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How George W. Bush Lost Personal Accounts For Social Security

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When George W. Bush ran for President in 2000, he explicitly campaigned on empowering workers with the freedom to choose personal accounts for Social Security. His campaign employed all the positive, populist themes originally envisioned for the reform effort. He emphasized the personal ownership and control workers would enjoy through the accounts, the better returns on investment and consequently higher benefits, the accumulated family funds that could be left as an inheritance to children or other heirs, and the full solvency for Social Security that would be achieved without raising taxes or cutting benefits. He specifically contrasted personal accounts with the unpopular alternatives of raising taxes or cutting benefits. He explained that with the personal accounts, he was modernizing Social Security for a better future.

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On September 18, 2000, the Cato Institute reported on how candidate Bush was doing with his Social Security personal accounts proposal, saying:

> Social Security has traditionally been a Democratic strong suit but not this year. Whereas polls in the past showed Democrats with a 20-point or more advantage on the question of which party would best handle Social Security, now the parties are running close to even. More important, when voters are asked whether they support Bush's proposal to allow workers to divert a portion of their Social Security taxes to individually owned, privately invested accounts, they strongly endorse the proposal. In the latest Washington Post-ABC News Poll, 59% of voters supported the Bush proposal; 37% were opposed. Vital swing voters are even more supportive of individual accounts. According to a Zogby International poll, 72% of independent voters support individual accounts.

Larry Kudlow, who was a senior official in the Reagan Administration, also commented in *National Review Online* regarding the brilliance and effectiveness of George Bush's campaign for personal accounts in 2000:

> What's so interesting to me about George W. Bush's freshly minted Social Security reform plan that provides for individual-retirement-account-investing in the stock market — set forth in a speech today in California — is that he makes it clear that he intends to strengthen and save Social Security, not to destroy it. This is smart Reagan-style politics. …. Give him credit. Enormous credit. This is 21st Century breakthrough stuff.

Bush, of course, went on to a narrow victory in 2000, with many arguing that personal accounts provided a net gain for him. The proposal did not stop him from winning the senior vote in Florida, and without that he would not have been president.

At the start of 2005, Bush had just decisively won reelection for the second time while advocating personal accounts for Social Security. Strong polling majorities favored the idea. The Republicans had substantial majorities in both houses of Congress, including 55 senators. The comprehensive personal account legislation sponsored by Rep. Paul Ryan (R-Wis.) and Sen. John Sununu (R-N.H.) had been introduced in both the House and the Senate. And the Chief Actuary of Social Security had scored that legislation as achieving full solvency for Social Security.

Everything was poised for fundamental, sweeping, historic Social Security reform through personal accounts. But it never happened.

What happened was that Bush's White House staff in charge of the Social Security reform effort never understood the politics or policy of personal accounts, and proved ineducable on the subject. They were stuck inside the Washington Establishment box that insisted that Social Security reform was all about some combination of tax increases and benefit cuts. In deference to the President's campaign proposals, they lumped personal accounts on top of their tax increase/benefit cut conception of what Social Security reform was all about.

As a result, by 2005, there was little evidence of the path-breaking, populist themes and rhetoric that the President had so brilliantly and successfully used in arguing for personal accounts during his 2000 campaign in particular. Gone was the discussion of a better deal and better benefits from personal accounts. We barely heard anything anymore about ownership, building personal wealth, and leaving an inheritance to children and family.

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Instead, the focus of the White House had moved to a huge cut in future promised Social Security benefits under the label of “price-indexing.” As for tax increases, while the President proclaimed during the campaign that no tax increases was one of his 7 principles of reform, and that we could not “tax our way to reform”, tax increases were now “on the table”.

Indeed, the mantra came to be that “everything was on the table”, every brutally unpopular idea, such as delaying the retirement age, or means testing, along with the one politically successful and transforming idea of personal accounts. All of this just buried all of the positives of personal accounts, and at best confused the public. Were benefits going to rise under personal accounts, or fall relative to income under price indexing? The public soon was lost.

Under the new White House conception of Social Security reform, personal accounts were “the dessert” to make palatable the “spinach” of benefit reductions. Even White House criticism of those calling for tax increases was short-circuited. The President had been turned away from the positive, personal empowerment approach of the 2000 campaign, which had proven so successful in transforming Social Security from the third rail of American politics to a populist issue on which Republican after Republican was winning elections.

The White House Social Security policy team convinced President Bush and the senior White House staff that Congressional Democrat support for Social Security reform including personal accounts would be won if the President would just publicly announce support for the notion of “price indexing” as well. Price indexing involves changing the fundamental Social Security benefit formula for calculating the future benefits workers would receive at retirement (not the post-retirement Social Security COLA).

Instead of growing over time with wages, which keeps Social Security benefits stable as a percentage of pre-retirement income, under price indexing the benefits to be paid at retirement grow during the worker’s career with prices. Since prices grow more slowly than wages each year, this would result in a growing reduction in Social Security benefits over time from currently promised levels, about a 40% cut in the future benefits Social Security would pay under current law for today’s young workers.

This worked directly contrary to the natural political appeal of personal accounts to young workers. It also begged a response from liberals that tax increases would have to be included in any reform package if benefit cuts were.

With personal accounts, such price-indexing was completely unnecessary, as workers over time would be replacing the promised wage-indexed benefits, which Social Security admittedly cannot finance, with the fully funded personal account benefits financed by real savings and investment. But the White House Social Security policy team was impenetrable on this point.

In the fall of 2005, the president himself went on national television in a highly confusing and forgettable appearance to endorse price indexing. The public had no idea what he was talking about. The response from Congressional Democrats was crickets chirping. Despite White House staff fantasies, not one elected Democrat rose to endorse personal accounts in return. Indeed, not one elected Democrat rose to endorse price-indexing in any form. How, in fact, could anyone have ever expected Democrats to support personal accounts in return for a 40% cut in future promised Social Security benefits?

No wonder that the more President Bush talked about Social Security reform and personal accounts the more his support dropped on the issue. By the time the President was done trying to promote Social Security reform in late 2005, the polls still showed 50% to 60% of the public supporting the idea of personal accounts, down only about 10 points.

But when asked if they supported "the president's plan" on Social Security, the public's support dropped by half, to the range of 25% to 30%. This was the direct result of the touted work by the White House Social Security policy staff in switching the administration's conception of reform from the positive, populist model focusing entirely on personal accounts that the president originally supported, to a Pain Caucus model focusing on a package of benefit cuts and tax increases with personal accounts as the dessert.

As a result, the legacy of sweeping, fundamental Social Security reform would belong to some future president.

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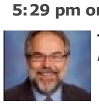

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My thought is that because Social Security is a safety net program, designed to spare society the presence of impoverished elderly people reduced to begging, that what we want is certainty, rather than possibility of bigger returns. I don't want to change the system and then have some old person come up to me saying, "Help. I'm starving and homeless. I lost all in my personal social security account by making a bad bet." What would one say then, "Very sorry. You had your chance, and you admit that you made a bad bet, so go die"????

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