Chapter 1

Introduction

IS ANY American adult still unaware of the crisis of Social Security—or, more generally, as the title of an article in *Forbes Magazine* declared, "the end of pensions" (Dan Ackman, "The End of Pensions," *Forbes.com*, May 11, 2005)? Certainly most adults who do not yet receive Social Security or private pension benefits hope to live long enough to need retirement income, and those who do surely expect those benefits to continue at current levels (and in some cases, Social Security among them, at inflation-adjusted levels). Add to those expectations the enormous clamor in recent years over the bankruptcy of Social Security and employer-sponsored pension plans, and surely anyone but the privately wealthy would be expressing profound concern about the fragility of their claims on future benefits. Granted, the clamor has often been what is sometimes called all heat and no light. Still, it seems odd that, as of February 2005, judging from a national survey by Princeton University's Survey Research Center, nearly one in ten adults aged fifty-five or older professed to follow news about Social Security "not at all closely" and to know nothing about sitting President G. W. Bush's proposal to privatize Social Security (Pew Research Center for the People and the Press 2005). Perhaps this ignorance was professed only because Bush's proposal was very short on specifics. Bush and his supporters had been working hard to make "the crisis of Social Security" a defining issue of his second administration, however, and the survey results suggested that more and more adults were beginning to pay attention—though it appeared that the more they heard about the Bush proposal, the less they liked it.

Adults in their forties or older, however, have already seen so-called problems with Social Security come and go as a series of adjustments addressed concerns about the program's sustainability. As its name implies, the prevailing view of Social Security has been an underlying confidence in the security of its promise. Each reincarnation of concern pits forecasts of economic catastrophe against equally insistent claims that the program is, on the whole, sound enough that some present-day tinkering with benefits and revenues will make it even better. That this tinkering cannot be accomplished in a routine fashion is one piece of the puzzle that captured our attention and inspired this book. Any attempt at serious discussion of how Social Security could be tailored, gradually and on the margin, to address the challenges of the twenty-first century population it must serve produces a deluge of doomsday predictions, a flurry of dueling statistical reports, and a cacophony of voices claiming to tell the real story of Social Security. Perhaps many of us simply tune out, unless or until we are convinced that the latest so-called crisis differs in some significant way from previous ones.

Why is this great debate over "the problem of Social Security" still with us? After all, awareness of the financial issues facing Social Security has been explicit in public discourse for decades (see, for example, Samuelson 1958), yet the alternatives most hotly debated are those contested when the original legislation was developed (Orszag and Stiglitz 2001; Peterson 1996; Mitchell, Myers, and Young 1998; Munnell 2004a, 2004b, 2005; Munnell and Soto 2005). As pundit P. J. O'Rourke observed, with scant exaggeration, in May of 2005, "the president discovers a ticking time bomb that's been in plain sight for seventy years" ("Freedom, Responsibility . . . and What? Social Security Reform—an Explanation," *The Atlantic*, 295, p. 42). Lost in the hyperbole is that several solutions to the financing have been proposed, and at least a few of those would actually work, albeit with differing effects. If the problem is simply that Social Security will one day be paying out more money to beneficiaries than it is receiving in income, two basic options, or probably a blend of the two, suggest themselves: reconfigure and reduce benefits in some way for some future beneficiaries, or increase the revenue. As usual, however, the devil is in the details.[1] In this case, "fixing" Social Security creates a different sort of problem—because fixing it means continuing a program others want to replace. Within this context, the "great debate" over Social Security is really about something more than the future of this one program.

The future of Social Security has been caught up as a sort of demonstration project for particular political viewpoints, a litmus test of ideological postures in a much larger debate. As a result, fairly straightforward alternative solutions to the core technical-fiscal problem of Social Security have been shunted aside as inadequate or irresponsible or irrelevant. By July 2005, as the collection of programs known as Social Security celebrated its seventieth anniversary of successful operation—seventy years of success almost unparalleled in modern governmental programs—its future had been put into doubt.

The vulnerability of the program is not because the technical (that is, fiscal) problems cannot be solved. Rather, it is because the program has been redefined as the expression of a far graver problem—a moral problem and behind that an ethical problem—that present and future citizens must face. As the public has rediscovered the costs of security—national security (including defending ourselves against evil empires), health security (including the rising costs of insurance, care, medicine and fraud), financial security (including the costs of poor investment decisions, job loss, unanticipated market fluctuations and fraud, again), each citizen is also scrutinized for signs of moral hazard. We are asked to be vigilant in reporting those who would take advantage of our liberties, our economy, or our social services. To do so is to stand, according to some, as an ethical exemplar of the ideal actor of the twenty-first century. It is this fuel of moral debate, combined with customary, career-oriented ingenuity from politicians, public appetites for the sensational and the scandalous, and the mass media market's attempts to generate the greatest attention for its advertisers' dollar, that accounts for O'Rourke's apparently puzzled observation in *The Atlantic* in May 2005 that "the political side-taking on reforming Social Security is suddenly, urgently bitter" (p. 42).

Social Security in a Toxic Climate

Times have changed, no doubt. Yet, the ugliness of a culture of fear and loathing that acute observers documented during the 1970s did not wither from exposure. It survived partly because that culture is so deeply rooted, but also because some of those observers were so easily discredited in the eyes of mainstream America by leading spokespeople of that culture. Hunter Thompson, Ken Kesey, Tom Wolfe, and other critics reduced to caricatures at times seemed all but complicit in their own marginalization.[2] The culture of fear and loathing simply spread and strengthened.

What is the source of this fear and loathing? The question makes inadequate every answer that has been put forth. As long ago as 1965, Richard Hofstadter documented the prominent strain of paranoia in American political culture, citing examples from the nineteenth as well as the early twentieth century. Domestic politics in the United States seem to run on antagonisms. Real or imaginary, an enemy is identified—whether external, internal, or even better, a link to a dangerous outside world and covert attempts to undermine the moral character of American citizens. Politicians then seek to tar an opponent, who may not be appreciably different in ideology, with charges of being weak on the new greater evil, of being soft-hearted in the face of what they see as irresponsible behavior. Because media gives much greater play to negative stories (especially impending disaster stories), major media outlets feed on and deepen the focus on any new greater danger.[3] For politicians, this is a cheap road to campaign victory. Even though the monetary costs of media campaigning are exorbitant, the real substantive issues facing us can be successfully ignored as we engage the more emotionally charged concerns about moral decay and the evildoers of the world. These tactics have proved successful with majorities of the electorate.

The events of September 11, 2001, certainly added tinder to the fires of suspicion and xenophobia. But as Michael Barkun (2003) and others have amply documented, conspiracy theories, paranoia, xenophobia, and similar windows on the world have long been a major feature of American culture, ranging from the popular diversions of motion picture escapism to the rather more serious sorts of escapism in presidential and congressional politics. Scurrilous campaigning and stolen votes are not new charges in the political landscape of the twenty-first century; they were features of the nineteenth and twentieth centuries. The yellow journalism of the late nineteenth century polished a number of feints of wordplay that campaign managers later extended in inventive ways with new advertising tools, marketing, and focus groups. The Red Scare and the Palmer Raids of the 1920s, the Red Scare and McCarthyism of the 1950s, the Evil Empire and the Star Wars defense initiative of the 1980s, the Crescent Scare and assaults on the Bill of Rights during the first decade of the twenty-first century—these are but the most prominent instances of a long and troubled record.

The various descriptions by Hofstadter, Barkun, and others certainly call on easily recognizable experiences, but they do not provide explanation of why so much of U.S. history has been guided by forces of paranoia, xenophobia, and other emotions of a culture of fear and loathing. The moral debate surrounding Social Security has been peculiar to the United States. However, the great cross-class coalitions that called for, created, and then supported successful programs of the common good and public welfare (those of Social Security but also unemployment compensation, public education, public health care, and the like) have been unraveling elsewhere (see, for example, Mares 2003), and in national cultures that have not been as prone to the paranoid style Hofstadter described. The typical citizen of the United States or the United Kingdom or France or any number of other countries of the wealthy world has not been transformed into a character from the futuristic and dystopian novels of the twentieth century. Yet citizens of those countries, European as well as North American, have been relinquishing civil rights, directly or indirectly, little by little, and the assault continues. Do conscious citizens give up any of their hard-won civil rights unless they have become fearful? This was Hunter Thompson's question in 1971.

So again the question, now in slightly altered vocabulary: why the distrust, the suspicion, the xenophobia, the renewed infatuation with a fundamentalism of belief? Why have those cross-class coalitions been undermined so effectively that members of subordinated classes (the poor, the working class, lower middle classes, even the once-proud upper middle class) willingly subordinate their own interests of economic well-being to protect the culture from a diversity it both fears and despises? And how did the very real problems—that is, the technical problems of fiscal soundness—facing Social Security get caught up in such a quagmire?

This Book

Our aim in this book is to answer mainly the last of those questions, though the others will be pursued to the extent that they have been involved in framing what we call the great debate over Social Security. We do our best to give all major parties to that debate their due, fairly presenting the various positions and facts without reinforcing their exaggerations or deceptive claims. As the rest of this introduction should make clear, however, we too have a stake in the debate because we have a stake in how this society turns out for our and our neighbors' children, grandchildren, and great grandchildren; we do not attempt to hide our own sentiments, perspectives, and preferences. All has been written honestly and in good faith. We do not claim to know all the correct answers to all the questions asked, or even that we have asked all the correct questions; and those limits are only partly because the main questions and answers have to do with future conditions and actions, which we can only guess at. We also try to remind ourselves from time to time that intellectual pursuits are no insurance against fallibility even with respect to the "what is," much less the "what might yet be." This recognition tends to quiet any wish to tell others how to live their lives.

This book is indeed about the present and possible future conditions of Social Security and the general context that frames efforts to provide individuals some sort of insurance of income during their postemployment years. The central fact around which much of the discussion is organized, a fact on which virtually all parties to the debate agree, is that Social Security has been losing its fiscal soundness and, without some sort of correction, will face an increasingly severe shortfall in funds. Discussion of this fact, its causes and implications, and alternative proposed solutions will necessarily require our attention to several technical issues. These are technical in the sense that they have to do with the mechanics of the Social Security programs, risk management, saving and investment behavior, markets, the law of contract and property rights, government trust funds, and related matters.

Unfortunately, the political skirmishing that has taken place under the auspices of "fixing Social Security" in recent years has piled heaps upon heaps of deceptive, manipulative, often deliberately dishonest information on top of issues already poorly understood by the public—and in some instances, one suspects, by many of the politicians who have engaged in similar practices. Because bad information tends to drive good information out of the arena, our first task after this introductory discussion is excavation. We reclaim some terminology, try to describe as clearly and forthrightly as we can the main issues that have been subject to misleading presentation, and prepare a reasoned foundation for the subsequent chapters.

We do not for a minute believe that all of the information problems are due to deliberate dishonesty, manipulation, or deception. The debate over the future of Social Security involves genuine disagreements about a number of principles, and these disagreements are often forthrightly stated by proponents and opponents of this or that position regarding Social Security and related concerns. Some genuine differences are integral to the larger debate. Others are about best guess assumptions involved in technical issues—for example, assumptions about future rates of private saving, future rates of growth in wage rates and earnings income. Still others involve terms that carry with them certain underlying assumptions; when experts use them, it is—we assume—with the recognition that these assumptions are invoked, but need not be rehearsed because they form a taken-for-granted contextual understanding. Unfortunately, when these arguments are imported into speeches for mass consumption, the assumptions recede into the shadows. Because these terms are also everyday words, everyday meanings and these denser structures of meaning can get confused. *Welfare* and *efficiency* are two examples of terms that stand atop large literatures—within and across disciplines—that frame their meaning. The term *market,* on the other hand, can be more fundamentally misunderstood because in everyday conversation, it refers to a place, whereas the economic term invoked in phrases such as "best left to the market" refers to a process, to dynamic sets of relationships, not to a physical site. To play the market as a novice is to step into a stream to learn to swim: sometimes it's hard to know how much of your progress is due to your actions and how much is due to the current.

It also seems clear to us, however, that much of the recent talk has been deliberately deceptive, as the political climate of public discourse in the United States has grown increasingly sour, fractured, incoherent, and destructive. Much of the talk about the Social Security Trust Fund is a good example. Government officials who know, or ought to know, perfectly well the legal requirements and administrative procedures of a government trust fund instead offer images that are at best seriously misleading.

This work of clearing out some of the debris is initiated in chapter 2 and continued in chapter 3, where we attempt to clarify major concepts and perspectives underlying the technical issues of Social Security and its proposed alternatives. Although video and print media have dedicated significant chunks of space and time to the general issue, they frequently sacrifice clarity for brevity, paragraphs for sound bites, civility for volume. Describing the basics of the disagreement requires a better understanding of federal budgets, historical trends, and routine accounting procedures than most people can claim. Rather than educate people on these points, however, both sides of the debate focus on (and can be faulted for) generating slogans rather than building comprehension. Our goal is to provide a primer on these concepts, which means that (especially) these two chapters will require some effort to digest; in contrast, those who already have this knowledge may find these chapters too superficial. This book is not written for experts, however. It is written for people who prefer to make their own decisions rather than rely on one or another public figure to dictate where their interests lie and how they can best pursue them.

Having accomplished some of that clarification,[4] we then turn, in chapter 4, to the main arguments in favor of replacing Social Security with a different program of postemployment income insurance and the main arguments for the restoration of Social Security to fiscal health. Several important recent books have attempted to make the cases for or against Social Security and alternative (privatized) programs. We draw primarily on a list that is exemplified by Henry Aaron and Robert Reischauer's *Countdown to Reform,* Dean Baker and Mark Weisbrot's *Social Security,* Michael Graetz and Jerry Mashaw's *True Security,* Sylvester Schieber and John Shoven's *The Real Deal,* and Max Skidmore's *Social Security and Its Enemies.* We also rely on a large number of papers included in the National Bureau of Economic Research working papers series, position papers sponsored by the National Academy of Social Insurance, and briefs distributed by various research centers, government agencies, and universities. All these, along with several articles published in scholarly journals, argue different, sometimes sharply different positions in the technical debates. They proceed from different starting points and reflect differing agendas. Whether one agrees or disagrees, each of the works on which we primarily draw offers intelligently considered arguments, and we try to give a fair hearing to all of the main positions. A number of other important works—Robin Blackburn's *Banking on Death,* Christoph Borgmann's *Social Security, Demographics, and Risk,* and Jennifer Klein's *For All These Rights* come immediately to mind—take a broader approach to the issue of the history and future of pensions (the subtitle of Blackburn's volume), broader in both geographic scope and in historical detail of the development of different pension schemes than we intend in this small volume. We do draw on these latter works occasionally, but our focus is principally on the U.S. case and on the main points of its development since the Social Security Act of 1935 was enacted.

Many of the works on which we draw are authored by economists, academic and professional. In fact, an emphasis on efficiency as well as on cost-benefit types of analyses has guaranteed economists' positions of particular authority in these and other policy debates. However, this fact is also recognition that much of the best analytic treatment of the technical issues involved in programs such as Social Security and its proposed alternatives has come from the component disciplines of economics. No doubt some of the writings of economists, like those from any other of the sciences, are remarkably sterile. But the best of economic analyses are insightful in ways that no other discipline has matched. It is sometimes said that the main economic models are unrealistic and demonstrably false. That is indeed the case. The would-be criticism betrays more than anything else a lack of understanding of how science works. The models are unrealistic and demonstrably false as descriptions, precisely because of the simplifying assumptions that are made to advance our understanding of underlying processes that, in the round, are enormously complex. A number of people, Charles Plott among them, have argued that these same unrealistic, demonstrably false models have been more productive of genuine insights into economic processes than any bundle of highly realistic, demonstrably accurate descriptions of observed outcomes or states of being.[5]

On the other hand, economists are prone, as are other scientists, to claim the mantle of value neutrality for their own analyses. That claim is worth no more for them than it is for others. Economists themselves have systematically studied it and have come to the conclusion we just stated. Victor Fuchs, Alan Krueger, and James Poterba (1998), for instance, analyzed data pertaining to economists at forty leading research universities in the United States regarding their preferences on policy issues, such as whether IRAs (that is, the existing investment program of individual retirement accounts) should be expanded, whether the cap on taxes paid on workers' wages into Social Security (that is, the FICA taxes) should be eliminated, and whether affirmative action should be eliminated. They concluded that variations in economists' preferences on these issues were correlated with their values as reflected in their preferences concerning the relative importance of individual responsibility versus social responsibility, the relative importance of economic efficiency versus economic equity or fairness, and the role of the federal government in income distribution.[6] The impact of values on policy preferences remained even after controlling for differences in the economists' political identifications and differences in their estimates of a number of technical matters (for example, the fraction of total net worth in the United States that is held by the richest 1 percent of U.S. households, the magnitude of the effect of Social Security (that is, FICA) taxes on the personal saving rate, the ratio of administrative costs for mandatory private saving accounts to the administrative costs of Social Security). For economists, too, values tend to trump knowledge and ignorance. That is, although the variation in the economists' estimates of those technical data was considerable, it did not correlate well with the difference in their policy positions.

The dominant dimension of the technical issues in the debate about Social Security is a contrast between what are called (sometimes misleadingly) market-based and government-based solutions to socioeconomic problems. The corresponding alternatives typically proposed to a fiscally challenged Social Security system are built around private-account investments in market securities—that is, mainly, corporate stocks and various kinds of bonds, both corporate and governmental. Because there has been much deception in discussions of market returns, we devote chapter 5 to a review of actual data on market returns, chiefly stock-market returns, with attention to issues of measurement and reporting as well as analysis. Markets being places of commerce, the "buyer beware" adage tells us that probably the vast majority of the deceptive information about rates of return on investments in corporate stocks has been motivated by interests much older than and now mostly indifferent to the Social Security debate. Too often, protagonists in the debate simply pick and choose among deceptions and popular misunderstandings already in circulation to sway public opinion toward their preferred solution or solutions to the problems Social Security faces.

It will be apparent throughout chapters 4 and 5 that politics is never far from the surface of the picture, even though the discussions focus primarily on various technical issues. This is partly because the line between what is technical and what is political is never as clear substantively as the boundaries of white space between and around the words might suggest. But it is also because, whatever one's views on technical issues, markets are stuffed with politics in the most fundamental sense; actors bring different resources of power to bear on market transactions and depend on prior definitions and enforcements of individual liberties and property rights. That means that government—politics as the regulation of conflicts over the distributions of goods, for example—is also always present, no matter how fierce one's pretense of being against government.

The debate over Social Security is necessarily about current problems and future solutions, and there is no escaping the fact that any decision regarding the future of Social Security, and postemployment income insurance more generally, will necessarily be achieved through political processes. We can do little in this book to combat the poisoned atmosphere of congressional, presidential, and judicial politics, or the rapidly eroding respect of the public for congressional, presidential, and judicial institutions. Perhaps on those fronts the most we can do is to remind members of the electorate, those who do not as well as those who do vote, that the electorate generally gets the officials, the government, it deserves.

We nevertheless pursue a variety of relevant political (or sociopolitical) issues in the Social Security debate in chapter 6, with some hope of furthering a balanced, insightful consideration of the inescapable relationships and mutual interdependencies between markets and governments. Part of our concern in the chapter is with the cross-class coalition forged during the 1930s, with Social Security as one of the most important programs to come out of that coalition of interests (see Klein 2003). One of the now mostly forgotten facts of that era was the resistance of business interests to agree to practices such as tax farming (government assigning to selected private firms the rights to taxes paid by the populace) which had long been regarded as invitation to political cronyism and financial corruption. Another all-too-often-forgotten fact about that coalition is that it was not merely a political expediency designed to win approval of a controversial policy among the electorate and among members of Congress. It was a coalition that in fact did cut across lines of class—that is, across what were gulfs of difference and disparity in basic economic, social, and political interests. It was also successful. It knitted together great divergences and made U.S. society the better for it. It was far from perfect, to be sure. But the accomplishment of that coalition was instrumental in the recovery of a society from collapse. Coalitions as broad and as deeply rooted as that one was are very difficult to achieve. Its destruction has contributed to the resurgence of material inequality in the United States (see, for example, Keister 2000) and arguably has had a hand in the American public's increased inability to identify a commonwealth of shared interests (see, for example, Lipset and Schneider 1987). U.S. society is probably quickly approaching a condition in which a similar broadly based coalition would be highly useful, if not necessary, in response to profound difficulties.

In chapter 6, we also examine Pew Research Center data on public attitudes about Social Security and the proposed private accounts initiative of the second G. W. Bush administration. Our aim is to gain some sense of the social as well as political and economic sources of support for different approaches to the problems facing Social Security. We do not argue that these survey data necessarily tell us about much more than today's mood. They do, however, still provide a benchmark against which to assess the connection, or lack of connection, between policy proposals and popular conceptions of the problems to which the proposals have been made.

As we observed earlier, when considering the set of technical (largely financial) issues involved in the politically declared crisis of Social Security one is struck by the thought that, given all the rancor and bad faith present in that declaration, something else must be going on. The motivations behind the repeated and often successful efforts of manipulation, deceptive information management, and smear-tactics must be about something larger and in some sense deeper than Social Security as such. We focus on this larger debate in chapter 7.

The character of the larger debate could be described as philosophical, generally in the looser sense of that word, and as ideological, generally in the stricter sense of the word, that is, the study of a system of ideas. The system and the philosophical principles involved in the debate are complex and thus involve many dimensions of human society. Our entry point into this complexity, which will also frame the bulk of our discussion of the larger debate, has to do with competing conceptions of the individual, both as a reality in itself and as both a component of and a counterpoint to society. In terms that are closer to the disagreements about the future of Social Security, it is a debate about the sort of person, the kind of social actor, that government and schools and churches should encourage American citizens of the twenty-first century to be, or to become.

Anyone who remembers reading Ralph Waldo Emerson's essay on self-reliance, first published in 1841, will have a good idea what much of this debate is about, even though circumstances today are surely not Emerson's. Encouraging people to become self-sufficient was a major preoccupation of leading figures of the mid-nineteenth century, as it had been in the eighteenth century. It is still with us early in the twenty-first century, having been rejuvenated by what several commentators have called the culture wars that preoccupy American society.

In the final chapter, we return to more general issues of income and wealth distributions, the role of government in reinforcing versus counteracting growing inequalities, and how the choice between a more resilient Social Security program and individualized accounts fits within this context. One aspect of repositioning the puzzle pieces is reconciling the fear and loathing component of U.S. culture with its emphasis on the power of individual agency. Although we fear the subversive influence of enemies in our midst, we also believe that we can overcome tremendous disadvantage, breakthrough barriers, and beat the odds—not just occasionally, but routinely. We all see ourselves as the exception and thus align ourselves with the interests of the groups we aspire to join. By reframing the American Dream as a rags-to-riches story, rather than as a poverty-to-middle class story, we prefer to view affluence as the outcome in need of protection.

Some Missing Context

Chapter 7 discusses some of the key contextual features of the Social Security debate, but other matters of context must be mostly assumed within the covers of this book. Otherwise, it would become a much larger work than the one we set out to write, and important matters of context would still have been neglected. Nevertheless, in the remainder of this introductory chapter we want to outline some of that missing content, especially a part that has been peculiarly missing from the explicit register of the Social Security debate. This is the enormous increase in the extent and depth of interdependence of the United States with other economies, governments, and cultures of the world. It is the context known as globalization, a process with a very long history that began to reach a comparable stage of development in the late nineteenth and early twentieth centuries (before the world wars intervened), and that has been accelerating very rapidly during the late years of the twentieth and early years of the twenty-first century. No doubt globalization has become a familiar word, a hot-button topic, indeed a topic of much, perhaps still growing controversy in many countries.

Few alive today can recall the experiences of cultures as different as Irish, Italian, Polish, or Yiddish rubbing against that of the mainstream white Anglo-Saxon Protestant during the 1880s or 1920s. In addition to the highly beneficial cross-fertilizations that occurred then, a number of often horrific conflicts were also sparked, leaving many victims of xenophobic, paranoid fears, and hatreds. Imagine, then, the consequences of the current round of globalization, bringing much more diverse cultures (Islamic, Chinese, Indian, and so on) into increasing competition, and increasingly effective competition, with the United States. Despite its greater internal diversities since the 1920s, America has remained peculiarly insular in its dominant attitudes toward an outside world. This outside world now knocks on the doors of our most honored institutions and declares itself at least as good, at least as moral, at least as worthy of respect for its traditions, however different they might be.

The debate about the future of Social Security has been mostly silent about globalization or its likely relevance for the future of such programs. That is a mistaken silence. Capital markets (that is, markets of credit and debit, of currency, of venture or investment money, and so on) have been international and cross-national for a long time, and now to such an extent that national boundaries mean less and less.[7] Labor markets are rapidly following suit. Consumption markets have long been international and cross-national. European countries and the United States draw heavily on raw materials and lightly processed materials from other countries, which in turn have become growing markets for finished goods shipped back to them. Now, however, production capacities—and decisions about what gets produced, by whom, with what technical skills, and for what purposes—have been rapidly internationalizing as well.

Enough has changed already that one recent observer's conclusion is as acutely sensitive to foreseeable future conditions as it is startling to observers who have been less attentive:

> Today no one reasonably anticipates that the opportunity to live as they please will be secured automatically by the economic or political dynamics of a global market economy; and no one at all can have well-founded confidence that they will enjoy such an opportunity, if the economic or political dynamics of that economy fail to secure it for them. More disturbingly still, no set whatever of political, economic and social agents, up to and including the present human population of the entire globe, can reasonably assume that they have the effective power to ensure that outcome by any set of actions which they might conceivably perform. (Dunn 2000, 350)

What does any of this have to do with Social Security? First, begin with observation that funding programs such as Social Security is sensitive to the stability of employment tax bases. Much of what U.S. consumers purchase is produced in other countries, and the income-producing properties of that production process have therefore increasingly shifted to other countries—the attraction being not simply lower labor costs but also and increasingly the comparative advantages of production specialization. Loss of within-country production-based income also means lower relative wages and salaries that are taxable by federal, state, and local government agencies. These changes have only just begun.[8]

The issue of whether globalization, particularly in the form of treaties such as the North American Free Trade Agreement (NAFTA), has resulted to date in a net gain or a net loss of jobs in the United States is highly contentious. It is also a far more complicated matter than most commentators would lead us to believe, and the complications continue to make an unambiguous answer elusive. For one thing, there is the conceptual symmetry that is endemic to economic relationships: a sale is also a purchase, a consumption is also a production, and an export of labor demand in the form of a job is also the import of labor supply in the form of the good or service produced by the offshore labor power (and vice versa). To the uninitiated reader, this symmetry, which is in fact perfectly straightforward and soundly motivated, can be confusing, to the point that one might suspect trickery. There is no shortage of trickery, to be sure. If, for example, the off-shoring of jobs is unpopular with one's audience (whether in a school classroom or an electoral constituency)—and it typically is—then negative reactions can be diffused by shifting to the other view within the symmetry—the import of goods and services. The symmetry is real, however, not the result of sleight of hand, and if politicians or government officials were genuinely concerned about the welfare of citizens, they would further citizens' education, not exploit their confusion.

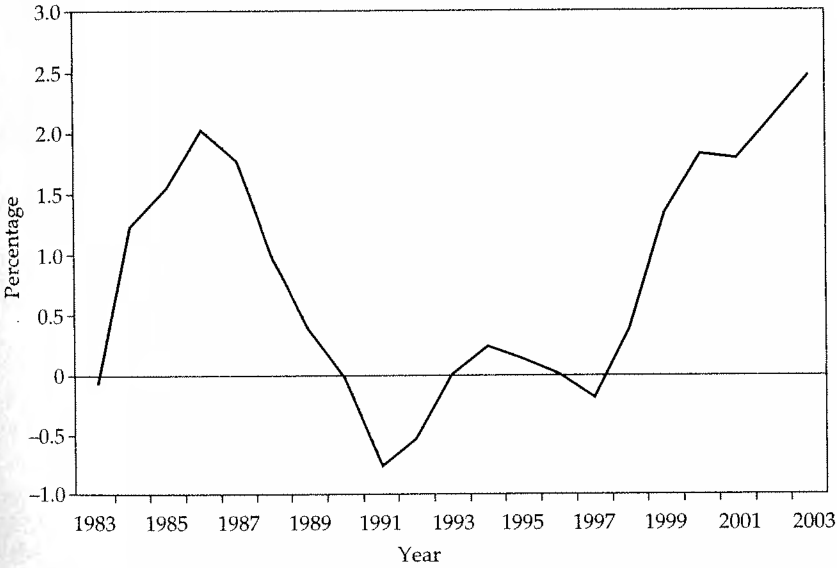
The only analysis, to our knowledge, that systematically estimates the effects of international trade on U.S. employment, with open sensitivity to the symmetries involved in imports and exports, is a recent study by economists of the Federal Reserve (Groshen, Hobijn, and McConnell 2005). Specifically, they estimated the number of "U.S. workers, at current wages, prices, and productivity levels, that would be needed to produce the goods and services imported" by the United States each year, from 1983 to 2003, and the number of U.S. jobs "needed to produce the goods and services exported" (4) by the United States during that period. The difference is the net effect of trade on U.S. employment.[9] In brief, the results indicate a net loss of jobs during the twenty years, but at an uneven rate. It was higher during the 1980s, lower during the 1990s, and from 1998 steadily and notably higher. By sector, the loss was heaviest in the manufacture of durable goods and then in the manufacture of nondurable goods. Trade in services has been slower to develop, but generally has seen a net gain in service jobs, though the rate of gain slowed persistently after 1997. From 1997 to 2003, the net number of jobs lost to trade averaged about 40,000 jobs a month. As a share of total U.S. employment, the net job loss was about 2.4 percent in 2003 (see figure 1.1).

The composition of the net loss is significant. Many of the lost jobs were in what had been relatively high-wage manufacturing employment. Many of the gained service jobs that partially offset the loss were in low-wage employment. Many that were not low-wage were contract-labor jobs, in which the worker is solely responsible for funding his or her own insurance needs (health and retirement, and so on), either by purchasing private insurance policies or by future funding from own-wealth accumulations. In any case, these patterns do not bode well for public programs that depend on taxes from employment wages and salaries. Forecasting is often based on past patterns, so a reasonable guess is that the trends will continue for some time (Appelbaum, Bernhardt, and Murnane 2003; Baumol, Blinder, and Wolff 2003).

Such data add to the rancor of political discourse, especially as election time approaches. It is mistaken, however, to tie the net job loss to any particular governmental administration, Republican or Democrat, regardless of whether the principals were enthusiastic, lukewarm, or antagonistic toward such instruments as NAFTA. Although certainly affected by such agreements, the economic forces displayed in such outcomes are of much longer and more powerful gestation. They operate increasingly independently of nation-state politics. They are not literally unstoppable—wars, plagues, and other catastrophic devastations can impede much—but they do have great momentum.

During the middle decades of the nineteenth century, a pair of authors offered a notably accurate description of changes then taking place through what amounted to a growing globalization of economic forces. Their vocabulary strikes today's reader as out of date, almost quaint; and the authors were perhaps a bit romantic in their enthusiasm. In the context of the 1830s and 1840s, the new major actors on the scene were

Figure 1.1 U.S. Job Loss Due to International Trade, as a Share of Payroll Employment, 1983 to 2003



Source: Groshen, Hobijn, and McConnell 2005.

city-dwelling (that is, bourgeois) factory owners and investors who had overturned the values preferred by the old order society of aristocrats and peasants, based in the countryside and on land ownership. "The need of a constantly expanding market chases the bourgeoisie" (487)—these people of the city who care little for the land but much for profits—

> over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere. The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. . . . It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilization into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image. (Marx and Engels 1848/1976, 487–8)

And in this new world, they wrote, "all that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with his sober senses his real conditions of life and his relations with his kind" (487). That process has continued during the past 150 years with such extraordinary effects that even those prescient authors would probably be astonished, were they to stop in for a visit today.[10] Were they naïve?

Even as a set of technical issues, the debate over Social Security is only one manifestation of some deep-seated changes surging through American society. As we have already announced, and will pursue further in chapters 7 and 8, the energy of the debate is drawn from some profound philosophical-ideological disagreements about the proper actor. That underlying level of the Social Security debate, as well as its specific technical dimensions, takes place within a dynamic context of political-economic forces that will shape whatever successes and failures emerge as resolutions. As nation-state boundaries increasingly lose their insulating properties, American citizens will probably learn that judgments about the proper actor continue to be forged primarily in market relations of exchange, with government officials, the citizen's agents in institutions of representative democracy, having diminished ability to modify those determinations even at the margin.