



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF MARCH 24, 2003

Social Security Movement Loses Champion Patrick Moynihan

All those who followed the late Senator Patrick Moynihan's (D-NY) career as a public servant will commend him for pursuing good policy rather than following party lines. As his last role in public life as Co-Chairman of President Bush's 2001 [Commission to Strengthen Social Security](#), Moynihan proposed adding voluntary personal accounts to the program. Several of Moynihan's colleagues released statements following his death.

President Bush said, "I appreciated his service to my Administration as Co-Chairman of my Commission to Strengthen Social Security. Representing the people of New York for 24 years, Senator Moynihan was a leader in the Senate and was recognized for his commitment to free trade, Social Security, freedom for people around the world, and equal opportunity for all Americans. He committed his life to service and will be sorely missed."

The *Washington Post* [reports](#) that "Moynihan's successor in the Senate, Hillary Rodham Clinton (D-NY), said his special gift was the way 'he used the power of an idea as the engine for change.... Time after time, he could see our nation's next pressing challenge – and its solution – even when it was decades away from our own national conscience.'"

Sen. Joseph Lieberman (D-CT) said, "He was a true renaissance man who put action behind his diverse interests: from protecting the sanctity of the American family, to preserving historic art and architecture, to restoring Pennsylvania Avenue as America's 'main street,' to saving Social Security for future generations."

Cato Social Security analyst Andrew Biggs, a staffer to the President's Commission said, "Sen. Moynihan led President Bush's Social Security Commission with independence and integrity, and with a view to give all workers the opportunity to build a measure of wealth over their lifetimes – from the doormen to the high rise dwellers, as he often said. Sen. Moynihan called personal accounts 'the logical completion of the Social Security system' and when this reform comes about much of the credit should go to him."

Senator Moynihan's Last Legacy

Michael Tanner, director of the Cato Institute's Project on Social Security Choice, remembers Senator Daniel Patrick Moynihan's (D-NY) contributions to the debate on Social Security reform. The text of the nationally distributed op-ed "Senator Moynihan's Last Legacy" follows:

Former New York Senator Daniel Patrick Moynihan, who died this week, will be remembered as an innovative thinker who was never afraid to challenge the conventional wisdom or the orthodoxy of his own party. As his successor, Sen. Hillary Clinton, said in eulogizing him on the Senate floor, "He taught us to look beyond the short-term to future generations." This was true on many issues, from national security to welfare reform. But perhaps on no issue was Moynihan's vision as clearly demonstrated as in his support for reforming Social Security.

Only days before his death, the trustees of the Social Security system unveiled their annual report, showing that Social Security begins running a deficit in just 15 years, and faces cash shortfalls of more than \$26 trillion. This would have come as no surprise to Moynihan. He had been on the Greenspan Commission that was responsible for the last major reform of the nation's retirement system. More recently, he was often a lone voice warning that our current Social Security program is unsustainable. Moynihan understood that, without reform, the program is unable to pay promised benefits. And he knew that no amount of political wishful thinking could make this problem go away.

After leaving office, Moynihan agreed to serve as co-chairman of President Bush's bipartisan Commission to Strengthen Social Security. This was also typical of Moynihan, who preferred to address problems rather than score partisan political points. It was also typical that Moynihan saw the commission's work as an opportunity not just to focus on the dry numbers of Social Security solvency, but as a chance to help those at the bottom of the economic ladder.

Moynihan saw Social Security reform as an opportunity to give ordinary working Americans an opportunity to save and invest the same way that higher-income people can—"A measure of wealth," as he called it. He understood that wealth in America no longer comes exclusively—or even primarily—from wages, but from investment. Roughly 52 percent of Americans now invest privately. But nearly half of Americans, mostly low- and middle-income workers, still are not able to participate in this route to financial wealth. This is not surprising. After paying for food, rent, medical care, and other expenses of daily living, many Americans simply don't have much money left over to save and invest.

That is why Moynihan supported proposals to allow younger workers to privately invest a portion of their Social Security taxes through individual accounts. To Moynihan, this was not just reform of Social Security, but its logical completion. As he wrote in the *New York Times* two years ago: "In 1944 the British came up with the slogan of 'cradle to grave' protection. We propose something beyond: an estate! For doormen, as well as those living in the duplexes above."

Or, as the commission he chaired wrote: “For the first time, the program can become an active rather than a passive instrument of personal financial security. Rather than ending with the life of the beneficiary, it can be a means of wealth accumulation and long-range investment, giving families resources they never had before, and widening the circle of Americans fortunate enough to pass on the accumulated results of their investment and hard work.”

This was particularly true, Moynihan thought, for African-Americans, whose shorter life expectancies allow them fewer years of retirement. One-third of African-American men, Moynihan pointed out, do not even survive until age 65. Personal accounts would help build wealth for the African-American community, where it is needed most.

Over the coming days and weeks there will be many tributes to Sen. Moynihan, all richly deserved. But perhaps the greatest tribute would be for all those he left behind in Congress to embrace his legacy of bipartisanship and concern for future generations. Let’s reform Social Security now.

Arme y: New Hampshire Will Lead on Social Security

Former House Majority Leader Dick Arme y continues to promote Social Security reform as Co-Chair of [Citizens for a Sound Economy](#). After the past Congressional elections in which John E. Sununu’s (R-NH) strong position on Social Security proved to be an asset, Arme y argues that New Hampshire will lead in the drive for reform. The following op-ed by Arme y originally appeared in the *Manchester Union Leader*:

Last fall, New Hampshire’s John E. Sununu helped redefine the politics of Social Security. Despite a barrage of scare tactics and demagoguery from his opponent’s national party, the future senator demonstrated the political power of being forthright with voters on the need to save the Social Security system from bankruptcy and provide future retirees with more ownership and control over their financial destinies.

New Hampshire’s senior Sen. Judd Gregg has been a strong leader on reform, tackling the Social Security problem head on and working toward real solutions. My friend Rep. Charlie Bass signed a candidate survey conducted by Citizens for a Sound Economy (of which I am co-chairman) during the last campaign in support of real Social Security reform.

George W. Bush won the state of New Hampshire against Al Gore – in the famously tight race for President in 2000 – while talking about the need for Social Security reform and the benefits of personal accounts.

When it comes to national political trends, New Hampshire has always been a little ahead of the curve.

The policy debate over Social Security’s impending insolvency was resolved years ago. The serious among our political leaders, both Republican and Democrat, now also agree that allowing individuals to voluntarily choose to invest some portion of their payroll taxes through private accounts is essential to the long term viability of the system.

Unfortunately, many of the leaders of the national Democratic Party seem committed to pursuing the same destructive strategy in 2004 that failed Gore in 2000, and a host of other candidates in 2002. Leaders like Dick Gephardt throw around heated political rhetoric rather than offer solutions.

Typical is the attack Mr. Gephardt delivered on the House floor in October right before the election: “It’s not a surprise that Republicans have devoted themselves to the evisceration of the greatest retirement protection plan ever created. The Republican Party has always sought to weaken and get rid of Social Security.”

The “evisceration” of Social Security? How are we supposed to have an honest, productive discussion about saving and improving Social Security when statements like this – statements where the only goal is to scare people with false rhetoric – are constantly being thrown around?

Despite pervasive evidence that this cynical strategy of scaring seniors to the polls no longer works, it has had a suffocating effect back in Washington, D.C. But for President Bush and a few others, many Republicans continue to hide from the issue. Likewise, those Democrats sympathetic to private accounts show little willingness to buck the official party line.

As we enter the new political season, I believe that the politics of Social Security have changed for the better. It is no longer acceptable to simply defend the status quo. You must have a plan to save the system. As Elizabeth Dole, R-N.C., demonstrated in her successful bid for the U.S. Senate, you can’t attack a plan of personal accounts without a better plan. In the face of a withering barrage of TV ads from her opponent, she simply held up a blank sheet of paper to demonstrate her opponent’s “plan” to save Social Security.

Thoughtful plans are already on the table. President Bush’s bipartisan Commission on Social Security concluded that some portion of individual workers’ payroll taxes should be voluntarily invested in personal accounts. Other plans, modeled after Chile’s successful retirement system (which puts all payroll taxes into personal retirement accounts) would go even further, allowing individuals to build a much larger retirement nest egg that they would own and control.

The benefits of such an approach are simple. First, even under the most conservative scenarios, private accounts generate far greater returns than are expected from the current system. That means both higher retirement savings for working Americans and a reduction in Social Security’s \$25 trillion unfunded liability. Second, personal accounts give all working Americans an ability to accumulate wealth that they own and can pass on to their families when they die. The current system does none of these things, a flaw that is particularly punitive to lower income workers and retirees with shorter life expectancies.

The only other “plan” to save Social Security involves massive tax increases and/or cuts in retirement benefits. To date, only one legislator, Representative Peter Fazio, (D-OR), has publicly endorsed more taxes to prop up the current system. Yet the critics of personal accounts, personal control and personal ownership seem too numerous to count.

This issue is too important to sacrifice to partisan politics. The members of New Hampshire Citizens for a Sound Economy will spend the next 20 months asking all candidates for President where they stand on Social Security reform. So, if you want to be President, you'd better have a plan, because the savvy voters of New Hampshire won't tolerate any politician that comes to town armed only with a blank sheet of paper.

Sen. Craig Backs Reform on the Senate Floor

Senator [Larry Craig](#) (R-ID), chairman of the [Senate Special Committee on Aging](#), made the following [remarks](#) on the Senate floor last Wednesday in support of Senator Lindsey Graham's amendment calling for members of Congress to acknowledge the urgent need for action on Social Security:

Year after year, trustees report after trustees report has been played out, spoken to, shown on the floor of the Senate. Hearings after hearings, month after month in our committee rooms, have given us the same message.

Current retirees and those approaching retirement age are going to get their money. Why? Because Social Security in that sense is solvent. But what we are concerned about, and why we begin to express a degree of urgency about reform for Social Security, is that you do not reform Social Security today for tomorrow, you reform it today for 40 years down the road, or 50 years down the road.

Last month, Alan Greenspan of the Federal Reserve was before our Subcommittee on Aging. He was not there to talk about interest rates. He was there to talk about global aging. He testified that the country faced "abrupt and painful" adjustments down the road as related to Social Security if we do not address it sooner rather than later.

That is what this resolution is about, to push us forward and into action in the near future, to make the kinds of adjustments that will assure my grandchildren that Social Security is going to be there for them and that grandpa isn't going to break them by demanding they keep Social Security whole, because he did not have the common sense and the good judgment to deal with it in the appropriate fashion.

To his credit, our President appointed the blue-ribbon panel to explore ways of addressing this challenge. The President's bipartisan commission to strengthen Social Security was co-chaired by former Senator Pat Moynihan, our colleague and former Finance Committee chairman. He is an undisputed expert on Social Security, with unique bipartisan credibility.

The do-nothing plan is what the trustees laid before us on Monday. And the do-nothing plan is the plan represented right here, in all of the bright red ink....

The challenge calling out to this generation in Congress is how to sustain Social Security beyond this generation of retirees without overburdening our children and grandchildren with excessive taxes on their labor or huge cuts in retirement income.

It is not too late ... David Walker, the Comptroller at the General Accounting Office, testified just this January before the Aging Committee that we have: 'a, window

of opportunity to craft a solution that will protect Social Security benefits for the nation's current and near-term retirees, while ensuring that the system will be there for future generations.' We should embrace that window of opportunity for the sake of our children and grandchildren.

Sloan: Washington Talks a Blue Streak As Social Security's Red Ink Runs

"No matter how well the war goes, the United States has one problem that isn't going away: Social Security," according to [columnist Alan Sloan](#) in *The Washington Post*. "And despite what you may have read last week, Social Security's financial situation isn't getting better. If anything, it's getting worse, because another year has passed without doing anything about the program's long-term problems."

"Open the 2003 [Social Security Board of Trustees report](#), issued last week, to [Page 184](#) ... Social Security's cash surplus [income excluding interest – cost] is projected to peak at \$112 billion in 2008 and then start to decline ... By 2018, the 'crossover date,' when the amount collected in Social Security taxes isn't enough to cover current benefits, the program is projected to run a \$25 billion negative cash flow, and the red ink starts to run like a river."

"If you subscribe to the school, consisting primarily of Democrats, that says we're okay until 2041 because we can depend on the trust fund, you're in dreamland. Take a look at the horrific projected cash-flow deficits that lie ahead. In 2020, \$94 billion. In 2025, \$312 billion. In 2030, \$568 billion. By 2039, it's more than \$1 trillion."

"But, you ask, why can't the trust fund, currently at \$1.54 trillion and climbing, be used to fund the cash deficit? Welcome to the wonderful world of Washington math. The federal government putting Treasury securities into a federal trust fund is like you funding your retirement by writing IOUs to yourself ... [T]he government will have to redeem Social Security's Treasury securities with its own cash, by cutting other spending, getting more revenue or borrowing. Exactly what it would have to do if there were no trust fund. So the trust fund, no matter how many trillions are in it, isn't helpful when it comes to paying bills."

"Just as Democrats engage in fantasy when they say the trust fund will protect Social Security recipients, Republicans are engaging in fantasy when they talk about "saving" the program by diverting some Social Security tax payments to individual investment accounts."

"[T]he whole idea of stock-based individual accounts isn't very social - it's each person for him or herself. And these accounts offer no security: If you turned a private account into a lifetime annuity today, you'd get only about half as much per month as you'd have gotten three years ago, because the market and interest rates were much higher then."

"The logical solution to Social Security's long-term problem is to cut benefit growth, increase taxes or both. You could also use general revenue to pay benefits, but then there'd be no limiting the benefits level. The earlier we deal with the problem, the less pain we'll inflict. But with Democrats denying there's a problem and Republicans

fantasizing about the stock market solving Social Security's ills, don't hold your breath waiting for something constructive to happen. You'll turn blue."

Sloan is clearly correct about the nature of the Social Security trust fund. For more information, see former CBO director June O'Neill's "[The Trust Fund, the Surplus, and the Real Social Security Problem](#)."

But Sloan overestimates the risk from personal accounts. Sloan's example concerning retirees today versus retirees three years ago assumes that these individuals were invested 100 percent in the stock market. In fact, most near-retirees have barely 40 percent of their 401(k) assets in stocks, and rising bond prices over the past several years dampened the decline in equities. For information on the relative risk of private investment, see Cato Social Security analyst Andrew Biggs', "[Personal Accounts in a Down Market: How Recent Stock Market Declines Affect the Social Security Reform Debate](#)."

Graham's Modest Request

Lauren Markoe of South Carolina's *The State* [writes](#) of Senator Lindsey Graham's resolution approved last week that called for the Senate to take seriously the need for Social Security reform. "His modest request to his colleagues: Acknowledge – in the form of a resolution that doesn't bind you to anything – that the Social Security trust fund will be depleted by 2042 and that Congress should make sure that doesn't happen."

Graham, who "wants to allow people to put a portion of their Social Security wages in private investments, including stocks and bonds," faced opposition from Senator Fritz Hollings (D-SC), who "instead argu[ed] that Congress should stop spending the Social Security trust fund on other government programs."

Fisher: Proper Accounting is Key

Peter Fisher, under-secretary of the Treasury for domestic finance, [writes](#) in the *Financial Times* that to solve the government's long-term financial problems we must first accurately measure them, providing a fair yardstick for improvement. Fisher claims that, "While budget deficits matter, total obligations for future spending matter much more."

Fisher asks that we "Imagine a reform proposal that promises to improve overall fiscal balance, reducing the negative net present value of all future outlays and revenues. If the proposal accomplishes this by increasing today's deficits while cutting tomorrow's outlays by a larger amount, under current budget rules, we would mistakenly reject it as 'too expensive.' The numbers we now focus on (deficits) distract us from the numbers that matter (total liabilities). There is only one path to fiscal discipline: to focus on total liabilities - to count them properly and constrain their growth."

Moore: Trustees Report Signals Need for Change

The [National Center for Policy Analysis's](#) Social Security analyst Matt Moore authored "[Ominous Social Security, Medicare Data](#)" in the *Washington Times*, detailing

the release of the 2003 OASDI Trustee's Report. Moore writes, "[T]his year's report contains new features that make it impossible to ignore the extent of the financial burden we will leave to our children and grandchildren if the two pillars of our nation's retirement system are not fixed soon, and how quickly the problem will be felt."

Contrary to initial media coverage that saluted the extension of the trust fund's exhaustion date, Social Security's finances have in truth worsened in the last year. "The report's authors make this point extremely well ... 'We believe public concern about the financial future of Medicare and Social Security tends to focus unduly on their trust fund-exhaustion dates, when benefits scheduled under current law legally could no longer be paid in full.' The problems actually begin much sooner, says the report, when Social Security and Medicare need more cash to pay benefits cash than the programs collect each year in taxes."

Moore adds that under a system with personal accounts, "Each worker would be saving part of his or her own Social Security benefits. Thus, Social Security's burden on future workers will be dramatically reduced."

Upcoming Events and Announcements

On April 4, the [American Enterprise Institute](#) will hold "[Social Security, the Government Budget, and National Savings](#)," with a presentation by economist Peter Diamond of the Massachusetts Institute of Technology and comments by Kent Smetters of the Wharton School and Eric Engen of AEI. Diamond will discuss whether the Social Security trust funds represent additional national savings for the economy or if Social Security surpluses have simply made it easier to increase spending on non-Social Security programs.

[Social Security Choice.org](#) Foundation has in the works two statewide Town Hall Tours on Social Security reform. The Pennsylvania effort will commence April 24 and run to the end of May. The following experts and supporters of Social Security reform will be involved: Pennsylvania Congressman Pat Toomey, Director of the Cato Institute's Project on Social Security Choice Michael Tanner, Heritage Research Fellow David John, and others. A similar tour in South Carolina begins August 5 and will be joined by another strong supporter of reform, Congressman Jim DeMint.

The [2003 Annual Conference](#) of the University of Michigan's Retirement Research Consortium, "Securing Retirement Income for Tomorrow's Retirees," will be held on May 15-16, 2003 at the National Press Club in Washington, D.C. University of Michigan Retirement Research Center's conference will hold the following sessions: Participation and Impacts, Social Security Personal Accounts — The Nuts & Bolts, Savings Decisions, The Role of Earnings in Retirement Income, and Current Issues in Private Pension Plans.

Job Opening, Senior Social Security Analyst: The Cato Institute's [Project on Social Security Choice](#) is looking for a senior Social Security analyst. A successful applicant will have an advanced degree in economics or a related discipline or equivalent experience. The candidate should have detailed knowledge and understanding of the U.S. Social Security system, as well as the economic and actuarial issues associated with various proposals to reform the system. Excellent written and

communication skills are a priority. Candidates should be committed to the principles of limited government and individual liberty, as well as to reforming Social Security through individual accounts. Submit resume and writing samples to [Michael Tanner](#), director of Cato's Project on Social Security Choice.

To subscribe or unsubscribe to *Social Security This Week*, please contact Jennifer Assenza at (202) 789-5202 or jassenza@cato.org.