Tweaking Social Security Won't Solve Its Problems

According to the Associated Press, "Social Security faces a $5.3 trillion shortfall over the next 75 years." Yes, you read that correctly: FDR's version of Otto von Bismarck's socialist retirement program is projected to add $5.3 trillion to the U.S. national debt over the next 75 years — a 40 percent increase in the debt. (Add the projected $38 trillion unfunded liability of Medicare over the same period, and the debt will more than triple.)

Despite this daunting forecast, Sen. Herb Kohl (D-Wis.), Chairman of the Senate Special Committee on Aging, "said small 'tweaks' are all that is needed to bolster Social Security's finances for future generations of retirees," says the AP.

The first "tweak" the committee suggests is to increase the combined payroll tax of employee and employer (all of which really comes out of the employee's paycheck anyway) from 12.4 percent to 14.6 percent, a change they claim would completely eliminate the $5.3 trillion deficit. The payroll tax has, however, already been raised multiple times over the years, from its original combined two percent to a combined six percent by 1949 — "the most you will ever pay," according to [a 1936 government pamphlet](#) — to the current combined 12.4 percent, more than six times its original level. In spite of all those tax increases, it is once again in the red. Does it seem likely that yet another tax increase will really resolve the problem once and for all?

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Next the committee suggests that the problem could be fully resolved if Congress were to begin taxing all wages, unlike the current situation in which only the first $106,800 of annual wages are taxed. This assumes that those who earn more than $106,800 are just going to sit there and take it on the chin, which is unlikely. Further, as with the above tax-increase proposal, it assumes that a person's income belongs to the government first and that the taxpayer is entitled only to that which the government magnanimously allows him to keep. If the solution to every problem is to increase taxes, why not just tax everyone at 100 percent ("from each according to his ability") and distribute it as Washington sees fit ("to each according to his need")?

The other two possible changes are (1) a reduction of annual cost-of-living increases by 1 percentage point each year and (2) a gradual increase in the age at which retirees qualify for full benefits. While either is less harmful to workers than raising taxes, they (especially reducing the cost-of-living increase) are not quite fair to retirees and those nearing retirement. Neither is expected to eliminate the shortfall completely.

Social Security has been "reformed" several times since its 1936 inception. The last major revision took place in 1983, when payroll tax increases were accelerated and the full-benefit retirement age gradually increased. The purpose of these changes was to prevent the collapse of the system when the baby boomers retired, yet that is precisely what is happening now. The increase in the number of people receiving benefits, combined with the sluggish economy that has reduced payroll tax receipts, have forced the Social Security Administration to begin cashing in its federal bonds — all that ever existed in the make-believe Social Security Trust Fund — to cover the shortfall. Of course, since the U.S. government is already spending far beyond its means, the government has little choice but to borrow or print more money to pay off these bonds, neither of which is good for the long-term health of the country.

Like every other government program, Social Security was created for political purposes but sold to the public under the banner of compassion. Its real purposes were (1) to encourage older Americans to leave the job market during the Great Depression, thus freeing up jobs for younger people and making the unemployment rate look better, something the New Deal had been unable to do up to that point; and (2) to buy the allegiance of millions of voters to FDR and the Democratic Party. The long-term outlook for the program was hardly a consideration.

The basic problem with Social Security is that it depends on a steady supply of workers who are earning enough to provide, through their payroll taxes, the amount of money needed to pay benefits to retirees. This works as long as each succeeding generation is at least as large and as productive as the preceding one and as long as the economy keeps chugging along. If any of these conditions is not met, however, the system fails. That is where we find ourselves today.

The program is unsustainable in the long term without massive tax increases or benefit cuts, neither of which is politically possible. Instead we get “tweaks” every decade or two to hold the system together a little while longer. It’s like patching a car with duct tape every time something breaks. After a while it becomes more duct tape than automobile, and it simply falls apart.

The 1936 Social Security jalopy needs to be sent to the junkyard before it completely disintegrates and seriously harms its passengers. Minor but politically palatable fixes every few years only stave off the inevitable, making the final collapse that much more horrific. Whether the program is ended immediately or gradually, it is going to require an enormous amount of political capital and principle, and frequently those politicians with the most of the former have the least of the latter. The alternative, however, is simply to go on our way until the system implodes, and no amount of political capital will be able to save us from the consequences of socialism then. Just ask the Greeks.

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