



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Cato Releases Educational Guide to Social Security Reform

The Cato Institute this week released “A Community Leader’s Guide to Social Security Reform,” an informational booklet for those seeking the straight facts on the troubles facing the ailing government retirement program. The guide was written with community leaders in mind, to help them educate themselves and others on the importance of Social Security reform and the benefits of individual accounts.

The Cato Institute has been warning of the fiscal crisis facing Social Security and calling for reform for nearly 25 years. In July, Reps. Sam Johnson (R-Tex.), Pat Toomey (R-Penn.) and Jeff Flake (R-Ariz.) introduced a bill modeled after Cato’s plan for Social Security reform through individual accounts. The Cato plan would allow younger workers to amass substantial retirement savings, while protecting those workers who are already heavily invested in the current system. The community leaders guide is another effort by Cato to educate the public on Social Security and how reform can benefit Americans, particularly today’s young workers.

The guide, written by author and business consultant Ellen Maidman-Tanner, is divided into six parts, each designed to teach individuals how to be active and informed participants in the national debate over Social Security:

1. The **Overview** explains how the current Social Security system works. It also outlines the financial woes facing the system and presents the Cato plan for reform.
2. **The Coming Financial Crisis** explains that demographic changes have created unfunded liabilities of \$26 trillion for Social Security, which will start running deficits in less than 15 years.
3. **More Problems with Social Security** discusses Social Security’s other structural problems, including the unfair treatment of workingwomen, divorcees, minorities, younger workers, and low-wager earners.

4. **The Cato Plan** explains Cato's proposal to allow younger workers to invest half of their FICA taxes into individual accounts and how such accounts could remedy the current system's many problems.
5. **What You Can Do** encourages readers to get involved in the fight to protect their hard-earned money for themselves and their heirs and provides practical approaches for shaping the debate.
6. The **Appendixes** detail the history of Social Security, offer a glossary of terms and answers to frequently asked questions, and look at the experience of Chile, a country that has seen great success in Social Security reform by switching to a system of private accounts.

According to Cato president Ed Crane, "This booklet was written to help [everyone] become an ambassador for the important change that is now required if we are to continue to provide for our seniors without penalizing the generations to come."

CBO Report: Private Accounts Will Boost Economy by \$58 Billion

The Senate Special Committee on Aging issued the following press release this week, adding new information to the growing body of evidence on the benefits of personal retirement accounts.

"An updated non-partisan Congressional Budget Office (CBO) report, requested by Sen. Larry Craig, shows that strengthening Social Security with personal retirement accounts would expand the U.S. economy by an estimated \$58 billion during the next twenty years.

"This is big news!" said Sen. Craig (R-Idaho), who chairs the U.S. Senate Special Committee on Aging. "This report confirms what the experts have been saying all along—partial ownership of Social Security will boost benefits for low-income workers and help promote our long-run economic growth and national prosperity. Simply put, a larger economy means higher wages and additional jobs for Americans."

"Let me be clear," Craig said. "Current seniors and those near retirement will continue to receive their promised benefits, and movement to personal accounts will be totally voluntary. The ones who will benefit the most would be the youngest Americans—they have a real opportunity to grow their family nest eggs."

"The updated CBO report released today (9/30) examined one of the three proposals presented to President Bush in 2001 by the President's Commission to Strengthen Social Security. Under Plan 2, workers would be allowed to divert four percent of their Social Security payroll taxes, up to \$1,000, to a personal account.

"The new study found that by doing so, the gross national product could be about half a percent higher than it otherwise would be—which in current U.S. dollars would translate into \$58 billion per year. The report found the number increases to an estimated three to four percent additional economic activity by 2080.

“Craig said that today’s findings—combined with other studies conducted by the non-partisan Government Accountability Office, the Social Security Actuaries, and the CBO—show that adding an ownership component to Social Security can solve several challenges facing the Social Security program by:

- Raising the floor of retirement income for the lowest lifetime earners
- Boosting wages and jobs
- Putting Social Security on a permanent sustainable path.

“CBO’s long-term analysis of Plan 2 of the President’s Commission to Strengthen Social Security was originally released on July 21, 2004. At that time it was not possible for CBO to prepare its macro-economic analysis of Plan 2 in time for the July release. The updated version is now available on CBO’s website at <http://www.cbo.gov> (from the home page, select ‘Publications’ and then choose the subject heading ‘Social Security and Pensions’).”

USA Today Special Report Highlights Social Security Crisis

Over the past week, *USA Today* ran a series of highly informative articles on what it calls the impending “national benefit crisis,” set to begin as the baby-boomers begin to retire. The series includes articles on Social Security and articles touch on the pros and cons of various reform proposals. (Note: All of the articles in the series can be accessed online by clicking on any of the following links.) From the [first article](#) in the series:

The long-term economic health of the United States is threatened by \$53 trillion in government debts and liabilities that start to come due in four years when baby boomers begin to retire.

The ‘Greatest Generation’ and its baby-boom children have promised themselves benefits unprecedented in size and scope. Many leading economists say that even the world’s most prosperous economy cannot fulfill these promises without a crushing increase in taxes—and perhaps not even then.

Neither President Bush nor John Kerry is addressing the issue in detail as they campaign for the White House.

A *USA Today* analysis found that the nation’s hidden debt—Americans’ obligation today as taxpayers—is more than five times the \$9.5 trillion they owe on mortgages, car loans, credit cards and other personal debt.

This hidden debt equals \$473,456 per household, dwarfing the \$84,454 each household owes in personal debt.

The \$53 trillion is what federal, state and local governments need immediately—stashed away, earning interest, beyond the \$3 trillion in

taxes collected last year—to repay debts and honor future benefits promised under Medicare, Social Security and government pensions. And like an unpaid credit card balance accumulating interest, the problem grows by more than \$1 trillion every year that action to pay down the debt is delayed.

Other articles in the series highlight the [severity of the problem](#), propose [supplementary strategies for controlling rising costs](#), and discuss the possibility of [creating private accounts](#) for Medicare and Social Security. According to latter article, “Tax-free savings accounts would encourage individuals to save more, spend less and be responsible for their own future. The accounts could earn higher returns than Social Security contributions do now.”

Washington Post vs. New York Times on Social Security

[Writing on Tech Central Station](#), Jack Kemp compares the different editorial approaches of the *Washington Post* and the *New York Times* on Social Security reform. Kemp finds that the *New York Times* editorial board has been adamantly opposed to individual accounts while the *Post* is able to take a “principled and nuanced” position that leaves private accounts on the table as a viable option. The text of Kemp’s commentary follows.

“The recent middleweight title match between reigning champ Bernard Hopkins and the ‘Golden Boy’ Oscar De La Hoya was billed as an historical event, one for the ages, like Hagler-Leonard circa 1987. Unfortunately for boxing fans the event didn’t meet expectations. In the political world the opposite has occurred, a little billed, and even less noticed, bout between two print-media heavyweights the *Washington Post* and *New York Times* is taking place. In that fight these two media titans that have taken just about opposite corners on one of the most pressing domestic issues of our time—Social Security reform.

“In the red corner stands the *Washington Post*. Its editorial page has historically leaned liberal-left, but they have also taken decidedly principled and nuanced positions on issues such as school choice, international trade and, now, Social Security reform. Recently the *Post* editorialized that, ‘Mr. Bush’s sympathizers are right that Social Security privatization could reduce long-term deficits, and right that the nation should not be deterred by the transition costs.’ It’s a shame Kerry’s campaign didn’t ‘read the memo’ before they put him on the line for higher payroll taxes.

“The *Washington Post* also discarded the class-warfare mantra that has consumed Democratic candidates and party loyalists reasoning that: ‘Privatization could also stimulate economic growth, boosting tax revenues and so strengthening the nation’s fiscal prospects via a second route.’ They continued, ‘Private accounts would boost national savings’ thus ‘savings would become more plentiful,’ which, in turn, would ‘stimulate extra corporate investment and growth.’ Not bad, eh? A ‘semi-supply-side’ position.

“In the blue corner stands the reigning, but aging, champ, the *New York Times*. The *Times* editorial page is the most read and one of the most liberal pages in print today. It has stood with liberal orthodoxy regardless of the facts—or regardless of a ‘preponderance of evidence’ as Dan Rather and CBS might say.

“The *Times* is against tax rate reductions, against school choice, and now has joined the Kerry campaign in standing against Social Security reform in their new series on the ‘Big Issues’ in the 2004 campaign. The title of their series might be more aptly titled, ‘Big Issues, Small Ideas.’

“Looking at [the *Times* editorial](#) it’s difficult to know where to begin. I’m having a hard time figuring out whether they simply do not understand the issue or if they are purposefully misleading, in an effort to scare, the public. I’ll ignore the purely spurious claims that PRAs would violate broker rules to recommend only ‘suitable investments’ and move on to the more egregious claims. For starters, the *Times* claims that PRAs would ‘hurt the economy and endanger workers’ retirements by pushing them into unreasonable risks in the stock market.’ We have heard this all before—remember Al Gore’s ‘risky scheme’ rhetoric. This is timeless demagoguery unsupported by the facts. What the *Times* and opponents of PRAs fail to realize is that Social Security is riskier than the market will ever be. The government can at any time raise taxes or cut benefits. Moreover, workers born after 1960 are expected to receive a real rate of return on their payroll-tax contributions of less than 2 percent. Alan Greenspan stated this in 1999; his estimate likely was generous.

“This measly return is not a fair deal for retirees—today or in the future. Even workers who put their money in standard government-insured savings accounts will earn higher returns than the current Social Security system can provide.

“The *Times* also states that the President has ‘no reasonable plan for covering this cost, which is estimated to be at least \$1 trillion.’ That is simply untrue. There are a number of plans pending in Congress that have ‘reasonable’ solutions for transitioning Social Security to a new system.

“For example, if Congress enacts the Ryan-Sununu plan, currently pending in Congress, transition deficits over the next twenty-four years would average \$52 billion/year. New public debt, interest included, would rise by a total of \$1.83 trillion, and debt as a percentage of the GDP would actually decline from 38% to 29%. After 2028, the system would begin running surpluses sufficient to pay down all new borrowing over the next fifteen years, leaving the net impact on the public debt at zero in less than 40 years—whereas the current Social Security system will begin running perpetual deficits in 2018 totaling nearly \$1.8 trillion by 2028 alone!

“Social Security reform will ‘cost’ approximately \$12 trillion no matter what we do because that is the present value of the unfunded liability of our current Social Security system. The question is how we solve the problem.

“So far, the *Washington Post* has gone a long way toward creating a serious bipartisan consensus for solving Social Security’s longer-term financial problems while the *New York Times* is simply in denial. If and when this fight spills over into the Halls of Congress we can only hope we will be raising the hand of the new media champion for individual liberty, economic prosperity and editorial voice for the Democratic Party.”

Wichita Eagle: Social Security Debate Requires Leadership, Details

A [recent editorial](#) in the *Wichita Eagle* argues that the presidential candidates need to unveil Social Security reform details soon. Though the candidates have offered skeletal plans—Bush favors private accounts while Kerry intends to rely on expanding the economy—neither has detailed exactly how his plan would work. The editorial describes the urgency of the situation, stating that bold leadership will be necessary from the next president to prevent future generations from suffering dire fiscal straits. The text of the editorial follows:

“Social Security has long been considered a third-rail issue: Touch it and you die politically. But to his credit, President Bush is calling for real reform of the ailing retirement program. As he correctly observed, ‘If you don’t touch it, you cannot fix it.’

“However, Mr. Bush also needs to be more forthright about how to fix it and how he would pay for it.

“Meanwhile, Sen. John Kerry needs to pull his head out of the sand and announce his own plan to reform Social Security.

“Mr. Bush wants to allow younger workers the option of using a portion of the payroll taxes to create private retirement accounts. They then could own and invest that money in the stock market, which likely would earn a higher rate of return than Social Security.

“This is a good reform idea that would help ensure that younger workers will receive at least some retirement benefits, which they also could pass on to their heirs. But the challenge, which Mr. Bush isn’t mentioning, is how to pay for it.

“The way the Social Security system works now is that those who currently are working pay the benefits of those who are retired. So if a portion of payroll taxes, say 2 percent, is diverted into private accounts, it would mean less money available to pay Social Security benefits, which Mr. Bush has pledged not to cut.

“Analysts estimate that the transition cost of private accounts could total up to \$2 trillion over the next 46 years. How would Mr. Bush pay for that, given that the country already has record budget deficits, and he wants to make his tax cuts permanent? Is he really willing to invest the political and financial capital needed to make this happen?

“Mr. Bush needs to be more specific about how he would make such an expensive reform happen.

“Still, at least Mr. Bush has a bold idea. His opponent will barely admit there is a problem.

“Mr. Kerry has vowed never to invest Social Security funds in the stock market and never to privatize Social Security. He also has pledged not to cut benefits or raise the retirement age.

“His only plan for strengthening Social Security is to try to grow the economy. But that is the goal of every president, and it isn’t a real solution to Social Security’s long-term challenges.

“In order to make Social Security more solvent, Congress needs to start phasing in changes now. If it waits, as Federal Reserve Chairman Alan Greenspan warned, the country will face ‘abrupt and painful choices.’

“But getting Congress to act will take presidential leadership—and though Mr. Bush has stepped up some, we still aren’t seeing enough of that yet.”

Cesar Conda: “Kerry Supports the Status Quo” on Social Security

In a commentary this week [appearing in *Insight online*](#), Cesar Conda, senior fellow at [FreedomWorks](#), comments on John Kerry’s opposition to various Social Security reform proposals. Kerry’s plan to “grow the economy” is an ineffectual solution that won’t produce the revenue needed to fill the gap between workers and baby-boomers, according to Conda. A Kerry administration would inevitably increase taxes to pay for the shortcoming, Conda adds, noting that such tax hikes would harm the economy. Conda’s commentary follows.

“What is Democratic Party nominee John F. Kerry’s plan to fix Social Security?”

“He says he wants to, ‘keep Social Security strong’—yet his campaign Web site offers little in the way of specifics beyond, ‘grow the economy,’ ‘restore fiscal discipline’ and pursue a ‘bipartisan process.’

“When people in the United States elect a president, they set in place a policy direction that could carry forward for at least eight years. On Social Security, has Kerry promised a decade of inaction that can only make the task of saving Social Security far more difficult.

“Millions of baby boomers will begin to retire in just a few years, drawing Social Security benefit checks for the first time. They will get their money, but there will be little left for anybody else.

“Here’s why. Fifty years ago, there were 16 workers paying payroll taxes for every older American receiving benefits. Now, there are 3.3 workers for each beneficiary.

“The inevitable demographic trends mean payroll taxes, according to the 2000 Social Security Trustees Report released by the Clinton administration, will only be able to cover two-thirds of promised benefits to retirees.

“In 2018, Social Security begins spending more than it takes in; annual inflation-adjusted deficits will rise to \$100 billion after five years, \$200 billion after 10 years, and \$300 billion after 15 years. In net present value terms, the unfunded liability of the program (the amount Social Security spends that is more than it receives in payroll and other taxes) amounts to \$11 trillion in perpetuity.

“Alarmed by these fiscal trends, the Clinton-era trustees urged Social Security’s long-range deficits ‘be addressed in a timely way.’

“To prevent insolvency, experts in both parties agree that major reforms are needed. As Federal Reserve Chairman Alan Greenspan recently put it, ‘Early initiatives to address the economic effects of baby-boom retirements could smooth the transition to a new balance between workers and retirees.’

“When he campaigned in 2000, George W. Bush proposed creating voluntary personal retirement accounts for younger workers. He has renewed his call for personal accounts as part of his ‘ownership society’ agenda. These accounts not only produce higher rates of return than the current Social Security program, they give all workers ownership of their retirement assets that they can pass on to their family members.

“Further, by allowing workers to build a bigger retirement nest egg, the future claims on the Social Security program would be reduced, and depending on the size of the personal account payroll tax contributions, Social Security could achieve permanent solvency.

“Allowing workers to divert a portion of their payroll tax into a personal account will mean less revenue to the government, perhaps as high as \$1 trillion over 10 years, according to Clinton Treasury Secretary Robert Rubin.

“The transition costs of the overhaul, however, must be weighed against the cost of doing nothing: Inaction would produce an \$11 trillion unfunded liability in the system.

“Kerry supports the status quo. He opposes personal retirement accounts. He argues that the Bush plan would ‘cut benefits and add \$2 trillion to the deficit.’

“He rejects any fundamental changes to the program—with the possible exception of raising taxes on benefits, something he voted to do eight times while in the U.S. Senate.

“‘If we strengthen our economy and we have a sound fiscal approach,’ Kerry says, ‘Social Security will be strong through this century.’ To be sure, a growing economy, which produces higher tax revenues, will make it easier for Social Security to meet its obligations; economists of all stripes agree that growth alone cannot overcome the demographic pressures that will bankrupt the program.

“In a 2003 paper, The Urban Institute’s Rudolph G. Penner found that ‘(I)ncreased growth does not much help Social Security’s financial outlook because of the way the Social Security benefits are indexed.’ In 1977, Congress decided that a person’s real benefits should be increased automatically as average real wages increased.

“According to Penner, the former head of the non-partisan Congressional Budget Office, growth initially increases payroll tax revenue but, over time, the growth in real wages increases the benefit payments for the future retirees, thereby eroding the revenue gains.

“Penner concluded it was ‘implausible’ to assume that increased growth alone can save Social Security.

“It is clear that Kerry’s plan to grow our way out of the problem will not achieve permanent solvency. Keeping the status quo will eventually require benefit cuts for future retirees or tax increases on younger workers. It is ironic that Kerry wants to strengthen Social Security by promoting growth when some of his other economic policies such as raising marginal tax rates on income, dividends, and capital gains are more likely to harm the economy.

“As the 2004 presidential campaign enters its final days, Kerry has renewed his charge that President Bush’s Social Security reform will ‘cut benefits’ for U.S. seniors, despite the fact that the Bush plan would guarantee benefits for current and near-retirees. Bush recently warned of this line of attack calling it ‘the most tired, pathetic way to campaign for the presidency.’

“The best way to campaign for the presidency is to present voters with credible solutions to the nation’s most pressing challenges. On Social Security, Kerry has decided to avoid the tough choices necessary to make Social Security strong for our children and grandchildren.”

Edited by Brooke Oberwetter, boberwetter@cato.org. To subscribe or unsubscribe to *Social Security This Week*, please contact Feliz Ventura at (202) 789-5202 or fventura@cato.org.