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HEARING BEFORE THE
NATIONAL COMMISSION OF FISCAL RESPONSIBILITY AND REFORM

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Chairman Bowles, Chairman Simpson, and the members of the Commission:

I appear in two capacities: as the co-chair of Social Security Works and as the former top aide to Alan Greenspan in his capacity as chair of the so-called Greenspan commission.

Press reports assert that if 14 of the 18 members of this Commission reach agreement, its recommendations will be taken up in the lame-duck session without the benefit of full hearings, open markups and opportunity for amendment. If this is true, this would be unprecedented with respect to Social Security, and, indeed unwarranted.

Throughout Social Security's long history, advisory councils have been used frequently to recommend changes, but Congress has always used the normal legislative process when considering those recommendations. The normal legislative process was followed in 1983, when Congress considered the Greenspan commission recommendations. It was true in 1977, when, like 1983, Social Security faced a larger and more immediate projected deficit than it does now.

Another almost unprecedented action is discussing Social Security in the context of overall budget deficit discussions. Other than this commission's deliberations, policymakers have consistently kept Social Security's income and assets separate from broad deficit-reduction efforts – with one notable exception. That exception came during President Reagan's first year in office. Just like today, the federal government had an actual deficit, while Social Security was projecting a deficit. The Reagan administration's conflation of the two deficits, together with a proposal which would have drastically reduced early retirement benefits set off a firestorm. Seeking to quiet the storm and get through the 1982 election, President Reagan established the Greenspan commission by executive order. Focused exclusively on Social Security, the Greenspan commission was ultimately able to reach agreement.

Indeed, Congress has historically and appropriately worked very hard to keep the mandatory Social Security contributions of American workers, their employers, and the related income clearly distinct and separate from the federal government's general fund and related budget. Social Security's monies are segregated in a trust, apart from the general fund. The law requires Social Security to be displayed off-budget. The Budget Act expressly prohibits changes to Social Security from being part of any budget reconciliation process. This is how it should be.

Social Security is not simply a spending program. It is a pension plan, sponsored by the federal government, and its assets are held in a pension trust. Its operation and management is extremely conservative and efficient. It has extraordinarily low administrative costs, returning in benefits more than 99 cents of every dollar collected. It has no borrowing authority, but instead can legally pay benefits only if it has sufficient income and assets to cover the costs. Consequently, if at any point in the future, it has insufficient revenue to cover the costs of benefits, those benefits will be automatically reduced, without any action by Congress.

As a consequence, though it can project a deficit, it can never actually run one. In that way, it is incapable of adding to the federal government deficit. Though the general fund must incur costs paying interest on Treasury bonds held in trust and must, if requested, redeem those bonds, this should not be considered contributing to the deficit, any more than I as an individual am contributing to the deficit if I seek repayment of Treasury bonds I hold as an individual.

Social Security is projected to have a manageable shortfall, still decades away. That is an issue that should be addressed in the proper forum – the House Ways and Means Committee and the Senate Finance Committee, where the expertise resides. There is no reason for haste or closed deliberations.

According to the 2009 Annual Report of the Board of Trustees, published May 12, 2009, Social Security ran a surplus of $180 billion last year and had accumulated a reserve of $2.4 trillion The Trustees' Report projects that Social Security's accumulated reserve will continue to grow until about 2023, and, the program can continue to pay full benefits until 2037 to the millions of children, disabled workers, retired workers, and spouses (including widowed and divorced spouses) dependent on those benefits. Indeed, the most recent projections of the Congressional Budget Office, published in August, forecast that full benefits can continue to be paid until 2043. Consequently, Congress has the time to undertake careful, deliberate action through the normal legislative process.

Because Americans in the last year have lost trillions of dollars in home equity and retirement savings, it is more important than ever that Social Security reform be addressed in the sunshine. Social Security today provides an economic lifeline more crucial than ever to the millions who receive its benefits and the millions more who are insured in the event they, or workers on whom they depend, lose wages as a result of disability, premature death, or old-age. In 2009, more than 52 million people are receiving monthly benefits, including 33 million retired workers, 2.4 million spouses or divorced spouses of retired workers, 4.4 million aged widow(er)s, 7.7 million disabled workers, and 4.1 million children of deceased, disabled or retired workers.

Our brave soldiers wounded in Iraq and Afghanistan receive Social Security benefits, as do their spouses and children, and so do the families of soldiers who have given their lives in defense of the nation. Though little noted, Social Security continues to provide benefits to the families of those who lost their lives in the 9/11 attacks. Its benefits -- which are crucial to the vast majority of its beneficiaries and the communities in which they live and spend -- are modest by any measure. Indeed, average benefits are less than what is paid for full-time minimum-wage work.

The importance of Social Security demands that proposals for change receive careful consideration, with public participation through its representative groups, so that the implications of all changes are closely examined and clearly understood. Any kind of expedited procedure would be a disservice to the American people.

The best policy is to maintain those benefits, increase them for the most disadvantaged, and eliminate Social Security's funding gap by a few carefully crafted proposals, which are good policy in and of themselves.   The late Robert M. Ball, the world's foremost authority on Social Security at the time of his death, proposed a three-part plan which would leave Social Security in close actuarial balance. First, he proposed gradually restoring Social Security's maximum wage base so that it once again covers 90 percent of all wages nationwide. Phased in correctly, it would require those making above the base to contribute annually just one additional week of withholding – about $130 in 2010 – for which those workers would receive higher benefits. Second, he proposed freezing the federal estate tax, which has now fallen to zero, at its 2009 level, and dedicating it to Social Security. Finally, he proposed diversifying Social Security's portfolio by gradually investing a small portion of the reserves in broad-based, indexed stock funds.

Other progressive sources of revenue could also fill the gap. The important point though, is to do restore Social Security to actuarial without cutting Social Security's scheduled benefits and without raising Social Security's "Retirement Age," which is simply an across-the-board benefit cut of around 7 percent for every year the age is increased.

Poll after poll has consistently shown that the American people would prefer to pay more than have Social Security benefits reduced. In my view, this commission should defer to Congress, and Congress should follow the will of the people.