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What Social Security Trust Fund?

For $2.7 trillion, will you shut up about it already?

By Michael Kinsley

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Social Security will be an issue this fall, and the two major presidential candidates take starkly different positions. George W. Bush thinks it's very, very important to use some of the coming budget surplus to shore up the Social Security system. Al Gore, by contrast, thinks it's very, very, very, very, very, very important, with sugar on top.

That should be a lively debate. But it's too bad there is no one to argue that actually the budget surplus should not be used for Social Security. Not just for reasons of symmetry, but because it happens to be the truth. The totally uncontroversial consensus that the budget surplus—this unexpected, once-in-a-lifetime manna from heaven—should be poured into the retirement system is bizarre when you think about it. Fortunately, there is little danger of the candidates doing that.

The argument is simple: We've been hearing for years that Social Security is a self-supporting trust fund. During two decades of painful efforts to reduce the federal deficit, any public suggestion that Social Security payments should be subject to scrutiny and share a bit of the pain, like every other category of government spending, produced the furious, self-righteous response that Social Security is a trust fund and therefore "pays for itself."

This never was a logical argument for exempting Social Security payments from budget discipline. Even if the trust fund overall were self-supporting, individual people put in and take out radically different amounts. Almost everyone taking money out today (current retirees) put in much less during their working years. The people putting money in today (future retirees) will get a far worse deal, even if the system makes good on all its promises.

We also heard throughout the big deficit years that the government was "raiding" the sacred Social Security trust fund to pay for its own wastrel ways. This was never exactly true. It's true that the annual Social Security fund surplus has been invested in government IOUs. But current and future Social Security surpluses will be invested the same way, even though the general budget is now also in surplus. What changes when the government stops running a deficit is the government's borrowing demands on the private economy, not on Social Security. In any event, people who buy government bonds don't feel they're being "raided," and there's no reason the Social Security trust fund should feel violated either.

Now, though, the shoe is on the other foot. Social Security, it develops, is not self-supporting after all. (Surprise, surprise.) The sacred inviolability of the trust fund only works in one direction: It is like a roach motel for money. Tax revenues can get in, but they can't get out. In fact, the proposal now is to let the Social Security trust fund "raid" general tax revenues. And everyone's for it! This is a real raid, too: There is no IOU. Unlike the Social Security money invested in government bonds, which is paid back with interest, this money will be gone for good. But everyone's for it. Why?

Why is every politician in favor of pouring money into Social Security? You can lose your pundit's license for raising a question that dumb. But there are a couple of answers besides the one that's blindingly obvious. Liberals may reason that the general income tax is fairer than the Social Security tax—the former exempts low incomes; the latter exempts high incomes—so if more money is needed, better to get it by reducing the size of an income tax cut than by raising the Social Security tax.

Conservatives, meanwhile—hot for Social Security privatization—see a way to paper over the biggest flaw in their designs: how to move from a system where each generation pays for its predecessor to one where everybody pays for themselves. One way or another, one generation will have to pay twice. Sucking in the odd trillion of general tax revenues is as good a way as any for purported conservatives to finance a massive social engineering project with the reasonable hope that no one will notice.

With or without privatization, the Social Security system does need to be put on a sound actuarial basis. Estimates of the system's unfunded liabilities run to fantasy numbers like $8 trillion. But the crunch is still far off—14 years until money out exceeds money in, and 34 years before the trust fund actually runs out. And any such calculations are wildly dependent on assumptions about the unknowable. Politicians of both parties are being uncharacteristically, almost comically, responsible in dealing now with a problem that may or may not arise 34 years from now. Are they ill? Have their bodies been occupied by aliens? What gives?

That really is a mystery. I suppose we should be grateful. But however high-minded the motive, pouring general tax revenues into Social Security is not the only possible course of action. Another one, obviously, is cutting benefits—and cutting them now, not when the crunch comes. Compound interest will work the same magic on a dollar not spent now as on a dollar added to the trust fund now. And if Social Security is to be made a slightly worse deal in order to make it secure, why shouldn't those who are getting the best deal put a bit into the pot? The elderly are now the most affluent group in America. There are ways to squeeze them a bit without touching those who really live on their Social Security pensions.

It will be a triumph for truth and justice (if not for the American way) if this bailout at least silences the self-supporting-trust-fund chorus. President Clinton wants to direct $2.7 trillion from general revenues into Social Security. That ought to be enough to shut anybody up.

*Michael Kinsley is **Slate**'s founding editor.*

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