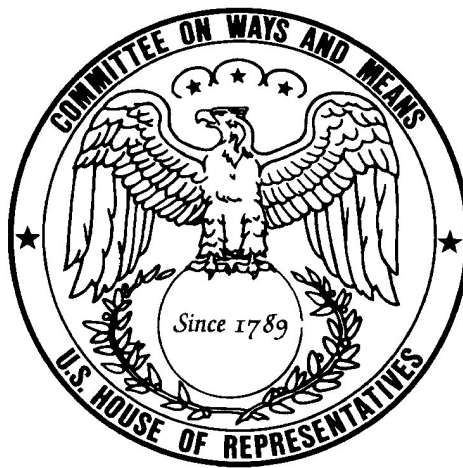


REPORT

Social Security Privatization: A Continuing Threat



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September 14, 2006

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“President George W. Bush hopes to revive his plan to overhaul the U.S. Social Security retirement program if his Republican party keeps control of the Congress in the November midterm elections, the Wall Street Journal reported on Saturday.” [Reuters, 9/9/06]

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IS PRIVATIZATION REALLY OVER?

It is tempting to assume that the fight over Social Security privatization is done and that defenders of Social Security have won. But that would be premature: while privatization's opponents clearly won last year's debate, it was a temporary victory.

On one level, it was temporary because stopping privatization only saved Social Security for the short term. In the long run, further action will be necessary to preserve it for future generations of retirees. On another level, it is temporary because Social Security is not permanently safe from privatization. Privatizers have not given up. They are simply lying low. Given the chance, they will be back.

THE CALM BEFORE THE STORM?

Social Security remains threatened by privatization. Rather than enjoying the quiet aftermath of a storm safely passed, we are instead waiting for another assault. This year may be like 2004, the quiet before a storm.

In 2004, President Bush rarely mentioned Social Security. He made occasional references to Social Security, or the need to "reform entitlements," or the need to prepare for the baby-boom generation's retirement. We knew from his previous statements and from the 2001 Social Security Commission that he was committed to privatization. But few voters would have felt that a vote for President Bush was a vote to privatize Social Security.

Nevertheless, the day after he was returned to office, the President held a press conference at which he spoke of his mandate

and launched a push to privatize Social Security.

Fortunately, the American people made it clear that they gave him no such mandate. The public, congressional Democrats, and activists across the nation worked together to defend Social Security against privatization.

This year, as in 2004, Republicans talk little of privatization. After last year's debacle, it is clearly one of the last proposals they would like to be linked with in the public's eye. Yet, many key Republicans continue to refer to it obliquely, speaking in code designed to reassure privatizers that they haven't given up, without waving a red flag in the face of a public strongly opposed to the idea. Republicans talk of the need for "entitlement reform," or a desire address Social Security's future, or even suggest a need for an entitlement commission (no doubt stacked with privatization advocates to guarantee a privatization recommendation, as was the President's previous Social Security Commission) *without any mention of their preferred solution: privatization.*

Things are bound to change once Republicans get past November. If they maintain control of Congress, the President and others may well cite their success as a new mandate to address Social Security and entitlements – which, for the President, means privatization.

Given an opening, privatizers will be back. They did not advocate their scheme for a quarter century in order to give up after one year's setback. That's why it's important that the public, the press, and congressional Democrats not think the fight is over. We need to hold privatizers accountable for their

failed proposal and press other Republicans to renounce privatization clearly and unequivocally as an option for the future.

WHAT THE RECORD SHOWS: REPUBLICANS WILL CONTINUE TO PUSH FOR PRIVATIZATION

The evidence for Republicans' ongoing intent to privatize Social Security is clear in the actions and comments of key figures in the Bush Administration and Congress.

President Bush and his Administration

Last weekend, Paul Gigot of the Wall Street Journal reported that **President Bush** "*had been saying that he hoped to revisit Social Security reform next year, when he 'will be able to drain the politics out of the issue'.*" [The Wall Street Journal, September 9, 2006]

This follows one week after Robert Novak reported in his column that "*President George W. Bush, in private conversation, is talking about trying to revive his tax and Social Security reform proposals after the 2006 elections.*" [Chicago Sun-Times, September 3, 2006] That is not surprising; it has clearly been his top domestic priority. However, we do not have to rely simply on reports of private conversations. He has been very public in indicating his hope to revisit Social Security next year.

President George W. Bush: "*Now is the time for the Congress and the President to work together to reform Medicare and reform Social Security...If we can't get it done this year, I'm going to try next year. And if we can't get it done next year, I'm going to try the year after that, because it is the right thing to do.*" [Bush remarks to Manhattan Institute, 6/27/06]

We know what the President means when he talks of Social Security "reform" – he means privatization. His budget plan confirms it. The President has included his privatization plan in the budget he submitted in January 2006 and in his July budget update. He even updated privatization's immediate costs in July, raising the estimate from \$712 billion to \$721 billion. Clearly, the Administration does not view this as a dormant proposal.

In addition, the President's budget once again calls for spending the entire Social Security surplus (\$2.5 trillion) for the next ten years and beyond on other government activities, rather than reserving it for Social Security. Over the last six years, Republicans have raided a total of \$850 billion from the Social Security surplus.

The President's determined call for privatization has been echoed by numerous key members of his Administration.

Chief Political Advisor Karl Rove: "*I will point out that no president has made a more concerted or determined effort to reform Social Security, our nation's largest entitlement. The president encountered enormous resistance to what were bold but practical reforms...But President Bush will continue to keep entitlement reform front and center on the nation's political agenda.*" [Rove remarks to the American Enterprise Institute, 5/15/06]

White House Chief of Staff Josh Bolten: "*Looking ahead to next year, he is trying to lay the groundwork for a renewed effort to reform Social Security and Medicare, the federal health-care program for seniors.*" [Wall Street Journal, 6/17/06]

Secretary of Treasury Henry M.

Paulson: *"Social Security was created in 1935. Today, people are living longer than they did in 1935, yet Social Security's basic structure has barely changed. Just 3.3 workers are paying into the system to support each beneficiary, while 16 workers did so in 1950. The President put forward a plan last year to strengthen and modernize Social Security. The longer we wait to fix this problem the more limited will be the options available to us, the greater the cost and the more severe the economic impact on our nation."* [Remarks at Columbia University, 8/1/06]

Chief White House Social Security

Advisor Chuck Blahous: *"Throughout 2005, President Bush worked tirelessly to fix Social Security to make it sound for young Americans. Throughout 2006, he has called broader attention to the need to address entitlement spending. ...*

"President Bush has done more than call for action; he has put proposals on the table. There are only two ways to deal with the coming cost explosion: Either directly contain the growth of federal obligations, or fund some of these liabilities in advance. On Social Security, the president has put forward proposals that would do both: containing the growth of future liabilities through "progressive indexing" (while still enabling future retirees to receive higher benefits than those paid to today's seniors), and funding future liabilities directly through personal accounts. ...

"President Bush has led, and will continue to lead, because he believes we bear a responsibility to fix these problems before

they become crises." [Letter to USA Today, August 21, 2006]

House Republicans

House Republicans have been much more cautious about advocating privatization. But there have been telling comments from several key Republicans in the House.

Majority Leader John Boehner, on the rising costs of Social Security: *"If I'm around in a leadership role come January, we're going to get serious about it."* [Washington Times, 7/31/06]

Louisiana Rep. Jim McCrery, Republican Chairman of the Social Security Subcommittee, on the 2007 agenda: *"Looking at the lay of the land politically and substantively, it seems to me the more logical order would be Social Security, then tax reform, then healthcare reform."* [Congress DailyPM, 6/6/06]

Mr. McCrery is a privatization supporter, who introduced the House GOP's "GROW Accounts" privatization bill (H.R. 3304) that would create such accounts.

Votes

House and Senate Republicans each passed budget resolutions that would continue the raid on the Social Security trust funds by using every penny of the Social Security surplus for other government programs. [H. Con. Res. 376, Vote # 158, 218-210; S. Con. Res. 83, Vote # 74, 51-49]

House Republicans also passed a line-item veto bill that goes far beyond pork barrel spending and could allow the President to cut Social Security benefits. Virtually all Republicans rejected a Democratic amendment to protect Social Security. [H.R. 4890, Vote # 316, 170-249].

Most Senate Republicans (46 out of 55) supported a DeMint amendment to the budget resolution that would have laid the groundwork for Senate consideration of his version of the GROW privatization bill. [S.Con.Res. 83, Vote # 68, 46-53]

Conclusion

Administration officials and key members of Congress speak in code to veil the privatization threat – they refer to the need to “reform” Social Security or to contain costs without mentioning their preferred method of doing so; Mr. Blahous uses

“containing the growth of future liabilities” as an obscure substitute for “benefit cuts.” Nevertheless, it is clear that they intend to revisit this issue next year if they can. The recent drumbeat of comments may even be meant to lay the groundwork for the President to repeat his 2004 claims of a mandate for action if Republicans remain in control of Congress.

The continued veiled references to privatization should fool no one. The American people rejected privatization last year. Rather than maneuvering to raise the issue again, President Bush and his congressional allies should renounce their partisan effort to push privatization upon an unwilling public. They should work with Democrats in a bipartisan effort to preserve Social Security’s guaranteed benefits rather than privatize them.

SUMMARY OF REPUBLICAN PRIVATIZATION PLANS

President Bush's Plan

- ◆ Drains \$700 billion over just the first 10 years from the Social Security Trust Fund to pay for private accounts – and trillions more in future decades.
- ◆ Explodes the national debt, increasing it by \$5 trillion over the next 20 years.
- ◆ Includes a sliding-scale benefit cut that slashes benefits for middle-class Americans by more than 40 percent for future retirees. These cuts affect everyone – even if they chose not to open an account.
- ◆ The cuts hit anyone who earns more than \$20,000 a year.
- ◆ Imposes a privatization tax on top of the middle-class benefit cut, so those who have accounts lose even more of their guaranteed benefit.
- ◆ Replaces guaranteed Social Security benefits with risky private accounts.
- ◆ Does not restore long-term solvency.

(The elements of the President's plan were laid out in the State of the Union address, White House fact sheets and briefings, Social Security Administration actuarial estimates and the Fiscal Year 2007 Budget and Mid-Session Review.)

House Republican Plan

- ◆ Just like the President's plan, it uses Social Security revenue to pay for private accounts.
- ◆ The only difference between the President's plan and the Congressional plan is cosmetic. The President creates risky private accounts directly from a worker's paycheck, while Congressional Republicans create them once Social Security contributions are in the federal Treasury.
- ◆ Just like the President's plan, it includes a privatization tax that would cut guaranteed benefits for people who open an account. These benefit cuts also apply to spouses and widows, even if they chose not to have an account.
- ◆ Explodes the national debt, increasing it by \$1.1 trillion in 10 years, and uses gimmicks to cover up the true cost.
- ◆ The bill includes no provisions to strengthen Social Security. This unmasks the true GOP goal: privatization only, with no pretense of protecting Social Security for future retirees.

(The House Republican bill, H.R. 3304, was introduced by the chairman of the House Social Security Subcommittee with the support of House Republican leaders. Chairman McCrery introduced the bill just as it appeared Congress might move on Social Security legislation, during the peak of the debate in 2005.)

Other Republican Bills

Other legislation introduced by leading House Republicans, such as former Social Security Subcommittee Chairman E. Clay Shaw, and potential Budget Chair Paul Ryan, would create private accounts that would substitute for Social Security's guaranteed benefits and explode the national debt to help pay for privatization. Shaw's bill for example, calls for a \$7 trillion increase in the public debt.

The Senate companion bill to Chairman McCrery's bill, S. 1302, was the subject of a budget resolution amendment designed to pave the way for this bill. Forty-six Senate Republicans voted in favor of privatization