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## Bush Plan Threatens to Divide Americans

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President Bush has finally revealed his plan to restore solvency to Social Security, and it confirms what many have feared. The Administration seeks to transform this successful system of universal social insurance into a two-tiered system of welfare for the aged poor coupled with a glorified 401(k) retirement savings plan. The lynchpin of the plan, so-called "progressive price indexing," threatens to slash the benefits for working Americans by almost one half.

One of the keys to the long term success and popularity of Social Security is that it is universal insurance. High and low-wage workers alike pay into the system, and receive benefits that reflect those payments, giving us a well-justified sense that we deserve the retirement benefits we receive. Under the system's progressive formula, the benefits of low-waged workers replace a larger percentage of their income than do the benefits of high-waged workers. The system has found the right balance between equity (if you pay more in taxes, you should receive more in benefits) and adequacy (benefits of low-wage workers should provide a decent standard of living, thus insuring everyone against economic misfortune over their lifetimes).

Progressive price indexing sounds technical, but it really is very simple. Benefits for high-income workers will be frozen in inflation-adjusted terms, rather than rising with overall productivity according to the current schedule. Benefits for low-wage workers will be allowed to increase as currently scheduled. And benefits for the great majority of us, who are somewhere in between these extremes, will grow more slowly than scheduled.

While the White House has yet to offer any specific proposals, it has been favorable toward a plan suggested by mutual fund executive Robert Pozen, which has been scored by the Social Security Administration. For an average worker making \$36,500 today, annual benefits will be cut by \$3,253 (or about 16 per cent below their scheduled level) in 2045. For a worker making \$58,000 today, benefits go down by \$6,444 (or about 25 per cent). And the cuts don't stop there. They continue to grow until the end of the century, when the average worker will face a cut of 38 per cent.

By then, the Social Security benefit structure will be as flat as a pancake. The average worker will get exactly the same benefit as the highest paid worker. The equity principle that has worked for over 70 years—that it is only fair that workers who pay in more should receive more—will become a faded memory.

At the same time, the individual accounts that the Administration has proposed will require a further cut in benefits. Workers can contribute up to one-third of their payroll taxes into an individual account in exchange for reduced benefits, compounded with a 3 per cent interest rate.

Because higher income workers will contribute more, their benefit reductions will also be larger than those of low-wage workers. As a result, traditional Social Security benefits will actually decline with income. High earners will receive negligible benefits, or even zero benefits, after the reductions for contributions to their own accounts. Instead, they will rely almost entirely on the returns from their individual accounts. Meanwhile, low-wage workers will still be relying heavily on the traditional benefit for most of their retirement income.

Social Security will have become a welfare program for the aged.

President Bush stated in his press conference that "a reformed system should protect those who depend on Social Security the most." But these are nothing but crocodile tears for low-income workers.

His plan does put the burden of benefit cuts on average and high-income workers, but it also leaves the system without the political support that it has enjoyed as a system of universal social insurance. High income workers will still be paying two-thirds of their payroll taxes into the system, but will be receiving almost nothing in the way of traditional benefits for these contributions. It is unrealistic to believe they will support the traditional system politically, and as a result we can expect it to atrophy. That is the dynamic which gives meaning to the old truism that programs for poor people are poor programs.

Despite a 60-day grand tour by the President promoting individual accounts, more people now oppose than favor them according to the most recent Washington Post-ABC News poll. Once the details of progressive price indexing are understood, we will have to decide if universal social insurance is worth preserving, because the Bush Administration is proposing nothing less than its total elimination.