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Ponzi scheme? Tax the rich? Social Security's white hot again

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Social Security suddenly has become a white-hot political issue, as the Republican presidential frontrunner blasts the system as a "Ponzi scheme" and liberal Democrats in Congress scramble to find ways to keep the program financed for generations to come.

Warnings about the 76-year-old system's financial future are hardly new. Its trustees, in their annual report earlier this year, warned that it would be insolvent by 2036. In 2010, for the first time since 1983, the program ran a deficit, excluding interest income, and is expected to do so again this year.

And, the trustees warned, "After 2014, cash deficits are expected to grow rapidly as the number of beneficiaries continues to grow at a substantially faster rate than the number of covered workers."

Social Security is emerging as a major political topic now for three reasons.

In the past year, two major bipartisan commissions, as well as the nonpartisan Congressional Budget Office, have issued detailed warnings about Social Security's uncertain long-term future in the context of having to tame America's growing debt.

Second, a 12-member bipartisan congressional "supercommittee" is now seeking ways to ax at least \$1.2 trillion from future deficits over 10 years. And since Social Security spending is about 20 percent of the current federal budget, it's going to be scrutinized.

And what raises the debate from policy battle to political theater is Texas Gov. Rick Perry, who's leading in GOP polls. He labels the program a "monstrous lie" and a "Ponzi scheme."

"That's really brought it to everyone's attention," said Sen. Orrin Hatch of Utah, the top Republican on the Senate Finance Committee, which writes Social Security legislation.

Many in the GOP have questioned the value of Social Security since its creation during the 1930s New Deal. And Democrats, with the legacy of President Franklin D. Roosevelt behind them, have always been staunch advocates for it.

They hammered GOP presidential candidate Barry Goldwater's questioning of it in 1964, when he won only six states and less than 40 percent of the popular vote. They beat up Ronald Reagan about it in the early 1980s as well, though they later compromised with him on reforms. And they stopped George W. Bush cold in his 2005 campaign to offer a private account option as part of Social Security.

On Wednesday, liberal Democrats proposed a payroll tax increase for the wealthy that would strengthen the system's finances for an estimated 75 years.

"Social Security must be defended. Social Security must not be cut," said Sen. Bernard Sanders, a Vermont independent who caucuses with the Democrats and who led the effort.

But others conclude differently.

Last year, a bipartisan presidential panel known as Bowles-Simpson Commission after its two co-chairmen noted that in 1950, there were 16 workers contributing wage taxes to the system per beneficiary. Today, the ratio is 3-to-1. By 2025, it will be down to 2.3-to-1. Over the next 75 years, the commission said, the program will face a shortfall equal to 1.92 percent of taxable payroll.

"Unless we act," it warned, "these immense demographic changes will bring the Social Security program to its knees."

The liberals propose to raise the current 6.2 percent payroll tax on the wealthy. Currently it's paid equally by employees and employers, but only on wages up to \$106,800, with the income limit rising annually with inflation. The liberals would impose the tax on all earnings over \$250,000.

Social Security Administration actuaries estimate that change would bring in about \$6.5 trillion in additional revenue over 75 years, just enough to keep the system solvent.

The proposal, though, faces daunting political problems.

One is that it depends on a payroll tax increase. The tax is now 4.2 percent for employees until the end of the year, and President Barack Obama, in the jobs package he's pushing hard, wants that rate cut to 3.1

percent for both employees and most employers, through the end of 2012. Most Democrats support his approach, though not all.

Democrats might go along with raising the rate on the rich after that, but nearly all Republicans adamantly oppose any higher taxes, and they denounce those aimed at the rich as "class warfare."

Michael Tanner, a senior fellow at the Cato Institute, a libertarian policy-research center, said that higher payroll taxes would barely improve Social Security's cash flow - it would add about \$85 billion annually - and would wind up pumping money into the Treasury to be used for other purposes. The Treasury currently spends Social Security trust funds and issues IOUs to be redeemed later.

"You're adding a lot of pain for not much gain," said Tanner.

Sanders' camp counters that the law guarantees that Social Security funds will be used to benefit those who pay into the system, and the trust fund IOUs are not in jeopardy. The law says it's "incontestable" that the obligation to pay beneficiaries is "supported by the full faith and credit of the United States." But those IOUs must be redeemed with cash from somewhere - more tax revenues, taken from other spending accounts or by issuing new debt.

Independent experts agree that Social Security needs fixing.

To bring the program into balance over the next 75 years, said Doug Elmendorf, director of the nonpartisan Congressional Budget Office, either payroll taxes would have to be raised immediately to 14 percent, or benefits would have to be cut by 10 percent.

The Bowles-Simpson Commission, whose recommendations were backed by 11 of its 18 members, proposed a more progressive, or income-based, benefit system, phased in slowly until 2050. It also urged a different method of calculating the annual cost of living adjustment that would be slightly less generous than the current formula; bigger benefits for the very old and the longtime disabled; and a gradual increase in both early and full retirement ages.

Another commission, headed by former Republican Sen. Pete Domenici and former Clinton administration budget director Alice Rivlin, agreed that Social Security was on an "unsustainable path" and offered similar remedies to Bowles-Simpson.

Eventually, the experts say, something has got to give.

"The thing that's not possible to do is maintain Social Security and the major health programs in their current state," said CBO's Elmendorf, "and maintain the rest of the federal government" in its current size and form.

