all the projections of just a few years ago—and it is facing multi-billion-dollar deficits. Whether the system can pull itself into solvency by 1990 depends on a race between more workers and economic growth on the one hand, and climbing benefit costs on the other.

By 2030 or 2050, the situation will surely get worse—much worse. Shortly after the beginning of the next century, the members of the baby-boom generation will begin to retire, and all the demographic variables that once helped revenues will then come crashing down on the side of costs. Whereas the size of our work force will likely remain virtually stationary at about 140 million (or even decline) after the year 2000, the number of beneficiaries will rise from 43 to 48 million in 2000 to as many as 96 million by the year 2050. By the year 2030, the proportion of elderly in the entire US population will match the current proportion of the elderly in Florida. Today, there are about thirty Social Security beneficiaries for every hundred taxpaying workers. By the year 2050, there may be as many as eighty.

Even the most "optimistic" long-run projection indicates Social Security deficits by the year 2025, a projection that assumes never-ending economic prosperity, a surge in the number of future new workers, and stagnant future life expectancies. The "pessimistic" long-run projection shows that the entire system, already sinking into deficit by the beginning of the century, will simply disappear from sight in a pool of red ink. By 2035, it predicts that the retirement and disability funds alone will need an 11.5 percentage-point boost in the tax rate—consuming 23.9 percent of the taxable payroll—just to break even. Including Hospital Insurance, the system will need to absorb fully 44 percent of each worker's taxable payroll just to break even. Without any tax increases, the annual deficit would be $16.3 trillion, or 10 percent of GNP. By the

READERS UNITE...ASSOCIATE

Readers. That is in fact what we are, an association of devoted bibliophiles, 26,000 strong, who are linked by the landscapes we traverse, the voices we hear, and the epiphanies we experience; by the languages we share, the critical studies we depend on, and the footnotes we refute; by the images and rhythms that we have worked into our lives. We are many things and do many things, in many languages, but all of us, as often as possible, are readers.

JOEL CONARROE, MLA EXECUTIVE DIRECTOR

More than a footnote to literary history.

The Modern Language Association invites you to join the ranks of dedicated readers and receive *PMLA*, the most widely circulated periodical in the humanities, featuring some of the best articles in literary criticism today; the *MLA Newsletter*, a quarterly update on association activities; and one volume of the annual *MLA International Bibliography*, the leading research tool in the fields of literature, language, and linguistics. The MLA also addresses the needs of the academic community through the quarterly *Job Information Lists*, through English and foreign language programs, and through an annual collection of teaching-related articles, *Profession*. Each year the association holds its convention, which draws as many as 10,000 participants and includes discussions and panels on virtually every literary topic imaginable. The MLA is involved in exciting publication and language-study projects as well. Want to know more? Mail the coupon and we'll enroll you in our membership roster.

The Modern Language Association of America

MODERN LANGUAGE ASSOCIATION
62 Fifth Avenue, New York, NY 10011

To join, clip the coupon and send $20 (regular new member) or $10 (student member). You will receive further information about benefits and publications. Please print clearly.

NAME

ADDRESS

CITY STATE ZIP

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.

WALL-TO-WALL AMERICA

A Cultural History of Post Office Murals in the Great Depression

Karal Ann Marling

"What did it feel like to stand in the newly painted lobby of a post office in the '30s? What did the people of Mural America hope to find in the picture on the post-office wall? What did America look like to American eyes during the Great Depression?" Those are the questions Marling answers in this lively, witty, and imaginative look at the New Deal program which brought murals to small-town America. She provides an intelligent, often irreverent discussion of popular taste and culture in that era and describes the inevitable clashes between what the artists wanted to paint and what the townspeople wanted to see painted. "A pure joy to read. . . . This work *about* art is a work *of* art, too."—Gene Wise, University of Maryland 131 b&w illus. $14.95 paper, $35.00 cloth

CONSEQUENCES OF PRAGMATISM

Essays 1972–1980

Richard Rorty

These twelve essays offer a serious assessment of the place of philosophy in contemporary culture. Stylish in the best sense, entertaining and controversial, calculated to stimulate, they express Rorty's views on intellectual life today and have much to say about academic professionalism that is applicable to many disciplines. "No other American philosopher has done more to bring philosophy and criticism closer together."—Alexander Nehamas, *Boundary 2.* Readers Subscription Alternate $11.95 paper, $29.50 cloth

THE LEGEND OF FREUD

Samuel Weber

Weber deals with the status of Freud as a legendary figure whose truth value is still hotly contested, and with "Freud" as the proper name assigned to a body of texts more often discussed than read. He does for the "literary Freud" what Frank Sulloway has done for the "scientific Freud." "A lucid and balanced reading of Freud in the light of contemporary methodologies, this book is a major contribution."—Paul de Man $10.95 paper, $25.00 cloth

SEGMENTED WORLDS AND SELF

Group Life and Individual Consciousness

Yi-Fu Tuan

"An elegant, absorbing essay. . . . Tuan seems to have at his fingertips all the social sciences—and a good deal of world literature—as he reflects on the classic dichotomy of individual freedom and development vs. holistic community life. . . . A virtuoso performance."—*Kirkus Reviews* $8.95 paper, $19.50 cloth

Theory and History of Literature series

Two volumes by the German literary historian and theorist, **Hans Robert Jauss**, which explore the nature of the aesthetic experience within a context of historical change.

Volume 2. TOWARD AN AESTHETIC OF RECEPTION

Translation by **Timothy Bahti.** Introduction by **Paul de Man**

In this collection of five major theoretical essays, Jauss calls for a methodology that pulls together sociological and formalist approaches to literary studies and that is, above all, sensitive to history and to the differences between readers past and present. $8.95 paper, $22.50 cloth

Volume 3. AESTHETIC EXPERIENCE AND LITERARY HERMENEUTICS

Translation by **Michael Shaw.** Introduction by **Wlad Godzich**

"A true *summa.* . . . Jauss keenly analyzes contemporary trends in literary theory, but never, himself, lapses into trendiness."—Kurt Weinberg, *Comparative Literature Studies* $12.95 paper, $29.50 cloth

University of Minnesota Press

Minneapolis MN 55414

year 2050, the entire system will need to absorb over one half of each worker's taxable payroll—again, just to break even. If the size of the federal budget remains unchanged as a share of GNP, Social Security in 2050 will comprise *over 70 percent* of all federal spending.

As we consider long-term possibilities, much depends on demographic trends, which are notoriously hard to predict. Continued low fertility rates among women may achieve zero population growth in the US by early next century (and therefore further reduce the number of taxable wage earners), or they may not. Dramatic advances in biogenetics and in nutrition may continue to extend life expectancies (and therefore increase the costs of the system) or they may not. Again, the long-run "pessimistic" projection is, in fact, a plausible one and could even turn out to underestimate the future crisis. It simply assumes that women will continue to have not many more children than they are having now and that life expectancies will continue to improve along the trend of the last decade or two. The long-term outlook is grim according to the best projections. According to the worst, it is truly dire.

4.

The only alternative to reorganizing Social Security is to sit by while the system collapses, either through an ugly revolt of young taxpaying workers against their elders or through a catastrophic flood of deficits. Maintaining the status quo—which many politicians from both parties have pledged to do—is literally impossible, an utter fantasy. Necessity is a respectable motive for reform. But even if Social Security were able to survive indefinitely, the time would be ripe to re-examine its premises.

The system was the product of the Great Depression years when we feared that pervasive unemployment would be a permanent feature of the economy and that government accordingly had a duty to shrink the labor force by encouraging early retirement. In spite of today's recession, the prospect in the late 1980s and the 1990s is for slowing growth in the labor force and tightening labor markets. As the economy recovers, the nation will find itself needing the working skills and experience of older people.

During the Depression, welfare programs were few and skimpy; social insecurity was a fact of life for millions. In the two generations since, a great many programs have been set up for the poor, the disabled, the unemployed, the sick, and the homeless, of all ages.

During the Depression, the elderly population was 5.5 percent of the total population. In 1980, it was 11.2 percent and growing.

During the 1930s the average sixty-five-year-old had only twelve more years to live, and the retirement benefits seemed both appropriate and compassionate. As we have seen, today's sixty-five-year-old is comparatively young and has an average of 16.6 more years to live. Every study I know of indicates that for most elderly people, during most of these years, continued, active employment is the best insurance against illness and senility.

During the Depression, privately financed pension plans were a novelty, available to very few workers. Today, about half of the work force is covered by some form of private pension, with about 750 billion dollars already set aside.

Finally, the Depression made plausible the new Keynesian theory that government could restore prosperity by discouraging "excess" savings and promoting consumption. Today, we face an economy starved for savings and capable of vast excesses of consumption. In addition, during the 1930s we did not have the variety of institutions and programs (such as pension plans) that are now engaged in collecting and recycling savings. Today not only can we collect savings more efficiently but, in addition, they are recycled instantaneously.

The basic idea of Social Security—providing pensions for the elderly from taxes assessed on the earnings of their children and grandchildren—answered directly to the peculiar needs of the 1930s. If we were starting fresh today, a different system would deserve serious consideration—one in which each generation of workers, individually and through public taxes and funds, saved amounts that were adequate to support its own needs during retirement. But now the important question is how to rescue what is good in the original conception of Social Security from the foolish optimism of the last decade[*] and from the perverse distortions introduced into the system during the past forty years.

We are constantly told that reforms would violate elementary precepts of common fairness and social justice. Supposedly, such reforms would amount to legalized theft from today's beneficiaries, would unfairly violate a solemn compact between generations, or would strike a cruel blow at the poor. In the next issue, I will deal with these arguments, which are based on fictions, and will suggest concrete reforms to answer the real questions of fairness raised by the Social Security system. A sounder system that will also allow for future prosperity is consistent with a fairer system that does not rob the son to pay the father, or the private worker to pay the government worker, or the poor to pay the rich. Social Security, one of the principal legacies of the New Deal, must be rescued and transformed during the next few years. Otherwise it will visit upon our children the same conditions of economic chaos that attended the system's birth. ▢

(This is the first of two articles on Social Security.)

[*]President Carter, in 1978, in signing the Social Security tax legislation, said, "...from 1980 to 2030 the Social Security system will be sound."

BANK ON BLOOD TO SAVE LIVES!

Over 37,000 times a day blood is used to treat illness and injury.

There are no substitutes ... Call your community blood center or hospital now to schedule group or individual blood donations.

A message from the **American Blood Commission**

1901 N. Ft. Myer Dr., Suite 300, Arlington, VA 22209 703/522-8414

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.