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Commentary

# No Old-Age Security in the Private Sector Either

**May 22, 2005** | Joseph E. Stiglitz | Joseph Stiglitz, a professor at Columbia University, won the Nobel Prize in economics in 2001.

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President Bush's plan to reform Social Security requires that we trust the private sector, which isn't all that easy to do given its inability to honor its obligations in pensions or to provide adequate health plans.

The recent court decision allowing United Airlines to turn over its pension system to the federal Pension Benefit Guaranty Corp. is likely to raise anxieties still further among Americans already worried about their old-age security. There is a certain irony to what's going on: As the president tries to turn over responsibility for retirement to the private sector, the private sector is simultaneously turning to the government for help.

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It is the private pension system, not the public one, that is facing the most imminent problem. The shortfall in the United Airlines pension program alone is estimated at nearly \$10 billion. The court's decision to have the Pension Benefit Guaranty Corp. take over the airline's obligation was not an act of charity. Without the turnover, United might have gone bankrupt, and then the full liability would have fallen to the government. Indeed, that was the original intent of the Pension Benefit Guaranty Corp. -- to ensure that when companies go bankrupt, their employees are not left in the lurch.

But it is not just taxpayers who should be unhappy about this turn of events, as the Pension Benefit Guaranty Corp. picks up the tab for United's financial woes. The workers too are disgruntled, because the agency does not fully insure pensions; many of the United pilots, for instance, will see their pensions drastically reduced.

What the court's decision has done is change the rules of the game. The only way for other airlines to compete now isn't just to operate more efficiently but to have the government pick up more of their costs. It is expected that Delta Airlines will be the next to try.

This apparently is part of the new form of Bush capitalism, involving the nationalization of private liabilities. The bonds of GM and Ford, once bastions of American capitalism, have been downgraded to junk status, their future viability weighed down by their health and retirement obligations to retirees. Is it only a matter of time before they too turn to the government?

As company after company has passed off its liabilities to the government, the assets of the Pension Benefit Guaranty Corp., which is supposed to protect retirees, have been wiped out. As of September, it had a deficit of \$23 billion. This number is more solid than the problems being projected for Social Security. Social Security's difficulties won't show up for years, if at all. If the economy grows as robustly as the Bush administration predicted when it asked for tax cuts for the wealthy, and if immigration as a percentage of the population remains as strong as it has been, the higher Social Security revenues will mean that the system's problems will take care of themselves, at least for the next 75 years.

The problems in the private sector are, in many cases, a combination of bad accounting, greed and lax government regulation that allowed corporations not only to put insufficient pension funds aside in the

first place but to raid corporate pension funds they claimed were over-funded.

The parallel to what has occurred on the public side is uncanny. A combination of bad accounting and political greed allowed the administration to claim that huge surpluses justified a huge tax cut. The accounting was a mirage; the surpluses soon disappeared, and fiscal solvency of the United States was undermined.

If but a fraction of the money spent on the tax cuts had been devoted to Social Security, the fiscal solvency of the program would have been ensured for 75 years, even using conservative projections. America is the richest country in the world. We should have the ingenuity and means to design retirement programs that insures Americans against stock market volatility and inflation. Social Security is the only program that does this for most Americans.

United's experience shows that private pension programs cannot be counted on. Private accounts would be subject to the vagaries of the market. And no private program would insulate against inflation. We should be focusing our attention on making our private system work better. Certainly we should do that before we begin Bush's risky path of beginning to dismantle our public one.

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