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SHORING UP SOCIAL SECURITY

The moment of truth for Social Security is fast approaching. Two years ago, Social Security moved from the black to the red. The 1975 deficit was $1.2 billion, the 1976 deficit was $3.2 billion, and the 1977 deficit is $5.6 billion. The deficits are made up out of reserves.

Social Security's financial woes are blamed on inflation, which requires increased benefits, and recession, which reduces tax receipts.

In the matter of Social Security, however, those problems are minor compared with the really big problem that looms ahead in the 1980s. That is when the drastic decline in our birth rate and the rise in abortions starts making itself felt in the reduced number of workers paying into Social Security. Workers who are not born obviously cannot pay taxes into the system.

The American people have the image of Social Security as a giant insurance program into which they pay money that is invested and eventually comes back as retirement income. While benefits are tied in a general way to the taxes a worker pays into the system, the insurance concept has nothing to do with the reality of the cash flow.

Social Security operates on a "tax Peter to pay Paul" basis. The taxes collected from today's workers are paid out immediately to today's retirees. The whole system was predicated on the assumption that, with an expanding population, there would always be many more workers paying into the system than retired people drawing benefits.

Back in 1940 there were 146 contributing workers for every retiree drawing benefits. By 1947 this was reduced to 22 workers for every retiree. By 1957, this was reduced further to six workers for every retiree. Now there are fewer than three workers for every one collecting benefits.

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There are several very different plans for coping with the problem, none of them pleasant, and there are variations of each. One plan is just to give up on the whole idea of "earned retirement,," make Social Security a giant welfare program, and pay the benefits directly out of general tax revenues.

Another plan is to increase taxes to cover the benefits. Because that is so painful, the Senate Finance Committee has voted out a plan to increase employer taxes far more steeply than the taxes on workers.

This "soak business" plan may be more politically palatable, but, as the Chamber of Commerce testified, its costs would simply be met by increasing prices, cutting down direct wages to employees, or cutting back on the private benefit package the employer could have offered were it not for this tax burden.

This plan would also increase unemployment because employers would resort to every possible type of automation and cost-cutting in order to avoid hiring new workers on whom extra payroll taxes must be paid.

The third approach is to raise the retirement age. Two schools of thought have surfaced on this issue. There are those who think it is a "betrayal" of the system to require Americans to work until age 68 or 70 when they have been expecting retirement at age 65.

On the other hand, there are those who feel it is grievously unfair to require Americans to retire at age 65 when they want to continue working. Under the present system, most workers are forced to retire, and the others are saddled with financial penalties if they continue to be gainfully employed.

The principal author of the·senate Finance Committee plan, Senator Gaylord Nelson, jokingly said that his plan is "less worse than any other." That isn't much of a recommendation. Congress should try harder to come up with a better solution.

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