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Pros, cons to Social Security privatization

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Many people have questions about Social Security, including: Why do we have Social Security? How did it start? Should it be privatized? Also, is it effective? These are all questions that people don't have an answer to or they are uncertain about. There have been a lot of discussions recently about the need for reforming Social Security, as the system currently has a \$7.7 trillion deficit according to savingthedream.org.

The Social Security Act was passed when it was most needed in U.S. history, in the year 1935. The reasons behind this need were the constant relocations from farms to cities, the breaking down of families and the increase in reliance on wages instead of farming. With the move to cities, vast numbers of older workers were getting fired because they could not meet the necessary level of efficiency.

When the Depression hit, more than a quarter of workers lost their jobs and about 10,000 banks failed; let's not forget that the gross national product – the value of economic output – dropped from \$150 billion before the crisis to \$55 billion in 1932, according to socialsecurity.gov. That was the time when Social Security was needed.

When former President Franklin D. Roosevelt entered office in 1932 he promised that he would make changes in the U.S. federal economic security policy. On Aug. 14, 1935 he signed the Social Security Act; the new law ensured retired workers age 65 and older a steady income for the rest of their lives.

We all know that Social Security is intended to protect the American worker and their family from things like impoverishment after retirement, disability and early death of a spouse or parent. As we know Social Security is \$7.7 trillion in debt so there is a big argument happening in Washington, D.C. about raising the retirement age, especially since the program is expected to go broke by 2037, according to a report by the Social Security Association Board of Trustees. As a result, some recent proposals have come out that "would allow workers to invest some portion of their payroll taxes in personal retirement accounts," according to a paper by the Congressional Budget Office - in other words to privatize Social Security.

Whenever we change something, we have to realize that there are potential benefits and risks. First, the benefits of privatizing Social Security.

One, in 1935 when Social Security started, 17 workers paid for one retired worker according to procon.org. It is estimated that in 2035, the ratio will be 2.1 workers per beneficiary. If individuals are allowed to contribute to their own accounts it may reduce the burden on the workers that are contributing to Social Security.

Two, an average income worker born on or after 1964 can expect a 1.93 to 2.71 percent return from Social Security; on the other hand, having Social Security privatized will allow the retired worker to invest that money in opportunities that could possibly have a 6.9 to 9 percent return, based on Standard & Poor's 500 stock averages.

Three, privatizing Social Security will prevent the U.S. Congress from using the Social Security Account to fund other things.

Last, privatizing Social Security will give the workers accounts in their names that they are in control of. This will prevent incidents like the 1960 Supreme Court case *Flemming v. Nestor* where a legal immigrant paid into Social Security for 19 years, but was denied his Social Security money after deportation. Also the private account will allow you to know that you get to keep your money, even if the system collapses.

On the other hand, there are risks in privatizing Social Security as well.

One, private accounts are not likely to have as high a yield as some advocates predict because the economy is not stable. Let's not forget what happened in the past three years in the economy. In addition, private accounts could have very high cost to administer – with estimates varying from 5 to 30 percent.

Two, if Americans would like to privatize their Social Security it will cost the government about \$3.7 trillion, because the payroll taxes that are supposed to go into Social Security will go to private accounts instead. This will result in retired workers not receiving the money that they should get unless the government pays them from the general budget. In addition, the transition costs to set up such accounts will be approximately \$1 to \$2 trillion.

Three, according to procon.org, in 2008 there were over 39 million retired workers on Social Security, which required

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the government to hire tens of thousands of new government employees. If it gets privatized it will cause government to lay off these workers.

Let's think about it for a second: Is the economy stable all the time or do we have inflation and recessions? Does the answer to that question affect our way of living or not? Paul Krugman, a Nobel-Prize-winning economist, has done some research about that topic, and this is what he said in a February 2005 New York Times article: "to believe in a privatization-friendly rate of return, you have to believe that half a century from now, the average stock will be priced like technology stocks at the height of the Internet bubble - and that stock prices will nonetheless keep on rising." Krugman goes on to say that "stocks are much more expensive than they used to be, relative to corporate profits; that means lower dividends per dollar of share value. And economic growth is expected to be slower."

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As opposed to the pure waters of government, right?

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To privatize Social Security will only allow the poisoned waters of the investment banks to pollute and dilute the the hard work of millions of Americans.
Americans, who in good faith, invested a sizable slice of their income into a (now quasi) guaranteed income stream. A security blanket for their old age.
To privatize Social Security is a crime against all Americans. Fund Iraqi recovery, but nothing for our own citizens? Shame.

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