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WOULD THE DEMINT SOCIAL SECURITY PLAN CAUSE POLICYMAKERS TO BECOME FISCALLY RESPONSIBLE?

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Supporters of the DeMint proposal argue that the Social Security surplus is currently being “raided” by the rest of the budget because the surplus is being used to help cover the deficit. The claim that Social Security is being raided and that its finances are being weakened as a result is, however, simply incorrect. The Social Security trust fund is fully compensated, in the form of Treasury bonds that are universally regarded as one of the world’s safest and most secure investments, for the surplus funds that the rest of the budget borrows. Moreover, if the rest of the budget were in surplus rather than deficit, the Treasury would still borrow the Social Security surplus (using it in that case to pay down the federal debt) and give the Social Security Trust Fund *the exact same Treasury bonds* that it now receives.

There is, of course, a major problem in the non-Social Security portion of the budget. The deficit outside of Social Security is quite large, principally because of unusually low levels of federal revenue but also due to some spending increases in the last several years. The DeMint proposal does not do anything to reduce non-Social Security expenditures or increase non-Social Security tax revenues. As a result, it would not alter the need of the federal government to borrow funds to cover its deficits. If the Treasury borrowed less from Social Security, it would simply have to borrow more in private credit markets.

There is a debate about whether the Social Security surpluses have led to the increased spending and reduced taxes outside of Social Security. There is no credible empirical evidence to answer the question of what would have occurred if there had been no Social Security surplus. Anecdotally, a reading of recent budget history shows that the most important factor shaping fiscal discipline is the intentions of policymakers, not the reported deficit. Pressure for deficit reduction was strong in the late 1980s and early 1990s even with a growing Social Security surplus. In the late 1990s, a bipartisan consensus maintained that the budget should be balanced exclusive of Social Security surpluses. Even the 2001 tax cuts were justified with the claim that they could be financed with the non-Social Security surplus.

Furthermore, even if you include the Social Security surplus in the budget, the unified budget deficit today is still large by historic standards. And despite this large deficit, there is little pressure for fiscal discipline from the President or the Congressional leadership, both of which continue to support additional tax cuts and other measures that would increase the deficit. Congressional Budget Office data show, for example, that this year’s Congressional budget resolution would *increase* deficits by \$168 billion over five years, as compared to what the deficits

would be if no policy changes were made. Moreover, policymakers are likely to consider additional deficit-increasing measures that would breach the targets the budget resolution itself sets — and swell deficits much more — such as repeal of the Alternative Minimum Tax and permanent removal of most or all of the estate tax. It is not the measurement of the deficit or the inclusion in the deficit measure of a Social Security surplus that “masks” the deficit’s true size that has led to the collapse of fiscal discipline. It is the lack of fiscal discipline itself that is the problem.

Regardless of one’s view on whether past Social Security surpluses led to expanded non-Social Security deficits, however, the DeMint proposal is unlikely to make any difference in this area. Some supporters of the DeMint approach have tried to argue that the larger reported budget deficits it would bring would lead to spending restraint. But the DeMint approach represents a dubious and highly implausible way to achieve such a goal, for three reasons:

First, the Bush administration and Congressional proponents of private accounts do not include the cost of those accounts in their budget proposals; for example, both the President’s budget and this year’s Congressional budget resolution omit those costs. In addition, neither the Administration nor Congressional private-accounts proponents have said that if legislation were enacted to establish private accounts, there would have to be budget cuts or tax increases to offset the increased deficits that the private accounts would engender. Nor have they even said that their goal of cutting the deficit in half would be maintained and applied to a measure of the deficit that includes the increase in deficits that would result from the establishment of private accounts.

Second, it is implausible that spending reductions of the magnitude required to avoid an increase in deficits under the DeMint plan would be enacted. It is not realistic to expect that federal programs would be cut by \$800 billion over the next 10 years (the amount that, with the accompanying savings in interest payments, would offset the cost of the accounts), especially when defense, Medicare, and Social Security are the three largest expenditure areas in the budget and account for the majority of federal expenditures. In 2004, these three areas accounted for 58 percent of expenditures other than interest payments on the debt.

Finally, many of the measure’s supporters claim (incorrectly, as the actuaries’ analysis of the DeMint plan shows) either that the plan would *not* increase the deficit or that the increases in the deficit that would result would have no effect on the economy. It is hard to imagine that policymakers would take the politically tough steps to address an increase in budget deficits that they deny matters for the economy.

In short, it is hard to imagine that the DeMint proposal would cause a major change in policymakers’ behavior. The unified deficit last year was \$412 billion. Yet Congress went ahead and passed a budget resolution this year that will increase the deficit further. Most of the supporters of the DeMint plan voted for this budget resolution, and in the Senate voted *against* what is considered a bare minimum of budgetary discipline: a measure supported by Alan Greenspan and virtually every major budget watchdog organization to restore the rule requiring that all entitlement increases and tax cuts be “paid for” rather than being deficit-financed. In addition, despite large deficits today and the huge deficits projected for future decades, Congress has continued to vote for increased spending for highways and other areas.

It is implausible that increasing the deficit by \$89 billion a year in 2006 (and somewhat larger or smaller amounts in other years) — as the DeMint plan would do — would somehow ignite a major change in behavior on Capitol Hill and in the White House, especially when the plan is supported by many of the same policymakers who have rejected other measures to restore fiscal discipline. That argument becomes even more dubious when many of the plan’s supporters take the position that the cost of private accounts should not be included in the deficit in the first place.