



GROUNDS FOR COMPROMISE: COMPETING REFORM PROPOSALS ARE CLOSER THAN THEY APPEAR

Eugene Steuerle and Adam Carasso

IN THE SPIRIT OF POLITICS, LAWMAKERS TEND TO paint rival Social Security reform proposals in extremes: If one privatizes and another preserves, then never the twain shall meet. The polarized way in which proposals are debated, more than the actual substance of the proposals, makes compromise difficult. However, compromise doesn't have to be so daunting a task. Considerable overlap exists among reform proposals presented by lawmakers on both sides of the aisle. Agreement can be found in the following areas.

Save the Surplus

Democrats and Republicans began competing in 1999 to create the best "lock box" with which to protect Social Security's surplus. Until then, it was common for Congress to allow deficits in other parts of the budget to exceed the size of the Social Security surplus. Now, almost all policymakers attempt to safeguard Social Security surpluses while trying to prevent budget deficits elsewhere. This dual "balanced budget

and lock box" approach puts the federal government on record as trying to increase retirement saving through its own fiscal policy—not merely encouraging saving, but actually mandating it. This remarkable achievement is largely ignored because of the rancor of the reform debate.

Establish Individual Accounts

Individual accounts have become a mainstay of proposals by many policymakers, regardless of their ideology. Such accounts would give workers direct ownership of real assets—not just promises from the government that their benefits will be paid out of levies on future taxpayers. Even the amount of money being discussed to put in these accounts is similar. When fully implemented, for instance, many proposals would shift about 2 percent of taxable payroll (about 1 percent of GDP). Regardless of how these accounts are financed (some say from Social Security tax revenues and others say from income taxes and other general revenues), the real economic problem is how the additional resources are made available: a Social Security and non-Social Security spending cut, an increase in Social Security or income taxes, or some combination of these options.

Increase National Saving

Despite their political affiliation, many policymakers feel that increasing net national saving, not just having individuals put more money into one set of accounts by taking it from another, is an important aspect of Social Security reform. Whether more money is placed in trust funds or in individual accounts, most policymakers would like to see additional returns from saving generate economic growth that eases some of the burden of helping future retirees.

S T R A I G H T T A L K *on Social Security and Retirement Policy*

Meet Future Obligations

Policymakers of all political stripes also hint that they want Congress to more fully and immediately fund its future Social Security obligations. For example, if the Department of Treasury issues additional bonds to the Social Security program, many policymakers agree that the interest owed on the bonds should be paid out of general revenues and not be available for other government functions. This would reduce revenues available for other expenditures. Similarly, payments to individual accounts would be recognized immediately as a liability (unlike Social Security, which is not recognized as a liability until people retire and try to cash in on the government's promises). Such timely acknowledgment, however, will stress the federal government's cash flow, making a non-Social Security budget that is deficit-free obtainable only with less spending or more taxes.

Depend on General Revenue

Many policymakers, regardless of political leaning, realize that reforming Social Security may require tapping general revenues. However, they come to this conclusion differently. Some suggest that general revenues will be needed to cover the principal and interest on the Treasury bonds issued to Social Security.

Other policymakers favoring individual accounts admit a reliance on general revenues. Some suggest funding the accounts directly from general revenues; others would finance them out of current Social Security taxes. But as taxes once meant for Social Security are diverted into individual accounts, general revenues will need to be used, at least temporarily, to shore up Social Security benefits that might otherwise be cut due to lost funds. Indeed, most policymakers realize that the transition to a new system may require significant amounts of general revenues to deal with the very large excess of Social Security liabilities over expected revenues.

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Given the common foundations of most reforms proposed by either party, reaching compromise on Social Security reform shouldn't be as difficult as the polarized reform debate suggests. The success of reform hinges mostly on the ability to recognize and build upon existing similarities.

Ironically, policymakers have formed consensus in one detrimental way: a tacit agreement to avoid discussing politically unpopular but necessary steps toward reform. To financially underpin the reforms politicians do want, the debate must also address topics like the need for workers to extend their careers in line with their increasing life spans. Here, agreement thwarts reform.

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