



Dispelling the Myth of “Targeting Social Security”

Charles Blahous | December 22, 2010

In our Internet age, certain groundless memes occasionally take hold in certain quarters, and can even gain wide circulation and belief. Whenever this happens, there is often an argument between experts as to the most appropriate response. Should baseless claims be vigorously rebutted or ignored? There are always some who argue to ignore, citing the risk that repeating folklore lends it unwarranted credibility. Sometimes even engaging in the argument can be a self-defeating waste of time (we’ve all suffered at one time or another from that too-cute-by-half friend who likes to derail every debate by demanding that you prove beyond doubt that you really exist, or that you’re not dreaming the present conversation).

But sometimes a myth, simply by going unchallenged, ends up spreading and being believed. Throughout the past decade, for example, a number of voices continued to assert groundlessly that the trustees’ projections of Social Security insolvency were based on overly conservative economic assumptions and that the program’s projected shortfall was relatively likely to go away by itself. Most experts on both sides of the aisle at first considered this argument to have insufficient credibility to be worth rebutting, and thus didn’t engage it. But though originally confined to the far-left fringe of the blogosphere, the claim was insistently repeated often enough so that ultimately it began to reappear in “mainstream” reporting. Now that Social Security finances are obviously worse than formerly projected, one doesn’t hear this assertion much anymore (though occasionally even someone as prominent as Paul Krugman or Robert Reich will still fall for it). It is nevertheless a

cautionary tale of how an attack unanswered – even a baseless one -- is often an attack believed. (For those interested, a detailed refutation of this myth can be found here).

In recent months, yet another myth has begun to circulate, one that has the potential to sow wide confusion about Social Security finances unless fully exposed. The standard version of the myth is reflected in a question recently asked of House Democratic Leader Steny Hoyer at a National Press Club event:

Robert Weiner: You mentioned the Fiscal Commission's provocative report. But they and many [others] don't acknowledge that Social Security is solvent. . . . Social Security is solvent and paid for through 2037, and 25% short at the most even after that. It doesn't contribute a dime to the deficit, even on paper. So it isn't anything that the Deficit Commission can take advantage of, other than taking money from it. How did Social Security become the symbol of saving the deficit and doing something, instead of the real costs of Iraq, Afghanistan, and tax breaks for the rich? And will the Democrats, and Congress as a whole, resist the sound bite to save the budget by cutting Social Security?

Hoyer: First of all, Social Security ought not to be looked at as a way to reduce the deficit and your point is well taken. However, at the same time we need to make sure that Social Security is not only solvent through 2037, but for future generations. Therefore, we must address its solvency within its own construct.

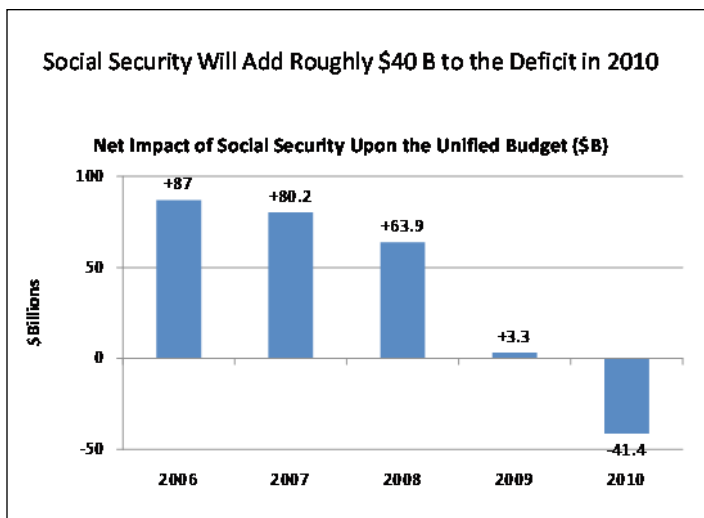
Mr. Weiner’s question puts forth the salient aspects of the myth: that there’s no reason to be changing Social Security, the program is in fine financial shape, it doesn’t contribute to the deficit, and that the program is being unfairly targeted (by the President’s fiscal commission and others) as a convenient place to get money to resolve larger deficit issues that have nothing to do with Social Security.

All of these assertions, individually and in the

aggregate, are demonstrably false. Yet they embody a narrative that many are repeating. In another typical example, a recent examiner.com editorial stated that “Social Security does not add to the deficit and it never has. According to law, Social Security funds are completely separate from the federal budget. Since Social Security pays its own way, it is impossible for the program to add one dime to the federal deficit.” The same article accuses the diverse members of the president’s fiscal commission of “premeditated lying” about Social Security’s role in the budget. A similar narrative is advanced throughout the blogosphere.

Here are a few pertinent facts that taken together refute this canard:

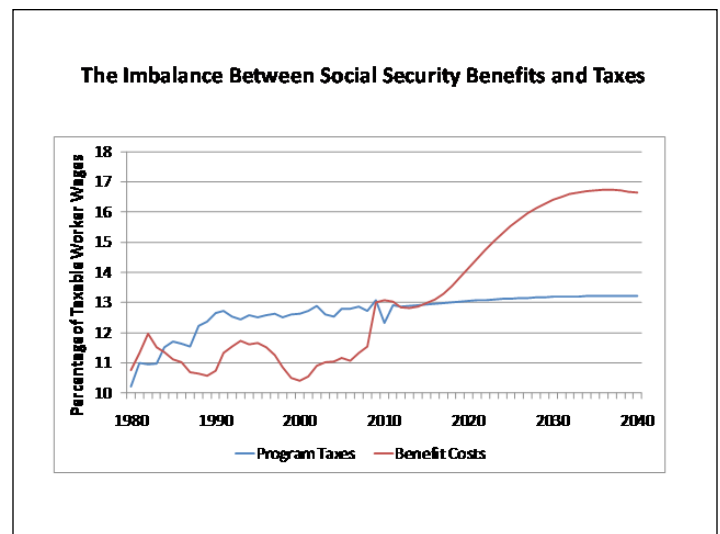
Fact #1: Social Security *is* currently adding (slightly) to the deficit. In 2010, Social Security’s benefit payments will exceed by more than \$40 billion the tax revenues it brings in. In other words, in 2010 Social Security will add roughly \$40 billion to the unified budget deficit.



Because Social Security’s Trust Fund continues to grow even as the program runs a current deficit, some people are confused into believing that the program is now running a surplus. But what is actually

happening is that other government accounts are being tapped to pay interest to its Trust Fund based on surpluses that Social Security has run in the past. These interest payments between government accounts do not reduce the federal deficit; the net effect of Social Security on the federal budget this year will thus be roughly \$40 billion in the negative.

Fact #2: There is a large imbalance between Social Security’s scheduled benefit obligations and its future tax revenue. That imbalance can be seen on the chart below. In the past, the program ran annual surpluses. In upcoming decades, the program is projected to run even larger annual deficits. The present value of the net excess of scheduled benefits over incoming tax revenue over the next 75 years is \$7.9 trillion. Even if we include Social Security’s past surpluses, the net deficit is \$5.4 trillion over the same period. By any measure, there is a large excess of scheduled benefits over incoming taxes that must be corrected.



Fact #3: The argument that “Social Security cannot add to the deficit because it is self-financing” is an argument *for* Social Security reform, not against it. Some have (strangely) attempted to cite Social Security’s self-financing construct as an argument

against reform. This EPI paper, for example, argues that, “It (Social Security) cannot add to the deficit if the trust fund is exhausted because the law prohibits it from borrowing.”

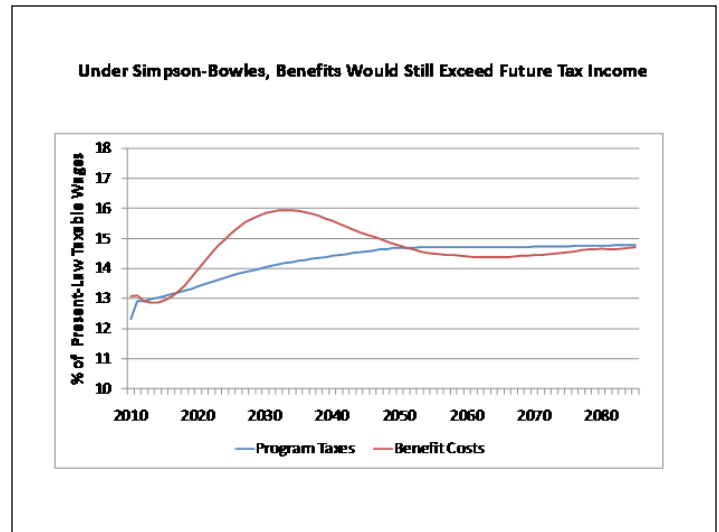
There is a core of factual truth in this argument, but it is being applied in a very misleading way. Social Security spending is limited to the assets in its Trust Funds, and it is subject (under current law) to the requirement of self-financing. This means that -- one way or the other -- the gap between scheduled benefits and tax revenues will be resolved.

Without legislative action, however, it will be resolved in the worst possible way –a 22% cut in benefits at the point of insolvency, sudden cuts that would hit those already in retirement (some of whom are receiving benefits today). This is obviously a very undesirable scenario. The degree to which this draconian outcome can be avoided is proportional to how soon we act to spread the effects of resolving the imbalance among the largest number of people. In sum, the argument that Social Security will not be allowed to add to the deficit is in reality an argument for the earliest possible reforms to the program. It cannot be reasonably employed as an argument for delay or inaction.

Fact #4: Existing Social Security reform proposals (whether those of the President’s commission or others) do not target Social Security for cuts to balance the federal budget. Existing proposals would only change Social Security benefits and taxes as necessary to eliminate the program’s own imbalance and to preserve its self-financing character.

To see this, let’s examine future Social Security benefits and taxes under the proposal of the President’s fiscal commission co-chairs.

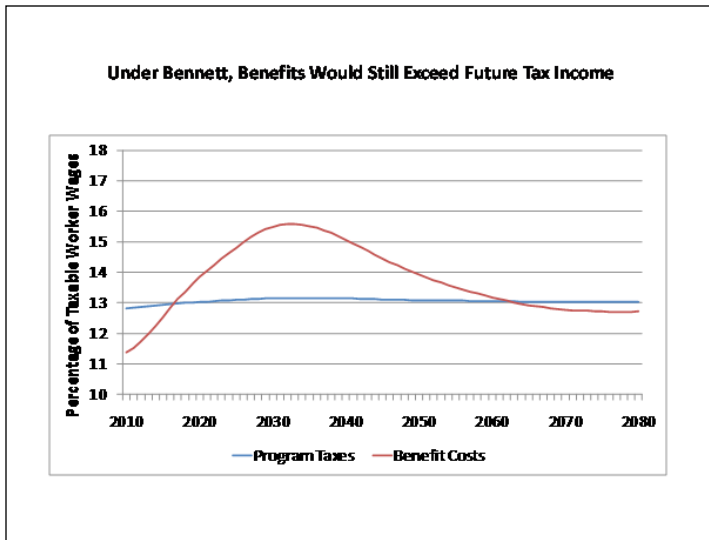
As shown in the chart, nothing about the Simpson-



Bowles proposal would demand that Social Security be cut excessively to offset shortfalls elsewhere in the budget. To the contrary, Social Security expenditures would considerably exceed program tax revenues for several decades under the plan, requiring a substantial net flow of funds from general revenue accounts to Social Security over that period (these payments would also honor debts owed to the Social Security Trust Fund).

This isn’t only true of the Simpson-Bowles proposal. Every other mainstream Social Security proposal does the same thing. The following chart shows the projected annual flows of Social Security taxes and benefits for the Bennett proposal, for example. The Bennett proposal would not in any way require Social Security to subsidize the remainder of the federal budget. As with Simpson-Bowles, future program surpluses would be far smaller than the size of future deficits, and these surpluses would be limited to the minimum size necessary to prevent program insolvency.

The groundless claim that reform proponents are “targeting” Social Security for cuts -- to cover deficits elsewhere in the budget – ought to be laughable on its face. Social Security is perhaps the single



most politically sensitive area of the federal budget. The suggestion that policy makers would turn preferentially to Social Security as the place to target politically convenient “cuts” is patently absurd.

It is very irresponsible for anyone to groundlessly claim that these plan authors are gratuitously “targeting” Social Security. For some who know better to allege this is very difficult to excuse.

Caveat: Let’s not get carried away with Trust Fund accounting to the point of misleading ourselves with bookkeeping gimmicks. This is a trickier point, and isn’t as central a factual issue as the others above. But it is nevertheless important to avoid confusion about what Social Security’s “self-financing” really means.

Let’s repeat a little thought experiment that I explained in a previous article. We’ll pretend that we’ve enacted a hypothetical bill into law. Title I of the bill increases everyone’s Social Security payroll tax by four percentage points. Title II establishes a refundable income tax credit for everyone, exactly equal to those same four percentage points. Taken as a whole, the bill is a pure shell game – no one’s taxes go up or down, and government economics

don’t change by a penny.

In the narrowest bookkeeping sense, however, we would have just created a large Social Security surplus – one which, if we continued to credit it to the Trust Fund every year, would keep Social Security solvent for centuries to come. Now, it is obvious that it’s absurd to claim that merely by engaging in this shell game, we just enabled Social Security to be solvent forever without its ever “adding to the deficit.”

Clearly it’s not sufficient to point to a positive Trust Fund balance to settle the question of whether Social Security adds to the deficit. After all, just this month, Congress enacted more than \$100 billion in additional general revenue transfers to the Trust Fund, to restore the value of payroll taxes that we no longer plan to collect. The Trust Fund alone doesn’t really tell us whether the program is adding to the deficit, not through 2037 – nor through any other year.

To summarize: it is important that all responsible policy makers and opinion leaders understand why the canard that Social Security is being targeted for unnecessary cuts is a groundless myth. Specifically:

- 1) Social Security actually is running an annual deficit right now;
- 2) On average (over multiple years), there is a substantial imbalance between its benefit obligations and its incoming tax revenues;
- 3) The argument that “Social Security cannot add to the deficit” is actually an argument for early reform, because inaction would resolve its imbalance in the worst possible way; and
- 4) Existing Social Security reform proposals would not cut Social Security unnecessarily to balance the larger federal budget.



Dispelling the Myth of “Targeting Social Security”

Responsible people on both sides of the aisle should join in putting this baseless myth to bed, and in calling out those who irresponsibly spread it.