



Mr. Peter Peterson
Blackstone Group
345 Park Avenue
New York, NY 10154

Dear Mr. Peterson:

I want to call your attention to inaccurate statements that you have been making about the structure and solvency of the Social Security program. You have repeatedly asserted that the Social Security trust fund does not affect the program's solvency, and that the program would be in the same financial condition, whether or not the trust fund existed.

For example, you were quoted on the PBS show NOW, with Bill Moyers, as saying "And whether you had it [the trust fund] or didn't have it, you'd still have to go out and do the same thing. Increase payroll taxes to pay for Social Security and Medicare" (9-26-03) [http://www.pbs.org/now/transcript/transcript_peterson.html]. I know that you have made similar comments on numerous other occasions, including a recent appearance on the Diane Rehm show, which is produced by a National Public Radio affiliate in Washington.

You should know that your assertion is not true. Under the law, the bonds held by the Social Security trust fund are claims against the general revenue of the United States, just like the bonds held by any private citizen or corporation. Virtually all of this revenue comes from progressive individual and corporate taxes. If Congress does not change the law, then the bonds held by the trust fund will be automatically repaid from general revenue. If the government does not have the money to repay these bonds when they come due, then the Treasury will issue new bonds to cover the cost of repaying the bonds formerly held by the trust fund. This process of debt rollover is routine and has been taking place on a massive scale for decades.

If you want to verify the facts concerning the legal status of the trust fund, I would encourage you to examine the Social Security trustees report, or to discuss the issue with the staff of the Social Security Administration.

There is absolutely no reason whatsoever that Congress would raise the payroll tax (an extremely regressive tax) to repay the bonds held by the trust fund, as you claimed. Using the payroll tax to repay money, that under the law would be taken from general revenue, would amount to a redistribution of trillions of dollars from the bottom 80 percent of households to the richest 5 percent (see my paper "Defaulting on the Social Security Trust Fund: Winners and Losers,"

[http://www.cepr.net/Social_Security/defaulting_ss.htm]). You may advocate such an upward redistribution, but it simply wrong to imply that this is the law as it now stands.

Social Security is an extremely important program to the tens of millions of Americans who depend on it. I hope that in the future, you will be more accurate when you discuss it.

Sincerely,

Dean Baker
Co-Director
Center for Economic and Policy Research

cc: Bill Moyers,
www.cepr.net