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## A worthy presidential legacy

By Richard W. Rahn

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It is hard to get there if you don't know where you want to go.

Despite the Democrats gaining control of Congress and his own previous mistakes, President Bush still has the opportunity to leave a constructive economic legacy, but to do so he must first clearly define his goals and determine what is realistically doable.

Over the last couple of weeks, there have been reports Mr. Bush may agree to raise the wage cap in a deal with the Democrats to "save" Social Security as part of his "legacy" -- which, in fact, would do just the opposite.

Should Social Security be primarily a welfare or a retirement program? When the Social Security system was started seven decades ago, it was conceived as a program to protect those who could no longer work and had not been able to arrange for their own retirement. But over the decades it has evolved into a program providing a major (and in some cases a total) source of retirement income for most people.

From 1937 until 1950, the Social Security tax was only 2 percent (1 percent on the employee and 1 percent on the employer) and applied to only the first \$3,000 in wages. But the total tax has grown to 12.4 percent, plus another 2.9 percent for Medicare, for a total of 15.3 percent split between employee and employer, and the wage base will grow to \$97,500 in 2007. Even so, the increase in projected benefits will soon exceed the tax revenue to pay for them. (There is no actual "trust fund" because Congress has always spent the Social Security tax surpluses on other things.)

There are some (Democratic leaders, labor union bosses, and self-appointed advocates for the elderly) who argue the current pay-as-you-go system can be "fixed" by only minor reductions in benefits and small tax increases. For this assertion to be true, one has to assume the rate of increase in life expectancy will fall sharply and that birthrates and/or immigration rates of productive workers will greatly increase.

A prudent person would not make such assumptions given that Medical breakthroughs are likelier to accelerate, rather than decelerate, the growth in life expectancies; there is no reason to assume birthrates will increase; and most Americans have indicated they want to reduce rather than increase immigration.

Given the current political reality, President Bush should concentrate on explaining to the American people why modest Social Security tax increases and benefit reductions will not solve the long-term problem, and why it is necessary to move to a defined contribution system (as most private employers have done). A defined contribution system operates like an individual savings account in that the benefits (withdrawals) depend on much has been contributed to the account, plus the rate of return of the investments in the account.

The defined contribution program could be funded through either government or private accounts. Private accounts will give a higher return, but Mr. Bush need not fight that battle now. The battle he can win is getting agreement to move over time to a defined contribution system, and that would be a real legacy.

President Bush has been rightly criticized for his lack of discipline in controlling the growth in government spending. Excessive spending results from paying for activities that should not be done by government and by spending money on activities where the promised benefits never materialize. Mr. Bush has the opportunity to leave a legacy by greatly improving the fiscal management of the government. The government requires executives of public companies to certify that their financial statements are true and correct (under criminal penalty). This provision should be extended to apply to all government managers, with the additional provision they must certify that the goals of the expenditure are being met.

If the government managers cannot make such certifications, the law should require that all expenditure cease on the program until such satisfactory certification can be made. If government managers were held legally accountable (as their private sector counterparts are), much waste, fraud and abuse would stop -- and that would be a great legacy.

Finally, as I have advocated before, Mr. Bush should work with Congress to give citizens the "right of private action," so they could sue regulatory agencies for promulgating regulations that do not meet a reasonable cost-benefit test.

If the president and Congress accomplished the above, they would leave a major, long lasting, constructive "legacy" of having partially reformed Social Security, and would bring a major portion of excessive and unjustified spending and regulation under control.

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