WASHINGTON

Progressive Dementia

The president may not get his way on Social Security reform, but one element of the plan will rise again. It shouldn’t.

By JOSEPH E. STIGLITZ

The proposed changes in Social Security for which President Bush has been stubbornly campaigning all year will fail in all likelihood, despite a chilly public reaction to a surface legislative foreshadowing for congressional debate this fall. But the focus of the debate has shifted significantly since the president first brought attention to the subject. And, regardless of whether his specific proposals stand or the issue is now on the table, the changes will materialize every time Social Security reform comes up.

When the president introduced the topic of Social Security reform, in his State of the Union speech last winter, he focused on the need to reform individual Social Security accounts, which would allow participants to divert some money from payroll deductions to private investment. It soon became clear, however, that this would leave the system no more solvent than before. In fact, the federal government would have to borrow trillions of dollars to make up for the lost revenue. This was a problem, given that concern about solvency was the ostensible reason for proposing Social Security reform in the first place.

In truth, it is not at all clear that Social Security is in deep trouble; as with many things in economics, one’s assessment depends on what projections one uses. But if it is, “troublesome” simply means that its projected expenditures exceed its projected revenues. Faced with criticism that his original proposal to set aside greater amounts was just another one in a spate last April.

The art of politics is to design a solution that feels painless to all. (Or, at least to the seventeenth-century French finance minister Jean Baptiste Colbert, observed, “The art of taxation consists in so plucking the goose as to obtain the largest possible revenue of feathers with the smallest possible amount of hissing.”) The president’s version is called “progressive indexing.” This proposed path to solvency has just enough complexities and fine print to make it sound serious—and to make a full analysis of its consequences difficult.

Progressive indexing would change the way Social Security benefits are computed. Benefits are now based on recipients’ contribution histories, which are indexed to the general level of wages, and rise over time. As a result, the system is more prosperous, and wages increase, recipients get more money. Under the president’s proposal benefits for most Americans would increasingly be indexed to prices rather than to wages, the higher a worker’s benefits, the more the proportion pegged to prices. Because prices increase more slowly than wages (sometimes much more slowly), this would mean an enormous reduction in benefits—and enormous fiscal stress for the Social Security system. At the same time, the poorest Americans—those with incomes below $25,000—would still receive benefits indexed to wages. This would constitute a change that would penalize the better-off while protecting the poor, the president managed to cast this himself as something of a latterday Robin Hood.

The first question to ask is, Does progressive indexing work? The answer is yes. There is some indication that Social Security’s potential problems? In fact it would be hard to think of a worse way to address them.

To begin with, we don’t actually know how serious the shortfall is. To assess the system’s solvency we must make economic projections for the future. And there is a significant difference of opinion regarding the projections. Some economists think that, in the next ten years, Social Security will be in serious trouble. Others believe that the system will remain healthy for another thirty years. To judge by the projections, Social Security is already one of the most successful of the social insurance programs, and it is not clear that the changes proposed by the president will improve its performance. The projections indicate that the system will remain healthy for another thirty years, and it is not clear that the changes proposed by the president will improve its performance. The projections indicate that the system will remain healthy for another thirty years, and it is not clear that the changes proposed by the president will improve its performance. The projections indicate that the system will remain healthy for another thirty years, and it is not clear that the changes proposed by the president will improve its performance. The projections indicate that the system will remain healthy for another thirty years, and it is not clear that the changes proposed by the president will improve its performance.