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COMMENTARY

Al Gore's Social Security Confusion

BY PETER J. FERRARA

During the presidential debate, Vice President Gore told the nation, "I will keep Social Security in a lockbox, and that pays down the national debt." Well, which is it? If you take the Social Security surplus each year and use it to pay down the national debt, you're not exactly keeping Social Security funds in a lockbox.

Gore also pledged that he would "veto any plan that takes money out of Social Security and uses it for any other purpose." That means Gore would have to veto his own plan because, again, paying down the debt is not reserving funds for Social Security.

Gore said that Bush's plan, by contrast, would drain \$1 trillion out of Social Security but declined to mention what would happen to that money. In fact, under the Bush plan, up to \$1.3 trillion in Social Security payroll taxes would go into personal retirement accounts owned and controlled by workers for their future retirement benefits.

As Bush suggested, his plan merely expands the Social Security framework to include a role for personal investment accounts. In this view, the surplus money doesn't actually leave Social Security, but remains in the personal account part of the program and is used solely for retirement benefits. Under Gore's plan, by contrast, the surplus money is not used for retirement benefits at all, but is diverted out of Social Security to pay down the national debt.

The Bush plan addresses Social Security's biggest problem, namely that the program has become a very poor deal for today's workers. Studies show that even if Social Security somehow pays all of its promised benefits, most young workers today will get a real return from the program of around 1 percent or less. For many, it will be zero or even negative.

By contrast, the real return in the stock market over the last 75 years has been around 7.5 percent. The real return on corporate bonds has been around 3 percent, and even government-guaranteed securities pay more than Social Security promises.

How much of a difference would this make? Even at a 4 percent average real return on a diversified portfolio, workers investing in a complete personal account option over their careers would receive three times the retirement benefits promised by Social Security. Even low-income workers would receive more than twice the benefits that Social Security promises.

The Gore plan, by contrast, does nothing to address this problem. After raiding Social Security to pay down the national debt, Gore would then turn around and have the government pour trillions of dollars in general revenues into Social Security over coming decades. But even after all that, workers and their employers would still be paying one-eighth of their wages into Social Security for the same poor return.

It's true that Gore would allow workers to pay into a personal account in addition to Social Security. But that would still not address the poor deal on the large sums workers are already paying. Indeed, how can we ask workers to pay more without fixing the bad deal they are already getting?

Bush's plan also addresses the future financial problems of Social Security. To the extent that workers shift out of the current Social Security benefit structure and into personal accounts, the unfunded liabilities of Social Security would be reduced.

Gore's plan, by contrast, would just transfer several trillion in general revenues into Social Security to cover its financing gaps. This is effectively a multitrillion-dollar income tax increase to bail out the program, above what income taxes would otherwise be.

This is not the solution to Social Security's impending bankruptcy. Indeed, starting to raid workers' income and payroll taxes to finance Social Security would make the program an even worse deal, since workers would pay even more for the same benefits promised today.

So, despite all of Gore's heaving and sighing, the choice should be clear: Do you want to use the Social Security surplus to pay down the national debt? Or do you want to use it for personal investment accounts that would be the personal property of each worker, pay them much higher benefits than Social Security promises, and address the real problems of the program?

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