

## **REFORMING OUR AILING SOCIAL SECURITY SYSTEM: THE STATE OF THE CURRENT SYSTEM AND ITS IMPACT ON AFRICAN AMERICANS**

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*This essay begins with the history and brief analysis of the current state of the U.S. Social Security system, making a sharp critical analysis of the current Social Security system as it affects Americans and African Americans in particular. Emphasizing the need for reform, this essay encourages privatization of the current system, highlighting the benefits of privatization as a viable reform option with regard to African Americans in particular, and all Americans in general. Mr. Williams offers a comparative study of other countries that have tried and/or tested reformed or privatized Social Security systems.*

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BAMPAC is a nonpartisan, federal Political Action Committee (PAC) founded in 1993. BAMPAC is committed to promoting the message of limited government, the sanctity of human life, excellence in education, economic self-empowerment, and improvement of the moral climate in the country.

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## I. Introduction

The U.S. Social Security system is on the verge of financial collapse and is plunging towards bankruptcy. Funds raised from Social Security taxes are insufficient to provide benefits to Social Security recipients, and the situation needs to be treated as an emergency. The current system can no longer be managed using the same old formula. The current system possesses inequities that affect the younger generations and minorities. Americans, especially African Americans, should demand that lawmakers take action not only to prevent the impending demise of the current system, but also to make the system more beneficial to all segments of the population. According to intermediate projections, the trust fund (Social Security funds) will only be able to cover scheduled benefits until 2032.<sup>1</sup> The Disability Insurance (DI) Trust Fund is projected to be exhausted in 2019,<sup>2</sup> while the Old-Age and Survivors Insurance (OASI) Trust Fund is estimated to run dry by 2034.<sup>3</sup> These funds have been treated in the past as somewhat fungible and can be analyzed jointly.<sup>4</sup> William Cox, Senior Specialist in Economic Policy at the Economics Division of the Congressional Research Service, states that “changes must be made if the system is to pay programmed benefits over the long run.”<sup>5</sup> The future cannot be blatantly ignored. It is imperative that action be taken now and, as opposed to increased taxes, serious consideration be given to privatization as an option of reform. The privatization option has been tried and tested with success in other countries and will greatly benefit all Americans. Future generations deserve to be assured that they will receive their hard-earned retirement checks upon retirement.

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1. See WILLIAM COX, SOCIAL SECURITY: ECONOMIC AND FINANCIAL ISSUES CONCERNING CURRENT OPERATIONS AND REFORM PROPOSALS, CRS 98-833 E, at 2 (1998).

2. See *id.* at 2 n.5.

3. See *id.*

4. See *id.*

5. *Id.*

## II. Brief History

In the mid-1880s, America's demographics began to change, but the traditional systems of economic security were slow to adapt.<sup>6</sup> The industrial revolution transformed society, increasing the urbanization of most farming communities and causing a marked increase in life expectancy.<sup>7</sup> Americans were living longer and causing a strain on a once sufficient economic structure.<sup>8</sup> With urbanization came a greater dependence on wealth generated through the stock market.<sup>9</sup> As such, when the stock market lost 40% of its value and 26 billion dollars worth of wealth in the crash of 1929, it had a devastating effect on many American corporations.<sup>10</sup> "AT&T lost one-third of its value, General Electric lost half of its, and RCA's stock fell by three-fourths within a matter of months."<sup>11</sup> Such events ushered in the era of the Great Depression<sup>12</sup> and led to high rates of unemployment and lower wages.<sup>13</sup> The country plunged into severe economic despair, and the government desperately sought solutions. Far-ranging and extreme solutions were offered in an effort to appease families that were facing the worst economic calamity the nation had ever witnessed. In a program called "Share Our Wealth,"<sup>14</sup> Huey Long, Governor of Louisiana, suggested that the government "confiscate the wealth of the nation's rich and privileged"<sup>15</sup> and guarantee every family an annual income of \$5000.<sup>16</sup> He founded a movement consisting of 27,000 local clubs with a following of 7.7 million Americans.<sup>17</sup> Dr. Francis E. Townsend, a sixty-six-year-old unemployed man with no savings, also offered a plan that was published in a Long Beach, California newspaper.<sup>18</sup> Under his plan, the government would provide Ameri-

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6. See *History Page: Brief History; The Pre-Social Security Period* (visited Mar. 22, 2000) <<http://www.ssa.gov/history/early/html>> [hereinafter *The Pre-Social Security Period*].

7. See *id.*

8. See *id.*

9. See *id.*

10. See *id.*

11. *Id.*

12. See *id.*

13. See *id.*

14. See *id.*

15. *Id.*

16. See *id.*

17. See *id.*

18. See *id.*

can citizens over the age of sixty a pension of \$200 per month, funded by a 2% national sales tax.<sup>19</sup> In about two years, Dr. Townsend's plan had a following of about 2.2 million Americans.<sup>20</sup>

If a pulse test of the country could have been taken at the time, three things would have become apparent. Some believed that nothing could be done about the economic depression; others thought that the country would have to rely on the Christian notion of charity to respond to those in need; and still others believed that the existing welfare system (the Civil War pension program and state old-age pension programs) should be expanded to help rescue those who had suffered.

On August 14, 1935, the concept of a Social Security insurance program was introduced in the United States.<sup>21</sup> The Social Security insurance program offered Americans aged sixty-five and over a guarantee of continued income upon retirement.<sup>22</sup> President Roosevelt, upon signing the Social Security Act, said:

We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.<sup>23</sup>

The Social Security Act's major provisions were Grants to States for Old-Age Assistance (Title I) and Federal Old-Age Benefits (Title II).<sup>24</sup> Originally, the Act only provided benefits to workers upon retirement at the age of sixty-five, and those benefits were structured around payroll tax contributions made during the worker's lifetime.<sup>25</sup> Amendments were made in 1939 to the original Act, which included benefits for spouses and minor children of retired workers, as well as "survivor's benefits paid to the family in the event of the premature death of a covered worker."<sup>26</sup> The amendments represented a move toward a more family-based economic security system.<sup>27</sup> The year

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19. *See id.*

20. *See id.*

21. *See History Page: Brief History; Social Security Since 1935* (visited Mar. 22, 2000) <<http://ssa.gov/history/history6.html>> [hereinafter *Social Security Since 1935*].

22. *See id.*

23. *Id.*

24. *See id.*

25. *See id.*

26. *Id.*

27. *See id.*

1950 ushered in several other amendments that increased the benefits for existing beneficiaries, bringing them in line with the computed cost of living.<sup>28</sup> During the mid 1950s and early 1960s, coverage was expanded to include disabled workers, their dependents, and their disabled adult children.<sup>29</sup>

The 1960s also saw the addition of Medicare<sup>30</sup> and other changes. The 1970s brought about changes such as the inclusion of the Supplemental Security Income (SSI) program to the existing Social Security system<sup>31</sup> and the enactment of an automatic annual computation of the cost of living.<sup>32</sup> Amendments in the 1980s had the largest impact on disability benefits.<sup>33</sup> One such amendment, which was ultimately discontinued in 1983, required the Social Security Administration to conduct periodic reviews of current disability beneficiaries to certify their continuing eligibility.<sup>34</sup> Also in 1983, a bill was enacted that taxed federal employees' Social Security benefits<sup>35</sup> and increased the retirement age.<sup>36</sup> The years 1996 and 1997 also brought about changes to the Social Security system, among which was the welfare reform legislation that terminated SSI eligibility for noncitizens.<sup>37</sup> The Omnibus Consolidated Rescissions and Appropriations Act of 1996<sup>38</sup> required federal payments, including Social Security and SSI, to be made by electronic funds transfer, unless a waiver was granted by the Secretary of the Treasury.<sup>39</sup> The Balanced Budget Act of 1997<sup>40</sup> restored SSI eligibility to certain cohorts of noncitizens whose eligibility

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28. *See id.*

29. *See id.*

30. 42 U.S.C. § 1395ss (1994).

31. *See* 42 U.S.C. § 1381 (1994).

32. *See History of Social Security: A Timeline* (visited Mar. 22, 2000) <<http://www.economicsecurity2000.org/history.html>>; *see also Social Security Since 1935*, *supra* note 21.

33. *See Social Security Since 1935*, *supra* note 21.

34. *See id.*

35. *See Summary of P.L. 98-21, (H.R. 1900); Social Security Amendments of 1983* (visited Mar. 22, 2000) <<http://www.ssa.gov/history/1983amend.html>>. Social Security covered the following: "Federal employees hired on or after January 1, 1984; [] current employees of the legislative branch not participating in the Civil Service Retirement System on December 31, 1983; and [] all members of Congress, the president and vice-president, federal judges and other executive level political appointees of the federal government effective January 1, 1984." *Id.*

36. *See id.*

37. *See Social Security Since 1935*, *supra* note 21.

38. Pub. L. No. 104-134, 110 Stat. 1321.

39. *See id.*

40. Pub. L. No. 105-33, 111 Stat. 251.

otherwise would be terminated under the welfare reforms of 1996.<sup>41</sup> As of 1998, aside from the above-mentioned changes, 12.4% of the payroll taxes are earmarked for the Social Security fund.<sup>42</sup>

Regarded as one of the “sacred cows,” over the last few decades, the Social Security system has been responsible for a dramatic reduction in poverty among the elderly.<sup>43</sup> However, some still believe that more needs to be done under the current Social Security system.<sup>44</sup> Reform is viewed in terms of expanding Social Security’s reach for 3.3 million seniors who still live below the poverty line.<sup>45</sup> Because medical care is so expensive, many poor and elderly citizens spend what little money they have on medical care.<sup>46</sup> Without the Social Security system, “nearly half of the elderly Americans would have fallen into poverty” in 1997.<sup>47</sup> As such, while advocating greater governmental protection of the elderly, some reformers preach the policy of “do no harm”—meaning that care should be taken to prevent any slight decrease in elderly benefits,<sup>48</sup> and any reform to the current system should focus on the original themes and purposes of the Social Security system.<sup>49</sup>

### III. The Future of the Social Security System

With the demographics of the population changing, the issue of Social Security reform is currently a subject of intense debate. The aging post-World-War-II “baby boom” generation, the decline in birth rates, and increased life expectancies are some of the causes for concern regarding the current Social Security system.<sup>50</sup> The baby boomers “will begin retiring in 10 years [and by] 2025 the number of people 65 and older is projected to rise by 75%.”<sup>51</sup> Unfortunately, however, the number of workers whose taxes will support future re-

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41. *See id.* § 5301, 111 Stat. at 597–98.

42. *See COX, supra* note 1, at Summary.

43. *See* David Calahan, *Still with Us*, AMERICAN PROSPECT, July 1, 1999, available in WESTLAW, 1999 WL 3720414, at \*1.

44. *See id.*

45. *See id.*

46. *See id.* at \*2.

47. *Id.* at \*5.

48. *See id.* at \*14.

49. *See id.*

50. *See* DAVID STUART KOITZ, SOCIAL SECURITY REFORM: BILLS IN THE 106<sup>TH</sup> CONGRESS, CRS RL30138 (1999).

51. *Id.*

tirement benefits is only expected to grow by 12%<sup>52</sup> (see Figure I). The current workers per beneficiary ratio is three to one, whereas the same ratio was sixteen to one in 1950.<sup>53</sup> At this rate, the system is bound to encounter some problems before 2034.

**FIGURE I**

[Insert Figure I here]

Those arguing against reform refute the suggestion that demographics is contributing to the alleged collapse of the current Social Security system. Those opposed to privatization claim that the trust “fund is running an annual surplus of more than \$80 billion, approximately 20 percent as much as its current expenditures.”<sup>54</sup> The contention is that the “surplus will generate interest revenue to help support the system as the ratio of workers to beneficiaries continues to fall in the next century.”<sup>55</sup> Assuming that the workforce’s productivity improves each year, fewer workers will be needed to support a re-

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52. *See id.*

53. *See id.*

54. Dean Baker, *Nine Misconceptions About Social Security*, THE ATLANTIC MONTHLY, at \*3 (last modified July 1998) <<http://www.theatlantic.com/issues/8jul/socsec.htm>>.

55. *Id.*

tiree.<sup>56</sup> Skeptics of reform also argue that the forecasted bankruptcy of the current Social Security system is a myth, suggesting instead that the current Social Security system has an enormous surplus that is growing every year and will continue to do so.<sup>57</sup> This view clearly contradicts the projections of the Social Security Board of Trustees<sup>58</sup> (see Figure II).

**FIGURE II**

[Insert Figure II here]

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56. *See id.*

57. *See* Diane Zuckerman, *The Derailing of Social Security: How Cato and Heritage Paved the Way for Privatization* (visited Mar. 22, 2000) <<http://www.fair.org/extra/9905/ss-ttm.html>>.

58. *See id.*

Regardless of the source of the problem, the fact still remains that our Social Security system is ailing. By approximately 2014, benefits will cost more than program taxes can generate, and by 2034, if no reforms are instituted, the program will be bankrupt.<sup>59</sup>

#### IV. Impact of the Current System on Americans: A Case for Privatization

In spite of the numerous good intentions that fueled the creation of the Social Security system, this sixty-five-year-old program is close to the age of retirement. The facts indicate that the current Social Security system requires an intensive overhauling. Under the current formula, the system has serious implications for the growth of the economy and of the American family. In addition, it is certainly an inadequate arrangement for low-income workers and minorities, and it discriminates against America's young people.

Returns from Social Security are dismal. A study by Boston University economist, Laurence Kotlikodd, and Stanford economists, Michael Boskin, Douglas Puffert, and John Shoven, revealed that, although the results varied by age, income level, and marital status, the very best rate of return that any group of citizens could expect from Social Security was 6.3% per year.<sup>60</sup> In 1993, a twenty-eight-year-old, married individual earning a salary of \$60,000 could expect to receive \$750,000 less from Social Security than the amount he paid into the system.<sup>61</sup> Someone earning \$24,444 in 1993 loses \$268,000,<sup>62</sup> and a couple in which both spouses work—one earning \$60,000, while the other earns \$24,444—loses over \$1.2 million.<sup>63</sup> To those Americans who rely on Social Security benefits for a substantial part of their retirement income, these figures are of particular concern.<sup>64</sup>

The impact of the current system on the nation's economic growth is not encouraging. Economic growth has averaged less than 3% of the gross domestic product (GDP) per year, approximately five

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59. See *Saving Social Security for All Americans*, House Republican Conference Fact Sheet, May 25, 1999.

60. See David R. Henderson, *Personal Savings Accounts Would Be Good for Everyday Americans*, AM. ENTERPRISE, Jan. 1997, available in 1997 WL 25293766, at \*3.

61. See Peter J. Ferrara, *Social Security Is Still a Hopelessly Bad Deal for Today's Workers* (last modified Nov. 29, 1999) <<http://www.socialsecurity.org/pubs/ssps/ssp18.pdf>>.

62. See *id.*

63. See *id.*

64. See *id.*

percentage points less than a privatized system would offer.<sup>65</sup> Obviously, American retirement earnings do not fare well under the current system. Furthermore, future generations will be subjected to a decline in their standard of living because of the government's indebtedness and the burden created by the Social Security system.

One should not overlook the fact that a sense of generational inequity also motivates the need for reform. The "Generation Xers" believe that, "job opportunities are not as good, that they are hit with higher taxes, and that they will receive little, if anything, from Social Security when they retire."<sup>66</sup> In comparison to twenty-five-year-old workers, who will likely pay \$175,000 more in taxes during their lifetimes than they will receive in Social Security benefits, workers who are fifty-five will only pay \$4000 more in taxes.<sup>67</sup> Conversely, those over fifty-five years of age will receive far more in benefits than they will ever pay.<sup>68</sup>

A study by the Congressional Budget Office indicated that the current Social Security system greatly reduces the rate of saving.<sup>69</sup> Specifically, private savings could fall by as much as 50%.<sup>70</sup> In 1992, the private savings rate was 5.7%, but in 1997, it fell to just 2.1%, and in August 1998 it was just over 1%.<sup>71</sup>

## V. Impact of the Current Social Security System on African Americans: A Case for Privatization

The situation is dire for African Americans in the current system, particularly African American males. Compared to the White population, African American males tend to enroll in college less and consequently enter the workforce at an earlier age.<sup>72</sup> Therefore, African American men begin to pay into the retirement fund at a far younger

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65. See Issue Brief: Social Security Reform and U.S. Economic Growth, Capital Formation (Jan.–Feb. 1996) (copy on file with the author).

66. Bruce Bartlett, *Idea House: Social Security Issues—Generational Inequity* (visited Mar. 22, 2000) <<http://www.ncpa.org/pi/congress/sosec/4-98econg.html>>.

67. See *id.*

68. See *id.*

69. See Bruce Bartlett, *Idea House: Social Security—Social Security Reduces Private Savings, Inequity* (visited Mar. 22, 2000) <<http://www.ncpa.org/pi/congress/sosec/aug98h.html>>.

70. See *id.*

71. See *id.*

72. See Deroy Murdock, National Ctr. for Pub. Policy Research, *How Social Security Shortchanges Black Americans* (last modified Nov. 1997) <<http://www.nationalcenter.org/NVSSMurdock1197.html>>.

age than other Americans. The life expectancy of African Americans in general is lower than other groups in the country and is especially low for African American males.<sup>73</sup> “When a black man reaches age 65, he is expected to live only another 13.9 years, almost two years (24 payments) less than a white male.”<sup>74</sup>

For a sizable number of African Americans, earnings are used to pay taxes, rather than to save for retirement.<sup>75</sup> It is contended that elderly African Americans are far more likely than other Americans to depend on Social Security as their only source of retirement income.<sup>76</sup> Given the current low returns on Social Security income for retirees, elderly African Americans face a bleak future, disappointed by the unrealized guarantee of retirement income. The poverty rate among elderly African American women, 29%, is almost twice that of women nationally.<sup>77</sup> These circumstances lead to the result that, after adjusting for inflation and taxes, many African American males under the age of thirty-eight are likely to pay more into Social Security than they can ever expect to see in benefits after adjusting for inflation and taxes.<sup>78</sup> In fact, a study conducted by William Beach, an economist with the Heritage Foundation, found that a single African American male in his twenties in 1996 could expect to get back just eighty-eight cents on the dollar under Social Security.<sup>79</sup> A single African American woman will receive only a 1.2% rate of return.<sup>80</sup> This translates into a negative return for African Americans who receive little or nothing for long years of hard work.<sup>81</sup>

According to a recent poll conducted by Zogby International and commissioned by the Cato Institute, “over 60 percent of African American voters prefer to have the Social Security system changed to allow them to invest their Social Security taxes.”<sup>82</sup> This is a clear indi-

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73. See *How Personal Accounts Benefit African-Americans* (visited Mar. 22, 2000) <<http://www.socialsecurity.org/africanamericans.html>>.

74. *Id.*

75. *See id.*

76. *See id.*

77. *See id.*

78. See RODERICK CONRAD, NATIONAL CTR. FOR POLICY ANALYSIS, *BLACK LEADERSHIP NETWORK SAYS MEND SOCIAL SECURITY BEFORE IT ENDS* (1998).

79. See William W. Beach & Gareth E. Davis, *Social Security's Rate of Return* (last modified Jan. 15, 2000) <<http://www.heritage.org/library/cda/cda98-01.html>>.

80. *See id.*

81. *See id.*

82. *African American Voters Strongly Support Individual Retirement Accounts* (last modified Sept. 8, 1999). <<http://www.socialsecurity.org/dailys/html>>.

cation that African Americans wish to be in control of their financial futures.

## VI. Privatization as an Option

An option to invest a portion of one's payroll taxes into a private pension account serves the best interests of African Americans in particular and all Americans in general. If American workers were given an option to deposit a percentage of their payroll taxes into personally owned and invested accounts similar to 401(k)<sup>83</sup> plans or Individual Retirement Accounts (IRAs), upon retirement such persons would be able to benefit from the higher returns afforded by riskier investments.<sup>84</sup> Over time, the account will grow exponentially in value, resulting in substantial benefits for the retirees.

This option is not the only one suggested to the American public. An alternative is the creation of a supplemental market-based retirement account for workers.<sup>85</sup> The source of funding for this proposal "would include voluntary individual contributions, general tax revenue, and mandatory payroll tax increases."<sup>86</sup> Depending upon which funding source is selected, these proposed accounts could result in "tax shelters for higher-wage earners, become new entitlements, or increase the payroll tax burden."<sup>87</sup> Unfortunately, in reality these accounts would likely only be successful with financial support from the government and would not provide retirees with a higher income.<sup>88</sup>

President Clinton, in his 1999 State of the Union Address, proposed a Universal Savings Account (USA), which would create a personal retirement account.<sup>89</sup> The funding for these USAs would come from voluntary contributions and general taxes.<sup>90</sup> Americans, however, do not need new taxes; what should be addressed is the impending demise of the current Social Security system. The extent of participation in the new program is unclear because only certain cate-

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83. See generally 26 U.S.C. § 401(k) (1994).

84. *Answers to Frequently Asked Questions About Social Security* (visited Mar. 22, 2000) <<http://www.socialsecurity.org/faqs.html>>.

85. See Darcy Ann Olsen, Cato Institute, *Social Security Reform Proposals USAs, Clawbacks, and Other Add-Ons* (last modified June 11, 1999) <<http://www.socialsecurity.org/pubs/articles/bp-047es.pdf>>.

86. *Id.*

87. *Id.*

88. See *id.*

89. See *id.* at 2.

90. See *id.* at 3.

gories of workers would be eligible for automatic \$300 government deposits.<sup>91</sup> “[H]owever, most low- to moderate-income workers would not benefit from the voluntary component and corresponding government match, because they would not be able to afford the requisite contribution.”<sup>92</sup>

Privatization is the only way to avoid tax hikes. One plan, dubbed the “carve-out” approach to reform, requires no money in addition to the amount the worker is already paying into Social Security.<sup>93</sup> It provides workers with new entitlements and is not a de facto advantage for the wealthy.<sup>94</sup> Under a privatization system, the worker stands to get a higher rate of return from the stock market, thus creating a greater sense of ownership and control over retirement savings. Currently, the returns on Social Security funds invested in government bonds are dismal, while, according to the Cato Institute, “stocks have outperformed government bonds 99.38% of the time for all thirty-year periods examined.”<sup>95</sup> While detractors may be able to cite several previous economic downturns as reasons to be cautious—the pitfalls of the stock market, the unpredictable nature of Wall Street, the Savings and Loan Crisis of the 1980s, and the high cost of administration of such accounts—Americans are still faced with a collapsing system. These private accounts offer Americans a better value for the dollar with higher benefits than the current system. “Through the power of compound interest, all workers would be able to accumulate substantial savings.”<sup>96</sup> For example, if a twenty-eight-year-old worker with an annual salary of \$13,500 was able to invest the \$1674 that he now pays into Social Security with just a 4% rate of return, he would accrue \$177,147 by age sixty-seven—\$400 more per month than what he would have received from Social Security.<sup>97</sup>

If the American worker had private personal accounts, the accounts would become private property that could be passed on to one’s heirs. Furthermore, privatization gives the worker a chance to

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91. *See id.*

92. *Id.*

93. *See id.* at 2.

94. *See id.*

95. Glen Turpening, *The Time Is Now for Social Security Privatization* (visited Mar. 22, 2000) <<http://www.nationalcenter.org/NPA212.html>>.

96. *See How Can Personal Accounts Help Low Wage Workers* (visited Mar. 22, 2000) <<http://www.socialsecurity.org/workers.html>>.

97. *See id.*

participate in his or her future. Workers could accumulate real wealth and prevent a poverty-stricken retirement.<sup>98</sup>

Aside from financial considerations, there is a moral justification for supporting the privatization option as a method for reforming the current system. By allowing individuals more freedom to run their lives, privatization is more fair and provides more security than the current system.<sup>99</sup> This will result in less antagonism between generations and will foster a greater sense of community.<sup>100</sup>

## VII. Privatization as an Option for African Americans

African Americans as well as other minority groups stand to benefit greatly from this reform option and, consequently, strongly support privatization.<sup>101</sup> African Americans are greatly disadvantaged under the current system, and privatization provides them with the freedom to improve upon and control their futures. As noted, African Americans, especially African American males, have a shorter life expectancy and join the work force at an earlier age than others.<sup>102</sup> Personal retirement accounts would become an asset that is passed on to the next generation, thus becoming an avenue for wealth creation. This, in turn, would arm the next generation with some of the financial stability that has eluded a majority of African American families.

A privatized system would free African Americans from being reluctant victims of the problematic Social Security system. African American incomes tend to be lower than those of Whites,<sup>103</sup> leaving many Blacks with little left after taxes to invest.<sup>104</sup> Worthwhile activities in America's Black communities, such as spending more disposable income at Black-owned stores or saving funds to open small businesses, are impeded by FICA taxes.<sup>105</sup>

Additionally, privatization would increase national savings and provide a new pool of investment capital that would particularly

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98. *See id.*

99. *See* Daniel Shapiro, Cato Institute, *The Moral Case for Social Security Privatization* (last modified Oct. 29, 1998) <<http://www/socialsecurity.org/pubs/ssps/ssp-14es.html>>.

100. *See id.*

101. *See supra* note 82 and accompanying text.

102. *See supra* notes 72-74 and accompanying text.

103. *See* Murdock, *supra* note 72. For example, in 1994, average individual Black incomes were \$19,722, compared to \$26,696 for Whites. *See id.*

104. *See* Murdock, *supra* note 72, at 2.

105. *See id.*

benefit African American communities. As financial institutions search for new investment opportunities, African American entrepreneurs would be granted greater access to capital, thereby providing the economic boost needed in African American communities throughout the nation.

### VIII. Privatization “Tried and Tested”

While those who argue against privatization hold that these claims are based on “inconsistent assumptions about economic growth and stock market returns,”<sup>106</sup> countries such as Great Britain, Chile, Australia, and Sweden are either reaping the benefits of their new privatized systems or have just begun to privatize. These systems clearly demonstrate that privatization is not as “outlandish” or as farfetched as many may claim.

#### A. Great Britain

Aware that their Social Security system was in need of reform, former conservative Prime Minister Margaret Thatcher led Great Britain into the world of privatized Social Security/pension systems and a more financially secure retirement.<sup>107</sup> The British Social Security system is partially privatized, which allows a British worker to choose to depend on a basic government pension benefit, or, on the other hand, to divert a portion of his payroll taxes into private pension plans or a company-sponsored investment program.<sup>108</sup> Over 60% of eligible workers do opt out of the Central Government State Earnings Related Pension Scheme (SERPS), to take advantage of other alternatives, such as occupational funds or private pensions.<sup>109</sup> In order to participate in these alternatives, those who opt out of the state system receive a rebate from their payroll tax equal to or greater than the amount they would have been entitled to under SERPS. The rebates are paid di-

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106. Dean Baker, *The Privateers' Free Lunch* (visited Jan. 24, 2000) <<http://www.prospect.org/archives/html>>.

107. See Richard W. Stevenson, *Britons Govern Their Own Retirements*, N.Y. TIMES, July 19, 1998, available in LEXIS, News Group File, All.

108. See *id.*

109. See Peter Lilly, M.P., *Social Security Reforms in Britain: The Principles of Effective Privatization* (last modified Mar. 2, 2000) <<http://www.heritage.org/library/background/bg1259.html>>. “Over eight million people are now in occupational funds, and over five million (ten times the number expected when such funds were introduced) have Personal Pensions.” *Id.*

rectly into their private pension funds to ensure that the money is actually saved and invested for retirement.<sup>110</sup> Again, workers under this system are guaranteed benefits at least as generous as the state run system, should the market go sour.<sup>111</sup> This new privatized system has

improved the standard of living among the elderly, lessened the role of government in private lives, increased savings and investment, reassured workers that retirement benefits will be available to them, and forestalled the large tax increases that would be needed to continue to pay benefits under the old system.<sup>112</sup>

The British private plans are yielding 13% per year on investments, compared to 2% in the U.S. Social Security system.<sup>113</sup> With privatization generating more wealth for British workers and retirees, they have “enjoyed a 10 percent real return on their pension investment over the past few years.”<sup>114</sup> In addition, during the past two decades, British retirees’ income has increased more than any other segment of the British population, by an astonishing 60%.<sup>115</sup> The shifting of the retirement savings burden from the government to individuals will result in the cost of the British government pensions to be a projected 6.2% of the GDP by the year 2030.<sup>116</sup> British-owned pensions are valued at about \$1.3 trillion.<sup>117</sup> The International Monetary Fund has calculated that “if countries maintain their present systems, then by 2050 France and Germany would have accumulated government debts nearly twice their national income. By contrast, the United Kingdom would have paid off its entire national debt and accumulated a surplus.”<sup>118</sup>

## B. Chile

Another success story of a privatized Social Security system is Chile. In 1981, the Chilean government began to phase out the pay-

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110. *Id.*

111. *See id.*

112. GEOFFREY KOLLMANN & GRETCHEN CASPARY, SOCIAL SECURITY IN THE UNITED KINGDOM: A MODEL FOR REFORM?, CRS 97-990, at 2 (1997).

113. *See generally id.*

114. Robert E. Moffit, Ph.D., *Learning from Britain’s Next Step in Privatizing Social Security Benefits* (last modified Feb. 12, 1999) <<http://www.heritage.org/library/backgrounder/bg1251.html>>.

115. *See id.*

116. *See Idea House: Social Security—Thatcher Led Britain’s Pension Privatization* (visited July 1998) <<http://www.ncpa.org/pi/congress/sosec/july98a.html>>.

117. *See Lilly, supra* note 109.

118. *Id.*

as-you-go Social Security system managed by the state.<sup>119</sup> The Chilean system offers its workers an option to deposit 10% of their annual income into various financial plans that have been approved by the government.<sup>120</sup> With this new investment program, the savings rate has increased to 25% of the gross national product (GNP) since the reform.<sup>121</sup> Privatization has increased the savings rate from 10% to a whopping 27%,<sup>122</sup> enabling Chileans to receive up to 12% rates of return on their retirement account investments.<sup>123</sup> Chileans who receive disability or survivor's benefits from privatized accounts have experienced a 50% increase in their benefits.<sup>124</sup> The Chilean economy has undergone rapid growth with privatization change.

### C. Sweden

Sweden, facing the reality of a failing government-controlled retirement pension system, also recently opted for a partial privatization plan as a reform option. The Swedish government specifically rejected having the government manage pension funds, believing that this would eventually result in the nationalization of major corporations.<sup>125</sup> However, it did ultimately agree to a system that allows workers to set aside 18.5% of their income for retirement, 2.5% of which will go into a personal retirement account.<sup>126</sup>

## IX. Conclusion

Americans, and in particular African Americans, need to be informed of the inadequacy of the current Social Security system. The pros of privatization far outnumber the cons. There are several advantages of offering Americans the option to invest a portion of their payroll taxes through a privatized investment vehicle, including an infusion of important dollars into our economy, better returns for ex-

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119. See José Piñera, *In Chile, They Went Private 16 Years Ago*, THE WASH. POST, Mar. 22, 1998 <<http://www.socialsecurity.org/pubs/articles/ip-03-22-98.html>>.

120. See *id.*

121. See *id.*

122. See Turpening, *supra* note 95.

123. See *id.*

124. See *id.*

125. See *Idea House: Social Security—Even Sweden Is Privatizing Social Security* (visited Mar. 22, 2000) <<http://www.ncpa.org/pi/congress/pd120798f.html>>.

126. See *id.*

pecting retirees, wealth creation for individuals, avoiding bankruptcy, fewer tax increases, and, finally, the basic availability of choice.

There will be hurdles to cross in implementing a privatized option to the current system, but these hurdles are not insurmountable and should not serve as impediments to needed reform. The most important step of any journey is the first step. Political organizations, through grassroots efforts, will shape the important debate now simmering in our country regarding this important issue. In order to achieve true social security, it is important to not ignore the conspicuous signs of decay and the fact that eventual bankruptcy of this system will have devastating consequences for future generations.

It is encouraging to know that true debates are going on in African American homes, and lawmakers are being made aware of their constituents' needs. It is evident, however, that future grassroots mobilizing regarding this issue is necessary.