

**STOP THE SPORK!
A PROPOSAL FOR SOCIAL SECURITY REFORM**

DAVID ZETLAND

Most of the debate over social security reform centers on the share of public versus private management of the retirement system. These debates miss the essence of social security—that it does two things badly.

A SPORK DOES TWO THINGS BADLY



FIGURE 1. A Spork

The spork's time never came. A combination of spoon and fork, it saved space, allowed decent functionality, and was popular with fast

Date: December 26, 2005. 860 words. A longer version of this proposal is at <http://www.kysq.org/here/socsec.pdf>.

food franchises. Consumers did not grab for the spork, however, because they preferred to eat ice cream with a spoon and eat spaghetti with a fork. (Their inclination matches the engineering guideline of one control for each motion.)

Any reform of the Social Security Savings system (SSS) must address its sporky nature, i.e., that the SSS has two goals: to insure the elderly against poverty and to reward workers for effort. In this proposal, I borrow from the European social-security model to fix the SSS—by replacing the spork with two parts.

SEPARATING SECURITY FROM SAVINGS

First, SSS should *only* support security. Every disabled person or person over 65 who has been in the country for more than 20 years as either a Citizen or Permanent Resident should receive the same payment. To be fiscally sound, this payment should be low (say, \$10,000/year), paid out of current taxes (social security taxes would end but other taxes would rise), and rise with the cost-of-living. (For comparison, consider that the 2005 HHS Poverty guideline for a “one-person family unit” is \$9,570/year. The Social Security Administration paid 53 million recipients an average of \$9,340/each in FY2005 with 45 million retired/disabled receiving \$11,335/year on average and 7 million children/spouses of deceased workers receiving far less.) At \$10,000/year, this proposal would cost about \$472 billion, slightly less than the current SSS cost of \$495 billion.

Second, SSS should not support savings. Workers would be able to deduct from pre-tax income for their personal retirement savings (e.g., IRA) to supplement their \$10,000/year entitlement. (It might be wise to require that the first five percent of wages go to bond investments, increasing stability.)

These suggestions will deliver the following benefits:

- Clarify that SSS is pay-as-you-go, not a Trust Fund where your contributions are “invested” in “your” retirement account.
- Make everyone’s future secure.
- Reduce the cost of employment by shifting the cost of social security onto a larger tax base.
- Reduce the incentive for anyone to “game” a private-savings-only system by saving nothing and hoping for a rescue.
- Put retirement savings decisions in the hands of those who stand to benefit (or lose), while building an “ownership society”.
- Reduce administrative effort for both bureaucrats and recipients—saving both time and money. (The Social Security Administration employs 65,000 workers and has a FY2006 budget of \$9.5 billion.)

ON FREERIDERS AND MEANS TESTING

I am not advocating a Universal Basic Income but a minimum guaranteed income for those we have *already decided* are deserving and entitled, i.e., the elderly and disabled. By removing qualifications to

the *level* of entitlement—currently a function of lifetime earnings—this system contributes to security for those who do not work “hard enough” or who fail to plan ahead. The system does not discourage hard work because private savings continue to receive favorable treatment.

Fiscal conservatives will worry that a per capita guaranteed income transfer (subsidy) is costly. There are several ways to ameliorate this worry:

Predictability: Since the number of eligible will be known 20 years in advance, payments will be easy to budget.

Phase-in: Benefits might rise from \$5,000 for ages 65-69 to \$10,000 for 70 years and older. Total costs (still including disabled) would fall from \$472 billion to \$422 billion.

Means-Testing: Those with incomes at a multiple of the basic guarantee (say, four-times), might become ineligible for benefits. This is the least-attractive “solution” because it invites political interference, adds complexity, and contradicts the principal of solidarity.

Speaking of political fiddling, politicians could destabilize the system by changing the benefit formula (a pre-commitment problem). They may increase benefits as populists or decrease them to serve other interest groups. Although the current system faces these pressures, the proposed system would lessen them in several ways:

- It’s harder to manipulate a transparent single-payment system.

- Successful investment returns would reduce pressure to raise benefits. (If returns were low, higher benefits would make up for rash promises or act as a counter-cyclical stabilization device.)

SOUND FAMILIAR?

I am not the inventor of this idea. In fact, Sweden's *present* pension system closely resembles this proposal. (The Swedish system also *requires* that individuals invest 2.5 percent of their wages in mutual funds.) It would be supremely ironic if the US and Sweden converge to almost identical pension systems from opposite extremes, but it would also show that great minds think alike.

David Zetland (dzetland@gmail.com) is a 36-year-old PhD Candidate at the Department of Agricultural and Resource Economics at University of California, Davis. He is willing to live under the new system.