

Summers' Time: The Social Security Opportunity (Part 4 of 5)

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Document date: July 17, 2000
Released online: July 17, 2000

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Most people view financial shortfalls only as problems. However, the first Secretary of the Treasury, Alexander Hamilton, viewed the debt crisis arising from the Revolutionary War and its immediate aftermath as a golden opportunity. He recognized that in establishing new ways of handling the debt, he could set a precedent for the burgeoning republic—a precedent that could allow the nation to grow and prosper.

The United States, like many nations, is in the midst of a financial problem related to its entitlement programs. Although typically called the social security crisis, that label is misleading for a variety of reasons. First and foremost, the budget problems soon to unfold are not even primarily in social security. Benefits are scheduled to grow much more in programs such as Medicare and Medicaid. Equally important is the reduction in taxpayers supporting education, environmental programs, defense, and everything else. Under current law we have simultaneously scheduled dramatic increases in the dependency population in this country and reductions in the share of adults paying taxes to support both those dependents and other societal needs.

Second, the whole notion that lifestyles should be built around an early 20th century industrial and farm sector model of education when young, work when middle age, and retirement when old is simplistic at best. Not that we know entirely where we're going in terms of the mix of study, work, and leisure at different ages, but we will for sure need a lot more flexibility to get there.

Third, the notion that we are aging is misleadingly diagnosed. True, lower birth rates increase the percentage of the population in the last portion of their lives (for example, there will be an increase in the percent of the population with 10 percent of a normal life expectancy remaining). But living longer is not a sign of aging at all. For the most part, living longer means quite the reverse: that you and I at 70 are likely to have the health status of our grandparents when they were 65.

I could go on, but the main point is that the public debate is far removed from most of these issues. Indirectly, it has put some focus on the need for additional resources—with a primary emphasis in most political camps on the lesser issue of saving rather than the more important one of labor and human capital. But once again, there can be an advantage from a debate in which both sides deal at a superficial level. Real vision, not so much of the future but of processes that best get us there, could be put forth by the right leader at the right time.

One opportunity is there for the taking. Almost accidentally as the current surplus increased, Democrats and Republicans began to compete with each other over "saving the social security surplus." Moreover, the proposed saving no longer became a token gesture to impose on future Congresses but something for which precedent was being set right now. Few realize how much of a fiscal revolution this could be. The symbolic deficit target for the short run is no longer zero in the unified budget, but one that allows some amount of saving for government-sponsored retirement programs.

Unfortunately, this saving is defined as setting the non-social security deficit equal to zero. That is very inadequate as a deficit target. The social security surplus is soon scheduled to go into huge deficit, so a non-social security budget deficit of zero actually means huge dissaving by future governments. Without going into details here, what is required is redefining the fiscal goal in a more logical way so that this part of the fiscal revolution can be made complete. The way to do this is to simply move toward the private pension standard of funding for future liabilities—whether directly, through individual accounts, or both.

Unfortunately, as already noted, saving is not going to get us around the larger threat of a very large increase in dependency rates and a decline in taxpayers available to support other societal needs. Even with additional saving and economic growth, the budget is still scheduled to go largely toward retirement and health programs and almost nothing else. The recent social security saving proposals from both sides of the

aisle don't get around that problem and, moreover, economists are notoriously bad at designing and promoting schemes that actually increase net societal saving over long periods of time.

Why should the Secretary of the Treasury take on more of a leadership role toward defining and solving the larger questions, as well as refining the fiscal saving goals more consistently? For one, as already noted, the problem is not only, or even primarily, a social security problem. Even the estimation required won't be done by the Social Security Administration, which won't estimate general revenue effects of social security program changes, much less larger scale efforts. For another, the Secretary of the Treasury has the authority and ability to act as the lead trustee of social security.

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