that grew up in the Reagan years like little more than a promise for future administrations to help out if they can.

Even privatizers seem to have a certain amount of anxiety about social cohesion. Why else would a Cato Institute booklet advocating privatization be called, paradoxically, "Common Cents, Common Dreams"? Cato's Web site gets more directly to the privatizers' point: "Click below to calculate what *you* stand to gain under a privatized Social Security system." Look out for number one, it beckons.

How does society change when we abandon an intergenerational social contract for naked individualism? Consider that Social Security is arguably the one anti-poverty program that really works. Without Social Security, half of all senior citizens would have incomes below the poverty line. If cutting school budgets to give tax breaks to the wealthy is an "eat-your-children" social policy, one might call Social Security privatization an "eat-your-parents" plan.

The big story of the Clinton plan is that the president *didn't* go down the route to privatization, despite flirting with it for some time. Yet, while Clinton and the Republicans differ about privatization, they essentially agree that the system can be "saved" by the stock market. The president's preferred form of "market magic" is to transfer a portion of the budget surplus to the Social Security Trust and invest it in equities.

Conservatives object because *they* are afraid the government will exert influence over the stock market. Yet what's worst about the government becoming America's largest single stockholder is not that it will "meddle" in the market, but that it won't. A central social hazard of the stock market—or, more accurately, with large stock portfolios managed on behalf of others—is that the "fiduciary responsibility" of funds managers *requires* them not to consider anything but maximizing the financial return on investment. It doesn't matter whether workers might stand to gain more from wage increases held back by the stock market than an additional 1 percent increase in the value of their pension fund.

The undue priority given to stock prices is a concern that worries even the likes of George Soros, who (having pocketed billions from the financial markets) fears that the imperatives of speculative capital are encroaching on the rest of society and distorting long-term economic priorities. As a society, we should be encouraging companies that make a profit while providing good jobs, being ahead of the environmental curve and becoming integrated in livable

to reconcile this contradiction: It is impossible to have this rate of return on stocks (which we've seen over the last 75 years), if the economy grows half as fast. If the economy were to grow fast enough to provide a 7 percent annual rate of return on equities, the Social Security Trust Fund would accumulate an enormous surplus over the entire planning period—without investing any of it in the stock market.

4 Private accounts would cost too much. Privatizing Social Security through the creation of individual accounts cannot increase the return that retirees receive over the next 75 years, as compared to simply maintaining the current system. The costs of "transition" to a privatized system alone would make this impossible. Current payroll tax revenues are paying for the checks of current beneficiaries. Any diversion of tax revenues into private accounts, even a partial one, would require a tax increase to pay current benefits until the new individual accounts accumulate enough assets to provide retirement income, which would take at least 40 years. Additional taxes to pay for such a transition earn zero return for employees. These taxes could be spread out over a longer period through borrowing—in some plans it is up to 75 years—but this simply would cause more generations to get a lower return from their Social Security taxes than they would under the present system. The return gets even worse if we take into account the enormous administrative costs of individual accounts, which could be 10 to 15 times as much as under the current system.

5 Social Security is the nation's most successful anti-poverty program. Privatization plans call for cuts that would push millions of senior citizens below the poverty line. The official poverty rate for America's elderly is about 11 percent—without Social Security, it would be close to 50 percent. The program provides the major source of income for two-thirds of the elderly population. Social Security also provides more than $12 trillion worth of life insurance—more than the entire private life insurance industry. For a typical wage earner with a spouse and two children, this life insurance is equivalent to a policy worth about $300,000, in addition to retirement benefits. The disability insurance provided by the program is equivalent to a $200,000 policy on top of that.

6 Raising the retirement age punishes African-Americans. Based on average life expectancy, a typical black male worker who is 39 years old today can anticipate about 2.3 years of full retirement benefits. A white male of the same cohort can expect 8.4 years. Therefore, raising the retirement age would take tremendously more away from African-American male workers than white male workers. And since differences in life expectancy by income, occupation and education are about as large as the differences by race, raising the retirement age also would hurt low-income workers much more than higher-income groups.

7 It's not the boomers' fault. The Baby Boom generation already will have retired by 2032, when the system is projected to run short of money. The youngest baby boomers will be 68, the oldest 86. They won't strain the system's finances while they are retiring, because their retirement already has been taken into account; both payroll taxes and the retirement age were raised in 1983, assuring that the program would generate enough revenue to pay for the retirement of this large age group. In fact, the projected strain on the system is primarily a result of people living longer. ■

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communities. Instead, Clinton happily promises that if the federal government owned stock, it would not pick stocks based on anything other than maximizing profit. What sort of political message is this?

Not long ago, farmers, small business owners and factory workers had a deeply ingrained knowledge of how Wall Street's logic was at odds with the common good. Populism's "message," as it would be called today, resonated with the public because everyone understood the inverse relationship between stock prices on the one hand and wages or the availability of credit on the other. Today, when just less than 50 percent of Americans hold stocks in some form or another, wages are still important, but when the stock market goes up ... well, that's good, too.

Of course, some players hold a lot more stock than others, and half the population is left entirely out of the game. In recent years, Wall Street has been America's most powerful wealth polarizer. Investing Social Security in the stock market will be accompanied by a loud sucking noise—the sound of the last big chunk of available capital being siphoned into the financial markets.

Still, some parts of Clinton's plan deserve praise. First and foremost, the president seems to have swept off the table—at least for the time being—proposals to reduce benefits and raise the age of eligibility. And, although taking Social Security funds and putting them into the stock market is a bad idea, taking money from the budget surplus and using it to guarantee the government's commitment to Social Security is a very good one.

The Social Security debate presents an opportunity. It's rare for a serious long-term political issue to be prominent in the public debate. If we need to increase the amount of money in the system—as we probably will—let's begin by doing those things that make sense anyway.

Enhancing the long-term strength of the economy is the single best way to strengthen the Social Security fund. Gains in productivity, for example, would allow future generations to expand growth even with a smaller work force. We can enhance productivity by investing in things central to sustainable long-term growth: infrastructure, education and environmental efficiency.

While the benefits of Social Security are progressive, the FICA tax that funds them—the 1 percent taken out of your payroll each month—is a regressive "flat tax." Worse still, FICA (like Social Security benefits) is applicable only to the first $68,000 of income. Eliminating that cap altogether would be a drastic step that might encourage evasion and spark an uproar, but raising it even just to $100,000 would solve roughly a quarter of the projected shortfall. Increasing FICA taxes is an unappealing option, but taxing benefits is a logical step. It would solve another 14 percent of the problem and—while hurting middle-income families—it would not affect the lowest wage earners who do not pay taxes.

For no good reason, some state and local government employees are currently outside of the Social Security system. Extending coverage to them—as proposed by New York Sen. Patrick Moynihan—would solve another 10 percent of the problem. *Adding this to the money Clinton proposes to take from the budget surplus, even without investing it in the stock market, eliminates the "crisis."*

But let's not stop there. Let's keep on our list ways to improve benefits—even if they increase costs. It makes sense to revamp the system by which wages earned after the retirement age are counted or to lower the age when benefits are collected, giving a fairer shake to African-American men, who have a considerably lower life expectancy than the general population. (Few people are aware that *beginning next year* Social Security eligibility is scheduled to begin a long, slow rise from 65 to 67 by the year 2022.)

At the same time, let's use this debate not just to win reform of Social Security—which, indeed, needs only very modest adjustments—but to further a different set of principles and values than "market magic." Social Security is a model universal program that guarantees a minimum standard for all while leaving plenty of room on top of that for individual and family responsibility. It promotes social cohesion while allowing individual choice. It is efficient, effective and popular. If we can't win this one, what can we win? ■

David Dyssegaard Kallick *is a senior fellow of the Preamble Center (http://www.preamble.org).*

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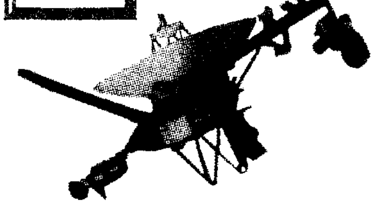
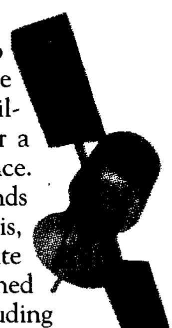


THE PENTAGON BUDGET SHOOTS FOR THE STARS

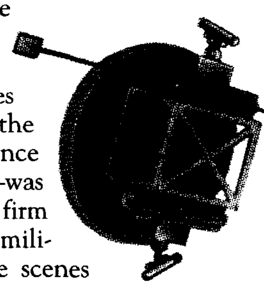
BY IRA SHORR

Washington is a city grounded in sex and power, so it's no surprise that when it comes to Monica and the military, President Bill Clinton is a guy who just can't say no.

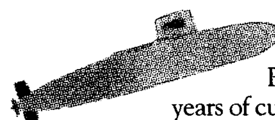
The president took time from his impeachment travails to announce in his Jan. 3 weekly radio address that he wanted to add $12.6 billion to the Pentagon budget in fiscal year 2000 and $112 billion over the next six years, staggering sums for a superpower without an enemy of any significance. Consider that the United States already spends more than $260 billion a year on the military. This, as William Hartung of the World Policy Institute has noted, "is already twice as large as the combined budgets of every conceivable U.S. adversary, including major powers like China and Russia and regional 'rogue states' such as Iraq, North Korea and Libya."



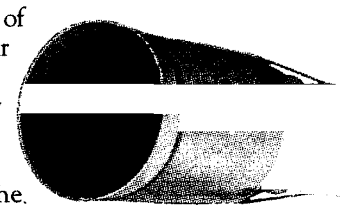
But the beast must be fed—and it looks like the U.S. taxpayer is once again red meat for the military. Clinton's decision to shower the military with more money for planes, tanks, submarines and ballistic missile defenses—the biggest increase in Pentagon spending since the height of the Reagan arms build-up—was not a capricious one. The president stood firm for years against a significant rise in the military budget. But months of behind the scenes lobbying by hawks of all stripes led to his cave-in.



The end of the Cold War led to steady declines in military spending, although the Reagan-era



Pentagon glut meant that even after years of cuts the Pentagon budget was only down to the levels of the Carter administration by 1998. For most of the Clinton presidency the Pentagon budget was held in check by the specter of big budget deficits. In 1997, Republicans joined the administration in a balanced budget agreement that held military spending to increases less than the anticipated rate of inflation. But with budget deficits shrinking, Republican Secretary of Defense William Cohen, congressional Republicans and arms makers tired of the constraints of the post-Cold War world—a battle was brewing.



In June 1998, Senate Majority Leader Trent Lott opened fire with a missive to the president bemoaning the weakened state of the military and stating that "more money needs to be allocated to our national defense." Clinton held his ground by reminding Lott that they needed to abide by the balanced-budget agreement. But the forces were gathering for an onslaught on the budget and the rallying cry was "readiness crisis"—the modern equivalent of "the British are coming!" Worries about readiness invoked dramas of troop shortfalls, a lack of spare parts, canceled military exercises and morale problems for the most powerful military force on the planet. Republican leaders in Congress held hearings and requested studies on the creaking military machine.

But, as of Aug. 26, Cohen remained unworried, telling the *Washington Times* that "the first to deploy forces are highly ready—and well trained." A few weeks later, the climate changed dramatically with the emergence of a $70 billion

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