

Commentary

BUFFIN PARTNERS INC.

ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

Economic Security, the Ownership Society & Social Security

Economic Security for a Better World” is the title of a recent report published by the Geneva-based International Labour Organisation (ILO) that presents a measure of economic security of individuals in various countries. The ILO has developed an Economic Security Index (ESI) for 90 countries representing 86% of the world’s population. The ESI is based on seven factors influencing economic security including labor markets, income security, employment security, and labor representation. Each factor was evaluated in terms of national policies, institutions and outcomes. The report shows that political democracy and civil liberties significantly increase economic security and that government spending on social security policies has a positive effect. Not surprisingly the report identifies the key factors influencing economic security as income protection and the existence of a fair income policy. The report finds that 73% of all workers live in circumstances of economic insecurity and only 8% live in countries that provide favorable economic security. Following the release of the ILO report, one headline proclaimed “Economic Insecurity is a Global Crisis” while other commentators noted that, when countries were ranked according to the ESI, the top nine countries were all European, with Canada occupying the 10th rank. Notably, the United Kingdom ranked 15th and the United States ranked 25th. The relative ESI rankings clearly reflect the nature of instability in labor markets and the extent to which workers are bearing the burden of risks associated with employment, pension and health care issues.

The ILO report indicates that there has been an upward trend in the frequency and severity of economic shocks during the last 25-year period of globalization as well as natural disasters affecting large

numbers of people. Among developing countries, economic growth rates, in per capita terms, have declined while the variability of annual economic growth rates has increased. The report concludes that more people are being exposed to systemic risk as opposed to contingency risks of life-cycle events such as unemployment or illness. The report finds that the global distribution of economic security does not correspond to the global distribution of income and notes that South and South-East Asia have significantly greater degrees of economic security than their share of the world’s income. Only countries that provide a coherent set of policies that strengthen all seven forms of labor security have a high rating on overall economic security. Countries with very strong attainment in some spheres but with weak attainment in one or more others do not rate highly overall.

An editorial that appeared in the September 23rd edition of *The New York Times* contains some insightful comments on the current debate in the United States presidential election campaign regarding privatization of Social Security. One issue is the diversion of Social Security taxes into personal accounts under the political slogan of an “Ownership Society.” While individual home ownership might represent an ideal aspiration for many Americans, there is a certain “bait and switch” aspect to extending the concept of the “Ownership Society” to Social Security individual accounts. *The New York Times* editorial points out that if the existing Social Security system is modified so as to bring it into balance in terms of the benefits that can be supported by the projected payroll taxes over the next 75 years, then when today’s younger workers retire, their benefits are likely to be relatively smaller than the benefits promised to current retirees. In compar-

ison to these predictable adjustments, according to *The New York Times* “A partly privatized system would produce benefit cuts that are likely to be bigger and an income that would be far less reliable.” The editorial concludes, “There is a broad social argument against privatization, which is that we all lose if our fellow citizens come up short in their quest for secure retirements. By taking the financial risk out of growing old, Social Security has had remarkable results for society at large. Poverty among the elderly is now 10 percent, down from 30 percent in 1960. Like any sound insurance system, Social Security works by broadly pooling risks. It protects everyone because it includes everyone. Personal accounts move Social Security away from a comprehensive system to one in which it’s increasingly every man for himself.”

In our view, the best interests of the nation are served by maintaining the Social Security system in its existing form so as to provide a reasonable degree of economic security for all members of society. To achieve this objective, the focus of policymakers and politicians ought to be on ensuring the financial integrity of the system by implementing responsible fiscal policies that will enable the bonds held in the Social Security Trust Fund to be redeemed without risk of default when they are needed to pay benefits.

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