Floor Statement by Senator Kent Conrad (D-ND) on the Voinovich/Conrad Social Security lockbox bill September 20, 2005

I rise today to join Senator Voinovich of Ohio in introducing a new Social Security lockbox proposal, the Truth in Budgeting Act of 2005. For years, I have urged my colleagues to stop what I believe is the reckless practice of raiding Social Security trust fund surpluses to pay for other things. By failing to save these surpluses, we are putting future generations in the position of having to borrow trillions of dollars to make good on our Social Security, Medicaid, Medicare, and other commitments.

The legislation Senator Voinovich and I are introducing today would not only take Washington's hand out of the Social Security cookie jar, it would literally take the cookie jar away. If our bill is adopted, Social Security surpluses and other trust fund surpluses would no longer be used to fund other functions of Government and to mask the size of the Federal deficit. Instead, Social Security payroll taxes would be used to provide future Social Security benefits, as they were always intended.

Our bill would end the practice of spending trust fund surpluses. Instead, it would require those surpluses to be set aside and invested in a broad-based bond index fund that will be drawn on to finance our future obligations. In many ways, this legislation is a truth-in-budgeting bill because it will force us to recognize the true size of our fiscal deficit. It is our hope this will force Congress and the President to work together to address not only our current budget imbalances but our long-term entitlement challenges.

Let me take a few minutes, if I could, to explain why I think this legislation is so important.

Our budget situation has taken a dramatic turn for the worse. Over the last 5 years, we have gone from record surpluses to record deficits. The 2005 deficit is now projected to be $331 billion, the third worst in U.S. history. That is before Katrina. The increase in debt this year will be far higher.

This is something that I find confuses the American people, confuses my constituents, confuses the media, and perhaps even confuses our colleagues: The advertised deficit -- $331 billion before Katrina -- is not the amount the debt will increase by this year. The amount the debt will increase by is much larger, approaching $589 billion, and that is before Katrina. Why the difference? Because in the deficit calculation, borrowing from trust funds is ignored. It is not ignored when you consider how much the debt is increasing. It is ignored in the deficit calculation.

But, for example, the $173 billion this year that will be borrowed from the Social Security trust fund and used to pay for other things, is not included in the deficit calculation. It is added to our debt. It has to be paid back. It is not included in the deficit calculation.

There are $85 billion of other transactions, such as that one, that will add up to a total of a $589 billion increase in the debt. Again, that is before Katrina.

Looking forward, our current budget takes every penny of Social Security surplus over the next 10 years to pay for tax cuts and other spending priorities. Over the next 10 years, under the budget that has been passed here, every penny of Social Security surplus is being taken to pay for other things -- $2.5 trillion.

The reported shortfall in Social Security over the next 75 years is $4 trillion on a net present value basis. I, frankly, do not believe that. I think that shortfall is significantly overstated. But if it were real, if it were $4 trillion, look at the comparison here on this chart: We are taking $2.5 trillion in Social Security money over the next 10 years, using it to pay for other things, when we say Social Security has a $4 trillion shortfall on a net present value basis. What sense does this make? We are digging the hole deeper before starting to fill it in.

I said something I want to go back to because I indicated I do not believe the projected $4 trillion shortfall in Social Security is correct. That is the estimate of the actuaries. I think they are wrong. Why do I think they are wrong? Because their whole scenario is based on economic growth for the next 75 years averaging 1.9 percent a year. Over the previous 75 years, the economy has grown at 3.4 percent a year. If the economy were to grow in the future as it has in the past, 80 percent of the Social Security shortfall would disappear.

Does that mean we do not have a problem? No. I wish it did. We have a huge problem. The problem we have, I believe, is a budget problem. The problem we have is, first, we are running very large deficits now before the baby boomers retire. No. 2, the shortfall in Medicare is 7 times the shortfall in Social Security, approaching $30 trillion. There is the real 800-pound gorilla.

In Social Security, the problem is not so much the shortfall, at least from my perspective. I think the problem is that the assets in the Social Security trust fund -- and there are assets there. Anybody who tells you there are no assets there is wrong. There are assets there. They are special-interest Government bonds, backed by the full faith and credit of the United States, that are in the trust fund. The problem is, those bonds have to be redeemed out of current income. That is the problem. Those bonds sitting in the Social Security trust fund have to be redeemed out of current income.

We already have a circumstance in which we are running massive deficits. We have this looming shortfall in Medicare. Oh, yes, we have a problem. We have a big problem, and the sooner we get at it, the better. The first thing to do is stop diverting Social Security money to use for other purposes. As I have indicated, this increase in debt is happening at the worst possible time, right on the brink of the retirement of the baby boom generation. The number of Social Security beneficiaries is projected to climb to 81 million people by 2050. This is not a projection. It is not a projection. The baby boomers have been born. They are alive today. They are going to retire, and they are eligible for Social Security and Medicare. That has enormous implications for the future.

As stunning as it may seem, we are only 3 years away from the beginning of the retirement of the baby boom generation. Social Security trust funds are running surpluses now.

But starting in 2017, payroll tax revenue will no longer be sufficient to pay for benefits. Those bonds we are issuing to the Social Security trust fund will have to be redeemed out of current revenues at the time. At this point, as shown on the chart, the Social Security surpluses will turn into Social Security deficits -- out here in 2017. When that happens, a serious budget crunch will ensue, unless we find a way now to save those surpluses.

Another way of looking at this is by looking at the total balances in the Social Security trust funds, which are expected to peak at over $6 trillion in 2026. As shown on this chart, this is the pattern of the Social Security trust fund assets. You can see, right now we are at about 2005, about right here, and we are still in the buildup phase. There are massive surpluses being run in the Social Security accounts. But instead of the money being used to prepay the liability or to pay down debt, the money is being used to pay for other things.

So here we have it. We have this massive buildup. In 2026, roughly, the trust fund assets peak at $6 trillion, and then they begin being drawn down precipitously. We have a problem. It is a serious problem. It is a problem that is inexorable. Unfortunately, our current budget policy is contributing to the problem because it is taking the amount that is in surplus every year and using it to pay other bills. That is comfortable. That is easy. But it does not help us deal with the problem.

In 2001, I urged my colleagues to set aside $900 billion of what was then projected to be surplus to either prepay the liability or pay down debt. For those who are advocates of personal accounts, the money could have been used to establish personal accounts, not borrowing it but putting real assets behind it. For those who do not like personal accounts, the money could have been used to pay down debt to better prepare ourselves for the time when the baby boomers retire.

The chart I was showing before perfectly illustrates why this is no time to permanently or continually divert Social Security and other trust fund surpluses to other purposes. Failing to return to a fiscal path of saving trust fund surpluses will severely limit Congress' ability to address the looming pension and health care needs of the baby boomers and will shift a larger debt and tax burden on to future generations.

Any private-sector corporation that behaved like the Federal Government is behaving would find its chief officers on their way to a Federal institution, but it would not be the Congress of the United States, it would not be the White House. Anybody who was running a private-sector entity that took trust fund assets, retirement fund assets of its employees, would be guilty of a Federal crime. They would be on their way to a Federal institution. It would not be Congress; it would not be the White House; they would be on their way to a Federal penitentiary.

What is happening here is a shell game, and it is a shell game with enormous consequences, not like a shell game where somebody bets on some corner deal and loses $10 or $20. This is a shell game being played by society. I believe it is time to put a stop to this practice of borrowing against future commitments.