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Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Mike Tanner Responds to Kerry's Social Security Claims

At a campaign stop in Florida on Wednesday, presidential hopeful John Kerry blasted President Bush's plan to allow young workers to divert a portion of their payroll taxes into private accounts. Kerry cited a new study by University of Chicago business school professor and "informal" Kerry campaign consultant, Austan Goolsbee, according to the *New York Times*. The study shows that switching to a system of private accounts would generate $940 billion in management fees to the financial services industry while cutting seniors' benefits.

Kerry also renewed his pledge never to privatize Social Security, yet he again failed to suggest a plan to save the ailing system.

Cato's Mike Tanner responded to Kerry's claims with the following statement:

"What does it matter if Wall Street makes money as long as workers receive better and higher retirement benefits? Our goal should not be to impoverish Wall Street, but to provide the best possible retirement income for workers. Sen. Kerry's efforts reveal a deep-seated hostility to the American free enterprise system.

"Sen. Kerry has still not told us what he would do to fix Social Security. Remember, it was former President Bill Clinton who spelled out the limited options for reform: raise taxes, cut benefits, or invest privately. Since Sen. Kerry is opposed to private investment, he should tell us what taxes he plans to raise or what benefits he will cut.

"Further, Prof. Goolsbee's study is based on administrative costs far higher than other studies have shown. The Social Security Administration puts administrative costs for individual accounts at only 30 basis points, one-third of Goolsbee's estimate. The Cato Institute has estimated administrative costs at between 30 and 65 basis points.

"Administrative costs cannot be considered in a vacuum. What counts is not cost alone, but the quality of what you get. Individual accounts would provide higher benefits, even after administrative costs, than what Social Security can actually pay. Moreover, individual accounts would give workers ownership and control over their retirement income. That is a value that cannot be measured in terms of administrative costs."

Heritage Foundation Refutes Washington Post's Claims

The Heritage Foundation reacted to a *Washington Post* article that presented the claims of University of Chicago professor Austan Goolsbee. In the *Post* article, Cato's Mike Tanner acknowledges that PRAs would likely help Wall Street, but questions why doing so is in and of itself a bad thing.

"The windfall to Wall Street is unavoidable, Tanner said. 'The question is whether we're giving young workers more of a return [on investment] than they'll be getting today.'"

In a response posted on the Heritage Policy Weblog, analysts assert that far from being a damning indictment of personal accounts, Goolsbee's research actually demonstrates the benefits of such a system: if personal accounts can generate such a large windfall to the financial services industry, they reason, certainly the accounts must be exceptionally profitable. The text of their response follows.

"A new study by economist Austan Goolsbee of the University of Chicago concludes, in the *Post's* words, that Social Security reform with personal accounts 'would hand financial services firms a windfall totaling $940 billion over 75 years.'

"Already political opponents have seized on the number as proof that the President, a leading backer of personal accounts, is in Wall Street's pocket and that, as one opponent put it, reform 'hurts seniors by cutting benefits, and it hurts our economy by increasing the deficit.'

"But are those charges really true? (The substantial ones—we'll ignore the other.)

"According to the *Post*, the study assumes management fees to financial services firms would total 0.8 percent annually of the money invested in private accounts that are larger than $5,000. In other words, for each of 75 years, the study calculates {(value of all accounts worth more than $5,000) X 0.008}, and then it adds together these intermediate terms to reach the total, $940 billion.

"Well, isn't it obvious that the total value of all those personal accounts is going to have to be pretty big to come up with nearly $1 trillion in fees?

"Let us suggest a better lead paragraph to the *Post*: 'President Bush's push to create individual investment accounts in the Social Security system would result in Americans investing trillions of dollars more in retirement savings over 75 years, according to a University of Chicago study to be released today.'

"So it seems safe to say that reform to create personal accounts won't hurt seniors. And if you're still doubtful, read this report in which David John analyzes the impact of reform on a variety of low- and medium-income individuals and families. The bottom line: personal retirement accounts would allow workers of all income levels to create substantial 'nest eggs' (money in addition to monthly payments) that they could spend in retirement or pass on to future generations.

"And what about increasing the deficit? Jagadeesh Gokhale argues that the costs of reform are usually mischaracterized. Yes, reform might cost around $2 trillion, he writes, but without reform 'the government's commitment to pay future retirement benefits in excess of future payroll taxes amounts to $12 trillion.'

"To sum up: Reform with personal accounts would create trillions of dollars in individual savings (according to Austan Goolsbee of the University of Chicago!) and wipe out about $10 trillion in net debt at the same time. And the downside? Modest fees to financial services firms. Seems like a great deal to us."

New York Times Highlights Difficulties in Selling Social Security Reform

Writing in the *New York Times*, Robin Toner and David Rosenbaum note the difficulties President Bush may face concerning Social Security private accounts. They detail the current political climate, emphasizing "a polarized Congress." Toner and Rosenbaum elaborate, stating that Democrats are reluctant to alter what they see as a shining beacon of the New Deal. Yet the authors point out that younger workers and conservatives believe outdated programs from the New Deal and Great Society should be updated for modern needs. Doing so promises to pose significant hurdles for the president, they conclude. Excerpts of the article follow.

"President Bush's vision of an 'ownership society' is built, as much as anything else, on a sweeping promise: that he will transform Social Security so younger workers can divert some of their payroll taxes into private investment accounts.

"At a rally in Pennsylvania last week, Mr. Bush declared, as he does at almost every campaign stop nowadays, that 'younger workers ought to be able to take some of their taxes and set up a personal savings account, an account that they can call their own, an account that the government cannot take away and an account that they can pass on from one generation to the next.'

"It is a longstanding promise, popular with many younger workers and with conservatives who argue that the huge social insurance programs of the New Deal and the Great Society badly need to be modernized.

"The private accounts, first proposed by Mr. Bush in his 2000 presidential campaign, fit neatly into his philosophy of an 'ownership society,' the idea that Americans should be given more control over—and responsibility for—their health care, retirement and financial lives.

"But behind the sweeping promise are some harsh political realities that could loom large in this fall's debates and the final clashes of the presidential campaign. Mr. Bush has never proposed a specific plan to reach his goal—and, critics say, for good reasons. With the budget already running large annual deficits, recent estimates of typical plans for private accounts show they would cost as much as $2 trillion over the first 10 years.

“Advocates of private accounts say they would solve the government pension program’s long-term fiscal problems, letting today’s younger workers retire with nest eggs bigger than the government could provide.

“Michael Tanner, director of the Cato Institute’s Project on Social Security Choice, argued: ‘Under the current system, you pay in and the politicians in Washington decide how much you’re going to get in the end. Under individual accounts, you own and control that money. It belongs to you.’

“But the changes Mr. Bush seeks are difficult politically in a polarized Congress, where many Democrats are convinced that the Bush plan would undermine one of the last pillars of the New Deal.

“Moreover, experts and advocates for the elderly say that the costs of creating such accounts only worsen the nearer-term strains on Social Security, as baby boomers retire. John Rother, policy director for AARP, the big lobby for older Americans, said, ‘Private accounts would make Social Security’s fiscal health much worse, without drastic cuts in guaranteed benefits.’

“Democrats say Mr. Bush’s vagueness is by design. Representative Robert T. Matsui, a senior Democrat on the Ways and Means Committee and chairman of the Democratic Congressional Campaign Committee, declared: ‘They can act really brave over at the White House when they talk conceptually. They say, ‘I’m not cutting benefits, or raising payroll taxes, and I will let young people divert 2 percent.’ It sounds wonderful—and it cannot be done.’

“Republicans counter that the Democrats are trying to retain their traditional advantage concerning Social Security and are choosing to scare the elderly rather than confront the need for an overhaul. Mr. Bush said this week that ‘you'll hear the same rhetoric you hear every campaign,’ adding, ‘It is the tired, pathetic way to campaign for the presidency.’

“Senator Judd Gregg, the New Hampshire Republican who has long pushed for a Social Security overhaul, said, ‘I think the president’s position is as far as you can go in a political climate.’

“Tim Adams, the Bush campaign policy director, said Mr. Bush had yet to offer a specific plan because no time was quite right in a term dominated by the war on terror.

“‘The president is adamant that we do it in a bipartisan way,’ Mr. Adams said. ‘And it’s such a big issue that it almost requires an election to give the president the political capital and the ability to frame the issue so that he can get his conceptual solution through a divided Congress.’”

William Murchison: Waiting for an Honest Debate on Social Security

As the election draws near, Bush and Kerry are beginning to talk about Social Security; William Murchison of the *Dallas Morning News* doesn't like what he hears. Murchison conveys his frustration over this year's lack of meaningful debate on Social Security, noting that, "If nothing else, rhetoric handily takes the place of thought." He goes on to debunk common misconceptions regarding reform, which opponents of private accounts have traditionally exploited to defend their position. His commentary follows.

"Oh, boy; all the national conversation about swift boats, assault weapons and Dan Rather's (we can only hope) red face! Could we suppose the country faces any real, clock-tickingly urgent problems—like the certainty of a Social Security deficit in just 14 years?

"Among the great wonders of presidential politics is that you cock your ear to catch invigorating discussions of challenges to come, and you hear...perfect stillness; or, alternatively, John Kerry deploring the expiration of an assault-weapon ban whose contribution to the national weal was invisible during its 10-year life.

"What we don't, and won't, hear is engagement over Social Security. This is largely because Sen. Kerry and his cohorts have perennially made partisan frontal attacks a substitute for engagement over Social Security. As with Senate Majority Leader Tom Daschle and the immortal words: 'I don't want to 'Enron' the people of the United States. ...I don't want to destroy the Social Security system.' Just what Republicans want, right? We'll get to that in a moment.

"Granted, tottering early-Victorian specimens like the present writer are assured of receiving what the government has promised them (as little as that may be). If you were born after 1975—my children would be prime examples—you have cause to wonder at the agreement not to talk about the Social Security elephant sprawled across the living room floor.

"To begin with, and contrary to popular belief, there's no trust fund in which Social Security taxes pile up. Our own taxes finance someone else's benefits, and always have. The system's present 'surplus' of $1.36 trillion disappears in 2018, 10 years after the baby boomers start retiring.

"President Bush, in his GOP convention speech, did talk of building 'an ownership society,' one that would allow 'younger workers to save some of their [Social Security] taxes in a personal account.' That was as detailed as it got or is likely to get, at least through November. Washington, D.C., Republicans acknowledge a sad reality. Whenever they propose to rationalize Social Security, the political wind machine cranks up. It seems—at least the Democrats say it does—that what's proposed is the destruction of an American institution only a little less loved than Mom's apple pie.

"There are only two problems with such a claim: (1) It's false; and (2) the Democrats have no answers of their own; no real answers, that is.

"Consider Point 1. Why is it un-American to speak, as Republicans generally do, of allowing the creation of personal retirement accounts with a portion of one's Social Security taxes? The greater the number of private accounts, the less dependence on the government. Yes, the diversion of money from the system would create what the Heritage Foundation calls 'transitional costs' of $6 trillion to $7 trillion. And the cost of taking no action whatever? Twenty-seven trillion dollars. Take your pick.

"Do personal accounts mean 'privatization' of the system? I'd like first to ask why, in a land of liberty, the word 'private' is supposed to excite horror and revulsion. But privatization isn't even on the table: All that's on the table is realistic options for those with less regard for government beneficence than Mr. Kerry displays.

"Consider Point 2. Defenders of the present system have no plan of their own. Here are Sen. Kerry's breathtaking ideas: 'grow the economy'; 'restore fiscal discipline'; seek 'genuine bipartisan reform.' I kid you not.

"It makes for great populist rhetoric: Enron! Bankers! Enemies of the little guy! Windsurfers! (Wait, we're getting personal now...) If nothing else, rhetoric handily takes the place of thought—no bad proposition if you haven't got any particular thoughts."

AP Questions the Candidates on Social Security Reform

Each week during the campaign, the Associated Press asks the candidates a question about three different issues. This week, one of the questions was about Social Security. While President Bush repeated his support for a system of private accounts, John Kerry failed to articulate a plan, instead taking the opportunity to attack the president's record and reiterate his opposition to privatization. The question posed by the AP and the candidates' responses follow.

"Do you rule out raising the retirement age for Social Security benefits to help the program's solvency?"

President Bush said, "Social Security is sound for today's seniors, but is not secure for our children and grandchildren. In 1950, 16 workers paid into Social Security for every beneficiary. Now, 3.3 workers support every beneficiary retiree and that will drop to two workers by 2040. I will keep Social Security's promise to today's seniors, while strengthening it for future generations, without changing benefits for retirees or near retirees or raising payroll taxes. We will instead add voluntary personal savings accounts to allow today's workers to build a nest egg that can be passed along to their families. These accounts could be part of a comprehensive plan, which according to the Social Security actuaries, will strengthen the system permanently."

Senator Kerry's reply was: "I believe in the family value expressed in one of the oldest Commandments: Honor thy father and thy mother. As president, I will not privatize Social Security. I will not cut benefits. I will not raise the retirement age on America's senior citizens. And together, we will make sure that senior citizens never have to cut their pills in half because they can't afford lifesaving medicine and more and more of a senior's Social Security check is eaten up by Medicare premiums. That is the choice in this election, between keeping the promise of Social Security or choosing George Bush's secret plan to privatize Social Security, gambling on his four-year record of wasting surpluses that could be used to strengthen Social Security and instead giving more tax cuts to the wealthiest Americans."

South Carolina's Senate Candidate Jim DeMint has Big Plans for Social Security

A feature in the *South Carolina State* by Aaron Gould Sheinin discusses Republican senatorial candidate Jim DeMint, who worked as a House member on Social Security reform. The article focuses on DeMint's entire candidacy, but it features a section on his earlier Social Security reform efforts and his hopes for reform in the future. An excerpt of the article follows.

"DeMint sees his way—to challenge the way things are—as the only way to go.

"'It's much easier as a politician to maintain the status quo and wait for public opinion to lead you in a direction,' he says. But, on some issues, 'we don't have time to wait for it to come around.'

"That has led DeMint to be on the front lines of a handful of high-profile issues.

"DeMint's plan to revamp Social Security gained steam initially but since has bogged down. It would allow workers to invest a portion of their taxes—which now fund Social Security—in individual retirement accounts.

"Just before it was introduced in September 2003, DeMint gained an unlikely partner: U.S. Rep. Harold Ford, D-Tenn. Democrats historically have opposed any privatization of Social Security, but Ford said DeMint's plan was 'progressive.'

"'Representative DeMint and I agree on the need for Social Security reform and on the goal of allowing more workers to build wealth,' Ford said then.

"Less than two weeks later, when the bill was introduced, Ford backed off. He said DeMint had no plan to pay the more than $8 trillion in transition costs his plan would require over the next 75 years.

"'Without a way to pay for it, any Social Security proposal will lack a critical measure of credibility,' Ford said.

"DeMint says Social Security has been one of his passions in Congress, but also one of his frustrations.

"'I'm real proud" of the bill, he says. It is, he says, 'considered one of the best on the Hill. We haven't passed it yet, but I'm considered one of the leaders on Social Security reform. That's a big accomplishment and one of my big hopes in the Senate.'

"The conservative Cato Institute has said DeMint's plan 'is not perfect. It is more complex and more expensive than some experts would like to see.'

"But Michael Tanner, director of Cato's Project on Social Security Choice, says DeMint's proposal 'would restore Social Security to permanent solvency, and do so for a lower cost than simply propping up the existing program.'

"While DeMint is pleased with the progress on Social Security, he had wished for more.

"'I had always hoped that we would get a vote on Social Security reform,' he says.

"He believes Ford ran from the bill because Democratic leaders 'said it would help me in my Senate race.'

"Efforts to reach Ford for a response were unsuccessful.

"DeMint's plan is opposed by the AARP, which counts 35 million seniors among its members, and is hampered by a Congressional Budget Office report that said Social Security will remain solvent for longer than expected, at least until 2052. That takes pressure off Congress to do anything now."

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