The Economy and Construction

A look ahead for contractors written by Morton J. Marcus, Executive Director,
Indiana Business Research Center, Kelley School of Business, Indiana University
for the Lake County Contractors Association

Construction, Social Security and the Nation's Growth

The battle over social security is getting plenty of attention. There are two important aspects to the conflict:

1. Keeping social security solvent so it can pay its bills
2. Diversifying and increasing individual savings.

No one is arguing about the first point. As is, social security will not be able to keep paying the same level of benefits to all eligible persons around the year 2040 or so. What's the answer? Increase the amount of money taken into social security (more tax revenues) or decrease the benefits.

Now there are at least two ways of taking in more revenues. First, we could raise the social security tax **rate**. At present this is **15.3%** of the first $90,000 of wages, salaries, and tips. (Traditionally we think of this as being paid half and half by the employer and the employee.) Or we could raise the cap on social security payments (now **$90,000** of income per year) so that people with higher income would keep paying into the system even when they pass that amount. Either of these ways is unpopular because no one likes higher taxes.

The alternative is lowering benefits. This is more invisible and hence more popular. One way of doing it is to raise the retirement age. For example, if you were born in 1939, your retirement age is 65 years and 4 months. Born one year later and you have to wait an extra two months before you can start earning full retirement benefits. If we extend the retirement age to 70, it is the same as lowering the amount of benefits at age 65.

Or we could make it more difficult to claim disability benefits by redefining disability itself. This would affect fewer people and be more popular, but not as "compassionate" as we might like.

The other issue is totally separate. The use of some part of social security taxes for individual retirement purposes changes social security from a community safety net to a personalized get rich program. But that is not the only change. It takes money out of the hands of the government (which is what many people want) and puts that money into the private market, mainly the stock market.

I have nothing against people buying stocks. I do worry that a reduction in social security trust funds will make less money available for the government to use for investment programs that we need. For example, with fewer dollars available to government, there could easily be a reduction in money for sewers, highways, airports, hospitals, schools and other public buildings.

Money that goes into the stock market is not necessarily invested in the needs of this country. Many private firms take their investments abroad. They build factories in other lands and finance utilities in other countries. But the largest part of stock market transactions are just that ….. transactions, flows of funds from the person who is buying to the person who is selling. That does not result in any investment. It's a transfer of buying power. I buy your shares of GE or GM and what do you do with the money? Do you build a home or do you take a cruise? Changing ownership is not the same as investment.

America needs more public investment. Private social security accounts will not get us there.