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Social Security shell game leaves taxpayers losers

When President Bush sends his first budget to Congress this Thursday, he's expected to make many changes in the spending plan left behind by former President Reagan. But Bush won't change one massive deception that makes the big federal deficit look much smaller than it actually is.

It is well-known in Washington that a multibillion-dollar shell game is being played in the government's budgeting. But the game's consequences are so politically explosive that the president and most members of Congress would rather look the other way than face the issue.

The shell game involves the huge surpluses that have begun to pile up in the Social Security trust fund.

WHEN SOCIAL SECURITY ran into money shortages in the late 1970s, Congress responded by raising payroll taxes high enough so that the pension fund would begin accumulating big surpluses over the next four decades. These funds will be needed to pay retirement benefits of the baby boom generation in the next century.

The Social Security surplus started modestly in fiscal year 1985, when the fund's income from payroll taxes exceeded its payout of benefits by about \$9 billion. Then the surplus escalated rapidly, reaching \$39 billion in fiscal 1988 and a projected \$56 billion in the current year. It is expected to exceed \$100 billion a year in the mid-1990s.

It would be comforting to think of all those billions being safely tucked away for the pension benefits you and your children plan to draw. Comforting, but mistaken.

What's actually happening is that the Social Security surplus is being borrowed by the federal government to cover a big part of its huge operating deficit.

THE SURPLUS, in other words, is being spent on national defense, welfare payments and other government outlays. What Social Security holds, in place of its surplus, is a growing hoard of federal IOUs — Treasury notes and bonds that represent its huge loans to the spending side of the government.

Look under the shell marked "Social Security surplus" and you find billions of IOUs. Look under the other shell marked "U.S. budget" and you see a \$150-billion deficit for the current year.

If it weren't for the borrowed Social Security surplus, that deficit would be well over \$200 billion. Moreover, the deficit would be growing, rather than shrinking, if the Social Security surplus weren't being tapped.

That's the grand deception Washington doesn't want to face, and it results from an accounting system that uses the Social Security surplus to offset a large part of the government's true operating deficit.

WHAT'S HAPPENING now "is like saying to your children, 'Here's a savings account for you,' and then when their backs are turned, you take out the money and slip in an IOU," says economist Barry Bosworth of the Brookings Institution, co-author of a new book on Social Security.

When Social Security administrators need to pay benefits to all those baby boomers next century, Bosworth says, "they will go to the Treasury and say, 'Give us our money back,' and at that point, the Treasury will either have to borrow tremendous amounts or raise taxes."

Some in Congress are worried about the shell game. Bush's new chief economist, Michael Boskin, got a verbal flogging from Michigan Sen. Donald Riegle. The true federal deficit is being masked by "an accounting trick," Riegle complained.

Just wait, Riegle warned, until "people figure out that they are going to be asked to pay twice for their Social Security benefits" — once in payroll taxes now, and again in the future when income taxes have to be raised to replace the borrowed-and-spent surpluses.

RIEGLE SOUNDED outraged. "It's time we moved to honest accounting" on the budget, he demanded. New members of Congress often are outraged, too, when they discover the shell game, observes economist Bosworth. But "their outrage usually vanishes by August," when Congress makes decisions on the next year's budget.

At that point, the horrifying reality sinks in: If we stop the shell game, we either have to raise taxes, slash spending or admit that the budget deficit is a growing monster, not a diminishing problem.

It's much easier to keep sliding those shells around and pretending.

Washington Bureau Chief James P. Gannon's column appears every Sunday in the Outlook section.