
ECONOMICS, LABOR, & BUSINESS

The Benefits of Social Security

"Social Security and the Budget" by Alicia H. Munnell, in *New England Economic Review* (Aug. 1985), Research Department, Publications Section, Federal Reserve Bank of Boston, 600 Atlantic Ave., Boston, Mass. 02106.

Since 1980, some Reagan administration officials and some congressmen have suggested taking a New Look at America's social security system. To help reduce the annual federal deficit (now \$211.9 billion), they have advocated cutting benefits and dipping into the system's trust funds.

But Munnell, senior vice-president of the Federal Reserve Bank of Boston, argues that there is "considerable confusion" about how social security—especially its trust funds—affects the total federal budget. In fiscal 1986, for example, taking in more than it pays out, the social security system will *reduce* the total federal deficit by nearly \$23 billion, not add to it.

Four years after passing the Social Security Act (1935), Congress created three social security trust funds (for retirement, disability, and hospital insurance) to receive the social security taxes deducted from the payrolls of U.S. workers. When the system generates excess income, the surpluses are often invested or loaned to the U.S. Treasury to help offset current federal debts. The Treasury then pays interest on the money that it "borrowed," thus creating additional revenue for social security.

In fact, writes Munnell, during the last half century the social security system has produced a total of \$58 billion in surplus assets. Moreover, the three trust funds are expected to accumulate a surplus of more than \$480 billion during the next decade.

Why then the urge to tamper with social security? Munnell believes that including the system in the aggregate federal budget has obscured its positive financial contributions to the U.S. government. Originally, social security's accounts were listed separately from those of other federal programs. But, in 1969, following the advice of the President's Commission on Budget Concepts, President Lyndon B. Johnson unified the budget for the first time. (By doing so, Johnson also managed to convert a \$1 billion deficit in 1969 into a \$3 billion surplus.) But dissent in the legislature over this procedure slowly mounted. In 1983, Congress passed social security amendments that require the system's hospital and retirement plans to be itemized independently of the general federal budget, beginning in 1993.

Munnell backs this separation of accounts and advises moving up the date. "The sooner the separation occurs," she concludes, "the less chance for social security to distort . . . federal fiscal decisions."

Why No Inflation?

"The Soaring Dollar Did It" by Allen Sinai, in *Challenge* (Oct. 1985), 80 Business Park Dr., Armonk, N.Y. 10504.

Annual inflation, a scourge of the American economy a decade ago, now lies dormant. In November 1985, the U.S. inflation rate stood at 3.2 percent, versus roughly 14 percent five years ago—marking the largest decline

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recorded during a five-year period since the mid-1950s.

What happened?

Leading economists point to a three-year recession (1980–82), falling oil prices, lower annual wage increases, and the deregulation of several major industries (including banking). But Sinai, an economist at Shearson Lehman Brothers, sees the soaring value of the dollar in international markets as the driving force behind disinflation. Between July 1980 and February 1985, the dollar's value appreciated by 47.6 percent (relative to the average of currencies of 15 nations belonging to the Organization for Economic Cooperation and Development).

The dollar's strength, Sinai contends, promoted a surge of imported goods in the United States and a slackening of exports (down \$57.5 billion since 1982). Faced with competition from manufacturers abroad, many U.S. businesses (especially in the auto and electronics industries) sought to lower their overhead and production costs by, among other things, raising the proportion of cheaper, foreign-made components in their own products. Meanwhile, American tourists took advantage of the dollar's increased buying power and went abroad to spend U.S. cash.

Soon, an anti-inflationary cycle began to take hold, Sinai says. The costs of basic commodities—grain, metals, oil—started to slide, allowing U.S. producers to cut the prices of their finished products. Labor costs fell too, mainly due to U.S. companies' increased use of low-wage workers overseas and a tight job market at home. Inventory hoarding and speculative business practices (known to bolster inflation) gradually slowed. By 1983, the cumulative effects of all these economic forces held inflation in check.

Using a computer model, Sinai found that without a strong dollar during the 1980–84 period, the rate of inflation would have been 4.5 to seven percentage points higher in 1984 than it was. "The sensitivity of inflation to changes in the value of the dollar," he concludes "is sizable"—a fact that may assume greater significance during the next year, now that the dollar's value has begun to decline.

Hello, Robots

"The Golden Arm" by Roger Draper, in *The New York Review of Books* (Oct. 24, 1985), 250 West 57th St., New York, N.Y. 10107.

When leading "artificial intelligence" engineers met in 1956 to evaluate the future of robot technology, they predicted that "within a single generation humanity would no longer have to work." Clearly they were wrong: After 30 years, mankind still has plenty of work to do. But the material and economic benefits of robotics are now tangible, reports Draper, associate editor of the *New Leader*.

In 1970, some 200 robots were operating in U.S. factories. Today, there are more than 16,000. The largest "employer" of robots is the auto industry, which uses them to help weld, paint, and assemble its cars. The General Motors Corporation, which in 1980 owned barely 300 robots, now has about 5,000 and plans to purchase 15,000 more by 1990.

In many risky jobs, notes Draper, robots are often less expensive and more efficient than their human counterparts. They do not tire, take vaca-