

## **SOCIAL SECURITY THIS WEEK**

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF AUGUST 26, 2002

### **Social Security University Recap**

Social Security University, a four-day lunch series held this week, allowed Cato scholars Michael Tanner and Andrew Biggs and pollster John Zogby to share their knowledge of Social Security with Hill staff and others. Covering everything from trust funds, to benefit formulas, to reform proposals, Social Security University gave participants a clearer understanding of the Social Security system and options for reform. Monday's session was broadcast live on C-SPAN. Details of the series follow:

#### **Monday, August 26, 2002**

##### ***Social Security 101: The Program and the Problem***

Cato Institute Social Security experts Michael Tanner and Andrew Biggs discussed how the current Social Security system works, how it is financed, and why reform is necessary. They examined the current benefit structure, the nature of the Social Security Trust Fund, and the assumptions behind the trustees' projections of coming insolvency.

[Power Point Presentation](#)

[Watch the Event in Real Video](#)

#### **Tuesday, August 27, 2002**

##### ***Personal Accounts: Facts and Fantasy***

Andrew Biggs discussed how personal accounts fit into the debate about Social Security reform and examined major individual account proposals, both by Congress and by the President's Commission to Strengthen Social Security. Biggs examined major critiques of personal accounts and sorted out fact from fiction.

[Power Point Presentation](#)

[Watch the Event in Real Video](#)

#### **Wednesday, August 28, 2002**

##### ***The Alternatives to Individual Accounts***

Although proposals for individual accounts have been much debated, there has been far less discussion of the alternatives. Michael Tanner and Andrew Biggs discussed other proposals for Social Security reform, including tax increases, benefit cuts, and government investing. They looked at proposals from prominent opponents of individual accounts from Congress, academia, and special interest groups.

[Power Point Presentation](#)

[Watch the Event in Real Video](#)

**Thursday, August 29, 2002**

***The Politics of Social Security Reform***

Pollster John Zogby reviewed the latest public opinion findings and discussed how Social Security reform may impact the fall elections. Zogby, who has polled likely voters numerous times on this issue, addressed polling results on voters' opinions of individual accounts and looked at how the politics of Social Security reform will affect both sides of the aisle.

[Power Point Presentation](#)

[Watch the Event in Real Video](#)

***Rep. Fossella Argues for Personal Retirement Accounts***

Appearing on CNN's *Crossfire*, Rep. Vito Fossella (R-NY) argued for Social Security choice. Excerpts follow:

Carville: Congressman Fossella, the President's plan to privatize Social Security by all estimates will cost at least a trillion dollars. Do you think it's wise to privatize Social Security and put us another trillion dollars in debt or do you oppose the president's plan to privatize Social Security?

Fossella: You throw numbers around, but no, I happen to think the President is on the right side of history here. And I think the more you empower American people, the more you give them the opportunity to invest on their own and being in control of their own destiny and their own retirement, the better off we'll be.

Obviously, it's not coming up any time soon. But I happen to believe in the power and the freedom of the American people that when you give them the opportunity...

Carville: Would you bring it up between now and the election, say?

Fossella: Would I bring it up?

Carville: Why don't you make -- yes, if it's a great proposal, why are we waiting on it? Why don't we just let this go forward and let people decide what they want?

Fossella: No, I think...

Carville: See if they want another trillion dollars in debt.

Fossella: Again, I think you take the position to deny the people the right to invest on their own. I happen to believe -- I believe in the intelligence of the American people. And we've seen the growth in the number of investors that have -- have really resonated. You know, years ago when Social Security, for example, first came aboard the passbook (ph) savings rate was about the only vehicle for investment.

Now we see folks with 401 (k)s, mutual funds, and that's given -- that's because people, when given the opportunity, know how to control their own lives and their future. And I think we should err on the side of doing that than saying that the government knows everything and should be in control of every decision that affects every American family.

## **NRCC: Personal Account Opponents Misrepresent Filner Vote**

Congressional Democrats are poised to launch a multimillion-dollar ad campaign charging Republican incumbents with voting to privatize Social Security, the [National Republican Congressional Committee](#). The controversy centered on the Filner Amendment, a proposal offered by Rep. Bob Filner (D-CA) and voted on July 25<sup>th</sup>, 2001, garnering a majority of Democratic votes but largely opposed by Republicans. Some Democrats claim that GOP members who voted against the amendment established their support *for* Social Security privatization. The NRCC argues, however, that the Filner Amendment was not a referendum on Social Security at all and that voting says nothing regarding so-called privatization.

The Filner Amendment sought to block funds for the implementation of any recommendations by the President's bipartisan Commission to Strengthen Social Security. Twenty Democrats voted against the amendment, including Rep. Charlie Stenholm (D-TX). He criticized the pattern of inaction represented by supporters of the amendment, calling on those who oppose the Commission's reform efforts to "stand up and tell the American people how *they* would address [Social Security's] challenges."

[Some Democrats argue](#) that the Filner Amendment was a referendum on proposals from the President's Commission, but Republicans counter that the amendment was voted on nearly five months *before* the Commission issued its findings. Moreover, none of the Commission's recommendations even mentioned "privatization" as a solution to Social Security's problems. Further, two hundred and five Democrats supported Resolution 282 applauding the President for creating the Commission a week-and-a-half before the Commission issued its final report.

Why vote to block funding for a Commission and then commend the President for creating it, the NRCC asks. Republicans attribute Democrats' claims to election-year politics: "Millions depend on the benefits they have earned through a lifetime of work, and they deserve a dialogue free from the irresponsible accusations and distortions that have characterized the Democrat campaign thus far."

## **Economist: Europe's Aging Problems Bigger than U. S.**

[The Economist](#) reports that while the aging of the population will create fiscal burdens in both the United States and the European Union, the EU's low fertility rates relative to the U.S. means that Europeans face even greater pension burdens than will Americans.

"Both Europe and America face fiscal problems in providing pensions and health care as their baby-boomers retire. On some estimates, by 2050, government debt could be equivalent to almost 100% of national income in America, 150% in the EU as a whole, and over 250% in Germany and France. So while the burden is growing on both sides of the Atlantic, it is much heavier in Europe."

## **Rahn: An Elegant Solution**

Saturday's *Washington Times* featured [commentary from Cato adjunct scholar Richard Rahn](#). Rahn concludes personal retirement accounts are the most valuable

solution to the Social Security crisis. Using Chile as an example, Rahn argues, "Well-planned private programs can provide higher real benefits, more flexibility and lower real costs."

Rahn references a study by economists Norman Bailey and Criton Zoakos, which attempts to reduce risk, volatility, and costs associated with transitioning to a funded system of personal retirement accounts:

"The Bailey/Zoakos variation has the potential to solve much of the problem. Their insight is that it is possible to "pre-fund" part of the private retirement accounts by selling part of the future stream of required payroll tax or contributions made by workers."

"This concept can be best understood by analogy to the existing mortgage-backed securities. Many mortgages are written by banks, which, in turn, sell them to companies like Fannie Mae and Freddie Mac.

"These companies, in turn, package groups of mortgages into financial instruments known as mortgage-backed securities that are purchased by investors. Under the Bailey/Zoakos plan, investors would buy securities backed by Social Security contributions from a government created organization.

"This pre-funding of "Private Requirement Accounts" has a number of advantages, including risk reduction for retirees, more flexibility in retirement options, and a more orderly transition to a private system.

"Bailey and Zoakos assert that their plan "provides for a 4 percent annual increase of real -- after inflation -- benefits for all present and future retirees without any tax increase and without delayed retirement.

"Moreover, it provides for (1) a \$4.3 trillion surplus for the Social Security Trust Funds by the end of the transition period, (2) for retirement benefits at that time that will be 67 percent higher than they would have been had the present system been solvent, and (3) for the elimination of 10 percent out of the 12.4 percent of the FICA tax burden."

"This may sound all too good to be true, but the proposal has been reviewed by highly qualified experts and found to be sound."

### ***GOP Still Obsessed with "P-word"***

The following memo was sent from National Republican Congressional Committee communication directors Steve Schmidt and Carl Forti to Republicans running for Congress this year:

To: GOP Incumbents and Candidates

From: Steve Schmidt, NRCC Communications Director  
Carl Forti, NRCC Deputy Communications Director

Date: 08/26/02

Re: Words matter in the Social Security debate

There has been much confusion in the press on the difference between privatization and personal accounts. This confusion periodically results in inaccurate reporting. Because of this, Republicans must educate reporters on the difference between personal accounts and privatization. We must expose the Democrat strategy to portray 'personal accounts' and 'privatization' as identical. And in conveying our principles on Social Security, we must insist that the press accurately describe our positions.

In politics, words matter.

'Personal accounts' is not synonymous with 'privatization.' The term 'personal accounts' does not imply that Social Security would no longer remain a publicly administered system. Neither does it imply that individuals who do not opt for the accounts would experience any change in how benefits are provided.

Personal accounts are a means by which a portion of an individual's contributions would be saved within the Social Security system to fund future benefits, instead of being collectively loaned to the remainder of the federal government as under current practices. They are not unlike the Thrift Savings Plan (TSP) retirement model currently in place for federal employees. The federal TSP is not a "privatized" retirement plan, although it utilizes personal accounts. Neither Democrats nor Republicans describe the TSP model as a privatization plan because it is wholly under the domain of the federal government.

Democrats are doing all they can to blur the very important distinction between 'personal accounts' and 'privatization.' They are employing the word 'privatization' for the specific purpose of eliciting negative reactions among seniors because it carries connotations of dismantling the publicly run Social Security system. 'Privatization' is a false and misleading word insofar as it is being used by Democrats to describe Republican positions on Social Security.

Despite this, some reporters - even some national reporters - continue to inaccurately describe the concept of personal accounts as privatization. To the extent that reporters are wittingly or unwittingly complicit in the Democrat strategy to make 'personal accounts' and 'privatization' one in the same, they are using the power of the press to promote inaccurate Democrat spin and taking sides in the midterm elections.

Reporters have historically rejected partisan spin phrases as descriptors of policy proposals. They have done this because semantics matter. In the past, reporters have not used inaccurate or politically loaded descriptions in reporting because it violates a critical component of the journalistic code of ethics - reporters must distinguish between advocacy and news reporting. That is precisely the reason that most newspapers use 'estate tax' as opposed to 'death tax' and 'minimum wage' instead of 'living wage.'

It is very important that we not allow reporters to shill for Democrat demagoguery by inaccurately characterizing 'personal accounts' and 'privatization' as one in the same.

The Democrat Party's entire campaign strategy depends on the success they will have in convincing the mainstream media that words do not matter. But words do matter.

Former Senator Daniel Patrick Moynihan, who is among the most respected members of the Democrat Party, recognized this when he insisted that 'privatization' is "not a proper characterization." He called it "a scare word" and characterized it as a "semantic infiltration" designed to contort debate.

Republicans and Democrats who favor personal accounts, do so because insolvency of the Social Security system is imminent. The only alternative to increasing the rate of return on Social Security contributions is to raise taxes, cut benefits and raise the age of retirement. We reject the notion that Social Security should be privatized in the same way that we are opposed to payroll tax increases, benefit cuts and age of eligibility changes.

We must insist that reporters fairly and accurately describe our positions.

### ***Social Security Debate Heats Up in North Carolina***

The [Raleigh News and Observer](#) reports that Social Security reform has become a hot campaign issue in North Carolina. GOP Senatorial candidates Elizabeth Dole and Jim Snyder continue their support for Social Security choice.

Specifically, Elizabeth Dole “would support allowing workers to invest a ‘very small portion’ of their Social Security payroll tax into a diversified index fund for stocks and bonds as a way to gain a larger return and to stabilize the system.”

Snyder’s plan is slightly different: “Under Snyder’s idea, adults would continue under the current system, but 16-year-olds would be a part of a new plan in which 75 percent of the money could go into the equivalent Treasury bills and 25 percent could go into approved, high-quality investments... ‘The funds would be entirely segregated, fully independent not only of other government expenditures but in effect be private funds—analogueous to private portfolio—joined together with millions of others which would help fuel our great economy.’”

Their Democrat opponent, former White House Chief of Staff, Erskine Bowles argues that private accounts are “too risky” and would incur large transition costs. Still, Bowles is not sure of his own plan: “I think we ought to make Social Security secure... the specific way to do it, I’ve not settled on it.” The *News and Observer* notes that opponents of individual accounts “largely avoid proposing any of the painful choices that most experts think will be required of a long-term solution, such as raising taxes, raising the retirement age, means testing or allowing private accounts.”

### ***Debate Needed***

According to [this editorial](#) in *The Oklahoman*, Social Security’s financing problem will not disappear, despite recent political demagoguery: “The inherent problems of Social Security's solvency in the future remain, as baby boomers near retirement and a stagnant pool of younger workers are left to support the system. That's why it is imperative to keep the debate going, regardless of short-term economic and

political fallout. We're happy to report there is such talk, even if not everyone is paying attention.”

### ***Commissioners Stay Busy***

Despite the end of the President’s reform Commission, the commissioners and staff of the [President’s Commission to Strengthen Social Security](#) have continued their efforts on the issue.

Commissioner Estelle James of the Urban Institute authored [a report](#) released by the [National Center for Policy Analysis](#) that examines “Social Security Around the World.” James explains there are five lessons from international pension reform:

Lesson 1: Private sector control over personal retirement accounts is more profitable than a centrally controlled pension reserve.

Lesson 2: Individual accounts can be created in a way that minimizes administrative fees.

Lesson 3: Personal retirement accounts, if structured properly, do not involve undue risk.

Lesson 4: Reformed systems can continue the redistribution of income.

Lesson 5: Reform involves transition costs.

Commissioners John Cogan of the Hoover Institution and Olivia Mitchell of the Wharton School co-authored, [“The Role of Economic Policy in Social Security Reform: Perspectives from the President’s Commission.”](#) The paper examines “how economics research influenced the Commission’s analysis of how to structure personal accounts, ways to enhance traditional Social Security program finances, and means of measuring the extent of financial progress achieved through reform.”

Also, Commission staffer and Cato Social Security analyst Andrew Biggs examines the Commission’s proposals and criticisms in [“Perspectives on the President’s Commission to Strengthen Social Security.”](#)

### ***Upcoming Events***

On September 10<sup>th</sup>, 12<sup>th</sup>, 19<sup>th</sup>, and 24<sup>th</sup> the Cato Institute, America’s Future Foundation, and Third Millennium will host a series of events concerning Social Security and Young Americans. [Click here to view details and registration information.](#)

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