The Corner

Conservatives and Social Security

By Michael Tanner
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My good friend Andrew Biggs has forgotten more about Social Security than I will ever know. But at the risk of punching way above my weight-class, permit a couple of quibbles with his column this morning.

First, I do agree that many conservatives vastly oversell personal accounts as a silver bullet for Social Security's financial problems. Peter Ferrara, another old colleague, used to argue that personal accounts would provide such huge returns that you could actually guarantee benefits in excess of Social security's currently promised benefits. That's just not so.

And I also agree with Biggs that personal accounts do not remove the necessity for benefit cuts in excess of the amount diverted to accounts. That's why the Social Security reform plan the Cato Institute developed included wage-price indexing. And, I also agree that those additional cuts mean that retirees may ultimately receive lower net benefits than they are currently promised, though for most people higher than payable benefits. (They could receive benefits that are higher than currently promised of course, depending on market performance, but there is a risk.)

I do however quibble with Biggs (and by extension Mitchell, Zeldes, and Geanakoplos) on the risk adjusted return for low- and middle-income workers who are currently asset-constrained. I'll follow Biggs's lead and avoid the arcane details, but you can read about it here.

Second, I agree with Biggs that a debt-financed tradition loses the economic benefits of privatization, which is why I have long argued for financing the transition through spending cuts. I also agree with Biggs that there would be more bang for the buck in making those same spending cuts without having to use the savings to finance a transition to personal accounts. The problem with this line of reasoning is that, while economically sound, it ignores political reality. It assumes that spending could be reduced by identical amounts in the presence or absence of Social Security reform. But if Congress had the will to reduce spending, it would have done so. Advocates of Social Security reform assume that the prospect of reform, with its attendant benefits of ownership and control, would provide an impetus for reducing spending. Advocates of this approach to transition financing, then, are making a political economy argument.

But my biggest disagreement with Biggs is that he looks only at the financial aspects of social security reform. At the end of the day, Biggs's proposal would still leave us with a system under which there is no ownership of benefits (meaning workers would still have their retirement determined by the tender mercies of 535 politicians in Washington), no ability of low-income people to accumulate wealth, and no inheritability. Biggs's suggestion of universal 401(k)'s doesn't solve the problem for low-income workers who have no discretionary income with which to increase their savings — even with tax incentives. The only way to allow them to save more is to allow them to save some of what they are already losing in Social Security taxes, that is through personal accounts.

I've always believed that the Bush administration's focus on the solvency debate to the exclusion of ownership, inheritability, and choice contributed to the why personal accounts didn't pass.

Finally, there is a reason why economists make lousy politicians. Democrats are already making it clear that they will not accept any benefit cuts, even in the absence of personal accounts. They will argue that all we need do is raise taxes on the rich and Social Security will be fine "for decades to come." That leaves Republicans to argue either the Biggs approach (we need to slash benefits — eat your spinach) or the Tanner approach (we will cut benefits, but give you personal accounts as a reward — eat your spinach, but you get ice cream for desert).

Alas, I fear that Republicans will end up taking a third approach, call it the Ostrich Approach — stick their heads in the sand and pretend it goes away.

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