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DEFINING AMBITION

Social Security Policy Procrastination: A Behavioral Economics Response

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U.S. Social Security Future Insolvency

- U.S. Social Security has insufficient funding to pay promised future benefits.
- The 2016 report indicates that the combined Social Security Old Age and Survivors Insurance trust fund and the Disability Insurance trust fund will have insufficient money to pay promised benefits in 2034.
- For more than a decade, the annual reports of the U.S. Social Security trustees have contained a statement as to the desirability of reforming Social Security sooner, rather than later, in order to deal with its future insolvency.
- For more than two decades, policy analysts have been discussing the need for reform.

This presentation

- The first part of the presentation discusses aspects of Social Security policy inertia.
- The second part of the presentation discusses insights from behavioral economics for reforming the process of Social Security reform in the United States.

Re-election

- Politicians are afraid that it they enact social security reform they won't be re-elected.
- This paper addresses that issue.

Policy Inertia

- Policy inertia is the failure to take policy action in the face of the clear need to do so in a timely manner.
- The sooner the insolvency of Social Security is restored, the smaller will be the needed changes.

Why is there policy inertia?

- There are no easy solutions. The policy options of raising taxes and reducing benefits are both unpopular.
- Politicians may be concerned that they will be punished for taking unpopular actions, rather than being rewarded for restoring Social Security insolvency

Prisoner’s Dilemma

- The prisoner’s dilemma is a game theory situation with two parties.
- If both parties agree to a reform, the electoral punishment is minimized.
- If one party agrees to a reform and the other party blames the reform on the first party, the second party gains.
- This dynamic seems to apply to the two political parties in the U.S. Congress.

75-Year Reforms

- There is a tradition in the U.S. that Social Security reforms should restore solvency for the next 75 years.
- This tradition places a high hurdle that reforms need to overcome.
- Restoring solvency for a shorter time period would presumably be easier.

Presidential vs Parliamentary Government

- Social Security reform may be simpler in parliamentary forms of government than in presidential forms.
- In parliamentary government, the Prime Minister is from the same party as the leading party in the parliament.
- In presidential government, the President often is from a different party than at least one of the two houses of Congress.

Behavioral Policy Solutions

- This section suggests a reform of the way that Social Security is reformed in the United States using insights from behavioral economics.

Defaults

- One of the lessons of behavioral economics is the use of defaults to encourage actions that the person knows should be done but is reluctant to do.
- The current default is that if no action is taken Social Security reform is postponed.

Save Social Security Tomorrow

- Another behavioral economics lesson is that it is easier to agree to do something tomorrow than to do it today.
- The proposal starts with legislation that would enact a default that would take place in the future if Social Security insolvency were 15 years or less away.

Raise the Salience

- Raise the sailience (or raise the visibility) of the problem.
- Social Security would be declared in “critical and declining condition” if insolvency were 15 years or fewer away.
- This designation would highlight the need for reform.

Reduce the Hurdle

- Instead of requiring that the reform solve Social Security's problems for 75 years, it would require that the problems be solved for 20 years.

An Example

- A specific example of a default reform package has the following features.
- Congress would have one year to act if insolvency was 15 years or less away .
- If nothing was done, the default would take effect.
- The changes would involve both benefit cuts and tax increases in roughly equal proportions.

Example cont.

- Solvency would be restored for 20 years.
- Because of the risk that Congress would over-ride the default and do nothing, the reform plan would contain the provision that it would take a 60 percent majority to over-ride the default.

Advantages

- This proposal would assure the solvency of Social Security.
- It would assure that changes were made in a timely manner, thus reducing their impact.

Conclusions

- This paper presents a proposal based on behavioral economics for dealing with policy inertia in Social Security reform in the United States.
- It enacts a proposal called “Save Social Security Tomorrow” that contains a default but that requires no immediate action.

Conclusions 2

- It raises the salience of the need for reform by declaring that Social Security is in “critical and declining” condition.
- It reduces the cost of the reform by restoring solvency for 20 years rather than 75 years.

THANK YOU FOR YOUR ATTENTION!