REMARKS OF SENATOR JOHN HEINZ (R-PA)
NATIONAL ACADEMY FOR SOCIAL INSURANCE
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Thank you, Alicia. It is a great honor to be asked to deliver the first speech to the first annual meeting of such a distinguished group. This is certainly the most impressive collection of Social Security expertise to assemble in one room since the last time Bob Ball and Bob Myers got together.

Having just come off the campaign trail, though, I know first hand that Social Security policy does not solely belong to the experts. The most vocal -- the real -- debate over Social Security does not rage in the universities or in the Social Security Administration's offices or even in the Congress. The critical debate over Social Security is carried out in newspapers, on television, and - most of all - in living rooms and kitchens across America. No matter how secure or immune from politics we want Social Security to be, any program that withholds thousands of dollars a year from every worker's wages to pay every sixth American a benefit will always be in critical condition. The tension in this program between taxpayers and beneficiaries is not unique to the "me-too" generation or the demographic bulge of the "baby boom." It is built into the program by design. It is a tension balanced by the Congress, and this balancing act will be with us into the indefinite future.

The mission of the Academy is to investigate, evaluate and inform. This is a formidable challenge especially because it is important to educate, in addition to others, not just the Members of Congress, but it is essential to educate the people who elect us as well. Even with the best of intentions about Social Security "policy•, it is easy for us to lose our bearings in the stormy seas of Social Security "politics•. Buffeted by the threat of negative campaigns, the fear of single-issue senior voters which these days means anyone 50 or older, or the danger of a revolt of the "baby-boom" which is everyone around 40 or younger, it is often difficult to know where a safe harbor of Social Security policy really lies. The light that the National Academy can shed through debate, study, research, and public education will be critical to this process. I congratulate Bob Ball and the other founding fathers and mothers for having brought the Academy into this world. I am honored to be a part of it. And I am pleased that you have chosen to charge it with an active role in framing the public debate.

Your supurb insight and good judgement is especially evident in the choice of a topic for your first annual meeting. The role of Social Security in the Federal Budget has been a favorite topic of mine ever since I worked with many of you on the National Commission in 1982. And it is one place where the public is considerably ahead of the Congress in its concern about the issue. Six years ago, when Social Security was running deficits of $8 billion a year, the public wanted Social Security out of the Federal Budget to protect it from congressional budget cuts. Today, in the context of a fiscal 1989 Social Security operating surplus for the year of $45 billion, my constituents tell me overwhelmingly that they don't want these annual additions to the reserves for future retirees lent and then spent, now, to mask a hidden budget deficit and make today's politicians look good. In response to a recent "sample ballot" I sent out in Pennsylvania, 99.91% of the 80,000 constituents who responded - a group including younger people as well as seniors - told me they wanted Social Security taken out of the Gramm-Rudman-Hollings calculations deficit reduction targets, even though they understood the effect it would have on the deficit.

This public sentiment has been clear all along, but it has been difficult to convince policymakers there was any reason to worry 8 or 10 years ago about the effects and implications of Social Security's deficits, and now about the even larger and growing surpluses. Until recently, many of my colleagues have viewed it as simply an accounting question - of little consequence. Even now, as seemingly every editor and Op-ed writer in the country is working on an article about the serious policy implications of how we handle Social Security's annual mounting reserves, a considerable number of my colleagues worry that it would be too hard to remove Social Security numbers -- which specifically include counting all revenues to Social Security as general revenues -- from out of the budget and the way we report the general revenues -- from out of the budget and the way we report the deficit. Instead they are willing to rationalize this deficit deception by saying we can do the right thing later --- but not "now•!

Is this only a case of a small fiscal fix? Why do we care whether Social Security revenues are included in the Gramm-Rudman deficit reduction targets? What difference does it really make? To the extent that Congress continues to make expenditures for general government purposes that further exceed general revenues -- the answer is that it makes a big difference, the import of which is significant, the consequences most severe and getting "worse•.

This year is a case in point. Congress will try to enact $32 billion of savings or taxes to achieve a G - R - H deficit target of $100 billion for fiscal year 1990. Under current rules and practices, if met, this $100 billion deficit target will only be achieved because of scoring all Ssocial Security revenues and outlays as if they are part of the general fund. Since established Social Security revenues will exceed outlay in FY1990 by some $63 billion, Congress will be able to avoid that much more in the way of difficult decisions. Instead, Social Security reserves will be lent to -- and spent by -- the general fund. By 1993, under G - R - H, we expect to claim a zero budget deficit. By then, the calculation will include, not $63 billion, but $99 billion of the year's surplus Social Security revenues on non-Social Security programs, we will simply add the growing Social Security debt to the existing $2.3 trillion national debt. Within a decade, we would double the national debt to around $5 trillion.

And with this tremendous increase in debt will come a hugh growth in annual interest payments on the debt. We already use 28 percent of our non-Social Security revenues to make interest payments on our Federal debt. If we continue to permit the national debt by the process I have just described, our annual interest payments will more than double -- from $177 to $375 billion -- in just a decade. By the year 2000, depending on economic assumptions, as much as 60% of all non Social Security revenues would be required to make interest payments alone. That's what I call "really• mortgaging the future. Eventually, we will be a nation so caught up in paying interest for the spending of this generation that we will have little revenue left to guard our shores or educate our children. I submit it is bad policy to divert our education, welfare, or defense resources in the first place. I also believe it is terrible politics to divert them, in the form of interest payments to wealthy or foreign bond holders.

The dynamics of debt doubling are not only ominous for the Federal budget and in human terms, they also create some real vulnerabilities in our economy that cut close to our national security. The most troubling of these is our growing dependence on foreign lenders, brought on by a soaring debt, intensified by a declining private savings rate. The net savings rate in the U.S. has literally plummeted in the last ten years. Personal savings have dropped from more than 7 percent of disposable income to less than 4 percent in just six years. Were it not for private pensions, individual households would actually be net borrowers. At the same time, government deficits have risen from historical levels of about 1 to 2% of GNP to an average 5% of GNP in the 1980's. The combination has dropped net national savings from 6% of GNP in 1981 to only 2% in 1987. Almost all domestic personal savings is now being consumed by government deficits. In 1987, all but $13 billion of personal savings was offset by deficits. In that year, to meet the need for additional capital, we had to borrow, especially from Japan, $157 billion from abroad. This is shocking because historically, and as recently as six years ago, we were net lenders to foreign countries.

Real Social Security savings -- achieved by not lending and spending the annual addition to Social Security reserves -- will be essential if we are ever to get our national savings rate back to the G - R - H deficit targets and force ourselves to reduce all or part of the remaining deficit. At a minimum, we need to prevent Social Security's contribution to the budget from growing and casting and ever larger shadow over the deficit -- at least until we reach Gramm-Rudman's zero deficit target in 1993. Then we can take the additional two or three years we will need to work the remaining Social Security surpluses out of the budget. This is the thrust of legislation I introduced last year as

S. 2913, which I will reintroduce in the 101st Congress.

"Truly• removing Social Security from the budget will pay tremendous benefits. Among these is the attainment of "Truth-in-Budgeting: and the end of deficit deception. We would finally own up to what we really spend today and fully pay for it through general revenues. For tomorrow's retirees -- the baby boom generation -- the revenue we raise in the name of Social Security could then be available to pay a substantial part of their Social Security benefits rather than used to pay for other programs and adding to the national debt.

A second benefit of removing Social Security and controlling the national debt would be the greater flexibility we would give to future generations to meet their public program needs with their own resources. No longer would we be leveraging their incomes to pay for benefits and services we are consuming today. Instead, they would have the resources to meet their education, housing, and health care needs.

But the most important benefit of creating a true Social Security reserve will be its contribution to real savings in the economy. With Social Security's deficits eliminated, Social Security's reserves would be able to buy in and "replace• our $2.3 trillion of publicly held debt, rather than adding -- by twice -- a new burden on top of it. Finally, by freeing up private savings to meet our need for domestic investment capital, we would substantially reduce the cost of capital to Americans and substantially reduce the cost of capital to Americans and substantially increase our competitive posture in the world.

Over the next day you will be discussing many tough issues and a variety of options for treating Social Security's growing reserves. The fundamental reality we face in Social Security is that we will need to pay benefits to today's workers when they retire in twenty or thirty years. The costs will rise in this program with the "baby boom's" retirement. Making today's concerns about surpluses a short-term phenomenon. In two or three decades we will be wrestling with deficits, and we will need additional revenues to pay Social Security's costs.

Economic growth is our key to success. With adequate growth we can pay those costs with no great added burden for tomorrow's workers. The more growth and productivity we have, the more manageable tomorrow's costs will be. Low inflation and interest rates and high real wages will keep the Government's costs down and revenues up. Doing something now to create additional savings to stimulate that growth will have the doubly satisfying result of making our problems more manageable and proving our economists and actuaries wrong.

As you begin discussing the various economic models and budgeting options we have to consider, I urge you to bear this in mind: Any policy that permits the open-ended lending and spending of Social Security's reserves will accelerate the increase in our massive national debt, further undermine our national savings and competitiveness, and commit a substantial portion of taxes paid by our grandchildren to interest payments. The handcuffing of future generations with unpaid debt and the involuntary diversion of their revenues to debt service will place an added burden on their workers -- a burden that will make it harder for them to invest in human capital, meet the retirement costs of their time, and stimulate continued growth in the economy.

You have the best American minds on social insurance here today, and the most important social insurance topic to consider. I will be very interested in hearing what conclusions you draw. Without further ado I will turn it back to Alicia so that you can get started.