



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Congress Takes the Reins from the White House

After dwindling support for personal accounts left congressional Republicans weary on Social Security reform, discussion of options has been rejuvenated over the last two weeks with the introduction of new reform plans in both chambers. The introduction of the plans, which would create personal accounts from the annual Social Security surpluses, has led to speculation that Republicans in Congress are ready to take the reins on reform from the White House.

According to a *Washington Times* report, “None of the lawmakers who have taken the lead in crafting a bill that would give Mr. Bush at least part of the reforms he wants suggested that the White House has bungled Social Security. However, it is clear that the White House has taken a secondary role after months of dictating its demands to Congress on the issue.

“‘This whole idea originated here,’ Rep. E. Clay Shaw Jr., Florida Republican, said. ‘So far, there is no bill that you can call the president’s bill that has been filed. You can draw your own conclusions from that.’

“Rep. Jim McCrery, Louisiana Republican and chairman of the Ways and Means Social Security subcommittee who is pushing a bill that would fund private retirement accounts with the system’s diminishing surplus, made it clear that the White House has morphed from consultant to client.

“‘We don’t have regular meetings, but when there is a need [we do],’ Mr. McCrery said, noting that most of his meetings with Al Hubbard, Mr. Bush’s chief economic adviser and point man on Social Security ‘have been adequate to maintain communication.’”

As the *Times* notes further, there has been little consensus to date among Republicans about how the Social Security discussion should be framed. “John C. Goodman, president of the National Center for Policy Analysis who has testified as an expert at White House Social Security rallies, said there was ‘a lot of behind-the-scenes arguing about what the message should be’ in the White House and on Capitol Hill.

“Six months into the deal and Republicans still can’t agree on what is the right message,’ Mr. Goodman said. ‘I’ve been to events where we’ve had three different messages.’”

As Cato president Ed Crane wrote in a recent memo to Karl Rove, the message should be simple and inspiring:

“President Bush has an opportunity to create a real legacy. He has been heroically bold in raising this issue. But it seems to me he’s been timid in the manner in which he has chosen to promote it. Personal accounts are the right thing to do whether Social Security is solvent or not. Solvency discussions are boring, not to say uninspiring. Ownership and inheritability are inspiring. The fact that personal accounts help traditional Democratic constituents even more than Republicans should be another opportunity to turn debate around. Sending people out with charts and figures will achieve little. Returning to the first principles of liberty and opportunity—the true reasons to support personal accounts—will work.”

Santorum: Taxing the Rich More Won’t Fix Social Security’s Problems

At a recent townhall meeting in Tawanda, PA, Sen. Rick Santorum (R-Pa.) engaged a local resident on the subject of Social Security. The resident told Santorum, “If you tax the rich more, you would have more money than you would know what to do with.” Santorum rather succinctly responded to the man, as reported in this excerpt from the [Sayre, PA, Morning Times](#):

“Well, we would know what to do with it,’ Santorum replied. ‘It would bring in some more money and it would keep the program running for another seven years.’

“The idea of Social Security was to aide those who need help in retirement. By taxing the rich higher than anyone else, investments in the stock market and the creation of additional jobs may disappear, said Santorum.

“Some people want to say that the answer for every problem we have in America is to have rich people pay for it. The problem with that is if all we do is tax rich people for everything, you’re going to find we have what we had in the 60s, which is rich people did everything they could to avoid taxation, which means they didn’t invest, they didn’t create jobs, they didn’t take salaries,’ said Santorum. ‘One of the great fallacies in our world is that you can tax the rich and everybody else will be better. It’s just fundamentally wrong.’

“The program already in place should be improved, not have more and more money poured into it from higher taxes, according to Santorum.

“There was a time when there were 60 workers (working to support) every retiree. When I retire, it will be two workers paying for my retirement,’ said Santorum. ‘We need to fix that system because if we don’t, we are going to have to cut that program back for my generation or we’re going to have to decrease the program for your (the older) generation.’

“Santorum sees Democrats as the roadblock to changes in the system.

“The people on the other side of the aisle just want to wait and make the next generation take care of it and I think that is irresponsible.... If the idea is that all we need to do is tax ourselves out of this problem, well, we can’t do it.”

Jack Kemp Backs DeMint Plan

[Writing](#) in *Human Events Online*, Jack Kemp of the Free Enterprise Fund made the case this week for the personal accounts proposal that Republicans plan to begin pushing. Kemp refers to the proposal, which would protect the payroll tax surplus from unrelated congressional spending by diverting it instead into newly created personal accounts, as a “a huge achievement” and an “important victory.”

As Congress finalizes the bills to implement the idea, commonly identified as the ‘DeMint plan,’ Kemp argues that the proposal will both move Social Security solvency towards a firmer footing and return control of their money and retirement to workers. From Kemp’s commentary:

“This legislative breakthrough is an even greater victory for the nearly 160 million Americans who pay Social Security taxes, especially low- and moderate-income workers who currently find it difficult to impossible to save, build wealth and get access to capital after paying the crushing payroll tax burden that takes 12.5% of every dollar they earn. If the Social Security surplus and the interest due to the trust fund were placed in personal retirement accounts, workers would enjoy accounts equal to about one-third of the payroll taxes they currently pay. For a \$50,000-a-year earner, that’s almost \$2,000 a year. For a \$30,000 earner, that’s more than \$1,100.

“Workers finally will be able to save and invest some of their hard-earned wages in retirement accounts they own and control, instead of Congress spending them on unrelated programs. More importantly, workers will start to earn a fair rate of return on their Social Security dollars and enjoy higher retirement benefits. The current system will pay today’s average worker as little as 1% or 2%. Many workers receive a negative real rate of return.

“The new approach, which is a pure personal accounts bill—no tax increases, no benefit cuts, no hikes in the retirement age—is the key to the ownership society that Bush—and before him President Bill Clinton and British Prime Minister Margaret Thatcher—long promoted.

“Bush understands that allowing workers to own assets and build wealth in personal retirement accounts would give all American workers a stake in the economy, a stake in the taxation of capital and business activity, an interest in controlling the growth of federal spending and in larger civil society generally...

“Beginning to save Social Security surpluses in personal accounts right now makes a serious down payment on solvency and buys Congress time to adjust and expand the program and achieve permanent solvency in the future. Attempting to achieve permanent solvency on paper by raising taxes, cutting benefits and hiking the retirement age will only make a bad deal for workers even worse.

“If workers were allowed to save the annual Social Security surplus plus interest due and already scheduled to be paid to the trust fund, it would be possible to create personal retirement accounts equal to between 3.5% and 4% of payroll for the next 10 years.”

John Snow Applauds “Real Momentum” on Social Security

As proposals to convert the Social Security surplus into personal accounts reach final drafting stages in the House and Senate, U.S. Treasury Secretary John Snow predicted further progress on the issue. Speaking this week, the Treasury Secretary [said](#), “I think we’ll see this brought to a resolution later this year.”

The proposal in question diverts the current surplus of Social Security taxes from general congressional spending, as is the current practice, back to Social Security, secured in individuals’ personal accounts. The idea is usually referred to as the DeMint plan after Sen. Jim DeMint of South Carolina who introduced the idea in June. House Republicans are expected to combine the DeMint proposal with a number of other retirement security proposals.

Pointing to “real momentum” on the issue, Snow added that he expects a House bill to be introduced after the Fourth of July recess and that the Senate would address it soon after.

Snow’s confidence comes as proponents of personal accounts explore options to widen the congressional support base for the proposal. Snow has been a key player in administration efforts to surmount the hitherto unanimous opposition to personal accounts among Democrats. Snow this week brought his Social Security reform platform to the home state of Sen. Bill Nelson, a Democratic senator from Nebraska, who has been identified as a possible bridge to Democrats on Social Security reform. Sen. Nelson appeared with the Treasury Secretary at a local business event, fueling speculation that the senator may become the first Senate Democrat to back a personal accounts proposal. A spokesperson for Sen. Nelson later reiterated that while he might be prepared to support personal accounts under certain circumstances, one precondition is that Social Security solvency be resolved beforehand.

Gokhale: Don’t Separate Personal Accounts from the Solvency

In a commentary that originally appeared this week on [Tech Central Station](#), Cato senior fellow Jagadeesh Gokhale argues convincingly that Republicans have been unwise to separate solvency issues from personal accounts. An excerpt of his commentary follows.

“Lawmakers appear to believe that the decision to adopt personal accounts is completely separable from the choice about how to fix the system’s insolvency. Some economists argue that carve-out personal accounts—as championed by President Bush—do not contribute at all toward fixing the system’s insolvency. They claim that carve-out personal accounts generate no new savings. That impression, unfortunately, is the result of an inappropriate comparison of the alternatives. Here’s why:

“To begin, suppose that mandatory ‘add-on personal accounts were introduced to fund that part of scheduled Social Security benefits that are unfunded—that is, benefits promised but not covered by present law payroll taxes. Because workers would own personal accounts, their ‘add-on’ contributions would not appear as additional incentive-reducing taxes and would not reduce labor supply. If borrowing against personal accounts were prohibited, as would be appropriate, they will likely lead to higher national saving and investment. As a result, future output, incomes, and the payroll tax base would all be larger. Therefore, present law payroll taxes would fund a higher level of future Social Security benefits.

“This higher level of benefits, funded out of present law payroll taxes under ‘add-on’ accounts, would not be available were we to adopt the ‘status-quo’ alternative of simply hiking payroll taxes to finance presently scheduled but unfunded Social Security benefits. That’s because, today, payroll tax surpluses are turned over to the Treasury and are consumed by the government rather than saved and invested.

“Recent studies show that government consumption expenditures increase more than dollar-for-dollar as Social Security surpluses accrue in the government’s coffers. If true, the lower saving and reduced work incentives from higher payroll taxes would shrink national output, incomes, and the payroll tax base, and present law payroll taxes would fund smaller future Social Security benefits.

“The difference between the two projections of future benefit levels funded out of present law payroll taxes—higher ones under ‘add-on’ personal accounts versus lower ones under a ‘status-quo’ hike in payroll taxes—constitutes the basic case for ‘carve-out’ personal accounts. How come? If ‘add-on’ accounts to pay for benefits that are promised but unpayable under present law effectively increases saving and investment and preserves work incentives, the (lower) level of payable benefits under a ‘status quo’ payroll tax hike could be financed with a less than 12.4 percent payroll tax rate under the ‘add-on’ policy. That implies room for a ‘carve out’—that is, for diverting a part of present law payroll taxes into personal accounts.

“How large would be the size of a feasible carve out? Would it ultimately completely do away with the need for ‘add-on’ contributions? These are difficult questions to answer. Two considerations suggest, however, that the scope for carve-outs could be large. First, several studies report that payroll taxes add significantly to marginal tax rates—especially for households’ secondary earners—and that labor supply is quite sensitive to higher taxes. Noteworthy here is a recent study by economics Nobel laureate Edward Prescott that attributes the significant decline in European labor supply relative to the United States since the 1970s to higher European social insurance taxes.

“Second, loss in annual output because of the savings-reducing impact of the current Social Security system’s pay-as-you-go financing structure is estimated to be of the same size as total current outlays on Social Security. That is, were the existing system based entirely on ‘add-on’ personal accounts, the gain in annual output due to higher saving and capital formation would have been about as large as total current outlays on Social Security.

“Introducing personal accounts (‘add-on’, or ‘carve-out’) involves an institutional change in the way Social Security funds are allocated compared to the current system. If conferring asset ownership to individuals rather than to the government can effectively increase national saving and investment without reducing work incentives, the future benefits funded by present law payroll taxes could be higher or those taxes could be reduced. Hence, separating the issue of fixing Social Security’s insolvency from that of introducing personal accounts is inappropriate. Ownership and management of retirement assets by the government has been shown to be ineffective. It’s time to adopt a new approach.”

Events

Students for Saving Social Security is planning a youth event at Taft Memorial Park in Washington next Wednesday, July 13, at 11 AM. There will also be an after-party at 1700 Pennsylvania Ave., NW on the rooftop. The after-party will feature an appearance by Sen. Jim DeMint. For more information visit www.secureourfuture.org.

Publications

The Social Security Administration has released the latest issue of its newsletter, “[International Update](#).” The publication for June looks at the most recent international developments concerning pension reform. This month’s issue discusses movements toward reform in Italy, Norway, Argentina, Canada, and Panama.

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