



# Social Security Choice

## ***SOCIAL SECURITY THIS WEEK***

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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### ***Reform Advocates Speak Out on Social Security's 70th Anniversary***

Last weekend, Social Security turned 70 years old. Several reform supporters took the opportunity to remark on the program's history and the bleak future it faces if the urgent need for reform is ignored.

In a speech commemorating the founding of Social Security, President Bush said "For 70 years, Social Security has been a vital program and helped millions of America's seniors in retirement. The Social Security system is sound for today's seniors, but there is a hole in the safety net for younger workers. On this 70th anniversary, we renew our commitment to save and strengthen Social Security for our children and grandchildren, and keep the promise of Social Security for future generations."

Treasury Secretary John Snow penned an op-ed commemorating the anniversary, which ran in the Pittsburgh [\*Post-Gazette\*](#). In it, Snow called on lawmakers to take up Social Security reform in earnest in the fall. He wrote, "When members of Congress go back to Washington, D.C., in September, they will return to a full plate of important issues, from the Supreme Court nomination to the war on violent extremism. But these immediate issues are only part of the job; a government that does not also plan for the future of its citizens is not a responsible one. The president has made protecting and preserving the promise of Social Security a high priority. Reforming Social Security for our children and grandchildren must stay at the top of the 2005 legislative agenda. Their future is simply too important to let partisan politics stand in the way."

Snow also pointed out that in spite of Social Security's past success, "we must look forward. Today, President Bush has called on Congress to strengthen and modernize the program. In its current form, the program cannot deliver on its promises to younger generations...."

"Allowing workers to put some of their Social Security taxes into personal accounts would be the ultimate 'lock box' for that money. It would have his or her name on it; the government would no longer be able to take that money and spend it on other programs."

“These optional personal accounts would give working Americans the opportunity to build a secure nest egg of retirement savings that they own. For millions of Americans who never before had the opportunity to save or invest, this would be a great financial milestone on the road to a secure retirement. Personal accounts would mean that our children and grandchildren would have ownership and control over their hard-earned retirement dollars—a luxury that we simply don’t have under the current Social Security system.”

Others speaking out on behalf of reform included [Secretary of Labor Elaine Chao](#) and economist [Robert Pozen](#), who took the opportunity to defend progressive indexing against accusations that it would entail benefit cuts. Writing in the [Detroit Free Press](#), Pozen noted that, “progressive indexing has been criticized as a ‘cut’ relative to scheduled benefits. This is misguided for three reasons.

“First, no one has a legal entitlement to the current schedule of Social Security benefits; Congress can change it at any time. Second, under progressive indexing, the purchasing power of the Social Security benefits received by most workers would rise substantially over the course of the next century. Third, and most important, we simply cannot afford the current schedule of benefits. Absent major reforms, the Social Security system will default in 2041, and benefit levels will automatically be reduced by roughly 26% for all workers.”

### ***Jagadeesh Gokhale Refutes Krugman’s Claims***

Last Friday, *New York Times* columnist Paul Krugman used his bi-weekly column to again [lambaste the efforts](#) of Social Security reformers, particularly those in the Bush administration. Cato senior fellow Jagadeesh Gokhale penned a letter to the editor of the *Times* refuting some of Krugman’s more outlandish claims:

“I beg to differ with Dr. Krugman’s characterization of two claims about Social Security as falsehoods (‘Social Security Lessons,’ NYT 8-15-2005). Dr. Krugman levels the charge of ‘lying’ at the Bush Administration. However, the Cato Institute has been foremost in publicizing these claims and I would like to defend them.

“First, it has been clearly demonstrated in many academic studies that African-Americans receive a worse deal under Social Security’s retirement program because of their lower life expectancy compared to others. My own calculations—that have been peer-reviewed by the most knowledgeable experts on Social Security and that are based on a relatively conservative assumption on the difference in life-expectancy between whites and non-whites—also indicate that Social Security’s retirement program provides non-white Americans with a worse deal than whites at low and middle-income levels and throughout the age distribution.

“Second, the claim that a one-year delay in fixing Social Security’s insolvency causes a cost escalation by \$600 billion can be found in the Social Security Trustees’ 2004 and 2005 reports. This claim is validated by the difference between the Trustees’ estimates of Social Security’s unfunded obligations as of year-end 2003 (\$10.4 trillion) and year-end 2004 (\$11.1 trillion). Only a small part of this \$700 billion difference arises from the net effects of changes to estimation methodology.

“Indeed, the Social Security Trustees’ report refutes one of Dr. Krugman’s oft repeated claims: That faster future economic growth will solve Social Security’s insolvency automatically (‘Stopping the Bum’s Rush’ January 4, 2005 and ‘Many Unhappy Returns,’ February 1, 2005). In contrast, the Social Security Trustees write in their 2005 annual report: ‘...eventually, faster real wage growth, alone, results in an increase in the unfunded obligation of the program.’ (See chapter IV.B.5 of the report).”

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