



Social Security Reform Is Coming (Really) and Will Bring Political Rewards

No matter what President Joe Biden and former President Donald Trump promise you, and no matter its past as the untouchable “third rail” of American politics, Social Security will be modified one way or another within the next 10 years. While both candidates are misleading their voters, the party with the most to lose from ignoring Social Security’s troubles is the GOP.

First, some background. It doesn’t matter that some people continue to believe the money for Social Security is in an account with their name on it, or that they trust Biden’s and Trump’s word not to touch the program. If Congress doesn’t do something before Social Security’s Trust Fund expires, benefits will automatically be cut by about 20%. When there are no more assets to fill the gap between payroll-tax receipts and the benefits being paid out — and not since 2010 has enough tax been collected to cover Social Security — the program will revert to a pay-as-you-go system.

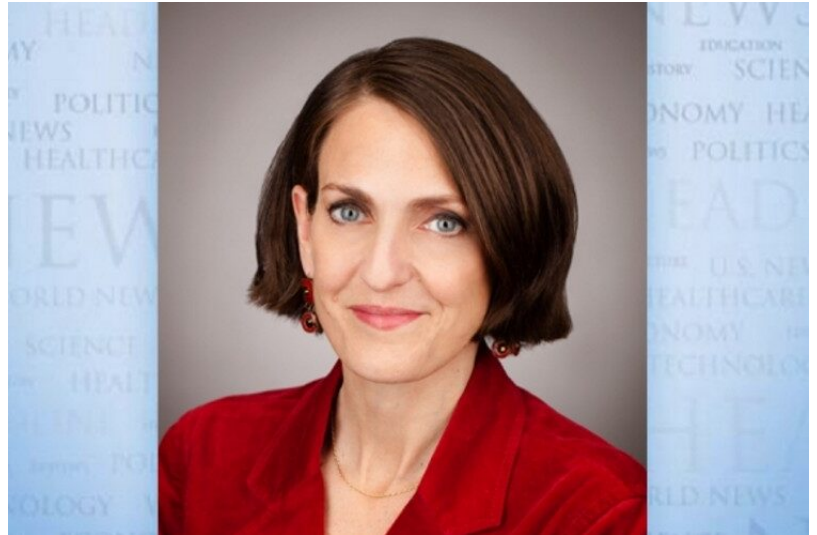
That’s the law. The Social Security Administration will be allowed to pay only those benefits covered by collected payroll taxes, hence the cut in benefits.

It’s an immutable reality. When Biden and Trump tell you they won’t touch Social Security, they are silently admitting they’ll let their benefits be cut by 20%. That’s one way to go. However, other politicians, fearing blowback from a block of furious voters who turn out on Election Day in large numbers, will not want such a cut to happen. So, what else might occur?

If Republicans, for much of their history the self-styled party of fiscal responsibility, fail to advocate for and implement meaningful reform before the Trust Fund dries out — or even if they wait until the last minute — they leave the door wide open for Democrats to address the problem in their preferred manner. Historically, Democrats have favored maintaining or even expanding Social Security. Their solution will likely involve raising taxes and increasing government debt.

Higher taxes could come in various forms, such as increased payroll taxes, higher income taxes or new taxes targeting wealthier individuals. While this approach might sustain benefits in the short term, it will also very likely slow economic growth by reducing incentives for work, entrepreneurship and investment.

Another possible scenario is covering Social Security’s shortfalls with yet more government debt. This



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would mean issuing more government bonds, which the government would eventually need to pay back with interest. Higher national debt levels can lead to higher interest rates, crowding out private investment and potentially fueling inflation. Moreover, the burden of this debt would fall on future taxpayers, exacerbating intergenerational inequity.

Republicans must recognize the urgent need for reforming Social Security, if for no other reason than self-preservation. Reasonable options include gradually raising the minimum retirement age, adjusting benefits to reflect longer life expectancies, and implementing fair means-testing to ensure benefits flow where they're actually needed. Additionally, encouraging private savings and investment through tax-advantaged accounts can help reduce older Americans' reliance on government programs.

I get why Republicans feel they have nothing to win by reforming Social Security, even if they are in power. That said, there is one benefit they are overlooking.

The Congressional Budget Office is well known for projecting the future path of the ratio of debt to GDP based on current, but not necessarily future, policy. That means its projections can include tax hikes and spending cuts that won't happen.

There is one exception to this rule: when it models the impact of the Social Security Trust Fund drying out. In this case, the CBO assumes general revenues (meaning debt) will be used to pay the Social Security gap, instead of showing the benefit cuts currently scheduled in the law.

This could be used advantageously by Republicans if they are willing to reform Social Security when they regain power. (The same goes for reforming Medicare.) Indeed, CBO would project that Social Security reform lowers the debt going forward — a long-awaited reduction and potentially huge win that Republicans can use to reclaim the mantle of fiscal responsibility. The evidence, for once, will be easily seen in the numbers.

But failure to act will result in a fiscal scenario where Republicans will be left with little leverage as Democrats push through their preferred "solutions." The resulting higher taxes and increased debt will have far-reaching unhealthy consequences for the economy and future generations. By contrast, if they reform wisely, Republicans will be rewarded with a lower and immediate debt path. It's a win-win.

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