



Social Security Choice

SOCIAL SECURITY THIS WEEK

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Ferrara Defends Limiting Federal Spending Growth to Finance Reform

In a highly publicized [Progressive Proposal for Social Security Private Accounts](#), author Peter Ferrara proposes to partly finance the system's transition with a reduction in federal spending growth, a provision that has come under fire by opponents of individual accounts. In his article, "[To Get Spending under Control](#)," Ferrara defends his responsible federal growth limitations, pointing to the relative size of the restraints and the enormity of lavish, wasteful spending in the current budget.

"Even liberal newspapers have been reporting the story of runaway federal spending with front-page headlines. During the past couple of years, we have seen the most rapid increase in federal spending since the Great Society. In 2003, total federal spending increased 10 percent; in 2002, it increased 7.9 percent.

"Recently, I proposed a Social Security reform plan that relied on a modest restraint in this wild spending growth to help finance a large personal account option for working people. The option would allow workers to shift on average 6.4 percentage points of the 12.4 percent Social Security payroll tax to their own individual investment accounts. Benefits payable from the accounts would substitute for a portion of the old Social Security benefits based on the degree to which workers exercised the account option over their careers.

"The plan included four transition financing mechanisms to raise money to continue to pay current Social Security benefits in full while workers shifted about half the payroll tax to the accounts. One of these was to restrain the rate of growth of federal spending by 1 percentage point a year for just eight years. So, for example, if federal spending on the current baseline was to grow 7 percent a year for the next eight years, under this proposal it would grow only 6 percent yearly.

"On the modest 1 percent restraint on the growth of federal spending, Robert Greenstein and Richard Kogan [from the Center on Budget and Policy Priorities] report such a limitation would devastate the federal government. It would require elimination of 'close to half of nondefense discretionary spending outside of homeland security.'

"The proposed spending limitation does not require any reductions in federal spending. It just modestly reduces the rapid growth in that spending. If the federal government grows 7 percent a year for the next eight years, at that point it would be 72

percent larger than today. If under the spending growth restraint it grows only 6 percent a year, then after eight years the federal government would still be 59 percent larger, not devastated, nor cut in half.

“In 2003, federal spending grew by \$201 billion. The proposed spending restraint would have limited it to grow by a still way too large \$180 billion. Suppose we set aside from that increase the \$71 billion supplemental for the War on Terrorism. Federal spending would still have increased by 6.4 percent for the year, or \$129 billion. The proposed spending restraint would still have allowed spending to increase by a still too large \$109 billion.

“Moreover, the proposed spending restraint is not limited to ‘nondefense discretionary spending outside of homeland security.’ The proposal excludes Social Security and debt interest from the spending restraint. Assume no spending changes in Medicare as well since Congress just reformed that.

“To meet the targeted spending restraint with those exclusions, the growth of the rest of the federal government would have to be reduced by 1.7 percentage points, a still quite modest restraint. According to the Heritage Foundation, discretionary spending increased by 12 percent in 2003 and 13 percent in 2002.

“Moreover, if the spending restraint is targeted on the most wasteful spending, the growth in the rest of the budget would not have to be limited by even this much. Corporate welfare is estimated to cost at least \$50 billion per year. Eliminating that alone would provide the necessary spending restraint for more than two years.

“The Feds also provide lavish farm subsidies that will probably have to be eliminated under international trade obligations anyway. Entitlement reform is still much needed even outside of Social Security and Medicare. Some additional low priority items could easily be delayed as well. All this adds up to much more than would be needed under the proposed spending restraint.

“By relying on a modest spending restraint to help finance the transition, the proposed Social Security reform plan is a valuable vehicle for starting to get wild federal spending growth under control. Over the long run, a much stricter, permanent restraint on federal spending growth should be adopted.”

IMF Warns about Unsustainable Entitlement Spending

In a new report released by the International Monetary Fund, editors Martin Mühleisen and Christopher Towe warn of an international economic meltdown if U.S. budget deficits, which are only predicted to worsen with the onslaught of baby boomer retirements, are not constrained. Jay Ambrose comments on the significance of the report, “[U.S. Fiscal Policies and Priorities for Long-Run Sustainability](#),” in the *New York Post*:

“The International Monetary Fund is scarcely the first to say so, but Americans still ought to applaud that portion of a report that warns of economic chaos in the United States if nothing is done to restructure Social Security and other entitlement programs for the elderly.

“Whatever one thinks about the short-term issue, however, the IMF is correct in its concerns about the consequences when 77 million baby boomers start retiring, increasing the number of retirees to 40 percent of the population over the next half century.

“There will be a genuine crisis unless other spending has been vastly reduced and Social Security, Medicare and Medicaid are significantly changed. The taxes to pay for the boomers’ benefits will otherwise be draconian. Interest rates would skyrocket if the programs were mainly financed through borrowing.

“Some may figure the IMF, an international agency, should butt out of such issues of internal concern, but they are not just of internal concern. The global economy will suffer along with the United States if deficit spending grows too large. And it is good to have other economists remind the public that our lackadaisical politicians must get serious about the entitlement programs for the elderly.

“Remember this number from the report and ask your representatives in Congress about it: \$47 trillion. Unless there is reform, that’s the difference between the cost of Social Security and Medicare over the next 70 years and the revenue that will be generated by the payroll tax. And what that number means is very serious trouble.”

Personal Retirement Accounts Give GOP Election Strength

With the 2004 elections 11 months away, politicians may be able to give their campaigns a boost by supporting personal retirement accounts, according to *Human Events Online* editor David Freddoso’s article, [“Personal Retirement Accounts Could Boost GOP.”](#) Freddoso notes that personal accounts have continued to attract steady support from the public—as they are the only proposed reform option capable of addressing both the solvency and rate-of-return issues of Social Security. Excerpts from Freddoso’s article follow:

“[A Social Security Administration \(SSA\) memo](#) states that a conversion of the Social Security program to a new, voluntary system of personal retirement accounts would allow Social Security ‘to be solvent and to meet its benefit obligations throughout the long-range period 2003 through 2077 and beyond.’

“The December 1 memo, addressed to Peter Ferrara, senior policy adviser on Social Security to the Club for Growth, asserts the feasibility of a plan similar to, but far more ambitious than, that proposed by President Bush during the 2000 election.

“While running for President, Bush advocated a plan to allow workers to divert up to two percentage points from their 12.4 percent Social Security tax into private investment accounts. Such accounts’ funds, unlike Social Security contributions, would be like 401(k) accounts in that they would be invested in the private sector and would actually belong to the workers—transferable to their heirs upon death.

“This memo extols a plan to divert, on average, a full 6.4 percent of payroll to such accounts. Although workers could choose to remain in the old Social Security system, the memo notes that ‘the nature of the plan would provide a high likelihood that available retirement benefits will be more’ than Social Security currently pays beneficiaries.

“Social Security ... is headed for a fiscal crisis as the U.S. population ages. Because there are more retirees and proportionally fewer workers than in the past, the payments into the system will fall below disbursements for the first time around 2018, according to the SSA. As the imbalance heightens, Social Security will be bankrupt by 2042, and face an enormous unfunded liability for the future.

“Solutions to the problem include cuts in benefit payments, a hike in the retirement age at which payments begin, or a hike in Social Security taxes. Conservatives point to private retirement accounts as a politically feasible fourth option that would increase private investment and savings while allowing Americans to keep more of their own money.

“Rep. Pat Toomey (R–Pa.), a leader on the issue of Social Security reform, told *Human Events* that he plans to use the issue in his high-profile Republican primary campaign against liberal Sen. Arlen Specter (R–Pa.), who he said is vulnerable on the issue.

“Noting that President Bush's campaign advisors have recently signaled a willingness to campaign on the issue in this year's general election, Toomey welcomed the opportunity to campaign in harmony with Bush's reform message.

“The study done by the Social Security Administration confirmed what we all knew—that this is a very doable project and it has tremendous financial benefits for the long-term solvency of Social Security,’ he said.

“Although it was once referred to as the ‘third rail’ of politics, the issue of converting Social Security to private accounts took on new life in 2000 when Bush dared to address it extensively, pointing out Social Security’s impending fiscal crisis. After this widespread dissemination of the idea, public opinion polls began to show that most segments of the population—especially younger voters—favor private accounts. A late October Gallup poll showed that 62 percent of Americans support the conversion to personal retirement accounts.

“In 2002, Republican candidates across the country reaped the benefits of Bush's bold stroke. Social Security reform became an issue in seven different Senate races won by Republicans—including tight contests in Minnesota, New Hampshire, and Colorado—as well as a handful of close House races (see [“Election Gives Bush Mandate for Growth”](#)).

“The best use of the issue may have been that of now-Sen. Elizabeth Dole (R–N.C.). Derided by her opponent in a debate for supporting private accounts, Dole held up a blank piece of paper and told the televised audience that it represented her opponent’s plan to save the ailing Social Security system.

“Democrats have delayed needed reforms to Social Security for years by stirring fears among senior citizens about changes to the current system. In many past campaigns, they have even accused Republican opponents or Republicans in general of trying to take away senior citizens’ retirement checks.

“But 2004 may be an even better year to address the issue head-on in election campaigns. The Democrat presidential nominee-apparent, former Vermont Gov.

Howard Dean, famously said in 1995 that he favored cutting Social Security benefits and raising the age at which payments begin.

“The way to balance the budget is for Congress to cut Social Security, move the retirement age to [from 68] to 70, cut defense, Medicare and veterans pensions, while the states cut almost everything else,’ Dean said at the time. ‘It would be tough but we could do it.’

“Although he has been careful to back away when confronted by this statement, Dean’s words may make him the Democrat least able to exploit the issue in a general election against President Bush.”

Bush Advantages from Social Security Platform

For President Bush to shy away from promoting individual accounts as a cornerstone of Social Security reform in his re-election campaign would be a huge mistake, according to an editorial in the *Las Vegas Review-Journal*. The author implies that the feasibility and attractiveness of Bush’s plan comes at the expense of Democratic candidates who have taken opposing stances on how to manage the system’s future.

“Conservative activists are pushing the Bush administration to follow up the tax cuts and Medicare reforms enacted during the president’s first four years with what should be an even more daunting challenge for his possible second term: The first steps toward allowing individuals to invest a portion of their Social Security taxes. Such a proposal is a fiscal necessity to prevent the program from bankrupting the Baby Boomers’ kids.

“Even though George W. Bush didn’t shy away from discussing private Social Security reforms during the 2000 campaign and establishing a commission that in 2001 recommended three blueprints for change, his political advisers have gotten risk-averse, encouraging the president to ignore the issue in a second term.

“This would be a huge mistake. Even the most ardent defenders of Social Security concede, in moments of candor, that taxes will have to be increased and benefits cut if the program is to remain a universal entitlement. The *Washington Post* reports that a plan to ‘shore up’ Social Security drafted by Democratic economists would over time increase payroll taxes by 3 percentage points—roughly 25 percent—reduce benefits to those now younger than 55, and impose an additional tax on people who earn incomes higher than the \$87,000 annual Social Security cutoff.

“And under this proposal, all the money would remain in the hands of the government, rather than allowing individuals to use a portion of their Social Security taxes to build private nest-eggs they could pass on to their heirs.

“The 2004 campaign will provide an opportunity to engage in a genuine debate over the future of this program—and the nation, as well. Squandering that chance would be unconscionable.”

Publications

In “[Keeping the Promise of Old Age Income Security in Latin America](#),” Indermit S. Gill, Truman G. Packard, and Juan Yermo of the World Bank comment on the progress of recent pension reforms in Latin America, many of which included a degree of private investment. The authors consider the fiscal sustainability, labor market efficiency, capital market development, and reduction in poverty and inequality in discussing the economic and institutional impacts of those reforms.

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