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Evaluating Issues in Privatizing Social Security

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Summary: Driven by concerns about paying the baby boomer's retirement, several proposals to fundamentally change Social Security have been placed on the national agenda by members of Congress, private individuals and groups, and by members of the recent Advisory Council on Social Security. Some proposals to "privatize" Social Security recommend substituting an individual savings or defined-contribution plan for all or part of the benefits that retirees receive. Other proposals suggest changing the investment policy of the Social Security trust fund by putting part of the funds in private securities. Both alternatives have far-reaching implications that are not yet fully understood.

Mr. James C. Hickman: "Evaluating Issues in Privatizing Social Security" is the report issued by the National Academy of Social Insurance (NASI). This is a cooperative panel discussion between the Actuarial Foundation and NASI. NASI was founded in 1986 as a non-partisan, non-profit, private organization, created to study and analyze Social Security issues. It was made up of a little over 500 people who, by their work, their commitment, and their analysis, have shown that they are committed to the study of social insurance.

I think all four of us here are members of that Academy. The Actuarial Foundation is younger, founded in 1994 as the outreach arm of the profession in North America. It is to reach out through research, education, and service to

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work on the social problems to which actuaries might contribute. There were about 650 contributors to the Actuarial Foundation back in 1998. This project had two co-chairs, Michael Boskin of Stanford and Peter Diamond of MIT. Boskin served most of the time but did not end the period as chairman of this project. The project is the evaluation of privatization ideas in Social Security. The project was carried out under the supervision of a panel of 20 members of the National Academy. Of those 20, two were members of the Society, including Steve Goss and Yuan Chang.

The issue under discussion is big. Any survey would put it close to the top of the public agenda, and it has been on the agenda of SOA. I call your attention to a survey that was done in *The Actuary*. The questions came out in the fall of 1998, and the results were published in January of 1999. That survey discloses some of the same splits that I think our nation has. There were over 1,000 actuaries who responded. The first question was, should Social Security reform include defined-contribution, individual accounts? The dominant impression you get is that the members of our Society were split: 52% disagreed with that proposition and 38% agreed with the proposition. You will observe that does not equal 100% because of those that were either neutral on the proposition or did not respond. Those that believe that defined-contribution accounts should have a role in Social Security reform answered with respect to investment choices. Of this group, 59% believed that there should be some constraint on those investment choices; 25% said they did not. If there were no defined-contribution individual investment accounts, should the government invest in equities? It is fairly evenly split, but it does seem as if Chairman Greenspan's view prevailed a bit, 45% say no.

The last two questions, of course, did not directly relate to privatization on individual accounts. The one that asked if the retirement age should be indexed seemed to be a fairly popular proposition. A proposition that's a little bit more novel and one to which few people responded was whether the whole benefit structure should be adjusted by that ratio of retired lives to working lives and remain constant. As a statistician, I must caution you that this was not a random sample and, therefore, a formal conclusion should not be drawn, but the survey states issues and confirms the split of opinion within our own profession.

All courses should have prerequisites, and although the advertisement for this course said that those with no experience were invited, and indeed they are, in fact, a bit of a shift in thought needs to take place. The first shift is with respect to your own stub balance. Move the decimal point a long way over when you study Social Security. That's fairly easy to do. The second one is a little harder because most of us deal with microeconomic issues of our families or even the corporations that we may advise.

In this discussion, we're going to be talking about macro issues. When you or I or even the corporations that we serve do something, its effect is quite limited; we don't change the universe. Some of the things that we will be talking about may not change the outer galaxies, but can sure change some aspects of the U.S. society and economy. That takes a mental shift; this is more than simply shifting the decimal point over.

I'm going to introduce to you my colleagues who will bear the main burden of exposition. Steve Goss is a member of this Society and of the American Academy of Actuaries. He's deputy chief actuary of the Social Security Administration and has been a frequent contributor in our journals and other journals of Social Security research. Gary Burtless is a senior fellow of the economics program at the Brookings Institution. He is a frequent author of economic studies on Social Security. He does not know it but he has been my teacher on several of those issues. His doctorate degree is from the Massachusetts Institute of Technology. Our final speaker will be Pam Larson. Pam has provided executive leadership to the National Academy of Social Insurance from its very beginning. Her current title is executive vice president. She has had a career of service in the private sector and the public sector. Her graduate education took place high above Cayuga's waters at Cornell. I'm not going to introduce these persons again because we want to leave maximum time for your participation. Steve, would you start our lesson?

Mr. Stephen C. Goss: First I'd like to give an overview of where we are. For some years there has been a discussion regarding Social Security about the question of advanced funding. I have a little bit of a historical retrospective on that. At the start of the Social Security System back in 1935, there was some thought and discussion about having significant advanced funding. Of course the program started with almost no beneficiaries, and even with a very small tax rate, we were moving towards having a little bit of advanced funding. But the tax rate wasn't pushed up. It was held down and the number of beneficiaries grew. We ended up having little advanced funding under the system. In fact, for the largest portion of the history of the system, we had essentially only just what you might call a contingency reserve fund--just enough money to carry us through an economic downturn. Social Security does not have borrowing authority, so if we run into hard times and run out of money, and do not have enough time for Congress to act to get us going again, a contingency fund is useful.

Now we broke away a bit from this in the 1977 amendments to Social Security when things were going downhill. We had a major change in the benefit formula. In 1977 an increase in the tax rate that was scheduled for many years was brought out much sooner to 1990. This contributed towards getting us some temporary, partial advance funding for the system. In the 1983 amendments, it got a little bit better. We had some further benefit formula changes. These were not only benefit formula changes, but we had a retirement age change that resulted in some reductions in expected benefit payments. We advanced the tax rate increase a little bit further, and we got a little bit more advance funding for the system. By the early 1990s, we reached a point where people realized that the estimates and projections, the forecasts if you will, of 1983 were not going to be coming true. Some of the assumptions were not quite on target at that time, and we knew that we were facing some financial problems coming down the road that have become even more real to us.

As we stand here and look out into the future and observe the problems, many of us give serious consideration to doing a little bit more advanced funding. There is a recognition that there will be declining implicit rates of return for coming generations under Social Security. There is a recognition of something that is not directly related to Social Security solvency, but it is important to us all. That is a low national savings rate. There is also recognition that there are other social insurance plans that are operating much like private plans in this country. Other plans around the world indicate that there are social insurance systems that are operating with advanced funding, such as Chile. People have started getting interested in this.

The 1994-96 Advisory Council got together. They considered advanced funding very strongly, as well as investment in equities or other private investment instruments, with the hope of getting a higher return. They ended up splitting and having three different plans. Everybody's probably familiar with them now, but they had a couple of common components. They all had a lot of advanced funding over and above what we have in the current system, and they all had investment in stock in one way or another. They also, in moving towards more advanced funding, dealt with the transition cost. The old story is that if you want to move from a pay-as-you-go system to having a lot of advanced funding, you're going to have to come up with some extra money that wouldn't be necessary in the near term for the pay-as-you-go system. The extra money would have to be put into the advanced funding. All three plans dealt with that effectively.

At the same time, Senators Bob Kerry and Alan Simpson came up with a plan. I think it was 1995 when they formulated it and that it had a combination of just about everything. We’ll probably be talking about the Kerry-Simpson plan, and we will be talking about it into the future. They had advanced funding within the trust fund in their system. They had a quarter of it going into stocks. They also had an individual account where people would have the opportunity to invest in government bonds, corporate bonds, and stocks. Their plan contains elements of all of the others.

The NASI privatization panel got started on the heels of the Advisory Council. It really picked up from where the Advisory Council ended. Remember the

Advisory Council came up with three competing plans. It couldn't come to a resolution. Now the NASI panel had two Advisory Council members on it, sort of continuing the earlier effort. One was Syl Schieber, who was an advocate of the personal security account plan, a rather aggressive individual-account privatization plan. The other member from the Council was Tom Jones who, at the time, had been with TIAA-CREF, and was an advocate of the so-called maintained benefits plan that maintain the current system plan, keeping within the traditional reform concepts. An important exception is that all these plans had a lot of advanced funding and investment in stock. His plan, which was developed along with Bob Ball and some others, had all the investment within the trust funds.

Now with this backdrop, the NASI privatization panel got together through the efforts of people like Peter Diamond, Mike Boskin, Pam Larson, and Bob Ball. There are a number of people who are involved, in addition to those who served on the Advisory Council. The NASI privatization panel included Gary Burtless, Olivia Mitchell, Peter Diamond, Dallas Salsbury, and me. We also served on technical panels of the Advisory Council. Service on the panel was a tremendous experience, and I really would encourage you all to study this report. We had a group of political scientists on this panel, Hugh Heclo, Dan Halperin, and Martha Derthick. Martha started out, but she left at one point and Dan replaced her. They lent an additional perspective to the nature of the issues that we're dealing with, which I think was really very important and is summarized to a great extent in the report. The co-chairs were Mike Boskin from Stanford who is an advocate of a privatization individual concept, and Peter Diamond of MIT. Diamond was leaning a little bit towards traditional reform. There were even two actuaries on this panel, Yuan Chang and I. We tried to provide a little bit of a perspective. I should also mention that there were a number of economists, probably about 80% of the NASI panel.

In any case, the panel was charged with looking into the practicalities and impracticalities, the problems, and the issues with privatization. One of the first issues, of course, is what do we mean by privatization. The panel, as I recall, discussed this somewhat, but ended up just considering all of the topical points that are out there. Some people would say that privatization means having individual accounts that are outside a collective centralized system. Others would say any system that would incorporate private securities, even within the trust funds, would be privatization. Others say it should go even further toward more advanced funding without private securities. In any case, the panel considered all of these options.

The consideration for the panel really broke down into two work areas. The members of the panel were segregated, for at least a portion of the period, into one group addressing accumulation of money, assuming that we would perhaps go, or at least consider going, in the direction of having advanced funding. The other group of the panel was going to be considering the distribution of those monies once they had accumulated.

Gary is going to go over some of these broad concepts in a lot more detail and give you the consensus of the panel. He will cover the question of whether or not to have more advanced funding under the system. That was really sort of the first question. Assuming that we are going to have more advanced funding, should we get involved in investing in stock or other private securities? Assuming we had individual accounts, should these be publicly or privately managed? Should they be handled by private investment firms, or should they be handled by a large central agency like the government employees' thrift savings. And again, if we have an accumulation, should it be done in the trust funds or in these individual accounts?

The distribution group was charged with looking at what we will do with this money when we get it collected. It was very easy to look at it from the point of view of collecting it under the current system and having more advanced funding. Then we'd probably distribute it the same way we do now. Under the individual accounts, it is a bit more complicated. First, should we require annuitization or not? Certainly if the individual action is going to be a large portion of the current level of benefits, you might be more inclined to have annuitization. If it was going to be something that would be adding to the amount of benefits already provided by Social Security, maybe it's not so important. Would you have it as an annuitization or a lump sum?

There were other questions. If you're going to have individual accounts with advanced funding, it is a natural idea for retirement income. If you have individual accounts to protect people with disability income, if they became disabled at age 20, 25, or 30, is not going to work very effectively. The same is true for young survivors. You need to have insurance. There was the consideration of whether or not there was any way to do this by either having advanced funding through individual accounts, which is probably not very likely, or doing it by going to the private markets or keeping these insurance forms just within Social Security.

Finally there was, of course, a concern about what the effect would be of any of these plans on groups like widows or people who become divorced. Under the current system, there is an intricate structure of benefits that handle widows and divorced spouse benefits. Under a pure individual account system, you'd have to worry about exactly how you're going to handle these benefits.

These were some of the key issues that were considered by those two groups. As the overall structure developed, the group fortunately got back together often rather than keeping separate. When they got together, the interesting part of the discussion took place. When we came into the discussion of individual accounts, a couple of factors really became important to consider. They include whether or not you were to have individual accounts, should the savings element be a carve-out of the current 12.4% payroll tax rate? Should you take a part of that and, thereby, in the process, have to cut the defined benefit dramatically in order to be able to afford this carve-out, or would you have it be an add-on? Would you keep the 12.4% going to Social Security? Maybe you can come up with more revenues, so you can keep benefits close to where they are now, and then have additional revenue to provide individual accounts.

With the individual account approach, there's the other question that arose that was considered by this group, which was the administrative cost of going with individual accounts. Everybody's aware that if you go with individual accounts, having all this individual accounting is going to be more expensive than if you have it in a collective defined benefit plan. Regarding the individual accounts, one of the considerations was: who's going to keep the records? Will we be farming out recordkeeping to private investment firms? There are potentially 100 of them across the country. People pick the ones they want and they keep the records, or will this be done with a subcentral entity, government or otherwise, as is done with the government employee thrift saving plan? The other question, of course, with individual accounts is, how flexible will these individual accounts be? Will people be able to shift their portfolio on occasion, once a year, twice a year, or as often as they want over the Internet? How will this work? All of this would probably be influencing the administrative expenses.

The risks that were considered to be associated with individual accounts, just to mention a few, were also considered. One of these risks occurs when individuals make poor investment choices. Another risk is that the government decided that people should be allowed to have early access to the accounts at age 20, 30, or 40 for any number of good reasons, as has evolved with 401(K)s and IRAs. If that happened, of course, that money would not be available when people got to retirement.

Other questions arise such as, what happens if people reduce some of their other savings as they see large account balances building up? On the other side of the coin, if we were to have advanced funding and move toward having the trust funds build up substantially, a big question would be, how much stock or other private securities would you have in a trust fund? One of the questions that really evolved and became seriously discussed, and is still in all plans that people are talking about is, what percentage of the stock market would the government capture? A lot of concern has been expressed about the consequences if that gets to be too high. If you talk to 10 people, you’ll get 10 different ideas of what is too high. Almost everybody agreed that10% is too high;

many people think that over 5% would be too high. Of course, a lot of people think anything over 0% is too high for the government to hold within something like a trust fund.

There is another risk involved with going the way of having the trust funds build up to a much larger extent than they are now. Because of lot of advanced funding and investment and private securities, the government would be meddling in the private markets in companies. There’s another concern that I personally think is fairly significant with this approach and that is the temptation by the government policymakers and in Congress. The temptations would exist if we had the best laid-out plan. We know there is going to be a lot of variation in returns that we will get from private securities. At times we will have gains. When the yields have been better than expected, and when trusts are building up more than we had anticipated, will there be a temptation to spend that money by increasing benefits and cutting tax rates? When we have the inevitable cyclical downturns in the markets, then we won't have the money to provide the cushion to be able to get us through. This is a serious consideration.

Another concern that was discussed somewhat, and still is very much a concern today, is what kind of yield would one expect to get on these private securities? The Advisory Council had done a polling of itself and many other people and looked at the historical record, and it felt that 7% real yield on stocks that we've had historically might be reasonable for the future. Even if you use your best guess as the expected rate of return on stocks, how do you portray the risk that's associated with it? If you're going to get a higher return on stocks, a large part of that excess return over which you'd get on a relatively secure bond is because of the higher risk. How do you portray that? Many ideas were considered.

Finally, if we look outside the box of Social Security financing we must ask, what happens to national savings? What net effect would there be on national savings of many of these plans? Could additional savings be offset by other things? For example, will people see the big account balances and reduce some other savings? Of course, there's always the economic reality that if you have more savings, we're going to have to cut consumption in the near term. We know that Americans are not real big on cutting consumption, so that might be a bit of a tough nut to crack.

I want to mention a couple of things since the NASI privatization panel report came out. It is an illustration of how fast things move. The first is consideration of what a lot of people have been calling painless options or painless solutions because even the Advisory Council and the NASI privatization panel report were thinking in terms of there being transition costs due to advanced funding. There would be some cost and there would be some pain. But as we know, since then, in the light of budget surpluses, however defined, people have been thinking maybe we could use some of that surplus to make transfers to the Social Security trust fund as in the President's plan. As an alternative, we could use some of that money to finance individual accounts in a relatively painless way. This is one consideration that has been pretty rampant through all the discussions that have been going on. This is certainly a way to ease the transition problem of paying for getting us from here toward more advanced funding.

Now a final consideration has come up and it is one that I think is a clever and very interesting concept. It is attributed largely to Martin Felstein, although it shouldn't be totally attributed to him because some close corollaries to it were developed by people like Nick Smith and others in the year or two before it was published. Martin Felstein calls it a benefit offset kind of approach, which is one where you develop individual accounts, and depending on what comes out of that individual account, you're going to reduce the Social Security benefits by half or three quarters. In a recent plan developed by the Chairman of the Ways & Means Committee, Representative Bill Archer (R-TX), and Chairman of the Social Security Subcommittee, Representative E. Clay Shaw, Jr. (R-FL, you would actually offset 100% of the money that develops within the individual accounts against your benefits.

There are a lot of ideas out there. I just wanted to give you sort of a quick overview on where the NASI panel came from, what the panel has been looking at, and a couple of new things that have come up since the report. Now Gary is going to add details about what the panel did.

Mr. Gary Burtless: It’s a pleasure to listen to Steven Goss, and it was a great pleasure to serve on the third panel in which I had a lot of interaction with Steve Goss. The panel that I sat on, the National Academy's panel on issues connected with privatization, examined five basic questions, and I just want to organize my remarks around those five questions.

Of course, we didn't agree on what the answers to these five questions are, but we had these five questions nonetheless. Unfortunately, the disagreement was so severe, three of the members felt compelled to decline the opportunity to sign this magnificent document, a point which I will touch on briefly at the very end of my remarks. Our goal in preparing the report was not to reach agreement about the issues, however. It was to clarify for the public and for policymakers who were making decisions about Social Security reform. There are some important truths about what is involved in privatization and what the consensus is, if there is a consensus, in the scholarly community on how those issues can be addressed. If there's not agreement, we wanted to write a report that was clear in describing what the points of disagreement are and what the issues connected to those disagreements are.

First, let's examine the main questions. Number one is, does the public retirement system, either Social Security or some compulsory alternative to the retirement system, need more advance funding? Note that this question is conceptually distinct from the question, should the system be publicly run or should it be partially or fully privatized? They are different questions. You can have advanced funding without any privatization, and you can have privatization without any advanced funding, but we thought we would address this question separately because of the widespread confusion among many people with privatization plans about what privatization actually means. You can do more advanced funding through a privatization plan if that privatization plan requires that individual people save, in their own accounts, a lot of money that they will then draw upon when they reach retirement. But you can accumulate exactly the same money in a single collective, government-run fund. Advanced funding is not equivalent to privatization, but many people associate it with the main issue that privatization frames, because most people, when they think of privatization, think of individual defined-contribution pension accounts.

Now with regard to the question, does the retirement system need more advanced funding, the panel pointed out that more advanced funding eventually would permit the system to have lower taxes and/or higher benefits. With more advanced funding, part of the financing of ultimate benefits would be from the interest earnings or the stock market earnings on the fund. In a pay-as-you-go system, all of the benefits are derived from people's current contributions. Advanced funding gives you one additional source of revenue, namely the earnings on the reserve. I think this is not widely recognized by many people who advocate privatization or advanced funding. In the short run, more advanced funding requires a consumption sacrifice. It requires that somebody accept lower benefits or some active workers accept the necessity to make larger contributions. Steve can correct these numbers, but if we stop collecting taxes for Social Security benefits tomorrow, I think there would be somewhere between $9 trillion and $10 trillion in liabilities that would have to be financed. In the trust fund reserve, there's about $750 billion or 7.5% of that unfunded liability. Someone has to come up with the revenues to pay for that liability. In a democracy, where we're not going to let people go hungry in old age, we're going to be paying those contributions no matter what. In the short run, if we want more advanced funding, someone has to contribute more to the system or some current benefit recipient has to accept smaller pensions.

The advantage of more advanced funding is that it could increase national savings and enhance and increase the size of the future economy. We economists are interested in that because it means that in the future, it could lessen the burden on future populations of active workers who are paying for retirement benefits of the then-elderly population. But this would only occur if the extra advanced funding in the retirement system is not offset somewhere else. For example, if you have a bigger Social Security reserve on the one hand and the Congress spends that reserve or borrows from it and spends more money in other government programs, then the advanced funding in Social Security is not raising national savings.

As an alternative, we have millions of individual accounts that are accumulating large reserves and private workers in some other account are saving a lot less. There's no more additional private saving. More advanced funding is a potential route to a greater national saving, and we economists thought that was a good idea, but that will not automatically occur just because you have more advanced funding in the system or just because you have more privatization. The panel favored more advanced funding, but it was divided on whether this advanced funding should take place under the auspices of a single collective fund managed by the government or whether it should occur in tens of millions or hundreds of millions of individual retirement accounts.

The budget surpluses that Steve Goss mentioned do not really provide a painless way out of this dilemma of large, unfunded liabilities in Social Security. The reason is because of the nature of these surpluses in the government accounts. First, they're largely the surplus in Social Security. Second, there is something else we can do with the surpluses that are not attributable to Social Security besides spending them for this function. Many liberals, for example, would like to have better schools and better childcare, and a long list of other things. Many conservatives would like to see lower taxes. To the extent that we devote the surpluses to helping pay off part of the unfunded liability, these resources will not be available for that function. It’s not pain unless you're giving up something and using the surplus to help build up the reserve in the retirement system.

The second question we asked was, should the portfolio of the nation's primary retirement system, whether it's public or private, be diversified? Or, should we instead follow the investment strategy we followed for the last 60-some years, which is to invest exclusively in either U.S. Treasury bonds or at least securities that are backed by the full faith and credit of the U.S. government?

The first point is that stocks do earn higher returns. They have done so historically, but they do carry a greater risk of raising a problem of how you compare this one asset that has greater risk over short periods of time, but also yields in expected value terms higher awards. It's inappropriate to compare the expected returns of two different asset classes when they differ with regard to the risk that they have. You have to make adjustments for these risk differences. In many monies’ worth calculations, we say that people will receive 7% returns on private stock market investments, whereas they will only receive 1-2% returns on

Social Security or perhaps 3% returns on government bonds because there's a difference in the risk. It is not really a fair comparison because one person is getting a more secure return, and the other one is receiving one with higher expected value but greater variance. Still if we view this problem solely as one of investment and what a prudent investor would do, most everybody on the panel agrees that for a retirement system, you would include stocks in your investment portfolio. It's foolish not to do so. Stocks belong in the investment portfolio.

From an economy-wide perspective, however, the advantage is less clear, and this is where Alan Greenspan has come in. We emphasize this point in my report. If the government doesn't buy bonds for its Social Security trust fund and instead buys stocks, the U.S. government still has to sell those bonds. The government sells them to somebody else, so there's a massive swap in who owns the assets without really changing much that's real for the overall economy.

Our panel concluded that there was one real thing that changed though. The contributors to Social Security, including probably more than half of whom have no stock holdings directly or indirectly themselves, would be able to participate in the higher expected returns that the stock market offers. They would be able to participate because if they invested in stocks over the next 70 years, then they would not have to contribute quite so much to the retirement system because they would be getting the expected benefits from a higher return. On the whole, most members of the panel thought that meant those stocks probably belonged in the portfolio. But there's a political problem. Do we trust the government to choose the stocks to buy? Do we trust the government to vote the shares that it owns? Our panel concluded that if the trust fund or the single collective publicly managed fund purchased stocks, then it should be governed under the system that we thought has been applied very successfully for the last 15 or so years to the government's thrift savings plan.

In this thrift plan workers get choices among four or five investment options. The government has the private assets handled in a very arm's-length relationship that's very apolitical. We can talk about that later on, but there's a lot of political protection to the people making the investment decisions. They do not have to pay attention to the Congressmen's favorite investment options. We felt quite strongly that that kind of government structure should be adopted. However, the question is, is it desirable for the trust fund to hold these assets? I think there was a minority of people in the panel who were not really sure, so we didn't reach a conclusion.

Third, should we move away from a collective, defined-benefit system to an individual defined-contribution-type system? The panel was very deeply divided on the wisdom of this move. There are pros and cons. If workers get to choose how their investments are placed, then they may not feel so bad about the fact that they're making higher overall contributions to the retirement system. It might be a good way to get workers to accept the necessity of increasing their contributions to account for the big future obligations of the retirement system. It's good to offer workers a choice. At the moment, their investment is just U.S. Treasury bonds and is managed by the Social Security trustees, which gives workers a choice in those investments. This is a good thing in and of itself. If we have individual accounts, then we would reduce the influence that politicians exercise over the investment of any advanced funding because workers themselves would decide how to allocate it, and the resulting addition to workers' individual accounts could raise national saving.

As I mentioned before, many of us thought this would be a good thing. The people who opposed individual accounts had some counter arguments. Individual accounts might replace rather than merely supplement Social Security, and many people thought that was a big problem because they thought Social Security played a role in guaranteeing people's retirement income security. That is not really the same role as provided by individual accounts.

The majority of Americans do not know the difference between a stock and a bond, and any measure of people's financial ignorance would show that it is quite overwhelming. This is a fact that I heard in testifying before the Ways & Means Committee. There was someone from a finance magazine who simply reported on how much people knew about investments. The answer is they don't know very much. I think they would learn, but there is the danger that many people would not learn and they would make poor investment choices. Poor workers would then face high investment risk that they are unaccustomed to managing.

As was mentioned before, many of us concluded that any way you cut it, individual accounts would be associated with high administrative costs. If workers had individual accounts, they would receive quarterly statements telling them what their balance is, and they might offset this by reducing their savings in some other form. They might tell their employer, don't contribute as much to my 401(K), or they might urge their employer to scale down the defined-benefit plan at their place of work. We were deeply divided on this issue. The panel was partly divided on empirical grounds; can the government be trusted to handle a bigger reserve?

Can administrative costs in an individual system be kept down? We didn't all agree. Can low-income workers really be trusted to invest well? Again, it was just empirical disagreement. How big would this problem be? We were divided on values. What is the value of protecting low-income workers and assuring that they will have a decent income in old age versus the value of giving Americans as much choice as possible, which itself is a very important value? There's a weighing of these two values. We did spell out a detailed administrative plan for handling accounts if you wanted to set up sort of a bare bones individual account system, but we can talk about that in the discussion period if you'd like.

The fourth question is, if we do move to a system of individual accounts, how much choice should we give to individuals? We focused on two major issues: how much choice over investment option should the individuals be given, and how much choice over the form of their withdrawal from their pension account should they be given? With regard to investments, we thought that if the funds collection is through the government and accounts are publicly managed, then the panel favored offering at least four to five options. Steve has already mentioned what they might be: U.S. bonds, a U.S. equity-indexed fund, a bond index fund of private bonds, a guaranteed investment product like a GIC perhaps, and international equities. But if funds collection is privately managed and organized, and if it's competitively organized, we have a lot of different fund companies collecting from workers. This is going to involve higher management and advertising costs and greater burdens on employers, making some small employers actually just rebel. In that case, the panel favored restricting investment options to broadly diversified mutual funds and guaranteed investment products. We didn't want individual workers to be selecting individual stocks, individual bonds, and individual real estate investments proposed by their favorite uncle. We said it should be a broadly diversified mutual fund.

With regard to withdrawals, we thought that part of the withdrawal must be in the form of a real, which means indexed, lifetime annuity for workers and for the lower- earning spouse. For low-income workers, perhaps all of the withdrawal should be in that form. We don't permit any lump-sum withdrawal. I think a general rule might be as follows. Workers must demonstrate that the when they combine (1) their traditional Social Security benefit, (2) their other private retirement benefits, and (3) the withdrawal they get from this new account, these amounts added together will put them over the poverty line (or the threshold for eligibility for the Public Assistance Programs for the elderly). Otherwise we insist that they withdraw it as a lifetime annuity rather than a lump sum.

Should there be mandatory participation in individual accounts or should they be voluntary? I guess our feeling was that if there was a carve-out of the 12.4% contribution to the present defined-benefit plan, then we thought the contributions to a defined-contribution individual account should be mandatory. We don't want an already underfinanced retirement system to receive less in contributions, which might occur if you let people's contributions be voluntary. We were concerned about the retirement income adequacy of low-income workers.

Question number five is, should funds collection be public or should it be private? Should funds management be public or should it be private? Should funds distribution be public or private? To most of us, although not to the two people who resigned, the case for centralized collection of funds seemed overwhelming. If there's going to be centralized collection of the funds, that probably means it will be public or at least under some public auspices. The administrative cost of the collector would be lower if there were a single unified fund. The administrative burden on small employers would be far lower, and the educational requirements for workers would be less burdensome if there were a single, unified system of collecting the funds.

If the nation decides on private, competitive, decentralized funds management collection, then we thought that the funds manager should be required to impose the same charge per dollar collected or the dollar managed on every contributor. If you instead have high charges on people making small contributions and low proportionate charges on people making big contributions, that would be especially harmful to the low-income contributors. Second, we thought that all the funds that would be eligible to participate must be funds that make their offer of participation available to everybody, which includes those who volunteer to go to Fidelity or to brand X fund. The investment firm will have to accept them all. They can't say, no, I'm only going to take the doctors.

Private annuities should be supplied on a group basis. When you reach 65 or 70, you shouldn't have to go on an individual basis and get an individual annuity. There should be a group basis and that might mean that having a public annuitization system is the best. But we dreamed up a couple of approaches that could be done privately, but group annuities are important. I think we also concluded that during the phase-in period, if you're going to have individual funds management and individual funds collection, there should at least be an interim period in which there is unified collection. In this unified collection, we get a lot of the glitches in the system worked out by having a single, unified system.

I'll briefly mention the reasons that some people stated that they could not sign our report. I spoke with one of them before coming here just to be sure I understood. I was not closely associated with these people when they decided to resign. One failing they had was that the report understates the magnitude of the financing problem facing the nation's retirement system, and they wanted it to be strongly emphasized. They thought that the political risk of the existing system was also understated or downplayed. In other words, 20 years from now, Social Security is going to have to be reformed, benefits are going to have to be cut, and no one knows whose benefits are going to be cut or no one knows whose tax contributions are going to have to increase. There's a lot of political risk in the current system that is not properly treated. They thought that the existence of the current social safety net was underplayed or ignored, and the existing safety net aside from Social Security, the Supplemental Security Income program and the food stamp program, do provide a floor of protection for people who are very poor. They thought that was underplayed. A couple of them believed that the private costs of funds collection and funds management were overstated or they thought there was a weak empirical basis for thinking these costs would be high. They thought that in some cases their dissents were watered down or omitted.

Anyone who reads the report will see that the flavor of many of these objections is contained in our report because the report was largely written by the time these three people resigned, and so their views had already been reflected in the text. But they felt that their views were not reflected enough. A couple of them felt that there was an artificial consensus and that we reached a conclusion, but only 75% of the members agreed on the conclusion. I'm very sorry that they resigned because they were good colleagues on other panels I had served on.

Mr. Hickman: I recall that I did not tell you that TIAA-CREF, the Sloan Foundation, and the Andrus Foundation of the American Association of Retired Persons also contributed to the support of this project.

Ms. Pamela J. Larson: Now you've seen the story of the NASI privatization panel, what the genesis was, how it was structured, and how we put together a multi-disciplinary group. Just for the record, we determined that 11 of the 20 members were economists, so it was a slight majority. There was a lot of input from the political scientists. Doug Arnold was one of those. We had our two actuaries and a couple of legal people with more of a legal, Congressional process background as well. Then they began to deliberate at these meetings. There were nine meetings and many meetings in between each meeting. They took place over a 29-month period. It got more intense toward the end as there were actual words on paper for them to quarrel over, add to, or enhance. The product is the report we're talking about, and we're very grateful to the Actuarial Foundation for supporting the printing of it. We went longer than our original estimate to our other funders, the Sloan Foundation and AARP Andrus Foundation, TIAA-CREF, because we needed more time to process all of the information and to come to this sense of what the panel would conclude. The contribution by the Actuarial Foundation was very helpful. It also supported the analytical stage. That’s where we stood in October 1998.

When the resignations occurred, we had already been planning. Once we have this report, what do we do with it? That's what I'm going to talk about.
How did we communicate the report results, and what has happened subsequent to that, because, as Jim Hickman has told me, the credo of the Actuarial Foundation is that research is not done until it's communicated, and that's certainly a credo that the National Academy of Social Insurance shares.

We've had, in our nearly 13 years of existence, six study panel reports issued. Actually, Gary, you're one of the few Academy members who served on two study panels. Gary was on the first study panel, and the Social Security benefit notch was a contentious issue as well. The interest groups were beneficiaries. The interest groups are some of the most powerful influencers in the U.S. economy and worldwide. That led to the sense of how important this report was though, and I commend you to read it word-for-word. You'll see that it's laid out very methodically and very carefully. It is certainly not the kind of thing that major headlines are made of.

We have had this experience in releasing reports. We've certainly gotten more and more sophisticated as an organization in learning what works and what doesn't work. One thing we know is successful is working with communications consultants because they make their living at knowing how to reach a number of audiences. We began working with our communications consultants as soon as we had a sense of what the report would look like. On the one hand, we did not want to rush the study panel process. But on the other hand, we needed to make sure we knew when the window of interest, the public policy interest and the media interest, would be strongest now that we knew we were coming to some closure. We picked that window as November 1998 for a number of reasons, and were able to then rush the committee to their final consensus; we were maybe cutting off some more wrangling over wording, but we thought it was important.

American citizens and some Canadians were following the fact that the President had proclaimed 1998 to be a year of dialogue on Social Security reform, and there were a number of other groups that were enhancing that dialogue, including AARP, the Concord Coalition, and others. The President had said there would be a White House conference on Social Security at the end of that year of dialogue, so we knew that opportunity was coming up. The White House, for a number of reasons, never told us the date that they were considering. We just thought something would happen in December so we wanted to get something out in November.

We thought there were three target audiences for this report and for any of our reports because we're very concerned with important public programs. The three target audiences include the policymakers. If you're doing policy research, you want the policymakers to read it and consider it. We all believe in better-informed public policy, and that's certainly our key audience. Beyond the 535 members of Congress, there are other policymaking staffers that we wanted to reach. They are the people at the General Accounting Office, the Congressional Research Service, the Congressional Budget Office, and then, on the other side, there are Executive agencies. Very important policies can be made within agencies, even using current legislation, but we knew that the President and the Administration were looking at Social Security legislation. We wanted to make sure we reached the White House, the Social Security Administration, the

Department of Labor, and the Treasury Department. All of those departments have a key role in serving as trustees of the OASDI trust funds and in influencing the steps the Administration would take.

The second key audience was the media. The media is important because policymakers read what's in the papers, just as we all do. If you get to the right media with the right stories, then other journalists across America read what those journalists are saying, and you continue to get stories that spin off of this all around the country. Then it reaches the interested American public. That's key because it seems that in this democracy, there's a feedback to our policymakers. It's a different type of writing. This report would not be something the normal journalist would spend time on. We had to come up with a press release that would say enough to have them know what their story would be before they even got to the report. We would encourage them to read the report, and in our case, get on our web site and read all the other related materials.

The third very important target audience for us as an honorific society of professionals in this field is, just as the Society is, to reach other analysts. All of our Academy members are a key audience for us as are many actuaries who are interested in the social insurance programs. We also wanted to reach all the interest-group analysts, such as the business analysts and the labor analysts that track these issues. My talk will be a presentation of how we reach policymakers, media, and the other analysts.

Our next strategy focuses on timing. As I mentioned, we were looking for these windows, but we also had the resignations in late October. We certainly wanted to make news with the report findings and all the good information that's in the report. We put the letters of resignation of those panel members in as Appendix B of the report so that people would understand what had happened. We wanted to make sure that the real story was what the panel found, not what journalists often go to with a controversy. That was our communications challenge.

We picked Thanksgiving week. Many communications consultants will say, “Don't pick a holiday week; journalists don't want to write. They want to be with their families like the rest of us.” It also was the week when they're willing to use the press release they get as the basis of their story rather than taking the time to dig and find the other story. I should mention Garrett Yu Husin, our communications consultant, because we haven't been able to think this through ourselves. We picked Thanksgiving week because, in a sense, it would be a quiet week for them. Most people who are releasing big new studies and data will pick a week, a Monday, Tuesday, or Wednesday of a week so that they get maximum time with the journalists before the story comes out. We did pick a Monday, and we wanted to get it out Thanksgiving week, not just for the quiet journalistic time, but because the White House conference on Social Security would be coming up over the next three weeks. We wanted it because we knew our stuff was thick to read. It's pithy stuff, and it's important stuff for them to deliberate. We wanted time for them to do that.

We also knew that we had another piece coming out which we could use to again remind journalists that we've had a privatization report. We have a book coming out. We had a conference in January 1998 called "Framing the Social Security Debate." The proceedings from that conference were published by the Brookings Institution Press on December 2, giving us another way to talk about the report and the report findings because there are very important chapters in the book from people who served on the study panel. We were able to draw attention to their chapters as well as the report.

The day before the White House conference on Social Security would be a very hot press day. Journalists know that people who track public policy are going to be looking for stories about, in this case, Social Security. They also know that they better get up to snuff on the topic because they're going to have to cover the conference. At first we thought we'd release this book and talk about our report and talk about our web site beyond December 7.

Well, great minds think alike. About eight other organizations and a couple of Congressmen were also doing that. We didn't want to stretch the journalists too thin because there aren't that many who work on Social Security in Washington. Instead, we again worked with our creative press consultants. We decided that we should put everything up on our web site and try to get the journalists to look at that. Journalists, just like students and so many of us, do most of their research using web sites. This came in an envelope mysteriously marked, "Make sure your Social Security coverage is on target." We enclosed a little dartboard and our web site address. We saw that the hits on the web site were double, triple, or even quadruple on that day. We got calls because some of the other journalists wanted their own dartboards. We're not sure they were the Social Security journalists, but it did bring attention to our work at a time when they'd been going to six or seven other events related to Social Security.

The next two days the White House conference on Social Security was held. The first day was a public open meeting that ended with breakout groups, and as a contribution to the materials for the White House conference, every organization and person who was invited was allowed to put in a one-page statement on Social Security. We used that opportunity, of course, as well. Two of us on staff were invited along with many people who served on the study panel. The staff statement told all about the report and again asked people to go to the web site where the report was then posted as of December 10. Some of the expert presenters at the conference were study panel members as well. They knew where to go.

On December 8 and 9, the White House conference was a window that we had reached, and then on the 10th we had the report up. We had all of this churning through the journalists and the policymaking audience. We, of course, had released it to our own members and were starting to get the word out to others because we knew that was the time period between the White House conference on Social Security and January 19—when the President was putting his proposal together. The State of the Union address was our next window. That's how the actual report strategy was released. I just added another date in there because Gary's alma mater, MIT Press, agreed to publish the report. We had used up all the wonderful money from the Actuarial Foundation on this version. We wanted to get it out beyond the web site version. MIT Press just published this last week so now we have the same document that will be marketed again to the academic and analytic press.

How did we make sure the policymaking audience knew about the report? On November 23, Peter Diamond gave us his day, and we walked him around Washington. We had pre-set meetings. The Commissioner of Social Security, Ken Apfel, assembled about 12 of his senior staff. They got a personal briefing on the report. They had the courtesy in Washington to give the executive agencies an advance copy. They received the report at the same time that the advance press copy was distributed, which was the Friday night before November 23rd. Then we met with the Deputy Secretary of the Treasury, Larry Summers. As many of you know, he was nominated to be our Secretary of the Treasury. He assembled his key staff, many of whom work directly in the White House on policy. That was a very important meeting. Peter again was able to walk them through what the study panel found. The next very interesting take up was the SEC, which is very interested in this issue because obviously we're talking about stock market equity investments that they need to be considering and working a work plan around. Arthur Levitt, the chairman of the SEC, and Commissioner Paul Carey, who has a personal interest in being an expert on the commission, and their senior staff were at this briefing. Again, Peter Diamond walked them through the report.

Finally we offered it to the congressional staff. We had some people wanting to hear about it that day, and we've had calls and briefings since then. What is very important to us is we got to meet with the Senate Finance Committee staff because that's the body in the Senate that takes up Social Security legislation.

We go to our media strategy. Thanks to our communications consultants, we very carefully picked six journalists who we know write about policy, and not just the politics of Social Security reform. Again, we had a report that had a lot of policy information. We didn't want the politics of the resignation to overshadow the good stuff in the report, so we got it to six journalists ahead of time with an embargo. That meant they couldn't write about it or publish the articles they had written about it until the day of the release, November 23rd. On the 23rd' we got it directly into the hands of 19 more journalists who write about Social Security and faxed the press release to 150 others who we pre-identified as writing about this. We really promoted our Web site. Again, as I mentioned, the targets went to the reporters.

We called and talked to a lot of reporters asking if they had received the information, and then that prompted a number of interviews with many of the panel staff. All along the way we'd been developing short versions of working papers from both our conference and the study panel. Those were out and on the web site by then. We had a renewed interest in sending those out. We continued to update the Web site with new issue briefs. Another thing that we found out was the National Press Foundation is one of the continuing education bodies for journalists. They asked us in January to talk to reporters and editors. This group is not the journalists who write the stories, but it is their bosses who assign them stories. We reported on what we thought were the Social Security issues in 1999. We were able once again to talk about the report, the book, and the web site to a key group that continued to keep in touch with us.

What happened after all this communication with the media? We're very happy. We got in some of the key press, and certainly all newspapers are key to us. *The New York Times* is a paper that's read by many, many other policymakers and other journalists. We were very happy with the story by Mike Weinstein that appeared on the front page of the business section. The subtitle was, "Study Cuts the Usual Blather." He commended the report as being a real clarifier, and went on to talk about the report and about confusion that had reigned and how the report had clarified that. He'd done his homework and he talked to Peter Diamond at length. We had a very nice first hit in the media. That led to others. One of those in the *Boston Globe* took a different angle. Mr. Worsh at the *Boston Globe* did talk a bit about the resignations, but he was much more interested in talking about the equity investment positions that are being taken. He used our report as a way of framing that and talked about the clarity of the report and the remarkable degree of consensus. Because Mr. Worsh is in the heart of Boston's financial district, he knew how contentious the issue was. He used words like *dispassionate analysis* and said that the study illuminated more than obscured. We were very happy because that's what we had hoped the report would portray to the journalists.

The *Philadelphia Enquirer* ran quite a big article about it. They talked to Olivia Mitchell, who's a Philadelphian, about the resignations, but she was able to talk about how much good the report had done as well. *NBC Nightly News* and National Public Rado (NPR**)** talked to us. They had mentioned it in some broadcasts. And just when we thought we had gotten it out, we saw an article on

February 18 in *Rolling Stone* magazine. It is probably a first for the Academy. Perhaps it is the first time any actuarial articles were in *Rolling Stone* magazine. The article had a misleading headline about how Social Security robs the young on the outside. The article by William Griter wasn't at all about that, but he does talk about the enormous transition cost and the administrative cost, and what it would do to younger people because they are his audience. So the Academy was in *Rolling Stone* magazine. There were two full paragraphs with a mention of our name, which is what you want, even though the article wasn't quite as accurate as the others.

How did we release it to other analysts? I mentioned we got it out to Academy members. We also tried our best to be on the programs of many conferences, and certainly this meeting is our last, only because this is the order that could be scheduled. We talked to the National Bureau of Economic Research. I think you all know that in the field of economics, that's where most economists listen. We also reported to the Association of Public Policy and Management of the Public Policy Schools, the Gerontological Society, gerontologists around the world. And the National Association of Elder Law Attorneys brought its group to Washington to learn what it should be telling its elderly clients. I talked about our members, the Congressional staff, and the conferees. We did publish it in our updated newsletter. It was again a synopsis so that it would be very readable to the 5,000 readers of this newsletter. And here we are at the SOA Spring Meeting in Seattle.

Finally, results. The Actuarial Foundation was realistic enough to tell us how it was communicated. That's important and that's what I've told you, but we also like to see that it gets used in the policymaking process. It's hard to do that so soon in the game, but there are a few indicators that people have read the report. People are listening to it and it has made some impact there. I mentioned the White House conference and the participation of many of the study panel members in that. The State of the Union address is where we first started hearing about saving the surplus for Social Security, and that certainly changed and reoriented the debate this year and the President’s budget proposal following that. Then these first six months of 1999 have been spent in lots of hearings by the Way & Means Committee, the Budget Committee, and the Finance Committee, and about 90 bills as of the last count.

The last *Congressional Research Service* publication says that among those 90 bills, 23 are about the lock box or a way to preserve the Social Security surplus, but some other 20 do look at the long-range solvency issue very clearly. Seven of those are resolutions of the Congress to let the American public know that they're working on this issue. Of the 20 on long-term solvency, about 19 of them advocate some form of advance funding. Were I disingenuous I'd say, see, they read our report, they understand, but I'm sure they came to that conclusion bringing in a lot of other intelligence as well. Eight of those bills talk about individual accounts, private accounts, and eight talk about investing in equities. There are certainly policies surrounding the issues that the report covered.

The Ways & Means Committee, one of the most powerful committees in the Congress, especially for the issues that are near and dear to us, has decided to hold a very rare executive session. They realized that they are losing time as they emerge from the policy discussion of the 106th Congress into the election discussion. They want to see if they can find any common ground in the various proposals that members of the Ways & Means Committee and others have come out with. That would mean that they can move forward with some sense of reform and some proposal this year, before we move into the election-year politics, when nothing will get passed on Social Security.

So as we shift to the election context, Bob Wyshire was quoted saying, "This is not a good context for resolving differences." Neither party gains by cooperating with each other, but our Ways & Means Committee has taken the step to be in this session. We should hear something about it in tonight's news I would venture, and we'll see if things like the National Academy's privatization study has made an impact on policymakers in the 106th Congress or whether we're going to have to wait for the 107th.

Mr. Hickman: Several of the speakers mentioned the resignations that occurred in October 1998. They included Michael Boskin of Stanford, Olivia Mitchell of the Wharton School, University of Pennsylvania, and Sylvester Schieber of Wilson Wyatt International.

Gary, the other day, at a similar meeting, an economist at the John Hancock distributed what seems to me very disappointing results about the almost-zero financial knowledge of the 401(K) owners of America. It was devastating. You mentioned this before, but coming away from that meeting I felt depressed about the idea of individual accounts. You mentioned the same thing. Is there anything that can be done about it? Is there some kind of national education or can only experience teach our citizens about finance?

Mr. Burtless: There is some good news I think. The deliberations of the panel revealed that employers who do more education of their employees get strikingly higher participation rates in 401(K) plans. Obviously there's some self- interest there because if higher compensated employees want to make as big a contribution as they can, they really have to persuade people from further down the pay scale to participate too. So there is self-interest but, on balance, the firms that do a better job of investing in educating their workers get better participation. The second bit of information that we got that's encouraging was that among the people in 401(K) plans. One of the panel members was the president of TIAA-CREF, because I'm also in TIAA-CREF. Maybe we're better educated than the average group of people.

The fact was that over the years, the evolution of the ways these people had invested had improved. I am talking about 1997 or so. That was when we had our latest data. People's investments across the options offered by TIAA-CREF did make more sense from a strictly financial point of view. In other words, people were investing more heavily in equities, particularly if they were younger than had been the case when options first were made available to these members. There does seem to be a lot of learning. The bad thing, though, is that people who participate in 401(K) plans are drawn from the top half of the wage scale division of the U.S. Our panel found that people earning less than $15,000 a year had extremely low rates of participation and, in fact, only a small proportion of them are offered options for investing. There's a lot of uncertainty about how well they would do.

Mr. Michael M.C. Sze: One of the things that we always study about Social Security reform is whether they improve the productivity of the nation. In that respect, what has the panel done? I don't see any concrete question posed and the results posted. Can you give us some idea on that?

Mr. Hickman: The question is, people do not eat dollars, wear dollars, nor do dollars rub your back. How about the goods and services? Would the savings really put zing in our economy, Gary or Steve?

Mr. Burtless: The 11 economists, by and large, thought that if we could reform this overall system in a way that would raise the amount of saving that occurs in the retirement system either through bigger Social Security trust funds or larger savings through individual retirement accounts, that would raise the nation's productivity. The way it would work is that if we save more, some of the extra savings will spill over into investment projects in the U.S. Not all of it will spill over because there are good investment opportunities overseas, too, but some of it would spill over into additional investments in the U.S., which would boost the productivity of American workers. That's the logic.

I think that there was a lot of uncertainty on the panel about how one could devise a reform so that extra accumulation or extra savings within the retirement system itself narrowly would result in higher overall savings. Some people felt that if the government told people to save more in individual retirement accounts, many people who already have things that look very much like individual retirement accounts would simply offset it by saving less there. That's not possible for everyone because not everyone has individual retirement accounts now. People who are very suspicious of the government accumulating a lot of extra revenue were very skeptical that the Congress could be persuaded not to spend the money directly or indirectly if there's a bigger Social Security trust fund.

Mr. Goss: Even the non-economists on the panel all wholly agreed that to whatever extent a dollar in individual accounts or an extra dollar advancement of the Social Security trust funds there was, it resulted in net additional savings. This would have the real opportunity to result in more investment and more economic growth. It is the bigger pie principle. We'd have more to spread around. The question became, is there any way we can quantify this? How much would be offset in terms of people offsetting the extra dollar seen in individual accounts by reducing their other savings? We hear people say that anywhere between 10 and 90 cents would be offset, which doesn't narrow it down much. To the best of my knowledge, we're not really able to narrow it down an awful lot. A number of people who are very strong advocates of privatization and individual accounts did make a strong case for increased national savings. When people talk about the possibility of offsetting by having less investment elsewhere, they'd say, "Yes, but." At least people who don't have any savings currently can't offset it because they can't reduce it. On the other hand, those people don't save much, but people can also dis-save. Unfortunately, with all the available credit and credit cards, people who don't even have savings find a way to borrow more. There could be a lot of offset.

Mr. Hickman: There's no way that we can summarize an economic argument about savings offsets that has gone on for a decade. It is a very difficult statistical problem, and one that has kind of split the economics community.

As an old professor, I do want to leave you with one assignment. Always turn to the masters. I urge you all to read the first three paragraphs of Adam Smith's *An Inquiry into the Wealth of Nations*. Those first three paragraphs cut away all this stuff about financing and so on. Smith says that the wealth of nations is actually determined by the proportion of workers and by the skilled dexterity and knowledge of those workers. That's what ultimately determines the wealth of nations. You are going to be taking part in one of the most important, public political discussions of our lifetime, and you have a unique set of professional knowledge to help lead that discussion. Go to it!