

PRINCETON UNIVERSITY
Woodrow Wilson School

WWS 401j
Reforming Social Security

Fall 1998
R. Douglas Arnold

******* Please Note: Task Force participants are *******
******* required to read six articles before *******
******* the first meeting on September 23. *******

Social Security has a very serious long-term problem. Absent any new legislation, the program will begin to draw down its financial reserves early in the next century and will be in deficit in about thirty years. At that point, it will be able to pay only about 75 percent of promised benefits. In the past, when imbalances were forecast, policy makers enacted modest adjustments in taxes and benefits. Some people believe that is what they should do today. Other people, however, propose a radical transformation of Social Security, replacing the current pay-as-you-go defined benefit system with an advance-funded, defined contribution system, with individual investment accounts controlled by workers themselves. Still others propose hybrid schemes that would preserve some of the current system and create more modest individual investment accounts.

In his 1998 State of the Union Address, President Clinton proposed a White House Conference on Social Security in December 1998. He has also urged Congress to enact reform legislation by the end of 1999. This aim of this Task Force is to draft a single reform plan for consideration by the Senate Finance Committee in January 1999. The Committee has asked the Task Force to draft a plan that is both economically sound and politically appealing.

A. Background.

Social Security is the largest federal program, comprising roughly three-quarters of all social spending, with a budget even larger than that of defense. It is one of the few federal programs that affects everyone. Many workers pay as much in Social Security taxes as they do in income taxes; two-thirds of all retirees receive more than half their income from Social Security. The program is immensely popular across all generations, and politicians are reluctant to tinker with it in any way.

The fundamental problem of Social Security stems from the way the program is funded. Despite the rhetoric of contributions, earnings, and annuities, which suggests that workers' payments are squirreled away for their retirement years, the program has been funded since its inception in the

1930s on a pay-as-you-go basis. Current workers are taxed in order to redistribute income to current retirees. This worked in the past, when the number of retirees was relatively small, but as people live longer, have fewer children, and the baby-boom generation comes to retirement, the tax burden on workers threatens to become unmanageable.

There are many technical fixes to the problem. Modest increases in Social Security taxes today, coupled with modest decreases in future benefits, would eliminate the deficit for as far as demographers can see. What is technically easy, however, is politically difficult. Few politicians want to increase taxes today in order to forestall a crisis on somebody else's watch. Equally few want to lose support of the elderly, who, with their high voting rates, have become one of the most powerful lobbying groups in Washington. The most recent government commission on reforming Social Security failed to come to agreement, and so there is still no politically viable proposal for reforming Social Security.

Some experts have proposed saving the system by privatizing it. Under this plan, workers would have greater control over their contributions, which could be invested in higher-yielding stocks rather than in government bonds. Fixing the system in this way is complicated by the fact that Social Security not only redistributes income from current workers to current retirees, but it also redistributes income toward the working poor (by providing extra retirement earnings for low-wage workers) and toward non-working spouses (when they reach retirement age). Designing a fair transition from one system to another also poses major challenges.

The aim of this Task Force is to develop a proposal for reforming the Social Security program. The proposal needs to be sensitive to demographic, economic, and political realities. It needs to be evaluated for its effects on various generations of workers and retirees, for its effects on the working poor, and for its effects on savings and investment in the national economy. Most of all, it needs to be politically appealing and politically feasible.

B. Task Force Format.

The first five weeks will be devoted to reading and discussion, so that all participants have a common background on Social Security. Students are expected to read the assigned readings before each meeting and come to class prepared for discussion.

From this point on, students will begin to direct the direction of the Task Force. The end product is clear & a group report & but along the way students will need to specialize on particular aspects of the problem. Each student will write at least one background paper, present preliminary findings orally, and contribute to the overall group report. The exact assignments will be worked out collectively.

C. Meeting Times.

The regular meeting time is Wednesday evening, 7:00 to 9:30, in Robertson Hall, Room 13.

There will be a special meeting with a distinguished visitor on Tuesday, November 10, from 4:30 to 9:30 (dinner included).

D. Office Hours.

Friday, 1:30-3:30

Also by appointment.

Robertson Hall, Room 310

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EC. Evaluation and Grading.

The instructor will assign individual grades to the workshop participants. Each grade will reflect both an overall assessment of the final report and an assessment of each individual's contribution, as revealed in individual writing assignments, contributions to seminar discussions, oral presentations, and the like.

F. Due Dates.

The Dean's date for the submission of all individual written work is Monday, January 4, the first day of reading period. Each individual paper must be submitted in final form by that date (unless special permission has been granted by the Office of the Dean of the College). The joint final report of the Task Force must be submitted by the following Tuesday, January 12.

F. Availability of Readings.

The first week's readings will be distributed in students' mailboxes several days prior to the first Task Force meeting. (Several spare packets are also available from Reggie Cohen, 314 Robertson Hall.)

The Princeton University Store has ordered copies of: Eric R. Kingson and James H. Schulz, (eds). *Social Security in the 21st Century*. (New York: Oxford University Press, 1997). We will read seven chapters of this book. You may buy a copy or use the reserve copy in the Wilson School Library.

I have obtained (free) individual copies of: Steven A. Sass and Robert K. Triest (eds.), *Social Security Reform: Linking Saving, Investment, and Growth* (1997). Copies will be distributed to you on September 23. We will read three chapters of this book.

We will also read seven chapters from R. Douglas Arnold, Michael Graetz, and Alicia H. Munnell (eds.), *Framing the Social Security Debate: Values, Politics, and Economics* (1998). The book will be published in November. Two copies of each draft chapter are on reserve in the Wilson School Library.

All other assigned readings are on reserve in the Wilson School Library.

G. Weekly Assignments

1. The Great Social Security Debate (September 23)

A packet of readings for the first week will be distributed in students' mailboxes several days prior to the first Task Force meeting. (Several spare packets are also available from Reggie Cohen, 314 Robertson Hall.)

Please read these articles before the first meeting and come to class prepared for discussion. Browse the websites for the Cato Institute, the Third Rail, and the AARP, and become familiar with the site linking you to lots of other Social Security sites.

a. *Required* (39 pages):

Joseph F. Quinn and Olivia S. Mitchell, *Social Security on the Table*, *The American Prospect* (May 1966), pp. 76-81.
<http://epn.org/prospect/26/26quin.html>

Laurence J. Kotlikoff and Jeffrey Sachs, *It's High Time to Privatize*, *Brookings Review* (Summer 1997), pp. 16, 18, 20, 22.

Henry J. Aaron, *A Bad Idea Who Time Will Never Come*, *Brookings Review* (Summer 1997), pp. 17, 19, 21, 23.

Sylvester J. Schieber and John B. Shoven, *Social Security Reform: Around the World in 80 Ways*, *American Economic Review* (May 1996), pp. 373-377.

Jerry L. Mashaw and Theodore R. Marmor, *The Great Social Security Scare*, *The American Prospect* (November 1966), pp. 30-37.
<http://epn.org/prospect/29/29mash.html>

Edward M. Gramlich, *Different Approaches for Dealing with Social Security*, *Journal of Economic Perspectives* (Summer 1996), pp. 55-66.

b. *Browse:*

Social Security Website Links (links to more than 100 sites related to Social Security)

<http://www.ebri.org/SSProject/LINKS.html>

Cato Institute: Social Security Privatization:

<http://www.socialsecurity.org/>

Third Rail: The Social Security Newsletter for Young Americans:

<http://www.clark.net/pub/x-pac/thirdrail/>

American Association of Retired Persons:

<http://www.aarp.org/>

2. The Social Security Program (September 30)

a. *Required* (184 pages):

Lawrence H. Thompson and Melinda M. Upp, *The Social Insurance Approach and Social Security*, in Eric R. Kingson and James H. Schultz (eds.), *Social Security in the 21st Century* (1997), pp. 3-21.

Edward D. Berkowitz, *The Historical Development of Social Security in the United States*, in Eric R. Kingson and James H. Schultz (eds.), *Social Security in the 21st Century* (1997), pp. 22-38.

Steven A. Sass and Robert K. Triest, *Social Security: How Social and Secure Should It Be*, in Steven A. Sass and Robert K. Triest (eds.), *Social Security Reform: Linking Saving, Investment, and Growth* (1997), pp. 29-75.

Robert K. Triest, *Social Security Reform: An Overview*, in Steven A. Sass and Robert K. Triest (eds.), *Social Security Reform: Linking Saving, Investment, and Growth* (1997), pp. 1-18.

Edward M. Gramlich, *How Does Social Security Affect the Economy?* in Eric R. Kingson and James H. Schultz (eds.), *Social Security in the 21st Century* (1997), pp. 147-155.

Jill Quadagno and Joseph Quinn, *Does Social Security Discourage Work?* in Eric R. Kingson and James H. Schultz (eds.), *Social Security in the 21st Century* (1997), pp. 127-146.

Alicia Munnell, **A**Framing the Social Security Debate: An Overview,[@]in R. Douglas Arnold, Michael Graetz, and Alicia H. Munnell (eds.), *Framing the Social Security Debate: Values, Politics, and Economics* (forthcoming 1998).

Michael Boskin, **A**Some Background for the Social Security Debate,[@]in R. Douglas Arnold, Michael Graetz, and Alicia H. Munnell (eds.), *Framing the Social Security Debate: Values, Politics, and Economics* (1998).

b. *Browse:*

Website for the Social Security Administration. Learn about the basics of the program. See how you can gain access to over 10,000 documents online. The home page is:

http://www.ssa.gov/SSA_Home.html

Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, *The 1998 Annual Report* (Washington: Government Printing Office, 1998). Actuarial projections for the next 75 years. Paper copy on reserve at WWS library or electronically at:

<http://www.ssa.gov/OACT/TR/index.html>

3. **Economics and Social Security (October 7)**

a. *Required* (182 pages):

Barry Bosworth, **A**What Economic Role for the Trust Funds?[@]in Eric R. Kingson and James H. Schultz (eds.), *Social Security in the 21st Century* (1997), pp. 156-177.

Martin Feldstein, **A**The Missing Piece in Policy Analysis: Social Security Reform,[@]*American Economic Review* (May 1996), pp. 1-14.

Gary Burtless and Barry Bosworth, **A**Privatizing Social Security: The Troubling Trade-offs,[@]*Brookings Policy Brief* (March 1997), pp. 1-16

Olivia S. Mitchell and Stephen P. Zeldes, **A**Social Security Privatization: A Structure for Analysis,[@]*American Economic Review* (May 1996), pp. 363-367.

Peter Diamond, **A**The Economics of Social Security Reform,[@]in R. Douglas Arnold, Michael Graetz, and Alicia H. Munnell (eds.), *Framing the Social Security Debate: Values, Politics, and Economics* (1998).

Peter A. Diamond, **AP**Proposals to Restructure Social Security,[@]*Journal of Economic Perspectives* (Summer 1996), pp. 67-88.

John Geanakoplos, Olivia S. Mitchell, and Stephen P. Zeldes, **AW**ould a Privatized Social Security System Really Pay a Higher Rate of Return?[@] in R. Douglas Arnold, Michael Graetz, and Alicia H. Munnell, eds., *Framing the Social Security Debate* (1998).

<http://www.columbia.edu/~spz1/res1.html>

Martin Feldstein, **AT**ransition to a Fully Funded Pension System: Five Economic Issues,[@]NBER Working Paper #6149 (August 1997).

<http://gray.nber.org/papers/W6149>

b. *Browse:*

The National Bureau of Economic Research distribute scholarly working papers on a variety of economic issues, including Social Security. Firestone library collects these papers, and they are also available electronically from the NBER home page. Try searching for papers on Social Security and see what is available. The address for searching is:

<http://www.nber.org/wwp.html>

4. The Politics of Social Security (October 14)

a. *Required* (232 pages):

Martha Derthick, *Policymaking for Social Security* (1979), pp. 3-13, 206-210, 213-227, 252-270, 288-292, 369-377, 381-411, 429-432. The classic analysis of Social Security policymaking from its inception to 1977. The whole book is worth reading,

Hugh Heclo, **AA** Political Science Perspective on Social Security Reform,[@] in R. Douglas Arnold, Michael Graetz, and Alicia H. Munnell (eds.), *Framing the Social Security Debate: Values, Politics, and Economics* (1998).

Lawrence R. Jacobs and Robert Y. Shapiro, **AM**yth and Misunderstandings About Public Opinion toward Social Security: Knowledge, Support, and Reformism,[@] in R. Douglas Arnold, Michael Graetz, and Alicia H. Munnell (eds.), *Framing the Social Security Debate: Values, Politics, and Economics* (1998).

R. Douglas Arnold, **A**The Politics of Reforming Social Security, *Political Science Quarterly* (Summer 1998), pp. 213-240.
<http://epn.org/psq.html> (then click on **A**full-text articles**@**).

Susan Dentzer, Edward Gramlich, and Paul Light, **A**Comments,**@**in R. Douglas Arnold, Michael Graetz, and Alicia H. Munnell (eds.), *Framing the Social Security Debate: Values, Politics, and Economics* (1998).

5. Alternative Reform Plans (October 21)

a. *Required* (213 pages):

Peter Diamond, Laurence J. Kotlikoff, Alicia H. Munnell, and C. Eugene Steuerle, **A**How Should Social Security Be Reformed: A Panel Discussion,**@**in Steven A. Sass and Robert K. Triest (eds.), *Social Security Reform: Linking Saving, Investment, and Growth* (1997), pp. 287-310.

C. Eugene Steuerle, **A**Social Security in the 21st Century: The Need for Change,**@**in Eric R. Kingson and James H. Schultz (eds.), *Social Security in the 21st Century* (1997), pp. 241-258.

Robert M. Ball, **A**Bridging the Centuries: The Case for Traditional Social Security,**@**in Eric R. Kingson and James H. Schultz (eds.), *Social Security in the 21st Century* (1997), pp. 259-294.

Report of the 1994-1996 Advisory Council on Social Security, Volume I: Findings and Recommendations, pp. 11-33, 59-90, 98-134, 160-164.
<http://www.ssa.gov/policy/adccouncil/toc.htm>

Peter J. Ferrara, **A**A Plan for Privatizing Social Security,**@***The Cato Project on Social Security Privatization* (1997).

Daniel Patrick Moynihan, **A**Social Security Saved!**@**(address at Harvard University, March 1998) and **A**Social Security Solvency Act of 1998,**@**(description of provisions).
<http://www.senate.gov/~moynihan/>

6. Planning Session (October 28)

Working session to plan individual and group assignments.

7a. Special Session (Tuesday, November 10)

Carolyn L. Weaver, a Resident Scholar at the American Enterprise Institute, will be visiting Princeton today. She is a specialist on social security, retirement, and disability policy, and was a prominent member of the Advisory Council on Social Security, whose final report was issued in January 1997. She is the author of *Understanding the Sources and Dimensions in Social Security: A First Step Toward Meaningful Reform* (1981), and *Disability and Work: Incentives, Rights, and Opportunities* (1991), and editor of *Social Security's Looming Surpluses* (1990). Her new book, *The Frayed Social Contract: Why Social Security Is in Trouble and How It Can Be Fixed* is scheduled for publication in December.

She will be delivering a public lecture at 4:30 in Robertson Hall. There will be a dinner for her at Prospect House after the lecture to which all members of the Task Force are invited.

7b. Progress Report (November 11)

Progress report on work accomplished to date.

8. Regular Meeting (November 18)

9. No Meeting This Week (November 25)

10. Regular Meeting (December 2)

11. Regular Meeting (December 9)

12. Regular Meeting (December 16)

H. Reference Sources on the Web:

1. The Official Web Site of the Social Security Administration

http://www.ssa.gov/SSA_Home.html

2. Office of Research, Evaluation, and Statistics, SSA

http://www.ssa.gov/statistics/ores_home.html

3. Office of the Chief Actuary, SSA

<http://www.ssa.gov/OACT/index.html>

4. Social Security Website Links (links to more than 100 sites related to Social Security)

<http://www.ebri.org/SSProject/LINKS.html>

5. National Academy of Social Insurance

<http://www.nasi.org/>

6. Cato Institute on Social Security Privatization

<http://www.socialsecurity.org/>

7. Third Rail: The Social Security Newsletter for Young Americans

<http://www.clark.net/pub/x-pac/thirdrail/>

8. *The American Prospect* on Social Security

<http://epn.org/prospect/socsec.html>

9. American Association of Retired Persons

<http://www.aarp.org/>

10. Americans Discuss Social Security

<http://www.americansdiscuss.org/>

11. The Century Foundation (formerly the Twentieth Century Fund)

http://www.tcf.org/Subject_Browse/Aging_of_America/index.html

12. Employee Benefit Research Institute

<http://www.ebri.org/SSProject/sslisting.htm>

I. Reserve Books: Wilson School Library

Advisory Council on Social Security. 1997. *Report of the 1994-1996 Advisory Council on Social Security*, Volumes I and II (Washington: Government Printing Office)..

<http://www.ssa.gov/policy/adccouncil/toc.htm>

Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds. 1998. *The 1998 Annual Report* (Washington: Government Printing Office).

<http://www.ssa.gov/OACT/TR/index.html>

Derthick, Martha. 1979. *Policymaking for Social Security*. Washington: Brookings Institution.

HD7125.D48

Diamond, Peter A, David C. Lindeman, and Howard Young, eds. 1996. *Social Security: What Role for the Future?* Washington: National Academy of Social Insurance and the Brookings Institution.

HD7125 .S5996 1996

Kingson, Eric R. and James H. Schulz, eds. 1997. *Social Security in the 21st Century*. New York: Oxford University Press.

HD7125 .S59923 1997

Kotlikoff, Laurence J. 1992. *Generational Accounting: Knowing Who Pays, and When, for What We Spend*. New York: The Free Press.

HJ2051 .K66 1992

Light, Paul. 1985. *Still Artful Work: The Continuing Politics of Social Security Reform, 2nd edition*. New York: McGraw Hill.

HD7125 .L535 1995

Sass, Steven A. and Robert K. Triest (eds.). 1997. *Social Security Reform: Linking Saving, Investment, and Growth* (Boston: Federal Reserve Bank).

HD7125 .S624 1997