

Senate Democratic Policy Committee Hearing

“An Oversight Hearing on the Bush Administration’s Plans to Privatize Social Security”

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Mr. Chairman, thank you for inviting me to testify today. Members of the Committee, as you know, I had the privilege of serving as Associate Commissioner of Social Security for Retirement Policy under Commissioner Ken Apfel. The Office of Retirement Policy was formed by Commissioner Apfel and Deputy Commissioner Jane Ross to serve as the policy analysis unit of the Social Security Administration. Its mission was to evaluate and propose alternatives for the financing and benefits of Social Security so that it would remain sound in the 21st century. In addition to utilizing computer models of the effects of various changes in revenues and expenditures, our staff researched and documented the attempts and tremendous difficulties of privatization in other countries for comparison purposes.

My grandfather, President Franklin D. Roosevelt, founded Social Security for very simple but important reasons. He believed that the only enemy that could ever defeat the United States of America was fear itself. He and my grandmother, Eleanor, looked at America and found fear of want — particularly after retirement or loss of a parent. In fact, not just during the Great Depression but as late as 1950, when a majority of retirees were just beginning to receive Social Security benefits, nearly half of all Americans over 65 years old were below the poverty line. Today, thanks in large part to Social Security, only 8% are — tremendous progress.

FDR believed that Social Security should be simple, guaranteed, fair, earned and available to all Americans. He knew that people who are very successful may also suffer unpredictable reversals that can impact them in retirement. That’s why he rejected financing Social Security out of general tax revenues, subject to budget negotiations, and he rejected borrowing to fund its start-up. Instead he insisted on a payroll tax shared equally between employer and employee. President Roosevelt was adamant that Social Security was insurance to assure basic needs in retirement. I repeat: its success lies in the fact that it has always been an insurance plan — not a welfare plan.

As a former Wall Street lawyer, my grandfather knew very well the risks and rewards of the stock market. He fully supported the opportunity of every American to have fair investment opportunities. That’s why he proposed creation of the Securities and Exchange Commission. But Social Security was — and is — something different. It is the guaranteed basis of a secure retirement. It is the guarantee of independence for retired Americans. It is the guarantee that the basic needs of older Americans will not

have to be provided by their children, while they try to provide for themselves and their own children. That's the way it was before Social Security. And the risk is that we will return to those burdens if the guaranteed benefit is eliminated. Drastic changes which divert the payroll tax to privatization will almost certainly eliminate that guaranteed benefit by imposing trillions of dollars of new costs on the government and creating massive federal debt. Privatization threatens to bring about the collapse of the entire Social Security system.

FDR was realistic about the need to adapt the details of Social Security as the workforce evolved. In my office I have his original handwritten note to my father outlining the principles I've just discussed. By the time the program was enacted in 1935, the details were quite different. But the principles remained the same. It should be simple, guaranteed, fair and available to all Americans.

In fact, throughout the six successful decades of Social Security it has been adjusted in both benefits and revenues. President Reagan created a commission where my Congressman, Speaker Tip O'Neill, and a conservative Republican economist named Alan Greenspan agreed on just such changes and created the trust fund surplus that is easing the transitions we face today. But they continued to observe FDR's principles of a secure, guaranteed retirement income provided by an insurance system that all workers pay for.

Then, as now, the key to taking the fear out of the Social Security debate is speaking truthfully. Use of real data is essential. Those people who are seeking immediate, drastic change should recognize that even the Social Security trustees appointed by the President agree that Social Security with no changes could pay full benefits until 2042, even under pessimistic assumptions about economic growth. They should recognize that the Congressional Budget Office says that Social Security with no changes could pay full benefits until 2052. They should recognize that even then benefits would be cut only about 25% if there are no changes, not nearly as drastically as most private account proposals would cut them. They should recognize that Senator Moynihan favored private accounts only in addition to the guaranteed benefits of Social Security — and that his own 1999 proposal anticipated that private accounts with a government subsidy for low earners would ultimately require a 50% payroll tax increase.

Most of all, the creation of fear by the unjustified use of words like “crisis” and “bankruptcy” and “reform” is destructive of a reasonable debate about what adjustments in Social Security will ensure the payment of full benefits throughout the 21st Century. Every honest person knows that there is no crisis, there is no threat of bankruptcy, and that what is needed are adjustments, not repeal through drastic measures like privatization. Just as bad is the use of terms like “worthless IOUs” to describe U.S. Treasury bonds held by the trust fund. These are scare tactics designed to create fear. These attempts to divide grandparents, parents and children on the issue are an attack on the most successful program this country has ever had. Social Security unites the interests of my parents' generation, my contemporaries and my children's generation. It can be strengthened with incremental changes. To achieve that, the Congress and the

White House must work together — without ideological agendas. FDR's goal of freedom from fear can be preserved. Thank you, Mr. Chairman and members of the Committee, for your efforts to achieve that goal.