

# ***IRET Congressional Advisory***

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## **A BALANCED BUDGET AMENDMENT MUST NOT EXCLUDE SOCIAL SECURITY**

A few Senators who voted for a balanced budget amendment last year are saying they may oppose the amendment this year unless a special exemption for Social Security is attached to it. This may be a gambit to kill the amendment. Granting Social Security special constitutional status is not morally or economically justified, would greatly weaken the amendment, and ironically would add new burdens to the Social Security System in the long run.

The purpose of a balanced budget constitutional amendment is to compel Congress and the President to balance the federal budget. That means holding overall government expenditures at or below total government revenues. It does not mean holding some spending to no more than some revenues — with exemptions for national defense or the highway trust fund or medicaid or Social Security or any other program that might have a legitimate national purpose or powerful constituency.

Carving out Social Security benefits and taxes from the budget calculations would leave an especially large hole because Social Security

benefits are the federal government's largest expenditure and second largest tax. Social Security benefits already exceed total national defense spending, formerly the largest expenditure category, and are growing much more rapidly; by the end of the decade federal payments of Social Security benefits will be about 60 percent greater than what the nation spends on national defense. On the tax side, the Social Security payroll tax is exceeded in size only by the individual income tax. Millions of individuals owe more in Social Security taxes than they do in income taxes. The employer share of the Social Security tax is, by itself, a bigger revenue source than the corporate income tax. A balanced budget amendment that leaves out Social Security would be seriously incomplete on both the expenditure and tax sides.

A Social Security exclusion would jeopardize passage of a balanced budget amendment in two ways. First, the exclusion would complicate the task of balancing the (redefined) budget in the near term. The Social Security trust fund is running a surplus for the time being. If Social Security were artificially removed from budget calculations, the deficit would suddenly appear bigger and reducing it to zero over the next several years would require extra large spending cuts or tax increases. That would make a balanced budget amendment appear more

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painful, which could scare away some potential supporters. Second, the version of the amendment with the exclusion gives political cover to opponents of a balanced budget amendment. Because a balanced budget amendment has strong public support, resisting it openly is politically risky. By putting forward the flawed version, which has no chance of passing Congress, opponents can to claim to voters that they back a balanced budget amendment even as they fight versions that would be more acceptable and effective. That is known as having your cake and eating it too.

In addition, as Senator Dole and others have cautioned, a Social Security exemption would create a giant loophole in the amendment. The contents of Social Security are defined by statute and can be modified by statute. If Social Security were excluded from the amendment while other spending were not, Congress could shield other programs from tough budget choices by passing statutes to shift them into Social Security. Under the pressure of dodging a constitutional amendment, some of the government programs that might be reclassified as part of Social Security are unemployment compensation, worker retraining, and spending on the Earned Income Tax Credit. And because Congress is inventive, this is just for starters.

At present, the Social Security trust fund is running a surplus. That would allow many other programs to be shifted into Social Security without busting its trust fund in the short run. When the baby boom generation starts retiring, however, Social Security will experience unsustainably large deficits under present benefit formulas. That looming crisis has nothing to do with a balanced budget amendment. It will be caused by the expanding number of retirees and other beneficiaries relative to active workers and other taxpayers. If the Social Security System has become a repository for myriad government programs when the demographic crunch arrives, the squeeze on the core program, benefits for the elderly, will come sooner and be harsher because of the extraneous spending that has become embedded in the Social Security System and is also making demands on its revenues.

Social Security projections under current budget formulas point to an enormously adverse impact on the availability of saving for private sector uses. Federal "entitlements", of which Social Security is the largest, already preempt much private saving, and, if nothing is done, entitlement spending will before very long consume all private saving. The core economic objective of a balanced budget amendment is to prevent federal budget developments from commandeering private saving. The Social Security System is projected to go into deficit early in the next century and thereafter fall

deeper and deeper into debt, becoming the biggest federal government consumer of private saving. It makes no sense to enact a balanced budget amendment but allow Social Security to escape balanced budget discipline. To protect private saving from the inroads of federal deficits, a balanced budget amendment must apply to all government programs, including Social Security and other "entitlements".

A balanced budget amendment would force hard choices to be made regarding federal spending programs. Some defenders of a special exemption for Social Security assert that Social Security deserves privileged treatment. Although Social Security is politically popular (which in itself affords much protection), it is not clear on economic or moral grounds why Social Security should receive higher priority than other federal spending. For instance, is paying Social Security benefits a more noble or urgent federal government function than providing for the national defense, enforcing federal laws, or undertaking basic scientific research?

Treating Social Security benefits and taxes differently from all other government outflows and inflows would have some economic justification if Social Security were analogous to private saving, but it is not. Unlike private saving, Social Security payments are not voluntary choices reflecting individuals' preferences. As with other taxes, people can face fines and prison if they refuse to pay Social Security taxes.

With private saving, the funds are invested productively and the eventual payouts to savers come from the returns on those investments. Whereas many advocates of the Social Security program describe it as an efficient government-run saving program, it is, in reality, the largest Ponzi scheme in the history of the world. Social Security payroll taxes go to the U.S. Treasury, and the Treasury, after issuing IOUs to the Social Security trust fund, uses the taxes to help pay the government's current bills. That is not real saving. It is akin to a person earning income, writing

himself a bunch of IOUs, putting those IOUs in a piggy bank, and then spending all the money. No matter how full of IOUs the piggy bank becomes, it will not hold even a dime of saving. In other words, the government no more directs Social Security revenues into productive investments than it does other tax revenues.

If a balanced budget amendment to the constitution is to be meaningful in subjecting federal

budget policy to financial discipline, it must apply to all federal spending and revenues. It should not exempt the largest spending item and the second largest tax. The national issues the amendment addresses are too important to fall victim to a parliamentary ploy.

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