How Bush Lost Personal Accounts

by Peter Ferrara and Denison Smith (Excerpts from Chapter 8, "Stop the Raid", 2008)

The chief policy advisor to President Bush for personal accounts was Charles Blahous, Special Assistant to the President for Domestic Policy. It must be said at the outset that Blahous is a highly intelligent man with a Ph.D. in chemistry, an unblemished record of integrity and high mindedness, and a total devotion to the public good. Blahous developed a career as a Congressional staffer with an expertise in Social Security. In that capacity, he wanted to balance the Social Security budget by cutting future promised benefits. He was enough of a realist to recognize that this would require tax increases as well. He came to support personal accounts also. But true to form, he favored lumping them on top of his benefit cut/tax increase agenda. Indeed, he was probably the lead advocate of the view that the strong public appeal of personal accounts could be used to get the public to accept along with them the benefit cuts and tax increases that he saw as doing the real work of achieving permanent solvency for Social Security.

Blahous was the point man for organizing and leading President Bush's Social Security Commission during the first term. He successfully led them to rubber stamp his previously published policy views calling for big cuts in future promised benefits and small personal accounts. Fortunately, Karl Rove wisely required the Commission to propose at least three different reform alternatives, one of which had to be personal accounts alone. Blahous's version of this option, however, was not scored as achieving full solvency for Social Security. In this, Blahous failed where others later succeeded. Nevertheless, Blahous used this failure to argue to the President that this proved that personal accounts without benefit cuts or tax increases would not work.

By January, 2005, there was little evidence of the pathbreaking, positive, populist themes and rhetoric that the President had so brilliantly and successfully used in arguing for personal accounts during his 2000 campaign in particular. Gone was the discussion of a better deal and better benefits from personal accounts. We barely heard anything any more about ownership, building personal wealth, and leaving an inheritance to children and family.

Instead, the focus of discussion had moved to a huge cut in future promised Social Security benefits under the label of "price-indexing". In other words, Blahous worked long and hard to turn the President and the Administration away from the approach that had proven so successful in transforming Social Security from the third rail of American politics to a popular issue on which Republican after Republican was winning elections. Instead, the issue was now all about benefit cuts and tax increases, with personal accounts "the dessert". Blahous's strategy was a formula for complete political defeat, which is what happened.

Social Security is perhaps the most sensitive issue in American politics. Any notion of allowing people to opt out of the established system into something like personal accounts was always considered a hopeless lost cause completely beyond the pale of mainstream politics. So developing a strategy for personal accounts and Social Security that actually worked in real world campaigns was an enormous accomplishment. Following up with development of fully comprehensive legislation that embodies that approach and is scored by the Chief Actuary of Social Security as achieving full solvency was an historic achievement.

But Blahous and the rest of the Pain Caucus never understood it. They just blew it all off, and went back to their suicidal benefit cuts and tax increases. No wonder that the more Bush talked about Social Security reform and personal accounts the more his support dropped on the issue. By the time the President was done trying to promote personal accounts in late 2005, the polls still showed 50% to 60% of the public supporting personal accounts, down only about 10 points. But when asked if they supported “the President’s plan” on Social Security, support dropped by half, to 25% to 30%. This was the direct result of the switch from the positive, popular model focusing entirely on personal accounts that the President originally supported, to the model focusing on a package of benefit cuts and tax increases, with personal accounts as the dessert.

The so bold, so promising, so historic Bush breakthrough on personal accounts for Social Security had now collapsed below error. Karl Rove who had overseen such a brilliant execution of the advocacy of personal accounts in the 2000 campaign did not seem to understand that what was going on now under his nose was so, so different. President Bush was now asking the Republican Party to support, through price-indexing, the largest cut in future promised Social Security benefits in world history.

Blahous had sold the President a bill of goods in convincing him that his originally correct view to focus solely on the personal accounts would not work, and that benefit cuts and maybe even tax increases would be needed. The Chief Actuary of Social Security had scored several bills involving only personal accounts as achieving full solvency. Besides Ryan-Sununu, there was also a proposal developed by Rep. Clay Shaw, Chairman of the Social Security Subcommittee of the House Ways and Means Committee, which was later co-sponsored as well by then Ways and Means Committee Chairman Bill Archer.

Shaw and Archer, of course, were quite serious Washington veterans who displayed some pathbreaking insights with their bill. Former Sen. Phil Gramm (R-TX) and Sen. Jim DeMint (R-SC) developed other pathbreaking proposals. But George Bush never found out about any of this.

We never saw from the Bush Administration the politically revolutionary celebration of the benefits of personal accounts that could have transformed not only Social Security, but American politics, with President Bush and his Republican allies as the champion of the prosperity of working people, and the downtrodden and disadvantaged.

President Bush was courageous and revolutionary, pathbreaking and brilliant, in picking up the idea of personal accounts and advocating them so flawlessly in his 2000 campaign. But as happened in so much of his Administration, the President was let down by those serving him, who misconceived the campaign for personal accounts into a flaming political disaster. Of course, the President should have had the capacity to recognize that he was right all along, and to see that he was being disastrously switched.

The key bottom line, however, is that the battle for personal accounts was not lost among the American people out across the country. It was lost in the confusion and swamps of Washington. Clearly, the opportunity to achieve the promise of personal accounts still exists. But new leadership will be necessary.