

Social Security Standoff

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Throughout my recent tenure as Social Security commissioner, I was deeply involved in discussions to strengthen the program. Unfortunately, most of the discussions turned into contentious and polarizing debates that caused many of those involved to lose hope of ever achieving long-range financing reform. Finding consensus on this matter will not be easy.

President Bush has proposed creating some sort of commission to address the Social Security issue. Such an approach may have merits, but I would advise the new administration—as I advised the Clinton administration and members of Congress on both sides of the aisle—that a strong coalition for reform must be built from the hearts of both political parties.

It cannot and should not be done in 2001, as some have recently been advocating, through a majority of Republicans buttressed by a sliver of opinion from Democrats. And it shouldn't be done with an eye to any preordained outcome. Any commission designed to address Social Security must be truly bipartisan and represent all interests and approaches.

I'd like to suggest a path that we might follow together to lead us out of this maze. And I say "together" because all of us will have to unload some heavy and cherished philosophical freight to get us where we need to go.

Those on the left side of the political spectrum need to give up a couple of notions:

— **That future Social Security benefits can never be reduced—even modestly:** The average Social Security retirement benefit payment has grown many-fold since the system was created, and these increases have served to significantly reduce poverty among the elderly. For the average wage earner, Social Security now replaces about 42 percent of pre-retirement earnings.

Given the demographic challenges we face, these replacement rates probably are not sustainable, particularly for middle to higher-wage earners. Modest measures should be taken to keep Social Security benefit levels from growing as rapidly as the economy.

— **That mandatory retirement savings proposals are out of the question.** Social Security always was intended to be part of a three-

legged financial stool in retirement, together with private pensions and savings and investments. But pensions and savings are weaker than they should be. A savings plan to supplement Social Security would improve retirement security. While I would strongly prefer a voluntary system, we will likely need to make retirement savings mandatory for workers through wage-related withholdings and to provide tax incentives to increase the value of these savings for lower-and middle-income workers.

On the other side, those on the right need to abandon a couple of articles of faith:

_ That private savings accounts should be carved out of Social Security benefits. Some have proposed that we use a portion of the Social Security system's own resources to help fund private saving. These proposals would, for example, "carve out" about one-sixth of the Social Security payroll tax and let workers use it for private savings accounts. But this almost always entails a dramatic reduction in guaranteed benefits. Eroding the foundation of Social Security puts retirement, disability and survivors' insurance at risk and increases the pressure on savings and investments because of the weakened foundation.

_ That future Social Security revenues should never be increased—even modestly. Over the next several decades, Social Security taxes are projected to decline by more than 10 percent as a percentage of GDP. With a doubling of the senior population, more revenue over the long term will be needed, not less. Payroll tax rates could be increased by a few tenths of a percent, the income ceiling on payroll taxes raised modestly and/or general revenues used to strengthen financing. Using our on-budget surpluses for the nation's premier social program is certainly as important as many of the tax and spending increases under discussion.

To those on **both** sides of the aisle: Delay only increases the size of the problem that must be dealt with down the road. We need to address the Social Security issue before the long-term fiscal crunch is upon us. If the on-budget surpluses are drained by large tax cuts or spending increases without our strengthening Social Security, the prospects for reform will be dim.

The American public is, I believe, ahead of Washington on this issue. Americans understand that our intergenerational system is the main reason why poverty among older Americans reached an all-time low this year. But while the public can support action, it cannot legislate. The administration and a bipartisan Congress must make the hard decisions.

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