NATIONAL EDUCATION ASSOCIATION nea.org

Great Public Schools for Every Student

June 30, 2010

On behalf of the 3.2 million members of the National Education Association, we offer these comments that we hope will help inform your discussions and recommendations regarding the federal debt and budget deficit. Overall, we urge the Commission to make thoughtful recommendations that reflect the broader context of government's role in the national economy and in the well-being of the individual members of our society. In particular, we hope that your recommendations around Social Security will take into account the programs' essential role as a social safety net and will also move toward repealing unfair offsets that cut or eliminate many public employees' benefits.

THE CONTEXT FOR COMMISSION RECOMMENDATIONS

President Obama created the Commission in the midst of the worst U.S. economic recession since the Great Depression began more than 80 years ago.

While the Commission's charge is to recommend and not to legislate, in today's spotlight that charge carries great weight, and should be exercised only after full examination of the evidence and careful consideration of the range of resulting implications. First and foremost, we hope that Commission discussions will take into account that fiscal activities do not occur in a vacuum, particularly as they relate to the federal debt and budgetary fluctuations. Rather, these activities are an integral part of the overall functioning of the economy. Federal fiscal activities strongly influence and, in turn, are influenced by current economic conditions and the long-term economic performance of the nation. Any recommendations regarding fiscal issues that do not take into account the inevitable economic and social implications could well lead to harmful, rather than helpful, outcomes.

For example, our current economic problems were brought on by the collapse of the financial services industry, the bursting of the housing sector bubble and the near implosion of the major domestic auto manufacturers. What is interesting is that none of these problems were caused or exacerbated by the federal government deficit or congressional spending.

The Commission should bear in mind that the real world programs and activities that lie behind the accounting numbers have a direct influence on our nation's defense, its infrastructure, its productive capacity, and on the health and quality of life of America's families, especially its young people. We urge Commission members to look past ideology and take a practical, level-headed approach to this great responsibility. If the Commission is be fair and impartial, it must examine carefully all aspects of government spending without limiting itself by uncritically accepting the conventional wisdom that the deficit is the problem.

We are confident the Commission will view its task of fiscal responsibility and reform in light of what that charge means for the broad economy and, more importantly, for our families and our future, taking care to reject recommendations that will hamper the government's ability to take strong, decisive actions in times of national economic crisis.

REDUCTION OR ELIMINATION OF GOVERNMENT SERVICES
The reduction or elimination of certain government programs may be viewed by some as a way to reduce or eliminate programs they oppose, where they lack support to achieve this goal through the normal democratic process. Many of these reductions may not eliminate the underlying costs but simply shift those costs out of the current budget onto individuals or other less noticeable future costs. These shifts would not be of benefit to the broad U.S. economy or promote long-term growth.

SHIFTING TAXES DOWNWARD TO WORKING FAMILIES AND CONSUMERS
An often stated goal of many self-identified fiscal conservatives is to reduce the marginal tax rate on upper-income individuals and to reduce or eliminate entirely the corporate income tax. The underlying assumption is said to be that lowering taxes for upper income individuals and businesses increases incentives to work even harder, earn even more, and ultimately pay even more in taxes. This simplistic assumption ignores certain significant and contradictory facts. For example, lower income households actually spend a substantially greater percentage of their income on consumer goods. Thus any additional tax falling on middle-income or lower households would come at the expense of consumption, the sector that comprises 70 percent of the U.S. economy. And any measure drastically reducing or eliminating the corporate income tax requires either a substantial off-setting reduction in public spending, or higher taxes on individuals.

While some argue that U.S. taxes are high relative to the rest of the world, in fact, the share of total tax collections (from all levels of government) as a share of GDP in the U.S. is well below the average for the industrial nations. Data from the Organization for Economic Cooperation and Development (OECD) shows that for the 30 major nations, the U.S. is tied with Japan for 28th place. And Japan's fiscal needs should be less, since it is not fighting two major wars. The only two developed nations with lower total taxes than the U.S. are Turkey and Mexico.

It has often been said that our business taxes are among the highest in the industrialized world. This claim is at best grossly misleading since it refers only to the corporate income tax, and ignores the fact that unlike the U.S., most nations don't use a tax on corporate profits as the main source of business tax revenues. In fact, most nations derive their business tax revenues from taxes based on labor and social contributions. When the World Bank ranks nations according to the total taxes a typical corporation would face, their findings show the U.S. near the average of our major trading partners.

As for some economic need to lower the top marginal tax rate on individuals, a detailed study of data from 188 nations by economic historian Peter Lindert, of the University of California at Davis found that, contrary to expectations, there was a positive relation between the marginal tax rate on wages and the income of workers. In other words, higher taxes and higher wages tended to go together. Lindert's study found that there is no evidence that the allegedly high taxes and high levels of social transfers (things such as social security, unemployment benefits, and pensions) that are common in modern nations have any affect whatever on those nations' output. When he looked specifically at the 23 leading nations, Lindert found that the single most significant source of economic growth was education. "Growth," he said, "was strongly raised by extra schooling, especially extra primary and secondary schooling." And schooling is provided largely by tax dollars.

A study published by the World Bank in 2008 looked at sources of growth in the seven nations with the fastest rates of growth between 1960 and 2006. That study found that the highest growth nations tended to have relatively large public sectors and to spend disproportionately large shares of their GDP on public education, their transportation infrastructure, and telecommunications. None of these high growth nations were found to have particularly small government sectors or low levels of taxation.

SOCIAL SECURITY AS A SOCIAL SAFETY NET

NEA represents 3.2 million educators working in America's public schools. Many of our members, along with millions of other public employees, rely on Social Security to help ensure a secure retirement. Teachers and education support professionals, like the majority of middle class Americans, rely on Social Security for their future. Educators are particularly vulnerable in their retirement security, both because of their comparatively low salaries and increasing attacks on their pension plans.

Social Security is more than a retirement plan. It is our nation's most successful social insurance program. Nationally, 20 percent of adults receive Social Security benefits, including 22 percent of women and 18 percent of men. About 24 million women, 18 million men, and 3 million children rely on Social Security benefits. Contrary to the political rhetoric, Social Security and Medicare did not cause our economic problems. Fiscal discipline is needed, but not at the expense of our nation's most vulnerable populations. Cuts to Social Security would fall disproportionately on low-income individuals, particularly minorities, who depend on Social Security and Medicare. For example, according to the Hispanic Institute, 50 percent of Latinas 65 or older in the U.S. rely on Social Security for 100 percent of their income, and 85 percent of them gain at least half of their income from Social Security.

NEA strongly opposes any privatization of Social Security. Social Security is the cornerstone of the social safety net for America's retired workers and should not be subject to risky, unproven schemes. Privatization carries great risk and will jeopardize the secure retirement of many Americans. IRA's, 401(k)'s, and similar types of plans are valuable supplemental components of a retirement plan, but they are not, and should not be, the foundation for a secure retirement. When the stock or bond markets drop precipitously, as they do periodically, the impact on private retirement accounts can be devastating.

Social Security adjusts for inflation; is guaranteed to last an entire lifetime, no matter how long; is shielded from stock market losses; and is payable to multiple beneficiaries across generations (e.g., to surviving family members for their lifetime). Private accounts and defined contribution pension plans have none of these protections. Workers investing in private accounts will assume responsibility for the risks that are currently covered by Social Security protections. This could lead to many retired employees needing extra support in their elderly years – a time when they should live with a sense of peace and security.

Rather than just shifting "ownership" of retirement assets from the government to workers, Social Security privatization shifts an inordinate amount of risk away from the government and onto American workers. The United States' recent experience with defined contribution pensions tragically illustrates the insecurity inherent in these ~~typles~~types of accounts.

Women and Social Security

Women comprise 58 percent of all Social Security beneficiaries aged 65 and older and over three-quarters of NEA's membership. Therefore, NEA has a particular concern about the impact of Social

Security privatization on women. Women traditionally have lower lifetime earnings than their male counterparts, and women in the education profession face comparatively lower salaries than many other professionals.

According to the National Women's Law Center, without Social Security, more than half of women over 65 would be poor. Social Security helps level the playing field for women, who on average earn less than men and have fewer years in the workforce. In contrast, privatization would provide benefits based only on worker contributions, disproportionately penalizing women for time spent out of the workforce for childcare and care of the sick and elderly.

Social Security pays benefits that cannot be outlived, with annual cost-of-living adjustments. These features are particularly important to women because they tend to live longer than men but have fewer assets when they reach retirement. Savings in individual accounts could be drained by health costs, bad luck, or misjudgment in investments, or simply outliving one's savings.

Finally, women are much more likely than men to receive Social Security benefits as family members when a worker dies, retires, or becomes disabled. For a young family, Social Security provides the equivalent of a life insurance policy worth over $400,000 and a disability insurance policy worth over $350,000, according to the Social Security actuaries.

Ethnic Minority Communities and Social Security

NEA has a diverse membership serving an increasingly diverse population. Some ten percent of NEA members are African Americans. Representation in the education profession of Hispanics is also growing. Ethnic minority students in our nation's schools have risen from 30 percent in the late 1980s to almost 40 percent today. Over the next twenty years that percentage may well reach 50 percent.

Due to certain demographic trends, African American communities benefit from the Social Security program in several ways:

- Social Security is the only source of retirement income for 40 percent of African American seniors. In 2002, the average monthly benefit for African American men receiving retired worker benefits was $850, and for women was $683. The Social Security Administration estimates the poverty rate for elderly blacks would more than double – from 24 percent to 65 percent – without Social Security.

- Social Security survivors insurance provides significant help to African American children who would otherwise find themselves poor because of a parent's death. African Americans make up approximately 13 percent of the American population. Twenty three percent of all children receiving Social Security survivor benefits in 2002 were African American. A study by the National Urban League Institute for Opportunity and Equality showed that the benefit lifted one million children out of poverty and helped another one million avoid extreme poverty (living below half the poverty line). The National Urban League study also found that an African-American man dying in his thirties would only have enough in his private account to cover less than two percent of the survivors' benefits now provided by Social Security to his widow and children.

- African American families benefit from disability insurance. In 2002, 13 percent of the population was African American; however, 17 percent of disabled workers receiving benefits were African American.
- African American women in particular rely disproportionately on the non-retirement aspects of the program because they have a higher rate of disability than whites of either sex. African American women often survive deceased husbands. While African Americans make up 9 percent of all female beneficiaries, African American women constitute 18 percent of female disabled worker beneficiaries.

Like African Americans, Hispanics benefit from Social Security in a number of ways;

- Social Security is the only source of retirement income for 41 percent of elderly Hispanics. In 2002, the average monthly benefit for Hispanic men receiving retired worker benefits was $859, and for women was $619.
- The guaranteed benefit and cost-of-living adjustments of Social Security are important to Hispanics. An important feature of the Social Security system is its provision of a guaranteed benefit for workers and their spouses, which continues until death, with a cost-of-living adjustment (COLA) each year to index for inflation. Social Security beneficiaries cannot outlive the income, and their purchasing power does not erode over time. Because Hispanics tend to have higher life expectancies at age 65 than the majority of the population, elderly Hispanics will live more years in retirement and benefit from Social Security's cost-of-living protections. Hispanic men who were age 65 in 2004 can expect to live to age 85, compared to age 81 for all men. Hispanic women who were age 65 in 2004 can expect to live to age 88, compared to age 85 for all women.
- Social Security disability benefits are important to Hispanics. Hispanics have a higher work disability rate than other Americans. While disability data from the Census show that the overall work disability rate was 11.9 percent in 2000, the work disability rate for Latinos was 16.7 percent. Thus, Hispanics are more likely to be in need of the disability benefits that the Social Security system provides. Private accounts would not provide disability protection.

THE CASE AGAINST MANDATORY COVERAGE

NEA opposes mandating participation of all public employees in the Social Security system. Educators in twelve states (Alaska, California, Colorado, Connecticut, Illinois, Kentucky, Louisiana, Maine, Massachusetts, Missouri, Nevada, and Ohio) as well as selected districts in three additional states (Georgia, Rhode Island, and Texas) do not pay into Social Security. Instead, these states maintain separate retirement systems for educators. Some Social Security reform proponents have suggested requiring Social Security participation for all public employees as a means of strengthening the system.

A federal mandate for public employee participation in the social security system would be detrimental to teachers and other public employees and would create financial burdens for states and city governments. Mandatory coverage would weaken existing state and local retirement plans that often offer benefits superior to Social Security. Mandatory coverage would also increase the tax burden on public-sector employers, eventually leading to reductions in the number of new hires, limits on employee wage increases, reduced cost-of-living increases for retirees, and reductions in other benefits such as health care. Mandating coverage of public employees will not solve the Social

Security system's financial difficulties. In fact, the amount of money gained by mandating coverage would be relatively small and would not solve the long-term Social Security crisis.

SOCIAL SECURITY OFFSETS

NEA strongly supports complete repeal of the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP), which unfairly reduce the Social Security and Social Security survivor benefits certain public employees may receive.

The Government Pension Offset reduces Social Security spousal or survivor benefits by two-thirds of the individual's public pension. Thus, a teacher who receives a public pension for a job not covered by Social Security will lose much or all of any spousal survivor benefits she would expect to collect based on her husband's private sector earnings. Congress and the President agreed in 1983 to reduce the spousal benefits reduction from a dollar-for-dollar reduction to a reduction based on two-thirds of a public employee's retirement system benefits. This remedial step, however, falls well short of addressing the continuing devastating impact of the GPO.

The GPO penalizes individuals who have dedicated their lives to public service. Nationwide, more than one-third of teachers and education employees, and more than one-fifth of other public employees, are not covered by Social Security, and are, therefore, subject to the Government Pension Offset.

Estimates indicate that 9 out of 10 public employees affected by the GPO lose their entire spousal benefit, even though their deceased spouse paid Social Security taxes for many years. Moreover, these estimates do not include those public employees or retirees who never applied for spousal benefits because they were informed they were ineligible. The offset has the harshest impact on those who can least afford the loss: lower-income women. Ironically, those impacted have less money to spend in their local economy, and sometimes have to turn to expensive government programs like food stamps to make ends meet.

NEA receives hundreds of phone calls and letters each month from educators impacted by the GPO. Many are struggling to survive on incomes close to poverty, fearing they will be unable to cover their housing, medical, and food expenses on their meager incomes.

The Windfall Elimination Provision reduces the earned Social Security benefits of an individual who also receives a public pension from a job not covered by Social Security. Congress enacted the WEP ostensibly to remove an advantage for short-term, higher-paid workers under the original Social Security formula. Yet, instead of protecting low-earning retirees, the WEP has unfairly impacted lower-paid retirees such as educators.

The WEP penalizes individuals who move into teaching from private sector employment, or who seek to supplement their often insufficient public wages by working part-time or in the summer months in jobs covered by Social Security. Educators enter the profession often at considerable financial sacrifice because of their commitment to our nation's children and their belief in the importance of ensuring every child the opportunity to excel. Yet, many of these dedicated individuals are unaware that their choice to educate America's children comes at a price – the loss of benefits they earned in other jobs.

While the amount of reduction depends on when the person retires and how many years of earnings he or she has accumulated, many public employees can lose a significant portion of the Social Security benefits they earned in other jobs. Like the GPO, the WEP can have a devastating impact on educators' retirement security. In addition, many NEA members report that they are subject to double penalties – losing both their own benefits and spousal benefits due to the combined impact of the GPO and WEP.

The GPO and WEP have an impact far beyond those states in which public employees like educators are not covered by Social Security. Because people move from state to state, there are affected individuals everywhere. The number of people impacted across the country is growing every day as more and more people reach retirement age.

Perhaps most alarming, the GPO and WEP are impacting the recruitment of quality teachers to meet urgent national shortages. Record enrollments in public schools and the projected retirements of thousands of veteran teachers are driving an urgent need for teacher recruitment.

At the same time that policymakers are encouraging experienced people to change careers and enter the teaching profession, individuals who have worked in other careers are less likely to want to become teachers if doing so will mean a loss of Social Security benefits they have earned. Some states seeking to entice retired teachers to return to the classroom have found them reluctant to return to teaching because of the impact of the GPO and WEP. In addition, current teachers are increasingly likely to leave the profession to reduce the penalty they will incur upon retirement, and students are likely to choose other course of study and avoid the teaching profession.

NEA strongly supports repeal of the GPO and WEP. We urge the Commission to include recommendations in your report to the President to address these unfair offsets.

CONCLUSION

While we are all concerned about the high levels of U.S. public debt and budget deficit, that concern can be overstated. An excessive fear of debt and a zeal for debt reduction without careful consideration of the consequences can lead to hasty, rash decisions that could seriously undermine public policy for decades to come. Some observations from fiscal history might help allay those fears and put the concern regarding debt into perspective.

At the end of the Second World War, U.S. public debt approached 100 percent of GDP. However, the rapid growth of the post-war economy caused that debt ratio to fall by half over the following ten years, and over the subsequent ten years by half again. Similarly, following the First World War, U.S. public debt had spiked in 1919, but rapid economic growth during the '20s caused the debt ratio to fall by over half by 1929. A similar pattern of debt spike-and-pay down occurred to a lesser extent following the American Civil War and even the Revolutionary War.

This was not a case of American exceptionalism. Great Britain, whose economy suffered more extensively than our own during WWII, had public debt equal to 2.5 times its GDP in 1950. However, economic growth cut that ratio by half in 1960, and half again by 1970. Britain experienced some of its highest growth during periods when its public debt was highest. More recently, Japan economy has exhibited above average levels of grown during periods of relatively high debt.

The history of the U.S. and other nations shows us that it is possible to have economic growth even in the face of high debt. However, it is not possible to reduce debt without economic growth. As New York Times columnist Paul Krugman pointed out in a May 21, 2010 op-ed:

> "The truth is that policy makers aren't doing too much; they're doing too little. Recent data don't suggest that America is heading for a Greece-style collapse of investor confidence. Instead, they suggest that we may be heading for a Japan-style lost decade, trapped in a prolonged era of high unemployment and slow growth."

These observations strongly suggest that the Commission can best meet its charge of reducing the federal debt and deficit by not giving in to fear, but by pursuing proven growth strategies, such as investing in education, infrastructure, and technology. Such investment grows our economic capacity, reducing the burden of debt. It also increases our human capacity, making us and our children more productive, more confident, and more secure.

Thank you for the opportunity to offer these comments.