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Clinton's Bait-and-Switch Social Security Plan

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In his State of the Union address, President Bill Clinton announced a plan to "save" Social Security and fund a new type of retirement savings account. He promised Americans his proposal would preserve their retirement benefits, but his actual plan is based on discredited ideas and fraudulent accounting and does nothing to deal with the deep-seated problems of the program. Indeed, there is little in the President's proposal that could serve as the basis for serious Social Security reform.

Over the next 15 years, the Clinton plan would transfer $2.7 trillion from the budget surplus to the Social Security Trust Fund. Of that amount, $600 billion would be invested in the stock market by a government agency. In addition, another $500 billion from the surplus would be used to create new Universal Savings Accounts (USAs) to help Americans to save for retirement. How the accounts would be administered, and in what their funds could be invested, remains under discussion.

Empty Promises. Unfortunately, President Clinton's plan includes a number of glaring weaknesses:

- **Investing by the government is a bad idea.** Giving federal bureaucrats the power to invest huge amounts of money in the stock market would create a fundamental conflict of interest between the long-term needs of future retirees and short-term political goals. The Chairman of the Federal Reserve Board, Alan Greenspan, says it would be almost impossible to insulate those investment decisions from political interference. For example, the Reverend Jesse Jackson told the House Ways and Means Committee that Social Security funds should not be invested in tobacco and liquor companies or gun manufacturers.

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- **To work, the plan would require accounting tricks.** The Clinton plan counts the Social Security surplus twice: once when it is received by Social Security; then again when it becomes part of the unified budget surplus. Under this double counting, the government appears to give Social Security 116 percent of the projected $4.4 trillion total budget surplus.

- **Using general revenues for Social Security would set a dangerous precedent.** Since its inception, Social Security has been self-funded through an explicit tax. Funding the system with other taxes would break down what little fiscal discipline remains and would open the door to even more irresponsibility.

- **Just directing more tax dollars toward Social Security would not save the program.** Directing any additional amount to the Trust Fund would not solve any of the problems facing Social Security. The program still would not have the necessary resources to pay all the benefits it has promised already. It would make Social Security's underlying rate of return even worse and only delay the inevitable bankruptcy.
- **USA accounts would not save Social Security and could become an expensive new entitlement program.** The Clinton Administration claims these accounts would be financed by the surplus, but Congressional Budget Office Director June O'Neill warns that the era of budget surpluses could be fairly short. When the next inevitable economic slowdown hits, deficits will return. At that point, either federal contributions to USA accounts would stop, or the government could convert the accounts into another expensive entitlement program for which America's children will have to pay.

Positive Features. President Clinton's plan does show that his Administration recognizes several truths about what is needed to save the Social Security system. These truths include:

- **Using the surplus to save Social Security means creating personal retirement accounts.** President Clinton understands basic math; he realizes that most working Americans would receive far higher benefits if they could invest their Social Security retirement taxes in their own personal retirement accounts. Even a conservative portfolio—one divided evenly between stocks and super-safe government bonds—would yield returns of 5 percent, far more than Social Security's current average annual return of 1.2 percent.
- **Social Security cannot pay all the benefits it has promised.** President Clinton knows that Social Security will not have the resources it needs to pay all the benefits it has promised.
- **Personal retirement accounts are feasible, cost-effective, and safe.** The Clinton Administration knows it would be fairly simple to solve any logistical problems associated with creating personal retirement accounts. It knows, too, that these accounts could be structured to be both inexpensive and low-risk. Workers in three Texas counties already manage their own Social Security investments with high returns, and other Americans can, too.

Saving Social Security. Congress should act now to implement reforms that really will save Social Security by:

1. **Foregoing government investment and using the surplus to save Social Security.** Chairman Greenspan is right about government investing: The surplus—using honest accounting rules—should be used only to finance the transition to a funded, economically sound system. This will require difficult decisions on a number of issues, but delay will only make the job harder.
2. **Making USA accounts part of Social Security.** Instead of creating a whole new program, it would be more sensible to make USA accounts part of Social Security. This new "Social Security Part B" would enable Congress to consider USA accounts as part of a larger solution to Social Security's existing problems and to enhance the retirement security of all Americans.
3. **Earmarking a part of the existing tax to continue these accounts.** Congress should start funding the USA accounts with the surplus, and then shift to using a proportion of the taxes that workers already pay to Social Security. That way, once the surpluses end, the accounts could continue to grow. Workers should have more to show for a lifetime of work than memories and a small monthly check.

Although President Clinton seems sincere in his desire to solve Social Security's problems, his new plan will not get the job done. Discredited ideas and fraudulent accounting, while allowing the Clinton Administration to avoid the difficult choices necessary to save Social Security, will make the situation worse and place future Social Security retirement benefits in greater jeopardy.

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