Obama ignores reality on Social Security

Mon, 08/23/2010 - 10:05am | posted by Jason Pye

Last week, President Barack Obama discussed Social Security in Columbus, Ohio, which is no surprise since entitlement program is often brought up in an election year, especially when Democrats are expecting losses:

> *President Barack Obama pledged Wednesday that the Social Security system won't be privatized while he is in the White House.*
>
> *In a town-hall style meeting with a few dozen residents of Columbus, Ohio, Obama said "modest" changes can keep the government pension system solvent for decades.*
>
> *Republicans have called for transforming the government program to a private savings account as a way to help keep it going as America's aging population stresses its financial health.*
>
> *"It will not be privatized as long as I'm president," Obama said to applause, noting that the economic recession and Wall Street collapse would have devastated the savings of retirees under a privatized Social Security system.*
>
> *He said Social Security needed adjustments, rather than a total overhaul.*
>
> *"There are some fairly modest changes that can be made without any newfangled schemes that can keep it running for 75 years so everybody gets what they deserve," Obama said.*

Obama declined to name what those "modest changes" would be for a program with trillions in unfunded liabilities. One of the ideas that Obama often promoted in his campaign was lifting the cap on taxable wags, which is only a seven year fix. Nevermind that by raising taxes, you're putting economic growth at risk. Benefits cuts are also an idea, but I doubt Democrats have the stomach for it.

Of course, the problem with what Obama said doesn't end with removing the wage cap, he also gets it wrong on private investment, choosing to demagogue rather than be honest with himself and with taxpayers, as John Stossel writes:

> *[W]hat about Obama's point that President George W. Bush's privatization plan would have been a disaster because the market crashed?*
>
> *Obama is just wrong. For one thing, under the privatization plans backed by the Cato Institute and others, retirees and near-retirees wouldn't have been affected by the 2008 stock-market decline. Only younger workers would have diverted some of their money from government to capital markets. They would have had time to recover (unless government continued to screw up and cripple the private sector).*

Second, even with the 2008 decline, the picture is not nearly as bad as Obama implies. Andrew Biggs of the American Enterprise Institute [ran the numbers] for a hypothetical worker who retired in 2008, right after the market crash, after a career under a partially privatized Social Security program.

"A typical retiree in 2008 would be entitled to a traditional Social Security benefit of around $15,700 per year," Biggs writes. "For workers who chose personal accounts, this traditional benefit would be reduced by around $7,800. However, the worker's personal account balance of $161,500 would pay an annual annuity benefit of around $10,100. This $2,300 net benefit increase would raise total Social Security benefits by around 15 percent."

Biggs adds: "While today's retiree would have faced the subprime crisis and the tech bubble earlier in the decade, he also would have benefited from the bull markets of the 1980s and 1990s. The average return on his account—4.9 percent above inflation—would more than compensate for a reduced traditional benefit."

Dan Mitchell also took issue with Obama during an appearance on CNBC and pushes for personal accounts:

And Michael Tanner encourages Republicans to run on allow workers, warning that not taking a position is essentially giving in to the Democratic Party's agenda, which is tax hikes and a crushing entitlement.