Social Security Ranting over Illusory Lockbox
Richard E. Wagner

What is all this foolish talk about a social security lockbox all about anyway? It’s foolish talk because those who talk the talk know there is no such thing. Indeed, there never can be any such thing so long as social security is a government program. That talk is not about lockboxes, sacred trust, and the like. It is about establishing strategic positions in a political contest that is shaping up over future tax rates.

Until 1984, social security was a program where the total amount of taxes that taxpayers paid was roughly equal to the total amount of benefits that recipients received. This program of balanced budgets for social security was sure to encounter great trouble when the post-war baby boomers began to hit retirement age in the decade starting in 2011.

Looking ahead from 1984, there were three options for dealing with the coming bulge of baby boom retirements, while maintaining the present system. One was to cut benefits sharply starting around 2011. A second was to increase taxes severely starting around 2011. A third, which was largely a variation of the second, was to start collecting those higher taxes well in advance of 2011. This option was adopted, with social security scheduled to run surpluses between 1984 and 2018. Last year, for instance, social security ran a surplus of $85 billion.

The Bush Administration has now suggested that the government might have to borrow $9 billion from social security to pay for other government
programs. In many quarters, this suggestion has been treated as a gross violation of some solemn pledge, and has evoked a variety of negative reactions.

The trouble with all this fulmination about lockboxes is that it just isn’t true. There is no lockbox. There never has been. Lockboxes are meaningful only so long someone has a clear property right to the key. Lockboxes require private property, and politics is all about converting private property to political uses.

If you invest your money in a bank or mutual fund, that money is yours, and you are rightfully entitled to the resulting earnings according to the contract between you and your financial institution. Your money is in a lockbox, in that the financial institution is bound by its contract with you.

When politicians adapt such a term as lockboxes to their purposes, we may be sure that they do not intend to bind themselves in some sort of genuine contractual relationship. A contract is a promise, for which damages must be paid by whomever breaks the contract. Politicians are not liable for their promises, and so understandably break them when they choose to.

The most important thing to remember about social security is that it is a government handout, and the terms of that handout are decided through politics. Government, moreover, is continually revising the various rules and payment schedules, with the changes in 1984 being but one illustration. Every time social security changes its benefit schedule, changes its tax rates, changes its retirement age, or changes anything else, politicians are breaking past promises. Indeed, the whole concern about social security and its long-term viability is a result of politicians making grossly inconsistent promises to different people.
Even with the current massive build up of surpluses, it is widely acknowledged that by 2030 the trust fund will be gone and payments will be hugely in excess of revenues. In other words the political promises that have been made to beneficiaries are inconsistent with the commitments that have been made to taxpayers. The two sides don’t add up. There has been massive lying to the public everywhere throughout our political system.

Or at least it would by lying if it were a privately retirement fund, where the managers of the fund were bound in a fiduciary relationship to investors. With social security, however, there is no such fiduciary relationship. If a private retirement fund were unilaterally to change its contract with you, you could sue it for breach of contract. When politicians do the same with social security, it is just so much “public policy.”

What is really at issue in all this talk about lockboxes is simply how high federal tax rates will be in future years. For now, the Bush Administration has secured a temporary, ten-year reduction in tax rates. A betting person would surely wager that tax rates would be higher after the term of Bush-relief expires. Those who complain strongly about violating lockboxes, mostly Democrats but not exclusively so, want tax rates to zoom up before ten years lapse. They do not, however, want to operate under the constraints of property, contract, and promise that applies to you and me.