



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Alan Greenspan: Make Entitlement Reform a Priority

In a speech last Friday delivered at a Federal Reserve Bank of Philadelphia conference, outgoing Fed Chairman Alan Greenspan made it clear in no uncertain terms that entitlement spending—particularly on Social Security and Medicare—must be brought under control as soon as possible. “In the end,” he warned, “the consequences for the U.S. economy of doing nothing [about the programs] could be severe.” As an editorial in the *Wall Street Journal* this week pointed out, “doing nothing” is exactly the course of action Congress seems to have decided on this year.

The editorial also noted that much of the media coverage of the speech seemed to suggest that Greenspan favored a revenue-based approach (a tax increase) for dealing with budget deficits and entitlement crises. The excerpt of the editorial that follows, however, shows that the speech actually suggested curtailing outlays and adding a savings component to Social Security.

“It was not the current \$300 billion budget deficit [Greenspan] was mostly concerned about. It is the much larger problem of entitlements, specifically benefits promised under Social Security and Medicare. And that deficit is huge—more than \$30 trillion over the next 75 years.

“The pain will start as soon as six years from now, when the first wave of Baby Boomers will become eligible to start collecting Social Security checks at 62. Although retirees can get higher benefits by waiting longer, about half currently choose to start collecting as soon as they can. You may recall from the debates earlier this year that the Social Security Trust Fund is projected to run a surplus through 2018 or so. But that surplus is given to Congress, which—surprise! —spends it and writes the Social Security fund an IOU.

“In other words, money that could be saved to pay for future retirement benefits is instead spent today, creating a debt that one part of the government owes to another. That money will have to be paid back when the trust fund goes into deficit. As Mr. Greenspan noted Friday, that means either raising taxes (a lot) or cutting spending (a lot).

“However,’ he added, ‘tax increases of sufficient dimension to deal with our looming fiscal problems arguably pose significant risks to economic growth and the revenue base.’ Those risks are great enough ‘to warrant aiming, if at all possible, to close the fiscal gap primarily, if not wholly, from the outlay side.’ Translated from the Greenspan-ese: Cut spending....

“Mr. Greenspan was short on policy recommendations to fix the problems, properly saying this was something to be worked out by politicians. But he did note that Social Security is not now a ‘savings’ program at all, and he suggested that maybe it would be better if it were. That means, as he pointed out, that the rest of government would have to cut spending or find other sources for the funds it currently ‘borrows’ from Social Security. And he argued that changes in Social Security and Medicare were better made as soon as possible because, ‘We owe future retirees as much time as possible to adjust their plans for work, saving, and retirement spending.’”

Supreme Court Upholds Seizure of Social Security Benefits

The [Supreme Court ruled](#) in favor of the government this week in the case of *Lockhart v. U.S.*, upholding a lower court’s decision that the federal government can withhold a portion of Social Security benefits to recoup unpaid student loans. The plaintiff, James Lockhart, currently lives on an \$874 monthly Social Security benefit plus \$10 in Food Stamps and suffers from heart disease, diabetes, and other health problems. The government began withholding 15% of his benefits in 2002 to collect on unpaid student loan debts totaling \$77,000, according to the Associated Press.

Though the court’s decision hinged not on the legal ownership of Social Security benefits, but on a clarification of seemingly contradictory laws about the statute of limitations on student debt collection, the decision reaffirms earlier Supreme Court decisions that determined that the federal government is not legally obligated to pay Social Security benefits as promised—in other words, Social Security is not a legal entitlement, but is essentially dependent on the whims of Congress.

In an ironic twist, AARP, which has strongly objected to all proposals to provide retirees with true ownership of their Social Security benefits through personal accounts, co-authored a brief of *amici curiae* in the case on behalf of Mr. Lockhart, urging the court to protect Mr. Lockhart’s benefits because they are “critical in preserving a measure of financial independence for older and disabled workers.” Meanwhile, the Bush administration, a staunch supporter of giving Americans ownership of their benefits, said the case was important to win for the sake of recouping the nearly \$7 billion in delinquent student debt.

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