

What budget surplus?

BY STEVE CHARNOVITZ

Federal officials are deciding what to do with the first unified budget surplus since 1969. This surplus is currently projected at \$39 billion.

President Clinton favors reserving the surplus to help "save" Social Security. House Ways and Means Committee Chairman Bill Archer, R-Texas, wants to "return the surplus to the people." Both plans presuppose a pot of money available for redeployment.

In reality, however, there is no pot of money. The surplus is largely fictional. The \$39 billion number is derived from comparing fiscal year 1998 taxes and expenditures on a cash basis. Such an annual snapshot is misleading because it does not account for future obligations that accrue each year.

The biggest distortion emanates from the intergenerational financing of Social Security. When Congress increased Social Security taxes in 1983, it recognized that the ensuing higher revenue would make federal deficits appear smaller. That's why it passed a law to take Social Security out of the federal budget.

Like everything in the federal government, its budget is complicated. Yet one needs to be aware of the arithmetic to see the underlying issues.

This year, the Social Security program is running a \$102 billion surplus. The "official" budget deficit is \$63 billion. Mr. Clinton gets the \$39 billion figure from consolidating these two numbers (that is, \$102 billion to \$63 billion), and by ignoring the law that places Social Security off-budget.

"America has balanced the budget," says Mr. Clinton. But this boast is misleading. It fails to reveal how the Social Security surpluses distort the annual budget figures.

More important, it does not prepare Americans for the wrenching budget adjustments that will have to begin by 2013 when the annual Social Security

surpluses terminate. At that point, Congress will need to raise income taxes (or cut spending) in order to start repaying what has been borrowed from the Social Security trust fund.

Mr. Archer has declared that "taxpayers deserve a refund." He seems to be suggesting that taxpayers have overpaid. But his claim quickly evaporates when one recognizes that the real deficit is \$63 billion.

In other words, current taxpayers are paying for only 95% of what the federal government will spend this year on-budget (about \$1.3 trillion). The remaining 5% is being borrowed.

One wonders what taxes Mr. Archer wants to refund. If he refunds income taxes, then the

ment to reduce the national debt, which now stands at 66% of gross domestic product.

Is that too high? We don't know for sure. Economists have no convincing models for the ideal level of public debt. But it may be reasonable to presume that 66% is too high given that this is twice the level that existed when Ronald Reagan took office.

One good use for the so-called surplus would be to increase annual investment in government R&D, which has fallen by \$5 billion (in constant dollars) since 1993.

But if Mr. Clinton sought that, the Congress would trump him by proposing ever-popular tax cuts. So Mr. Clinton has pulled out the ultimate trump—posing as the protector of the ill-designed Social Security system.

In exposing the fictional nature of the "surplus," I do not denigrate the achievement of reducing the one-time huge budget deficits.

The U.S. government is truly recovering from the irresponsible fiscal policies it pursued during the 1980s. Many groups deserve credit for catalyzing public support for reducing the deficit. Two that stood out were the Concord Coalition (led by Peter

Peterson, Warren Rudman, and the late Paul Tsongas) and the Ross Perot campaign.

Unfortunately, budget candor is no longer in fashion. Today, elected officials are ignoring the law designed to keep the Social Security surpluses from distorting the federal budget. Also neglected are the budget inadequacies, such as reduced investment in research.

Perhaps the worst failing is that many politicians seem willing to bequeath a \$5.5 trillion national debt to future generations.

Surely it is morally bankrupt for those who ran up this debt to lower their own taxes.



95% ratio will fall. That is, taxpayers will pay an even lower share of the cost of government.

If he refunds Social Security taxes, then the system will go broke sooner than expected. Neither refund makes sense.

Mr. Clinton's plan is better than Mr. Archer's. But like so many of the Clinton administration's policies, its current budget plan is merely reactive.

Whatever the surplus turns out to be is what the administration will devote to "saving" Social Security. Even after five years in the White House, the president has not developed a plan for reforming the system.

In view of the impending Social Security liabilities, it would seem prudent to seek high budget surpluses for the foreseeable future. This will allow the govern-