



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF DECEMBER 2, 2005

Sens. DeMint and Santorum Hold Out Hope

[USA Today took a look](#) this week at what delaying reform will mean for people currently in their fifties, noting that many Americans nearing retirement “could be in for some unwelcome surprises down the road.”

“When President Bush proposed a Social Security overhaul this year as the top domestic priority of his second term,” the article explains, “he promised the changes wouldn’t apply to anyone 55 or older. But Bush’s plan has gone nowhere, and actuaries say demographics and simple arithmetic will make it difficult to repeat that commitment in the future.”

Sen. Chuck Grassley, chairman of the Senate Finance Committee echoed those concerns, warning that “keeping that promise this year made our job much more difficult. I don’t see how you’re going to be able to have that rule of thumb three years from now.”

However, Sens. DeMint and Santorum hope that it won’t come to that, and still believe that there’s a chance for movement on the issue in the next year or two. The two Senators will continue to push for surplus-funded accounts. According to USA Today, they believe that a White House endorsement could help them build support in Congress. “No one wants to jump on a train if it’s not going anywhere,” DeMint said.

Bill Shipman Satirizes Reform Critics

Bill Shipman, co-chair of Cato’s Project on Social Security Choice, took a tongue-in-cheek look at the point of view of Social Security reform opponents in an op-ed appearing last week in *Investor’s Business Daily* (now available on the [Cato website](#)) entitled, “Social Security Assets Are Best Left in the Hands of an All-Knowing Government.” Shipman specifically pokes fun at a number of the more inexplicable arguments reform opponents used to defend their position. Several excerpts from Shipman’s commentary follow.

“Thank your lucky stars that the advocates for Social Security reform have lost the battle. Their attempt to tamper with the largest government program in the world would have subjected all Americans to a risky scheme and the unbearable costs of two oddball ideas that started to go out of style about 40 years ago: individual choice and personal responsibility.

“With reformers’ misguided efforts now behind us, proponents of the government’s rightful role in shielding us from risk should bask in their success. They have protected each of us from ourselves.

“Their victory, however, doesn’t mean that Social Security’s financial challenges are over. It does mean that we now know better how they will be met, and it gives us an opportunity to explore how best to employ the government to meet additional challenges.

“Starting around 2017, and for the indefinite future, the payroll tax will be less than projected benefits. This year only \$90,000 of wages is subject to the payroll tax rate of 12.4%. This means that an average-income family has all of its wages taxed, but the rich family doesn’t. The wealthy should have all of its wages taxed and contribute more to society’s needs.

“Bad economics? No way; it is part of our culture as evidenced by the income tax wherein we take more from those according to their abilities and give more to those according to their needs.

“Taxing the rich more is actually pretty clever because they don’t need all of their income, though they surely want it. This means that they’ll work even harder if their taxes are raised so they can continue to shop till they drop. For the greater good, the government ought to mine this field.

“These new revenues, plus the near-term positive cash flow, should be invested in our capital markets to garner the higher returns that the reformers rightly understood. However, the owner of the assets should be the government.

“This makes sense on several levels. First, the government could spread the risk inherent in capital markets across age and income groups. That is, when the market does well, the government would pay retirees less and save the excess for a rainy day.

“All retirees, therefore, would get equal benefits no matter what the market did or what they paid in. And the rich—well, they would pay more during their working years.

“This would level the playing field and promote equality of results by making the rich poorer. This neat outcome can’t be accomplished if individuals owned the assets, because some people would retire when the market is in the doldrums and get less than those who cashed out at a market top.

“Different outcomes caused solely by chance should be illegal. This may appear to run counter to state-run lotteries, wherein by chance alone somebody wins a million bucks, but it isn’t. The state uses lottery revenues for higher causes, ones that individuals can’t appreciate and wouldn’t support.

“With the trillions in assets that eventually would accumulate, the state could favor certain groups for the benefit of social solidarity. For instance, if the fund’s assets were to exceed projected benefits, the government could allocate a small portion to those who have special needs. Politicians in Washington are in the best position to know who these people are and, therefore, they, not we, should make these choices....”

Shipman continues, “One of the selling points for Social Security reform with individual accounts and personal property rights was that individuals could bequeath some of their accumulated wealth to their loved ones. This can be accomplished more efficiently through government ownership and control.

“There is no need, nor is it fair or appropriate, for a wealthy individual to bequeath assets to his loved ones — who in their own right are probably well off.

“The government, which has information on everybody’s income and wealth, could better allocate any excesses to those who it determines should receive them. This would really take the sting out of the rich begetting the rich.

“With the Social Security reformers’ defeat, society dodged a howitzer. We can now move more aggressively toward after-tax income equality, equal retirement benefits for all, a narrowing of the gap between rich and poor and, most important, an expanded role for compassionate government so that each of us is protected from risk, ourselves and the dire consequences of individual choice and personal responsibility.

“Why didn’t I think of this?”

Charleston Post and Courier: Cowardice on the Hill

An editorial this week in the Charleston, SC *Post and Courier* argues that Congress’s failure to get Social Security’s fiscal problems under control will result in a “financial tsunami,” in the words of Sen. Lindsey Graham. An excerpt of the editorial follows.

“[A]s Sen. Graham tells us, the problem eventually will become so mammoth that ‘you can’t tax your way out of it.’ He added, ‘It is important that my generation of politicians come up with a solution.’

“The unlikelihood of progress was underscored last week when debate was blocked on a bill sponsored by Sen. Jim DeMint, R-S.C., to create personal retirement accounts for Social Security recipients. Treasury Secretary John Snow said the DeMint bill ‘would be a positive first step to a strengthened Social Security system, establishing voluntary personal accounts and protecting Social Security money from being spent on other government programs.’

“Too bad, Congress is apparently unwilling to take even a first step....

“So far, Republican supporters of Social Security reform have been unable to get sufficient backing from members of their own party to advance a solution. Social Security reform has virtually no support among Democrats, the AP reports.

“The bald eagle is the nation’s official symbol, but congressional unwillingness to address the looming woes of Social Security suggests the ostrich would be a better totem, at least on Capitol Hill.”

Michael Tanner: Politics as Usual Thwarted Reform

This week, Michael Tanner, director of Cato’s Project on Social Security Choice, had an op-ed in the *New York Sun*, in which he chronicles the “Democratic obstructionism and Republican cowardice” that combined to stall efforts to reform Social Security this year. Tanner notes that despite of the temporary failure by Congress to enact reforms, Social Security will continue hurtling towards financial disaster. The text of his op-ed follows.

“Here are two numbers to remember: \$660 billion and 10 hours. Because of the failure to reform Social Security this year, the program’s future unfunded obligations have increased by \$660 billion. That amounts to a debt of more than \$2,200 for every man, woman, and child in the United States. This comes on top of a previous unfunded obligation of \$12.8 trillion. Yet this week, Senate Democrats used a parliamentary maneuver to prevent the Senate from scheduling just 10 hours of debate early next year on Social Security reform.

“Once upon a time, Social Security reform was a bipartisan issue. Democrats like former Senators Bob Kerrey and Daniel Patrick Moynihan were outspoken in warning about the program’s looming insolvency and calling for innovative approaches to fixing it. The Democratic Leadership Council and its think tank, the Progressive Policy Institute, explored solutions, including personal accounts. President Clinton led a national debate to ‘Save Social Security First.’

“But ever since President Bush called for reforming the nation’s troubled retirement program, congressional Democrats have just one answer: no. No to personal accounts. No to changes in benefits. No to offering a plan of their own. No to any discussion or negotiation.

“This wall of obstructionism, aided by millions of dollars in advertising by special interest groups, successfully stalled efforts at reform this year. The final attempt was an effort by Senators Jim DeMint, a Republican of South Carolina, and Rick Santorum, a Republican of Pennsylvania, to bring two relatively modest bills to the floor for debate. One of the bills, written by Mr. DeMint and cosponsored by Mr. Santorum, would rebate Social Security surpluses to workers to start personal accounts, preventing Congress from spending that money on other programs. The other bill, written by Mr. Santorum and cosponsored by Mr. DeMint, was a largely symbolic measure guaranteeing Americans over age 55 all the Social Security retirement benefits current law promises them, a provision intended to reassure seniors that any overhaul will not affect them. Neither proposal would have solved all Social Security’s problems or was as ambitious as

reformers once hoped for. But they represented small, incremental steps in the right direction. At the very least, they were worth talking about.

“Under Senate rules, Messrs. Santorum and DeMint needed unanimous consent to schedule 10 hours of debate on the bills next spring. Democratic Leader Harry Reid objected. There will be no debate. There will be no Social Security reform this year—even though the program now has another \$660 billion in its unfunded obligations.

“And while Democrats have been obstructionist, Republicans have hardly earned a badge of courage on the issue. Too many of them ducked and weaved and did almost anything to avoid tough choices. The House leadership in particular was as effective as Democrats in blocking debate. Who cares about the debt we leave to our children and our grandchildren, they seem to say, as long we make it through another election cycle without having to stand up to the AARP?

“But Social Security’s problems are not going away. Within 12 years the program will begin running a deficit. The gap between its promises and what it can pay gets bigger with each passing year. The rate of return for younger workers continues to decline. Even more important, workers still have no ownership of their money. Doesn't that deserve at least 10 hours of debate?”

Edited by Brooke Oberwetter, boberwetter@cato.org. To subscribe or unsubscribe to *Social Security This Week*, please contact Christy Rhoton at (202) 789-5259 or crhoton@cato.org.