

# WINSTON-SALEM JOURNAL

## SOCIAL SECURITY

### Participating in U.S. wealth

Monday, March 31, 1997

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Suppose you decide to start a fund for your children's college expenses. After a few years of saving and putting money into this fund, the family decides it needs a new car, but the money for a down payment can't be found. So you borrow from the college fund and put an IOU in it promising to replenish the money when the need arises.

The children grow up and are ready to go off to college.

Would you be surprised when a college declined to accept as part of your tuition payment the IOU you gave your college fund?

That's one way of looking at what has happened to Social Security, says Sam Beard, the founder of Economic Security 2000, who spoke in Winston-Salem last week.

Beard's organization is attempting to develop grass roots support across the nation for modifying Social Security so that it includes a funded component.

**THESE EFFORTS FACE** a number of obstacles.

Tinkering with Social Security scares retired people, as powerful a lobby as there is. When retired people get scared, politicians quickly and pretty much without exception follow.

Another problem is that Social Security is an economic issue, which quickly makes people's eyes glaze. Its future prospects depend on a number of assumptions, and economists are always arguing about the validity of different assumptions.

Finally, if Beard is right and Social

Security is facing an urgent crisis brought on by demographics and past budgeting sleight of hand, the people capable of fixing it are not the people who would benefit.

But Beard believes that he has found an issue that can unite liberals and conservatives, Democrats and Republicans, if they can be made to see the basic principles that motivate, even inspire, him.

It is generally accepted that two-thirds of income is earned. It's the money you get for the work you do. The other third of income comes from wealth, invested savings and inheritance.

The statistics show that three-quarters of American families have an annual income of \$50,000 or less. Beard suggests that while \$50,000 seems like a lot of money, after taxes, mortgage payment, education expenses and general living costs, most families in that bracket don't have anything left for savings.

**ONCE, A HIGH SCHOOL** graduate could join the work force and expect to make a comfortable, secure living. Now the demands on workers and a global economy in which there are some 4 billion people willing to work for \$2 a day have made most of those jobs disappear.

The high school graduate may have to settle for a minimum-wage job and earnings of, say, \$10,000 a year. What chance does he have to save?

The result is that 10 percent of the people own 90 percent of the wealth in this country.

But what if the Social Security program had a funded component for retirement savings?

Then let's look at the high school graduate again. He and his employer are paying \$1,240 to Social Security to guarantee his retirement income.

But that money is then more or less immediately paid out to a retired person. The guy's money never gets a chance to work for him.

**INSTEAD, BEARD** suggests, let \$1,000 of that money go into an account with the high school graduate's name on it. It is pretax money and will grow without being taxed.

Beard estimates that at the end of his working life, the high school graduate will have a nest egg of about \$150,000. He will be far better off than he would have been under the current Social Security system.

Albert Einstein was once asked what the most powerful force in the world was and didn't hesitate with his answer: compound interest. Beard wants that force to work for everyone, not just the most wealthy 25 percent.

Beard is quick to recognize that Social Security is one of the great federal programs and well worth preserving.

(Beard is not looking to redistribute wealth, but to create more of it and allow everyone to share in the benefits of that process.)

To achieve the transition, Beard envisions a gradual shrinking of the current program by slowly raising the retirement age and perhaps lowering cost of

living adjustments to more accurately reflect the inflation rate. As new workers enter the work force, some portion of their contribution to Social Security would go into the funded system, where compound interest would begin to work its magic.

Beard says the cost of the transition has been estimated at \$3.5 trillion. He says there are currently 12 different detailed plans for implementing a funded segment for the system.

The unfunded liability of the system if left alone will be an estimated \$7.5 trillion to \$10 trillion sometime in the middle of the next century.

But that's not really the part that excites Beard. He sees this program as a way to include the participation of everyone in that third of income that comes from wealth. He sees it as a way to increase investment capital and growth opportunities for the country and have everyone share in the benefits.

**LIBERALS AND DEMOCRATS** ought to like the plan because it helps the less well off participate in the American dream.

Conservatives and Republicans should like it because it helps to create wealth and emphasizes private property over government entitlements.

Yes, there is risk in going from theory to implementation. But Beard would argue that that risk is nowhere near the risk involved in maintaining the present course. He makes a compelling case.