

CENTER FOR AMERICAN PROGRESS

**“NO FREE LUNCH: AN HONEST ACCOUNTING OF
SOCIAL SECURITY REFORM OPTIONS.”**

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MS. TERRI SHAW: Good morning everyone. Welcome to the Center for American Progress. I'm Terri Shaw, associate director for domestic policy here at the Center. And as I hope you're all familiar by now, the Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just, and free America that ensures opportunity for all. And we believe Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values, and Social Security is a shining example of that common commitment.

After a brief hiatus from the national policy agenda, it's once again back on the front burner. President Bush and congressional leaders have made it clear that they intend to replace some portion of the social insurance program with a system of individual accounts. Now, no matter how the outcome of the public relations battle over the name of that policy plays out, privatization by any other name is a fundamental change to one of the most successful and treasured programs in our nation's history.

I want to remind you of just a few key stats about Social Security. According to the latest figures from the Social Security Administration, the poverty rate for persons over 65 was 8.5 percent in the year 2000, but without Social Security that rate would have been 48.1 percent. Social Security is particularly important for older women. An additional 42 percent of women over the age of 65 would have been in poverty had it not been for Social Security. And it's also important to remember that one-third of Social Security expenses go to pay for disability and survivorship benefits. Among the recipients of these benefits were 1.3 million children in 2003.

So given the tremendous importance of Social Security to current and future beneficiaries, to their families, and to the economy as a whole, it's time to get beyond the sound bites that we've been hearing mostly to date in this debate and that's why we have assembled this panel of experts today to discuss the sustainability of Social Security and the implications of reform options.

So let me introduce you to them. We're first going to hear from Dr. Dean Baker, at the end. He's currently co-director of the Center for Economic and Policy Research. Previously, Dr. Baker was a senior research fellow with the Century Foundation in New York and a senior economist at the Economic Policy Institute here in Washington.

Then we're going to turn to Dr. Christian Weller. He's a senior economist here at the Center for American Progress, where he specializes in Social Security and retirement income, macroeconomics, the Federal Reserve, and international finance. Prior to joining American Progress, Dr. Weller was on the research staff at the Economic Policy Institute, where he remains a research associate.

And next we're going to hear from Dr. Maya Rockeymoore. She's currently the vice president of research and programs at the Congressional Black Caucus Foundation. Dr. Rockeymoore has also served as a senior residence scholar at the National Urban League, chief of staff to Congressman Charles Rangel, professional staff on the House Ways and Means Committee, and as a Congressional Black Caucus Foundation legislative fellow in the office of Congressman Melvin Watt.

Finally, we'll be joined by Dr. Peter Orszag. He's a senior fellow in economic studies at the Brookings Institution and a co-director of the Tax Policy Center. He's the coauthor of *Saving Social Security: A Balanced Approach*. Dr. Orszag previously served as special assistant to the president for economic policy at the White House and as senior economist and senior advisor on the President's Council of Economic Advisors.

So with that, without further ado, Dr. Baker.

DR. DEAN BAKER: Thanks, Terri. Glad to be here. Really glad you took the lead and organized this on very short notice. Saying that, I should apologize that I didn't customize my slides for this session. I think like a lot of other people I was still sitting there on Thursday mired in a hangover when I first heard that we suddenly had a battle on our hands, but we won the prior battles on this one, so we will win this one as well.

So let me just give the basic outline here of what I want to say. First off, I (see they're playing?) the scare stories and the point is that we have been treated to a number of scare stories and I think that the basic point that we have to do with Social Security is get out the truth about the situation with the program and just the basic facts. First off, it'll be fully solvent long into the future. This idea that it's about to go under, it's simply not true. Secondly, the shortfalls are relatively modest. We've been here before. We've seen shortfalls in the program. They're relatively modest by any comparison you want, and I'll make some.

Third, if we have to raise Social Security taxes somewhere 20, 30, 40, 50 years in the future, that doesn't pose any threat to the living standards of our children or grandchildren. It's really going to be a relatively trivial matter and I'll show that. Fourth, privatization doesn't offer a solution. I will just say a word about that in passing because we have other people to speak on that much more thoroughly than I will. And last, I just want to talk about some of the sort of tricks that our friends on the other side tend to pull on this – some of the rhetorical tricks that we hear all the time. I'll just briefly mention and counter them.

Okay, so starting with the first point: average monthly benefit, this is straight from the trustees' report. Suppose we go to sleep, never do anything: what's the average monthly benefit? What will people get? You know, where's the cliff? Okay, and from the trustees' report we see that right through 2043 the program can pay all scheduled benefits, so it's not the baby boomers: 2043, the youngest baby boomer's already almost 80. Okay? The baby boomers don't bankrupt it. The real problem is over the long term people are living longer lives, but we knew about the baby boomers. That wasn't a secret.

Okay, so the program isn't about to go off a cliff. Benefits keep rising and one of the things you say is 2043 we can't pay all scheduled benefits, but there's still taxes coming into the program. We'd have enough money to pay about 75 percent – a little less than three-quarters of all scheduled benefits. That's still a higher benefit than what retirees get today, and this is adjusting for inflation, so there's no gains there.

Okay, so the idea that you see someone in their 20s – there's going to be nothing there for me. Well, if you vote to get rid of it, there'll be nothing there for you, but it's literally impossible to tell that story. Now, and the point is – again, this is the trustees' report. These are extremely pessimistic assumptions. For example, their productivity growth assumption – we've heard the big talk – Alan Greenspan constantly talks about the new economy – the upsurge in productivity – with good cause: we had a big upsurge in productivity back in '95 and it's continued right through to the present. The Social Security trustees have not found out about it.

These projections assume that we're going to have as low productivity growth as we've ever had, so if we had productivity growth that was somewhere near the postwar average – I'm not talking about a boom period – somewhere near the postwar average, you'd get – for example, the Congressional Budget Office said we'd get to 2053. Okay, you get much further out and it's – you could find totally plausible scenarios – Robert Gordon at Northwestern University has a totally plausible scenario that this fund will be fully solvent throughout the 75-year forecasting period; in fact, forever. So this idea that we're facing some looming shortfall, that's a fiction. It's simply not true. It's a very distant problem if one at all.

Okay, the next question: how large is it? Is it going to bankrupt us? Well, good question. We should use comparisons to other items, and a convenient comparison is how much we've increased defense spending in the last four years. And I like to compare apples to apples. No one knows what trillions of dollars are, so give anyone who says trillions of dollars – a \$12 trillion deficit – give them a big kick and tell them to use a real number. Expressed as a share of GDP – this is straight from the trustees' report. What the Social Security trustees say is with the amount of revenue equal to .73 of 1 percent of GDP you could balance the program for the 75-year horizon.

Well, we increased spending on defense by 1 percent of GDP over the last four years. Now, one could argue whether that was good use or bad use, but I haven't heard anyone say that's going to bankrupt the economy. So if 1 percent of GDP didn't bankrupt the economy, how can .73 of 1 percent of GDP bankrupt the economy? And again, that's a Social Security trustees' number.

If we use the numbers from the Congressional Budget Office, and I encourage people to consider that because the trustees actually are – four of the six are Bush administration appointees, so you might want to keep that in mind. CBO I think is a little more independent. If we use the CBO numbers, it was about half of 1 percent of GDP. So in other words, the amount of revenue it would take to balance Social Security over the 75-

year planning period is half of the increase in military spending that we actually saw over the last four years.

Again, just putting this in some context, numbers straight from the Social Security trustees, the last – this is the size of the tax increase measured as a percent of payroll that we would need to balance Social Security. It's 1.89 percent of payroll. Again, that would be divided between employer and employee, so 0.9 percent on each. No one wants to see that. We don't have to do that tomorrow. We don't have to do that till long in the future. Okay, but let's just say we did it tomorrow. That's what it would take. Well, that's actually a smaller tax increase than we had in the decade of the '80s. It's a little more than the '70s. It's less than we had in the '60s. It's less than we had in the '50s.

Ask people what bad things happened in the '80s. I've done that. I haven't had one person ever mention the Social Security tax increases. Okay, I'm not advocating – I'm not saying it would be a good thing, but the point is it didn't destroy the economy. It won't destroy it in the future.

Okay, one last point on that, just getting back to that last one. When people start talking about the crisis, given how far off the shortfall is – you know, again, we can wait 'till 2043, not something I would advocate, but it's far in the future – it would make more sense for us to be talking about a crisis in 1950, 1960, 1970, 1980, because at none of those points could we have gone 40 years and done nothing. So actually the crisis was much more imminent back when Barry Goldwater was challenging Johnson than it is today.

Okay, next point: will we bankrupt our kids? Again, numbers straight from the Social Security trustees' report. Suppose we raise taxes. I have a phased-in tax increase that has us raising taxes in 1940 – I'm sorry, not phased-in; we have the tax increase in '42 to – 2042 to make up the shortfall in Social Security. Here's what would happen to wage growth, so our kids always make a lot more money than we do. We get out, you know, 50 years – they're making almost twice what we do today. And again, this is assuming the slowest productivity growth the country has ever seen. Okay, so is Social Security going to bankrupt our kids? It's a little hard to see.

I also like to show this generational equity when you have people like Pete Peterson go, well, what about my kids? What about my grandkids? I go, you make a lot more money than me. If you pay a little more in Social Security tax, excuse me if I don't cry for you.

Okay, next one I will skip because that will be talked about. That I will skip also. Stock returns and Social Security. We've given the other side in this a huge free lunch. The stock market is not a money machine. That should be clear to people from the crash in 2001 – 2000, 2001, 2002. Back in the late '90s I was arguing with people and they were just assuming that the stock market, even though you had record high P/E ratios, could give the same returns in the future that it had in the past. And I harassed people then and I'm going to harass people today.

I actually have a little thing in your handouts that has the no economist left behind test. It's a very simple thing. If you think stocks are going to give you a 7 percent return above inflation, write it down. Stock returns either come from capital gains or dividends. They don't come from heaven. Okay, so just write it down. It's a simple arithmetic exercise. Any competent economist should be able to do it in half an hour. I've gone around with I think every advocate of privatization. Not one person has done that. I even offered to help them. And the point is that they're making up numbers.

The actual returns that you could expect given the current price-to-earnings ratio in the market and projected profit growth – it's a little less than 5 percent, which takes away much of the benefit of investing in the stock market, so I think it's a simple thing. If you want to take trillions of dollars of workers' core retirement income and put it in the stock market, take a half an hour and write down the numbers. I think we could ask that of people.

Okay, I'll just quickly go through some of the tricks of the scare-mongers that I think we should be sensitive to because we see it all the time. Expressing the shortfall in trillions: I don't know how many times I've been on panels with people where they say we have a shortfall of \$10 trillion, \$12 trillion. I don't know where they get the numbers sometimes. Sometimes I've heard \$20 trillion, but, you know, that's a meaningful number. Just put in a really big number. The way – if you want to be serious – we could talk about it as a share of future GDP, and I just gave that to you: .73 of 1 percent. So anyone who just gives you a number – trillions – you know, one-tenth of 1 percent of the population are nerds like us and we have our nose in the books and we know what \$1 trillion or \$10 trillion over 75 years is. Express it as a share of GDP, otherwise you're just not being honest. It's a very simple thing. Good lie detector test.

Future ratios of retirees to workers. Yes, that's going up. And guess what? The Social Security trustees knew that. Those are in the projections. You know, that's assumed.

Trust fund only is worthless IOUs. Well, they're IOUs. They're usually called bonds. GM issues IOUs if you like. We usually call them bonds and I generally insist that we use consistent language, so if people say that GM issues IOUs, you know, I'll say okay, you can call these IOUs, but otherwise let's call them government bonds. Are they worthless? Well, not under the law. Under the law they have to be repaid not from Social Security taxes, but from general revenue, okay – income taxes, progressive income tax, and corporate income tax. It's not the same pocket, and that's a really important point. We aren't going to raise anyone's Social Security taxes, at least not under the law to repay those bonds. That money comes from progressive income taxes. That's the law as it stands now. You can try and change it, and they're welcome to argue for that, but that's what the law says now.

Medicare and Social Security. Medicare is a disaster and it's a disaster because we have a broken health care system, so anyone who says Medicare and Social Security, well, they could say Medicare and government spending on food services. You know, Medicare and

anything is a disaster. That's a joke. So we have to fix our health care system. We know that. We should talk about that – nothing to do with the Social Security system.

Privatization will allow workers to get higher returns. Again, you know, when you look at the administrative costs, look at the actual returns, you don't find that story.

Okay, just to conclude, the program is fundamentally sound by any measure. It's a tremendous success story. I mean others – you all know this. I don't have to go on about it. It's a hugely popular program and we have real problems, you know. We have global warming, we have our health care system. Those are things we should talk about and we should talk about the other segments of the retirement system. The PBGC is about to go under. We should be talking about that. But Social Security is not a problem we have to talk about.

And I might just conclude with one final – give you – share my perhaps worthless political judgment. I think this will be a huge, huge battle and one of the things that's just really striking is obviously President Bush is serious about privatizing Social Security. He's going to have to go all out on it. Obviously if it's stopped it will require all our effort to defeat him, but on the other hand if it is stopped, at that point President Bush will be very much I think a lame duck president, which I think is something we all look forward to. (Laughter.)

Thanks.

DR. CHRISTIAN WELLER: Thank you very much, Dean.

I want to talk a little bit about the costs of individual accounts. Most of them are well known – you have heard before, but I also want to present some new numbers on some new costs, and in particular Social Security privatization basically replaces part of the social insurance system with individual accounts, which basically means that risks are privatized, so privatization is clearly in there.

However, the greater risks for individuals are also reflected in greater costs in order to protect themselves from the greater risks. Let's just go through the costs very quickly. The first one that always gets pulled out are administrative fees. Privatization would basically establish a large number of small accounts. In 2001, we went through this debate. Wall Street firms weren't that keen on having lots and lots of small accounts. There was this discussion over incubator accounts that basically the government would take care of the small accounts while they're costly. Once they reach a certain size, Wall Street would then step in and take them over.

Without the economies of scale, administrative fees will probably be on the high end of individual accounts. Currently, according to numbers from CBO and others, the costs for individual accounts are between 0.8 and 1.3 percentage points of assets every single year depending, again, on account size, on account options. The less equity you have in the account, the cheaper it is, but the – if you look at your own 401(k) plans, the

administrative fees vary very little. They typically hover around 1 percent of assets – of a little over 1 percent, reducing total savings between 20 and 30 percent by the time you retire. Again, these are not – these are numbers from CBO.

The important piece that many people forget is Social Security not only takes in your money, but also pays a lifetime-guaranteed, inflation-adjusted benefit, so by the time you retire and you have your individual account and you have maybe \$20-, \$30-, \$40-, \$50,000 in it, you then have to go out – in order to get the same benefit – to make yourself whole, you actually have to go out and buy an annuity from an insurance company. Again, smaller accounts pay larger fees, typically 6 percent of total assets. Larger accounts pay smaller fees, out 4 percent of total assets. That reduces your benefits monthly between 15 and 20 percent. These are numbers from Olivia Mitchell who is a professor at Wharton, was a member of the Commission to Strengthen Social Security and clearly can't be accused of being a progressive.

The other part, importantly, is also that Social Security is a defined benefit. It depends on your earnings record. It doesn't depend on the performance of the stock market on your investment decisions. Again, in order to make yourself whole with your individual account you have to compare that to guaranteed. You can actually buy those guarantees. Insurance companies offer them. Again, these are numbers from Professor Mitchell at Wharton. If you buy a guarantee that will guarantee your rate of return over 40 years, that costs you 16.1 percent of your regular contributions just to buy that insurance, so you already have three costs here.

Let's go – (inaudible) – 800-pound gorilla, and this is one – we labeled this talk “No Free Lunch: An Honest Accounting.” This is the one where the privatizers start waffling. They have no answer on what to do about transition costs. I think Peter Orszag called it once the magic asterisks in all the proposals. It's like this money will somehow fall from the sky in the order of magnitude \$2 to \$3 trillion.

Basically, if you privatize Social Security what will happen is you still have to pay promised benefits at least for part of the current people. We typically assume people 55 to – who are 55 and older will get the promised benefits at least, and – however, privatization means that more money goes into individual accounts – doesn't go to pay benefits. You somehow have to make up the whole by transferring money from general revenue to Social Security.

I believe it's research that Peter – that Dean Baker did for Argentina, which had transition costs under its own privatization scheme, and without their transition costs I think Dean's numbers show – if I remember that correctly – that Argentina would not have encountered a fiscal crisis in 2001. These costs are substantial. They are equal to 1.2 percent of payroll for the next 75 years or net present value. These are numbers from 2002 to \$2 trillion. Again, these numbers may change in 2004 – 2005 a little bit, but order of magnitude will remain the same. And as we talk privatization, this is the big question that needs to be answered along the question of what do you do – what will privatizers do about the loss of insurance value?

Let me talk about another cost that is often overlooked, although the economics literature recognizes risk and cost in the 1960s. The problem is that the labor market and the stock market don't just exist in a space of their own. They actually are part of our economy. They're reflecting business cycles, meaning that the labor market tanks at the same time that the stock market tanks. Stock prices go down just at the same time as employment goes down, unemployment goes up and wages go down. Meaning by the time it's actually good to buy stocks when stocks are relatively cheap, people don't have the money to buy it, and that risk is particularly pronounced for women and to a lesser degree for minorities.

We did some numbers that basically shows that women and minorities – their earnings records, and here are the two parts that we're looking at are unemployment rates and earnings. The earnings of women fluctuate more than men, and they do so with the business cycle, although their unemployment rates are comparable of those of men. For minorities it's somewhat different. Unemployment rates and the spell of unemployment – the length of unemployment is different for minorities. Minorities tend to have higher unemployment rates and longer spells of unemployment than whites have, although their earnings are also lower than those of whites, but the fluctuation of earnings with the business cycles are similar to those of whites, meaning the labor market risks that we see for women are coming from the earnings fluctuations; for minorities from the spells of unemployment.

The result is that generally women and minorities tend to earn less than their counterparts, but also because of the greater fluctuations with the business cycle they tend to pay more for the investments – what I call adding insult to injury. If you look at some of the numbers, you see that minorities tend to have about half accumulated of what whites have – no, sorry, about three-quarters. For women the difference is about 40 percent in terms of the account balances. It ultimately doesn't matter which savings rates you assume here. So that's the first one: women and minorities tend to save less in their accounts because they have over a lifetime lower earnings, but on top of that they are actually getting back less than men just because – but at times it would be good for them to buy, they often are out of jobs or have lower earnings because of the business cycle.

That adds costs for African-Americans by about three cents per dollar, for women six cents per dollar invested, for African-American women five cents per dollar invested in – and for white women seven cents per dollar invested. In terms of comparable costs, this is about the same cost as turning your savings into a lifetime annuity. To look at it a different way, white women essentially have to pay – women generally have to pay twice for the annuity or men get the annuity for free depending on which side you're taking.

Social Security hence has an added insurance value. The first part is because Social Security has a progressive benefit formula, it actually compensates for the discrepancy in lifetime earnings. It gives higher benefits – proportionally higher benefits to lower lifetimes earnings, so the first part is somewhat compensated.

The second part: Social Security's benefits move irregardless of the stock market and hence you don't have the added costs in your benefits, so Social Security has an added benefit. I just want to make sure that we talk about the full costs of privatization as we go forward and debate them.

Thank you very much.

DR. MAYA ROCKEYMOORE: Thanks. Unlike Dean, I am not happy to be here. I did not want to see this situation. When I started working on the Ways and Means Committee in 1998, the Social Security Subcommittee, we always thought about the notion of Social Security privatization being a ludicrous proposal, of course, because when you look at the details it makes absolutely no sense. It costs more than Social Security. But the situation or the scenario – the political scenario seemed to be a far away one. And now we face a situation where the stars seem to be aligned for Social Security, quote unquote “reform,” and that means privatization.

What's lost in many of the numbers, or the discussion of the numbers, is the true story. Two years ago when the idea of reform was still a far away notion, I wrote an article for *Essence* magazine on the impact of Social Security privatization on African-American women and I put out a call over the Internet for stories from real women about their relationship to the Social Security program. And I received this story back, and I'm going to read it just so we can put this all in perspective that we're talking about real people.

Social Security came in handy when disaster unexpectedly struck twice in Sandra's household. For years, her father worked hard as a machine operator for a construction company to support his wife and his four children. When Sandra was 15 years old, her father was diagnosed with a terminal illness and could no longer work. Without her father's income to support the family, Social Security disability benefits became their primary source of financial support. After his death, Sandra's mother received Social Security survivor benefits to feed and clothe her family and put Sandra and her siblings through school.

Several years after her father's death, Sandra's mother also became disabled with a severe form of rheumatoid arthritis. With all of her children grown, Sandra's mother, at that time 61, relied on Social Security disability for all of her food, clothing, and shelter needs. Reflecting on her family's experience, Sandra said, “The Social Security benefits did not make us rich and it was a far cry from the way we were used to living prior to my father and my mother becoming ill. However, one of the things that I'm thankful for is the fact that we had those funds available so that we did not have to starve to death or be put out of our home. We had those funds available.”

Social Security has been the most successful – one of the most successful public policy programs that this country has ever implemented, and the proof is in the pudding, literally, when you look at the millions of people who have benefited throughout the years.

We cannot discount the fact that it is a guaranteed benefit. The Social Security benefits are there for retirees on a monthly basis and there's no question about those, especially for seniors who are on a fixed income that it's going to be there for them. For women who live longer than men, Social Security – they don't have to worry that they'll outlive their savings because Social Security will be there for them as long as they live. It is inflation-adjusted. The cost of living adjustment is something that Social Security provides that no privatization account can cover. And so Social Security in the end is progressive for those low-income populations who go through their lives. It replaces a larger percentage of their earnings upon retirement and so it's a progressive system and it's important for low-income populations and minorities who are disproportionately low income.

So we have a situation where people are proposing privatization of the Social Security program and it completely costs more, which makes no sense. It just costs more in terms of transition costs and in terms of administrative costs. Social Security is of course a program that is cheap to run. The administrative costs are less than 1 percent, so when you look at the administrative costs versus the Social Security program for privatization, it absolutely makes no sense to go there.

Now, when we're talking about disadvantaged populations, we traditionally define that as women and minorities, but in the context of Social Security we also have to understand and look at young people. Because Social Security is a partially pay-as-you-go system, which means the current workers pay for current retiree benefits, we have a situation where young people will have to pay twice for their Social Security or for the privatization and the privatization plan and so – you know, paying for current retirees and then paying for their own individual accounts is a double whammy, but I would propose to you that there is a triple and a quadruple whammy on young people in this current climate.

We are facing steep budget deficits as a result of tax cuts that will presumably be made permanent in the next few months, if not years, and also the cost of the Iraq war. So really when you look at the situation – I saw a bumper sticker that said, you know, "President Bush will leave no child a dime." (Laughter.) Sincerely, we're looking at a situation where we're – young people are really, sincerely going to be disadvantaged in the long run, and so young people are really a vulnerable population in this equation.

As Christian just talked about, women are also a vulnerable population because we have longer life spans and so – and because we have lower contributions, lower earnings relative to men. Women making 77 cents, I think on every man's dollar at this point in time. And so Social Security of course is there, but privatization accounts do not provide the same level of security and so women will be particularly disadvantaged under private account scenarios, and Christian just went through, I think, some very good and interesting data on that.

Private accounts also adversely impact women because we are more likely to work part time and we're more likely to take time out of work also to have children. And so when

we take that time out, of course we're not putting contributions into a private account and earnings are not being accrued, assuming a healthy stock market. So African-Americans also spend – have a higher unemployment rate and so African-Americans and women who are out of the labor force more because of these reasons will be disadvantaged by private accounts.

I want to talk about the notion of raising the retirement age. And this is a discussion that we have to have on both sides of this issue: those who believe that we need to cut benefits or raise taxes in order to strengthen Social Security and those on the privatization side who also propose raising the retirement age. This is a very serious issue.

In your packet you will see a letter that I wrote to the *Washington Post* on this issue not too long ago when Chairman Greenspan indicated that we needed to raise the Social Security retirement age. And we have a situation where African-Americans indeed do have a shorter lifespan than the general population compared to white Americans. African-Americans on average live 71 years compared to white Americans who live on average 77 years, so when you talk about raising the retirement age to 72 you're looking at a situation that's patently unfair to African-Americans actually, and Hispanic-Americans and other low-income populations who have lower life expectancies.

Now, this is the situation that of course can't be blamed on the Social Security program as privatizers like to claim. They point to Social Security and say, look, it disadvantages you because you can't reach the age limit and so we need to get rid of it and go towards privatization because it'll help you more. Well, that's patently not true.

I want to go back to what Dean said with the situation with the health care system. We're looking at a situation where African-Americans and Hispanics have severe health disparities because they lack access to the health care system. When you look at the more than 45 million uninsured people year round in our country, African-Americans, Hispanics, and Asian-Americans comprise only 29 percent of the U.S. population, but they are a majority. They are 52.2 percent of that year-round uninsured figure and so it's – we're talking about a situation where the health care system is failing us and it's having a disproportionate impact on our Social Security system in the terms of higher disability rates for minorities who take advantage of Social Security's disability benefits and in terms of, of course, the situation with the retirement age.

And so we have to realize that if we go towards a system of privatization in this current climate already where we're facing steep budget deficits – steep deficits and with projected deficits for as far as the eye can see. If we do move towards privatization, we have to understand that the situation leaves no room for health care reform and so we will continue to see these disparities and the lack of access to retirement benefits even under a privatization scenario, and so the people who propose or argue for privatization don't – they don't highlight that and they're being disingenuous.

So I just want to say in closing that Social Security is a very important program and we should of course, you know, it's – we're in a situation where many people don't

understand the details. We have to be smart in terms of using pithy phrases to make people understand (an argumentation?), to make people understand the details of why this is a bad idea. (Telephone ringing.) And that's my phone, so I will shut up. They probably have to answer it. And hopefully we'll have a dialogue in question and answer.

DR. PETER ORSZAG: Guess it's my turn. I want to do three things this morning. The first is to point out that the individual accounts already exist – 401(k)s and IRAs – and they can provide a very useful supplement to Social Security. Social Security was never intended to replace all of one's previous earnings during retirement. There has to be an additional piece on top of Social Security and there's a lot that we can do to make the individual accounts that we already have work better. I'm going to talk about that.

But for the core layer of financial security – that is, Social Security – individual accounts just make no sense and I want to go through why that is. And I also want to go through and show you what we can do to address Social Security's long-term problem without any accounting gimmicks and without any misleading – well, accounting gimmicks through a modest set of changes on both the benefit and revenue side.

Let me start with the problem that individual accounts as part of Social Security create. The most obvious one is the financing problem, and this graph just sort of shows you how that arises. The red line is the cost of putting two percent of payroll into individual accounts. That's the loss of revenue to the Social Security system when you divert revenue into an account.

Most plans, like the ones that were put forward by the President's Commission to Strengthen Social Security say, okay, you've got a dollar in your individual account, then when you reach retirement we're going to reduce your Social Security traditional benefit to offset the cost of that dollar plus interest. However, those offsets don't really build up quickly because consider a 25-year-old today. A dollar goes into his or her account today; it won't – the offset won't occur for 40 years and so the blue line, which are the benefit offsets or the return back to Social Security on that money is very much delayed, and in fact those two lines don't cross each other for about four or five decades.

That gap between the red line and the blue line for many, many decades is the transition cost. That is the cost that needs to be filled that most individual account plans just want to assume away, and the way they assume it away is they just transfer trillions of dollars from the rest of the budget back to Social Security to fill that hole without telling anyone where we're going to get that money when the rest of the budget is projected to be in massive deficits. And the scale of the assumed transfers is truly astonishing.

Under one of the leading plans, the Ryan-Sununu plan, the present value of the general revenue transfers is \$7 trillion over the next 75 years. The whole Social Security deficit is only \$4 trillion, so the proponents of that plan are running around saying, "Look, we don't have to cut benefits or raise taxes. Oh, little magic asterisk, we're just going to transfer \$7 trillion to fix a \$4 trillion problem and not tell you where we're getting the \$7

trillion from.” So that is a huge problem and I’ve actually, I think, referred to it as the mother of magic asterisks, not just a magic asterisk. This is huge.

But even apart from that very substantial financing problem, individual accounts just don’t make any sense. So now let’s play this as – for the base layer of income. Let’s play this game of just assuming away the financing problem. So I’m now in the camp of just ignoring the financing problem, which of course we can’t do, but let’s for the sake of argument do it anyway. I would not want to take the core layer of financial security, Social Security benefits average about \$11,000 a year, and transform it from a defined benefit program into a defined contribution one where all the risks are put on me, especially, by the way, as the private pension system on top of Social Security is moving in that direction anyway. It makes ever less sense to take the core layer of financial security and engineer the same transformation within it.

Social Security benefits, as has already been mentioned, provide an assured level of benefit that’s protected against inflation that lasts as long as you’re alive, so you can’t outlive it, and it doesn’t fluctuate with financial markets. Individual accounts basically cannot provide the same protection as Social Security does and that makes a lot – that’s very important for that bottom tier of retirement income.

There are a whole bunch of other problems, some of which have been mentioned, administrative costs being a significant one. To keep administrative costs low, you need to have a centralized administrative body, basically a government agency with government bureaucrats, and investments only in index funds. The rhetoric surrounding individual accounts – you own the accounts; they’re yours; the government can’t interfere with them – is fundamentally inconsistent with that kind of restricted investment approach. If you own the account, why can’t you hold it where you want?

So even if these plans put down on paper that the accounts will be held in a centralized entity at the beginning, I don’t think it’s likely to be sustainable over time given the way the accounts are being sold. And if you don’t restrict the accounts to being held at a centralized entity in a few index funds, administrative costs can become very high very quickly. That’s what we’ve learned from the United Kingdom, from Chile, from the experience we have abroad with individual accounts and from mutual funds in the United States where the average cost is well over 1 percent a year.

Furthermore, I think especially given the way accounts are being sold there’s going to be very substantial pressure to take the money out before retirement. You’ve got \$20,000 or \$30,000 sitting in an account. You’re 35 or 40 years old. Your kid’s sick. You need a new car. The refrigerator’s broken. Why can’t you pull the money out if the money’s yours?

And when that starts to happen – maybe those are completely legitimate reasons for pulling the money out or maybe not as the case may be – when that starts to happen, you’re undermining retirement security because the money is not there at retirement. We

have seen a lot of pressure for early withdrawals in 401(k)s and IRAs. Doing this same thing again in that bottom layer of financial security is a really bad idea.

So bottom line on individual accounts as part of Social Security: even without the transition issues, trading Social Security benefits for individual accounts is not a sound approach and the financing problems are important. We can't just assume them away.

So let me turn to – since that's a bad idea, let me turn to what I think is a better idea, which is contained in a proposal that Peter Diamond of MIT and I have put forward in which we do restore long-term sustainable solvency; we don't fundamentally blow up the program in pretending to save it, which is the way I would characterize a lot of the individual account proposals these days; and we don't employ any of these magic asterisks or accounting gimmicks that have unfortunately become quite common in Social Security reform plans. We also combine benefit reductions and revenue increases rather than relying exclusively on one or the other.

So this is the let's not play any games – what the scale of the problem really is and let's deal with it honestly rather than assuming it away. We protect the most vulnerable beneficiaries. We ask average earners to accept some modest sacrifices and we ask higher earners to play a somewhat larger role in reaching long term balance.

To give you some sense of the modest sacrifices we ask for from average earners, benefits for those who are 55 and over are not affected at all. Even for a 35-year-old, there's a 4.5 percent benefit reduction compared to what's promised under the current system. For a 25-year-old it's less than a 9 percent benefit reduction. That's smaller than the benefit reduction for a 25-year-old at the time of the 1983 reforms. We think it's feasible to be talking about these kinds of changes. They're not overwhelming.

We would also couple that with some increase in the Social Security payroll tax, but again it's quite modest. When you look at what the additional taxes would be even for an average earner – very, very small amounts that are increased only very gradually over time.

I had already mentioned that individual accounts can make sense. I'm not sort of ideologically opposed to individual accounts, it's just the pragmatic question about where they belong. They don't belong as part of Social Security. They belong where they already exist: on top of Social Security. And there we can be doing a lot more to boost saving in those kinds of accounts. The current tax preferences for 401(k)s and IRAs are basically upside down. If you're in the 35 percent tax bracket and you put a dollar into a 401(k), you get a 35-cent tax break. If you're in the 15 percent tax bracket, you get a 15-cent tax break.

That means that we're giving a larger tax subsidy to higher-income households who, by the way, are already better prepared for retirement and who disproportionately respond to the tax incentives just by shifting saving that they are already doing in other accounts into the tax preferred account. It makes no sense. For lower earners who – where we do – we

would see some increase in net saving and who are more at risk of living in poverty in old age, we provide very little benefit. So the whole system is upside down and we should be addressing that.

Furthermore, there is a growing body of evidence that simply changing the defaults or using inertia to get people to save rather than as an obstacle to saving makes a huge difference. The simple step of saying that you're in a 401(k) plan, unless you sign a piece of paper saying you don't want to be, raises participation rates to about 90 to 95 percent as opposed to forcing people to sign a paper saying they want to be in the 401(k) plan.

The simple fact of the matter is we should (not) put obstacles in the way of saving in a sensible manner rather than obstacles in the way of not saving, and unfortunately the current system again is exactly backwards. We put all sorts of obstacles in the way of people who want to do the right thing, who want to save. We should be using inertia to get people to save. There's a significant body of empirical evidence that this stuff works.

Another example: outside of an employer-provided plan, the best opportunity to save in a 401(k) or IRA – an IRA, sorry, for most households is when they get their tax refund, yet the IRS only lets you put your tax refund into one account and many families have an immediate need, a refrigerator or what have you, so they're not willing to put the money into a savings account. Evidence suggests that if you simply allow them to split their tax refund, part into a savings account and part into a checking account, they will save a significant amount of money. There's no reason we shouldn't be doing this.

I'm not going to go on and on about all the other things that we can be doing, but there's a lot that we can be doing to improve individual accounts on top of Social Security. My view is let's get those accounts working, let's shore up that bottom tier of Social Security through honest plans rather than the huge magic asterisks that we're seeing coming out of Capitol Hill these days and we'll all be a lot better off.

I want to just make two other brief comments; one that was already made, which is let's remember the real problem facing the federal budget over the long term is health care. It's not Social Security. Over the very long term, Social Security costs go up by 2.5 percent of GDP. Medicare and Medicaid go up by 10. Not only that, but Medicare and Medicaid are a lot more difficult to reform. So that's the first part. We should really be focusing on the health care problems. In fact, in my view the best feature of Social Security reform would be simply to take the issue off the table so that we stop having all these conferences on what's not the real problem and we start focusing on what is, which is health care.

Second point, which was also raised, is that the Congressional Budget Office has started to do its own actuarial analysis of Social Security plans. Along a few very important dimensions having to do with these accounting gimmicks, their analysis is vastly preferable to what is coming out of the Social Security actuaries. So I want to reinforce something that Dean said: I think it is worth taking a serious look at whether the CBO analysis should become the mainstay of Social Security reform discussions, mostly

because they deal more transparently with the various accounting gimmicks that the Social Security actuaries, because of their narrow focus on Social Security as opposed to the whole federal budget, are not able to address. CBO has a broader mandate and it's harder to get the game playing past them because they have a broader focus.

And I will now turn over this to Terri.

MS. SHAW: Thank you all. Thank you to the panelists for their comments, and I want to open the discussion up. I'm going to start up with a couple questions following up immediately on Peter's last points about – well, first of all let me just take a moment to pause on the health care point that has been made repeatedly here. I couldn't agree more that we do have a serious problem with health care and we at the Center for American Progress are going to be looking at that problem in depth, so look to that in the future.

However, sticking with the current topic, I want to follow up on Peter's comments about looking at some alternative ways to fix problems in Social Security. And I have heard some comments this morning acknowledging that there may be some need to make some changes to Social Security financing over the long term, but we've also heard a lot of comments about concerns and lack of details and misleading aspects of the reform options that are likely to be on the table in the current debate, so I just want to ask the panelists: how important do you think it is for progressives to have an alternative solution to the Social Security problem?

DR. BAKER: I can start on that as the person who wrote a book called *Phony Crisis*. I'm actually – you know, and I'm speaking partly as an economist – I think first and foremost our job is to give people the facts and it really concerns me about having a debate on the nation's most important social program on how to change it when there's such incredible misunderstanding of the basic information.

So I could agree with – you know, everyone goes, well, look, in 2042 or 2043 if you look at the CBO numbers we face a shortfall. I could see that, but the debate over Social Security is not in 40 years or 50 years we might have to raise taxes like we did in 1983. We have most of the public thinking that in 10 years it's not going to be there or 20 years it's not going to be there and I think that's a really dangerous environment in which to have this debate about what we want to do for Social Security.

So that's why I think first and foremost it's our job as progressives to simply inform the public. These are the facts. No one even disputes the facts. And get those out there and once the public is informed, you know, I don't think anything could hurt us in that debate. I'm not worried about that. Peter's got a good suggestion. There's others. I don't think that's a problem once the public knows the real story.

MS. ROCKEYMOORE: I'm a political scientist by training and we just came out of an election that the Democrats lost partly because they were accused of not having new and innovative ideas or not having a vision. And so we have gone down the road for the last decade or so of fighting Social Security – or privatization of Social Security by defending

the current system, and while the current system is very worthy of defending and we – absolutely we have to preserve it, the whole notion of, as I mentioned earlier, of individuals investing in the stock market is a sexy one and it captures the imagination particularly among low-income and middle-class Americans who have not necessarily been integrated into the investment opportunities presented by the stock market. So I don't think that we can discount the fact that they're kind of hoping and praying that they can also join the more prosperous American by going the stock market way.

Now, I think our challenge is to – so I'm in agreement with Peter Orszag with the notion of individual accounts are not necessarily a bad thing as long as they're disconnected from the Social Security program. I think it's important that we educate the public about Social Security: that it's not in crisis, that it's a very important program. But I also think it's important to present innovative and new ideas about how we can promote savings and investment outside of Social Security because at the end of the day everyone wants prosperity. And I think – I don't know, but individual development accounts that are provided for newborn children upon birth – I mean, we can talk about providing savings opportunities and investment opportunities for those kinds of accounts.

DR. ORSZAG: If I could just add – I think we need to be able to walk and chew gum at the same time. I do think it's important to point out, as Dean emphasizes, that the problem is not as massive as is often presented. The analogy I like is Social Security is like a car with a flat tire and should fix the flat tire. We shouldn't get rid of the car. So we need to be pointing out the size of the imbalance because it does get blown out of proportion. In my view, we also need to go beyond that and actually propose how we're going to fix the flat tire.

And there are lots of interesting ideas out there. Let me quote one out that we had as like an alternative to our book, but that I know is included in the recent plan that David Obey has put forward and that I think serves a variety of purposes, and that's simply rather than completely repealing the estate tax, reforming it so that it applies to an extremely small share – less than half a percent, half of 1 percent – of estates and dedicating the revenue to Social Security rather than simply repealing the estate tax to get rid of somewhere between a quarter and 40 percent of the deficit right there and between – in choosing between whether very large estates should pass tax free to children with adverse work incentives for those children versus strengthening Social Security, I think it's pretty clear and I think the American public actually would think it's pretty clear.

So there are viable ideas out there for shoring up the system that don't require destroying it.

DR. WELLER: I would like to make one point. I'm somewhat ambiguous about whether progressives really should push hard on their own ideas, but if we do I think we need to be very clear that whenever we have plans like Peter's that when they are out in the public debate, apples are compared to apples. To give you an example, the GAO released a report that included an evaluation of Peter's report comparing it to an option from the

Commission to Strengthen Social Security and to what I call money-will-rain-from-the-sky option by Peter Ferrara, which is a radical privatization notion.

And it basically ultimately made the three plans sound as if they were all the same. Whereas Peter's actually adds up, the others leave trillions of dollars in the hole. So I think we have to whenever these comparisons are drawn point out that Peter's plan or plans like that are actually adding up the numbers, whereas the other plans don't. That doesn't mean we shouldn't have plans like Peter's and debate them, but I think we need to be very careful how they are used even by the other side.

MS. SHAW: Okay. I want to push on this just one more little bit. Most of the discussion that we've had here – all the discussion that we've had here today has been about current Social Security benefits. Now, my understanding of current Social Security benefits is that as much protection as they provide, they're still a fairly basic level of benefit. I mean, for example, my understanding is that even with Social Security 24 percent of African-American women over the age of 65 live in poverty as compared to 5 percent of men in the same age group.

Now, so is there any need to talk about actually strengthening Social Security benefits?

DR. ORSZAG: Let me take a first crack at that. In our plan, we actually do include some targeted benefit enhancements for the most vulnerable beneficiaries, which by the way the President's Commission to Strengthen Social Security also did. So in particular surviving widows – so women who live on their own have much higher rates of poverty than the younger elderly women and much higher rates of poverty than married women. We should be shoring up or enhancing the survivor benefit under Social Security, which is also something that the President's Commission proposed.

Some people who work for a very long time at low wages – so they have their whole career in the labor force, even full-time work, at a low wage, still wind up in poverty in retirement and that does not seem like something that the world's most advanced industrialized economy should be facilitating, so a low-earner enhanced benefit for people who work over entire lifetime even full time is justified.

Changes in the disability program and for young survivors – there are a whole bunch of things that we could be talking about in terms of shoring up benefits, which we actually did. And I think our – I actually think there's broad support in the analytical community for – at least in the analytical community, but for some of these targeted benefit enhancements because there clearly are pockets of the current Social Security system that aren't really hitting where they should be.

MR. BAKER: If I could jump in on that, I agree completely. And just a couple more points on that, that increasing benefits at the bottom is actually very cheap, which is something that you really aren't talking – you know, when we get into these big stories about the massive shortfalls (this and that?), you could improve life for people at the

bottom – you know, increase their benefits 10 or 20 percent because they are so low. It's not a lot of money, so it's easy to do.

Now, Peter's made a number of good suggestions on that front, but again referring to the Commission – the President's Commission where they propose, again, some good enhancements at the bottom end, it's important to keep in mind I think it's sort of a bait and switch story here. Currently, there's incredibly broad support for Social Security because all but the very wealthy depend on it for a significant chunk of their retirement income.

That will not be true if you go 30, 40, 50 years out with the president's plan. The vast majority of the benefit for middle-income workers is going to come from their individual accounts. They won't care about the defined benefit, which means that today we're putting in a generous benefit for low-income retirees. Thirty years out – 40 years out the Republicans in Congress go, what should we do for these – you know, that's their problem if they didn't save – didn't protect themselves. And I don't have to – this isn't abstract. Some of you probably heard of welfare reform. Remember there were supports? You know, child care –

DR. ROCKEYMOORE: Mm-hmm.

DR. BAKER: Okay, so you understand that.

DR. ROCKEYMOORE: Right.

DR. WELLER: Let me make one pitch. I think an area where we need to have a stronger, larger discussion about benefit improvements is disability insurance. In particular, we – and that will come back to haunt us next year, I think, in the discussion over retirement age. I'm pretty sure we will have a discussion over whether we should raise the retirement age.

Often, the argument is made that we're living longer. The problem is we're living longer because we have better drugs and better technologies to enhance life over the age of 80 or 85. However, if you look at the numbers for people nearing retirement, meaning 60 to 65 and you look at their health status, you've seen very few improvements over the 1990s. Basically, we saw some improvements in the 1980s, but over the 1990s, that area has not improved really a lot. People have severe health problems. Think of a computer programmer with carpal tunnel or a waiter with a bad knee. They often don't qualify for disability insurance, but they can no longer perform in their jobs.

Those problems are persistent especially for minorities, especially for African-Americans. I think we can do a lot more and we need to discuss more about how we can enhance disability programs and health problems for the working age population, especially at the low end of the labor market – (unintelligible).

DR. ORSZAG : If I could just add one thing because both – I'm sorry, go ahead.

MS. ROCKEYMOORE: No, go ahead.

DR. ORSZAG: Lower earners and life expectancy have come up and I think this is just essential in the debate. While life expectancy is going up, it's going up really fast at the top of the income distribution. Basically, higher earners are increasingly living longer than everyone else and I think that that's very likely to continue if you look at the concentration of obesity, if you look at the concentration of smoking, if you think that high-tech genetic-based therapies will not trickle down the entire income distribution immediately that gap is going to continue to explode and it has literally exploded over the past three or four decades.

That means that in my opinion there is an additional justification for making Social Security more progressive because – on a monthly basis because higher earners are sort of continuing to outpace average earners and lower earners in terms of their life expectancies.

MS. ROCKEYMOORE: Peter just made my point. (Laughter.)

DR. ORSZAG: Okay. I apologize.

MS. SHAW: Okay, let's open it up to the audience for some questions. We have a microphone available, so if people can raise your hand, there's one right there in front of you, Antoine, let's start there.

Q: Thank you. My name is Annabelle Fischer (sp). I'm not an economist. I'm not a journalist. I'm a citizen who is well educated and will be in the retirement system soon. I guess I don't share – I don't understand your words that the system – the Social Security system is not in somewhat of a crisis. We already have Senate – congressmen they don't get Social Security. They don't pay into the system. If they did, perhaps –

DR. ORSZAG: Yes, they do.

Q: – they would fix the system.

DR. ORSZAG: They do.

Q: A little bit, but not a lot. They're not retiring on Social Security. Okay, that's fine. Not a problem, you know. I think we can talk about tax credits for families – you know, talk about tax credits for single people of all ages.

So my question is, I think if you remember when Pat Moynihan and I think it was Bob Kerry were on that Social Security task force, and I don't remember what year it was, but they recommended that the system look at means testing and means testing for, I gather, very high-income folks who would not need the Social Security or have other things in place – stocks, bonds, what have you – and what you're talking about.

What do you think about that? How do you feel about that? Where are we going? I don't fall into that 100 percentile category, and I think Social Security is a problem and the people who haven't paid into the system who stop working in their '40s, so what do you think about means testing? I don't think Bill Gates needs it. I'd love to hear your comments.

DR. ORSZAG: I guess I'll take a crack at it. It really depends on what one means by means testing because that word can mean lots of different things to lots of different people. Again, as I sort of just said, I support disproportionate adjustments for higher earners for a variety of reasons. A, the pain has to go somewhere – unless we're going to just assume it away, which would be grossly irresponsible in my view – to adjust the system and I think higher earners have a greater capacity to bear that – the necessary burden.

Furthermore, and importantly again, they're increasingly living longer than everyone else, which justifies – which provides a second justification for at least somewhat disproportionate concentration of the pain there as opposed to middle earners or lower earners. So it all depends on what we mean by means testing, but I do support things like a modest increase in the maximum amount of earnings that are subject to the Social Security payroll tax. I do support changes to the Social Security benefit formula that would only hit the top 15 percent of beneficiaries. And, again, I think that's justified because they're going to be getting their benefits over a longer and longer number of months compared to everyone else on average.

And so there are a variety of things where I think some disproportionate share of the burden can be borne at the top end without going to the extreme of saying zero benefits. The typical rhetoric of means testing does pick out people like Bill Gates, and that's an obvious example, but the fact of the matter is if you draw the line very high at Bill Gates or Teresa Heinz or whoever you want to pick out, there's very little money as a share of the total that's actually going there, so even cutting those people out altogether – you know, if you're going to draw the line at above \$1 million or above \$2 million, basically it doesn't really get you anywhere.

DR. BAKER: If I could make a couple quick points. First off, with means testing in that form – again, Peter's exactly right, you have to go fairly far down – you're really inviting fraud. I mean, anyone who can't figure out a way to get around a means test – you can hide your income, you can have it abroad. You're – again, it encourages large scale fraud. And I could go into some of the tricks because I've written about that. A good accountant could give you many, many more.

But the second point I'd make about it is just how we think about this. We don't means test Bill Gates' interest on his government bonds. This isn't something the government's giving you as charity. This was a program that was set up, you paid into it, and I think that's a good way for people to think about it. You know, even Bill Gates is entitled to his Social Security. And I don't mind if it's a small share of what he paid in, you know, as

Peter's saying. We could have a progressive – we do have a progressive formula, but I don't think we should be taking his Social Security any more than we should be taking back his interest on government bonds.

MS. SHAW: Anyone else?

Okay, let's take one more up front right here and then we'll move towards –

Q: Mike Wine (ph) with Bureau of National Affairs, Pension and Benefits. Two questions for any of the panel members. I attended an American Enterprise Institute forum yesterday on Social Security where they strongly argued for individual accounts, not surprisingly. My two questions are: one, Senator Lindsey Graham spoke and said that there's really only a six-month window to do something and that if we don't get it done within six months, next year it's over.

Secondly, he suggested it may be necessary for bipartisanship if you are a Democrat willing to embrace individual accounts and want to increase taxes, he's willing to consider that. And two examples of tax increases was of course raising the income limit that currently exists and another one was closing corporate tax loopholes.

DR. ORSZAG: Well, I think the six month comment was a political one, not an economic one, and I'll defer to his judgment on the politics of the timing of all that. And on the necessity of financing individual accounts, I guess all I'd say is at least Senator Graham is being somewhat more honest than other proponents of individual accounts, although even his plan has massive general revenue transfers included in it. I'm encouraged that he's talking about ways of trying to finance those transfers rather than just assuming that they're going to come from the rest of the budget without telling us how.

And unfortunately, many of his colleagues in both the Senate and the House who support individual accounts are not willing to talk about that. They instead want a massive debt-financed individual account plan where we are talking about increases in publicly held debt over the next decade of somewhere between \$2 trillion and \$4 trillion, doubling or more of the publicly held debt over the next decade on top of an already inauspicious fiscal outlook for the next decade, so again I guess I don't know how I could be any stronger other than say it is a cruel hoax and grossly irresponsible of federal policymakers to be putting forward individual account plans that are so heavily debt financed.

MS. ROCKEYMOORE: Yeah, I'd just like to say, politically speaking, that those who support privatization have used scare – fear tactics for a long time in order to push the notion of the viability of private individual accounts, and the fact that he indicated that we only have a six-month time frame means that they're going to be upping their scare tactics to force the American people into thinking that we have to do this quickly because the program's about to break around the corner.

I think Dean's assertion earlier about educating the public on the fact that we're really looking at the year 2043 or 2052 depending on if you're talking about the Social Security

actuaries or CBO. We cannot – we cannot – we would be doing a disservice to the American people if we tried to rush this and proceed down the road of the most, perhaps, fiscally irresponsible policy proposed of all time.

MS. SHAW: Let's go right here. Gentleman on the end. I have – everyone please – yes, stand up.

Q: Roger Chavingham (ph) with Gannett newspapers. I've got a quick question. I was at the very same event at Heritage that this gentleman was just describing.

DR.BAKER: He was at AEI.

Q: I was at Heritage yesterday. Lindsey Graham did say that it was – that he had to do it within the first six months of 2005, but politically speaking I'm wondering if you have heard from the Democratic side of the aisle in both the House and the Senate whether we agree or not that there is a crisis. We have to come up with an alternative plan. Is there any movement toward this and if so, who would be spearheading this movement?

MS. ROCKEYMOORE: Well, politically speaking – (laughs) – I did have an off-the-record conversation with a staffer yesterday and they seemed to still be in limbo about whether to offer an alternative plan at this point. The claim was made that they haven't come up with a "plan," quote unquote. "They" meaning the Bush White House. Yet when you look at "they" meaning pro-privatization folks on the conservative side of the aisle, there are many plans and so I think maybe we need to be expanding that discussion on the Democratic side about now having – now is the time to come up with something on the affirmative. We have – or Democrats have been on the defensive – those who are opposed to privatization have been on the defensive for far too long. It's now the time to be on the offense.

Q: Let me just follow up.

MS. SHAW: Quickly.

Q: (Off mike) – have been laid out here, but you do have a consensus building that privatization is the way to go. Is there – do you see a movement toward some sort of consensus and who – I mean, can you name some names of people who might actually be taking the lead on the Democratic side for both the House and the Senate?

MS. ROCKEYMOORE: Well, the ranking member is chairman – ranking member Charles Rangel of New York, my old boss on the House side.

MS. SHAW: Go ahead.

DR. ORSZAG: I was just going to say I'm going to challenge the hypothesis behind the question. I don't think that there is agreement on the critical question, which is the degree of debt finance embedded in these plans, so it is – look, I mean, to say that they're agreed

that there's privatization – it's really easy to say, “Oh, I'm in favor of individual accounts” without any of the details behind it. It's similarly easy for the Democrats to say, “I'm in favor of the existing program” without any of the details of how you're going to sustain that program over time.

I'd like to see what comes out of both the House and Senate in terms of the degree of debt finance and let's see how – I think the big question is, really, just how irresponsible Senate Republicans are willing to let this plan be. I think you will see some of the continuing concerns – there is just the shred – the vestige of concern over the fiscal course that we're on when we're borrowing hundreds of billions of dollars a year from foreigners already, added on top of that several hundred billion dollars more in public debt to be issued each year over the next decade as part of these plans does raise the possibility of a fiscal crisis occurring and I think you're going to see some Senate Republicans worried about that. So I guess I reject the question and therefore at least I'm not going to answer another part of it.

MS. ROCKEYMOORE: I just think it's irresponsible to say let's wait and see without having a plan B or a plan C – a backup strategy. And so that's where I'm coming from.

MS. SHAW: Yeah, let's go right there in front.

Q: Ellen Boneparth from the National Council of Women's Organizations. If we want to stop privatization, members of Congress have to hear from their constituents. You've done a great job of educating a room full of policy wonks, but educating the public means organizations going out to their constituencies. AARP apparently has come out against any form of privatization. What is the Center going to do to get the message out to the rest of the country? What organizations do you think should be involved? Excuse me. Minority groups, women's groups? Maybe not just seniors – youth groups. How do we do this?

DR. WELLER: Well, let me see. We are clearly engaged in a discussion over the future of Social Security. We will continue to do events like this. However, as you said, this is reaching only a limited audience. The Center has a sister organization called the American Progress Action Fund, which publishes the Progress Report, which also promotes action items and we have had a number of conversations of how we can use the Action Fund to promote the work we are doing, meaning like putting together fact sheets, responding to distortions in the press through letters to the editor and op-eds, through speakers bureaus.

We have also something called campusprogress.org where we're setting up a speakers bureau. I think there is a number of groups we need to educate – women's groups – but also like going to younger voters, going to younger people, going to the media and really fighting the distortions that we see in the press often and do push back there. And as I said, the main mechanism we have here is the Action Fund, but we are coordinating with the groups you see here represented on the panel, but also with others about the research and the messaging we do on Social Security.

MS. ROCKEYMOORE: But it also means getting outside of the Beltway and I appreciate your question because I think this is the primary challenge that we have faced in previous years. You know, we often talk to each other inside the Beltway and then deal with national organizations who are located here and then assume that the reach is reaching outside the Beltway. And so I think that folks have already started working in terms of going around the country to reach out to people in their cities. I know that your initiative has gone outside the Beltway.

We are actually – the Congressional Black Caucus Foundation is taking a national tour this year. We will include a discussion on Social Security as we go to cities and towns across the country to discuss the policy issues of our time. It requires that we rely on organizations to actually lean on their grassroots operation and not just talk inside the Beltway and so – and then of course it requires that we hear from those people. The legislators won't do anything if they're not hearing from folks in terms of letters, in terms of phone calls. We need to be shutting down the switchboards on Capitol Hill with all the phone calls from irate citizens of this country who do not want this to happen.

DR. BAKER: I also want to just chime in quickly about the media. I think there is a huge problem here because of the fact that so many people in the country think that Social Security is in crisis. It's a testament to the failure of the media. You know, the analogy is to students and teachers. If you have all the students in fourth grade not able to read, that speaks to the teachers. How is it that so much of the public, including people who listen to NPR and read the *New York Times* – they still think Social Security is in crisis. There's nothing that says that.

So, you know, I think we have an awful lot of work to do to make sure that the media's reporting the issues accurately and I have a lot of confidence that if people heard the truth they'd think very differently about it.

DR. ORSZAG : And I'd just add one thing quickly and then we want to move on to that, which is I think that especially given the nature of the plans that we're seeing that really are more illusions than reality, the media has a special obligation to be pointing this out and I think it thus far is failing miserably in its task of pointing out that a lot of these plans are really smoke and mirrors. There's too much of a, you know, on the one hand, on the other hand and not that 99 percent of the evidence is on one side and 1 percent of the evidence is on the other.

MS. SHAW: We have time for one more question right in the back there.

Q: I want to thank the panel for making some issues a lot clearer, but I think –

MS. SHAW: I'm sorry. Can you identify yourself?

Q: Oh, Steve Oriel (ph). I run a financial services practice in Virginia.

I think that the three things that I think we need to make sure are brought out is that, one, the current system is fair. Two, it's efficient. And, three, it's not sustainable in the long term, but the idea is that I think we need to be emphasizing the first two points and what is good about the current system. And anybody who does their own planning knows that Social Security covers the first tier, then individual stuff hits the next piece and then personal savings on top of that.

How can you guys help address the – what really is the misunderstanding of the nature of risk? That would be my question. And how do we do that better?

DR. WELLER: Let me take the first – what I really want to say – I'll be very clear: there is nothing in the numbers that says Social Security is not sustainable. One of my favorite numbers is if you look at the trustees' report, from 2034 to 2080 in the somewhat conservative, pessimistic scenario – the so-called intermediate scenario – the costs of Social Security relative to GDP will go up from 6.5 to 6.6 percent over a 46-year period. There's nothing explosive here. There's nothing unsustainable here. The problem really comes in that the tax paid for Social Security is shrinking and we need to talk about that and clearly we have begun.

The other question, and that is really a tricky one, is the risk. I think all of us have played with different forms of how do you make the risk tangible? It's really a very wonky, very inside Washington, inside New York to some degree, concern about like riskiness. I mean, we were hoping that somehow the stock market crash after 2000 would somehow bring that home, but it doesn't seem to be the case.

There's different ways. You can say like your chance of ending up with nothing is X percent, but again you're talking numbers and it doesn't ring true. It doesn't hit home. And we will be struggling – we will continue to play around with that, but I don't think anybody has found the magic bullet.

DR. BAKER: Actually, I take the stock market crash – I mean, I've been in this debate a long time and through the late '90s, you know, when people were going nuts that, you know, you just put money in the stock market and you can get 20 percent every year. You couldn't talk to anyone. You couldn't talk to Ph.D.s in economics that thought you'd do that. So there's nothing like that experience to educate people and I think that's one reason why I think we're much better situated to have this debate now than we were, say, six or seven years ago. But I will mention sort of the ace in the hole here. I've also been writing about the housing bubble, so when we see a crash there, people will know about risk.

MS. ROCKEYMOORE: I'd like to congratulate the questioner for going outside of your narrow professional interest to take a very sane view of privatization and the value of the Social Security program. But I – my answer to this is the whole notion of the three-legged stool and the fact that Social Security is that solid, secure stable leg and to the extent that we risk overexposure through private pensions, as we know, that are defined

contribution increasingly now and from private savings, which people tend to invest instead of putting under their beds as they have in the past.

The fact that Social Security is that stable benefit and we don't want people to be overexposed to the risk of a stock market is a sane argument and I think it's one that we need to push harder.

MS. SHAW: Okay, well that unfortunately is all the time we have for questions, but I want to invite the panelists if you have any closing thoughts that you'd like people to leave with, please do so.

DR. BAKER: Well, I just would say that I hope people don't get discouraged about this battle. I mean, I think a lot of us were disappointed by the outcome of the election. It was hard not to be, but again having worked on this issue for a long time I would actually say that things looked much worse in the late '90s in terms of defending the program than they do today, so I think this is certainly a winnable battle.

DR. WELLER: I want to – I think we're going to hear four themes coming up next year. The first one is we're going to see scare-mongering, you will see numbers thrown around from \$10 trillion to \$44 trillion. I think it's really incumbent on us to point out what these numbers mean. They're often projecting the system into the future – into the infinite future.

The other question that we have talked here to a large degree is transition costs. The other big question we need to talk about is the insurance value of Social Security and loss of insurance value with privatization. And I think we're going to have a big debate over a higher retirement age on our hands next year.

DR. ROCKEYMOORE: I certainly hope not because we will be out there fighting that debate every step of the way. However, I think that we need to be doing some fear-mongering of our own because the reality is that the fear is real. You know, if you talk about if they're successful in this, this will be an unprecedented boon to stock brokers, financial analysts, to Wall Street and giving away basically the public treasury to a narrow interest group in our society is simply unacceptable.

Social insurance is just that: social insurance where everyone contributes, everyone benefits. And we need to recognize the value of that and to promote that. And also to talk about how we need to protect those most vulnerable amongst us, so we cannot sell out those who are low-income, those who are traditionally disadvantaged in this debate. And so I would just argue that we need to be on every street in every state and local state house and every federal – congressional office yelling and screaming that this cannot happen.

DR. ORSZAG: I guess I would say in closing that, again, there is tons that we can do to get people to save more. We can get those individual accounts working where they should be working, where people should be taking risk on top of the core layer of

financial security. We can shore up that core layer in an honest way and I guess I would just close with beware that magic asterisk because it is the key to having all these plans look like they work on paper and it is a cruel hoax because it puts the system in a very wobbly position to be reliant on trillions of dollars from the rest of the budget when the rest of the budget is projected to be in massive deficits.

MS. SHAW: Well, I want to thank all of you for joining us today and please join me in thanking our panelists. (Applause.)

(END)