

To: Those Interested in Social Security Reform

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Re. Social Security, the Election, and the Future of Reform

Republican victories in the Nov. 5 elections offer unforeseen opportunities for Social Security reform. With control over the White House, the Senate and the House of Representatives, the Republican Party has the opportunity and the obligation to keep its promise to reform Social Security upon a foundation of voluntary personal retirement accounts. With reform, Social Security can shoulder the burden of baby boomer retirements and the gradual but inevitable aging of the population. Without reform, Social Security faces a choice between a 50 percent increase in payroll tax rates or an over one-quarter reduction in promised benefits.

The President's own reform commission urged in December 2001 that, after a "year of discussion," action should be taken to place Social Security on a fiscally sustainable course. The past year has seen vigorous discussion of Social Security reform in general and personal accounts in particular. Moreover, the outcome of this discussion was tested, via the ballot box.

Yet some in the press, Capitol Hill and the administration appear to believe that Social Security reform is a "2005 issue," that cannot be addressed prior to the 2004 presidential elections.

In fact, however, there are many good reasons to act sooner rather than later:

- ?? Even a two-year delay increases the 75-year cost of Social Security reform by almost \$2 trillion (in today's dollars).
- ?? Personal accounts remain popular, and their popularity rose during the height of the election campaign.
- ?? Candidates who campaigned on personal accounts almost universally won, even those specifically targeted by anti-reform advertising campaigns.
- ?? Moderate Democrats – so-called "Blue Dogs" and "New Democrats" – are open to bipartisan cooperation, particularly in light of the Democratic leadership's potential lurch to the left.
- ?? Republicans are finally up to speed on the issue, willing and able to defend their reform proposals. Delay means a whole new education process must be undertaken.
- ?? The composition of Congress and the White House in 2005 will not necessarily be more reform-friendly than it is today. Delay poses a large political risk.
- ?? Reform will eliminate Social Security as an election liability. Like welfare, a reformed Social Security program becomes a political *asset*, as seniors

continue to receive their benefits and younger workers begin to amass wealth.

?? Social Security reform would constitute a tremendous accomplishment in domestic policy, upon which reformers of both parties could proudly run in 2004.

In the 2002 campaign, opponents of personal accounts took their best shot, through tens of millions of dollars in attack ads against reform and reformers. But as Winston Churchill remarked, “there is nothing more exhilarating than being shot at and missed.” Now is the time to harness the post-election exhilaration to a good cause.

The Cost of waiting

The longer we wait to fix Social Security the more expensive it becomes to fix. Rep. Charlie Stenholm (D-TX) made the point bluntly last week: “We don’t have the luxury of delay” in fixing Social Security. Practically every analysis of the Social Security problem – by the program’s trustees, by the independent Social Security Advisory Board, by the CBO, CRS and GAO – agree that action should come sooner rather than later.

Social Security is currently running payroll tax surpluses, but in 2017 large cash-flow deficits will begin, and continue indefinitely. Using the actuaries’ standard methodology of measuring Social Security’s financing over the next 75 years, Social Security faces a net cash flow deficit of \$23.9 trillion (in today’s dollars) from 2002-2076. Each year of delay subtracts a year of surpluses and adds a year of deficits, increasing the long-term cost by around \$1 trillion. The present value of the increased costs of a two-year delay in reform – that is, the amount we would need to borrow today to meet increased future deficits -- is \$362 billion.¹

Social Security 75-year cash-flow shortfalls (in trillions of dollars)			
	In 2002 dollars	In present value	Cost of waiting (in billions of \$PV, vs. 2003)
2002-2076	\$23.9	\$4.75	
2003-2077	\$24.8	\$4.91	--
2004-2078	\$25.7	\$5.09	\$181
2005-2079	\$26.7	\$5.28	\$362
2006-2080	\$27.7	\$5.45	\$541

Reform becomes more difficult with each year of delay, and drastic increases in taxes, reductions in benefits or hikes in the retirement age become more likely. In just 15 years, Social Security’s surpluses will be gone. Payroll tax deficits will rapidly increase: \$74 billion in 2020 (in today’s dollars); \$186 billion in 2025; \$277 billion in 2030; and rising continually thereafter.

Once Social Security’s surpluses end in 2017, questions of prefunding future benefits through personal accounts will give way to questions of simply how to fund *current* benefits. At this point, tax increases would be almost inevitable.

Personal account opponents, who openly favor tax increases, know this. That is why their main tactic is simply delay: rather than putting their own reform plans on the

¹Other estimates, which incorporate payroll tax deficits following the 75-year deficit, project a similar cost of delay.

table they concentrate on attacking personal accounts. For every day they put off defeat they come a day closer to victory.

Moreover, economists hold that the damaging effects of taxes (the “excess burden”) rise with the *square* of the tax rate. Delayed action, which entails larger tax increases on future workers, would have a disproportionately harmful effect on the economy.

As the non-partisan Social Security Advisory Board put it, “As time goes by, the size of the Social Security problem grows, and the choices available to fix it become more limited.” Regarding personal accounts, the Board’s report – titled “Social Security: Why Action Should Be Taken Soon” – says that

Adopting an individual account plan sooner rather than later would help in addressing transition costs because it could take advantage of the more than adequate financing that Social Security is expected to enjoy until [2017].²

The sooner action is taken on personal accounts, the less it will cost and the sooner we will begin to see the benefits.

Personal accounts remain popular

Post-election polls show personal accounts have held and even increased their popular support, despite millions of dollars in attack ads against them. The latest CNN/USA Today/Gallup poll conducted Nov. 8-10 found 57 percent support for personal accounts, a five percentage increase points from September. In other words, during the campaign period when attacks on personal accounts were strongest, their popularity rose.

<i>A proposal has been made that would allow people to put a portion of their Social Security payroll taxes into personal retirement accounts that would be invested in private stocks and bonds. Do you favor or oppose this proposal?</i>			
	Favor	Oppose	No opinion
Nov 8-10	57	40	3
Sep 20-22	52	43	5
Jun 28-30	57	39	4
Apr 8-11	63	33	4
Source: Gallup, November 8-10, 1,014 adults, margin of error ±3 percentage points.			

Cross tabulations of the Gallup results show relatively consistent support across gender and race categories. As is typical, younger individuals support personal accounts more strongly than do older Americans. Even among-near retirees aged 50-64, however, accounts were supported by a 10-point margin. While respondents over age 65 opposed accounts, under most personal account proposals workers aged 55 and up would see no changes to their benefits, making reform significantly less threatening to them.

	Total	Gender		Race		Age					Region			
		Male	Fem	White	Non-white	18-29	30-49	50-64	65+	50+	East	Mid-West	South	West
Favor	57	55	58	57	57	70	67	53	25	42	55	62	54	57
Oppose	40	43	37	39	42	29	30	43	67	52	41	32	44	40

² Social Security Advisory Board, “Social Security: Why Action Should Be Taken Soon,” July 2001, p. 19. Available at www.ssab.org. The original text cited payroll tax surpluses ending in 2016, which was consistent with the trustees projections at the time.

In an interesting finding, women aged

	Total	Gender/Age				Ideology			Party		
		Male 18-49	Male 50+	Fem 18-49	Fem 50+	Cons	Mod	Lib	Rep	Ind	Dem
Favor	57	65	41	72	43	65	56	42	67	55	46
Oppose	40	35	53	24	52	32	41	53	29	41	51

18-49 show unusually high levels of support for personal accounts: 72 percent, versus 65 percent support among men of the same age group.

A post-election poll of 1,000 voters conducted for the United Seniors Association found similar results to the Gallup survey. By a margin of 59 to 35 percent, respondents “Prefer a system with the option to invest part of your Social Security money” to a “system where the federal government holds all of your Social Security money.” There is no “gender gap” in support for accounts (60-37 for men, 59-34 for women, a difference that is not statistically significant).

Candidates supporting personal accounts won

Democratic Party leaders and other opponents of personal retirement accounts made clear that they viewed the 2002 mid-term elections as a referendum on Social Security. Opposition to reforms based on personal retirement accounts was a dominant theme to most Democratic candidates, party and affiliated groups’ advertisements. Tens of millions of dollars were spent telling the senior-heavy mid-term electorate that personal accounts were a “risky scheme.” If the election results are anything to judge by, the electorate remained unconvinced.

The labor-backed Campaign for America’s Future targeted Senate candidates Elizabeth Dole in North Carolina, Lindsey Graham in South Carolina and John Sununu in New Hampshire, running hundreds of thousands of dollars in Social Security attack ads. Nevertheless, Dole won by 9 points, Graham by 10, and Sununu even defeated incumbent Gov. Jean Shaheen by 5 points.

In Georgia and Colorado, Republican candidates Saxby Chambliss and Wayne Allard were attacked for “risky privatization schemes.” Chambliss upset incumbent Sen. Max Cleland by 7 points. Allard, who stood by his support for personal accounts in a national “Meet the Press” debate with opponent Tom Strickland, cruised to a surprisingly strong 5-point victory.

Personal account supporter Norm Coleman of Minnesota defeated former Vice President Walter Mondale. Despite Democrats’ double-digit historical advantage on the issue, among voters who said Social Security was the most important issue Mondale

A Social Security Referendum	
??	House Minority Leader Richard Gephardt: “The election is a referendum on Social Security.” (Associated Press, Sept. 18)
??	Democratic Congressional Campaign Committee Chair Nita Lowey: “This election, in my judgment, will be a referendum on Social Security.” (MSNBC.com, Oct. 1)
??	DCCC Spokeswoman Jenny Backus: “There’s no question that I think this election is a referendum on the future of Social Security.” (Orlando Sentinel, Oct. 6)
??	DCCC Executive Director Howard Wolfson: “The stakes are high. This election will be a referendum on the future of Social Security.” (Investor’s Business Daily, Oct. 9)

squeaked out only a 53 to 47 percent victory. Coleman fought Mondale to a draw on the left's strongest issue.

In Missouri and Texas, as well, personal account supporters emerged victorious.

All these states were counted on to be competitive, yet in all states the Republican supporter of personal accounts won. In most states, it wasn't even close.

The House was no different. Social Security attacks against incumbent Reps. Shelley Moore Capito (WV-2), Pat Toomey (PA-15), Anne Northrup (KY-3) and challenger Chris Chocola (IN-2) all generated national news coverage. Not one of these targeted bellwether candidates lost in the so-called "Social Security referendum."

The most successful Republicans generated news coverage of their own by going on the offensive. Elizabeth Dole took to waving a blank sheet of paper, representing the non-existent "Bowles plan" to keep Social Security solvent. Likewise, Northrup challenged her opponent Jack Conway on his suggestions to increase the retirement age and reduce benefits.

Overall, despite massive advertising investments geared toward Social Security by opponents of reform, seniors voted for Republicans by 12-to-15-point margin, according to a post-election poll by Public Opinion Strategies.

Personal account opponents, who sunk tens of millions of dollars into advertising designed to frighten and mislead seniors, simply struck out.

Democratic moderates ready for compromise

The Congressional Democratic leadership is likely to move toward the left, effectively leaving moderate Democratic elements out in the cold. So-called "New Democrats" and fiscally conservative "Blue Dogs" will have less say in national Democratic policy and may be inclined to bipartisan cooperation on Social Security. The Bush administration, for its part, is eager to reach out to moderate Democrats.

A [post-election analysis](#) by the New Democrat Democratic Leadership Council concludes that

After four straight election cycles of campaigning on an agenda pretty much limited to ... attacking Republicans on Social Security, it's time for the congressional wing of the party, and the political consultants who have relentlessly promoted this message as an electoral silver bullet, to bury it once and for all ... It has never succeeded in securing a majority.

The DLC also argued that on both prescription drugs and Social Security, Democrats gave an impression of "a willingness to spend unlimited amounts of money, and an attachment to the federal government as a vehicle for addressing the problem." This impression, the DLC says,

was undoubtedly strengthened by the other most common message of Democratic candidates, attacks on any proposal to change Social Security, to the point of demanding "pledges" from candidates that they not even think about reforming the program. Democrats may have actually lost ground by stressing these "can't-miss" issues, even among the voting category that was their primary

target. (According to one Election Day poll, Republicans won senior voters by an astounding 48-36 margin.)

Moderate Democrats have long been at the forefront of Social Security reform incorporating personal accounts, beginning with former Senators Daniel Patrick Moynihan and Bob Kerrey and extending to current reformers like Rep. Charlie Stenholm of Texas and Louisiana Sen. John Breaux, both sponsors of bipartisan reform legislation.

Despite moderate Democrats' new status in the wilderness, Republicans should expect to compromise to meet their demands. This doesn't mean, as in most policy areas, simply spending more money. In fact, on Social Security it could mean the opposite. Republican personal accounts proposals such as those from Rep. Clay Shaw and Reps. Jim DeMint and Dick Armey tend to pay high benefits but are coupled with higher costs. Democrats often favor reform because they fear that rising costs of Social Security will squeeze out other government programs they care for. For that reason, Democratic supporters of personal accounts often favor plans with somewhat lower costs (and somewhat lower benefits) than under GOP proposals. Social Security may be a case where to meet Democratic objections, Republicans will have to spend *less* rather than more.

Republicans [finally] up to speed on the issue

Republicans were initially caught flat-footed by attacks on personal accounts. Following a grueling campaign, however, reformers are now better able to defend against misleading attacks on personal accounts. Like a boxer who loses his skills when out of the ring, delay might erode rather than strengthen reformers' ability to debate.

The final days of the 2002 campaign did not see the reflexive defensiveness on Social Security that characterized the early running. Reform-minded candidates were strong in their positions: protect current retirees, hold the line on taxes, and allow younger workers the option of a personal account. The clarity of this message helped blunt even the most demagogic attacks on reform.

Nevertheless, many Republicans tend to be less than energetic on Social Security reform. When forced by Democratic attacks, Republicans finally clarified their ideas and honed their message. But if the next two years are purely an "education period," many will slip back into their shell. Explicit delay of reform until 2005 means a whole new education process must be undertaken and the entire process must begin fresh in two years.

Conditions in 2005 uncertain

The Republican Party experienced almost unprecedented good fortune in the recent elections, retaking the Senate and expanding their majority in the House. There is no certainty this unified control will continue past the 2004 election: unexpected events arise, House and Senate races can hinge on local issues, and the President himself may not be reelected.

Will the political landscape in 2005 be better than today's? Do we know for sure that Republicans will hold the House and Senate, and that President Bush will be reelected? Do we know that the anti-reform left will be as disorganized as it is today, or moderates as willing to compromise? Delaying reform is a dangerous political gamble.

A political asset and policy accomplishment

In his acceptance speech to the Republican convention in 2000, George W. Bush criticized the Clinton-Gore administration for its inattentiveness to Social Security: "They had their moment. They have not led. We will." President Bush and the Republican Congress now face not just the opportunity to reform Social Security, but the obligation to do so.

If action took place before the 2004 election, younger workers could see their accounts building wealth while seniors would continue to see Social Security checks arriving in their mailboxes, calming the greatest fears of both regarding Social Security reform. And both workers and retirees would finally have confidence that Social Security was sustainable for the long-term.

Moreover, reform can change the traditional political equation in which Social Security is seen as a "Democratic" issue, where Republicans must content themselves with merely limiting their political losses. Reform would mean not just the end of the Social Security attack ads that characterized the 2002 election, but a shifting of the "ownership" of the issue like that with welfare reform in the 1990s.

Reformers could also counter new wasteful spending proposals with plans to devote those resources to personal accounts. This would both strengthen Social Security and build assets for Americans of all incomes.