



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Bipartisan Group Calls for “Cease-Fire” on Social Security Reform

At a briefing on July 23, Sen. Lindsey Graham (R-N.C.) was accompanied by Reps. Charlie Stenholm (D-Tex.), Jim Kolbe (R-Ariz.), and Jim DeMint (R-S.C.) as they discussed their latest attempt to bring Social Security reform to the drawing table once and for all. In a letter addressed to the chairmen of both the Republican and Democratic congressional and senatorial elections committees, Graham, Stenholm, Kolbe, and others demand that discussion of Social Security be “open and honest.”

The letter states: “The white-hot rhetoric surrounding Social Security modernization is creating an environment that punishes those who discuss reform options openly and honestly. ... The American people deserve a modernized Social Security system that provides true retirement security for all Americans, while reducing the pressure on future taxpayers and on other budgetary priorities.

“We pledge to defend candidates—Republican or Democrat—who support Social Security modernization and are willing to make tough choices to address the fiscal challenges facing Social Security. We will no longer turn a blind eye to political attack ads that accuse responsible reform advocates of wanting to dismantle Social Security or slash benefits of current retirees.”

For example, during the 2002 congressional elections, Graham’s opponents spent several million dollars running attack ads that claimed Graham’s plan for personal investment accounts would put “*your* Social Security dollars into Enron stock.”

Graham comments: “It’s time for the demagoguery to stop. Social Security modernization will only be achieved if we make a commitment to discuss the need for reform candidly. Inaction is no longer an option. The longer we wait, the harder the task becomes.”

“We must begin to talk honestly and directly about the tough choices that must be made to strengthen Social Security,” said Stenholm, a long-time supporter of reform. “This issue is so important we cannot resort to, cannot tolerate, partisan attacks, demagoguery or irresponsible, empty rhetoric. The future of Social Security is too important for it to be used for partisan political purposes.”

Kolbe, another member of Congress with an impressive record in defending reform, said: “As members who have dedicated ourselves to promoting an honest and open debate on the issue of Social Security, we call on the chairs of the respective House and Senate campaign committees to engage in a responsible dialogue about the future of the Social Security system. Demagoguery by both parties do little more than fan political fires and contribute to the skepticism many American’s have about Congress’ ability to tackle tough issues.”

Kolbe and Stenholm both mentioned a similar, less official pact including DeMint and Rep. Nick Smith (R-Mich.). Stenholm was attacked from the right during the congressional elections of 1998 for merely considering that the retirement age might be raised. The partnering reformers wrote letters to newspaper editors defending Stenholm’s political bravery and quelled to some degree any damage done to his campaign.

As Graham pointed out at the conclusion of the briefing, if a member of Congress does not sign the pledge to have an ‘open and honest’ debate about Social Security, “you have to wonder *why*.”

Novak on “Cease-Fire” Letter

This week marks the beginning of a new stage in the Social Security debate. Sen. Lindsey Graham (R-S.C.) and Reps. Charlie Stenholm (D-Tex.) and Jim Kolbe (R-Ariz.) have made an official plea to the chairmen of the Democratic and Republican congressional and senatorial committees to put a stop to the counterproductive demagoguery of Social Security reform. *Chicago Sun-Times* columnist Robert Novak writes of the letter’s proposal in a July 21 op-ed. Highlights of Novak’s column, “[Seeking Cease-fire on Social Security](#),” follow:

“Sen. Lindsey Graham, the aggressive freshman Republican from South Carolina, had waited long enough, and last week he acted on his own, without a green light from a displeased White House. He began circulating among senators and House members of both parties a letter that is intended to radically reduce violence in the bitter Social Security wars. ‘This is a cease-fire declaration,’ Graham told me.

“Addressed to the chairmen of the Republican and Democratic campaign committees in both houses, the letter promises, ‘We will no longer turn a blind eye to political attack ads that accuse responsible reform advocates of wanting to dismantle Social Security or slash benefits of current retirees.’

“Circulating the letter with Graham are two moderate congressmen—Democrat Charlie Stenholm of Texas and Republican Jim Kolbe of Arizona—who have sought such non-aggression pacts in the past. The most important signatory so far is Sen. John Breaux of Louisiana, the centrist Democrat who often tips the Senate’s balance of power.

“The letter declares: ‘Inaction is no longer an option.’

“The concept of Graham’s initiative was embraced on a smaller scale in a 1998 agreement by Stenholm with Kolbe and two other Republican congressmen, Nick Smith of Michigan and Mark Sanford. All were supporting private Social Security investment accounts.

“When Stenholm was accused by Republican Sen. Phil Gramm of raiding the Social Security trust fund in the midst of a tough re-election campaign that year, the Republican congressmen came to his defense. When Smith came under similar Democratic attack, Stenholm defended him.

“Stenholm was one of the rare Democrats worried by such an attack, because few members of his party advocate private Social Security accounts. With House Democratic Leader Richard Gephardt designating the 2002 election a ‘referendum on Social Security,’ GOP reformers—including Senate candidate Lindsey Graham—encountered a withering attack. Some Republicans retreated, but Graham did not, was elected and decided to propose a cease-fire.

“Additional Democratic prospects to sign the letter include Sen. Thomas Carper of Delaware and Representatives John Tanner of Tennessee, Collin Peterson of Minnesota and Gene Taylor of Mississippi. That surely shatters the image of implacable determination to inflict pain on any Republican who would touch Social Security.

“The Graham letter quotes Bush’s 2000 campaign statement that ‘too many times, Social Security has been demagogued to frighten the elderly for political advantage.’”

White House and Others Support “Cease-Fire” Call

A letter addressed to the chairs of the Republican and Democratic congressional and senatorial campaign committees pledges to “defend candidates—Republican or Democrat—who support Social Security modernization.” Essentially, the letter, drafted by Social Security reform advocates Sen. Lindsey Graham (R-N.C.), Rep. Charlie Stenholm (D-Tex.), and Rep. Jim Kolbe (R-Ariz.), proposes a cease-fire in political attacks against members willing to talk about reform ideas. These members, in particular, struggled to defend their previous campaigns against opposition attack ads. The White House, members of President Bush’s senior economic team, and several advocacy groups have already praised the bipartisan initiative.

Stephen Friedman, assistant to the president for economic policy; Joshua Bolton, director Of the Office of Management and Budget; and N. Gregory Mankiw, chairman of the Council of Economic Advisers, wrote: “We commend you for taking a stand against politicized rhetoric that too often interferes with bipartisan cooperation on behalf of millions of participants in the Social Security program. The President believes modernizing Social Security to enhance its fiscal sustainability and to allow younger workers the choice to have a personal Social Security account is an important national priority. Although benefits for those how in or near retirement are secure, it is true that the longer we wait, the more difficult the job will become of making Social Security fiscally sustainable for future generations.”

At a press briefing on July 22, White House Press Secretary Scott McClellan commented on the president’s support of the letter and what effects it will have on the Social Security debate during the coming elections. McClellan said:

“The President is strongly committed to modernizing Social Security and enhancing its fiscal sustainability, particularly giving younger workers the ability to use a small portion of their Social Security funds to invest in personal retirement accounts,

personal security accounts. That's an important national priority; it's an important priority for the America people.

"We commend Republican and Democrats who are willing to put aside partisan differences and work together to get something done, and work together to save Social Security for today's seniors and strengthen it for tomorrow's retirees. So he appreciates members who want to put aside political differences and focus on what's best for the American people, and steps that will move us closer to bipartisan legislation that will accomplish what I just outlined, and that's saving and strengthening Social Security.

"It's important to have a national dialogue. It's important to work closely with members of Congress. And it's an important priority that we remain committed to addressing and working in a bipartisan way to get done."

In addition, several organizations committed to ensuring a fiscally responsible Social Security system also expressed support for the initiative undertaken by Graham, Stenholm, and Kolbe, among others.

[Alliance for Worker Retirement Security](#) executive director Derrick Max made the following statement: "Clearly the first step in such an open and fair debate is for all participants to put forward their own ideas for reform, and make clear their outlook for the future of the current system. Without that kind of full disclosure, the debate will be lopsided—as it has always been when some participants are able to criticize the proposals of others without offering meaningful alternatives. This approach has been not only unconstructive but also manifestly unfair. ... Now we're looking forward to seeing the plans of members on the other side of the fence, like Reps. Bob Matsui, Rosa DeLauro, Nancy Pelosi and others. Once all the cards are on the table, a genuinely 'open and fair debate' can begin."

In a letter to the mentioned members of Congress, executive director of the [Concord Coalition](#) Robert Bixby wrote: "We strongly support the aim of your letter and commend your initiative in organizing a bipartisan coalition to help enforce a political 'ceasefire' on this vital issue. ... It is no secret that Social Security promises more in future benefits than current law can afford. The case for reform is not a matter of ideology—it is a matter of arithmetic."

Social Security Seen as a Winning Issue

In a recent article for the *Milwaukee Journal Sentinel*, Hugh Newton cites the election 2002 successes of candidates that devoutly supported Social Security reform against multimillion-dollar attack ads that failed in campaign after campaign. Newton, a consultant to the Virginia-based grassroots senior citizens' organization [60 Plus Association](#) and [Black America's Political Action Committee](#), suggests that supporters of reform should have faith in their plans and the voting public's ability to correctly measure the reliability of these messages.

In his article, "Social Security: It's Time to Modernize the Program," Newton finds that the 2002 congressional elections as prove "that when Republicans stand firm, the Democrats' rhetoric is exposed for what it is: a cowardly and disingenuous attempt to scare America's most vulnerable citizens."

According to Newton: “most seniors have had enough of this rubbish. We know there isn’t a single member of Congress of either party who wants to destroy—or weaken—Social Security. We know our benefits are safe. While we know the GOP reform plan won’t affect us one bit, we also know it will help our grandchildren.”

He continues: “If nothing else, we know something has to be done to prevent the program’s financial collapse. And we know that the Democrats have offered nothing to the debate but criticism of the Republicans.

“In every House and Senate race where the Democrats tried to club their opponent on Social Security, they failed. This was true across the board and across the country—from Florida’s so-called Gold Coast district, where 40 percent of all voters are 55 or older, to North Carolina, where Social Security reform advocate Elizabeth Dole handily defeated Clinton budget director Erskine Bowles in the Senate race.

“The president’s Social Security reform commission has laid out three reasonable options for bringing the 67-year-old program into the 21st century.” Newton feels the Democrats should now contribute something significant to the movement toward reform and Republicans should “show they’re more than just talk; they need to stop talking and start fixing.”

Newton names countries where government-run pension systems have been partially privatized—Great Britain, Australia, Sweden, Mexico, Columbia, Poland, and Hungary—as well as countries that are seriously considering similar reform—France, Russia, and China. He believes our leaders should take a cue from those countries, at least on the issue of Social Security.

Newton realizes that reform will require some transitional costs, but “allowing the paralysis to continue will cost even more. ... Our choice is to make the investment now, while it is still possible to modernize the program, or to pay a massive bailout later.”

Weisbrot Still in Denial about Social Security

In an article for the *Milwaukee Journal Sentinel*, “System doesn’t need ‘fixing,’” opponent of Social Security reform Mark Weisbrot makes several claims that do not accurately portray the immediacy of reform. Weisbrot is codirector of the Center for Economic and Policy Research in Washington. Several of his claims follow, coupled with a refutation by the Cato Institute:

Claim: “We are repeatedly told that Social Security will face ‘enormous strains’ as the baby boom generation enters retirement. Nothing could be further from the truth. As anyone with Internet access can verify, Social Security’s finances are rock-solid (www.ssa.gov).”

Response: As anyone with Internet access can verify, Social Security’s current finances are not sustainable. See the [2003 Social Security Trustees Report](#), page 2, under “Long-Range Results”; page 8 for estimated benefit cuts required; page 16 for tax increases required; and 61 for the unfunded liability projection totaling \$10.5 trillion. By no means do the trustees claim the system’s finances are secure. For analysis of the

trustees' report, see Andrew Biggs's analysis, "[Failing by a Wide Margin: Methods and Findings in the 2003 Social Security Trustees Report.](#)"

Claim: "In the bubble years of the 1990s ... it was fashionable to dismiss Social Security as a waste of money that could be invested in the stock market. That's a tougher sell today, with the stock market down and not likely to rebound any time soon."

Response: This claim assumes that workers opting for personal accounts would not hold a diversified portfolio and would invest only for the shortterm. On the contrary, most proposals for personal accounts require a combination of stocks, bonds, and government Treasury bonds and suggest that portfolios should become less risky the closer the individual is to retirement. Furthermore, as former Cato analyst Andrew Biggs writes in his briefing paper, "[Personal Accounts in a Down Market: How Recent Stock Market Declines Affect the Social Security Reform Debate,](#)" the benefits of long-term investing in the private markets are far greater than Social Security's dismal rates of return. He writes, "Even with the recent stock market decline, a worker investing only in stocks would receive benefits 2.8 times higher than he would had he 'invested' the same amount of money in the current program."

Claim: "[Social Security's detractors] seize upon the Social Security Trustees' projection of a shortfall over the second half of their 75-year planning period—after 2041—and claim that the system is not affordable over the long run. *This is a joke.*"

Response: The necessary 27 percent benefit cuts and a 50 percent increase in payroll taxes are not a joke. Twenty-five trillion (\$25,000,000,000,000) dollar cash flow deficits are not a joke. For more information, see Biggs' analysis, "[Social Security: Is It 'A Crisis That Doesn't Exist'?](#)"

Claim: "By 2041, the average employee in the United States will be earning a real wage—adjusted for inflation—that is more than 40 percent higher than today. So few will care if they actually do have to pay 1 percent more of this much higher income to maintain the Social Security system that has kept the majority of our senior citizens out of poverty for decades."

Response: This claim does not address the fact that benefits are computed using "wage indexing," which means that as wages rise, so will benefits. Rising wages will not solve Social Security's troubles, only make demands on the system that much greater.

Upcoming Events and Announcements

The final stop on [Social Security Choice.org's](#) Pennsylvania Town Hall Tour will be held in Johnstown, Thursday, July 31st at 7:00 p.m. Join Rep. Pat Toomey (R-Pa.), Michael Tanner, director of the Cato Institute's Project on Social Security Choice, and David John, Social Security research fellow at the Heritage Foundation, as they discuss problems with the current system and lay out the critical need to move to a funded system with personal retirement accounts. The Johnstown event will be at the Holiday Inn, 250 Market Street, and will conclude the statewide tour. Social Security Choice.org kicks off a South Carolina Town Hall Tour on August 7 in Charleston, followed by a stop in Greenville August 13. Additional meetings will be held in Beaufort, Spartanburg, Myrtle Beach and Columbia.

New Hampshire [Citizens for a Sound Economy](#) hosts former U.S. Representative Tim Penny (D-Minn.) on Wednesday, July 30, at the second event of NH CSE's Choose Your Future Tour. New Hampshire CSE and the grassroots organization [For Our Grandchildren](#) have partnered to help inject Social Security reform with personal retirement accounts into the national debate. In addition to questioning presidential candidates on the issue, the partnership will host a series of debates, forums, and meetings across New Hampshire between now and the January 2004 presidential primary. The town hall meeting is open to the public and will be held in Laconia at the Opechee Park Club House at 6:30 p.m. Local columnist and radio host Niel Young will help to promote the event. For more information or to RSVP, please call 223-6817 or email Chuck McGee at cmgee@cse.org.

Job Opening, Senior Social Security Analyst: The Cato Institute's [Project on Social Security Choice](#) is looking for a senior Social Security analyst. The 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 résumé and writing samples to [Michael Tanner](#), director of Cato's Project on Social Security Choice.

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