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Statement of

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Co-Chairs Moynihan and Parsons and members of the Commission: Thank you very much for allowing me to testify here today.

President Bush has given you a difficult mandate. He has asked you to devise a plan to strengthen Social Security. At the same time, he wants you to divert a portion of the Social Security taxes we all pay into private investment accounts -- in other words, to partially privatize Social Security. And he has tied your hands by passing a tax cut that uses up the entire federal surplus.

I represent a broad coalition of Americans who believe that the President's goal of privatizing Social Security will weaken, not strengthen Social Security. We believe that in order to carry out President Bush's mandate, you will have no choice but to make dramatic cuts in Social Security's guaranteed benefits, or raise the retirement age, and probably both. Why? Because partial privatization -- diverting a portion of the taxes workers pay Social Security each month into private accounts -- will worsen, rather than solve, whatever financial problems Social Security may face in the future -- problems that your commission has already greatly distorted and exaggerated in your recent interim report. To pay for private accounts, you will have to reduce benefits or raise the retirement age (which is another way of cutting benefits). The only other alternative would be to use general revenues to fill that gap -- a possibility precluded by the President's huge tax cut that went mainly to the very wealthy.

My Institute -- and the large coalition of citizen groups I also represent -- have examined all of the detailed proposals to achieve partial privatization advanced by Members of Congress, think tanks, or other commissions. All of them, including the plans proposed by members of this commission, involve deep cuts in guaranteed benefits and retirement age reductions. And none of them have been able to explain how Social Security's disability and survivors insurance benefits -- both pegged to retirement income levels -- would be able to survive untouched by cuts if guaranteed retirement benefits are cut.

In October of 2001 the Institute for America's Future published an analysis[1] of what was then known about the Bush plan to privatize Social Security. The authors, prominent economists Alan Blinder, Alicia Munnell, Henry Aaron and Peter Orszag,[2] found that without benefit cuts, diverting revenue into individual accounts drains over $1 trillion from the Social Security Trust Fund by 2010 and would exhaust the trust fund by 2023. The report also found that in order to accommodate the costs of private accounts and solve the solvency problem projected by the Social Security trustees, the Bush plan would require cuts of more than 50 percent in traditional Social Security benefits. Since that report, no further clarifications have been forthcoming from the Bush administration that would cause us to change these projections.

Henry Aaron, a well-respected economist at the Brookings Institution, noted that, "This report shows why Governor Bush does not want to tell the American people the details of his plans for Social Security. The simple and inescapable fact is that Governor Bush's Social Security plan would either necessitate substantial cuts in traditional Social Security benefits or exhaust the Social Security Trust Fund by 2023."

As the report explains, under the Bush plan, funds that would have been credited to the Social Security Trust Fund would instead be diverted into individual accounts, thereby reducing the balance in the Trust Fund and worsening the projected long-term deficit in Social Security. The authors calculated that if two percentage points of payroll taxes were diverted into the individual accounts starting in 2002 - and if no other actions were taken - the Social Security Trust Fund would be $1.2 trillion lower in 2010 than under current-law projections.

The report finds that, assuming that the Bush plan does not rely on an accounting gimmick, it necessarily implies only two possible outcomes:

· The Social Security Trust Fund would become insolvent by 2023, or

· Social Security benefits would have to be cut substantially.

Aaron, Blinder, Munnell, and Orszag assumed that President Bush would not wish to accelerate the date at which the Social Security Trust Fund is exhausted, and therefore focused on the only other alternative -- cuts in traditional Social Security benefits. They found that, if you accept the Social Security trustees standard projections, Social Security benefits would have to be cut by 54 percent for workers who are 30 years old or younger in 2002 to ensure solvency of the Social Security system over the next 75 years. Given these reductions in traditional Social Security benefits, the average total retirement benefit -- including the expected income from the individual accounts -- would fall by 20 percent (relative to current law) for young single average earners.

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[1] IAF: A New Analysis of Governor Bush's Individual Account Proposal: Implications for Retirement Benefits by Henry J. Aaron, Alan S. Blinder, Alicia H. Munnell, and Peter R. Orszag, October 16, 2000. An earlier version of this study was published by The Century Foundation.

[2] The authors of this report are leading Social Security scholars. Henry Aaron is the Bruce and Virginia MacLaury Senior Fellow at the Brookings Institution. Alan Blinder is the Gordon S. Rentschler Memorial Professor of Economics at Princeton University. Alicia Munnell is the Peter F. Drucker Professor of Management Sciences at Boston College. Peter Orszag is the President of Sebago Associates, Inc.

Private accounts do not solve, but actually worsen, whatever future financing problem Social Security may face. If financed by Social Security taxes, they are, in reality, an idea designed to change Social Security from a system of social insurance to one based on individual investing luck and skills. Because of the guaranteed benefit cuts necessitated by a "claw back" system of private accounts, we believe partial privatization would be bad for most Americans.

The commission asks that those requesting to be heard include in their testimony proposals for "How to financially sustain the Social Security system."

Our coalition's major admonition would be, like the Hippocratic oath: "First, do no harm." Don't divert tax revenue to pay for private accounts when the current system will need all of those revenues to pay for today's and future benefits.

Our second point is that the best, most important thing we can do to keep Social Security solvent is to adopt policies that will spur robust economic growth beyond the trustees projection of very anemic future growth rates. I realize that there are differences of opinion about how to accomplish this important goal, but there is no doubt that, if we can achieve sustained healthy rates of economic growth, Social Security's funding will be secure, even if the trustees' rather pessimistic assumptions about productivity growth, immigration levels, and other projections turn out to be correct.

There are certainly measures we can take now, or soon, in order to assure financial sustainability for the Social Security system.

We could, for example, repeal significant parts of the Bush tax cuts and devote some of the resulting general fund surplus to the Social Security trust fund.

We could "raise the cap" on levels of income subject to the Social Security tax, thus significantly increasing revenue into the system without an across-the-board tax increase that might hit people who couldn't afford it.

We should not significantly reduce Social Security benefits, nor should we raise again the age at which seniors are eligible for full or partial benefits.

Our national debate should be about ways to strengthen Social Security. But, ironically, President Bush's proposals and the Commission's work are turning out to be impediments to a real national debate about making Social Security financially stronger for future generations. It seems that, as a nation, we will first have to debate the privatization proposals that will come from the Bush administration and from this commission. My strong belief is that, when the American people understand that privatization actually weakens Social Security's finances, requiring painful cuts, they will reject your proposals. And then we can get on to the important discussion of how to strengthen Social Security.

Since, by all accounts, commission members have all expressed prior support for some kind of private accounts, it is important that you hear from critics of privatization. While I am glad to have the five minutes you have given me to testify, I must remind you of the large number of groups in our Social Security coalition whose concerns you have chosen not to hear.

You have not invited anyone from the National Urban League, the NAACP, the National Council of La Raza or the League of United Latin American Citizens. All of these organizations have published studies or expressed strong concerns that privatization would hurt the predominantly low-income people they represent.

Not one person will testify today from of the wide array of disability rights organizations who are concerned that if your privatization plan reduces guaranteed retirement benefit levels you will undermine Social Security's important disability insurance benefits, which are now pegged to retirement benefits. You have promised disability and survivors benefits will be maintained. But you can cut programs to sub-welfare levels and still claim that they are maintained.

You have invited a representative of one women's organization, OWL, that is critical of privatization. But where are the leaders of the many other women's groups -- NOW, the National Women's Law Center, Business and Professional Women, the Feminist Majority, the Institute for Women's Policy Research, and the many other groups, who joined under the auspices of the National Council of Women's Organizations to warn that privatization represents a bad deal for women?

You will not hear from the major senior citizen organizations. There is no one from the American labor movement testifying here today. Many church organizations, conservative and liberal, have spoken out against privatization, but they are not represented here. And you have not invited one organization representing young people -- who, when they reach retirement age, will bear the brunt of Social Security benefit cuts your privatization plans require.

This commission is not listening sufficiently to the critics of privatization. But I would like to end by expressing a little sympathy for the challenge you now face. This hearing requires you to go through the motions, but President Bush has given you a charge that requires that you ignore our voices. He wants you to produce a plan to partially privatize Social Security. Short of rebelling against the President's mandate, the best thing you can do for the country is to produce a privatization plan that is clear and honest about the costs and trade-offs of going to private accounts.

If your privatization plan requires benefit cuts, or reductions in cost-of-living adjustments -- or if it will raise the retirement age -- tell the public clearly and in detail. If your projections of a rapidly growing stock market depend on a booming economy in the future, be sure to explain that a booming economy would also solve the predicted shortfall facing Social Security's finances (which is based on long term predictions of a sluggish economy). If disability and survivors benefits are to be cut, let the people know. Try to estimate accurately the added management costs of administering millions of private accounts -- as compared with Social Security's less than 1 percent.

For many years the debate about privatization of Social Security has had an abstract, shadow-boxing quality about it because privatizers offered no specifics. If your commission can clarify the real choices and the hard trade-offs involved, I believe it will lead the American people to reject privatization. But, whatever the outcome, if you tell us the truth, our democratic debate about our country's future will surely benefit.