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How A President's Insatiable Lust Killed Social Security Reform

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Entitlements: The U.S. came very close to having private retirement accounts as part of a sweeping Social Security reform. And, no, it wasn't under President George W. Bush, who put forward a workable plan that went nowhere. It was under President Clinton.

That surprising bit of news comes 18 years after the fact in a reminiscence by Cato Institute senior fellow Jose Pinera, who once upon a time served as Chile's secretary of labor and social security, and who designed that country's highly successful pension reforms in 1980. Pinera says that Clinton began thinking in earnest about privatizing part of Social Security back in 1995, after a discussion with former Colorado Gov. Richard Lamm, an ardent advocate for Social Security reform and, like Clinton, a moderate Democrat.

According to Pinera, Clinton saw private accounts as a way to cement his presidential record as a reformer. And the model for doing so that he had in mind was from Chile, where Pinera and a group of reformers created private retirement accounts that helped fuel that nation's decade-long growth boom. It was a rousing success.

Clinton even sent his former chief of staff, Mack McLarty, to Chile in 1996 to see how private personal accounts worked. In a letter to Pinera, he talked about how impressive Chile's program was, calling it "the mother of all reforms," adding: "We can learn a great deal from your country's bold initiative, which is widely envied throughout the hemisphere."

Three years later, in December 1998, Pinera attended a White House conference on Social Security reform. There, he outlined the simple elements of the Chilean Model: "Every Chilean worker has a pension passbook — I always carry one of them. The worker has his money put here in the passbook, and they know every month how much money they have." And he noted, "in this way we have allowed the working poor to benefit from that extraordinary force of compound interest."

It must have struck a chord with Clinton. Just one month later, in his 1999 State of the Union address, he proposed what he called "USA accounts," universal savings accounts funded by about 11% of the then-Social Security surplus as a means of taking pressure off the Social

Security program, which was even then approaching insolvency. Every American would have had a private savings account, funded by a portion of his or her payroll taxes.

"USA accounts will help all Americans to share in our nation's wealth and to enjoy a more secure retirement," Clinton said. And he was right.

But it was not to be. Clinton's involvement in the Monica Lewinsky scandal and his subsequent impeachment for perjury and obstruction of justice derailed his plans. Despite being found not guilty, his reputation was in tatters. He never recovered, and his entire final-year agenda for his presidency went by the wayside — a victim of his own insatiable appetites.

When Bush proposed private accounts in 2005, Democrats opposed it. Falsely accusing Bush of lying about Iraq, Democrats dug in their heels to oppose any changes to Social Security. Reform was dead. As a sign of just how far left the Democratic Party has gone, there is no one — including Hillary Clinton — who today champions privatization.

Sadly, we're paying a price for that. Today, a mere six months after Social Security's 80th anniversary, the program is insolvent. In 2014, it spent $63 billion more than it took in, and its future liabilities today exceed $26 trillion. Chile-style reform, along with other tweaks to the program, would have gone a long way toward keeping Americans' safe in their retirement and preserving benefits for today's young workers. It will just have to wait.