Commentary

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The $68 Trillion Question

Peter Ferrara, Director of the International Center for Law and Economics, is a senior policy adviser on Social Security to the Club for Growth, the United Seniors Association, and Americans for Tax Reform on Social Security. In a recent article in the Wall Street Journal entitled “Let the Campaign Begin” he describes his proposed plan to reform Social Security by introducing the concept of individual accounts. He claims that his proposed plan would achieve permanent solvency for Social Security without any benefit cuts or tax increases. He also claims to have devised a means for making the transitional financing involved “quite manageable.” Not specifically discussed in his article is the question of $68 trillion worth of revenue transfers from the General Fund of the US Treasury required to support his proposal. That is the amount of the deficit, expressed in constant 2003 dollars, as computed by the actuaries at the Social Security Administration, that would accumulate over the standard 75-year projection period used for measuring Social Security costs, in the absence of the general revenue transfers. Incidentally, $68 trillion is about ten times the size of today’s national debt level. According to the opinion expressed in an editorial in the Wall Street Journal that accompanied Peter Ferrara’s article, the Ferrara proposal demonstrates that “large amounts of Social Security funds can be diverted to private accounts and that Social Security solvency can be restored.” Although not mentioning the $68 trillion question or any specific dollar amounts from the Social Security Administration’s actuarial memorandum, the Wall Street Journal stated: “Not that there is any free lunch….the transition would still have to be financed….from a combination of mild spending restraint on other federal programs….more government borrowing…. and additional revenue from higher corporate profits….if spending restraint proves illusory, additional borrowing could make up the difference.”

Considering that the Social Security Trustees have reported that the existing Social Security System’s assets and income are insufficient to support its projected outgo over the next 75-years, how does Peter Ferrara expect to produce this transition from insolvency to solvency and, in addition create an individual account system? He accomplishes this seemingly impossible task by assuming that three new sources of funding could be created to generate the accumulated $68 trillion of revenue transfers over the next 75 years. The assumptions that underlie this balancing act merit close scrutiny and analysis.

Where does Ferrara’s $68 trillion assumed accumulation come from? He assumes revenue transfers from the General Fund of the US Treasury, even though the Federal Government is running large deficits and is unlikely in the foreseeable future to achieve a balanced budget position. He assumes substantial reductions in Federal Government spending, he projects increases in Federal Corporate Income Tax receipts and he assumes the Treasury would issue additional bonds at any time to maintain the Social Security Trust Fund at an adequate level to pay current benefits. He and the Wall Street Journal’s editorial writer claim “permanent solvency” for the plan based on a memorandum prepared by the Social Security Administration’s actuaries. In fact, however, a careful reading and analysis of the memorandum reveals that it states that, given the Ferrara plan specifications and his assumptions regarding revenue sources (including the assumed accumulated $68 trillion of revenue transfers) the proposed program would be expected to be solvent. In effect, the memorandum estimates the funding deficiency and then incorporates Ferrara’s assumption that legislated revenue transfers would fund the deficiency.

The Washington-based Center on Budget and Policy Priorities has undertaken a detailed analysis of Ferrara’s assumed savings from reduced government spending and finds their magnitude implausible as they would represent eliminating close to 50% of discretionary spending after excluding spending for defense and homeland security. This discretionary spending includes education, law enforcement, infrastructure, veterans’ medical care, biomedical research, tax collection, and national parks and other natural resources.

Not only is the Ferrara proposal questionable on the basis of its assumed funding sources, it may also prove to be counterproductive for those who are campaigning to introduce individual accounts into the Social Security system. Once the details of Ferrara’s plan are studied, policymakers with a concern for fiscal responsibility are unlikely to support such an arrangement with its required revenue transfers. Opponents of the individual account concept will find reasons to criticize the plan on the basis of the credibility of the assumptions and revenue sources on which the viability of the Ferrara proposal depends. Essentially, the Ferrara plan has answered the question of how to fund $68 trillion of accumulated revenue transfers by assuming the amount would be mandated by legislation.

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