



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Cato Unveils Revamped Social Security Website

The Cato Institute's Project on Social Security Choice launches its revamped website SocialSecurity.org today. The site features one of the most comprehensive collections of information on Social Security reform to be found anywhere. And it's free of jargon and buzzwords.

The information on the new site should be extremely useful for members of Congress, researchers, journalists, community leaders, and individuals curious about the benefits of individual accounts—the central feature of Cato's prescription for change.

"The revised and updated Social Security website will make it possible for everyone from the casual browser to the most in-depth researcher to quickly and easily get the facts about Social Security and the need for reform," says Michael Tanner, director of the Project on Social Security Choice. "This is not only one-stop shopping for information on Social Security reform, it is designed to be user-friendly and accessible for the nonexpert."

The Congressional Corner portion of the site, designed for members of Congress and their staffs, provides information on press briefings and the results of the latest polling surveys, as well as alerts for upcoming Social Security legislation. Several proposals for overhauling Social Security are on the table, and the Corner allows readers to easily compare the provisions of each proposal and access commentary by sponsors, media analysts, and Cato experts.

The Press Room lets members of the media search press releases and commentary by Cato scholars. It's also a source of current quotes by candidates, economists, media, and advocates and opponents of reform.

New Cato Study Warns that Social Security is a Bad Deal for Workingwomen

Despite changes in the American family during the past 70 years—most dramatically, the sharp increase in the number of workingwomen—Social Security's benefit structure remains designed for the single-earner, 1930s family. According to a new Cato Institute study, under the current system millions of workingwomen who pay

Social Security taxes are subsidizing the benefits of married women who never pay Social Security taxes.

In “Social Security Choices for the 21st-Century Woman,” Leanne Abdnor, former member of the President’s Commission to Strengthen Social Security, argues that giving women more control over their Social Security savings through personal retirement accounts would help correct some of the benefit inequities now facing workingwomen and dual-earning spouses.

Social Security’s inability to keep up with the changing role of women in society has resulted in millions of workingwomen who pay Social Security taxes, receiving the same benefit as married women who don’t pay Social Security taxes. The generous fifty percent “spousal benefit” once applied to the majority of married women in this country, but no more, according to Abdnor. Now, a majority of the women work outside the home and pay Social Security taxes. Further, rising divorce rates leave millions of women without any legal right to the spousal benefit that is granted to women whose marriages are maintained ten years or more.

In light of these well-accounted shortcomings, Abdnor argues that allowing individuals the choice to keep a portion of their Social Security contributions in a personal retirement account will provide greater social and economic freedom for workingwomen. Oddly, many women’s groups, despite a long history of advancing women’s choices and opportunities, have denounced personal retirement accounts.

In Abdnor’s opinion, the advocacy groups’ opposition to a voluntary Social Security personal retirement account is inconsistent with their agenda. She writes, “Organizations and individuals who have identified themselves as advocates of women’s rights should be questioned about their opposition to allowing women choices under Social Security.” She finds it ironic “that the largest women’s advocacy groups in the United States are flatly opposed to giving women the right to have a choice between staying in the existing insolvent system that can’t pay promised benefits in the future, or one that gives them more control and ownership of their retirement funds.”

“After all,” she adds, “this is ultimately a question of choice.”

Abdnor’s Social Security Paper no. 33, “Social Security Choices for the 21st-Century Woman,” will be available Tuesday, February 24.

Tanner: Totalization Agreements Not a Treat

Social Security’s financial crisis has nothing to do with Mexican immigrants, claims Michael Tanner, director of Cato’s Project on Social Security Choice, in his latest op-ed. In fact, the new “totalization” agreement under negotiation, which allows citizens of both the United States and Mexico to qualify for benefits in either country, strengthens the argument for individual accounts. Tanner’s nationally distributed “Totalization’ No Threat to Social Security” follows:

“The Mexicans are coming, and they are going to take away our Social Security. So say the latest warnings from anti-immigration alarmists. But, as were previous claims that immigrants were going to take our jobs or live on welfare (I always wondered how they were supposed to do both), this latest brouhaha is much ado about nothing.

“The source of alarm is a new agreement, known as “totalization,” which the Bush administration is negotiating with Mexico. Totalization would allow the citizens of either country who live and work in the other country to qualify for Social Security benefits that they earn while working there. They could receive those benefits even after they return to their home country, and in some cases could combine credits earned in both countries to qualify for benefits.

“There is nothing particularly unusual about this agreement. The United States has been negotiating totalization agreements since 1978 and currently has such arrangements with some 20 countries. There were few cries of alarm when the United States signed such an agreement with Australia in 2002. In fact, Americans have generally been the biggest beneficiaries of totalization because they are more likely to work for multinational corporations and split their working careers between the United States and foreign countries.

“Of course, Mexico is a bit different because there are more Mexican citizens working in the United States than the other way around. Even so, it is difficult to understand the hysteria.

“Most immigrants from Mexico do not stay in the United States for the 10 years needed to qualify for Social Security retirement benefits. But the new rules will likely lead to some increase in the number of recipients. Moreover, because the time needed to qualify for survivor’s and disability benefits is shorter, those benefit payments can be expected to rise significantly. Still, the overall cost of benefits to Mexican citizens under totalization is estimated to be about \$78 million in the agreement’s first year.

“By way of comparison, we currently pay \$173 million a year to citizens of countries with which we already have agreements. By 2050, the annual payments to Mexican citizens would rise to about \$650 million. That is real money, of course, even by Washington standards. But, let’s keep it in context. Given that Social Security currently faces unfunded liabilities of more than \$26 trillion, the additional cost of totalization is hardly staggering.

“Social Security is facing a financial crisis, but it has nothing to do with Mexican immigrants, legal or illegal. Indeed, at least in the short term, immigration benefits Social Security, increasing the size of the labor force and increasing the amount of payroll taxes collected. In fact, without immigrants Social Security might already be running a deficit. In the long run, of course, the pyramid will come crashing down. But that is because of Social Security’s flawed financing structure.

“Clearly, Social Security needs to be reformed. President Bush has, in fact, proposed allowing younger workers to privately invest a portion of their Social Security taxes through individual accounts. That would go a long way towards solving Social Security’s financial problems—and creating a better, more secure retirement system for today’s workers.

“Scapegoating immigrants will do nothing to solve the problem.”

Politicians Ponder the Politics of Social Security Reform

Jonathan Darman of *Newsweek* delves into the political aspects of the Social Security debate in his article, "[No Time for a Great Debate.](#)" Social Security's financial crisis has changed the rules of political discussions about the program, making personal retirement accounts a politically feasible option. Insight on the political implications of personal accounts and comments from Cato's Social Security Project director, [Michael Tanner](#), are included in Darman's article, which follows:

"The words 'Social Security' showed up once in President Bush's January State of the Union address. In two clipped sentences towards the end of his speech, Bush expressed his hope that younger workers would 'have the opportunity to build a nest egg by saving part of their Social Security taxes in a personal retirement account' and that the Social Security system would transform into a 'source of ownership for the American people.' Republicans in the House chamber applauded. Some Democrats sat on their hands. And then the president moved on to paragraph length proposals on immigration and prescription drugs.

"Across the aisle, Social Security has kept a similarly low profile ... This is surprising since experts in both parties are convinced that Social Security needs a dramatic overhaul, soon. Current estimates have taxpayers paying more into the system than they will receive in retirement pay by the year 2018 and the entire system rendered insolvent in the next thirty years. Even the most optimistic of politicians will admit under pressure that the large number of retiring baby boomers expecting a return on their payroll taxes could very well wreak fiscal havoc on the land. The days are dwindling before the Social Security crunch becomes a crisis but in this election year, the presidential candidates of both major parties seem reluctant to mention the problem at all.

"While the candidates' reticence may not seem prudent considering the gravity of the issue, it could make a good deal of political sense. In the past decade, the politics of Social Security have undergone a tremendous transformation, leaving both parties uncertain exactly how to make it a winning issue at the polls. Republicans, who generally favor at least partial privatization of the system, are uneasy about pushing any program that seems to dramatically alter the 20th century's most popular government program. Democrats, riddled with internal dissent on the proper course for fixing the system, have trouble distinguishing themselves as anything but defenders of the status quo. So while the Republicans and Democrats will no doubt get more specific on the entitlement program before 2004 is through, leaders in both parties are thinking very carefully about how much they say, when.

"Once upon a time, the campaign rules on Social Security were much simpler: Democrats talked about it, Republicans did not. More specifically, FDR's party took credit for the prizes of the New Deal program while big government-bashing Republicans tried to stay clear of American politics' third rail. 'For years the Republican response on Social Security was that they hoped the Democrats wouldn't bring it up,' Michael Tanner, a scholar at the conservative Cato Institute, told NEWSWEEK. 'The Democrats always brought it up and then the Republican would curl up in a fetal position and talk about how much he loved his grandmother. And then they'd lose ten points in the polls and say, 'See? Social Security's a bad issue for us.'"

“But by the late 1990s, as voters became more aware of the rough fiscal seas ahead, the consensus that Social Security was a ‘Democratic issue’ had begun to crack. Calling himself ‘a reformer with results,’ George W. Bush aggressively highlighted his plan to create personal investment accounts for Social Security savings that, he said, would promote individual responsibility and prevent the system’s financial ruin. Al Gore and the Democrats thought that they could turn Bush’s alacrity for drastic change into their own political gain. ‘There was some confidence that they could scare the Republicans off with the privatization charge,’ said Will Marshall, a Clinton administration official who heads the Progressive Policy Institute, a think tank for centrist Democrats. ‘But it didn’t really work against George W. Bush.’

“As Bush took office, many Republicans thought they had a mandate for privatization from the public ... Republicans warned candidates running in the 2002 midterm elections to distance themselves from privatization plans. Democrats were convinced they could again sweep to victory as defenders of the status quo.

“Once again, however, things didn’t turn out as planned. Analysts in both parties said that in several highly watched races around the country, Democrats lost control of the debate on Social Security when their opponents pressed them to present a coherent plan. ‘The emblematic moment came in the 2002 election in North Carolina,’ Marshall said. ‘Erskine Bowles was assailing Liddy Dole for being for privatization and she held up a blank piece of paper and said, ‘This is my opponent’s plan for Social Security.’”

“Dole went on to soundly defeat Bowles. Her campaign approach to Social Security could be a preview of Republican tactics to come. With a ballooning budget deficit and gripes from the right about his administration’s penchant for high discretionary spending, President Bush needs to prove his bona fides with his party’s fiscal conservative base. Some say a hard fight on privatization would do the trick.

“It’s unclear, though, when exactly the fight will begin. In the weeks leading up to the State of the Union, conservative activists say they got strong signals from the White House that the president was going to use the speech for a major privatization push. That didn’t turn out to be the case. Now the president’s political advisers have promised a big policy plan in time for the fall campaign. Fiscal conservatives say they won’t wait forever. ‘We’re not going to get excited about gay marriage and steroids,’ Tanner said. ‘There’s got to be something there for the economic conservative side of the base.’

“In the meantime, Democrats may be gearing up for an old school Social Security strategy, attacking any Republican plan as bad for seniors in swing states. Politically wise or not, such tactics would effectively postpone a great debate on Social Security for other candidates in others year. Marshall has concluded that such a postponement is inevitable. ‘I’ve been saying for years that the Democrats need to get out in front on this issue,’ he said. ‘But when I look over my shoulder there’s nobody there.’”

BBC Looks at Social Security Debate

In a BBC News article titled “[Bush Pushes Social Security Reform](#),” Steve Schifferes maps out the current debate on Social Security reform. Ignited by President Bush’s State of the Union speech, discussions have touched on the various critical issues surrounding the costs of reform. Schifferes points out that the transition costs, which

are the main financial barrier to reform, can be managed, according to the President's [Council of Economic Advisers](#). The debates on this issue and other relevant topics are described in Schifferes' article, which follows:

“President Bush has signaled that if he is re-elected he will aim for radical reform of the Social Security system which provides pensions for elderly Americans.

“The Social Security system has been the talisman of the American welfare state. Established by President Franklin Roosevelt in the depth of the depression in the 1930s, it established a generous system of state pensions for old age based on income and contributions. It is now the largest single spending program of the Federal government, costing nearly \$500bn each year.

“With the growing budget deficit, attention has been increasingly focusing on controlling the cost of such ‘entitlement’ programs where payments increase automatically as more people retire—something likely to happen as the ‘baby boomer’ generation begins retiring after 2015.

“Now President Bush’s council of economic advisors have revived a radical plan to partly privatize Social Security. Under one version of the President’s plans, younger workers (under 40) would be allowed to opt-out of most of their Social Security payroll taxes.

“Instead they would put aside 4 percent of their income in a personal retirement account which they could invest in the stock market. The idea is that the returns might be higher if workers put their money in stocks and bonds, and by building up a substantial pre-funded retirement savings pot, the problem that there will be fewer workers in the future to fund retirement will be avoided. The difficulty is paying for the transition to such a system.

“Since the current Social Security system is a pay-as-you-go system, making up the shortfall could cost between \$1-2 trillion. The money would have to be borrowed by issuing special government bonds, increasing the government’s overall indebtedness by 50 percent, and adding 23.6 percent to the debt-to-GDP ratio (which is currently 38.5 percent) by 2036. But the annual report from the Council of Economic Advisors argues that ‘this temporary increase in government borrowing’ is not a problem ‘from an economic perspective. The deficit initially rises, but then falls as the reform is phased in,’ they say.

“Originally, President Bush planned to use the huge projected budget surpluses to fund his Social Security reform. But the advisors argue that the growing budget deficit is not a reason for refraining from radical reform.

“‘Since the budget surpluses forecast a few years ago have not materialised, critics argue that adding personal retirement accounts to Social Security is impossible or impractical. In reality, the need to add resources to the Social Security system is no less pressing now that the surpluses have disappeared; indeed, they may be more so,’ the report says.

“The authors warn that without reform, the total unfunded Social Security deficit could reach \$10 trillion. According to the report, if no action is taken then Federal

spending will rise from 20 percent of GDP now to 30 percent of GDP by 2080, excluding debt interest payments.

“Attempts to reform Social Security have caused a political firestorm in the past, and several blue-ribbon commissions in the last decade have made recommendations, which have led to reductions in benefits, a delay in retirement age, and increases in payroll taxes.

“Democrats argue that Mr Bush’s plans would add to the deficit, take resources away from the private sector, and lead to interest rate rises. And some independent experts argue that the costs and fees involved in setting up private retirement accounts would outweigh the benefits for people on moderate or low incomes.

“Congress may be reluctant to consider these proposals during an election year, and last year’s bitter battle over the reform of the other major entitlement programme, Medicare, shows how difficult change can be. But if Mr Bush manages to win re-election with an increased majority in Congress, radical reform of Social Security could be back on the agenda.”

Publications

The Social Security Administration has released its latest publication of the newsletter “[International Update](#).” The publication for the month of January discusses the most recent international developments concerning pension reform. In this month’s issue, movements toward reform in Czech Republic, France, Italy, United Kingdom, Abu Dhabi, Israel, Brazil, and Columbia are all discussed in detail.

The [Center for Retirement Research at Boston College](#) has released a new publication, which projects and compares the well-being of the soon-to-be retiring baby boomers with that of past generations of retirees. According to the summary, the working paper titled “[It’s All Relative: Understanding the Retirement Prospects of Baby-Boomers](#)” seeks to compare the baby boomers “with previous generations on their overall level, distribution, and composition of family income and on the adequacy of this income in maintaining their economic well-being in retirement.” Authors Barbara A. Butrica, Karen E. Smith, and Howard M. Iams conclude from their analysis that although baby boomers will be better off than current retirees in absolute measures, replacement rates among baby boomers are expected to be lower, causing certain baby-boomer subgroups to “remain economically vulnerable.”

The [National Center for Policy Analysis](#) has released a new brief analysis titled “[Social Security, Women, and Working Families](#).” The analysis, authored by Matt Moore, Anna Frederick, and Adrienne Aldredge, focuses on the inequities faced by different groups because of the nature of the current Social Security system. The brief states that Social Security has not adjusted to today’s reality of the two-earner household and that this fact “often works to the disadvantage of women.” The brief goes on to mention the system’s negative effects on divorcees and survivors, supporting assertions that the program is in dire need of reform. Lack of ownership of the actual benefits of in the current program often causes net losses to families in the event of a divorce or the death of the head income earner. Thus, the brief concludes that these inequities “should be addressed during the process of reforming Social Security in a way

that allows couples to invest some of their payroll taxes in personal retirement accounts.”

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