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Wrong Remedy

Steve Forbes, 12.25.06, 12:00 AM



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The dollar is once again weakening against other currencies. The culprit is not the trade deficit--the greenback showed strength against the euro in 2005 and much of this year, even though our trade account is allegedly drowning in red ink. The culprit is the Federal Reserve, which has been printing money at an inflationary pace and at a faster clip than the Bank of England, the Bank of Japan or the European Central Bank.

The best gauge of monetary disturbance is gold. It's no surprise the dollar price of the yellow metal has shot up in recent weeks. Unfortunately, Fed Chairman Ben Bernanke and most other central bankers still try to steer monetary policy by *guessing* the appropriate level of short-term interest rates.

White House Rut

The Bush administration is rumored to be ready to cut a deal with Democrats next year to "save" Social Security. Future benefits would be means-tested, the cap on income currently taxed (\$97,500 in 2007) would be lifted or eliminated (as it already has been for Medicare), the age at which beneficiaries can draw benefits would be raised to, say, 70 or 75, and the way future benefits would be indexed would change. Personal accounts? There might be tiny ones, but the incoming Congress' more likely preference would be Super IRAs that people could contribute to in order to supplement future benefits. They would have no connection to the Social Security system.

You'd better hope the President's more sensible advisers put the kibosh on this nonsense. It's a disastrous deal on par with the President's father breaking his "read my lips" pledge not to raise taxes. Republicans have already hurt their entitlement-reform credentials by expanding Medicare to cover prescription drugs for everyone, not just the truly needy.

The Administration must abandon this actuarial mind-set and adopt a sunny, Reaganesque approach. Instead of getting into a debate about when the system will actually go cash-flow negative (the latest estimate is 2017) or when the so-called trust fund will actually go broke (2040 is one forecast), the White House should emphasize the positive. Young people in the workforce, not Washington politicians, should own their Social Security retirement plans. The Administration should also underscore the fact that our nation is wealthy enough to cover current beneficiaries, as well as those entering the system in the next ten years or so, with relative ease. The debate should be centered on what to do about younger people. The mantra: American workers should own their own retirement plans, just as most Americans can now own their own homes.

The big mistake the White House made in 2005 was in not putting a positive, comprehensive program on the table from the get-go. If it had, people would have known immediately what the specifics of this debate were about. But the President and his aides instead tossed out ideas from time to time, allowing opponents to stir up fears that Grandma's benefits were going to be slashed and that the retirement age would be raised to 95. Not since the Clinton Administration's nationalized health care plan of 1993--94 has there been such political idiocy accompanying a major initiative. These should be sine qua non: genuine personal retirement accounts; no rise in the income caps, other than what is already mandated by law; no raising the retirement age.

A root canal approach won't work politically. Nor should it. It is unnecessary. But there are several positive plans circulating that the White House could pick up and advocate.

One--an intriguing, comprehensive plan--has been put forth by the American Institute for Full Employment (www.america-islistening.org). Dubbed the 7.65% Solution, it deals with both Social Security and Medicare. The beauty of it is not its sound numbers but its boldness: The entire portion of an employee's contribution to Social Security and Medicare (7.65%) would go into the individual's private retirement and health accounts. The plan would have sensible restrictions on how the money is to be invested, with particular emphasis on diversity. The model for this is the federal Thrift Savings Plan, in which government workers can choose from a half-dozen funds ranging from all bonds to all equities. Each of these funds has earned far better returns than has Social Security.

The 7.65% Solution has several other intriguing aspects, including the setting up of a genuine Social Security trust fund that could invest monies in corporate bonds.

Politically, the best part of this approach is that it would give workers choice. When an individual decided to retire, he or she could have benefits based on the traditional Social Security/Medicare plans or go for an option that uses one's personal account. In other words, demagogically induced fears about crashing stock markets would become moot: You could choose the greater of the benefits. Only workers 22 years and under would have to go entirely into the new system.

The Social Security debate should be focused on how we can better provide for Americans' retirements while, at the same time, strengthening the economy. The White House should, once and for all, flush away its current constipated, actuarial approach.

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