Social Security privatization

CATO INSTITUTE

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Budget Winners and Losers

Wednesday night, President Clinton and the Republican leadership in Congress reached agreement on spending bills for fiscal year 2000. The highlight was a .38 percent across the board "spending cut" – that's less than four-tenths of one percent –which, of course, does not mean that spending will actually be cut but merely that it will increase four-tenths of a percent less than it otherwise would have.

Republicans brag that they have not "raided" the Social Security Trust Fund. However, the Congressional Budget Office states that $17.2 billion of surplus Social Security payroll taxes will be spent on general expenditures. Could that money have been put to better use?

If that $17.2 billion were deposited in personal retirement accounts that earned the market rate of return, and mandated benefits were reduced proportionately, the accounts would build enough wealth to delay Social Security's insolvency from 2014 to 2016. If the entire payroll tax surplus of approximately $70 billion were invested in personal accounts, insolvency could be delayed until 2019. Finally, if personal accounts were to receive the total Trust Fund surplus of $125 billion, which includes "interest" paid on existing Trust Fund bonds, insolvency could be delayed until 2020. If future payroll tax surpluses were similarly invested, insolvency could be postponed even longer while bringing workers all the other benefits of personal accounts.

But since reform did not come this year, that money will not be invested. Social Security's insolvency – and the need for tax hikes, benefit cuts or an increased retirement age – will not be delayed by a day. The budget winners are pet projects and pork barrel spending that received those Social Security dollars. The losers are American workers.

Forbes to Run Social Security Campaign Ads

Social Security will and should be a central issue of the coming presidential campaign; no federal program extracts so much taxes from American workers and no other program is so in need of reform. Presidential candidate Steve

Forbes has entered the "air war" of television commercials with an ad promising to give workers the option where "most of your Social Security taxes will be deposited directly into your own private account. The money belongs to you. The government can't touch it." The commercial can be viewed online at www.forbes2000.com.

Click to see the presidential candidates' positions on Social Security reform.

World Round-Up

While the United States continues to debate Social Security reform, the rest of the world is beginning to transition to retirement systems based on individually owned, privately invested accounts. Croatia has become the fourth Eastern European country to begin privatizing its Social Security system, following Poland, Hungary, and Kazakhstan. The new system will go into effect on July 1, 2000. Individuals will be able to choose to divert 5 percentage points of the 21.5 percent payroll tax into individual accounts. Three private companies have been authorized to manage the accounts; four others are awaiting approval.

Several other Eastern European countries may soon follow suit. The lower house of Romania's parliament is expected to approve individual account legislation by the first of the year, with final approval possible next spring. Legislation authorizing individual accounts is also nearing approval in Latvia and Estonia, although the Latvian legislation may be delayed because of a controversial referendum on raising the retirement age for the government-run system. Russia is also considering pension reforms involving individual accounts. However, the plan currently before the Duma would initially allow the Russian government to manage the accounts, though subsequent management by private companies might be possible.

Finally, in one setback to the worldwide trend toward privatization, the new leftist government of Venezuela postponed plans to introduce a Chilean-style system that had been approved by the previous government. The country's largest business federation, Fedecamaras, warned that abandoning the new system could have serious economic consequences. However, President Hugo Chavez, who has amassed near dictatorial powers while pursuing socialist economic policies, has indicated he may scrap the reforms.

The Cato Institute, in conjunction with *The Economist*, will host a conference on international Social Security reform on March 9-10, 2000, at the Roosevelt Hotel in New York City. Confirmed speakers include: José Piñera, architect of Chile's successful privatization; Felipe Ortiz, president of Peru's APOYO Institute; Tomasz Frontczak, president of AIG (Poland); William Shipman of State Street Global Advisors; Wade Dokken, president of American Skandia

Marketing; and Milton Ezrati, chief investment officer for Nomura Capital Management.

Click to link to information on "Solving the Global Pension Crisis II: The Privatization Revolution."

Sununu Plans Legislation To Make Social Security Statement More Accurate

Cato analysts have criticized the new "Social Security Statement" being mailed to workers by the Social Security Administration. The Statement purports to tell workers how much they will receive in retirement benefits if their current earnings remain constant. But the Statement fails to reveal Social Security's multi-trillion-dollar unfunded liability, which means that the program will be able to pay less than three quarters of promised benefits unless taxes are raised or the retirement age is increased. One Congressman has plans to change this. Rep. John Sununu (R-NH) is preparing legislation that would require the SSA to amend the Social Security Statement. Statement recipients would be notified that to repay the bonds in the Trust Fund taxes would have to rise, benefits fall or borrowing increase; that after the Fund runs out Social Security will be capable of paying only 71 percent of promised benefits; and that Social Security's rate of return to beneficiaries has dropped steadily over time. These changes would give workers a better idea of Social Security's financial trouble.

Notice

Social Security This Week will not be published the week of Nov. 22 due to the Thanksgiving holiday. It will return the following week.

Upcoming

Cato's Mike Tanner will debate John Mueller at a New Hampshire event sponsored by the National Committee to Preserve Social Security and Medicare. The event will take place at 7 p.m. on December 1, at the New Hampshire Technological School in Concord.

To subscribe or unsubscribe, or if you have any Social Security related stories or events you think should be included in *Social Security This Week*, contact Andrew Biggs at (202) 789-5205 or abiggs@Cato.org. *Social Security This Week* is also available at Cato's Social Security website, www.socialsecurity.org.