



# Social Security Choice

## ***SOCIAL SECURITY THIS WEEK***

A WEEKLY NEWSLETTER ON SOCIAL SECURITY REFORM

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### ***Government FY Accounting Distorts Actual Figures***

In an October 9 op-ed for the *New York Times*, Harvard law professor Howell E. Jackson writes that the government's fiscal year accounting methods would be illegal in the private sector. The main cause, Jackson claims, is that the federal budget does not account for unfunded liabilities for entitlement programs like Social Security thereby substantially reducing deficit measurements from the real picture. Highlights of Jackson's "[It's Even Worse Than You Think](#)" op-ed follow:

"Last week the federal government ended the fiscal year with a reported deficit of approximately \$400 billion, pushing the federal debt held by the public to nearly \$4 trillion. Sobering though these numbers are, they actually understate the problem. Through an accounting sleight of hand with far greater consequences than the corporate scandals of recent years, the federal government distorts public debate, threatens social programs and impoverishes future generations.

"What's missing from the \$400 billion figure is an accurate recognition of the mounting obligations of the Social Security system. Under current practices, Social Security reports its financial performance on a cash-flow basis: it compares annual revenues to annual costs and reports a surplus or a deficit. Last year, Social Security enjoyed a surplus of roughly \$160 billion. The government used this money to mask what would otherwise have been a \$560 billion federal deficit.

"Were the federal government to account for its Social Security obligations under the rules of accrual accounting, which govern public companies, its financial outlook would be far worse. By the end of last year, the Social Security system owed retirees and current workers benefits valued at \$14 trillion. The system's assets, in contrast, were only \$3.5 trillion. These assets include not only the trust funds' current reserves (\$1.4 trillion), but also the present value of the taxes that current workers will pay over the remainder of their working lives (\$2.1 trillion).

"In other words, the system's current shortfall—its assets minus its liabilities—is \$10.5 trillion. Unless Congress chooses to rescind Social Security benefits that have already been earned, this shortfall must be shouldered by future generations. This implicit debt of the Social Security system is more than two and a half times larger than the government's public debt.

“The federal budget’s treatment of Social Security and other entitlements for the elderly is deeply misleading. Just as investors should be able to rely on the accounting statements of public companies, the public is entitled to statements of federal accounts that clearly report the growth of the government’s financial obligations each year. The current federal budget does no such thing.

“If Social Security were to present its finances on the basis of accrual accounting, the public would have to face the hard truth that the system is insolvent—and its deficit is increasing by hundreds of billions of dollars a year. Politicians would have more incentive to act. Indeed, voters might even insist that Congress and the president reduce the Social Security shortfall to a reasonable size.

“Accrual accounting is the gold standard for the private sector because it forces long-term liabilities to be recognized when they are incurred and can be controlled. The federal government is increasingly in the business of making long-term promises to its citizens. Until the federal government adopts principles of accounting that recognize these promises, the federal budget will remain the most misleading document in Washington. And that’s saying a lot.”

### ***Bolton Restates Commitment; Warns of Escalating Entitlement Deficits***

In an interview with the [Christian Science Monitor](#), current director of the White House Office of Management and Budget Joshua Bolton said he “would not be at all surprised” were the president to center Social Security reform as a major domestic issue in his 2004 re-election bid.

In response to questions of mounting budget deficits, Bolton argued that we are about to enter a period of expensive entitlement payouts that will dwarf the current deficit figure of over \$400 billion: “The real problem comes about a decade from now as some of us baby boomers retire and we see enormous challenges to our budget situation, not from the discretionary spending which is what we are talking about now—that is the subject of budget resolutions and appropriations and so on—but the entitlement side of the ledger (principally Social Security, Medicare, and Medicaid). Those are huge challenges that I think need to be addressed on their own merits.

Rather than shy away from reform, Bolton said: “I think entitlements actually will be on the agenda in the 04 campaign and I think they ought to be. I would not be at all surprised were [the president] to decide that was an important issue to take to the people.”

### ***Reform Allows Adjustment to Looming Age Wave***

In a *Boston Globe* op-ed, Peter G. Peterson, chairman of the Federal Reserve Bank of New York, explains the unavoidable “age wave” phenomenon, which can be attributed to a worldwide increase in life expectancy and decrease in birth rates. Claiming that “voters have become habituated to pay-as-you-go schemes,” Peterson hints that a solution to the fiscal and economic costs might be investment-based reform of pensions. Excerpts of “[Facing Up to the Global Age Wave](#),” follow:

“A demographic iceberg looms in the future of the largest and most affluent economies of the world—the challenge of global aging. What’s visible above the waterline is the unprecedented growth in the ratio of elderly to working-age people. What lurks beneath the surface are the wrenching fiscal and economic costs that threaten to bankrupt even the greatest of powers, the United States included.

“Global aging is what happens when people start living much longer. Global life expectancy has grown more over the last 50 years than the previous 5,000. Over the next 30 years, it is projected to rise by another seven or eight years—which alone will increase the number of elderly by roughly one-third. If the U.S. Social Security retirement age of 65 had been indexed to longevity since 1935, today’s workers would be waiting until age 73 to receive full benefits and tomorrow’s workers even longer. In reality, workers throughout the developed world have been retiring earlier, not later.

“Global aging is also what happens when people start having fewer babies. Thirty years ago, the typical woman worldwide had 5.0 children over her lifetime. Today, the global “total fertility rate” has fallen to 2.7. In the developed countries, it has fallen all the way to 1.6—which is 25 percent beneath the 2.1 ‘replacement rate’ needed merely to maintain a fixed population from one generation to the next. There are now fewer babies born each year in Germany than in Nepal, with a population one-quarter as large.

“The central issue is not whether the developed countries will change course, but how and when. If reform happens sooner, the changes can be made with deliberation and foresight and in a way that strengthens our economies, gives families time to prepare, and secures the safety net for those who really need it. If it happens later, the changes may be sudden and painful—and arrive in the midst of financial crisis and political upheaval.

“Timely reform won’t be easy. Indeed, the politics are absolutely toxic. Voters have become habituated to pay-as-you-go systems that bank every generation’s future retirement on the next generation’s resources, rather like a giant Ponzi scheme. People find it hard to believe that a system that worked wonderfully for their parents (who signed up early) won’t do nearly as well for their kids (who are signing up late).

“Unlike many predictions about the future, global aging is not a mere hypothesis. It is as close as social science comes to a certain forecast. Absent a Hollywood catastrophe—a colliding comet or an alien invasion—it will surely happen. What remains to be seen is whether humankind can gracefully accommodate the new realities it brings in its wake. Global aging will not adjust to our visions. One way or another, we will have to adjust to it.”

### ***NCPA Ad Asks Candidates to State Solutions for Social Security Shortfalls***

The [National Center for Policy Analysis](http://www.nationalcenterforpolicyanalysis.org) launched a television advertisement Wednesday designed to educate Iowa residents about the Social Security crisis. The ad is the latest in NCPA’s efforts in Iowa to explain comparative benefits of different reform options and to urge presidential candidates to commit to a solution as they focus on topics impacting seniors in Des Moines. NCPA is a nonpartisan nonprofit policy education organization with extensive research on the problems facing Social Security.

NCPA's senior policy analyst Matt Moore said: "With all the talk about the need for fiscal responsibility, the \$25 trillion debt facing Social Security has been largely ignored. With this ad we hope to educate people about the problem and possible solutions. Iowans have a unique and important opportunity to personally interact with our nation's leaders and thus help shape the debate. If the people of Iowa don't raise this critical issue, then it likely won't get raised at all."

The script of the ad, which may be viewed online at [www.TeamNCPA.org](http://www.TeamNCPA.org), follows:

"Over the next 15 years, 77 million baby boomers will stop paying into Social Security and will begin collecting benefits from it, creating a shortfall of 25 trillion dollars!

"Team NCPA is making sure our nation's leaders address this crisis. As candidates visit Iowa, let's make sure we ask them how they'll save Social Security without cutting benefits or raising taxes.

"Team NCPA has a plan ... do the candidates? Learn more at [TeamNCPA.org](http://TeamNCPA.org)."

### ***Rep. Johnson Joins Motivating Groups for Social Security Reform***

Rep. Sam Johnson, (R-Tex.), has joined other members of Congress, such as Reps. Pat Toomey (R-Pa.), John Sununu (R-N.H.), and Jim DeMint (R-S.C.), who are willing to communicate with voters on the urgent need for Social Security reform and why they support legislation to set up personal retirement accounts. Cliff Despres, a staff writer for the *Allen American* commented on Johnson's address on Social Security reform at a forum in Plano, Texas.

Regarding the limited solutions to Social Security's shortfalls, Johnson stated: "In my mind, hiking taxes or reducing benefits are not options. That just tinkers with a broken system. The only real solution is to increase the rate of return through personal retirement accounts."

Also attending the forum was Jim Lockhart, deputy director of the Social Security Administration. Lockhart confirmed that Social Security will in fact go broke in the near future: "Pressure on the program's finances will begin in 2008, when the first baby boomers reach retirement age. Cash flow turns negative in 2018, and the trust fund is exhausted in 2042."

According to Despres, several panelists listed ways to reform the system, including an increase in payroll taxes or cutting benefits. However, Johnson, like other advocates, knows that increasing the rate of return is the only thing that could help in the long term. That means setting up personal retirement accounts.

"The concept is simple: allow a worker to put payroll taxes into a personal account they cannot touch until they retire," Johnson said. "If you earn an average of \$55,000 lifetime, and you start at 21 to put money into that account with a blend of stocks and bonds, you could have \$2 million upon retirement."

Despres writes: "At Monday's forum, several area residents cast their concern on the future of the system. Some wondered who could manage personal accounts for the

general American. Others pondered whether there could be a transition between the two systems. Senior citizens worried about their benefits.”

Correctly, “The panelists [said] that people had the ability to manage their accounts, and maintained that reform would not affect those who receive Social Security benefits or those who are nearing it. ‘Social Security will not be touched for current or near retirees,’ Johnson said. ‘None of the legislation proposed in the past has mentioned touching that.’

“Johnson, who serves on the Social Security subcommittee, said he’s considering introducing legislation to reform the system. But he said such legislation likely won’t stand a chance until after the 2004 presidential election.”

Several attendees reacted in agreement to the forum:

“It’s not OK where it stands; change will have to occur to not have the burden fall to our children. The reformed system is going to have to be balanced and fair.”

“We’ve corrupted the intent of the Social Security system. It shouldn’t be a retirement program. It should keep destitute people from going hungry.”

### ***Upcoming Events and Announcements***

Are you new to the Social Security debate? Check out Social Security education project [For Our Grandchildren](#)’s summer 2003 [activities report](#), where you will find information Social Security reform options, past summer events, introductions to advocates of personal accounts and briefings on partner organization activities. For Our Grandchildren is currently touring in Iowa and Arizona. Upcoming event dates in Iowa include Sioux City on October 14; Storm Lake on October 15; and more! Arizona events begin in Phoenix on October 10 and continue with two events in Tucson on October 12. Visit the [event calendar](#) for full details and RSVP information.

On Sunday, October 12, listen for solid Social Security reform proposals or for presidential candidates skirting the issue as the Democratic Party holds a primary debate in Phoenix, Arizona. This event will be hosted by Governor Janet Napolitano and the Arizona Democratic Party and will be broadcast on CNN. The next debate takes place Sunday, October 26, in Detroit, Michigan, and will be hosted by members of the Congressional Black Caucus.

**Job Opening, Senior Social Security Analyst:** The Cato Institute’s [Project on Social Security Choice](#) is looking for a senior Social Security analyst. The successful applicant will have an advanced degree in economics or a related discipline or equivalent experience. The candidate should have detailed knowledge and understanding of the U.S. Social Security system, as well as the economic and actuarial issues associated with various proposals to reform the system. Excellent written and communication skills are a priority. Candidates should be committed to the principles of limited government and individual liberty, as well as to reforming Social Security through individual accounts. Submit résumé and writing samples to [Michael Tanner](#), director of Cato’s Project on Social Security Choice.

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