REMAPPING DEBATE
Asking "Why" and "Why Not"

Stop crying "fire" in the Social Security theater

Kudos | By Greg Marx | Budget deficit, Social Security

February 16, 2010 — Kudos to Mark Miller, a contributor to Reuters's Prism Money blog, for his post Monday morning calling out NPR, the Associated Press, and NBC's David Gregory for perpetuating the misleading idea that Social Security is one of the key drivers of the federal deficit.

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Thanks to the energetic efforts of deficit hawks, the notion that Social Security is a leading cause of the deficit has become part of the Beltway consensus. But, as Miller — who's been pounding this drum for some time — points out, "the consensus is wrong, and so is much of the reporting" on this topic.

Here's the actual situation: in the early 1980s, when Social Security was facing a short-term financing crisis, a commission chaired by Alan Greenspan recommended a variety of adjustments to the program. Those tweaks, coupled with decent economic growth, resulted in a situation in which over the ensuing decades Social Security collected more money in payroll taxes than it paid out in benefits.

Rather than just put those surplus funds in a bank vault, the trustees who run the Social Security Administration took this money — it's known as the Social Security Trust Fund — and invested it in bonds issued by the U.S. Treasury. In effect, over the course of nearly 30 years they lent money to the rest of the government. This was good for Social Security, because it made a little extra money on a very safe investment; the U.S. government, after all, doesn't default on its debt. And it was good — or seemed good, anyway — for the rest of the government, which got in the habit, especially during the 2000s, of paying for new programs and overseas military adventures with borrowed money.

One consequence of this process is that the trust fund grew quite large: it's now about $2.5 trillion. Another consequence is that the federal tax burden shifted away from income taxes — which are progressive, so that people who earn more money pay a higher rate — toward payroll taxes, where every worker pays a flat rate up to about $106,000 in earnings (amounts above that cap are not subject to the payroll tax, so the more money you earn, the lower your payroll tax rate is).

Today, for a variety of reasons, Social Security's annual obligations have started to exceed payroll tax collections. (This was entirely expected, though it happened a bit earlier than anticipated thanks to the recession.) In a narrow sense, that's a "deficit." But what journalists and politicians usually mean by "deficit spending" is a government borrowing money to pay its bills. Social Security just needs to collect on the loans it has made. And the experts who study these things believe that, thanks to the trust fund, Social Security has enough money saved up to meet its obligations for about the next 25 years. So there is no real "Social Security deficit" over that period.

What about after that point? Once the trust fund is spent, if there are no other changes to the program Social Security will continue to owe more than it collects. (As Miller notes, the fixes necessary to avoid this situation are modest, and do not have to include benefit cuts.) But even then, the trustees could not borrow money to make up the difference: by law the program, on net, can never have spent more than it has taken in. "As a result," a recent paper from the Economic Policy Institute stated, "Social Security cannot and would not add to the federal deficit when its trust fund is exhausted."

So where does all the deficit talk come from? The problem, of course, is that the Treasury does not have the cash on hand to repay what it borrowed from Social Security, and making good on those obligations will require cuts to other areas of the budget, more revenue from income taxes, or further deficit spending. It is this fact that leads many commentators — including some politicians who are generally supportive of Social Security — to link the program to the deficit.

But that problem wasn't caused by Social Security, which has always operated in long-term balance and, unlike Medicare, faces very modest challenges in the fairly distant future. It was caused by a federal government that, with the exception of a portion of the Clinton years, was unprepared to fully fund federal programs through tax levels sufficient to pay the bills, and instead used borrowed funds to paper over the shortfall. To the extent that Social Security has anything at all to do with the deficit, it is the fiscal imprudence of past White Houses and Congresses, not America's commitment to present and future retirees, that is to blame.

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As Miller notes, this isn't actually that complicated. But there's an irony to his latest post correcting the record on this subject coming out Monday morning. That's because President Obama's 2012 budget proposal came out at almost exactly the same time, and the flurry of coverage it prompted included many more assertions that Social Security is one of the key drivers of the deficit.

Like this, from MarketWatch:

And some 800-pound gorillas are also missing: reducing funding demands for Social Security, Medicare and Medicaid — the source of huge projected deficits in coming years.

Or this, from Politico:

But, [Hoyer] said, they'll insist they be coupled with reductions in the Pentagon budget and a serious attempt to rein in spending on Medicare and Social Security, two of the major reasons for the explosion in the deficit that will get worse as the baby boomers retire.

Or this, from The Washington Post:

A senior administration official said Obama's budget request maps "a sustainable path" that would stabilize government finances in preparation for a broader debate about how to tackle the biggest drivers of future deficits: Social Security and health care for the elderly, as well as a tax code that offers more in breaks and deductions than it collects in revenue.

It looks like Miller will have more fodder for another post soon.