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How social security can survive: a business roundtable

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A Business Roundtable

How Social Security Can Survive

The nation's Social Security system is in a dilemma. Its retirement fund is paying out more in benefits than it is collecting in taxes, and that has a lot of people worried—not just the one in six Americans who currently receives some form of Social Security benefit (retirement, survivor, or disability) but also the nine out of ten workers in the nation's labor force who are being taxed by the system and who are counting on receiving Social Security benefits when they retire. They're concerned that their benefits will be drastically cut, or that the system will go bankrupt and they will lose their benefits completely.

Since 1975, the annual benefits paid by the Social Security pension fund have exceeded the annual Federal Insurance Contributions Act taxes collected and earmarked for that fund. The program managed to pay its bills through early November with its reserves, which now are exhausted. Congress has staved off bankruptcy through June by permitting the retirement fund to borrow from Social Security's separate Medicare and disability insurance programs. But if that borrowing stops, or if the problems causing this shortfall are not corrected by July of this year, certain government officials predict that the system will indeed be bankrupt.

The administration and some congressional members wanted the Congress to address Social Security's deficits in the '81 and '82 sessions; but due to its political sensitivity, the issue was assigned instead to the 15-member bipartisan National Commission on Social Security Reform, established by President Reagan in 1981. In January of this year, the commission reached agreement on a $169 billion proposal that Congress will consider in the coming weeks.

Meanwhile, we thought it an appropriate time for the nation's commercial sector to express its opinion on this timely and important topic, and to examine the issue from a business perspective. With that in mind, we invited a group of knowledgeable and influential business leaders from varied backgrounds to an informal and open discussion of the Social Security issue. What follows is an abbreviated version of that discussion.

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Russell Palmer: *What are the problems with Social Security today? Is the system about to go bankrupt? Does it need drastic changes?*

Robert Beck: Taking the short-term problems first and the long-term problems second, one observation that we can make about Social Security is that the nation just cannot afford full indexation for benefit increases. In the three years ending with 1981, for example, wages went up 30 percent, while the cost of living went up 40 percent. Because we indexed Social Security benefits at 40 percent, the benefits paid out increased 10 percent more than the wages taxed to finance them. That difference cost the system $11 billion a year. And that's $11 billion forever. Each year's increase becomes part of the base on which the next year's increase is calculated.

To avoid this disproportion in the future, several very worthwhile recommendations have been made. The Business Roundtable has suggested that benefit increases be indexed to either wages or prices, whichever is lower. Milton Friedman has recommended that we ignore the first two or three percentage points of change in the cost of living. Some countries have put caps on cost of living increases, never letting them rise above 4 or 5 percent. And some people think we should change the Consumer Price Index (CPI), because it's overly sensitive to factors that affect retirees less than other people.

I think retirees generally would accept a lowering of benefit increases if it were properly presented, free of political rhetoric. If the president and other responsible people from both sides of the aisle all came together, we could, before too long, have a reasonable solution to the indexing problem.

Robert Myers: I think people don't understand just how sensitive the Social Security system is to indexing. For example: if, in the 1977 act, we had been required to apply the lesser of a wage or a price index, we wouldn't have this problem today. Or take the proposal made by Senator Hollings, which is to forgo any CPI increase this year and then to reduce future CPI increases by 2.5 percent each year until the trust fund has built up. If that were done, all the short-range problems in the system would almost certainly be solved. Not being aware of this possibility, people think the system is facing complete bankruptcy and that nothing can help it.

John Koskinen: Sometimes politicians underestimate the voters' common sense and decency. In talking to people in a retirement community that we run in Florida, I hear beneficiaries saying that while they're delighted with the Social Security increases, they know that they never really paid for them. They understand that the benefits they've received have been inequitable because the wages of people out in the work force haven't gone up as fast. That's why I, too, think retirees would go along with a reduction in the rate of benefit increases, if it assured the system's future. They're not worried about the system's collapse due to bankruptcy. That's not a meaningful threat. If the system ultimately collapses, it will be because the body politic refuses to support it any longer.

John Flittie: Another dimension is that we are not going to be able to achieve any significant changes in Social Security until there is more recognition of the problem by the leadership of organized labor. The AFL-CIO and UAW, as well as many other large unions, have steadfastly been in favor of continuation or even expansion of Social Security. Yet at the same time, they have been asked for give-ups in their negotiated benefit programs with major U.S. corporations. The union leaders are going to be in a very difficult situation with their membership if they endorse any type of slowdown, let alone reduction, in Social Security.

Robert Beck: Just by changing the date alone for adjusting benefits by the CPI—by moving it back three months to put it on the same fiscal year as the government—we probably could save $12-15 billion in five years. There are a lot of little things that could be done. To me, though, the most important one is to change the system of indexing, and then apply it to all other entitlement programs. When former Speaker of the House John McCormack died, his pension benefit was not only more than he ever got as a congressman, it was more than the current Speaker of the House gets. The way the system works now, federal employees can plan on retiring and know when their pension benefit will exceed their current earnings. The military is the same way. A former Chief of Naval Operations is making considerably more than the current CNO. If we had that kind of indexing in our corporate pension funds, we'd all go broke.

Russell Palmer: *At Touche Ross, we decided to stop indexing our retirement program by the CPI. The corporate world has had to adjust to these things, but Social Security hasn't. Why is that?*

Robert Baldwin: Congressman Jim Jones [D-Okla.] has worked on this. He has said that for the first time they had convinced the veterans' groups to agree to some reduction in the index for veterans. They've been working with the retired people, too, and they think they might move them. The toughest ones are going to be the civil servants, but Jim Jones is quite optimistic.

Robert Myers: The government needs to get across to people that this would not be the first time that Social Security benefits have been reduced. There have been many instances in the past, going back to 1939.

Judge Simon Rifkind: How were they cut? By legislation?

Robert Myers: Yes. In fact, some people would be better off now if the 1935 law had continued, instead of being amended in 1939. The 1935 law, quote, *guaranteed* that everybody would always get back at least as much in benefits as they had paid in taxes. But that feature was knocked out in 1939. As a result, you have people today who pay Social Security all their lives, who die before they retire, who don't leave any survivors, and to whom nothing is paid. This is one of the deliberalizing features that was added in the past. It was a trade. Monthly survivor benefits were provided instead of a guaranteed refund.

Russell Palmer: *Originally, Social Security wasn't set up on a pay-as-you-go basis, was it?*

Robert Myers: No. The original intent was to build up a fairly sizable fund that would generate interest to meet a portion of the program's cost. But over the years this arrangement gave way to political pressures to increase benefits and keep taxes down. During the 1960s particularly, people worried about the fiscal drag that would be caused by a big budget surplus.

Judge Rifkind: Social Security never was meant to provide anybody with all they need to live on. The assumption was that when people retired they would have some assets, and Social Security would give them some supplementary cash. Only of late have I heard people speak of Social Security as something they are relying on for a livelihood—which, it seems to me, is like using an umbrella in a tornado.

Robert Myers: I've always viewed Social Security not as a supplement to what people already have, but the other way around—as a floor of protection that people would build on.

Judge Rifkind: You can treat it either way. Also, what if we eliminated the welfare features from the system? By welfare, I mean aid to children whose parents did not work for Social Security, or did so very little. What if we confined Social Security to what it originally was conceived for, as something you would get because you—and your employer—paid for it during your working years? Some fellow might get more, of course, because he lived longer; some fellow might get less because he lived for a shorter time. That's part of the insurance game.

All entitlement programs tend to grow. Maybe that is because you have to draw sharp dividing lines, and it always seems a little harsh not to benefit the fellow just outside the line. But suppose we stripped away these welfare features from Social Security and treated them separately. Providing aid to children is a perfectly good thing to do. Maybe the most important thing to do. But it has nothing to do with Social Security. Treat welfare as welfare, and treat Social Security as Social Security. Would the system then become perfectly solvent, durable, and performable over the years?

Russell Palmer: *Let's look at the alternatives to changing the rate of increase in benefits. What other factors will affect the fund's balance?*

John Koskinen: You could move the retirement age back and begin payments later in the beneficiary's life. I think it would be very difficult to tell the people who are within ten years of retirement that we've changed the rules of the game. Even if you move the retirement age back only by a month or two a year from now until 1995, or some time, many people will feel that their contract has been changed without their consent.

Judge Rifkind: How about people who are just entering the work force? They'd have no squawk.

John Koskinen: Maybe not, but that still leaves millions of people who have been counting on the system for years. Politically, you wouldn't have much chance of moving the retirement age back for them, and so the short-term problems would remain.

Robert Myers: Some people believe that there is no problem that can't be solved very easily within the system itself. They recognize that the Old-Age and Survivors Insurance Trust Fund will not be able to pay benefits in a timely manner beginning July 1983, but they say that all we need to do is allow borrowing among the three trust funds that are supported by

"Of the long-term problems, however, the most important need is to extend the retirement age. It could be done gradually, excluding everyone who is ten years or less away from retirement. The change for people who are now between about 45 and 55 would be very quiet and slow. That way you'd have a whole wave of people who either wouldn't be affected at all, or would be affected very little. As long as you make decisions that far in advance, you can move it politically."

payroll taxes and also from the General Fund of the Treasury. The loans would be repayable with interest, and *could* be repaid, they say, during the 1990s, when the Old-Age and Survivors Insurance Trust Fund will have relatively lower costs. As for the long-range problems that have been foreseen, these people say the cost estimates are far too pessimistic and that the costs won't be nearly as high as the intermediate estimates would suggest.

Judge Rifkind: Why will the cost go down in the 1990s?

Robert Myers: Because then the people reaching age 62 will belong to the generation born in the 1930s, which was relatively small compared to that of the 1920s or to the years right after World War II—the baby-boom generation. So although the costs won't drop sharply in the 1990s, they will level off or even decrease slightly in relative terms—that is, as measured against the taxable payroll.

Judge Rifkind: Does that take into account the indexing of benefits to the Consumer Price Index?

Robert Myers: Yes, but under the optimistic assumption that very soon wages will, once again, rise more rapidly than prices—by 1.5 or 2 percent a year. If that does occur, the estimates show that there will be far more income than outgo in the 1990s. In part, this will occur because the OASDI tax rate is scheduled to rise significantly in 1990. Of course, if wages *don't* rise more rapidly than prices, this won't happen.

Robert Beck: As for the short-term problems, certainly the most dramatic effect would come from changing the indexing. Of the long-term problems, however, the most important need is to extend the retirement age. It could be done gradually, excluding everyone who is ten years or less away from retirement. The change for people who are now between about 45 and 55 would be very quiet and slow. That way you'd have a whole wave of people who either wouldn't be affected at all, or would be affected very little. As long as you make decisions that far in advance, you can move it politically.

Robert Myers: Today, around 60 percent of all Social Security beneficiaries—excluding those who claim disability benefits—claim retirement benefits before they reach age 65. The theory is that you don't pay benefits to people who aren't retired.

John Flittie: So maybe we should consider making early retirement less attractive.

Robert Beck: In 1937, when 65 was selected as the normal retirement age, it was about right for people then, considering their longevity. At the present time, the equivalent age is closer to 69. By the year 2000, we think it's going to be about 72 or 74. Based on calculations that we've run at Prudential, the difference between a statutory retirement age of 65 and one of 68, at today's longevity, is costing the system $30 billion a year—some 15 percent of the total cost of the system.

But remember what happened a year and a half ago, when the administration proposed to reduce the early retirement benefits at age 62 from 80 percent to 55 percent? The proposal got blown out of the water. It wasn't politically doable. It just divided the political parties in a way that ruined any chance to get something done.

Russell Palmer: *Maybe it would be easier to gain acceptance for changing the retirement age if people could work part-time without losing their benefits. For example: occasionally we would like to hire some of our retired partners back for short-term projects, but they say that while they might come back for free, they can't afford to have us pay them. Bob, can you explain that to me?*

Robert Myers: A lot of them don't even retire. They can get some benefits and still go on working. In a certain small area of earnings, people can't afford to come back to work because they'll make less after taxes than they would if they stayed home. We could do away with the earnings test and pay everybody at 65—and there is now an annual exemption in the earnings test—but then we'd be paying a lot of people who are still working and never thought of retiring—people like well-paid lawyers and doctors. There's just no perfect solution.

Russell Palmer: *No one says they can't earn $100,000 a year in interest or dividends. Why are they penalized if they go out and do something productive?*

Robert Myers: If you take interest, dividends, and private pensions into account in the retirement test, you destroy the value of savings for a lot of people. They'll say, "Why save any money if it's only going to take away from Social Security?" One solution might be to raise the exempt amount of earnings a lot higher than it is now, although not so high that a doctor making $100,000 a year would get Social Security benefits.

Russell Palmer: *How many people over 65 who are eligible for benefits lose them because they work?*

Robert Myers: About 1.5 million.

Robert Baldwin: They keep on working and just defer the benefits, right?

Robert Myers: Yes, and beginning in 1983 the benefits will be 3 percent higher for each year that benefits were withheld.

Robert Baldwin: What are the maximum benefits?

Robert Beck: As of December 1981, a person who retires at age 65 with a spouse age 65 can receive the maximum benefit of $14,206.

Robert Baldwin: So, somebody who wants to go out and earn $50,000 can probably defer this and come out ahead. But it's a fairly highly paid person.

Robert Myers: Where the shoe pinches is on earnings between $6,000 and about $20,000 a year. In that range, people will often be worse off by working than not working.

Russell Palmer: *I think we have very persuasive arguments for raising the retirement age to reflect the increase in longevity.*

Robert Myers: It will require some cooperation from employers, though. They should try to keep people on until the new retirement age, because if they don't, and if the people who retire early have no private pension plan, the reduction in their benefits could be painful.

John Koskinen: Then we also need to know the demographics in order to calculate the effect of having more people in the work force. We have a high unemployment rate now, and it would be higher still if many people continued working for three more years after they're 65.

Robert Beck: The demographics show that by the time we hope to put the new retirement age of 68 fully into effect, we'll need to have people working longer. Actually, total employment has been increasing very dramatically over the last several years. Much of the unemployment we're seeing results from women going into the labor force. But by 1995, we're going to be needing people in the work force until they're 68.

John Koskinen: But then comes another bulge, and by the years 2010 or 2020, somewhere in there, we'll be in the same situation that we're in now—more people than the work force can absorb.

Robert Myers: Of course, it depends on what happens with birth rates.

Robert Beck: Based on the current birth rate, the problem will be in not having enough people in the work force. If there's an increase in the birth rate, eventually there will be two persons paying in for every beneficiary. If the birth rate doesn't increase, we'll have only one-and-a-half persons working for every person receiving benefits.

Russell Palmer: *One thing I haven't heard anyone say is that we've got to raise the revenues. There are some scheduled raises coming along, but if you're still paying out more money than you're taking in, and if you think it would be very difficult politically to get a reduction in costs over the near term, maybe you'll have to increase the Social Security taxes.*

Robert Myers: If you raised them by about .5 percent of payroll for both the employer and the employee, the short-term problems would almost certainly be solved, but you'd still have the long-term problems.

Robert Baldwin: From 1969 to 1972, the government went crazy coming up with benefits. They said it won't cost us anything, and look at what we can do for our constituents. Well, that's the thing that we've got to stop in this country. I think raising Social Security taxes would be very shortsighted. We'd end up with a lot of the problems that Norway and Sweden are facing.

Judge Rifkind: It also would generate pressure for an increase in salaries and wages. People know what their take-home pay is.

Robert Beck: From 1949 to 1981, average wages in this country increased 470 percent. Maximum Social Security taxes went up 6,480 percent through 1981; and if you add in 1982, they will have increased more than 7,000 percent. For workers taxed to the maximum wage base, their contribution and the employers' contribution add up to $4,300 a year. Most economists, and I think properly, consider the total, and not just the employer's contribution, as being the real cost when the employer is deciding whether to put another person on the payroll. If you go to the year 1990, the total tax figured on the estimated maximum wage base, including the already scheduled increases, will be $9,000 a year.

Robert Baldwin: That's in constant dollars?

Robert Beck: No, nominal dollars. By 1990, the employee alone will pay $4,600

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a year—just with the increases that are already scheduled. You know, a large number of American taxpayers are currently paying more in Social Security taxes than income taxes. So I think there's some reasonable limit on how far you can go with taxes. Our studies suggest that the increases already scheduled ought to be the maximum planned on for now, that we should concentrate on the other measures that we have been discussing.

Russell Palmer: *Another alternative is to get more people into the program. Then we'd have more money coming in, currently at least. That would help with some of the short-term problems. Why haven't we tried this? Instead, we have many nonprofit organizations that are pulling out.*

Robert Beck: There are some constitutional questions about this, at least for state employees, but we've recommended that Social Security be mandatory and that nobody have the option to pull out. We're taking an enormous amount of static on it. We at Prudential are the biggest insurers of municipal programs in the country, and every time I make a speech on mandatory Social Security, I get a flood of protest letters from people who are in one of our insured plans. Yet, we think it must be done. Initially, we may have to exempt the state employees, but we should stop giving nonprofit organizations the option to move in or out. We also ought to include federal employees, starting immediately with all new workers.

Robert Myers: The vast majority of them will get Social Security benefits anyway. It's estimated quite reliably that 80 percent of all federal employees who get Civil Service Retirement benefits will also be eligible for Social Security benefits when they reach age 62.

Judge Rifkind: Because of work earlier in their careers?

Robert Myers: Or later. Or simultaneously. And the benefits will be relatively large in proportion to what they've paid in because they didn't contribute all their lives. Naturally they want to keep that windfall.

John Flittie: Over the last year, I've consulted with several hospitals that are thinking of opting out. A survey we did a while ago showed that a third of the nonprofit hospitals in this country had either filed their notice to withdraw or were seriously considering it. I suspect that if we took that survey today, we'd find probably 50 or 60 percent of them seriously considering it. Many hospitals put the issue to their employees in a referendum. Management asks it this way: "Would you rather have a tax sheltered annuity in the Prudential or a nonsecured promise to pay by your children and grandchildren?" Couched in those terms, of course, the answer is easy.

John Koskinen: Right now, 90 percent of the workers in the country are covered. The proposal, then, is to cover the other 10 percent and thereby increase the number of people paying in. But haven't we simply rolled the problem forward?

Robert Myers: No. It's a great short-term gain, obviously, but it's a gain in the long term, too. Because even though these 10 percent of the workers aren't covered currently, they will get Social Security benefits anyway, through their spouses or through their own work. So you're not increasing the liabilities nearly as much as you're increasing the income.

John Koskinen: The other side of the issue is the negative side. Even if you wouldn't gain a lot by adding the last 10 percent, you'd certainly lose by letting the 90 percent erode.

Robert Beck: If the number covered went to 80 percent, you'd have 20 percent of the people paying nothing and eventually finding some way to get benefits.

John Flittie: Let's discuss for a moment the concept of the three-legged stool.

Social Security, private savings, and the private pension plan together provide for people's needs in old age. If the other two legs could be strengthened, politicians might not need to increase Social Security any more.

The IRAs, for example, were a big step in the right direction. In the area of corporate pension plans, however, there is still a lot of legislative work to be done. It should be easier and more attractive for the smaller employer to provide a pension plan for his employees, thus cutting down their reliance on Social Security. ERISA went a big step in the wrong direction, and some of the strictures in that act need to be removed. Maybe we also need to provide direct incentives to the employer to provide a benefit for employees other than owner-employees.

Robert Beck: Do you know what the initials ERISA stand for? People who have to deal with it all the time say it's "Every Rotten Idea Since Adam." While it did some good things, it also created a cumbersome machinery that caused a lot of small employer plans to go belly up. The employer just decided to buy a private pension plan of his own.

If you go back and take a look at people who retired years ago, you'll see that the private pension system started small. It had been tax disadvantaged for a long time. Study groups were fond of saying that only 20 or 25 percent of the people had private pension benefits. But if you look forward, it's a different picture. Our estimate is that 70 percent of the people who have been working for at least a year are under a private pension program. So when you have that to complement Social Security and personal savings, a great deal can be done.

John Koskinen: How do you persuade people that there really is a problem, without undermining the credibility of the system? You have a very well organized and increasingly mobile group of current recipients and near-term recipients, and great political power exists there. On the other hand, you have a lot of workers who are 20 through 40 who view themselves as never being recipients in the program. The fear is that you'll end up with a tremendous generational dispute, especially as the ratio of beneficiaries to workers increases.

Robert Beck: Russ, you started the discussion by asking what the real problems with Social Security are. Two of the most serious problems, I think, come not in financing the system but in the public perception of it. First, the public has been led to believe the Social Security beneficiaries just get back the money they paid in. Actually, someone who paid in the maximum from the very beginning in 1937 and retired December 31, 1981, without a spouse benefit, would get back all of the money he contributed to the system in just 18 months. That's if he paid the maximum tax every year since 1937. Someone who earned the average income in that time and paid the corresponding tax would get all his money back in 13 months, and if he had a spouse benefit, in 11 months.

The second problem is that the system lacks credibility. In a recent survey, 73 percent of the people between the ages of 25 and 44 said there was little or no chance that they would receive Social Security benefits when they retired. I've tested the percentage with audiences around the country, and it's right on target. Because of all the things they've heard and read, people don't believe that they will receive any benefits.

So I'm persuaded that in order to get at the financial problems, we must also address the need for public understanding and the need for credibility. Without those two key elements, any chance of a bipartisan approach to the financial alternatives will go down the tubes.

John Flittie: If no real fix comes down before long, isn't there going to be a tremendous temptation to dip into the general treasury to finance the shortfall?

Robert Myers: Legislation already enacted does permit interfund borrowing, but no more than enough to take the system through June 1983. Congress intentionally put its feet to the fire, knowing that it must take some action before the middle of 1983 in order to keep the benefits flowing. So while it's true that if no action were taken, the Old-Age and Survivors Insurance system could not pay benefits on time for the July 1983 checks, it's inconceivable that Congress and the administration will leave over 31.5 million people without their benefit checks.

John Flittie: Isn't it possible, then, that for the first time since Social Security was established, Congress will do something other than authorize interfund borrowing? Couldn't we have a major departure in principle from the last 46 years?

Robert Myers: John, that's exactly right. Some people want either to finance the Hospital Insurance Trust Fund—that part of the Medicare program—out of general revenues, or to borrow from general revenues. This would be a new development in the financing of the system. It would take the system off its self-supporting basis.

Russell Palmer: *Having discussed the major problems facing the Social Security system today and what you perceive as the solutions to those problems, how do we get the system back on a sound footing? How realistic is it to expect that in the near term we can make some of these things happen?*

John Koskinen: You can modify the system in many different ways. You can delay or reduce early retirement. You can roll back full retirement. You can adjust the amount of benefits. You can change the taxes or start a trust fund. It's like an organ. You can play it any way you like and end up with whatever you need on the bottom line. The question is, then, what's the easiest change to get through?

Right now, we have the opportunity to put the system on a sound footing with relatively modest changes in any of these areas. The great danger is that the country will listen to those people who say there really isn't a problem and that we don't need to worry until the end of the century. If we do nothing now, the benefits will go on compounding for 17 more years; and, come the year 2000, we won't have the luxury of wondering whether to move retirement back a little or cut benefit increases slightly.

Robert Baldwin: Right. We've got this one chance. The government has to come up with something that people will look at, run their numbers by, and say, "Yes, we're going to have the federal deficit in 1985 down to $50 billion or so. It's credible." If we miss this chance, you'll see the markets turn tail and run the other way. Right now, we can do one thing: change the indexing.

John Koskinen: I think it's an axiom that the more possible solutions you have to a problem, the less likely you are of putting any of them into effect. We have a consensus that something ought to be done; let's not dissipate our energy on quarrels over particular proposals. I know we can't preprogram the effort, because many different people are part of it. But perhaps we could start by trying to figure out what the minimum is that we need to solve the problem. There may be a lot of other things that *ought* to be done, but if we can focus on the fewest number of things that *need* to be done, we have a much better chance of getting them done.

Judge Rifkind: There are several institutions with channels into Capitol Hill that are busy in this process. It seems to me that instead of creating new *ad hoc* government groups, now is the time to shape the direction of those institutions so that they will funnel in that minimum message. If the Congress hears it from a half-dozen different sources, it's bound to be very persuasive.

John Koskinen: The pressure is strong now to make something happen. We have a deadline: if nothing is done before mid-1983, the checks won't go out. This crisis is our opportunity to put the system on a sound footing for a long time to come, but it also carries the risk of rushing into a short-term solution—a quick fix to beat the deadline—and missing the opportunity to deal with the long-term problems. A lot of people will say, "Let's just get the immediate problem out of the way, and we'll think about the rest of it later." So I'd encourage everyone concerned to seize this opportunity to deal with the long-term problems while we've got people focused on the short-term crisis. Otherwise, fundamental change will take forever.

Robert Beck: Yes, the opportunity is very real, and not only because of the coming crisis. It's also because the subject has been so well studied. We're not going to be surprised by any new information or proposals that we'll have to stop and consider. Of course, there still are people who say, "Scrap the whole damn thing. Get people who are 45 or older an annuity, and have everybody from now on start from scratch with an IRA." Most people, though, agree that the system has great value as the floor of protection.

Judge Rifkind: It's also very useful to the economic system. Social Security is a huge river of money flowing through and irrigating this nation in the present period of low productivity.

Robert Beck: My choice would be to narrow the changes down to three essentials: change the indexing system, move toward mandatory participation in Social Security, and gradually increase the retirement age. With these three you could put together a very sound program that would enable the public to understand the system better, that would restore the system's credibility, and that would regain both short-term and long-term financial viability.

There is pressure there to make something happen. I think there are very important and persuasive people on both sides of the aisle who recognize this. With pressure from the public to get something done, and with congressional Republicans and Democrats as well as the administration willing to go on the line together, we can move this. You don't need 100 percent support. You need only enough of a majority to take away the political risks of coming down on the side of sound solutions. It's really not that difficult a problem if we address it properly.

Robert Baldwin: People talk about supply-side economics, but it's the expense side that's eating us alive. If we can just get expenses started down, then we can work on the supply side. But if we don't turn these entitlement programs around, we're dead.

Russell Palmer: *I'd like to weave together three thoughts that you've expressed. First, the thought that we don't really need to study this problem anymore. We've got all kinds of workable solutions here. Any one, two, or some combination will probably get the job done. Second, there is the political pragmatics of the problem, and the thought that we very often come to a short-term solution because that's the easiest one to swallow in terms of the political sensitivity of the issue. So while it would be very easy to come to a short-term solution, the time will never be better to come to some meaningful long-term solutions, because chances are if we put a short-term patch on it, we will find that in 20 years it will be even more difficult to make meaningful change, just as it would have been a lot easier 20 years ago to fix the problem we are now faced with. And then a third thought that the Judge and others mentioned. In order to cause change, it's going to have to be done through the joint efforts of the administration and the Democrats and Republicans in Congress working together. What more responsible thing could they do than get together on this issue?*

Gentlemen, we appreciate your giving us business' perspective on this issue. It's certainly encouraging to find you agreeing that the studies have been done, the solutions are at hand, and the opportunity is here. Thanks to your persuasive knowledge of the problems and your optimism that they can be solved, I'd say the prospects of restoring Social Security's credibility and its long-term financial stability are hopeful, indeed.