Should We Cut Social Security to Reduce the Deficit?

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Discussions about reducing America's federal budget deficit often include heated arguments about Social Security. Should it be "on the table" – or off it – when grand bargains are negotiated to match better long-run U.S. government's revenues and expenditures?

Many pundits treat the answer as obvious – they presume that Social Security benefits are "unsustainable" and cuts in future promised benefits are necessary to improve federal government finances. But this conventional wisdom is highly questionable from several angles. Legal barriers and the structure of the Social Security Trust Fund make it nearly impossible to use cuts in benefits for deficit reduction. The fiscal case for attempting cuts is shaky at best. And there are powerful social and moral reasons to preserve and strengthen Social Security.

The Trust Fund is Difficult to Undo

Social Security, despite claims to the contrary, does not affect the overall federal budget deficit. The system is run through its own Trust Fund. Payroll taxes from people working today flow into the Trust Fund, which in turn pays out benefits to the retired, survivors, and the disabled.

Under current law, reducing benefits would merely build up a larger Trust Fund. The only way reducing benefits could lower the federal deficit would be to change the law – to authorize a continuation of the payroll taxes on workers, but divert those taxes from the Trust Fund into general revenues. That would rob the taxpaying workers of their future benefits.

Even eliminating Social Security overnight would not lower the deficit. In that scenario, benefits would no longer have to be paid, but the income from the payroll taxes would disappear too.

Since 1939 the U.S. Treasury has sold bonds to the Social Security Trust Fund – in essence, borrowing from it with promises to pay it back. Some argue that this increases the federal deficit because the Treasury will need to borrow or to raise taxes to pay off the bonds held by Social Security. This is an odd argument, however. The Trust Fund has lent money to the U.S. government. But that makes the Social Security Trust Fund no more responsible for U.S. deficits than the Chinese, who also lend money to the United States by buying bonds! The fact that the U.S. Treasury is pledged to redeem their bonds does not mean the Chinese contribute to the deficit – any more than Social Security does by holding U.S. bonds.

The Fiscal Case for Sudden Cuts is Tenuous

Legal convolutions are not really necessary, because Social Security is in far better financial condition than conventional wisdom assumes. Prognostications of doom might lead us to believe that Social Security is almost "bankrupt," but that is far from the case.

The Trustees of Social Security are required by law to report regularly on its long-term finances. It is not easy to make decades-long projections about the payroll taxes that flow into the system and the benefits that will flow out. Assumptions have to be made about economic growth and interest rates, the wages U.S. workers will earn, and about how many babies will be born each year and how long senior citizens will live. The Trustees deal with all the uncertainties by offering three alternative projections.

According to the Trustees' best-case scenario, Social Security will never exhaust its funds. But the public never hears about this projection, because only the "intermediate" projection is publicized, which says that the Trust Fund might cover less than full benefits starting in the late 2020s and (if nothing were done) could run out of funds altogether in 2033. This sounds scary -- but we should keep in mind that the projections are imprecise and changeable. During the 1990s, for example, the projected date for exhaustion of the Trust Fund was 2029, earlier than it is now.

Why should our country make drastic changes based on imprecise figures that the Trustees themselves call "uncertain"? Is it possible that there will, indeed, turn out to be shortfalls in Social Security funds? Of course, but any such development could be handled as it was in 1983 when, in a matter of months, a bipartisan commission appointed by President Reagan developed reforms that Congress passed quite quickly. There is no need for rash action decades in advance, especially when we cannot be sure a serious problem really exists.

Social Security is a Social Necessity – and a Moral Promise

Fundamentally, the most important reasons to leave Social Security alone – or improve it, instead of cutting it – are social and moral. Any policy decision about a vital social program ought to be based on its effects overall, not just on green-eyeshade calculations and maneuvers.

Social Security benefits have become increasingly important to the American people, as other supports for retirement have become uncertain. Originally, Social Security was supposed to be "one leg of a three-legged stool." The other two legs were company pensions and personal savings and investments. But fewer and fewer employers provide pensions anymore. Today, the vast majority of retirees, more than 70%, have no company pensions. And many Americans are now so saddled with debt – including student-loans as well credit card debt – that they find it hard to accumulate personal savings for retirement. For many people, Social Security is the only remaining source of certain retirement income. More than one-fifth of all retirees have no other income. This is hardly the time to consider reducing the only reliable income for so many.

Other age groups also benefit from Social Security. Nearly a third of the checks go to dependents of retired and deceased wage-earners and to disabled Americans who cannot work for a living.

Not only does Social Security fill vital social needs; it is also a sacred promise that should not be broken. In the 1983 reforms signed by President Reagan, America's workers were assured that by paying more into the Social Security system throughout their working lives than has been necessary to pay current benefits, they would secure their own future retirement benefits. Workers and their families sacrificed immediate income and consumption in order to build up the Trust Fund. No matter what accountants and budget-cutters would now like to do with Social Security's accumulated funds, a promise was made to working Americans – who believed the promise. The nation's moral obligation should be honored.