Polly Klaas and the Pols

THE MURDER of 12-year-old Polly Klaas in California three years ago gave impetus to tough new legislation at state and federal levels for dealing with multiple violent offenders. It is remembered by many citizens for the brutality of the crime and the record of the murderer, who was on parole at the time. Especially frightening was the ease with which the child was abducted—from her own bedroom, where she had organized a slumber party, while her mother slept in the next room. If Polly Klaas could be so easily kidnapped, assaulted and murdered, was any child safe?

The murder, a private grief for her family, became a public cause as information about the crime and killer spread. But now, in the final weeks of the election campaign, it seems to have become a political issue as well. Three Republican congressional candidates in California have used the case to attack opponents who do not support capital punishment. In one egregious ad, the face of the Democratic candidate is morphed into the face of Richard Allen Davis, the murderer. The implication of these ads is that the Democratic candidates were somehow supporting the killer as opposed to the victim and would have approved some kind of mild penalty for this monstrous crime. Opposition to capital punishment, of course, is not the same as indifference to crime or even softheadedness about long sentences without possibility of parole. To imply that an opposing candidate is the equal of a killer in this case is obscene.

Meanwhile, President Clinton's advisers have produced a commercial implying that his "courage" was responsible for protecting children in similar situations. In fact, the legislation he cites as evidence had nothing to do with this case. It was passed a year after the murder, it did not change California sentencing law (which already had been altered), and it did not make the death penalty available in that state, where it already was an option. The president's support of the bill took no courage at all. The harsh penalties it authorized for federal offenses are wildly popular, particularly among Republicans, and no act of heroism was involved in condemning Polly Klaas's killer and demanding justice. Those sentiments were universal, as they should have been. It is deceptive and, we hope, counterproductive for politicians on either side to use this tragedy for their own advantage.

A Great Decent Program

THERE CONTINUES to be talk about the possible partial "privatization" of Social Security. Enthusiasts describe it as a way of saving a system otherwise in peril. In fact, privatization is a dangerous concept that ought to be approached with utmost caution.

Social Security does face problems. When the baby boomers begin to retire not that many years from now, the revenue in sight won't be sufficient to pay the costs. In the name of fiscal and social responsibility alike, the next president may try to deal with the issue; we hope he does. Advocates will urge that privatization be part of the solution; the National Association of Manufacturers added its voice to that side of the argument the other day. A little of this medicine might be okay. More than a little would likely do great harm to the modern social compact and put at risk significant numbers of elderly people whom the society currently protects.

A quadrennial advisory council on Social Security is about to report. Its members have tried to wrestle simultaneously with two issues that to some extent push in opposite directions. One is the fiscal problem—not enough money ahead to pay the foreseeable costs. The two traditional solutions to a problem like that are (1) to raise taxes, which almost no one wants to do, because the tax is regressive and already quite high, or (2) cut benefits. But the more you cut benefits, particularly those of the better-off, the more you aggravate the second—political—problem, which is that Social Security seems to at least some Americans less and less of a good deal. They think—some of them do, anyway—that they could do better investing and saving on their own.

The advisory council would try the third approach of investing some Social Security funds in the stock market. The return would both ease the fiscal problem and help persuade future beneficiaries that they were getting a good deal. The council splits on how to do it. Some would keep the program entirely public, so that the government would do the investing and continue to pay benefits as before. Others, the privatizers, would maintain a minimum benefit and otherwise let people manage what would amount to their own compulsory savings accounts.

There are two great flaws or weaknesses in what the committed privatizers want to do. The first is that for a good many years their plan would add to the deficit unless it was accompanied by a considerable tax increase. Which party is ready to lend support to that? The second is that it would break up or diminish what now is a massive social insurance pool in which the benefits of the better-off are limited and the savings are used to provide additional support to those in greater need. The more you let people go it alone, the less such guaranteed support you can provide.

Social Security has been a great triumph of social policy. It is the reason the poverty rate among the elderly, once quite high, now is lower than that of the population at large. The system needs fixing, but the country ought not, for what essentially would be wrongheaded ideological reasons, give that progress up. Yes to a shift to modest savings accounts atop the traditional benefits if it can be shown that that will help and if it can be worked out. And yes to some benefit cuts as well. But no to a foolish dismantling of this great decent program in our midst.

The Washington Post

THURSDAY, OCTOBER 24, 1996

Winners in Nicaragua

THE EVIDENT winner, by 10 points, in Nicaragua's presidential election is Arnoldo Aleman, a figure of the right who now must try to tame his country's polarized politics. But the real winner may turn out to be ET, or Ethics and Transparency, the name given to the big nonpartisan election-monitoring organization that brought 4,200 Nicaraguans of all stripes together to make sure the proceedings were reasonably fair and to provide a rare Nicaraguan model of a civil society at work.

When Daniel Ortega, the former Marxist president running this time for a democratically elected term, claimed errors in the count, high-visibility international observers—including former president Jimmy Carter and Bush secretary of state James Baker—were there to help head off an incipient crisis. But one important reason the outside observers could have an impact was that the domestic monitors of ET already had established the fairness of the vote. Jimmy Carter and company did not impose an international count; none was made. They confirmed a domestic count made first by Nicaragua's own official electoral body and then upheld by a citizen group whose broad political base and training gave it a necessary credibility.

Nicaragua, for its inheritance of authoritarianism on the left and on the right, has long been seen as a crucial testing ground for democratic ways. The particular danger is the absence of institutions and habits of a grass-roots civil society able to stir cooperation in public enterprises from below. This is what ET provided. Its success gives Nicaragua a useful foundation on which greater civic participation can now be built.

Like similar projects in other post-Cold War societies, ET is the product of a global democracy-building campaign launched under Ronald Reagan and advanced by his White House successors. In ET's organizing and training, both the Democratic and Republican parties' international wings—using taxpayer money from the Agency for International Development—took part; so did other public and private organizations, American and otherwise. This is one form of internationalism that is bipartisan in word and deed.

Don't Keep Joggers in the Dark

UNTIL THE Post and other media reported that a female jogger was attacked before dawn near the P Street bridge on Monday, only the jogger, her assailant and the U.S. Park Police knew much about the assault. Now, because of this latest incident and earlier ones, a large number of people want to know why the Park Police seem to play a waiting game with the public's safety.

Last Friday, for example, a female jogger was forced to outrun a man who chased her as she approached the location of Monday's assault. The Park Police knew about that incident, too, but kept the news to themselves. In fact, the Park Police have information about three other attempted rapes that occurred near the same Rock Creek Park location last month and on Aug. 29. Unfortunately, until the story was published, the groups with the greatest need to know were kept in the dark. We refer to the public and the dozens of unsuspecting joggers who use the path under the P Street bridge each day assuming, by mistake, that the area is safe.

On Tuesday, Park Police spokesman Maj. Robert Hines said "no set number" of incidents will trigger a notice to the public about real or potential threats to public safety. Strange as it may seem, while the Park Police investigate assaults and encourage joggers or anyone else to report such incidents, including instances of being touched or jostled, they have no established policy for alerting the public to developing dangers. As it turns out, Rock Creek Park assaults aren't the only cases in which the public has been given the silent treatment.

The director of the National Park Service caught a lot of heat in Congress last summer for his agency's conduct in the investigation into the slayings of two female hikers in Shenandoah National Park. In that case, rangers—who, like the Park Police, report to the National Park Service—waited more than a day before alerting the public that authorities had found the bodies of hikers in the park. "Why two days, when other people in the park could have been subjected, theoretically, to the same danger?" asked Alaska Republican Sen. Frank H. Murkowski. That's a good question, and it applies also to Rock Creek Park.

We can understand not wanting to frighten the public unduly, especially when incidents have not been confirmed. But when it's known that potential dangers are lurking in an area, the U.S. Park Police ought to notify the public as quickly as possible.

The Washington Post

THURSDAY, OCTOBER 24, 1996

the end of Social Security as we know it?

Bet on this: No matter who wins the election, Social Security will be on the table in 1997. A coalition of Wall Street money managers, conservative ideologues, and New Democrats—perhaps even Clinton himself—is preparing for a titanic battle to dismantle the system.

by Robert DREYFUSS

DEMOCRATIC SENATOR BOB KERREY OF NEBRASKA IS AGITATED. SURROUNDED BY LOBBYISTS AT A private strategy session on Social Security, he fumes, "I don't know what the president thinks, but I know it's going to take presidential leadership."

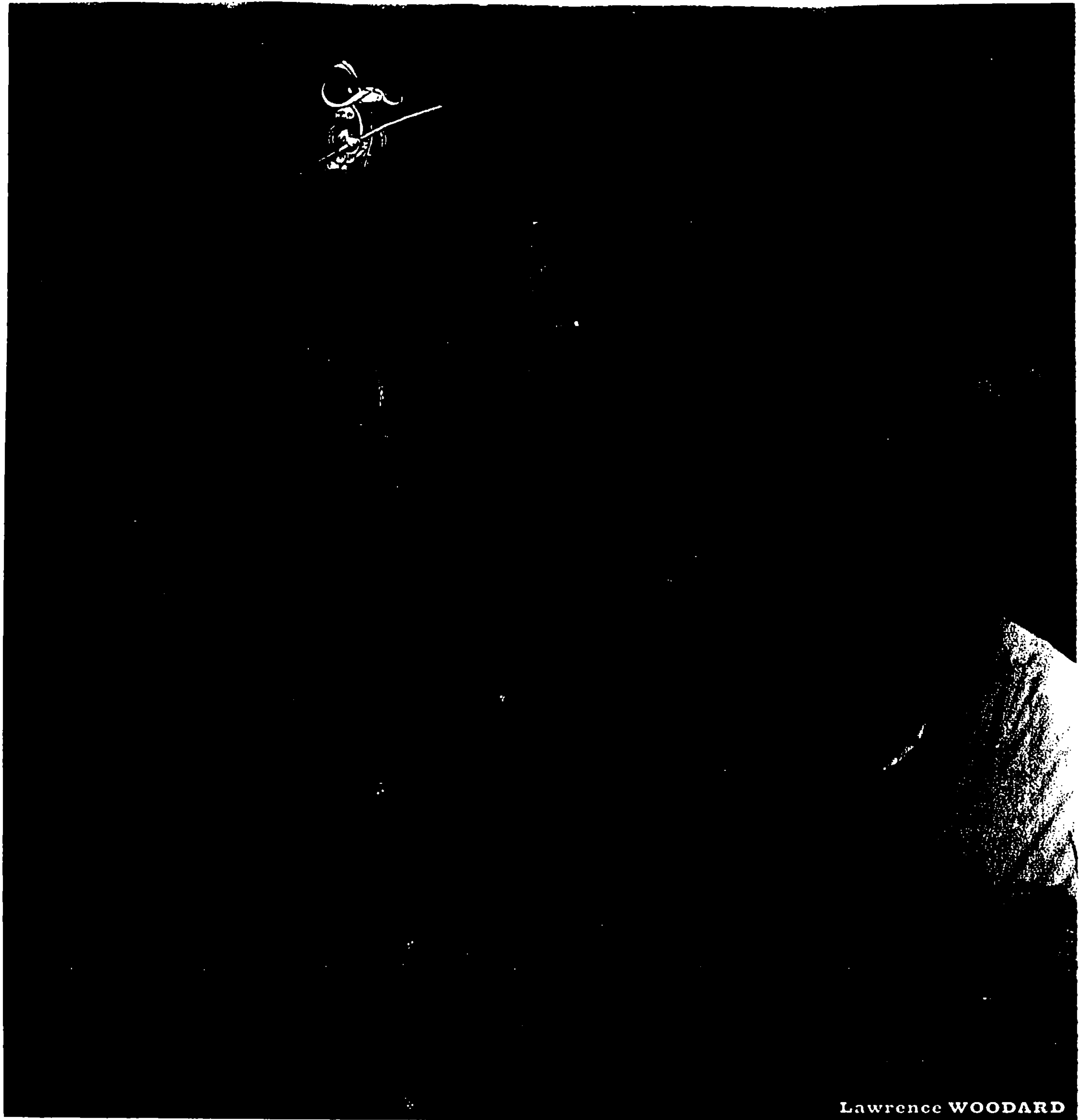
You might think Kerrey, a prominent Democrat, would want a re-elected President Clinton to go to the mat to protect Social Security, the crown jewel of Franklin Delano Roosevelt's New Deal. But in fact, Kerrey is the chief sponsor of legislation that would begin to "privatize" Social Security, and he wants Clinton's support. Asked whether he's worried about progressive Democrats mobilizing to defend Social Security, Kerrey bristles, "I'll kick the shit out of any liberal who tries that."

So far, Kerrey is one of only a handful of politicians who have ventured out into the open on the subject. Neither Clinton nor Bob Dole has chosen to make an issue of Social Security, long considered an untouchable "third rail" of American politics because of its broad popularity. But behind the scenes, a coalition of Wall Street money managers, conservative ideologues, and a growing number of heretical Democrats like Kerrey is drawing up plans to dismantle the Social Security safety net in favor of a private system of individual retirement accounts.

The stakes are staggering: According to the *Wall Street Journal*, under even the most moderate privatization plans, $60 billion a year would flow into mutual funds managed by Wall Street, instead of going into the Social Security Trust Funds.

The looming battle over Social Security will make the struggles over welfare, Medicare, and Medicaid look like minor skirmishes. Investment companies and the Fortune 500 are funneling millions of dollars in seed money to think tanks, "grassroots" organizations, and politicians friendly to the idea of privatization. Scare tactics predicting the system's

Interviews with Social Security recipients by SYDNEY LEWI



Lawrence WOODARD

“Social

WOODARD, [illegible], was the first in his family to own a home. He lives with his wife and son on Chicago's South Side.

I had factory jobs. I worked in machining, and then I became an experimental mechanic at General Motors. I was there for 31 years. We had strikes and different things, fighting for the kind of benefits that they're talking about taking away — health benefits, pensions, and all these sort of things.

I retired when I was 65. I got a pension, full benefits. Social Security is half my income, a little bit over half.

Social Security is the only [illegible] less protect you as you get older.

It's a relief that I don't [illegible] to take care of me. I can take care of myself, and then I also help him. His job, he doesn't get any benefits at all, he doesn't get any health. He pays into Social Security, [illegible] thing that he can rely upon. A lot of companies [illegible] pension. They might give you a contract [illegible] and then that's the end of you: "Well, OK, you done [illegible] so now, goodbye."

PHOTOS BY MARC POKEMPNE

bankruptcy have convinced many Americans, especially younger ones, that Social Security will not be there for them when they reach retirement.

Bet on this: No matter who wins the presidential election, Social Security will be on the table in 1997. By 1999, Social Security as we know it may no longer exist.

TAKE A LOOK AT YOUR NEXT PAYCHECK STUB. SOMEWHERE AMONG the deductions from your gross pay is a line reading "FICA," which stands for Federal Insurance Contributions Act. That law authorizes the federal government to deduct 7.65 percent of your wages or salary for Social Security and Medicare taxes. Leaving aside the Medicare portion, 6.2 percent of your earnings goes to the federal Social Security program, along with an equal contribution from your employer. In 1995, that tax, plus interest earned by the program's trust funds, generated $399 billion. Most of that money, in turn, paid for benefits distributed to 43 million retirees, survivors, and people with disabilities and their families. But, because the collected tax exceeds the amount due beneficiaries, the government saves a significant chunk—almost $60 billion last year alone—squirreling it away in the trust funds, which, at the end of last year, stood at $496 billion.

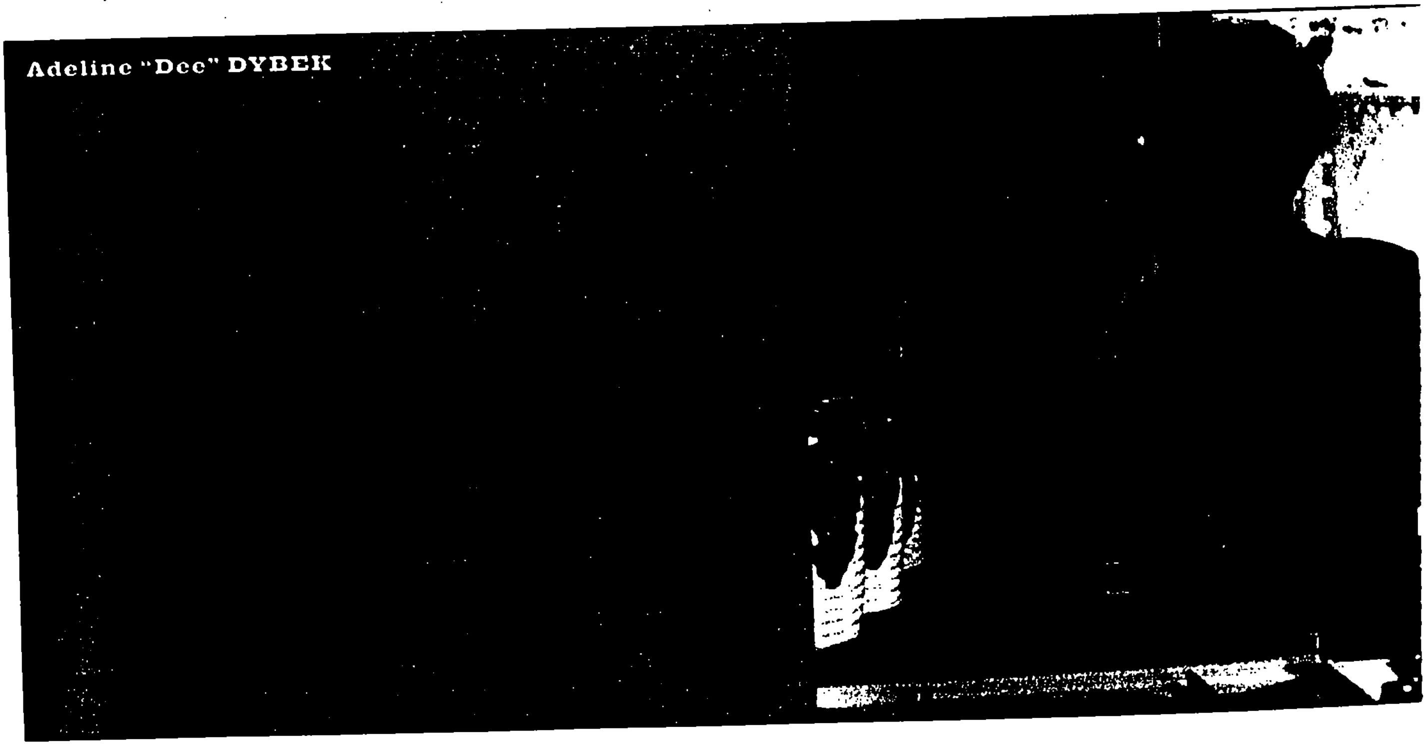
Those trust funds, which are invested in U.S. Treasury bonds, will continue to grow until the year 2018, when they will total $2.87 trillion. After that, the funds will decline as wave after wave of retiring baby boomers continue to enter the program. By 2030, if the government makes no adjustments to Social Security, the trust funds will be depleted, forcing either drastically higher taxes or significant cuts in benefits.

This leads critics of Social Security to claim the sky is falling, and to warn that Social Security is headed toward imminent collapse. "Social Security Trust Fund?" laughs Nancy Mitchell, executive vice president for public policy at the free-market advocacy group Citizens for a Sound Economy (CSE). "There is no trust, and no fund. You'd be better off putting your money in a mattress." Michael Tanner, director of health and welfare studies for the libertarian Cato Institute, is equally blunt: "Social Security is a pyramid scheme. There are people serving time in prison for operating less egregious pyramid schemes."

Of course, conservatives have made these sorts of pronouncements for years (see sidebar, page 54). Since the late '70s, the Cato Institute has issued several dozen reports and books aimed at knocking down Social Security. Pete Peterson—an investment banker, Nixon commerce secretary, and president of the conservative Concord Coalition—has sounded the alarm regularly since publishing an anti-Social Security polemic in the *New York Review of Books* in 1982.

Recently, however, the doomsayers have taken center stage. Peterson's latest diatribe appeared as the cover story for the May issue of the *Atlantic Monthly*. *Time*'s March 20, 1995 cover blared: "The Case for Killing Social Security." And a lead story in the *New Republic* last April was titled, simply, "Uh-Oh."

These analyses ignore the basic fact that, with minor fixes, Social Security can remain solid far into the next century. "There's no crisis," says Robert Ball, a former commissioner of Social Security and spokesman of the liberal wing of the Social Security Advisory Council, a 13-member panel appointed by Clinton in 1994. If no adjustments are made,



safe and secure?

Bill Clinton's advisers back several plans to change Social Security. Here's what the plans would do—and how they'd affect you.

LET'S START WITH ONE LITTLE-UNDERSTOOD FACT: SOCIAL Security is not a retirement plan. It's a collective safety net, designed to provide a minimum income to every retired worker. Payroll taxes for all employees (taxed at 6.2 percent of their first $62,700 annually) go into one big pot, along with matching contributions from their employers. After retirement, all workers are entitled to monthly payments based roughly on their average former salary. Typically, monthly benefits equal about 42 percent of prior monthly wages, with lower-paid workers getting a greater proportion and higher-wage earners getting less. The maximum annual benefit currently stands at $14,976.

Proposals to privatize Social Security would make benefits work more like savings accounts. Instead of having their taxes lumped collectively, workers would put a percentage of their salary into their own private pots. Those with a lot to put in would get a lot back at retirement; those with little to invest would get little in return.

The Social Security Advisory Council, appointed by President Clinton to propose solutions to the Social Security shortfall expected in the year 2030, failed to agree on a uniform recommendation. While they have not formally released any proposals (sources say the administration delayed the council report to keep it out of the election arena), the council's members are split among three plans:

- The six traditionalists, led by former Social Security Commissioner Robert Ball, oppose creating privatized individual accounts. They want the government to continue collecting taxes (raising rates in the year 2045) and paying benefits as it does now, but to invest 40 percent of the Social Security Trust Funds in stocks and split the remainder between corporate and government bonds. Net result: The trust funds would grow more quickly (if less reliably), and the poor would retain their safety net.
- The plan from council chairman Edward Gramlich, dean of the University of Michigan School of Public Policy, edges toward privatization. It would boost the employee's payroll tax from 6.2 to 7.8 percent, the extra 1.6 percent going into accounts directly managed by the employee with only a handful of government-approved investment options. And it would reduce guaranteed benefits slightly. This plan would probably leave most people paying more and getting somewhat lower benefits.
- The most radical privatization plan comes from council member Sylvester Schieber, an economist at Watson Wyatt Worldwide in Washington, D.C., and four other committee backers, including Carolyn Weaver, Social Security adviser to Bob Dole. It would slash benefits to about $400 a month for everyone, raise Social Security taxes on both employees and employers from 6.2 to 6.96 percent, and mandate that almost all the employee share—5 of the 6.96 percent—go into self-directed Personal Security Accounts with the employee having a wide choice of mutual fund investment options. Given how mutual funds outperform government securities, Schieber and his allies argue that these accounts would give workers a cushier retirement than they get now.

In the best of all worlds, that might be true. But the Schieber plan would more likely produce a new set of winners and losers. During the transition to privatization, the government would have to maintain benefit levels to current retirees while taking in much less from current workers. To cover the shortfall, the plan would levy its payroll tax increase for 70 years and allow additional federal borrowing of $650 billion. The winners: the young and well-paid, who could absorb higher taxes and allow large investment accounts to grow over many years. The losers: the middle-aged and middle-incomed, who would be socked with higher taxes but wouldn't have enough working years to grow substantial investment accounts. Only in a very rosy future would low-salaried workers be better off.

The three plans do create one common winner: Wall Street. Revamping Social Security—however it's done—would pour billions or even trillions of dollars into the stock and bond markets over the next 25 years. (One estimate puts the loot from the Schieber plan at a total of $1.6 trillion between 1998 and 2015.) An influx of money on that scale is almost guaranteed to push up market prices, making the promises of big market gains for investment accounts a self-fulfilling prophecy—at least for a while.

But these plans—especially Schieber's—offer more questions than answers. Will workers actually put their money into the kinds of investments that can get high returns? How much will be left once Wall Street takes its fees? Will high-income workers push to opt out of Social Security altogether, leaving the system short of cash to fund guaranteed benefits to low-income workers?

And what happens if—or, rather, when—the market crashes? Will the government leave millions of retirees to face a poverty-stricken old age, or will it step in to rescue the investment account industry, as it did the savings and loan industry? After all, it was the Depression that brought us Social Security in the first place. If we privatize it, what will the next depression bring? —*Ann Monroe*

Social Security could continue to finance benefits at only 75 percent of the current level after the trust funds are depleted in 2030. But with a few adjustments—such as changing cost-of-living calculations, raising the retirement age, increasing taxes on individuals when their benefits exceed what they paid in, and/or bringing new workers into the system (e.g., state and local employees who have separate pensions)—the Social Security system can continue to pay full benefits for the next 75 years. Or by imposing a relatively small tax increase now—boosting the share that employers and employees pay from 6.2 to 7.3 percent—the government could solve the problem all at once, say analysts.

Once before, in 1983, a bipartisan commission reconfigured Social Security to prepare for the baby boomers' retirement, and making adjustments again would not be difficult. Bob Dole himself recalled his service on the 1983 reform commission when he retired from the Senate in June. "Social Security is going to be in pretty good shape until the year 2029," Dole said. "So that is a pretty good fix."

But conservative opponents of Social Security sense that, for the first time in 60 years, the political climate is right to chip away at Social Security's sanctity—and they are backed by investment banks eager to manage hundreds of billions of dollars in new accounts.

HERE'S HOW PRIVATIZATION WOULD WORK: Employees would divert some portion of the current Social Security tax and invest it in individual retirement accounts—mutual funds, for the most part. Under most plans, workers would receive Social Security benefits reduced by an amount proportional to that which they had put into their private accounts (see sidebar, page 53).

Proponents of privatization argue that these private accounts would grow much faster than the Social Security Trust Funds. At present, the trust funds are invested in U.S. Treasury bonds which earn only 2 to 3 percent interest. By investing individually in the stock market or other private options, proponents say, workers could see their savings grow on a compounded basis by to 10 percent a year or more.

Of course, if increased returns o investment are the primary purpose privatization, there is no need to ta money from Social Security and put in individual retirement accounts. the liberal wing of Clinton's Soci Security Advisory Council has su gested, some portion of the existi Social Security Trust Funds could

Déjà Views

Attacks on Social Security are as old as the program itself.

SOCIAL SECURITY IS A "CRUEL HOAX...UNJUST, UNWORKABLE,...AND WASTEFULLY financed." Sound like the words of millionaire presidential contender Steve Forbes? Or maverick billionaire Ross Perot? Or maybe Robert Shapiro, of the business-oriented Democratic Leadership Council? Actually, the sentiments come from 1936 Republican presidential candidate Alf Landon.

Business groups from that era also took swipes at the program. "Self-reliance has been the key to American success...the initiative, thrift, and self-sacrificing foresight of the individual," explained one group.

Social Security has been a fixture for so long—since 1935—that we take it for granted. But until the 1950s, it was hotly contested. In its early years, conservatives pursued two strategies to undermine it: They tried to limit who could benefit from it, and they opposed the accumulation of a vast government-managed pool of investment funds for Social Security.

These early critics of Social Security claimed that aiding the least privileged of society was their top priority. They advocated minimal "flat-rate" pensions for anyone in extreme need, while arguing that the nation could not "afford" to pay for pensions calibrated to middle-class incomes. Why would conservatives want to help the poor first? Because it made political sense. The last thing Republicans and business leaders wanted was for middle-income Americans to gain a stake in a large, popular federal government program. Conservatives, then and now, know it's far easier to minimize—or eliminate—programs that benefit only the poor.

Critics also campaigned hard against the government investing accumulated payroll taxes in interest-generating securities—even though that would have been the most fiscally sound plan for the long run. Again, their political logic was paramount: They wanted to minimize government's role as much as possible.

Conservatives largely prevailed on the matter of investments, but over the decades they lost the struggle to keep the middle class out of Social Security. By the late 1970s, most American families had a big stake in Social Security.

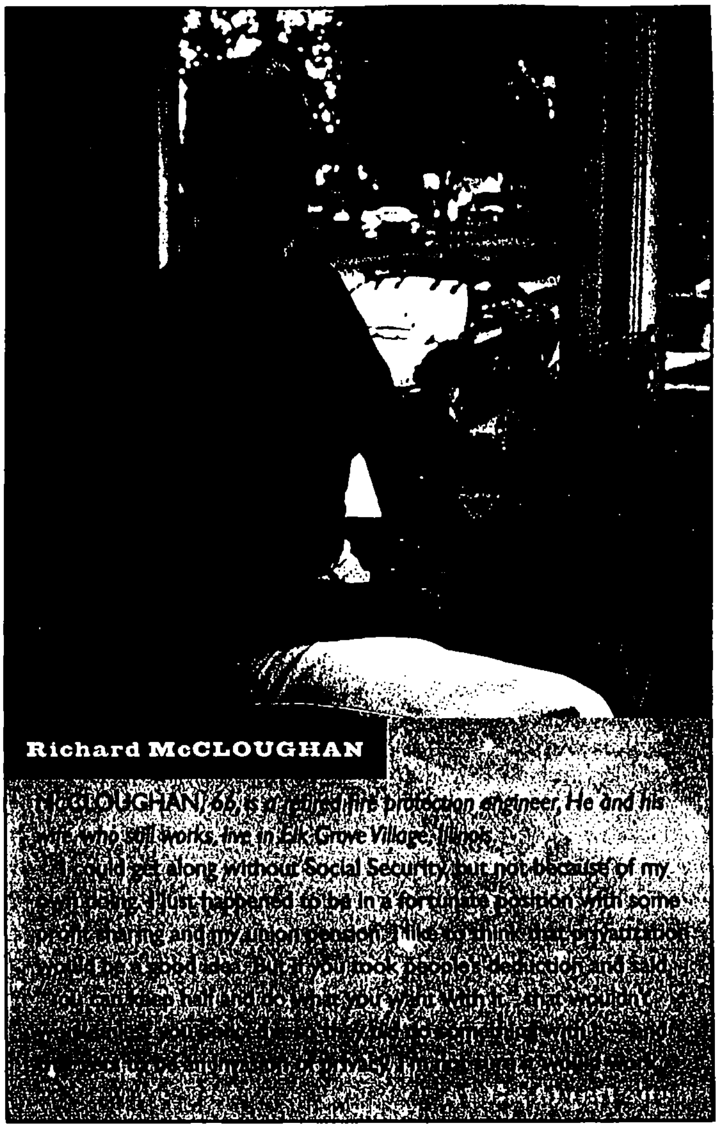
After 1980, conservatives realized the program was too popular to attack head-on. Today, their tactic is to convince younger, middle-income Americans that Social Security is on the brink of bankruptcy. They denounce proposals for publicly managed investments and maintain that the only way to prepare for the retirement of the baby boom generation is to break Social Security into individual accounts and let Wall Street take over. To realize this right-wing dream, conservatives—Republicans and Democrats alike—are exhorting Americans to turn away from government and rely on free enterprise and individual initiative. Where have we heard this before? *—Theda Skocpol*

Skocpol is the author of Boomerang: Clinton's Health Security Effort and the Turn Against Government in U.S. Politics *(New York: W.W. Norton, 1996).*

invested in stocks so that they would grow more quickly and forestall bankruptcy. (Many privatization proponents oppose this solution, however, arguing that large government stock purchases would lead the country toward a "socialist" state, where the government would have excessive influence over industry.)

Opponents of privatization cite several potential problems. First, workers would assume all the risks of investing in markets that go down as well as up. While some workers might reap large returns on their investments, others could lose, and have little to fall back on without the guaranteed safety net currently provided by Social Security.

In addition, the administrative costs of maintaining small, private accounts for more than 100 million wage earners would dwarf Social Security's administrative overhead, which currently amounts to less than 1 percent. This burden would fall heavily on the small investor. "Brokerages managing these funds will charge much more for smaller funds," says Dean Baker of the Economic Policy Institute. "For someone with $200,000 invested, the brokerage will charge only 1 percent, but someone with only $500 invested may spend about $30 a year on maintenance charges."



Richard McCLOUGHAN

More importantly, privatization would also create an immediate fiscal crisis. Money diverted into private accounts would no longer be available to the Social Security system to pay current beneficiaries. Those retirees would still draw funds from Social Security, but the system would have to raise additional money to pay them. That means higher taxes, cuts in benefits, or both. In effect, workers in their 20s, 30s, and 40s would be asked to save for their own retirement, plus pay additional taxes to support current Social Security recipients. Often dismissed by proponents of privatization simply as "transition costs," this enormous shortfall—as much as $7 trillion over the next 75 years according to the pro-privatization Cato Institute—would weaken the system, if not collapse it altogether.

Finally, privatization would destroy the communal vision that is the strength of the Social Security system. Even under moderate variations, Social Security would evolve from a universal retirement system to a welfare program for poor and low-income workers. Political support for the system would evaporate among middle-class and upper-income workers—a longtime conservative goal. Wealthier workers with rich private retirement accounts would seek to opt out of Social Security to a greater and greater degree, and the money to pay benefits to those still in the system would gradually dry up. "It is a slippery slope," says Ball.

QUIETLY PUSHING WASHINGTON, D.C., toward that slippery slope are the financial interests that stand to profit handsomely from privatizing Social Security. Chief among these is the Investment Company Institute (ICI), the trade association that lobbies for the mutual funds industry. ICI was also the top political contributor among trade associations, giving $245,264 to federal candidates, mostly to Republicans.

Led by its chairman, Jon Fossel of the Wall Street firm Oppenheimer Funds, ICI has been making the rounds on Capitol Hill, seeing what interest it can stir up in privatization. "This has been at the top of our list for some time," says Kathy Rabon-Summers, ICI's director of industry studies.

ICI's high profile backfired early in 1996, however, when the *Wall Street Journal* reported that Social Security privatization could be "the biggest bonanza in the history of the mutual fund industry."

"The *Journal* article stopped everyone here in their tracks," says an ICI insider. "We said, 'Oh my God, we're too far out in front of it.' "

Like many of its constituent members, ICI is now pushing privatization more quietly. "A lot of firms are trying to find a low-key way to support this," says Tim Penny, a former Democratic congressman from Minnesota and an adviser to the Cato Institute. "I don't think you're going to see a lot of this happening under their names. They'll stay behind the scenes, twice-removed." Adds a Democratic congressional aide, "They don't want to be seen as swarming over the dying carcass of Social Security."

To lobby on its behalf, ICI has hired the prominent Washington firm of Verner, Liipfert, which employs former Senate Majority Leader George Mitchell, former Treasury Secretary Lloyd Bentsen, and the ex-governor of Texas, Ann Richards. ICI's in-house lobbyist, Mike Stern, also helped assemble a coalition of House members who support privatization. The bipartisan group eventually established itself as the Public Pension Reform Caucus, chaired by Rep. Jim Kolbe (R-Ariz.) and Rep. Charlie Stenholm (D-Texas).

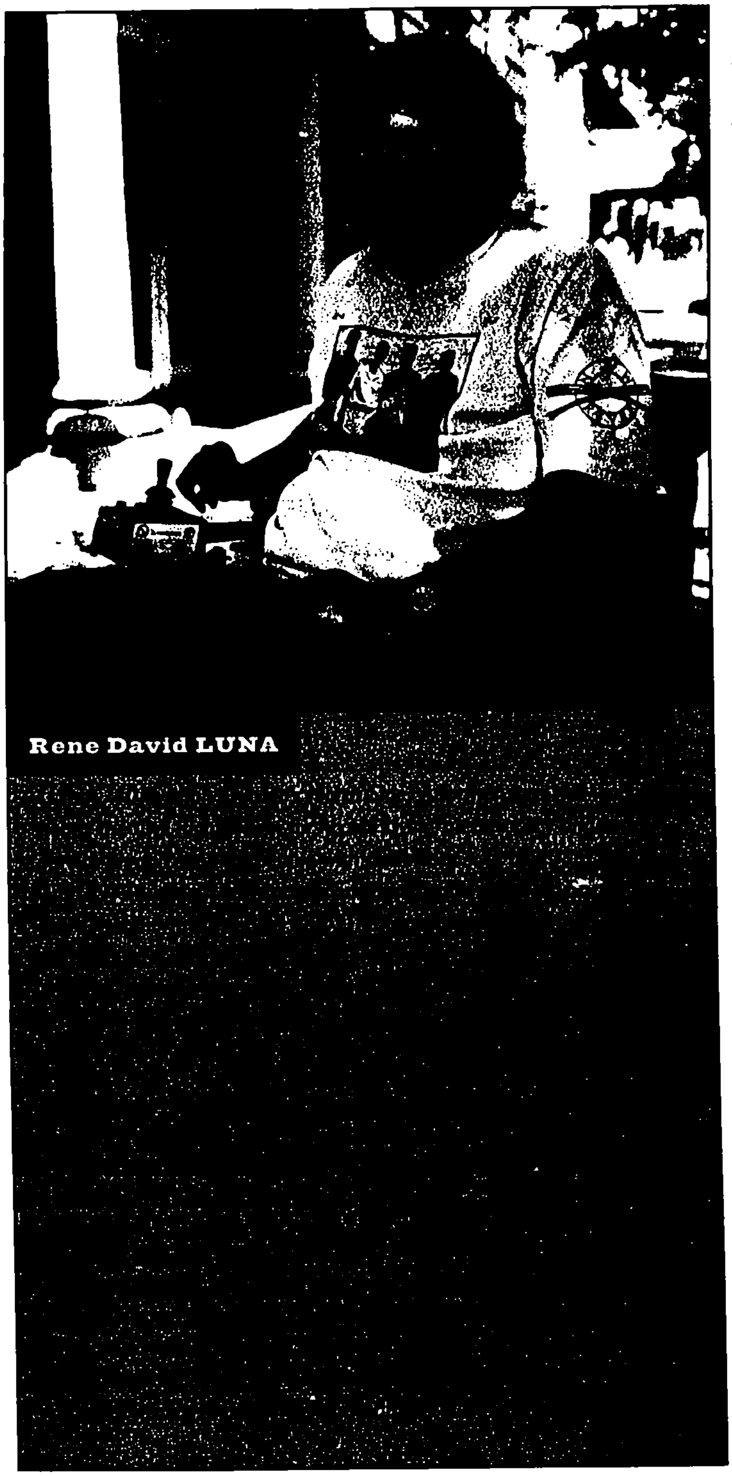
Yet, even as ICI seeks to lower its profile, some of the trade association's individual members are starting to raise theirs. Merrill Lynch—which has given at least $472,930 in political donations since 1995, including $27,150 to Bill Clinton and $36,300 to Bob Dole—Fidelity Investments, and T. Rowe Price have all begun speaking out for Social Security reform.

But the standout is State Street Bank & Trust. Little-known to the public because it doesn't have much of a retail presence, the $1.5 billion Boston firm is nonetheless a titan in the money management business. Over the past year, State Street has not hesitated to put itself forward as the leading advocate of privatization in the financial community.

"I don't mean to say that, as a bank, we're leading the revolution," says State Street spokesman Lenny Glynn. "The key thing is to have a debate."

But Marshall Carter, State Street's chairman and CEO, told the trade publication *Pensions & Investments* that the company is already taking practical steps to prepare for an influx of Social Security funds into private accounts: "We're preparing ourselves across the whole product line from [our] small mutual fund family to our institutional family of products." William Shipman, the principal of State Street's investment branch, added, "With 130 million people in the labor force, you could be staring at 130 million new accounts."

State Street's efforts to push privatization go beyond giving money and lobbying Congress. Shipman and Carter have written a book on privatization, and Shipman co-chairs the Cato Institute's Social Security advisory board. State Street has also established a joint venture with pension consulting firm Watson Wyatt Worldwide, which employs Sylvester Schieber, one of the privatization advocates on the president's Social Security Advisory Council. (Schieber says State Street had no impact—"zero, no input"—on his work on Clinton's task force. "This isn't a debate that's going to be affected by a bunch of bankers.")



Rene David LUNA

Of course, bankers are not the only ones pushing privatization. So are the National Association of Manufacturers (NAM), the U.S. Chamber of Commerce, and other Washington, D.C., business groups. Both NAM and the chamber have established task forces to work on the issue, and NAM regularly attends sessions of the Retirement Savings Network, an informal group that includes ICI, the Securities Industry Association, various pension companies, the American Council of Life Insurance (ACLI), and other lobbying organizations. Ken Vest, a spokesman for ACLI, says big insurers are carefully watching Social Security privatization because "a lot of companies market and manage retirement plans, 401(k)s, annuities, and want to do anything they can to encourage private savings plans."

THE QUIET CONFIDENCE OF Wall Street stands in marked contrast to the frantic, near-hysterical tone that marks the conservative think tanks and libertarian anti-tax groups leading the charge against Social Security. Generously funded by financial interests, these groups are busily drawing up competing plans to privatize Social Security.

Last year, for example, on the occasion of Social Security's 60th anniversary, the Cato Institute established its "Project on Social Security Privatization," bringing together an advisory board of business and financial executives, conservative economists, and politicos. According to Michael Tanner, Cato's director of health and welfare studies, the project has a three-year budget of $2 million for a campaign to convince the public, the media, and members of Congress that Social Security is headed for a crisis. "At the end comes a big splat!" Tanner laughs.

"We've already raised half of what we expected to raise," says Tanner. "We're receiving support from the financial community, from the investment community, from the insurance community. We're receiving support from large employers concerned about payroll tax increases. And from foundations."

Besides preparing policy studies (for example, "Privatizing Social Security: A Big Boost for the Poor"), Cato is working closely with members of Congress and staffers on the Hill to create a flurry of legislative proposals to unravel the Social Security safety net. The think tank's Social Security advisory board includes representatives from AIG Life, Telcos Asset Management, and Rockport Financial. Co-chairing the board are State Street's William Shipman and José Piñera, the former Chilean labor minister who was the architect of the privatization of Chile's social security system in 1981. ("They did have certain advantages in Chile," quips Sylvester Schieber of Clinton's Social Security Advisory Council. "They did have a dictatorship and they did have control over the public media.")

As unlikely as it sounds, Cato's analysts hold up Chile as a model for a privatized public pension system in the United States. But, as Notre Dame economist Teresa Ghilarducci points out, most of Chile's poorer workers are left out of the privatized system because they are paid off the books by their employers. And although workers covered by the system have generally had a strong return on their money, last year they lost 4 percent on their investments. (The corporations managing the accounts, however, still earned profits of more than 20 percent.) Furthermore, when Chile's military dictatorship privatized social security, it exempted military personnel, who kept their guaranteed pensions.

Joining Cato in the drive to privatize Social Security is Citizens for a Sound Economy. Over the years the group has built its influence by organizing ersatz grassroots campaigns on behalf of tobacco, pharmaceuticals, oil, and other corporate interests. Although CSE keeps its list of contributors secret ("to protect their privacy," says Leila Bates, CSE's director of tax and budget policy), the group, like Cato, has received millions of dollars from the hyperconservative Koch family of Kansas, also a longtime Dole funder.

According to Nancy Mitchell, CSE's executive vice president for public policy, over the next 12 months the group hopes to spend $2 million "trying to make the political climate more friendly" to privatization. Mitchell says the campaign will concentrate on specific segments of the population—including older people, women (who tend to be strong supporters of the current system), and 20-somethings.

In order to have maximum impact on Capitol Hill, CSE will focus on states represented in Congress by members who sit on the Senate Finance Committee and the House Ways & Means Committee, both of which have jurisdiction over Social Security. The campaign, which should be in full swing sometime in 1997, will include newspaper, radio, and TV ads, and the distribution of anti-Social Security tracts.

"People have to understand," argues Bates, "how much they have contributed into the Social Security system, and what will happen when it crumbles."

Though probably the best-funded, CSE's effort is by no means the only "grassroots" program seeking to create a sense of crisis about Social Security. Other groups, such as Third Millennium and Economic Security 2000, are also focusing on young voters, shown by polls and focus groups to be the most receptive to proposals that would dismantle Social Security.

These youth campaigns are also subsidized by interested parties on Wall Street and among the Fortune 500. Although Third Millennium purports to speak for Generation X, it lists only 1,700 members. The group's disproportionate voice is largely a consequence of funding by a blue-chip roster of Wall Street interests, including Merrill Lynch, David Rockefeller, and the ubiquitous Pete Peterson of the Blackstone Group. Similarly, Economic Security 2000, though founded by former inner-city organizer Sam Beard, has received strong financial backing from executives at Morgan Stanley, DuPont, and Motorola, as well as other wealthy backers.

ALTHOUGH IT IS THE SYMBIOSIS BETWEEN WALL STREET AND THE ideological right that is setting the stage for Social Security privatization, ironically, the man who drives such a program through may be none other than Bill Clinton. "It could be a Nixon-goes-to-China thing," says Nancy Mitchell of CSE.

Though liberal defenders of Social Security—principally the labor movement and the American Association of Retired Persons—are quick to assert the president's support for Social Security, some are not so sure. Roger Hickey, spokesman for the Campaign for America's Future, a new liberal, pro-labor group, worries openly about Clinton's commitment to Social Security. "It is a defining issue," says Hickey.

Many within the Democratic Party are beginning to lean toward privatization. "The party that created Social Security is best equipped to redesign Social Security for a new generation," argues former Democratic Rep. Tim Penny.

Rob Shapiro, vice president of the Democratic Leadership Council (DLC), agrees. "Only a Democrat can lead the effort for Social Security reform. The Democrats will just kill any Republican who tries to mess with Social Security. So, next year, we are going to run a big project on Social Security." (According to the *Wall Street Journal*, State Street is planning to help fund the DLC's think tank, the Progressive Policy Institute.)

Shapiro believes that ultimately the financial markets will force the president, any president, to tackle the program. "The financial markets have become the engine of action in America in recent years," he says, noting politicians fear the negative economic consequences of their political decisions more than they fear the wrath of voters. "What the markets are saying is, 'We're gonna extract an even greater cost if you don't act.' That's how it gets onto the agenda."

"It's bigger than politics," says a confident William Shipman of State Street. "Neither party owns Social Security. [But] you could see Clinton doing this."

Richard Lamm, the former Democratic governor of Colorado who strayed into Ross Perot's Reform Party, met privately with Clinton earlier this year to discuss Social Security and Medicare reform. "The Democratic leadership and the president know that neither of these systems is sustainable," says Lamm. During the meeting, Lamm was pleased to note that Clinton was already familiar with Chile's privatization of its social security program. "At 1 a.m., I had to have the president of the United States—with all the things he has on his plate—explain to me the Chilean social security system. That says two things: how smart this guy is, and how aware he is that there's a problem."

Thus far, Clinton himself has sent few signals as to which way he is leaning on Social Security. In an MSNBC interview in July, Clinton said he was open to testing privatization. But in the October issue of *Money* magazine, he said he was not comfortable with privatization and would rather consider raising the retirement age and reducing the cost-of-living allowance.

In the meantime, pressure to privatize Social Security is building in Congress. The House's Public Pension Reform Caucus has grown, with some 40 members as of September. Virtually all of the caucus' participants are junior House members, including many Republican freshmen. Asked why congressional leaders have not endorsed the caucus' efforts, co-chair Rep. Jim Kolbe notes that the House leadership "is very quietly supporting us in the background. Speaker Newt Gingrich, in particular, has been very helpful to us."

The privatizers in Congress and on Wall Street may have gotten the jump on those who would defend Social Security, especially the American Association of Retired Persons (AARP), which is still reeling from its 1995 battle to defend Medicare against GOP cuts. Although AARP, with more than 30 million members, is one of the most powerful lobbying groups in the country, so far it is unprepared for the looming battle over Social Security. "We are not in campaign mode," says Evelyn Morton, AARP's Social Security expert.

Some in the financial services sector, including William Shipman of State Street, say they believe it may be possible to draw AARP into the fold, in part because the group could make a large profit by selling mutual funds to its members if Social Security privatizes. (AARP already offers its members health insurance through private companies.) AARP officials say they have no plans to move into mutual funds.

Proponents of privatization want to keep Social Security off the political agenda until after the election so that neither candidate is forced into a position of defending the current system. "We don't want to run the risk," says Steve Elkins of the National Association of Manufacturers, "that someone says something they would regret, that someone would say, 'Never on my watch would we consider changing Social Security.'" According to the *Washington Post*, both the Clinton administration and the Dole campaign received "briefing papers" from Wall Street interests that recommended the candidates remain neutral on privatization until after the election.

Clinton has kept the report of his own advisory council bottled up for months. "We expected news from the White House in June," says a top Democratic House aide. Even members of the council itself have no idea when their report might be released, and some are frustrated with the delay. "There's no reason it couldn't be released today," says Schieber. "But both parties have their reasons for not wanting it to come out."

Next year, however, the issue is likely to explode onto the national agenda. "It's an issue Clinton must address in the next Congress," says the Democratic aide. "I think everyone recognizes there's a storm coming."

Robert Dreyfuss is a Mother Jones *contributing writer.*

See Hotlmedia (page 75) for more resources.