



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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GROW Accounts Are Likely to See a House Vote in Fall Session

Last week, *Washington Times* political correspondent [Donald Lambro wrote](#) that according to House Ways and Means chairman Bill Thomas (R-CA), “it is certain that bond-only investment accounts will come up for a vote in the House chamber later this year, one way or another.”

Lambro continued, “An internal memo, sent to House Republican leaders by Mr. Thomas before the August recess began, also made it clear that the grow-accounts proposal will ‘likely’ be a part of package that he brings out of committee after Labor Day, according to a copy of the document obtained by *The Washington Times*.”

“The grow-accounts plan, sponsored by Ways and Means Social Security subcommittee Chairman Jim McCrery, Louisiana Republican, is being pushed by House Speaker J. Dennis Hastert of Illinois and Majority Leader Tom DeLay of Texas as a politically risk-free way to give President Bush a key part of his plan that would allow workers to invest a portion of their payroll taxes in securities.

“The plan was also seen as a way to put Democrats in the uncomfortable position of opposing a bill that Republicans say will ‘stop the spending raid on Social Security.’”

In a separate column appearing on [Human Events online](#), Lambro wrote the following:

“It’s now almost certain that the House will vote this fall on a Social Security reform bill to let workers invest part of their payroll taxes in U.S. Treasury bonds that they would own.

“Contrary to the belief that President Bush’s investment accounts plan is dead, one half of his reform proposal is alive and kicking in the House — the far less controversial part. The so-called ‘grow accounts’ bond investment bill has the full support of House Republican leaders, including Speaker Dennis Hastert (R-Ill.) and Majority Leader Tom DeLay (R-Texas), who is pushing for an early vote.

“The only thing that’s missing right now is Bush’s support. The White House has been cool to the idea, but conservative strategists say the bill would ‘pass the House in a heartbeat’ with the president’s backing.”

Lambro's certainty about the intentions of House leaders was echoed—though somewhat less enthusiastically—by [Carl Leubsdorf](#) of the *Dallas Morning News*. Leubsdorf lists statements by both Rep. Thomas and Karl Rove as evidence that a move in the House is inevitable.

Bob Dole: FDR Believed in “Bold, Persistent Experimentation”

This week, former Senator Bob Dole had an op-ed in the *Charlotte Observer* that argued that not only is Social Security reform through private accounts imperative, but that it's consistent with many of Franklin D. Roosevelt's own principles. Excerpts of the op-ed, which can be seen in its entirety [here](#) (registration required), follow.

“Seventy years ago this month, Franklin Delano Roosevelt signed the Social Security Act. Passed with bipartisan support, this great achievement of FDR's New Deal established a basic retirement safety net for all Americans and has lifted millions of seniors out of poverty.

“However, some critics today invoke FDR's name to attack any effort to modernize this great American success story. As Congress faces difficult decisions this fall to ensure that Social Security remains solvent for the long term, it's worth remembering some of the principles FDR used to build the program that has been so good to the Greatest Generation.

“First, he emphasized innovation. He proclaimed the motto of the New Deal was ‘bold, persistent experimentation.’ He was a pragmatist who believed in results. He was not wedded to old ways of doing things, and today we face a situation that desperately needs new thinking.

“The facts are clear: In 1950, 16 workers supported each beneficiary in the Social Security system. Today, the ratio of workers to beneficiaries has dwindled to nearly three-to-one, and it will fall further to just two workers for each beneficiary before today's teenagers retire.

“The impact of the Baby Boom retirement on Social Security's finances is dramatic: by 2017, the government will pay out more in benefits than it receives in taxes. When today's younger workers begin to retire, Social Security will be bankrupt, resulting in a 26 percent benefit cut or a 35 percent tax hike to make the program whole again. Over the last 70 years, the solution to this problem has been unchanged: raise payroll taxes. It's clearly time for some new thinking.

“FDR was also adamantly opposed to burdening future generations with Social Security debt. As he told his Secretary of Labor Frances Perkins in a discussion of the issue: ‘It is almost dishonest to build up an accumulated deficit for the Congress of the United States to meet in 1980. We can't do that. We can't sell the United States short in 1980 any more than in 1935.’

“Yet today, our grandchildren face \$11 trillion in Social Security debt. We have an obligation to do something about this. While this effort will require difficult choices, it will also present an opportunity for visionary leaders to strengthen Social Security. One part of the solution is simple: give every American the opportunity to choose a voluntary personal account.

“A voluntary component to Social Security is not a radically new idea. In a 1935 letter to Congress, FDR proposed that Social Security should include an option for voluntary annuities ‘by which individual initiative can increase the annual amounts received in old age.’

“Today, we have the opportunity to create a voluntary option through personal retirement accounts. These accounts would build on Social Security’s legacy by giving millions of Americans the opportunity to benefit from the power of compound interest. The accounts would be simple: Workers could choose to invest part of their Social Security payroll taxes in safe investment options, ranging from no-risk Treasury notes to a conservative mix of stocks and bonds. The administrative fees would be low, and the money invested would be held until retirement...

“President Bush remains committed to fixing the system, and Congress has another opportunity to take it up this fall. House leaders have proposed a plan to save the Social Security surplus in voluntary personal accounts — the first step toward making the system a good deal for America’s younger workers. Add in measures to ensure the program’s solvency, and all we need to secure Social Security for future generations is the kind of bipartisan support that made passage of the original bill and the 1983 reforms possible...”

Michael Tanner: Start by Saving the Surplus

In a commentary in the [*Washington Times*](#), Cato’s Mike Tanner makes the case for starting down the road to Social Security reform by simply saving the surplus tax dollars that are collected each year. Creating personal lockboxes from the surplus dollars, Tanner argues, is the only way to protect Social Security money from Congress. An excerpt of his commentary follows.

“The basic problem is Social Security is currently set up so workers don’t own their Social Security funds. Because workers don’t own their money, Congress treats that money like its own: free to spend on whatever the members choose. And spend it they do, on everything from the war in Iraq to the International Fertilizer Development Center. In return, the Social Security Trust Fund is given a bond, essentially an IOU, which will eventually have to be repaid out of future taxes.

“It’s the ultimate insult. Congress spends our Social Security taxes, then expects us to pay more taxes to repay its borrowing. To date, Congress has borrowed and spent more than \$1.7 trillion of Social Security taxes. This year it will borrow another \$60 billion.

“This has been going on more than 20 years, under both Democratic and Republican administrations. Members of both parties have resisted all attempts to keep their hands out of the Social Security cookie jar. In fact, some seem proud of what they are doing. House Minority Leader Nancy Pelosi says: ‘There’s nothing wrong with Social Security lending money with the prospect of returning it. ... There is a surplus in Social Security, and under the law Social Security can lend that money to the government for other purposes.’

“As long as politicians have that attitude, the only real way to keep Congress from spending Social Security taxes is to get that money out of Washington. If Congress insists on spending like a drunken sailor, it’s time for an intervention.

“Now, Sen. Jim DeMint of South Carolina and Reps. Paul Ryan of Wisconsin and Sam Johnson of Texas, all Republicans, and others have proposed legislation to put the whole federal government back on the wagon.

“Their plan would rebate Social Security surpluses to workers as contributions to personal accounts. The money would belong to the worker, in an account under his or her name. This would represent a true ‘lockbox,’ devoting that money solely to the worker’s retirement. No politician could touch it.

“The plan would have other benefits. Because workers would own their accounts, upon their deaths they could pass money on to loved ones. And, without Social Security surpluses to hide behind, Congress would have to choose to run higher deficits, raise taxes, or, preferably, spend less.”

Tibor Machan: Dependence on Government Is a Risk, Not a Solution

Cato adjunct scholar Tibor Machan [writes this week](#) in the Jacksonville, NC, *Daily News* that to characterize voluntary personal retirement accounts as risky “assumes there is no risk with the government’s coercive system.” In other words, Machan asks, they’re risky compared to what? He writes:

“The entire Social Security program is in a way a hoax—no one can really obtain bona fide security in old age from what this program provides. Even if you have worked like a dog all your life and the government has extorted portions of your earnings for your own good, getting back roughly \$1,500 a month when you reach age 65 is hardly going to make you secure economically, socially or any other way.

“So where do the champions of this utterly failed program come off with their ruse about how the minuscule privatized portion will be oh-so-risky, while the government’s scam is brimming with certainty?

“The idea, I think, stems from the belief that coercive force is something that can always be relied upon. And there is something to this, but only a little bit.

“Whenever people reach a point of exasperation, they are tempted to deploy force—against their children, spouses, even friends, not to mention strangers who aren’t in a position to strike back (as it happens with all the redistribution of wealth legislation and public service conscription). If you cannot get anywhere with them by reasoning, by trying to persuade them or by imploring them to do what you want, at last resort smack them around a bit, just as those loan sharks do with their clients who will not pay up.

“Yet, a policy of deploying coercive force against recalcitrants is at most a short-term, temporary solution to solving any kind of problem. This is true, of course, with Social Security as well. The collection of this part of what the government extorts from us falls way short indeed from solving the problem of old-age economic insecurity. It’s a pittance.

“Without personal savings or some other support system to supplement it, Social Security will get you virtually nothing. So, clearly, it is no solution to the problem it is supposedly designed to solve.

“And that is just what the fate of all coercive measures tends to be. Force against other people only works well as a policy of self-defense or retaliation. But never as the first step. The horrendous risk of deploying coercive force is to create a citizenry that's complacent about its security and misguidedly relies on the government to take care of it in old age. That is a far greater and more destructive risk than anything one may face with the stock market or other investment options where the money is left in one's own hands to manage for one's own good.

“If people realized there is no mythical risk-free government Social Security, that it is indeed the ruse the critics must always have known it is, most of them would likely start thinking early in their lives about their old-age security, get competent advice about it, and reap the fruit of this policy of prudence so they really do have something to fall back upon when the need arises late in their lives.

There is no bona fide guarantee with government's coercive policies, only the illusion of it, as with all reliance on a policy of coercive force in human relationships.”

Slovakia Registers Millionth Participant in Savings-Based Pensions

Only eight months after Slovakia's new pension system became operational, Slovak officials reported recently that they have registered their one-millionth participant, far earlier than was originally anticipated.

Slovakia's new system is made up of three pillars. Payroll taxes—set at 18% of payroll—are divided equally between the first and second tier. Tier one goes towards a defined benefit, based on years of work and average earning. Benefits are indexed to a split of prices and wages. Tier one is not unlike traditional U.S. Social Security.

In tier two, the other half of the payroll tax is given to a second tier provider that is selected by the worker. High entry barriers prevent market saturation and too much information from confusing novice investors by limiting the number of companies able to serve as providers, but there are still a number of providers to choose from, ensuring that competition remains a regulating force.

The third tier is voluntary and creates mechanisms through which participants can save even more for retirement as they are able. The third tier operates not unlike private savings vehicles such as IRAs or 401(k)s.

Edited by Brooke Oberwetter, boberwetter@cato.org. To subscribe or unsubscribe to *Social Security This Week*, please contact Christy Rhoton at (202) 789-5259 or crhoton@cato.org.