

The Greenspan Commission and the Social Security Reforms of 1983

By Rudolph G. Penner

It was evident by the mid-1970s that the Social Security system was in trouble. Benefit costs exceeded income and the assets of the Social Security trust fund were rapidly declining. On May 12, 1981, the Reagan Administration proposed a series of benefit cuts, the most important of which would dramatically reduce benefits for early retirees. The benefit cut for someone retiring at age 62 was to be more than 30 percent.

Prior to submitting the proposals, the Administration made no attempt to get the advice of key Congressional leaders or to educate the public. In the political firestorm that ensued, President Ronald Reagan had no allies in the Congress and was, of course, opposed vigorously by the American Association of Retired People, the AFL-CIO, and numerous other interest groups.

The President responded by creating the bipartisan 15-member National Commission on Social Security Reform in September 1981. It was to report by the end of 1982—conveniently after the Congressional elections. The Commission was chaired by Alan Greenspan, who had served throughout the Ford Administration as Chairman of the Council of Economic Advisors, and who was known to be fair minded and politically skillful. Members were appointed by Thomas P. (Tip) O'Neill, Speaker of the Democrat-controlled House; by Howard Baker, Majority Leader of the Republican Senate; and by President Reagan. Each of the three chose both Democrats and Republicans. It proved important to the future success of the Commission that nine of the members were professional politicians who either were or who had recently been

Representatives or Senators. All had played key roles in the oversight of the Social Security system.

It appeared initially as though the Commission would fail miserably, as so many other Commissions appointed to resolve controversial national problems had. The Democratic members were adamantly against benefit cuts while the Republicans opposed tax increases just as vigorously. Administration and Congressional leaders kept hands off at first and did not help to break the deadlock. The Commission asked to extend its deadline by one month. It was given two extra weeks.

Break in the Log Jam

In early January 1983, Senator Robert Dole, a Commission member and Chairman of the Senate Finance Committee, wrote an opinion piece suggesting that tax increases might play a role in solving the problem. Commissioner and Senator Daniel P. Moynihan detected a break in the log jam and seized the opportunity. He initiated discussions that included Greenspan, Dole, Commissioner Robert Ball, and Barber Conable (the ranking minority member on the House Ways and Means Committee). This "gang of five" began intensive discussions with White House Chief of Staff James Baker, his aides Richard Darman and Kenneth Duberstein, and OMB Director David Stockman.

The most important elements of the compromise that emerged were structured to be precisely balanced between benefit cuts and tax increases. A six-month delay in the cost-of-living-adjustment to Social Security benefits saved \$40 billion during the 1980s, and an acceleration of a previously scheduled tax increase raised \$40 billion. An additional \$30 billion would be raised by making 50 percent of benefits taxable for middle-class and richer taxpayers. That provision could be comfortably characterized as either a tax increase or a net benefit cut. Other provisions expanded coverage by bringing in new federal civil servants and preventing the withdrawal of the state and local employees who were already in the system. Taxes were raised on the self-employed and there was a general revenue transfer to help pay the benefits of former military personnel.

The compromise, with some qualifications, was supported within the Commission by a 12 to 3 margin—the three dissenters were conservatives who objected to the tax increases. The Congress debated the recommendations quickly. The debate was expedited in the Senate by an informal rule promulgated by Senator Dole. It stated that anyone opposing the Commission recommendations was obliged to provide an alternative solution.

Although the Commission recommendations completely solved the immediate financing problem, they only closed about two-thirds of the deficit for the entire 75-year time period traditionally used in assessing Social Security's financial condition. Remarkably, the Congress was willing to be more courageous than the Commission and to solve the long-

run problem as it was then perceived. They adopted the Commission recommendations and added an initiative by Representative J.J. Pickle to gradually increase the normal retirement age (NRA) to 67 by 2027. Pickle had the support of Chairman Dan Rostenkowski of the House Ways and Means Committee, and in the House-Senate conference overcame a somewhat more timid Senate proposal that had increased the NRA to 66. The added provision reduced the long-run actuarial deficit of the trust fund more than any single proposal made by the Commission.

During the Congressional debate, the reforms were attacked vigorously by the left and the right, but President Reagan and Speaker O'Neill remained steadfast in their support of the compromise. When signing the bill, President Reagan said, "[T]he essence of bipartisanship is to give up a little to get a lot....I think we've got a great deal."

Viewed from the vantage point of a much more partisan era, the compromise appears as an extraordinary bipartisan achievement. It would not have been possible were it not for the coincidence of a very special set of conditions and personalities.

First and foremost, something had to be done. The trust fund would have been emptied and full benefits could not have been paid after mid-1983. At the time, the law did not allow the trust fund to borrow or otherwise draw on general revenues. Although legal authority might have been provided in order to postpone painful decisions, the public's confidence in Social Security was already badly shaken and would not have been helped by such an action.

Second, the Commission played a crucial role in facilitating the decision making process and developing an acceptable, rational compromise. This could only happen because the Commission had an effective and flexible chairman and politicians skilled at the art of compromise. It also required people like Robert Ball, defender of the system par excellence, and Alexander Trowbridge, representative of the business community, who were willing to yield on numerous issues in order to get something accomplished.

Third, the ball had to be carried in the Congress and it was extremely helpful that the Commission contained Congressional leaders like Dole and Moynihan. But it also took non-Commissioners showing great courage, such as Chairman Rostenkowski, to score the ultimate touchdown.

Last, but certainly not least, it could not have happened without President Reagan and Speaker O'Neill being willing to set aside ideological differences in pursuit of a pragmatic solution.

