The Levy Economics Institute of Bard College

Public Policy Brief

Highlights, No. 82A, 2005

HIGHLIGHTS

THE OWNERSHIP SOCIETY

Social Security Is Only the Beginning…

L. RANDALL WRAY

The Social Security debate has grabbed most of the headlines, but President Bush's attempt to reform that program represents only the opening salvo of the neoconservatives' plan to create what has been labeled "the ownership society."[1] Other "reforms" contemplated or already under way include tightening bankruptcy law, replacing income and wealth taxes with consumption taxes, transferring health care burdens to patients, devolution of government responsibility (while relieving state and local governments of the burden of "unfunded mandates"), substituting "personal reemployment and training accounts" for unemployment benefits, "No Child Left Behind" and school vouchers legislation, eliminating welfare "entitlements," bridling "runaway trial lawyers," transforming private pensions to defined-contribution plans, the movement against government "takings," and continuing attempts to hand national resources over to private exploiters. Hence, while Peter H. Wehner (Bush's director of strategic initiatives) recognizes that privatization of Social Security would "rank as one of the most significant conservative undertakings of modern times," the neocons have a full plate of other "ownership society" policy proposals (*Wall Street Journal* 2005).

The full text of this paper is published as Levy Institute Public Policy Brief No. 82, available at www.levy.org.

ISSN 1094-5229 ISBN 1-931493-46-4

What is an ownership society, and what do these proposals have in common? At first blush, it may not be obvious that attacks on trial lawyers, promotion of consumption taxes, and privatization of Social Security have much in common. But as we shall see, the theme common to all these proposals is the desire to create an ownership society. While supporters hold out the promise that access to wealth will be broadened by the president's agenda, this brief will argue that such policies actually are likely to *increase* inequality, a point that undermines an important justification for proposed ownership-society programs.

Ownership, Responsibility, and the Role of Government

The supporters of the president's reform agenda claim that ownership promotes responsibility, good citizenship, active participation in society, and care of the environment. As the Cato Institute's David Boaz explains, "People who are owners feel more dignity, more pride, and more confidence. They have a stronger stake, not just in their own property, but in their community and their society" (Boaz 2005). Owners have a permanent stake in America that "renters" and transient "users" of resources do not. Public ownership of resources, or public provision of services, encourages abuse—as in Garrett Hardin's "tragedy of the commons" (Hardin 1968)—and, worse, removes the incentive for individuals to behave in their own long-term interest. The uncertainty associated with relying on publicly owned and provided services arises from the fact that politicians can (and do) change the rules regarding access to them; only private ownership can empower individuals and provide the discipline and real freedom to induce Americans to take control of their health care, education, and retirement. Hence, the elimination of New Deal and other obstacles is supposed to democratize access to wealth. Implicitly, government is to operate in the interests of the owning class—a class that should expand as these reforms are implemented—which means that it may have to side with owners against the nonowning, "transient" classes.

The push for an ownership society by President Bush and the neocons must be placed within the ideological framework developed by the political theorists of the 17th and 18th centuries, for whom property was not only the origin of society and the reason for government, but also a hallmark of civilization. In sum, John Locke wrote, "Government has no other end but the preservation of property" (Locke 1988, p. 329). In the same vein, according to the modern-day offshoots of this time-honored principle, government policy ought to promote the interests of owners, who will act as responsible stewards of privatized resources. The government should protect the owning classes against the nonowning classes, who tend to make excessive demands for entitlements and legal protection. The ownership-society movement represents a conservative reaction to what many see as the erosion of the rights of the propertied over the past two centuries.

The Agenda

In this section we will consider some of the major components of the strategy. Social Security's opponents have waged battle continuously since 1935. I will not repeat my detailed analysis of the politics behind the current effort to "reform" Social Security (Wray 2005), but it is clear that this is an important element of the neocon agenda. As Wehner put it in an internal memo in January 2005, "I wanted to provide to you our latest thinking (not for attribution) on Social Security reform. I don't need to tell you that this will be one of the most important conservative undertakings of modern times. If we succeed in reforming Social Security, it will rank as one of the most significant conservative governing achievements ever" (*Wall Street Journal* 2005).

However, Social Security privatization is just one ingredient of the envisioned evolution to an ownership society; and many of the other components have a long pedigree—the only thing that is new is the audacious scope of the agenda. In the education arena, the voucher system has long been used as a carrot to encourage school privatization, while the "No Child Left Behind" policy—the latest version of the "stick" used to push children into private schools—threatens to reduce funding for the neediest, "failing" public schools. As proponents David Salisbury and Neal McCluskey declaim: "By making primary and secondary education part of the ownership society, congressional Republicans would show that they trust parents to make the most important decisions about their own children. Moreover, giving people a say over where and from whom their children learn would do for K–12 education what personal Social Security accounts and health savings accounts would do for retirement and health care" (Salisbury and McCluskey 2005).

As mentioned, the neocon agenda includes a plan to "reform" pensions. Employers have already converted most pensions to defined-contribution plans, and the government has allowed corporations to raid the funds whenever equity markets perform well—while it is lax about forcing them to make up the difference when portfolios do badly. United Airlines recently defaulted on its pension commitments, having failed to adequately fund them over the past several years (Corley 2005). According to Zvi Bodie, former consultant to the Pension Benefit Guaranty Corporation (PBGC), United's default adds $10 billion in liabilities to the PBGC, which is already insolvent (based on future commitments) by some $23 billion (Bodie 2005). Bodie hinted that an unnamed automaker (most likely General Motors) could be next, which would almost certainly mean the end of the PBGC and the safety net it provides for private pensions. Could this be another important milestone in the promotion of individual responsibility as envisioned by the proponents of the ownership society? Workers who gave up wage increases for improved pension plans will be doubly subjected to "market forces," retiring with low lifetime earnings (hence, little personal savings) and underfunded employer-provided pensions. If "reformers" succeed, they can make that a triple threat by also removing the Social Security leg of the retirement stool.

The judicial decision that allows United Airlines to default on its obligations came soon after Congress tightened access to bankruptcy under Chapter 7. Constraining trial lawyers also ranks high on the neocon agenda, as this will force patients and consumers to take more responsibility for their own botched medical procedures, prescriptions for faulty drugs, and injuries suffered through the use of products with cost-minimizing design flaws. As James Glassman (2005) explains, Americans are coming to "see their interests as aligned with businesses they have poured their savings into"; therefore, trial lawyers are doing them a disservice with malpractice suits that reduce stock values and wealth. Restricting access to the courts would not only put owners in control but would also increase their accumulation of equity value! This is seen as a clear win-win in the battle to create a nation of owners while undermining legal protection and the "entitlements" that have impeded unbridled wealth accumulation and concentration.

The United States is already well on its way to reducing each element of the tripartite health care "entitlements" represented by employer-provided health care, Medicare for the aged, and Medicaid for the poor. Rapidly rising private health care insurance premiums have caused employers to evade or shift costs. By 2004, only 6 percent of employers paid the premiums for health care coverage of their workers and families, down from 11 percent in 2000 (Freudenheim 2005). Hence, as the employer-paid portion of health care coverage declines and the burden shifts to workers, more of them are "free to choose" to go without coverage—an essential component of the plan to create a society that promotes individual responsibility.

Medicaid is also under siege across the nation, as tight state budgets force cutbacks. Medicaid has become the single largest item in most state budgets, and nearly all states are trying to restrain its growth. Perhaps the best example is Missouri, which plans to cut 90,000 people from the Medicaid rolls (Morris 2005). Even low-wage workers with young children will be dropped, since the new maximum income limit is just $86 per week for a mother with three children. As Governor Matt Blunt's press secretary, Jessica Robinson, elaborated: "Concern or fear over losing health coverage could become motivation enough to learn a new trade or to seek out a position that will otherwise provide coverage." Hence, erosion of Medicaid in Missouri is designed to increase personal responsibility for health care while providing incentives to enhance one's marketability in labor markets.

Note that the script laid out for Medicare and Medicaid by reformers is similar to that previously composed for Social Security. Huge increases in premiums and out-of-pocket expenses will reduce satisfaction with the program (just as Fed chairman Alan Greenspan's payroll tax hikes in 1983 helped to create the view that Social Security is a "bad deal" in terms of "money's worth" calculations for younger workers), while hysteria about "unfunded liabilities" will "establish in the public mind" the belief that Medicare is also "on an unsustainable course" (*Wall Street Journal* 2005). Rising costs, penalties, program complexity, and cuts to other benefits (such as food stamps) will help to build dissatisfaction with "entitlement" programs, and will help to nudge recipients to "responsibility-enhancing" private plans.

Over the years, the nation has already made significant progress in transforming the tax system to favor ownership. Freeing inheritances from the "death tax" and privatizing Social Security to make benefits inheritable are, of course, consistent with this endeavor. Some reformers would like to complete the transformation by moving to a consumption tax—putting even more of the tax burden on working families that consume their incomes, while the saving and owning classes could enjoy lower taxes on their accumulation of wealth. In sum, there is a wide variety of policy initiatives that can wear the guise of promoting creation of the ownership society. There can be little doubt that these reforms will advance the interests of owners; the question is whether they are likely to broaden ownership, or whether they are more likely to widen the gap between the well-heeled and the working classes.

An Ownership Reality Check

Supporters of these reforms claim their proposals are targeted to "modest-income citizens in particular," affording them "the chance to build inheritable wealth," a chance that would "open the door to a whole new life" (Glassman 2005). They argue that ownership is already widespread, and that their agenda will allow for an even broader distribution of wealth. However, the numbers they point to as evidence of this hide a significantly unequal distribution of ownership and indebtedness, and that inequality is likely to be made worse by proposed "reforms."

According to the Federal Reserve's 2001 Survey of Consumer Finances (Federal Reserve 2001; the source for all the data on wealth and debt that follow), the median net worth for families with income in the bottom quintile amounted to just $7,900. For minorities, it was only $17,100, versus almost $121,000 for families with a white, non-Hispanic head. Rates of ownership of a primary residence were only 14 percent and 46.8 percent, respectively, for families in the bottom net-worth quartile and for minority families. By contrast, the fortunate few in the top decile of income earners enjoyed a median family net worth of $834,000—indicating a substantial concentration of wealth at the very top.

Families with a head aged 55 to 64 (that is, with a head on the verge of retirement) held median net worth at a substantial $182,000. However, their median holding of *financial assets*[2] totaled less than $57,000—clearly insufficient to provide a decent standard of living at retirement. By contrast, the top decile of wealth holders had a median financial portfolio worth $707,400—probably enough to purchase a comfortable annuity. Clearly, outside the top couple of deciles, most Americans do not have enough *financial* wealth to see them through much of a retirement. And note that these wealth figures *overstate* the financial position of families of modest means, since they include only those families that actually hold assets.

Therefore, the case for existence of an ownership society rests on *home* ownership, since owner-occupied homes represent the only significant asset held by families across all income and wealth percentiles. In 2001, the primary residence accounted for 47 percent of all nonfinancial assets held by families. Indeed, for the family with a head aged 55 to 64, the median value of the primary residence totaled $130,000. For home-owning families in the bottom income decile, the primary residence had a median value of $65,000, compared with median values of stocks at $7,500 or of retirement accounts worth just $4,500 (for families holding these assets). Hence, the value of the family home accounts for most of the wealth of low-income families as well as those families with a head close to retirement.

However, there are two reasons that analysts should not get carried away with counting home values as "wealth" and therefore as proof we have already become an ownership society, at least for 70 percent of the population. First, many home "owners" have mortgages against their properties, and that debt has been rising quickly. Further, families have to live *somewhere*, so liquidating the family home means purchase of another, or moving into a rental unit that is not usually of comparable quality, and that commits the family to rents in perpetuity. Homes do not really represent much spendable "net" wealth.

Debt: The Other Side of the Ownership Coin

And American families *have* taken on a lot of debt. Debt burdens for the most part vary inversely with income and wealth. For example, debt-service ratios (ratios of debt payment to family income) were around 17 percent for all but the top income decile—for which the ratio fell to just 11 percent. Excessive debt burdens likewise vary inversely with income and wealth: the ratio of debt to family income exceeded 40 percent for 27 percent of families in the lowest income quintile, for 16 percent of families in the next quintile, for 11.7 percent of families in the middle quintile, for 5.6 percent of families in the fourth quintile, and for just 2 percent of families in the top decile. Similarly, the percent of families with a debt payment 60 days or more past due fell sharply with family income or wealth: nearly 18 percent of families in the bottom quartile of net worth had such overdue debt, versus only 0.3 percent of families in the top decile.

In sum, the wealthiest decile enjoyed median family net worth that was 1,184 times greater, financial assets that were 544 times greater, and nonfinancial assets worth 166 times more than those held by the lowest quartile. Further, 95 percent of the wealthiest decile of households owned a primary residence, and 42 percent also owned other residential property; only 14 percent of the bottom quartile owned a primary residence—and forget about a second home for this group. Yet, the poorest households faced much higher debt burdens, with nearly 14 times more families in the lowest income quintile carrying debt greater than 40 percent of their meager incomes, and with 60 times as many low-wealth families with debt in arrears when compared with the wealthiest families. So, while financial assets and net-worth holdings are heavily skewed toward the richest households, debts are more "democratically" shared—with the bottom half of the wealth distribution actually "enjoying" more debt relative to income, and absolutely higher levels of debt in some cases.

Widespread home ownership *is* beneficial, and for at least some of the reasons enumerated by promoters of the ownership society. However, to equate holding a mortgaged family home with membership in a class of "citizen investors" (as Glassman does) borders on delusion, because many "home owners" merely occupy, manage, and improve homes proximately owned by banks and mortgage companies that are in turn owned by the *true* owner class—those with lots of wealth, particularly financial wealth, but little debt. Today's home owner cannot even be equated to the "yeoman farmer" of Thomas Jefferson's period, or to the small business owner of today, much less to the real owner class that begins somewhere north of the 97th income and wealth percentiles.[3]

An Alternative Agenda

Perhaps it is not the goal of the reformers, but it certainly does appear that their policies will create a sharper division between a relatively small class of owners and a much larger class of nonowners—including the putative owners of homes. If the reformers succeed, one possibility is that government policy would increasingly be directed by and for the owners, for, as Gouverneur Morris explained more than two centuries ago, a primary (if not *the* primary) purpose of government is to protect the property of the owner class (Morris 1774). If inequality rises, this class will shrink, reducing the moral justification for protection of property even as the need for protection of property rises. In truth, the contemplated reforms may not simply turn back the clock to the good old pre–New Deal days of 1932. It could take us a good part of the way back to 1776, when citizenship was literally equated by some founding fathers to property ownership by white males—and when the idea that government ought to intervene to provide safety nets and entitlements to the nonowning classes was far from public discourse.

In the framework of today's debate about the ownership society, the justification for many of the "reforms" advanced by advocates falls flat in the face of the evidence that wealth is highly unequally distributed—unless a very strong case can be made that these policy changes would quickly lead to a significant improvement of that distribution. Whether by design or by accident, the ownership-society reforms would be likely to do the opposite, increasing inequality and concentrating wealth among the owner classes. As many analysts have demonstrated, the mostly small private accounts that are meant to replace Social Security will incur high management fees, so that retirement annuities will be insufficient to support low-wealth households. With high consumption taxes and the deterioration of private pensions, not to mention rising health care premiums and whatever "reforms" that might be made to Medicaid and Medicare, many aged persons will face an uncertain retirement. Shifting the burden of health care, education, retirement, taxes, unemployment, and losses due to medical malpractice and faulty products to working people might help to protect the property and interests of the owning class, but it will increase the barriers to entry into privilege.

The "reformers" have yet to present argument or evidence in support of the belief that removing safety nets will achieve a more equal distribution of wealth while promoting "efficient" decisions. Indeed, a reasonable argument could be made that people are "freer" to take a long-run view—with possible short-run costs but eventual high payoffs—in the presence of safety nets. The "gestation period" of a worker is 16 years in the case of a high school dropout and perhaps as long as 30 years (or more) in the case of a college graduate with an advanced degree. Surely the existence of both household and public-sector safety nets is helpful in tipping the bias toward the longer end of that spectrum. The already-wealthy have a private safety net (their wealth). In the presence of a publicly provided safety net, the not-yet-wealthy are freer to pursue their dreams, because bad luck won't lead to severe deprivation. By chopping off the public legs of the retirement, education, employment, and health care stools, the neocon reformers will force families to take the short-run views that make them more dependent on good fortune, and on charity when that fails. (As readers of Charles Dickens know, we have been *there* before.)

If the goal is to create an ownership society that is something more than an ideological slogan, then policy should follow an alternative path, because most of the proposed "reforms" are likely to worsen distribution and restrict access to ownership. In any case, for the reasons advanced earlier, the neocon reforms should not be undertaken until a vastly more equal distribution of income and wealth is achieved. A real alternative to the "ownership society" agenda would strengthen safety nets, increase income and wealth at the bottom of the distribution, guarantee universal access to higher education, and provide the guarantee of a job at a living wage. Such policy changes would increase the probability that more Americans could join the "ownership" class, and would provide more justification for government policies that favor ownership. At best, the proponents of the ownership society have put the cart before the horse, believing that a lack of individual responsibility is the cause of income and wealth disparities. But offering de jure "choice" and removing social safety nets when households do not have adequate means are likely to simply worsen inequality without improving real choices for most Americans.

Interestingly, none other than Newt Gingrich has recognized that redistribution is necessary before the goal of spreading benefits of the new ownership society can be achieved. When asked whether the Bush administration's agenda amounted to anything more than a charade, Gingrich responded, "No. It means the next stage is to see whether or not he has the nerve to propose real redistribution."[4] That is the $64,000 question.

Notes

1. The author thanks Yan Liang for substantial research assistance.
2. These data are for those households that held *any* financial assets, including bonds, stocks, mutual funds, retirement accounts, and other financial assets.
3. In this paper, I have focused on data for the top income and wealth percentiles, but it is well established that there is a "kink" at about the 97th percentile, with a very high concentration of wealth in the top 3 percent. See Peterson 1994.
4. Quoted in Miller 2004.

References

Boaz, David. 2005. "Defining an Ownership Society." www.cato.org/special/ownership_society/boaz.html

Bodie, Zvi. 2005. Interviewed by Robert Siegel on *All Things Considered*, National Public Radio, May 10.

Corley, Cheryl. 2005. "United Airlines Seeks to Terminate Pensions." *Morning Edition*, National Public Radio, May 10.

Federal Reserve Board of Governors. 2001. Survey of Consumer Finances. www.federalreserve.gov/pubs/oss/oss2/scfindex.html

Freudenheim, Milt. 2005. "Fewer Employers Totally Cover Health Premiums." *New York Times,* March 23.

Glassman, James K. 2005. "A Nation of Citizen Investors." *American Enterprise Online.* www.taemag.com/issues/articleID.18409/article_detail.asp

Hardin, Garrett. 1968. "The Tragedy of the Commons." *Science* 162: 1243–48.

Locke, John. 1988. *Two Treatises of Government.* Student Edition. New York: Cambridge University Press.

Miller, Matt. 2004. "Let Them 'Own' Cake!" September 8. www.mattmilleronline.com/columns.php?id=109

Morris, Frank. 2005. "Debating Medicaid and Morality in Missouri." *Morning Edition,* National Public Radio, May 11.

Morris, Gouverneur. 1774. Letter to Thomas Penn. May 20. www.chss.montclair.edu/english/furr/spl/morristopenn.html

Peterson, Wallace C. 1994. *The Silent Depression: The Fate of the American Dream.* New York: W. W. Norton.

Salisbury, David, and Neal McCluskey. 2005. "'Ownership Society' Should Start with Education." Washington, D.C.: Cato Institute. www.cato.org/pub_display.php?pub_id=2885

Wall Street Journal. 2005. "Memo on Social Security." January 5.

Wray, L. Randall. 2005. "Manufacturing a Crisis: The Neocon Attack on Social Security." Policy Note 2005/2. Annandale-on-Hudson, N.Y.: The Levy Economics Institute.

About the Author

Senior Scholar L. Randall Wray is a professor at the University of Missouri–Kansas City and director of research at the Center for Full Employment and Price Stability. He is working in the areas of monetary policy, employment, and Social Security, and he has used the ideas of the late Hyman P. Minsky to analyze current U.S. economic problems. Wray has published widely in journals and is the author of *Understanding Modern Money: The Key to Full Employment and Price Stability* (Edward Elgar, 1998) and *Money and Credit in Capitalist Societies: The Endogenous Money Approach* (Edward Elgar, 1990). He is also the editor of *Credit and State Theories of Money: The Contributions of A. Mitchell Innes.*

Recent Public Policy Briefs

The Ownership Society
Social Security Is Only the Beginning…
L. RANDALL WRAY
No. 82, 2005 (Highlights, No. 82A)

Breaking Out of the Deficit Trap
The Case Against the Fiscal Hawks
JAMES K. GALBRAITH
No. 81, 2005 (Highlights, No. 81A)

The Fed and the New Monetary Consensus
The Case for Rate Hikes, Part Two
L. RANDALL WRAY
No. 80, 2004 (Highlights, No. 80A)

The Case for Rate Hikes
Did the Fed Prematurely Raise Rates?
L. RANDALL WRAY
No. 79, 2004 (Highlights, No. 79A)

The War on Poverty after 40 Years
A Minskyan Assessment
STEPHANIE A. BELL and L. RANDALL WRAY
No. 78, 2004 (Highlights, No. 78A)

The Sustainability of Economic Recovery in the United States
The Risks to Consumption and Investment
PHILIP ARESTIS and ELIAS KARAKITSOS
No. 77, 2004 (Highlights, No. 77A)

Asset Poverty in the United States
Its Persistence in an Expansionary Economy
ASENA CANER and EDWARD N. WOLFF
No. 76, 2004 (Highlights, No. 76A)

Is Financial Globalization Truly Global?
New Institutions for an Inclusive Capital Market
PHILIP ARESTIS and SANTONU BASU
No. 75, 2003 (Highlights, No. 75A)

Public Policy Briefs are published in full-text and highlights versions. Briefs and all other Levy Institute publications are available online on the Levy Institute website, www.levy.org.

To order a Levy Institute publication, call 845-758-7700 or 202-887-8464 (in Washington, D.C.), fax 845-758-1149, e-mail info@levy.org, write The Levy Economics Institute of Bard College, Blithewood, PO Box 5000, Annandale-on-Hudson, NY 12504-5000, or visit our website.

The Levy Economics Institute of Bard College
Blithewood
PO Box 5000
Annandale-on-Hudson, NY 12504-5000

Address Service Requested

NONPROFIT ORGANIZATION
U.S. POSTAGE PAID
BARD COLLEGE