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Brookings Welfare Reform & Beyond Public Forum

DOMESTIC POLICY IN PRESIDENT BUSH'S SECOND TERM

PANEL ONE: SOCIAL SECURITY

Moderator: Bill Frenzel, Guest Scholar, Governance Studies, Brookings

Peter R. Orszag, Senior Fellow, Economic Studies, Brookings

Eric Engen, Resident Scholar, American Enterprise Institute

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P R O C E E D I N G S

MR. FRENZEL: Why don't I begin with a few administrative announcements. Because C-Span is covering this forum, none of our speakers will use the podium, unless you begin throwing things and they need a shield. And there will be no breaks in the process. When one panel is through, the next panel will immediately take its place. And, so if you need coffee, you may slip out individually or do whatever you need.

This is a public forum, sponsored by the Brookings Institution, and we are delighted to welcome you here today. Our first panel deals with the delicate subject of Social Security. President Bush, recently reelected, has indicated he would like to spend some of his political capital on Social Security, as well as some of the other topics that we're going to discuss this morning. We will not introduce our panelists, because their biographies in their own glowing terms are already in your hands. And so, we will simply say that on my right, but yours--your left, thankfully, is Peter Orszag from Brookings, and on my left and your right is Eric Engen of AEI.

Each of our panelists will have 10 minutes, and then we'll look for you to begin an interesting session of questioning. Peter, would you like to begin, please?

PANEL ONE: SOCIAL SECURITY

MR. ORSZAG: Thanks, Bill. I want to provide a couple points of background, then talk about what we should be doing with regard to Social Security and spend about half my time on what we should not be doing, which, to jump to the chase, is to replace part of Social Security with individual accounts.

First, on a couple points of background. Social Security, in my view, is like a car with a flat tire. We should replace the flat tire, not replace the car. It does face a long-term deficit, and we do need to address it. But the deficit is not overwhelming, and, in fact, the major problem facing the federal budget is not Social Security, but health care.

Over the next 75 years, Social Security costs rise by about two and half percent of GDP. Medicare and Medicaid costs rise by more than 10 percent of GDP. And not only is that problem larger, but it's also a lot harder to address because it deals with fundamental health care issues. So, we should be dealing with Social Security reform, but we need to remember that this is not the major problem facing the federal budget, and, in my view, the problem is manageable within the four corners of the Social Security system. It doesn't require a radical change to the program.

Second point of background is we need to be thinking in terms of tiers of retirement income. Financial planners tell you that you should have about 70 percent of your pre-retirement income replaced to live a comfortable life during retirement. Social Security was never designed to provide that level of replacement rate. It was always designed to provide the core tier. So, for an average earner, retiring at age 62, claiming Social Security benefits at age 62, which is the most common age, Social Security today replaces about 30 percent of previous wages. To get from that 30 to the 70, additional saving is required. And that was always intended to be the case.

So, you need to be thinking in terms of tiers of retirement and different things are going to be appropriate in different layers rather than thinking of just one glob of retirement income.

Now what should we be doing on Social Security? In my view, because Social Security provides that core tier, the bottom layer of financial security, we should be shoring it up in a way that makes it more progressive and that protects its defined benefits structure. So, Peter Diamond of MIT and I have put forward a reform that has no accounting gimmicks, and I'm going to come back to this later on when I talk about what we should not be doing, it has no accounting gimmicks. It protects the most vulnerable beneficiaries--disabled workers, workers with low wages over a long career, young surviving children, and widows. These are people who under the current system have elevated rates of poverty and that we should be doing more to protect.

It also does ask average earners to play some role in reestablishing solvency within Social Security because frankly we need to all share in the burden to some degree. There is a deficit that needs to be addressed.

So, the benefit reduction, for example, for an average earning 35-year-old is a four and a half percent benefit reduction, relative to what's promised under the current system. That gives you some sense of the fact that there are--there is some pain for average earners, but it's not overwhelming.

We balance or combine those benefit reductions with some revenue increases also. We increase the payroll tax from 12.4 percent today to 12.7 percent in 2025, and 13.7 percent in 2045. And it actually continues increasing at a modest rate thereafter.

But let's take even that 2045 rate, 13.7 percent, 40 years from now. If that rate were in effect today, and, again it won't be for four decades, but if it were in effect today, the average earner would pay an extra $37 a month in payroll taxes. I think that gives you some sense of the magnitude of burden that we're placing on average earners. In our view, it's modest.

Now, we do ask higher earners to play a somewhat larger role in reestablishing solvency. And that's for a variety of reasons. For example, because of growing wage inequality, the share of aggregate wages that is above the maximum taxable base under Social Security, and, therefore, goes untaxed, has increased from 10 percent in 1983 to 15 percent now. We think we should undo at least part of that and raise the maximum taxable earnings base gradually over time so that a larger share of aggregate wages are, again, subject to the Social Security Payroll Tax.

Another thing that--another factor that warrants putting somewhat more of the burden on higher earners is that while life expectancy is going up, it is going up really fast for at the highest end of the income distribution. I actually just saw a new paper on this for the 1990s alone, the gap in life expectancy between the top 10 percent and the bottom 10 percent increased by more than a half a year in one decade alone, which is a very substantial movement. Because of that growing gap in life expectancy, we think it makes sense to make the monthly benefit under Social Security somewhat more progressive.

Now, individual accounts. Individual accounts make a lot of sense for filling in that 40 percent gap between the core tier, provided by Social Security, and what's required to provide a comfortable standard of living in retirement.

Luckily, we already have individual accounts. They're called 401(k)s and IRAs. And there's a lot we can be doing to make those work better. There's a growing body of evidence that simple things, like putting people into 401(k)s when they go to work and having them have to sign a form to get out of the 401(k) rather than having to sign a form to get into the 401(k) dramatically boosts savings rates. You put it in a plan like that, an automatic enrollment plan, participation rates boost, increase to 90 or 95 percent--dramatic improvement.

Outside of employer provided plans, the best opportunity for many families to save is when they get their tax refund. But currently, the IRS says you're not allowed to put part of your tax refund into an IRA and part into a checking account to meet immediate expenses. That makes no sense.

Pilot projects have suggested that if we allowed people to split their tax refund, a significant share would be saved. We should do that.

So, there's a lot of common sense, low-hanging fruit that we know about, empirical evidence has already demonstrated to work, that we could get individual accounts working better where they belong, which is in that upper tier of retirement security where it makes perfect sense to be taking risks, to be promoting ownership, and doing a lot of the other things that people talk about with regard to individual accounts. In fact, we have a new project, the Retirement Security Project, that we'll be starting up in January focused on precisely those kinds of issues, and regardless of what you think with regard to individual accounts as part of Social Security, we should all agree that we should be making Social Security work better, I mean, individual accounts, sorry, work better on top of Social Security.

Now, with regard to individual accounts that replace part of that core tier. In my view, it just makes no sense. For that bottom tier of retirement security, you want a benefit that lasts as long as you're alive; that's protected against inflation; that does not fluctuate with financial markets; that provides some form of lifetime earnings insurance against your career not turning out well; that protects family members if you should die or become disabled, all of which Social Security does, and none of which is the natural thing for individual accounts to do.

Now, on paper, you can design individual account plans that actually do these things. But the way that they would likely play out in reality is that many of those protections would be undermined. When you look at a realistic system, there would be a lot of pressure for people to take money out before retirement. There would be a lot of pressure for them not to take the money out at retirement in a form that lasts as long as they're alive. And so, for that core tier of retirement security, individual accounts just make no sense.

Furthermore, and importantly, there's a very important financing issue that individual accounts create. Most of your--the existing payroll tax goes to pay current benefits. If you take the payroll tax and put it into an individual account, there's the hole that's therefore opened up. Unless you're going to cut off current beneficiaries, there is a gap, the so-called transition costs. And in some sense, transition cost actually is not the right word, because these costs are very substantial. They can amount to several trillion dollars in present value, and they last for decades. It's not like a year or two of a relatively modest cost.

Now, there are plans that have honestly funded those costs in the past. For example, by raising taxes or cutting benefits or cutting other government spending programs to pay for them. Unfortunately, however, many recent plans have instead debt financed these transition costs, which is really, to put it bluntly, a cruel hoax in the sense that it undermines the ostensible benefits of the reform plan in raising national saving and avoiding massive increases in public debt, and that is a disservice to the reform discussion.

So, we've seen this tendency to move toward debt financed individual account plans, and I think the key question is, how much debt finance will there be in whatever individual account plan comes out? I think, especially in the House, you're going to see a very large degree of debt financing. I was relieved to see that in the New York Times yesterday, Senator Grassley made it very clear that he thinks real changes are required, not just debt financed individual accounts, which actually don't--which are just moving the deck chairs around and not really addressing the long-term problem.

So, I am hopeful that we will get a real reform plan rather than one that's just debt financed, but we will have to wait and see. Thank you.

MR. FRENZEL: Thank you, Peter. Eric?

MR. ENGEN: Sure. I'll have somewhat of a structure here similar to Peter's. I want to talk about the overall Social Security Program and a few important items there, and then talk about some specifics.

I always like to talk first when we're discussing Social Security of putting it in the bigger construct of what's happening in our economy and in our society.

First of all, the financial imbalance of Social Security is just a--one symptom of the overall economic, social, and public policy challenges posed by an aging population. Social Security, along with the health programs, as Peter mentioned, will all be facing severe financial stress as the baby boomers retire, but even on into the future as we enjoy the very good economic development of increasing life spans.

However, these budget problems for the Federal Government are just one component of this overall issue that you might call a demographic revolution, where we're moving towards having a much older segment of our population than we've ever had before.

Now, the challenges of meeting this overall upcoming demographic revolution will be easier to meet if our economy is larger, our economy is growing faster, given that we'll have challenges not just in the federal budget, but all across the board.

And, so, Social Security reform, as well as Medicare and other reforms in the federal budget, should not just be focused on making the accounts of Social Security solvent, but also should be thinking crucially about are these changes also making economic incentives better, such that we have a bigger economy to deal with the older population that we're inevitably going to have.

Now, right now, the implicit unfunded liability of Social Security is about three times as large as the explicit federal debt held by the public. So, it's not an inconsequential issue, and indeed Medicare it's much worse, even so.

Now, with that said, the only way that the unfunded liability, and, thus total government debt, can be reduced is if taxes are increased or future benefits growth is decreased, or some combination of both. Okay. There's no free lunch. There's no magical way out of this problem.

In some regards, this is a case where personal accounts have been oversold. Just instituting a personal account component into Social Security, simply making implicit debt of Social Security explicit by say an obvious way, issuing what's called recognition bonds, putting those in personal accounts, doesn't go to solve the problem.

Okay. Real reforms within the system can--need to be made. Personal accounts can be a useful part of this reform, but, on the other hand, you could also have a bad reform that included personal accounts as well. Personal accounts are not the free lunch; are not the magic bullet to save the system in an easy way. But keeping in mind that the important thing is not just balancing the books of Social Security, but also creating better economic incentives for a larger economy they have a role.

Now, with regard to the issue of transition costs, I mean, one thing that needs to be understood is we have this long-run unfunded liability of Social Security in the area of $12 trillion. In a real sense, any reform that makes the system solvent is going to incur transition costs.

Okay. How you pay for those transition costs can differ. Whether you pay for them by lowering benefits. Whether you pay for them by reducing taxes or whether you pay for them in a sense by borrowing now and then promising to raise taxes and lower government spending or benefits in the future. Obviously, all is a different mix. But, in a sense, there are transition costs for any Social Security reform program that moves the system towards solvency.

Now, with the goal in mind to keep not only the books of Social Security in mind when we're thinking about reform, but also how can we better create economic incentives so we have a bigger economy to better deal with the aging population that we would have. I want to propose a couple of suggestions in the direction in which I think reform should go.

Okay. First of all, right now, in a sense because of the way Social Security is set up, in the long run, the faster the economy grows, it doesn't help us on the Social Security side in the long run. That's because revenues will grow as the economy grows faster and wages are higher, but also given the way that Social Security benefits are structured, benefits increase also.

Okay. One way to break that link and actually put economic growth to our benefit is if we realize that right now, we could afford to pay future retirees in inflation adjusted terms what we give current retirees.

What really hits Social Security's financial books hard is the fact that we're promising even higher real standards of living through Social Security benefits to future retirees. Those are promises right now that the Social Security Administration, the Congressional Budget Office have shown we can't afford given our current tax structure.

So, one way to start to reform the system would be to slow down the future growth of benefits by, say, moving the Social Security benefit formula to an inflation adjustment--adjusting them for inflation rather than total nominal wages. Okay. That's something that actually was proposed in plan two of the Bush Social Security Commission, and others have suggested.

That gives current retirees, or future retirees benefits equal to current retirees in real standards of living, but it doesn't promise them higher ones.

Okay. Another thing is one of the things that has changed a lot since Social Security was first put in place is that people are living longer. Their health is better at older ages. People are working in less physically arduous and dangerous jobs. Okay. But yet, the retirement ages built into Social Security have not kept up with that increase in longevity. In fact, we've instituted an early retirement age some decades ago, at age 62, that, as Peter alluded to, is now a very common retirement age. We have started, and it is in law right now, that those--the full benefit retirement age that has traditionally been 65 is starting to creep up to 67, but when it stops at 67, it still wouldn't have kept pace to the increase in longevity.

With the goal of trying to increase the size of the economy, one of the issues we're going to have to deal with is, can we really afford to essentially have two workers for every retiree in the economy? When ages 62 to 65 are no longer really what we would call elderly, but really are upper middle age, should people be given the incentive to retire earlier?

So, one thing that I think should be on the table in terms of discussion, which unfortunately actually in the last campaign both candidates took off the table, but should be on, is further increases in longevity that wouldn't be kicking in until a decade from now when people are living even longer than right now. That also would move towards improving Social Security's books.

Where does personal accounts come in? Okay. Personal accounts, in some sense, have been oversold in the sense of people saying, well, obviously if you put funds in a personal account, you get a higher rate of return than you would get in Social Security. We certainly don't have time here to go through the economics of why that is not completely correct, once you take into account changes that would have to be made in the federal budget in terms of, say, higher taxes, which would eat into those returns. But what I want to emphasize is that personal accounts can have a role in the sense of moving towards an increased pre-funding of retirement, which would help raise capital, which would also help raise a higher level of economic growth and a bigger economy into the future. That's the role of personal accounts. In a sense, it's to create a role for some pre-funding of retirement that would be off the government's books, so they wouldn't be tempted to use it to offset any deficits otherwise in the budget. That is the true role of personal accounts, and where they can potentially have a benefit for the reform.

Hopefully, in the questions and discussion here, we can talk about some of the other issues in personal accounts. I think they may come up. But I'll stop here.

MR. FRENZEL: Thank you very much, Eric. And thank you, Peter. I think the audience can see that while the third rail of politics may not be rocket science, it's pretty darn complicated, and it is not for the uninitiated. They both have suggested a series of quite different possibilities by which Social Security might be made rationally financed again.

I think at this point we ought to go directly to the audience because we have a short time only for questions, and coming before you is a young lady with a microphone, and whoever wants it should now ask for it.

MS. MACGUINEAS: Thank you very much.

MR. FRENZEL: Would you identify yourself and your organization briefly?

MS. MACGUINEAS: Yeah. I'm Maya MacGuineas from the Committee for a Responsible Federal Budget. One of the issues--I'm going to go on the assumption that private accounts are part of the reforms, because that's clearly the direction we're moving in. And both of you alluded I think to that borrowing the total amount to create the accounts probably undermined or defeats the purpose of the accounts in the first place.

On the other hand, in all likelihood, we're going to have to borrow some money to jump start these accounts, because the costs of creating enough saving for individuals that helps pay for retirement benefits in the future is tough to pay for right up front.

How would you go about thinking about what the right amount of money to borrow actually is?

MR. FRENZEL: Do you want to start, Eric? Peter, then you.

MR. ENGEN: I mean, in a way, the transition costs in terms of borrowing now are really in a sense a prepayment to anything we'd have to pay down into the future. I think in general the best thing is the lowest amount you can make those transition costs would tend to be the best. But I think we shouldn't get lost on the fact that essentially the transition costs now are a pre-payment of any of liability we would have in the future otherwise.

Obviously, there's financial market concerns over how much new debt could be paid for now. It would depend on how long out that was spread. But if the issue is, say, incurring no transition costs, but yet we still have an insolvent system, 30, 40 years out, where we haven't created better economic incentives through Social Security versus one that incurs some transition costs but in 40, 50 years, we have a solvent system, and we're--we've paid down those transition costs, but yet we have a solvent system that provides better economic incentives for a bigger economy--that still maintains what Social Security is set up to be, both a forced retirement with some income redistribution from high wage to low wage, we're certainly better off, even though we've incurred those transition costs.

MR. FRENZEL: Peter?

MR. ORSZAG: A couple of comments. First, I guess I'd take issue with the premise. There have been individual accounts plans that have been proposed that don't borrow the transition costs, but actually deal with the transition costs. For example, Ned Gramlich, who was the Chairman of the 1994-96 Advisory Council on Social Security, proposed an individual account plan that financed its individual account.

So, my view is if you want individual accounts, be up front and pay for them. Don't debt finance the so-called transition.

In terms of--I think you were asking an analytical question: at what point does it become beyond just losing the opportunity of getting a real reform? Does it actually become a problem? And I think the way to think about that is the following: that there's going to be some offset to private saving. No one knows exactly how large it is, but some offset. You put a dollar into an individual account, and it's likely that at least some people will reduce their 401(k) and IRA saving as a result. So, the key question is, how big is that offset? The bigger that offset is, the more troubling any debt finance of the individual account contributions are. And the reason is that you could easily wind up with negative net national savings that results. In other words, rather than actually improving national saving, which is, as Eric and I I think both agree one of the things we need to be doing to prepare for the coming retirement of the baby boomers, you're actually setting that goal back by debt finance. The primary impact of debt financed individual accounts is no effect on national saving. You have an increase in government debt. A dollar in the individual account, and it's a wash. But if people then offset that dollar in the individual account by saving less in other forms, then you actually have a reduction. And the key question is how big is that offset, and that could inform the degree to which debt financed individual accounts have any positive effect on national savings.

But what I would say is there's no reason that we need to be doing that at all. If you're in favor of individual accounts, I think you should be, and if they were as popular as people suggest, you should be willing to pay for them up front, and let's do that.

MR. FRENZEL: Thank you, Peter. Are there other questions? Belle?

MS. SAWHILL: I'm Belle Sawhill from Brookings. Bill, I wanted to ask you, given your membership on the President's Social Security Commission, if you could make a few comments yourself on the experience of being on that Commission and the kind of debates that were held?

MR. FRENZEL: Well, it was a long and interesting service on that Commission, and it reinforced my recollection that Social Security is a very sensitive issue in our society. The debates were similar to what you are hearing this morning. No secret. You either raise some taxes or you lower some benefits, and there are some cunning ways to do that. And if you want to use personal accounts, which I personally favor, because it seems to me to be a way to improve the situations, but, as Peter suggests, you got borrowing costs and there are offsets to that.

But we spent a lot of time. We were Republicans and Democrats. But we were of a common mind, and so we did not reflect our society as a whole. And we came up with three plans that were slightly different mainly to show that there were a number of different ways the problem could be solved. But I guess I would come back rather than talking myself to our experts here, and ask--we had great difficulty with the public coming before us with vastly different points of view. The--is the third rail still the third rail, Peter and Eric? Will the Congress be willing to suffer the risk of electrocuting itself at the President's request by taking on this very difficult subject? Or is it going to want to dodge that bullet? Pete, would you try that?

MR. ORSZAG: Well, I think what's likely to happen is that the Congress, especially in the House, will pretend to touch that third rail while not actually doing so, in particular, by having a gimmick-ridden, debt-financed individual account plan like we've seen from Representative Ryan and Senator Sununu that is really just a shell game, moving different pieces around and playing accounting games, rather than address the real problems on benefits and revenue. So, there's plenty of opportunity to pretend that you're looking, pretend that you're being virtuous, while not actually being so.

And I want to just make one point about the President's Commission, since that is the starting point, as the President noted for the discussion. As Eric emphasized, and as the Commission report demonstrated, the individual accounts in those plans are doing nothing, and let me say nothing, to reestablish solvency within Social Security. In fact, over any time horizon, they are hurting Social Security solvency.

So, you can think of individual accounts providing a benefit or not in terms of the form of the way in which retirement income is delivered. I actually think again for that core tier, they don't make any sense. But it's very important to realize they're not playing any role, at least as designed by the President's Commission in models two and three, in reestablishing solvency. There are other pieces of the plans that are doing that.

So, if you're in favor of individual accounts because you think it's addressing Social Security's deficit, the President's Commission is not the place to start.

MR. FRENZEL: All right. Eric?

MR. ENGEN: Yeah. I mean, one of the things I want to emphasize in terms of the difficulty is there is even for proponents of personal accounts as a part of reform, that there's not agreement among personal account proponents of how they should be used. As I mentioned before, yes, Social Security could be reformed without personal accounts. Okay. There could be a good Social Security reform without personal accounts. I think that the right way to do that is by adjusting benefits, not by raising taxes. Taxes only make our economy slower, and make the overall problem even harder.

But the role of personal accounts is this bigger issue of how do we create a bigger economy when we have an aging population, and pre-funding that retirement to have more capital, if done correctly, is the way to do it.

One thing, though, on the political side that I want to emphasize is that it's better to do reform now rather than later, given that virtually everyone has said, well, current retirees and those close to retirement should not have the system changed for them. There are some that disagree with that, but that seems to be a majority premise. The longer we wait to do Social

Security reform, the more we lock in the higher levels of benefits as the baby boomers start to retire, which is going to be at the end--the beginning of that transition of the baby boomers retirement is going to be at the end of this Administration's term. The further we move down the road and those higher benefits are already locked in a sense to the system, my view is that more likely the political outcome is just to raise taxes. And it's not a small tax increase. We're talking about if we did it through payroll taxes an increase of 40 to 50 percent for the payroll tax to do that.

And so, the importance of doing reform now rather than waiting later is that there are more options on the table. Okay. The further we wait and higher benefits are locked in, then more and more I think politically, the pressure would be on just raising taxes, which would be bad for the economy.

MR. FRENZEL: Yes, sir, we have time for another question.

MR. SEIDMAN: Larry Seidman at the University of Delaware. I wanted to ask Peter to compare the consequences of trying to solve the Social Security financial problem, which we now agree individual accounts is completely separate from that; does nothing to solve that. Two methods. One is the switching from wage indexing to price indexing, which Eric pointed out and is really the key to the Administration's plan too, versus taxing payroll above the ceiling, not raising the ceiling, but taxing payroll above the ceiling, which is one of the ingredients in the Diamond-Orszag plan--compare the consequences of those two ways to try to deal with the financial problem.

MR. ORSZAG: Let me talk about the so-called switch from--the change in the way that the benefits are calculated, which would really represent a standard of living freeze. And--in terms of the Social Security retirement benefit. I don't think that makes any sense, again, because we're talking about that core tier, and taking that core tier, where you, you know, you need to replace 70 percent overall, taking that from 30 down to 20 and then keep going down, I don't think makes any sense; and that's precisely what would happen under a standard of living freeze, in other words, if we did it all on the benefit side.

Now you asked me to compare that to one of the provisions in the plan that I put forward with Peter Diamond which would impose a tax above the $87,900 maximum taxable earnings base to which Social Security payroll taxes are currently applied. The reason it's not really fair to do the comparison is that that standard of living freeze, changing the way the benefits are calculated, eliminates an entire long-term deficit. Our overall also eliminates the entire deficit, but the particular provision that you're talking about doesn't. So, there's a difference in magnitude. But clearly that provision is hitting higher earnings. The standard of living freeze is reducing benefits for everyone.

The key point I think is it makes no sense in my view to do it all--to do all of the necessary adjustment on the benefits side precisely because we're talking about that bottom tier of retirement income; average Social Security benefit is less than a $1,000 a month. There's not that much room, in my view, to be reducing benefits substantially, while still providing that core tier that's necessary.

MR. FRENZEL: Eric, do you want to take that one up?

MR. ENGEN: Well, I guess a couple things. One is if you look at projected long-run Social Security outlays versus revenues, you can--the recent Congressional Budget Office report on Social Security shows this right on front cover, so you don't even have to open the report. What you'll see is that over the time, the projections are that tax revenues relative to the size of the GDP are going to remain about the same. The big imbalance comes because outlays are going to open up a larger and larger gap, first, as the baby boomers retire, but then continuing out into the future.

So, if we're not going to address the benefit side at all, what it means then is we're going to have a substantially higher level of taxes. Now, you don't have to do that just through the payroll tax as it's currently structured, you could tax people above the current earnings cap without adjusting the benefit formula, as Peter suggested. You could use general revenues--do whatever, but if you're going to do it on the tax side, it's a substantially higher tax burden in the long run. That's a very different set of economic incentives than if we try to address the issue also on the benefits side.

Essentially, the problem with Social Security is given the level of revenues, we're making promises that we can't afford. And what we're really talking about here is the trade off between the two. And given the overall issue, I think that we need to create the incentives for faster economic growth when we have an aging population. We need to think about should people be given a nudge to maybe work a little bit longer, particularly if they're healthy and the issue is not working on a farm or in a mine, but we're sitting at our computer, at our desk. Those are issues that can both address the financial issues, but also help improve economic incentives.

MR. FRENZEL: Are there more questions? Bill Niskanen?

MR. NISKANEN: Bill Niskanen from the Cato Institute. I'm surprised that neither of you mentioned that Social Security has two very strong biases in it already: a bias against people with a shorter expected remaining life, and a bias against the two-worker family. And without moving to personal accounts, those biases will not be corrected.

MR. ORSZAG: Let me comment on--

MR. FRENZEL: Your comment, Peter?

MR. ORSZAG: Let me comment on both of them, especially--let me start with the former, since I know we're running--I mean, the first one, since I know we're running short on time.

I think it's very important to realize that there is some benefit to the people who live longer than expected, who live a long time under Social Security because the benefit lasts as long as you're alive. But under individual accounts, if they were annuitized, in other words, if they were transformed into something that also lasted as long as you were alive, that same thing would happen. So, unless you're talking about not annuitizing the wealth at retirement, that same post-retirement discrepancy will occur and that leaves some people to say, well, let's just not annuitize, not force annuitization, in which case you raise the risk of people outliving their savings. We already have a substantial widow poverty rate in the country, where unmarried women are--have a poverty rate that's three times the rate of married elderly women; and not annuitizing the balances would just exacerbate that.

So, the--that--the fundamental problem there is that life expectancies do differ, but anything that lasts as long as you're alive is going to play into that same factor. And I could have a similar comments on the second feature, but I guess we don't have time.

MR. FRENZEL: Eric?

MR. ENGEN: Yeah. Quickly. Yeah. Life is biased against people that live a shorter life span--

[Laughter.]

So, it's--and I don't mean that to be as flip as it sounded. I apologize if it did. But it's just, as Peter emphasized, within Social Security whether you require the personal accounts to annuitized, in all those cases, it's going to be a penalty against anyone that lives shorter, unless, to a certain degree, you leave the personal--some of the personal account unannuitized, and then the person could spend that down faster if they thought they were in that situation of living a shorter time period or that could be something that could bequeathed on to their heirs.

In terms of the two-worker family, this is one issue where personal accounts can alleviate some of that issue in the sense that if you have two workers, they're both putting into their personal accounts. They don't face those high implicit marginal taxes that a second worker does now, but is only, in a sense, qualifying for benefits through their spouse. So, there is a role for personal accounts to help alleviate that, some of that two-worker bias to a certain degree. But, again, like in all these plans, it depends on the specifics of the particular plan.

MR. FRENZEL: Well, thanks to both of you, Peter Orszag and Eric Engen. And we will proceed immediately to the next panel without break. We'd ask the panelists to come up and assume the microphones.

[Applause.]

Thanks very much, Eric.