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The Solvency Trap
Editorial
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Give President Bush credit for tenacity. Facing nearly total Democratic opposition and low poll numbers, he nonetheless raised the ante on Social Security last week. The President embraced "progressive indexing" of benefits, in the hope of breaking up the political logjam.

As a policy matter, this at least challenges Democrats to honor their own principles. For months they've been saying they really do want to do something about Social Security "solvency," which means shoring up its inevitable financing shortfall. By adjusting the formula for future benefits based on income, Mr. Bush has now embraced the "fairness" claims that Democrats say they hold dear. So are they serious or not?

On first response, not. Democrats immediately opposed Mr. Bush's proposal -- the brainchild of Democratic financier Robert Pozen -- as "big benefit cuts." AARP lobbyist John Rother proved his organization's lack of sincerity by calling it "an unnecessary and unfair benefit cut on the middle class."

Sigh. As Daniel Patrick Moynihan and other Democrats once acknowledged, current policy increases real, inflation-adjusted benefits over time. That's because benefits are tied to growth in wages, rather than to increases in prices (which rise somewhat more slowly). Though Democrats invoke FDR, this wasn't his idea; guaranteed annual increases were introduced in 1972 as politicians of both parties competed for elderly votes. Reversing this blunder would still protect all seniors from inflation and also go a long way toward addressing Social Security's financing shortfall.

But Mr. Bush is going further and proposing to keep wage-indexing for the bottom 30% of all workers, which means their benefits will actually increase by about 40% by the time they retire. Other workers would see more of their benefits price-indexed on a gradual basis as their income rose. And in any case, the indexing adjustment would apply only to the current program's benefits; whatever higher returns workers get from private accounts would be theirs to keep. If Bill Clinton were the President proposing this, Democrats would be doing "fairness" cartwheels.

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We hope this does jumble the political deck, but at this stage we're skeptical. Democrats feel they can tag a political defeat on Mr. Bush and profit in 2006 by just saying no; they've made opposition to even tiny private investment accounts a partisan imperative. And because Mr. Bush needs at least five Senate Democrats to pass a bill, the odds of success are long.

Embracing solvency in this way is thus not without its political risk for Republicans. Democrats are already saying they won't compromise unless Mr. Bush drops personal accounts, and GOP Ways and Means Chairman Bill Thomas is signaling -- dangerously -- that "personal accounts can take a number of forms." Yes, but unless accounts let individuals invest and own part of their own payroll taxes, they will be phony.

Another risk is a tax increase, which is clearly where Democrats and AARP are trying to maneuver Mr. Bush. The President still hasn't ruled out raising the income cap on payroll taxes above its current $90,000, though we were pleased to see him for the first time add the phrase "harm our economy" in describing tax increases that he would oppose. That suggests he would tolerate only a very modest increase in the income cap as part of a legislative deal.

The overriding problem, however, is that solvency pushes the entire reform debate into what Americans will lose rather than what they can gain. The great appeal of private accounts is the chance for workers to own their retirement savings rather than depend on the promises of politicians. Especially for lower-wage workers who find it hard to save, it is the chance to build wealth that they can control and pass along to their heirs. If they now die at age 64, they lose all of the taxes they've paid over a lifetime of work. That's the "fairness" argument we wish Mr. Bush and Republicans were stressing.

We also wish Mr. Bush would stop promising that any reform will somehow be "permanent," or last at least for 75 years. No one really knows how much U.S. demographics will change 50 years from now, and the notion of a 75-year fix depends on actuarial assumptions that are mere guesses anyway. Voters know that nothing is permanent in politics, and the important point is to make changes that move in the right policy direction.

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On the latter point, what we do know with confidence is that, between now and 2017, the payroll tax will raise at least $2.2 trillion more in taxes than will be paid out in benefits. That "surplus" cash will not go into some vault waiting for the Baby Boomers to retire but will instead be spent by Congress -- on things like one more bridge in Alaska.

If Democrats refuse to budge, this is where Republicans should take the debate. If a grand compromise is impossible, how about protecting payroll tax money for the next 12 years from the politicians who would spend it? This wouldn't require the large borrowing for a 75-year fix that Democrats say they oppose. And this would at least get the idea of private accounts off the ground, as well as put that $2.2 trillion to better use in the private economy.

Mr. Bush deserves credit for taking on a problem in Social Security that does not become acute on his watch, and we still hope he succeeds. Even if he loses this year's battle, he is winning the larger war of ideas by making the GOP the party of reform. But it takes two parties to pass this one, and if Democrats won't dance Mr. Bush needs to avoid falling into their solvency trap.