While Kenneth Apfel presented some good points, there was one item that was factually incorrect. It deals with Apfel’s contention that there is a Social Security trust fund that can be utilized to help provide benefits for another 40-50 years.

This is an invalid conclusion. This trust fund is merely an accounting device that is used to keep track of the excess Social Security taxes not presently needed for benefits. This excess money is immediately placed on the government’s general fund and spent on other programs, and the government places IOUs (U.S. government bonds) in the trust fund that represents liabilities that one agency (the treasury department) owes another agency (the Social Security Administration). Thus, on the Social Security balance sheet, currently $1.3 trillion in assets is shown, but these are balanced by corresponding liabilities in the government’s general fund. Assets held by one part of the government equivalent to liabilities by another part net out to zero.

This is like you spending money from your checking account, putting IOUs of an equal amount into a lockbox, and telling yourself and your spouse that the lockbox has assets that you can use to finance your retirement because you promise to pay yourself back in the future.

But the trust fund has no real economic resources — no real economic value. It contains phantom assets. There is no lockbox with cash in it that can be utilized to cover shortfalls beginning in 2018. Redeeming these IOUs (starting in 2018 or so) will require diverting funds from the government’s operating budget of the future, raising taxes, raising the retirement age, and/or cutting benefits. While the Social Security issue is not a crisis, and partial privatization may not be the best way to proceed, we need to honestly face the problem that a funding shortfall will indeed occur in about 2018.

Mark Matthews, BS ’72
Carlsbad, N.M.

Correction: Professor Kenneth Apfel was the first person to serve in a Cabinet-level position at the Social Security Administration after the legislation was adopted making the SSA an independent agency, but the SSA commissioner is not formally a member of the cabinet.

The Scholarly Replies (January/February 2005)

The scholarly replies to Professor Cherwitz’s conundrums were interesting and thought-provoking. I felt that Harris and Erickson provided the most concise response with their discourse on addiction study. However, the overviews provided by Evans and Yudof merely raised larger questions. Evans advocates Thomas Jefferson’s “aristocracy of virtue and talent” with a goal of “realizing