



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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White House: Social Security Reform to be Highlighted in State of the Union

White House Press Secretary Scott McClellan told reporters at Friday's daily press briefing that President Bush will use next week's State of the Union address to push for a proposal that would allow younger workers to invest a portion of their Social Security taxes in the stock market.

Presidential aides have been hinting for weeks that Social Security reform would be a theme both of the State of the Union speech and of the president's reelection bid, but McClellan's statement represents the first official confirmation that the president plans to return the issue to the political and policy battlefield.

The President is not expected to endorse a specific reform proposal, but will set broad principles and themes. According to the Associated Press, the administration hopes that last year's approval of sweeping changes in Medicare and the addition of a prescription drug benefit will clear the way for action on Bush's proposal to reform Social Security.

New Ad Challenges Candidates on Social Security

As the Iowa Caucuses draw near, a new advertisement released by the [National Center for Policy Analysis](#) to run on Iowa television calls for presidential candidates to end their silence on Social Security's projected deficit and benefit shortfalls.

According to the [news release](#), "The ad, which features NCPA board member and Iowa resident Michael Whalen, argues that the \$25 trillion deficit Social Security faces is being ignored by current and potential policymakers.

"We Iowans have a unique and important opportunity to personally interact with our nation's leaders and thus help shape the debate,' said Whalen. 'If we fail to raise this critical issue, politicians will continue to run and hide from it.'

The ad notes that the problems are evident and unavoidable while the solutions, outside of real reform, are limited. The script of the ad follows:

"Taking care of our children is important—even in government. Social Security will be broke well before they retire, unless we act now. Candidates are roaming Iowa

refusing to address Social Security's dismal future. They run and hide when voters ask about it. The question is: Do they want to dramatically raise taxes, slash benefits or pursue real reform. Make sure you ask the candidates."

Click [here](#) to view the NCPA ad online.

Democratic Candidates Must Address Social Security

In an op-ed entitled "[Where's the Policy?](#)" Michael Tanner, director of the Cato Institute Project on Social Security, shines the spotlight on the presidential contenders' current failure to articulate their stance on how to address Social Security's financial problems. The candidates' lack of specificity in their answers when asked about Social Security is simply their way of ducking the issue, according to Tanner's article from *National Review Online*, which follows:

"The nine Democratic presidential contenders have been swarming all over Iowa for the past several weeks, and we can expect to see even more of them between now and the caucuses on January 19. At diners and county fairs and union halls they will be talking about their views on Iraq, jobs, tax cuts, and terrorism. But on one issue of great importance to the people of Iowa—Social Security—they are likely to remain curiously quiet.

"Social Security is not only the largest U.S. government program, accounting for 23 percent of federal spending, it is the largest government program in the world. The Social Security payroll tax is the largest tax paid by the average American working family. In fact, nearly 80 percent of us pay more in Social Security taxes than we do in federal income taxes. At the same time, millions of the elderly rely on Social Security for much, if not most, of their retirement income.

"The 68-year-old program is also in crisis. In just 15 years, Social Security will begin to run a deficit, spending more on benefits than it takes in through taxes. The federal IOUs in the Social Security Trust Fund are an accounting measure, not real assets that can be used to fund the program. Unless the program is drastically changed, taxes will have to be raised or benefits cut. But taxes are already so high that younger workers are receiving low, below-market returns from Social Security. Cutting benefits would be a severe burden to millions of low- and middle-income elderly.

"And what do the presidential candidates think should be done to fix this problem? George Bush has made his position clear: He would allow younger workers to invest a portion of their payroll taxes privately through individual accounts. White House sources have spent the last several weeks telling reporters that support for Social Security changes will be a central domestic plank in Bush's reelection bid. Whether you support his proposal or not, at least you know where he stands.

"But, so far, whenever the Democrats are asked about their views, their responses have been equal parts pandering and evasion. All of them favor 'saving' Social Security. Sometimes they are for 'protecting' the program, and occasionally for 'preserving' it. And all of them oppose 'privatizing' the program—even Joe Lieberman who dropped his support for individual accounts when he became Al Gore's running mate. With little effort, they can all work themselves into a fury of righteous indignation over the

president's 'secret plan' that would leave elderly Americans eating dog food. But what do they actually favor?

"Wesley Clark is 'still working on' a proposal, along with the rest of his domestic agenda. In a recent debate, his comments on the issue were so vague that even the reporter asking the question pronounced himself 'not satisfied' with the answer. Howard Dean used to favor raising the retirement age. Now he doesn't. John Kerry backs means-testing benefits, except that maybe he doesn't. Richard Gephardt wants to 'get back to an economy where we have a surplus so we can fix the Social Security problem.' Exactly how he would fix it remains unclear. And poor Joe Lieberman, having abandoned individual accounts, has been reduced to clichés. 'The first thing to say about Social Security is we've got to keep it strong and not mess around with it,' he said, not very helpfully, a short while ago.

"Frankly, that isn't good enough. No one should be running for president if he can't stand up and tell the American people what he would honestly try to do about Social Security. This is not a complicated matter. In fact, the Democratic contenders can take a lesson from a party stalwart, former President Bill Clinton. It was Clinton who clicked off the three options for reform: raising taxes, cutting benefits, or getting a higher rate of return within the system through private investment. Since the current crop of Democrats all oppose private investment, they should tell us which taxes they will raise and which benefits they will cut. It's a fair and simple question."

Bush Needs to Deal with Social Security First

Until Social Security's financial problems are solved, the general public will not be able to afford current proposals for ambitious scientific projects according to Holman Jenkins in the *Wall Street Journal*. In his article, "Mars: Longevity Insurance for Humankind," Jenkins notes that the government's ballooning entitlement expenditures leave little room in the budget for other appropriations. He concludes that the only way the country will be able to afford to land a man on Mars will be to reform the main entitlement programs—the largest of which is Social Security.

"Mr. Bush seems to prefer the approach that brought us the Manhattan Project and Apollo, successful if costly endeavors in government-sponsored ambition. That's all the more reason to suspect that getting to Mars will require a second monumental effort on Mr. Bush's part: reforming Social Security and Medicare. Nobody is going anywhere until these wealth-sapping obligations of the federal government are converted into true insurance programs—that is, into true wealth holdings for individuals.

"Mr. Bush's sherpas are already plotting private accounts as a way to transform Social Security from a burden on labor productivity into a property right for individuals...

"Those who confidently insist Mars is 'unaffordable' under current budget conditions (with 77 million baby boomers beginning their retirement four years from now) should wake up and take some perspective-correcting medication. Nothing is affordable under current budget conditions. That's an argument for fixing entitlements rather than for giving up on the progress of humanity."

Government Liabilities Reveal Unsustainable Fiscal Trend

Nathan Littlefield details the coming fiscal crisis of entitlements and possible solutions with the help of a publication coauthored by [Jagadeesh Gokhale](#), who recently joined the Cato Institute. His article "[The \\$45 Trillion Problem](#)," printed in *the Atlantic Monthly*, explains the astronomical gap between projected federal outlays and revenues—most of which can be attributed to liabilities from entitlement programs such as Social Security. The infeasibility of solutions that do not incorporate private accounts is exposed in the excerpts, which follow:

“Even if you think government budget numbers are generally not very interesting ... here’s a number to quicken the pulse: \$45.5 trillion. That’s the size of the long-term gap between the federal government’s projected outlays (future spending plus current debt) and its projected revenues. Most government budget projections look only a brief distance into the future—a year, perhaps, or ten at the most.

“But Jagadeesh Gokhale and Kent Smetters, economists working at the Federal Reserve Bank of Cleveland and the University of Pennsylvania, respectively, have looked further into the future (in their publication, [Fiscal and Generational Imbalances](#)) and determined that, in effect, if the U.S. government were a company its owner would have to *pay* a rational investor \$45.5 trillion to take it off his hands. To put this figure in perspective: the entire U.S. economy generated only about \$10.4 trillion last year, and total household wealth is currently only about \$39 trillion.

“Though no single generation will have to cover the whole \$45.5 trillion (and the generations that are already in or very near retirement may not need to cover any of it), ultimately some Americans will have to pay, through dramatically higher taxes or dramatically reduced government services or both.

“The magnitude of this looming gap has been masked for the past several decades by a demographic blip—the Baby Boom, which for nearly forty years has provided a large base of workers who contribute payroll and income taxes while consuming relatively few government services.

“In 2012, however, when the first Boomers hit retirement age, the situation will begin to reverse: a large proportion of the population will begin drawing more heavily on government services, while the relative number of taxpaying workers will start to shrink. Today there are nineteen elderly for every 100 working-age Americans; by 2050 there will be thirty-five for every 100. This means trouble: ... in 2018 Social Security payments will outstrip payroll-tax revenues. In short, if we don’t make policy changes soon, the government’s financial situation will begin imploding within the next ten years.

“The implications are profound ... At the extremes the country has two basic options. One is to retain Social Security and Medicare as broad middle-class entitlements, maintain Medicaid, hold defense spending near present levels (about 3.5 percent of GDP), and keep the rest of the government at its current size. In this scenario federal spending would grow from 19.5 percent of GDP today to 39.7 percent in 2075, resulting in a government proportionally larger than Germany’s or France’s. To fully cover a U.S. government of this size, lawmakers would need some way to permanently increase tax revenue by 70 percent a year—beginning today.

“The second option is to hold taxes near current levels—they have ranged from 17 to 20 percent of GDP every year since 1960—while ending entitlements as we know them. If we decided that we wanted to keep taxes relatively constant, we would need to cut Medicare, Medicaid, and Social Security benefits in half *immediately*; if we waited longer to act, the cuts in those programs would have to be even deeper.

“Getting out of the fiscal box we are now in will be painful; as a society we will have to make hard choices. But prompt action and intelligent policy changes can minimize the pain.”

Personal Accounts would Decrease Tax Burden and Increase Benefits

[Personal Retirement Alliance](#) President Edwin R. Thompson cites Social Security’s looming crisis and offers personal accounts as a solution in his article “Saving for a Lifetime” written for the *New York Sun*. Thompson asserts that personal accounts will significantly decrease the overall tax burden while benefiting all Americans by increasing both investment in the economy and the rate of return on Social Security. The text of Thompson’s article follows:

“Social Security cannot be sustained as presently structured. It is an unfunded pay-as-you-go wealth-transfer system, not a retirement savings plan like a 401(k) or a pension plan. When its cash flow goes negative in about 15 years, general revenue must be used to make up the difference in order to pay promised benefits. At some point, payroll taxes—which currently constitute the largest tax for 75 percent of American families—must be raised by half or benefits cut by one-third, making a lousy deal worse yet. We are past the point where reality can continue to be faked.

“There is an elegant solution to the problem—a system of PRAs (Personal Retirement Accounts), where every worker is a saver and shareholder in America’s economy. Young workers, and all to come, will participate in a fully funded system that yields higher retirement benefits at significantly lower cost. PRAs will eliminate Social Security’s chronic financial problems by being self-sustaining in perpetuity.

“The switch to a fully funded system is of gargantuan significance. While New York financial institutions will surely benefit collaterally from an influx of investment activity, the entire nation stands to reap a windfall. The implementation of PRAs will generate the largest tax reduction in history—even more so after several decades of transition as FICA is eliminated. This will give every working American a substantial raise, thereby increasing the standard of living across the board, especially at the bottom of the economic ladder where it is most needed. Increased savings and investment on such a grand scale will add a permanent increment to GDP.”

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