



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Zogby/Cato Poll Finds Continued Support for Personal Accounts

A [poll conducted by Zogby International](#) on behalf of the Cato Institute found that Americans continue to support the idea of personal retirement accounts, with 52 percent of all respondents supporting the accounts and only 40 percent opposing them. Voters under the age of 30 overwhelmingly support personal accounts with 66 percent in favor and only 23 percent opposed.

Also of note in the poll, “By an overwhelming 70–22 percent margin, voters believe that opponents of President Bush’s proposals for Social Security reform have an obligation to put out their own plan for reforming the program,” John Zogby reported. That includes 55 percent of those who identified themselves as Democrats.

Unlike various push polls that have been widely touted as definitive proof of public disapproval of PRAs, the Zogby poll found that when people were given information on the personal accounts compared to the payable benefits of Social Security, the majority supported the accounts.

“The thing that is compelling in this poll is that this is the response you get when you use a positive approach on Social Security reform,” Mr. Zogby said, according to Donald Lambro in the *Washington Times*. “If you use the ‘Chicken Little, sky-is-falling’ approach, then voters understand that something has to be done, but don’t see the connection between personal accounts and fundamental reform of Social Security.”

“Among supporters,” Lambro continued, “the most popular reason for supporting private accounts was, ‘It’s my money; I should control it,’ Mr. Zogby said. ‘This was true for every group except African-Americans, who chose inheritability as their biggest reason for supporting accounts.’

“The poll’s results suggested that Mr. Bush’s proposal would be much more popular if he focused ‘on the points in this poll,’ Mr. Zogby said in an interview.

“‘Nobody can understand or relate to the system’s insolvency in 2043. But it wins a majority when the issue is raised as a matter of choice and as a positive opportunity,’ he said. ‘If it’s pitted as just Social Security reform because it is becoming insolvent, that’s not enough.’”

Priorities Differ in the House and Senate on Social Security Reform

As Congress recessed for the Memorial Day holiday, *Congressional Quarterly Daily* reported that after the short break, Senate Republicans would refocus their energies on Social Security reform legislation. According to *CQ*, “The Senate Republican leadership, led by Conference Chairman Rick Santorum of Pennsylvania, is eager for a bill to put on the floor. Republicans held a closed-door meeting May 25, the day after a dispute over judges was at least temporarily resolved, to update members on Social Security and show that it was back on top of their agenda.”

However, the June 1 edition of *The Hill* reported that “House Republican leaders are aiming to pass many bills this summer, but Social Security reform is not one of them.” *The Hill's* report was based on an e-mail sent by the office of House Majority Whip Roy Blunt, which outlined “priority legislation” for the summer. *The Hill* reported that Social Security was “notably absent” from the list.

Although the House Committee on Ways and Means has held several hearings already on Social Security reform, it seems clear for the time being that the Senate will be the chamber to watch for developments over the summer.

Both articles did indicate that Democrats in both chambers plan to remain firmly united in their opposition to reform, with a few notable exceptions. (See “Democrats Break Rank” below for more details.)

Last week, former treasury secretary Robert Rubin differed sharply from his former boss Bill Clinton when he told the House Democratic Caucus to continue to “hold firm” in its opposition to Social Security reform and to resist the urge to introduce proposals of their own. The week before, Clinton told ABC news that “the Democrats should have a plan, and they should talk to the president and the congressional Republicans about it.”

Washington Post: Progressive Indexing Merits “Serious Consideration”

In a [carefully worded editorial](#) this week, the *Washington Post* lent cautious support to the idea of progressive indexing, arguing that raising taxes to meet the skyrocketing future demands of indexing benefits to wages is not “sensible given other pressing demands” on the treasury. According the editorial, based on calculations by Eugene Steuerle of the Urban Institute, “government-provided retirement benefits for the average couple retiring in 1960 amounted to \$195,000. Today, that amount has grown to \$710,000 (\$439,000 in Social Security and \$271,000 in Medicare, which didn’t exist in 1960). For a couple retiring 25 years from now, lifetime benefits are scheduled to exceed \$1 million. Mr. Steuerle’s numbers are adjusted for inflation, so this is real growth.

“Is this sensible, given other pressing demands? Is it sustainable, given the impending retirement of the baby boomers? The answer to both questions is no, which is why Mr. Bush’s proposal to adjust the way that increases in Social Security benefits are calculated—a method known as progressive indexing—merits serious consideration.”

Progressive indexing has met with fierce resistance from opponents who claim that such a change will erode support for the program by making Social Security a worse deal for high-income workers and by imposing “cruel cuts” on the benefits of middle-income

earners. But the editorial points out that the latter of those two criticisms is not a sufficient reason to reject the plan.

“The major critique of the Pozen plan is that promised benefits for the middle tier would be cut too sharply. It’s fair to debate whether Mr. Pozen scales back scheduled benefits too far down the income chain, though it’s important to remember that these are cuts in promised increases, not cuts compared to today’s benefit. Mr. Pozen is the first to say his plan could be recalibrated to be more generous to the middle class.

“But there’s not enough money in the system to pay scheduled benefits, and tax increases can’t be expected to cover all of the shortfall, given other looming demands on the treasury. Deciding what benefits the country can afford to give its citizens—and how much of that amount should go to seniors, as opposed to children and working families—is an essential part of the Social Security discussion. It’s why progressive indexing ought to be considered as part of the solution.”

Meanwhile, in *National Review* online, Cesar Conda of Freedomworks argued against criticism of progressive indexation from the political right.

“President Bush’s call for the ‘progressive indexing’ of Social Security benefits has been attacked as a ‘benefit cut’ that will land on the middle class,” Conda explained. “Liberal Democrats who support the status quo make this argument. But surprisingly, so do a handful of free-market conservative policy analysts who believe that personal retirement accounts alone will fix Social Security.”

Conda continued: “According to the Social Security Administration’s actuaries, progressive indexing would solve 70 percent of Social Security’s funding problem. The addition of voluntary personal retirement accounts—which replace part of the government benefit with private investments that people own and control—would further improve Social Security’s long-term finances.

“It is ironic that conservative critics of progressive indexing have joined liberals in attacking it as a benefit cut. But as the *Washington Post* recently editorialized, progressive indexing produces ‘cuts in promised benefits, not cuts compared to today’s benefit.’ Furthermore, progressive indexing offers higher benefits than the current system can afford to pay. As Congressional Budget Office director Doug Holtz-Eakin recently put it:

Under progressive indexing, benefits for high earners would be lower than under current law. But unlike under current law, those benefit reductions would allow the trust funds to remain solvent. As a result, workers in later cohorts would be spared the across-the-board benefit cuts that would occur when the trust funds were exhausted. For lower earners in those cohorts, benefits would be higher than under current law.

“Another argument holds that progressive indexing worsens the already low rates of financial return from Social Security. However, the critics arrive at this conclusion by conveniently excluding the higher returns that flow from personal retirement accounts. By this standard, the ‘personal account only’ plan—which calls for large accounts to eventually fund all of the promised retirement benefits—would also produce lower, and at some point negative, returns from traditional Social Security.”

Cato’s “6.2% Solution” includes full price indexing, though Cato’s Michael Tanner has lent support to a hypothetical plan that includes both large personal accounts and progressive indexation. For more on Cato’s plan, visit www.socialsecurity.org.

Democrats Break Rank; Cato Scholar Wonders Why

This week a third congressional Democrat crossed the line in the sand drawn by the Democratic party leadership on Social Security reform: Rep. James P. Moran Jr. of Virginia has signed on to cosponsor the legislation introduced by Robert Wexler of Florida, [according to the *Washington Post*](#). Wexler and Moran join Rep. Allen Boyd of Florida, who has endorsed a bill that includes personal retirement accounts.

As Democratic lawmakers become increasingly frustrated with their party's just-say-no attitude and strike out on their own, Cato research assistant Brooke Oberwetter suggests that preserving the highly illiberal structure of Social Security is hardly a goal worth climbing out on a limb for. Her commentary follows.

"In breaking ranks with his party's leadership to propose an alternative to President Bush's push for personal retirement accounts, Rep. Robert Wexler of Florida said, 'I have the largest amount of Social Security recipients of any Democrat anywhere in the country. My allegiance to seniors is greater than my allegiance to the Democratic Party.'

"Spurred by the courage of his convictions, Wexler seems focused on preserving the legacy and structure of Social Security, which he calls 'the most successful government program in history.'

"His plan certainly suggests that keeping the system solvent in its current structure is worth almost any cost. He has proposed the largest marginal tax increase this country has seen in decades: a 6 percent tax hike on all income over the current \$90,000 payroll tax cap.

"Let us pass over the discussion of how ever-rising marginal tax rates lead to tighter labor markets, reductions in productivity, and declines in reported income. Let us forget in their entirety the issues of tax revenue and solvency and instead try to figure out why, exactly, Democratic lawmakers are so hell-bent on preserving the basic current structure of Social Security.

"As Wexler noted in his press conference, his party should be looking for 'alternatives that are true to our Democratic values.' One can assume then, that the system's structure is worth preserving. But is Social Security's current structure consistent with Democratic values, as Wexler—and the Democratic leadership—has declared, or are they falling all over themselves to defend a legacy of discrimination?

"As it has evolved, Social Security has attempted to provide American workers and their families with three things: retirement benefits, disability insurance, and survivor benefits. Those are solid liberal goals. But because of the program's age, there are some highly illiberal aspects of the program's operation that are exceptionally discriminatory to modern families, particularly against gay couples, unmarried couples, dual-earner couples, and divorcees.

"Fully one-third of all marriages end before the 10 years necessary for spousal benefit eligibility—among blacks, nearly a half of all marriages end in divorce within 10 years. Considering that many women take time off from work to raise children during those first 10 years, they are unable to make Social Security contributions of their own yet are not eligible for spousal benefits upon divorce. Women who *do* remain married beyond

the eligibility period but divorce later not only have a lower earnings record if they raised children, but they are forever tied to the earnings of their ex-husbands and are ineligible to receive the possibly higher benefits available from a subsequent marriage that doesn't last a full 10 years—this feature can be particularly harmful to older Americans who wish to remarry.

“Even on the rosier side of marriage and commitment, Social Security discriminates. Dual-earning couples, for example, often end up subsidizing the benefits of single-earner families. This is because workers are entitled to either their own benefits or the equivalent of one-half the benefits of a higher-earning spouse—but not both. Women who work for a number of years but who would do better by accepting one-half of their husbands' benefit level don't see any increased benefits for their payroll taxes; those women lose the 12.4 percent of income that was taken from them during their working years. That money goes to subsidize the benefits of a single-earner couple.

“Consider also the bias against couples who for whatever reason are unmarried. Gay couples and heterosexual cohabiting couples are unable to share the benefits of their status as workers protected by the Social Security system. An unmarried couple that has decided on a single-earner structure cannot take advantage of survivor benefits or spousal retirement benefits in the same way a government-sanctioned married couple can.

“The overwhelming support for the status quo from the political left is shocking and should be appalling to members of the Democratic Party or anyone who holds the liberal values that Wexler extols. Bringing the system into solvency through tax hikes on labor and productivity will do untold damage to America's economic growth in order to protect a system that systematically discriminates against core constituencies of the Democratic Party, a system that disproportionately benefits white women who have never worked a day in their lives over all other groups. Is that a status quo that the Democratic Party wants to be associated with?

“While the Democrats demand that Social Security's current structure be maintained through plans like Wexler's, millions of women remain tied by their apron strings to their husbands' earnings and millions of nontraditional families are denied access to the system. It doesn't seem out of line to ask, why aren't the Democrats taking the lead on transforming one of America's most discriminatory programs into a program that treats individuals as equals?”

Announcements

Cato's [Michael Tanner](#) was named one of the “five analysts [who] have come to exert more influence over the Social Security debate than any other individuals outside government” by *Congressional Quarterly* last week.

Events

The Americans for Prosperity Foundation is organizing a demonstration next Wednesday, June 8, to protest Rock the Vote's efforts against Social Security reform. For more information, visit www.socialsecurityforall.com/rth/.

Americans for Prosperity is also sponsoring an essay contest for students in grades 4–12. Awards of \$250 will be given to the winners in each of two age divisions for outstanding essays on how Social Security affects families and how it should be reformed. For entry information and guidelines, click [here](#).

Publications

The Social Security Administration has released the latest issue of its newsletter, “[International Update](#).” The publication for May looks at the most recent international developments concerning pension reform. This month’s issue discusses movements toward reform in Germany, Costa Rica, Mexico, Australia, Singapore, and the OECD.

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