

The Greenspan Commission and the Social Security Reforms of 1983

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Social Security was last reformed in 1983. It now needs to be reformed again so that the Social Security system is financially viable in the long run and the pace of federal borrowing is slowed. The task will be much harder than in 1983. The Congress is now deadlocked in a poisonous partisan battle. There were partisan battles in 1983 and intense ideological differences over how to fix Social Security, but Congressional leaders showed a desire to accomplish something and a willingness to compromise without either side having to completely abandon its ideological principles.

There is also a practical problem. In 1983, it was apparent that there was an urgent need for reform. The cost of benefits began to exceed the income of Social Security's Old Age and Survivors Insurance (OASI) trust fund in the mid-1970s and the fund was declining rapidly. By 1982 the fund balance was only one third of its peak in 1975 and it was clear that the trust fund would soon be empty. The elderly population panicked at the thought of Social Security going "broke" and imperiling their benefits.

¹ I thank Melissa Favreault for comments. All errors and other flaws are mine.

In fact, it was an artificial crisis in the sense that it is hard to imagine any component of the government going “broke”. The government could have continued to pay full benefits after the trust fund emptied by simply transferring general revenues to the system. But that would have radically altered the philosophy underlying Social Security.

From its beginning, benefits have been financed by dedicated revenues, the bulk of which come from the payroll tax. This has created the impression among current and future beneficiaries that they have paid for their benefits. Although this was not true for a majority of beneficiaries in 1983, the myth that people paid for their benefits is very powerful and contributes to the strong political support enjoyed by the system. It was clear to politicians that they had to fix the system without changing its fundamental characteristics.

Today it is again apparent that Social Security, as now structured, is not financially viable in the long run. But the situation is not as urgent as in 1983. It is clear that the OASI trust fund will eventually be emptied, but not until 2035 according to the 2013 report of its Board of Trustees. Benefit costs have recently exceeded dedicated tax revenues, but the trust fund is still growing as the interest income on its holdings of Treasury securities is temporarily more than enough to cover its cash flow deficit. Although the reforms necessary to make the system

financially viable will be much less painful if undertaken sooner rather than later, it is not easy to persuade legislators to act unless they face an immediate crisis.

Soon after taking office in 1981 the Reagan Administration reacted to Social Security's financial problems by proposing benefit cuts that were focused on early retirees. The benefit cut for someone retiring at age 62 was to be more than 30 percent.

The Administration gave Congressional leaders little warning before making their proposal and they made no attempt to educate the public. A political firestorm ensued and President Reagan had no allies. He was strongly opposed by the American Association of Retired People, the AFL-CIO and numerous other interest groups. There was absolutely no chance that his proposed reforms would be approved by the Congress.

The President responded in September 1981 by creating a 15-member, bipartisan National Commission on Social Security Reform. The Commission was to report by the end of 1982 – conveniently after the Congressional elections. The Commission was chaired by Alan Greenspan who had been highly respected as Chairman of the Council of Economic Advisers in the Ford Administration. Members were appointed by the President, Speaker Thomas P. (“Tip”) O’Neill of the Democratically-controlled House, and Howard Baker, Majority Leader of the

Republican Senate. Each chose both Republican and Democratic members. Nine of the fifteen were politicians who either were or had recently been members of the Senate or House. Their political experience was crucial to the eventual success of the commission. All members were knowledgeable about the structure of Social Security and the nature of its financial problems.

Not many government commissions have been successful and as the deliberations wore on, it appeared as though this one would be a miserable failure. Chairman Greenspan was especially depressed. The Democrats and Republicans seemed to be as far apart as today's legislators with the Democrats adamantly opposing benefit cuts and the Republicans opposing payroll tax increases just as passionately. The Commission requested that its deadline be extended by one month. It was given two weeks.

In early January 1983, Senator Robert Dole, a Commission member and Chairman of the Senate Finance Committee, wrote an op ed in the New York Times hinting that tax increases might play a role in solving Social Security's problems. Senator Daniel P. Moynihan recognized this as a crack in the Republican wall of opposition to revenue increases and immediately seized the opportunity. It was still doubtful that the whole Commission could reach a compromise, so a sub-group was formed that included Moynihan, Dole, Robert Ball, the founding Commissioner of the Social Security system and a strong

defender of scheduled benefits, and Barber Conable, the ranking member on the House Ways and Means Committee.

The sub-group began intense discussions with White House Chief of Staff, James Baker, his aides Richard Darman and Kenneth Duberstein, and OMB Director, David Stockman. They reached a compromise that essentially split the difference between Democrats and Republicans. A cost-of-living adjustment to benefits was delayed six months, saving \$40 billion during the rest of the 1980s. The acceleration of an already-scheduled tax increase brought in \$40 billion in extra revenues. An additional \$30 billion was raised by making 50 percent of benefits taxable for middle class and high income recipients. It was the first time any Social Security benefits were subjected to taxation. Democrats could call that a revenue increase while Republicans could call it a benefit reduction. Coverage was expanded by bringing in new federal civil servants and state and local civil servants already in the system were prevented from withdrawing. Taxes were raised on the self-employed and a general revenue transfer helped pay the benefits of former military personnel.

Although a majority of the commission had been excluded from the final deliberations, they did not seem to resent it. The Commission approved the plan by a 12 to 3 margin. The three dissenters were conservatives who disapproved of the tax increases.

The Committee recommendations were quickly debated by the Congress. In the Senate the debate was expedited by an informal rule promulgated by Senator Dole. It stated that anyone opposing the recommendations had to come up with a solution of their own.

Something remarkable happened during the Congressional debate. Commissions are often formed to solve national problems when it is believed that Congress lacks the courage to vote for painful solutions. Commissions of experts are supposed to give politicians cover to do what needs to be done. In the end, the Greenspan Commission was rather cautious. Its proposals did not solve Social Security's financial problems for the entire 75 year period which was the traditional time horizon for judging the system's financial viability. During the House debate Congressman J. J. Pickle, Chairman of the Ways and Means Subcommittee that dealt with Social Security, added a provision that would very gradually raise the normal retirement age (NRA) from 65 to 67. It began to increase for those reaching age 62 in 2000 and would not reach 67 until 2022. This provision did more to improve the financial health of Social Security than any single recommendation of the Commission. The gradual nature of the increase in the NRA meant that no one would be affected for 17 years, thus providing plenty of time for those approaching retirement to adjust their plans. Unless we move

very quickly, it will be difficult to give the same advance warning for changes in the benefit structure contained in the next reform effort.

Although the Greenspan recommendations and the Pickle amendment were vigorously attacked from right and left, the Congress passed the Greenspan recommendations and the Pickle amendment survived the House-Senate conference, beating out a weaker Senate proposal to increase the NRA to 66. Throughout the Congressional debate President Reagan and Speaker O'Neill remained steadfast in support of the Commission recommendations. They had quietly agreed before the Commission was formed that neither would attack the Commission proposals. It boggles the mind to think of a similar quiet agreement between President Obama and Speaker Boehner in 2013. It is clear that the reforms would have been doomed if either Reagan or O'Neill had opposed them. Alan Greenspan has pointed to the Reagan-O'Neill agreement as the single most important factor leading to the success of the reforms.

Although the 1983 reforms were thought to keep the Social Security trust financially healthy for 75 years, it was clear that the good news could not last. The reforms lead to large projected surpluses early in the 75 year period, but large deficits late in the period. Consequently, as each year went by, the 75 year time horizon lost one surplus year and gained one deficit year. All else equal, the actuarial balance facing the fund would continually deteriorate. But all else did not

remain equal. The financial outlook worsened for other reasons as well. The economic and demographic projections made at the time of the reforms proved to be too optimistic. In successive trustees' reports, the year that they estimated that the combined Old Age Survivors and Disability Insurance (OASDI) trust funds would be depleted went on a downward trend sinking from never being depleted before 2058 in the 1983 and 1984 reports to emptying in 2029 in the 1994 report. Since then the estimated depletion date has varied up and down with the business cycle and the 2013 report estimates it to be 2033 for the combined funds and 2035 for the OASI fund. Hence the need for yet another reform.

Does the experience with the Greenspan Commission suggest that a commission might be the answer to our current fiscal woes? We have had the public Simpson-Bowles Commission as well as the private Domenici-Rivlin Commission along with numerous other committees and groups suggesting fiscal reforms, and more specifically, Social Security reforms. Eventually, balanced bipartisan reports such as Simpson-Bowles and Domenici-Rivlin may lead to legislated proposals, but there is no sign of it yet.

It cannot really be said that it was the Commission structure that led by itself to the success of 1983. The Commission was unwieldy and it was not until a subgroup was broken off that real progress was made. Moreover, the Commission report was cautious and did not manage to restore the financial health of Social

Security for the entire 75 year period traditionally used by the system's trustees. It took courageous actions by the Congress to enhance the report and make it much more meaningful.

Although the Commission did not provide sufficient momentum to enact the reforms, its role may have been necessary. It certainly got the ball rolling. It brought together able people with diverse backgrounds who represented very different interest groups. It contained especially talented legislators, such as Robert Dole, Daniel Moynihan and Barber Conable. Once the Commission finally arrived at a conclusion, it had enormous clout. But the ball had to be pushed in the Congress by people like Danny Rostenkowski and J. J. Pickle. And most important, President Reagan and Speaker O'Neill had to stay out of the way as the ball rolled forward.

It cannot be said that any of the main actors were nonpartisan, but they were highly skilled. They saw a major problem and were determined to fix it. They compromised, but did not damage their partisan credentials. Neither side won a total ideological victory, but neither side suffered a total defeat. President Reagan put it well saying that "[T]he essence of bipartisanship is to give up a little to get a lot...I think we've got a great deal."

It seems on the surface that today's partisan and ideological battles are more intense than in 1983, but that can be debated. The more important difference is that 30 years ago legislators had a strong desire to get good things done and that ultimately trumped their desire to make partisan points. The desire to accomplish things seems to be the missing ingredient in today's political battles and that is what risks our future prosperity.