People's Pundit Daily

Social Security's Gargantuan Fiscal Shortfall

Daniel Mitchell

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The Social Security Administration has released the 2016 Trustees Report, which shines a spotlight on the overall fiscal condition of the program.

In previous years (2012, 2013, 2014), I've used this opportunity to play Paul Revere. But instead of warning that the British are coming, I sound the alarm about a future fiscal crisis resulting from demographic change and poorly designed entitlement programs.

It wasn't a long interview, but I had the opportunity to touch on four very important issues.

First, I explained that the Social Security Trust Fund is nothing but a pile of IOUs. It's money the government owes itself, which means that the bonds in the Trust Fund can only be turned into real money by taking more from the private sector.

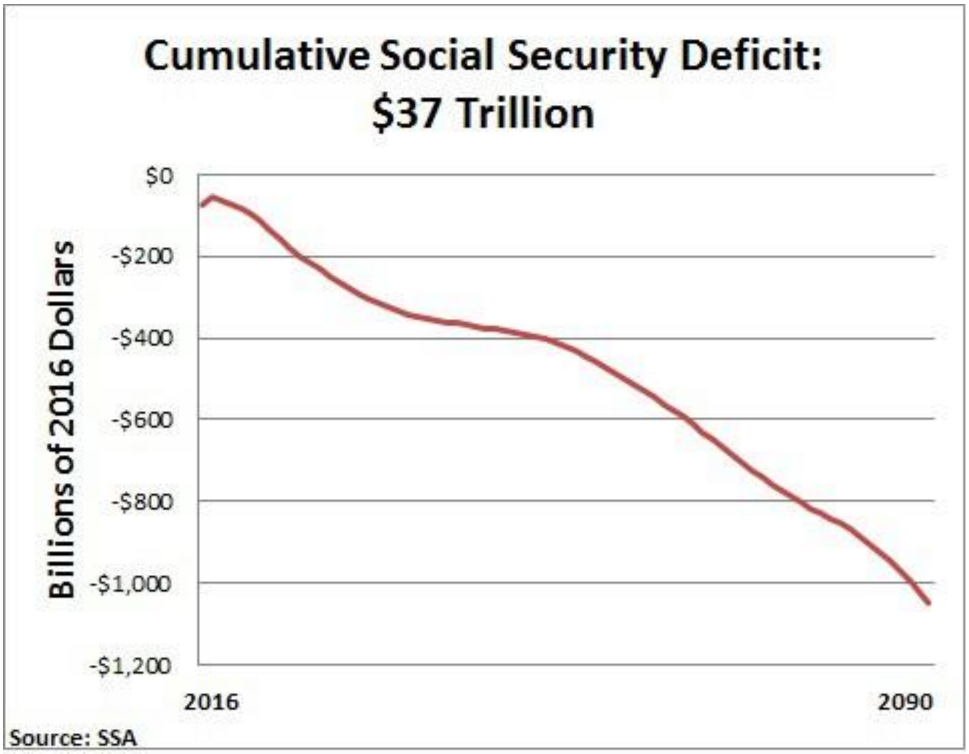
But if you don't trust me, perhaps you'll believe the Clinton Administration, which admitted back in 1999 (see page 337) that the Trust Fund is just a bookkeeping gimmick.

These balances are available to finance future benefit payments and other trust fund expenditures–but only in a bookkeeping sense. …They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury, that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures.

In other words, the Trust Fund is like putting IOUs to yourself in a college fund. When it's time for junior to start his freshman year, you'll have to find the money to cash those IOUs.

Second, Social Security already is in the red and the rising burden of spending for the program will lead to huge fiscal shortfalls.

Here's a chart, based directly on the data from Table VI.G9 of the Trustees Report, showing the annual deficit in the program based on today's dollars.



Third, it's grossly irresponsible for politicians such as Elizabeth Warren and Hillary Clinton to agitate for higher spending in the program.

Andrew Biggs of the American Enterprise Institute weighed in on this issue earlier this year. Here's some of what he wrote in a column for the *Wall Street Journal*.

Mrs. Clinton would raise retirement payments for widows as well as provide Social Security credits for individuals who take time out of the workforce to care for a child or an infirm adult.

Andrew points out that Hillary also has expressed support for increases in the payroll tax rate and letting the government impose the tax on a greater share of income.

Mrs. Clinton…has recently spoken in favor of both approaches.

By the way, the latter option is especially dangerous for the economy, as explained in this video.

Fourth, Social Security is in bad shape, but the main long-run entitlement challenge comes from health-related programs such as Medicare, Medicaid, and Obamacare.

In other words, we need comprehensive long-run entitlement reform if we don't want to become Greece.

Daniel J. Mitchell is a Senior Fellow at the Cato Institute, and a top expert on tax reform and supply-side tax policy.