two things. I think we have to reform Social Security in a way that makes it viable and available for the baby boom generation when all of us get into retirement age, and it doesn't bankrupt our children or our children's ability to raise our grandchildren.

But over and above that, we have to do some other things, which a number of the Members of Congress who are here in New Mexico and out there at these forums have been interested in, to increase the options for retirement savings beyond Social Security. Right now, Social Security is responsible for lifting about half the American senior population out of poverty who would be in poverty without it.

But most seniors do not rely solely on Social Security. And more and more seniors, as we live longer, will need other sources of income, as well. So we're going to work hard on this, but we're also working on legislation to provide other avenues of retirement savings over and above this.

Thank you very much, all of you, for joining us. Commissioner Apfel and I are going to go back to work here in Albuquerque, and we're going to try to listen to the arguments of these experts on the questions you've asked: Should the Government invest in private securities, in the stock market, or should Social Security funds be invested in the stock market? And if so, should it be done by a public entity, or should it be done by individuals with individual accounts? And we'll try to get the pros and cons out and make sure they're widely publicized, and we welcome your views, as well.

Thank you.

NOTE: The President spoke at 11:35 a.m. by satellite from Room 124 of the Johnson Center Gymnasium, University of New Mexico, to four local forums located in Wilmington, DE; Chicago, IL; Bismarck, ND; and Raleigh, NC. In his remarks, he referred to Commissioner of Social Security Kenneth S. Apfel; Betty Lee Ongley, president, Older Women's League; and Richard Weber, vice president of administrative services, Basin Electric Power Cooperative.

Remarks in a National Social Security Forum Townhall Meeting in Albuquerque

July 27, 1998

[*Moderator Gloria Borger, US News and World Report, explained that she would take questions from the audience but first asked the President to comment on a USA Today poll in which two-thirds of the voters liked the idea of private investment accounts, but most also did not want the Government investing their money for them.*]

The President. Well, I think there are a couple of explanations. First of all, we live in a time where people are using technology to become more and more self-sufficient and to get more and more information directly. I mean, the Internet is the fastest growing communications organism in human history. So I think that.

Secondly, I think there's always been a healthy skepticism of Government. And thirdly, the Government hasn't been in very great favor over the last 17 or 18 years, although it's doing better now than it was a few years ago.

Now, I think—in public esteem—all the surveys also show that. I think the real question is, from my point of view, we ought to get down to the merits of this. The first question you have to ask yourself is, should a portion of the Social Security tax funds go into securities, into stocks? And if they should go into stocks or into corporate bonds, should that decision be made according to individual accounts, or should they be invested en masse either by the Government or by some sort of nonprofit, nonpolitical corporation set up to handle this?

And I think there are genuine concerns. For example, if the Government did it and they invested the money in stocks, would private retirement funds just have to make up the difference by buying Government bonds, or would there be no aggregate increase in saving or investment in the country? Would it give the Government too much influence over any company or any sector of our economy?

But I think most people just think, "If there is going to be a risk taken, I'd rather take it than have the Government take it for me." I don't think it's very complicated, so I think that those who believe that it's safer and better for people to have the public do the investing—or the Government do the investment—have to bear that burden. Those who favor, by the way, having individual accounts, have to ask what happens to people who happen to retire after the market has gone down for 5 years. So there are problems with both approaches, and benefits.

[*An audience member asked if the Government would guarantee current benefits if individual accounts were exhausted by old age, bad investments, or market downturns; if doing so would create another problem; or if not doing so would inevitably plunge old people into poverty.*]

The President. Well, why don't we let—I think those are good questions, but I think there are answers to them. And maybe I should let either Dr. Weaver or Professor Boskin answer, and then if I want to add anything, or any of the members do, we can.

[*At this point, Carolyn Weaver, American Enterprise Institute, suggested that at least a portion of personal account accumulations should be converted into some type of annuity or withdrawal on a phased basis so that the individual does not exhaust those funds. Professor Michael Boskin, Hoover Institution, agreed, explaining that an annuity is an annual or monthly payment for a lifetime but that paying benefits for current and future retirees plus the individual accounts would create trillions of dollars of debt. Professor Peter Diamond, Massachusetts Institute of Technology, added that annuities carry an extra cost element to the insurance companies and voiced concern that, when people want early access to their money upon retirement, requiring everyone to buy annuities might be a major political question for future Congresses. Senator Pete Domenici suggested to avoid a risk of a downturn at the end, investment firms would be required to invest in less risky accounts for a person in the last 5 to 7 years prior to retirement. Professor Boskin noted that, historically, long term investment in the stock market has accumulated vastly more than investing in Government bonds. An audience member asked about the experience in Chile and Australia in terms of the costs and the benefits and the risks of setting up private accounts.*]

The President. I would invite everybody to comment on Chile and Australia and maybe on the UK and now on Canada, since Canada is investing the money directly. And maybe if you all could give us whatever information you have about that—in whatever order.

Jim, do you want to start?

[*Congressman Jim Kolbe said that Chile has been successful over the last 18 years in going to total privatization, despite a bad economy. He also said that Britain, Australia, Mexico, and most of Latin America have been pleased with their system of individual accounts. Professor Diamond said that the administrative costs are high in Chile; in Britain, which has a voluntary opt-out system, the costs are even higher; and in Australia, where the employer must set up the system, the employees sometimes do not get any choices, and account spending is not regulated, which often leaves survivors with nothing but poverty support from the Government. Representative Xavier Becerra cautioned that because the United States is very different from other countries, our solution must be unique. Ms. Weaver agreed but pointed out that under the Chilean system, people always know precisely what they have accumulated and how to adjust their savings and retirement date. An audience member then asked if it would be possible to rely on watchdog organizations to either cap fees associated with the privatization and individual accounts or allow a limited amount of profit per transaction.*]

The President. Well, I think maybe Mr. Boskin, haven't you commented on that before? I think Michael has—at least I believe, in the preparation I did running up to this, that the most forceful advocates of individual accounts have recognized that it might be necessary to have some kind of limit on the individual administrative costs.

One of the problems in Chile has been that they've got all these different people competing for your account. And if they're competing to give you higher return for lower costs, that's good. They offer people vacation trips and then when the market is down maybe they offer them toasters, I don't know. But there are a lot of built-in costs, and you might be able to get the best of both worlds at least on the costs, that is, to have the individuals do the investments, make the investment decisions. I think there would be ways to put caps on the aggregate costs.

[*Professor Boskin agreed that fees should be uniform to avoid hurting low income people with small accounts and suggested that competition would keep costs down. Professor Diamond pointed out that regulating fees could be tricky*.]

The President. In fairness now—I should say, I'm very grateful for a lot of the work that Professor Diamond has done, and I'm very sympathetic with a lot of it. But I don't think that's a very good argument. I mean, we have a Securities and Exchange Commission to regulate the stock market. We have more than one Federal agency that overlooks various aspects of what our banks do. And one of the reasons that our market economy works so well is that we have basic Government intermediary institutions that set rules and regulations and parameters. And that's how we get the benefit of the market without having to bear all the downsides.

So I would think that nearly everybody would want some sort of Government regulation if we were to get into this. But that doesn't necessarily mean that direct investment by the Government would be better than the individual investment. It doesn't answer the question one way or the other. I don't mean that it—but I think that, to me, that's not a reason to attack this. I think we should all—that's what we do in almost every major area of our national life.

[*Professor Diamond responded that additional regulation would be needed but that he was concerned about regulation of prices, not regulation about safety and soundness of financial institutions.*]

The President. You all may want to ask some more questions; I don't want to interrupt anymore. But I think it's important. We're not just talking about price here. One of the major issues is—sometimes I think we get into one little thing, and we forget how it fits into the big picture. So let me just back up.

Suppose you took—I'll take the simplest case—suppose you said we're going to give everybody one percent of payroll to invest in an individual account, okay—and we're going to take all the rest of the payroll and keep on paying Social Security, but we're going to reduce the basic guaranteed benefit, both because we can't afford it because of what's happening to population and life expectancy, and because we just took a percent out of payroll. That's the bad news. The good news is we think you'll get a bigger benefit out of the one percent. Right? That's the argument here.

Now, on the administrative costs, what you have to figure out is, it will be more expensive administratively—I don't care what we do—than having the Social Security Administration or the Government run it all. Why? Because of just economies of scale. But if you get a much bigger rate of return, then you're still ahead.

So what you have to do is calculate all these things. And all these folks in Congress here are going to have to figure it out, too. So I just ask you, don't forget what the framework here is. And one big thing we haven't discussed is—although our panelists did while I was out of the room, because I watched them—it's not just the administrative costs, it's what are the range of investment decisions that will be available to American citizens for their payroll tax in their individual account? Are there any investment decisions they won't be able to make? And then, how will they get the information necessary, the advice necessary to make good decisions and how is that figured into the costs? I think you have to look at it like that. What you want to know is, where are you going to come out on the other end of this deal in all probability.

[*Robert Reischauer, Brookings Institute, discussed with Representative Kolbe and Professor Boskin what might happen if Social Security benefits were reduced and people invested unwisely or unluckily in their private accounts. An audience member then asked* *who would pay for the transition to privatization and suggested that the program follow the lead of the Federal Employees Retirement System, incorporating a traditional pension, Social Security, and a private investment plan. Congressman Kolbe agreed that the Thrift Savings Plan was a possible solution.*]

The President. Go ahead, Michael.

[*Professor Boskin said that a plan that compounded at a higher rate would offer benefits that exceed the transition costs, as well as addressing unfunded liabilities under the current system.*]

The President. Maybe I could say this at a little—I keep trying to get back to the basic thing. If we don't do anything, sometime in about 35 years, we're going to have to—Senator Domenici said 50 percent; I think it comes a little later than that, 50 percent. But let's say in 2030, we run out of money. We're going to have to do one of three things: We're either going to have to raise the payroll tax by quite a lot; we're going to have to cut benefits by quite a lot; or we're going to have to have the Government stop doing a huge percentage of everything else its doing, most of which are things that you believe we should be doing, and just put the money into Social Security.

So we really got into this whole discussion, both if you take Professor Reischauer's view that the Government should invest more in equities to get a higher rate of return or the view expressed by Dr. Weaver that individual accounts should do it—we got into this discussion to figure out whether we could have, at acceptable risk, a higher rate of return on the money that's already there so we wouldn't have to raise taxes, cut benefits dramatically, or shut down a whole lot of the rest of the Government. So there's going to be a transition cost regardless.

Now, one of the things that I want to compliment all these Members of Congress here for doing, we want to avoid having to have a big tax increase for the transition, which is why we're trying to hold on to this surplus we've got for the first time in 29 years, because whatever we decide to do with this, we're going to have to commit a substantial part of the money that has been accumulated or will be accumulated to fund that.

And I want to ask you one question. Are you saying that you would support some portion of the payroll tax being made available for individual accounts if retirees, or future retirees—savers, workers—also had the option to opt into a system like the one we've got, so you could choose the one we have or you could choose one with a smaller guaranteed benefit and more investment? Is that what you're saying? I just want to make sure because I think that's something we need to know.

[*Mr. Reischauer said that the Federal employee system would not solve the problem if Social Security were cut. Senator Bingaman voiced concern that if money were taken out of the payroll tax to finance individual retirement accounts, then benefits would have to be cut and the retirement age would have to be raised. Audience members then discussed how to invest the budget surplus.*]

The President. The point is, though—I agree that we have a surplus because, basically, we're still getting more money every year in from Social Security taxes than we're paying out in retirement on a current basis. And the money, therefore, is invested in bonds, and when it pays back, the Government has it to pay retirement later.

But—so that's fine. But the real question is, can we get a higher rate of return in the future for a fixed amount of money that's going to be invested by the American people in their retirement through the taxes of their employers and themselves than we have gotten in the past? Because if we can get a higher rate of return, then even though there will be fewer people working compared to the people retired, people can have a comfortable, decent retirement; we'll be earning more for the money we've got. That's really the question. Is there a safer way to do that?

Now, I'd like to ask Mr. Reischauer a question; then we'll go back to the audience. You make a very compelling argument that economically there's no difference in having individuals do it and having the Government do it, or having the Government set up somebody to do it, except that there's far less risk on the individual, you can average the benefits, and if somebody retires in a bad year or if there's 5 bad years in a row—like in Japan, which 8 years ago, everybody would say we should do everything they do; now for 5 years, their stock market has lost half its value—if somebody has 5 of those bad years, if the Government is doing it in the aggregate, it is true that over any 40-year period, the return will still be greater—even in Japan I think that's true, even now—but you protect people from those bad years, as well as from their own mistakes.

How will you ever convince the American people of that, since they always believe the Government would mess up a two-car parade? [*Laughter*] I mean, even if you're right, politically, how do we ever—how do you make that sale to the American people?

Mr. Reischauer. Well, Mr. President, it's not in my job description to defend the Federal Government. [*Laughter*]

The President. Well, you tell me how to do it then.

[*Mr. Reischauer suggested setting up an institution that would be protected from interference of politicians and, by law, would be required to invest passively, by selecting a little of all available stocks and bonds. An audience member asked who would make the final decision if there were no bipartisan agreement.*]

The President. Well, I think what we're—let me just say what the good news is about this panel. You may leave here more confused than you came in about the details of these options. And if so, I would tell you that's a good thing, not a bad thing. I've been working very seriously on this for a couple of years; these are complex problems. But I think that there is the good news here, which is that most of us have been on opposite sides of a bunch of issues over the last 20 years, and we all believe that we have to act now rather than later.

Keep in mind, every year we let go by, all options become less attractive and require greater risk and more exertion. So, as compared with 10 years from now, anything we would do today is quite modest in scope and has the opportunity to build in more protections. And because you're 32, I think I should also emphasize that under all these options, nearly everybody believes we have to guarantee the system as it is for people, let's say, at 55 and up, and then some period of transition, and ultimate protections built into the system over the long run.

So I think that you don't have any guarantee. If nobody ever makes this decision, then 35 years from now the system will run out of money and the market will make the decision. I mean, people will stop getting checks, or there will be a big tax increase, or we'll shut down a whole bunch of the Government to pay the difference.

So that's why I think that you should feel good. There is a big bipartisan consensus, I think, in the Congress that we have to reach agreement, and we have to act, and we have to do it soon.

[*An audience member asked what the President would do if it were entirely up to him and a decision had to be made today.*]

The President. If I answered that question today, it would make it less likely the decision would be made. That's the truth. You have to understand—let me just say—and I'm not dodging this. I honestly don't know what I would do today, because I have—and I've spent hours and hours just getting ready for this meeting, trying to master all the details of the various plans that the people at this table have proposed.

I don't know what I would do. But I am open to the idea that if we can get a higher rate of return in some fashion than we have been getting in the past, while being fair to everybody, and guaranteeing that we'll still be lifting the same percentage of people out of poverty, we ought to be open to those options. Because I think that's better than raising the payroll tax a lot more—because it's a regressive tax and, for example, more and more people work for small business, and if you're a small-business person you've got to pay a payroll tax whether you make any money or not. Seventy percent of the people pay more payroll tax than they do income tax today, working people. And I'd hate to do that.

I don't want to cut benefits substantially because most people have something besides Social Security, but Social Security alone lifts half our seniors out of poverty—48 percent, literally. And we've got the smallest Government we've had in 35 years, and I don't want to close down the National Park Service or stop supporting education or stop running our environmental protection programs. And we've cut the national defense about all we can, given our present responsibilities in the world and our need to modernize it.

So the reason I'm here with you is I think all these people deserve to be heard, because if there's any way we can get a higher rate of return in a market economy, while minimizing the risk, whether it's in either one of these approaches, we ought to go for it, because the other alternatives are much less pleasant already. And if we wait around for 5 or 10 years, they're going to get a whole lot worse than they are today.

[*An audience member asked if the privatized retirement system would maintain the insurance, disability benefits, and survivors' benefits of the present Social Security system. Professor Boskin, Representative Kolbe, Mr. Diamond, Senator Domenici, and Representative Becerra discussed how the disability and survivor benefits could be maintained.*]

The President. Can I ask a question here? I would like to ask the Social Security Commissioner or someone else here who's in the audience or with our staff to come up and give me the answer to the question the gentleman asked about disability—the exact answer. About a third of the people who draw Social Security checks are either dependents of people who were killed or disabled on the work force or disabled people themselves. So I want somebody to come bring me that information and how much it's grown, and I'll give it to you precisely.

[*Ms. Weaver voiced concern about the growing number of people drawing disability benefits.*]

The President. Commissioner Apfel just said that the number of people drawing disability has grown dramatically from more or less equally from two sources: One is the addition of mental impairments to physical ones; the other is the aging of the baby boom generation because the rate of disability increases as you approach age 50. So for people like from their late forties until retirement age not drawing Social Security, there's significantly increased number of people because there are just more baby boomers in that age group now.

[*An audience member suggested raising the ceiling for incomes subject to Social Security tax.*]

The President. Let me say, first of all, the incomes of American people have grown to the point now that there is a larger percentage of people who get the benefit of the cap than there used to be. That is, a higher percentage of our people—I forget what it is, maybe one of you know—but most Americans are under the cap. That is, most Americans have income under the tax cap.

People at higher income levels pay higher tax rates on their Social Security incomes than people at lower income levels. And I think that's—one of the reasons that the cap has not been raised at least a dramatic amount more is to avoid having it be an actual negative investment for the people involved, where you're just taxing people's payroll far more than they'll ever get back, and they're just subsidizing the system. The way it is now, it happens a little bit, but not much. And people at higher incomes, once they start to draw that Social Security, do pay a higher rate of tax on it than people at lower incomes.

Michael, you wanted—anybody else want to say anything?

[*Professor Boskin, Ms. Weaver, Representative Becerra, Senator Kolbe, and Senator Domenici discussed taking both the tax side and benefit side need into careful consideration so that all Americans would still feel that Social Security is a good investment.*]

Ms. Borger. Mr. President, we only have a few minutes left in this forum, and I just wanted to give you the opportunity to give us your final thoughts about what's occurred here today, and what's coming in the future.

The President. Well, I'd like to go back to the question the gentleman asked me when he said, "If this were up to you, and you had to decide today, what would you do if you were all by yourself?" There may come a time when I wish that we have so many headaches working this out, I wish it were just my decision to make, all by myself.

I think it's important for me and for the others in the Congress who care about this to maintain—but especially for the President—to maintain an open mind as much as possible now, because I don't want a particular proposal just because it's been endorsed by me to have to be supported or opposed by other people because of their political position. I'm doing my best to keep this a matter of people and progress over partisan politics.

But I also want to make it clear to you that I honestly, myself, have not made up my mind exactly what I think we ought to do on this because, as you can hear from this debate, there are arguments on both sides of all proposals, and it's a rather complicated matter.

I can tell you this: I want a guaranteed benefit. I want it to be fair and progressive and universal. I want to have the best earnings we possibly can within that framework. And I don't want to come to a point down the road where we have to wreck the financial responsibility we worked so hard to bring into this country to give us our present prosperity to pay for the retirement of my generation because we didn't have the responsibility to take action now, when we should.

And I think if we can stay with these general principles and continue to learn and explore all these debates and learn as much as we can from the experiences of other countries—we didn't have a chance to get into this today, but you all laughed when I was kidding Mr. Reischauer about the popular skepticism of Government making these investments. But Canada is starting to do it, and we'll have a chance to watch them and see how they do it and see how they deal with some of the objections that have been raised.

So I think that what I would urge you to do is to continue to learn about this. If you know what you think, make your voices heard. And support your Senators and your Congressmen in saying that we have to act on this, and we have to do it next year because we can't afford to wait. We're taking this year, studying, raising public awareness, presenting all the alternatives to people. By next year we'll be ready to act and we should do it.

And if we have the support of the people in this room, that vary across age and income groups and all kinds of other ways, then we'll be able to do what's right for America because we will be doing the work of democracy.

Thank you very much.

NOTE: The discussion began at 12:48 p.m. in the Johnson Center Gymnasium at the University of New Mexico. In his remarks, the President referred to Commissioner of Social Security Kenneth Apfel. The panel included Carolyn L. Weaver, resident scholar, American Enterprise Institute; Fernando Torres-Gil, director, Center for Policy Research on Aging, University of California Los Angeles; Robert D. Reischauer, senior fellow, Brookings Institute; Michael J. Boskin, senior fellow, Hoover Institution; and Peter A. Diamond, institute professor, Massachusetts Institute of Technology. Moderator Gloria Borger was assisted by Matt Miller and Susan Dantzler. Vice President Al Gore participated in a panel discussion at a National Social Security Forum, also sponsored by the American Association of Retired Persons and the Concord Coalition, in Cranston, Rhode Island, on July 1. A portion of these remarks could not be verified because the tape was incomplete.

Remarks at a Reception for Gubernatorial Candidate Martin J. Chavez in Albuquerque

July 27, 1998

The President. Thank you. Thank you very much. Thank you for your muted welcome. [*Laughter*] I am delighted to be here.

Audience members. We love for you to be here. [*Laughter*]

The President. Thank you. I'm glad to be here for Marty and Margaret, and Diane and Herb, and all the Democratic ticket. I'm honored to be on the platform with Senator Bingaman. And I am very grateful that a man I first met and began to admire almost 30 years ago, Fred Harris, is now the chairman of the Democratic Party in New Mexico. Thank you.

I want to thank all the State officials who are here and the mayor and the speaker and the former State chairs, who are my friends,