NYU Wagner
Robert F. Wagner Graduate School of Public Service

John Brademas Center for the Study of Congress

WHY PRESIDENT BUSH'S 2005 SOCIAL SECURITY INITIATIVE FAILED, AND WHAT IT MEANS FOR THE FUTURE OF THE PROGRAM

September, 2007

William A. Galston
Senior Fellow, The Brookings Institution

Introduction: Selected Headlines, January 2005 – October 2005

"A Big Push on Social Security: Private Accounts are Bush Priority" (January 1, 2005)
"AARP 'Dead Set' Against Bush's Social Security Plan" (January 24, 2005)
"Bush Wraps Up Social Security Tour; Charges Opponents Are Using 'Scare Tactics' to Frighten Seniors" (February 4, 2005)
"Bush Failing in Social Security Push" (March 2, 2005)
"Debate over Social Security Entering a Potentially Critical Phase" (March 18, 2005)
"Bush's Political Capital Spent, Voices in Both Parties Suggest" (May 31, 2005)
"Social Security Plan's Support Dwindling" (June 9, 2005)
"Exit Strategy on Social Security Is Sought" (June 15, 2005)
"Social Security Legislation Could Be Shelved" (September 16, 2005)
"Bush Sees Less Appetite for Social Security Overhaul" (October 4, 2005)

What Happened: A Brief Narrative

Following his successful 2004 reelection campaign, President George W. Bush designated fundamental Social Security reform as his top domestic priority. This was anything but an impulsive decision. As early as his 1978 congressional race, he had suggested that the Social Security System could not be sustained unless individuals were allowed to invest the payroll tax themselves. Overriding the

The Legislating for the Future Project is an initiative of New York University's John Brademas Center for the Study of Congress and the Organizational Performance Initiative, and is co-sponsored by the Brookings Institution and the RAND Corporation. The project will examine the capacity of Congress to address long-term problems facing the nation, probe the public's attitudes towards Congress' ability to make long-term decisions for the 21st Century, and analyze specific long-term policy issues. The Legislating for the Future Project will convene experts for discussions of specific long-term issues, such as global warming, and seek to generate strategies to make Congress more flexible and adaptive to future problems. The Advisory Committee for the project is headed by Former Representative Lee H. Hamilton. The project is funded by the John Brademas Center for the Study of Congress, the Smith Richardson Foundation and the Carnegie Corporation. For more information, please visit: www.nyu.edu/wagner/performance and www.nyu.edu/brademas.

doubts of some political advisors, he raised the issue while announcing his first presidential race, declaring that "We should trust Americans by giving them the option of investing part of their Social Security contributions in private accounts."[1] Toward the end of a first term dominated by international terrorism, President Bush renewed this call in his 2004 State of the Union address: "Younger workers should have the opportunity to build a nest egg by saving part of their Social Security taxes in a personal retirement account. We should make the Social Security system a source of ownership for the American people." He mentioned the issue repeatedly during the 2004 campaign and was able to argue that his reelection represented a mandate to move forward on what he called personal accounts (and his adversaries called partial privatization).

Within days after the election, President Bush made it clear that he did not intend to play it safe on Social Security reform and other controversial issues. In a post-election press conference, he asserted, "I earned capital in this campaign, political capital, and now I intend to spend it."[2] He was as good as his word. By mid-January of 2005, the White House had launched a huge initiative, directed by Karl Rove and Ken Mehlman, to mobilize public opinion and build public support for Social Security reform and other key presidential proposals.[3] The President followed up two weeks later, placing a lengthy discussion of Social Security at the heart of his 2005 State of the Union address. After citing the fiscal and demographic pressures moving the system toward eventual bankruptcy, he listed some basic principles and then reached the nub of the matter: "As we fix Social Security, we also have the responsibility to make the system a better deal for younger workers. And the best way to reach that goal is through voluntary personal retirement accounts." This approach, the President argued, would offer younger workers a "better deal": The rate of return would be higher than in the traditional system; the accumulation could be passed on to children and grandchildren; and "best of all, the money in this account is yours, and the government can never take it away."

Having invested so much political capital in this issue, President Bush embarked on the first of what proved to be a long series of tours crammed with events at which he pitched his plan to the people. It soon became apparent that it would be a tough sell. Within weeks, observers noticed that the more the President talked about Social Security, the more support for his plan declined. According to the Gallup organization, public disapproval of President Bush's handling of Social Security rose by 16 points—from 48 to 64 percent--between his State of the Union address and June. By early summer the initiative was on life support, with congressional Democrats uniformly opposed and Republicans in disarray. After Hurricane Katrina inundated what remained of the President's support, congressional leaders quietly pulled the plug. By October, even the President had to acknowledge that his effort had failed.

Why Did President Bush's Proposal Fail?

What went wrong? The simplest explanation is that President Bush overestimated the amount of political capital he had banked. After all, he had prevailed by the smallest popular vote margin of any president reelected in the 20th century. And there was evidence that the campaign's bitter, divisive tone had taken its toll. As President Bush's second term began, he enjoyed the lowest approval rating—just 50 percent--of any just-reelected president since modern polling began. That was 9 points lower than Clinton and Nixon, 12 points lower than Reagan, and 21 points lower than Johnson—hardly the foundation for crushing a united opposition.[4] Nor finally, had the 2004 campaign given the president a popular mandate to proceed boldly on Social Security, about which he had talked in only general terms.[5] A December 2004 survey found that support for private accounts fell by nearly half—from 42 to 23 percent—if the introduction of these accounts meant a reduction in the guaranteed benefit.[6]A majority of the voters believed that while Social Security faced long-term challenges, it was not in crisis, certainly not in danger of imminent collapse.[7] There was certainly no action-forcing event, such as the looming funding crisis that eventually induced Ronald Reagan and Tip O'Neill to agree on tax increases and benefit cuts in 1983. Not only did post-election surveys suggest that the public regarded action on other domestic issues, such as health and education, as more urgent; they also revealed serious public doubts about personal accounts that intensified as they learned more about the details.[8] The warning signs were clear, but the President was either unaware or chose to ignore them.

The way in which President Bush proceeded early on exacerbated the difficulty. Repeating the mistake that helped doom the Clinton health insurance plan, he launched his proposal from the White House without adequate congressional consultation. In so doing, he missed what might have been an opportunity to bring a handful of "New Democrats" into the fold, and he failed to allay the misgivings of his own party's leadership. The initiative thus violated the first law of politics: unify your friends while dividing your foes. The President's proposal did just the opposite. Liberal, moderate, and conservative Democrats quickly united in opposition. Even Democrats who had previously considered the possibility of private accounts repudiated their heresy and returned to the fold. Meanwhile, Republicans were at sixes and sevens. While economic conservatives and libertarians cheered, many social conservatives disapproved, some because they disagreed on the merits, others because a massive administration effort to move on Social Security would come at the expense of issues—such as a constitutional amendment defining marriage--about which social conservatives cared far more deeply.

In fairness, the administration had some reason to be surprised by these developments. During the president's first term, after all, Republicans had displayed remarkable discipline while the Democrats often failed to function as a unified opposition. Minorities of Democrats had provided vital support for administration initiatives such as tax cuts and prescription drug coverage. But Social Security was different. It was a defining commitment for Democrats, part of their political DNA. On the Republican side, while conservative think-tanks had spent two decades developing plans for private accounts, their efforts had proceeded outside the political mainstream, and their ideas had never been subjected to a political reality-check inside (let alone outside) the broader conservative coalition. Many veteran Republican legislators were skeptical on the merits of the President's proposal and would have gone along only if it had proved popular, which it did not.

A related explanation for the proposal's failure is that Democrat-oriented interest groups mounted a unified, well-conceived, and amply funded campaign against it. This too was something of a surprise. At the beginning of 2005, the Washington Post reported that Republican groups close to the White House—the Club for Growth and the National Association of Manufacturers, among others-- were amassing a $50 to $100 million war chest to sell private accounts.[9] The White House had been disappointed to learn that the AARP, which had supported the administration's prescription drug bill over Democratic objections, would be flatly opposed to the administration's Social Security initiative. Still, given the elections of 2000, 2002, and 2004, not to mention the defeat of the Clinton health care reform, the White House had every reason to believe that Republicans could outspend their adversaries and invest their resources more effectively. It turned out that AARP was willing to invest tens of millions of dollars to squelch private accounts, and their advertisement proved just as effective as had the health insurance industry's famous "Harry and Louise" ads against the Clintons' initiative.

Substantive flaws in Mr. Bush's proposal exacerbated these political difficulties. If the Social Security system's principal problem was a long-term threat to its solvency, as the President rightly argued in his 2005 State of the Union address, it was not clear how private accounts were even part of the solution. At best, they would function alongside of, and in addition to, needed fiscal reforms; at worst (and this turned out to be the case), they would exacerbate the system's fiscal woes. There was a reason why the President emphasized private accounts rather than solvency-oriented reforms: all the serious fiscal fixes—higher taxes, lower benefits, and later retirement, among others--meant painful and unpopular changes.[10] The President hoped that members of Congress, perhaps even fiscally conservative Democrats, would come forward with proposals for long-term solvency. But that was not to be. Displaying rare discipline, Democrats maintained a united front of silence,[11] and congressional Republicans had no desire to take exclusive ownership of austerity measures.

After weeks on the defensive, the President admitted in mid-March that "Personal accounts do not solve the issue. They make the solution more attractive to the individual worker."[12]It was not until late April that the President addressed the system's fiscal gap, proposing a formula change, "progressive indexation," that would have cut benefits for the upper 70 percent of future retirees, with those at the top losing the most. Some conservatives rejected, on principle, the proposition that the level of sacrifice should rise with income. "That's an idea that comes from the left typically—means testing," said Rep. Paul Ryan (R-Wis).[13] Others urged the president to reject the old framework altogether and embrace far larger private accounts that would moot the fiscal problem altogether . . . or so they claimed. And while surveys indicated strong support for limiting benefits going to the wealthy, few Americans believed that workers earning $25,000 a year fell into that category. But that is where the President's formula change began to bite. Workers earning about $36,500—again, no one's idea of the "wealthy"--would have seen a long term benefit reduction of about 20 percent. (By contrast, a proposal the President did not offer—namely, raising the cap on income subject to payroll taxes—enjoyed solid 60 percent support among the people.[14])

As Douglas Arnold has argued, President Bush's proposal faced a structural obstacle that no adjustment of details could overcome. While advance-funded retirement systems have several advantages over pay-as-you-go—promoting national savings and insulating program funding from large demographic shifts, among others, they have a large political liability: "They deliver no benefits in the near term for which politicians can claim credit." Indeed, the costs precede the benefits by decades. Although Social Security began as an advance-funded system, within five years in had shifted to pay-as-you-go, a transformation that was "easily accomplished . . . because it united a diverse coalition of interests." Shifting in the other direction is difficult; the more mature the system, the greater the difficulty.[15]

By 2005, Social Security had matured to the point that shifting even a part of the system to an advance-funding basis would entail transition costs of at least one trillion dollars. No one was proposing benefit cuts for current retirees or for workers near retirement age, so for decades the system would have to pay those benefits in full while at the same time allowing younger workers to divert a portion of their payroll tax into private accounts. Advocates argued that this merely made explicit the cost of existing obligations. Whatever the validity of this claim, it was a very hard sell politically.

The President's proposal faced an even deeper problem. Economic growth resumed following the 2001-2002 recession, unemployment declined, the housing market surged, and inflation remained tame. Nonetheless, surveys began showing a level of economic discontent that was hard to square with the traditional indicators. The most plausible explanation is that structural changes in the economy have left many Americans anxious about the future and fearful that they (or their children) will experience a diminished standard of living. Businesses were cutting back health care coverage while raising monthly premiums workers had to pay. Traditional guaranteed-benefit pensions were disappearing, at least in the private sector. Universities were increasing tuition and fees at three times the rate of overall consumer price inflation. Meanwhile, globalization began to affect employment and wages, not only in the manufacturing sector, but also among white collar workers. Networks featured stories about the outsourcing of high-tech jobs to India, and leading economists speculated about the percentage of the workforce that might be similarly exposed in the common decade.

Not surprisingly, many Americans were less secure and more risk-averse than they had been in the 1990s. Proposals that further diminished security were bound to be greeted more skeptically than they would have been in the previous decade, when the stock market rose sharply, unemployment virtually disappeared, and real wages increased across the board. In this context, the President's Social Security proposal was sailing against the wind. Considered in isolation, ownership and choice were attractive. But when voters learned that "personal accounts" would mean significantly lower guaranteed benefits for all but the lowest income recipients, their skepticism crystallized into outright opposition. As Senator Lindsay Graham (R-SC) put it, "Ownership . . . is not what people look at Social Security as being. They look at Social Security as a safety net."[16] Unless this context changes, it seems likely that Americans will accept mandatory personal accounts only in addition to, but not in place of, guaranteed benefits.

The Politics and Policy of Social Security Reform

To understand what has happened in the past and what will prove possible in the future, we must place Social Security within the political context that elected officials confront on a daily basis. To begin with, voters over the age of 60 represent about 13 percent of the population, 17 percent of the voting age population, and fully 24 percent of those who show up to vote in presidential elections. (The senior share of the vote in off-year elections is typically somewhat higher, because younger voters historically have been less likely to turn out in lower-profile contests.) Not only are seniors more likely to vote than is any other age cohort; they are also more likely to make political contributions. Half a century ago, working-age adults were more likely to vote than seniors; today it's the other way around. Half a century ago, seniors were less likely to make political contributions than was any other age cohort; this relationship has been inverted. And seniors are the only age group whose participation rate has actually increased over the past half century.[17] This is consistent with trends in levels of interest in politics. Half a century ago, seniors as a group reported less interest in politics than did their younger fellow citizens; today, their level of reported interest is substantially higher.[18]

Senior voters are highly responsive to proposed changes in Social Security, and it's not hard to see why. Recipients in the two lowest income quartiles receive more than 80 percent of their income from Social Security; those in the middle receive more than 60 percent; and even those just below the top receive almost half. Only voters in the highest quartile can retire without caring a great deal about the size of their monthly checks. For most political issues, participation rises steadily with income. With Social Security, it's just the reverse: lower-income voters are more likely to contact their representatives and to vote based on this issue than are upper-income seniors.[19]

Social Security recipients participate in politics, not only as individual citizens, but also as members of association. Today, a dense network of groups (the AARP chief among them) represents the interests of seniors and springs into action whenever threats emerge. Senior mass mobilization groups did not exist when Social Security came into being. Rather than groups creating the policy, the policy created the groups, a process that accelerated as more and more seniors began receiving Social Security and monthly benefits increased.[20] By the 1980s, organized opposition was strong enough to derail President Reagan's proposed cuts, a process repeated a decade when the Clinton administration floated the idea of a temporary freeze on cost-of-living adjustments as part of a deficit reduction package.[21]

While the discussion thus far has focused on seniors, support for Social Security is broad-based. Upper-income Americans are just as likely as others to believe that spending on the program is either "about right" or even "too little," and support is nearly as strong among the most educated Americans as among the least educated. Most strikingly, studies of public opinion have found almost no evidence of disagreements among age groups, let alone the long-predicted "generational warfare." Young adults are just as supportive of Social Security as their parents, and not much less so than their grandparents. Overall, with few exceptions, surveys taken over the past twenty years have found that at most one fifth of American support reducing Social Security spending This support reflects higher levels of knowledge about the program than for most other public programs and persists despite low levels of confidence in the program's funding and future prospects.

Americans understand that changes will be required if Social Security is to be sustainable in coming decades, and they are prepared to accept some options for reform. For example, they are willing to see the cap on earnings subject to the payroll tax raised, or even eliminated outright, and they will accept benefit cuts for upper-income recipients, either directly or through fuller taxation of benefits. But they reject across-the-board-cuts, reductions in cost-of-living adjustments, and increases in the retirement age. And the fate of President Bush's 2005 initiative confirms what surveys have long suggested: support fades for private accounts carved out of the existing program as the implications and necessary trade-offs become clear.

These core facts about public opinion suggest at best modest support for fundamentally altering Social Security. In all probability, the program will have to be made solvent and sustainable with a package of incremental changes, balanced between revenues and benefits, and within the current pay-as-you-go structure. And if the success of the 1983 reform is any guide, the most painful changes must be phased in slowly. Fortunately, the basic structure of the program ensures that even imperceptible change makes a large difference in the long run.[22]

Experience provides guidance, not only about the content of Social Security reform, but also about the context within which it can occur. The following are some rules of thumb.

> First, neither the White House nor the Congress can do the job on its own; they must cooperate, preferably from the outset.
>
> Second, great changes are seldom built on slender partisan majorities; regardless of who happens to hold a numerical edge, the parties must confer on more or less equal terms, and they must compromise.
>
> Third, a suitable reform package is unlikely to emerge from the normal congressional committee structure. A special mechanism—a commission or an ad hoc group of elected officials—will be needed.
>
> Fourth, even a small special mechanism cannot get the job done on the basis of majority vote. Each party must be represented by individuals capable of making binding agreements.
>
> Fifth, while sunlight may be the best disinfectant, it is not conducive to making decisions that are bound to disturb entrenched interest groups on both sides. Deal-making usually occurs under the cover of darkness and often requires subterfuge.
>
> Sixth, the package the group produces will have to be considered under a rule (in the House) and agreement (in the Senate) that restricts the number and type of amendments. If not, the legislative process is likely to disrupt the balance among the elements of the package, dooming the amended proposal to defeat.[23]

In even the best circumstances, Social Security reform is a tough sell. All the political incentives point in the direction of delay until action becomes unavoidable. Unfortunately, the longer we wait to make needed changes, the more abrupt and onerous they will become. Overcoming this dynamic will take inspired leadership and the spirit of compromise, political commodities that are in short supply in these polarized times.[24]

NOTES AND REFERENCES

[1] Bush for President announcement, July 12, 1999
[2] Press conference, November 4, 2004
[3] Jim VandeHei and Mike Allen, "Social Security Push to Tap GOP Faithful," *Washington Post*, January 14, 2005, A6. For a detailed account of this public relations effort, see George C. Edwards III, *Governing by Campaigning: The Politics of the Bush Presidency* (New York: Pearson/Longman, 2007), chapters 7 and 8.
[4] "Public's Agenda Differs from President's," The Pew Research Center for the People and the Press, Washington, DC, January 13, 2005, p. 1.
[5] For example, an NBC/Wall Street Journal survey conducted in December 2004 found that only 35 percent agreed with the proposition that the election had given President Bush a "mandate" for carving private accounts out of Social Security; 51 percent disagreed.
[6] Los Angeles Times, January 15-17. 2005
[7] A Washington Post/ABC News survey in December 2004 found that only 25 percent of respondents viewed Social Security as "in crisis," compared with 49 percent who said that the program had "major problems" but was not in crisis. A month later, CNN/USA Today/Gallup came up with similar results: 18 percent opted for crisis versus 53 percent for major problems.
[8] "Public's Agenda Differs from the President's," p. 1; NBC News/Wall Street Journal survey, December 13, 2004.
[9] Jim VandeHei, "A Big Push on Social Security," *Washington Post*, January 1, 2005, A1.
[10] As Kent Weaver has emphasized, the "politics of austerity" generates pressures to avoid or diffuse blame, which is very hard to do unless parties and leaders across the spectrum agree to take the plunge together. This was the logic that led to the 1983 Greenspan Commission. Weaver, "Pension Reform in the United States," in Giuliano Bonoli and Toshimitsu Shinkawa, *Ageing and Pension Reform Around the World* (Cheltenham, UK: Edward Elgar, 2005), pp. 230-251.
[11] In holding back, Democrats followed the advice of many journalists and thoughtful observers broadly associated with their party. See, for example, Jonathan Chait, "Blocking Move: A Principled Case for Obstruction," *The New Republic Online*, March 15, 2005; and Thomas Mann, "Game On," *The New Republic Online*, March 18, 2005. As Mann summarized the case, "The prospects for a genuinely bipartisan solution on Social Security brighten if Democrats first just say no."
[12] Quoted in Edwards, p. 253.
[13] Jonathan Weisman, "Bush Plan Greeted with Caution," *Washington Post*, April 30, 2005, A1.
[14] "Did the President Score on Social Security?" Pew Research Center for the People and the Press, April 29, 2005
[15] R. Douglas Arnold, "The Politics of Reforming Social Security," *Political Science Quarterly* 113, 2 (1998): 219-225.
[16] Quoted in Edwards, p. 253.
[17] For the sources and statistics behind these generalizations, see Andrea Louise Campbell, *How Policies Make Citizens: Senior Political Activism and the American Welfare State* (Princeton: Princeton University Press, 2003), pp. 19-31.
[18] Campbell, p. 67.
[19] Campbell, pp. 47, 54.
[20] Campbell, pp. 77, 84-90.
[21] Campbell, pp. 93, 104.

[22] The evidence supporting the assertions in this and the prior paragraph is drawn from numerous surveys and is concisely summarized in Lawrence R. Jacobs and Robert Y. Shapiro, "Myths and Misunderstandings about Public Opinion toward Social Security," in R. Douglas Arnold, Michael J. Graetz, and Alicia H. Munnell, eds., *Framing the Social Security Debate: Values, Politics, and Economics* (Washington, DC: National Academy of Social Insurance, 1998).

[23] On these points, see especially Paul Light, *Artful Work: The Politics of Social Security Reform* (New York: Random House, 1985); and also Light's concluding comments in Arnold, Graetz, and Munnell, pp. 425-427.

[24] For the bill of particulars, see William A. Galston and Pietro S. Nivola, "Delineating the Problem," in Nivola and David W. Brady, eds., *Red and Blue Nation? Characteristics and Causes of America's Polarized Politics* (Washington, DC: Brookings, 2006).