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## HARD QUESTIONS REMAIN FOR THE SOCIAL SECURITY LOCKBOX

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The Senate and the House of Representatives are considering enforceable mechanisms to preserve the surplus generated by Social Security so that it could be used in the future to pay for reforms of both Social Security and Medicare. Pending those reforms, Social Security surpluses would be used to reduce the amount of federal debt held by the public. The measures are contained in the Republican leadership's budget resolutions for fiscal year 2000, and will be given force in separate legislation to be considered later this spring.

There is a strong argument to be made for "walling off" Social Security surpluses in this way. The method under discussion also raises a number of questions, however, that need to be answered.

### ARGUMENTS FOR A SOCIAL SECURITY "LOCKBOX"

- **It would prevent Congress from simply spending the money.** Surplus funds are an open invitation to raise spending. Although Congress has shown a modest level of fiscal restraint over the past few years, it passed legislation to increase spending by \$51 billion over the next 10 years in the closing days of the last session. Unless this propensity to spend is curbed by an enforceable lockbox, future surpluses are likely to be reduced by such things as "emergency" spending measures and "modest" increases in various programs.
- **It would end the practice of using Social Security surpluses to subsidize other spending.** For over 15 years, surplus money collected by Social Security immediately has been spent to fund other federal programs. In return, Social Security has received special-issue treasury debt that can be cashed in to replace these funds sometime in the future. The lockbox would ensure that Social Security taxes are used either for Social Security or to reduce the amount of federal debt held by the public.
- **It would provide a source of funds for Social Security reform.** Money in the lockbox could pay only for plans that would preserve Social Security and Medicare.
- **It would reduce the amount of federal debt held by the public.** There is a valid economic reason to pay down the federal debt. Although most economists agree that paying off some of

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the federal debt with a budget surplus would not stimulate growth in the same way that a tax cut would, it is far preferable to spending that money.

## QUESTIONS ABOUT A SOCIAL SECURITY LOCKBOX

- **Would this end up substituting for Social Security reform?** Establishing a lockbox would do nothing to change Social Security's financial problems. It really makes little difference how much of the Social Security surplus is reserved unless the money actually gets used for Social Security reform. A lockbox could be a good first step toward reforming Social Security, but it should not be confused with real reform.
- **Would Social Security money fund Medicare reform?** Almost all of the money in the lockbox would come from surpluses run by Social Security's retirement programs. The legislation also would allow, however, for this money to be used for Medicare reform. Because Medicare's financial problems are more immediate, Congress must resist the temptation to deal with Medicare's today at the expense of Social Security's tomorrow.
- **Would this affect financing for Disability Insurance?** The trust fund that finances Social Security's Disability Insurance (DI) program is running deficits that are being covered with funds borrowed from the retirement program's surplus. Until legislation is passed that resolves this problem, it will be important to ensure that the lockbox would not prevent the DI program from borrowing enough money to keep paying its benefits.
- **What would happen to Social Security reforms that were financed in part with general revenues?** The cost of Social Security reform may well be higher than just the amount available from the program's surplus. In that case, general revenue funds may be necessary to pay for the transition costs of reforms. Because the lockbox would require a supermajority to approve any budget resolution in which the non-Social Security portions of the budget were not in balance, this could give a political minority veto power over Social Security reform.
- **Would this simply encourage more creative accounting?** The lockbox legislation would prohibit including the Social Security surplus in budget totals developed by either the President or Congress. As a result, the unified budget would not reflect all the revenues that have come into the Treasury. Although there is justification for directing the ways in which the Social Security surplus is to be used, making it disappear from budget totals is misleading. The budget should be an honest representation of all revenues and spending. Pretending that some money is not there gives a false picture.
- **Could any unintended consequences appear in the future?** The lockbox appears to resolve today's question of how to keep Congress from spending the Social Security surplus. A few years down the road, however, the question remains whether this lockbox could be used to block tax cuts that might become necessary for economic growth, or a specific Social Security reform plan, or even spending for an urgent national priority.

The lockbox would help to prevent Congress from squandering the Social Security surplus. But it is important to ensure that there would be no unintended consequences that would cause even greater problems down the road. Locking away the surplus would not "save" Social Security or modernize the program. Before Congress passes this legislation, it should make sure that all aspects of the plan are considered and resolved.

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