Once More with Passion: Save Social Security!

As of early August, Congress had yet to approve a budget resolution for the fiscal year beginning in October. The major disagreement, primarily between House and Senate Republicans, was what to do with the growing surplus in the unified budget, now projected to be about $1.55 trillion over the next 10 years.

At that time, House Republicans seemed committed to approving some combination of tax cuts that would reduce revenues by about $700 billion over that period. Although the budget resolution itself will not approve specific tax cuts, those most favored by the Republican leadership include reducing the marriage penalty, the capital gains tax rate, and the tax on Social Security benefits and eliminating the estate tax. There is no obvious coherence in this proposed combination of tax cuts other than that they would especially benefit the Republicans' middle- to upper-income constituency. Any remaining surplus, which would reduce the explicit federal debt, was described by House Majority Leader Dick Armey as "a big, big step in the direction of saving Social Security."

In late July the Senate Republican leadership endorsed a proposal developed by Senate Budget Committee chairman Pete Domenici and Sen. Phil Gramm to commit almost all of the projected surplus in the unified budget to purchase a portfolio of investment-grade short-term corporate debt instruments, a portfolio that would be selected and managed by the Federal Reserve Bank of New York. This proposal would have the political effect of building a temporary wall against tax cuts until Congress approves the necessary reform of Social Security. In a strident editorial the *Wall Street Journal* described this proposal as "Domenici-Gramm Socialism," and the Senate Republican leadership backed away from the proposal by the end of the day.

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Neither of these proposals, of course, directly addresses the future of Social Security. The House Republican proposal, however, would make it more difficult to make the necessary reform of Social Security—requiring a larger reduction of future Social Security benefits or other government spending, larger payroll or other federal taxes on the working generation, or a larger federal debt burden on future generations. The House Republicans' proposal, in addition, may be politically dumb—making them vulnerable, once again, to a charge that they are sacrificing the future of Social Security on the altar of current tax cuts. The Senate proposal, in contrast, buys a year or two to consider the necessary reform of Social Security and, in the meantime, develops a small fund that would later be distributed to private retirement accounts.

The case for the House Republican budget proposal, I suggest, is weakened by the following considerations:

1. The proposed tax cuts, as in the 1997 budget deal, are a mishmash of junk tax cuts—not a major tax reform that would at least provide interesting competition to Social Security reform.
2. Federal tax cuts, by themselves, reallocate the burden of taxation among people and over time but do *not* reduce the size of the federal government. As a founder of the National Tax Limitation Committee, I have supported tax cuts in states with a balanced-budget rule, because the reduction in tax revenues forces a corresponding reduction in state spending. With no constitutional balanced-budget rule at the federal level, however, a reduction in federal tax revenues has not generally led to a corresponding reduction in federal spending. Republican fiscal policy would be much more coherent if its makers recognized that the dominant political issue of the day is, "It's the size of government, stupid!" This does not rule out making an issue of tax policy, but it suggests that a major tax reform should be either revenue neutral or combined with a corresponding reduction in federal spending.
3. The time is right for a major reform of Social Security. The earlier the problems of Social Security are resolved, the better. The potential transition to a system of pre-funded private retirement accounts is the most important opportunity to reduce the size of the federal government in many decades.

President Clinton is unusually well informed about this issue, is committed to a major reform by the end of his term, and seems to favor some amount of money in some type of private retirement account. The fact that Clinton favors a policy, of course, does not make it right. Nor does it make it wrong. In this case, I suggest that President Clinton is right. Lock up the projected budget surplus until this issue is resolved. Save Social Security first. Seize the day!

—William A. Niskanen