The Heritage Foundation
Executive Memorandum

No. 633

October 28, 1999

CLINTON'S NEWEST SOCIAL SECURITY PLAN: FROM BAD TO WORSE

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Some things do not improve with age. In his most recent State of the Union address, President Bill Clinton announced a plan to "save" Social Security and fund a new type of retirement savings account. The response, even among unbiased observers, was almost uniformly negative. Federal Reserve Board Chairman Alan Greenspan sharply condemned the President's proposal to invest part of Social Security's trust fund in stocks. U.S. Comptroller General David Walker said the proposal "does not represent a Social Security reform plan." Now, 10 months later, the President has announced a new plan that is at least as bad as the first one.

The new Clinton plan, as introduced in H.R. 3165 by Representative Richard Gephardt (D–MO), retains most of the first plan's weaknesses and proposes spending another $544 billion from general revenues to prop up the Social Security system a little longer. Once again, the President is trying to avoid making hard but necessary decisions. Like a magician, he keeps trying to give Americans the illusion that Social Security's bottom line is improving. But this plan will do nothing to solve the system's deep-seated problems. The best that can be said is that the President dropped his effort to have the government invest Social Security money in the stock market.

Creative Accounting, Not Reform. Washington routinely uses excess Social Security revenues to pay for other programs. Social Security tax dollars that are not used immediately to pay benefits are sent to the U.S. Treasury, which then gives the Social Security trust fund an IOU in the form of a government bond. This practice merely obligates future workers to pay extra taxes to cover future benefits. The President's new plan would not change this. In addition, he would spend over half a trillion dollars from other taxes to prop up Social Security. Nothing would be done to improve its poor rate of return.

Produced by
The Domestic Policy Studies Department

Published by
The Heritage Foundation
214 Massachusetts Ave., N.E.
Washington, D.C.
20002–4999
(202) 546-4400
http://www.heritage.org

Under the President's new plan, Social Security tax dollars in excess of benefits paid each year would still go to the Treasury in return for an IOU. Those same tax dollars would be used to buy back government bonds owned by the public.

The President claims that this technique would lower the amount the government would have to pay in interest on the federal debt. The taxes that normally would go to pay this interest—an estimated $544 billion between 2011 and 2015 alone—would be spent to buy back still more of the public debt in the form of government bonds, which would be placed in the Social Security trust fund. Using extremely complex and creative accounting, the President then finds a way to pay interest on the amount of interest that he already claims to have saved. Between 2016 and 2044, this mythical interest on interest amounts to $47 billion a year. But actual Social Security tax dollars collected from workers would still be spent and would never reach the trust fund. All that would happen is that the number of IOUs in the trust fund—representing nothing more than a legal obligation on tomorrow's taxpayers—would increase.

President Clinton's new plan will not solve Social Security's underlying problems. Specifically:

- **The Clinton plan does nothing to save or reform Social Security.** The Social Security Administration's numbers show that the program would still run a cash flow deficit of $252 billion (in 1999 dollars) in 2030 and $516 billion in 2070. After studying the President's first proposal, the U.S. General Accounting Office told Congress earlier this year that "Although the trust funds will appear to have more resources...in reality, nothing about the program has changed." Rather than make any of the necessary and hard decisions needed to preserve the program for future generations, the President would use bookkeeping tricks and the promise of future tax money to avoid real reform. This is shortsighted and irresponsible.

- **More bonds do not mean more security.** Essentially, the Clinton plan would add IOUs to the Social Security trust fund; it would not provide additional money with which to redeem the IOUs already in the trust fund or to pay benefits.

- **Using general tax revenues for Social Security would set a dangerous precedent.** Social Security has always been self-funded through an explicit tax. However, the IOUs added to the trust fund under the President's plan would have to be repaid with general tax revenues. Funding the system with other tax dollars would break down what little fiscal discipline remains and open the door to more irresponsible spending.

- **Extra tax dollars make Social Security an even worse deal for workers.** Social Security is a bad deal for the average worker, whether the trust fund is solvent for 15 years or 115 years. If an average income, 30-year-old, two-earner couple were allowed to invest the Social Security retirement taxes they both pay over their working lifetime, they could save $525,000 more for retirement than they would receive from the Social Security system in benefits. The President's plan would make this situation worse. Starting in 2011, this average couple would pay an additional $1,150 in income taxes just to fund his proposed general revenue transfers; they would still receive the same low Social Security benefits, but they would be paying more in taxes for them.

Saving Social Security. Congress should ignore the latest Clinton proposal and implement real reforms that would save Social Security:

1. **Allow workers to use some of their existing Social Security taxes to create individual accounts within Social Security.** This new "Social Security Part B" program should be part of a larger solution to the system's existing problems.

2. **Use the Social Security surplus to reform Social Security.** Instead of resorting to bookkeeping tricks, Congress should use the Social Security surplus *only* to finance the transition to a fully funded, economically sound system.

Recycling tax dollars will do nothing to improve the retirement security of working Americans. Unfortunately, the President's new plan will only make the situation worse and place future Social Security retirement benefits in greater jeopardy.

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