I am also introducing today a bill for a refundable, phased-out tax credit to help parents buy a kids'-only health insurance policy. Frankly, I think the universal insurance bill that I've described in this speech is the ideal approach. It is a model of what a civilized nation ought to provide for its people. It is the platonic ideal of a bill—and it is also unlikely to pass in this Congress. The perfect should not be the enemy of the good, and therefore I am also proposing the tax credit legislation as a way to help children which is passable in the 105th Congress.

I remain firm in the faith that when our Nation's social conscious reawakes, the type of social insurance universal coverage bill I've described in this speech will become the law of the land.

SOCIAL SECURITY PRIVATIZATION—A RED HERRING

HON. JOHN D. DINGELL

OF MICHIGAN

IN THE HOUSE OF REPRESENTATIVES

Tuesday, February 4, 1997

Mr. DINGELL. Mr. Speaker, I rise today to share with you the following article from the January 14, 1997, business section of the Washington Post. Written by Allan Sloan, this article accurately highlights some of the pitfalls with Social Security privatization. The golden goose, which some regard the stock market to be, may, in fact, be a red herring. Mr. Speaker, I ask that the above-referenced newspaper article be printed in the RECORD at this point.

IN STOCKS AND SOCIAL SECURITY, A FREE LUNCH IS PURE FANTASY

If you're so worried about Social Security that you stay awake nights, cheer up. A solution is at hand. To ensure a good night's slumber, sit down at bedtime with the report issued last week by the Advisory Council on Social Security. This 752-page, two-volume opus is so complicated, technical and jargon-laden that it makes your average computer instruction manual look like a comic book.

By now, you're probably over-familiar with the details. The council, formed in 1994, was expected to propose rescuing Social Security by raising taxes and trimming benefits. Surprise! Instead of relying on this traditional but painful fix, the council proposed to ''reform'' the system's retirement and disability programs by betting trillions of dollars on stocks. That's trillions, with a ''t.''

Talk about the temptations of a bull market. Rather than bite the bullet on Social Security, we can all chow down on a free lunch. Stock market profits will keep baby boomers fat and happy in retirement; Generation X's taxes won't go through the roof to make the boomers' golden years glorious.

But you know what? It's all fantasy. Lots of Americans favor putting some of the funds into stocks. But if we're silly enough to try it, it won't work. Let's back up a bit before explaining why.

The free lunch proposed by the council comes in three varieties, because the members couldn't agree on the most appetizing dish. The first would make the federal government the world's biggest stockholder. The second would establish a new 1.6 percent tax on Social Security-covered wages and require people to invest the money in one of a half dozen or so government-sponsored funds. The third would require people to save 5 percent of Social Security wages in accounts holding any kind of publicly traded securities they wish, would have Uncle Sam borrow as much as $7 trillion to pay benefits to make up for the money that would be invested rather than redistributed to retirees, and would finance it all with a 1.52 percent tax on top of the existing 12.4 percent tax.

Let's concentrate on the idea of putting the Social Security fund in stocks, which seems more likely to be taken seriously in Washington than the forced-savings approaches.

What all three plans have in common is that they would throw us willy-nilly into a high-stakes game of retirement roulette, betting the nation's financial future (or the futures of millions of individual retirees) on the stock market. The council didn't start out to do this. Initially its members tried to agree on a cuts-and-taxes fix. But some members feared that sharp tax increases and benefit cutbacks would erode Social Security's political base by making people think the program is a lousy investment.

How did the council's biggest faction—6 of 13 members—decide to put 40 percent of the Social Security fund in stocks? ''That's the amount that makes things come out,'' says panel member Robert Ball, the former Social Security commissioner who's pushing this plan hard.

Ball says it's perfectly safe for Social Security to have its money in the hundreds (or thousands) of stocks that make up an index such as the Standard & Poor's 500 or the Russell 3000. Why does Ball say that's safe? Because unlike individual investors, the government won't panic during downturns or be forced to liquidate its holdings at low prices to generate cash.

Unfortunately, he's wrong. The Treasury would in fact find itself a few trillion dollars in the hole if stocks merely rose at a rate lower than the council projects.

Here's the problem. In a triumph of statistic over common sense, the council's plans all assume that stock prices will rise more quickly than they have in the past. A dubious prospect, considering that stock prices already are at such nosebleed-high levels that even many bulls have gotten nervous stomachs.

Anyone who has studied financial history, even a little, gets very nervous when people confidently predict what stock prices will be in 75 years. Betting that stock prices will keep rising rapidly because they have been rising rapidly ''is like the guys on Noah's ark projecting six more weeks of rain on the 39th day,'' says Joseph Rosenberg, chief investment strategist at Loews Corp. and one of Wall Street's most respected investors. ''You can't believe how dumb a government can be.''

Rosenberg points out that stocks don't necessarily spring back quickly from deep drops the way they did after the 1987 market crash. Stocks didn't regain their 1929 highs until 1954, Rosenberg notes, and it took almost 10 years for stocks to match the highs they reached in 1973.

But even absent a 1929 or 1973 disaster, stocks aren't likely to make the money the council projects.

Here's why. Combining several different assumptions, the council projects that inflation will be 4 percent a year, bonds will yield 2.3 percentage points more than inflation and stocks will produce 7 percent more. That works out to 6.39 percent for bonds and 11.28 percent for stocks, says Stephen Goss, deputy chief actuary of the Social Security Administration. The stock number includes capital gains and reinvested dividends.

Now, 11.28 percent a year may not strike you as a big hurdle, given that stocks earned three times 11.28 in 1995 and twice as much last year. But it's a huge number. Consider Corporate America's expectations of the market. Greenwich Associates, a consulting firm, says the corporate pension managers it surveyed expect stocks to average 9.6 percent annually for the next five years.

Maybe my harping on the 11.28 percent projected return for stocks is wasting your time. But look what happens when numbers differ by small amounts over decades. Let's compare the 11.28 percent a year the council projects with the 10.71 percent a year that Ibbotson Associates says stocks earned from 1926 through 1996, a 71-year period.

Do the math—don't try it without a compounding calculator—and you see that $1 invested in 1926 had become $1,372 by last Dec. 31. But if stocks had earned the council's projected 11.28 percent, our dollar would have grown to $1,975. A big difference, eh? It means that if stocks rise for the next 71 years at the Ibbotson rate instead of the council's rate, Social Security's stock portfolio would be worth 30 percent less than the council projects.

What terrifies me and many Wall Street types is the prospect of the government pounding into the stock market running prices to the moon with automatic buying, and then having the market crash on us for some reason that we can't yet foresee.

It's one thing for someone like me, who makes a very good living, to bet on the stock market. I can afford to lose. But betting the federal budget on stocks is madness. And forcing millions of people who don't know stocks from smocks to let the market determine whether their retirement dinners will consist of cat food or caviar doesn't seem like the way we should treat people. If we're going to fix Social Security, let's do the boring, painful things that we know will work. And let's try to remember the prime rule of economics. There ain't no such thing as a free lunch.

TRIBUTE TO ROBERTA STANLEY

HON. JOSEPH P. KENNEDY II

OF MASSACHUSETTS

IN THE HOUSE OF REPRESENTATIVES

Tuesday, February 4, 1997

Mr. KENNEDY of Massachusetts. Mr. Speaker, one of the pleasures of serving this body, is the opportunity to recognize outstanding individuals from across the Nation. It is with great pride that I rise to congratulate Mrs. Roberta Stanley of Waltham, MA, who will be honored today by the Waltham and Greater Boston Business and Professional Women's Club.

I have had the privilege of knowing Roberta Stanley for many years and can attest to her outstanding community activism. She has distinguished herself through her exceptional commitment to helping those in need. In addition, her dynamic leadership and participation in public service, such as serving as a member of the Democratic city committees, has made the city of Waltham a better place to live.

Mr. Speaker, I am sure that I speak for everyone who has either worked with Roberta or benefited from her work when I offer my warmest congratulations and best wishes on this special day as she is honored for the many contributions she has made to the community.