

OP-ED COLUMNIST

Real Reform for Social Security

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Before we get lost in the policy details, let's be clear about what this Social Security reform debate is really about. It's about the market. People who instinctively trust the markets support the Bush reform ideas, and people who are suspicious oppose them.

The people setting the tone for the opposition to the Bush Social Security effort depict the financial markets as huge, organized scams where the rich prey upon the weak. Their phrases are already familiar: a risky scheme, Enron accounting, a gift to the securities industry, greedy speculators preying upon Grandma's pension.

Gone is the day when President Clinton could propose another plan diverting 15 percent of Social Security reserves into the stock market. Now the Democratic Party's tone is much more populist and even antibusiness. Harry Reid has begun his tenure as Senate minority leader by doing his best imitation of Huey Long: "They are trying to destroy Social Security by giving this money to the fat cats on Wall Street, and I think it's wrong!"

What you hear these days is not liberalism. It's conspiracyism. It's the belief that the Bushite corporate cabal is going to do to domestic programs what the Bushite neocon cabal did in the realm of foreign affairs. It's the belief in malevolent and shadowy forces that will grab everything for their own greedy ends. This is Michael Moore-ism applied to domestic affairs, and it will leave the Democrats only deeper in the hole.

I don't deny that many business and Wall Street types would like to capture the system for their own benefit. As Theodore Roosevelt observed, every new social arrangement begets its own kind of sin, which has to be punished by law. But as Roosevelt and his great hero Alexander Hamilton understood, corruption is the price we pay for economic freedom, and the benefits of that freedom vastly outweigh the costs.

Hamilton and Roosevelt championed markets because they arouse energies, channel information, allocate resources and create enormous wealth. Plans to create private Social Security accounts aren't sops to the securities industry. They use the power of the market to solve an otherwise intractable problem.

The outline of the problem is clear. When the Social Security program was created, there were 42 workers for each retiree. Now there are about three workers per retiree, and in 2030 there will be two.

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The White House is heading toward a reform plan that would tie the benefit levels to prices rather than wages, which is a serious benefit cut. It would then use the power of the markets to compensate retirees for those cuts and to create a reserve fund to make the system solvent.

The government would essentially borrow at 2 percent in real terms, invest that money through regulated private accounts in the market and get a return, based on conservative historical averages, of about 4.6 percent. Those returns would, over time, cover the \$11 trillion in liabilities that threaten to bring down the system.

People who think the markets are a rigged game, or who think financial profits are just paper profits, won't like this approach. But the fact is that over the next decade - whether we are talking about pensions, health care or even schools - the central argument is not going to be over whether to apply market competition to these problems. It's going to be over how to structure competition to produce the most dynamic results.

I may be a complete idiot, but I actually believe that Democrats and Republicans can reach a grand bargain that includes personal Social Security accounts while addressing Democratic objections.

You already see some Democrats growing concerned over the perception that their party is trying to build a bridge to the 1930's. On Thursday, the House minority leader, Nancy Pelosi, struck a very different tone than her Senate colleague. She is willing to enter into discussions about Social Security reform with no preconditions. Meanwhile, a Democratic underground is forming, made up of members of Congress willing to consider a grand compromise with Bush to make the system solvent.

Even the White House folks seem to know they can't do this without Democratic support. They will have to protect the system's progressivity and have mechanisms built in to combat the corruption. They're going to have to do something about the deficit.

This is not 1932 any more. This is not the age of big, static state institutions. This is actually about building a bridge to the 22nd century.

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