



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Cato's José Piñera to Address the National Council of La Raza

José Piñera will discuss Social Security reform at the National Council of La Raza's (NCLR) *2004 NCLR Annual Conference* in Phoenix, Arizona. NCLR is the largest national Hispanic constituency-based organization in United States. The Social Security session, titled *The Great Debate: Social Security Reform and What's at Stake for Latinos*, will be held on Sunday, June 27 from 2:00 to 3:30 p.m. in the Phoenix Civic Plaza.

Raul Yzaguirre, president and CEO of NCLR, notes several reasons that Latinos should pay particular attention to the issue of Social Security reform:

“As you know, the future of Social Security is critical to all Americans including Latinos for many reasons. For instance, 35% of Latinos are under the age of 18, compared to the national average of 25.7%, and almost half of Hispanics are under 25 years old. These data suggest that Latinos will make up a growing share of those entering the U.S. workforce and, therefore, an increasing portion of contributors to the Social Security system. Furthermore, in 1999, Social Security benefits were the sole source of income for 39% of Hispanic seniors compared to only 16% of white recipients. The Social Security program is more vital to the retirement security of Latinos than to other American workers.”

Mr. Piñera was a leader of Social Security privatization in Chile. He will be joined on the panel by two U.S. lawmakers and another policy expert in what has been billed as “a serious, interactive, and balanced discussion about Social Security reform.”

NTU Leader: Social Security Reform Is Key Campaign Issue

In a letter to the editor of the *Washington Times*, Paul Gessing, director of government affairs for the National Taxpayers Union (NTU), expressed his belief that Social Security reform—specifically establishing individual retirement accounts—is the key campaign issue that could break open the lead in a tight presidential race. An excerpt of his letter follows:

“...in order to assure a strong turnout by fiscal conservatives, who are increasingly concerned about rapid spending growth over the past four years, President Bush should make Social Security reform a centerpiece of his campaign now.

“Not only is this good strategy, but it is good politics as well. By voting with the president on Iraq and attempting to minimize certain policy differences between the two candidates, Sen. John Kerry has succeeded somewhat in transforming the race into one in which character and charisma are the defining issues, not substantive policy initiatives.

“Rather than relying on his stature as a wartime president, Mr. Bush should take heed of polls indicating that a stunning 62 percent of voters support individual retirement accounts. Investing effort and political capital in reforming Social Security also would allow the president to contrast his forward-looking vision with that of Mr. Kerry, who—with his long record of opposing choice—could not obfuscate the issue.

“There is no doubt that the race for the presidency will come down to the wire. The candidate who embraces real Social Security reform could have the winning edge.”

Individual Account Supporter Next Federal Reserve Chairman?

Anna Bernasek speculates in *Fortune* magazine that Martin “Marty” Feldstein could ultimately replace Alan Greenspan as Federal Reserve chairman if President Bush wins reelection.

She notes, “Greenspan’s long run as economic maestro is winding down. His reign will come to an end in January 2006 when his term as a Fed board member expires—a matter we were reminded of in early May when the President officially nominated him to continue in his post. As a result, it’s not too early to start speculating about who will replace him. And if Bush is reelected, Marty Feldstein is likely to prove his top choice.”

Mr. Feldstein is a Harvard University professor of economics, a position he has held since 1967. He also runs the National Bureau of Economic Research (NBER). President Bush has sought his advice regularly on economic issues since 2000, when he was briefed on Social Security privatization in Austin, Texas. Ms. Bernasek relays the following remark from an unidentified regular participant in economic meetings with the president: “whenever I go down to a meeting at the White House, Marty is always there sitting next to the President.” Professor Feldstein also served as an advisor to George H.W. Bush during his presidential primary campaign against Ronald Reagan, afterwards becoming chairman of President Reagan’s Council of Economic Advisors (CEA).

Professor Feldstein’s influence has shaped policy initiatives during President George W. Bush’s tenure, and he supports reforming the Social Security program to include individually owned accounts. Ms. Bernasek writes about his influence:

“Feldstein also had a key role in shaping both the 2001 and the 2003 income tax cuts. And his biggest impact may lie ahead. If Bush wins reelection in November,

Feldstein could help reshape the Social Security system. He has long championed the idea of privatizing Social Security accounts.”

Senator Lieberman Calls for Honest Government Accounting

Sen. Joseph Lieberman (D-CT) makes a strong case for the necessity of better government accounting methods for programs and policies, including both spending and tax cuts. He advocates a law requiring such accounting, arguing that present value accounting of all programs, not just Social Security and Medicare, would force lawmakers to confront long-term financial obligations. His statement printed in the May 25, 2004 edition of the *Financial Times*, appears below:

“A report last month from the Medicare trustees contained a startling revelation: the Medicare program, on which so many elderly Americans depend, will go bankrupt by 2014. But lost in the coverage of the report was an even more startling revelation: the entire US government is going bankrupt. The trustees found that our obligations to future retirees are unfunded by a staggering \$62 trillion. Add that to an earlier estimate of unfunded liabilities for the social security pension system and the figure rises to \$72 trillion. That does not include the debt we will incur for operating the rest of the government.

“It is hard for most people to grasp those astronomical figures. They far exceed the entire net worth of the US (estimated at \$45 trillion). But, as a nation, we must urgently grasp them and act. Americans cannot afford to ignore this reality. Each year that we do nothing, this entitlement gap will grow by \$2 trillion. If we delay, the problem will deepen.

“As enormous as this imbalance is, we can close it. But to do so, we must first expand our conventional political dialogue beyond annual deficits and the longer-term national debt. We need to talk openly and across party lines to raise awareness of the challenge. That is why the new estimate in the trustees report is, in an odd way, welcome news. After many years of underestimating the gap between entitlement revenues and obligations, the trustees applied a new, more accurate accounting method to determine the true size of the funding shortfall.

“This method—known as present value accounting—is only new to federal budgeting. Private companies use a similar approach to determine the full value of their business opportunities and responsibilities, their assets and liabilities, such as pensions and healthcare plans. They do so by calculating how much they will have to set aside today to meet the obligations they know they will have tomorrow.

“You do not have to be an accountant to see the advantages of the present-value approach. If your company has a pension system or offers healthcare benefits to retired workers, it is not enough to know the size of today’s income and obligations. To plan adequately for the future and to honor the company’s commitments to its retired employees, you need to be able to forecast over the long-term how much you will earn and owe and determine how much you will have to put away each year to cover those obligations safely when they come due.

“It makes no sense for the federal government not to use this approach itself. Sadly, the administration of George W. Bush has resisted this logic, but the trustees have had the courage to reveal the truth. Now we need the same kind of honest accounting for all our current fiscal policies, both spending and tax cuts.

“Because the federal government is not forced to plan for the long term, we are on track to treble the national debt just as the first wave of baby boomers is about to reach retirement age. At this rate the government will face a series of disastrous choices—massive tax increases or massive cuts in Medicare and social security that could push millions of retired Americans into poverty. Little or no money will be left for other priorities, including defense, homeland security, education, healthcare, environmental protection and medical research.

“In the heat of this political year, neither Democrats nor Republicans have shown much interest in substantive dialogue about the entitlement funding gap—let alone in working on bipartisan solutions to the coming crisis. We can, however, start to consider budget accounting reforms that will force us to report America's fiscal condition honestly—not just the state of the Medicare and social security programs, but that of the whole federal budget.

“That is why I have introduced legislation that requires the federal government—which now relies on deceptive short-term cash flow measures in its budgeting—to account for the long-term impact of both spending and revenues, by applying these same present-value measures. This will not solve the problem, but it will ensure that we start with realistic estimates. It is the necessary first step on the road back to fiscal balance.

“President Abraham Lincoln said: ‘You cannot escape the responsibility of tomorrow by evading it today.’ It is time for Mr. Bush and Congress to do what the Medicare trustees have done: reveal and confront the fiscal truth so that we begin to meet, not evade, our national fiscal responsibilities.”

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