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ABSTRACT

The 1983 Social Security legislation is today often invoked as a process model for conducting politically difficult entitlement reforms. Indeed, there are many vital lessons for today's leaders to draw from the 1983 reform process. At the same time, there is a significant danger of these lessons being misremembered and misapplied.

As today's leaders endeavor to construct a reform process, they will need to ensure that it facilitates open discussion between competing and strongly-held policy perspectives. In past entitlement reform efforts, this has only succeeded when processes have been genuinely bipartisan, and when there has been a common understanding of the facts at hand.

The 1983 Social Security amendments were a process success in several respects. They successfully involved both parties; they ensured that negotiators would be those willing to reach compromise; they engaged both the White House and a sufficient number of Members of Congress; and they withstood pressure from seniors' lobbying groups.

Of equal importance, however, was the analytical clarity that attended the negotiations. Both parties appreciated the size and immediacy of Social Security's

financing shortfall. Both parties understood that contemporary workers paid for the full cost of financing all Social Security benefits. The Trustees, and the Greenspan Commission, employed analytical methods that prevented such concepts as the accumulated Trust Fund balance from injecting analytical confusion into the discussion.

It is widely understood today that the ample surpluses run by Social Security since the mid 1980s have been spent rather than saved. What is less understood, however, is that there was no intention or belief, on the part of 1983 negotiators, that building up such a storehouse of saving was desirable or even possible through the auspices of the Social Security Trust Fund.

Contrary interpretations of the intentions of 1983 are pervasive and understandable, given the striking pattern of Social Security cash flows engendered by the 1983 legislation. Such misperceptions are, however, a significant threat to future efforts to restore Social Security to long-term financial health.

Unless negotiators in a future reform process approach the table with a similarly shared understanding of Social Security's future challenges, and steer clear of metrics that confuse these realities, such negotiations are unlikely to bear fruit. These lessons must be heeded if we are truly to profit from the experience and precedent of 1983.

Introduction

The 1983 Social Security legislation is today often invoked as a process model for conducting politically difficult entitlement reforms. Indeed, there are many vital lessons for today's leaders to draw from the 1983 reform process. At the same time, there is a significant danger of these lessons being misremembered and misapplied.

The 1983 Social Security reforms were enacted primarily pursuant to the report of the bipartisan Greenspan Commission, and signed into law on the South Lawn of the White House on a chilly April 20 morning. The occasion was marked by speeches by President Reagan, House Speaker Tip O'Neill, and Senate Majority Leader Howard Baker – the three men who had selected the Greenspan Commission's membership.

Common sentiments ran through the remarks of each of the three on that day. Each, as would be expected, extolled the Social Security program, as well as the specific amendments about to become law. But each of the speakers laid at least as great an emphasis on the process of bipartisanship and compromise that had brought about the occasion. Palpable throughout the recorded ceremony is a feeling of relief, a sense of honorable compromise, a sense that politics had been subordinated to the public good, and an awareness that Social Security's rescue might just as easily have never happened.

The law that President Reagan signed on that day was a significant bipartisan achievement, and among the most important pieces of legislation in Social Security's history. As today's leaders strive to create successful conditions for similar action, it is critical to understand what exactly happened in 1983, why it happened that way, and what had made the achievement possible at all.

A Common Understanding of the Facts

The 1983 reforms are now widely viewed as a case study in bipartisanship. At least as important for the success of the effort, however, was the shared analytical clarity, the common agreement on the facts, which enabled strongly-held policy differences to be bridged.

Both Republicans and Democrats in 1983 knew there was a Social Security problem, and that it was coming fast. The 1981 Trustees' report had warned that Social Security "will be unable to make benefit payments on time beginning in the latter half of 1982."[1] The 1982 report repeated this warning, although a few months of additional time had been bought by a patchwork of legislative tinkering late in 1981.[2] The key players on both sides of the aisle all understood that prompt action was needed to save Social Security. Even with that shared understanding, it nearly didn't happen.

This essential clarity was fostered by a shared understanding of how Social Security worked. Republicans and Democrats alike understood that current benefits were paid by taxing current workers. If annual taxes collected were insufficient to fund benefits, a problem very obviously arose. There was indeed a Trust Fund then, but its balances were deliberately kept modest, and it was not designed to carry the nation through extended periods of cash shortfalls.

As the 1981 Trustees' report stated:

"There is general agreement that the OASDI system should be financed on the basis of a 'current-cost' method, under which total income each year is intended to be approximately equal to total outgo during the year, plus an additional amount needed to maintain the trust funds at appropriate contingency-reserve levels. Under this financing method, the trust funds should not become too large (through continued annual surpluses) nor too small (through continued annual deficits.)"[3]

The Trustees' statement was not mere lip service. Up through that time, annual program income and outgo had been persistently balanced or close to it, with the Social Security Trust Fund balance never rising or falling by more than $6 billion in any single year.[4] Not since 1960 had the Trust Fund commanded assets sufficient even to fund two years' worth of benefits. This was a result of a long-shared bipartisan understanding that Social Security benefits were paid from Social Security tax revenues as they came in, and in no other way.

Indeed, so little credence was then given to the idea that the Trust Fund was a meaningful source of financing for future benefits, that the assets of the Trust Fund were not even included in measurements of Social Security's future balance. The actuarial method relied upon by 1983's negotiators thus "did not take into account the trust fund balances at the start of the valuation period."[5]

Many now wrongly assume that the crafters of the 1983 legislation deliberately intended to depart from this historic practice, that they intended to create decades of annual surpluses thereafter, and thereby to build up a significant Social Security Trust Fund and to pre-fund a portion of benefits of the Baby Boom generation. Given the substantive consequences of the 1983 reforms, this is an understandable misperception. The record is clear, however, that there was no such intent. Today's large Trust Fund, the meaning of which is so hotly contested, was actually an unwitting byproduct of the 1983 reforms -- and an equally unwitting destruction of the analytical clarity that had enabled the 1983 reforms themselves to be possible.

The 1983 experience demonstrates the necessity of a common understanding of both the factual predicates of the discussion and of the problem to be solved. For, even with that shared understanding, and even on the brink of insolvency, the 1983 process barely escaped failure.

The Greenspan Commission had been appointed in 1981 but much of its deliberative time was frittered away amid avoidance and delay. Each party ducked tough choices until the 1982 elections had passed. After the elections, when the Commission finally got down to serious work, it bogged down in disagreement and disarray. The Commission's December 31, 1982 deadline came and went without any conclusive action other than a temporary extension of the Commission's charter. Only heroic last-minute exertions by Republican Senator Bob Dole and Democratic Senator Pat Moynihan, soon joined by other critical negotiators, resurrected the process and brokered an agreement.

Today's Social Security debate is, by contrast, handicapped by starkly conflicting views of the size and immediacy of the Social Security shortfall. These analytical divisions are manifested in such controversies as whether the problem exists today, arises in 2017, or not until 2041, as well as controversies over the best way to measure Social Security's balance or imbalance. If a process established today fails to resolve these critical analytical divisions, it will surely fail.

More specifically, such agreement will be forbiddingly difficult without an accurate shared understanding of the Trust Fund, which in turn requires an accurate understanding of how the 1983 reforms brought us to where we are.

1983: The Process Model

The 1983 reform process was indeed a successful example of bipartisan collaboration. The specifics of the bipartisanship warrant close examination.

Initially, President Reagan's Administration had tried to lead the way. In the 1970s, numerous benefit increases had been enacted that had brought the program to financial extremity, first in 1977 and then again in the early 1980s. The incoming Reagan Administration tried to answer this fiscal challenge by unilaterally proposing a rollback of some of those benefit increases. Despite the agreed-upon need for some financial corrections, the Administration was slapped hard for these proposals, not only by Democrats but by Republican allies as well. A 96-0 vote of a Republican-controlled Senate[6] condemned the essence of benefit changes that President Reagan had put on the table.

After this defeat, it was clear that President Reagan would get nowhere without bipartisan cooperation. He then turned to the bipartisan process of the Greenspan Commission, and Congressional Democrats agreed to participate in it.

The Greenspan Commission's composition arose from a noteworthy selection process. The Commission consisted of fifteen members: five were appointed by President Reagan, five by the House Speaker, Democrat Tip O'Neill, and five by the Senate Majority Leader, Republican Howard Baker.

The method of appointing the Commission contributed greatly to its efficacy. Each appointing individual was limited to selecting no more than three of his five choices from his own political party.[7] President Reagan thus appointed two Democrats, as did Baker, while O'Neill appointed two Republicans. This contrasts with many other

Commissions, to which Republicans have appointed only Republicans, and Democrats have appointed only Democrats.[8] The Greenspan Commission consequently included several individuals who could work cooperatively across the aisle, in contrast with other Commissions that were collections of the most intransigent members of the respective party caucuses.

The Greenspan Commission also struck a fine balance between members within and outside of Congress. It included enough members of Congress (Senator Pat Moynihan, Senator Bob Dole, and Congressman Claude Pepper, among others) to ensure Congressional engagement, but enough members from outside of Congress (notably Chairman Alan Greenspan and former Social Security Commissioner Robert Ball) to provide the prestigious cover of acknowledged experts. Other more recent commissions lacking such a balance have failed to see their recommendations enacted into law. Those composed primarily of members of Congress have failed to reach agreement, while those altogether lacking elected members have seen their recommendations ignored by Congress.

The bipartisan engagement of 1983 was not limited to the composition of the Commission itself. The Commission was unable to forge an internal agreement so long as a wider partisan standoff remained in force. The last-ditch effort launched by Senators Dole and Moynihan was successful only because it involved direct negotiations with a delegation of staff of the Reagan White House, and also included a rump group of other key Commission members, including those closest to Speaker Tip O'Neill.

The other indispensable process success of 1983 was in overcoming the concentrated opposition of seniors' advocacy groups, most notably the American

Association of Retired Persons, or AARP. It is now conventional wisdom in Washington, D.C that Social Security can only be stabilized for the long term with the cooperation and support of this powerful elderly lobby. History shows the opposite: that a long-term solution was only possible because legislators were willing to buck AARP's pressure.[9]

These are among the reasons why the Greenspan Commission model endures as a favorable *process* model. It successfully engaged both parties, withstood the pressure applied by interest groups, and facilitated the subsequent passage of legislation through the Congress.

The Social Security Trust Fund: What Was Intended in 1983?

In 1981-83, as we have seen, negotiators agreed on the immediacy of the Social Security problem. Today, not everyone sees the same problem, neither in immediacy nor in size. The reasons for this have much to do with the nature of the 1983 reforms themselves.

The 1983 reforms launched a new pattern of annual Social Security cash flows. Soon after the reforms, the program began to enjoy decades of annual cash surpluses. These will soon be transformed into large and perpetually growing annual deficits.

According to the Social Security Trustees, these deficits will arrive in 2017. They will start small but will rapidly grow. By 2021, they will actually be significantly larger, even relative to our larger tax base today, than the annual deficits experienced in the crisis years of 1977 and 1982.[10] Yet many believe that there is no real problem until decades hence, in 2041. Why?

The answer lies in the Social Security Trust Fund, whose large current balance was facilitated by the 1983 reforms.

The 1983 negotiators disregarded the balance of the (admittedly small) Trust Fund when assessing the extent of Social Security's future shortfalls. Today, many rely upon the balance in the Trust Fund to argue that the Social Security shortfall is decades away. The vantage point that Social Security's financing problem only emerges decades from now, and only when Trust Fund insolvency is threatened, is generally supported by arguments that fall into four categories. As we shall see, many of these arguments are premised on particular interpretations – indeed, misinterpretations -- of what happened in 1983.

The four categories of arguments are basically these:

- The "full faith and credit" argument;
- The "storehouse of saving" argument;
- The "social justice" argument;
- The "1983 intent" argument.

We will examine each of them in turn.

The "full faith and credit" argument

This argument is a simple one, and is basically limited to extolling the safety and soundness of the Trust Fund's investment in Treasury bonds. The Trust Fund is invested in Treasury bonds, and Treasury bonds are the most secure investments in the world, so what problem could there be? A typical example of the argument is sounded by AARP:

"These [Trust Fund] bonds aren't only safe; they're earning approximately 7 percent in annual interest. Last year, about 13 percent of Social Security's total income — that's nearly $80 billion — was just interest alone. There you have it. For over two hundred years, in good times and in bad, these government bonds have paid off."[11]

This line of argument is probably the weakest of the four. If the matter were as simple as this, then solving the Social Security shortfall would be a trivial exercise: we could simply issue $4.3 trillion of bonds to the Trust Fund, and declare it solvent for the next 75 years. Going further, we could issue $13.6 trillion (the size of the infinite-horizon shortfall) and declare the problem solved forever.

One needn't think very deeply to realize, however, that issuing these bonds sidesteps the critical question of where the money will come from to pay them off when due. This argument, therefore, is unresponsive to the fundamental question of how we will finance Social Security after 2017.

The relevant factor here is not whether U.S. Treasury bonds are a sound investment. To understand why, consider the example of an individual with a pristine credit record. That individual cannot raise the money to buy something, no matter how sterling his credit, by issuing debt to himself. Similarly, the government cannot create the resources to finance future Social Security obligations *solely* by exchanging debt between its own accounts – no matter how solid its credit.

We can choose to issue more bonds to Social Security at any time. Doing so doesn't create the resources to pay Social Security benefits. That happens only when we develop a plan for paying off the bonds.

The "storehouse of saving" argument.

Experts agree on what the Social Security Trust Fund literally *is:* it consists of bonds issued from the general fund of the Treasury. It is an asset to the Social Security system to the same degree that it is a debt to the other government accounts. It is thus not a *net* asset of the government as a whole. It is an asset held by one part, a debt held by another.

On this, experts agree. Where experts disagree is on the economic reality behind these debt issuances.

Some believe that the Social Security system, by running surpluses for several years, has been a storehouse of saving. Because the federal government was able to borrow and spend Social Security money for the past few decades, so this viewpoint holds, it was able to reduce the amount of borrowing that it would otherwise have done to finance its spending. By reducing federal debt held by the public, the Social Security system has improved the government's overall fiscal position and, in a sense, built saving to finance the system's post-2017 deficits.

For much of Social Security's history, Trust Fund balances remained so small as to prevent a definitive resolution of an ongoing debate as to whether the Trust Fund embodied real saving. Since the appearance of large surpluses in the 1980s, however, it has generally been understood that the Social Security surplus has *not* been used to reduce federal debt. Explanations of Trust Fund financing from the late 1980s through the 1990s generally found that the federal government was spending surplus Social Security money, and specifically doing a lot of spending that it would not otherwise be doing. A typical passage explaining the situation is from 1988, by Aaron, Burtless and Bosworth:

"If OASDHI revenues exceed expenditures, the resulting surpluses may be used to pay for current public or private consumption. . . As the OASDHI surpluses increase, so would deficits elsewhere in the federal budget. Although this policy may seem peculiar, it closely resembles the course on which the United States has embarked today. Under this policy, the reserve does not add to national saving (because it does not reduce the overall government budget deficit) and thus it does not add to future productive capacity. . . . Although such a policy might hold down future payroll tax rates, it does not protect future taxpayers from shouldering the expense of rising benefit costs. When and if the Trust Funds are drawn down to pay for future benefits, other federal taxes will have to be increased to finance the repurchase of government debt previously bought by the OASDI Trust Funds. In addition, the incomes against which those taxes will be imposed will be no larger than if those reserves never existed."[12]

This type of explanation was standard from the late 1980s, when the large surpluses began to be noted, throughout the 1990s and up through 2001. Similar explanations appeared in publications of the Social Security Public Trustees, the Congressional Budget Office,[13] the General Accounting Office[14], the Congressional Research Service[15], the Concord Coalition, and even President Clinton's annual submitted budgets[16] during those years. In 2001, President Bush's Social Security Commission cited these various sources and described the Trust Funds in similar language in its Interim Report:

"Revenue must be raised from taxpayers to redeem these bonds. Social Security has run payroll tax surpluses since the mid-1980s and will continue to do so until 2016. . . . The problem is that when Social Security begins running cash deficits in 2016, the nation will face very difficult choices. This situation arose because past payroll taxes were not truly saved, but were used to finance other government spending. As a result, future repayment of Trust Fund bonds will not be any less difficult."[17]

2001 marked a shift, however, in how the meaning of the Trust Fund was publicly debated.[18] President Bush having made reform a priority and appointed a Commission to make recommendations, Social Security policy entered a more contested realm. Greater controversy began to attend not only policy disagreements but also basic factual analyses. Some policy advocates began again to argue that the Social Security Trust Fund actually *did* embody a storehouse of saving.[19] These critiques re-opened the debate. The schism created a fresh set of reasons for some to resist the idea that Social Security faced financing issues well before 2041.

The joining of this debate prompted new academic reviews of the empirical evidence as to whether, the Social Security surpluses have over the years been a meaningful storehouse of saving. The results of these analyses have returned us to a reinforced appreciation that it has not been. Kent Smetters found that the presence of Trust Fund surpluses had actually *reduced* saving, by inducing legislators to spend additionally in amounts greater than the Social Security surplus.[20] Shoven and Nataraj reported similar results.[21]

Though the precise quantification varies from paper to paper, the generally consistent finding has been that the Trust Funds have not been an effective storehouse of saving, and thus there is little empirical basis for the claim that it has postponed the problem of financing Social Security benefits from 2017 to 2041.

This does not necessarily mean that all participants will agree with these analyses if and when Social Security reform re-enters the realm of political negotiation. But generally speaking, the view that the Social Security Trust Fund embodies real saving, and that we have effectively pre-funded full benefit payments through 2041, is inconsistent with the best empirical evidence that has been gathered.

The "social justice" argument.

The empirical finding that Social Security surpluses since the mid 1980s have not been saved has moved some to embrace a different rationale for declining to see a problem in 2017. Its essence is to argue that it really doesn't matter whether Social Security surpluses were saved or not. In essence, this argument is a version of the following: "If the Social Security surplus for decades subsidized the rest of the federal government, then it's only right and proper that the rest of the government subsidize Social Security for decades after that, with whatever general revenue payments it needs to make."

This view is sometimes expressed from the vantage point of distributional politics. Those who pay the payroll tax generally have a lower income profile than those who pay the income tax. If workers pay more in payroll taxes than is needed to pay for benefits, and if that overpayment allows the federal government to hold down income taxes, shouldn't the government later do the fair thing, and raise future income taxes in order to pay these workers' benefits as those bills come due?

A typical example of this argument comes from Paul Krugman:

"If the trust fund is meaningless, by the way, that Greenspan-sponsored tax increase in the 1980's was nothing but an exercise in class warfare: taxes on working-class Americans went up, taxes on the affluent went down, and the workers have nothing to show for their sacrifice. But never mind: the same people who claim that Social Security isn't an independent entity when it runs surpluses also insist that late next decade, when the benefit payments start to exceed the payroll tax receipts, this will represent a crisis - you see, Social Security has its own dedicated financing, and therefore must stand on its own."[22]

This may sound reasonable at first, until one thinks it through. The fatal flaw in the logic above is that the issue is not as simple as one fixed body or group borrowing from another, and then paying them back later on.

The more complex reality is that different generations pay taxes and receive benefits at different times. When this is considered, the "social justice" argument not only falls apart, it bears contrary implications altogether.

The generations of the 1980s and 1990s paid more in payroll taxes than was then needed to pay Social Security benefits. That surplus money was consumed – whether through direct spending or by allowing lower income taxes – by those same generations. As that money was spent, bonds were issued to the Social Security Trust Fund.

Current law obliges workers in the 2020s and 2030s to commit higher general revenues, above and beyond their payroll taxes, to redeem trillions in bonds of the Social Security Trust Fund. These higher cost burdens would be imposed to pay Social Security benefits, mostly to the same generations that earlier consumed the Social Security surplus. The problem with the "social justice" argument thus becomes apparent: the generations who spent the Social Security money on themselves aren't the same generations who are being asked to foot the bill later on for its repayment.

This is the basic flaw in the "social justice" argument. It assumes two separate and fixed groups: modest-income workers under Social Security, vs. upper income people who pay income taxes -- without accounting for generational differences. It conflates what is essentially an intergenerational transaction, with an inter-class transaction.

Ironic about the "social justice" argument is that there *is* available a mechanism for requiring the repayment of Social Security money by the same generations and income levels who spent it. If we accept the depiction that the excess payroll tax collections of the 1980s and 1990s were a form of class warfare benefiting affluent income tax payers in those years, then the appropriate place to turn to have the money paid back would *not* be to the young taxpayers of the 2020s and 2030s.

Instead, it would mean getting the money back from the affluent income taxpayers of the 1980s and 1990s, who of course are far more likely to be *retirees* in the 2020s and the 2030s. This would be straightforwardly accomplished by reducing benefits for those with higher wage histories, not by raising general revenues to pay off the Trust Fund.

In summary, because it neglects issues of income redistribution across generations, the "social justice" argument for the meaning of the Trust Fund collapses upon inspection. Carried through to its logical conclusion, the argument actually supports a reduction in the growth of Social Security benefits well before 2041.

The "1983 intent" argument.

By far the most widely-held misinterpretation of the Trust Funds, and by far the most relevant lesson of the 1983 reforms, has to do with the intentions of the negotiators who crafted them.

The most widely held misconception of the Trust Fund today is that it represents a mechanism decided upon in 1983 to pre-fund a portion of the retirement of the baby boomer generation. This belief is pervasive, but is wholly belied by the documentary evidence.

A typical example of this portrait of Social Security's history comes from this paper from the National Bureau of Economic Research:

"(T)he Greenspan Commission's plan was for Social Security to depart from pay-as-you-go financing and to partially pre-fund the retirement costs of the baby boom generation. The idea was to offer some relief to the workers in the 2015 to 2050 period in supporting the enormous population forecast for that period. By forcing workers in 1984-2015 to pay higher payroll taxes than required to finance current retirement benefits, the hope was that workers in the 2016-2050 era could pay lower than PAYGO taxes. The trust fund buildup and subsequent drawdown would spread the burden of the retirements of the baby boomers over 65 years, rather than 30 years, and to some degree even out the tax burden faced by different generations of workers."[23]

One can find any number of nearly-identical quotes from different sources. This view is held without regard to politics or ideology; sources for it range from advocates of action, to defenders of the status quo, to opponents of personal accounts, to proponents of personal accounts. Some, like a recent paper from the National Academy of Social Insurance, even approach an implication that the onrushing post-2017 deficits are a benign feature of 1983's far-seeing plan ("This is not a crisis. In fact, this is precisely what the1983 reforms intended to happen.")[24]

It's unsurprising that so many analysts should reach a similar conclusion. After all, the singular feature of the 1983 reforms is the remarkable pattern of surpluses and subsequent deficits that they engendered. Surely, it is assumed, such an enormously consequential outcome must have been intentional. Why else would the 1983 negotiators have done this, unless they believed that the surpluses in the near-term could be banked in the Trust Fund to finance the deficits in the long term?

The documentary evidence, however, instead shows that, not only has the Trust Fund *not* been saved, but the framers of the 1983 amendments were laboring under no misconceptions that it would or could be. Neither the Greenspan Commission nor Members of Congress realized during their deliberations that the proposed reforms would produce decades of Social Security surpluses, and would not have regarded such a result as desirable or effective pre-funding even if they had known.

First, there is the documentary evidence of the statements of those involved with the Greenspan Commission work. Commission Executive Director Robert Myers, in a 1995 interview, asserted that there had been no plan or expectation of building up large Trust Fund surpluses:

Myers: It just developed. It wasn't planned. Nobody said let's do it this way. It was just the natural result of saying we'll fix up the long-range situation in 75 years on the average. We'll fix it up and we'll do this in part by having a high tax rate beginning in 1990. When you have a level tax rate and increasing benefit costs, then averaging out higher benefits later you're bound to build up a fund and you're bound to use it up.

Q: As we look at it today, some people rationalize the financing basis by saying that it's a way of partially having the baby boomers pay for their own retirement in advance. You're telling me now this was not the rationale. Nobody made that argument or adopted that rationale?

Myers: That's correct. The statement you made is widely quoted, it is widely used, but it just isn't true. It didn't happen that way, it was mostly happenstance that the Commission adopted this approach to financing Social Security. The way they thought about it was that in order to achieve long-range balance we have to have this high tax rate in 1990, instead of putting it in steps. We could have fixed it up with a series of steps, lower in 1990, about the same in 2010, higher in 2015, that could have fixed it up just as easily, but there wasn't time. It was not intentional. [25]

Myers in the same interview goes so far as to describe the Trust Fund buildup essentially as an accidental flaw of the 1983 reforms, and suggests that had the Commission had the time and opportunity, they would have fixed the solution to do away with it.

"But the Commission never really looked at the long range situation except wanting to be able to say we recognized it. We've raised the retirement age to help solve this problem and so forth. So in hindsight critics can say, "Hey, why didn't you guys do a more thorough job?" When a house is burning down you can't always take care of every problem. That was the situation. Obviously in an ideal world we would have done a better job. I would have done a better job, but it would have been silly for me to get up before the Commission in the closing days and say, "Hey look guys. Sure you fixed up the short-range. Sure you recognized the long-range problem but you didn't really thoroughly study the long-range problem." They couldn't be bothered with that."[26]

These were not mere recollections well after the fact. Myers's own appendix to the Greenspan Commission report itself states clearly that the intention of policymakers for several years had been, and remained, to fund Social Security on a pay-as-you-go basis.

"Over the years, the original emphasis on building up and maintaining a large fund was reduced. Gradually, the funding basis shifted, in practice, to what might be called a current-cost or pay-as-you-go basis. The intent under such a basis is that income and outgo should be approximately equal each year and that a fund balance should be maintained which will be only large enough to meet cyclical fluctuations both within the year and also over economic cycles which have durations of several years. There is no established rule as to the desirable size of a contingency fund, although the general view is that it should be an amount equal to between 6 and 12 months' outgo."[27]

The subsequent behavior of key players on the Commission is further evidence in support of Myers's interpretation. A few years later, when Social Security's mounting annual surpluses had been publicly noted, former Greenspan Commission member

Senator Daniel P. Moynihan recognized that the attainment of "75-year solvency" had been to a great degree illusory, predicated as it was on the near-term buildup of annual surpluses that would never be saved. Moynihan thus led a legislative effort to cut the payroll tax in the near term, and allow it to rise in the long term, to prevent the federal government from spending the near-term surplus money and thus render solvency a fiction.

The floor debate on the Moynihan bill reflects contemporary views of the situation. Notably, he describes the surpluses even in 1990 as having caught them "unawares."

MR. MOYNIHAN: The trust funds are now rising at approximately $1.5 billion a week, and will shortly be rising at $2 billion, soon $3 billion, then $4 billion a week. They will, in sum, accumulate a surplus of some $3 trillion in the next 30 years. Three trillion dollars is a sizable sum. The stocks of all the companies listed on the New York Stock Exchange would sell for about $3 trillion. This money is coming in. It is the largest revenue stream in the history of public finance. One of the extraordinary facts is that *it has come upon us almost unawares, and we have yet to make a decision about how to treat these moneys*.[28]

During this floor debate, Senator Moynihan offered his recollections of the evolving awareness of the surpluses and of his conviction of what to do with them:

MR. MOYNIHAN: In any event, a commission on Social Security reform was established in 1982 and in 1983, again Senator Dole being very active. I was a member of the commission. We put together the Social Security amendments of that year. We proposed them; they were enacted almost without change, very brief. . . . for all of the attention, all we did was accelerate rate increases already in place. Then, Mr. President, we began to notice the surplus. When did we notice the surplus? Well, I do not know that I can say for certain. I think that by 1988 it was getting to be pretty clear, that not only was there a surplus, but also an opportunity. On August 8, 1988, I asked the General Accounting Office for a study of the subject. I might say that prior to that, in the spring, in May 1988, so that some people will understand we are not coming here with some sudden proposition that nobody has heard about, we held hearings in the Subcommittee on Social Security and Family Policy. . . Robert J. Myers, a man of great distinction, who was chief actuary of the Social Security system, and National Commission on Social Security Reform in 1982 -- came before us a sad, but truthful man. He said, "Gentlemen, go back to pay-as-you-go financing. Because, gentlemen, you are never going to save the surplus. The old Presbyterian belief, you might say, that temptation is never overcome. The flesh is weak, the spirit notwithstanding. Give it back before it becomes a habit you cannot break."[29]

One irony of the 1990 debate is that future Senate Majority Leader Harry Reid then took Moynihan's side. They together mocked the idea that the Social Security Trust Fund was building a meaningful accumulation of reserves, at variance with Reid's later posture that the Trust Fund ensured Social Security's vitality for several decades into the future:

Mr. MOYNIHAN: There are no reserves. They have all been embezzled. They have been spent.

Mr. REID. Will the Senator yield?

Mr. MOYNIHAN. Yes.

Mr. REID. Maybe what we should do in conjunction with the President to really carry this conspiracy to its appropriate end, is rather than having it called the Social Security trust fund, why do we not change it and call it the "Social Security slush fund?"

Mr. MOYNIHAN. Our policy staff, honestly, somehow believe there are reserves. What there are in IOU's from the Treasury. This money has been spent as general revenue, as the Senator from South Carolina says. I prayed for them with the Democratic Party and I hope the Republicans pray for us as well.

Not only Commission members and staff, but the legislators who later crafted the bill to implement the 1983 reforms, shared Myers' and Moynihan's understanding. In a May 17, 1983 letter to the Wall Street Journal – notably, after the Social Security amendments had been signed into law -- Texas Democrat Jake Pickle, chair of the Social Security Subcommittee of the House Ways and Means Committee, wrote:

"(W)e would not want to fund our national retirement program other than on a pay-as-you-go basis. To accumulate now funds to pay all future benefits would require a government reserve in the trillions of dollars---- a build up of government investments not likely to be tolerated by the public."[30]

These and other statements document that the crafters of the 1983 reforms not only did not intend to build up a large Trust Fund, but in many cases opposed such an outcome, and believed the public did so as well.

Of course, the memories and perspectives of individuals are fallible. But the other documentary evidence tells the same story.

The Greenspan Commission did not report a single complete plan to Congress, and thus could not have analyzed the annual cash flows for any such plan. Instead, the Commission provided to Congress recommendations for provisions that would close roughly two-thirds of the 75-year solvency gap *on average*, and left it for Congress to choose among options to fill in the remaining third.[31] Nowhere in the Greenspan Commission report is there a comprehensive plan that is analyzed for its effect on the flow of Trust Fund balances over time.

In its internal deliberations over different policy options, the Commission reviewed memoranda describing each provision's near-term effects under both Intermediate *and* High-Cost scenarios, and its long-term effects *on average* under Intermediate projections.[32] The annual flows of long-term effects were not presented to the Commission (indeed, one of the reasons that the Social Security Office of the Actuary now analyzes individual provisions much more thoroughly, showing annual flows as well as those averaged over time, is precisely to enable legislators to avoid some of the shortcomings of the 1983 analysis.)[33]

The Commission's prudence in ensuring that insolvency would be averted in a worst-case scenario is one of the chief reasons for the subsequent Trust Fund buildup. Reality has arrived at a point somewhere in between their intermediate and worst-case scenarios, which meant that a good deal of the margin for error was later realized in the form of mounting program surpluses. The Congressional Research Service, in an excellent and comprehensive 1997 paper, explained well the consequences of this prudence:

"Various misperceptions of their intent have developed over the years, among them being that Congress wanted to create surpluses to 'advance fund' the benefits of post World War II baby boomers. . . . There is, however, little evidence to support the view that the surpluses were intended to pay for the baby boomers' retirement. The record suggests that the goal was to assure that the system was not threatened by insolvency again, not to advance fund future benefits."[34]

The CRS report goes on to explain that the focus on avoiding insolvency even under the pessimistic scenario continued to guide deliberations of the Senate Finance and House Ways and Means Committees, when they had assembled final completed packages to evaluate. Like the Greenspan Commission, the committees reviewed estimates for both the intermediate and pessimistic scenarios, and evaluated their work to ensure it would survive the worst-case possibilities. Again, quoting from CRS:

"To suggest that these balances were intended to finance or to 'advance fund' the benefits of the baby boomers and subsequent retirees presumes that the authorizing committees (and the Congress generally) designed the measures specifically to create significant excess income and believed this income would be isolated from the financial operations of the rest of the government such that it would have accumulated as a 'nest egg.' Neither of the reports from the House Ways and Means and Senate Finance Committees made any reference to such 'advance funding.'" [35]

CRS also goes on to document the failure to analyze the annual flows of the 1983 reforms, relying upon "averaged" effects on the 75-year balance:

"The discussion in Committee markups revolved around the average 75-year deficit and how much the various options would affect that figure. Hence, there was very little understanding that a period of surpluses would be followed by a period of deficits – or that 'actuarial balance' was not achieved on a pay-as-you-go basis."[36]

If this evidence seems overwhelming, none of it is actually the evidence that most firmly clinches the issue. But there is another piece of evidence that irrefutably demonstrates that the crafters of the 1983 amendments never intended to build up a large Trust Fund.

That piece of evidence is this: *The crafters of the 1983 reforms did not use an actuarial method that is consistent with solvency as defined using Trust Fund accounting.* To the contrary, there is a mathematical inconsistency between the accounting of a large accumulated Trust Fund, and the method used in 1983 to calculate actuarial balance.

Today, the Trustees employ a method for determining actuarial balance known as the "level financing" method. The method, in effect, averages out the program's future surpluses and deficits in a particular way: specifically, it discounts the size of future imbalances by a rate of interest: the rate of interest the Trust Fund is projected to earn.

Using this method ensures consistency between our measures of "actuarial balance" and the size of the Trust Fund. The point at which the actuarial balance goes negative is the point at which the Trust Fund reserves are depleted. These two methods are internally consistent: we project that the Trust Fund will earn a certain rate of interest, and we also discount future deficits by that rate of interest. This method both tells us that the Trust Fund will be positive through 2041, and that the system is in actuarial balance through 2041. This method was not adopted until 1988.[37]

In effect, this method implicitly assumes that the Trust Fund is "real." It credits the Trust Fund as saving that is pre-funding future deficits, without regard for whether it is actually saved. Many analysts, such as this author, thus find fault with the method. Further, it significantly discounts the size of future deficits relative to other federal budgetary conventions. For example, a deficit that would require the workers of 2080 to contribute a further 5% of their wages to make up is treated, in this calculation, as a smaller deficit than one that would require a 3% payroll tax hike of the workers of 2050.[38] Such a method can tend to distort our picture of the relative tax burdens faced by different generations.

Putting aside these analytical concerns, however, the method adopted in 1988 reflects a critical analytical decision not reached until that year: to align the measure of the Trust Fund balance with the measure of the actuarial balance. By 1988, at the latest, the Trustees realized that Trust Fund accounting methodology and the actuarial balance calculation were yielding different results.[39]

This is not, however, the method that the Greenspan Commission used.

The Greenspan Commission used a different method, known as the "average cost" method. This method simply averaged out the future surpluses and deficits of Social Security, expressed as a percentage of worker wages. This method implicitly assumes that Social Security benefits are paid by taxing the wages of workers at the time those benefits are paid – and *not* by drawing down the accumulated reserves of a Trust Fund.

There is a mathematical conflict between Trust Fund accounting and the method the Greenspan Commission used. If the Greenspan Commission had compared its projection for actuarial balance over 75 years, with the result that would arise from Trust Fund accounting, they would have produced two different answers.

Moreover, as we have previously mentioned, the actuarial calculations of 1983 "did not take into account the trust fund balances at the start of the valuation period."[40]

No Commission that believed that the Trust Fund was an effective source of advance funding would perform its calculations in disregard of the Trust Fund balance to date.

It is abundantly clear, based on all of this documentary evidence, that neither the Greenspan Commission, nor the Congress as a whole in 1983, intended that the 1983 reforms build up a large Trust Fund, nor that they believe that it was possible to pre-fund future benefits by doing so.

Summary and Conclusions

As today's leaders endeavor to construct a reform process, they will need to ensure that it facilitates open discussion between competing and strongly-held policy perspectives. In past entitlement reform efforts, this has only succeeded when processes have been genuinely bipartisan, and when there has been a common understanding of the facts at hand.

The 1983 Social Security amendments were a process success in several respects. They successfully involved both parties; they ensured that negotiators would be those willing to reach compromise; they engaged both the White House and a sufficient number of Members of Congress; and they withstood pressure from seniors' lobbying groups.

Of equal importance, however, was the analytical clarity that attended the negotiations. Both parties appreciated the size and immediacy of Social Security's financing shortfall. Both parties understood that contemporary workers paid for the full cost of financing all Social Security benefits. The Trustees, and the Greenspan

Commission, employed analytical methods that prevented such concepts as the accumulated Trust Fund balance from injecting analytical confusion into the discussion.

It is widely understood today that the ample surpluses run by Social Security since the mid 1980s have been spent rather than saved. What is less understood, however, is that there was no intention or belief, on the part of 1983 negotiators, that building up such a storehouse of saving was desirable or even possible through the auspices of the Social Security Trust Fund.

Contrary interpretations of the intentions of 1983 are pervasive and understandable, given the striking pattern of Social Security cash flows engendered by the 1983 legislation. Such misperceptions are, however, a significant threat to future efforts to restore Social Security to long-term financial health.

Unless negotiators in a future reform process approach the table with a similarly shared understanding of Social Security's future challenges, and steer clear of metrics that confuse these realities, such negotiations are unlikely to bear fruit. These lessons must be heeded if we are truly to profit from the experience and precedent of 1983.

Acknowledgments

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[1] http://www.ssa.gov/history/reports/trust/1981/1981.pdf, page 2. This inability to pay benefits would occur when program assets declined to 9% of the amount obligated for the following 12 months. Benefits, according to the 1981 Trustees' Report, were generally paid on the third day of a month, whereas contributions flowed in throughout the month. Thus, without a cushion on hand, some benefit payments would need to be delayed. See p. 38, http://www.ssa.gov/history/reports/trust/1981/1981a.pdf

[2] http://www.ssa.gov/history/reports/trust/1982/1982.pdf

[3] http://www.ssa.gov/history/reports/trust/1981/1981a.pdf, p. 27.

[4] http://www.ssa.gov/OACT/TR/TR08/VI_cyoper_history.html#90303

[5] http://www.ssa.gov/history/reports/trust/1988/1988c.pdf, p.87.

[6] http://escholarship.bc.edu/cgi/viewcontent.cgi?article=1028&context=retirement_papers

[7] http://www.ssa.gov/history/reports/gspan8.html

[8] The bipartisan Medicare Commission http://thomas.loc.gov/medicare/members.html included Republicans appointed by Republicans, and Democrats appointed by Democrats. It failed to pass recommendations. The Kerrey-Danforth Commission of 1993-94 was technically appointed by President Clinton via Executive Order, http://www.ssa.gov/history/reports/KerreyDanforth/KerreyDanforth.htm, though Republican appointments were negotiated with Congressional Republican leadership. It too failed to reach agreement.

[9] New York Times, February 18, 1983, "Retired People's Group Rejects Moynihan's Plan." Also see part 2 of published testimony before the House Ways and Means Committee, February 22 and 23, 1983, testimony of AARP Executive Director Cyril Brickfield.

[10] http://www.ssa.gov/OACT/TR/TR08/lr4b1.html

[11] http://www.aarp.org/money/social_security/a2003-04-02-ssfinancing.html

[12] Aaron, Bosworth and Burtless, *Can America Afford to Grow Old?* , Brookings Institution, 1988

[13] Testimony of Dan Crippen and Barry Anderson before the House Ways and Means Committee, 2/23/1999

[14] "Social Security and Surpluses: GAO's Perspective on the President's Proposals," General Accounting Office, 2/23/1999

[15] "Social Security Taxes: Where do Surplus Taxes Go and how are they Used?" CRS, April 29, 1998

[16] FY2000 Budget, Analytical Perspectives, p.337.

[17] http://www.csss.gov/reports/Report-Interim.pdf, p.18.

[18] For a full review of the literature describing the economics of the Trust Fund through 2001, see Andrew Biggs's "Perspectives on the President's Commission to Strengthen Social Security," Cato Institute, August 22, 2002.

[19] Aaron, Blinder, Munnell and Orszag, "Perspectives on the President's Commission to Strengthen Social Security," The Century Foundation, July 23, 2001, p. 3.

[20] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=425581

[21] "Are Trust Fund Surpluses Spent or Saved?" http://www.nber.org/aginghealth/winter05/w10953.html. "The authors find a strong negative relationship between the surpluses: an additional dollar of surplus in the trust funds is associated with a $1.50 decrease in the federal funds surplus."

[22] Paul Krugman, "Inventing a Crisis," New York Times, http://www.pkarchive.org/column/120704.html

[23] http://www.nber.org/digest/may05/may05.pdf

[24] Indeed, the omnipresent wikipedia states in http://en.wikipedia.org/wiki/Social_Security_(United_States)#Amendments_of_the_1980s that the "Social Security system began to generate a large short-term surplus of funds, *intended* to cover the added retirement costs of the "baby boomers."' But experts at think tanks ranging from Heritage http://www.heritage.org/Research/SocialSecurity/bg683.cfm ("The 1983 amendments to the Social Security Act, intended to place the system on a sound financial footing, assumed that Congress would build up large reserves in the Social Security Trust Fund over the next two decades, while the proportion of Americans in the labor force was large, so that retirement funds would be available for the baby-boom generation when it entered retirement age.") to NASI http://www.aspeninstitute.org/atf/cf/%7BDEB6F227-659B-4EC8-8F84-8DF23CA704F5%7D/Social%20Security%20and%20Private%20Savings.pdf ("This is not a crisis. In fact, this is precisely what the1983 reforms intended to happen.") describe the intentions similarly.

[25] http://www.ssa.gov/history/myersorl.html

[26] Myers, ibid.

[27] http://www.ssa.gov/history/reports/gspan17.html
[28] Congressional Record, 1990, S14755-6. Italics added.
[29] Congressional Record, 1990, S147556. Senator Moynihan also in these remarks referenced the opinion of Barry Bosworth, who expressed more optimism at the 1988 hearings that Social Security surpluses would be saved. Our excerpt here focuses on the views of Moynihan and Myers, and their accounts of the phenomenon not having been foreseen in 1983.
[30]Congressman Jake Pickle, Letter to the Wall Street Journal, May 17, 1983. Another letter from the Social Security Chief Actuary on May 11 also stated that "Social Security is essentially a pay-as-you-go system."
[31] http://www.ssa.gov/history/reports/gspan5.html
[32] http://www.ssa.gov/history/reports/gspan18.html
[33] http://www.ssa.gov/OACT/solvency/provisions/index.html
[34] "Social Security Financing Reform: Lessons form the 1983 Amendments," Congressional Research Service, 1997, https://www.policyarchive.org/bitstream/handle/10207/446/97-741_19970724.pdf?sequence=1
[35] http://digital.library.unt.edu/govdocs/crs/permalink/meta-crs-484:1, CRS-6
[36] http://digital.library.unt.edu/govdocs/crs/permalink/meta-crs-484:1, CRS-11
[37] http://www.ssa.gov/history/reports/trust/1988/1988c.pdf, p.87.
[38] The calculation in this paragraph assumes that future real wage growth continues at the historic rate of the past 40 years. The same point can be made using different assumptions. Using the Trustees' assumptions across the board, a deficit of 4.4 percent of taxable payroll in 2080 would appear smaller, in PV, than a deficit of 3 percent of taxable payroll in 2050. The qualitative point here is that the PV calculation does not capture the relative size of tax burdens facing different generations.
[39] With the Trust Fund having built up to a significant balance by 1988, the changes in the Trustees' Report in that year avoided the potentially embarrassing outcome of having actuarial balance calculations and Trust Fund accumulations that produced two different pictures of system solvency. When the Trust Fund balances had been smaller, and with no expectations of them being built up, this concern had not been as pronounced. By the mid-1990s, however, the shortcomings with all such actuarial averaging calculations were being more widely recognized, noted in the reports of the 1994-96 Social Security Advisory Council, the 1999 and 2003 Technical Panels of the Social Security Advisory Boards, and more recent reports of the Social Security Trustees.
[40] http://www.ssa.gov/history/reports/trust/1988/1988c.pdf, p.87.