



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Cato's Tanner Says Polling Suggests Social Security a 2004 Winner

The latest Gallup poll results show that that individual accounts are a winning election issue, according to Michael Tanner, director of the Cato Institute's Project on Social Security Choice. In an [op-ed](#) appearing in the *Houston Chronicle* and other national newspapers, Tanner says that Social Security reform is not just good policy, but good politics:

“Candidates looking for a winning issue in the 2004 elections should pay close attention to a new Gallup poll. It shows that American voters still strongly support proposals to allow younger workers to privately invest a portion of their Social Security taxes through individual accounts. Indeed, despite the sluggish stock market of the last couple of years, relentless Democratic attacks, and the failure of Republicans to provide real leadership on this issue, a stunning 62 percent of voters support individual accounts, up 5 points since summer.

“Moreover, the support for individual accounts cuts across nearly all political, ethnic, and age groups. One would expect young people to support individual accounts, and they do, by a margin of 83 percent to 13 percent. Voters in their 30s and 40s also support individual accounts, 72 percent to 26 percent. Even 27 percent of seniors (understandably the most skeptical group) support accounts.

Likewise, while its probably not surprising to see 77 percent of Republicans and 69 percent of conservatives backing the proposals, individual accounts draw the support of half of self-described liberals and even receive the backing of 42 percent of Democrats. Roughly 61 percent of African-American and Hispanic voters want to give workers a chance to invest privately.

“This should come as no surprise to those who have been following the changing political landscape on this issue. There was a time, not long ago, when Social Security was regarded as the “third rail” of American politics—touch it and your career dies. But, no more. American voters have come to understand that the current Social Security system cannot continue the way it is today. In just 15 years, Social Security will begin to run a deficit, spending more on benefits than it takes in through taxes. The federal IOUs

in the Social Security Trust Fund are an accounting measure, not real assets that can be used to fund the program.

“It was former President Bill Clinton who pointed out the limited options for reform: raise taxes, cut benefits, or get a higher rate of return within the system through private investment. Given those choices, voters prefer private investment.

“In the 2002 Congressional elections Democrats tried to play the Social Security card, and failed miserably. In every race where Social Security was a major issue, supporters of individual accounts won. Just ask Sens. Sununu, Dole and Graham. This time around, several candidates have taken up the issue: Pat Toomey in his Pennsylvania primary campaign, Jim DeMint in South Carolina, and Mac Collins and Herman Cain in Georgia, among others. President Bush, who campaigned in favor of individual accounts in 2000, plans to return to the issue in 2004, making it a central part of his domestic policy agenda. The third rail has clearly lost its juice.

“But, so far, Democrats, including the nine Democratic presidential candidates, seem stuck in the past, unable or unwilling to discuss the issue beyond ritual denunciations of ‘privatization.’ Perhaps it’s just habit, ritually falling back on the rhetoric and positions that have worked for them in the past. But in doing so, they have turned their back not only on such thoughtful Democrats as former Sen. Bob Kerrey and the late Daniel Patrick Moynihan, but also on a majority of American voters.

“It has been apparent for some time that allowing workers to privately invest their Social Security taxes is good policy: the only way to fix Social Security’s problems without raising taxes or cutting benefits. It is also becoming clear that it is good politics as well.

“If the former doesn’t convince Democrats to give workers ownership and control over their retirement money, perhaps the latter will.”

Bipartisan Congressional Letter Calls for Bush to Allocate Funds for Social Security Reform

In a letter addressed to President Bush, members of Congress urge that preparations for Social Security reform must be accounted for in his fiscal year 2005 budget. This, they write, will move the debate past opposition rhetoric regarding transition funding and the historical spending of Social Security surpluses. Rep. Jim DeMint (R-S.C.), Rep. Charlie Stenholm (D-Tex.), and other confirmed supporters of individual accounts write:

Dear Mr. President,

In your State of the Union Address this year, you said, “This country has many challenges. We will not deny, we will not ignore, we will not pass along our problems to other Congresses, other presidents, and other generations. We will confront them with focus, and clarity, and courage.”

We share your commitment to addressing the important issues facing the American people, and like you we believe Social Security ranks as one of the highest. When you established your commission to strengthen Social Security, you helped move

the debate forward. Now we must take the next steps in advancing Social Security reform.

As you know, the fiscal implications of any Social Security reform proposal will always be a central issue, and during a time of federal deficits this concern is more important than ever. For this reason, we must begin to budget for reform of the Social Security system.

Specifically in addition to ensuring that surplus Social Security taxes stay within the Social Security system, we ask that you include a reserve fund for Social Security reform in the budget you will submit to Congress for fiscal year 2005. This money must be used solely for legislation that fundamentally addresses the long-term problems associated with the current system. Absent reform this fund could not be used to reduce payroll taxes, increase benefits, or make minor changes. In the same way Congress budgeted money for Medicare reform, dedicating a portion of the federal budget for Social Security reform will help advance debate on this issue and move it to the forefront of domestic policy issues.

While we may not agree on the details of how to reform the current Social Security system, we all agree about the urgency of this issue and the need to address it immediately. Including a reserve fund in your budget could provide some additional guidelines for a serious discussion about options for reform. These guidelines would be one more step in helping build consensus.

Thank you for your attention to this pressing matter. We look forward to working with you on crafting a budget that meets the needs of America's working families and legislation to provide real retirement security to America's workers.

Some Still Claim Growth Will Solve Social Security Problem

"There is a contrarian view of the crisis in the nation's retirement programs, one that makes the long-term financing problem of Social Security and Medicare look more manageable than the disaster described by those who advocate drastic reforms," observes *Newhouse News Service* columnist Miles Benson. His most recent article presents the opinion that the "[Economy Can Grow Out of Entitlements Crisis.](#)" However, Benson acknowledges the countering opinion: such optimism, in effect, spells the disaster.

Benson writes: "For years, analysts have warned that a demographic tidal wave will swamp Social Security and Medicare early this century ... Preserving [Social Security] will require a politically unpopular cut in benefits, an equally unpopular increase in taxes, or a combination of both.

According to Benson, "Economist Marilyn Moon, who was one of the two public trustees for Medicare and Social Security, is convinced that greater worker productivity and wealth in coming years will produce much of the government revenue necessary to support the baby boomers in their old age."

At the center of this argument is a projected increase in wages and worker productivity. For example, Benson writes, the primary measurement of an economy's growth, the Gross Domestic Product, "will rise 55 percent per worker by 2035, according

to conservative projections by the Social Security and Medicare trustees' annual reports.”

For those who hold Moon's point of view: “Sharing those greater resources with the retirement programs will make them sustainable and affordable ... What's more ... future workers 'would still be substantially better off' even after paying higher taxes.”

Benson goes on to point out that, although individual private investment of Social Security is on the Bush agenda, even “Some of the highest officials in the Bush administration agree with Moon ... ‘There certainly is something to that analysis,’ said Treasury Secretary John Snow. ‘If we can get higher output per worker, more GDP per worker, we'll have more resources with which to fund these large future promises.’

In addition, Benson writes: “Comptroller General David Walker said Moon has a point. ‘In theory, I agree,’ he said. But while the retirement programs' financing imbalance may be less challenging than some have claimed, he said, ‘I don't think we're going to grow our way out of the problem.’

On the other hand, projections for a wealthier, more productive economy may detract due attention. Social Security benefits are wage-indexed—as wages rise, so will benefits.

Benson points to Michael Tanner, director of the Cato Institute's Project on Social Security Choice: “[Tanner] warned all this ‘good news’ contains some ‘bad news’ for Social Security's traditional financing structure. If future GDP per worker rises, so do benefits per retiree, Tanner said, because the benefit formula is designed to grow more generous as the economy grows.

“‘So, if you bring in more money, you owe more money in the long term,’ Tanner said.

“The Concord Coalition, a bipartisan advocacy group, has been at the forefront in warning that Social Security and Medicare will collapse without major reforms. Robert Bixby, the coalition's executive director, does not challenge Moon's analysis, but fears it could help postpone the reforms that he insists are required. Even with reforms, Bixby said, ‘I think future workers are going to have to pay more.’”

Trust Fund Illusions

“There are those who believe that the Social Security Trust Fund exists, and there are those who know that it does not.” So writes Jerome Heavey, Ph.D., professor of economics and business at Lafayette College in Easton, and author of [“It's Illusion to Think There's A Social Security Trust Fund”](#) appearing in Allentown, Pennsylvania's *Morning Call*. In his article that follows, Heavey explains why the trust fund is a farce.

“In most years, the Social Security program has collected more in taxes than it has paid out in benefits. By law, the excess revenues are to be held in trust funds, of which there are now four, one each for: Old Age and Survivors Insurance, Disability Insurance, Medicare Part A and Medicare Part B. Old Age Survivors Insurance and Disability Insurance (OASDI) provide income to retired and disabled workers. From 1990 through 2002, OASDI ran a surplus of almost \$1.25 trillion. The well-publicized

federal budget surpluses of the late 1990s consisted almost entirely of excess OASDI taxes.

“The trust funds are required by law to exchange their surplus revenues for special public debt obligations, non-marketable bonds, issued by the U.S. Treasury. The sum of these bonds, with interest, is what is commonly called the Social Security Trust Fund.

“In exchange for the bonds, the Treasury receives each year’s excess Social Security revenue and spends it on other government programs.

“The only way to keep Social Security taxes from being spent on other programs is to reduce those taxes to the level just necessary to pay each year’s benefits, so that there are no excess revenues to pass through the trust funds. The late Sen. Daniel Patrick Moynihan suggested doing exactly this, but even his eloquence could not overcome the popular delusion that excess Social Security taxes were being saved to pay future benefits.

“In a few years, the money raised each year by Social Security taxes will not be enough to pay each year’s benefits. Those who believe in the Social Security Trust Fund believe that the Treasury will begin to redeem its IOUs, giving the Social Security program money to pay beneficiaries.

“Where will the Treasury get the money? Outside the Social Security program itself, Congress will have two choices: cut back on other government programs or raise taxes (other than Social Security taxes) to pay the IOUs.

“When OASDI last ran deficits, in the early 1980s, it was rescued by the ‘Big Fix’ of 1983, a package of reforms that increased Social Security taxes and decreased benefits. Since then, OASDI has generated large surpluses and subsidized the rest of the federal budget.

“The trustees of the Social Security System estimate that these surpluses will turn to deficits no later than 2025 under the most-favorable conditions, by 2020 under the most-likely conditions, and perhaps as early as 2013 under less-favorable conditions. Under those last conditions, the trustees expect Medicare to begin running deficits in 2004.

“What will Congress do then? The most likely event is another ‘Big Fix,’ some combination of Social Security tax increases and benefit reductions.

“But it would be fairer to increase income taxes rather than Social Security taxes. The OASDI tax is regressive, taking a larger share of income from low-income workers than from high-income workers.

“Social Security has always been a pay-as-you-go system, with current workers paying taxes to support retirees. Increasing individual income taxes to maintain benefits would continue the practice of transferring income from current earners to retired workers.

“And after all, if for most of the past 67 years some Social Security taxes have taken the place of income taxes for financing government, why not now have some income taxes take the place of Social Security taxes? The special public debt obligations

in the trust funds are supposedly backed by the full faith and credit of the U.S. government. The only backing they really have is congressional willingness to raise taxes or cut other spending. Unless Congress is willing to do one or the other of these, it will have to admit that the Social Security Trust Fund is pure fiction.

“Of course, Congress will have one other option; to ignore the problem and just run up a bigger budget deficit.”

Post Warns of European Social Security Crisis

Continental Europe is on the cusp of changing demographics in which the current pay-as-you-go pension system benefit levels are unsustainable. *Washington Post* foreign-service columnist Keith B. Richburg comments on Europe’s surging elderly population and the culture-shattering changes that workers consequently face. Excerpts of Richburg’s article, [“Europeans Face a Bleaker Old Age: Governments Push for Later Retirements as Pension Systems Are Depleted,”](#) follow:

“Bernard Foultier lives life fast and full—international travel, including trips to Japan and Bolivia, amateur photography, courses in history and art, and painting in his small home studio.

“For Foultier, who worked for three decades as an engineer at the state-owned electricity company EDF, these busy retirement years are like a second chance at youth. But he recognizes that large pensions like his are increasingly viewed in France as a luxury that the country can no longer afford. Indeed, all over Europe, a continent famous for generous social welfare systems, the same conclusion is being reached.

“That ... means uncertainty for the generation just entering the workforce. Young people are paying into a government retirement system that many are not sure will even survive, and they face the prospect of working several years longer than the previous generation.

“‘If you don’t save money by yourself, you won’t be able to survive,’ said Romain Jolivet, a 28-year-old engineer who has been working for just over two years.

“Retirement ages across the continent are relatively low—before 60 in Italy, for example, and 62 or 63 in Germany for public sector workers. But birthrates are also low, and Europe ... does not draw large numbers of immigrants each year to replenish its workforce. Medical advances also mean that people are living longer, and healthier, lives.

“Like Social Security in the United States, pension systems in Europe have long been considered the deadly ‘third rail’ of politics—governments touch them at their peril. Politicians know that older people tend to vote in larger numbers and are more politically active than the young. And labor unions, though lately losing some of their traditional clout, can still mobilize huge crowds when lawmakers are talking about changes in pensions.

“In Germany, with about 20 million pensioners, Social Democrats under Chancellor Gerhard Schroeder have defied their own union backers to push ahead with a series of modest changes ... Among the fixes proposed: There would be no cost-of-living increase next year, pensioners would have to pay some insurance premiums, and

pension payments would be made at the end of the month, instead of the first of each month, giving the government an extra 30 days leeway.

“In Italy, public sector workers staged a massive general strike at the end of October, grounding planes on runways and shutting down schools and museums. Unions were protesting Prime Minister Silvio Berlusconi’s plan to effectively raise the official retirement age to 65 for men, and 60 for women (with variations depending on the type of job performed).

“In France, every 10 workers now support four retirees. By 2040, without changes to the system, 10 workers will have to support seven pensioners, the government projects ... The center-right government of Prime Minister Jean-Pierre Raffarin this year was able to force modifications to the public pension system, to compel workers to stay on the job longer. Under the new rules, public sector workers must stay on the job 40 years to receive full pension benefits, in contrast to the old system that required just 37 1/2 years of service.

“The changing nature of European society and economic life helps explain the differences between now and a decade ago ... Labor unions have grown weaker, as manufacturing jobs move elsewhere and the worldwide trend toward emphasis on market economics and individual self-reliance is felt in Europe.

“Changing lifestyles also affect pension patterns. The older generation tended to start work earlier in life and stay in the same job for a lifetime before retiring. Young people start later, because of the pressure for more advanced education.”

For more information, see [William G. Shipman’s](#) study, [Retirement Finance Reform Issues Facing the European Union](#).” Shipman is a co-chair of the Cato Institute’s Project on Social Security Choice.

Upcoming Events and Announcements

For Our Grandchildren, a national grass-roots Social Security education project, announces the [For Our Grandchildren Web Log](#), or blog for short. Click to read new entries, opinions, and articles and to share your thoughts with the Social Security reform community. Add your own comments or questions. By starting a dialog, [For Our Grandchildren](#) hopes to get people thinking about the problems that face Social Security and perhaps make some important changes.

U.S. Senator Lindsey Graham (R-S.C.) will hold a press conference on Tuesday, November 18, to discuss landmark Social Security reform legislation he will introduce in the U.S. Senate. The *Social Security Solvency and Modernization Act* calls for “new options for new generations” by creating a system of personal retirement accounts coupled with fiscally responsible reforms that ensure the permanent solvency and sustainability of Social Security. The act creates wealth for younger generations while maintaining the promised benefits for those currently on the system and those nearing retirement age. The press conference will be held at 11:00 a.m. in room 385 of the Russell Senate Office Building.

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