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# Congress of the United States

## U.S. House of Representatives

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JANICE MAYS,  
MINORITY CHIEF COUNSEL

December 7, 2004

Dear Democratic Colleague:

Recently, there have been numerous reports in the press calling attention to the disunity within the Republican Conference with respect to the issue of Social Security privatization. The attached articles are a sampling of this press.

President Bush continues to call for "private accounts" in a very vague manner. This lack of Presidential leadership on privatization has increased the anxiety of many Republicans, who feel that they will need cover from a popular president to politically survive supporting privatization.

Further, this anxiety is coming from many segments of the Republican Conference. Deficit hawks are very troubled by what appears to be an intention to deficit-finance the transition to private accounts. Moderates are concerned about the political implications of supporting a proposal that will be attacked as dismantling Social Security.

Highlights include:

- "Mr. Bush has yet to spell out how he'd achieve a shift towards private Social Security accounts. [Representative Tom] Davis estimates that roughly 30 House Republicans, including him, are already inclined to oppose Mr. Bush." *Wall Street Journal*, December 1, 2004
- "At a private retreat this week, congressional Republican leaders warned Bush aides about the uncertain prospects on Capitol Hill for much of the president's ambitious agenda. House and Senate Republicans expressed particular concern about the president's plans to revamp Social Security, given the opposition of most Democrats and the AARP." *Wall Street Journal*, December 3, 2004
- "House Republicans may be the toughest to sell on tackling Social Security. Many fear the issue could be used against them in the midterm elections." *Los Angeles Times*, November 28, 2004

These articles serve as a reminder that, despite claims to the contrary, the President cannot claim a "mandate" to reform Social Security. The fight to protect Social Security from privatization will be the biggest our Caucus wages next year. Democratic unity on this issue – in stark contrast to Republican discord – will be critical to our eventual success.

Should you have any questions about these articles or about Democratic efforts against privatization, please contact either of us, or our staff Elizabeth Thomas, at 5-7163 or Kathryn Olson at 5-4021.

Sincerely,



CHARLES B. RANGEL  
Ranking Democrat



ROBERT T. MATSUI  
Ranking Member  
Subcommittee on Social Security



# CAPITAL JOURNAL

By JOHN HARWOOD

## Bush Faces Obstacle From Republicans On Social Security

Washington

**P**RESIDENT BUSH'S TEAM wasted no time after last month's election in claiming a mandate for his second-term agenda. With a popular majority and an expanded army in Congress, they had a right to.

But voters can't endorse specific policies they aren't aware of. If Mr. Bush has a mandate to do something on Social Security, he doesn't have a mandate to do anything in particular. And nobody knows that better than his fellow Republicans in Congress, who remain a significant obstacle to the president's ambition.

"He's got a problem getting this through," says Rep. Tom Davis of Virginia, former chairman of the House Republican campaign committee and a rare lawmaker whose command of political information rivals Karl Rove's. Mr. Bush has yet to spell out how he'd achieve a shift toward private Social Security accounts. Mr. Davis estimates that roughly 30 House Republicans, including him, are already inclined to oppose Mr. Bush. That would be little more than 10% of the party's House caucus—but too many defections to allow Mr. Bush to succeed.

Intraparty resistance sounds like an oxymoron if you listen to the talk about Mr. Bush's lockstep Republican legions. But it makes plenty of sense on Capitol Hill, home to one of the most risk-averse species on the planet. The principled resistance of House conservatives against U.S. intelligence reform backed by Mr. Bush will appear tame alongside an issue on which members actually feel their seats are at risk.

When his own second term was at risk, Mr. Bush kept the Social Security details to himself. Freed of electoral concerns, he now can propose a dramatic revamp of Franklin Roosevelt's New Deal monument with an eye toward making history as a conservative man of action. But Republican lawmakers know that in 23 months they face midterm elections that, if historical patterns hold, won't be kind to the party in power.

The president has powerful allies in both chambers. Senate Majority

Leader Bill Frist, gearing up to face Republican primary voters in his own 2008 presidential bid, has every reason to be an unflagging champion. Within the Republican leadership, Sen. Rick Santorum of Pennsylvania is committed to partial privatization of Social Security. Sen. Elizabeth Dole of North Carolina, chairwoman of the Republican Senate campaign committee, is one of several members of the class of 2002 who, like Mr. Bush two years earlier, embraced private accounts and won.

And for two-thirds of House members, Mr. Davis figures, lining up behind Mr. Bush will be "an easy vote" no matter what is in the fine print of the administration's proposal. That's because they either support privatization philosophically, or have safe districts, or both.

But it won't be easy for the rest. For Republicans in swing districts of the Northeast and Midwest, swallowing tax increases or future benefit cuts may sound like swallowing strychnine.

For some fiscal moderates such as Mr. Davis, borrowing to finance the transition to a new system doesn't seem like such a smooth idea. "Floating a bond issue of a trillion dollars is not the message you want to send to the markets right now," Mr. Davis says. With the federal budget more than \$400 billion in the red and the dollar weakening, he cautions, "Deficits are beginning to matter."

**T**WO DECADES AGO, when President Ronald Reagan and House Speaker Tip O'Neill shared power in Washington, Republican and Democratic leaders teamed up to fend off defectors and bolster Social Security's finances. But empty-handed Democrats now have no incentive to help Mr. Bush muscle his proposal through. "We would like to join this issue" in the 2006 elections, says House Democratic campaign chairman Robert Matsui.

Mr. Bush's strategists correctly argue that they've now survived two elections in which they've grasped the so-called Third Rail. John Kerry's attempts to flog the president with the issue were ineffectual.

But "issues can flip in short time frames," warns Republican consultant Ken Khachigian, a veteran of the Nixon and Reagan White Houses. While praising the president's commitment to the issue, he predicts a bloc of fearful Republicans will "dig in" against Mr. Bush's plan, "and they'll stay dug in unless the president makes such a compelling case for the change that they're better off going with him than against him."

This president has proved more than once that it is foolhardy to bet against him. But to succeed on this issue, he'll have to create a mandate that doesn't now exist.

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## Administration Sets Meeting To Push Its Economic Agenda

By JOHN D. MCKINNON  
And JACKIE CALMES

WASHINGTON—President Bush will use an economic conference with business leaders and other experts this month to build momentum for his efforts to overhaul Social Security and the tax code amid early signs of resistance in Congress.

The conference will explore ways to keep the economy growing and to "make sure America remains the most competitive economy in the world," said White House spokesman Scott McClellan. But the meeting, set for Dec. 15-16 in Washington, appears designed mostly to bolster Mr. Bush's chances of achieving his top economic-policy goals, which also include curbing federal budget deficits, making health care more affordable, improving education and overhauling the civil-justice system.

The administration will need momentum. At a private retreat this week, congressional Republican leaders warned Bush aides about the uncertain prospects on Capitol Hill for much of the president's ambitious agenda. House and Senate Republicans expressed particular concern about the president's plans to re-vamp Social Security, given the opposition of most Democrats and of AARP, the largest and most active organization of seniors in the country.

Republicans also took issue with the administration's prioritizing. While the president apparently wants to tackle tax overhaul in 2006—after trying to carve private retirement accounts from Social Security payroll taxes in return for new limits on guaranteed benefits—some lawmakers would rather reverse the order. House Majority Leader Tom DeLay of Texas, for example, suggested tax overhaul should be Mr. Bush's top priority, according to people familiar with discussions at the retreat. Senate Finance Chairman Charles Grassley of Iowa has said Mr. Bush should have a tax plan to Congress by March if the White House expects to get something passed.

The White House viewed the meeting

as constructive. "The president has proposed tackling big issues, and we had a great dialogue with members at the retreat on our shared goals and the importance of a united effort to accomplish them," said spokeswoman Claire Buchan.

Republican lawmakers, with an eye already on the 2006 congressional midterm elections, are concerned, among other things, about how they can get Social Security and tax reform—two big and risky pieces of legislation—passed amid heightened hostility with Democrats. On Social Security, one Republican retreat attendee said, "unless there's a buy-in on the part of Democrats—a good number of Democrats and high-profile Democrats—there's a real reluctance to go down this road."

Social Security overhaul poses budget issues as well as concerns about guaranteed benefits. Under the private-accounts idea, taxpayers could divert a portion of their payroll taxes to personal accounts. But because payroll taxes finance benefits for current retirees, the transition costs to such a private-accounts option could run as high as \$2 trillion over 10 years. Lately, the administration and its allies have floated the idea of borrowing the money "off-budget," on the argument that fixing Social Security's long-term solvency crisis is worth the additional debt now. They say the government ultimately would save money from the overhaul.

The three-day Republican retreat, at a Virginia conference center near Washington, brought together senators and House members, along with top Bush strategist Karl Rove, White House budget director Joshua Bolten and other administration officials. Mr. Bolten warned of cuts in some domestic programs as part of the administration's efforts to bring spending under control.

Mr. Bush's conference in mid-December will be the third he has held on economic issues and is likely to be the most promotional of the three. A senior administration official noted that the economy has improved since the last conference in 2002, so the talk will focus on more basic challenges to keeping the economy strong—such as the burdens of the tax code and Social Security.

L.A. Times  
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# Social Security Plan May Put Bush in Saddle

An overhaul of the retirement program will be a tough sell, allies say, and Bush needs to ride herd on lawmakers if a bill is to succeed.

By JANET HOOK  
Times Staff Writer

WASHINGTON — If President Bush wants to push an overhaul of Social Security through Congress during his second term, he will probably have to do something he rarely did during his first term — get his hands dirty.

To revamp the popular retirement program, many allies say, Bush will have to offer detailed proposals to Congress and engage in a broad public campaign to justify the changes and its cost. And he will have to ride herd on legislators to ensure they do not veer from his main goal of shoring up Social Security by allowing younger workers to invest some of their payroll taxes in private accounts.

"It's going to take a lot of personal involvement and a lot of political capital," said Rep. Paul Ryan (R-Wis.), a proponent of private retirement accounts.

That would be a big change in the way Bush deals with Congress. Typically, even on issues as important as last year's Medicare overhaul, Bush has conveyed only broad goals and principles, leaving it to congressional Republican leaders to work out the details. He has become engaged only at the end of negotiations to get wayward Republicans behind him.

The risks of that approach were amply illustrated this month when rebellious House Republicans blocked an overhaul of intelligence operations that the White House backed — despite last-minute lobbying by Bush and Vice President Dick Cheney. The seeds for defeat were sown, lawmakers say, in Bush's failure to engage early and to convey convincingly his

Social Security will be different, Republicans say, because Bush has made clear that it is his top domestic priority. Senior White House aides are already consulting members of Congress and conservative activists, weighing options and preparing for early action.

House Republicans may be the toughest to sell on tacking Social Security. Many fear the issue could be used against them in the midterm elections.

"No more than a double handful of Republicans would be truly excited about walking into this particular fight," said a senior House Republican. "As a political issue, it's been used against Republicans for a quarter century now."

Rep. Jim Kolbe (R-Ariz.), another advocate of Social Security overhaul, conceded that the political anxiety was so high that, even with a giant push from the White House, the idea might not fly. "This is going to be really, really heavy lifting," said Kolbe. "It's technical. It's difficult to understand. And it is so prone to demagoguery."

At issue is the long-term financial stability of Social Security. The retirement program, funded through payroll taxes, will become strained after baby boomers begin to retire. By 2019, the program will be paying out more in benefits than it collects in taxes. By 2052, the program's trust fund is projected to have exhausted its surplus.

Bush has argued that the best way to shore up the program is to give younger workers the option of using part of their payroll taxes to invest in private accounts. That could — with wise investing — produce greater retirement benefits at less cost to the government. But critics have said it would also expose retirees to greater risks by privatizing one of the government's most successful programs.

To get such changes through Congress, Bush will first have to convince lawmakers and the public that the need to change the program is urgent — even though its problems may not come to a head for decades. His allies argue that the longer Congress waits to fix the program, the more painful the solutions.

Administration officials want to move quickly to capitalize on Bush's postelection momentum. But they acknowledged that they needed to persuade the public and members of Congress.

"We'll need some bully-pulpit time," said an administration official close to the issue. "It's not a snap-your-fingers kind of thing."

The president is facing divisions in his own ranks, even among Republicans who support the private accounts. Their views are being heard by top White House aides, including Charles P. Blahous, an economic advisor, and political advisor Karl Rove. They have been consulting with members of Congress who have been leaders on the issue, including Ryan and Sen. Lindsey O. Graham (R-S.C.), as well as experts from conservative research groups.

Supporters of private accounts disagree over crucial questions such as how large the accounts should be and how to handle the cost of the transition to the new system.

Ryan and Sen. John E. Sununu (R-N.H.) are pushing for robust accounts that could divert an average 6.4 percentage points of the 12.4% payroll tax to personal accounts. Graham backs a more limited plan that would divert less than half as much to personal accounts.

One Republican who has discussed the issue with White House aides said they seemed inclined to go for the more limited approach, although "the exact size is up in the air."

Private-account advocates are also divided over how to handle the transition costs arising from Bush's promise that benefits would remain unchanged for current retirees and those near retirement. Every dollar diverted to younger workers' private accounts would not be available to pay benefits to retirees and older workers. The gap is estimated at \$1 trillion.

L.A. Times  
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The White House and its Republicans allies are trying to reframe the debate over costs so that it does not run so squarely afoul of many lawmakers' concerns about the growing federal deficit. Some argue that initial costs are more like an investment than an expenditure, and will be more than outweighed by the long-term savings that will accrue from shoring up the system.

"We've got to think of this the way you think about maintaining your car: You schedule the maintenance to avoid a massively more expensive engine repair later," said White House spokesman Trent Duffy.

That is why some Republicans are considering keeping the transition costs out of the five- and 10-year deficit projections that Congress looks at when it writes the annual budget.

"I don't believe you can use a five-year budget window to address the Social Security issue," said incoming Senate Budget Committee Chairman Judd Gregg (R-N.H.). "This isn't about five years. It's about 50 years."

But some advocates of private accounts are fighting the idea that creative accounting can make the transition costs go away. Graham has proposed covering part of the cost by raising the annual cap — from \$87,900 to \$200,000 — on the amount of income that is subject to Social Security taxation.

Bush has not embraced that idea and may never do so because he has promised not to raise taxes. But Graham said the White House was sensitive to deficit concerns and to his view that it would be nearly impossible to get Democratic support on a plan that adds trillions to the national debt. The administration is "in the camp that understands the transition costs are real, can't be ignored and require some sacrifice," said Graham.

The president has not said how or by whom the costs of changing social security will be borne. Some of his allies say he soon will have to say more to prepare the public.

"There is no such thing as fixing Social Security with no pain," said David John, an expert on Social Security at the conservative Heritage Foundation.

Sununu is urging Bush to establish a timetable for congressional action and offer detailed proposals on crucial issues.

"It has to be substantive and specific," he said.

John urged the White House to monitor the Social Security debate "almost minute by minute. . . . There's genuine concern that if Congress isn't given some fairly close guidance, they are going to go off in a direction that probably isn't going to solve the problem."

# AMERICANS SHOW CLEAR CONCERNS ON BUSH AGENDA

## CAUTION JOINS OPTIMISM

### Poll Finds Reservations About Social Security and Tax Changes

By ADAM NAGOURNEY  
and JANET ELDER

After enduring a brutally fought election campaign, Americans are optimistic about the next four years under President Bush, but have reservations about central elements of the second-term agenda he presented in defeating Senator John Kerry, according to the latest New York Times/CBS News Poll.

At a time when the White House has portrayed Mr. Bush's 3.5-million-vote victory as a mandate, the poll found that Americans are at best ambivalent about Mr. Bush's plans to reshape Social Security, rewrite the tax code, cut taxes and appoint conservative judges to the bench. There is continuing disapproval of Mr. Bush's handling of the war in Iraq, with a plurality now saying it was a mistake to invade in the first place.

While Democrats, not surprisingly, were the staunchest opponents of many elements of Mr. Bush's second-term agenda, the concerns extended across party lines in some cases. Nearly two-thirds of all respondents — including 51 percent of Republicans — said it was more important to reduce deficits than to cut taxes, a central element of Mr. Bush's economic agenda.

The poll also found pervasive concern about what Americans view as the corrosive effect Hollywood and popular culture have on the nation's values and moral standards. Seventy percent said they were very or somewhat concerned that television, movies and popular music were lowering moral standards in this country.

While this sentiment was voiced by supporters of Mr. Bush and of Mr. Kerry, it appears that the concern about a decline in values is becoming another point of polarization in American politics. Mr. Bush's sup-

porters were more likely to cite it than were Mr. Kerry's voters, and it was an issue that had particular resonance in the South and among weekly churchgoers, rural voters and women.

The poll found that 55 percent of Mr. Kerry's supporters said that Mr. Bush's supporters did not share their views and morals; 54 percent of Mr. Bush's voters said the same thing of those who voted for Mr. Kerry.

In addition, 70 percent of Mr. Kerry's supporters said they were more worried about candidates who "are too close to religion and religious leaders" than about political leaders who "don't pay enough attention" to religion, after a campaign in which Mr. Bush repeatedly spoke of God and his faith. By contrast, 52 percent of Mr. Bush's supporters said they were more worried about public officials who "don't pay enough attention to religion and religious leaders."

Still, in a telling contrast with the 2000 election, 82 percent of respondents said that Mr. Bush legitimately won on Nov. 2. Just before Election Day, 50 percent of respondents said they considered Mr. Bush's defeat of Al Gore in 2000 a legitimate victory.

And even after this tense and vituperative campaign, 56 percent said they were generally optimistic about the next four years under Mr. Bush. Mr. Bush's job approval rating has now inched up to 51 percent, the highest it has been since March.

The Times/CBS News poll was taken from Thursday through Sunday, after a three-week period in which some pollsters questioned some findings of the survey of voters leaving polling places on Election Day. The nationwide telephone poll of 855 adults has a margin of sampling error of plus or minus three percentage points.

The poll reflected the electoral feat of the Bush campaign this year. He won despite the fact that Americans disapproved of his handling of the economy, foreign affairs and the war in Iraq. There has been a slight increase in the number of Americans who believe the nation should never have gone into Iraq. A majority of Americans continue to believe the country is going in the wrong direction, traditionally a warning sign for an incumbent.

Across the board, the poll suggested that the outcome of the election reflected a determination by Americans that they trusted Mr. Bush more to protect them against future terrorist attacks — and that they liked him more than Mr. Kerry — rather than any kind of broad affirmation of his policies. As such, the result was reminiscent of the state of play Ronald Reagan found in 1980, when he defeated President Jimmy Carter.

Even as two-thirds of respondents said they expected Mr. Bush to appoint judges who would vote to outlaw abortion, a majority continue to say they want the practice to remain either legal as it is now, which was Mr. Kerry's position, or to be legal but under stricter limits.

Americans said they opposed changing the Constitution to ban same-sex marriage, which Mr. Bush campaigned on in the final weeks of his campaign. A majority continue to support allowing either same-sex marriages or legally recognized do-

mestic partnerships for gay people.

The public appears ambivalent about the two proposals that Mr. Bush has identified as his major domestic initiatives for a second term: rewriting the Social Security system and reshaping the tax code, including more tax cuts.

On the tax code, administration officials are discussing plans that would, among other things, lower the tax rate on higher-income Americans and eliminate some deductions. In the poll, more than 6 in 10 of the respondents said people with higher incomes should pay a greater proportion of their income in taxes; 3 in 10 said all income groups should pay the same proportion.

About one-third of the respondents said the tax cuts passed in Mr. Bush's first term had been good for the economy; but nearly a fifth said they had done more harm, and just under half said the tax cuts had made little difference.

"I don't mind cutting taxes to some extent, but I think we've cut them quite a bit," Ron Clark, 63, a Republican from Livingston, Mont., said in a follow-up interview. "I'm not really against making the current reductions permanent, but I don't think we need to go beyond where we've gone, because I do worry about the deficit. It's gone up a heck of a lot in the last couple of years."

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On Social Security, 45 percent said a proposal to permit people to invest their Social Security withholding money in private accounts was a bad idea; 49 percent said it was a good idea. The poll also found little confidence among Americans that Mr. Bush would assure the future solvency of the program: 51 percent said that Mr. Bush was unlikely to "make sure Social Security benefits are there for people like me."

Among the disputed results of the Election Day survey of voters was the finding that moral issues were critical in determining the outcome.

That survey found that 22 percent of respondents called it the most critical issue in making their decision. Some pollsters criticized the way the question was asked because it was presented as a general category, without any kind of explanation, along with a list of six other specific issues, including Iraq and health care.

In this poll, when allowed freely to name the issue that was most important in their vote, 6 percent chose moral values, although smaller numbers named issues like abortion and same-sex marriage. On a separate question in which voters were given a choice of nine issues, 5 percent chose abortion, 4 percent chose stem cell research and 2 percent chose same-sex marriage.

The top issue was the economy and jobs, which was cited by 29 percent of respondents.

That said, there is a little question that Americans have grown increasingly unhappy with the influence of popular culture on daily life, and that

was a significant dynamic in this election. Nearly two-thirds of respondents said that Hollywood was lowering the standard of popular culture. And 70 percent said that all popular culture — music, movies and television — was lowering moral standards in America.

The poll also found, though, that Americans were evenly divided on whether television, movies and books were including too many gay themes and characters.

The poll and follow-up interviews found that Bush supporters and Kerry supporters were in different camps on these issues, eyeing each other with suspicion.

"I think they're driven by hatred and homophobia and vitriol," said Paul Cuthbertson, 53, a Democrat from Atlanta. "The Republicans in recent years have turned 'liberal' into a dirty word, which it isn't. I'm a liberal and proud to be so. This so-called Christian ideal of being against gay marriage is neither American nor Christian. I think it's un-American to discriminate against fellow citizens, and God does not call upon Christians to be vigilantes to punish people that they perceive him not to like."

Pat Gilbert, a Republican from Battle Creek, Mich., said, "The two sides will be as far apart as can be forever."

"I'm sure there are different pockets of voters who voted for Kerry, but I think they believe more in society in general — if you're not hurting anybody it's all right to do it," Ms. Gilbert said, adding: "I don't think they have a firm belief system that they base decisions off of. It's whatever today's climate is. In the long term, you'll have a society of chaos."

By 48 percent to 40 percent, respondents said they believed four more years of a Bush presidency would divide the nation more than it would unite it.

For all the attention paid to the effort Mr. Bush made to increase his support from religious supporters, 31 percent of respondents said they thought that evangelical Christians had too much influence over the administration. By contrast, 66 percent said they thought big business had too much influence over the administration.

Finally, in one bit of presumably good news for a party that is looking for it, Americans now have a better opinion of the Democratic Party than of the Republican Party: 54 percent said they had a favorable view of Democrats, compared with 39 percent with an unfavorable view. By contrast, 49 percent have a favorable view of Republicans, compared with 46 percent holding an unfavorable one.

W. T.  
T. W.  
A. A.  
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# Lawmakers Await Details of Bush Agenda

## Chairmen of Key Panels Say Dispatch Is Essential to Overhaul Social Security, Tax Code

By SHAILAGH MURRAY  
And JACKIE CALMES

**W**ashington  
F PRESIDENT BUSH WANTS to overhaul the tax code before leaving office, he may have to move faster and do more to force consensus among the Republicans in Congress who can make it happen.

Mr. Bush isn't expected to unveil his tax plan before next fall at the earliest. But Senate Finance Committee Chairman Charles Grassley of Iowa says he needs to do so no later than March 1, since he believes Congress must pass it next year if it is to happen at all.

Whenever Mr. Bush tells Congress what he wants, he also will need to reach philosophical common ground with Mr. Grassley and House Ways and Means Chairman Bill Thomas of California. While the practical-minded Iowan calls it "very tough" to repeal popular tax-code features such as the mortgage-interest deduction, the acerbic Mr. Thomas says "I don't think credits or subsidies are a good idea" for the tax code. "The Holy Grail," he declared in a recent speech, "is lower rates."

And that's not to mention the problem that all parties—Mr. Bush, the House and Senate—will face in trying to accomplish the equally troublesome goal of revamping the Social Security system. While House Speaker Dennis Hastert of Illinois lately has reaffirmed his desire to rely above all on Republican votes to advance legislation, in the Senate Mr. Grassley says "bipartisan movement" is the critical element for victory.

Indeed, Mr. Grassley says Social Security legislation should move even before tax legislation does, because it is harder. "The president is going to have to spend more time on Social Security," Mr. Grassley observes. The administration is expected to move first on Social Security.

So far, Mr. Bush has sketched out only broad, overhaul goals on both fronts. On Social Security, he has embraced the idea of shifting some payroll-tax revenue to private investment accounts, but hasn't specified how much or how the government would offset the lost revenue to keep benefits flowing under the current system, or shore up its long-term solvency. A commission he appointed offered recommendations in 2001, but Mr. Bush hasn't publicly settled on any. On taxes, Mr. Bush says he wants a system that is simpler, fairer and more conducive to economic growth. He is expected to appoint a commission of tax experts to come up with specific ideas next year.

Mr. Grassley wants specific proposals before spring. That way, he says, "we haven't lost valuable time" before the 2006 midterm elections, and Congress can move when "the president's capital is the highest." In any event, Messrs. Grassley and Thomas are unsure whether the political and fiscal climate is ripe for an agenda as ambitious as the president's.

In a speech Nov. 18 to the Tax Foundation, a conservative think tank, Mr. Thomas said his committee faces the "awesome" responsibility "of fundamental safety-net restructuring." Results won't come quickly.

"There will be a long, ongoing adjustment process," the California Republican warned. "But if you never begin, you can't get into adjustment."

Both chairmen also point out that while there is no shortage of interest in tax reform, there is little consensus on how it should take shape. "The more you...move toward reality and decision making, the more people separate rather than congregate," Mr. Thomas said in the Nov. 18 speech, one of the few occa-

sions he has addressed the issue publicly. "And so the first thing you have to ask yourself is, 'What are we intending by the process we're talking about doing?'"

For all the griping about the tax code, both individual taxpayers and businesses have come to expect a lot from it. Individuals enjoy credits and deductions to ease the cost of child care and health care. Companies benefit from provisions that encourage business activity—such as research and development and domestic energy production—but that also helps them to shelter income from taxes altogether.

If Congress wants to create a flat tax, or switch from an income to a consumption tax, it will have to repeal popular perks such as the deduction for mortgage interest—a huge subsidy for homeowners that is especially beneficial to the middle class. The administration, reflecting Mr. Grassley's caution, already has suggested that provision, along with the deduction for charitable donations, will remain intact.

Businesses also are conflicted. In one breath they complain about the code's complexities; in the next they are lobbying Congress for yet another targeted break. Tax purists such as Mr. Thomas believe such provisions distort the economy and obstruct entrepreneurship.

The last time Congress took a serious stab at tax reform was in 1986. That legislation came about thanks to a coalition of supply-siders and liberals who subscribed to the notion of broadening the tax base in the interest of overall lower rates.

But that coalition "has come unglued," said Michael Graetz, a Yale tax-law expert, at a seminar on overhaul ideas this week. Radical proposals such as replacing the income tax with a national sales tax or a flat tax, he argued, are "just vehicles for railing against the system."

Mr. Graetz says a flat tax wouldn't stay flat as interest groups press for special provisions, and that a sales tax is unfair because it shifts the burden to the middle class, would be hard to collect and could threaten private pensions. He has proposed an alternative that some congressional Republicans like the sound of: a modified income tax combined with a value-added tax that would relieve 150 million households from filing.

Another panelist, Eugene Steuerle, a former Treasury official under President Reagan, noted that a value-added tax might pose a challenge to state and local governments' reliance on similar sales-tax levies. "Every man's perfect solution is subject to attack by another man's fatal flaw," notes former Republican Rep. Bill Frenzel.

Sen. Grassley wonders whether Mr. Bush laid enough groundwork during the campaign to persuade Congress to take such a leap. "It would have been better for the president to talk more specifically in the campaign about what he was planning to do."

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## From Bush Aide, Warning on Social Security

By EDMUND L. ANDREWS

WASHINGTON, Dec. 2 — Calling the current system of Social Security benefits unsustainable, a top economic adviser to President Bush on Thursday strongly implied that any overhaul of the system would have to include major cuts in guaranteed benefits for future retirees.

"Let me state clearly that there are no free lunches here," said N. Gregory Mankiw, chairman of the Council of Economic Advisers, at a conference on tax policy here.

"The benefits now scheduled for future generations under current law are not sustainable given the projected path of payroll tax revenue," he added. "They are empty promises."

Mr. Mankiw's remarks suggested that President Bush's plan to let people put some of their Social Security taxes into "personal savings accounts" would have to be accompanied by changes in the current system of benefits.

Throughout the presidential campaign and in remarks after he was re-elected, Mr. Bush focused almost exclusively on these accounts as a crucial way to shore up Social Security. Most experts have said that the accounts must be accompanied by other belt-tightening measures. When asked about cuts in future benefits, Mr. Bush, however, has said only that any overhaul should make no changes in the benefits for people in retirement or near retirement. The president has said that overhauling the Social Security system would involve "costs," but so far he has not indicated what those might be.

In his speech, Mr. Mankiw flatly rejected raising taxes as a means of

saving the federal retirement system, which government actuaries say is on track to become insolvent by 2042 if no changes are made to the current law. Instead, he took particular aim at a specific feature of current law under which retirement benefits are linked to the rise in wages rather than the rise in consumer prices.

"Each generation of retirees receives higher real benefits than the generation before it," Mr. Mankiw said. Because wages typically climb faster than inflation, he said, an average worker retiring in 2050 would get benefits that are 40 percent higher, after inflation, than a comparable worker who retires this year.

Mr. Mankiw emphasized that Mr. Bush has yet to decide on a specific proposal for fixing Social Security, except that it would have to include personal accounts and that it would not include raising taxes. But the issue he highlighted is at the center of a major debate within the administration and among Congressional Republicans.

Policy analysts say changing the way benefits are calculated could save trillions of dollars in decades to come. But it would imply significant reductions from the benefits promised under today's laws. The idea behind personal accounts is that workers, by making investments in stocks and bonds, could more than make up the difference with extra earnings.

In what seemed an effort to anticipate complaints that a new system would reduce future benefits, Mr. Mankiw warned that the benefits promised under current law are fictitious because they cannot be afforded.

"Be wary of comparisons between a new reformed Social Security system and current law," Mr. Mankiw said. "Unless a listener is discerning empty promises will always have a superficial appeal."

Claire Buchan, a White House spokeswoman, said Mr. Bush had not decided on a specific plan and refused to comment on any need for reductions in future benefits.

"The president is committed to strengthening Social Security for younger workers so they don't face the massive tax increases or benefit reductions that are certain with inaction," Ms. Buchan said.

The specific issue that Mr. Mankiw highlighted on Thursday, though seemingly obscure, involves the level at which a person's initial benefit is set at the time he or she retires. Under the current formula, which was established by Congress in 1978, the annual benefit is pegged to increases in average wages while the person was working.

The idea was to keep retirement incomes in line with overall wages from generation to generation, and analysts said the formula was far more generous than simply pegging benefits to inflation.

Kent Smetters, a former Treasury official under President Bush who is now an associate professor at the Wharton School of Business, said linking benefits to inflation would in itself save trillions of dollars. But Professor Smetters said the idea was not as tame as it sounded. Although retirement incomes would not be eroded by inflation, the guaranteed benefits of retired people would be lower, and lower than average incomes, as time went on.

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# Social Security Needs to Be Stabilized for Future

By Rep. Robert Matsui

Social Security has revolutionized how America's workers prepare for their retirement. It operates as both retirement security and social insurance, offering a lifetime, inflation-protected benefit for senior citizens, disabled workers and widows. It has saved millions from poverty, reducing the number of seniors living at or below the poverty line from 50 percent to less than 10

percent today. Since its inception in 1935, this New Deal has been a good deal for hundreds of millions of Americans.

Today, we find ourselves being asked if Social Security is still a good deal for Americans. The answer is a resounding yes. Together, pensions, personal savings and Social Security make up the three key components of Americans' retirement portfolios. However, it is only Social Security that ensures our workers have retirement security. Today, only 41 percent of retirees have an employer-sponsored pension — and less than one in five low-income workers receive a pension. While 60 percent of retirees receive income from assets, this income tends to be very modest — less than \$2,000 a year for the median retiree.

We should certainly increase incentives for individuals to save and for employers to offer pensions, but we must also acknowl-

edge that Social Security remains the cornerstone of retirement security for most Americans.

As such, its long-term financial solvency must be closely monitored — and it is. According to the Social Security actuaries, the trust funds currently carry enough reserves to pay full benefits to all who are eligible through 2042. The Congressional Budget Office projects that the trust funds are even stronger than that, carrying enough in reserves to pay full benefits through 2052. At that time, the trust funds will still have enough in revenue to pay 73 to 81 percent of benefits, according to the actuaries and CBO respectively.

Critics of Social Security point to these dates and sound the alarm bells. Yes, Social Security needs to be shored up, and the sooner we do so, the easier this task will be. But, Social Security is not facing an immediate financial cri-

sis. Efforts by critics to paint it as such are patently false, as are arguments that privatization "strengthens" Social Security. Let's be very clear: Privatization proponents do not support private accounts in addition to Social Security. They support private accounts instead of Social Security. And, replacing Social Security with private accounts does not improve the solvency of Social Security — it significantly worsens it, eroding the foundation of the system and jeopardizing guaranteed retirement benefits for seniors, disabled workers and survivors.

The president has suggested that a plan put forth in 2001 by his handpicked Social Security commission would be a "good blueprint" for reform. Under this plan, one-third of a worker's contributions to Social Security would be diverted from the trust funds into private accounts. As a result of this plan, the trust funds would lose almost \$2 trillion in the first 10 years alone.

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# Expediting Insolvency Does Not Help Program

This diversion weakens the trust funds so significantly that the date by which they are no longer able to pay full benefits is moved up by more than two decades — 21 years — from 2042 to 2021. Expediting insolvency is an odd way of shoring up Social Security.

Worse yet, these losses will not stop after the first decade. These so-called “transition costs” continue for 50-60 years. Although the plan claims it will find additional money to put into the trust funds so current beneficiaries can continue to be paid, it resorts to accounting gimmicks to hide trust fund deficits. For example, the plan relies heavily upon deficit financing — more than \$200 billion a year until 2054. But, it never tells us where this money comes from or how we pay it back. Borrowing of this magnitude would mean that our national debt will rise to unprecedented levels. This new debt alone — debt in addition to what is already projected under current law — would grow to equal 24 percent of gross domestic product.

These staggering “transition costs” will force substantial benefit cuts. Private accounts are touted as voluntary — if you want to remain in traditional Social Security, proponents claim you will be free to do so. However, even those who opt not to participate in a privatized system will see benefit cuts. For example, if you are in your late 20s today, when you re-

President Bush has offered the American people only generalities, a set of principles loosely outlining his vision for reform.

Further, these benefit cuts won't just apply to retirees — disability and survivors' benefits are cut as well. Today, almost 30 percent of Social Security beneficiaries — approximately 14.1 million people — receive either disability or survivors' benefits. All of these beneficiaries — who range from severely disabled workers to children who have lost a parent — would see the same cuts as retirees.

Although this commission plan is viewed as a starting point for privatization, the president has yet to endorse or propose any specific legislation.

To date, President Bush has offered the American people only generalities, a set of principles loosely outlining his vision for reform. Unfortunately, principles are not the same as policy. The benefits and drawbacks of President Bush's plans for privatization, and their impact on our seniors, cannot be fully measured absent a specific, detailed proposal.

If the president and leaders of his party are serious about Social Security reform, I urge them to come forward with a concrete legislative proposal. Its costs must be fully accounted for in his fiscal 2006 budget, so the fiscal impact of privatization can be made plain for all Americans to see. Once the facts — and the benefit cuts — are unveiled, workers and retirees alike can decide for themselves whether privatization enhances their retirement options — or whether the administration is trying to replace the New Deal with a raw one.

Rep. Robert Matsui (D-Calif.) is the ranking member on the Ways and Means subcommittee on Social Security.

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tire at age 65 in 2042 your benefits will be 25 percent less than they would have been under today's Social Security system.