The Evolution of the Social Security System in America and Its Future

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The main focus of this paper is on the strength and shortcomings of Social Security in America and its suitability for adoption in developing nations. The paper will first trace the evolution of the Social Security system in America from its inception in 1937 to the present time. The original Social Security Act and the various follow-up amendments throughout the years are documented. The debate on the success and failure of the Social Security in America and the challenges it will face in the 21st century is also discussed. The paper will address its suitability to third world nations.

Keywords: gerontology, social welfare, sociology.

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Introduction: The Growth of Aging Population in America

The elderly population of the United States has grown consistently since the turn of the century, when about 3.1 million men and women were aged 65 and over. By 1990 this population had increased tenfold to 31.6 million and it is expected to grow continuously in the first half of the 21st Century. As shown in Table 1, by 2050 the elderly population will reach 68.5 million. This will represent roughly 22.9 percent of the total population in the United States in 2050. This elderly group represents the fastest growing age group in the United States population. As Cary S. Kart has put it that today there are more people aged 65 and older in the United States than the combined total resident populations of New England (Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut) and the Mountain States (Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, and Nevada) (1994:46).

Table 1. Total Aged Population and Percentage of Total Population That Is Aged, United States, 1900-2050

<table>
<thead>
<tr>
<th>Year</th>
<th>65 &amp; Older (1,000)</th>
<th>% of Total Population</th>
<th>% of Increase in Preceding Decade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>16,675</td>
<td>9.3</td>
<td>-</td>
</tr>
<tr>
<td>1970</td>
<td>20,107</td>
<td>9.9</td>
<td>20.5</td>
</tr>
<tr>
<td>1980</td>
<td>25,704</td>
<td>11.3</td>
<td>28.0</td>
</tr>
<tr>
<td>1990</td>
<td>31,559</td>
<td>12.6</td>
<td>22.8</td>
</tr>
<tr>
<td>2000</td>
<td>34,882</td>
<td>13.0</td>
<td>10.5</td>
</tr>
<tr>
<td>2010</td>
<td>39,362</td>
<td>13.2</td>
<td>12.8</td>
</tr>
<tr>
<td>2020</td>
<td>52,067</td>
<td>17.7</td>
<td>32.3</td>
</tr>
<tr>
<td>2030</td>
<td>65,604</td>
<td>21.8</td>
<td>26.0</td>
</tr>
<tr>
<td>2040</td>
<td>68,109</td>
<td>22.6</td>
<td>4.8</td>
</tr>
<tr>
<td>2050</td>
<td>68,532</td>
<td>22.9</td>
<td>0.3</td>
</tr>
</tbody>
</table>


The pattern of an increasing number and proportion of elderly persons in the United States population is no real surprise to students of demography. The demographic transition theory has long projected that the lowering of the birth and death rates will result in changes in the age composition of a society when it is becoming industrialized. According to the demographic transition theory, the first stage is characterized by high birth rates and high death rates
as experienced in pre-industrial societies and this stage has the high growth potential once its death rates begins to decline. The second stage is characterized by continued high birth rates but a declining death rate. With improvements in the medical care system, a better food supply, and reduced vulnerability to nature disasters as a result of industrialization, the death rate begins to drop while the proportion of the elderly shows a slight increase. The third stage of the demographic transition is characterized by low mortality and low or controlled fertility. This is likely to occur in industrialized societies in which people are willing to lower the number of children they would have as a necessary means of controlling population growth and of guaranteeing a better quality of life. Most of the nations in western and northern Europe are approaching the completion of the third stage, while East and West Germany and Switzerland have even shown actual population decline since 1980. The United States has also made a substantial move toward the completion of the demographic transition. Demographers believe the population replacement level is around 2.1, i.e. a family of two produce an average of 2.1 children. United States replacement index is 2.2, still showing a slight population gain.

The decline of both birth rates and death rates is accompanied by a longer life expectancy and a shrinking of the working-age population. Demographers calculate old-age dependency ratios to illustrate the relationship between those whose ages are 18-64 and those who are 65 years old or over. The smaller the age 18-64 group, the larger the dependency ratio. In Table 2, we can see the old-age dependency ratio was 16.8 in 1960 and it is projected to be 39.9 by 2050. If we take into account of the decline of the under 18 years of age group of young-age dependency ratio, the burden to the 18-64 working age group of the future is very obvious.

The question everyone asks is who is going to take care of the elderly? The modern nuclear family in America seems to have lost its traditional function of serving the elderly. On the one hand, the average number of children a family is having in America today is 1.8, too small to be able to provide sufficient funds to take care of the elderly by themselves. On the other hand, there has been a change in the American view of family as a self-sufficient unit; more and more people now believe the government must take on the responsibility to provide care for the elderly.
Social Security is a federal government-sponsored program that is designed to draw old-age benefits from a payroll tax system to which contributions are made by those employed. It has contributed to the well-being of the elderly in American society with financial and medical benefits. But it also is facing a growing uncertainty about the future course of its existence. The main purpose of this essay is to discuss the role of the Social Security system in America in helping an elderly population to live through its retirement age. The essay will begin with a brief description of the evolution of Social Security in the United States. Then the strengths and shortcomings of Social Security will be explored and suggestions for future improvement of Social Security will also be discussed. Finally, a few comments will be made in regard to the suitability of an American style Social Security in Third World nations where it will take a lot more than ritual incantations to accommodate the realities of 21st century aging.

**The Evolution of Social Security in America**

The idea of elderly public assistance is not a new phenomenon. Germany adopted this type of social insurance in 1889 with much persistence by its Chancellor, Otto von Bismarck. He and William the First believed that the
state had the responsibility to take care of those who are unable to from work because of age and invalidity. The United States did not adopt this type of program for another forty-six years. In the beginning of the 20th century, it was common for families to live and work together. The prospect of retirement was not a commonality. There were no pension plans and individual savings were slim. When parents could no longer fend for themselves, children frequently provided care and kept the family farm in operation. As American became industrialized, however, the younger generation left the farms and worked in factories and other new types of industry in or near cities. As a consequence, the number of extended family households decreased and the elderly no longer held a position of prestige and power. Instead, they became a final burden for their children.

When the stock market collapsed on October 24, 1929, it signaled the end of the prosperous 1920s and the beginning of an era of great economic hardship for the United States. Within three months, the stock market lost 40 percent of its value and 26 billion dollars of wealth disappeared. During the years between 1929 and 1933 more than one-third of the country’s banks suspended operations. The unemployment rate for nonfarm workers reached 37.6 percent in 1933 and 21.3 percent in 1937. Millions of Americans became wandering “hobos” (www.ssa.gov/history/early.html). These severe economic conditions hit the elderly population extremely hard. With millions of young and able-bodied workers needing employment, the elderly had no chance for income. As a result, most of the older Americans during this time were forced to live in poverty.

President Herbert C. Hoover had been in office less than a year when the stock market crashed. Hoover was a successful engineer and businessman who had served as secretary of commerce since 1921, during the Harding and Coolidge administrations. Hoover had spent long periods of time outside the United States, living in Australia and England. While living in London, he watched World War I veterans line up week after week for their unemployment compensation. President Hoover was also an expert in modern methods of efficient management. He was a Quaker who took his religion seriously and had a reputation as a humanitarian because he had been head of an effort to deliver food and life necessities to Europe’s civilian victims of World War I.

In January 1932, the Hoover administration launched a major action to combat the Depression through the formation of a federal lending agency, the Reconstruction Finance Corporation (RFC). The RFC entered the picture more than two years after the crash and almost two years after the economy had turned downward. The RFC concentrated on banks, other financial institutions, and railroads, saving many from failure. The Hoover administra-
tion believed that wealth would “trickle down” to the average person with a small business or the average person threatened with a home foreclosure.

Dislike and distrust of Hoover was felt by many because of Hoover’s failure to deal with basic necessities such as food, clothing, and shelter, for the needy unemployed. Hoover turned toward voluntary efforts on a local level and turned to the individual states to assist the poor. Hoover made his point clear that “the Federal Government has sought to do its part by example in the expansion of employment, by affording credit to drought sufferers for rehabilitation, and by cooperation with the community, and thus to avoid the opiates of government charity and the stifling of our national spirit of mutual self-help” (Berkowitz, 1995:3).

The families of unskilled workers, even though both parents often worked, had incomes that barely met or fell below the Department of Labor’s standard of living. Families experiencing illness, accident, or temporary layoff became charity cases. Skilled workers had more resources, such as savings, equity in a home and greater credit availability. But even these resources did not save them over the long haul. Working-class families, middle and higher-income families ended up accumulating considerable debt as installment buying became widespread in the 1920s. Thus a job was both the beginning and the end of livelihood for a family to maintain itself. Once an individual’s job and savings were gone there was nothing for them to fall back on. Insurance protection for savings in failed banks was non-existent. Only a small number of workers in a few states had any public or private unemployment compensation to replace a portion of their wages. If payments were not made, homes were repossessed and furniture seized. The unemployed family had only one recourse: charity from relatives or friends or, if available, help from public or private agencies.

President Hoover did not believe there was a problem. He felt the unemployment rate was exaggerated. The President in 1932 asserted, “No one is actually starving” (Berkowitz, 1995:12). Hoover would not sympathize with the unemployed and their families or assure them that their government would not abandon them. The Democratic party introduced Franklin D. Roosevelt as a nominee for President on July 1, 1932. He had a warm, outgoing personality, confidence and understanding with a capacity to communicate with others. He was a serious man with an optimistic point of view, sensing that problems could be solved, improvements made, and action taken. He was characterized by a statement he made in his acceptance speech after he won the party’s nomination that stated, “I pledge you, I pledge myself to a new deal for the American people” (Berkowitz, 1995:12). Roosevelt was elected to the Presidency in November 1932.
The new President immediately appointed Frances Perkins to his cabinet. She was instrumental in calling for immediate federal action to assist the unemployed. Federal money went to the state, not as loans, but as grants to help finance relief. Jobs were created through a public work program. Perkins also advocated minimum wage and maximum hours laws, and elimination of child labor. She created the federal employment service, and social insurance protection against unemployment and old age.

President Roosevelt signed the Federal Emergency Relief Act (FERA) into law on May 12, 1933. This act authorized grants to the states on a matching basis of one dollar of federal money for every three dollars of public money spent on unemployment relief by the state or its local government. However, the FERA was only partially successful in raising relief standards. Major occupational groups, professionals as well as laborers, found themselves in need of relief. Unskilled and semiskilled workers accounted for over fifty percent of those in need and white collar workers accounted for eleven percent of the needy. The need to install a more extensive nationwide elderly welfare program became apparent. In his message to the Congress on June 8, 1934, President Franklin D. Roosevelt said, The complexities of great communities and of organized industry make less real these simple means of security. Therefore, we are compelled to employ the active interest of the Nation as a whole through government in order to encourage a greater security for each individual who composes it. This seeking for a greater measure of welfare and happiness does not indicate a change in values. It is rather a return to values lost in the course of our economic development and expansion. The President subsequently created the Committee on Economic Security (CES) that consisted of five top cabinet-level officials to make recommendations for further consideration by the Congress.

As the nation's economy began to show some signs of recovery at the close of 1934, President Roosevelt called for the end of temporary relief and the search for a permanent national program. The President was especially interested in protection of the unemployed and elderly. Thus on June 8, 1934, President Roosevelt announced to the Congress his intention to provide a program for Social Security. He developed a contributory system in which workers would provide for their own future economic security through taxes paid while employed. These monies, collected in the form of taxes, would then be deposited into specialized trust funds. Workers would receive their distribution when they reached the age of sixty-five.

The Social Security Act was signed into law on August 14, 1935. A Social Security Board was established. The act was a combination of insurance and welfare. Six categories were recommended: (1) Standby arrangements to fa-
cilitate public employment in periods of economic depression, (2) unemployment insurance, (3) old age insurance, (4) federal subsidies to states for old age pensions, (5) federal subsidies to states for mother's pensions, and (6) public health services for persons in the lowest income groups. According to the Social Security Act, the social insurance program provided for the government to collects payments from both the workers and his employer, and then repaying these funds upon retirement, disability or as a death benefit to the surviving spouse or children.

In the beginning, the Social Security Board was an independent agency. It was managed by a bipartisan panel and operated within the Executive Branch of the government (DiSimone, 1995:57). But it lost its independent agency status when the new cabinet-level Federal Security Agency was created on July 1, 1939. It was changed to the Social Security Administration on July 16, 1946. Arthur Attrmeyer became the Social Security Administration's first Commissioner. He was considered one of the principal conceptual and philosophical spokesmen for social insurance in America. He served from 1937 to 1953, during which time much of the policymaking was formulated. On April 11, 1953, President Eisenhower created a new Department of Health, Education and Welfare and made the Social Security Administration part of this new agency. The Department of Health, Education and Welfare was later replaced by the Department of Health & Human Services in 1980. On August 15, 1994 President Clinton signed a bill returning the Social Security Administration to its original status as an independent agency, effective March 31, 1995.

The organizational structure of the Social Security Administration is very complex. According to the Congressional Quarterly, "the Social Security Administration is headed by a Commissioner, appointed by the President with the advice and consent of the Senate. In administering the programs necessary to carry out the agency's mission, by law the Commissioner is assisted by a Deputy Commissioner, who performs duties assigned or delegated by the Commissioner, a Chief Financial officer, a General Counsel, a Chief Actuary, and an inspector General" (Washington Information Directory, 1997:671). The Administration also relies on the cooperative works of other federal agencies: the Treasury Department collects the Social Security taxes and distributes benefit checks, and other agencies such as the Postal Service, General Service Administration, and the Office of Personnel are used for other various administrative needs.

Table 3 lists the evolution of the Social Security in America since 1935 in a chronological order.
<table>
<thead>
<tr>
<th>Year</th>
<th>Main Organizational Structures and Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1862</td>
<td>The first private pension plan in American industry was adopted by American Express.</td>
</tr>
<tr>
<td>1908</td>
<td>A workmen’s compensation system was established for civilian employees of the Federal Government.</td>
</tr>
<tr>
<td>1909</td>
<td>The first Federal old-age pension bill was introduced in Congress.</td>
</tr>
<tr>
<td>1920</td>
<td>A Civil Service Retirement and Disability Fund was established for Federal employees.</td>
</tr>
<tr>
<td>1934</td>
<td>President Roosevelt created the Committee on Economic Security.</td>
</tr>
</tbody>
</table>

**A. The Pre-Social Security Era**

**B. The Social Security Era**

1935  The Social Security Act was passed in congress and became law on August 14; Social Security Board was confirmed by the Senate.

1936  The first Social Security field office was opened.

1937  Workers began to acquire credits toward old-age insurance benefits.

First Social Security benefits paid on 3/11 (one-time payment only).

1939  The Social Security Board became part of the Federal Security Agency.

Dependents, and survivors, benefits were included into the program.

1940  Monthly benefits first became payable

1946  The Social Security Administration was established.

1956  Monthly benefits to permanently and totally disabled workers aged 50-64 and for adult children of deceased or retired workers.

1961  All workers were permitted to elect reduced retirement at age 62..

1965  Medicare Bill was passed.

1973  Supplemental Security Income were into operation.

1995  SSA became an independent agency

1996  President Clinton signed the Contract with America Advancement Act ending eligibility to disability benefits for drug addicts and alcoholics.

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Continue
President Clinton signed the "welfare reform" legislation that terminated SSI eligibility for most non-citizens.

Source: "Key Dates" [www.ssa.gov/history/deydate.html](http://www.ssa.gov/history/deydate.html) in pp.1-8

When the Social Security Board was established in 1935, it had no staff, no facilities and no budget. The personnel was donated from existing agencies and given a temporary budget drawn from the Federal Emergency Relief Administration. But in President Clinton’s budget request for 1999 fiscal year, a $427 billion budget was requested for the Social Security Administration.

This funding would allow the Social Security Administration to make monthly cash benefit payments to 49 million people in various programs that include old age, survivors and disability insurance (OASDI) programs financed by Social Security trust funds, and the Supplemental Security Income (SSI) programs funded from general revenues. It also has a built-in cost of living adjustment of 2.1% in 1998 and 2.2% in 1999.

President Clinton stated in his State of the Union Address in 1998 that he held a strong commitment to strengthening Social Security for generations to come and that he would call for a White House conference on Social Security with aid of legislation and congressional leadership.

All American workers pay Social Security taxes. The tax is labeled FICA, which stands for Federal Insurance Contribution Act. The first registration of employers and workers was conducted on January 1, 1937 and 35 million Social Security number cards were issued. The first Social Security benefits were paid from 1937 to 1940 in the form of a single lump-sum payment.

The Social Security consists of two provisions: Title I- Grants to States for Old-Age Assistance which supports state welfare programs for the aged, and Title II- Federal Old-Age Benefits that was the new social insurance program later known as Social Security. The Title I was to be a temporary "relief" program while Title II social insurance program "sought to address the long-range problem of economic security for the aged through a contributory system in which the workers themselves contributed to their own future retirement benefit by making regular payments into a joint fund" (www.ssa.gov/history/history 6.html:3).

Over the years since its first enactment in 1934, Social Security has gone through a number of revisions and amendments. For instance, the Amendments of 1939 added two new categories of benefits: dependent benefits and survivors benefits. The 1950 Amendment made a Cost of Living Allowance (COLAs) as an accepted feature of the program and in 1972, COLAs became automatic. The 1954 Amendments initiated a disability insurance program
which provided the public with additional coverage against economic insecurity. The Amendments of 1961 lowered the age to receive old-age benefits from 65 to 62. In 1965 Medicare program was added to the program managed by the Social Security Administration. The Amendments of 1983 made numerous changes in the Social Security and Medicare programs, including the taxation of Social Security benefits, the first coverage of Federal employees under Social Security and an increase in the retirement age in the next century. President Clinton signed the Contract with America Advancement Act on March 29, 1996 that prohibited individuals with drug addiction or alcoholism to be eligible for benefits. The Act also doubled the earnings limit exemption amount for retired Social Security beneficiaries. Later that year, the President signed the Personal Responsibility and Work Opportunity Reconciliation Act in August to terminate SSI eligibility for non-citizens. Currently, the Tax rate of 7.65 percent covers both Social Security and Medicare. 6.20 percent of gross wages is the Social Security portion of the tax for those earning up to $61,200 annually. The Medicare tax is 1.45 percent of all earnings. The employer also matches a worker's Social Security tax payment. Less than one percent of the Social Security Taxes collected is used for administration costs. For every dollar that is spent for Social Security tax payment, 12 cents goes to disability benefits, 19 cents goes to Medicare benefits and 69 cents goes to retirement and survivors benefits.

Until now, the Social Security trust fund has taken in more money than it pays out, approximately $5 billion per month. The reserve funds are then invested in U.S. Treasury bonds so that those reserves can earn interest and help pay for retirement of the “baby boomer” generation beginning around the year 2010.

Social Security has helped provide individuals or families the ability to be self-sufficient. The monthly check from Social Security in combination with personal savings has freed the retirees from relying on their children for financial support. Social Security also provides a dignified and stable means of support. But Social Security is not a welfare program. It is a social insurance program for payments are not based on need but on the individual’s work history and age.

**Social Security and the Coming of Crisis**

Social Security has been one of the most talked about governmental policies in the United States in the late 1990s. One of the major reasons people believe that the Social Security program is headed for disaster is due to the
ever increasing payments to the elderly over the years. In 1937, the first year Social Security payments were paid, the amount was US$1,278,000, it was increased to nearly a billion dollars (US$961,000,000) in 1950 and to more than 120 billion dollars in 1980. The latest figure in 1996 showed a total payment of US$341,098,061,000. Figure 1 shows the rapid growth of Social Security payments since 1937.

Table 4 The Growth of Social Security Payments 1937-1996

<table>
<thead>
<tr>
<th>Year</th>
<th>Dollars of Payments</th>
<th>New SSNs Issued (In thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1937</td>
<td>$1,278,000</td>
<td>37,139</td>
</tr>
<tr>
<td>1938</td>
<td>$10,478,000</td>
<td>6,304</td>
</tr>
<tr>
<td>1939</td>
<td>$13,896,000</td>
<td>5,555</td>
</tr>
<tr>
<td>1940</td>
<td>$35,000,000</td>
<td>5,227</td>
</tr>
<tr>
<td>1950</td>
<td>$961,000,000</td>
<td>4,927</td>
</tr>
<tr>
<td>1960</td>
<td>$11,245,000,000</td>
<td>3,415</td>
</tr>
<tr>
<td>1970</td>
<td>$31,863,000,000</td>
<td>6,132</td>
</tr>
<tr>
<td>1980</td>
<td>$120,511,000,000</td>
<td>5,984</td>
</tr>
<tr>
<td>1990</td>
<td>$247,796,000,000</td>
<td>9,054</td>
</tr>
<tr>
<td>1995</td>
<td>$332,553,000,000</td>
<td>5,465</td>
</tr>
<tr>
<td>1996</td>
<td>$341,098,061,000</td>
<td>5,533</td>
</tr>
</tbody>
</table>

Source: [www.ssa.gov/history/history_6.html.com](http://www.ssa.gov/history/history_6.html.com), Pp. 10

Although at the present time the Social Security program has a surplus of funds, it is expected that payroll taxes will be able to cover Social Security payments only until 2012. From 2013 to 2018 Social Security will have to draw on interest earnings from its bonds. After that Social Security will have to redeem bonds, which will be completely cashed in during 2029. From 2030 onward Social Security tax revenues will have to be increasingly supplemented by contributions from the federal government’s General Fund. In a study done by Worth magazine, Amy Barrett predicted that “by the year 2045 workers could have to pay between 17 and 22 percent of their wages--about three times what they pay now--to fund the program” (1998:79).

It is understandable therefore that a relatively large proportion of American adults doubt about the future existence of Social Security. A 1993 study revealed that 80 percent of those aged 30 to 35 fear that Social Security will
not be there when they retire (Riekse & Holstege 1996:169).

Moreover, people are living longer than ever before. Advanced medical discoveries and healthier lifestyles are keeping the elderly in good physical condition. They are living longer with each generation and continue to receive benefits from Social Security. This coupled with the oncoming retirement of the baby boomer generation and the continuing lower birth rate has created a serious doubt about the existence of Social Security and the availability of payments to the elderly in the future.

Although during the two years of 1997 and 1998 the United States has enjoyed a budget surplus due to economic prosperity, no one expects it to last forever. The huge national dept can not be erased just because of a short term economic growth. If the federal government continues to spend the Social Security Trusts to meet the federal deficit and to finance daily governmental operation as it is now, the surplus in Social Security Trusts we see today will soon disappear. As a consequence, the smaller working-age labor force will not be able to pay taxes enough to support the retired elderly in the future.

Serious debates have been going on for quite some time concerning of how to fix the problems and save Social Security. One of the suggestions is to delay the payments of benefits. Ever since Social Security was established, age 65 has been a “marker age” from which the amount of Social Security benefits are calculated. The United States Congress is proposing to gradually delay the age eligible for Social Security payment to 67, with the eventual goal of moving the benefit age to 70. The idea is to reduce the size of the population eligible for the benefit so that it can be supported by the payroll taxes of the expected smaller sized working population.

Another suggestion is to encourage early retirement with reduced benefits. At the present time, individuals can receive reduced Social Security benefits at age 62. Many workers are able to afford such an early leave from the workforce with the combination of their private or company-sponsored pensions and Social Security benefits. The middle-aged and younger generation Americans are more educated than their parents’ generation; they are more aware of the necessity of planning ahead for retirement, and they would probably be more prepared than their parents generation both financially and emotionally. Early retirement would reduced benefits will not create severe hardship for them. The proponents of the reduced benefit proposal believe that the financial burden for Social Security will be partially reduced. Because these early retirees do not have to be paid full benefits.

Perhaps the most drastic suggestion for dealing with the potential crisis in Social Security is the proposal for the privatization of Social Security, i.e. to turn the management of Social Security Trusts to private hands to be run as a
business firm in a free market.

President Clinton announced in his State of the Union Address in January 1998 that the United States should save Social Security first. He provided more detail regarding his proposal to save Social Security first in his State of the Union Address in January 1999, by calling for using 62% of any surplus over the next 15 years to save Social Security, saving 15% of the surplus to shore up Medicare; and devoting 11% of the surplus to the creation of new Universal Saving Accounts, and providing long-term care (USA Today, 1999:1-2). With these four measures President Clinton assured the nation that we can begin to meet our generations historic responsibility to establish true security for 21st century seniors (Clinton,1999:4).

The President’s position is to maintain the exiting retirement system, with its collective commitment to a guaranteed benefit, and to strengthen the economy by using the Federal budget surplus to reduce the national debt. In the same address, President Clinton stated. The best way to keep Social Security a rock-solid guarantee is not to make drastic cuts in benefits; not to raise payroll tax rates; not to drain resources from Social Security in the name of saving it. Instead, I propose that we make the historic decision to invest the surplus to save Social Security (Clinton, 1999:3). But he is facing challenges from both politicians and economists on this issue of investment. Republicans and other independent groups argue that individuals and not the government should be responsible for their retirement security. The Republicans would like to fundamentally transform Social Security from a government program into a private system; they are developing plans that would give workers money through tax cuts to invest in the stock market with each worker having a private investment account. A slightly different proposal was made by a national commission sponsored by the Center for Strategic and International Studies. The Commissions plan would finance the private accounts by diverting a portion of the payroll tax paid by workers and their employers into private investment accounts (Rosenbaum and Stevenson,1999:1-2).

Alan Greenspan, the powerful Federal Reserve Chairman, raised his skepticism about the President's proposal to pour $2.7 trillion of federal budget surpluses into the program over the next 15 years and invest up to one-quarter of that money in the stock market. He told members of the Congress, There is really no strong evidence to suggest any positive aspects of moving Social Security funds into equities (Goldstein and Mufson, 1999:1). He also worried about the governments direct involvement in making investment decisions into Wall Street, picking which American companies are worth investing in. Wayne Angell, an economist at a New York based investment firm, also worried the conflict between profitability and social ethics. He said, Once the government
becomes involved, there are difficult temptations. If you can’t invest in an industry because it doesn’t meet a social test, then that enlarges the role of the government dictating to the private economy to a degree that many of us would find unacceptable (Goldstein and Mufson, 1999: 4).

Facing the irreversible demographic trends that will affect Social Security in America in the 21st century, the options which have been discussed include:

* Cutting benefits across the board (or just for the wealthy);
* Raising the payroll tax across the board (of just for the wealthy);
* Raising the age at which retirees become eligible;
* Investing the trust fund more aggressively;
* Letting workers contribute to personal security accounts that the government would manage (or that workers would manage themselves).

Among the above options, the privatization proposal that allows workers to manage their own payroll tax for retirement is the most radical. It is highly risky because Social Security today not only provides benefits to retired workers but also to the spouses and dependents of workers who die prematurely and to disabled workers and their dependents. Private savings and investment plans can’t do what Social Security does today. There is truly no simple fix on Social Security.

American Social Security and the Third World Nations

America is not unique in the challenge of the graying of its population. It is a worldwide phenomenon. Industrialized nations such as Japan and western European nations have already experienced the growth of their elderly population. In the near future the pressure of a growing elderly population will also be felt in many Third World nations. In fact, aside from the Muslim countries of North Africa and the Middle East, it is hard to find any part of the world that isn’t aging. For many Third World countries, the challenge of supporting a growing elderly population is compounded by huge out-migrations of younger people (Schulz, Borowski & Crown, 1991; Hooyman & Kiyak, 1999).

Global aging is happening almost everywhere; it is a new problem for humankind. A change has occurred in human behavior that is as revolutionary as it is unheralded: Around the world, fertility rates are plummeting. According to an account, women today on average have just half the number of children they did in 1972. In 61 counties, accounting for 44 percent of the Earth’s population, fertility rates are now at or below replacement levels. Life expectancy is also up. The year 2000 will mark for the first time in history that people
over 60 will outnumber children\textsuperscript{14} and younger in industrial countries. Globally, the average life span has jumped from 49.5 years in 1972 to more than 63 years. Consequently, the world’s population will slowly increase at an average rate of 1.3 percent a year during the next 50 years, but it could decline by midcentury if fertility continues to fall (Longman.1999:32.). Table 5 shows the projection of elderly population growth in the industrialized nations.

### Table 5 Age 65 and Over Population as a Percentage of Total; Percentage Change 1950-2025

<table>
<thead>
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<td>6.8</td>
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<tr>
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<td>15.5</td>
<td>18.4</td>
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</tr>
<tr>
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<td>11.4</td>
<td>12.9</td>
<td>14.0</td>
<td>15.6</td>
<td>16.0</td>
<td>21.2</td>
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</tr>
<tr>
<td>Italy</td>
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<td>10.9</td>
<td>14.1</td>
<td>17.0</td>
<td>18.9</td>
<td>22.3</td>
<td>+58.2</td>
</tr>
<tr>
<td>U.S.</td>
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<td>9.8</td>
<td>12.6</td>
<td>12.3</td>
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</tr>
</tbody>
</table>


Available data have shown that among the industrialized nations, governments are faced with serious budget deficits that will be exacerbated by increased government-pension liabilities. What has happened in the United States and other industrialized nations is also happening in non-industrialized nations today. The cost of supporting a burgeoning elderly population will place enormous strains on the world’s economy. Instead of there being more workers to support each retiree—as was the case while birthrates were still rising—there will be fewer. Instead of market growing, they will shrink (Longman.1999:32).

For the developed world, the fiscal consequences of these trends are dire. Over the next 25 years, the number of persons of pensionable age (65 and over) in industrial countries will rise by 70 million, predicts the Organization for Economic Cooperation and Development (OECD), while the working age population will rise by only 5 million. Today, working taxpayers outnumber nonworking pensioners in the developed world by 3 to 1. By 2030, this ratio will fall to 1.5 to 1. Throughout the developed world, total public spending per old person is two to three times as great as public spending per child. In
The Evolution of The Social Security System in America

the future, that gap will probably widen. The elderly consume far more health care resources than do children, and new technologies to extend life are bound to escalate health care costs (Abel, 1991).

The Soviet Unions and the Eastern European nations also face similar pressure from the expanding elderly population. In all Eastern Europe former communist states, the former Soviet Union, and China, the failures of communism have created a new wave of social and economic problems. Thousands lost their pensions in recent years when state-sponsored enterprises folded and when the state ended its socialist ideology in favor of capitalist practices. As one nursing home operator in China said, “It is a market economy now, and people have no time to take care of their parents.” (Longman 1999:38).

Although most of the Third World nations are still comparatively youthful, their population is aging faster than that of the rest of the world. In France, for example, it took 140 years for the proportion of the population age 65 or older to double from 9 percent to 18 percent. In China, the same feat will take just 32 years and in Venezuela, only 22 years. “The developed world at least got rich before it got old. In the Third World the trend is reversed.” notes Neil Howe, an expert on aging (Longman 1999:3). Modernization in the Third World undoubtedly affect the economic well-beings of the elderly but also the social and political power of the elderly (Cowgill, 1986; Tsai, 1997).

Even with all the potential problems, Social Security in America has provided a valuable service to the basic needs of the elderly in America. Although Social Security payments do not cover all the expenses for the elderly, its combination with private pensions and personal savings have enabled a majority of the elderly to live above the poverty line. In 1995, for instance, only 10.5 percent of the population aged 65 and over fell below the poverty line compared to 14.7 percent for all those under age 65, and 22 percent of children under age 18. The importance of Social Security to the economic well-being of the elderly to be out of poverty is without any doubt.

It is true that American Social Security has some built-in organizational shortcomings and is likely to face serious financial deficit in the future. Yet, the American style of Social Security can be expected to be introduced, as least partially, in some Third World Nations. To many people in the Third World nations, modernization still means Westernization and thus Americanization. Many Third World leaders are educated in the United States and are influenced by American idea and way of life, and they bring back what they learned in America.

But the American Social Security program may not be compatible with the political economy of many Third World nations. The following conditions must be met in any Third World nation if it attempts to introduce American
Social Security:
First, a stable and effective political system must be established;
Second, an accountable taxation system must be in place;
Third, the country’s national economy must exhibit a steady and sustain-
ing growth;
Fourth, people need to be functionally literate in education.
The Social Security system in the United States is not a pure form of social
welfare that automatically qualifies the elderly to be to receive benefits. As a
capitalist economy, Social Security in American is not a social welfare program;
it is a self-help assistance program that is built upon a worker’s active
participation. The system requires that people must be employed and people
must work for a specific duration to be qualified for Social Security payments.
The above-mentioned conditions are interrelated. In many Third World
nations, the lack of a stable and effective political system is perhaps the most
damaging barrier in promoting and executing government policies. A nation-
wide social security like the one in the United States can not be introduced
without a government that is functionally efficient. Related to this problem of
the lack of a stable and effective political system in the Third World nations is
the absence of a reliable and accountable taxation system. Social Security in
the United States is built on regular contributions drawn from workers’
paycheck. Without a reliable taxation system, it is impossible not only to cal-
culate the required share of social security tax to be taken from workers’
paychecks, but also to determine the amount of benefits that are to be paid to
the beneficiary. Mass education is also needed because people in the Third
World nations must be able to understand the necessity of participation in
Social Security and must be willing to participate. The American style of So-
cial Security will also not work for people in Third World nations if those
nation’s economies were weak and workers are unable to set aside part of their
earnings for future retirement as required in the American payroll tax.
The Social Security has served quite effectively in the United States until
now. All the shortcomings we have discussed in this essay can be repaired in
the 21st century with inputs from both politicians and American citizens.
Whether the system can be adopted in Third World nations is dependent
upon the success of modifications made by the adopting nation. A wholesale
Americanization of social security in the Third World nation would very likely
create more chaotic results than it tries to resolve. Each nation in the Third
World is unique in its own way; each must find a common ground between the
proved systems of social security like those currently practiced in advanced
nations and the system that is compatible to the characters of the specific nation.
If these adjustments are made, elderly welfare can be a benefit to the elderly in
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need.

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