NPG Forum

Social Security:
The Ponzi Path To Dystopia

By David Simcox

The rapid population growth of the baby boom era created a huge bulge of workers whose Social Security payroll taxes provided a surplus that has help fund the overall federal budget. However, after 2012 these same workers' entitlement to retirement and Medicare benefits is projected to begin exceeding the income from Social Security payroll taxes, thus requiring that an ever increasing share of the federal budget go to pay for Social Security. David Simcox demonstrates in this Forum why using population growth to simply add more tax-paying workers, as many advocates of high immigration propose, is neither a viable nor long-term solution to this dilemma.

– Edward Lytwak, Editor

"Life is a ponzi scheme," according to pronatalist author and commentator Ben Wattenberg. Rarely has an aphorism so aptly expressed the American faith that growth is the solution to all problems, including problems brought on by growth itself.[1] Wattenberg is one of a number of influential Americans who believe that as the baby boomers retire after 2010 the solvency of the Social Security system requires another round of robust population growth. However, since today's Americans are having smaller families, vast numbers of immigrant workers and their dependents would be needed to join America's labor force between now and 2050 in order to pay for the retirement of the one in six Americans who will be 65 or older by 2020, reaching one in five by 2040.

Ponzi's Revenge: The Population Growth Treadmill

Population growth only postpones the day of reckoning. According to the Census Bureau's 1992 most likely "medium" projection, there is the troubling prospect of nearly 400 million Americans by mid-century. By even the most conservative projections, trying to populate our way out of Social Security's present actuarial[2] dilemma would further darken the nation's already problematic environmental and demographic future.

There is no denying that Social Security's viability requires some tough decisions well before 2012, when outlays are expected to begin exceeding cash revenues. Without remedies, the trust fund will be depleted by as early as 2032, and revenues will fund only 70 to 77 percent of benefits paid.[3]

But adding scores of millions of new workers would at best postpone – but not solve – Social Security's problem of too few wage earners supporting too many retirees. Such an expansion, even just enough to maintain a barely favorable actuarial balance of workers and retirees, would have to add at least 200 million more U.S. residents by 2050 to the nearly 400 million now projected. Consider the projections of the U.S. population's age distribution to 2050, based on Census data in Table 1 on the following page.

The graying of America is striking in these projections. The numbers 65 and over rise steadily from one in eight in 2000 to more than one in five by 2040, before beginning to recede. The ratio of working age residents to those 65 and over falls from 4.8 to 1 in 2000 to 2.7 to 1 in 2040.

The 65+ population balloons after 2010 as the baby boomers born between 1946 and 1968 reach 65 between 2011 and 2033 and the life expectancy of the post-65 population steadily advances. An additional drain on Social Security has been the 34-fold increase since 1956 in those 62 to 65 who opt for early retirement.

A basic lesson here for examining our options is that rapid population growth – such as the birth of some 88 million baby boomers between 1946

Table 1.
US population projections by age, in millions, 2000-2050

YEAR	Total Population	Under 18	18 - 64	% 18 - 64	65+	% 65+	Ratio 18-64 to 65+
2000	276.24	71.79	169.13	61.2%	35.32	12.8%	4.8 to 1
2010	300.43	73.62	186.71	62.1%	40.11	13.3%	4.6 to 1
2020	325.94	77.78	194.80	59.8%	53.35	16.4%	3.6 to 1
2030	350.00	83.04	196.78	56.2%	70.17	20.0%	2.8 to 1
2040	371.50	86.80	207.69	55.9%	77.01	20.7%	2.7 to 1
2050	392.03	91.75	220.17	56.2%	80.11	20.4%	2.7 to 1

Source: U.S. Bureau of the Census, 1992 Projections

and 1968 – can furnish workers whose payroll taxes bolster retirement systems; but those same workers inevitably age and ultimately have massive claims of their own on those same systems, with expectations of returns that often exceed actuarial realities. One generation's boon for retirement resources is a later generation's drain on those resources – and more.

Immigrants are no exception. In 1994, 11.7 percent of immigrants were 65 or over (virtually the same as the native-born population), and they will supply a relatively larger cohort of persons reaching 65 over the next 19 years than will the native population: 22.2 percent to 19.1 percent.

The United States would have boosted its population to well over 600 million in just five decades.

Trading ephemeral actuarial gains for lasting population liabilities. Since U.S. fertility has been under replacement level for the last 25 years, the kind of population growth necessary to infuse the Social Security system with more tax paying workers can realistically only come from radically increasing already high immigration. Under existing projections, post-1992 immigrants and their progeny will account for 74 million, or 64 percent, of the nation's projected population gain of 115.8 million between 2000 and 2050.[4] What if the country decided to follow the advice of the high immigration advocates? What would happen if the United States chose to admit enough immigrants who, with their U.S.-born progeny, would prevent the impending 43 percent drop in the ratio between working age persons (18 to 64) and those 65 and over by 2040? The effects on population size in the next century would be catastrophic.

The following projection in Table 2 takes as a more conservative premise the maintenance of a minimum ratio of four working age persons (18 to 65) to each person 65 and up. In this scenario, the age progression over time of the added immigrant population becomes a population growth factor. Rising numbers of added post-2000 immigrants will reach 65 in the ensuing four decades, requiring the infusion of four times their numbers of additional working-age persons to maintain the 4 to 1 ratio. Instead of reaching 2050 with 80.11 million persons 65 and over (the 1992 projection), the U.S. under this projection would have nearly 86 million seniors.

To maintain the 4 to 1 ratio of working-age to retirement-age persons in 2050, an additional 122 million persons age 18-64 would have been required by mid-century from either immigration or higher fertility. They would have been accompanied by another 93 million individuals who would have spent at least some period here in dependency status, based on age distribution rates of immigrants in the Census's 1992 high-fertility, high-immigration projection.

While a smaller percentage of the projected dependent population would be 65 or more than in the currently projected population, after 2050 the growth of the 65+ population would accelerate rapidly as huge added cohorts of 2030 and 2040 began to reach retirement age, requiring another round of expansion of the working-age population to maintain the actuarially-desirable ratio. Moreover the presumed advantage of a smaller 65+ cohort in the rapid growth scenario would be negated by the higher percentage that would be in the 17 and below segment. The percentage of dependents in 2050 in the 1992 projections and the 4 to 1 growth projections would be the same.

The United States as "India West." A truly frightening prospect is that the United States would have boosted its population to well over 600 million in just five decades. Growth at that pace would produce severe social strains. The U.S. population would have to grow by almost 270 million – 88 percent – in the three decades beginning in 2010. The 4 to 1 projection would require average annual growth of 3.0 percent between 2010 and 2040.

This growth, achieved mainly through high immigration and to a much lesser extent natural increase, would match Africa's current confounding growth rate. Immigration gateway cities, already coping with high population growth rates, such as greater Los Angeles, Phoenix, Houston, South Florida, Las Vegas, Seattle, New York's New Jersey suburbs, and Texas border cities could expect unmanageable growth.

The nature and quality of life in the United States, and the country's ability to provide for the material, service and infrastructural needs of its residents, not to mention their retirement benefits, would be sharply curtailed. Well before reaching 600 million the country would begin to suffer the strictures imposed by diminished arable land and fresh water per capita, pollution and energy shortages, and social and political tensions mounting under the sheer weight of numbers and dizzying demographic change.

Additional Workers Negated By Low Productivity And Other Net Costs

Most immigrants lack sufficient education or job skills to really boost the Social Security trust fund. Population growth advocates tend to visualize sheer numbers of workers as the solution rather than their ability to contribute. Proposals for populating our way to solvent retirement systems generally rest on the assumption that the additional foreign workers will be productive enough to make a net contribution, after taking into account the offsetting public service costs. The high poverty and unemployment rates and low educational attainment among a significant share of immigrants over the past two decades makes such assumptions a risky premise for policy.

One in three immigrants over 25 arriving since 1990 is a high school drop-out, compared to one in six natives. Yearly median income of all immigrants

Table 2.
Projections to 2050 of additional immigrants and descendants needed to maintain the 2000 ratio of working age to 65+ populations
(Figures in millions, except years and percents)

Year	65+ Population Projected	Added 18-64 Pop. Needed To Keep 4:1 Ratio	Dependents Of Added Population	Added Pop. 65+ (Percentage)	Total U.S. Pop. Projected For 4-1 Ratio
2000	35.32	None	None	None	276.24
2010	40.11	None	None	None (3.2%)	300.43
2020	53.35	18.60	12.50	1.28 (4.1%)	357.03
2030	70.96	68.46	53.12	6.45 (5.3%)	502.66
2040	81.17	29.93	23.28	3.20 (6.0%)	577.38
2050	85.77	5.190	4.040	0.581 (6.3%)	607.14
2000-2050	—	**122.18**	**92.94**	—	—

Source:(1) 65+ population projections from Census Bureau P25-1092 of October 1992: Population projections of the U.S. by age, sex, race and Hispanic origin; (2) Projections of added 65+ population based on Census projections of age distribution under high-immigration, high-fertility scenario, adjusted decennially by the weighted averages of the projected growth rate of Hispanic and Asian populations 65 and up between 2000 to 2050 in P25-1092. (3) "Added Pop. 65+ (Percentage)" refers to the number of 65+ immigrants as a percentage of the entire cohort of added 18-64 workers and dependents added in the particular decade.

in 1996 was 17 percent lower than natives' median and 39 percent lower for immigrants who arrived after 1989. Their 1996 unemployment rate, at 7.7 percent, was nearly 35 percent higher (more than double for recent immigrants), while the poverty rate for recent immigrants was 33 percent higher and cash welfare assistance rates were 35 percent higher.[5] The Rand Corporation found in a 1996 study of the economic progress of immigrants that:

> . . . a significant number of immigrants in California and the United States currently have very low wages, and the evidence suggests that these wages will not improve substantially throughout their working lives. This evidence, combined with the fact that more recent immigrants have had lower (age-adjusted) wages relative to earlier immigrants, has substantial ramifications for public-service usage and tax revenues into the future.[6]

Increasing today's immigration of 1.3 million yearly by a factor of five or six over three decades – itself a migration of cataclysmic dimensions – would require the unselective recruitment of masses of unskilled foreign workers, whose drain on the general public treasury would exceed their contribution to the Social Security system.[7] Indeed, a doubling of the immigrant labor force by 2040 would require an additional capital investment of over $21 trillion (in 1994 dollars) for the equipment and training necessary to insure adequate productivity.[8]

"Instant adults" still come with costs. Immigration expansionists argue that the United States profits from immigrants because they are "instant adults," arriving already productive, with the costs of raising and training them through childhood borne elsewhere. Too good to be true? Yes, if you consider the stiff costs of all the training necessary to boost the productivity of the less-skilled new arrivals and the heavy cost of public education for the masses of U.S.-born children of high-fertility immigrants.

Even the most-skilled immigrants incur significant education costs to the United States. Foreign graduate students are 23 percent more likely than their U.S. citizen counterparts to get federal or university assistance. Three-quarters of the cost of training a foreign-born engineer from kindergarten to a doctorate is paid by the United States.[9] Some 85 to 90 percent of the funding used to finance doctoral degrees of foreign students comes from U.S. sources. In addition, partial overseas funding in the first year of study is often replaced with full U.S. funding in subsequent years.[10]

Also often overlooked in the calculation is the progressive nature of Social Security: those whose incomes have been in the lowest 20 percent receive benefits at 2.7 times the return on wages received by the highest earners. If the payout remains progressive, future payout to many immigrant workers will remain steeply disproportionate to their actual contributions.

Table 3.
Comparison of total population and numbers and percentages of population 65 and up under current projections and with population increase sufficient to maintain a 4 to 1 ratio between the sub-populations 18-64 and 65 and up.
(Numbers except percentages are in millions.)

	Current			With 4-1 Ratio		
Year	Total US Pop.	Number 65+	Percent 65+	Total US Pop.	Number 65+	Percent 65+
2000	276.24	35.32	12.8%	276.24	35.32	12.8%
2010	300.43	40.11	13.3%	308.00	40.11	13.2%
2020	325.94	53.35	16.4%	357.09	53.35	15.0%
2030	350.00	70.17	20.0%	502.66	70.96	14.1%
2040	371.50	77.01	20.7%	577.38	81.17	14.1%
2050	392.03	80.11	20.4%	607.14	85.77	14.1%

Source: Tables 1 and 2

Another myth of cost-free immigration. As current experience shows, a sizable fraction of immigrant workers will enter the U.S. labor market too late in their careers, or be unemployed or absent from the United States too often to earn enough Social Security credits. Some economists and actuaries have argued that this is a gain for the system, since the fund gains contributions with no corresponding liabilities.

At least two consideration cast doubt on that presumed gain. One, the major segment of the immigrant population that has low skills are far more likely to be in jobs in the informal economy where evasion of Social Security taxes is up to four times more likely than in the general economy.[11] Second, whatever gains from the added Social Security contributions paid are often more than offset by social assistance to those immigrants and their dependents. Under increasingly liberal legal interpretations, aging immigrants with insufficient work years to get benefits receive federal Supplemental Security Income (SSI) benefits, triggering in turn their eligibility for Medicaid and other social assistance programs.

Supplemental Security Income (SSI) as an immigrant retirement program. The drain on SSI has also been increased by the preferential immigration of aging parents of foreign-born U.S. citizens – now at about 600,000 per decade. The influx of parents of citizens should rise sharply in the next five years in the wake of a tripling of the number of new naturalizations since 1995. Arguments that immigrants can enrich aging Americans contrast glaringly with clear indications that immigrants now are increasingly unable or unwilling to provide for their own elderly here.[12]

Immigrants 65 and up are five times more likely to receive SSI than the native-born, and the average amount of aid per recipient is 50 percent higher. The percentage of immigrants 65 and up receiving food stamps and Medicaid in 1996 was, respectively, 65 percent and 160 percent higher than for the comparable native-born population. The total 1996 federal and state costs for SSI payments, food stamps and Medicaid for immigrants 65 and over was $4.68 billion. That amount is equivalent to the total 1996 Social Security contributions of the 3.13 million covered workers.[13]

While Congress in 1996 legislated restrictions on SSI and other benefits for elderly immigrants, the trend since then has been for Congress and state governments to restore the cuts or replace them with alternative aid programs (with a few exceptions), thus significantly weakening their effect and reducing any savings to taxpayers. Legislation passed in 1996 to ensure the financial responsibility of sponsors of elderly immigrants, has a means test so weak – an annual family income of less than $21,000 – that even some public assistance clients can pass it.

1992 Goodman Robbins Study

Another study of the long-term feasibility of expanding immigration to keep Social Security solvent reveals even bleaker demographic and actuarial outcomes than this assessment.

John Goodman and Aldona Robbins of the National Center for Policy Analysis in a 1992 study projecting Social Security's financial condition to 2070 found the following under their assumptions:

◆ Some 57 million new immigrant workers would be needed by 2070 to pay retirement benefits (excluding Medicare) without increasing payroll tax rates. (Under their pessimistic assumption, 120 million immigrant workers would be needed.)

◆ If immigrant workers were allowed to bring their families, and if they had children at the current rate, immigrants and their children would outnumber the native born by 2050.

◆ If the productivity of the immigrant workers is assumed to be only half that of native workers, the United States would need to have taken in about 700 million immigrant workers by 2070, about six immigrants for each native entering the labor force in that period.

◆ Such a huge expansion of the labor force would require two to four times as much capital as the U.S. would otherwise have during that period to keep overall productivity from falling.

In its final report in 1997, the U.S. Commission on Immigration Reform recommended that the 1996 restrictions on welfare for legal immigrants be reversed. The courts, which have refused to uphold earlier obligations on sponsors, cannot be counted on to support the new requirements. Furthermore, Congress and the administration opened the year 1998 with new proposals to rescind the ban on food stamps for immigrants.

An Aging Population – Gateway To Sustainable Population

The reality of an aging America is difficult to accept in a youth-worshiping society steeped in a creed of boundless growth. Yet the nation must accept that reality and capitalize on its many strengths if it is to attain zero population growth followed by a gradual retreat of the U.S. population toward a level sustainable over the long term.

Demographic quick fixes can postpone confronting this problem, not solve it, and only at an exorbitant cost in overpopulation, resource depletion and environmental destruction. Apparently the public itself suspects this seductive but risky solution. None of the past study commissions on Social Security or proposed congressional reforms have seriously entertained massive immigration or pronatalist efforts as a way out.

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Aging America an opportunity to begin the transition to sustainability. All is not bleak for Social Security if we reconcile ourselves to the fact that the aging of America is in the long-term interest of a smaller American population. Until now our projections have dealt with two unpromising scenarios. The first, growth as now projected with high immigration, will bring the national population to nearly 400 million at mid-century. The second, super-growth fueled by hyper-immigration and high fertility (in order to have a presumably favorable balance between working age and elderly), would result in a total U.S. population of over 600 million by 2050.

A third scenario, low fertility and zero-net immigration, has the advantage of mirroring what the American people in the real world have been voting for with three decades of low fertility and solid, consistent public-opinion support for lower immigration. A realistic low-fertility option prepared by population specialist Lindsey Grant would have U.S. fertility, now at replacement level, decline to 1.7 by 2025 and to 1.5 by 2050, roughly the fertility of Europe in 1996. Immigration would be reduced to 200,000 a year by 2000.[14] Under this scenario, the 65 and up age group would constitute 24.9 percent of the population in 2050, a higher share than in either the current or high-growth scenarios, but considerably lower than either alternative in absolute numbers of those 65 and over with their share headed steadily downward.

Most important from the stand-point of future sustainability, the U.S. population in 2050 would be more than 40 percent lower than where our present demographic behavior is taking us, and 140 percent less than the scenario maintaining a 4 to 1 ratio between working age and retirement age residents. The United States would be on the way to a smaller and more environmentally sound population.

Solvency And Sustainability: How To Get There

Making Social Security solvent will demand some combination of measures to increase contributions to the fund, reduce benefits, or lower the number of prospective claimants. The last reforms in 1983 featured all but the third of these approaches: they accelerated increases in payroll tax rates, prospectively raised the retirement age from 65 to 67, and taxed the benefits of high income retirees.

Similar steps must be considered in framing the urgently needed reforms including lower cost-of-living adjustments, more taxes on benefits, means testing, delay of full retirement until 70 or later, investment of some of the trust fund in the stock market, and outside sources of revenue to help the Social Security trust fund through the transition to a smaller population.

Reforming Social Security and ending pronatalist incentives. Most favorable would be actuarially sound reforms to Social Security that would have the added effect of discouraging population growth. They would involve capturing for elderly Americans some of the savings from public assistance costs foregone or additional taxes collected that would come with lower immigration and fertility. Examples of reforms with the dual effect of raising revenues and reducing claims while discouraging population growth would include:

◆ New incentives to encourage more frequent and longer labor force participation of women. This would have both positive actuarial and antinatalist effects.

◆ Elimination of pronatalist features from the tax code and other legislation. Examples would be repeal of the recently enacted tax credits for children, dropping increases in the Earned Income Tax Credits for the second child, phasing out the Earned Income Tax Credit for immigrants, limiting the benefits of the Family Leave Act for maternity to one birth only.

◆ Immediate reduction of immigration to less than 200,000 a year as a way of reducing claims on the Social Security fund between 2030 and 2050, its period of greatest stress. Prospective immigrants born between 1965 and 1985 will reach 65 in that period. Many of them have not yet settled here.

◆ More scrupulous selection of the immigrants we do permit in to ensure those admitted are self-sufficient and productive.

◆ Further restrict immigration of persons 50 or over by adding special conditions for their sponsors such as bonding, special pre-paid insurance or annuities, or special immigration fees.

◆ An end to evasion of Social Security and other payroll and income taxes in the informal economy: this would increase revenues, eliminate the wage-depressing effects of informal firms on firms in compliance, and neutralize a major magnet for immigration.

◆ Charge a user fee to employers who sponsor and employ foreign workers, with the proceeds used to retrain and relocate U.S. citizen workers over 55.

◆ Denial of retirement credits for Social Security contributions of persons ineligible to work in the United States.

Above all, whatever course is taken, the nation's growing elderly population must be recognized as a resource in the transition to a smaller population – not a liability. The changing nature of both work and how the 65+ population sees itself argue for new incentives for the aging to shun early retirement, to maintain and enhance their skills and to continue as earners and contributors beyond presumed biological and workplace limits that are long outdated.

The baby-boom generation offers the opportunity to begin the necessary transition to negative population growth.

No compulsion is needed; American seniors want to work, with 40 percent of those in retirement telling pollsters they would rather be working. The nation will gain from a workforce that is no less productive, but more stable and reliable and less prone to accidents, absenteeism and drug use.[15]

Rather than a threat to the Social Security system, the aging of the baby-boom generation offers the opportunity to begin the necessary transition to negative population growth and a smaller – and more sustainable – U.S. population. For the Social Security trust fund there is the crucial opportunity to restore its long-term financial viability by avoiding the temporary population growth quick-fix achieved by boosting the number of new workers.

The choice is ours. Continue on the treadmill of high immigration and population growth – with all the costs and perils that entails – while once again postponing real solutions for the next generation. Or, take advantage of the assets presented by the aging of America, adopt the structural reforms necessary to restore the long-term viability of the Social Security system, and begin the transition to a smaller, more sustainable America.

Notes

1. Ben J. Wattenberg. "The Easy Solution to the Social Security Crisis." *New York Times Magazine*, June 27, 1997.

2. Actuarial: the use of mathematical probabilities, statistical data, and accompanying assumptions to define, analyze, and project the financial sustainability, viability or risk of complex business or social obligations such as insurance or pension programs.

3. General Accounting Office: *Retirement Income: Implications of Demographic Trends for Social Security and Pension Reform* - GAO/HEHS-97-81, Washington, July, 1997.

4. The U.S. Bureau of the Census: *Population Profile of the United States*, 1995 (CPR P23-189). Washington, July 1995. pp. 9.

5. Bureau of the Census. *The Foreign Born Population: 1996*, CPR P20-494; Washington, DC. 1997.

6. Robert F. Schoeni, Kevin McCarthy and George Vernez. *The Mixed Economic Progress of Immigrants*. RAND: Center for Research on Immigration Policy, Santa Monica, 1996. pp. 67.

7. For example, Rice University economist Dr. Donald Huddle calculates that under the current Old-Age and Survivors Insurance (OASI) system immigrants caused a present value OASI deficit of $23.16 billion per year in 1994 ("Immigration and the Solvency of the Social Security System," American Immigration Control, January 1998). Likewise, Huddle in "The Net Costs of Immigration: The Facts, The Trends, and The Critics" (Carrying Capacity Network, 1996), lists the national net-deficit cost of immigration at over $65 billion in 1995.

8. Estimate is based on private and government investment per worker per year in 1994 (about $10,000) multiplied by the number of additional worker/years accumulated in the added 18-64 population to 2050. A flat labor-force participation rate of 60 percent in the 18-64 population is assumed.

9. David North. *Soothing the Establishment: The Impact of Foreign Born Scientists and Engineers on America*. Landover, MD: University Press of America, 1996.

10. David North. "The U.S. Pays: A Study of the Funding of Foreign-Born PhD Candidates in Science and Engineering."

11. U.S. Department of Labor. *Characteristics and Behavior of the Legalized Population Five Years Following Legalization*. May, 1996. pp. 46-48.

12. Roy Beck. *Recharting America's Future*. Petoskey, MI: Social Contract Press, 1994. p.89

13. Ways and Means Committee, House of Representatives: *1996 Green Book*, Washington: GPO, Nov. 4, 1996; General Accounting Office: *Supplemental Security Income: Growth and Changes in Recipient Population Call for Reexamining Program* (GAO/HEHS-95-137). Washington, 1995; San Francisco *Chronicle*, February 12, 1997.

14. Leon Bouvier and Lindsey Grant. *How Many Americans? Population, Immigration and the Environment*. San Francisco: Sierra Club Books, 1994. pp.115-122.

15. Ken Dychtwald. *Age Wave: The Challenges and Opportunities of an Aging America*. Los Angeles: Jeremy P. Tarcher, Inc., 1992. pp. 40-43,174-183.

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