OpinionJournal from THE WALL STREET JOURNAL Editorial Page

REVIEW & OUTLOOK

A Surplus Idea

Congress should give workers back their extra Social Security taxes.

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The conventional Beltway wisdom says Social Security reform is dead, thanks to near-unanimous Democratic opposition. Well, not so fast. Republican reformers are introducing a new plan to invest Social Security *surplus* funds into personal accounts that has the potential to shake up the debate.

Wisconsin Congressman Paul Ryan and South Carolina Senator Jim DeMint are calling for legislation to bring an immediate halt to the ongoing political raid on the surplus payroll taxes collected by Social Security. Congress now spends that cash on current programs--from cotton subsidies, to defense, to the Dr. Seuss Museum. Every day that Congress fails to act, another $200 million is spent rather than being saved for future retirement. Daniel Patrick Moynihan once called this "thievery," and if corporate America were engaged in this type of accounting fraud Eliot Spitzer would be hauling CEOs to jail.

Instead of spending this retirement money, the reformers would allow individual workers to divert every surplus Social Security dollar--from now until the extra cash runs out in 2016--into personal retirement accounts. For the record, we endorsed this idea some months ago, so we're glad to see it gaining steam. Here's how it would work:

For the past 20 or so years, the federal government has collected $1.67 trillion *more* in payroll taxes (and accumulated interest) than it has paid out in retirement benefits to senior citizens. But not a penny of this money has been saved for any worker's retirement. The surplus dollars get spent by Congress, and the Social Security system is credited with an IOU from the right hand of the government, the Treasury Department.

This is the point President Bush made earlier this year when he went to West Virginia, opened up the Social Security "vault" as it were, and pulled out stacks of these government IOUs. These are essentially a debt the government owes to itself, and where the money will come from to pay these debts is anyone's guess--though if history is any guide it will be higher taxes. Wherever the money comes from, it can't be from the Social Security "trust fund" because those dollars have already been spent.

DeMint-Ryan would allow workers to create individual personal retirement accounts and place marketable government bonds worth their portion of the Social Security surplus into these accounts. Think of this as creating 140 million "lock box" accounts, one for every American worker. After three years, workers could trade these Treasury bonds and invest instead in higher-return mutual funds containing a combination of corporate stocks and bonds.

People Power

Social Security trust fund surplus per worker

	Cash surplus	Cash plus interest
2006	$527	$1,141
2007	546	1,198
2008	550	1,246
2009	508	1,248
2010	481	1,265
2011	450	1,281
2012	387	1,263
2013	312	1,231
2014	225	1,186
2015	141	1,143
2016	47	1,089
Total*	**$5,484**	**$16,648**

* Assumes 4% interest.
Source: Social Security Administration, 2005.

We're talking big dollars for most families. The federal government will continue to run surpluses of about $1.2 trillion through 2016 on a cash basis, and some $3 trillion through 2026 if interest on that cash is also counted. The nearby table shows the scale of the annual surplus cash payments, and how much larger they'd be if interest on them were included. The DeMint-Ryan proposal doesn't currently include interest, though we think it would be improved by doing so.

Workers deserve this interest since it is being paid on money that they earned. And if interest were included, workers would get payments into their accounts for 20 years instead of 10. A worker with a $40,000 salary would get an average of 3% of his paycheck deposited in a personal account, or roughly $1,200 a year. A 25-year-old making a median wage, and earning 4% interest, would have an account worth nearly $100,000 by age 67.

The virtues of this proposal are both economic and political. By investing the surplus, rather than letting Congress spend it, the money would be put to better economic use and add to net national saving. The latter ought to please the deficit scolds in particular.

Another benefit is that Congress wouldn't be able to keep using the Social Security surplus to disguise its other spending habits. This means more-honest federal budgeting, and we hope more pressure for spending discipline. Members can check out a list released this week by the Free Enterprise Fund of $80 billion in corporate welfare and pork barrel projects that could be extinguished to make up the difference.

As for the politics, this calls the bluff of Democrats who claim to be the sole protectors of the Social Security trust fund but have done nothing to stop depleting it. Do they want to protect it or not? And by investing only *surplus* payroll taxes into private accounts, the proposal blunts the (specious but politically potent) attacks from AARP and the left that personal accounts will endanger the program's solvency. The DeMint-Ryan plan *enhances* solvency by preventing raids on the trust fund, which is a practice that has long infuriated senior citizens.

The other political benefit is that this idea positions reformers for a longer run debate if the Social Security effort fails during this Congress. In order to succeed, reform was always going to require bipartisan cooperation, and at least five Senate Democratic votes. Yet Democratic leaders have made opposition to reform a party obligation and not one has budged.

Republicans are under no obligation to commit suicide by voting for benefit cuts in the House and Senate if reform has no chance of succeeding. The invest-the-surplus idea gives Democrats one more chance to join the reform party, while putting reformers in a stronger position going into 2006 if Democrats refuse.

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