Regardless of Rhetoric Social Security Remains a Puzzle

D. J. Tice

D. J. Tice is an editorial writer for the St. Paul Pioneer Press. *This article was reprinted from the* Pioneer Press.

America's leaders and would-be leaders finally are talking about Social Security's challenges. Now if they'd only tell the truth.

Too much of what's being said these days is at least partly dishonest, obscuring the plain, difficult choice the nation can't avoid.

The basic problem is this: Beginning in about 2010, the baby boom generation will start becoming the fogy boom generation. For about a half-century after that, an unusually large part of the American population will be retired, drawing Social Security benefits from taxes paid by an unusually small part of the population that will be working.

Given this certain future—more retirees, fewer workers—there are only two possibilities: Either 1) Social Security will consume a larger part of total national income than it does today, or 2) each future recipient's Social Security benefits will be smaller than currently promised.

Politicians of every stripe—including Al Gore and George W. Bush—claim to have "plans" that wholly avoid this dilemma, that require neither tax increases nor benefit reductions.

Don't believe it.

Consider first the current Democratic idea, touted by Al Gore. It is to use much of the tax surplus the federal government currently is collecting to pay down the accumulated national debt.

Then, says Gore, we can use the "savings" from eliminating interest payments on the debt to shore up Social Security.

This sounds cost free. The problem is that there are no actual "savings" to the nation as a whole from paying off the national debt.

If surplus taxes weren't used to pay off debt, they could be returned to taxpayers, who would either save them and earn interest, or spend them and avoid other debt and the interest charges on that debt.

In short, the government's interest "savings" would merely be taxpayers' interest "cost"—the returns taxpayers couldn't earn on the surplus taxes they paid.

This would prove a roughly equal exchange if, as it paid off the debt and reduced its interest payments, government allowed future taxes to fall. Paying down debt is a good idea, in itself. It frees up funds for more productive investment and creates more room to borrow later when Social Security costs soar.

But if the government pays off the debt with surplus taxes, and then continues to collect taxes for what were interest payments, directing those "savings" into Social Security, it will simply have increased the taxes flowing into Social Security. Well, maybe not so "simply."

Anyhow, a good, old-fashioned liberal case can be made for solving the Social Security problem by raising taxes. But that case should be made forthrightly, not disguised with talk of sleight-of-hand "savings."

George W. Bush's "plan" is more creative, but not altogether more candid. It would partially turn Social Security into a real, funded retirement system, by allowing workers to direct a portion of their Social Security taxes into private investment accounts.

This approach would seek to solve the essential Social Security problem (more retirees, fewer workers) by investing Social Security funds more aggressively, hoping to earn a higher return. In this objective, it's similar to the strategy some Democrats favor of collectively investing some Social Security funds in stock and bond markets.

Either way, the hoped-for result is to increase the flow of dollars into the Social Security system—in this case through investment earnings, not taxes.

A market investment approach might work. One of its possible benefits would be that, like paying down the national debt, it could increase the nation's net investment in productive capacity and thus accelerate economic growth. That would help because it will be easier to watch grandpa and grandma take a bigger piece of the economic pie if the overall pie gets bigger.

The problem with Bush's plan is not, as Democrats complain, that investing in the stock market is intolerably risky over the long haul.

Governments all over this country, at every level, invest public pension funds in stocks, and encourage government workers to invest personal retirement accounts in stocks. Are all the politicians involved irresponsible?

The problem with a Bush-like plan is that there would be hefty "transition" costs in the years ahead as funds were removed from traditional Social Security and put into personal accounts, while current beneficiaries are still collecting old-system benefits.

Almost certainly, to get to a new system, benefits would have to be trimmed or taxes increased, or some combination of both. Again, more candor about this would be helpful.

In the end, some combination of all these things will probably be needed to fix Social Security—tax hikes, benefit trims, use of private investment markets, reduction of government debt (and, eventually, new borrowing to spread out the burden of the temporary retiree boom).

In time, we'll put the puzzle together. We have to. Ω