STATEMENT OF COMMISSIONER THOMAS J. DOWNEY

The Bipartisan Commission on Entitlement and Tax Reform has reached the end of its tenure without securing agreement on the steps needed to reform entitlement spending or taxes. In the area of entitlement spending at least, it was not for lack of effort; over the course of the last year Commissioners have tried to find a way to keep our Nation's commitments without bankrupting the programs or those who contribute to sustain those programs. Yet, I am troubled by the tone of some the proceedings and certainly by some of the proposed solutions that Staff proposed we adopt.

I believe that as Commissioners we have a responsibility to ensure that the American people fully understand the nature of the entitlement programs to which we are proposing changes. Entitlement programs should not be lumped together and treated as if they are all one big, deficit-creating problem. The largest of the programs considered by the Commission is Social Security. Unfortunately, almost since its inception, the Commission has regarded Social Security solely as a problem, never as a success. It is, quite simply, the greatest single feat of social legislation that we have enacted.

Social Security has not contributed one cent to the deficit or the debt of the United States. Since 1937, when Social Security first collected earmarked contributions from employers and employees, $4.3 trillion has been paid in and $3.9 trillion has been paid out, including administrative expenses (now running at one cent for each dollar of benefits). This leaves nearly $400 billion in reserve. Social Security is a contributory program carrying its own financing.

Social Security is our biggest anti-poverty program, keeping 15 million people out of poverty, and many millions more from near poverty. But it is more than a poverty program. It is the only pension system for 6 out of 10 workers in private industry and is the base on which the other retirement systems and individual savings are built. And it is not just retirement protection for the contributing workers. Social Security is family protection, providing insurance against the loss of family income due to total disability or death of a worker. The $12.1 trillion in life insurance protection provided by Social Security exceeds by $1.3 trillion the $10.8 trillion provided by all types of private life insurance.

Through their Social Security contributions, middle-aged workers pool the risk of caring for older family members so that no one family has to bear alone what can be the huge cost of caring for those who are sicker than most or those who outlive their savings because they are healthier than most. As in all insurance, families taken together pay for only the average risk of having older dependent members. Because of Social Security and Medicare few older retired people have to move in with their children to make a go of it. It is a mistake to think of Social Security as primarily for the elderly. It is family protection for all, including benefits for nearly 3 million children every month.

The stability of Social Security is of great importance to the long-term future of the American family. Its sound financing must be assured. According to the assumptions used by the Trustees of the Social

Security Funds, the program is adequately financed for the next 25 years, but it has been customary to evaluate the program over a 75-year period. According to the 75-year estimates, there will be a shortfall later on. Of course, no one can be sure about estimates for 50 to 75 years from now, but it is important now to put into the law changes to go into effect later that would bring estimated income and expenditures into balance so that people of all ages can have full confidence in Social Security promises. If it turns out that we have been overly cautious, some of the planned changes need not be put into effect.

There is clearly no crisis in Social Security either short or long run. The Staff of the Commission estimates that changes in the cost-of-living index to make it more accurate go about a third of the way to bringing Social Security into long-range balance and that, later on, crediting to Social Security the full income from the taxation of benefits would add enough to make up about half the long-range deficit. The other half of the deficit can be met in a variety of ways. If the contribution rate is increased by 1 percentage point in 2020 for both employers and employees, full balance would be obtained without any reduction in benefits. There are many other choices for making somewhat lower contribution rate increases and decreasing the benefit protection somewhat — all within the traditional principles of the program which should be maintained. I am unalterably opposed to Mr. Peterson's proposal to means test Social Security benefits. It violates the fundamental principles of Social Security. It is a step which we do not have to take. I would also note that approximately 200 experts on social insurance have issued a statement of opposition to means testing, which I am including, for the record, at the end of my statement.

We have another, carefully considered blueprint for long-term strengthening of Social Security at hand, H.R. 4245, the Social Security Long-Range Solvency Act of 1994, introduced by Congressman Dan Rostenkowski, a distinguished member of this Commission. It seems to me that this proposal could have served the Commission as an excellent foundation for discussion of the future of Social Security. It still would serve us well to consider these proposals in conjunction with the above-mentioned Staff estimates. The point I wish to reinforce is that we have policy options available to us that are not draconian and that will have the effect of restoring public faith in Social Security. We do not face doomsday.

The situation in Medicare and Medicaid is different. Frankly, the failure of the Commission to deal with the crisis in health care, though reflective of the Congress's own failure in this area, severely undermines the Commission's conclusions. The major reason the Federal deficit is expected to rise again in a few years is our inability as a Nation to curb the rise in health care costs. Government health care plans share the problem with private plans, and controlling costs in government plans alone will not do a responsible job. Further cuts in reimbursement to providers of government health care programs will just shift costs to the private sector and make more providers reluctant to provide service to government beneficiaries. Slashing the protection provided by these programs through large-scale increases in deduction and coinsurance or in other ways would soon make them ineffective. There could be some relief for the budget in taxing general revenue subsidies now going to Medicare Part B beneficiaries or in other ways reducing any subsidies that go to the better-off but, by and large, the effort must be made in both the government and private plans to approach unmanageable cost increases by holding down the cost of care in our entire health care system — public and private.

There is reason for great concern about proposals to cut back on programs designed for the poor, particularly through the use of so-called entitlement caps, which in effect undermine the concept of entitlement. The welfare system needs reform for the benefit of both recipients and taxpayers. By and large, the programs designed for the poor need to be financed, not cut. To accomplish this there should be proposed a very careful examination of the possibility of how to patch the leaks in our tax system — tax breaks for the well-off and tax expenditures of all kinds. Any savings to the Federal government from cutting these benefits would likely be matched by increases in State spending for the poor. Down the road we should be willing to consider broad-based tax increases, and if necessary to support programs of high priority, such as medical insurance, and be willing to consider new tax sources, such as a value-added tax.

We are a great country. We are a wealthy country. We have the resources to do what needs to be done without turning our backs on the poor, the disabled, or the retirees of the future. ★

APPENDIX: "STATEMENT ON MEANS TESTING BY EXPERTS ON SOCIAL INSURANCE"

The undersigned experts on social insurance — Social Security, Unemployment Insurance, Workers' Compensation, health care financing, and related programs — oppose means testing Social Security benefits. We differ on the need for other changes in the Social Security program, but are united in our strong opposition to means testing. We see major problems in compelling people to pay dedicated Social Security taxes during their working years and then reducing or denying them benefits at the time of retirement.

Means testing of Social Security benefits has been advocated from time to time in the past and always rejected. It is now proposed by the Concord Coalition as the most important part of their plan to reduce the deficit.[7]

We oppose means testing for various reasons. Many of us believe that means testing would not actually lower the deficit because it would lead to reductions in Social Security taxes as benefit outgo declined. Many believe that the denial of benefits to higher-income households would lead to demand that they be permitted to opt out of the system. Such withdrawal by high-earning households would deprive Social Security of the taxes these workers and their employers pay and place an unsustainable burden on average earners.

Many stress the high administrative cost of means testing and loophole of asset transfer that accompanies means testing. Many deplore the disincentive for saving that would result from means testing.

7 The Concord Coalition, formed by retired Senators Warren Rudman and Paul Tsongas at the suggestion of Peter Peterson, is promoting a plan designed to eliminate the budget deficit by the year 2000. The centerpiece of the plan, and by far the largest claimed expenditure reduction, results from means testing Social Security benefits. No changes would be made in the basic Social Security law, but at the time of eligibility, benefits would be reduced, along with certain other "entitlement" benefits, such as a cash equivalent of Medicare, for those who have total income above some specified amount. The exempt amount is proposed to begin at $40,000 a year including Social Security and the other entitlements in the plan, but it is, of course, easily changed at the demand for more savings. Above the exempt amount, Social Security benefits would be reduced as income rises until they reach 15 percent of the amount the beneficiary would be entitled to under the basic law.

We all fear that means testing would undermine public acceptance of out most popular social program.

We urge the public and elected officials responsible for development of Social Security to remember that:

— Social Security is by far our most successful anti-poverty program. It lifts 15 million people out of poverty and keeps millions more from falling into near poverty.

— Social Security is the only pension system for 6 out of 10 workers in private industry. For everyone else, it serves as the base upon which the private pension system is built.

— Under current arrangements, people can save privately to supplement their Social Security pension. Means testing would tax such saving by cutting Social Security as income from private saving increases, conveying the message: Don't save or we will punish you for your frugality by denying you Social Security.

Some of those signing this statement favor modification in the Social Security benefit structure. Others believe that the system is just about right as it is. All strongly oppose means testing. It would undermine the Social Security system built up so carefully over the last two generations.

In Release Accompanying Statement on Means Testing

Note: In this statement "means testing" is used in the traditional welfare sense of reducing or denying a program's payment because of current income or assets. It does not refer to elements of plan design which may be income related such as the Social Security provision that gives more protection per dollar contributed to lower-paid wage earners as compared to the higher paid, nor does it refer to the taxation of the benefits of a program which may affect higher-income people more than those with lower incomes.

Name	*Organization*
Aaron, Henry	The Brookings Institution
Achenbaum, W. Andrew	University of Michigan
Aiken, Linda	University of Pennsylvania
Altman, Nancy	Consultant
Altman, Stuart	Brandeis University
Anderson, Joseph	Capital Research Associates
Anderson, Odin	University of Wisconsin
Andrews, Emily	World Bank
Arnone, William	Buck Consultants
Ball, Robert	Commissioner of Social Security, 1962–73

Name	*Organization*
Bandler, Jean T.D.	New York University
Barth, Peter	University of Connecticut
Bartlett, III, Dwight	Maryland Insurance Commission
Beauchamp, Dan	University at Albany, SUNY
Beedon, Laurel	AARP Public Policy Institute
Berenson, Robert	Consultant
Bernstein, Bernice	Consultant
Bernstein, Merton	Washington University
Blaustein, Saul	Upjohn Institute (Retired)
Bosworth, Barry	The Brookings Institution
Brazda, Jerome	Brazda HealthCare Information

Name	*Organization*
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Burtless, Gary	The Brookings Institute
Butler, Robert	Mount Sinai Medical Center
Callahan, Daniel	The Hastings Center
Caper, Philip	The Codman Research Group, Inc.
Capron, Alexander	University of Southern California
Carroll, John	Social Security Administration (Retired)
Champion, Hale	Harvard University
Chen, Yung-Ping	University of Massachusetts
Chisman, Forrest	Southport Institute of Policy Analysis
Chollett, Deborah	Alpha Center
Cook, Fay Lomax	Northwestern University
Cotman, Ivan	Michigan Department of Education
Crenson, Charlotte	Social Security Administration (Retired)
Crowley, Francis	Congressional Research Service
Daniels, Norman	Tufts University
Danziger, Sheldon	University of Michigan
David, Alvin	Social Security Administration (Retired)
Davis, Ronald	Committee on Finance
Detlefs, Dale	William M. Mercer, Inc.
Diamond, Peter	Massachusetts Insitute of Technology
Dilk, Suzanne	Consultant
Dilley, Patricia	University of Puget Sound Law School
Doggette, Jr., Herbert	Social Security Administration (Retired)
Duskin, Elizabeth	Organization for Economic Cooperation & Development
Ebeler, Jack	Health Policy Alternatives, Inc.
Elizburg, Donald	Donald Elisburg Law Office
Ellenberger, James	AFL-CIO
Estes, Carroll	University of California – San Francisco
Evans, Robert	University of British Columbia
Fein, Rashi	Harvard Medical School
Ferguson, Karen	Pension Rights Center
Fierst, Edith	Fierst & Moss, P.C.
Firman, James	United Seniors Health Cooperative
Fleming, John	George Meany Center for Labor Studies
Frank, Beryl	Consultant
Fraser, Douglas	Wayne State University
Fullerton, Williams	Consultant
Futterman, Jack	Social Security Administration (retired)
Ginzberg, Eli	Columbia University

Name	*Organization*
Glasse, Lou	Older Women's League
Gordon, Margaret	University of California (Emeritus)
Gregory, Janice	The ERISA Industry Commitee
Grubbs, Jr., Donald	Grubbs and Company Inc.
Gwitzman, Milton	Consultant
Hamermesh, Daniel	Michigan State University
Hanft, Ruth	George Washington University
Hason, Lori	National Academy of Social Insurance
Harmon, Jr., William	Davis and Harmon
Haughton, James G.	Charles R. Drew University
Heclo, Hugh	George Mason University
Hess, Arthur	Social Security Administration (retired)
Hiatt, Howard	Harvard Medical School
Himmelstein, David	Harvard Medical School
Hoffman, William	United Auto Workers' Union
Holden, Karen	University of Wisconsin
Holloman, Jr., John L.S.	William F. Ryan Community Health Center
Hoskins, Dalmer	International Social Security Administration
Howard, Edward	Alliance for Health Reform
Hsiao, William	Harvard University School of Public Health
Humphreys, Joseph	Senate Committee of Finance (retired)
Hytner, Erwin	American Association of Kidney Patients
Joe, Thomas	Center for the Study of Social Policy
Kane, Rosalie	University of Minnesota
Kane, Robert	University of Minnesota
Kelley, James	Attorney
Keys, Martha	National Multiple Sclerosis Society
King, Gwendolyn	Commissioner of Social Security, 1989–1992
Kingson, Eric	Boston College
Kirkland, Lane	AFL-CIO
Lampman, Robert	University of Wisconsin
Lave, Judith	University of Pittsburgh
Law, Sylvia	New York University
Lewin, Lawrence	Lewin–VHi, Inc.
Maher, Walter	Chrysler Corporation
Mankoff, Walter	International Ladies' Garment Workers Union
Mashaw, Jerry	Yale University
McConnell, Stephen	Alzheimer's Association
McGarrah, Jr., Robert	AFSCME
McGlotton, Robert	AFL-CIO
McHugh, Richard	International Union, UAW
McKenna, Hugh	Social Security Administration (retired)

Name	*Organization*
Mechanic, David	Rutgers University
Merriam, Ida	Social Security Administration (Retired)
Miller, Russell	Howard University (Retired)
Moon, Marilyn	The Urban Institute
Morone, James	Brown University
Muller, Charlotte	Mount Sinai School of Medicine
Musgrave, Richard	Harvard University
Myers, Robert	Chief Actuary, Social Security Administration
Myles, John	Florida State University
Nathan, Robert	Nathan Associates
Nesbitt, Cecil	University of Michigan
Newman, Howard	New York University
Novitch, Mark	The Upjohn Company (Retired)
Onek, Joseph	Browell & Moring
Owens, Patricia	UNUM Life Insurance Company
Ozawa, Martha	Washington University
Palmer, John	Syracuse University
Perlman, Mark	University of Pittsburgh
Pollack, Ronald	Families USA Foundation
Powell, Alwyn	A.V. Powell & Associates
Quadagno, Jill	Florida State University
Quinn, Joseph	Boston College
Rankin, Thomas	California Labor Foundation, AFL-CIO
Rappaport, Anna	William Mercer, Inc.
Rejda, George	University of Nebraska
Retrig, Paul	American Osteopathic Healthcare Association
Rice, Dorothy	University of California
Richardson, Elliot	Milbank, Tweed, Hadley & McCloy
Richmond, Julius	Harvard University
Roberts, Markley	AFL-CIO
Roenter, Milton	University of California–Los Angeles
Rohrlich, George	Temple University (Retired)
Rosenberg, Charles	University of Pennsylvania
Ross, Stanford	Commissioner of Social Security, 1978–79
Rother, John	American Association of Retired Persons
Rowland, Diane	Kaiser Family Foundation
Schieber, Sylvester	The Wyatt Company
Schobel, Bruce	New York Life Insurance Company
Schorr, Alvin	Case Western Reserve University
Schorr, Lisbeth	Harvard University
Schottland, Charles	Commissioner of Social Security, 1954–1959

Name	*Organization*
Schulz, James	Brandeis University
Scitovsky, Anne	Palo Alto Medical Foundation
Seidman, Bert	National Council of Senior Citizens
Shelton, Jack (Retired)	Ford Motor Company
Shulman, Eric	Ogilvy, Adams and Rinehart
Shur, Walter	New York Life Insurance Company (Retired)
Simmons, Samuel	Nat'l Caucus & Center on Black Aged, Inc.
Skoepel, Theda	Harvard University
Smedley, Lawrence	National Council of Senior Citizens
Snee, John	Social Security Administration (Retired)
Stark, Nathan	National Academy of Social Insurance
Starr, Paul	Princeton University
Stein, Bruno	New York University
Stevens, Rosemary	University of Pennsylvania
Strohmaier, Alan	General Motors Corporation
Sweeney, John	Service Employees International Union
Taussig, Michael	Rutgers University
Templeman, Cheryl	Interstate Conference of Employment Security Agencies
Tobin, James	Yale University
Turnbull, John	University of Minnesota
Vroman, Wayne	The Urban Institute
Walker, David	Arthur Anderson & Co.
Wasserman, Donald	AFSCME
Wickenden, Elizabeth	Study Group on Social Security (Retired)
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Wikler, Daniel	University of Wisconsin Medical School
Williams, T. Franklin	University of Rochester
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Wing, Kenneth	University of Puget Sound, School of Law
Woolhandler, Stephanie	Harvard Medical School – The Cambridge Hospital
Worrall, John	Rutgers University
Worth, Karen	Committee on Ways and Means (Retired)
Young, Howard	University of Michigan