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ECONOMIC LIFE

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Social Security standoff is asvexing as the changes that await

By Charles Stein | April 24, 2005

When it comes to Social Security overhaul, the Democrats have been acting like 2-year-olds: they keep saying no to everything.

No to personal accounts. No to raising the retirement age. No to pretty much any suggestion President Bush makes. So far, the strategy is working. More than 50 days into his 60-day barnstorming campaign to rally support for private accounts in Social Security, Bush has nothing to show for his efforts but frequent-flier miles. Private investment accounts may be less popular today than they were when the President started his travels. Bush's own popularity has suffered -- a recent Harris Poll put his approval rating at just 44 percent -- in part, because the Social Security effort is going so badly.

But before the Democrats start to celebrate, they should consider this: Eventually they are going to have to say yes to something, because the Social Security problem isn't going away. The latest report by the system's trustees found that Social Security faces a \$4 trillion shortfall over the next 75 years. The deficit may not represent a crisis, but it is a substantial hole that will have to be filled sooner or later. Sooner would be better. The longer the delay, the more Draconian the response will have to be.

It is not surprising that Democrats are dragging their feet proposing solutions. "No one wants to be in favor of something unpleasant," said David John, a Social Security specialist with the conservative Heritage Foundation in Washington.

With Social Security, all the choices are unpleasant. We can either raise taxes or cut benefits. That's it. Social Security changes are about eating spinach, not dessert, in the words of Robert Pozen, chairman of Boston's MFS Investment Management and the author of a serious overhaul proposal.

For Democrats, closing the Social Security gap requires answering two very thorny questions. The first: How much of the \$4 trillion should come from tax hikes and how much from benefit cuts? Democrats by nature might prefer higher taxes, probably in the form of a boost in the \$90,000 income cap on which Social Security taxes are levied.

But higher taxes could reinforce the party's reputation as the home of tax-and-spend liberals. What's more, if we raise taxes to fix Social Security, won't we have to raise them again to close the huge future budget deficits that will inevitably result from rising health costs and the Bush tax cuts? How many tax hikes are too many?

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Question number two for Democrats: Which income group should bear the heaviest burden? The obvious answer might be the well-to-do, either through higher taxes or lower benefits. But liberals have already complained that if we make Social Security a bad enough deal for the affluent, we risk turning Social Security into a form of welfare, which in turn, could undermine political support for the program. Damned if you do and damned if you don't. No wonder politicians hate this issue.

This week the Senate Finance Committee will hold hearings on Social Security. Don't look for much from the Democrats. "The Democrats won't seriously engage unless President Bush caves on personal accounts," said Michael Tanner of the Cato Institute, a think tank that fervently supports personal accounts. Tanner doesn't expect Bush to cave, so he doesn't expect much to come out of the hearings.

Social Security overhaul is a bit like the Israeli-Palestinian conflict. People know what a compromise solution would look like: they just can't get there. Republicans would have to drop personal accounts and accept some form of higher taxes. Democrats would have to sign on to significant benefit cuts.

David John, the Social Security specialist, says we are not there yet. John attended a forum on Social Security recently. A reporter asked the Republicans in the room what tax hikes they would accept. He then asked the Democrats what benefits cuts they could live with. Neither side took the bait.

Said John, "At a point some brave soul will hold his breath and jump into the water." Save your towel. No one is ready to jump into the water.

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