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"Spending" the Surplus: Counting the Ways

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In his State of the Union address, President Clinton proposed that "62 percent" of the surplus be spent on social security, that another share be allocated to Medicare, and that the remaining share be spent on other items, including a subsidy for new private pension accounts. When the administration subsequently tried to translate those portions into numbers, confusion reigned. Almost no one outside the administration initially could figure out how to get the numbers to add up. It takes a complete set of accounts to reconcile the various statements that are being made and why they are so confusing (see table).

The bottom line is that the president's proposals allocate more than 100 percent of the total unified budget surplus—a surplus that encompasses both the social security and the non-social security budgets. Never stated explicitly by the administration is that its suggestion would convert the non-social security budget from a surplus into a deficit. Yet because so much of that new non-social security deficit would be caused by an internal governmental transfer to social security, the proposal still would retain close to three-fourths of the unified budget surplus.

Still confused? Join the crowd! What complicates matters is that social security itself is scheduled to run a surplus. Its own surplus is already about 56 percent of the total unified budget surplus expected over the next 15 years. That is, under current law social security would run a surplus of about $2.7 trillion over the next 15 years, while the combined unified budget surplus would be $4.8 trillion (see "current law" column of the table). If social security merely held onto its own surplus, then, it would seem as if the president's goal could almost be reached. Perhaps another $100 million to $300 million or so would be needed to achieve the 62 percent target, but that is all. Right? No, wrong! The president suggested making an additional transfer from Treasury to the Social Security Administration of $2.8 trillion or $2.7 trillion (the administration has used both numbers, but, while confusing matters further, it makes little difference to our story).

Now think about it. If social security already has about three-fifths of the combined surplus, and if it is allocated another three-fifths of the surplus, then doesn't the total add up to about 120 percent of the entire surplus—social security and non-social security together? That is correct, and that helps explain the confusion.

How, then, can one reconcile the accounts? Essentially, the administration has proposed to run a non-social security deficit of about $2 trillion to be able to finance both the additional transfer to social security and its other spending and tax proposals. Put another way, the non-social security surplus over the next 15 years would be about $2.1 trillion under current law. The administration has proposed allocating $2.8 trillion to social security and $1.3 trillion to other spending and tax proposals. That $4.1 trillion debit to Treasury's non-social security accounts would require that they run a $2 trillion deficit.

Now return to the unified budget measure that counts both the social security and the non-social security accounts together. In that broader set of accounts, all of the accounting transfers are a wash. Social security gets a credit; the rest of government gets a debit. Medicare also gets a credit, which is matched by a recording of additional debt on Treasury's books. The total surplus is reduced only by actual changes in spending and taxes, suggested by the administration to equal $1.3 trillion. Hence the unified budget surplus would still be reduced from only $4.8 trillion to $3.5 trillion.

From the administration's perspective, these various accounting shifts—and the claim of having "spent" the surplus on social security and Medicare—would help it maintain the surplus and prevent even more rampant spending and tax cutting by Congress. Why, however, didn't it simply try to preserve the social security surplus that is already being recorded in its own set of books? On net, the administration's proposal isn't much different from suggesting that the social security surplus be maintained and that the majority of the non-social security surplus be available for other purposes. (The Medicare transfer merely adds support for current spending promises rather than increases in Medicare spending per se, so technically the administration suggests spending only $1.3 trillion out of the $2.1 trillion non-social security surplus.)

The problem for the administration is that if it recorded the changes in this simpler way and didn't make the additional transfer, it couldn't claim to have done anything to "solve" the social security problem. Think of its proposal with respect to social security as totally separate from the rest of what happens in the budget. Its recommendation is to have the Treasury Department issue an additional $2.8 trillion worth of bonds to social security for free. Treasury would book the new liability, social security would book the new asset. Of course, the interest and principal on the debt must now be covered by the income taxpayer rather than the social security taxpayer. However, when the actuaries run numbers on social security's own books, it will appear to have more money (due to obligations imposed on future taxpayers to pay off this formal Treasury debt).

When all the accounts are fully reconciled, the administration's proposal involves converting the non-social security surplus into a significant deficit. Running a non-social security deficit is likely to be the Achilles heel of the proposal. Add to that problem the total confusion that arises because the administration really tries to "spend" more than 100 percent of the unified budget surplus without saying that it has done so, and it becomes clear that this is a policy a long way from enactment. There really isn't a social security or a Medicare proposal anyway, merely a suggestion to try to save some of today's temporary surplus for the future so that reduced interest payments on the debt held directly by the public can now be made by income taxpayers to meet the obligations of Medicare and social security.

Nonetheless, the president's suggestions do give us some hints as to the broad boundaries that are likely to be set on budget policy this year. It is unlikely that Congress would spend down the social security surplus already projected (hence violating the "62 percent" standard, no matter how measured). Meanwhile, bargaining over additional spending and tax cuts between the administration and Congress is liable to fall somewhere between the $1.3 trillion suggested by the administration and the $2.1 trillion in non-social security surplus now projected. Whether any of this will make sense as a matter of budget, social security, Medicare, tax, or expenditure policy is another matter.

Summary of President's Budget & Social Security Proposal		
	Current Law	**Proposal**
Social Security Accounts		
A. Social Security—Own Sources	2.7	2.7
B. Transfer of Obligations to Be Financed From General Revenues	—	2.8
C. ***Subtotal:*** Total Recorded Social Security Surplus	2.7	5.5
Non-Social Security Accounts		
D. Non-Social Security—Own Sources/Old Law	2.1	2.1
E. Transfer of Obligations to Social Security(= -B)	—	-2.8
F. Addition to Medicare Assets	—	+0.7
G. New Treasury Debt to Medicare	—	-0.7
H. New Spending and tax Cuts	—	-1.3
I. ***Subtotal:*** Total Recorded Non-Social Security Surplus	2.1	-2.0
Reconciliation		
Unified Budget Surplus (= C+I)	4.8	3.5
Change in Unified Budget Surplus (also = H)		-1.3
Note: Numbers are based on early administration figures,, which are changing daily. The claim that 62 percent of surpluses would be spent to shore up social security is achieved roughly by dividing the $2.8 trillion to social security by the $4.8 trillion estimated surplus under current law. The administration has also used $2.7 trillion as the size of the new transfer to social security and $4.4 trillion as the unified budget surplus under current law.		

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