A COMPARATIVE ANALYSIS OF SOCIAL SERVICES AND SOCIAL SECURITY PROGRAMS IN THE INTERNATIONAL ARENA

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ABSTRACT

Providing social services to meet the needs of society is at the foundation of the United States political system. Social Security and related social services, created to protect the integrity of our political system, has been a moral triumph. But an important question remains:"Are we adequately meeting the needs of our at-risk population when compared to the international community?" The research in this paper will be based on both primary and secondary research. The research results will be analyzed and presented as viable alternatives and recommendations for improving the current crisis in the United States social welfare programs.

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KEYWORDS: Social security, social welfare programs, political system

INTRODUCTION

Some critics have likened the current Social Security system to a modern day version of a "Ponzi Scheme as the Unites States effectively confiscate monies from the younger generation to pay for the aging of America (Chapman, 2009). Can a society based upon a capitalistic economic system effectively administer programs tantamount to a "Welfare State "(Tevault, 2008)? The effective administration of social programs aimed at providing social risk services to the disadvantaged and elderly members of the United States society is at the core of the issue. Are there more effective programs currently in existence in the international arena that could become the template for the United States to improve their current social programs?

By the late 1800's Europe recognized the need to develop social programs to ensure the stability of their economic systems. Germany, in 1889, created the first Social Security Retirement Program to promote the concept of "safety nets" for their aging population (Lockhart III, 2004). The United States entered the Social Security arena after an economic failure, triggered by the Stock Market Crash of 1929, sent the capitalistic driven economy into a "Great Depression." From 1929 through 1934 the need for Government sponsored social programs became apparent as untold members of the United States populace fell into financial disrepair.

President Roosevelt responded with the Social Security Act of 1935 which created monthly benefits to individuals attaining the age of 65 and no longer working (Kollmannn, 2001). The act also provided benefits to the unemployed, aid to dependent children and for medical services. The act was amended throughout the years, but the first recognition of a major crisis in the system became apparent in the late 1970's (Kollmann, 2001). Currently referred to as" FDR's folly", the need to restructure and improve the Social Security system continues today as we search for an acceptable solution which will allow us to provide a social net for the elderly and the disadvantaged without causing an economic crisis (Tevault, 2008).

Congress has repeatedly attempted to "save" social security, but currently the system is on "life support." It is critical that Congress reconfigure the current social policies in effect to protect the long-term viability of both the program and the economy. The United States must continue to provide safety nets to members of their society in need without harming the integrity of the capitalistic economic system. In the present recession prone economy, viable alternatives to the existing social security system must be investigated and ultimately implemented. The debate that a more effective and efficient social program exists in the international community must be investigated and critiqued.

The remainder of the paper is organized as follows. Section 2 briefly discusses the relevant literature review pertaining to the subject. Problems within the current social security system are discussed in section 3. Section 4 highlights the solutions and section 5 the international arena. Section 6 presents an international comparative analysis of social security programs throughout Europe. Section 7 illustrates the current lessons to be learned by the United States, section 8 outlines some possible outcomes and section 9 the conclusion of the research analysis.

LITERATURE REVIEW AND BACKGROUND

The overwhelming consensus of the current economic literature portrays the United States Social Security program as an out-of-date intergenerational transfer of wealth welfare system. One researcher, D. Trevault, likens Social Security to the "ultimate of Ponzi schemes." Clearly illustrated in the literature is the concept that Social Security is funded by the Federal Insurance Contribution Act, and includes many outdated initiatives and policies.

Economic theory suggests the program was established to provide monthly benefits to retirees but many noted researchers recognize the inadequate and insufficient premise that was the base upon which this process was created (King, 2006). These policies, according to many noted economists, were initiated during a time of economic depression and are cumbersome and ineffective in the current economic environment.

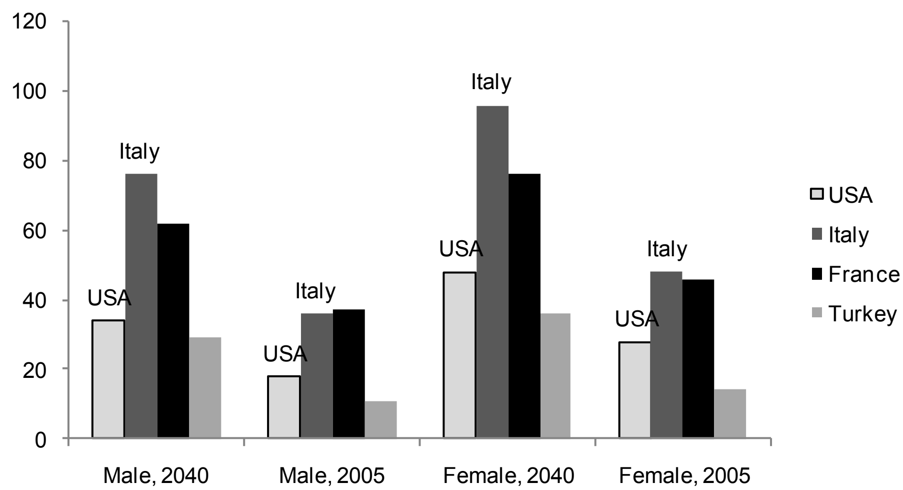
Funding of social security programs and initiatives is a world-wide problem and leading economic researchers have noted the unintended consequences on sociological behaviors as a result of these on-going economic issues . Many noted researchers, including J. Powell, concluded that Social Security actually did more harm than good and in many ways prolonged rather than solved the depression of 1929.

Problems with the Current Social Security Act

The primary problem with the current program is that retirees are living much longer today than when the program was initiated, 67 in 1935 has increased to 77 in 2009 according to the U.S. Census Bureau, and that fewer people are working in relation to the recipients receiving the funds (Population Reference Bureau). In 1935, there was a 16:1 worker to recipient ratio, which has narrowed to the current 3.3:1 ratio (King, 2006). To further complicate the issue, after the mandated increases enacted in 1983, SSA generated a surplus of funds which were quickly diverted to other uses, primarily to off-set the federal deficit (Social Security Reform Center). Monies initially collected to provide for the deluge of baby boomers facing retirement evaporated into the vortex of an Uncle Sam IOU liability. Figure 1 shows the United States Census Bureau estimated ratio of retirement age workers to workers for 2040 compared to 2005.

The chart clearly depicts the wide discrepancy of retirees compared to eligible working aged employees. In 2005 Italy has a 36 % ratio of retirement aged males to the working aged population, which more than doubles to 76% by 2040. For women in Italy the discrepancy increases from a 48% ratio in 2005 to an estimated 96% by the year 2040. It is apparent that the rise in the number of retirees compared to the number of workers supporting the financial burden is an international problem.

Figure 1: Ratio of Retirement Age Workers (2005-2040)



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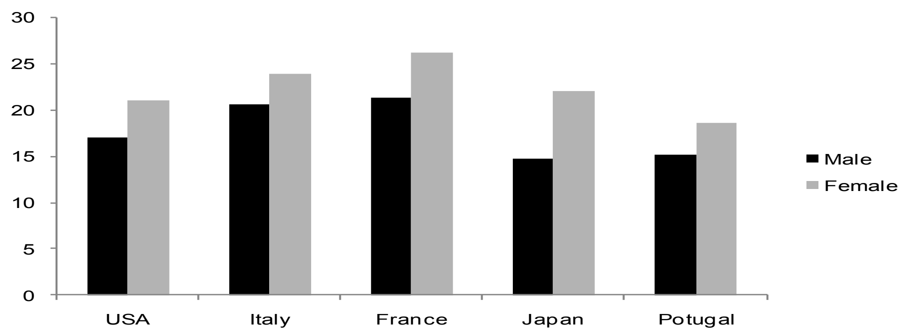
A projected financial shortfall exits and recent calculations by the Social Security Administration indicates that the ability of the fund to make payments to retirees after 2016 is questionable. The census bureau suggests that as people continue to live longer and longer, by 2050, the average life expectancy is expected to reach 83 and the shortfall will expand (Population Reference Bureau, 2009). Adding to the crisis is the realization that from 2004 until 2030, the projected fund distributions are expected to increase from 7% to 13%, primarily due to the demands generated by the Medicare program (U.S. Census Bureau).

The United States Census bureau developed the following information in 2004 pertaining to "Years of Life Expectancy after Retirement" (An Aging World, 2008) (see Figure 2). Figure 2 clearly illustrates that in France both males and females live the longest, 21.4 years for men and 26.2 for women, subsequent to retirement compared to the Japanese males who live the least, 14.8 years following retirement. The number of years retirees live following retirement age has become an increasingly problematic situation for all countries dealing with Social Security funding issues.

Another major deficiency in the current Social Security system is that the poor and middle class workers assume a larger contribution percentage of the regressive tax structure due to the upper limit income shield benefitting the wealthiest taxpayers (Bloom, 2007). The higher the income you earn, the lower the percentage of tax you pay, which is viewed as discriminatory and favoring the rich (Ebeling, 1993).

Additional problems with the current system involve eligibility of survivor benefits due to a change in marital status. Widows, married less than 9 months, are not entitled to receive survivor benefits along with divorcees married less than 10 years. Co-habiting same-sex couples are not entitled to survivor benefits, unless the state in which they reside recognizes same-sex marriages (An Aging World, 2008).

Figure 2: Years of Life Expectancy after Retirement: An Aging World, 2008



Source: The United States Census Bureau "Years of Life Expectancy after Retirement" (An Aging World, 2008), 2004. Figure 2 clearly illustrates that in France both males and females live the longest, 21.4 years for men and 26.2 for women, subsequent to retirement compared to the Japanese males who live the least, 14.8 years following retirement.

Confusion abounds as to whether the current program should be defined as a tax, an insurance policy or a re-distribution of wealth program (King and Cecil, 2006). If social security is viewed as a tax, usually the payment of a tax, does not guarantee a refund. If Social Security is viewed as an insurance policy, than only those who in essence "paid" their premiums should be entitled to distributions. If the United States views Social Security as a re-distribution of wealth program, than a needs assessment must be implemented to determine eligibility for benefits.

Critics of the current program state that the intergenerational forcible transfer of wealth increases dependence on the government as is unsustainable in the future (Tevault, 2008). Many believe the program is a welfare program disguised as a retirement program caused by the inefficiencies of the government (Tevault, 2008). The social safety net established during the Great Depression has become an unmanageable dinosaur depleting our resources and undermining private retirement savings goals.

SOLUTIONS TO FIX THE SOCIAL SECURITY SYSTEM

The current economic crisis has forced middle class America to question the underpinnings of a capitalistic monetary system. The United States' economy is committed to the premise of capitalism being superior to socialism. Contrary to that premise are the current social security programs which are essentially socialistic policies. A capitalistic solution previously suggested during the previous Bush Administration recommended the privatization of a portion of the funds. This policy, which is still under consideration, was not enacted due to the instability of the stock market and the lack of support by congress. Other solutions presented for possible consideration are:

1. Raise the payroll tax cap for Social Security contributions
    a. Currently proposed by the Obama administration
2. Reduce benefits to the wealthiest participants
3. Raise the tax rate
4. Raise the retirement rate
5. Raise the tax on social security benefits paid out to recipients

All of the above mentioned potential solutions could provide additional funds to bolster the coffers of the federal program, but a capitalistic society cannot focus on solutions without mentioning potential negative consequences (Jones, 2003). The United States cannot afford to impose additional socialistic restraints on an already overburdened US economy. Any increase in taxes or reduction in payments during an economic recession is viewed as harmful to the recovery by many leading economists. Assuming that premise to be true, the only viable solution to the current problem would be an increase in retirement age for benefit eligibility during the current economic slowdown.

Prior to the current world wide economic crisis, social security programs in the international arena were selected as potential templates for improving the United States program. Venezuela was initially hailed as a successful social program for the United States to emulate (Amersterdam, 2009). But recent information pertaining to the current situation in Venezuela portrays a far different story. The once highly regarded social programs have been replaced with poorly managed and corrupt systems (Amersterdam, 2009). The free healthcare program created to serve the poor in Venezuela has encountered crippling problems resulting in the closure or insufficient staffing of approximately 70% of the facilities (Amersterdam, 2009).

Canada has a similar social security program to ours, and they recognized the need to address the challenges of an aging population and shrinking workforce. In 1997, the Canadian system was reformed and it resulted in a higher tax base, a higher tax rate and a decrease in benefits paid and increased eligibility requirements (Information Library) .

Social Services and Social Security in the International Arena

There are many viable social security programs in place in the international community for the United States to use as a template for reform (Lockhart III, 2004). According to the Venezuelan Department of Social Security Statistics, an Old Age, Disability and Survivors program was enacted in 1940. The average contribution is 1.93% of earnings for each employee while the employer is responsible for 4.82% of payroll contributions. Men are eligible for retirement at age 60, assuming they have 750 weeks of contributions and women starting at age 55 with the same contribution limitation. At retirement, the retiree is eligible to receive 30% of the average earnings for the last 5 years or the average of the best 5 years in the last 10 years, whichever is greater. A worker is entitled to supplemental benefits of 1% of earnings for each 50 week period which exceed the 750 week minimum requirement. Venezuela provides medical benefits through government operated clinics and hospitals.

The population in Venezuela is 26.7 million with 5.0% of the population over 65 and 57% of the eligible members are dependent upon the social security benefits (The Americas, 2005). Venezuela has a GDP of $6,632 per capita. The average life span is 70.9 years for men and 76.8 years for women.

In Canada, social security encompasses a wide range of programs including health, education, unemployment, old age, disability and survivor benefits (Wiseman and Yeas, 2008). According to the Canadian Bureau of Statistics, the Canadian Public Pension System is designed to ensure a basic level of income to all eligible retirees. There are three separate programs in place consisting of the Canada Pension Plan, the Old Age Security and the Guaranteed Income Supplement program (Wiseman and Yeas, 2008). The pension plan component is mandatory earnings based program designed to provide income to retirees, their survivors and the disabled.

The second piece of the program is paid to essentially all Canadians who have attained the age of 65 or older. The final segment of the program is a non-taxable distribution available to low and moderate income retirees, which constitutes approximately one-third of the eligible population. Both the Old Age Security program and the Guaranteed Income Distribution are paid for by general revenues. The Canadian program is funded by both the employer and employee making contributions of 4.95% on annual earnings not to exceed C$42,100 (Wiseman and Yeas, 2008).

Canada has a total population of 32.2 million with 13.1% of the population aged 65 years or older. Canadians have a life expectancy of 78.3 years for men and 82.9 years for women. The Canadian GDP is $33,375 per capita.

The Social security program in Brazil according to the United States Department of Social Security requires an 8% employee contribution and a 20% employer contribution. Brazil's population is 186.8 million people with only 6.1% of the people over the age of 65 (Resource Library). The life expectancy of people living in Brazil is 68.8 years for men and 76.1 years for women (U.S. Department of Labor Statistics). There is a dependency ratio of 51.5% for eligible recipients aged 15-64 years of age. The GDP is $8,402. Per capita (Americas Guide). Contrast with the United States which has a population of 299.8 million people and 12.3% of the population is 65 years of age or older. The United States has a life expectancy of 75.6 years of age for men and 80.8 years for women. The per capital GDP amount is $41,890.00 with a mandatory contribution rate of 6.2% for both employees and employers.

<u>International Comparative Social Program Issues</u>

Recently, the United States Social Security Administration released a 335 page report on the comparative Social Security programs throughout Europe. The report provides an in-depth analysis of the 44 countries in Europe providing old age, disability, survivors, sickness and maternity benefits to their residents. The information provides a starting point to assess the United States social welfare system compared to the socialized welfare programs existing throughout Europe.

The differences in the international programs are rampant and undermine the value for comparative analysis purposes. One country, Belarus, reported a contribution rate of only 1% for the insured compared to 37.45% paid in the Netherlands. The employers contributions for the social programs varied in a similar manner with Croatia reporting 0% paid compared to a 35.14% cost in France. There are extremes in all areas of the data ranging from significant differences in total population, life expectancy, percent of aged population and GDP per capita. A complete analysis of the specific programs, benefits available and contribution process of the corresponding countries needs be explored more completely so that lessons learned can be fully comprehended.

According to the United States Department of Social Security, the amount paid by the employer and the employee varies by country. There is a wide array of contribution rates for both corporations and individuals for Social Security payments (Figure 3). Columbia and Argentina have the highest contribution rates for employers totaling 36.773% and 22.7% while Chile has the highest contribution rates for individuals in the amount of 17.6%.

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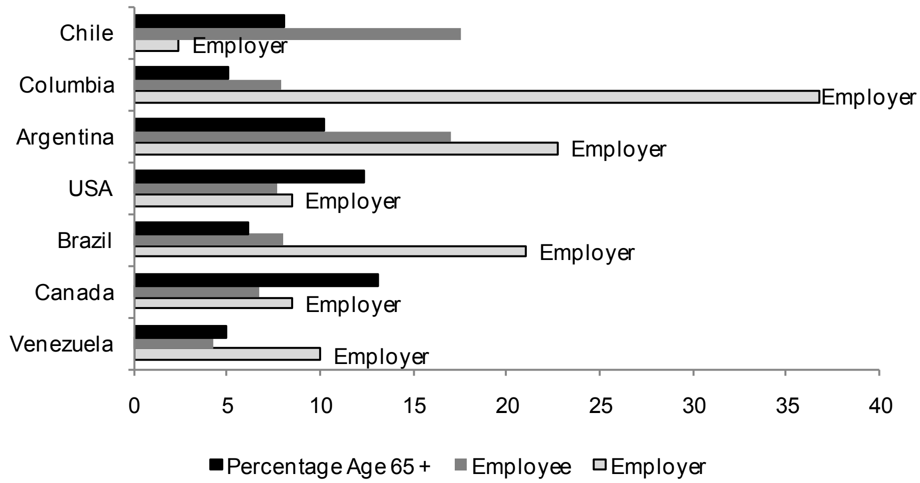
The need to determine which international social welfare programs are adequately meeting the needs of the at-risk population is critical. Some programs, according to the United States Social Security Administration may appear viable in theory, but in practice may fail. In Greece, for example, a proposed change to their deficit-plagued pension system was met with extreme resistance by the populace resulting in massive strikes causing the economy to grind to a halt (Los Angeles Times, 2009). The British welfare system has recently been exposed as a contradiction in policy vs. practice. The underpinning of the system is centered on the philosophy of providing "free" medical care for everyone. In reality, that system is inconsistent and unreliable resulting in the wealthy "buying" services when needed but unavailable in the free arena. Iceland, hailed as the "best" country to live in 2007 by the United Nations, has essentially declared bankruptcy in 2009 (Los Angeles Times, 2009). The ramifications of providing universal pension and healthcare payments to all persons residing in Iceland, coupled with extensive maternity, paternity, work injury and unemployment benefits has bankrupted the country (United Nations Best Place to Live Survey, 2009).

Figure 3: Sampling of Amounts Paid by Employers and Employees



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An in-depth comparative analysis is needed to examine all the pertinent parameters of the Social Security program currently in place and contrast the system with comparable international social service programs to determine adoptability. Only countries with analogous economic and political systems will be selected for inclusion to provided useful recommendations for future implementation. The need to differentiate between viable economics and voodoo economics must be completely investigated to ensure a viable solution.

LESSONS LEARNED: WHY SOCIAL SERVICES FAIL?

Attempting to provide a safety net to society's underprivileged has been a goal since the New Deal was initiated and ushered in a new era appropriately named the "Great Society (Diamond and Orszag, 2005)." Many of the programs attempted to resolve long standing problems encountered by the disadvantaged members of society. They were meant to be temporary solutions, but unfortunately, the war against poverty failed and the needs remained.

The belief that social welfare programs trap the underprivileged participants by undermining their ability to escape from the safety net has been debated for many years (Hiltzik, 2009). The massive problems encountered by the most vulnerable-the elderly – have been neglected in the popular debate. The current Social Security program is dying and we need to provide life support before it is too late. Too many of the at-risk members of society, most of whom provided immeasurably to society during their lifetimes, will be irrevocably damaged if social security fails.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 integrated the concept of personal responsibility into the landscape of the safety net debate. An aggressive overhaul of the current system mandates the privatization of many of the programs designed to help those in need. The current philosophy on Capitol Hill is to shift responsibility from the public arena to the private, both in terms of responsibility and financial management. But in a recession laden economy the solutions are limited.

A crisis is looming and a viable alternative to the current system is imperative. One proposal meeting with significant political resistance is the plan for privatization for the individual workers accounts. This system is currently in place throughout the world, but with mixed results. In Chile, for example, the privatization process requires contributions by the employees and not the employers. The instability in the financial markets resulted in a roller coaster range of returns that ultimately created an estimated 40% of the participants in Chile being underfunded. The working poor and women were most severely impacted by the shortages as well as the self-employed who were not mandated to participate.

The American dream is being eroded by deficits in the funding of Social Security, Medicare and Medicaid programs further complicated by rising costs. Needy members of society seek a mix of public and privately based funding sources to support their basic needs. The role government should play in providing assistance in a capitalistic economy is confusing at best. The need for a safety net is apparent but the failures in the current system are undermining the confidence of the contributors and recipients.

The United States needs to solve these overwhelming problems with social security and needs based social programs to provide the quality of life mandated by a free market economic driven society. It is imperative that the United States examine the practices of successful domestic and international social service programs and the resulting impact on their economies. The United States operates a dynamic economy and the social security policies must be flexible to meet the needs of the recipients as the political and financial parameters evolve.

So What Should The United States Do?

The United States must assess the needs of their retirement aged population and the resources available to meet those needs. Current research has determined that the inadequacies of the current Social Security system must be resolved within the framework of limited economic funding (Hiltzik, 2009). The options available to resolve this growing problem range from increasing the retirement age to increasing the tax on individuals. The retirement age population has consistently resisted any change to the current policies in place for fear their payment stream will be negatively impacted. The United States must determine a viable solution to provide for both the needs of the working population and the retirees (Salisbury, 2009).

An equitable solution would consist of raising the minimum retirement aged based on projected life expectancy increases, raise the cap on the maximum wages subject to Social Security withholdings and provide an incentive to the over 65 aged population to continue working through tax incentives. The gap between the numbers of retirees to working contributors will be eradicated by these solutions. The concept of a retirement fund is to provide benefits for a limited time period for those in need without overburdening the younger population. The increase in funds generated by raising the cap on taxable wages will provide much needed resources and ensure the future viability of the program.

CONCLUSION

Social Security was established during a time of economic crisis to provide a sense of security to the aging populace. The goals of the program are as relevant in 2009 as they were in the 1930's. The current economic crisis has created panic among the aging baby boomers. The fear of growing old and having less security is an overwhelming feeling reverberating throughout the world. Government policies supporting the needs of older members of society need to be effectively implemented without undermining capitalism. Policies cannot be enacted that will provide disincentives to hard work and success in order to "save Social Security." The United States economy is successful because of strict adherence to the policies of capitalism sprinkled with limited social programs. The international arena is facing a myriad of financial problems caused in part by unrealistic social programs. The need to learn from others mistakes is necessary to prevent the implementation as a problematic solution to the besieged United States Social Security program.

Any solution to a wide ranging societal problem must be viewed as equitable to ensure its' successful implementation. A viable resolution is available if the United States government, together with the capitalistic driven economy, weaves a plan that will benefit both the current retirees and the younger generation. The needs of the two groups are diametrically opposed and therefore the solution must be acceptable to both groups.

Current research suggests there are many problems with the current system but acceptable solutions are available. The goal of the initial program remains the same today; to provide assistance to the at-risk members of society in need. The goal of the paper was to identify the problems with the United States Social Security program and to provide viable solutions to resolve these issues. Future research is needed to assess suggested resolutions to the age gap and underfunding issues documented in the paper and the ultimate consequences of these decisions.

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BIOGRAPHY

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