

# The Misguided Arguments against Social Security Reform, Part II: (The Prequel)

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e21's last editorial on Social Security reviewed some analytical mistakes commonly committed by opponents of Social Security reform. Such mistakes include both implausible hopes that Social Security's shortfall might disappear by itself, as well as a failure to appreciate the harm done by further delays in its correction. Our last piece addressed both of these areas of confusion in significant detail.

No sooner had we assembled this information, however, than a new argument against reform began to receive additional attention: expressed in various ways by different voices, it is essentially this: instead of arguing that Social Security's imbalance might not materialize, the program's financing shortfall shouldn't be corrected even if it is in fact real.

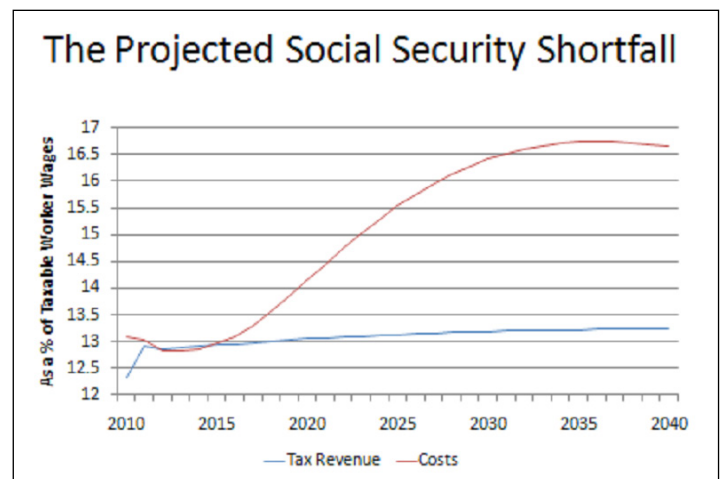
An excerpt from one advocate exemplifies this standpoint:

"It's a testament to Social Security's efficiency that every option for balancing its books is a bad option. Raising the retirement age hurts real people. Raising taxes also hurts real people. Cutting benefits hurts -- well, you get the point."

As stated above, this view essentially holds that individuals will be *harmed* if Social Security's books are balanced. This necessarily implies that individuals are *helped* if the program continues to promise far more in benefits than its own tax revenues can finance. The flaws in this line of thinking might seem self-evident, but they are apparently not to everyone. So we at E21 are returning again to the subject of Social Security, to review some basic program realities.

First: The Social Security shortfall consists of a multi-trillion-dollar excess of future promised benefits over future tax revenues.

This shortfall is illustrated on the graph below. The red line depicts scheduled benefit payments; the blue line Social Security tax revenue. Everything is expressed as a percentage of taxable worker wages – basically, the share of each worker's wage dollar absorbed by Social Security.



For now, we'll put aside the question of what the Social Security Trust Fund really means. The graph shows that the cost of paying benefits will significantly exceed the program's incoming tax revenue starting in the next few years, with the gap widening markedly after that. But even for those who don't see a problem until 2037 -- when the Trust Fund is fully depleted -- it should be clear to any observer that there is a significant long-term gap between promised benefits and taxes.



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The present value of that financing gap – even after honoring every last penny of the Trust Fund – is \$5.4 trillion over the next 75 years, and \$16.1 trillion overall. Not everyone agrees on the best measure of the shortfall, but the point is: there IS a gap, and it measures in the trillions of dollars.

### Second: One way or the other, this imbalance will be resolved.

Social Security cannot send out a benefit check unless a sufficient amount of tax revenue is provided to cover it. The program has to get the money for payments from somewhere -- it can't manufacture benefits out of thin air. One way or another, Social Security's divergent projected income and outgo streams will be brought into line.

### Third: Simply declining to address Social Security's shortfall doesn't in any way lessen the pain associated with doing so.

If it were possible to send out benefit checks without incoming revenue, then indeed steps to balance Social Security's books would introduce hardship that wouldn't otherwise exist. This, however, is not reality. Declining to plan sensibly to address Social Security's imbalance doesn't eliminate or even reduce the amount of "pain" to be imposed upon beneficiaries or taxpayers. Social Security will either collect more or spend less than is currently projected -- or some combination of the two -- no matter what. The size of the gap to be closed is the same whether it is deliberately addressed or not.

### Fourth: We do not optimize Social Security's net value to workers by leaving it unchanged.

This point is closely related to the previous one, but it is worth separate attention because of confusion expressed by one advocate in this statement:

"Social Security is adding value. Any change you make

will either increase how much we're spending for that value or decrease the total value we're getting from the program."

This is incorrect. A few numbers from the Social Security Trustees' report illuminate why:

Factor	In Present Value (\$2010)	As % of Future Worker Wages
Excess of future scheduled benefits over taxes for those already in Social Security	\$20.0 T	4.1%
Minus current Trust Fund	\$2.5 T	0.5%
= Total unfunded obligation attributable to current/past participants	\$17.4 T	3.6%
Projected benefits minus taxes for future generations under current formulas	-\$1.3 T	-0.3%
= total unfunded obligation facing all generations	\$16.1 T	3.3%

Let's explain this table a little bit. It shows that if we change nothing about Social Security in the near term, then future generations will need to put \$17.4 trillion into Social Security more than they receive from it (\$20 trillion if we include the cost of paying off the Trust Fund). Overall, net, Social Security will subtract roughly 4% from the income of future generations.

Putting aside the question of whether such an outcome is "adding value" for younger generations, the fact remains that under current law this net income loss is there. We can choose that it be manifested by their paying more in taxes, or by their receiving less than scheduled benefits, or by receiving benefits for a shorter period of time (raising the retirement age). No matter what choice we make, however, the net loss is what it is. It is not the *consequence* of policy decisions we would make to balance Social Security's books; those choices simply determine *how* the net benefit loss will be felt.

In fact, what this chart actually shows is why early action is desirable. The only way that we can reduce the \$17.4 trillion net benefit loss facing younger



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generations is for *current* generations to contribute something to the solution. This doesn't change the size of the total hole to be filled, but it would make a promptly-enacted solution a fairer one.

Note that none of this is in any way mitigated by Social Security's vaunted "efficiency." Granted, Social Security among federal programs has extremely low administrative costs. If Social Security were administratively wasteful, the shortfall would be even higher. But that is basically irrelevant, because even with the low administrative costs, the shortfall is still there.

Fifth: We don't reduce the pain by funneling general revenues into the program.

Whether we raise \$16.1 trillion in new payroll taxes, or by providing additional general revenues, the total tax burden of Social Security is exactly the same. Choosing to use general revenues rather than payroll taxes doesn't improve Social Security's net treatment of individuals or generations by even a penny. The only thing accomplished by using general revenues is opacity; instead of disclosing to individual taxpayers how much they are each being charged to fund Social Security, this information would be hidden, submerged into the general budget.

Sixth: Using general revenues to bail out Social Security destroys any continuing rationale for a separate Social Security payroll tax, trust fund, or off-budget accounting.

Once we choose to fill the Social Security shortfall with general revenues, Social Security's current accounting rationale vanishes. Social Security Trust Fund revenues would no longer bear any tangible relationship to the program's own tax collections. And, once benefits are deliberately allowed to systematically exceed program taxes, then there

is no basis for a separate Social Security budget account. To the contrary, separate accounting would then be misleading, disguising the extent to which the program is financed from general revenues.

General revenue support would end the historic ethic of Social Security as a self-financing program. From that point on, the program's link between contributions and benefits would be severed, trust fund accounting would become deceptive, and the program would simply compete with others for revenue within the broader unified budget.

Seventh: Even without a general revenue bailout, Social Security will place enormous pressure on the unified budget as it is.

This point is necessary to make in view of the following recent argument:

*"If Social Security is proving a drag on the federal budget, then one option is make changes to Social Security, but another option is to make offsetting changes *elsewhere in the federal budget*. . . there's plenty in the federal budget that isn't so zero-sum: We spend much more on defense than we need to spend. We have an absurdly inefficient tax code that could raise more money while doing less to harm growth if we cleaned it out."*

Let's have a reality check on this argument. The above assertion is made to support an extension of Social Security solvency through general revenue commitments above and beyond the trillions already obligated to pay off the Social Security Trust Fund.

It may well be that there is significant fat in the federal budget that could be squeezed to support increased Social Security payments. But we're already on the hook for a lot of such belt-tightening even before we allocate an additional penny of general revenues to Social Security.

Presently, the Social Security Trust Fund has a claim on \$2.5 trillion of future general revenues, which the government is obligated to deliver through 2037.



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Perhaps it will indeed be trivial to find this money by wringing inefficiency from the general tax code and other federal programs. But the Congressional Budget Office is sternly telling us that there is no current plan for doing so, and that under its most plausible projections, the federal budget will be untenable well before 2037. Before we start committing trillions in further general revenues to Social Security that we aren't sure we'll have, wouldn't it be prudent to put the general account on a footing that can handle its current obligations to Social Security?

Eighth, and finally: Delaying action results in a less equitable distribution of outcomes, and in a less effective Social Security program.

We explored this reality at length in our last editorial on this subject. It's not taking action that subtracts from Social Security's net value, but rather delaying a resolution of the shortfall that will lessen Social Security's efficacy. This is because delaying action doesn't eliminate or even lessen the shortfall – it just exempts people today from contributing to the solution, and hands the next generation the largest bill. It is simply incorrect to argue that we lessen Social Security's "positive value" by acting, and maximize it by waiting.

By all means, let's have a reasoned discussion about whether we should have a more generous, more expensive system or a less generous, less expensive one. Let's indeed have every unconventional viewpoint on the table. But we cannot have a reasoned discussion if many of us propagate the fiction that Social Security can provide benefits without imposing equal costs. Let us not attempt to dignify intellectual laziness as a positive public policy principle.

Let's be blunt: the argument -- that we should deliberately leave Social Security's shortfall on its

books – would, if heeded, leave us with the costliest, most inequitable, most opaque and most dishonestly accounted-for Social Security system. Americans deserve far better, especially from Social Security's supposed defenders.