EXTENSIONS OF REMARKS

SOCIAL SECURITY REFORM

HON. NEWT GINGRICH

OF GEORGIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 7, 1998

Mr. GINGRICH. Mr. Speaker, the issue of retirement security is one of the long-term priorities of our nation—a Goal for a Generation. Michael Barone points out in today's Wall Street Journal that this is a discussion that the American people are prepared to have. This is an excellent article and recommended reading. I submit it into the RECORD.

[From the Wall Street Journal, May 7, 1998]

VOTERS ARE READY FOR SOCIAL SECURITY REFORM

(By Michael Barone)

Conventional wisdom has long held that Social Security is the third rail of American politics: Touch it and you die. Political events from the 1940s through the 1980s provided plenty of support for this rule. But now the third rail has shifted to the other side of the track: It is politically risky not to propose changes.

This shift was caused by two trends, neither created by government, and neither much noticed by most politicians. The first change was demographic, and the key year was 1993—the first year in which Americans turning 65 had not served in World War II. This was critical because the bedrock of support for the existing Social Security system is the GI generation, which grew up in the Depression, served in World War II and then went on to build a prosperous postwar America.

This generation has a powerful sense of moral entitlement to Social Security and, since 1965, to Medicare. These Americans felt, justifiably, that they had been dealt a poor hand, played it well, and passed on a much better one to the next generation. Economically, the Social Security system was an amazingly good deal for this generation. Former Sen. Alan Simpson used to point out to complaining elders that the value of the payroll taxes they had had paid during their earning years was only a small fraction of the total they would receive from their monthly checks. They paid him no heed. If younger Americans had to pay much higher payroll taxes than they had to pay, that was just fine.

SMALLER GENERATION

But every day the GI generation becomes smaller. Today about one-quarter of Americans over 65 were born after 1927—members of what authors William Strauss and Neal Howe call the silent generation. They didn't suffer through the Depression or serve in World War II; the escalator of postwar prosperity was already moving up when they stepped on. They lack the sense of moral entitlement that their elders have.

Meanwhile, the younger generations have come to realize that they are on the losing end of a Ponzi scheme. Their payroll taxes are high, and there is no way they are going to receive benefits comparable to their ''contributions.'' Ask twentysomethings what they expect to get from Social Security, and they'll just laugh. They know that the ratio of workers to retirees is falling and that the payroll tax will have to become even steeper to support current Social Security payments. Indeed, the Congressional Budget Office estimates the Social Security tax will have to jump from 12% to 18% over the next 30 years.

The twentysomethings know there is an alternative to that heavy blow. Which brings us to the second great change that makes Social Security reform foreseeable: the boom in investment. Pollster Peter Hart, in a 1997 survey for the National Association of Securities Dealers, found that 43% of Americans owned stock, vs. just 21% in 1990. An NBC/Wall Street Journal survey conducted in 1997 reported that 51% of respondents said they owned at least $5,000 worth of common stock or mutual funds, either individually or through a retirement savings program.

We are becoming a nation of investors. In the 1970s and '80s, most Americans had the bulk of their wealth in residential housing; by 1997, a majority had more wealth in stocks than houses. Americans have long had a stake in stocks through their pension plans; but that stake is increasingly direct, as employers shift from defined-benefit plans (in which a centralized entity does the investing and promises a specific pension) to defined-contribution plans (in which the employee invests his pension directly and the return depends on his own choices).

Over time, the stock market grows faster than incomes, as the investing public has come to understand. Harvard economist Martin Feldstein notes that while funds raised by the payroll tax have historically risen at about 2% a year, stocks rise by 5% to 6% a year over the long run. (Mr. Feldstein's calculations are based on the period 1926–94, which means they include the Depression and exclude the doubling of the market since 1994.) It is increasingly plain to Americans that they would do well to look more to stocks and less to the payroll tax for their retirement income.

But there is increasing evidence that the economic factor most important to Americans is not short-term income but long-term wealth. Voters of the GI generation were sensitive to small fluctuations in income. They remembered the 1930s, when a layoff was often the prelude to years of unemployment. But voters growing up in an age of credit cards and vast job growth know that they can survive a period of temporary income loss. They are more concerned with how they are faring in their lifetime project of accumulating wealth.

A focus on wealth rather than income helps to explain the otherwise puzzling responses of voters to economic events in the 1990s. The relatively small income losses of the 1990–91 recession are not enough to explain why George Bush fell to 37% of the vote in 1992 from 53% in 1988. But a look at where his greatest losses occurred tells the story: They were in New Hampshire and Southern California, which also suffered the nation's biggest drops in housing values. Voters spurned him because they lost wealth and he didn't seem to be doing anything about it.

In 1994, the old political formulas based on macroeconomic indicators suggested the Democrats should have lost about a dozen House seats. Instead they lost 52, in part because their big-government programs threatened wealth accumulation. And how to explain the current euphoric feeling about the direction of the nation, and Bill Clinton's high job ratings amid deepening political scandal? Income growth is lower than the peaks of the Reagan years, so that's not it. But look at the stock market, and the vast increases in wealth it has given millions of Americans—there's the source.

A final bit of evidence: In the 1996 campaign, Democrats hammered away at Republican ''cuts'' in Medicare (actually lower increases). For months, these attacks hurt Republicans. But at the beginning of October the Republicans counterattacked, and as Peter Hart has noted, the Democrats' Medicare advantage disappeared by the middle of the month. In a country with a vanishing GI generation and two younger generations skeptical that they will receive much from Medicare or Social Security, the Medicare issue was a wash.

So we now have an electorate ready for Social Security reform. Only a few politicians have stepped forward, the first among them being junior Republican representatives like South Carolina's Mark Sanford and Michigan's Nick Smith. Then this January came Mr. Clinton's opportunistic poly to outflank tax-cut proposals by calling for budget surpluses to be plowed into Social Security. That put the issue into play. In March, Sen. Daniel Patrick Moynihan (D., N.Y.) came forward with his own plan for cutting payroll taxes and establishing supplementary personal investment accounts. Mr. Moynihan's proposal is far from radical, but the direction is apparent. Suddenly U.S. politicians are moving toward an investment based system similar to those already working in Chile and Britain.

STRENGTH AND CONFIDENCE

Will they get their anytime soon? That is by no means clear. Neither the scandal-plagued president nor the razor-thin congressional Republican majority may have the strength and confidence necessary to move ahead. Which would be unfortunate, because suddenly the money to pay for the costs of transition is at hand, in the form of a budget surplus.

But politicians don't have the excuse for hesitation that they had in the 1980s, when they claimed the public would not accept significant changes. The generational shifts and the investment boom of the '90s have created a new America—a nation of investors embarked on a lifetime project of accumulating wealth, confidently relying on their own decisions in the marketplace. Suddenly, the time is ripe for Social Security reform.

IN HONOR OF THE 70TH ANNIVERSARY OF THE FAIRFAX VOLUNTEER FIRE DEPARTMENT

HON. THOMAS M. DAVIS

OF VIRGINIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, May 7, 1998

Mr. DAVIS of Virginia. Mr. Speaker, on Saturday, May 9, 1998, the Fairfax Volunteer Fire Department is celebrating its 70th Anniversary. This anniversary marks the culmination of a