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Personal Accounts, Not Tax Increases

By Peter Ferrara

When I first started working on Social Security in 1978 at Harvard Law School, the most active conservative on the issue intellectually was Pete Peterson, former Secretary of Commerce under President Nixon. A good and public spirited man, he argued all over the country that the problem with Social Security is that the benefits are too high. The average widow's benefit at the time was about $500 a month. He was a Wall Street investment banker. He didn't get too far.

I developed an opposite argument, drawing on themes that had been raised by Barry Goldwater and Ronald Reagan. I argued that if you looked at market investment returns and evaluated Social Security taxes and benefits, the program was becoming a bad deal for working people. The benefits, particularly in the future, were too low, not too high.

Around the same time, José Pinera started making the same argument to the people of Chile. He was regularly on Chilean TV for a year before the historic 1981 reforms, arguing that workers would get a much better deal with personal accounts.

Focusing on all of the sweeping benefits of a new personal account system for Social Security, I developed these themes into a positive, even populist reform model in books, studies, and articles for the Cato Institute, the Heritage Foundation, and others starting in 1980. Real world Republican and conservative candidates began campaigning on this politically seaworthy approach starting in the late 1980s. By the late 1990s, they were winning election after election on these grounds.

The Democrats based their 2002 campaign strategy on attacking Republicans over Social Security and personal accounts. Pollster John Zogby summarized the results by saying in every election where personal accounts were a central issue, the candidate in favor of the accounts won.

These successful candidates weren't talking about cutting future benefits, or raising taxes, or raising the retirement age. They said workers would get a better deal through personal accounts, and even contrasted them with the bad alternatives of tax increases and benefit cuts. This included President Bush, whose 2000 campaign focused on personal accounts and their benefits, without any discussion of tax increases or future benefit reductions.

Mismanaged Opportunity

But once elected, Bush hired for his White House Social Security staff "inside the Beltway" pain caucus types who never really understood this positive approach to reform. For them, the meat and potatoes of Social Security reform was benefit cuts and, if necessary, tax increases to balance the long term Social Security budget. Personal accounts were the dessert that would hopefully convince voters to take their castor oil of benefit cuts and tax increases first.

By contrast, the original goal of personal accounts was massively reducing long term entitlement spending by shifting the source of benefits to the private sector, while giving workers a much better deal in the process. A balanced Social Security budget would be a byproduct of this process. Most critically, *if you are shifting the source of benefits to the private sector, there is no longer any need to talk about cutting the scheduled benefits of the former system.* Those old promises would now be displaced by the new, better benefits paid through the private savings and investment of the accounts, not the government. As a result, you can now talk about better benefits and the overall much better deal from personal accounts

I argued after Bush's election that if the President started talking about cuts in future promised benefits, the focus on personal accounts and all their enormous positives for workers would be lost. I argued that Democrats and liberals would respond by insisting that any future benefit reductions would have to be "balanced" by tax increases. I argued that the Democrats would also insist that if they were ever going to agree to any future benefit reductions, the President would have to drop personal accounts as well.

All of this has now come to pass. The President first endorsed massive reductions in future promised benefits through so-called "progressive price indexing." Suddenly we were back to 1978 and Pete Peterson arguing that benefits are too high. Bush was then later forced to insist that everything, including tax increases, must be on the table to accommodate Democrats. This has now been greeted by the iron clad Democrat insistence that they would never even consider real personal accounts that substitute for part of the 1930s Social Security framework.

Still Haven't Learned

But some putative personal account reformers, even supposed libertarians, have become so confused that they are now running around Washington arguing that tax increases must be "on the table" for Social Security reform. They are apparently the last people in Washington not to know that the Democrats have firmly taken personal accounts "off the table," even with tax increases. Robert Novak reported in his January 8 column what has since been reported elsewhere: "Democrats refuse to talk with Republicans about personal accounts 'carved out' of the present system. Indeed, a 'carve out' is now a dead letter. New personal retirement accounts could be passed only as an 'add on'…."

Yet, just last month, Carrie Lukas, vice-president for policy and economics at the Independent Women's Forum, attacked Rep. Michael Pence (R-IN) for a brilliant article in *The Wall Street Journal* rejecting any tax increases for Social Security reform. Pence rightly argued that the only hope for future reform is to focus on "improving the system so that it offers a better deal to younger Americans through personal savings accounts."

Lukas, however, in an article entitled "The Pence Tax Increase," argued that since Pence will not support a tax increase now to close a Social Security reform deal with the Democrats, he should be held responsible for all the future tax increases that will be necessary due to the failure to reform Social Security now. She should apply that same criticism to Karl Rove and President Bush as well, as Rove has adamantly assured conservatives that the President will not support a tax increase for a Social Security deal.

In his new book *The 7.65% Solution*, Oregon businessman Dick Wendt convincingly argues for the biggest personal accounts yet. But the organization he has financed, For Our Grandchildren, led by Lea Abdnor, has argued for everything but large personal accounts. The organization has taken the lead in arguing that tax increases must be "on the table," as the only way to get personal accounts. Other reform wannabes are lost in the same confusion as Abdnor and Lukas.

As argued above, we will not get personal accounts through tax increases, or cuts in future promised benefits. Quite the contrary, it was including these options on the table that actually killed the campaign for personal accounts. So it is those would be reformers who misled the President down this pain caucus highway who should be held responsible for any future tax increases that will result due to the failure of reform now.

The Way Forward

The only way to achieve personal accounts is to go back to the positive, populist reform model on which George Bush was elected. Propose a specific personal account plan, without tax increases or benefit cuts, that obviously benefits working people overwhelmingly. Then take that over the heads of the Washington establishment directly to the people, as Reagan did so successfully over and over. As Pence wrote, "Republicans don't have to pass a bad Social Security reform bill. If we lack the votes now to pass legislation that will actually preserve the system and protect our nation's economic expansion, we would be wise to spend the next two years seeking to win the debate and leave a foundation of arguments that will not unravel."

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