Doubts over US social security reform
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Richard Shelby, chairman of the Senate banking committee, on Saturday became the latest senior Republican to cast doubt over the prospect of passing social security reform - one of President George W. Bush's top priorities for his second term in office.

Speaking to business leaders at the World Economic Forum in Davos, Switzerland, Mr Shelby said that his own priority as banking committee chairman would be to secure legislation establishing a tougher regulatory regime for Fannie Mae and Freddie Mac, the giant government-owned corporations which support housing finance.

On social security reform, Mr Shelby said a lot of people in the Republican caucus were nervous about it. He added: “This is a large rock to roll up the hill.”

The Republican senator said many Republicans were “keeping their powder dry,” but suggested they found themselves in a difficult position, attacked by critics of reform without yet knowing very much about the precise proposal. “We do not know the details. We would like to see them,” he said.

Opinion polls showing a majority of Americans against reform of social security a cherished programme were taking their toll on Republican morale. “I have seen some polls recently and they do not look good,” he said.

Earlier, John McCain, another senior Republican senator, told the FT the president did have a chance of changing public opinion by taking his campaign for social security reform to the country.

But he said the decision by the AARP, the powerful lobby group representing senior citizens, to campaign against the president's plan would add to the difficulty in winning round the people and the Congress.

“Bipartisanship is the key,” Mr McCain said. “He has got to get some Democrats.” So far at least, Congressional Democrats have largely dug in against reform.

Mr McCain expressed personal concern about funding the transition to private accounts by taking out another $2,000bn debt. “Anyone who says this is not a debt is not telling the truth,” he said. “That is the hard part of the problem.”

John Taylor, Treasury under-secretary, hinted at possible flexibility over reform, saying the cost “depends on what size the accounts are and how they are phased in.”
Maurice Greenberg, chairman of American International Group, told the forum that it would be impossible to give people much choice over how to invest personal social security accounts without running up ruinous administrative costs.

He said the only viable investment was an index tracking fund, and recommended deducting 0.5 per cent of payroll to buy insurance against loss.

Mr Shelby said he was alarmed by recent accounting scandals at Fannie Mae and Freddie Mac. Many analysts believe that the corporations have grown so large that their failure would pose systemic risks to capital markets and require a massive public bailout.

He said “I believe we have got to have a receivership [process] in legislation. We have got to have product approval. And we have to have a regulator who can set higher capital standards.“

Mr Shelby said his committee would hold a series of hearings into regulation of Fannie Mae and Freddie Mac in February and said he was optimistic about securing legislation.