摘 要

美国社会保障基金受到来自人口和社会的压力，迫切需要进行改革，以保证其偿付能力将来不会被削弱。

为此，小布什政府于 2001 年提出了一份社会保障基金私有化改革报告，主张在现有的社会保障制度中引入个人帐户制度。此举在经济学界和政界引起了一场关于社会保障基金私有化的争论。本文根据著名经济学家的论述，从多个方面论证了小布什的私有化改革方案是不具有可行性的。该方案不仅无助于减小社会保障将来会出现的赤字，还会大幅度降低给付水平，破坏社会保障制度的稳定性和持续性。

在美国，社会保障历来是一种政治手段，是一个重要的竞选议题。小布什夸大社会保障的问题，大力推行其私有化政策，表面上是为了解决社会保障出现的问题，实际上是为了实现自己的政治和经济利益。尽管小布什的改革方案和改革动机不断受到来自美国社会各界的强烈质疑和反对，但他仍执意将私有化进行下去。

作者认为，小布什的私有化主张是从意识形态出发的，而不是以社会保障受益人的利益为重。社会保障改革方案的制定应该符合建立该项目的目的，即，为美国民众提供生活保障，维护社会稳定，促进经济发展。

关键词　社会保障基金 个人帐户 社保基金私有化 社会保障改革

Abstract

U.S. Social Security program has been a very successful program for the American people since it founding. But nowadays, the long-term solvency of Social Security Trust Funds is facing some challenges. Prompt actions are needed to deal with the Social Security problems.

For this reason, the Bush administration (2001-present) put forward a President's report on Social Security reform, which proposes introducing a system of personal accounts in the current Social Security system. This report has caused a nationwide discussion about Social Security privatization. Based on the works of some famous American economists, this thesis proves the infeasibility of Bush's reform plans. These reform plans would do nothing to reduce the future shortfall of Social Security, and would lead to massive benefit cuts and put the Social Security system at risk.

In America, Social Security has always been a political instrument and a major election issue. George W. Bush has exaggerated Social Security problems and promoted Social Security privatization with a view to pursuing his political and economic interests instead of addressing Social Security problems. Although Bush has met strong opposition to Social Security privatization, he still decides to push ahead.

Bush's privatization plans proceed from his ideology rather than the interests of Social Security beneficiaries. The making of Social Security reform plans should conform to the purposes of Social Security program, that is, to provide basic guarantee for the life of the Americans, maintain social stability and promote economic growth.

Key Words: Social Security Trust Funds, personal accounts, privatization and reform

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Introduction

U.S. Social Security is by far the largest and most popular federal program of the U.S. Government.[1] The purposes of Social Security are to pursue equity and adequacy and promote economic growth and social stability in U.S. society. Over the past seventy years, it has developed into a program that is essential to the well-being of millions of American people. Meanwhile, Social Security plays an important role in the U.S. political arena. It is an instrument utilized by the American politicians in Presidential election and governor election.

Nowadays, Social Security is confronted by some financial problems: The future retirement of baby boomers (those born between 1946 and 1964) will need a much larger sum of retirement benefits than today; American people's life expectancy is getting longer; and, a legacy debt resulting from the program's past generosity is left to the present and future generations of Americans. The Social Security Trust Funds' solvency needs to be restored to maintain the sustainability of the program.

In this context, President Bush announced that Social Security is in financial crisis. In 2001, he put forward his Social Security reform plans. Bush proposed including personal accounts in Social Security, which would bring a fundamental change to Social Security program. President Bush touted his reform plans, claiming that they would offer Americans "individual choice", "personal ownership" and "higher returns". Yet, these privatization plans met strong opposition from many U.S. economists, the Democratic Party and some other interested parties. Thus, Social Security privatization has become a hot-button issue in the United States. What Social Security reform plans are appropriate is much debated. Consequently, U.S. Social Security reform has become much more complicated than it should be.

Actually U.S. policy-makers have foreseen the sustainability problem of U.S. Social Security since the founding of the program.[2] U.S. Presidents and Congress

1. In 1935, Americans were nearly unanimous (89 percent) in their support of government assistance to needy elderly people. In the history of Social Security, it has always been well received. See The Century Foundation, "The Basics: Social Security Reform (Revised, 2005 Edition)", The Century Foundation, http://www.cbpp.org/pubs/socsec-insert-intro.htm (accessed in November 2005).

2. 郑秉文/文，"DB 型现收现付制社保基金的危机与投资理念"，《世界经济》，2003/11，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e53.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=7&CurRec=38

have been making constant adjustments to U.S. Social Security policies since the program came into being in 1935. But the essence of Social Security has been preserved.

This program has successfully overcome greater problems than the present challenges in its history. The outlook for the current of Social Security is not as bleak as President Bush describes. Social Security is financially strong now and in no danger of "going broke" anytime in the next couple of decades. However, it is true that the program needs long-term measures to keep it in fiscal balance so that it will be able to pay full benefits to every generation of Americans.

This thesis focuses on Bush's reform plans and tries to explore the driving forces behind these controversial plans. Chapter 1 provides the background knowledge of U.S. Social Security program. Through an introduction to U.S. Social Security system and an explanation of the challenges it is facing, we shall understand how Social Security works and where the program is going. Chapter 2 studies the feasibility of Bush's reform plans with a focus on the role of personal accounts in Social Security, through which we shall find whether the excessive complexity involved in these plans are justified. Finally, after putting Social Security privatization in its true perspective, Chapter 3 explores the political motivation of Bush's pursuit of Social Security privatization, so that we can have a deep understanding of Social Security privatization.

The technical study of Bush's reform plans is based on the articles of some of the most prestigious and conscientious economists on U.S. Social Security, especially Prof. Peter A. Diamond[1] and Dr. Peter R. Orszag[1]. And, the study of U.S. Social

1. Peter A. Diamond is an Institute Professor at the Massachusetts Institute of Technology, where he has taught since 1966. He received his B.A. in Mathematics from Yale University in 1960 and his Ph. D. in Economics from M.I.T. in 1963. He has been President of the Econometric Society and is President-elect of the American Economic Association. He is a Founding Member of the National Academy of Social Insurance, where he has been President and Chair of the Board, a Fellow of the American Academy of Arts and Sciences, and a Member of the National Academy of Sciences. He was the recipient of the 1980 Mahalanobis Memorial Award and the 1994 Nemmers Prize. In the area of Social Security, he has been a member of the Panel on Social Security Financing consulting to U.S. Senate Finance Committee, 1974-75, a member of the Consultant Panel on Social Security of the Congressional Research Service, 1975-76, a member of the Panel of Technical Experts consulting to the Advisory Council on Social Security, 1989-90, Chair of the Expert Panel on the Future of Retirement Income and Health Care Financing consulting to the Advisory Council on Social Security, 1991, a member of the Panel on Trends and Issues in Retirement Savings consulting to the Advisory Council on Social Security, 1994-95, a member of the Panel on Retirement Income Modeling of the National Academy of Sciences, 1995, and was Chair

Security is in this thesis is limited to its impact on American retirees.

of the Panel on Privatization of Social Security of the National Academy of Social Insurance, 1996-98.

1. Peter R. Orszag is the Joseph A. Pechman Senior Fellow in Tax and Fiscal Policy at The Brookings Institution. He previously served as Special Assistant to the President for Economic Policy at the White House, where his portfolio included Social Security. He has also served as Senior Economist and Senior Adviser on the President's Council of Economic Advisers, as an economic adviser to the Russian Government, and as an adjunct member of the economics faculty at the University of California at Berkeley. Dr. Orszag earned his B.A. summa cum laude from Princeton University, and an M.Sc. and Ph.D. in economics from the London School of Economics, which he attended as a Marshall Scholar. He is the co-editor, with Jeffrey Frankel, of American Economic Policy in the 1990s (MIT Press: 2002), and a co-author of Protecting the American Homeland: A Preliminary Analysis (Brookings Institution Press: 2002).

Chapter 1 Background Knowledge of U.S. Social Security

Social Security is a "safety net" erected to protect the American people from destitution. It provides for the material needs of individuals and families, protects aged and disabled persons against the expenses of illnesses that may otherwise use up their savings, keeps families together, and gives children the chance to grow up healthy and secure. Social Security is not only a social insurance, but also an income redistribution system between different generations. It has made an enormous difference in the lives of Americans.

Nowadays, Social Security is playing an increasing important role in American people's life. The United States has traditionally depended on the so-called three-legged stool—Social Security, private pensions, and additional personal savings. Social Security is not the only source of retirement income for the American people, but it is regarded as the primary tier of their income building. Employment-based pensions represent the second tier, and private saving outside of the employment-based system is thought of as the third tier. Currently, pension coverage is relatively low; add-on personal accounts involve too much risk for workers; the distribution of retirement wealth is increasingly unequal; people's personal savings are at an all-time low.[1] So, Americans are becoming more dependent on Social Security.

1.1 A Brief Account of the History of U.S. Social Security

With the industrialization of the United States, more and more people began to work in the city and live in nuclear families. In 1890, only 28 percent of the U.S. population lived in cities, by 1930 this percentage had exactly doubled, to 56 percent.[2] In 1929, Americans plunged into the Great Depression following the stock market crash. The 1930s witnessed the worst economic crisis in the history of United States. Millions of people were unemployed, and the majority of the elderly in America lived in dependency.

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1. Peter A. Diamond and Peter R. Orszag, *Saving Social Security: A Balanced Approach* (Washington D.C.: Brookings Institution Press, 2004), 136.

2. Social Security Administration, "A Brief of History of Social Security", Social Security Administration, http://usa.usembassy.de/etexts/soc/ssbriefhistory.pdf (accessed in August 2005).

Under the dire circumstances, the legality of a laissez-faire economy and the non-interventionism of the government started to be questioned. President Franklin D. Roosevelt advocated that the federal government should shoulder the responsibility of alleviating the poverty and despair in which a great number of senior Americans found themselves when they were not able to work. He said social security was the lowest commitment the U.S. Government could take on for the Americans.[1] He proposed using the agencies of government to assist in the establishment of means to provide sound and adequate protection against the vicissitudes of modern life—in other words, social insurance.[2]

President Roosevelt created the Committee on Economic Security, which was instructed to study the entire problem of economic security and to submit legislation to the Congress. With the work of this committee and the Congress, the Social Security Act was signed into law in 1935, which created an insurance program designed to pay the worker aged 65 and over a continuing income. The promulgation of Social Security Act marks the recognition of the structure of living standards as well as the transfer of the main responsibility for addressing poverty in the United States from the state governments and non-governmental organizations (NGOs) to the federal government.

When Social Security was in its infancy, its federal legislation was quite limited, because the White House intended to prevent the program from being ruined by imprudent implementation. In the following decades, legislation greatly expanded the scope and complexity of Social Security, as new purposes were added to the original one. Here are some of the prominent amendments to the 1935 Social Security Act:

The 1939 amendments added child, spouse, and survivor benefits to the pension.[3]

In 1950s, benefits were increased substantially, and coverage under the program

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1. 黄安年/著，《当代美国的社会保障政策》（北京：中国社会科学出版社，1998），15。

2. Franklin D. Roosevelt, "Franklin D. Roosevelt Speeches: Fireside Chat 5 (June 28, 1934) on the Seventy-third Congress", Miller Center of Public Affairs, http://millercenter.virginia.edu/scripps/diglibrary/prezspeeches/roosevelt/fdr_1934_0628.html (accessed on May 19, 2006).

3. Social Security Administration, "A Brief of History of Social Security", Social Security Administration, http://usa.usembassy.de/etexts/soc/ssbriefhistory.pdf (accessed in August 2005).

became close to universal.[1]

In 1956, a new disability insurance benefit was added.[2]

In 1958, the Social Security Act began to provide for benefits for dependents of disabled workers, similar to those already provided for dependents of retired workers.[3]

In 1967, amendments provided disability benefits for widows and widower aged 50 or older.[4]

In order to offset the corrosive effects of inflation on fixed incomes, the 1972 amendments introduced automatic cost-of-living increases in benefits tied to increases in the Consumer Price Index, and created the delayed retirement credit.[5]

The 1977 amendments corrected the flawed benefit formula and made other changes in the financing of the system.[6]

The 1983 amendments are a major move to reform Social Security. This reform made coverage compulsory for Federal civilian employees and employees of nonprofit organizations, made partial taxation of Social Security benefits, and gradually increased retirement age, thus increasing the reserves in the Social Security Trust Funds.[7]

The 1994 amendments raised the threshold for coverage of domestic workers' earning from $50 per calendar quarter to $1,000 per calendar year (with $100 amount increments after 1995, as average wages rise).[8]

Today, Social Security has become an indispensable part of the life of American people. An estimated 159 million workers[9] (or more than 96 percent of all workers) pay Social Security taxes and are thereby entitled to collect benefits from the

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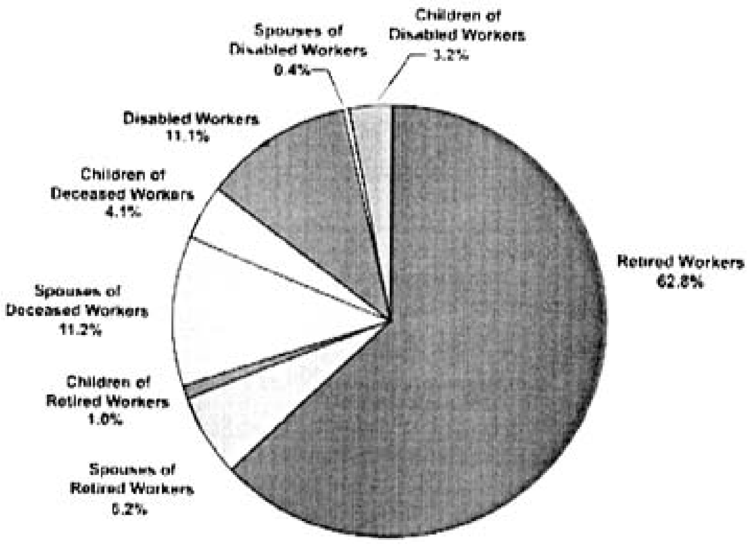
1. Ibid.
2. Ibid.
3. Social Security Administration, "Historical Development", Social Security Administration, www.ssa.gov/history/pdf/histdev.pdf (accessed in March 2006).
4. Ibid.
5. Ibid.
6. Ibid.
7. Ibid.
8. Ibid.
9. Social Security Administration, "The Future of Social Security", Social Security Administration, http://www.ssa.gov/pubs/10055.html (accessed in March 2006).

program.[1] At the end of 2005, more than 48 million people were receiving Social Security benefits: 33 million retired workers and their dependents, 7 million survivors of deceased workers, and 8 million disabled workers and their families.[2] Social Security is the major source income for most of the elderly. About two-thirds of aged Social Security beneficiaries receive 50% or more of their income from Social Security.

Figure 1—Distribution of Social Security Beneficiaries,

by Type of Benefit Received, December 2000



Source: Congressional Budget Office, "Social Security: A Primer", Congressional Budget Office, http://www.cbo.gov/showdoc.cfm?index=3213&sequence=0 (accessed in September 2005).

1.2 Institutional Features of Social Security

U.S. Social Security is a compulsory and virtually universal program. It owes its success to its intricate but efficient design. The Old-Age, Survivors, and Disability Insurance (OASDI) program is the core of U.S. Social Security program, universally known as Social Security. The institutional features of the OASDI program will provide us with a glimpse into its scientific workings.

1.2.1 How Does the U.S. Social Security System Work?

1. The Century Foundation, "The Basics: Social Security Reform (Revised, 2005 Edition)", The Century Foundation, http://www.cbpp.org/pubs/socsec-insert-intro.htm (accessed in November 2005).

2. National Committee to Preserve Social Security and Medicare, "Social Security Primer", National Committee to Preserve Social Security and Medicare, http://www.ncpssm.org/news/archive/ssprimer/ (accessed in May 2006).

Eligibility Social Security benefits are earned insurance benefits. Workers become eligible for retirement and disability when they have contributed to the system for a certain length of time. For retirement benefits, the minimum length of time is 40 quarters or about 10 years. The time necessary to reach eligibility for any of the benefits varies from benefit to benefit. Also, the surviving spouse and children of worker are eligible for survivorship benefits if a worker dies. The retirement age is 65. But the elderly can begin collecting benefits as early as 62; if so, their benefits are reduced.

Compared with social welfare programs, Social Security does not have a means test, and its eligibility is not decided by the beneficiary's current income and assets.

Calculation of Benefits Retirement benefits are guaranteed wage-indexed monthly benefits. The basic way of calculating retirement benefits is calculating the Average Indexed Monthly Earnings (AIME) first, and then the government uses a formula to change AIME into a monthly benefit, i.e. Primary Insurance Amount (PIA). AIME stands for the average monthly salary during the beneficiary's whole working period. PIA is the monthly benefits amount payable to the worker upon retirement at full retirement age or upon entitlement to disability benefits. The PIA is also the base figure from which monthly benefit amounts payable to the worker's family members or survivors are determined. The PIA is derived from the worker's annual taxable earnings, averaged over a period that encompass most of the worker's adult years.[1] Generally speaking, the higher AIME is, the higher PIA is.

Progressive Formula There is a relationship between one's standard of living while working and the benefit level needed to achieve income security in retirement. The design of the Social Security system involves a trade-off between ensuring a sufficient level of benefits to even the poorest recipients and distributing benefits so that workers who have paid more taxes for Social Security receive more benefits.[2]

Social Security is structured so that someone who has had a lifetime of high

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1. Social Security Bulletin, "Social Security", FindArticles, http://www.findarticles.com/p/articles/mi_m6524/is_2004_Annual/ai_n15858806 (accessed in July 2005).
2. Congressional Budget Office, "Social Security: A Primer", Congressional Budget Office, http://www.cbo.gov/showdoc.cfm?index=3213&sequence=0 (accessed in September 2005).

wages (and was therefore able to save money for retirement) does not have as much of his or her income replaced upon retiring as low-wage earners do. In other words, while those who earned higher wages get a larger check than those who earned less, the check represents a smaller percentage of their average earnings. In turn, the system pays retirees who earned lower incomes benefits that replace a larger percentage of their wages. This feature is called a progressive structure.[1]

Workers with a very low wage are guaranteed a minimum benefit. The progressive feature of Social Security helps give all workers in America a chance at a decent retirement, even if the type of work they did, or personal circumstances, did not enable them to accumulate wealth or become eligible for a private pension plan.

Inflation Protection Social Security benefits are protected against inflation by periodic cost-of-living adjustments linked to Consumer Price Index. Retirement benefits increase each year at the rate of inflation. Inflation protection distinguishes Social Security from other (except federal) retirement plans. Without COLAs, the real value of Social Security benefits would steadily erode over time.

Pay-as-you-go System For most of its history Social Security has been financed on a "pay-as-you-go" basis. With pay-as-you-go financing, benefits to retirees and other beneficiaries are met by current taxes on workers. Thus, this financing system serves as an income redistribution system between different generations.

In 1983, the Congress passed a package of changes recommended by the National Commission on Social Security Reform headed by Alan Greenspan to collect more in taxes than needed to pay current benefits.[2] This move has resulted in the long-run buildup of large Social Security Trust Funds. The objective of these Trust Funds is to address the financing problem of Social Security and prepare for the baby boomers' payment of benefits without raising the payroll tax rate of the coming

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1. The Social Security benefits of an average-wage earner with a spouse retiring at sixty-five in January 2004 were about 62.9 percent of his or her average earnings, while comparable figures for low- and high-wage earners were 84.8 percent and 44.6 percent, respectively. See The Century Foundation, "The Basics: Social Security Reform", http://www.cbpp.org/pubs/socsec-insert-intro.htm, (accessed in November 2005).

2. Merton C. Bernstein and Joan Brodshaug Bernstein, *Social security: The System that Works* (New York: Basic Books, Inc., Publishers, 1998), 2.

generations. Since then, the "pay-as-you-go" system has actually become a "partially funded" system.

1.2.2 Governing Bodies of U.S. Social Security Program

U.S. Social Security system is governed by a troika of bodies: the Board of Trustees of OASDI Trust Funds, the Social Security Administration and the Social Security Advisory Board. They are complementary to each other.

Board of Trustees of OASDI Trust Funds The Board of Trustees was established under the Social Security Act to oversee the operation of the OASI and DI Trust Funds. The Board is composed of six members. Four members serve by virtue of their positions in the federal government, among which the Secretary of the Treasury is the Managing Trustee. The Deputy Commissioner of the Social Security Administration (SSA) is designated as Secretary of the Board.

According to the Social Security Act, the duties of the Board include: reporting to the Congress on the operation and status of the Trust Funds during the preceding fiscal year and on their expected operation and status during the next ensuing five fiscal years; reporting to the Congress whenever the Board of Trustees is of the opinion that the amount of either of the Trust Funds is unduly small; recommending improvements in administrative procedures and policies designed to effectuate the proper coordination of the old-age and survivors insurance and Federal-State unemployment compensation program; and reviewing and changing the provisions of the law governing the Trust Funds and the general policies followed in managing the Trust Funds.[1]

Social Security Administration The Social Security Administration's predecessor was the Social Security Board that was established in 1935. Under the Social Security Independence and Program Improvements Act of 1994, the Social Security Administration (SSA) was abolished as a federal cabinet-level organization and became an independent agency outside of the federal government.[2]

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1. "Social Security Act §201", Cornell Law School, http://www.law.cornell.edu/socsec/act/0201.htm (accessed in March 2006).
2. Social Security Administration, "Historical Background and Development of Social Security", Social Security Administration, www.ssa.gov/history/briefhistory3.html (accessed in March 2005).

The Social Security Administration promotes the economic security of the nation through disbursing America's major income support entitlements for the elderly, disabled, and their dependents. The SSA manages the Old-Age, Survivors, and Disability Insurance (OASDI) programs. The SSA also administers the Supplemental Security Income (SSI) program and provides services that support the Medicare program.

The SSA's central office is located in Baltimore, Maryland. Its field organization is decentralized to provide services at the local level across the United States.

Social Security Advisory Board The Social Security Advisory Board (SSAB) is an independent, bipartisan board created by Congress and appointed by the President and the Congress to advise the President, the Congress, and the Commissioner of Social Security on matters related to the Social Security, including forecasting the short-term and long-term finances of OASDI Trust Funds.

The SSAB's predecessor is government-appointed periodic Advisory Council, which was first convened in 1934. Over the years, the Advisory Councils have been very influential in setting the agenda for changes in Social Security. The 1994-1996 Advisory Council was the final Council, signaling the end of a long tradition in Social Security. The 1994-1996 Advisory Council submitted a report on Social Security privatization, which offered three approaches to restore Social Security's long-term solvency. While there are significant differences in the approaches, all three of the Council's recommendations include some form of equity investment.[1] This report laid a foundation for the theory and policies of the CSSS final report.

Under the 1994 law, the Councils are abolished and a permanent 7-member Advisory Board was formed to serve many of the same functions.[2] Since 1990s, the SSAB has been an initiator, an active participant and an important organizer in the discussion of Social Security privatization. The SSAB is a major think tank of the U.S. government on Social Security reform and the investment of the Social Security Trust

1. Kevin Lansing, "Can the Stock Market Save Social Security?", Federal Reserve Bank of San Francisco, http://www.frbsf.org/econrsrch/wklyltr/wklyltr98/el98-37.html (accessed on May 18, 2006).

2. Social Security Administration, "Historical Background and Development of Social Security", Social Security Administration, www.ssa.gov/history/briefhistory3.html (accessed in March 2005).

Funds.[1]

1.3 Social Security Trust Funds

On April 5, 2005, after visiting the Bureau of Public Debt in Parkersburg, West Virginia, President Bush said: "... a lot of people in America think there's a trust, in this sense—that we take your money through payroll taxes and then we hold it for you, and then when you retire, we give it back to you. But that's not the way it works."

"There is no 'trust fund', just IOUs that I saw firsthand, that future generations will pay—will pay for either in higher taxes, or reduced benefits, or cuts to other critical government programs."[2]

And, he frequently used the words "bankrupt" and "go broke" to portray Social Security problems.

Are the Social Security Trust Funds really a fiction? Are the Trust Funds going to go bust soon? Through an examination the components and current status of the Trust Funds, we will find Social Security just has some minor problems that will not put the sustainability of the program in jeopardy. Obviously, President Bush dramatizes the Social Security problems, and what he said about the Trust Funds is nonsensical.

1.3.1 Social Security Trust Fund Components

The Social Security Trust Funds have two separate accounts: one for the retirement and survivorship parts of the program, the other for disability. The Federal Old-Age and Survivors Insurance (OASI) Trust Fund was established on January 1, 1940, as a separate account in the United States Treasury. The Federal Disability Insurance (DI) Trust Fund, another separate account in the United States Treasury was established on August 1, 1956.[3]

Income to the Trust Funds The Social Security program is primarily financed by revenues from Federal Insurance Contribution Act (FICA) taxes and Self Employment Contributions Act (SECA) taxes. FICA taxes are paid by both employers

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1. 郑秉文/文，"围绕美国社会保障私有化的争论"，《国际经济评论》，2003/01，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e46.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=25&CurRec=2

2. SourceWatch, "Social Security Trust Funds", SourceWatch, http://www.sourcewatch.org/index.php?title=Social_Security_Trust_Funds (accessed in March 2006).

3. The Board of Trustees of the Federal OASDI Trust Funds, "2005 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds", Centrists.org, http://www.centrists.org/pages/2005/03/trustees_report/2005_SS_trustees_report.pdf (accessed in March 2006).

and employees, but it is employers who remit the taxes to the U.S. Treasury. SECA taxes are paid by self-employed individuals with an amount equal to the combined employer-employee contributions. The current SECA tax rate is 12.4% of 92.35% of net income, with one-half of the SECA taxes allowed as a deduction for federal income tax purposes.

The employee and employer in covered employment must each pay equal amounts of payroll tax on taxable earnings. Currently, employees and employers each pay 6.2 percent of payroll, on the first $90,000 of earnings.[1]

In addition, the income also comes from the taxation of benefits, interest on investments and other income (reimbursements from the general fund of the Treasury for various costs imposed on the program, gifts from individual citizens, etc.)[2]

Expenditures from the Trust Funds The Social Security Trust Funds pay for monthly benefits for workers and their families, vocational rehabilitation services to disabled beneficiaries and reductions for unnegotiated checks, annual transfers to the Railroad Retirement program for its role in collecting Social Security taxes and paying Social Security-equivalent benefits, administrative costs and the lump-sum death payment to eligible survivors.

Investment of Social Security Balance Social Security's assets are invested in interest-bearing obligations of the U.S. Government. The Social Security Trust Funds receive interest on its holdings of these non-marketable special obligations. These obligations are issued by the U.S. Treasury to raise money to pay for budget deficits. Nowadays, the Trust Funds only hold this kind of special issues.[3]

The Social Security Trust Funds are independent of the government's general account. But, actually the money in the Social Security Trust Funds is used together with the money in the general account.[4] For internal federal accounting, these

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1. Center for American Progress, "Social Security Q & A", Center for American Progress, http://www.americanprogress.org/atf/cf/%7BE9245FE4-9A2B-43C7-A521-5D6FF2E06E03%7D/Social%20Security%20QandA%20WEB-%20FINAL%205-3-05.pdf (accessed in May 2005).

2. Social Security Administration, "Trust Fund Components", Social Security Administration, http://www.ssa.gov/OACT/ProgData/financialItems.html (accessed in November 2005).

3. Social Security Administration, "Social Security Trust Fund Investments", Social Security Administration, www.ssa.gov/OACT/ProgData/investheld.html (accessed November 2005).

4. Recent Presidents and members of Congress have embezzled at least $1.5 trillion of the revenue generated by the 1983 Social Security tax increases, with more than one-third of the money having been looted during Bush's

Treasury obligations and the interest on them are recorded as accounting entries. The Social Security Administration (SSA) holds the special obligations as physical documents. The obligations are redeemed on a regular basis in the Department of Treasury to pay for Social Security benefits. The special obligations are both assets and liability for the government.

1.3.2 Current Balance of the Social Security Trust Funds

Total income to the Social Security Trust Funds from payroll taxes in 2004 was \$658 billion and retirement, survivor, and disability benefits paid totaled \$493.3 billion, accounting for more than 98 percent of expenditures from the combined OASDI Trust Funds, resulting in a surplus of \$165 billion. The Trust Funds were credited with \$85 billion in interest from earnings, which represented an effective annual rate of return of 6%.[1]

Surpluses over the past two decades built up the assets in the Trust Funds to over \$1.7 trillion by the beginning of 2005. These surpluses will continue for the next decade, increasing the asset amount to almost \$3.6 trillion by 2013.[2]

However, back in 1983, the Treasury obligations in the Social Security Trust Funds were essentially zero. Owing to the 1983 amendments to Social Security Act, these reserves were accumulated. So, Social Security is stronger today than it has been at any time in history.

1.4 The Challenges Facing U.S. Social Security

Nowadays, great changes have taken place in the social and economic environment in the United States. Some factors that bear on the solvency of the Social

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presidency. And, their use of Social Security surpluses is illegal. "On Nov. 5, 1990, President Bush signed into law the Budget Enforcement Act of 1990. Section 13301 of this law specifically mandated that Social Security trust fund money be kept separate from general revenue funds." In 2041, if the government does not pay back every penny it owes to the Social Security Trust Funds, the funds will have no revenues left. See Allen W. Smith, *The Looting of Social Security: How the Government Is Draining America's Retirement Account* (New York: Carroll & Graf Publishers, 2004), 18. The Social Security Trust Funds will still be receiving the annual revenue generated by the Social Security payroll tax, but that won't be nearly enough to cover the benefits it owes. In this case, Social Security benefits would have to be cut.

1. Congressional Budget Office, "Social Security: A Primer", Congressional Budget Office, http://www.cbo.gov/showdoc.cfm?index=3213&sequence=0 (accessed in September 2005); The Board of Trustees of the Federal OASDI Trust Funds, "2005 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds", Centrists.org, http://www.centrists.org/pages/2005/03/trustees_report/2005_SS_trustees_report.pdf (accessed in March 2006).

2. Congressional Budget Office, "Social Security: A Primer", Congressional Budget Office, http://www.cbo.gov/showdoc.cfm?index=3213&sequence=0 (accessed in September 2005).

Security Trust Funds have changed. Yet, the Social Security Trust Funds have no major problems. Indeed, it is more challenging to seek and implement optimal measures for Social Security than to provide economic guarantee in the years to come. But, after fully considering the current condition of the Social Security Trust Funds and the challenges they are facing, we will find there is no reason for the American people to be panicked about the sustainability of Social Security. As long as responsible actions are taken promptly, these problems can be coped with fairly well.

1.4.1 The Challenges to Solvency of the Social Security Trust Funds

The balance of OASDI Trust Funds depends on many factors, including the size and characteristics of the population receiving benefits, the level of monthly benefit amounts, the size of the work force, and the level of workers' wages. These factors will in turn be decided by future birth rates, death rates, immigration, marriage and divorce rates, retirement-age patterns, disability incidence and termination rates, productivity gains, wage increases, inflation, and many other demographic, economic, and program-specific factors.[1]

Currently, Social Security is running a surplus, but it is also facing a long-term actuarial imbalance. The factors that contribute to Social Security's insolvency are as follows:

Retirement of Baby Boomers The declining worker-to-beneficiary ratio is the crux of the solvency problem of the U.S. Social Security system. America is moving toward an aging society. Nearly 80 million baby boomers in America will retire between 2010 and 2030. It is projected that the American senior citizens will account for 20.7 percent of the population in 2025.[2] Aging population will lead to the situation that fewer taxpayers support more beneficiaries. In the next 75 years, the deficit of the Social Security Trust Funds will reach 25.33 trillion dollars.

Improvement of Life expectancy In recent decades, medical services in America have improved considerably, and people's general living standard is also

1. The Board of Trustees of the Federal OASDI Trust Funds, "2005 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds", Centrists.org, http://www.centrists.org/pages/2005/03/trustees_report/2005_SS_trustees_report.pdf (accessed in March 2006).

2. 张志新，黄放/文，"美国现代社会保障制度及其改革"，《国际资料信息》，2005/05，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e46.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=21&CurRec=1

improved, so people's life expectancy is much longer than before. Life expectancy at age 65 has increased notably since the creation of Social Security. It has risen by four years for men and five years for women since 1940 and is expected to continue to rise in the future.[1] As Social Security pays a benefit that begins from the beneficiary's retirement till his/her death, the program must pay more retirement benefits to workers.

Widening Earnings Inequality The increase of the share of earnings accruing to the top of the income distribution affects Social Security's financing because the Social Security payroll tax is imposed only up to a maximum taxable level. In 1983, the fraction of aggregate earnings above the taxable maximum was 10 percent. In 2002, this fraction rose to 15 percent.[2] This means the share of workers' earnings that are not taxed for Social Security has risen substantially.

And life expectancy between lower and higher earners has been widening. So, higher earners have enjoyed much more benefits than before. This increasing difference in life expectancy tends to diminish the progressivity of Social Security.

The Legacy Debt The past generosity of the program has left a debt that has to be paid. Amidst the destitution in 1930s, the first generation of Social Security beneficiaries received a windfall, with which they could fare better. The benefits paid to almost all current and past cohorts of beneficiaries exceeded what could have been financed with the revenue they contributed. This debt has to be paid by the generations of people coming after that.

These changes put pressure on the current finance of Social Security. If no efforts are made to ease the pressure, the Social Security Trust Funds will go out of balance, and future retirees and other Social Security beneficiaries will have their benefits cut considerably.

1.4.2 Projection of Social Security Finances

Social Security's cost rate will increase rapidly between 2010 and 2030 as the large baby-boom generation retires. The number of beneficiaries will increase much

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1. Peter A. Diamond and Peter R. Orszag, *Saving Social Security: A Balanced Approach* (Washington D.C.: Brookings Institution Press, 2004), 58.

2. Ibid. 84.

more rapidly than the number of workers. In 2004, there were about 3.3 workers for every OASDI beneficiary. In 2030, the projected ratio of workers to beneficiaries will be only 2.2. Thereafter, the number of workers per beneficiary will slowly decline, and the OASDI cost rate will continue to increase.[1]

Under the intermediate assumptions, annual OASDI cost will exceed tax income in 2017. After that, the annual gap between the income and expenditure of Social Security will be covered with cash from redeeming special obligations of the Treasury, until these assets are exhausted in 2041.[2] By then, only incoming payroll tax revenues will be available to pay benefits. This income is expected to be enough to pay over 74% of the promised benefits. While this shortfall poses a challenge, it in no way constitutes a crisis.[3]

According to the 2005 report of the Board of Trustees of the Trust Funds, for the 75-year projection period, the actuarial deficit is 1.92 percent of taxable payroll. Over the next 75 years, the actuarial deficit in Social Security amounts to 0.7 percent of Gross Domestic Product (GDP); projected out forever, the deficit is 1.2 percent of GDP.[4]

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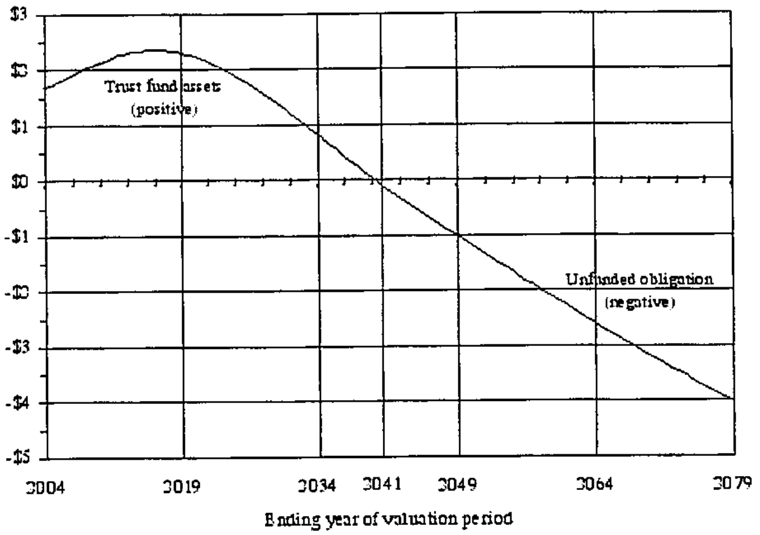
1. The Board of Trustees of the Federal OASDI Trust Funds, "2005 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds", Centrists.org, http://www.centrists.org/pages/2005/03/trustees_report/2005_SS_trustees_report.pdf (accessed in March 2006).
2. Ibid.
3. Congressional Budget Office, "Social Security: A Primer", Congressional Budget Office, http://www.cbo.gov/showdoc.cfm?index=3213&sequence=0 (accessed in September 2005).
4. The Board of Trustees of the Federal OASDI Trust Funds, "2005 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds", Centrists.org, http://www.centrists.org/pages/2005/03/trustees_report/2005_SS_trustees_report.pdf (accessed in March 2006).

Figure 2—Cumulative OASDI Income Less Cost, Based on

Present Law Tax Rates and Scheduled Benefits

[Present value as of January 1, 2005, in trillions]



Source: The Board of Trustees of the Federal OASDI Trust Funds, "2005 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds", Centrists.org, http://www.centrists.org/pages/2005/03/trustees_report/2005_SS_trustees_report.pdf (accessed in March 2006).

The current Social Security Trust Funds are in good shape. In the coming decades, circumstances will change significantly, which will pose a particular level of risk and uncertainty. Demographic shifts, legacy debt and other social factors threaten the balance of the Social Security Trust Funds. These challenges are not unusual in the history of Social Security program. Social Security has been changing over time to meet the needs of the American people. This time, this program can also be mended without drastic measures.

Chapter 2 President Bush's Social Security Privatization Plans

Although the Social Security Trust Funds are running surpluses and are facing no imminent solvency problem, since the early 1990s, the Board of Trustees of the Federal OASDI Trust Funds has repeatedly warned the U.S. Government of the exhaustion of the Trust Funds in its annual report.[1] It will be beneficial to start Social Security reform sooner than later.[2] It is the White House's responsibility to take prompt actions. President Bush has been seeking after privatization of some government programs, especially Social Security. So, he took this opportunity to establish an ad hoc commission to recommend improvements on the current Social Security system. This commission put forward three reform plans, all of which include personal accounts that would bring about the partial privatization of Social Security.

2.1 How Were Bush's Privatization Plans Brought forth?

Early in the presidential election for his first term of office, Social Security privatization was a major part of George W. Bush's campaign.[3] In June 1999, when he announced his candidacy for the Republican nomination, he unequivocally stated: "And we should trust Americans by giving them the option of investing part of their Social Security contributions in private accounts."[4]

In his Inaugural Address in 2000, President George W. Bush announced his intentions to reform Social Security. Throughout the early months of his presidency the President made many speeches and addresses in which this was a major recurring

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1. Early on April 7, 1993, the 1993 Trustees Report showed the date of the combined Old Age Survivors and Disability Insurance (OASDI) Trust Funds exhaustion as 2036. After that, the annual reports of the Board of Trustees forecast the OASDI Trust Funds would be exhausted around 2030 or 2040. See Social Security Administration, "History of SSA 1993-2000", Social Security Administration, http://www.ssa.gov/history/ssa/ssa2000exhibit1-1.html (accessed on May 18, 2006).

2. Earlier actions would provide more choices than later. And these changes can be phased in more gradually. So increases in tax rates or severe benefit cuts would be spread among different generations. In addition, earlier actions would mitigate the impact of the changes on labor participation. Earlier actions would also help prepare the American people for the changes in Social Security, and boost their confidence. See Social Security Advisory Board, "Social Security: Why Action Should Be Taken Soon", http://www.ssab.gov/documents/WhyActionShouldbeTakenSoon.pdf (accessed in September 2005), 24-25.

3. The Cato Institute, "The Great Social Security Debate of 2000", The Cato Institute, http://www.cato.org/pubs/policy_report/v22n3/crane.html (accessed in June 2005).

4. Lewis D. Solomon, *Financial Security and Personal Wealth* (New Brunswick, N.J.: Transaction Publishers, 2005), 135.

theme.[1]

On May 2, 2001, President Bush announced the establishment of a bipartisan, 16-member Commission called President's Commission to Strengthen Social Security (CSSS) to study and report specific recommendations to preserve Social Security for seniors while building wealth for younger Americans. The members of the CSSS were diverse in gender, race and professional experience. A half of them are Democrats, while the other half are Republicans. In the eyes of some outsiders, all of the commissioners share the President's vision that there be some degree of privatization and the creation of personal accounts within the system. None of the commissioners were Congressmen. And, they are not widely known to the public. For this reason, they did not face the same political pressure or fallout that might have experienced by elected officials.[2]

In August 2001, the CSSS released its interim report, which detailed the problems facing the system and established eight criteria for Social Security reform. The interim report came to the following conclusion:

"The Social Security reform, as it stands now, does nothing to promote individual saving or investment. Workers have little of proprietorship or a sense of what they are entitled to. Many have lost confidence in ever receiving anything back.

The current system is financially unsustainable. Without reform, the promise of Social Security to future retirees cannot be met without eventual resort to benefit cuts, tax increase, or massive borrowing. The time to act is now."[3]

The interim report triggered a political firestorm. Democrats dismissed it as an alarmist. And the report received a lot of media attention, commentary and criticism.

In 2001, 911 terrorist attacks changed the entire climate of the nation. In addition, corporate and accounting scandals and a slipping economy also diverted Bush's attention on planning meaningful Social Security reform. So, Social Security took a

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1. Social Security Administration, "Historical Background and Development of Social Security", Social Security Administration, www.ssa.gov/history/briefhistory3.html (accessed in March 2005).

2. Lewis D. Solomon, *Financial Security and Personal Wealth* (New Brunswick, N.J.: Transaction Publishers, 2005), 141.

3. President's Commission to Strengthen Social Security, "The Interim Report of President's Commission to Strengthen Social Security", President's Commission to Strengthen Social Security, www.csss.gov/reports/Report-Interim.pdf (accessed in August 2005).

back seat in Bush's agenda. But, the White House still kept holding meetings on Social Security with lawmakers, their aides and other interested groups.[1]

On December 11, 2001, the CSSS unveiled its final report titled Strengthening Social Security and Creating Personal Wealth for All Americans, presenting three models for modifying the current Social Security program.

Overall, the President's Commission held seven public meetings and heard testimony from more than thirty witnesses, asking them to present their views for modernizing and restoring fiscal sustainability to the Social Security program.[2]

2.2 A Brief Overview of the CSSS Final Report on Social Security Reform

The CSSS was asked to make recommendations to modernize and restore fiscal soundness to Social Security, using six guiding principles:

1) Modernization must not change Social Security benefits for retirees or near-retirees.
2) The entire Social Security surplus must be dedicated to Social Security only.
3) Social Security payroll taxes must not be increased.
4) Government must not invest Social Security funds in the stock market.
5) Modernization must preserve Social Security's disability and survivors' components.
6) Modernization must include individually controlled, voluntary personal retirement accounts, which will augment the Social Security safety net.[3]

In light of the principles, the CSSS developed three reform models that all feature personal accounts as a central component.

2.2.1 The Three Reform Models

The CSSS says workers under 55 should be allowed to invest a portion of their payroll taxes into stock market through personal accounts. Personal accounts are the centerpiece of the CSSS final report. The key elements of the three models are as

1. Lewis D. Solomon, *Financial Security and Personal Wealth* (New Brunswick, N.J.: Transaction Publishers, 2005), 151.
2. President's Commission to Strengthen Social Security, "Strengthening Social Security and Creating personal Wealth for All Americans", SeniorJournal.com, http://www.seniorjournal.com/PDF/Final_report_SSComm12-01.pdf (accessed in March 2006).
3. Ibid.

follows:

Model 1 specifies workers can divert 2 percent of the Social Security payroll taxes into a personal account, and reduce benefits of the Social Security system in the meantime. Model 1 would require additional revenues in perpetuity in order to pay scheduled Social Security benefits under the plan. Traditional Social Security benefits of those whose to do so would be reduced by the amount of their personal account contributions compounded at an interest rate of 3.5 percent above inflation.

Model 2 proposes diverting 4 percent of payroll taxes, up to a maiximum of $1,000 (as of 2002) annually, into a voluntary personal account, without raising taxes or requiring additional worker contributions. The maximum annual dollar contribution ceiling would be indexed annually by wage growth. Those making the voluntary contributions would see their traditional benefits reduced by the amount of their personal account contributions compounded at an interest rate of 2 percent above inflation. And, the future retirees will receive inflation-indexed retirement benefits under this model. This model proposes transfering the fund in the general revenue to the Trust Funds in a certain period, and says the fund could be repaid.

Model 3 suggests workers divert 2.5 percent of the payroll taxes (up to an annual maximum of $1,000, which would be indexed each year to wage growth) into a personal account, and use an additional 1 percent of the taxed wages to activate the personal account every year. Those making the voluntary contributions would see their traditional benefits reduced by the amount of their personal account contributions compounded at an interest rate of 2.5 percent above inflation. Additional revenue would also be needed under this model.

Table 1—Specifications of Commission Personal Account Models

	Model 1	Model 2	Model 3
Size of contribution	2 percent of earnings	4 percent of earnings, up to $1,000 (indexed)	2.5 percent of earnings, up to $1,000 (indexed); plus 1 percent of earnings additional contribution
Real interest rate charged on diverted funds	3.5 percent	2 percent	2.5 percent
Interest rate charged on diverted funds relative to ultimate Trust Fund interest rate (Treasury rate)	+0.5 percent	-1.0 percent	-0.5 percent

Source: Peter A. Diamond and Peter R. Orszag. "An Assessment of the Proposals of the President's Commission to Strengthen Social Security", National Bureau of Economic Research, http://www.nber.com/papers/w9097 (accessed on May 6, 2006).

2.2.1 Bush Commission's Justification for Adding Personal Accounts to Social Security

According to the CSSS final report, under the current Social Security system, earnings inequality and assets distribution imbalances affect millions of American families. Millions of families do not have a fair accumulation of assets, and about half of the American families do not have any savings.

The CSSS claims that researches show that asset accumulation has positive effects on individual well-being that extend far beyond the income those assets provide. "Among participants in trial programs of individual development accounts, 84 percent report feeling more economically secure, 59 percent report being more likely to make educational plans, and 57 percent report being more likely to plan for retirement because they are involved in an asset-building program."[1]

This report says it is high time Congress and President made decisions to change this situation. And it calls on Americans to start saving for themselves by investing a portion of their payroll taxes into a "low cost, diversified portfolio" so as to gain higher returns than the current Social Security system.

The final report has spun out the following reasons in favor of personal accounts in Social Security: First, assets-holding (accumulation system) is more reliable than an abstract concept of civil right (under the pay-as-you-go system). Second, individuals could have their own investment choice through a diversified portfolio. Third, personal accounts are inheritable, thus enhancing protection for the workers' spouses and children. Fourth, personal accounts would add valuable protections for widows/widowers, divorcees, low-income families and other Americans at the risk of poverty in old age. Fifth, personal accounts would offer partial advance funding[2], which the current system could not offer. Sixth, personal accounts would offer numerous economic benefits, such as a likely increase in national savings and better incentive mechanism for labor force participation. In the end, the report concludes that adding personal accounts to Social Security would contribute to the fiscal sustainability of Social Security. As for the administration and design of personal accounts in Social Security, the final report says they would be administered in an efficient and cost-effective manner.

Prof. Michael Sherraden, an economist of Washington University testified in the second hearing of the CSSS, "For the vast majority of households, the pathway out of poverty is not through income and consumption but through saving and accumulation.... When people begin to accumulate assets, their thinking and behavior changes as well. Accumulating assets leads to important psychological and social

1. Ibid.

2. The CSSS says personal accounts can give workers part of the tax revenues contributed by themselves in advance, so as to mitigate the adverse impact of the change in work-beneficiary ratio on their benefits under the current pay-as-you-go system. It says this could ensure the equitable treatment of different generations and increase national savings as well. See The Board of Trustees of the Federal OASDI Trust Funds, "2005 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds", Centrists.org, http://www.centrists.org/pages/2005/03/trustees_report/2005_SS_trustees_report.pdf (accessed in March 2006).

effects that are not achieved in the same degree by receiving and spending an equivalent amount of regular income."[1]

In a word, according to the CSSS final report, adding personal accounts to Social Security would do good to the American people as a whole. It represents the advancement of philosophy and the revolution of thinking on the program.

1. Ibid.

Chapter 3 A Feasibility Study of Bush's Final Report on Social Security Reform

Since the establishment of President's Commission to Strengthen Social Security, some American economists have cast doubt on Bush's reform inclination. After the release of the CSSS interim report, Henry J. Aaron of the Brookings Institution, Alan Blinder of the Princeton University, Alicia Munnell of the Center for Retirement Research at Boston College and Peter Orszag of the Brookings Institution criticized the report one after another. They are all famous economists in the field of Social Security. After the release of the CSSS final report, Peter Diamond of the Massachusetts Institute of Technology and Peter Orszag, two prestigious economists on Social Security, jointly wrote and published four reports and theses in half a year, opposing the privatization of Social Security. In contrast, representative proponents of privatization rarely rebutted the criticism convincingly.[1]

Currently, Social Security is a defined-benefit system under which individuals' benefits are decided by their wages in line with the law. Including a system of voluntary personal accounts in Social Security would involve a significant shift away from the current Social Security structure to a form of defined-contribution system.

A defined-contribution system is essentially a savings program. In this system, eventual returns depend upon such factors as the amounts invested, the length of time the funds are invested and the opportunity when they cash out their funds. Workers may benefit from high returns on their investments. Under this kind of system, individuals have to bear risks related to their personal circumstances, their personal choices on how their account is invested, and to more general economic conditions. The way accounts would be paid out to individuals upon retirement also matters — for example, whether they receive benefits in a single lump sum or annuitized over their remaining lifetime after retirement.[2]

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1. 郑秉文/文，“围绕美国社会保障私有化的争论”，《国际经济评论》，2003/01，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e46.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=25&CurRec=2

2. Social Security Advisory Board, "Social Security: Why Action Should Be Taken Soon", Social Security Advisory Board, http://www.ssab.gov/documents/WhyActionShouldbeTakenSoon.pdf (accessed in September 2005).

In general, under a system of personal investment accounts, workers who have higher earnings and longer-term attachment to the workforce would fare better than workers who have lower earnings or whose working years are briefer.

Then, would such great changes brought about by Bush's reform plans be helpful to restore the long-term solvency of Social Security? Will the results of these plans as good as the final report portrays? By studying the following fields affected by personal accounts, this thesis tries to answer these questions.

3.1 Solvency of the Social Security Trust Funds

For those who opt for personal accounts, part of their payroll tax would be diverted to the personal accounts; accordingly their retirement benefits within the traditional Social Security system would be reduced. Paul Krugman, a well-known economist, said in one of his articles in New York Times, "Social Security as we know it is a system in which each generation's payroll taxes are mainly used to support the previous generation's retirement. If contributions from younger workers go into personal accounts instead, the problem should be obvious: who will pay benefits to today's retirees and older workers? It's just arithmetic: 2-1=1. So privatization creates a financial hole that must be filled by slashing benefits, providing large financial transfers from the rest of the government or both."[1]

Therefore, personal accounts would have an adverse effect on Social Security's financial condition on a permanent basis, and would even make the date of the exhaustion of the Trust Funds come earlier than the Board of Trustees projects. The CSSS models propose diverting a part of payroll taxes from the Social Security Trust Funds to personal accounts. After the system of personal accounts is established, the Social Security Trust Funds would no longer hold the diverted funds. This amount of payroll tax should be invested in Treasury obligations and be redeemed with accrued interest, if it is not diverted. Though Model 2 and 3 charge an interest rate on the amount diverted from the Trust Funds, the interest rate would be lower than the one the Trust Funds would have earned on the investment of the amount of funds in

1. Paul Krugman, "Fear of All Sums", the Campaign for America's Future, http://www.ourfuture.org/issues_and_campaigns/socialsecurity/resources/op_eds/readarticle235.cfm (accessed on June 21, 2005).

Treasury obligations. So, this would incur losses to Social Security. Moreover, the CSSS did not mention the interest of the amount of payroll tax that the Social Security Trust Funds would lose. Peter Diamond and Peter Orszag point out that Models 2 and 3 are purposefully designed so that the Social Security Trust Funds would be expected to lose more in diverted revenue from the individual accounts than it would gain from reduced benefit obligations.

3.2 Transition Costs and National Savings

The CSSS says in order to maintain Social Security's ability to pay benefits throughout the 75-year period, additional revenues would be needed to finance the transition from the current pay-as-you-go system to a system that includes personal accounts. Both Models 2 and 3 assume transfers from the rest of the budget to offset the losses the Trust Funds would incur as a result of the personal accounts. And, the CSSS estimates the so-called "transitional investment" would be remarkably small.[1]

However, Peter Diamond and Peter Orszag estimate the transition costs for the establishment of personal accounts in Social Security would amount to 2 to 3 trillion U.S. dollars in present value. What sources could provide for such a great sum of transition costs? After spending all the surpluses of Social Security program on the transition, the government would resort to the general revenue of the Department of Treasury to fill the gap. The budget deficit in 2004 was 413 billion U.S. dollars.[2] And it is still increasing. Yet, President Bush is still pushing tax cuts. Thus, the general revenue is becoming increasingly unreliable. Obviously, the President's commission is not concerned about how to pay for the transition costs.

Transferring revenues from the Social Security Trust Funds to personal accounts simply relabels an asset. If the transition cost is financed by public borrowing—that is, by increased government deficits or reduced surpluses—then it would not raise national savings. Each dollar added to personal accounts would be offset by an

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1. Assuming surpluses would not be available for transition financing, Model 1's transition cost is $1.1 trillion, Model 2's is $0.9 trillion, and Model 3's is $0.4 trillion. If current surpluses were available, the costs would decline to $0.7 trillion for Model 1, $0.4 trillion for Model 2, and $0.1 trillion for Model 3. See The Board of Trustees of the Federal OASDI Trust Funds, "2005 Annual Report of the Board of Trustees of the Federal OASDI Trust Funds", Centrists.org, http://www.centrists.org/pages/2005/03/trustees_report/2005_SS_trustees_report.pdf (accessed in March 2006).

2. 《第一财经日报》，"格林斯潘谏言布什审慎实施社保改革"，中华管理精粹网，www.sba.com.cn/Article_Show.asp?ArticleID=2038（accessed on Feb. 18, 2005）。

additional dollar of government borrowing. Privatizers would fill this funding gap by dramatically cutting Social Security benefits. Furthermore, the amount of money borrowed from the general revenue has to be repaid with interest. So, they would cover the rest by borrowing money, thereby increasing the debt.

As the enormous tax cuts enforced by President Bush would seriously deplete projected non-Social Security budget surpluses, any transfer of general revenues to personal accounts would have to be financed either by government borrowing or by spending reductions that he did not discuss during the campaign for Social Security reform.[1] Consequently, Social Security privatization would result in reduction of Social Security assets and decrease of national savings, and would hamper economic development in the long run. So, personal accounts are unlikely to increase national savings.

3.3 Guaranteed Benefits

In the final report, the CSSS uses "scheduled benefits", "payable benefits" and "real benefits" as the benefit benchmarks in evaluating proposed benefit changes. Normally, the Board of Trustees only uses "scheduled benefits" as the benefit benchmark. In doing so, the CSSS can mislead the public about the effects of Bush's privatization plans.

In making the final report, the first principle for the CSSS is that modernization must not change Social Security benefits for retirees or near-retirees. Yet, according to the assessment of Peter Diamond and Peter Orszag, workers would face heavy cuts of retirement benefits after privatization under Model 2 and 3. As Model 1 would not restore the solvency of Social Security, it is omitted here. And we will focus on Model 2 and 3.

Though Model 2 would eliminate the long-term deficit of Social Security, but personal accounts plays no role in eliminating the deficit. The plan restores Social Security solvency entirely through large benefit cuts that would affect all the beneficiaries, including disabled beneficiaries and those who do not opt for personal

1. The Associated Press, "Bush Admits His Plan Doesn't Fix Social Security", MSNBC.com, http://www.msnbc.msn.com/id/6906269/ (accessed on Feb. 4, 2005).

accounts.[1]

Besides, Model 2 reduces Social Security benefits by altering the rules for determining the benefit levels that beneficiaries receive. The proposal called "progressive price indexing" would alter the current wage-indexed Social Security system into a price-indexed one. This would reduce Social Security benefits below the levels scheduled under current law for most beneficiaries not currently near retirement age, whether or not they have a personal account.[2] What's more, the reductions in Social Security benefits would grow steadily larger over time and eventually become quite dramatic.[3]

Model 3 would also eliminate the long-term deficit of Social Security through a combination of benefit reductions and new revenues assumed to be provided to Social Security from elsewhere in the budget. Although the source of such transfer of revenue has not been identified, this transfer would reduce benefit cuts in assumption.[4]

Moreover, Social Security privatization would significantly reduce benefits for the disabled and the children of deceased workers.[5] And they probably would not be able to cushion the losses arising from personal accounts.

3.4 Nature of Personal Accounts

A Personal account in Social Security is both an asset account and a liability account. Under Bush's reform plans, personal accounts would contain worker's deposits and the accumulating earnings on them. Meanwhile, personal accounts would no longer support the Social Security system, thus it would be considered as a liability

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1. Peter A. Diamond and Peter R. Orszag, "Reducing Benefits and Subsidizing Individual Accounts: An Analysis of the Plans Proposed by the President's Commission to Strengthen Social Security", Center on Budget and Policy Priorities and The Century Foundation, http://www.tcf.org/Publications/RetirementSecurity/Diamond_Orszag.pdf (accessed in June 2005).

2. James Horney and Richard Kogan, "Private Accounts Would Substantially Increase Federal Debt and Interest Payments", Center on Budget and Policy Priorities, http://www.cbpp.org/7-27-05socsec.pdf (accessed on August 2, 2005).

3. Peter A. Diamond and Peter R. Orszag, "Reducing Benefits and Subsidizing Individual Accounts: An Analysis of the Plans Proposed by the President's Commission to Strengthen Social Security", Center on Budget and Policy Priorities and The Century Foundation, http://www.tcf.org/Publications/RetirementSecurity/Diamond_Orszag.pdf (accessed in June 2005).

4. Ibid.

5. Peter A. Diamond and Peter R. Orszag. "An Assessment of the Proposals of the President's Commission to Strengthen Social Security", National Bureau of Economic Research, http://www.nber.com/papers/w9097 (accessed on May 6, 2006).

account, which is equal to the diverted amount of capital plus the interest. Personal accounts could not be activated until retirement. Each year, the Social Security Administration would update the liability account to include the additional taxes diverted. Upon retirement, the accumulated debt would be repaid by reducing the worker's traditional Social Security benefits.

And, some problems might crop up for a holder of such a personal account. For example, if the holder of the personal account dies before his retirement, his/her widow or widower would inherit his/her assets in the account, and meanwhile inherit the debt accumulated in it. Then, his/her widow or widower has to pay for the debt by deducting from their benefits. In the case of divorce, the amount accumulated in the account (saving and returns) shall be divided. However, the debt accumulated in the account shall be divided, too.

3.5 Administrative Costs

The CSSS assumed an annual administrative charge of 0.3 percent of the value of the assets in an account. This level of administrative charge is unrealistically low. The Commission ignores the cost of setting up the accounts, the cost of providing significant financial education in connection with the accounts, the option of additional investment options for larger accounts, and the possibility that the restrictions on asset choices (which reduce administrative costs) would be relaxed over time.[1] The higher those costs, the less generous the benefits that a given contribution history could finance.

Individual workers would bear additional administrative costs. "Commissions and fees could easily burn up as much as 15 cents out of every dollar of a worker's annual investment as they do in some countries with privatized systems."[2] Moreover, it would be very costly for the low-income earners to manage small personal accounts. After retirement, workers and their spouses could choose to get the full balance at a

1. Peter A. Diamond and Peter R. Orszag, "Reducing Benefits and Subsidizing Individual Accounts: An Analysis of the Plans Proposed by the President's Commission to Strengthen Social Security", Center on Budget and Policy Priorities and The Century Foundation, http://www.tcf.org/Publications/RetirementSecurity/Diamond_Orszag.pdf (accessed in June 2005).

2. National Committee to Preserve Social Security and Medicare, "The Truth about Social Security", National Committee to Preserve Social Security and Medicare, http://www.ncpssm.org/news/archive/fiveways/ (accessed in March 2006).

time. Also, they could purchase an annuity with the balance in the personal accounts. But, this way of payment would require additional administrative costs.

In addition, the administration and investment of a diversified portfolio in financial market require a good command of financial knowledge and plenty of trade experience. Many investors are insufficiently diversified and trade excessively. The need of experienced investors and the education of workers would add greatly to the administrative costs.

3.6 Investment Risks of Personal Accounts

The CSSS suggests people invest their personal accounts in a diversified portfolio. The Commission repeatedly emphasizes higher returns would be obtained from the portfolio. But, it does not mention that returns in stock market are usually proportional to the risks involved in investment. The CSSS assumes that the Treasury obligations would have a 3 percent average real yield, and the gross real yield of investment in stocks would be 6.5 percent. These figures are reasonable. So, the Commission claims long-term investment in stock market could ensure a good yield rate in the long run, even if the investment experiences a bear market. Some magazines propagates that partial privatization could put risks under control and flatten market fluctuations.[1]

But, the reality is far from that optimistic. Volatility of stock market makes it hard to predict the yield rate of investment. Fluctuations of stock market would not be offset by collective investment made by the government. Moreover, significant uncertainty surrounds short-term investment in stock market. U.S. stock market has witnessed several severe plummets in its history. It is not unusual to suffer losses in stock market. For example, the Standard & Poor index dropped over 10% annually in eight years between 1927 and 1997.[2] From March 2000 to October 2002, U.S. stock market went through a bear market, making a loss of some $7 trillion. The Standard &

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1. 郑秉文/文，“围绕美国社会保障私有化的争论”，《国际经济评论》，2003/01，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e46.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=25&CurRec=2

2. 李珍，刘子兰/文，“小布什社会保障改革思路评析”，《经济学动态》，2002/07，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e53.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=19&CurRec=145

Poor slumped by 49%, and the NASDQ fell by 78%.[1]

What's more, individual investors are much more likely to do worse than the market generally, even excluding the administrative expenses. Due to the ups and downs of stock market, what a retiree gets from stock market depends on the time when he/she cashes out his/her stocks. Workers who sell their stock portfolios during the upswing may end up with a nest egg much larger than those who sell their stocks during the downturn, even though they use the same investment strategy. According to Jone Mueller, former economic counsel to the U.S. House of Representatives' Republican caucus, "Since 1900, the 20-year average real total return on the stock market fell to about zero three times—1901 to 1921, from 1928 to 1948, and from 1962 to 1982. . . . Of course, the returns were substantially negative after paying taxes on interest and dividends. In between were periods in which the 20-year average stock market returns peaked at rates ranging from 6% to 10%. This meant that some people earned a negative real return from investing in the stock market, while others received a real pretax return as high as 10%."[2] Under the current Social Security system, the Trust Funds can spread the risks associated with fluctuations in financial market returns across many generations.

What's worse, a number of surveys show that most people lack the knowledge to make even basic decisions about investing. For example, a Securities and Exchange Commission report found just 38 percent of the investors understood that when interest rates rise and bond prices go down.[3] In this case, how can the U.S. Government entrust the investment of personal accounts with the general public?

Apart from the volatility of stock market, inflation can easily erode the returns of investment in stock market. Currently, the yield rate of Treasury obligations is indexed to inflation. Suppose the long-term nominal yield rate of Treasury obligations is 6.2 percent, and the annual inflation rate is 3.5 percent, then, the real yield rate of

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1. Lewis D. Solomon, *Financial Security and Personal Wealth* (New Brunswick, N.J.: Transaction Publishers, 2005), 137.
2. The Century Foundation, "The Basics: Social Security Reform (Revised, 2005 Edition)", The Century Foundation, http://www.cbpp.org/pubs/socsec-insert-intro.htm (accessed in November 2005).
3. Ibid.

Treasury obligations will be 2.7 percent.[1] If the yield rate of investing personal accounts in stock market is lower than the foresaid 6.5 percent, its real yield rate will probably be lower than that of the Treasury obligations.

Under the current Social Security system, the investment of the Social Security Trust Funds has all along ensured stable payment of Social Security benefits. The Section 201 of Social Security Act stipulates that the special issues of U.S. obligations should bear interest at a rate equal to the average market yield. These special obligations are non-marketable, at the same time, nor do they run any risk arising from liquidity problem, because they can be redeemed at par with accrued interest prior to maturity. Excellent liquidity can cover the shortage of expenditures of the Social Security Trust Funds at any given time, which is very important for the Social Security Trust Funds, especially in economic recession.

In summary, a system of personal accounts in Social Security would do nothing to restore the long-term Social security solvency. It would lead to increased retirement risks, severe cuts in Social Security benefits, increasing social inequality and a multi-trillion dollar increase in federal debt. With market-based accounts, the risk of privatization would be placed entirely on the individual.

Personal accounts do not generally provide income that is free of the risks of financial market fluctuations, unexpectedly high inflation during retirement, and the possibility of outliving one's assets, and they do not provide protection against having one's career or health turn out worse than expected.

It would be a further mistake to allow such carve-out accounts to be voluntary. Despite their superficial appeal, voluntary carve-out accounts would involve unnecessary administrative complexity and bring instability to Social Security. Therefore, it is totally inappropriate to include personal accounts in Social Security.

So, it is does not make sense to scale back Social Security, the first tier of people's retirement income, to finance a system of personal accounts in Social Security. Even the CSSS admits in the final report that personal accounts themselves

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1. 郑秉文/文，"DB 型现收现付制社保基金的危机与投资理念"，《世界经济》，2003/11，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e53.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=7&CurRec=38

would worsen the 75-year actuarial balance of Social Security.[1]

Admittedly, it is difficult to hammer out an appropriate reform plan to meet the competing demands of ensuring adequate retirement benefits for all Americans, restoring long-term balance to Social Security, protecting the program's core social insurance functions, avoiding massive increases in payroll tax rates, and balancing burdens fairly across future workers and retirees.[2]

But, the uncertainty of Social Security's future lies in the future legislative action affecting this system rather than the technical capabilities of the U.S. Government. It is politics that has made the reform more complicated than it should be. As long as appropriate measures are taken to adjust the Social Security program, it will continue to work for the benefit of the American people.

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1. President's Commission to Strengthen Social Security, "Strengthening Social Security and Creating personal Wealth for All Americans", SeniorJournal.com, http://www.seniorjournal.com/PDF/Final_report_SSComm12-01.pdf (accessed in March 2006).

2. Peter A. Diamond and Peter R. Orszag, *Saving Social Security: A Balanced Approach* (Washington D.C.: Brookings Institution Press, 2004), 80.

Chapter 4 Driving Forces behind Bush's Social Security Privatization Push

When discussing Social Security privatization, it would be useful to look beyond the analysis of the technical solutions to Social Security problems. Though the CSSS reform plans have been proved infeasible, George W. Bush continues to promote Social Security privatization. His move has been denounced by many economists. "President Bush is trying to sell his privatization proposal as a plan to save Social Security, when it is actually a clever scam designed to destroy the program that conservatives have hated since its enactment in 1935,"[1] said economist Allen W. Smith, Ph.D., author of the book, "The Looting of Social Security: How the Government is Draining America's Retirement Account". Chairman of Federal Reserve Alan Greenspan also cautioned Bush against privatization.[2] Nancy J. Altman, an author and former assistant to Alan Greenspan said, in pursuing privatization, President Bush broke ranks with every former President, Republican and Democratic alike. All had understood the value and importance of Social Security.[3]

What motivates the President to go to absurd lengths to promote Social Security privatization? Actually, his contempt for Social Security is deep-rooted in the values he holds. This chapter examines the international and domestic factors contributing to Bush's pursuit of Social Security privatization and his ingrained prejudices against Social Security.

4.1 Global Trend of Social Security Privatization

The recent enforcement and trial operation of Social Security privatization in some Latin American and European countries provides the international background of privatization for the United States. The pay-as-you-go Social Security systems of these countries are challenged by declining worker-to-retiree ratio and increasing life

1. SeniorJournal.com, "Bush Is Selling A Trojan Horse, Says Author of 'The Looting of Social Security'", SeniorJournal.com, http://www.seniorjournal.com/NEWS/Opinion/4-12-15BushSelling.htm (accessed on October 13, 2005).

2. 《第一财经日报》,"格林斯潘谏言布什审慎实施社保改革",中华管理精粹网, www.sba.com.cn/Article_Show.asp?ArticleID=2038(accessed on Feb. 18, 2005)。

3. SeniorJournal.com, "Social Security Reform Has Withered but Program Still Needs Help", SeniorJournal.com, http://www.seniorjournal.com/NEWS/SocialSecurity/6-02-01-SocialSecurityReform.htm (accessed in March 2006).

expectancy. By 2002, ten countries had transferred their social security system from a defined-benefit system to a defined-contribution system, including the United Kingdom, Italy, Germany, Sweden and some other countries in Western Europe; they have completed or are conducting privatization reform or partial privatization reform.[1]

Many of the American scholars think they have fallen behind Europe and Latin America in the tide of social security reform. There are more and more conferences and articles on this subject. Some economists in the World Bank said, although the nature and severity in social security were very different, Americans had a lot to learn from the Europeans.[2]

President Bush is one of the advocators of Social Security privatization. He has praised Pinochet's plan in Chile as being "a great example for other countries". He said that the U.S. could "take some lessons from Chile, particularly when it comes to how to run our pension plans."[3]

However, in effect, after setting up these mandatory retirement savings schemes with investment options for individuals, those countries, like Chile and the United Kingdom actually have witnessed an increasing incidence of pensioner poverty, disappointing investment returns, and costs of managing the individual accounts that have proved staggeringly high.[4] As the Wall Street Journal has conceded, the British experiment is disastrous.[5]

So, it is unwise to follow the global trend of Social Security privatization blindly.

4.2 Interest Groups

There are countless interest groups in the United States. Any social policy, including Social Security, is the product of the bargain and compromise between these interest groups. Some of them, especially the financial interest group, are another driving force behind Social Security privatization.

1. 郑秉文/文，"围绕美国社会保障私有化的争论"，《国际经济评论》，2003/01，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e46.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=25&CurRec=2

2. Ibid.

3. Max Skidmore, "Why Privatizing Social Security Is A Terrible Idea", History News Network, http://hnn.us/articles/10297.html (accessed on Feb. 28, 2005).

4. The Century Foundation, "The Basics: Social Security Reform (Revised, 2005 Edition)", The Century Foundation, http://www.cbpp.org/pubs/socsec-insert-intro.htm (accessed in November 2005).

5. Max Skidmore, "Why Privatizing Social Security Is A Terrible Idea", History News Network, http://hnn.us/articles/10297.html (accessed on Feb. 28, 2005).

The financial interest group is the fourth largest interest group that contributed to Bush's election campaign for his first term of office. Democrats disclosed that stock exchanges and investment companies raised $3,900,000 U.S. dollars for George W. Bush in the 2000 presidential election.[1] That's because the policies of White House bear on the profits of the U.S. financial industry.

By proposing investing personal accounts in financial market, Bush intends to repay the favor to Wall Street bankers and brokers. The administration of personal accounts would make Wall Street bankers and brokers the largest beneficiaries after Social Security privatization, and maybe the sole group of beneficiaries. According to a study made by Prof. Austan Goolsbee of the University of Chicago, financial managers would collect $940 billion in fees over the next 75 years, which would be the largest windfall in American financial history.[2]

On the other hand, Wall Street keeps in touch with some industry groups and business coalitions that are against Social Security. An article in the New York Times for Dec. 20, 2004 shows clearly that Wall Street and State Street are acting through ideologues and think tanks to lie and push for privatization.[3] Here are some examples. The Securities Industry Association, Wall Street's main industry lobby, has spent nearly a decade promoting Social Security personal accounts. Groups with ties to the industry have pledged to spend upwards of $70 million to promote privatization. Individual Wall Street firms also back a number of other front groups promoting privatization, such as the Heritage Foundation and the Cato Institute that have started attacking Social Security in their articles since the early 1980s.[4]

Bush in turn relies on corporate lobbyists to help him push Social Security

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1. 李珍，刘子兰/文，"小布什社会保障改革思路评析"，《经济学动态》，2002/07，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e52.cnki.net/kns50/classical/singledbindex.aspx?ID=1

2. Rudy Oswald, "Social Security Under Attack", Alliance for Retired Americans Educational Fund, http://www.retiredamericansfund.org/skins/ara1/pdf/issues/SS_UnderAttack_FINAL.pdf (accessed in March 2005).

3. LaRouche, Lyndon, "Bush's Social Security Privatization—A Foot in the Door for Fascism", Lyndon LaRouche Political Action Committee, http://www.larouchepac.com/pdf_files/priv_soc_sec.pdf (accessed on December 28, 2005).

4. The American Federation of Labor-Congress of Industrial Organizations, "Wall Street Links to Groups Attacking Worker Retirement Security", The American Federation of Labor-Congress of Industrial Organizations, http://www.aflcio.org/issues/retirementsecurity/socialsecurity/wallstreetgreed/upload/wsg_summary_frontgroups.pdf (accessed on November 4, 2005).

privatization. These lobby groups spend millions of dollars to influence legislation and federal policy. One of the famous lobby groups Bush turns to is called "the Gang of Six", which represents companies that generate almost half of U.S. gross domestic product. It played a critical role in getting the $1.35 trillion individual-tax-cut legislation passed in 2001.[1] This group is a steadfast supporter for privatization.

These interest groups seek to promote Social Security privatization in their own interests. They attempt to capitalize on Social Security reform to loot the Trust Funds. And they are also a negative force that contributes to the splitting of political stance on Social Security reform. Evidently, President Bush goes along with them on privatization.

4.3 Partisan Interest

Since 1980s, Social Security has always been a weak point of the Republican Party in its bargaining with the Democratic Party. After the Reagan administration made a terrible miscalculation in Social Security reform, the Social Security issue became known as the "third rail"[2] of American politics. Even President Bush's own father said in his 1990 State of the Union address, the last thing we need to do is mess around with Social Security.[3]

In the Bush administration, Social Security remains treacherous waters to navigate for Republicans. Although President Bush has won the 2000, 2002 and 2004 election, he did not succeed in the elections through his stance on Social Security. In the 2002 mid-term election, considering that Social Security issue was too politically risky, GOP leaders generally talked about personal accounts instead of privatization, and stressed opposition to such measures as increasing payroll taxes, cutting benefits

1. Bloomberg.com, "Bush Relies on Corporate Lobbyists to Help Him Push U.S. Agenda", Bloomberg.com, http://www.bloomberg.com/apps/news?pid=10000103&sid=aGr2XN9gsX4w&refer=us (accessed on Sep. 23, 2005).

2. A third rail is an electrical power distribution system for trains that uses an exposed conductor. Stepping on the high-voltage third rail results in instant death. This has led to the use of the term "third rail" as a metaphor in politics to denote a political idea or topic that is so "untouchable" that a politician or public official who dares to do so becomes the subject of public derision. For example, for many years a politician who would advocate the repeal of the US Social Security program, or even advocated substantive changes to it, would be metaphorically "killed" within the context of future viability within the American political system. See Wikipedia, "Third rail", Lexico Publishing Group, LLC, http://www.reference.com/browse/wiki/Third_rail_%28metaphor%29 (accessed on May 19, 2006).

3. SeniorJournal.com, "Social Security Reform Has Withered but Program Still Needs Help", SeniorJournal.com, http://www.seniorjournal.com/NEWS/SocialSecurity/6-02-01-SocialSecurityReform.htm (accessed in March 2006).

or raising the retirement age.[1] Finally, the Republican Party won the mid-term election. However, "protecting Social Security" is the number one issue to vote Democrats.[2]

Undaunted by these lessons, George W. Bush repeatedly stressed that one of his foremost priorities in his second term is a fundamental transformation of the Social Security program into a system that includes personal investment accounts.[3] And, he will not have a third term of office, so he can concentrate on drawing on the present political capital to push Social Security privatization.

After all, Bush's Social Security reform plans may earn him credit for the courage to approach the tricky issue, and it is possible that he beats Democrats with these reform plans. If the Republican Party succeeds in pushing its plans on Social Security—a beloved domestic program of the American people—through the U.S. Congress, its position in Congress will be greatly consolidated. Conversely, if Bush fails, the Republican Party's power to rule in the U.S. Government will be weakened.

Nevertheless, partisan conflicts may lead to further complexity of Social Security reform.

4.4 Bush's Ideology

Social Security privatization is also about ideology. Bush's ideology is one of the determinants of his pursuit of Social Security privatization.

American traditional values have always emphasized individual's efforts to struggle for survival and success in society. In 1930s, being aware of the importance of national security, the U.S. Government founded the Social Security program. With the expansion of this program, some Americans become dependent on social assistance and reluctant to work hard to make a better living. As a result, some people began to call for opposition to Social Security. In particular, the neo-conservatives criticized that Social Security ran counter to the American traditional values and

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1. Lewis D. Solomon, *Financial Security and Personal Wealth* (New Brunswick, N.J.: Transaction Publishers, 2005), 150.
2. Hans Riemer, "Democrats Won the Fight on Social Security in 2002", the Campaign for America's Future, http://www.ourfuture.org/docUploads/Dems%20won%20Soc%20Sec%20in%202002.pdf (accessed on Jan. 7, 2005).
3. The Century Foundation, "The Basics: Social Security Reform (Revised, 2005 Edition)", The Century Foundation, http://www.cbpp.org/pubs/socsec-insert-intro.htm (accessed in November 2005).

fostered the negative ethics that encourages dependence on others. Many Americans attributed the increase of single-parent families and the poor and needy to Social Security. Thus, the trend of pursuing "big society and small government" and low tax gained momentum.[1]

This trend finds its ideological support in Libertarians who have similar views on the government's role in society. "Libertarians are enthusiasts of laissez faire who oppose strong governmental intervention in the affairs of individuals and businesses. Libertarians prefer to reduce government's activities to a few essential services such as defending the public from foreign threats and protecting citizens from criminals. They seek the privatization of state-run programs (such as Social Security) and massive tax cuts. Often they advance their goal of limited government by squeezing the budgets of social programs."[2]

Libertarianism manifests itself in President Bush's policies and priorities. Bush expressed contempt for Social Security system decades ago when he first ran for public office in Texas. In 1996 and 1997, when George W. Bush was the governor of Texas, he had privatized many social welfare programs there.[3] In 2003, he pushed through an additional tax cut of $350 billion despite a petition against it signed by more than 400 of the nation's top economists, including 10 winners of the Nobel Prize in economics.[4]

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1. 王萍/文，"美国社会保障制度的危机及其改革前景分析"，《世界经济与政治论坛》，2005/03，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e53.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=47&CurRec=139

2. Robert Brent Toplin, "Social Security, George W. Bush—And the "L" Word (No, Not Liberalism)", History News Network, http://hnn.us/articles/10528.html (accessed in March 2006).

3. 张占平，王洪春/文，"布什政府的社会保障政策"，《山东工商学院学报》，2004/01，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e46.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=14&CurRec=7; Up to now, Texas has got the second widest disparity between the rich and poor in the United States, second only to New York. See Jerry Isaacs, "Bush's State of the Union Address Ignores Social Crisis in America", World Socialist, http://www.wsws.org/articles/2006/feb2006/unio-f02.shtml (accessed on Feb. 2, 2006).

4. Allen W. Smith, *The Looting of Social Security: How the Government Is Draining America's Retirement Account* (New York: Carroll & Graf Publishers, 2004), pxiii; In the Clinton administration, fiscal year 2000 surplus amounted to at least $230 billion, the largest in U.S. history. See Kelly Wallace, "President Clinton Announces Another Record Budget Surplus", Cable News Network, http://archives.cnn.com/2000/ALLPOLITICS/stories/09/27/clinton.surplus/ (accessed on September 27, 2005). After George W. Bush assumed office, the balance of national budget took a sharp downturn. The U.S. budget gap expanded to $412.55 billion in fiscal year 2004, the largest deficit in U.S. history. See Reuters, "U.S. Budget Deficit Expands to $412.5 billion", MSNBC.com, http://www.msnbc.msn.com/id/6249895/ (accessed on Oct. 14, 2005). The Bush administration ascribed the huge federal deficit to the economic recession that started in 2000 before his inauguration and the increase of military and security spending in the wake of 911 attacks. But Bush's tax cuts are major contributing factors to the burgeoning deficit. See Lewis D. Solomon, *Financial Security and Personal Wealth* (New Brunswick, N.J.: Transaction Publishers, 2005), 141. There is a reason that no government

In contrast with his enthusiasm for certain issues, such as national defence and Social Security, Bush shows little interest in the traditional libertarian advocacy of peace over war.[1]

Nevertheless, Bush is careful not to identify himself openly with this philosophy. That's because Libertarianism is a controversial issue known for radicalism.[2] In the privatization campaign, the Republican Party tried to avoid using the term "privatization", because this term has a negative effect on senior Americans.[3] And, Bush calls for specific measures to deal with specific problems, concealing his larger ideological interests.

Driven by the aforesaid economic and political interests, President Bush leaves no stones unturned to sell his privatization plans, by fair means or foul. First of all, President Bush extols "individual choice", "personal ownership", "higher returns" and the pursuit of the American Dream. Despite their superficial appeal, all of them are pipe dreams. What's more, he smears the current Social Security and exaggerates its problems in an attempt to mislead the public. This maneuver of Bush is known as the "scare tactics", which is similar to the tactic he used in launching the Iraq War under the pretext of eliminating weapons of mass destruction.

And, Bush has a very busy schedule to sell his ideas. For example, in the spring of 2005, he resumed a cross-country campaign stumping for his personal accounts reform plans. By June 20, 2005, he had stumped by 36 campaign stops.[4]

Yet, his privatization plans have met strong resistance. Democrats are unified in opposing privatization of Social Security.[5] Public opinion on Social Security privatization is mixed. As more and more American people hear about Bush's plans,

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in the history of the United States has cut tax while at war. Furthermore, Bush even seeks to make the tax cuts permanent. If he succeeded, Social Security would remain bankrupt in perpetuity. See SourceWatch, "Social Security Trust Funds", SourceWatch, http://www.sourcewatch.org/index.php?title=Social_Security_Trust_Funds (accessed in March 2006).

1. Robert Brent Toplin, "Social Security, George W. Bush—And the "L" Word (No, Not Liberalism)", History News Network, http://hnn.us/articles/10528.html (accessed in March 2006).

2. Ibid.

3. 郑秉文/文，"围绕美国社会保障私有化的争论"，《国际经济评论》，2003/01，经由 CNKI 中国知识网 Grid-20 数据库平台，http://e46.cnki.net/kns50/classical/singledbdetail.aspx?QueryID=25&CurRec=2

4. Carolyn Lochhead, "Bush Refusing to Budge on Personal Accounts", Chronicle Washington Bureau, http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2005/06/20/MNG9GDBBLI1.DTL&type=printable (accessed on June 20, 2005).

5. Amy Fagan, "Wexler Offers Proposal to Fix Social Security", The Washington Times, http://washingtontimes.com/national/20050517-122407-6589r.htm (accessed in March 2005).

their knowledge of Social Security improves[1]. As a result, the percentage of Americans who say they favor personal accounts tumbled.[2] In May 2006, Bush's job approval rating declined to its lowest level of 29 percent positive since he took office in 2001.[3] At present, Democrats' strategy is to focus on Bush's reform plans. The more Bush travels and talks about privatization, the less people liked it and the more they question his judgment and priorities. They insist they won't come to the table or offer a plan until Bush set aside his personal-account idea.[4]

Furthermore, Congressional Republicans are of two minds about Social Security reform. Some are reluctant to have a proposal that makes it more difficult for people of lower and middle incomes to provide for their retirement security. Some may not follow George W. Bush in promoting personal accounts, because their political careers might be ruined, if they fail in this privatization campaign.[5]

With a divided Congress postponing debate to focus on more pressing issues, no bill passed in 2005[6], and nothing may happen in 2006. Absurdly, though the President himself has admitted his plan doesn't fix Social Security,[7] he said he would push ahead.[8]

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1. In December 2004, only 23 percent said they have heard a lot about Bush's proposal, while the number nearly doubled in February 2005: more than four-in-ten say they have heard a lot about the proposal (43%). See The Pew Research Center for the People & the Press, "Bush Failing in Social Security Push", The Pew Research Center for the People & the Press, http://www.people-press.org (accessed on March 5, 2005).

2. In Pew's latest nationwide survey, the percentage of Americans who say they favor personal accounts has tumbled to 46% in February 2005, down from 54% in December 2004 and 58% in September 2004. See The Pew Research Center for the People & the Press, "Bush Failing in Social Security Push", The Pew Research Center for the People & the Press, http://www.people-press.org (accessed on March 5, 2005).

3. Harris Poll, "Bush Job Approval Falls to 29 pct in New Poll", Reuters, http://today.reuters.com/news/newsArticle.aspx?type=politicsNews&storyID=2006-05-12T131704Z_01_N12361390_RTRUKOC_0_US-BUSH-POLL.xml (accessed on May 15, 2006).

4. Amy Fagan, "Wexler offers proposal to fix Social Security", The Washington Times, http://washingtontimes.com/national/20050517-122407-6589r.htm (accessed in March 2005)

5. Lewis D. Solomon, *Financial Security and Personal Wealth* (New Brunswick, N.J.: Transaction Publishers, 2005), 140.

6. Anita Kumar, "Social Security Reform Stalled", The St. Petersburg Times, http://www.sptimes.com/2005/07/19/Worldandnation/Social_Security_refor.shtml (accessed on May 15, 2006).

7. The Associated Press, "Bush Admits His Plan Doesn't Fix Social Security", MSNBC.com, http://www.msnbc.msn.com/id/6906269/ (accessed on Feb. 4, 2005).

8. Ibid. In 2006, George W. Bush buried his privatization plan in the 2007 fiscal year budget without much fanfare. The Wall Street editor for Newsweek pointed out that President Bush stealthily added privatization plans in the 2007 budget. "The plan would begin in 2010 and 'would divert more than $700 billion of Social Security tax revenues to pay for them over the first seven years.'" Bush only mentioned Social Security in the 2006 State of the Union address that Congress did not act on his plans. Yet, he never submitted specific legislation.See Allan Sloan, "Sleight of Hand", MSNBC.com, http://www.msnbc.msn.com/id/11235990/site/newsweek/from/RSS/ (accessed on Feb. 8, 2006).

Conclusion

Social Security is facing challenges, but its problems can be surmounted without resorting to such controversial and problematic measures as adding personal accounts to Social Security. The bottom line is that including personal accounts in Social Security is simply infeasible within Social Security itself. Social Security is created as an insurance program, not an investment vehicle. Social Security is not supposed to make people rich, but to prevent people from slipping into poverty. There is no free lunch in the world. Though American people may suffer a bit from the conventional approaches to address Social Security problems, such as tax increases and benefit cuts, rise of payroll tax cap and adding additional taxes, they will eventually gain from these little pains.

Besides, there is a moral lesson in the policy-making on this Social Security issue. In order to materialize his ideological thinking about American society, President Bush has over-politicized Social Security reform. He has exerted great efforts to promote the privatization plans that go against the purposes of the foundation of Social Security program. Despite his hype and profuse rhetoric, Bush's assertion that Social Security privatization would revamp the program and better the living of all the American people cannot stand much deliberation. Social Security privatization would not only affect the program's future, but also Americans' perception about what kind of society America should be. And, the interests of Social Security beneficiaries brook no experiment in making such crucial reform plans. Social Security reform plans should be conducive to the prosperity and stability of the country. As a national leader, President Bush should act responsibly in making financial policies and guiding the public to put Social Security on a sound footing.

Given the domestic and international situation of America, the legislation for Social Security reform in the Bush administration remains uncertain. Homeland security issues, such as anti-terrorism and anti-nuclear proliferation, still demand a great deal of effort on the part of the Bush administration. And these issues will not be put to an end in the short run. On the other hand, Bush has proposed carrying out reform in many fields in domestic affairs, such as Medicare, tax, jurisdiction, immigration and education. These reforms and adjustments would require extensive and tenacious endeavors. It is very hard to deal with all these issues at the same time. Furthermore, public support for Bush is declining. Against this background, Social Security privatization won't go very far.

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