



# Social Security Choice

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

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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### **Investor's Business Daily: *It's Now or Never for Bush's Reforms***

An editorial that ran last week in *Investor's Business Daily* called forcefully on the president to continue vigorously pursuing his efforts to reform Social Security, in spite of opposition from Democrats and indifference from the media.

Though much of the editorial focuses on the president, it also takes the opportunity to make a well-known—but not often published—claim: it charges in no uncertain terms that Democratic opposition to the president's reforms is purely political and not at all motivated by an interest in helping or protecting people. It suggests that giving lower and middle-income workers a stake in the private economy through private accounts might lessen their inclination to “[look] for government-oriented solutions,” which in turn might “force the Democratic Party to become friendlier toward free-market policies or drastically shrink the party's support.”

Noting that the Democrats may pick up additional seats in next year's elections, the editorial continues: “It may be now or never, therefore, for this president on personal accounts. At rallies around the country promoting his plan, he's proved himself to be a passionate and persuasive salesman. ‘I don't think investments ought to be confined just to the investment class,’ he said in a speech in May. ‘I understand the more that people own something, the more they watch their assets grow, the better off America is.’

“But the Washington press corps refuses to cover these events seriously, so it's time for Bush to step up to the bully pulpit in ways that can't be ignored. He could hold a rally at the FDR memorial in Washington. Or he could stand on the steps of the New York Stock Exchange and explain how ordinary Americans have been excluded from the opportunity to gain wealth for too long.

“Bush needs big events guaranteed to draw attention.

“Otherwise, the window of opportunity may soon close permanently on what would be the most historic economic achievement of his presidency.”

## **Leading CEOs Favor Price Indexation and Personal Accounts**

A majority of [350 CEOs surveyed](#) by accounting and consulting giant PricewaterhouseCoopers indicated that they believe Social Security is “in a fiscal crisis, requiring immediate action.” Although the CEOs interviewed in the survey lead the companies that have been “identified in the media as the fastest growing U.S. businesses over the last five years,” a full third reported that higher Social Security taxes imposed on employers have adversely affected the growth of their companies over the last two years.

However, less than fifty percent of those surveyed wanted to lower benefits for high-income earners, create a guaranteed minimum benefit for everyone, or raise benefits for lower-income workers to deal with the crisis. And support for plans to raise the retirement age or fiddle with the tax cap were even less popular.

Nearly 60 percent are behind a change from wage indexation to price indexation of benefits, and 62 percent favor a system of privately owned retirement accounts, along the lines of what the president has proposed. Both of those elements of reform—price indexation and personal accounts—are also favored by Cato’s Project on Social Security, and are discussed in [“The 6.2% Solution: A Plan for Reforming Social Security.”](#)

## **Jeff Jacoby: Sell the Solution by Focusing on Ownership**

In a [recent column](#), the *Boston Globe*’s Jeff Jacoby argues that Social Security’s problems need an immediate and permanent fix, but that selling the existence of the problems to the American public is not enough; the president must also sell his solutions. Jacoby notes that the president has been successful in convincing the American public that Social Security faces financial problems, but he has had difficulty translating awareness of those problems into support for personal retirement accounts.

Jacoby suggests, as the Cato Institute has argued all along, that generating support for the solutions cannot depend on green eyeshade financial matters; it must appeal to Americans’ emotional responses to the ideas of ownership, inheritability, and choice. An excerpt of Jacoby’s commentary follows.

“During a press conference last week, Bush acknowledged that Congress has no appetite for dealing with the issue—a simple statement of fact that was promptly spun in some circles as a concession speech. But when a reporter asked if ‘Social Security is off until next year,’ Bush was adamant:

“Social Security, for me, is never off; it’s a long-term problem that’s going to need to be addressed. . . . I just want to remind people, it’s not going away. It’s not one of these issues—“Well, if we don’t deal with it now, maybe it will fix itself.” It gets worse over time, not better.’

“Social Security is hurtling toward a cliff; that is clearly one of the ways in which it is getting worse over time. Because it is a pay-as-you-go scheme, with current retirees’ benefits paid from current workers’ taxes, it can remain solvent only as long as the ratio of workers to retirees stays comfortably high. But that ratio is plummeting—from 17-to-1 in the 1950s to only 3-to-1 today. In little more than a decade, payroll taxes will no

longer be enough to cover benefits. Social Security's deficits will rapidly explode. By 2020, it will be losing \$72 billion a year. By 2030, losses will be \$275 billion a year. To keep the system from collapsing, Congress will have no choice but to massively hike taxes, slash benefits—or both.

“That isn't the only way in which Social Security is getting worse over time. When the program began, payroll taxes consumed a tiny fraction of American paychecks—just 3 percent of the first \$3,000 of income, or a maximum of \$90 a year. On that investment, workers could expect to earn a very handsome return, assuming they lived to retirement age.

“But over the years, payroll taxes have been relentlessly raised—the rate is now 12.4 percent of the first \$90,000 earned, or as much as \$11,160 a year—and the return on those taxes has dwindled to almost nothing. According to Stuart Butler of the Heritage Foundation, the average male worker about to retire today will realize only a 1.27 percent return on his lifetime of payroll taxes—less than he would have gotten from a savings account. For younger workers, the outlook is even worse. A 25-year-old employee can now expect a lifetime return of minus 0.64 percent—a net loss. And the more Social Security takes out of Americans' paychecks, the less Americans have left to save for themselves.

“The Bush administration deserves great credit for calling attention to the system's looming insolvency and for pointing out what a lousy deal Social Security has become for most of us. That part of its message has gotten through. Polls consistently show that a majority of the public does not expect Social Security to have enough money to pay their retirement benefits when they are ready to retire. At least 50 percent describe Social Security as having 'major problems,' with another 15 to 20 percent saying it is in a 'crisis.'

“But it isn't enough to sell the problem; Bush has to sell the solution, too. And the way to get Americans excited about personal retirement accounts isn't to dwell on insolvency and rates of return and what the numbers will look like 50 years down the road. It is to focus on freedom and opportunity and dignity—on the advantages of a Social Security nest egg they could actually own as opposed to an unfunded government promise that can be changed at any time.

“Yes, personal accounts would help the system in the long run. But the better reason to champion them is that they would give Americans more control over their own lives. Personal accounts would be vehicles for creating real wealth, not accounting gimmicks in phony government 'trust funds.' Your personal account would be yours, not Washington's—and if you died before reaching retirement age, it would become the property of your heirs. Under the current system, nothing in your Social Security account belongs to you, and if you die before retiring, it doesn't pass to your loved ones.

“The late senator Daniel Moynihan, a lifelong Democrat, favored personal retirement accounts. They offered, he wrote, something better than a government benefit: 'An estate! For doormen, as well as those living in the duplexes above.' *That* is the spirit in which to reform Social Security.”

## **Leanne Abdnor: Congress Should Heed the Experts' Warnings**

In a commentary appearing this week in the [Rocky Mountain News](#), Leanne Abdnor, president of For Our Grandchildren, argues that now is the time for Congress to act on Social Security. "Members of Congress who are hoping that Social Security's problems will simply go away on their own are living in a fool's paradise," she writes.

"Congress needs to be reminded of two things, and urgently. First, objective experts have told us for years that Social Security's problems aren't going to go away—in fact, they just get worse with the passage of time. Second, Congress can and must deal with more than one issue at a time—just as we need the federal government to guard against both terrorist attacks and natural disasters. Ignoring this responsibility will doom American workers and the economy to serious and unpleasant consequences.

"One of Social Security's foremost nonpartisan experts is the U.S. Comptroller General David Walker, who has audited the federal government's books for more than a decade. In testimony before Congress, Walker advised: 'Our Social Security challenge is more urgent than it may appear. Failure to take remedial action will . . . lead to a situation unsustainable for both the federal government and ultimately, the economy.' He warned that the Social Security 'problem gets bigger every day, and the tidal wave gets closer every day.'

"Alan Greenspan, chairman of the Federal Reserve, also cautioned Congress that 'the demographics are inexorable.' He asserts that 'early initiatives to address the economic effects of the baby boom retirements could smooth the transition . . . If we delay, the adjustments could be abrupt and painful.'

"Don't be fooled by those who say the problem is far off. Objective experts say otherwise. The Social Security trustees say that in 2008, the baby boom generation begins to retire and the excess Social Security taxes paid by workers will begin to diminish. A few years later, by 2017, the cash deficits start getting larger each year—and Congress will have to decide whether to raise taxes or cut benefits. The problems are just around the corner. We need to insist that our elected officials not wait until a disaster hits before acting."

## **Upcoming Events**

Michael Tanner, Director of Cato's Project on Social Security Choice will debate *New York Times* Op-Ed columnist Paul Krugman on the future of Social Security reform on October 19, in an event sponsored by the *New York Times* as part of its Times Speaks public affairs series.

Robin Toner, the *Times* domestic correspondent will moderate the event, which is being held at the Kaye Playhouse at Hunter College in New York. Tickets are available for \$25 with a \$3 per ticket handling fee. Go to [www.nytimes.com/timestalks](http://www.nytimes.com/timestalks) to order tickets or call (888) NYT-1870.

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