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The New New Deal

Social Security reform pits progressive Bush against reactionary Dems.

BY PETE DU PONT

Seven decades ago Franklin Roosevelt had a good idea. It was called Social Security-- you and your employer pay some money into the system while you are working, and the system will pay some money back to you after you retire. That idea has worked well for 70 years, and it will work equally well for another dozen, because for all that time there will have been more workers paying taxes than retirees getting benefits.

But because of the huge demographic shift, that is about to change. In the beginning there were 42 workers for every retiree; now there are three. By 2018 there won't be enough money coming in from working people to pay the benefits the government has promised retirees.

And that leads to the second problem. All the extra Social Security taxes we've paid over the years haven't actually been saved in the trust fund; they have been spent by Congress. So beginning in 2018 the government will have to pay back the \$2.3 trillion it has borrowed. It starts small: an \$11 billion payment in 2018, but grows quickly each year to \$124 billion by 2041, when the trust fund will be fully repaid.

That \$2.3 trillion will have to come out of higher taxes or lower government spending, for as President Clinton said acknowledged in his 2000 budget, the trust fund does "not consist of real economic assets that can be drawn down in the future to fund benefits. . . . They are claims on the Treasury that . . . will have to be financed by raising taxes, borrowing from the public, or reducing

benefits or other expenditures."

The third problem is that after all of the \$2.3 trillion has been paid back in 2041, there will be so many retirees and so few workers that Social Security taxes coming in will only be enough to pay about 76% of promised benefits.

So what to do? We could gradually raise Social Security taxes from the current 12.4% to 18%--an increase of almost half. That would be a heavy burden on young working people and a drag on the economy. Or we could gradually reduce benefits by a third, which would be unfair and very unpopular with every senior citizen. They would argue, correctly, that they had cut a deal with the government, and now

the government was reneging.

President Bush has a better idea, an idea as good in 2005 as Roosevelt's was in 1935: guarantee existing benefits for the retired and near retired, and move from a government payment system to a worker-owned investment system for younger workers.

There already is a model for such a reform, the Thrift Savings Plan, or TSP, for federal employees. It allows them to contribute up to \$12,000 into a personal account they own and control. Employees can choose from five different funds: government bonds, a fixed-income fund, a common stock fund, international investments and a small-cap stock-investment fund--or a mixture of them. Today, nearly 3.5 million federal employees participate, and the fund's value is more than \$120 billion. No one has lost his shirt, and participants own real assets for their retirement.

One option for making a TSP-type system

available to all American workers is a proposal advanced by Thomas Saving, a Social Security trustee and senior fellow with the National Center for Policy Analysis (of which I am chairman). Under the Saving plan (see <http://www.ncpa.org/pub/st/st272/>) a worker making \$35,000 in 2005 would invest about \$1,585 a year in his retirement account: 1.25% of wages (\$437) out of his pocket, a like amount from his employer, and diverting 2.03% (\$711) of the payroll tax that would otherwise go to the government.

Young people would instantly become owners of real assets, which would be, in President Bush's words, "a nest egg you can call your own and government can never take away." How big a nest egg? At \$1,585 a year, a young medium-wage worker entering the workforce today would amass about \$302,000 over his working life, enough to pay a benefit equal to what the current system promises. And for minority workers, who have shorter life spans and often don't live to receive Social

Security benefits, the assets their survivors would receive would be a huge positive.

There is no free lunch in this plan. Participants and their employers would have to help fund the transition by contributing an extra 2.5% of wages--but the benefits far outweigh the costs. First, existing benefits for already retired and nearly retired men and women would be guaranteed. Second, the NCPA estimates that using historical stock and bond market growth, the \$11 trillion of unfunded future Social Security payments would be eliminated. Finally, since the program would be restored to surpluses by 2040, payroll taxes could then be significantly reduced.

If private Social Security savings accounts had been made available 40 years ago, the system would be solvent today as opposed to facing an \$11 trillion shortfall. The average return for stocks in the past 100 years has been 6.4% a year; split an account

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(Continued)

60-40 between stocks and bonds and the average return has been 5.1%, far above Social Security's 1.8% return.

In short, moving to a market-based retirement system would be a massive fiscal winner. Such accounts would cause a savings revolution. People would save more money, create more capital for the country's economy to grow, and make America even wealthier.

Of course the liberal left hates the idea. Harold Meyerson of The American Prospect says that "Social Security is not facing a financial crisis at all"; it just needs "to increase its revenue and diminish

its benefits." So higher taxes and lower benefits are superior to personal ownership of retirement assets? And a government promise to pay you with money it doesn't have is better than allowing you to have assets under your own control? Neither makes any sense.

More likely their worry is political, that as columnist Robert Novak says: "The Democratic establishment is appalled at the thought of private Social Security accounts turning ordinary Americans into owners of stocks and bonds and, therefore, potential Republicans."

President Bush understands that opportunity is why America was founded, why it has prospered,

and why we prevail. Opportunity consists not in government programs, nor is it something to be administered. It is the power of people to make their own choices, to improve their own lives, and control their own destinies.

An ownership retirement system is opportunity, and with the president investing the political capital he earned in the 2004 campaign, it is likely to come to pass sooner rather than later.

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