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# REBUILDING SOCIAL SECURITY: PART 1
# THE CRISIS CONTINUES

## INTRODUCTION

Now that the immediate Social Security crisis has apparently passed, policymakers have a rare opportunity to examine the future of the system calmly and rationally. Despite the very costly 1983 bailout legislation, Social Security remains plagued by serious problems. The program still faces short-term and long-term financial imbalance--even taking at face value the rosy projections contained in the just released 1984 Annual Report of the Social Security Board of Trustees. More realistic analysis indicates these financial problems are far worse than the Social Security Administration (SSA) projects. Indeed, the system's former Chief Actuary, A. Haeworth Robertson, warns that Social Security is in such bad shape that, to honor obligations to today's workers, payroll taxes of over 40 percent eventually may be required--meaning a hike in the employer and employee tax of over $5,000 for the worker earning $20,000.

Even if all the benefits promised to today's young workers are somehow paid, the program is still a miserable deal for these workers, given the enormous tax burdens they are required to bear throughout their working years under current law. The program continues to have deeply damaging effects on the economy because of the ever escalating payroll tax and its likely powerful effect of reducing savings. The program's inequitable benefit structure persists, whereby two workers who pay the same taxes can expect very different benefits. As now structured, it also has a particularly harsh and discriminatory impact on the poor and minorities.

As long as a financial catastrophe for Social Security is not imminent, however, most legislators would prefer, for political reasons, to ignore indefinitely the structural defects of the program. But this would be like ignoring a sleeping elephant in the living room. Social Security, including Medicare, accounts for almost 30 percent of the entire federal budget. Politicians may talk about reducing federal spending, but unless they mean to address Social Security, they are misleading the American people.

This does not mean that a massive assault on benefits for the elderly is a remedy. Nor is Social Security reform inevitably a "no-win" issue for politicians. As Part II of this study will explain, fundamental Social Security reform can and should be a popular issue. For despite the enormous problems currently facing Social Security, fundamental reform, properly structured, can lead to equitable and assured benefits for every American. To achieve this, Congress should pass legislation to allow workers to put more of their income into tax-free Individual Retirement Accounts (IRA) in return for reductions in the normal level of Social Security benefits. In this way the obligations of the system could be steadily reduced and the retirement prospects of workers improved, while making the lives of today's retirees far more secure.

## CONTINUING FINANCIAL PROBLEMS OF SOCIAL SECURITY

In December 1977, at the urging of President Carter, Congress enacted a Social Security bailout plan to save the program from impending bankruptcy. The plan amounted to the largest peacetime tax increase in U.S. history. In 1978, the Social Security Board of Trustees proclaimed in its annual report:

> The Social Security Amendments of 1977...restore the fiscal soundness of the cash benefit program for the remainder of this century and into the early years of the next one.[1]

Yet, just two years later, the 1980 Annual Report admitted:

> Under all three sets of assumptions..., the assets of the OASI [Old-Age and Survivor Insurance] Trust Fund would soon become insufficient to pay benefits when due.... Accordingly, changes in the law are needed....[2]

### Recessions and Inflation

In 1983, virtually the same bureaucratic establishment that authored the 1977 plan enacted another bailout plan--again to "save" the system from bankruptcy. And today the same establishment is assuring everyone that the program will remain sound well into the next century.

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1 Social Security Board of Trustees, 1978 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Washington, D.C., May 15, 1978), p. 3.

2 Social Security Board of Trustees, 1980 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Washington, D.C., June 17, 1980), p. 5.

The truth is that the program suffers from short-term and long-term financing difficulties. In the short run, the program is vulnerable to cycles of inflation and recession. Inflation causes Social Security expenditures to rise, because benefits are indexed. And recession causes Social Security income to fall from expected levels, because unemployment rises, wage and employment growth slow down, and payroll taxes therefore produce less revenue. Without a large trust fund to provide a wide margin for error, Social Security cannot survive the back-to-back sharp inflations and steep recessions that have typified the economy in recent decades.

The projections of the 1984 annual Social Security Trustees report[3] indicate that the program's trust fund levels, excluding the Hospital Insurance (HI) program,[4] will provide only the same narrow margin for error for the rest of this decade as the Social Security Administration (SSA) projected for the years immediately following the 1977 bailout. This means that, just as Social Security was unable to survive the twin shocks of the 1978-1979 inflation and 1980/1982 recession, so it will not be able to survive future inflation and recessions.

This danger is widely recognized by respected analysts. The SSA's own Deputy Chief Actuary, responsible for short-term projections, acknowledged this in a briefing memorandum distributed within the Administration soon after passage of the 1983 bailout legislation:

> If actual growth is more rapid in 1983, but then restricted by another recession within the next few years, the trust funds would be in a worse financial position than indicated under [pessimistic assumptions].... Depletion of the...trust funds would be very likely under these conditions and could conceivably occur within a few years from now.[5]

The 1984 Trustees' report itself repeatedly warns of the program's vulnerability to a sharp recession at least until 1987.

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3 Social Security Board of Trustees, 1984 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (Washington, D.C., April 5, 1984).

4 Social Security includes Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Hospital Insurance (HI). OASI plus DI is OASDI. OASDI plus HI is OASDHI. OASI currently accounts for about 72 percent of Social Security expenditures, DI about 8 percent and HI about 20 percent. HI financing problems are discussed in more detail below.

5 Richard S. Foster, Short-Range Financial Status of the Social Security Program Under the Social Security Amendments of 1983, April 6, 1983, p. 3.

Indefinite Vulnerability

Even without another inflation/recession cycle, Social Security remains vulnerable. The 1983 "rescue" legislation relies on massive tax increases in 1988 and 1990 to move the program out of jeopardy. But these tax hikes will hold back the economy, in particular by reducing employment. As a result they probably will raise less revenue than expected.

Other revenue provisions in the 1983 bailout legislation are also likely to fall short. For example, the package included taxation of Social Security benefits for single retirees with incomes over $25,000 and retired couples with incomes over $32,000. Many retirees will find legal ways to avoid the taxation by sheltering their incomes so that they fall below these thresholds. The 1983 legislation also raised tax rates sharply for self-employed workers. But this is likely to reduce the number of self-employed workers, and again mean less new revenue.

The 1984 Trustees' report projects that the hospital insurance (HI) segment of Social Security will probably not be able to meet its benefit obligations, and will run into deficit by the end of the decade.[6] The projections suggest that HI will consume any remaining surplus from the rest of the program, and Social Security as a whole will continue in a precarious state.

Indeed, a careful reading of the 1984 Trustees' report indicates that, under the so-called Alternative III assumptions, Social Security as a whole can be expected to collapse in the mid-1990s. Alternative III assumptions may be the most pessimistic, but historically they have been closest to reality. Buried in Appendix F of the report (OASDI)[7] is an analysis showing that the trust funds for the entire program, as a percentage of all Social Security expenditures, are projected to decline from 23 percent in 1984 to 11 percent in 1993, barely the minimum necessary to pay benefits on time, let alone build a reserve.

The Continuing Long-Term Crisis

Looking at the next 75 years, the 1984 Trustees' report projects that Social Security, excluding HI, would run a negligible deficit (0.06 percent of taxable payroll) under the widely cited Alternative IIB assumptions.[8] But this calculation masks the fact that, even under these assumptions, a major long-term financing problem would still exist. The analysis shows large annual surpluses starting at the end of this decade and lasting until 2015-2020, leading to the accumulation of a large trust fund. After

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6 Social Security Board of Trustees, 1984 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund (Washington, D.C., April 5, 1984).

7 Social Security Board of Trustees, 1984 Annual Report (OASDI), Appendix F.

8 Social Security Board of Trustees, 1984 Annual Report (OASDI).

2020-2025, however, large annual deficits appear that will last for 40 years, exhausting the trust fund. By 2060, Social Security expenditures, excluding HI, would be running 17 percent higher than revenues every year. Even taking the government's projections at face value, it would seem that under current law it is only a matter of time before the accumulated surpluses are consumed and the system collapses.

Unfortunately, the assumptions underlying such projections rarely err on the side of pessimism. For example, fertility (lifetime births per woman) is assumed to increase substantially and permanently from its current level. But the U.S. fertility rate has actually fallen steadily for 200 years, with only a brief upturn produced by the cataclysms of the Great Depression and World War II.[9] Moreover, the rate of increase in life expectancy will slow down significantly according to the IIB assumptions. But with the probability of major technological breakthroughs in health care over the next several decades, this assumption seems quite unrealistic. Indeed, substantial extensions of life expectancy in the next century, due to medical breakthroughs, could spell financial disaster for Social Security, because benefits will have to be paid for many more years.

It is also assumed that inflation and unemployment will stabilize at 4 percent and 6 percent over the next few years and stay at those levels until 2060. Other economic statistics are assumed to follow a similar stable pattern, implying that there will not be another recession or serious bout of inflation for the next 75 years--an unlikely scenario.

As for HI, the 1984 Trustees' report indicates that, under Alternative IIB assumptions, the long-term deficit for just this portion of the program will be as large as the long-term gap in the rest of the program that was addressed by the 1983 bailout legislation.[10] Under the Alternative III assumptions, however, the long-term HI deficit could be at least three times as large as the long-term OASDI gap addressed in 1983.[11]

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9 See Peter J. Ferrara, Social Security: The Inherent Contradiction (San Francisco, California: Cato Institute, 1979), Table 33.

10 The 1983 Social Security bailout package sought to save about 2 percent of taxable payroll over the next 75 years for the OASDI portion of the program. Data provided in Appendix F of the 1984 Trustees' report (ASDI) indicate that the 75-year deficit in HI under Alternative IIB would be 4.03 percent.

11 The 1984 Trustees' report (HI) did not make projections for HI under Alternative III assumptions until 2005. By that year the cost of HI was already running 2.5 percent of taxable payroll higher each year under Alternative III than under Alternative IIb. This differential could only be expected to widen further over the next 55 years, so that over the next 75 years the accumulated HI deficits would probably be at least another 2 percent of payroll higher under Alternative III as compared to Alternative IIB. This would make the 75-year HI deficit under Alternative III at least 6 percent of taxable payroll, or three times the long-term OASDI gap addressed in 1983.

The simple fact is that paying the Social Security benefits promised to younger workers entering the workforce today will require payroll tax rates, including both the employer and employee shares, of 33 percent or more, compared to the current 14 percent.[12] This would mean a tax hike of nearly $4,000 for a worker making $20,000. A former Social Security Chief Actuary, A. Haeworth Robertson, calculates that payroll tax rates may have to climb to over 40 percent to pay the promised benefits to today's young workers, meaning a combined payroll tax increase of over $5,000 for the worker on $20,000.[13] If the promised benefits are to be paid, without reforming the system, the only alternative to these staggering payroll tax rates will be income tax hikes and massive general revenue financing.

## FOR TODAY'S YOUNG WORKERS: A BAD DEAL

Even if all the benefits promised to today's young workers are somehow paid, the program will still be a miserable deal for these workers. The rate of return paid by Social Security has been falling for years; by the time those now entering the work-force reach retirement age, this return will likely be well below market levels.

### Pay-As-You-Go Problems

Such low returns are a natural consequence of Social Security's pay-as-you-go method of financing, under which taxes paid by current workers are not saved for their own benefits, but are used immediately to finance the benefits of current beneficiaries. Workers retiring in the early years of Social Security had to pay taxes only for part of their working careers, and paid low taxes at that. The maximum annual tax, including both the employer and employee shares, was a mere $189 in 1958, and only $348 as late as 1965. Yet these retirees were paid full benefits out of the

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12 Under the most realistic Alternative III assumptions, the 1984 Trustees' report (OASDI) states that by 2030, OASDI will cost 20 percent of taxable payroll. The 1984 report (HI) also indicates that under Alternative IIB assumptions HI in 2030 will cost 11 percent of taxable payroll. Since, as noted in footnote 11, by 2005 HI costs under Alternative III were already 2.5 percent of taxable payroll higher than costs under Alternative IIB, Alternative III costs in 2030 would probably be over 13 percent of taxable payroll. Consequently, costs for the entire program would probably be over 33 percent by 2030 under Alternative III. For further discussion, see Peter J. Ferrara, Social Security: The Inherent Contradiction, Chapter 5; Ferrara, Social Security: Averting the Crisis (Washington, D.C.: Cato Institute, 1982), Chapter 5; Ferrara, Social Security Reform: The Family Security Plan (Washington, D.C.: The Heritage Foundation, 1982), Chapter 3.

13 A. Haeworth Robertson, The Coming Revolution in Social Security (Reston, Virginia: Reston Publishing Company, 1981). Robertson states that he still believes tax rates have to climb over 40 percent even with the 1983 bailout measures.

taxes of those still working, representing a very high return on their contributions.

Over time, however, this return naturally began to fall, as workers paid taxes for more of their working careers. For today's retirees, the program's benefits still represent a good return on the taxes they paid into the system. But young people now entering the workforce must expect to pay taxes of several thousand dollars a year for their entire working careers. The maximum annual tax today, paid by the employer and employee, is almost $5,300, and it will be over $8,000 by 1990.[14] Moreover, the 1983 legislation cut the benefits promised to these young workers. For most such workers, the real rate of return paid by Social Security will be one percent or less. For two-earner couples or those paying the maximum tax (a large proportion of this generation), the real tax return will be practically zero, or even negative.[15]

The Return on Alternative Investments

By contrast, real returns on equity investments have typically averaged 6 percent or more over long periods. From 1926 to 1976, a period including the Great Depression, one World War, two other wars, and sustained periods of inflation, the combined real rate of return on all stocks on the New York Stock Exchange was 6.8 percent.[16]

If today's young workers could use their Social Security taxes to make such investments through an Individual Retirement Account (IRA), then, assuming a 6 percent real return, most would receive three to six times the retirement benefits promised them under Social Security.[17] Career minimum wage earners would receive about twice the benefits, while two maximum income spouses would receive at least eight times the benefits.[18]

This calculation of private benefits is based on after-tax returns--after the corporate income tax and other business taxes have been paid. A truly fair comparison between Social Security and private alternatives would be between the real, before-tax returns of the private system and those under Social Security.

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14 Calculated based on projections in Social Security Board of Trustees, 1983 Annual Report (OASDI).

15 Calculated based on the Alternative IIB assumptions of the 1983 annual Social Security Trustees' reports. These calculations will be presented in detail in a forthcoming study to be published by the Cato Institute, Washington, D.C.

16 Roger G. Ibbotson and Rex A. Sinquefeld, Stocks, Bonds, Bills and Inflation: The Past (1926-1976) and The Future (1977-2000) (Chicago: Financial Analysts Research Foundation, 1977).

17 Ferrara, Social Security: The Inherent Contradiction, Chapter 4; Ferrara, Social Security: Averting the Crisis, Chapter 4.

18 Ibid.

Studies by such analysts as former Harvard economist, now Chairman of the Council of Economic Advisers, Martin Feldstein estimate that the before-tax real rate of return on capital is at least 12 percent.[19] Of course, this would only be relevant to what individuals could earn if they could invest IRA funds without taxation at any point, unlike the current IRA system. Nevertheless, it indicates the underlying return available in the private sector. Moreover, the structure for a reformed, totally untaxed IRA has been proposed.[20] In any event, even if some of the before-tax return were taken in taxes, the revenues thus generated would still have to be considered an additional benefit produced by the private system.

There is simply no economic sense in requiring Social Security as a retirement investment when it pays such low returns. How can Congress possibly justify compelling such a huge investment by young workers when their return will be zero or even negative? As these low returns become widely recognized, public confidence in Social Security will plummet from its already low level. Such unfairness to today's younger generations is clearly intolerable, and fundamental reform is absolutely necessary.[21]

## THE ECONOMY: DESTROYING JOBS AND ECONOMIC GROWTH

Social Security, as presently structured, also severely retards economic growth by destroying jobs and discouraging investment. A primary agent of this harmful effect is the Social Security payroll tax.

### The Tax Burden

To the extent the tax is borne by employers, it discourages them from hiring. To the extent the tax is borne by employees, it discourages them from working. Economic analysis indicates that the tax is, in fact, fully borne by employees,[22] but no matter how allocated, the result is less employment, and consequently, less output.

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19 Martin Feldstein, "National Saving in the United States," Harvard Institute of Economic Research, Discussion Paper No. 566, October 1976; Martin Feldstein, "Toward a Reform of Social Security," The Public Interest, Summer 1975, pp. 75-95; Martin Feldstein, "The Optimal Financing of Social Security," Harvard Institute of Economic Research, Discussion Paper No. 338, 1974; Alicia H. Munnell, The Future of Social Security (Washington, D.C.: The Brookings Institution, 1977), p. 128.

20 Ferrara, Social Security: The Inherent Contradiction, Chapter 12; Ferrara, Social Security: Averting the Crisis, Chapter 10; Ferrara, Social Security Reform: The Family Security Plan, Chapter 4.

21 For a detailed discussion of this problem, see Ferrara, Social Security: The Inherent Contradiction, Chapter 4; Ferrara, Social Security: Averting the Crisis, Chapter 4; Ferrara, Social Security Reform: The Family Security Plan, Chapter 3.

22 See Ferrara, Social Security: The Inherent Contradiction, Chapter 2.

The maximum annual payroll tax on the worker and his employer, as noted, is now almost $5,300 and slated to rise to over $8,000 by 1990. For at least half of all workers covered by Social Security, the combined payroll tax is more than they pay in federal income tax.[23] In Fiscal Year 1983, the payroll tax, drawn primarily from low and moderate income workers, yielded over 80 percent more than total federal revenue from corporate and business taxes.[24] In a society deeply concerned about employment opportunities, such a heavy tax burden on labor is clearly irrational.

Yet the future portends massive payroll tax increases. Scheduled for 1988 and 1990 are two that will raise the total combined payroll tax rate from today's 14 percent to 15.3 percent in 1990. In addition, there will be automatic annual increases in the maximum taxable income. But tax rates will have to far exceed even these levels to pay the benefits promised to today's young people. This will entail even heavier burdens on the economy. Eventually, the point may be reached where the economy simply cannot support the Social Security tax burden, since further tax hikes will only reduce revenue because of their harm to the general economy.[25]

## The Pressure on Savings

An even worse economic problem may be the negative impact on savings. Social Security tends to discourage saving because workers see the program as a means of providing for retirement, and they tend to reduce their private retirement savings accordingly. But Social Security operates on a pay-as-you-go basis, and so no offsetting new savings are made through the program. The result is a large net loss of savings.

This effect could be considerable, potentially reducing national savings and capital by 40 to 50 percent.[26] Less savings mean less capital for investment and, hence, lower economic growth and GNP. It has been estimated that this savings loss could be cutting potential GNP by as much as one-sixth.[27]

There is, admittedly, considerable controversy in the economics profession over the magnitude of the impact on savings,

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23 Benjamin Bridges, Jr., "Family Social Security Taxes Compared with Federal Income Taxes, 1979," Social Security Bulletin, December 1981.

24 President's Council of Economic Advisors, Economic Report of the President (Washington, D.C.: U.S. Government Printing Office, 1984).

25 For a more detailed discussion of the impact of the payroll tax on the economy, see Ferrara, Social Security: The Inherent Contradiction, Chapter 3; Ferrara, Social Security: Averting the Crisis, Chapter 3; Ferrara, Social Security Reform: The Family Security Plan, Chapter 3.

26 See discussion in Ferrara, Social Security: The Inherent Contradiction, Chapter 3; Ferrara, Social Security: Averting the Crisis, Chapter 3; Ferrara, Social Security Reform: The Family Security Plan, Chapter 3.

27 Martin Feldstein, "Social Insurance," Harvard Institute of Economic Research, Discussion Paper No. 477, May 1976, p. 33.

with various studies indicating a wide range of outcomes.[28] Economists generally agree that Social Security has a powerful effect tending to reduce savings, but some argue that the program does have offsetting effects tending to increase savings. Yet, there is no convincing evidence that Social Security, on balance, increases savings.[29] Since Social Security creates no savings directly, any induced savings would have to be considerable to offset the suffocating effect of the payroll tax on private savings.[30]

## INEQUITIES, DISCRIMINATION, AND BURDENS ON THE POOR

Another major problem plaguing Social Security involves the inequities of the program's benefit structure. Two workers who pay exactly the same amounts into Social Security over their working careers may receive widely varying benefits. For example, larger benefits are paid to workers with nonworking spouses or dependent children than to workers without dependents--even though both may have paid exactly the same taxes. A two-earner couple may pay twice the taxes of a single-earner couple, yet receive only one-third more in benefits. And single workers without young children must pay for Social Security survivors' insurance, even though no such benefits can ever be paid on their behalf. Similar inequities exist for many two-earner couples.

### Minorities

The program's benefit structure seriously discriminates against blacks and other minorities. For example, the life expectancy of black Americans is significantly less than that of whites, and consequently blacks can expect to receive less in benefits while paying the same taxes. According to a study by the National Center for Policy Analysis (NCPA),[31] a black male born today has a life expectancy of 64 years, and therefore, on average, will not live long enough to receive full Social Security retirement benefits for a single day. A black male at age 25 today can expect to receive full Social Security retirement benefits for only 5 months, while a white male age 25 can expect 6 years of full benefits--about 15 times as much. The legislated increase in the retirement age, to 67, in the year 2027 reduces the expected retirement benefits of the typical 25-year-old black male by 80 percent, while reducing expected benefits for white counterparts by only 22 percent. The NCPA study also points out that the average age of blacks is significantly below that of whites.

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28 These varying studies are discussed in the sources cited in footnote 26.

29 See Ferrara, Social Security: The Inherent Contradiction, Chapter 3; Ferrara, Social Security: Averting the Crisis, Chapter 3.

30 For a more detailed discussion of this issue, see the sources cited in footnote 26.

31 National Center for Policy Analysis, The Effect of the Social Security System on Black Americans (Dallas, Texas: NCPA, 1983).

Since the younger a retiree, the lower the likely return on Social Security, the program further discriminates against blacks as a group.

The Poor

The poor are also hurt by the program in many important ways. Lower income workers typically leave school and start work earlier than those with higher incomes. Yet, Social Security credits these workers with little, if any, additional benefits for their early years of work and longer tax payments. Single workers are much more likely to be poor than are married couples, yet the program pays additional benefits for married workers that are not available to single workers, while it taxes them at the same levels.

A significant portion of the benefits paid through Social Security constitute welfare benefits, unrelated to past taxes paid into the program. But since the program's benefits are paid without a means test, these welfare benefits often go to people who are not in need. The program contains welfare provisions that help the poor, but a study by Henry J. Aaron of the Brookings Institution found that its negative effects outweigh the positive welfare elements, resulting in a lower return on their tax dollars for the poor than for higher income workers.[32] And this study did not even consider the negative economic effects of the program.[33]

## CONCLUSION

Social Security suffers from many serious shortcomings. The program politicizes retirement income, and therefore makes the operation of an economically rational retirement system almost impossible.[34] It is harshly and unnecessarily coercive in that it forces individuals to "buy" one particular pattern of retirement and insurance coverage (Social Security) from one particular "seller" (the federal government), and thereby deprives them of control over a substantial part of their incomes.[35] And the program effectively nationalizes a large portion of the insurance and

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32 Henry J. Aaron, Demographic Effects on the Equity of Social Security Benefits (Washington, D.C.: Brookings Institution, 1979).

33 For a more detailed discussion of Social Security's inequities, see Ferrara, Social Security: The Inherent Contradiction, Chapter 6; Ferrara, Social Security: Averting the Crisis, Chapter 6; Ferrara, Social Security Reform: The Family Security Plan, Chapter 3.

34 For a more detailed discussion of this issue, see Ferrara, Social Security: The Inherent Contradiction, Chapter 7; Ferrara, Social Security: Averting the Crisis, Chapter 7; Ferrara, Social Security Reform: The Family Security Plan, Chapter 3.

35 For a more detailed discussion of this issue, see Ferrara, Social Security: The Inherent Contradiction, Chapter 8; Ferrara, Social Security: Averting the Crisis, Chapter 8; Ferrara, Social Security Reform: The Family Security Plan, Chapter 3.

financial industry by bringing into the public sector many functions that could be handled much more efficiently by the competitive private sector.

But Social Security has become so familiar that even conservatives today generally fail to appreciate its true nature and inequities. It has enough problems of a broad nature to make a compelling case for fundamental reform. The inherent problems of the system are staggering and demand such reform. If political leaders prove unwilling to respond to this challenge, Americans will be left facing inexorable payroll tax increases, general revenue financing, or politically disastrous benefit cuts. Ultimately, this can only be a losing game for politicians of every persuasion.

Congress can escape these bleak choices only by enacting structural reforms--in contrast to the stop-gap approach that has characterized most recent "reforms." Offering workers the opportunity to participate in private sector alternatives to Social Security would transcend the current benefit cut/tax increase trap. Part II of this study will describe a feasible proposal to initiate this opportunity. Such a reform would not deprive anybody of anything. It promises simply to increase the freedom of workers and add to their retirement security. In short, there is a viable, politically attractive solution to Social Security's deep and continuing problems.

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