

A deep examination of Social Security

Defusing the Fiscal Time Bomb

For three decades, Cato Institute scholars have fought to reform the enormous entitlement that is Social Security. This third rail of American politics faces a looming crisis. How to fix it—how to balance the economic realities with political practicalities—is no easy task. Yet it is a crucial one, as Social Security threatens to consume a staggering portion of the country's GDP—a problem exacerbated by our aging population enjoying longer post-retirement life expectancy.

What began in the first issue of *Cato Policy Report* in 1979, with the article "Social Security: Has the Crisis Passed?" by Carolyn Weaver, and expanded a year later with Cato's first policy book, *Social Security: The Inherent Contradiction* by Peter J. Ferrara, continues today with the release of a new book by Cato senior fellow Jagadeesh Gokhale. *Social Security: A Fresh Look at Reform Alternatives* offers a detailed analysis of the fiscal future of this massive entitlement, and does so through the use of a fresh model that offers a considerable increase in accuracy over what came before.

The typical models used to analyze Social Security's future are inadequate, Gokhale argues. Those built by the government are based on broad group averages, whereas models used by nongovernment researchers are more detailed, but are limited to the few details of interest to the particular researcher. In *Social Security*, Gokhale offers an alternative, "a microsimulation of U.S. demographic and economic features" he calls DEMSIM.

The result of running the data through Gokhale's more robust model is grim. "DEMSIM's baseline

assumptions suggest that Social Security's financial condition is significantly worse compared to official projections by the program's trustees," Gokhale concludes. He is also able to examine several reform options.

His goal in writing the book, Gokhale explains, is to "convince the reader that independent checks of



official reform scoring exercises are useful;" that his microsimulation model approach brings advantages over the current practices; and that analysis of reform options should be based on measures of the program's long-term finances, as well as measures of how individuals will fare under both the current Social Security program and potential reformed programs.

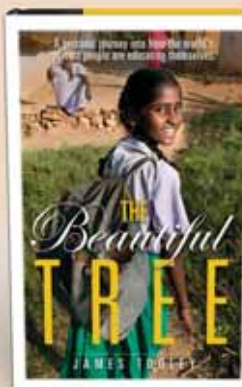
Without taking such measures, Gokhale warns, lawmakers and the public will remain uninformed, lacking the data necessary to make meaningful and effective adjustments to what is otherwise a doomed system.

Gokhale's *Social Security: A Fresh Look at Reform Alternatives*, published by the University of Chicago Press, is a powerful continuation of Cato's long-running mission to correct the mistakes of Social Security.

Cato News Notes

THE BEAUTIFUL TREE WINS FISHER AWARD

James Tooley's book *The Beautiful Tree* was awarded the 2010 Fisher International Memorial Award by the Atlas



Economic Research Foundation. The award recognizes "think tanks that produce outstanding publications that enhance the public understanding of a free society." Tooley's book, which tells the stories of deeply poor people throughout the world banding together to educate their own children outside

of failing state schools, earned high praise. "Rather than lament what has gone wrong in the developing world," the award announced, "*The Beautiful Tree* is about doing what is right, and demonstrates the power of the educative spirit in all corners of the world."

OPM CHIEF BLASTS CATO

"It comes straight out of the Cato Institute," said John Berry, director of the Office of Personnel Management, in an interview with Federal News Radio in March. "It is based [on] an anti-government perspective." Berry was referring to the data behind a *USA Today* editorial criticizing the exorbitant compensation of government employees during this time of recession. That data, developed by Cato's director of tax policy studies Chris Edwards, showed that federal workers take home nearly twice as much in compensation as their private sector peers. If the nation's economy is to turn around, perhaps the government would do best to ignore Berry's warnings and take more advice "straight out of the Cato Institute."

INNOCENT WINS ESSAY AWARD

First place in the *Infinity Journal's* IJ Awards was given to Cato foreign policy analyst Malou Innocent for her essay "The Road to Talibanistan: America's Contribution to Pakistan's Slow-Motion Collapse." Praising the work, the prize announcement said that it "was not only well-written, researched, and analyzed, but also it serves as a prime policy paper that should be read by leaders around the world."