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Ben Bernanke Wants Your Social Security Money

Federal Reserve chair Ben Bernanke took another swing at Social Security and Medicare today, saying yet again that they'll need to be cut to protect our nation's financial health. Based on his record, any roadmap Bernanke lays out for the future is worth following ... as long as you hold it up to a mirror first so that it's reversed.

For those of you who prefer equations to words, let me put it this way: BB on SS = BS.

Bernanke's comments about Social Security yesterday weren't just wrong. They were *spectacularly* wrong. They were as wrong as his comments on housing in 2005, when he denied there was a housing bubble and said that a rapid decline in housing prices was "a pretty unlikely possibility."

They were as wrong as his comments in 2007, when he said "there's a reasonable possibility that we'll see some strengthening in the economy sometime during the middle of the new year" and added that "there's not much indication at this point that subprime mortgage issues have spread into the broader mortgage market, which still seems to be healthy."

They were as wrong as his comments in April of this year, when he said that "my best guess is that economic growth, supported by the Federal Reserve's stimulative monetary policy, will be sufficient to slowly reduce the unemployment rate over the coming year" (a year that's now half over). He added: "If economic conditions improve, as I expect, we should see increased optimism among consumers and greater willingness on the part of banks to lend, which in turn should aid the recovery."

Let's hear a big shout from all those small business owners who are having an easier time getting bank loans. And if there any consumers in the house feeling more optimistic, wave your hands in the air like you just don't care.

Didn't think so ...

You'd think a record like that would inject even the most self-confident prognosticator with a little humility. Yet an unfazed Bernanke insists on issuing pronouncements about matters that are well outside his purview as Fed chair.

Bernanke's been on an anti-Social Security tear for some time. He took a run at it, and Medicare, in Congressional testimony last December. The seemingly mild-mannered economist even went so far as to remind Congress that it had the freedom to abolish Medicare and Social Security if it so wished: ""(Social Security is) only mandatory until Congress says it's not mandatory," he helpfully observed.

Why go after Social Security? Bernanke quoted bank robber Willie Sutton last December for his answer: ""That's where the money is."

Now Bernanke's no Willie Sutton. He's a decent enough guy, by all reports. They even say he drives a Ford Focus, for crying out loud. That's hardly a bankrobber's getaway car. So why is he gunning for Social Security? Ideology, for one thing, along with a massive dose of Washington tribalthink. Yesterday in Providence he once again sounded his klaxon, an alarm that remained deafeningly silent in the runup to the economic collapse, on the issue of entitlements. His stated concern was for future economic problems caused by government debt -- although he could neither describe how a crisis might be triggered or draw "a clear bright line" beyond which real troubles might begin.

Never mind. We need to cut entitlements anyway, says Bernanke, and the public will have to "accept some sacrifices." (Man, am I getting tired of comfortably well-off people asking others for "sacrifice." To paraphrase the old religious saying: I met a man who thought he was austere because he drove a Ford Focus, until I met a man with no feet ...)

Said Bernanke: "Expectations of large and increasing deficits in the future could inhibit current household and business spending -- for example, by reducing confidence in the longer-term prospects for the economy or by increasing uncertainty about future tax burdens and government spending -- and thus restrain the recovery.'

You know what's inhibiting spending and restraining the recovery (besides the fact that folks don't have jobs, and the Fed's ignoring its mandate to maintain employment levels)? People keep hearing that their Social Security and Medicare benefits are going to be cut! It's hard to go out and stimulate the economy with part of your paycheck (if you're lucky enough to have one) when times are hard and all you hear is that they'll be taking another piece of your retirement security away.

Having sunk the economic ship, Bernanke and his fellow-thinkers now want to set it afloat again ... by puncturing the liferafts.

One part of Bernanke's assessment isn't completely off-base, at least at first. He cites two long-term trends, an aging population and health care costs, as major contributors to the deficit. There's no question that health care costs are eating the economy alive, and the added government cost of Medicare as more people age will place more and more of that cost burden in the government's hands. So did Bernanke propose a single-payer health care system with the power to reduce the overall cost burden? Or did he explore other ways to restructure the health economy so that it more closely resembles lower-cost European systems?

No. Aside from mass euthanasia for Baby Boomers -- an inhumane approach, no matter how sick you are of hearing "Hotel California" -- that leaves either massive tax increases or gutting Medicare as the only other options. Guess which way Bernanke's leaning? While he's been uncharacteristically Sphinxlike on the specifics, he thought extending tax cuts would be a good way to maintain a "stimulus." He didn't exclude tax cuts for the wealthy from that statement, a telling omission that flies in the face of most analyses.

So tax increases, while they receive lip service, aren't really called for in the Bernanke approach.

While he had no solutions for health care costs, at least his assessment of the problem was fair. But Bernanke's assessment of Social Security was completely off the mark. When it comes to retirement benefits, he doesn't have a clue "where the money is." Yesterday, for example, he raised the alarm about the ratio of younger adults to retirees: "This year, there are about five individuals between the ages of 20 and 64 for each person aged 65 and older. By 2030, when most of the baby boomers will have retired, this ratio is projected to decline to around 3, and it may subsequently fall yet further as life expectancies continue to increase."

That's wrong. Really, really wrong. There's a lot that could be said about the life expectancy issue and worker/retiree ratios, but for now let's consider this: This wave of coming retirees was equally large when it was *contributing* to Social Security. That's one of the reasons why the expected shortfall doesn't occur until 2037, and why the program would still be able to contribute 75% of benefits after that (and 100% with a minor fix like lifting the payroll cap).

We'll say it again: *Social Security isn't broken*. Say it often enough and you might even stimulate a little more consumer spending.

Bernanke's honest, whatever his other flaws. He added: "Overall, the projected fiscal pressures associated with Social Security are considerably smaller than the pressures associated with federal health programs, but they still present a significant challenge to policymakers."

True. Then why fixate on Social Security? First, because the Washington elite finds it easy to stomach the kind of "sacrifice" that benefit cuts would require ... of others, especially those who aren't big campaign donors. Second, because there's no political will to raise taxes. Third, because nobody wants to address the real issue: health care costs.

Lastly, and most importantly, because there's a politician/economist orthodoxy on this topic that's truly strange to observe up close. There's a shared a set of folkways and beliefs around the subject of Social Security that DC outsiders can't understand or penetrate. And there's a ritualized aspect to this austerity talk, one that's worthy of ethnological study. It's as if the sacrifice of the elders was an initiation rite for Washington policymakers.

The Beltway Bubble: You can check out any time you like, but you can never leave ...

Some headlines today emphasized the fact that Bernanke wants to make these cuts slowly, rather than immediately. Bernanke said the following: "The sooner a plan is established, the longer affected individuals will have to prepare for the necessary changes. Indeed, in the past, long lead times have helped make necessary adjustments less painful and thus politically feasible."

We are not without sympathy, Mr. Bond. We will give you time to put your affairs in order ...

Bernanke's comments crystallize a strain of thinking that unfortunately dominates Beltway thinking right now: We can't make drastic cuts immediately but we can schedule future cuts now to demonstrate our "seriousness." This line of thinking says that cuts must be focused on the only area that can be addressed politically: partially repealing the New Deal by reducing Social Security benefits. Presumably it's hoped that this will create the political will, not for tax increases, but for subsequently cutting Medicare and other New Deal programs.

That sort of thinking begins by assuming that current political realities, established by the Right and compliant Democrats, are fixed and unchanging. But the political equation may be shifting: So far, more than 112 members of the House of Representatives have signed a pledge to block any cuts to Social Security.

Does the deficit need to be addressed? Yes -- at the right time, after the economy has returned to health. Is the groupthink Bernanke represents the right way to do it? Absolutely not. Health care costs need to be cut. And if you really want to know "where the money is," it's in the pockets of hedge fund managers and other ultra-rich Americans who, according to Beltway lore, will forever remain immune from significant tax hikes. And it's in the pockets of bankers who are enriching themselves by playing games with low-interest money from the Fed -- Ben Bernanke's Fed -- rather than lending it to get the economy moving again.

Sure, Social Security is where *some* money is. But that's money that working Americans paid into a trust fund through their payroll taxes, in the expectation that it would be there when they retire. Raiding it would be the act of a bank robber, not a policymaker.

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