

Note: This article is the third of a three part series.

Social Security Reform Gridlock

Part Three: How All Sides Can Walk Away Winners

“For thirty years now, American workers have had something like private savings accounts—they’re called IRAs but only 40% of U.S. households use them. Under my proposal, every worker would have such an account and these accounts would be funded.”

Christopher L. Davis

Congress, particularly the Republican members of the House, has one eye on the social security reform debate unfolding this year and the other on its own “mid-term” reelection next year. “Mid-term” Congressional elections, coming as they do at the end of the second year of a president’s term, are not only a contest for control of Congress but also a barometer of how the Administration is perceived. In the current situation, with the same political party in control of both the White House and Congress, their political fates are inexorably tied. If the president begins to lose much popular support, the electorate could send a message by taking it out on the GOP in November 2006. If the GOP loses control of Congress, or sees its numbers reduced significantly, it will make it that much harder to move what’s left of the president’s agenda through the legislature in 2007 and 2008, when, for all political intents and purposes, the president will likely be viewed as a “lame duck.”

This brings us to the reality of the political time frame available to this administration to do something as radical as its proposal to structurally change the Social Security system. While most Americans would say that President Bush’s second term in the White House “just got started,” we in Washington see it a bit differently. It really “started” long before the inauguration in late January, instead kicking off in late November when the White House intimated what would likely be the issue focus of a second term. Now as Washington welcomes spring, the term is at fast gallop, at least from a domestic policy standpoint, toward a window that will likely close sometime by early fall. That’s pretty much the cut-off date for a Congress that operates under that oldest of Washington maxims: If you’re going to take on any controversial issues you do it in the odd year. The premise is that with the electorate’s notoriously short-term political memory, any public upset will be deadened with the passage of time. Given the time frame between now and the fall of this year, Congress’ political nerves will only get more, not less, frayed.

Pardon the political science lesson, but I bring all this up to put the current situation concerning Social Security reform in context. Whatever your feelings about the wisdom or merits of the president’s proposal, the stark political reality is that as things now stand, it’s not going to happen. At least not in the way the president imagined in his State of the Union speech just a few weeks ago.

Why? Number one, the president is still looking for that most elusive of political animals, a Senate Democrat (or two) willing to break ranks and prevent the reform question from getting bogged down in Senate filibuster gridlock. There are still no signs that even one of the Democrats targeted by the White House (i.e. a moderate Democratic senator up for reelection next year in a “red state” that the president carried this past November) is considering breaking party ranks.

Democrats, positioned as the protectors of the most successful government program ever, are in the catbird seat. Second, there are a number of prominent GOP senators uncomfortable with the possible effects of the president's plan both in terms of the Social Security system and in terms of what it could mean for already bulging budget deficits. And third, most GOP insiders recognize that for this to be a bipartisan effort, public opinion will have to take a huge shift to turn to supporting the president's plan. Those party insiders are frank in their estimation that the only way to have that happen is to wage a huge public information campaign that would take many months. They also know that the campaign currently being undertaken by the White House, GOP congressional leaders, and third-party surrogates, is just not long enough or strong enough to do the job.

So what's to be done? In Washington there are two ways to win - the traditional way (that is to actually beat the other party and walk away the victor) and the Washington way - to walk away and not be perceived as having lost. Through these past months of debate on the problems of Social Security and possible solutions, there is an undercurrent of consensus that the current system could be fixed without imposing any new structural change such as "private savings accounts.". At the same time there's a desire for taking the system forward, if only it could be done without setting off alarms among current and future beneficiaries.

Fixing the current system without permanently changing its structure would please Democrats. Offering an innovation like private savings accounts on top of the current system, while not exactly thrilling the Administration and GOP leaders in Congress, is probably a scenario they could live with, particularly if it would allow them to portray the outcome as at least one cautious step forward in moving toward their vision of an "ownership society." And more importantly, it would be non-threatening to Democrats, who could position their support of the innovation as proof that they were not simply "stuck in the past" and were open to new approaches to getting Americans to save. Such a solution could get us to a "win, win" scenario for both sides.

I propose that we save the current system through some combination of steps that a host of economists from both sides say will stabilize Social Security for the foreseeable future. Those steps could include some combination of raising the cap on taxable income from the current \$90,000 (the president has already suggested this possibility and South Carolina GOP Sen. Lindsay Graham already is floating a plan to raise the cap to \$200,000), raising the payroll tax by less than two percentage points, cutting rates of future benefits for future retirees, and cutting some benefits to wealthy retirees. These steps would "cure" the system's problems.

Once we agree on a formula for the above, I would introduce an innovation that should be acceptable to all sides, the "Check Off" plan. This would enable citizens to have "private savings accounts" dedicated to their retirement years that they would use in addition to their traditional Social Security benefits. Just as each taxpayer has the ability to designate the number of withholding allowances on his or her W-4 form, a new space would be added to permit a "check off" of the amount of after-tax dollars they want to be placed into their new "private savings account." Each would be given the choice of "checking off" one percent, three percent or five percent of after-tax dollars, with a minimum of one percent going into the account and a default of three percent for those failing to make the choice.

The “check off” money would be invested in stable portfolios and the program managed by the Social Security Administration. A structure would be put in place to ensure that workers have the option of investment styles suitable to their age at the start of the program - more aggressive investing for those under forty years of age, more conservative for those over 40. The money held in this account would accumulate “tax-free” and be accessible to each individual at retirement “tax-free.”

This solution accomplishes several things at once. First, Social Security is stabilized. Will we have to address the system’s problems again in another twenty years? Quite possibly. But as with the adjustments made in 1977 and 1983 to tweak the system, the above solutions will bring stability for many years to come. Second, the new savings accounts not only encourage individuals to save, they will also go a long way toward providing a real retirement nest egg for many people who otherwise would not have one. It offers the individual an opportunity to make a real choice about his or her future retirement planning, an option that the current Social Security system does not, and should not, provide. Finally, it ensures actual funding. For thirty years now, American workers have had something like private savings accounts—they’re called IRAs but only 40% of U.S. households use them. Under my proposal, every worker would have such an account and these accounts would be funded.

What’s in it for both sides of the current debate? Two words: saving face. There are many well-intentioned people on both sides of this issue who sincerely believe that their way is best for the American people. But it’s also a public policy debate that has become boxed in by the political interests at stake for both sides. When this happens in Washington, the best way out is a compromise solution allowing both sides to declare victory. “Check Off” fits that bill, is relatively painless, will ensure funded personal accounts and moves the entire debate to a workable resolution.

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