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A call for boldness in Social Security

By [Marshall Loeb](#), MarketWatch

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NEW YORK (MarketWatch) -- Markets may fluctuate, the economy may gyrate, but at least one issue stays stubbornly at the top of the national agenda: Social Security. Just about everybody agrees that the system is running out of money, though there is passionate debate over when -- and what to do about it.

President Bush wants to enable members of the Social Security system to invest some of their funds in stocks and bonds. But there is fiery opposition.

Recently a new, provocative voice joined the debate. It was from Phil Gramm, retired after 18 years as a Republican U.S. Senator from Texas. His name is on a host of legislation: the Gramm-Rudman-Hollings Act, which placed the first binding constraints on federal spending; the Gramm-Leach-Bliley Act, which modernized banking, insurance and securities laws by repealing the 70-year-old Glass-Spiegel Act; and the Gramm-Latta Budget, which reduced federal spending.

Phil Gramm, who is now vice chairman of the Swiss-based UBS Investment Bank, recently spoke about his own views on Social Security at the Economic Club of New York. Here are edited excerpts:

Everybody knows we're on the verge of the Baby Boomer retirement wave -- 77 million people who earn 60% of the income in America are going to retire in the next 25 years. We're going to have a 20-year period when, unless we dramatically increase immigration, we're going to have four people go on the retirement rolls for every person going on the labor rolls.

The cost of this is not just significant, it's cataclysmic.

Fifteen years from today, Social Security and Medicare will take one out of every four dollars of income tax collected in the current system. Twenty-five years from today it will take 50 cents out of every dollar of income taxes generated by the current tax system.

It is obvious that that is not sustainable.

We are going to get no help from the so-

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called Social Security Trust Fund. The Fund is a collection of non-negotiable government bonds in a filing cabinet in West Virginia. Investing in Treasury certificates is a good idea unless you are the Treasury. The idea that somehow this represents anything other than records kept on money collected by Social Security taxes that had been spent on other programs in the last 20 years is a complete fraud. When the president talks about using the Trust Fund to extend the life of the Social Security program for 24 years, he is wrong.

We are misleading people into thinking that this Trust Fund has any relevance whatsoever. From an economic and a legal point of view, there is no Trust Fund.

But if you could take between 3% and 4% of payroll and invest it 60% in common stock and 40% in bonds at the average rate of return we've had in the last 200 years -- through wars, depressions, civil wars -- then a person 22 years old could fund and have a property right guarantee for a benefit that would exceed what Social Security promises today but cannot pay today.

Anyone who believes investments in Treasuries can in any way be comparable to investments in common stocks is not engaged in a realistic debate. We would be better off if we put the Social Security money in empty whiskey bottles. We would at least have glass. Today we have nothing.

How do we fund the transition [from the current system to a new system]? Since President Bush took office, government spending-not defense, not Social Security, not Medicare or Medicaid, but just spending for good old-fashioned government--has grown \$110 billion.

We are continuing to fund weapons for the Cold War and fighting a new war. It is imperative that we go back and shear off those systems.

Now I'm not saying it's easy to come up with \$200 or \$250 billion a year. But if you give me the bloat in discretionary spending on non-defense accounts, and if you go back and rationally shear off weapons systems that kept Ivan back from the gate and were meant to keep Ivan back from the gate in the future, then I can fund the Social Security accounts and make the system solvent.

The cheapest and best thing to do is to make the hard decisions today, commit the resources and buy ourselves out of a system that cannot be sustained and invest in a system that can and will.

Let me tell you what at an absolute minimum we ought to do.

All new entrants to the labor market should come under the new system and should have the right to invest 4% of their payroll, which is roughly one-quarter of what they're going to give the government. That should be invested in their name in accounts that they have a property right in and that are managed by professional money managers. That would cost about \$15 billion a year, and that's a rounding in the current budget.

If we're not going to do anything, if we're just going to let this problem build up for the next 12 years and then have it explode in our face, we ought to go ahead and tell Americans what we're going to have to do.

We need to tell them that we're going to raise the retirement age to 70.

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We need to tell them that we're going to means-test these programs away from the upper middle and upper income people.

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We need to tell them that we're going to raise the eligibility on Medicare to 68.

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And we need to go back before this new Medicare benefit goes into effect on prescription drugs and set out a system whereby when it runs over the projected cost, that automatically co-payments and deductibles are raised to hold it within the budget.

I think it is totally dishonest to not tell people what is clearly going to happen if we do nothing.

I believe on an issue like this, the bolder you are, the more likely you are to be successful. If I learned anything from Ronald Reagan, it's that boldness works.

Reagan came in and proposed a budget that eliminated three Social Security benefits. It eliminated the minimum benefit, the death benefit, and the adult student benefit. Killed them dead. It eliminated \$25 billion of entitlements with the signing of one bill.

Sometimes you have to ask a lot to get anything.

Reporter Kelli B. Grant contributed to this article.

Marshall Loeb, former editor of Fortune, Money, and The Columbia Journalism Review, writes "Your Dollars" exclusively for MarketWatch.

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