Social Security has a very serious long-term problem. Absent any new legislation, the program will begin to draw down its financial reserves early in the next century and will be in deficit in about thirty years. At that point, it will be able to pay only about 75 percent of promised benefits. In the past, when imbalances were forecast, policy makers enacted modest adjustments in taxes and benefits. Some people believe that is what they should do today. Other people, however, propose a radical transformation of Social Security, replacing the current pay-as-you-go defined benefit system with an advance-funded, defined contribution system, with individual investment accounts controlled by workers themselves. Still others propose hybrid schemes that would preserve some of the current system and create more modest individual investment accounts.

In his 1998 State of the Union Address, President Clinton proposed a White House Conference on Social Security in December 1998. He has also urged Congress to enact reform legislation by the end of 1999. This aim of this Task Force is to draft a single reform plan for consideration by the Senate Finance Committee in January 1999. The Committee has asked the Task Force to draft a plan that is both economically sound and politically appealing.

A. Background.

Social Security is the largest federal program, comprising roughly three-quarters of all social spending, with a budget even larger than that of defense. It is one of the few federal programs that affects everyone. Many workers pay as much in Social Security taxes as they do in income taxes; two-thirds of all retirees receive more than half their income from Social Security. The program is immensely popular across all generations, and politicians are reluctant to tinker with it in any way.

The fundamental problem of Social Security stems from the way the program is funded. Despite the rhetoric of contributions, earnings, and annuities, which suggests that workers’ payments are squirreled away for their retirement years, the program has been funded since its inception in the
1930s on a pay-as-you-go basis. Current workers are taxed in order to redistribute income to current retirees. This worked in the past, when the number of retirees was relatively small, but as people live longer, have fewer children, and the baby-boom generation comes to retirement, the tax burden on workers threatens to become unmanageable.

There are many technical fixes to the problem. Modest increases in Social Security taxes today, coupled with modest decreases in future benefits, would eliminate the deficit for as far as demographers can see. What is technically easy, however, is politically difficult. Few politicians want to increase taxes today in order to forestall a crisis on somebody else's watch. Equally few want to lose support of the elderly, who, with their high voting rates, have become one of the most powerful lobbying groups in Washington. The most recent government commission on reforming Social Security failed to come to agreement, and so there is still no politically viable proposal for reforming Social Security.

Some experts have proposed saving the system by privatizing it. Under this plan, workers would have greater control over their contributions, which could be invested in higher-yielding stocks rather than in government bonds. Fixing the system in this way is complicated by the fact that Social Security not only redistributes income from current workers to current retirees, but it also redistributes income toward the working poor (by providing extra retirement earnings for low-wage workers) and toward non-working spouses (when they reach retirement age). Designing a fair transition from one system to another also poses major challenges.

The aim of this Task Force is to develop a proposal for reforming the Social Security program. The proposal needs to be sensitive to demographic, economic, and political realities. It needs to be evaluated for its effects on various generations of workers and retirees, for its effects on the working poor, and for its effects on savings and investment in the national economy. Most of all, it needs to be politically appealing and politically feasible.

### B. Task Force Format.

The first five weeks will be devoted to reading and discussion, so that all participants have a common background on Social Security. Students are expected to read the assigned readings before each meeting and come to class prepared for discussion.

From this point on, students will begin to direct the direction of the Task Force. The end product is clear: a group report, but along the way students will need to specialize on particular aspects of the problem. Each student will write at least one background paper, present preliminary findings orally, and contribute to the overall group report. The exact assignments will be worked out collectively.
C. Meeting Times.

The regular meeting time is Wednesday evening, 7:00 to 9:30, in Robertson Hall, Room 13.

There will be a special meeting with a distinguished visitor on Tuesday, November 10, from 4:30 to 9:30 (dinner included).

D. Office Hours.

Friday, 1:30-3:30 Also by appointment.

Robertson Hall, Room 310 Phone: 258-4855 arnold@princeton.edu

EC. Evaluation and Grading.

The instructor will assign individual grades to the workshop participants. Each grade will reflect both an overall assessment of the final report and an assessment of each individual’s contribution, as revealed in individual writing assignments, contributions to seminar discussions, oral presentations, and the like.

F. Due Dates.

The Dean’s date for the submission of all individual written work is Monday, January 4, the first day of reading period. Each individual paper must be submitted in final form by that date (unless special permission has been granted by the Office of the Dean of the College). The joint final report of the Task Force must be submitted by the following Tuesday, January 12.

F. Availability of Readings.

The first week’s readings will be distributed in students’ mailboxes several days prior to the first Task Force meeting. (Several spare packets are also available from Reggie Cohen, 314 Robertson Hall.)


I have obtained (free) individual copies of: Steven A. Sass and Robert K. Triest (eds.), Social Security Reform: Linking Saving, Investment, and Growth (1997). Copies will be distributed to you on September 23. We will read three chapters of this book.
We will also read seven chapters from R. Douglas Arnold, Michael Graetz, and Alicia H. Munnell (eds.), *Framing the Social Security Debate: Values, Politics, and Economics* (1998). The book will be published in November. Two copies of each draft chapter are on reserve in the Wilson School Library.

All other assigned readings are on reserve in the Wilson School Library.

**G. Weekly Assignments**

1. **The Great Social Security Debate (September 23)**

   A packet of readings for the first week will be distributed in students’ mailboxes several days prior to the first Task Force meeting. (Several spare packets are also available from Reggie Cohen, 314 Robertson Hall.)

   Please read these articles before the first meeting and come to class prepared for discussion. Browse the websites for the Cato Institute, the Third Rail, and the AARP, and become familiar with the site linking you to lots of other Social Security sites.

   a. *Required* (39 pages):

      [http://epn.org/prospect/26/26quin.html](http://epn.org/prospect/26/26quin.html)


b.  **Browse:**

Social Security Website Links (links to more than 100 sites related to Social Security)

http://www.ebri.org/SSProject/LINKS.html

Cato Institute: Social Security Privatization:

http://www.socialsecurity.org/

Third Rail: The Social Security Newsletter for Young Americans:

http://www.clark.net/pub/x-pac/thirdrail/

American Association of Retired Persons:

http://www.aarp.org/

2.  **The Social Security Program (September 30)**

a.  **Required** (184 pages):


### b. **Browse:**

Website for the Social Security Administration. Learn about the basics of the program. See how you can gain access to over 10,000 documents online. The home page is:

http://www.ssa.gov/SSA_Home.html


http://www.ssa.gov/OACT/TR/index.html

### 3. **Economics and Social Security (October 7)**

#### a. **Required** (182 pages):


http://www.columbia.edu/~spz1/res1.html


http://gray.nber.org/papers/W6149

b. **Browse:**

The National Bureau of Economic Research distribute scholarly working papers on a variety of economic issues, including Social Security. Firestone library collects these papers, and they are also available electronically from the NBER home page. Try searching for papers on Social Security and see what is available. The address for searching is:

http://www.nber.org/wwp.html

4. **The Politics of Social Security (October 14)**

a. **Required** (232 pages):


http://epn.org/psq.html (then click on full-text articles@)


5. **Alternative Reform Plans (October 21)**

   a. **Required** (213 pages):


   http://www.senate.gov/~moynihan/

6. **Planning Session (October 28)**

   Working session to plan individual and group assignments.
7a. Special Session (Tuesday, November 10)

Carolyn L. Weaver, a Resident Scholar at the American Enterprise Institute, will be visiting Princeton today. She is a specialist on social security, retirement, and disability policy, and was a prominent member of the Advisory Council on Social Security, whose final report was issued in January 1997. She is the author of *Understanding the Sources and Dimensions in Social Security: A First Step Toward Meaningful Reform* (1981), and *Disability and Work: Incentives, Rights, and Opportunities* (1991), and editor of *Social Security’s Looming Surpluses* (1990). Her new book, *The Frayed Social Contract: Why Social Security Is in Trouble and How It Can Be Fixed* is scheduled for publication in December.

She will be delivering a public lecture at 4:30 in Robertson Hall. There will be a dinner for her at Prospect House after the lecture to which all members of the Task Force are invited.

7b. Progress Report (November 11)

Progress report on work accomplished to date.

8. Regular Meeting (November 18)

9. No Meeting This Week (November 25)

10. Regular Meeting (December 2)

11. Regular Meeting (December 9)

12. Regular Meeting (December 16)

H. Reference Sources on the Web:

1. The Official Web Site of the Social Security Administration

   http://www.ssa.gov/SSA_Home.html


   http://www.ssa.gov/statistics/ores_home.html

3. Office of the Chief Actuary, SSA

   http://www.ssa.gov/OACT/index.html
4. Social Security Website Links (links to more than 100 sites related to Social Security)
   
   http://www.ebri.org/SSProject/LINKS.html

5. National Academy of Social Insurance
   
   http://www.nasi.org/

6. Cato Institute on Social Security Privatization
   
   http://www.socialsecurity.org/

7. Third Rail: The Social Security Newsletter for Young Americans
   
   http://www.clark.net/pub/x-pac/thirdrail/

8. The American Prospect on Social Security
   
   http://epn.org/prospect/socsec.html

9. American Association of Retired Persons
   
   http://www.aarp.org/

10. Americans Discuss Social Security
    
    http://www.americansdiscuss.org/

11. The Century Foundation (formerly the Twentieth Century Fund)
    
    http://www.tcf.org/Subject_Browse/Aging_of_America/index.html

12. Employee Benefit Research Institute
    
    http://www.ebri.org/SSProject/sslising.htm

I. Reserve Books: Wilson School Library


http://www.ssa.gov/OACT/TR/index.html

HD7125.D48

HD7125 .S5996 1996

HD7125 .S59923 1997

HJ2051 .K66 1992

HD7125 .L535 1995

HD7125 .S624 1997