A Question of Numbers (THE CONSERVATIVE NEW DEAL)

New York Times

January 16, 2005 | ROGER LOWENSTEIN

By **THE CONSERVATIVE NEW DEAL**

In 1938, the Social Security Act was only three years old, but its future was already very much in doubt. Conservatives claimed it would bankrupt the nation, and independent critics argued that the way it was financed amounted to "financial hocus-pocus," as one editorial in *The New York Times* put it. President Franklin D. Roosevelt defended the program, said by a cabinet member to be his favorite, with some of his trademark oratory. "Because it has become increasingly difficult for individuals to build their own security," the president told a national radio audience, "government must now step in and help them lay the foundation stones."

Social Security did become the cornerstone -- not only the biggest government entitlement plan but also the most universal, the most popular and the most enduring. But the debate over Social Security never ended. Barry Goldwater wanted to repeal it; Milton Friedman wrote in 1962 that it was an unjustifiable incursion on personal liberty; and David Stockman, the budget director who personified Ronald Reagan's efforts to shrink the federal government, tried to take a hatchet to Social Security, which he called a "monster."

But in this 70-year struggle, no other conservative has ever come as close to transforming the program as George W. Bush. He is making Social Security reform, including a partial privatization, a centerpiece of his second term. If the most ardent ideologues have their way, such a reform would be a first step toward a wholly new approach to retirement security -- one that would set aside the notion of collective insurance and guaranteed minimums for that of personal investing and responsibility.

This could do more to reverse the New Deal, and even the Great Society, than Goldwater, Stockman and Reagan ever dreamed of. "We call it a conservative New Deal," says Stephen Moore, author of "Bullish on Bush: How George W. Bush's Ownership Society Will Make America Stronger." In Moore's words, it will be a fundamental shift "from an entitlement society to an ownership society." The key to this transformation, according to a generation of conservative thinkers and crusaders, is reducing the size and changing the nature of Social Security, which now pays benefits of half a trillion a year, and which will only grow bigger as America grows older.

The campaign to privatize has not only been about ideology; it has also focused on Social Security's supposed insolvency. Moore's book calls Social Security a "Titanic . . . headed toward the iceberg" and a program "on the verge of collapse." A stream of other conservatives have bombarded the public, over years and decades, with prophecies of trillion-dollar liabilities and with metaphors intended to frighten -- "train wreck," "bankruptcy," "cancer" and so forth. Recently, a White House political deputy wrote a strategy note in which he said that Social Security is "on an unsustainable course. That reality needs to be seared into the public consciousness." The campaign is potentially self-fulfilling: persuade enough people that Social Security is going bankrupt, and it will lose public support. Then Congress will be forced to act. And thanks to such unceasing alarums, many, and perhaps most, people today think the program is in serious financial trouble.

But is it? After Bush's re-election, I carefully read the 225-page annual report of the Social Security trustees. I also talked to actuaries and economists, inside and outside the agency, who are expert in the peculiar science of long-term Social Security forecasting. The actuarial view is that the system is probably in need of a small adjustment of the sort that Congress has approved in the past. But there is a strong argument, which the agency acknowledges as a possibility, that the system is solvent as is.

Although prudence argues for making a fix sooner rather than later, the program is not in crisis, nor is its potential shortfall irresolvable. Ideology aside, the scale of the fixes would not require Social Security to abandon the role that was conceived for it in 1935, and that it still performs today -- as an insurance fail-safe for the aged and others and as a complement to people's private market savings.

PREDICTIONS AND BEST GUESSES

About 47 million people -- retirees and their dependents, under-age survivors of deceased workers and the disabled -- receive a check from Social Security every month. The money for this colossal endeavor comes from a payroll tax on current workers and on their employers. The program is a model of efficiency; expenses are low, as pension plans go, and participation is near universal. Benefits rise with the level of earnings, but they are tilted toward progressivity, so that those at the bottom get more in proportion to their earnings and those at the top get less. Social Security also delivers a considerable nonmonetary benefit: people who have contributed throughout their working lives know that, regardless of the ebb and flow of their careers and, indeed, of the stock market, a guaranteed pension awaits them.

Currently, Social Security is running a hefty surplus; the payroll tax brings in more dollars than what goes out in benefits. By law, Social Security invests that surplus in Treasury securities, which it deposits into a reserve known as a trust fund, which now holds more than one and a half trillion dollars. But by 2018, as baby boomers retire en masse, the system will go into deficit. At that point, in order to pay benefits, it will begin to draw on the assets in the trust fund.

The debate over Social Security's solvency is really two debates. The first is over how long the trust fund will last. The law requires the Social Security Administration to estimate its financial condition for 75 years into the future, and the agency's conclusions depend on the assumptions it makes about what America will look like decades hence -- how much people will earn, how large their families will be, how long they will live.

Politicians and other commentators tend to speak about these long-range trends, or at least about Social Security's finances, with an air of precision. This is almost amusing, since few economists can predict the swings in the federal budget even a year in advance. Joshua Bolten, head of Bush's Office of Management and Budget, said of Social Security last month, "The one thing I can say for sure is that if left unattended, the system will be unable to make good on its promises." But the Social Security Administration itself pretends to no such certainty. Its actuaries (about 40 are on staff) frankly admit that the level of, say, immigration in 2020, or of wages in 2040, is impossible to forecast. "The only thing we are sure of is that it won't happen precisely as we project," says Stephen Goss, the chief actuary at the agency. And the trustees' annual report, which is based on the actuaries' analysis, takes pains to say that it is not making a prediction. It makes a projection -- three different ones, actually -- that amount to informed but very rough guesses. The agency's best guess, labeled its "intermediate" case, is that the system will exhaust its reserves in 2042. At that point, as payroll taxes continue to roll in, it would be able to pay just over 70 percent of scheduled benefits. That would leave a substantial deficit, but one that Congress could easily avert if it were to act now when the projected problem is more than a generation away.

What's more, there is a strong case to be made that the agency is erring on the side of being overly pessimistic. If its more optimistic projection turns out to be correct, then there will be no need for any benefit cuts or payroll-tax increases over the full 75 years.

No one can definitively predict that outcome, either, of course, but David Langer, an independent actuary who made a study of Social Security's previous projections compared with the actual results in 2003, thinks the "optimistic" case is its most accurate. Over a recent 10-year span, the trustees' intermediate guesses turned out to be quite pessimistic. Its optimistic guesses were dead on, and its pessimistic case -- sort of a doomsday situation -- was wildly inaccurate.

And, contrary to widespread belief, recent demographic trends have been modestly better (from an actuary's gloomy standpoint) than anticipated. For instance, longevity hasn't increased as much as expected. Partly as a result, since 1997 the agency has pushed back, by 13 years, the date at which it projects its reserves will be exhausted. In other words, as the cries of impending doom started to crescendo, the guardians of the system have grown more optimistic.

IS THE TRUST FUND TRUSTWORTHY?

The second debate concerning solvency is over whether the securities in the trust fund will be honored or whether, in Moore's pointed imagery, the fund will resemble a bank "after it's been robbed by Bonnie and Clyde." This seems an odd preoccupation. Social Security does not own junk bonds or third-world debt; it invests in U.S. Treasuries, considered the safest investment on the planet. Since 1970 there have been 11 years in which Social Security has operated at a deficit; each time, it redeemed bonds from the trust fund without a fuss. Goss, the agency's actuary, says he has no doubt it will be able to do so again. "Absolutely," he said when asked if the trust-fund bonds are sound.

This isn't what some conservatives have said. Paul O'Neill, the former treasury secretary, went so far as to say that Social Security has no assets. In anti-Social Security literature, the "no assets" contention isn't even debated; it's treated as gospel. According to Michael Tanner, head of the Cato Institute Project on Social Security Choice, the agency's pauperism has turned America's seniors into "supplicants": after working and paying taxes their entire lives, "they earn the privilege of going hat in hand to the government and hoping that politicians decide to give them some money for retirement." The implication is that the money isn't there: graybeards will have to beg for it.

Cato, a libertarian policy center founded in the late 1970's, has been arguing for 25 years that Social Security is on the verge of crisis. In a recent position paper, Tanner wrote that Social Security faces a horrendous unfinanced liability of $26 trillion over 75 years. In a footnote, he cited the 2003 trustees' annual report. Actually, the trustees' intermediate projection is for a deficit, over 75 years, of $3.7 trillion. Though that is a lot of money, it could be covered by an immediate surcharge to the payroll tax of less than two percentage points, or by various combinations of tax hikes and benefit cuts, each of them quite manageable. But $26 trillion is too big a hole to fix. When I asked Tanner about the footnote, he admitted that the trustees didn't actually say $26 trillion; Tanner derived the figure by counting the cash-flow deficits that the trustees project from 2019 on out. In other words, he ignores the next 15 years or so, during which time Social Security will be running a surplus. And he assumes that the assets in the trust fund, which should be accruing interest into the 2040's, won't exist, either. Tanner counts only the bad years and only the bad numbers. Another doomsayer, former

Republican Representative John Kasich, pegged the Social Security deficit at $120 trillion in a recent op-ed -- some 32 times the agency's figure. (Kasich toted up annual deficits in nominal -- not inflation-adjusted -- dollars for every year through 2080, by which time a hamburger could cost $40.)

Such hyperbolic claims aside, there is a serious issue at the heart of what worries critics. It isn't that the trust fund is broken; it's that the existence of the fund is seducing the government to spend more than it otherwise would, thus brooking larger deficits in the future. Since Social Security lends its surplus to the Treasury (that's what it means to be investing in Treasuries), it is parking its surplus cash with the government. And just as lending money to a child outside a candy store may impose an impossible temptation, so the government may feel tempted while it holds onto Social Security's purse.

Ideally, Congress would recognize that the surplus is only temporary and would, therefore, take pains that the money lent to it is properly saved -- that is, that it run a surplus. But the government is operating at a deficit. So you must conclude that rather than saving Social Security's surplus, the government has been spending it -- on the military, education, tax cuts. In only 15 years, the government will have to start repaying its debt to Social Security. It will be able to do so. If need be, it will borrow, as it has borrowed for many purposes since 1776. The amount of borrowing, which could very gradually scale up to 1 or 2 percent of the country's gross domestic product, will be far smaller than the present federal deficit, which is just under 4 percent of G.D.P. But to avoid layering one deficit atop another, the government needs to exercise discipline -- to not overindulge in candy -- in the years when Social Security is running a surplus.

DEMAGOGUES, DOCTORS AND DEFICITS

The fear that the trust fund would represent a "perpetual invitation" to Congress has bedeviled Social Security since its inception. Economists of the 1930's knew that every pension plan starts with more workers contributing into the system than there are retirees. But down the road, as those workers retire, obligations mount. Therefore, they recognized, any system that builds an adequate reserve for the future must collect more than it needs in the early years. And though social scientists of the 30's could not anticipate the war or the baby boom that would follow it, they knew that America's population was going to age.

In 1934, when Franklin Roosevelt formed the Committee on Economic Security to design what was in effect the first federal safety net, the committee hired three actuaries to stargaze into the future. The actuaries predicted that the proportion of Americans over 65 -- then only 5.4 percent -- would rise to 12.65 percent in 1990, meaning that retiree costs would soar. They were just a tad high; the actual figure would be 12.49 percent.

The committee was sharply divided on how to prepare for this demographic onslaught. Harry Hopkins, who oversaw the New Deal's relief program, thought the U.S. should simply pay retirement benefits from general funds; the more fiscally minded Henry Morgenthau Jr., the treasury secretary, wanted a self-financed system. F.D.R. sided with Morgenthau; above all, he said the system should be simple -"nothing elaborate or alarming about it."

But alarm was very much the order of the day. When Roosevelt was swept into office in 1933, he had been preoccupied with the emergency of the Depression -- 10 million unemployed, 18 million on relief, the country's business output cut by a quarter and its morale shattered. He responded with a whirlwind of legislation and with rhetoric that, for a while, truly inspired. By 1934, the energy of the New Deal's first days had begun to subside, and yet the Depression had not abated. Meanwhile, the administration was being outflanked by political zealots, utopians and snake-oil salesmen, who increasingly appealed to desperate Americans. In California, the novelist Upton Sinclair was running for governor on a radical platform to "end poverty." In Louisiana, Huey Long was leveraging his "share the wealth" movement into a national campaign. The Rev. Charles Coughlin, a demagogic and incendiary radio orator, was attracting millions of listeners with his attacks on bankers, Bolsheviks and assorted other villains.

By far the oddest of these ducks was an elderly doctor in Long Beach, Calif., Francis Townsend, who had lost his county medical job to the Depression. Dr. Townsend, a onetime ranch hand and mining speculator, wrote to the local newspaper suggesting a fantastic retirement scheme: the government should distribute $200 a month to each American over 60 and pay for it with a sales tax. When recycled through the economy, he augured, these lavish pensions would "abolish unemployment" forever. His proposed stipend was well above the average American's monthly wage, and his plan was demonstrably unworkable. But in rural America, it had the lure of an elixir. "Townsend Clubs" popped up across the country. Millions of members were recruited, a weekly newspaper was printed and dozens of U.S. representatives dutifully lined up in support.

"The Congress can't stand the pressure of the Townsend Plan unless we have a real old-age insurance system, nor can I face the country without" one, Roosevelt told his labor secretary, Frances Perkins. Each had been thinking of social insurance since well before the emergence of Townsend -- as governor of New York, Roosevelt dispatched Perkins to England to study the British state insurance system. But characteristically, F.D.R. had let the idea simmer until the moment was ripe. The domestic agitation was his opportunity.

In January 1935, the Economic Security committee delivered a sweeping proposal for "cradle to grave" insurance. Much of the bill merely authorized the federal government to distribute aid to the states, but two aspects of it were revolutionary: a plan for unemployment insurance and one for retirement. F.D.R., however, was greatly troubled by a detail in the latter. Though the payroll tax was scheduled to rise, in staircase fashion, within two generations it would be insufficient to cover benefits. Perkins explained that as the number of retirees rose, funds from the Treasury would have to cover the shortfall. "Ah, but this is the same old dole under another name," F.D.R. said. F.D.R. had hoped that handouts would no longer be necessary as the economy recovered, and he shrewdly anticipated that in future generations, welfare-type programs would be vulnerable to political attack. He wanted Social Security to be different -- universal and enduring. Therefore, he insisted, it had to be self-supporting. Thus was conceived the (soon-controversial) trust fund. To build a future reserve, the New Dealers doubled the initial level of the payroll tax to 2 percent, applied up to a cap that was initially set at $3,000 of income. This added a regressive aspect to the plan, shielding the highest income brackets. Nonetheless, in August 1935, legislation was enacted that, in F.D.R.'s words, would "give some measure of protection to the average citizen."

The public strongly supported the new program, but conservatives attacked it as a socialistic scourge. Playing on the fact that each worker was to receive a government number, the Hearst papers published front-page illustrations of a man wearing a chain with a dog tag. Henry Ford said Social Security could cost Americans their basic freedoms, like the right to change jobs or to move from one town to another. A shareholder in a utility filed suit, claiming that the payroll tax was unconstitutional. The case went to the Supreme Court, where, in 1937, Justice Benjamin Cardozo, as if to resolve the historic debate over federalism, ruled, "The conception of the spending power advocated by Hamilton . . . has prevailed over that of Madison." The new agency's organizational elan won over some critics. W. Albert Linton, a skeptical insurance executive, visited the Social Security headquarters in Baltimore and was amazed when the staff plucked his name and address from among the 26 million records. "I think it is amazing," he said, "the way they have solved the technical aspect."

But the opposition wouldn't die. The issue that sparked the loudest protest was one that still burns today: the trust fund. Deductions from pay envelopes began in 1937, but benefits weren't scheduled to start until 1942, and there was a great deal of mistrust about where the money was going. Government actuaries sheepishly explained that Social Security was building a reserve eventually expected to reach $47 billion. This was an awesome sum -- eight times the total then in circulation. Alfred Landon, the Republican who ran against Roosevelt in 1936, called it "a cruel hoax" on the American people. His platform, sounding uncannily that like that of Republicans today, stated, "The so-called reserve fund . . . is no reserve at all, because the fund will contain nothing but the government's promise to pay." Arthur Altmeyer, head of the Social Security board, came under heavy fire at a Congressional hearing. Looking for a way to safeguard the reserve, he made an intriguing suggestion: why not let the government invest in sound private securities, and thus insulate the surplus from Congress's eager hands? As Altmeyer recounted in his memoir, Arthur Vandenberg, a Republican senator from Michigan, threw up his hands and snickered, "That would be socialism!"

To quell the furor, Roosevelt turned to that standby device for embattled politicians -- an advisory council. The council arrived at an expedient solution, though one with troubling longer-term implications. It suggested increasing benefits for the first generation of retirees, even though that group had paid little in payroll taxes. An amendment in 1939 raised their benefits and also created new classes of beneficiaries -- wives, widows and survivors. This was a departure from the principle that all workers would be treated equally (couples would get more than single workers) and added an element of "need" -- a point that would rankle conservatives and later fuel the privatization movement. But in the political climate of 1939, it had the advantage of soaking up surplus taxes and greatly reducing the rate at which reserves would accumulate in the trust fund. F.D.R., anxious to have the controversy settled, went along, even though the changes paved the way for the eventual deficits he had feared.

THE FIRST (AND ONLY) CRISIS

The crunch came, as actuaries had predicted, in the late 1970's. Part of the problem they had not foreseen; Social Security benefits were skyrocketing because of inflation. In the 70's, Congress decided to index retirees' benefits to the cost of living. The timing was awful. Not only did inflation soar, but incomes -- the basis of payroll contributions -- stagnated. Critics like those at the newly formed Cato Institute warned of disaster. A former Nixon cabinet member, Peter Peterson, began to attract attention by arguing that any pay-as-you-go system (in which one generation supports another, as today) was inherently unstable, and advocated deep cuts in the rate at which benefits increased. The criticism had an ideological as well as an economic edge. In a pre-financed system -- in which, for instance, each worker invests for his own later retirement -- society never faces a liability. But individuals may come up short (if their investments fare badly) and live out poorer retirements. President Carter, responding to the darkening outlook, became, in 1977, the first president to legislate a belt-tightening.

Carter's efforts, however, didn't suffice. The trouble was that Social Security's actuaries had been way too optimistic. The actuaries had assumed that from 1978 to 1982 inflation would total 28 percent; the actual figure would be 60 percent. And they had predicted that wages would grow by 13 percent after inflation, whereas, in fact, real wages didn't rise at all; they declined. Social Security's experts were hardly the only people surprised by the dreadful economy, which was buffeted by skyrocketing oil prices, Middle East turmoil and a slumping stock market. Regardless, in 1981, Social Security experts announced that the trust fund would run dry in a year or two. That left the problem up to a new president, Ronald Reagan.

As a candidate for president, Reagan had proclaimed that he was "pledged to a Social Security program that will reassure these senior citizens of ours they're going to continue to get their money." By then, Social Security had become a program that politicians couldn't afford to oppose and, indeed, that most Americans supported. President Eisenhower, a Republican, had proved this in 1956 when -- to the great disappointment of conservatives -- he supported a significant expansion of Social Security to include the disabled. But among adamant free marketers, the dream of upending Social Security lived on. One of the more prominent postwar opponents, in fact, was Reagan, a disarming actor then transitioning to political life.

Reagan began speaking out against Social Security in the late 50's. At the time, Democrats were trying to extend Social Security to health care -- to what would eventually become Medicare -- and Reagan worked with the American Medical Association to try to stop them. The A.M.A. conducted a stealth campaign (unearthed in 1999 by the political scientist Max Skidmore) known as Operation Coffee Cup, in which doctors' wives would urge women in their communities to oppose the plan in letters to Congress. Reagan produced a record album for that campaign in which he criticized Social Security for "supplanting" private savings and warned that subsidized medicine would curtail Americans' freedom. Warm and folksy even as he envisioned a bleak Orwellian future, Reagan said that Big Brother could start with health care, "and pretty soon your son won't decide when he's in school, where he will go or what he will do for a living. He will wait for the government to tell him."

Reagan gave slightly altered versions of this speech in personal appearances around the country, attacking Social Security as a "sure loser" of a program, and one that would worsen, not alleviate, the hazards of age. In the 70's, Reagan continued to sermonize against Social Security, often suggesting that it be made voluntary or more voluntary. At first blush, this sounded reasonable. As most people don't save enough for their retirement, however, under a voluntary system many who opted out would wind up destitute. Higher-earning workers (who get a lower proportional return on their payroll taxes) would opt out for certain. This problem is known as adverse selection. Wealthier people contributing higher taxes exit the system, leaving less revenue and a higher burden for the poorer people who remain. In effect, it would become an unpopular welfare program.

Once Reagan was in the Oval Office, he allowed his budget director, David Stockman, to handle the crisis. Stockman, who was waging a war on government spending, tried to exploit the moment to curtail Social Security sharply. It was Stockman's idea to cut benefits to early retirees by one-third. Without those cuts, he warned, the U.S. could suffer "the most devastating bankruptcy in history." There were two weaknesses in the Stockman approach. First, he exaggerated. The deficit looming in 1983 was only temporary. (Since the birthrate dropped during the Depression, the number of seniors coming of age in the 1990's would decline, providing the agency with a respite.) Second, Stockman was politically naive. By proposing cuts for people on the verge of retirement, he triggered vehement protests. Members of the Republican-controlled Senate showed their instinct for self-preservation by voting 96-0 for a resolution intended to distance themselves from Stockman. James Baker, Reagan's chief of staff, urged the White House to do likewise. So Reagan, like F.D.R., bounced the problem to a commission, this time led by a well-known economic consultant, Alan Greenspan.

The 15-member commission got nowhere until December 1982. Then, with default only months away, an unofficial subgroup began to meet in secret. Robert Ball, a former Social Security commissioner, and Senator Daniel Patrick Moynihan negotiated for the Democrats opposite Baker for the White House. In the end, they compromised on a combination of benefit cuts and tax hikes. The payroll tax, then 10.16 percent, was already scheduled to rise, but the negotiators sped up the implementation of the increase. (Today the rate is 12.4 percent.) Moreover, Congress agreed to hike the retirement age from 65 to 67. This change, which is being phased in very slowly (the retirement age is now 65 and 6 months) had the same effect as cutting benefits. Greenspan and company now calculated that Social Security would build a giant reserve, sufficient to see it through the middle decades of the 21st century. This was the original F.D.R. approach -- build a trust fund. President Reagan said the package "assures the elderly that America will always keep the promises made in troubled times a half-century ago."

Social Security's next few annual reports made best-guess (intermediate) projections of solvency for 75 years, meaning it expected the system to remain solvent until 2060 and beyond. So the question that should arise now, but that has been oddly ignored is, What happened?

ARE ACTUARIES TOO GLOOMY?

Nothing did. Or in the words of Robert Ball, the nonagenarian former commissioner, "nothing in the real world." But perceptions changed, and the balance of opinion began to shift in favor of reform. To some extent, that shift was bipartisan. In the mid-1980's and early 90's, Democrats discovered they didn't love deficits after all. When it began to appear that Congress was incapable of keeping its hands off Social Security's surplus, fiscally prudent Democrats like Moynihan and Bob Kerrey came out in favor of individual accounts. President Clinton famously campaigned to "save Social Security first" -- meaning that Congress should balance the budget. Meanwhile, the popular impression that any fool could make money in the stock market (for a while, any fool did) made private accounts seem like a natural. In the 1996 campaign, even among Republican contenders, only Steve Forbes favored privatization; by 2000 it was party doctrine.

Social Security's actuaries also began to make more pessimistic assumptions about the future. To quote the report of yet another Social Security advisory panel, this one from the mid 90's, "It is pointed out that while today there are 3.3 workers paying into the system for every beneficiary drawing benefits, over time this ratio will change to two workers per beneficiary. . . . However, this has almost nothing to do with why there is a . . . deficit." The report continued, "The ratio was fully taken into account in the 1983 financing provisions." So why did Social Security begin to forecast a more rapid exhaustion of the trust fund? Social Security was burned in the 70's and early 80's by being too optimistic. Now the actuaries are leaning the other way. "It's a less optimistic estimate today," says Harry Ballantyne, who was chief actuary until 2001.

Social Security's key long-range projection is that, over 75 years, it will come up short by an average of 1.89 percent of payroll. Though deficits would still loom beyond 2080, the problem could be fixed until then by an immediate tax increase of 1.89 percent, or a benefit cut of roughly 13 percent. (Democrats tend to favor a combination.) But this all assumes that the middle projection is right. And several underlying assumptions of that middle projection tend to exaggerate the potential deficit. The first concerns longevity. A 65-year-old man today can expect to live to nearly 82. According to the most likely projection, in 2080 he should expect to live to 86. Goss says that the agency is assuming that medical technology will deliver more "miracles." Most demographers agree with him, and some even think the agency is not being optimistic enough. The only trouble is, as Goss notes, that over the past 20 years "they have been wrong at every turn. There has been less improvement than we were expecting." Indeed, the improvement in mortality has slowed significantly. And no one is sure why it has slowed. Nonetheless, the agency expects a sharp rebound over ensuing decades. Its fiscal gloominess thus depends on a speculative uptick in medical miracles.

Immigration is another contentious point. Immigration is good for the system because immigrants are earners and taxpayers. Though immigration has been rising, Social Security projects that it will taper off sharply, from 1.2 million a year to 900,000 in 20 years. This forecast is curious, because if the birthrate in America declines as anticipated, the country will need more foreign workers.

Rising wages are also a boon to Social Security's finances. Forecasting wages is difficult, as the trustees' report frankly admits, but it seems undeniable that as society ages, businesses will be harder pressed to find workers, and that should push wages higher. The trustees, however, project that real wages will grow at only 1.1 percent a year -- roughly equal to the level of the last 40 years.

The basic point here is that tiny swings in any of these or other factors could improve -- or worsen -- the program's balances. If a few of them lean in the direction of the optimistic forecast, the trust fund will cover benefits through 2080, or close to it. Would such a program, which appears to be solvent or near solvent until the limit of what is humanly forecastable, be improved upon by the various schemes for privatization?

PRIVATE ACCOUNTS DON'T SAVE MONEY

Social Security does not provide, and was not meant to provide, a satisfactory retirement on its own. The average stipend for a 65-year-old retiring today is $1,184 a month, or about $14,000 a year. About half of Americans also have private pension plans, but for two-thirds of the elderly, Social Security supplies the majority of day-to-day income. For the poorest 20 percent, about seven million, Social Security is all they have. Even those figures understate the program's importance. According to an agency publication, "Income of the Population 55 or Older: 2000," 8 percent of elderly beneficiaries were poor, but a startling 48 percent would have been below the poverty line had they not been receiving Social Security. Charles Blahous, the White House point man on Social Security, publicly criticized this calculation as "mindless," and the Social Security agency no longer computes the figure.

Conservative economists say the figure is irrelevant: if Social Security didn't exist, people would save more. This may be true of economists, but what about the rest of us? The argument illustrates the ideological agenda of those who favor privatization: they want to change people's behavior. But how will the proposals to privatize, several of which are before Congress, actually work? Basically, younger workers would be allowed to divert a portion of their payroll taxes into individual accounts. Upon retirement, these workers would get lower Social Security benefits supplemented by whatever had accumulated in their portfolios.

But since the diverted money would not be available to pay benefits to current retirees, the government would have to undertake significant borrowing to pay people now in their middle and older decades. Eventually, the system might transition to one in which most people mostly relied on their personal accounts. But this transition would take many decades.

The president is expected to back a plan similar to one recommended by the advisory council he appointed, in 2001. That plan opts for a slow transition, keeping entitlement-type minimums in place. The amount of money to be diverted into personal accounts -- and therefore, the potential gains -- is relatively small. Some free-market purists are unhappy about this. But Bush's economists, whatever else is said of them, are determined not to re-enact the Stockman debacle by moving too quickly and enacting immediate cuts. They have read their history.

The White House asked the Congressional Budget Office to analyze one advisory council plan. That plan would allow workers born after a certain date (perhaps 1950) to siphon about a third of the payroll tax into individual accounts, up to $1,000 a year. The money could be invested in any of three choices (other plans provide for wider menus) and would be converted into an annuity upon retirement. The C.B.O. assumes that the typical worker would invest half of his allocation in stocks and the rest in bonds. The C.B.O. projects the average return, after inflation and expenses, at 4.9 percent. This compares with the 6 percent rate (about 3.5 percent after inflation) that the trust fund is earning now. Proponents hail the plan for forcing savings on the government. But the diversion of money into individual accounts would save the government nothing, since it would have to borrow to offset the loss of the diverted dollars. The individual accounts represent a transfer, not a savings. The second feature of the plan would link future benefit increases to inflation rather than to wages. Because wages typically grow faster, this would mean a rather substantial benefit cut. That cut would mean a savings for the government. This is a political choice; we can always save money by reducing benefits. But it's important to stress that the savings result from cuts, not from the decision to privatize.

Overall, the plan is gentler toward lower-income seniors than wealthier ones, but all seniors would be poorer than under present law. In other words, absent a sustained roaring bull market, the private accounts would not fully make up for the benefit cuts. According to the C.B.O.'s analysis, which, like all projections of this sort should be regarded as a best guess, a low-income retiree in 2035 would receive annual benefits (including the annuity from his private account) of $9,100, down from the $9,500 forecast under the present program. A median retiree would be cut severely, from $17,700 to $13,600. On the plus side, budget deficits would be lower in the future. But, because of the lengthy transition, that "future" is exceedingly remote -some 50 years down the road. In the interim, deficits would rise by up to 1.5 percent of the country's G.D.P.

ONE WAY TO USE THE MARKET

One rationale for privatization is that workers would get a better return on their money in Wall Street securities than with Social Security's dowdy old Treasuries. This notion, which has Wall Street investment banks salivating, was especially in vogue during the 90's, when the stock market was soaring. When the bubble burst, advocates reined in their sales pitch, but they still are unrealistically sanguine. Last year, Tanner of the Cato Institute wrote that "over the worst 20-year period of market performance in U.S. history . . . the stock market produced a positive real return of more than 3 percent." Actually, the market has done worse than 3 percent per annum in nine different 20-year periods.

In any case, Social Security could capture the return on stocks, without putting individuals at risk, by investing in equities directly. This would also achieve another frequently stated objective: keeping the government's hands off the Social Security trust fund. That option would be far more efficient, in economic terms, than separating the money into 150 million disparate accounts. Costs are much lower for one big investor. And more important, in a system of individual accounts, benefits will vary with individual choices, and some people will make poor ones. In Sweden, where the retirement system has included private accounts since 2000, the majority of Swedes made excessively risky investment choices by putting money into stocks at the market top, according to Richard Thaler, a University of Chicago behavioral economist. Finally, pooling the investment pools the risk, and thus reduces the danger of retiring at the wrong time. In a system of personal accounts, someone who retired after a market crash would be out of luck.

So it is notable that all the current proposals to privatize involve the economically inferior option of individual accounts. But privatization advocates aren't motivated solely, and perhaps not even primarily, by economics. Glenn Hubbard, Bush's former top economic adviser, wrote in Newsweek that an "obvious objective" of privatization is "to advance the president's ownership society agenda." Such pro-free-market sentiment has a long lineage. Remember Senator Vandenberg, who fretted in the 30's that public ownership of private securities would amount to socialism? Even though state pension funds and some U.S. agencies, including the Federal Reserve, put some pension money in stock-index funds, conservatives still react as if such a solution for Social Security were akin to turning it over to the Kremlin. Peter Ferrara, a former White House staff member under Reagan and now senior fellow at the Institute for Policy Innovation, who has been proposing Social Security privatization plans since the late 1970's, told me that economics "was not my primary motivation. It was ideological. We don't want the government controlling that much investment."

HOW BUSH WOULD CUT BENEFITS

There is a policy choice that unites Social Security's critics -- from Goldwater to Reagan to Bush -- which is that the program should be balanced by shaving benefits rather than by raising taxes. They favor smaller government, so shrinking Social Security (rather than increasing its financing) serves their broader aim. Indeed, though the public continues to oppose cutting benefits, Bush has ruled out any solution that involves a tax hike. Reagan said the program had morphed from the humble insurance plan formulated by F.D.R. (for whom he voted four times) into a swollen caricature of government excess. The first Social Security recipient, a legal secretary in Vermont named Ida Fuller, started with a benefit of $22.54 a month. Today's retirees obviously do better (even after adjusting for inflation). Nonetheless, according to Lawrence Thompson, who was the Social Security acting commissioner in the 90's, the retiree program is not really more "generous" now than it was in the past. Like other pension systems, Social Security was designed to replace a fixed portion of a retiree's previous earnings. For a single person with average earnings, initial benefits were intended to replace about 40 percent of income. They are still pegged to 40 percent of income.

Since wages generally rise faster than inflation, retirees in each generation get more in real dollars than those in previous ones. Contemporary critics, like Kasich and the Bush council, would slow the rate of future increases by linking benefits only to inflation. Though this would save a lot of money, its effect on retirees should be understood. Seniors now get an initial benefit that is tied to a fixed portion of their pre-retirement wages. If the index was changed, their pensions would be pegged to a fixed portion of a previous generation's income. If this standard had been in force since the beginning, retirees today would be living like those in the 1940's -- like Ida Fuller, which would mean $300 a month in today's dollars, as opposed to roughly $1,200 a month.

One way or another, societies with more old people have to devote more resources to them. Right now, benefits amount to 4.3 percent of G.D.P. The trustees' most likely projection assumes that over the next 75 years that figure will rise to 6.6 percent. In the more optimistic case, benefits will rise to 5.2 percent. Given the substantial increase in the elderly population, neither of these figures seems rash or out of proportion. The increased cost would be on a par with that of making Bush's first-term tax cuts permanent, which is projected to be about 2 percent of G.D.P. And though future generations of workers will have to support more retirees, they will also be having fewer children. In fact, according to the Social Security actuaries, the total "dependency" burden (that is, the number of nonworking seniors and kids that each working-age adult will have to support) will remain lower than at its baby-boom peak. "In a grand social sense," says Thompson, the former Social Security commissioner, "we can support more seniors where there are fewer people in day care."

THE INESCAPABLE COSTS OF AGING

Ultimately, every 75-year forecast is just a guess, and therefore every approach must accommodate a range of possible outcomes. Plans that link worker benefits to the stock market automatically adjust -- if the economy underperforms, then workers get lower benefits. This enhances, rather than mitigates, whatever is the trend in people's private savings. As Thompson says, "The default adjustment is you eat less." This could be brutal and also unfair, especially to the post-1983 generation of workers that, on the say-so of Greenspan and Reagan that the trust fund would be honored, has paid a sacrifice in both reduced benefits and higher taxes.

What other solution is there? Ball, who joined the system in 1939 as a $1,620-a-year district officer in Newark, has thought of one. He starts from two premises: it would be reckless not to make some adjustments now, but foolish to make too much of 75-year prophecies. "In 1928, there was no way to forecast the Depression, World War II, the birth-control pill. We have to stop acting as if 75-year estimates were absolute," he told me.

Nonetheless, Ball would tweak the system in several modest ways to reduce the projected deficit. For instance, he would very gradually raise the cap on income subject to the payroll tax, now at $90,000. This would reverse a recent regressive trend. Income distribution in America has become more skewed, thus upper-income folks have earned more money that has escaped the tax. Ball would also add three other, smaller fixes to further tighten benefits and raise taxes. (There are many variations of these fixes floating around the Beltway.) After Ball's prescription, how much of a deficit would then remain? Possibly a fraction of a percent of the payroll, possibly zero. The answer would depend on the net effects of future birth rates, wars, diseases, inventions and so forth. Enter now Ball's little accommodation to uncertainty. It is that Congress simply resolve now to impose, 50 years hence, a payroll tax increase sufficient to close whatever gap exists over the ensuing quarter-century. This could not be enforced now, of course, but that is Ball's point. He wants to free the Congress, and the rest of us, from the annual game of insisting on an exact and illusory far-off balance; to diminish the perception that we must urgently adjust to economic and demographic developments too distant to be forecast.

The 2004 "Economic Report of the President" takes dead aim at such an approach. It reckons that all pay-as-you-go systems will eventually be doomed by demographics, and that solutions like Ball's will only push back the date that the trust fund runs out of money by a few years. The White House worries that any fix that covers 75 years of benefits could still bequeath a deficit in the 76th year. "The nation must act to avert a long-foreseen future crisis in the financing of its old-age entitlement programs," the report states. Its assumptions may be true, or they may not be, but the conclusion suggests a misplaced allegiance: We have an obligation to the distant future, but don't we owe a greater debt to the current generation and to those that immediately follow?

Prudence dictates taking steps now to minimize the possible shortfall. This could include raising the cap, some modest cuts and tax increases and a gradual redeployment of the trust fund into assets that may not be tapped, willy-nilly, for whatever legislative purpose. But only a real crisis would dictate undoing an institution that has provided a safety net for retirees, that has helped to preserve in the social fabric some minimum of shared responsibility and that has been supported by workers in good faith. And, in looking at Social Security today, the crisis is yet to be found.

Roger Lowenstein is a contributing writer and the author of "Origins of the Crash." His last article for the magazine was about presidents and job creation.