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Fixing Social Security;
Needed steps are obvious, but they're political poison

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Republican presidential candidate Rick Perry likes to call Social Security a "Ponzi scheme." And he is not the only Republican to say that.

In a soon-to-be released book, Indiana Gov. Mitch Daniels warns that the projected Social Security shortfalls are "enough to give Mr. Ponzi a bad name -- or a legitimate job."

Last year in his successful Senate campaign in Wisconsin, Republican Ron Johnson complained that "Washington treats Social Security like a Ponzi scheme."

That is just a sample of the increasingly sharp language GOP conservatives are flinging about on Social Security, the Depression-era program that accounts for one-fifth of the entire federal budget and pays benefits to 56 million people.

The program's future has produced a deep schism between Perry and Republican presidential candidate Mitt Romney, who warns that if Republicans "nominate someone who the Democrats could correctly characterize as being against Social Security, we will be obliterated as a party."

"We don't have to end the program, like Governor Perry would like to do," said Christian Weller, a senior fellow at the left-leaning Center for American Progress and professor of public policy at the University of Massachusetts. "There is a foreseeable shortfall and a manageable shortfall coming, and policy-makers have in the past shown the ability to take care of this problem in a responsible manner.

"Calling it a Ponzi scheme, calling it a fraud is irresponsible and a hindrance for reform for a program that enjoys tremendous popular support."

The sharp debate between Perry and Romney is a throwback to 1964, when Nelson Rockefeller tried to wrest the GOP presidential nomination from Barry Goldwater, who mused that Social Security "ought to be voluntary . . . if a man wants it, fine. If he does not want it, he can provide his own."

Goldwater emerged as the GOP nominee, but President Lyndon B. Johnson crushed him on Social Security, even airing a TV commercial against Goldwater that showed a pair of hands ripping up a Social Security card.

The argument between Perry and Romney at least demonstrates the need to reform Social Security. While it is true that current trends show the Social Security trust fund will be exhausted by 2036 and recipients will get only 80 percent of their promised benefits after that, analysts say the program can be repaired with fairly modest changes.

"The one difference between Social Security and a Ponzi scheme is Social Security can be fixed," said David John, a senior research fellow at the Heritage Foundation, a conservative nonprofit in Washington. "In a Ponzi scheme, you are just going to lose."

Nicole Woo, director of domestic policy at the Center for Economic and Policy Research, a liberal nonprofit group in Washington, said, "If you look at the trustees or the (Congressional Budget Office) or any of the other experts who know Social Security, they all agree that even if nothing is done, Social Security would be able to pay 80 percent of benefits into perpetuity."

The GOP rhetoric revolves around Charles Ponzi, who in the aftermath of World War I earned eternal infamy with a swindle. A Ponzi scheme allows a swindler to pay early investors with money from later investors -- for a while.

Although President Barack Obama has refrained from offering long-term reforms for Social Security, authors of the latest Social Security Trust Fund report -- signed by Treasury Secretary Timothy Geithner and Health and Human Services Secretary Kathleen Sebelius -- have shown no such reluctance.

In stark language, they warned that the "projected long-run program costs for both Medicare and Social Security are not sustainable under currently scheduled financing and will require legislative modifications if disruptive consequences for beneficiaries and taxpayers are to be avoided."

In their report, Geithner, Sebelius and the other trustees acknowledged that "reluctance to resolve the Social Security and Medicare shortfalls is understandable, as doing so involves slowing the growth of program benefits, increasing the age at which individuals become eligible for benefits, or increasing the taxes and premiums that support these programs. Failure to enact such measures, however, will not shield participants collectively from adverse effects."

Each of their suggestions collides with political reality. Democrats shrink from raising the retirement age or reducing benefits, while Republicans want nothing to do with a tax increase.

Raising the payroll tax on benefits could help stabilize the program. Under current law, annual wages above \$106,800 are not subject to the 6.2 percent Social Security payroll tax.

Sen. Bernie Sanders, the independent from Vermont, has introduced a bill that would impose the payroll tax on family incomes greater than \$250,000. Earlier this month, the Office of the Chief Actuary of Social Security told Sanders his bill would make the program solvent until 2085.

Sanders' tax would raise \$6.5 trillion during the next 75 years and would hit more than 50,000 people this year in Ohio, according to a fresh study by the Center for Economic and Policy Research.

"It would be the largest tax increase in American history and give us the highest marginal tax rates in the world," said Michael D. Tanner, a senior fellow at the libertarian-leaning CATO Institute.

Raising the retirement age also would produce major savings. The age when people can receive their full benefits is to slowly increase from 65 to 67 by 2022. John said that "a male born in 2004 will live on average eight to nine years longer than one born in 1950. The fact is people are going to live longer, be healthier longer, and it only makes sense to raise the retirement age."

But a broad coalition of liberals argue that millions of Americans still have physically demanding jobs that simply would be taxing beyond age 65. The Center for Economic and Policy Research concluded that in 2009, 37 percent of male workers at age 58 had physically demanding jobs, such as carpenters, construction workers, janitors and maids.

It also would be extremely unpopular. In a teleconference town hall meeting conducted this month in Southeastern Ohio by Sen. Sherrod Brown, more than 10,000 seniors took part and 86 percent opposed raising the retirement age, the Ohio Democrat's staff members said.

Yet another idea that conservatives favor is changing the formula that determines a recipient's cost-of-living increase. Currently, the government bases the cost-of-living increase on the growth in wages as opposed to the consumer price index. That one change would save \$112 billion in the next decade.

"We all know what the answers are, we all know what has to be done," John said. "It's a matter of people recognizing reality and actually doing something. The longer you wait, the more expensive the problem becomes."

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