Thomas Mitchell

Kicking the can on entitlement reform

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"(T)he principle of spending money to be paid by posterity in the name of funding, is but swindling futurity on a large scale."
-- Thomas Jefferson

Certain politicians say Social Security is just fine, thank you very much, and there is no need to address the gap between income and outgo for another 20 years, and anyone who says otherwise is a liar. Others warn something had better be done right now or our children and grandchildren are doomed to an inevitable economic collapse.

And, no, taxing the rich instead of cutting government spending will not solve the problem. Michael Tanner, a senior fellow with the Cato Institute, writes that there simply aren't enough rich with enough wealth to cover the gap.

"But even if one assumes that taxes can be raised without having any impact on economic growth, taxing the rich still wouldn't get us out of our budget hole -- because the hole is quite simply bigger than the amount of revenue we could raise from taxing the rich even if there were no disincentives," Tanner writes in a Cato policy analysis titled, "Bankrupt: Entitlements and the Federal Budget."

"To put it in admittedly oversimplified perspective: our current obligations, including both implicit and explicit debt, total more than 900 percent of GDP. The combined wealth of everyone in the United States who earns at least $1 million per year equals roughly 100 percent of GDP. Therefore, you could confiscate the entire wealth of every millionaire in the United States and still barely make a dent in the amount we will owe."

Tanner estimates the nation's total debt -- including unfunded liabilities for Medicare and Social Security -- is $119.5 trillion -- $400,000 per capita.

As for that Social Security trust fund that we are told is not merely a stack of worthless IOUs, but securities backed by the full faith and credit of the United States and capable of sustaining the program until 2037, President George W. Bush showed us the trust fund securities in 2005 when he toured the Bureau of Public

Debt in Parkersburg, W.Va. They are pieces of paper in a four-drawer, ivory-colored filing cabinet. His call at that time to privatize some portion of the retirement program failed. The bureau might have added another filing cabinet by now.

This is how the Congressional Budget Office explains the relative worth of those trust fund certificates that have been so dutifully filed all these years:

"When a trust fund receives payroll taxes or other income that is not needed immediately to pay benefits or cover other expenses, the Treasury credits the fund and uses the excess cash to reduce the amount of new federal borrowing that is needed to finance the governmentwide deficit. That is, if other tax and spending policies are unchanged, the government borrows less from the public than it would in the absence of those excess funds.

"The reverse is the case when revenues for a trust fund program fall short of expenses. The balances of trust funds at a given point in time are not a measure of resources available to pay future obligations for the respective programs; those resources will need to come from federal revenues or additional borrowing in the years those obligations are due."

Tanner uses a Clinton-era budget document from FY2000 that uses less turgid language to make the same point, "These (Trust Fund) balances are available to finance future benefit payments and other Trust Fund expenditures -- but only in a bookkeeping sense. They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large Trust Fund balances, therefore, does not, by itself, have any impact on the Government's ability to pay benefits."

Tanner concludes ominously, "Unless decisive action is taken, government at all levels in the United States will consume roughly 60 percent of GDP by the middle of the century and rise to unimaginable levels thereafter. A government of that size is a threat not just to economic growth, but to our liberty and our way of life."

Putting a specific dollar figure on the projected need to tap those nonexistent trust funds, the CBO reported, "If intragovernmental transfers are excluded and only income from sources outside the government (such as income from payroll taxes) is counted, the trust funds as a whole, in CBO's view, will run annual deficits that increase from $549 billion in 2011 to $922 billion in 2021." That is not pocket change.

But Senate Majority Leader Harry Reid, D-Nev., continues to insist Social Security is just fine. A couple of weeks ago he said it is an "outright lie" to say Social Security is "headed toward bankruptcy." He called the entitlement program "the most successful social program in the history of the world."

"Let's worry about Social Security when it's a problem," Reid said. "Today it's not a problem."

In a letter to the Review-Journal a week ago, Reid said the trust fund is backed by the full faith and credit of the United States.

In an interview this past week, Tanner states that "in a sense" Reid is correct. "The only question is where he plans to get the $2.9 trillion."

Whether there is a trust fund makes no difference, Tanner said. The government is not capable of saving money. It simply moves things from one side of the ledger to another. "It is simply an accounting method. No matter how good your credit is, you still have to borrow."

But Reid insisted in an interview with MSNBC, "Two decades from now, I'm willing to look at it" -- when he's

91 years old.

What was it John Maynard Keynes said about looking at economic issues in the long run? Oh, yes: "In the long run, we're all dead."

Speaking of the long run, this problem has long been recognized, discussed and challenged.

As far back as 1990, debate in the Senate focused on the misappropriation of Social Security funds for everyday expenditures.

According to the Congressional Record for Oct. 9, 1990, a certain loquacious senator stood in front of a sign with the word "embezzlement" scrawled in red and said:

"I practiced law before coming to the Senate. Like most attorneys who have an office practice where they deal with clients who have problems, I had a trust fund set up for my clients. If there were ever a time where money came into my office that was my clients' money, that money had to go into a trust fund.

"Mr. President, before that money was distributed out of that trust fund, we had to make sure that money went to the client. That money could not be used to make car payments for me, house payments for me, or buy a present for one of my children. That money could only be used for the purpose for which it was placed in that trust fund.

"The same basic rule should apply to the Social Security trust fund. Those moneys should be used only for the purpose for which the money is collected. If, when I practiced law, I violated that trust, I could be subject to disbarment. I could be subject to administrative procedures being taken against me by the Bar Association. In fact, I could be criminally prosecuted by the district attorney. ..."

Pointing at the red-lettered sign, the senator continued, "I think that is a very good illustration of what I was talking about, embezzlement, thievery. ... During the period of growth we have had during the past 10 years, the growth has been from two sources: One, a large credit card with no limits on it, and, two, we have been stealing money from the Social Security recipients of this country. ..."

He ended by sarcastically suggesting, "Maybe what we should do in conjunction with the president to really carry this conspiracy to its appropriate end, is rather than having it called the Social Security trust fund, why do we not change it and call it the 'Social Security slush fund?' "

Yes, you guessed it, that was what Sen. Harry Reid thought of the Social Security trust fund 20 years ago, when he was 50 years old. Nothing has changed in 20 years -- except Reid's opinion.

Not even the Republicans' budget, unveiled this past week, adequately addresses the Social Security funding gap. Instead it merely calls for a "requirement that in the event that the Social Security program is not sustainable the President, in conjunction with the Board of Trustees, must submit a plan for restoring balance to the fund."

Our children deserve better than being forced to shoulder the cost of today's extravagant expenditures.

Objects in the mirror may be closer than they appear.

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