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Dangerously Demagoguing Entitlements

Republicans and Democrats are trying to score cheap points this year, but it's a dishonest game.

By: Michael Tanner
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Question: How can you tell it's a difficult campaign season for Democrats?

Answer: They are already running ads accusing Republicans of wanting to destroy Social Security and Medicare.

The Democratic Senatorial Campaign Committee is financing an Iowa ad saying that GOP nominee Joni Ernst has "proposed privatizing Social Security [and] gambling our savings in the stock market."

In Arkansas, Senator Mark Pryor accuses his opponent, Representative Tom Cotton, of trying to "undermine the integrity of Medicare and Social Security."

And in Kentucky, Democrat Alison Lundergan Grimes has ignored press criticism to launch a new round of attacks on Mitch McConnell for supporting the Ryan budget, which Grimes falsely claims "increases Medicare costs and privatizes Social Security."

House campaigns are also featuring their share of Social Security and Medicare demagoguery: In Arizona's second congressional district, Nancy Pelosi's Democratic Majority PAC has run ads accusing GOP candidate Martha McSally of wanting to "raise the retirement age" and supporting "a plan that the AARP says privatizes Social Security in the stock market." Similar ads are running in Florida and elsewhere.

As the election gets closer, we can undoubtedly expect still more.

In fairness, of course, it should be noted that it's not just Democrats who peddle this nonsense. In Montana, the Republican senatorial candidate, Representative Steve Daines, is running an ad claiming that embattled Democratic incumbent Senator John Walsh "believes that privatizing Social Security should be on the table."

Unfortunately for those candidates, the trustees for those troubled programs just injected some inconvenient truths into the debate.

Start with Social Security. Last year, the program spent $75.6 billion more than it took in. This year's gap is expected to be more than $80 billion. This cash-flow shortfall is being covered by interest payments on the bonds in the Social Security Trust Fund.

Soon the interest payments will not be enough, and Social Security will have to make up any shortfall by redeeming bonds from the Social Security Trust Fund. But the Trust Fund holds no actual assets — it's only government bonds held by the government itself, essentially an accounting measure of how much the system is owed out of general revenues. Thus, when the Social Security system redeems bonds in order to cover its deficit, the money to redeem them. like today's interest payments, comes from general revenues, meaning that it simply increases our annual budget deficits and growing national debt.

This accounting gimmick will be irrelevant anyway after 2033, when the Trust Fund will be exhausted. By then, Social Security will have redeemed $2.8 trillion in bonds. Of course, you may have noticed that the federal budget doesn't really have $2.8 trillion to spare.

From there on out, Social Security's unfunded liabilities top $24.9 trillion. Add that to the $2.8 trillion needed to redeem the Trust Fund, and Social Security is running roughly $27.7 trillion in the red. That's $1.8 trillion more than last year. It's not getting any better, folks.

Yet Social Security's finances actually look pretty good compared with Medicare's. According to the trustees, Medicare's Trust Fund will run a deficit this year as it has for the last six years. The program may briefly return to solvency next year, as a result of Obamacare tax hikes, but will be running deficits again by 2021.

Medicare's Trust Fund will remain technically solvent until 2030, which represents a four-year improvement over last year's projection. But, as we saw with the Social Security Trust Fund, this is a meaningless accounting measure that doesn't affect the nation's overall finances. The program's total unfunded liabilities exceed $48.1 trillion, an increase of $5.2 trillion since last year's report.

It should also be noted that the trustees estimate that the total cost of Medicare will increase from approximately 3.5 percent of GDP in 2013 to 5.3 percent of GDP by 2035, and thereafter to about 6.9 percent of GDP by 2088. At that point, Social Security's costs will consume an additional 6.1 percent of GDP, meaning that these two government programs alone will eat up one-eighth of everything produced in this country. Medicaid and Obamacare will consume another 4.6 percent of GDP. With interest on the debt equaling 9.9 percent of GDP at that point, government will consume 27.5 percent of our economy before it does anything else . . . national defense, human services, infrastructure, *anything*. By way of comparison, all federal spending today amounts to 20.8 percent of GDP, and the post–World War II average has been just 19.3 percent.

In the face of this undeniable crisis, proposals to give future seniors more choice of Medicare plans or to allow younger workers to privately invest a portion of their Social Security taxes through personal accounts hardly look radical.

None of this seems to matter to candidates who think they can find a little temporary advantage by frightening senior citizens. Perhaps they are right when it comes to the politics, although such attacks have proven less and less effective in recent years. But when it comes to the future of the country, such irresponsible demagoguery should be all but disqualifying.

— *Michael Tanner is a senior fellow at the Cato Institute and the author of* Leviathan on the Right: How Big-Government Conservatism Brought Down the Republican Revolution.