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WHY THE POLITICS OF SOCIAL SECURITY COULD IMPROVE THE STATUS OF THE POOR

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SOCIAL SECURITY REFORM—REGARDLESS OF THE success of the 16-member commission appointed in May by President George W. Bush—is inevitable. Although the reform debates usually raise the specter of scaled-back benefits growth, systemic change could also improve basic Social Security benefits for the poor and near poor. While we think enhancing the prospects of the poor makes economic sense, we also see a political case for making antipoverty protection a reform goal.

Under current law, Social Security will start to see a serious shortfall of revenues relative to promised benefits once the baby boom generation begins to retire. Benefits growth will outstrip revenue growth, as declining fertility rates and greater longevity result in fewer adults paying taxes and more retirees collecting benefits. Indeed, increased longevity and earlier retirement have already resulted in the average retiree collecting benefits for about one-third of his or her adult life. Moreover, regardless of birth rates and retirement spans, the current benefit formula grants continually higher levels of lifetime benefits to each succeeding cohort of retirees.

Almost no reform proposal, therefore, does not in some way reduce the growth rate of basic benefits. Plans that claim to "maintain" the current system reduce the rate a little, while others cut it more. European systems undertaking reform have had to scale back benefit growth. While some proposals also increase the amount of revenues to the system, even these usually contain some decline in the growth rate of basic benefits that is controversial.

Now, add to the benefit growth rate dilemma the difficulty of increasing the system's savings to finance future Social Security benefits. The problem here is that those efforts will make the system's short-term fiscal balance appear even more unstable. Any attempt to raise the level of saving—by creating individual accounts or by shoring up the system's trust funds—increases the size of the looming shortfall. To amass more savings, reformers need to finance a transition with some combination of an even slower proposed growth rate of basic benefits, an increase in mandated deposits or taxes, and a bigger transfer from general revenues (which effectively amounts to spending less on other programs and is more difficult today, given budget responses to the war on terrorism).

Given the problems of long-term solvency and short-term political buy-in, how do we arrive at the conclusion that reforms might also improve the well-being of the poor and near poor?

First, as we have suggested in a number of Straight Talks, the current system does a mediocre job of using its additional revenues to provide for the poor. Smaller and smaller shares of Social Security expenditures are going to the oldest and poorest recipients. We can cite many reasons, but the ones that come immediately to mind are the increase in single heads of household and the allocation of smaller benefit shares to the oldest retirees, as people have lived longer and retired earlier. Singles do not qualify for the spousal and survivor benefits that help keep others out of poverty in old age. And older retirees are faced with lower total income as they lose their ability to work and are at greater risk of health problems. How can Congress or any federal commission talk about Social Security reform that meets the long-term needs of retirees if the basic program maintains a set of formulas that poorly targets benefits to those in need?

Second, and closely related, Social Security already spends enough money to remove the elderly from poverty. The average benefit, at $749.80 per person, is above the poverty level of $706.25 for a single person. Surely, a long-term reform plan—which would likely increase resources over time even if it curtails benefit growth—would sell much better if it helped the impoverished.

Third, any attempt to increase saving in Social Security (whether in private accounts or in trust funds) adds economic risk to the system. Real assets have real benefits—that's why societies try to accumulate them—but they also carry real risks (something with real value fluctuates in value). We can expect the rich to absorb a greater amount of that risk, and the middle class to incur some of it, but the poor cannot reasonably be expected to take on additional risk. Therefore, no matter how the debate over individual accounts or savings in trust funds unfolds, any final compromise would sell a lot better if it guaranteed a basic benefit to the poor—for example, through a minimum benefit. Under this kind of proposal, an individual account, however small or modestly invested, would be an added bonus rather than a potential liability for poor and many near-poor beneficiaries.

Finally, we believe that the strong concern over basic protection for the elderly cannot be avoided politically. Antipoverty protection is one of the fundamental principles undergirding Social Security. At the same time, antipoverty protection does not prescribe that all people who retire receive higher and higher benefits according to some past, unfunded formula. But we must be direct about our view: Adhering to this principle in the presence of a shortfall does argue for allocating a larger share of resources to, say, the one-third of the elderly with the lowest lifetime incomes and the greatest need.

The kind of political compromise we have in mind resembles that accompanying the Treasury proposal for tax reform first pitched in 1984. Largely predicted to be an empty gesture before its unveiling, the actual bill suggested sensible trade-offs that legislators could not ignore (e.g., offering lower tax rates in place of tax shelters used by the rich and removing the poor from taxation). After a long, agonizing process, the Tax Reform Act of 1986 was eventually passed. A similar set of liberal-conservative trade-offs is required to advance the Social Security reform agenda.

In sum, a reform plan that simply scales back everyone's benefits would be easy to ignore politically. The same is true if additional revenues or benefit cuts are needed to pay for additional saving in individual accounts or the trust funds. However, if a reform also significantly helps individuals in need, then reformers can claim that their efforts are also meeting a primary—if not the primary—purpose of the program in the first place. Whatever the outcome of the debate over individual accounts, a reform containing a reasonable minimum benefit and offering long-term, permanent solvency for Social Security would be a compromise from which neither conservatives nor liberals could easily retreat.

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