Transcript of Opening Statement of Chairman Kent Conrad
Hearing on Social Security: Budgetary Tradeoffs and Transition Costs
August 2, 2001

Good morning. I have just talked to Senator Domenici and he has had a loss in the family and will not be able to be with us this morning. He has to return to New Mexico. I want to express the condolences of the Committee to Senator Domenici and his family. We certainly grieve with them in their loss.

I want to indicate we will proceed as we normally do here. I will say to the witnesses. Your full statements will be made part of the record and we'd ask you to summarize your statements to about five minutes, but I won't be slavish about that but we'd ask you to do that so there's plenty of time for questions. Senator Grassley is here. He will serve on the Republican side this morning in Senator Domenici's absence.

I want to begin by welcoming our witnesses this morning. Bob Greenstein, who is no stranger to this committee, and Dr. Orszag, who has provided very valuable testimony to this committee on a prior occasion, and Dr. Schieber welcome, it is good to have you here. We appreciate your willingness to share your collective wisdom with the Budget Committee on what is a very important and somewhat complicated subject.

Earlier this year, the President announced the formation of a Commission on Social Security. The President set out certain guiding principle for that commission: no payroll tax increases; no benefit changes for current retirees; and the creation of voluntary private accounts.

Anybody who has paid attention to the public debate over the future of Social Security knows that reforms – particularly reforms that include any type of private account – will require substantial new budgetary resources. While the President's Commission has yet to make specific recommendations, the President's guiding principles lead us to believe that they will propose reforms which include the creation of individual accounts roughly equivalent to 2 percentage points of payroll tax. Social Security experts agree that the 10-year cost of such a proposal is about $1trillion.

The Social Security question that most concerns the Budget Committee is: Are there sufficient budgetary resources available to fund the types of reforms envisioned by the President and his Commission?

Before the enactment of the tax cut, the answer to that question was clearly yes. And in the wake of the tax cut, I look forward to hearing from our witnesses about the continued affordability of this type of proposal.

But before we here from our witnesses about the budgetary tradeoffs and transition costs associated with Social Security reform, I'd like to remind my colleagues where we stood in January of this year versus where we stand today with respect to the surplus and with respect to the options open to us in addressing the long-term budgetary needs of our aging society.

In January of 2001, CBO presented us with projections showing a $5.6 trillion surplus over the next 10 years – $3.1 trillion in trust fund surpluses (Social Security and Hi trust funds) and $2.5 trillion in non-Social Security and HI surpluses.

As we pondered the options for putting that hard-earned surplus to best use, the Budget Committee heard testimony from GAO Comptroller David Walker warning us that "permanent or open-ended tax cuts and/or spending increases" would "reduce future fiscal flexibility." Mr. Walker also reminded us that of our "stewardship obligation" to future generations, suggesting that "today's budget decisions need to be made with the future in mind".

We also heard important testimony earlier this year from one of today's witnesses, Mr. Orszag, who told us that: "Higher national saving offers the most effective available policy response to our aging population . . . saving the projected off-budget surplus, the projected Hospital Insurance surplus, and one-third of the projected on-budget surplus between 2002 and 2011 would raise real GDP by roughly $200 billion in 2012. . . [this] illustrate[s] a real cost to forgoing national saving. . ." That was your testimony then Dr. Orszag, at least in part.

With this thoughtful advice in mind, I offered an alternative budget resolution amendment that set aside all of the Social Security and Medicare surpluses. In addition, my budget resolution alternative set aside $900 billion in a reserve fund to strengthen Social Security for the long-term. Those reserved resources could have been used in a variety of ways to strengthen the Social Security program – some of my colleagues support creating TSP-type accounts on-top of or as part of the Social Security program. TSP refers to the Thrift Savings Plan that all federal employees have access to. Other colleagues think those resources should be used to collectively invest in non-federal securities, something we see in a number of Scandinavian countries.

The bottom line is that Democrats voted earlier this year to set aside resources necessary to strengthen the Social Security program. Unfortunately, that budget alternative did not pass. Instead, the Senate adopted the Republcian budget resolution which set aside zero resources to address the transition costs associated with Social Security reform. Let me repeat – the budget resolution that passed set aside nothing, zero for strengthening Social Security or to fund transition costs. Dollars that could have been used to ease the transition costs of a Social Security reform plan were instead spent on a significant tax cut that unfortunately in my judgement disproportionately benefits the wealthiest among us.

But where does that leave us?

We will hear from our witnesses today that these lost opportunities will limit our options for dealing with Social Security's unfunded liabilities. The Bush Commission may now be forced to propose reforms which cause massive on-budget deficits, accelerated Trust Fund insolvency, or drastic benefit cuts to the traditional Social Security benefit. Given recent comments from Speaker Hastert and White House spokesman Ari Fleischer against Social Security benefit cuts and tax increases, it seems more likely that the Bush Commission will be forced to make recommendations which use budget gimmicks to hide the true transition costs associated with private account plans.

We at the Budget Committee will be watching for those hidden costs and for those gimmicks. Recently, the Budget Committee put together some numbers showing the available surplus. What this charts shows is that after we consider the surplus lost to the tax bill, other budget resolution policies, potential economic revisions, the associated interest costs, the Bush defense request. What we find is that there are no budget surpluses left to fund an individual accounts plan without dipping into the Social Security and Medicare trust funds.

This chart demonstrates that an individual account plan equal to 2 percentage points of payroll will cost about $1.3 trillion between fiscal year 2003 and 2011 – that cost includes both the 2% account and the debt service costs associated with those accounts. Because of our dwindling surpluses, an account plan of this size would constitute a raid on the Medicare trust fund of $397 billion and a raid on the Social Security trust fund of an additional $900 billion.

Interestingly, the 10-year cost of an individual accounts plan is roughly equivalent to the 10-year revenue loss attributable to the tax cut.

Now some might argue including some of my Republican colleagues that the Social Security trust funds should be used to shore up the Social Security program. But I would remind them that these Social Security trust funds have already been committed to pay benefits that have already been promised – they can't now be spent a second time on individual accounts. At least in the accounting courses I took in getting a master's degree in business, we were alerted to such double counting. That is the kind of thing that leads to real fiscal problems. Raiding the Social Security trust funds to pay for private accounts can mean only one of two things. Either they are double counting, or they are shortening the solvency of the Social Security trust funds. That is a mathematical certainty. That plan, I believe, is irresponsible and will result in huge benefit cuts or massive tax increases, or dramatic increases in public debt. It seems to me it is inescapable that that is the result.

In conclusion, I would like to reiterate that by insisting on such a substantial tax cut, the Administration already has limited the Social Security Commission's ability to find a workable and financially viable solution. My question to the witnesses will be and my question to this Administration will be: Where will you find the money to pay for these private accounts?

With that I will turn to my colleague, Senator Grassley, the very distinguished ranking member of the Senate Finance Committee and somebody who has taken a long term interest in the work of this Committee and certainly has made substantial contributions on the issues before us today.