The Social Security Debate:
A Multiplicity of Purposes and a Cacophony of Voices

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Foreword

In my third year at Duke University, I began my analysis of the Social Security reform discussion. When I began studying the subject in early 2001, it was a national priority. President Bush had appointed members to a bipartisan Social Security Commission whose responsibilities included examining the Social Security program and proposing potential reform solutions. Since that semester, other issues have moved to the forefront of the domestic agenda, and the findings of the Social Security Commission have received little attention. Despite this lack of attention, however, the need for Social Security reform has not lost its significance.

Rather than find a solution to Social Security reform, my purpose at the beginning of last year was to evaluate the apparent success – or failure – of the reform discussion. To that end, I needed to determine the dialogue's participants and the arguments that they put forth. Even more, I sought to discover the different ways in which these participants employed economic theory in their arguments. In other words, I wished to examine how various styles of economic thinking moved beyond the academic world and into the wider society's discussion of Social Security reform.

After evaluating the current reform discussion, I became curious about the origin of Social Security. In particular, I wanted to understand the reasons for its creation in 1935 and the dialogue surrounding its inception. With this knowledge, I hoped to gain a more informed perspective on today's discussion. My findings are the subject of this paper.

The Social Security Reform Dialogue of Yesterday

The Social Security Act of 1935

The SSA was the manifestation of FDR's call for "greater economic security" for individuals, an idea that he announced to Congress in a letter on June 8, 1934 (Barber 1996: 96). Soon after his announcement, FDR created the Committee on Economic Security to "study the entire problem of economic insecurity and to make recommendations that would serve as the basis for legislative consideration by the Congress" ("History" 2). In January 1935, the Committee released its findings to FDR, and its policy recommendations were represented in the Economic Security Bill, introduced in the Senate by Robert Wagner and in the House of

Representatives by Robert Doughton and David Lewis. In April 1935, the Social Security Bill (H.R. 7260) replaced the Economic Security Bill in the House of Representatives, and it passed by a margin of 372 to 33 later that month. In June 1935, the Senate passed the Social Security Bill with amendments by a margin of 7 to 6. On August 14, 1935, President Franklin Delano Roosevelt signed the Social Security Act (SSA) into law ("History" 2).

Though widely recognized for its old-age insurance system, the SSA was far more than that. Indeed, the central aspect of the SSA was the old-age insurance provision, a national program of "compulsory and contributory" insurance designed to pay certain retired workers 65 or over through payroll taxes on employers and employees (Douglas 3). As a complement to old-age insurance, the SSA established Federal-State public assistance and unemployment insurance programs, in which the federal government levied a tax on employers to finance the states' provision of unemployment benefits. In addition to these provisions, the SSA also set up several children's programs that included "maternal and child health services," "services to crippled children," "child welfare services," and "aid to dependent children in their own homes" (Dewson 2). These welfare measures were primarily meant to support families that suffered the loss of the principal wage-earner (Douglas 16). The Social Security Board, another provision of the SSA, was designed to handle the administrative responsibilities of the SSA, like "providing employers, employees and the public with information on how earnings were to be reported, what benefits were available and how they were to be provided" ("History" 2). In this manner, the SSA of 1935 established several welfare measures besides old-age insurance.

Social Security and Institutionalist Economic Theory

Within the government sector, the discussion surrounding the Social Security Act (SSA) reflected the strong influence of Institutionalist economic theory. Many prominent government members like Franklin Delano Roosevelt, Frances Perkins, Frank Bane, and Mary Dewson adopted aspects of Institutionalist economic theory within their speeches and writings. In their argument for the creation of the SSA, as well as in their defense of the SSA after it became law, these leading government figures recognized the existence of certain flaws within the economic system. For them, such flaws were inherently built into the free market system. Given the Institutionalist view of the economy as a dynamic force, the market's imperfections and their impact upon American society were unavoidable; FDR called them the "misfortunes which cannot be wholly eliminated in this man-made world of ours" (Perkins 1). Through its many provisions, the SSA sought to amend these errors, affirming the Institutionalist view of government policy as a means of healing an ailing economy. Even more, the SSA aimed to help the economy respond to future economic change; this idea of the SSA serving as a preventive device also reflected Institutionalist economic ideas. Overall, Institutionalist economic theory played a critical role in the dialogue surrounding the SSA.

Institutionalist Economic Thought

The style of economic theory embraced by these leading government officials was the old American Institutionalist tradition. Established in the late 1800s by Thorstein Veblen and advanced by Wesley Mitchell, John R. Commons and Clarence Ayres, the old institutionalism incorporated a "descriptivist and anti-formalist, holist, behaviourist, and collectivist" analytical approach to examine the process of institutional change (Rutherford 4). Veblen and Commons, for instance, sought to understand the influence of technology and institutions – which included social norms, laws and organizations – on individual decision-making, and how an individual's responses evolved over time (Rutherford 11). In general, old Institutionalists criticized "the performance of markets for the inequities they create[d] in the distribution of income, wealth, and economic opportunity," and they favored government intervention to fix these problems by way of institutions (Rutherford 130). The discussion of the SSA among various government figures touched upon these Institutionalist ideas.

Perceived Market Flaws and their Consequences

Reflecting Institutionalist thinking, government officials believed that the free market system possessed a number of innate flaws. One of the most critical was that the economic system often achieved efficiency by sacrificing fairness and equality. These individuals pointed out that, while technology and industrialization spurred economic growth and improved overall national well-being, the manner in which these gains were made and subsequently distributed was often unfair and inequitable for some. They also asserted that the economic system lacked a substantial moral and ethical code to which its participants could adhere. For them, the individual's desire to maximize profit sometimes overshadowed the more important standards of human interaction, contributing to an erosion of values within the marketplace. Another flaw that drew attention was secular stagnation, or the perception that American consumers alone would not be able to absorb the massive expansion of the economy. Quite simply, many feared that the growth in production that had taken place over the previous decades was so great that much of it would be unused – aggregate demand would not match aggregate supply. In this manner, members of the government thought they recognized flaws within the free market system and sought to address them through public policy.

In their minds, these flaws led to serious and severe problems. Above all, writers in the Institutionalist tradition viewed unemployment as the most detrimental consequence of the unmodified economic system. Describing the progressively more dynamic economic environment produced by technology, C.A. Kulp – an economist and legislator – wrote in a defense of Social Security:

> Whatever you like to call it, and whether you believe that *in the long run* machines make jobs or do not make jobs, technocracy is a fact to this extent: that as machinery is increasingly introduced into the economic system, at a faster and faster rate, it will be increasingly difficult to find jobs for persons displaced. (53)

Here, Kulp summarized the belief that economic growth, fueled by technological advances, inevitably generated unemployment. Some equated unemployment to an epidemic, on the grounds that “a family’s livelihood…[could] be cut off as quickly and unexpectedly as their lives once were cut off by typhus, yellow fever, or cholera” (“Why Social Security?” 6). Not only did unemployment create family turmoil, but it also adversely affected national welfare. FDR wrote the following:

> …No country, however rich, can afford the waste of its human resources. Demoralization caused by vast unemployment is our greatest extravagance. Morally, it is the greatest menace to our social order. Some people try to tell me that we must make up our minds that for the future we shall permanently have millions of unemployed…I stand or fall by my refusal to accept as a necessary condition of our future a permanent army of unemployed. (September 1934)

Rather than accept unemployment as an intrinsic part of the economic system, FDR argued that unemployment could be overcome through government action. By doing so, he applied the Institutionalist idea that likened the economy to a biological entity whose ailments – in this case, unemployment – could be cured through appropriate reform.

The proponents of the SSA noted that another consequence of the flawed economic system was old age dependency. With the private sector’s increasingly specialized and changing demands for the labor force, the elderly faced an immense challenge in finding employment and disposable income with which to support themselves. When the SSA began, vast uncertainty and insecurity accompanied old age; the problem was so serious that FDR called old age "for many people the most tragic of all hazards" (November 1934). Because of their dire circumstances, some elderly persons resorted to private and public charities for sufficient income "to stay in their homes and to keep their self-respect" ("Why Social Security?" 8). Often, however, these charities were incapable of providing enough benefits. Thus, the elderly relied upon their families for financial support, which created an additional burden for the young that proved especially taxing for those with limited income. Overall, these Social Security supporters stated, old age dependency harmed the economy by draining financial resources from public and private funds, as well as by increasing uncertainty and suffering among the elderly and their families.

Curing the Current Socioeconomic Ills

Within this Institutionalist framework, the SSA sought to resolve the pathological problems with the American economy. Most of all, it provided measures that aimed to repair the faulty economy through government payments to individuals. The federal unemployment compensation program would assist personal recovery by helping individuals to maintain their standard of living. Equally important, the program would enliven the spirits of the unemployed – which might contribute to increased productivity and national well-being over time. Frances Perkins, Secretary of Labor during the creation of the SSA, described unemployment compensation in Institutionalist terms:

> Recognizing unemployment as the greatest of all hazards, the [Social Security] committee gave primary emphasis to provisions for unemployment – employment assurance…Employment assurance, the stimulation of private employment and the provision of public employment for those able-bodied workers whom private industry cannot yet absorb is to be solely a responsibility of the Federal Government and its major contribution in providing safeguards against unemployment…It will…directly provide jobs for many in private industry who would otherwise have none. (3)

Conveying sentiments shared by many other government officials, Perkins suggested that the government provide the helping hand to a deteriorating private sector in order to improve the macroeconomic situation. In this sense, unemployment compensation sought to correct one of the perceived faults of the economic system – the tradeoff between efficiency and equity in the process of technological change – by helping the unemployed adapt to their situation. Unemployment compensation, combined with other provisions of the SSA, would "result in a more equitable distribution of the national income" (Rubinow 62). For these reasons, Institutionalist economic theory was a justification for unemployment compensation.

Institutionalist economic theory also manifested itself in the discussion through its treatment of secular stagnation, another perceived flaw in the economic system. Here, government assistance – specifically unemployment insurance and old age pensions – would offer the appropriate stimulant to aggregate demand, especially during economic downturns when aggregate consumption was especially deficient. In this light, the SSA sought to guide the country to a more efficient utilization of its resources, so that the tremendous growth in production would not remain unused. According to Perkins, the SSA would help in "maintaining purchasing power and stabilizing business conditions," thereby mitigating the potentially harmful effects of secular stagnation (4).

Preventing Future Economic Ailments

Besides supplying immediate relief to the unemployed, the SSA also acted as a measure to alleviate and to prevent future economic hardship. The SSA instituted policies that would offer "safeguards" against "the hazards which might otherwise plunge" today's workers and elderly, as well as tomorrow's workers and elderly, "into destitution and dependency" (Perkins 3). When he signed the SSA into law, FDR described this purpose of the SSA as follows:

> This law, too, represents a cornerstone in a structure which is being built but is by no means complete. It is a structure intended to lessen the force of possible future depressions. It will act as a protection to future Administrations against the necessity of going deeply into debt to furnish relief to the needy. The law will flatten out the peaks and valleys of deflation and of inflation. It is, in short, a law that will take care of human needs and at the same time provide the United States an economic structure of vastly greater soundness. (August 1935)

The concept of allowing the government to establish policy that would help the economy to adapt to future economic change represented Institutionalist economic theory, particularly that of Wesley Mitchell. Mitchell advocated the infusion of "intelligent guidance" to alleviate social problems and economic downturns, and he believed that a national planning board that instituted popular social values would be one way to do so (Rutherford 138). Kulp described the social insurance system as "a first line of defense, or if you consider the private savings of individuals which we hope will continue as in the past, more than a strong second line" (55). In this way, the SSA would serve as a mechanism with which the government could thwart future economic setbacks.

In conclusion, Institutionalist economic theory greatly influenced the Social Security debate in 1935. In true Institutionalist fashion, many legislators identified certain inherent flaws within the free market system, and they sought to rectify these apparent errors – which resulted in unemployment and old age dependency – with the SSA. In this way, the policies of the SSA represented ways in which the country could react to economic difficulties. Sharing FDR's view that economic growth was a "process of evolution," legislators also enacted the SSA to avert potential difficulties in the future (FDR June 1934). As such, it was a protective and preventive measure for the future that would allow the economy to adapt to future economic change. For all of these reasons, Institutionalist economic theory played a critical role in the government's creation of the SSA.

The Social Security Act: An Act of Values

Besides being influenced by Institutionalist economic theory, the Social Security Act also represented Social Democratic principles. Seeking to correct the apparent flaw in the economic system involving the lack of ethical standards, the SSA injected values into the economic system. These values sought greater equality and fairness within the marketplace, the foundation of Social Democratic belief. Through the SSA, FDR wanted to "make" and "keep" the United States "God's country" by improving national welfare through a social insurance program, where personal responsibility was critical (June 1934). In this manner, the SSA embodied Social Democratic principles and values.

From Rugged Individualism to the 'Social Point of View'

The concept of social welfare emerged as a prevailing principle in the Social Security Act. Rejecting the notion of rugged individualism, which stressed self-sufficiency and individual accomplishment, advocates of the SSA instead highlighted the concept of the common good. In a defense given after the passage of the SSA, Mary Dewson, then a member of the Social Security Board, stated the following:

> Rugged individualism is grand if the odds aren't insuperable. But in high-powered, mass-production industry, with its great rhythmic fluctuations of employment and unemployment, the odds are insuperable for a staggering number of men and women. Under such conditions, rugged individualism is a losing fight unless all of us get together to provide protection and insurance against certain risks…Insecurity is the lot of rich and poor. (1)

Here, Dewson presented a common justification for the existence of Social Security: the dynamic economic environment made it extremely challenging for most individuals, especially the aged and the unskilled, to survive on their own. Technological innovation and competition particularly aggravated the situation for families as well, making it "increasingly difficult for [them] to pull together and go into business for themselves in one way or another" as they had often done in the past ("Why Social Security?" 4). She insisted that rugged individualism could not deal with these problems.

Many writers on the subject of Social Security called for a period of national "social reconstruction" that stressed the concept of social welfare (Perkins 1). Within this framework, the SSA played a principal part, for it developed a way in which individuals could improve the nation's interests – and indirectly their own – by "socializ[ing] the losses resulting from unemployment" and other economic hardships ("Report of the Committee on Economic Security" 11). It formed the core of enhanced social welfare by offering social insurance to Americans, similar to the social insurance programs already existing in Europe. With relief for the unemployed and the old-aged, the SSA served as a means of reducing society's universal risks, thereby enhancing overall social well-being. Mary Dewson described the notion of social insurance in this way:

> There is another and still more cogent reason for recognizing protection against these hazards [of unemployment and old age] as a national concern…The risk – the chance that the blow *may* fall – is universal. The only practical method of protection against widespread hazards is to pool the risk. And the only agency big enough to administer mutual protection is the government. This is the what and why of social insurance. (4)

Sharing the same sentiments, Kulp pointed out that "the essential fact is that to administer a social insurance program we need the social point of view" (55). Therefore, by emphasizing social welfare over rugged individualism, the SSA pointed towards a transformation in the public's sensitivity to the common good.

By reflecting the public's changing attitudes towards the common good, the SSA strengthened the significance of social responsibility for Americans. In an address to Congress in 1934 that eventually led to the creation of the SSA, FDR said the following about social responsibility and security:

> Security was attained in the earlier days through the interdependence of members of families upon each other and of the families within a small community upon each other. The complexities of great communities and organized industry make less real these simple means of security. Therefore, we are compelled to employ the active interest of the Nation as whole through government in order to encourage a greater security for each individual who composes it…("Why Social Security?" 1)

Here, FDR emphasized that the nation's obligation to protect its less fortunate citizens relied upon the financial participation of many employees and employers. The SSA captured the widespread belief among American citizens that government needed to take an active role in the preservation of social cohesion – even if that role required much time and energy. Expressing confidence in the public's heightened sense of social responsibility, FDR argued that, through the SSA, individuals should no longer act alone but accept "those obligations to the public interest that rest upon us all" (November 1934).

Improving Fairness and Equity in the Marketplace

The notion of social responsibility appeared most directly in the redistributive nature of the Social Security system. Through the SSA, young citizens not only offered financial support to the old-aged through payroll taxes, but the employed also supported the unemployed, employers assisted their employees, the rich aided the poor, and the current generation assisted future generations. Consequently, the SSA began the transfer of an enormous amount of wealth among different segments of society. In this sense, it certainly reflected the influence of Social Democratic economic thought, for its system of redistribution attempted specifically to attain greater equality within the economic system. Rubinow, a well-respected writer on social insurance, contended that "these measures tend (or are at least intended) to result in a more equitable distribution of the national income" (62). Additionally, the redistributive nature of the SSA sought to maintain interdependence among Americans. It reinforced the societal links that its authors claimed had been disrupted by industrialization and urbanization ("Why Social

Security?" 8). Thus, the redistributive intent of the SSA best exemplified the way in which government intervention could promote fairness within the economic system.

The unemployment compensation system also strove for fairness within the economic system, an ideal that formed the cornerstone of Social Democratic theory. Because there was no commonly accepted ethical standard within the marketplace, "unfair practices and un-American standards" helped a "selfish minority" to gain at the expense of the many (FDR, June 1934). Most notably, employers exploited their employees through deplorable working conditions and unfair contracts. In this light, the SSA sought to create "a growing recognition on the part of employers and employees of the desirability of maintaining fair relationships" (FDR June 1934). Combined with other legislation, the SSA leveled the playing field between employers and employees. Dewson supported this belief, affirming that the purpose of the SSA was to "give the worker a fair chance, with the cards no longer stacked against him in advance" (2). In this way, federal unemployment compensation attempted to instill fairness within the marketplace.

Promoting American Values

For some supporters, the SSA represented other American ideals and democratic principles. It was, as FDR said in a 1934 fireside chat, a "necessary fulfillment of what Americans have always been doing – a fulfillment of old and tested American ideals" (June 1934). These ideals included the right to happiness, the preservation of justice, social responsibility, and respect and dignity for fellow citizens. In a 1938 defense of the SSA, Frank Bane, then the Executive Director of the Social Security Board, described it as an extension of basic American principles:

> The vast majority see it [the SSA] as a realistic expression of those ideals – a method of safeguarding our people and our economic system by extending those well-known protections which government has always thrown around the property of some men…to include the only property of many more men – their opportunity for a normal childhood, their ability to work, their jobs, and their chance for a tranquil old age (2).

The SSA made the right to a certain standard of living and the right to a secure old age comparable to the fundamental democratic rights granted by the Constitution. Embodying the fundamental right to happiness, the SSA aimed to achieve the "great social ideal of a happier life" (Rubinow 62). In this respect, the proponents of Social Security claimed that social insurance established a path that would lead to more than just security; the SSA promised to bring increased happiness and freedom for Americans through social cohesion. In this manner, the SSA embodied other democratic values and principles.

Besides being heavily influenced by Institutionalist economic thought, the SSA was also rooted in Social Democratic ideals. Its emphasis upon social welfare instead of rugged individualism enhanced the value of social responsibility in the United States. In doing so, it paved the way for greater equality and fairness. Clearly representing Social Democratic principles, the SSA granted greater security and financial stability to Americans as fundamental democratic rights. For these reasons, the SSA embodied certain Social Democratic ideals.

The Government Defends Itself: Its Role in Social Security

Proponents of Social Security advocated government intervention to justify the provisions of the SSA. For them, the Great Depression was caused by the private sector's failure to generate sufficient aggregate demand and required the government to intervene. Various messages (speeches, articles, radio addresses and pamphlets) presented by the government to the public around the program's inception indicated the prominence of interventionist doctrine. Within these messages, notions of government intervention manifested themselves in various forms, ranging from a presentation of the government as complement to the private sector, to a concept of the government as a "grand protector" of society. Therefore, while many government officials agreed upon the significance of the government's role, they applied this interventionist doctrine on a variety of levels.

In the policies of his New Deal, FDR seemed to support the notion of government intervention. In particular, he asserted that the government should seek to compensate for the malfunctioning private sector. During his four terms, the government developed a highly involved role to rectify the apparent failures that contributed to the Great Depression, instituting diverse reforms within both the private and public sectors. In his June 1934 fireside chat, FDR names a few of the major changes enacted by the Congress by that time:

> It [Congress] provided for the readjustment of the debt burden through the corporate and municipal bankruptcy acts and the farm relief act. It lent a hand to industry by encouraging loans to solvent industries unable to secure adequate help from banking institutions. It strengthened the integrity of finance through the regulation of securities exchanges. It provided a rational method of increasing our volume of foreign trade through reciprocal trading agreements…It made further advances towards peace in industry through the labor adjustment act. It supplemented our agricultural policy

> through measures widely demanded by farmers themselves and intended to avert price destroying surpluses…(Fireside Chat, June 1934)

At the time, such government intervention was unprecedented, especially that involving the private sector. Indeed, Bane stated that it was "unquestionably new for the Federal Government to make itself a party to the enterprise on such a scale" (Bane 1938: 1). Despite the apparent novelty of these policies, FDR pledged that "relief was and continues to be our first consideration," and his guidelines to Congress in 1934 upheld that objective (Fireside Chat, June 1934). When the private sector was failing in a certain area, as it had been during the Great Depression, FDR believed that the government should respond through legislation.

Echoing FDR's sentiments, other government officials considered the SSA and, more generally, government intervention a plug for the void left by the private sector. These proponents of Social Security believed that, due to the extensiveness and severity of the unemployment experienced during the Great Depression, the national employment level deserved federal attention. Launched in the SSA, federal unemployment compensation, as well as the public works programs, sought to address this problem. Frances Perkins, Secretary of Labor during the discussion of the SSA, wrote the following regarding government assistance of the unemployed:

> Recognizing unemployment as the greatest of all hazards, the [Social Security] committee gave primary emphasis to provisions for unemployment – employment assurance. This measure is embodied in the $4,800,000,000 public works resolution, which is separate from, but complementary to, the economic security bill itself. Employment assurance, the stimulation of private employment and the provision of public employment for those able-bodied workers whom private industry cannot yet absorb is to be solely a responsibility of the Federal Government…It will uphold morale, as well as purchasing power, and directly provide jobs for many in private industry who would otherwise have none. (3)

Here, Perkins highlighted the responsibility of the government to provide employment when the private sector could not. By doing so, the government would promote national recovery by "maintaining purchasing power and stabilizing business conditions" (Perkins 6). Furthermore, the government could also help compensate for the private sector's failure to provide full employment. Thus, these ideas reflected the prevalence of interventionist doctrine during that time.

Government officials applied similar notions of government intervention in their defense of old-age insurance. Just like unemployment, they asserted, old age dependency existed “with us in good years as in bad” (Bane 1936: 2). Due to the private sector’s failure to provide adequate protection for the elderly, government action was necessary – regardless of the economic conditions. In February 1938, Mary Dewson, then a member of the Social Security Board, discussed the objectives of the federal plan:

> Old-age insurance…is a national program through which young and middle aged workers can build up, by their own and their employers contribution, benefit rights which will give them something to live on when they are old and stop working…This means that the present and future generations of industrial wage earners will be spared much of the humiliation and suffering that has too often been the lot of old age…They will not be resourceless, forced to become a dead weight upon their families…or – worse yet – to seek private or public charity. (7)

In this excerpt, Dewson highlighted how the development of a federal system would be the appropriate vehicle through which the government could assist financially the old-aged and their families. More importantly, she stated, the federal program would replace already existing private and public groups, so that these groups could allocate funds for an alternative purpose. By relying on and trusting in the government, the aged would have “a sound and a uniform system which will provide true security” (FDR November 1934). In fact, the government went so far as to make such assistance a “right rather than…[a] public charity” for the aged (House Ways and Means Committee 4). In this manner, the need for government intervention of the pension system permeated the government’s discussion of old-age insurance.

Besides encouraging the government to take measures that would correct perceived market failures, FDR supported government intervention for other reasons. In particular, he believed that the government was an indispensable actor in the business world. According to FDR, the private sector required government in order to avoid “destroy[ing] not only itself but also our processes of civilization” (September 1934). Not only did the government have the financial capacity to boost ailing business sectors, but it also had the ability to instill stability and order through morally sound, principled legislation. The proper employment of these powers could allow the private sector to operate with greater efficiency. The government could also bring values and ethics into business, to balance profit and self-interest. In one of his fireside chats, FDR stresses the government’s dual role for business:

> Step by step we have created all the government agencies necessary to insure, as a general rule, industrial peace, with justice for all those willing to use these agencies whenever their voluntary bargaining fails to produce a necessary agreement…The course we have followed fits the American practice of Government – a practice of taking action step by step, of regulating only to meet concrete needs…(September 1934)

Here, FDR declared that the government was a necessary and vital participant in the business sector. Through its legislative powers, the government could "civilize our industrial civilization" and restore harmony to a previously chaotic environment (FDR September 1934). For FDR, fostering such an environment was critical to economic success, as well as to individual and national well-being. In this manner, FDR advocated government intervention to establish a foundation of strength and stability – both economic and moral – within the economy.

Despite their support for government intervention, some government officials did not want government intervention to become intrusive. Given the sweeping reforms of the SSA, they especially did not want these changes to constrain the private sector. For example, in a radio address, Perkins responded to the concerns raised about the government's old-age insurance plan:

> Many of you will be interested to know that the two proposed annuity systems in no way infringe on the commercial annuity markets. Officials of insurance companies…feel that the measures we propose will prove advantageous to their companies rather than the reverse, in so far as they promote public interest in the insurance movement. (5)

Here, Perkins displayed the government's desire to act as a productive and supplementary player in the business world, rather than as an invasive hindrance. Members of the government recognized that the balance between government intervention and free markets was a delicate one – especially in a situation where government intervention involves insurance and employment schemes. They took definitive steps to minimize interference while instituting ground-breaking legislation.

The SSA expanded and affirmed the role of the government as a protector. By assuming its role as a "sponsor," "principal" and "administrator" of social insurance, as well as its primary financial "contributor," the government established itself as the last resort for Americans (Kulp 53). The SSA significantly increased the government's burden by shifting the responsibility for unemployment, caring for the elderly and the disabled from the private sector to the government. As a result of the SSA, Americans were to become more dependent on the government for their well-being. FDR commented:

> In this same process of evolution we are keeping before us the objectives of protecting on the one hand industry against chiselers within its own ranks, and on the other hand the consumer through maintenance of reasonable competition for the prevention of the unfair sky-rocketing of retail prices (Fireside Chat, June 1934)

In this manner, advocates of Social Security advocated an expansion in government assistance that changed the role of the government in numerous ways.

The Economists Discuss Social Security

Economists writing at the SSA's inception and in the years thereafter largely favored the creation of the program. Overall, they recognized the SSA's value as social insurance – in particular, its emphasis upon the collective responsibility of society to respond to the needs of its individual members. Social Security Board member W.R. Williamson wrote in an article for the *American Economic Review*:

> Our pride in our individual independence must not hide our mutual interdependence. We must understand quantitatively the extent of the contingencies of death, old age, sickness, and unemployment in order that our personal budgeting may include provision for these common elements. We need also the recognition that a pooling of resources along insurance lines must clearly supplement the individual provision along banking lines. (99)

In this instance, Williamson expressed sentiments shared by other economists at the time: insofar as the American economic system relied upon the individual, self-interested economic agent to function properly, the SSA also constituted a critical feature of the system because of its protective measures – especially for those who could not fully participate in the economic system. Abraham Epstein, a leading writer on social insurance, advised economists to "be aware of social forces" in their discussion of economic and social problems (Foreword). Economists supported the SSA upon economic and social grounds, and embodied this notion in their writings during the creation of the SSA.

Without a doubt, European social insurance systems influenced the Social Security discussion among American economists. In a way, the economics profession's acceptance of the SSA stemmed from the existence – and success overall – of social insurance programs in Europe. The social insurance programs in Europe served to produce numerous desirable results, including greater efficiency, national stability and health, and patriotic idealism (Epstein 27). Economists observed these results and concluded that, just as European countries and other great nations had adopted social insurance to meet the problems of security, Americans should do the same. In addition, the success of European social programs enhanced the credibility of the "social view point," which conflicted with the traditional "individualist" viewpoint within economic literature (Williamson 111). In this manner, European social insurance programs served as a guide for economic analysis, and American economists used them when making suggestions for the American system.

Despite their support for the creation of the SSA, economists perceived several problems with its design. Their literature addressed these problems and occasionally offered public policy solutions to resolve them. Above all, economists were concerned with how the expensive program would be financed and whether a more practical system could be devised to finance the program. Here, Institutionalist economic thought played a prominent role in the discussion, and it also appeared in the debate over the efficacy of government support compared to private insurance. Besides these issues, the SSA's redistributive effects alarmed some economists, and their writings attempted to determine the fairness and equity of the program. Besides the SSA's redistribution of wealth, its impact upon various markets – among them the labor market, the capital goods market, the money market, and aggregate demand and supply – also troubled economists. Using primarily Keynesian analytical tools, economists sought to understand the effect of the SSA upon these market equilibria. Economists also devoted attention to the impact of SSA upon the household's savings decision. In this manner, the economic literature around the time of the creation of the SSA exposed the system's flaws perceived by economists at the time.

The Debate over Financing

At the beginning of the SSA, numerous economists raised questions regarding the financing of the Social Security system. They focused primarily on the financing of the old age benefit plan and secondarily on unemployment benefits. In 1935, the SSA was financed through a so-called reserve plan, which attempted to "make the value of current assets equal to the present value of accrued liabilities, tax receipts being supplemented with earnings from reserves" (Harris 7). Quite simply, the present value of tax receipts was supposed to equal the present value of future benefit payments. Under this plan, receipts from payroll taxes were allocated by the Treasury to an old age reserve in an "amount sufficient as an annual premium to provide for the payments…determined on a reserve basis in accordance with accepted actuarial principles" (Witte 15). These proceeds were then invested in United States debt. Several economists doubted that this old-age reserve system was an appropriate way to handle such a vast influx of funds, and they proposed alternatives to the system. Despite their efforts, however, economists encountered great difficulty in their search for an appropriate financing method, which resulted in a great deal of debate within the literature.

Economists opposed the reserve plan for several reasons. To start with, economists pointed out that the system could become "unmanageable" and result in increasingly higher costs over time, thereby "unjustly burden[ing] the younger and better employees" (Witte 18). Closely related to this objection was the notion that, due to the investment of the reserve funds in United States debt, the interest payments on the reserve trust would create an additional burden upon future generations (Witte 20). Other economists believed that, in addition to generating undue burdens upon future generations, the reserve plan might also cause "serious disturbances in the normal flow in private channels of income used for consumption and a reciprocal disturbance in the flow of funds for investment" (Brown 62). Furthermore, economists doubted the sustainability of the reserve system because a multitude of variables prohibited the government from accurately predicting commitments in the future, resulting in substantial errors and underestimation (Harris 8). With respect to unemployment benefits, noted Eveline Burns, the impossibility "to know beforehand how large a sum will be required" during future depressions made the reserve system hazardous (1936: 21). For these reasons, economists opposed the reserve plan initially created by the SSA.

An alternative solution supported by numerous economists was the pay-as-you-go system. In an in-depth analysis of social insurance entitled *Economics of Social Security,* Seymour Harris described this financing system as follows:

> Pay-as-you-go financing is deficit financing in the fullest sense. Here large obligations are incurred; and an implied promise is made that the required taxes will be forthcoming. The present value of benefits is very large relative to current assets, or even relative to receipts from *definite* tax proposals for the future. (9)

Under the pay-as-you-go financing scheme, the government would abolish – or at the least, minimize – the reserve trust. Instead, it would match current tax receipts with current benefits according to the economic climate. By eliminating the reserve, the government might allocate any excess funds towards productive projects. Similarly, the government would maintain benefit payments during economic downturns by assuming debt. Economists like Burns hoped that such a policy would make "the old age security an active instrument of fiscal policy in stimulating business recovery and avoid…the curse of 'oversaving'" (Brown 63). In addition, advocates for the pay-as-you-go system believed that "financing exceptionally heavy expenditures for unemployment benefits out of borrowing to be repaid when incomes increase" was the better way to handle economic downturns (Burns 1936: 21). Rather than remove such an enormous amount of capital from the market, these economists believed that deficit financing would allow the government to return some of this available capital to the marketplace. For these reasons, some economists adamantly defended the pay-as-you-go system in their work.

However, a number of economists expressed doubts about the viability of the pay-as-you-go system. The chief problem, these opponents said, was that "higher taxes must be raised from some source or promised benefits be reduced" to sustain the pay-as-you-go system in the future (Witte 23). Most likely, claimed Edwin Witte, the higher tax rates would be derived from increases in the contribution rates of employees and employers – not from the general public – like they had in the German social insurance program during that time (23). Moreover, other opponents asserted, the pay-as-you-go system effectively contradicted the nature of the SSA as a social insurance program. J. Douglas Brown criticized the pay-as-you-go system in the following manner:

> The great advantages of long-run equities between the insured and the insurer are submerged under a welter of temporary expediencies. But the advantages of conserving equities in a social insurance system [a reserve system] are not only financial in nature but include the preservation of the relationship between contribution and benefit that is essential to economic and political stability in a capitalistic democracy. (63)

For some economists, maintaining the link between the insurer and the insured – as they believed the reserve achieved – was a critical feature of the system. A pay-as-you-go system presented a serious threat to this aspect of the SSA. In this manner, economists expressed doubts about the practicality of the pay-as-you-go system as an alternative to the reserve system.

The Discussion over Distribution

Another area of the SSA that drew serious attention from economists was the transfer of wealth created by the SSA. Within the economic literature during and shortly after the creation of the SSA, numerous economists examined the redistributive nature of the system. The SSA produced a "redistribution of an existing burden" to provide adequate protection for the unemployed and the old-aged (Burns 1936: 13). In particular, the economics community sought to discover which segments of society – employers, employees, or the public – faced an increased financial burden caused by the SSA. Similarly, they investigated how future generations would be impacted by the program. In this manner, the fairness or equity of the SSA became a central issue within the economics literature.

A major issue regarding the redistribution of wealth was how employers would treat the Social Security tax. Viewing the tax as an increased operating expense for companies, some economists feared that producers would pass the tax on to consumers through higher prices, at least in the short run (Slichter 52). Burns wrote:

> But it is probable that those who, like organized labor, believe that in financing through taxes on payrolls, they are compelling employers to carry a large proportion of the cost, will be disappointed. The greater part of the employer's contribution is likely to be shifted forward to consumers...(16)

As this excerpt shows, economists were quite uneasy about the incidence of the payroll tax. Additionally, while the SSA sought to hold employers partly accountable for unemployment benefits, some economists believed that workers might actually be facing the greater burden through decreased wages. James K. Hall affirmed this notion in his 1939 essay entitled "Incidence of Federal Social Security Pay Roll Taxes":

> In brief, the incidence of the pay roll taxes of the Federal Social Security Act with its present provisions is viewed as tending, in the long run, to rest principally on wages, with a significant but decidedly minor part of the burden on profits. (63)

In this manner, economists attempted to come to terms with the pay roll tax burden in their literature.

Economists who studied the redistributive nature of the system had several concerns about the redistribution of wealth between younger workers and older retirees. Paul H. Douglas, a leading economist at the time of the program's inception, wrote that one of the major consequences of the system was that "contributions by and for the younger workers will not only provide for their own future but for that of the present generation of older workers as well" (8). Younger workers faced an additional burden because they were providing funds for their own livelihood as well as for those of existing retirees. Younger workers also suffered, claimed some economists, because their benefit payments during retirement would be significantly lower as a percentage of their total earnings (and contributions) than those of the early retirees (Witte 24). However, if the reserve funds were used productively, some economists like Burns felt that younger workers might also be helping future generations pay for the program (1936: 17). Overall, the additional burden placed upon younger workers concerned economists.

At the same time, economists pointed towards other segments of society that might experience unfair burdens as a result of the inequities created by the SSA. In his opposition to the pay-as-you-go system, Witte identified future generations as another group who may face an additional financial burden. If future tax rates were raised to preserve the level of benefit payments, he wrote, then the pay-as-you-go system "is likely to prove very unfair to…future employers and employees" (24). Economists also noted that the situation for future generations would be aggravated if beneficiaries were to demand greater benefits. Douglas pointed out that another group of individuals who might suffer were those unemployed workers who, despite having contributed to the system, had not acquired enough weeks of unemployment to qualify for unemployment compensation (14). These individuals would be unfairly excluded during an economic downturn. A final segment of society that might be adversely affected was the general public, specifically those who earned lower incomes. The general public might undergo an increased tax burden if interest payments on the reserve's debt were funded through general taxation (Schwulst 123). Adding to this idea, Burns asserted that the "the low income receivers will…carry the major responsibility for financing the new security given by those sections of the Act which are allegedly financed out of general taxation" (17). In this manner, economists identified other groups who might face an unfair burden as a result of the SSA.

The Impact upon Market Equilibria and Household Savings

A great deal of the literature discussing the SSA in the late 1930s dealt with the influence of the SSA upon household savings decisions and the various markets. Due to the pay roll tax, economists noted, effects in the labor market, as well as the capital goods market, were inevitable. In addition, the accumulation of vast funds would clearly have an effect on the money market and the interest rate; and, these markets affected aggregate supply and aggregate demand. Besides examining these markets on a macroeconomic level, economists also investigated how the SSA would change household savings decisions. In this manner, the discussion of the SSA within the economic sphere also involved its impact on households and various marketplaces.

Many economists believed that the SSA would have a serious impact within the labor market. The tendency of producers to pass on the major portion of the pay roll tax to workers by reducing real wages constrained labor supply. E.B. Schwulst predicted that these changes would be considerable:

> [Producers will end up]…either reducing wages or by not making wage increases as large as they would otherwise be, or by curtailing the number of employees, or by not taking on as many employees as they would otherwise take on…(122)

As this passage shows, some economists understood that the SSA's pay roll tax would greatly affect the labor market by influencing the wage rate, the demand for and supply of labor, or both. Taken to an extreme, the pay roll taxes might destroy labor-intensive industries (Brown 64). In turn, changes in the labor market had consequences for the Social Security program, for the program derived its funds from pay roll taxes and extended benefits for unemployment compensation – both of which were related to the labor market.

Bearing in mind the changes in labor input that might follow the SSA, economists also argued that the SSA would change the capital goods market. According to several economists, the higher real wages might encourage producers to employ more machinery to maintain production levels. Hall wrote:

> The possibility of evading part of the burden impact of pay roll taxation through increased mechanization should have the effect of increasing the demand for capital in these industries, especially where the demand for the product is comparatively inelastic, as should also be the effect of induced inventions. (63)

As a result of the pay roll tax, then, producers would allocate greater portions of their funds to capital investment and laborsaving machinery. Consequently, economists predicted, the "displacement of labor by machines" would occur (Burns 1936: 19). Thus, economists concluded that the SSA would impact the capital good market.

Economists were also wary of the effects of the SSA upon other markets. In particular, economists recognized that the SSA would greatly influence the monetary and credit markets. Schwulst wrote the following about the Treasury's newfound power as a result of control over the reserve:

> It [the Treasury] will have hundreds of millions of new funds at its disposal each year which it can pay into the money market, thus exerting an easing tendency on money rates; or it can, by withholding the funds form the market, tend to harden money rates. (126)

While economists viewed favorably the lower interest rates brought about by the New Deal, they also feared that the Treasury's accumulation of funds in the reserve trust could lead to higher interest rates (Harris 15). Higher interest rates, in turn, might dampen consumption and investment, adversely affecting aggregate demand and potentially weakening the economy. Likewise, some economists claimed, the accumulation of funds might detract from private investment, while others believed that the withdrawal of capital would unfavorably interfere with the bond market, placing a ceiling on bond yields (Douglas 126). In this manner, economists discussed other ways in which the SSA would impact market equilibriums.

In addition to analyzing the influence of the SSA on various markets, economists examined how the Social Security system affected household savings decisions. Despite the widespread belief that pay roll taxes would reduce personal saving, economists believed that the SSA would generally increase, rather than hamper, personal savings. By creating a protective foundation of savings, economists argued, the SSA encouraged individuals to build upon the solid base it created. In this sense, it would become a supplement to private group insurance for individuals (Myers 686). Economists did not consider the SSA likely to decrease personal savings.

A concern lying behind the attention to personal savings decisions was secular stagnation. Some economists believed that forcing savings upon households and accumulating those funds into a reserve would result in oversaving by households. Oversaving would reduce the amount of capital available for private investment, and would reduce aggregate demand. In this manner, the SSA pay roll tax could harm the economy because aggregate demand would be unable to match aggregate supply. Using Keynesian analytical tools, however, some economists responded to these concerns with solutions that would combat secular stagnation. Specifically, they recommended government intervention – either by reducing the interest rate or undertaking public investment through deficits – to compensate for the lack in aggregate demand (Harris 93). Besides, they pointed out, individuals with lower incomes would most likely spend any benefits they received through the program, which would help support aggregate consumption demand

(Schwulst 122). Thus, economists discussed the pros and cons of the SSA with respect to household savings.

Styles of Economic Thought Appearing in the Economics Dialogue

Within the debate over financing, Institutionalist economic theory assumed a prominent role. In particular, Institutionalist economic thought appeared in the belief among some economists that the government should accumulate reserves. Brown wrote:

> While mathematically it might be possible to work out a neat balance between income and disbursements and to avoid the need of any reserve, the plain facts of administration require something of a contingency reserve to permit ready adjustment to short-term economic change…It seems desirable to have some shock absorber in the financial mechanism to carry the system over the humps and valleys of cyclical fluctuations…(64)

Along with other economists, Brown believed that some form of the reserve system was necessary for the program's long-term survival. In this sense, the Institutionalist notion of implementing defensive measures – namely, a reserve system – against economic change manifested itself in the economics literature. Besides establishing a reserve system, some economists believed, government financial intervention should also help the system adjust to change. Brown expressed this widespread belief in the following manner:

> Interlocked with these economic considerations is the need for government subsidies in a system which involves a pronounced secular rise in costs. The great shift in the age balance of our population is…the result of…forces within society itself. Only that society, through continuing governmental policy, can deal effectively with the economic necessities arising out of the shift. Through proper timing, financial participation by government in the old age insurance system makes possible an adjustment to dynamic change which otherwise might be fraught with grave difficulties. (65)

In true Institutionalist form, economists considered government intervention an imperative feature of any financing plan. In this manner, Institutionalist economic thought influenced the economists' discussion of the financing of Social Security.

In addition to Institutionalist economic thought, Keynesian economic doctrine greatly influenced the economists' discussion of market equilibriums. In the preface to his book, Harris explained the Keynesian influence over American economists in the late 1930s:

> He [Keynes], more than anyone else, has demonstrated to the economist not adequately trained in mathematics the importance of putting any concrete program in the general picture. We must consider the repercussions of social security on money, the rate of interest, savings, investment, employment, etc., and the effects of changes in these

> variables upon the security program. The growing popularity of a general equilibrium approach owes much to him. (vii)

Here, Harris explained that the manner in which economists discussed the impact of the SSA upon aggregate supply and demand demonstrated the prominence of Keynesian economic thought. Using this fundamental Keynesian concept, economists were able to examine the effects of the SSA upon different markets – labor, money, and credit – simultaneously. In a sense, Keynesian doctrine encouraged economists to understand the inter-relations of markets. As a result, Keynesian doctrine greatly influenced some of the economists who examined the effects of the SSA.

Conclusion

The early economists identified several of the more critical issues in the Social Security dialogue. Specifically, they fittingly paid a great deal of attention to the financing of the program, proposing several distinct options and analyzing the manner in which a large withdrawal of capital would affect the economy on the macro- and microeconomic level. Reflecting the dominance of Institutionalist economic theory upon within the discussion, these economists generally believed that the government – not the private sector – should handle the administration of the program. For several economists, the government had an "essential function to perform as a catalyst, as a coordinator, as a regulator, and as a stabilizer of economic activity," and their literature defended the benefits of economies of scale with respect to an extensive, government-run social insurance program (Barber 1985: 41). However, some early economists acknowledged the potential pitfalls of any Social Security financing system, especially those hazards stemming from an increase in life expectancy or in birth rates, both of which would place a serious strain on the system's long-term sustainability. As a result of these problems, they argued, the government would eventually need to raise the payroll tax or reduce benefit payments. Given the political unpopularity of the latter, these economists contended that an increase in the payroll tax was nearly inevitable for the system to survive in the long-term.

While many economists supported a government-sponsored social insurance program, they were extremely wary of fiscal irresponsibility relating to the program's administration. These economists worried that the accumulation of large reserves might compel members of government to succumb to the requests of special interest groups, thereby amplifying the risk of the government using the funds unproductively. Schwulst aptly described this concern in the following manner:

> There is a very real danger, however, in the possible misuse by Congress of the large reserve funds which will be accumulated. Congress may forget the sound actuarial principles which underlie the creation of these reserves and when they funds accumulating far in excess of current payments, they may be inclined to yield to this pressure group or that pressure group and appropriate the money for unwise spending in no way related to the purposes of the legislation. This is a very real danger. (128)

Any misuse of these funds, argued Schwulst and other economists, would "mean disaster to the whole scheme and greatly increased future burdens in the form of additional taxes upon the general public if the scheme is to remain solvent" (128). For these reasons, the early economists stressed the importance of sound fiscal policy, which would require the investment of any funds in sensible public works and conservation projects that would be "economically beneficial to the whole country" (Schwulst 128). Additionally, these economists noted, any government projects should not interfere with but rather complement those works of the private sector. In this manner, the earlier economists adequately understood the issues of the SSA, and they also anticipated some of the problems to come.

The Social Security Reform Dialogue of Today

As Laurence Kotlikoff points out, the notion of government support for the elderly originated in Germany during Otto von Bismark's rule in the 1890s (368). Since then, numerous countries including the United States have created a system for "alleviating poverty among the elderly, providing life-span insurance via old-age annuities, overcoming the Samaritan's dilemma by forcing everyone to save, and, in many countries, extending coverage to include old-age and health insurance" (Kotlikoff 368). Despite all of its laudable objectives, Social Security has become a premiere topic of discussion among numerous segments of society.

One such segment is the professional economics world. Both international and domestic economists have recognized the need for Social Security reform. Since 1968, when James Buchanan suggested that taxpayers be given individual retirement accounts and thereby eliminate the pay-as-you-go system (Feldstein 1996: 3), a number of economists – welfare, financial, macroeconomics, among many others – have attempted to resolve the system's problems. Economists point out that the current system is "limiting world saving, investment, and growth [and] it threatens to bankrupt the young and future generations of some of the world's leading nations" (Kotlikoff 368). Martin Feldstein, a respected American economist who has become a staunch supporter of Social Security reform, discusses the way in which the current system distorts the labor market and reduces welfare via numerous deadweight losses. He believes that "mandatory contributions to an unfunded social-security plan are real taxes with a very substantial deadweight loss" (1996: 3).

In the United States, the aging population (especially the baby-boomers) threatens the future of the Social Security program. Edward Gramlich writes the following:

> …the underlying demographics of the country are such that projected benefits are rising rapidly compared to payroll tax inflows, so that once the fund assets go beyond the safety level at some future date, the funds will be increasingly out of balance after this date. (56)

As a result, benefits for future taxpayers will decrease relative to the contributions they have paid to the system. Such problems are certainly not limited to the United States, and economists and policymakers worldwide have begun to address them. Sylvester Schieber and John Shoven write,

> Thus, while some countries may have older or younger populations than we do now, most are aging, in a fashion similar to ours. Many other countries, however, are moving more aggressively to control the cost of their public retirement programs. (373)

Throughout the Social Security reform discussion, American economists allude to various policies already implemented by countries, for "there is much to be learned from what others are doing" (Schieber and Shoven 373). Within the economics literature, the most frequently cited reform is the 1981 Chilean reform. Economists have used the 1981 Chilean reform as a model for analyzing private individual retirement accounts that are mandatory and fully funded. Domestic economists – regardless of their personal suggestions – all agree that the United States must pursue reform in order to resolve the growing problems in the system, just as the other countries have already done in response to their own problems.

Members of government have also recognized the need for Social Security reform. In 1961, John Fitzgerald Kennedy foresaw the likelihood of reform when he said,

> The social security program plays an important part in providing for families, children, and older persons in time of stress, but it cannot remain static. Changes in our population, in our working habits, and in our standard of living require constant revision. (Kennedy 1)

Since JFK's remarks about the status of Social Security in a dynamic economy, it has become evident to the government that reform is necessary. Lawrence Summers, Deputy Secretary of Treasury under Clinton, remarked that "the challenge of an aging society [and] rising dependency [and] longer retirement" require that the United States must act now in order to maintain the system's solvency (1-2). The time for reform is now, he says, because "in an era of surpluses we have the means and the opportunity to protect Social Security for future generations of Americans" (2). Jacob Lew, Director of the OMB under Clinton, stresses the insurance aspect of Social Security. He states that many beneficiaries "rely on Social Security for their retirement security – and for protection for their families against disability and premature death" (4). Quite simply, the government wants to ensure that future taxpayers will receive the same benefits – or insurance – relative to the contributions they have paid to the system.

The reform dialogue is not merely an exchange between policymakers and economists. Instead, numerous other segments of society contribute to the discussion. Special interest organizations submit various ideas and offer reform proposals that depend upon the interests supported. Some of these special interest organizations aptly capture popular sentiment. Likewise, business media tend to present material in a manner agreeable to their audience. Geared towards individuals and businesses governed by self-interest, these media gravitate towards the creation of personal retirement accounts. The business media's stance, coupled with the voice from business interest groups, illustrate the feelings of a great portion of the private sector. In addition, Social Security reform has emerged at the forefront of the agendas of non-governmental research organizations (think tanks) due to its political and economic importance. Many think tanks recommend the privatization of Social Security, or the investment of these funds in private capital markets. Finally, popular culture reflects the influence of the Church in the reform discussion and, more importantly, the widespread notion of the 'social safety net.' Together, these participants voice a diverse range of solutions and employ multiple styles of economic thought in the Social Security reform colloquy. By doing so, they ensure that any solution will incorporate the many concerns raised.

The Professional Economics Community

To cure the ailing system, economists have put forth a number of proposals. Though these proposals differ in certain ways, they do share common characteristics, most markedly one that "represents a movement away from highly redistributive systems to those in which benefits are based on contributions and life expectancies at retirement" (Schieber and Shoven 374). In "Proposals to Restructure Social Security," Peter Diamond, an American economist who has an influential voice in the discussion, examines five basic proposals for social security reform:

> 1) indexing of the normal retirement age to life expectancy… 2) investing part of the trust funds in private bonds and equities rather than solely debt; 3) partial privatization of Social Security… 4) replacing Social Security by individually mandated savings… and 5) mandating employer-provided retirement savings… (68)

An expert in the field, Diamond evaluates these proposals within a framework that has become standard among modern economists. In its most simple form, it is a cost-benefit analysis that compares each proposal to the current Social Security system.

The analysis becomes rather complex when one considers the multitude of effects resulting from Social Security reform as well as the numerous variables that determine these effects. Olivia Mitchell and Stephen Zeldes illustrate the complexity of the discussion in "Social Security Privatization: A Structure for Analysis." They expose key issues in social security reform, issues that range from household risks (political, social, insurance) to changes in household behavior (work, saving, portfolio decisions). In addition, they also point to effects upon national savings and administrative costs (364-366). For this reason, economists from a number of subfields contribute to the discussion, for it affects so many segments of the economic world. Besides understanding the economic aspects of Social Security reform, economists must also deal with the political side of Social Security reform. In order to make any change possible, economists must convince the public and the government that such a proposal would indeed produce benefits that exceed those of the current system. Additionally, they must also deal with the implications for redistribution.

The recent discussion within the economics community on Social Security indicates the primacy of neoclassical economic thinking over other styles of economic thinking. While Social Security originated from Institutionalist and Social Democratic roots, neoclassical economic thinking dominates the current investigation of Social Security reform. However, several leading economists have pointed towards certain shortcomings in the neoclassical analysis. For example, Feldstein voices a serious concern in his argument for privatization:

> The key issue is therefore the extent to which Social Security wealth reduces private saving. Economic theory alone cannot provide an unambiguous answer. Even if all individuals were rational life-cycle savers, each dollar of Social Security wealth would not necessarily replace exactly a dollar of real wealth… The relative importance of this induced retirement effect and of the more basic wealth replacement effect will vary from individual to individual… [and more important] is that an unknown number of individuals who are irrational and myopic may not respond at all to the provision of Social Security benefits. (7)

In this example, Feldstein implies that certain neoclassical assumptions about economic behavior may not allow economists to reach a clear conclusion to the problem. Similarly, Diamond writes, "We [the discipline] have come to think of privatization as a new route to greater efficiency and lower costs. Thus perhaps the most surprising aspect of the Chilean reform is the high costs of running a privatized social security system" (76). As Diamond shows, Social Security reform in Chile has effectively gone against standard neoclassical economic thinking. In this manner, the Social Security discussion creates additional areas for exploration among economists who wish to reform the system.

The Government

President Bush has put forth a proposal that differs from that one of his predecessor. In an effort to "save Social Security," President Bush suggests that the government allow younger workers to have "individually controlled, voluntary personal retirement accounts, which will augment the Social Security safety net [and] earn higher rates of return" ("Issues" 1). He believes that the opportunity for an investment-based system would "allow everyone to build assets and independence [and] help workers build wealth that can be passed on to their children" ("Issues" 1). This proposal contrasts with that of former President Clinton, who highlighted the use of the surplus to simultaneously pay down Federal debt and credit the Social Security Trust Fund. Moreover, Clinton also recommended that "a small portion" of the Fund's assets "take the form of holdings of corporate stock" (Lew 6-7). A government move to accumulate assets in the private sector, though aiming to maintain Social Security solvency, is quite controversial among politicians and economists alike. Interestingly enough, Bush responds to this controversial proposition by stating, "The government itself must not invest Social Security funds in the market…[and] the Social Security surplus must be locked away only for Social Security [and not other government spending]" (1). Though sharing the same goal as Clinton's proposal, President Bush's proposal fundamentally differs from it in terms of its approach and philosophy.

In his speech before the Ranch Cucamongo Senior Center, President Bush reveals the multiple styles of economic thought that shape his proposal. Most unmistakable – and most disguised – is the influence of neoclassical economic thought. This style, which assumes that an individual plans over an entire life horizon, emerges as a key player because of Social Security's effect upon the individual's work, savings, and consumption decisions over the entire life span. President Bush does not wish to interfere with those retired or near retirement, for they have already made long-term decisions accounting for Social Security benefits. However, he does want to enhance the opportunities – choices – for young people over their lifetime and impact the decisions they make for themselves and their children. His proposal for individual retirement accounts will "allow even low-income workers to build wealth, which they will use for their own retirement and pass on to their children" ("American Promise" 2). Similar to a number of neoclassical economists, President Bush unequivocally believes in the individual's capability "to make their own decisions and manage their own money" ("American Promise" 2). In short, he assumes rationality in economic planning. In this fashion, neoclassical economic thought impacts the government's discussion on Social Security reform.

While neoclassical economic thought has recently emerged in the government's Social Security reform debate, other styles of economic thought pervade Bush's speech. For instance, he relates economic freedom to social and political freedom, clearly denoting classical economic thought. Bush says, "Ownership in our society should not be an exclusive club. Independence should not be a gated community. Everyone should be a part-owner in the American Dream" ("American Promise" 3). In addition to relating the importance of individual retirement accounts in terms of political freedom, Bush also claims that the "nation has a vital interest – a moral interest – in making retirement a time of security and health and contribution" ("American Promise" 3). Thus, theological economic thought also manifests itself in the discussion as the government resolves to "affirm the dignity of every life and to reaffirm the social compact between the elderly, government, and future generations" ("Saving" 2). The resounding call to espouse the nation's "values" and to honor the "ancient obligation [to] Honor thy father and mother" shows that Bush's proposal also contains references to theological economic thought.

In this manner, Bush's argument for Social Security reform draws its source from a variety of styles of economic thought.

Despite the prevalence of economists throughout the government, politicians do not always allow their words to fall upon the public's ears. Though Bush reveals the impact of neoclassical economic thought in his speech, he masks its fundamental assumptions with references to classical and theological thought. As a speaker who recognizes the importance of addressing his audience, he accentuates the importance of respect, societal values, and freedom rather than those Social Security reform issues with which some economists are most concerned. His motivations are certainly warranted, for much of the public is not familiar with neoclassical economic thought. In order to espouse individual retirement accounts –a reform solution that is commonly mentioned in the economic literature – Bush must portray the solution in a manner suitable to the common layperson. As shown in his speech, this requires him to absorb other styles of economic thought that are more value-oriented. In this way, Bush's situation shows how politicians experience difficulty when publicly advocating solutions that are largely formed by economists.

Think Tanks

Given the great deal of interaction between think tanks and the government, it is no surprise that the proposals put forth by think tanks mirror those disputed in the government sector. Nonetheless, the role of the think thanks in the reform discussion is vital. They provide forums through which economists and policy makers may share ideas and recommendations with one another. Moreover, they allow economists to discuss policy in some detail, an opportunity not apparent within the professional economics community. By joining in think tanks, economists may practically and realistically apply the knowledge of the academic world to the government and impact public policy.

Robert Reischauer, a well-known economist and senior fellow at the Brookings Institution, garners the support of other respected economists (including Peter Diamond and Henry J. Aaron) to urge the adoption of government-regulated investment of the trust fund. While he acknowledges the issues raised by academics regarding Social Security reform – namely, its effects upon national savings, capital stock accumulation, and the federal deficit, as well as its various transition and administrative costs – he also identifies the political consequences of any plans. He writes,

> An alternative approach would be to relax the investment restrictions on Social Security and allow the trust fund to invest a portion of its reserves in private stocks and bonds. Such investments would increase the return earned by the reserves and reduce the size of future benefits cuts and payroll tax increases… the Social Security System would enjoy the higher returns that other public and private sector pension funds with diversified portfolios realize… [and] Experience suggests both that concerns about political interference are exaggerated and that institutional safeguards can be constructed that would reduce the risk of interference to a de minimis level. (3-4)

Here one may observe the resemblance between Reischauer's proposal and that of Clinton. His position within Brookings allows him to bridge the professional economic world with the political world. Rather than discuss the economics of Social Security, as would be done within the economics world, he focuses on the political logistics of such a proposal. In this sense, he is translating the ideas of economists to a government audience. As a result, his suggestions reflect how both of these spheres – economic and political – influence his view.

Among a large group of economists and politicians, his proposal is quite controversial. Realizing the potential problems of widespread government investment in the private sector, he suggests the following:

> …It would be essential to enact legislation that would create a multi-tiered firewall to protect trust fund investment decisions from political pressures, one that would forestall efforts by Members of Congress or the executive branch from using trust fund investments to influence corporate policy. (4)

He continues his policy proposal by describing its political fine points, which include the establishment of an independent Social Security Reserve Board, the election of private sector fund managers to invest the capital, and the requirement to make solely "passive investments" (4). Again, Reischauer – an economist – expands upon the knowledge gained from the academic world and applies it realistically and practically to the policy world. Furthermore, he also responds to the problem posed by the fund's exposure to market fluctuations. He writes:

> Moreover, the trust fund is unlikely to be forced to sell assets at a loss because the fund has significant and growing reserves, most of which under the various proposals that call for trust fund investment in private securities would continue to be held in special Treasury securities. (3)

However, personal retirement accounts, as senior fellow member Henry Aaron comments, would be "subject to the frightening oscillations endemic in financial markets" (1). In this manner, some economists in think tanks firmly voice their approval of government investment of the trust fund.

The economic thinking that underlies this proposal reflects, above all, Keynesian doctrine. The call for government-regulated investment highlights the government and the perpetuation of its role as a compensation mechanism, especially for the poor and the disabled. In this sense, the solution is a revitalization of the system's foundations during the 1930s. Even more, their proposal inherently revolves around trusting the strength and the reliability of the government, for the government would be managing an enormous influx of funds. The proposal's advocates clearly believe that government regulation will provide a more efficient and beneficial means of Social Security reform than would individual control of personal retirement accounts. Indications of Institutionalist economic thinking also appear in the proposal, for the behavior of the government, rather than that of the market, would help the economy adapt to the changes in demographics and income distribution that risk harming the economy.

Distinctly contrasting with this recommendation is a proposal supported by other think tanks: Social Security privatization through individual retirement accounts. Carolyn L. Weaver, a resident scholar at AEI and former member of the US Social Security Board and the Social Security Council, outlines the proposal:

> If we are interested in moving toward a savings-based system, where workers set aside real resources that are saved and invested to help lighten the burden of future benefits, we have a far better means to do it: personal retirement accounts that workers own and fully fund with their taxes. With accounts such as those, like 401(k) plans in the private sector, workers could be certain that the monies they set aside were there and that the government did not disturb the ownership and control of American companies. All workers, rich and poor alike, would have the opportunity to accumulate real wealth – shielded from political manipulation – and to build estates with which to better their lives and the lives of their children. (4-5)

Numerous think tanks, most noticeably the AEI and the Cato Institute, believe that individual retirement accounts would honor the worker's right to control her own retirement. Instead of the government making investment decisions, NBER President Martin Feldstein points out, "individuals would retain the choice among eligible private managers and those managers would be responsible for exercising the rights of the shareholder" (1997: 4). In turn, the creation of individual retirement accounts would establish a new market that would encourage "fast technical progress and more innovative and user-friendly service for individuals than would occur with a government monopoly" (Feldstein 1997: 7). Furthermore, they say, individual retirement accounts would allow the recipient to earn a higher rate of return in stocks and bonds than they currently do in the pay-as-you-go system. In essence, this Social Security reform plan would enable the worker to secure funds for her retirement as well as for future generations. Given these facts and the nature of think tanks, several think tanks recommend a Social Security reform plan that sharply contrasts with those of others.

Quite similar to Bush's plan, these think thanks' proposal for individual retirement accounts resonates with the styles of neoclassical and classical economic thought. Within this proposal, neoclassical economic thought again emerges in the discussion because of the system's impact upon the life horizon. Even more apparent is the neoclassical tendency to rely upon the market to resolve a crisis. As Weaver writes, "The United States has the largest and most sophisticated financial markets in the world, fully capable of managing the investments of American workers. The government does not belong in this line of business" (1). In the minds of these supporters, the individual's interaction within the market system – rather than government intervention – would provide the adequate solution to Social Security reform.

Accompanying this neoclassical economic thought are fervent classical economic arguments. Rejecting government presence within the marketplace, the proposal's supporters identify the economic norms of well-being and efficiency with the political norms of freedom and justice. Along these lines, individual retirement accounts represent an increase in individual freedom, for individuals gain control over their money, and the government, in a sense, loses control over this money. Here the economic freedom to choose directly translates into a socio-political right. Moreover, Alan Greenspan comments that government investment in the private sector would have "far-reaching potential dangers for a free American economy and a free American Society" (Weaver 3). If the government were to invest the trust fund, they say, it would damage the market system as well as the freedom that unites society; in this case, economic well being and societal freedom are intertwined. In this manner, the think thanks' proposal for individual retirement accounts is deeply rooted within classical economic thought as well.

The Media

Given that numerous forms of media seek to maximize profits, it is no surprise that they tend to present material in a manner agreeable to their audience. This tendency certainly manifests itself in the media's presentation of Social Security reform. In particular, business media like the *Wall Street Journal* or *Investor's Business Daily* gravitate towards the classical notion of free markets and the mercantilist concept of individual prosperity engendering national well being in their examination of Social Security reform. Due to the composition of their readership, which largely consists of business people, these media – mainly in their editorial sections – espouse the creation of individual retirement accounts and the (partial) privatization of Social Security. Other popular media like *The Washington Times*, in an attempt to make the debate a political battle, polarize the views and thereby ignore much of the discussion occurring in between. Essentially, these media fail to properly represent the Social Security reform discussion. By doing so, they compromise their credibility and prevent the public from understanding the issue's complexity.

In January 1999, the *WSJ* printed an impassioned editorial by Milton Friedman. Naming the essay "Social Security Socialism," Friedman discusses the private investment of the Social Security Trust Fund, the plan recommended by former President Clinton and several prominent think tanks during that time. The language with which Friedman argues against the proposed reform would definitely arouse an audience like that of the *WSJ* – or any, for that matter. He writes,

> However, to preserve the fiction that Social Security is insurance, federal government interest-bearing bonds of a corresponding amount have been placed in a so-called trust fund…The only way that the Treasury can redeem its debt to the Social Security administration is…the same alternatives that would be open to it to pay Social Security benefits if there were no trust fund. But the accounting sleight-of-hand of a bogus trust fund is counted on to conceal this fact from a gullible public…Have we not learned from the experience of the past century that private property is the key bulwark of personal freedom? Has that experience not shown how dangerous it is to transfer a larger fraction of the productive assets of the country into the hands of a government bureaucracy? ("Socialism")

Presented to an audience that sufficiently distrusts the government, Friedman's article provokes further suspicion and perhaps adds fear by considering the manner in which "government purchase of private securities would threaten our freedom" ("Socialism"). Through effective, understandable examples, Friedman astutely implies to his readers that the private investment of the Social Security Trust Fund will lead to the government takeover of the private sector or, in other words, socialism. As an economist deeply established in the notion of free markets, he expectedly opposes government interference in the private markets – a view with which a majority of the audience would most likely agree. In this manner, the *WSJ*'s use of Friedman's opinion editorial represents the desire to respond to the interests of its readership.

Similar to the opinions of think tanks like the AEI and the Cato Institute, Friedman's op-editorial on Social Security reform resonates with classical economic thinking. Essentially, Friedman compares the economic ideal of a perfect market system to the political ideal of individual freedom within a stable, self-governing body. For him, the free market system is a source of economic prosperity for individuals as well as society at large. He writes,

> If the corresponding [Trust Fund] sums had been accumulated by private individuals and not used to finance government spending, they would have been a real addition to the nation's capital and not just a bookkeeping entry. Those sums would have been invested in ways citizens or their advisers chose. The end result would have been more productive investment, a larger stream of income and a freer, more responsible, more productive society. ("Socialism")

Combining economic arguments with other arguments about the detrimental effects of large-scale government participation in the equity markets, Friedman opposes the proposed plan and hints at an alternative solution, namely, personal retirement accounts.

This alternative plan is commonly discussed and supported in other business media. Sharing Friedman's and many others' fear of big-government in Social Security reform, an article in *Investor's Business Daily* utilizes similar ideas to encourage the creation of personal retirement accounts. Entitled "The Bear and Retirement Reform," the article defends the creation of personal retirement accounts despite the recent drop in equity markets. Its author comments,

> It was inevitable. Foes of taking Social Security private have used the market downturn to scare the public. But it's hard to counter the long-term facts about the government's retirement program vs. the market. You've seen the numbers…The White House and its supporters say the time is now to begin to convert the system. He's right, no matter what the markets are doing. Trust fund surpluses are set to grow. That means transitional costs will be much more affordable. Green eyeshade accounting aside, private retirement accounts are not only a better deal for everyone. They also reduce the power Washington has over everyone. ("The Bear" 26)

Here the author reiterates Friedman's underlying message: personal retirement accounts relate to personal freedom and prosperity, while government intervention threatens freedom and damages the potential for prosperity. Thrusting the individual's capabilities and the market system is central to the argument.

Even more, the article reflects mercantilist economic thought in that it argues that the creation of personal retirement accounts – which will be most beneficial to those with knowledge of investment and finances, namely, the article's readers – will be beneficial to every recipient and beneficiary. However, the article resolutely ignores some of the crucial arguments against personal retirement accounts, which revolve around the inability of ill-informed individuals to make proper investment decisions. Instead, it falsely claims that what satisfies the self-interest of some individuals will make the entire nation better-off. In this manner, the article – among many others in the business media – neglects the intricacies of the Social Security reform debate in an attempt to defend its own ideology and that of its readers.

While some forms of business media certainly err in their presentation of the Social Security reform discussion, other media misrepresent the discussion as well. Popular daily newspapers often treat the Social Security System as one that is in serious crisis, evoking a sense of urgency for reform among its readers. The system's poor financial outlook, coupled with the "abysmal personal savings rate" of taxpayers, leads these media to embrace any type of immediate reform (Hill 1). At the same time, such a pivotal system being in crisis possesses a particular entertainment value for some readers, who may be intrigued by the notion of 'saving' the system. In a sense, daily newspapers accentuate the entertainment value of the reform discussion through their focus on the system's woes or their seemingly desperate call for reform. In reality, though the system definitely requires reform, the situation is not nearly as disastrous as a reader would infer from some articles.

Similarly, these media mistreat the discussion through their simplification of the issue's complexity. In order to further the entertainment aspect of the discussion, daily newspapers present the Social Security reform discussion as a fight between Republicans and Democrats, or Conservatives and Liberals. As a result, these media transform the Social Security reform discussion into a crisis or struggle among its participants. For example, Patrice Hill of *The Washington Times* writes, "Privatization of Social Security until now has been pushed by conservatives mainly as a way to reform Social Security to ensure it doesn't start going bankrupt as currently projected when the baby boom starts retiring" (2). Disregarding the multitude of non-conservatives who favor privatization, as well as the numerous other proposals for Social Security reform, Hill reduces the Social Security reform discussion to a clash among politicians. In actuality, Social Security reform has moved beyond the political world because of its profound complexity and importance. Portraying the discussion as a political battle seriously overlooks these facets of the reform discussion. As indicated by some of these newspapers, however, the notion of conflict – whether it occurs over the financial well-being of the Social Security System or among the participants within the reform discussion – proves a useful strategy to sell their product.

When some forms of popular media polarize the Social Security reform debate, the public is more likely to disregard the vital contributions from the middle and consider the discussion as one involving only privatization. Fortunately, other media do offer ways in which alternative proposals may be voiced, though they might not necessarily be heard so easily. Nonetheless, these other proposals benefit the discussion in that they add a more informed perspective to the public's view. In some media, individuals argue against the investment of Social Security funds – be it by the government or the individual – because of the unpredictability of the market. Sloan comments in *Newsweek*:

> It's a whole other thing to bet the Social Security trust fund or individuals retirement check on what stock prices might be at any given point…Sorry to disappoint you, but if you're looking for rationality, don't look at the stock market. (2-3)

Contrary to what is commonly presented in some popular media, privatization is not the only viable solution to the Social Security problem. Teresa Ghilarducci and Martin Wolfson, two professors from Notre Dame, present an article in the *National Catholic Reporter* that suggests the following:

> The right way to fix Social Security would be to make the optimistic scenario more likely. Although economic outcomes are less predictable than demographic ones, they are also more susceptible to control by public policy…The best thing that Congress and the president could do for Social Security would be to roll back the policies that have hindered workers from bargaining for higher wages in the past 15 years…(3)

Regarding Social Security as a form of "social, rather than individual, insurance," these authors strictly oppose any serious revamping of the current system (3). In this manner, moderate reform proposals are presented, albeit not as strongly or often as others, in the media.

Special Interest Groups and the Private Sector

Among special interest groups, numerous reform proposals exist that depend upon the interests supported. Acknowledging the moderate views discussed in some media, groups like the Campaign for America's Future, the AFL-CIO, and the New York State Catholic Conference advocate the safekeeping of the current system, lauding it as family protection. These special interest groups best capture the feelings of the public. On the other hand, special interest groups like the National Federation of Independent Business and the Investment Company Institute defend the creation of personal retirement accounts. Their arguments represent the self-interest of their business constituents. Moreover, they illustrate the manner in which a large segment of the private sector supports personal retirement accounts, treating Social Security like any other personal investment earning a return.

The Campaign for America's Future (CAF) is a special interest organization that blends a number of styles of economic thought in its discussion of Social Security reform. As a group committed to "challenging the big money corporate agenda" and exposing "the conservative agenda that has made things worse," the CAF encourages individuals to participate in dialogue regarding economic and political issues while simultaneously pursuing its own progressive agenda ("About the CAF" 1). Social Security reform is an issue to which the CAF devotes a great deal of energy. Additionally, the issue demands their attention because it is one in which a clear division exists between those who advocate privatization (personal retirement accounts) and those who suggest alternative proposals. Garnering the support of numerous public policy experts and economists, among them Henry J. Aaron, Alan S. Blinder, and Edith S. Fierst, the CAF staunchly opposes the creation of personal accounts.

A cornerstone of the CAF's argument regarding Social Security reform originates from Social Democratic roots. In particular the CAF highlights the System's income redistribution between current workers and retirees, as well as future retirees and workers, and its provision of guaranteed benefits for the retired. It writes,

> For over sixty years Social Security's retirement, disability, and survivors' benefits have kept generations of people out of poverty and provided a secure base for middle class retirement. Most Americans will depend upon its portable, progressive, and guaranteed retirement benefits and its social insurance protections to provide at least half of their income. ("A Statement of Principles" 1)

The fundamental Social Democratic notion of fairness through redistribution appears throughout their dialogue. Due to the inability of the elderly or the disabled to provide sufficient income for themselves during retirement, the CAF encourages the maintenance of the current benefit structure, a system that transfers current workers' incomes to these wanted individuals. For the CAF, Social Security reform must also ensure that the System continues to "pay benefits at a higher percentage to the low-paid than to the more highly paid," thereby basing its redistribution upon income class, in part (Fierst 1). In order to sustain fairness, the CAF points to the plight of women, especially widows, who demand attention because of their longer life span and their lower lifetime earnings on average ("Poor Elderly Women"). Stressing Social Security's elimination of poverty among the retired and the infirmed through income redistribution, the CAF clearly expresses Social Democratic thought in their contribution to the reform discussion.

In addition to the Social Democratic notion of fairness through redistribution, the CAF also integrates theological economic thought into the reform dialogue. Basing their stance upon the rights of workers, the CAF considers Social Security benefits one of these basic rights. According to the CAF, individual who "work hard [and] strive to raise good families…deserve to benefit from Social Security" (Fierst 2). In an economy plagued by "falling wages and rising insecurity," the Social Security System yields guaranteed insurance for these workers as they enter retirement ("About Campaign" 1). Along these lines, the CAF advocates preserving the current system.

Theological and Social Democratic styles of economic thought manifest themselves in the opinions of numerous other special interest organizations. Espousing values similar to those of the CAF, the New York State Catholic Conference (NYSCC) advises the following with respect to Social Security reform:

> The key question in reforming social security…should be how our national solidarity is preserved and how the lives of average-and low-wage workers are enhanced or diminished as a result of these proposed changes. Catholic social teaching calls on policy makers to maintain our commitment to the basic security of working people and calls upon people of good will to support a social contract that reflects our enduring commitment to those in our community and nation, as members of one human family. ("Meeting the Needs of Aging New Yorkers" 1)

As this passage shows, the NYSCC recognizes the importance of 'workers' rights,' notably the rights of those from lower income classes, and the collective responsibility to promote "economic and social independence" among the elderly ("Meeting" 1). Social Security reform implies changes in economic conditions and social values, so the NYSCC urges discussion participants to understand its theological stance.

The AFL-CIO, an organization that seeks "to improve the lives of American families, bring fairness and dignity to the workplace and secure social and economic equity in our nation," also embraces these kinds of views in its argument for safeguarding the current system ("Main Page" 1). The current system provides insurance protection for generations of all families when "pensions and individual savings, unfortunately, simply do not reach enough people or provide adequate income" ("Principles" 1). In particular, Social Security cares for disabled workers, surviving children, and surviving spouses in a way that the private sector does not. As a result, the current system upholds social and theological ideals of fairness, justice, and equity for working families and future generations. For these reasons, the AFL-CIO advocates protecting the current system and opposes personal retirement accounts.

Espousing different styles of economic thought than the aforementioned special interest organizations, business interest groups like the National Federation of Independent Business (NFIB) and the Investment Company Institute (ICI) support the creation of personal retirement accounts. These groups treat Social Security like any other investment, that is, one that earns a specific rate of return for the investor. The current system, they point out, is an unwise and inefficient investment for current workers because the rate of return is low relative to other investment possibilities. The future benefits for current workers will not sufficiently compensate them for their contributions to the system. To resolve this imbalance and to earn a higher rate of return, the two groups advocate personal retirement accounts. The NFIB comments,

> PRA's [personal retirement accounts] allow individual to invest some of their own Social Security funds, giving them the freedom to generate higher returns, which will, in turn, increase their retirement income…wealth that can be passed on from generation to generation. ("NFIB warns" 1)

The ICI points out that not only would individuals benefit more from the system, but they would also become familiar with the fundamental concepts of saving and investing. This, in turn, "could have positive effects on the two remaining retirement income programs –individual savings and employer-sponsored plans" (Fink 1). In this manner, these two special interest groups call for personal retirement accounts in the Social Security reform debate.

Within these interest groups and among many in the private sector, the call for personal retirement accounts resonates with the classical and neoclassical styles of economic thought. In line with classical economic thinkers, they believe that the free market system is a source of economic prosperity for individuals as well as society at large. Resembling Bush's and Friedman's arguments, the privatization of retirement funds – without government interference – will provide economic prosperity as well as social freedom. Personal retirement accounts represent an increase in personal freedom, for individuals gain control over their money, and the government, in a sense, loses control over this money. In fact, just as Bush did, the NFIB relates personal retirement accounts to "the pursuit of the American dream" (NFIB applauds" 1). In this manner, these groups espouse classical economic thought and recommend personal retirement accounts as a means of satisfying self-interest and promoting economic and political freedom.

Furthermore, neoclassical economic thought emerges in the discussion because the system affects an individual's work, savings, consumption and investment decisions over the entire life span. Matthew Fink, President of the ICI, says the following about personal retirement accounts:

> First, and perhaps most importantly, the additional choices will enable participants to select investments that meet their own objectives, taking into account factors such as age, income, and risk tolerance. (5)

As Fink indicates, the recommendation aims to expand the choices for these individuals, so that they may reach optimal utility. Even more apparent is the neoclassical tendency to rely upon the market to resolve a crisis. Fink comments, "Private managers [of PRAs] would compete against the government funds on cost, performance, and service, thus improving the system" (2). In the minds of these supporters, the individual's interaction within the market system would provide the adequate solution to Social Security reform.

Even more, their proposal also reflects mercantilist economic thought in that it believes the creation of personal retirement accounts – which will be most beneficial to those with knowledge of investment and finances, namely, their members and interests – will be beneficial to every recipient and beneficiary. Likewise, these groups concern themselves with reform because Social Security impacts business planning and profits. However, their proposal resolutely ignores some of the crucial arguments against personal retirement accounts, which revolve around the inability of ill-informed individuals to make proper investment decisions and the unpredictability of the stock market. Instead, they falsely claim that what satisfies the self-interest of some individuals will make the entire nation better off. In this manner, they overlook the intricacies of the Social Security reform debate in an attempt to satisfy their own self-interest, a clear manifestation of mercantilist thought.

These special interest groups, as well as business media, show the manner in which many spokespersons for the private sector typically favor the creation of personal retirement accounts. Largely composed of individuals and businesses governed by self-interest, the private-sector treats Social Security as a personal investment, just like any other investment designed to earn a return. Their view of Social Security reform – which overlooks the Social Democratic and Keynesian foundations of the system – emphasizes the system's impact upon the recipient's fulfillment of self-interested desires. The current system, they point out, places an unfair burden upon today's workers, whose contributions to the system are relatively greater than those benefits that they will receive in the future. For the private sector, this imbalance is an unsound investment for today's workers because the return on Social Security is extremely low, especially when compared to other available investment opportunities. Furthermore, the private sector regards Social Security's heavy payroll tax as a disincentive to work for some individuals.

The private sector is definitely concerned with the effect of Social Security privatization upon equity markets and the subsequent investment opportunities for Social Security investors and for businesses. Janet C. Arrowood, a managing director for a provider of advanced business and estate planning, presents some of the pros and cons of privatization, which she calls a "political hot potato" (18). Her list of pros includes the following:

> New money chasing a limited supply of equities has a tendency to bid up prices. This results in significant capital gains…New money chasing a limited supply of equities has a tendency to encourage new initial public offerings (IPOs) or follow-on offerings of existing equities. IPOs can be one of the most profitable investments in the equity market. (18)

Such a concern naturally stems from the desire to reach optimal growth and maximum profit. An enormous capital inflow would provide new openings for growth and profits within many businesses, especially investment firms. Moreover, individual retirement accounts and privatization would be "the best scenario" for small businesses, many of whom lack pensions or 401(k) plans, as well as for those entrepreneurs who require "confidence that they will receive some benefit from their heavy payroll tax burden" (Hoover 9). Not only would individuals gain higher returns under privatization, but they would also gain security and reliability through such reforms. For these reasons, much of the private sector encourages privatization of Social Security.

At the same time, the private sector does acknowledge a number of cons associated with privatization. Namely, they understand the risks involved with allowing such a widespread increase in private investment. Arrowood writes,

> People are very unrealistic in their expectations about what equity markets will do. Too often, they chase returns and pull money out after a major market downturn and then stay out of the market during recoveries. This can cause their investments to be worth far less than using dollar-cost averaging and 'buy and hold' approaches. (18)

Perhaps one of the private sector's greatest fears results from its rejections of the neoclassical notion of rationality and rational expectations. Here, their experience in the marketplace –not in the academic world – instills a fear of the possible detrimental effect when ill informed individuals invest their own money. Along these lines, the private sector also realizes that a "sustained or sharp downturn" could substantially reduce beneficiaries' payments (Arrowood 18). Echoing some of the concerns voiced in the economic literature, the private sector is also troubled by the administrative costs of the program and the manner in which the transition will take place. Therefore, while a large portion of the private sector calls resoundingly for individual retirement accounts and privatization, it also understands the potential risks of such a proposal.

The Popular Culture

Although Social Security reform per se is not a prominent topic within popular culture, several segments of popular culture do address the issue of care for the elderly. In particular, the Church exerts an influential voice in the discussion of the current Social Security System and the future treatment of the elderly. Emerging from religious – rather than secular or economic – norms, the Church's beliefs regarding Social Security penetrate various spheres of society. Within the popular culture, their ethical and moral reflection supercedes the contributions from other segments of society, most noticeably, the professional economic world. Subsequently, theological economic thought is prevalent in some of the views of popular culture. In this manner, some parts of the popular culture clearly advocate certain moral values in the dialogue. Among the various groups that influence popular culture, the Church has certainly played a critical role in defining society's view as to treatment of the elderly. Apparently, because of the

Church's influence upon numerous individuals, theological economic thought manifests itself through popular culture. Most importantly, the Church has compelled observers to be more sensitive and more compassionate about those aspects of the Social Security reform debate that "the market" often overlooks. For example, the New York State Catholic Conference (NYSCC) recognizes the importance of "workers' rights," notably the rights of those from lower income classes, and the collective responsibility to promote "economic and social independence" among the elderly ("Meeting" 1).

A great deal of support for safeguarding the current system exists in popular culture because Social Security provides insurance protection for generations of families in a way that the private sector does not. Specifically, the system targets disabled workers, surviving children, and surviving spouses. Furthermore, many believe that receiving Social Security benefits is one of an American worker's basic rights. For them, individuals who work and raise a family for the duration of their life deserve to secure retirement income (Fierst 2). In this way, the current system upholds theological ideas of fairness, justice, and equity for working families, the elderly and future generations.

Attending to ethical and moral considerations before economic and financial ones, the Church encourages individuals "to honor thy mother and father" – including support for them in their old age – and to "love thy neighbor." Even more, the Church's presence in popular culture has advanced the popularity of the 'social safety net,' a notion that many, including *The New York Times*, consider one of the nation's priorities ("Mr. Bush's Distorted Budget"). This notion involves a certain degree of fairness for all members of society, achieved partly by Social Security's redistribution of income between current workers and retirees, as well as future retirees and workers. Because the elderly and the disabled are often unable to provide sufficient income for themselves during retirement, the Church advocates the maintenance of the current benefit structure, a system that transfers income to these wanting individuals. Influenced by the Church's value-oriented arguments, many other Americans have agreed with the maintenance of the current system for these individuals. Accordingly, Social Security has become one of the most successful and popular programs enacted in the United States.

In this manner, the Church plays an important role in the discussion because of its influence upon numerous members and groups. Its adherence to moral and ethical codes –rather than merely market values – changes the way in which popular culture views Social Security and, in general, treatment of the elderly. Though popular culture does not deal with Social Security reform proposals as such, it does address the discussion's underlying and controversial questions of fairness, personal and social responsibility, and justice.

Conclusion

Due to the issue's complexity, Social Security reform invites numerous segments of society to the discussion, and these segments employ various styles of economic thought to address the problem. Neoclassical, classical, Keynesian, Social Democratic, mercantilist, theological – all of these ways of explaining economic phenomena and examining the world appear in the colloquy. According to my research, the crux of the debate involves the equilibration between the System's Social Democratic / Keynesian foundations and the Classical / Neoclassical notions of free markets and self-interest. Attempting to establish a harmonious balance between these two opposing forces has created a number of conflicts that, though not irresolvable, certainly require thoughtful, intelligent dialogue and compromise.

One such conflict in the debate is over the role of the government versus that of the individual. Here, Institutionalist economic doctrine suggests that the government should regulate the investment of the Social Security Trust Fund. Re-establishing the System's roots, this proposal's supporters highlight the government's role as a compensating mechanism, especially for the poor and disabled, without becoming too powerful. Trusting in the reliability of the government, they clearly believe that government regulation will provide a more efficient and beneficial means for provision of retirement income. Additionally, in Keynesian terms, they believe that the government's actions are necessary to generate sufficient aggregate demand. On the other hand, neoclassical economic doctrine proposes that the individual, who plans over an entire life horizon, may gain optimal utility only if provided with more choices, that is, with the ability to control a personal retirement account. Because Social Security affects the individual's work, savings, and consumption decisions over the entire life span, neoclassical economic thinkers emphasize that individuals can and should make decisions regarding their money. Trusting in the reliability of the free market, these proponents believe that the individual's interaction within the market system – rather than government intervention – should be the objectives of Social Security reform.

The conflict between these two stances transforms itself into another clash concerning the role of the government against that of the market. Here, Keynesian economic doctrine continues to stress the strength and the reliability of the government in an instance where the market – or private sector – fails to provide an adequate resolution. Converging with the notions of Institutionalist economic thought, Keynesian doctrine suggests that the government help the economy effectively adapt to economic change. However, classical economic thinkers reject the government's presence within the marketplace, relating the economic ideal of a perfect market system to the political ideal of individual freedom within a stable, self-governing body. Sharing similar views with neoclassical thinkers, they propose personal retirement accounts as well. For them, the free market system is a source of economic prosperity for individuals as well as society at large.

Accompanying these conflicts, which originate mainly among professional economists, think tanks, and the government, is the multitude of other opinions from special interest groups and the popular culture. An underlying notion among Americans is that of the 'social safety net.' This notion involves a certain degree of fairness for all members of society, achieved partly by Social Security's redistribution of income between current workers and retirees, as well as future workers and retirees. The Social Democratic idea of fairness through the redistribution of income, fused with theological concepts of 'worker's rights' and the responsibility to care for the elderly (including one's parents), have embedded the idea of 'social safety net' deep into the American psyche. As a result, any proposals that appear to stand in the way of this objective – namely, personal retirement accounts – experience a great deal of opposition from many segments of society. Furthermore, popular media often convey a sense of urgency; their presentation of the discussion certainly does not always provide the public with a balanced perspective on the issue's complexity.

An interesting characteristic of the reform dialogue is the prevalence of value-oriented styles of economic thought. These styles, including classical, theological, and Social Democratic, muddle the detached, seemingly objective neoclassical voice. In a way, the discussion has pointed towards certain shortcomings in the neoclassical analysis, most noticeably, the assumption of rationality and the assumption that privatization leads to greater efficiency and lower costs. Perhaps these problems prove that reform within the current neoclassical economic thought may be necessary to reach a sensible solution for reform of the

Social Security System. More importantly, their opinions simultaneously signal the profundity of Social Security reform.

The dominance of neoclassical economic thought explains the way in which the nation's mentality has changed since the program's inception. Specifically, it has become more secular and individualistic. The stark contrast between the current reform dialogue and the original Social Security discussion reveals that the country has shifted from a 'social point of view' to a utility-maximizing approach in which the individual – not the community to which the individual belongs – takes priority. Within this perspective, the prominent values of yesterday – like social responsibility – are lost; the neoclassical economic thinkers have not been able to incorporate them into their models as of yet. In a way, these neoclassical participants neglect the origin of the SSA as a redistributive measure meant to instill a greater amount of fairness and equity into the marketplace.

At the same time, today's neoclassical arguments demonstrate a greater analytical sophistication than the arguments put forth by the earlier economists. Even though the concerns of the earlier economists were similar to those of today's economists – especially with respect to the program's financing – current neoclassical thinkers examine the issue in greater detail. Combining theory with concrete data, their models for describing human behavior, though not complete, are superior to those of the earlier economists. For instance, in the dialogue regarding the program's financing, few of the earlier economists advocated – or even mentioned – the privatization of Social Security. In their minds, the government needed to provide the benefit payments to the public since the private sector, not to mention the financial markets, would be inadequate and inept. Today, however, neoclassical economists using complex models and data argue in favor of privatization and personal retirement accounts.

On the other hand, that the value-oriented styles of economic thought still pervade the current dialogue indicates that some of the original purposes behind the creation of Social Security are alive and well. Many individuals who oppose the creation of personal retirement accounts are posing arguments that resemble those put forth around the time of the SSA's creation. In particular, the notion of the 'social safety net' calls to mind the Social Democratic arguments given by proponents of the SSA like Franklin Delano Roosevelt and Frances Perkins. For these individuals, Social Security is still, above all, a form of social insurance designed to enhance the individual's – as well as society's – well being. Other individuals who argue in favor of governmental control of the trust fund present a point of view that reflects the influence of Institutionalist economic theory. In this case, the government must continue its presence within the marketplace by maintaining a system that can repair inefficiencies. Reforming the manner in which the government handles this crucial responsibility, rather than drastically shifting the responsibility from the government to the individual, is at the heart of this Institutionalist voice. Thus, these voices ensure that any reform will preserve at least some of the original purposes of the SSA. Quite simply, their presence guarantees that the numerous conditions – not only economic but also social, political, individual, and cultural – are heard and satisfied in the search for a solution to Social Security reform.

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