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Broadening the Social Security Reform Conversation

By: Reihan Salam - March 8, 2013

Josh Barro's recent call for expanding Social Security is worth reading, as it raises a number of interesting questions and issues:

(1) As Josh explains, private savings for retirement are quite low, despite expensive tax subsidies for retirement savings. State and local governments are constrained by, among other things, the rising cost of Medicaid, higher education, K-12, and public employee pension liabilities, and so it is hard to imagine that they will fill the gap as older Americans outlast their retirement savings. And employers are shifting away from defined benefit plans, as they are increasingly unaffordable. Josh concludes that the federal government is thus best positioned to protect the living standards of retirees as life expectancy at age 65 continues to increase.

(2) Charles Blahous is far less sanguine about the future of the Social Security program, particularly as the cost of Social Security outlays outstrip payroll tax revenues and the program ceases to be self-financing. And so, in a report co-authored by Jason Fichtner, he discusses a number of reforms, e.g., increasing the basic Social Security payroll tax rate while allowing for deductions or exemptions for each dependent child and improving work incentives by ending payroll tax collections after X number of working years (as proposed by Mark Warshawsky and John Shoven). Though my guess is that Blahous would strongly disagree with the gist of Josh's post, the reforms Blahous has in mind are not incompatible with Josh's notion that the role of the federal government in ensuring income security in retirement might have to increase rather than decrease in the coming years.

(3) Many conservatives have already dismissed Josh's argument, yet at least one aspect of it should be very attractive to advocates of spending restraint:

Another option is to finance Social Security sweeteners by cutting Medicare. The way we talk about this issue now is perverse: We are talking about the need to cut cash payments to seniors in order to finance ever more expensive health benefits for them, despite those health benefits' dubious value. Why not give seniors less health care and more cash? With the U.S. devoting an extra six points of gross domestic product to health spending compared with our peer countries, there should be room for much deeper cuts in Medicare than what President Barack Obama has proposed. If a key purpose of those cuts was to expand Social Security, political opposition from seniors might not be as fierce. [Emphasis added]

Josh Barro and Michael Cannon of the Cato Institute are very far apart on the Affordable Care Act, with Josh believing that it is admirable if somewhat flawed and Cannon seeing it as unconstitutional and highly destructive in almost every respect. Yet back in 2011, Cannon proposed replacing the Medicare program with what he called "bundled payments to enrollees":

Suppose that rather than send $574 billion to providers and insurers, Congress divvied it among Medicare's 48.9 million enrollees and send each of them a check. The average enrollee would get $11,700 — more if they're sick, poor or disabled. Call it a "bundled payment to enrollees."

Enrollees could use that cash to purchase medical care or any health insurance plan licensed by any state. Whatever they saved by being prudent shoppers, they could keep and pass to their kids and grandkids.

If 50 million high-end health care consumers suddenly started caring about every dime they spent, they would wring unnecessary services and administrative costs out of the health care sector.

It's a safe bet that Josh would object to replacing Medicare with a cash benefit. But there is some room for convergence.

(4) After floating the idea of paying for increased Social Security benefits with a higher payroll tax and Medicare cuts, Josh offers a third possibility:

A third option is to create a new federal program of mandatory saving on top of Social Security. This could take the form of individual accounts or a comingled fund, where workers would have specific allocations linked to their contribution payments but wouldn't manage their own investments. This would have the advantage over the first option of avoiding a direct tax increase, but the economic impact of forced contributions would be similar to raising the payroll tax.

This closely resembles Andrew Biggs' call for universal defined contribution accounts, an idea that is widely embraced among right-of-center wonks.

(5) More broadly, Josh's discussion of Social Security reminded me of the distinctions between neoconservatism and traditional conservatism. Back in 2004, Adam Wolfson wrote an essay in The Public Interest that covered, among other things, how neoconservatives approached the welfare state in contrast to traditional conservatives:

Big Government is, as it were, written into the political DNA of democracy. Recognizing this, neoconservatives view the struggle against it as almost, though certainly not entirely, besides the point. The important task is to distinguish those expansions of government that are degrading from those that are a natural response to the middle class's feelings of insecurity. The problem of the welfare state has less to dowith political liberty than with the specter of moral corruption. Thus neoconservatives tended to oppose Aid to Families with Dependent Children (AFDC), which was rescinded with the reform of welfare in 1996, but are generally supportive of something like Social Security. It became clear that AFDC discouraged work and inflicted considerable damage on the family and marriage, while despite its larger expense Social Security can hardly be considered detrimental to seniors. Of course, the form such entitlements take is of great importance in terms of national saving and investment and economic efficiency.

Wolfson's sentence is of course crucially important. But it is instructive to contrast the neoconservative view with the view implicit in Mitt Romney's reference to the "47 percent."

Yet this more generous neoconservative interpretation of Social Security runs into what we might call the gerontocracy critique of the Republican coalition. That is, because conservative politicians rely heavily on the support of older voters, the GOP is biased against transfers to low-income individuals under the age of 65 and in favor of transfers to people over the age of 65, regardless of income. Hence the resistance of congressional Republicans to bringing forward the date at which Medicare competitive bidding would take effect. If Republicans embraced higher Social Security benefits, I wouldn't be surprised if liberal critics saw it as yet another concession to an aging base.

Rather than run away from the gerontocracy critique, conservatives might embrace it, at least in part — a program like Social Security that provides direct transfers to older Americans who've worked for decades might merit a more robust defense than a program like Medicare, which arguably benefits inefficient fee-for-service medical providers more than it benefits older Americans.

(6) Most of us will remember that the conservative call for carve-out private accounts in Social Security proved a miserable failure in 2005. But part of the reason it was a failure is that there was no real constituency for reform, as Steve Teles argued in a review of James Galbraith's The Predator State back in 2009:

> At the same time that Republicans were remaking business into an instrument of conservative power, they launched several policy initiatives that garnered little if any support among businesses themselves. The most striking of these was the Bush Administration's audacious effort to privatize Social Security. [James] Galbraith repeats the well-worn canard that this project was little more than a Wall Street power grab. In truth, the financial industry's interest in Social Security privatization was always sharply limited. Most mutual fund companies generated huge profits throughout the quarter-century equity boom by catering to better-off investors and servicing 401(k)s and IRAs. They showed little interest in Social Security individual accounts that would be unprofitably small in a great many cases and likely to generate large new regulatory burdens. The two firms with the longest and deepest support for the project were Charles Schwab and State Street Bank, whose interests were far from congruent with the rest of the industry, since they made money by taking a small cut of assets under management (Schwab by charging mutual funds for participation in its mutual fund supermarket, and State Street as a custodian of mutual fund assets).
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> When push came to shove, it turned out that Social Security privatization was an ideological and especially a partisan project designed to weaken the Democratic Party. Conservative Republicans hoped that privatization would transform the financial industry into a lobby for further privatization, and thus weaken support for "big government." It was conceived as something done to business, not something done for it—a very far cry from a business-led conspiracy. Indeed, the transformation of business that Galbraith bemoans, and its rapacious efforts to use government as a piggy bank for undeserved profit, was the effect of conservative governance, not its cause. [Emphasis added]

While universal defined contribution accounts might be a good idea — I tend to think that they are — they're unlikely to be a huge political winner, at least at first.

Right now, the politics of retirement security isn't a central focus. Over the next decade, however, I'm confident that this will change, and that conservatives will need to devise a more compelling agenda. The ideas I consider most promising are:

(a) measures designed to encourage delayed retirement, whether via Jed Graham's "old-age risk-sharing" approach or the Warshawsky-Shoven approach;

(b) a fertility-neutral reform of the payroll tax, which overlaps with a Stein-style expanded child credit;

(c) universal defined contribution accounts;

(d) reducing or reforming the apparently very ineffective tax incentives for retirement savings;

(e) and (perhaps) applying Medicare savings to increasing Social Security benefits.

To move in this direction, however, conservatives will have to do a better job of choosing their battles. All government programs aren't created equal — while some ought to be rolled back, others merit reform or even expansion.