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COMMENTARY

Pointless Debate over Social Security Trust Fund

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“He started it.”

“No, she started it!”

Like a pair of squabbling children, congressional Democrats and Republicans are engaged in a name-calling spat over whether one party or the other is trying to “raid” the Social Security trust fund. But like most such arguments, this one is full of sound and fury and signifies nothing.

Currently, the Social Security system is running a surplus, taking in more in taxes than it spends on benefits. That surplus is used to purchase government bonds — the only purpose to which it can be put. The purchase of those bonds generates general revenue for the federal government and that money is spent on the operations of the federal government. That is a bad system, but it is how the trust fund was designed to work. The fund does not hold cash, never has held cash, and was not designed to hold cash.

Starting in 2014, the situation will reverse. Social Security will no longer run a surplus but instead will run a deficit. Social Security will begin spending more on benefits than it is taking in through taxes. To continue to pay those benefits, it will have to start redeeming the bonds in the trust fund. But, as President Clinton’s own fiscal year 2000 budget admits, those bonds are not real economic assets. Rather, “they are claims on the Treasury that ... will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures.”

In financing terms, the Social Security trust fund is an irrelevancy. Come 2014, when Social Security's payroll tax income falls below its benefit obligations, the program will need large infusions of tax dollars. The existence of the Trust Fund means only that until 2034 those dollars will come through increased income taxes rather than increased payroll taxes. But the number of extra dollars needed is absolutely unchanged. In the words of humorist P.J. O'Rourke, "Having a government Trust Fund is exactly the same thing as not having a government Trust Fund."

None of the proposed "lockboxes," "safes" or "vaults" currently being debated will change this reality. There is no way to actually leave the Social Security surplus in Social Security. The surplus must be used to purchase bonds, the purchase of the bonds will generate revenue for the government, and that revenue must be spent. What both the president and congressional Republicans are actually proposing, in various forms, is to use the revenue generated by the purchase of the bonds to pay down the national debt rather than to finance new spending or tax cuts. This may or may not be good policy, but it will not change by so much as a single day the date at which Social Security will begin to run a deficit. Nor will it change the amount of new tax money required to continue to pay Social Security benefits.

What this pointless and silly debate should demonstrate is the need to get Social Security completely out of the hands of politicians. Social Security taxes should be invested in real financial assets, not government promises to raise future taxes. That means that individual workers should be allowed to divert their payroll taxes to individually owned accounts, similar to their IRAs or 401(k) programs. That would be a "lockbox" that would really work, a Trust Fund that could never be raided.

It's time for the leaders of both parties to stop trying to score cheap political points and face up to the fact that America's largest retirement program is in trouble. It's time for the American people to tell Congress to grow up, stop the name-calling, and give us a new, better and privatized Social Security system.