



# Social Security Choice

## ***SOCIAL SECURITY THIS WEEK***

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

WEEK OF JULY 1, 2005

### ***Looking for a July Vote, House GOP Discusses Bill***

House Republicans have indicated that they intend to push for a vote on Social Security reform this coming July. Ways and Means Committee Chairman Bill Thomas hopes to introduce a large retirement bill that would address several concerns, including Social Security's solvency and a variety of other issues. An alternative bill backed by Republican leaders in the House might still be pulled into Thomas's bill or stand for a vote on its own. The bill concentrates on creating personal investment accounts and safeguarding the Social Security surplus as a way to break the partisan impasse.

House Speaker Dennis Hastert called the accounts bill "a first step." Rep. Jack Kingston (R-Ga.), vice chairman of the House Republican Conference, added "Politically, people are not as nervous as they used to be."

The point of division is over the extent to which the bill should attempt to resolve the Social Security crisis. With opposition from the Democratic side of the aisle still almost unanimous, House Republicans are deciding whether to use the bill as an attempt to resolve outstanding retirement security questions ranging from the future retirement age to benefit levels, or whether instead they should use the opportunity to refocus the debate on the merits of personal accounts and fiscal transparency. The weight of opinion at the time of print appears to favor the latter option.

As Michael Tanner, Director of the Cato Project on Social Security Choice, noted in a recent commentary in the [Washington Times](#):

"Democrats have said that personal accounts take money out of Social Security. [This] proposal would only use Social Security surpluses. The government's general operating budget would be deprived of those funds, but Social Security's finances would not be touched. There is no 'transition cost.' Democrats have said personal accounts are too risky. Mr. DeMint's proposal would let workers invest only in government bonds. All that would change is who holds the bonds. Instead of the Social Security Trust Fund keeping the bonds, individual workers would hold them. Workers would gain some of the benefits of ownership and inheritability without assuming any market risk."

## ***Senate, Too, Looks for an Early Vote on Social Security Reform***

After several months of discussions on the shape of their new Social Security reform bill, Senate Republicans have begun drafting the bill that they hope to put before the Senate in advance of the fall recess. Under instructions from Senate Finance Chairman Charles Grassley (R-IA), efforts are being made toward a wide reform package that would seek to address solvency as well as provide for personal accounts.

Reports indicate that it remains to be decided whether the legislative push will aim for add-on accounts, which would create personal accounts of some sort in addition to pre-existing entitlement schedules, or carve-out accounts, which would end congressional control of a portion of payroll tax contributions, transferring ownership to individuals through personal accounts. One certainty heading into the drafting period is that tax increases are off the table. It is also thought that deliberations over the final shape of the bill will take account of the probabilities of success, given the more or less unanimous opposition to the reform proposals to date among congressional Democrats.

Finance Committee staffers expect to have a draft bill ready for consideration after the Independence Day recess. After the success last week of the DeMint plan in uniting Senate Republicans around a limited personal accounts proposal, much of the discussion will center around attempts by the committee chairman to address the solvency crisis through larger “carve-out.” Solvency options included “progressive indexing,” an idea endorsed by the administration, and an increase in the retirement age.

## ***A Real Lockbox for Social Security***

As Congress considers bills designed to end the use of Social Security taxes for general spending, a [new commentary](#) by Cato’s Michael Tanner, director of the Project on Social Security Choice, explains the issues at stake. Under the current arrangement, payroll taxes that are left over after entitlement commitments have been met are released to Congress for miscellaneous spending projects. These funds are widely dispersed. As Michael Tanner writes:

“Do you know where your Social Security taxes are? Some of them went to pay for the National Cowgirl Hall of Fame and Museum in Fort Worth, Texas. The same monies helped the State Historical Society of Iowa in Des Moines pay for the development of exhibits for the World Food Prize. And we should all be happy that some of our Social Security surplus funded a study of mariachi music for the Clark County (Nevada) School District.

“As we know by now, Social Security is facing many problems that will require long-term, comprehensive reform. But before a doctor operates on a patient, the first step is to stop the bleeding. And the first step toward Social Security reform should be to stop Congress from spending Social Security money on anything except workers’ retirement.

“The basic problem is that the way Social Security is currently set up, workers don’t own their Social Security funds. Because workers don’t own their money, Congress treats that money like its own: free to spend on whatever the members choose. And

spend it they do, on everything from the war in Iraq to the International Fertilizer Development Center. In return, the Social Security Trust Fund is given a bond, essentially an IOU, which will eventually have to be repaid out of future taxes.

“It’s the ultimate insult. Congress spends our Social Security taxes then expects us to pay more taxes to repay its borrowing. To date, Congress has borrowed and spent more than \$1.7 trillion of Social Security taxes. This year it will borrow another \$60 billion.

“This has been going on for more than 20 years, under both Democratic and Republican administrations. Members of both parties have resisted all attempts to keep their hands out of the Social Security cookie jar. In fact, some seem to be proud of what they are doing. House Minority Leader Nancy Pelosi says, ‘There’s nothing wrong with Social Security lending money with the prospect of returning it ... There is a surplus in Social Security, and under the law Social Security can lend that money to the government for other purposes.’

“As long as politicians have that attitude, the only real way to keep Congress from spending Social Security taxes is to get that money out of Washington. If Congress is going to insist on spending like a drunken sailor, then it’s time for an intervention.

“Now, Senator Jim DeMint (R-SC), Representatives Paul Ryan (R-Wisc.), Sam Johnson (R-Tex.), and others have proposed legislation to put the whole federal government back on the wagon. Their plan would rebate Social Security surpluses to workers in the form of contributions to personal accounts. The money would belong to the worker, in an account with his or her name on it.

“This proposal would represent a true ‘lockbox,’ devoting that money solely to the worker’s retirement. No politician could touch it.

“The plan would have other benefits as well. Because workers would own the funds in their accounts, when they die they could pass money on to loved ones. And, without Social Security surpluses to hide behind, Congress would have to face up to the choices of running higher deficits, raising taxes, or, hopefully, spending less.

“That’s bad news for Mississippi catfish health research, but good news for Social Security reform.”

### ***New Cato Paper: Social Security Fails at Liberal Goals***

A new paper by Cato policy analyst Will Wilkinson assesses the inner consistency of the case for retaining the Social Security status quo. [The paper](#), “Noble Lies, Liberal Purposes, and Personal Retirement Accounts,” is the latest addition to the Social Security Choice series. Wilkinson, taking as his starting point the arguments of a number of commentators opposed to reform, details how the current Social Security system violates many of the philosophical principles of its own defenders. As such, welfare-liberals and various other defenders of today’s Social Security arrangements ought, on their own terms, to be amongst those pushing hardest for reform. Several excerpts from the paper follow.

“A frank look at the Social Security status quo reveals that the program is very poorly designed to realize liberal ideals. Social Security has a barely progressive overall structure, if it is progressive at all. The huge volume of transfers inherent in the system accomplishes very little income redistribution within generational cohorts. Furthermore, it works to the disadvantage of current workers, who will receive a smaller ‘return’ on their payroll taxes than do current retirees. The terms of the imaginary ‘compact between the generations’ are manifestly unfair...”

“A system of personal retirement accounts plus a means-tested safety net would serve the ‘social insurance’ function better than the Social Security status quo according to liberal standards. Contrary to critics of reform, personal retirement accounts would materially enhance equality and social cohesion by more fully integrating workers into the market, providing everyone with a stake in its growth, closing the gap between the investing and noninvesting classes, and making more salient the mutuality of interests in a market society...”

“Opponents of Social Security reform have cast the current debate in terms of a clash between libertarian and welfare-liberal values. Libertarians and classical liberals put primary stress on the political values of individual responsibility and limited government; welfare liberals, as opposed to classical liberals, place relatively greater weight on the values of equality and social solidarity. Opponents of reform seem to assume that changing Social Security is a zero-sum game: because a savings-based system would clearly advance the self-reliant libertarian cause, it must therefore represent a setback for egalitarian welfare liberals.

“The assumption of a zero-sum conflict on this particular issue, however, deserves to be called into question. A strong case can be made that a savings-based retirement system could do a much better job of promoting equality and social solidarity than the status quo manages to accomplish. Further, it can be argued convincingly that the status quo is in fact jarringly inconsistent with welfare-liberal ideals. Accordingly, thoughtful liberals ought to find a move toward personal accounts worthy of support—notwithstanding the fact that the Cato Institute hatched the idea and President Bush now supports it.

“Social Security reform isn’t just for libertarians. As this paper demonstrates, egalitarian liberals have little reason to defend the Social Security status quo and compelling reasons to promote the adoption of a well-designed system of personal retirement accounts.”

### ***Featured Daily Debunker: Raiding the Trust Fund Is Okay, Says Pelosi***

Each weekday, the Cato Project on Social Security Choice provides new content on its website, [www.socialsecurity.org](http://www.socialsecurity.org). The Daily Debunker, the most frequently updated feature on the website, sets the record straight about the most egregious instances of misinformation about personal accounts that appear in newspapers and magazines. This week’s featured debunker discusses Democratic reaction to the idea of protecting the Social Security trust funds from Congress. From the Debunker:

At a recent press conference called to denounce Republican efforts to secure the Social Security surplus in individual accounts, several key Democratic lawmakers made some frightening arguments in order to defend the indefensible way the Social Security “trust fund” operates. First, House Minority Leader Nancy Pelosi said, “There’s nothing wrong with Social Security lending money with the prospect of returning it.”

Unfortunately for Ms. Pelosi’s constituents, you cannot eat a “prospect,” nor can you take it to the bank. According to Pelosi, the real problem with Social Security isn’t the fact that there is only a prospect and no guarantee. The problem is that because there is only a prospect and not a legal obligation to pay back Social Security, the Republicans, specifically the Bush administration, might not pay the trust fund back when the time comes.

Unfortunately, Ms. Pelosi’s appalling understanding of how Social Security works is matched only by her incomprehensible belief that George W. Bush will still be president in 2017 and will therefore be the person making the decision as to whether or not to pay back the trust fund. But whether there is a Republican or a Democrat in office in 2017, any professional politician should recognize that there’s imminent danger when people’s retirement security is tied to the mere “prospect” that the majority party will do the right thing.

Rep. Charles Rangel, the ranking Democratic member of the House Committee on Ways and Means, demonstrated his own misunderstanding of how Social Security works, comparing the system to a bank.

“Would you have any problem if you put your money into a bank, and they just took your money and invested it, and you went to the bank and they gave you your money when you needed it?” he asked. “There’s nothing wrong with doing that.” No, there isn’t. However, unlike the Social Security Administration, a bank is legally obligated to give you your money back on pre-arranged terms. There’s no such guarantee with Social Security, which the Supreme Court has twice declared not an entitlement, but a regular spending program.

It would be far better for Americans if Social Security did operate like a bank, where the rules don’t change and the responsibilities of each party are clear and enforceable. Individual accounts could create a system like that, and Rep. Rangel seems to intuitively see the value in such a system. Unfortunately, he seems to think it’s the system we already have.

## **Events**

On Thursday, July 14, representatives from the National Council of Women’s Organizations and Women for a Social Security Choice will [meet face-to-face](#) on Capitol Hill to debate the future of Social Security reform and how it will affect women. The debate will take place in the Capitol Building on the House side, in room HC-5, from 9:30 am to 11:00 am.

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