



Social Security Choice

SOCIAL SECURITY THIS WEEK

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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Bush Launches Push For Social Security Reform

Days after a meeting with the bipartisan congressional leadership, and calling on them to consider legislation that would allow workers to privately invest some of their Social Security taxes through individual accounts, President Bush used a White House photo-op with Social Security's trustees to begin a public push for reform. The president said:

"There is a recognition among the experts that we have a problem. And the problem is America is getting older and that there are fewer people to pay into the system to support a baby boomer generation which is about to retire.

"Therefore, the question is, does this country have the will to address the problem. I think it must. I think we have a responsibility to solve problems before they become acute. And, therefore, I want to thank the trustees for their understanding and their work. I want to thank them for their recognition that this country must deal with this issue now. I look forward to working with the members of Congress to do just that.

"I had a meeting earlier on this week with members of the United States House and Senate to discuss the importance of the Social Security issue. I fully recognize it's going to require a bipartisan effort to address this issue. I have articulated principles in the course of my campaign that I think are important. And it's very important for our -- those who have retired to recognize that nothing is going to change when it comes to Social Security. And it's very important for those who are near retirement to understand nothing will change.

"But for the sake of our younger workers, for the sake of younger Americans, we must be willing to address this problem. And I think it's vital to consider allowing younger workers, on a voluntary basis, set aside some of their own payroll tax in personal accounts as part of a comprehensive solution to dealing with the Social Security issue."

Responding to a question about transition costs, the president made it clear that any short-term financing shortfalls must be considered in the context of Social Security's long-term financial crisis.

"I think what's really important in the discussions is to understand the size of the problem. And that is we are faced with a present value of unfunded liabilities of about \$11 trillion. What's important, Steve, is before we begin any discussion is to understand the scope of the problem. And that's why these trustees are vital in helping educate the American people, and Congress, as to the size of the problem. And I will not prejudge any solution. I think it's very important for the first step to be a common understanding of the size of the problem; and then for members of both parties, in both bodies, to come together, to come and listen to the options available.

"We have got a member of what was called the Moynihan Commission with us. They studied this problem in detail. They made some suggestions about how to move forward in solving the problem. Much of my thinking has been colored by the work of the late Senator Moynihan and the other members of the commission who took a lot of time to take a look at this problem, and who came up with some creative suggestions.

"And so I look forward to working with Congress to address this issue in a straightforward manner."

Responding to another question, the president did make it clear that one transition funding mechanism was not on the table, saying, "We will not raise payroll taxes to solve this problem."

The president's remarks came just two days after his meeting with congressional leaders. At that meeting he made clear his intention to make Social Security reform a top domestic priority in his second term.

"'Bush said several times he ran on this issue during his successful campaign for a second term,' one of the attendees, Rep. Bob Menendez (D-N.J.) told reporters. He quoted the president as saying he "intended to spent a lot of his political capital" on it.

Republicans attending the meeting said that no schedule for legislative action had been decided, but that Congress was expected to begin work on the issue soon after it convenes in January.

Democrat Backs Social Security Overhaul

President Bush's call for allowing younger workers to privately invest a portion of their Social Security taxes through individual accounts received an important boost this week when a prominent Democratic Congressman, Allen Boyd of Florida, broke ranks with his party to endorse the idea:

“There are some of us who are willing to work across party lines on legislation to repair Social Security’s solvency,’ he told reporters. He warned that many members of his party “didn’t understand” the consequences of failing to reform Social Security. He said he had been contacted by some Democratic leaders who urged him not to openly break ranks on such an important issue. But the five-term lawmaker said that he intended to use his role to educate his fellow Democrats on the issue.

Boyd also announced that he would cosponsor Social Security reform legislation drafted by Republican Rep. Jim Kolbe of Arizona.

Under that legislation, every worker under the age of 55 would redirect 3 percent of the first \$10,000 of taxable earnings and 2 percent of the remaining taxable earnings to individual accounts. The proposal allows workers to voluntarily contribute up to an additional \$5,000 per year to their accounts with government matching up to \$600 for low earners. A gradual increase in the age for collecting full Social Security retirement benefits would be phased in and the cap on earnings subject to the payroll tax would be raised so that 87 percent of all covered earnings would be taxable.

Kolbe intends to introduce his legislation after the new Congress convenes in January. He has supported similar bills in the past, with Rep. Charles Stenholm of Texas joining forces as the top Democratic supporter.

Washington Post on Transition Costs

An [editorial](#) published Monday in the *Washington Post* (registration required) provided a thoughtful look at the question of transition costs associated with moving to a system of individual accounts. The *Post* noted that, at least theoretically, the net transition costs of privatization and the effects of privatization on interest rates and the dollar are zero.

“The debate over Social Security has begun with an argument that highlights the difference between idealized visions of reform and the imperfect real world. The argument concerns the transition costs associated with partial privatization. The administration and its allies say that these costs should not be counted; critics regard this as accounting trickery worthy of Enron. In theory, the administration has the better argument. In the real world, however, the critics may be right.

“Social Security privatization would allow current workers to divert part of the payroll tax into personal retirement accounts. That diversion would leave the government short of money, so, assuming no tax increase or spending cut would be enacted to offset the shortfall, the government would have to borrow more—issuing perhaps \$2 trillion in extra bonds over the next generation or so. But, in a soundly designed privatization, this transition cost would generate an equal and opposing transition benefit. The workers who divert part of their payroll tax into

personal accounts would accept an offsetting cut in future Social Security payments from the government, thus reducing the nation's debt to future recipients. In sum, privatization would merely substitute new promises to pay bondholders for old promises to pay retirees. In a properly designed reform, the net transition cost should be zero.

“Likewise, the effect of privatization on interest rates and the dollar's value ought also to be zero. The prospect of an extra \$2 trillion in bond issuance sounds scary. Won't extra government borrowing drive up interest rates? What if foreigners, who buy a large share of Treasury securities, balk at buying even more? These concerns miss the fact that the increased government bond issuance would be countered by the new pool of capital accumulating in private retirement accounts. Government borrowing would increase, but private saving would increase equally. Net national saving would not be altered, so interest rates and the U.S. dependence on foreign savers would not change either.”

However, the *Post* also warned that real world political concerns might well lead to increased costs and instability in bond markets.

“Those are the theoretical arguments. But there are reasons to believe that in the real world privatization would have real costs. It's easier to wriggle out of promises to retirees—by raising the retirement age, for example—than it is to renege on bond payments, so Social Security privatization might make the national debt harder to manage, even if it isn't larger. It's also possible that bond markets might be spooked by a flood of new issues, even though they shouldn't be; markets can be at least temporarily irrational, so privatization could hit the economy with a period of high interest rates or dollar weakness.

“But the biggest reason to fear that reform would be expensive is that in order to sell it politically privatizers might well be tempted to sweeten it. This could happen in several ways. Reformers might promise to bail out private-account holders who suffer big investment losses, or they might end up bailing them out some time in the future. That would be a real cost. Reformers might allow a large diversion of payroll taxes into personal accounts while imposing only a small cut in future Social Security benefits. Again, the gap would generate a real cost. The private accounts in the most popular reform model advanced by President Bush's Social Security commission include a subsidy to account holders that measured in today's dollars would come to more than \$1 trillion, according to Peter Orszag of the Brookings Institution and Peter Diamond of the Massachusetts Institute of Technology. Reformers have to make the case that these costs, as well as the risks that privatization might pose to a system that protects vulnerable members of society, are justified by the benefits that private accounts could bring.”

Cato senior fellow Jagadeesh Gokhale responded to these concerns in a letter to the editor (as yet unpublished).

“You advance three arguments: First, switching to personal accounts may make the national debt harder to manage. This argument ignores the fact that inflation can significantly erode the real value of government bonds. Even with an inflation rate of just 3 percent, the erosion becomes quite large: The real value of a fixed nominal \$1000 after 10 years becomes just \$744.

“In contrast, personal accounts participants may be willing to accept more than a dollar-for-dollar cut in present value of traditional Social Security benefits because accounts will allow freer portfolio choices, control over annuity purchases, and the ability to bequeath assets. If future benefit cuts prove unworkable without the inducement of personal accounts, the only remaining option would be to hike taxes—dampening worker incentives.

“Second, you suggest that markets may be spooked by a huge increase in explicit federal debt. But this views market participants as non-rational—not already factoring future federal financial shortfalls into their decisions. More likely is that financial managers, who have intimate market knowledge, would correctly evaluate that the reform represents a conversion of existing obligations rather than a net increase in federal debt, that the rise in explicit debt will be gradual, and that net financial flows, by themselves, will have little impact on interest rates.

“Finally, the reform’s success hinges on whether it reduces Social Security’s existing financial imbalance. You argue that, in order to pass the reform, Republicans may be tempted to sweeten the package—either by offering excessive retirement income guarantees or by reducing participants’ traditional Social Security benefits by less, rather than more, than dollar-for-dollar in present value.

“Both points are valid. However, the pressure to ‘sweeten the deal’ would arise from the reform’s opponents who will sit across the negotiating table. This argument, then, raises a useful caution for the opponents themselves. It shows their position to be: “Don’t pass Social Security reform because to get it, you will be tempted to sweeten the deal for us. And in doing so, you will enact a bad reform.”

New Poll: Investors Like Bush’s Social Security Reform Plan

A recent survey conducted by the investment firm Eaton Vance found that 56 percent of private investors support President Bush’s plan to allow younger workers to privately invest a portion of their Social Security taxes through individual accounts. Though opinions on Bush’s plan were skewed along political lines, with Bush voters more likely to back individual accounts, even 40 percent of John Kerry voters were supportive or neutral.

The poll also reflected growing concerns about Social Security's viability. 'Nearly six in 10 say they aren't confident that Social Security will be solvent when they retire,' said Duncan Richardson, Eaton Vance's chief equity investment officer. 'That surprised me - that people have that degree of realism.'

Some 1,000 investors took part in the survey, conducted last month.

Orszag Exposes Social Security's Dirty Little Secret

It was probably not a message that most opponents of Social Security reform wanted to hear, but in a recent television interview Brookings Institution Social Security expert Peter Orszag pointed out one of the dirty little truths about the current Social Security system—workers have no legal ownership or other guarantee of benefits. Speaking on PBS's *Nightly Business Report* Orszag noted that Social Security benefits can always be reduced, unlike funds in individual accounts. As Orszag noted, "Frankly, there's a lot more flexibility for the government to adjust future benefits than there is for it to negotiate publicly held debt."

Orszag is entirely correct. Many Americans believe that Social Security is an "earned right." That is, because they have paid Social Security taxes they are entitled to receive Social Security benefits. The government encourages this belief by referring to Social Security taxes as "contributions," as in the Federal Insurance Contributions Act (FICA). However, the U.S. Supreme Court has ruled, in the case of *Flemming v. Nestor*, that workers have no legally binding contractual or property right to their Social Security benefits, and those benefits can be changed, cut, or even taken away at any time.

As the Court stated, "To engraft upon Social Security a concept of 'accrued property rights' would deprive it of the flexibility and boldness in adjustment to ever changing conditions which it demands." That decision built on a previous case, *Helvering v. Davis*, in which the Court had ruled that Social Security is not a contributory insurance program, stating that "the proceeds of both the employer and employee taxes are to be paid into the Treasury like any other internal revenue generally, and are not earmarked in any way."

In effect, Social Security turns older Americans into supplicants, dependent on the political process for their retirement benefits. If they work hard, play by the rules, and pay Social Security taxes their entire lives, they earn the privilege of going hat in hand to the government and hoping that politicians decide to give them some money for retirement.

In contrast, under a system of individual accounts, workers would have full property rights in their private accounts. They would own their accounts and the money

in them in the same way they own their individual retirement accounts (IRAs) or 401(k) plans. Their retirement benefits would not depend on the whims of politicians.

For more information, see Charles Rounds, "Property Rights: The Hidden Issue of Social Security Reform," Cato Institute Social Security Paper no. 19, April 19, 2000.

Arnold Kling: Social Security's Worn-Out Roof

Economist Arnold Kling responds to a reader of [Tech Central Station](#), explaining that the economic cost of Social Security reform may be zero, considering the cost of sustaining the status quo. His approach employs all proposed methods to finance the transition cost of private retirement accounts. Not addressing the problem, he concludes, will guarantee a larger price tag imposed on future generations. His commentary follows.

"Let me start with an analogy. Suppose that your house has a very dilapidated roof. The next big winter storm is likely to cause huge damage unless it is repaired. So you borrow \$20,000 and fix the roof.

"What is the cost of this transaction? The 'cash flow cost' is that you have to pay back the loan. Until you complete the payments, you will have less money available to buy a fancy home theater system or a new Jacuzzi.

"The economic cost of this transaction may be zero. In an economic sense, you have exchanged a certain, visible cost—the cost of repaying the loan—for an uncertain, invisible cost—the cost of trying to get through winter with a dilapidated roof. Chances are, if you did not fix the roof, you would still not be able to afford the home theater system or the Jacuzzi, because a storm could cause water damage and force you to pay huge repair bills.

"Another way to put this is that the dilapidated roof is an off-balance-sheet liability. It does not show up in your statement of net worth, but the liability is there nonetheless. When you pay to repair the roof, you eliminate the off-balance sheet liability. However, you acquire a new liability—the \$20,000 loan. That new liability is on your balance sheet.

Social Security's Worn-Out Roof

"Social Security's dilapidated roof is its unfunded liability. As I have pointed out before, your Social Security 'contributions' do not go into a reserve account. Instead, they are used to pay for the benefits of current retirees. What you get in return for your contributions is the government's promise to tax future workers to pay for your benefits. That promise is the unfunded liability. Like the dilapidated roof, it is a liability that does not show up on the balance sheet.

“Suppose that we want to reform Social Security so that your contributions go into a reserve account. One particular form that this reserve account could take would be a savings account in your name and under your control (within limits). That is called ‘privatization.’ But any reform that creates a reserve will have the effects discussed in the rest of this article.

“Your contributions that go into a reserve account cannot be used to pay benefits to current retirees. The government will have to borrow additional money in order to meet its obligations. However, by the same token, because of the reserve account, when you retire the government will not have to find as much money to pay for your benefits. The additional borrowing in the short term is like taking out a loan to repair the roof. But just as the new roof reduces future maintenance costs, putting your contributions into a reserve fund reduces the government’s future cost of providing Social Security benefits.

“If ‘privatization’ or a similar reform were to be enacted, the government would have to borrow more money. That would be the ‘cash flow cost.’ However, the economic cost is zero. The government is extinguishing an off-balance-sheet liability (unfunded promises to pay benefits) and creating an equivalent on-balance-sheet liability (new debt). To put it another way, the government’s ‘cash flow cost’ incurred today will be offset by a ‘cash flow benefit’ many years from now, as you receive lower tax-financed benefits and instead live off your reserve account. The net effect is essentially a wash.

Alternatives to Borrowing

“Just because you could borrow \$20,000 to fix the roof does not mean that you should do so. It might be better to pay some of the cost in cash, even if that means working harder or cutting back on spending.

“Similarly, the government has other options for dealing with the transition to ‘privatization.’ José Piñera recently described how Chile achieved its successful reform.

‘We used five ‘sources’ to generate that cash flow: a) one-time long-term government bonds at market rates of interest so the cost was shared with future generations; b) a temporary residual payroll tax; c) privatization of state-owned companies, which increased efficiency, prevented corruption and spread ownership; d) a budget surplus deliberately created before the reform (for many years afterward, we were able to use the need to ‘finance the transition’ as a powerful argument to contain increases in government spending); e) increased tax revenues that resulted from the higher economic growth fueled by the personal retirement account system.’

“It is important to understand that, to a first approximation, there is no difference between maintaining the status quo and undertaking privatization that is financed entirely by borrowing. Either way, future generations have a liability. Under the status quo, that liability is off the government’s balance sheet, like the dilapidated

roof. Under privatization, the off-balance sheet liability is extinguished in exchange for debt that appears on the balance sheet.

“As I have pointed out elsewhere, privatization financed by borrowing would have some advantages relative to the status quo. In particular, it would create a ‘lockbox’ that would keep government from adding to the disconnect between its promises and the ability to find tax revenue to make good on those promises.

“However, if I were advising Congress, I would not recommend borrowing 100 percent of the money needed to fund the transition. Instead, what I would recommend is using all four methods for funding a transition to privatization: borrowing, raising taxes, cutting Social Security benefits, and cutting other government spending. For example, the government could borrow 70 percent of the necessary funds, and obtain the remainder in equal amounts from the other three methods.

“The drawback to raising taxes is that taxes tend to discourage the activities that create wealth. The desire to minimize this drawback explains why TCS contributor Lawrence Kotlikoff, among others, links tax reform with Social Security reform. One idea is to introduce a value-added tax, as I discussed here.

“Cutting Social Security benefits is difficult to do in a fair way. One approach, advocated by Tyler Cowen, is ‘means testing,’ which would maintain benefits for seniors who most need the income but reduce benefits for wealthier seniors. Another approach, which I have advocated, is indexing the retirement age to longevity. In that essay, I also discuss the idea of limiting benefit increases to the rate of inflation, as recently advocated by Republican Congressman John Kasich. Both the retirement age proposal and the inflation-indexing proposal are suited to gradual, long-term reductions in benefits. If we want to cut benefits for today’s seniors, then only means-testing would appear to be palatable.

“A final element in funding the transition to private Social Security accounts is reducing government spending on other programs. From some people’s point of view, spending cuts would be ‘painful.’ But what others would see as difficult I would see as painless, even pleasurable. In fact, I’ve got a wish list of programs that I would like to see terminated—Amtrak subsidies, agriculture subsidies, energy programs, etc.

Fix the Roof

“There are serious decisions to be made concerning the best mix of methods to finance the transition that extinguishes Social Security’s unfunded liability. Borrowing all of the money to fund the transition is probably not the best choice. But the economic costs of the status quo are, if anything, worse than a transition financed 100 percent by borrowing. If Spencer or his father-in-law were to complain about the cost of fixing the roof, I would remind them that the cost of not fixing the roof is at least as great.”

Leigh Strobe: Social Security Q & A:

Associated Press business reporter Leigh Strobe has written a useful primer on Social Security reform. Her [column](#), which appeared throughout the country, noted that “At the top of President Bush’s legislative agenda for next year is an overhaul of Social Security. He wants to let younger workers divert some of their Social Security payroll taxes into personal investment accounts similar to a 401(k).

“Bush says creating the accounts would help shore up the program’s finances. The president has not provided details about how private accounts would be structured or financed. He made the overhaul a campaign promise in 2000.

“Here, in question and answer form, is a look at the issue:

“Q: When would Congress vote on whether to remake Social Security?”

“A: Supporters want a vote by the end of next summer. Lawmakers are expected to start on the issue when a new session convenes in late January. Bush’s top strategist, Karl Rove, told Republican lawmakers at a Wednesday retreat in Virginia that legislation is an early priority. Officials familiar with the closed-door meeting said administration experts on Social Security are still compiling options for the president to consider, and have yet to present him with material to review.

“Q: Why are changes needed to Social Security?”

“A: Social Security is a pay-as-you-go system, with current benefits funded by the 12.4 percent in payroll taxes paid by workers and employers. The large baby boom generation will strain the system, which will start paying out more in benefits than it collects in taxes in 2018, according to the Social Security Board of Trustees. Without any changes, Social Security in 2042 will be able to cover only about 73 percent of benefits owed.

“Q: Will creating personal investment accounts fix the funding problem?”

“A: No. Other changes will be needed, such as raising taxes, raising the retirement age, cutting benefits or a combination. The retirement age now is 65 and four months, and is rising two months each year until it reaches 67.

“Many proposals to add private accounts reduce promised benefits by changing the way base benefits are calculated. Investments are supposed to make up the difference.

“To help finance the change, some lawmakers say they will consider raising or removing the limit on income subject to the payroll tax. The maximum level of earnings taxed is \$87,900 now; it will rise to \$90,000 next year.

“Q: Will raising taxes, raising the retirement age or cutting benefits shore up funding without adding investment accounts?”

“A: Yes.

“Q: Then why create investment accounts?”

“A: It’s a philosophical debate. Supporters, generally Republicans, see an opportunity to create what they view as a better system that does not rely on demographics. They say that payroll taxes are people’s hard-earned money and that Social Security does not provide them much of an investment return. Supporters think workers should be able to build a nest egg and pass it on to survivors. Younger people tend to be more supportive of Social Security investment accounts.

“Q: How do opponents of the accounts view Social Security?”

“A: Opponents, who tend to be Democrats, say Social Security is an insurance program, not a wealth-generating program, that provides a guaranteed, risk-free benefit. It was created during the Great Depression to help keep elderly people out of poverty, with a generation of workers paying for retirees’ benefits. Opponents also say the investment accounts can be risky.

“AARP, a powerful lobbying group representing older people, opposes the investment accounts if payroll taxes are diverted into them.

“Q: What about money in the Social Security trust fund?”

“A: The trust fund does not really contain money. Social Security today collects more in taxes than it pays out in benefits. The extra money is used to buy Treasury bonds from the government. The government then spends the money as part of its general revenue.

“Starting in 2018, when payroll taxes will not completely cover promised benefits, the bonds will be cashed in, with the government essentially repaying the money it already had spent. That will provide revenue to pay benefits to 2042.

“Q: How would the investment accounts generally work?”

“A: Younger workers could put a portion of their payroll taxes in a special account. Like a 401(k) plan, workers could choose from several investment options, such as a mix of stocks and bonds. Retirees and those nearing retirement could not participate.

“Q: Then how would retirees’ benefits be funded if payroll taxes are getting diverted into accounts?”

“A: That is a problem. Such transition costs are expected to be around \$2 trillion, depending on the size of the accounts. Supporters say money could be borrowed. Some are open to raising or removing the limit on income subject to the payroll tax. Opponents point to record budget deficits—\$413 billion in 2004—and are against borrowing. Some opponents think Bush should roll back some of his recent tax cuts to provide funds.

“Q: Stock market investments are risky. How will risk be limited for people who will rely on the accounts for retirement?”

“A: Supporters say investment options will be conservative and limited. Some proposals require the government to guarantee a minimum level of benefits.

“Q: Social Security is not only a retirement program. It also provides disability and survivors’ benefits. How will those programs be affected by an overhaul to investment accounts?”

“A: That is not clear. Some proposals keep those programs separate and unchanged. Others don’t address the issue.”

GOP Ponders 30-Year Scoring of Social Security Program

Republicans are aiming to rewrite budget rules so that Social Security reform legislation would be projected or “scored” over 30 years rather than the usual 10-year span, reports [The Hill](#). Supporters of Social Security privatization say that any reform plan should be looked at in the context of a 30-, 40-, or 75-year budget window that takes into account the fiscal impact of private accounts over a lifetime. While reform will be costly in the short term, private accounts will eventually become less expensive and ultimately generate a surplus. Excerpts from the article follow.

“Republicans are pushing to rewrite budget rules in an attempt to remove financial obstacles that threaten the GOP’s effort to reform Social Security.

“The potential move to craft budget language that would direct the Congressional Budget Office to score Social Security reform legislation over 30 or more years would likely increase the chances that the bill would pass in the 109th Congress.

“Republicans could also write budget provisions that would remove the program entirely from the budget process. Reshaping Social Security, deemed the third rail of politics, has long been viewed as an almost impossible task. But with the deficit projected to be \$348 billion and the large transition costs of Social Security reform, the legislative obstacles appear even more daunting next year.

“In a recent interview with The Hill, AARP President and CEO Bill Novelli said, “I don’t think Congress could ever pass [a private-account Social Security plan] because they don’t have the money to pay for it.”

“The transition costs of Social Security reform, which is likely to entail personal savings accounts, could total up to \$2 trillion in the short run.

“Reform advocates — including Reps. Paul Ryan (R-Wis.) and Clay Shaw (R-Fla.), several Senate and House aides and Club for Growth President Stephen Moore — said traditional pricing, or scoring, of spending items was unsuited for Social Security reform.

“Instead of assigning a five- or 10-year price tag, as Congress normally does, supporters of reform say Social Security should be viewed in the context of a 30-, 40- or 75-year budget window that takes into account the program’s impact over a lifetime.

“‘To look at this in short segments is shortsighted,’ said Shaw, who is outgoing chairman of the Ways and Means subcommittee on Social Security. ‘You need to look at the overall liquidity of Social Security over a long period of time.’

“A key GOP Senate aide said the looming Social Security debate — which President Bush has promised will be a centerpiece of his second term — had generated a closely related conversation about the budget process.

“‘That’s a big debate going on right now: How do you account for the short-term transition issues, costs, today, while somehow recognizing that there’s a long-term benefit?’ the aide said. ‘The administration is working on its budget. I’m sure that the House and Senate Budget committees are certainly thinking about it. This is something that everybody is thinking about. How do we fairly and accurately view Social Security reform in a budget context?’

“Proponents of revamping Social Security maintain that, unlike other measures, which generally become more expensive as the years drag on, Social Security reform grows less costly and, ultimately, generates a surplus.

“Sen. John Sununu (R-N.H.) projected that his Social Security Savings Act, introduced in September, would lead to ‘permanent and growing surpluses’ by 2030 while eliminating the program’s \$10.5 trillion debt.

“Shaw said traditional scoring made no sense when it comes to entitlement programs that affect many generations of taxpayers.

“‘Social Security should not be scored that way,’ he said. ‘It should be separated out of the budget.’

“Ryan said: ‘It’s almost impossible to score this within a 10-year budget window. ... We’re talking about systemic change and actuarial soundness.’

“The congressman added that ‘there are no set parameters within this debate’ when it comes to scoring. Ryan’s bill would take Social Security out of the budget process, making it ‘off-budget.’

Democrats contend that Republicans are stirring up Armageddon-like fears of Social Security’s collapse to force privatization of a system that Democrats insist has helped alleviate poverty for three-quarters of a century.

“Rep. Bob Matsui (D-Calif.), ranking member on the Ways and Means subcommittee on Social Security, said rewriting budget rules to expedite adoption of a reform bill would imperil the country’s finances for decades to come.

“I’ve never even contemplated that anyone would come up with an idea like this,” Matsui said. “The whole idea and purpose of a budget and expenditures and revenues is to have an accurate accounting of where the federal government is in terms of fiscal policy and in terms of the overall economy. To take off \$2 trillion and to say it doesn’t really exist because it’s a future debt, it really distorts the whole budget process.”

“Matsui also said that removing Social Security from the budget would make federal budgets ‘meaningless’ for the next 25 to 30 years and would scare away many foreign investors and send jitters through Wall Street.

“Republicans close to the budget process said they would try to provide members of Congress with as much information as possible about the short- and long-term costs of transforming Social Security.

“Bringing Social Security reformers into line with the rules and regulations of the congressional budget process — and the senators and representatives who oversee the nation’s spending blueprint — may create some friction within the GOP, Republican sources said.

“It’s just a little too premature in the process to start determining how we’re going to score Social Security reform legislation,” said Cara Duckworth, Republican spokeswoman for the Senate Budget Committee.

“Other Republicans involved in the reform effort said they were waiting for President Bush to take the lead in January. Once the president backs one of the four or five major bills floating around in Congress — or introduces his own proposal — congressional leaders will know how to proceed, GOP aides said.

“Americans for Tax Reform President Grover Norquist, a well-known conservative activist with close ties to the White House, predicted the president would wind up supporting a plan close to that put forth by Sununu and Ryan. Norquist, like Moore, of the Club for Growth, has endorsed those proposals.

“House Speaker J. Dennis Hastert (R-Ill.) last month expressed support for Ryan’s bill.”

Publications

The Social Security Administration’s Office of Policy has released its November 2004 edition of “International Update: Recent Developments in Foreign Public and Private Pensions.” For more information, click [here](#).

Events

The Cato Institute will hold a two-day conference on Social Security February 8–9, 2005. Confirmed speakers include Nobel Laureate Edward Prescott, as well as Lea Abdnor, Andrew Biggs, Robert Bixby, Martin Feldstein, Jagadeesh Gokhale, Stephen Goss, Douglas Holtz-Eakin, Rep. Sam Johnson (R-TX), Rep. Jim Kolbe (R-AZ), Maya MacGuineas, Thomas Saving, Kent Smetters, and Michael Tanner, among others. More details, including registration information, are forthcoming.

Job Opening

Project Manager: Cato's Project on Social Security Choice is looking for a project manager to coordinate and implement its communications, administrative, and outreach efforts. Successful candidates should have outstanding oral and written communication skills. Public relations, campaign management or grassroots activism experience is highly desirable, as is knowledge of the current debate over Social Security reform. The job involves designing and managing strategies for communicating Cato's message on Social Security reform to specific target audiences, community activists, and the general public. Responsibilities include arranging speaking engagements for Cato scholars, writing press releases, managing the content of Cato's Social Security website, creating Social Security materials and managing their distribution, designing paid advertising campaigns, coordination with other groups interested in Social Security reform, ensuring interdepartmental coordination and communication particularly with the communications and government affairs departments, and other public relations, administrative, and media-related duties. Submit résumé and writing samples to Michael Tanner, Cato Institute, 1000 Massachusetts Ave. NW, Washington D.C. 20001, or to mtanner@cato.org.

Edited by Adrienne Aldredge, aaldredge@cato.org. To subscribe or unsubscribe to *Social Security This Week*, please contact Feliz Ventura at (202) 789-5202 or fventura@cato.org.