



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Eliminating the Tax Cap Won't Solve Social Security's Shortfall

Raising or eliminating the cap on the amount of wages subject to the Social Security payroll tax would have serious consequences for both taxpayers and the U.S. economy, according to a study released this week by the Cato Institute.

Removing the cap would represent the largest tax hike in U.S. history—more than \$1.3 trillion in the first 10 years alone—and would do relatively little for Social Security's solvency, argues [Michael Tanner](#), director of Cato's Project on Social Security Choice, in "[Keep the Cap: Why a Tax Increase Will Not Save Social Security](#)":

"Even the most drastic and politically unlikely proposal, complete elimination of the cap without allowing any additional credit toward benefits, would gain just eight extra years of cash-flow solvency for the program. More widely discussed proposals, such as increasing the cap to 90 percent of covered wages (around \$150,000 per year), would extend the date by which Social Security begins to run a deficit by just three years and would have only an insignificant effect on the program's long-term unfunded obligations."

"Nor would this enormous tax increase deal with Social Security's other problems," Tanner continues. "It would not give workers ownership and control over their money. It would not allow low- and middle-income workers to accumulate a nest egg of real, inheritable wealth. It would not improve Social Security's rate-of-return for younger workers."

Tanner argues that a better alternative would be to allow younger workers to invest privately a portion of their Social Security taxes through personal accounts, which would give them ownership and control over their retirement funds. Although personal accounts would not by themselves solve all of Social Security's financial woes, combined with measures to restrain benefit growth, they can do far more for Social Security's solvency than would eliminating the cap.

"In the end, proposals for changing the taxable wage cap are all pain and no gain. With a viable alternative—creating personal accounts—Congress should not go down this road," Tanner says.

This Week in the Polls

Washington Post/ABC Poll

Though the headline read “Social Security Plan’s Support Dwindling,” that wasn’t borne out in the data. The results [presented in the *Post*](#) appear alongside the corresponding numbers from January. However, since the last *Post* poll, on April 24, approval of the president’s handling of Social Security has risen as disapproval has declined, suggesting that the trend over the last few months is in favor of the president. Additionally, though support for PRAs is well below its peak for this year, a comparison to the April 24 poll shows that support is up 3 percent.

Additionally, an astonishing 71 percent of voters under thirty—those who will be most affected by the reforms—favor personal retirement accounts.

Prominent Editorials Oppose Tax-Reliant Reform Measures

The Social Security reform plan proposed by Rep. Robert Wexler (D-Fla.) is discussed this week in editorials in the [Washington Post](#) and [USA Today](#). Mr. Wexler’s reforms consist of a tax hike, but no reassessment of promised benefits. His legislation proposes to impose a 6 percent tax on earnings over the current \$90,000 cap.

The *Post* welcomes the plan, the first proposal from an elected Democrat, as marking a move away from “a just-say-no approach to Social Security” among Democratic lawmakers. But the *Post* is more critical of the bill’s substance. The *Post* writes:

“[Mr. Wexler’s reforms] would not trim a single penny in promised benefits.... It’s unbalanced because it seeks to address the Social Security problem solely on the tax side, while making benefits untouchable. But government will face other compelling uses for new revenue.

“The plan is inadequate because, by not making any adjustments in promised benefits, it doesn’t put Social Security on a sustainable footing. By pouring more money into the program without taking any steps to reduce future costs, it would postpone the problem, not solve it.”

USA Today added: “As with a lot of things that seem easy, this tax-the-affluent-minority idea has real drawbacks. Any plan that would fix Social Security solely by taxing a relatively small number of wage earners would undermine its support. Social Security enjoys broad public backing because it is seen as a retirement savings and disability program, not a welfare program. Workers contribute while they work, then collect when they retire.

“If the nearly 10 million people who make more than \$90,000 a year are asked to pay in a great deal more than they will get out, that principle would be shattered. A 12.4% Social Security tax on all income, combined with other federal and state taxes, would result in affluent self-employed people paying more in taxes than they keep for themselves. That is hardly the way to bolster support for a program about which Americans are expressing increasing doubts.”

In addition to those problems, the Cato Institute has [faulted](#) Mr. Wexler's plan on a number of other counts.

The economic effects of the additional taxes required by revenue-based plans to meet Social Security demands is a further difficulty. Considering a similar proposal promoted by Peter Orszag of the Brookings Institution, the Congressional Budget Office put the likely constriction of the U.S. economy at more than \$80 billion every year.

For more on why raising or eliminating the tax cap is a bad idea, see Michael Tanner's new paper, "[Keep the Cap: Why a Tax Increase Will Not Save Social Security](#)," Cato Briefing Paper No. 93.

In a third [editorial of note this week](#) (registration required), the *Dallas Morning News* has endorsed "a change in how Social Security benefits are calculated" and "some form of personal investment accounts." The editorial strongly encouraged President Bush to continue his hard push for reform.

Media Continue to Ignore Support for Personal Retirement Accounts

Todd Drenth of the Free Market Project, which recently released [a report](#) on widespread media bias against personal accounts, [penned a commentary](#) last week in which he noted further bias in mainstream media's coverage of Social Security reform. He pointed out that the vast majority of major newspapers and television networks have failed to mention the 450 economists who signed a Cato petition in support of personal accounts.

Drenth writes: "The petition calls for reforms that will 'uphold the time-honored principles of ownership, inheritability, and choice.' It states how currently under Social Security, as clarified by the Supreme Court in *Flemming v. Nestor* (1960), taxpayers have no ownership over what they pay into the system and consequently benefits are not constitutionally guaranteed. The economists whose names are on the petition advocate a system of personal accounts where individuals would own real assets within Social Security that they could freely choose to invest in stocks, bonds, or mutual funds that will grow over time, providing higher benefits than can the current system, the petition said.

"The media, however, remain doubtful of the American people's ability to invest their own money wisely. A Free Market Project analysis of Social Security reform coverage found the networks emphasized the risk of investing. The study, *Biased Accounts*, showed how far the media have gone to stress this point—even setting one interview in the gambling locale of Reno, Nev."

The Free Market Project is not alone in noting the conspicuous absence of coverage of "the Forgotten 450." Much has been made of this glaring omission in various weblogs, spearheaded by the efforts of the [Social Security Choice](#) blog. The Social Security Choice blog has compiled a list of more than 40 weblogs that have mentioned the fact that this important news has been largely ignored.

World Is Watching Social Security Debate

This week, Secretary of the Treasury John Snow penned a commentary in *Roll Call* suggesting that the eyes of the world are on the United States as it attempts to sort out its Social Security problems.

He wrote of the upcoming G7 meeting:

“At the G7’s last meetings—which took place in Washington, D.C., in April—my counterparts raised the issue of America’s Social Security debate right away. They asked me pointed questions about the president’s proposed guidelines for reform: How would it address solvency? How would we offer a permanent fix? Would we achieve bipartisan reform on Capitol Hill? And how could we permanently strengthen the system with prudent transition costs that are neutral to the government budget in the long run?

“They ask these questions because many of them face similar—or worse—demographic challenges with their own national pension systems. They ask because, as the global growth leader, the financial strength of the United States is always both of interest and in their interest. And they ask because they expect the United States to set a positive economic example.

“Sometimes we become so embroiled in our own policy debates that we forget the world is watching us. This is one of those times. We therefore must be reminded that being a federal representative is a position of international leadership. Saving and strengthening Social Security will primarily impact America’s youngest workers ... but the actions of Congress on this issue have the potential to affect young workers all over the globe by inspiring their leaders to act with similar courage.

“Every voting Member of Congress has a tremendous opportunity, this year, to remind the world why we are its economic leader. As a government, we have a chance to once again exercise good economic judgment on behalf of our constituents while setting an example for countries who seek to improve their financial futures.

“We can once again lead world policy by agreeing on a solution that secures Social Security on a permanent basis. We can protect the benefits of current and near-retirees while strengthening the system and offering great hope to younger generations of workers. We can be the first country to keep the current system intact while vastly improving its future performance.”

While Snow is certainly correct that Social Security reform has captured the world’s attention, America’s window of opportunity to be a leader in pension reform is rapidly closing. As chronicled by the Social Security Administration each month in “[International Update](#),” dozens of other countries around the globe have introduced personal retirement accounts as they overhaul their failing defined-benefit systems. The world has stopped hoping that the United States will lead on this issue, and it is clearly concerned that we will fall even farther behind.

Events

Next Tuesday, June 14, the New America Foundation will host a half-day conference entitled “Solutions for Increasing Savings, Ownership and Retirement

Security.” Among the many speakers will be Cato Institute senior fellow Jagadeesh Gokhale. For more information or to register, click [here](#).

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