The GOP Tax Cuts Are Already Hurting Social Security

Teresa Ghilarducci -Photo: http://teresaghilarducci.org/

The GOP has been intent on destroying Social Security since 1934 when its creation was first proposed by the Roosevelt administration. This, however, remained always a rather remote possibility … until now. With Trump and Congress transferring even more wealth to the rich and large corporations in the form of [tax cuts that will land the country $10 trillion deeper in debt](), the party of pseudo-fiscal hawks is campaigning hard for legislation that will lead to sharp cuts in Social Security and other entitlements.

In this context, the 2018 midterm elections could be the most consequential midterm election in years, according to Teresa Ghilarducci, an internationally known economist on labor and retirement. In this exclusive interview, Ghilarducci — a professor at The New School for Social Research, as well as the author of numerous books including *Rescuing Retirement*: *A Plan to Guarantee Retirement Security for All Americans* and *When I'm Sixty-Four*: *The Plot Against Pensions and the Plan to Save Them* — shares her analysis of the GOP attack on Social Security.

C.J. Polychroniou: Senate Republicans (and possibly a few Democrats) have their eyes set on slashing Social Security and other entitlements in order to balance the budget, although it is their own policies that have led to greater indebtedness. How serious is the possibility that they can succeed in undermining security *retirement for millions of Americans?*

Teresa Ghilarducci: During the 2012 presidential campaign, Republican politicians — including then-Texas Gov. Rick Perry and Sen. Ted Cruz — called Social Security a Ponzi scheme, which reveals a misunderstanding of Social Security finances and Mr. Ponzi's 1920 investment fraud swindle — when Mr. Ponzi definitely spent more than he took in.

Further, in September of last year, newly appointed White House Economic Adviser Larry Kudlow commented that, "We have to be tougher on spending." Strengthening that view, Senate Majority Leader Mitch McConnell — in what seemed to be a defense of the bad news surfacing in mid-October 2018 that the 2017 tax cuts will substantially deepen the federal deficit — claimed that the deficit ought to be blamed on the Democrats for their unwillingness to cut Medicare, Medicaid and Social Security.

The blame for the increase in the projected deficit falls on the tax cuts of 2017 that were a result of the Republican control of the federal government — almost all Republicans voted for the tax cuts and almost all Democrats did not. The cuts added $1 trillion to the federal deficit and the nonpartisan Joint Committee on Taxation did not support Republican arguments that the $1.5 trillion tax cut would pay for itself with economic growth. Senator McConnell's announcement today makes clear political elites will use Social Security, Medicare and Medicaid as bargaining chips in budget negotiations and call for cuts in government spending.

I feel this accretion of Republican statements means that after the midterms, the higher federal deficits caused by the tax cuts of 2017 will fuel the chronic attack to cut the programs.

As you mentioned in your question, it is not a surprise that the Republican Party would opportune to cut the system; as professor Max Skidmore from the University of Missouri-Kansas City has argued in his policy history book [*Social Security and Its Enemies*], the party has been ideologically opposed to Social Security since the program's founding in 1935.

But isn't it true that Social Security is an "off-budget program," which means that it does not add a dime to the deficit?

Social Security can't, by law, add to the federal deficit. Medicare and Medicaid can, but not Social Security. By law, Social Security is self-funded. Further, because Social Security must balance its books, Social Security is prudently and actuarially funded. It collects revenue and saves in a trust fund for expected costs.

Currently, Social Security has a $2.9 trillion trust fund built up by the boomer generation paying more in taxes than needed to pay current benefits. The trust fund is a vital way workers save for retirement. With tax revenues and earnings and principal from the trust fund, Social Security is estimated to be solvent until 2034. After that, if it doesn't get more revenue Social Security will only pay 77 percent of promised benefits. Social Security can't add to the deficit because it pays for itself. If revenue falls short, benefits are cut.

And if you are wondering if the trust fund is real, here are facts to judge yourself. Workers do two things with their [Federal Insurance Contributions Act (FICA)] taxes: We pay current benefits and we save by buying US treasury bonds like many wealthy people, endowments, pension funds, foreign countries and foreign investors buy US treasury bonds. US treasury bonds are highly sought after by savers all round the world. For many reasons, the US enjoys an exorbitant privilege of all countries, considering dollars are the safest currency.

When we, through Social Security, invest in government bonds, the government creates intragovernmental debt. When the Yale endowment buys the bonds, the government creates external debt. And just like all trust funds, when the Social Security Administration draws on the trust fund to pay its bills, it sells the bonds.

The US can't practically decide to default on Social Security's bonds or anyone else's US treasury bonds. Defaulting would "save" money for the government, but countries like Argentina default, not the US. It is hardly correct to say Social Security is "adding" to the deficit any more than any other holder of a Treasury bond. I disagree with the view that Social Security indirectly contributes to the on-budget deficit because the interest payments it receives from the general fund are on the unified budget and receives funding from income tax revenue on Social Security benefits, which is technically on-budget.

The money you pay for Social Security through the FICA contribution is not the money you get out; you are paying mostly for the benefits of people receiving

Social Security today. But for decades since 1983, workers were putting money in a "savings account" — the Social Security trust fund.

What about the claim that there are not enough workers to pay into the system in order to keep Social Security sustainable without major reforms?

Demography is not destiny, because we have good forecasts of population growth and decent models of future economic growth. Based on those forecasts — which have a range, of course — Congress makes actuarial decisions about how much payroll taxes should be and how high the earnings cap should be. The system is designed for flexibility, to tweak FICA contributions and the earnings cap to keep up with changes in economic growth.

Also, it is economic growth, not the number of workers and retirees, that determines the costs of benefits. In the 1960s, workers supported households with non-workers — children and non-working wives and retirees. The economy was growing and the wage base robustly kept base with productivity.

The economic reality is that Social Security is on sound financial footing. In fact, it's a lean and efficient success. In 2015, its administrative expenses (as a percentage of all Social Security spending) were less than 0.7 percent; compare that with the average 401(k), which has expenses three times as high — which can erode lifetime benefits considerably by 20 to 30 percent.

Any clear-sighted look at Social Security's finances, free of politically motivated spin, shows that the program is in strong shape. It has a reserve fund to pay all benefits until 2034 without any change in current policy. And with some small policy changes — for instance, raising the payroll tax by 2.83 percentage points (shared between employer and employee) or eliminating the earnings cap — we could put the system in balance for the next 75 years. (The earning cap means that only wage income up to a certain ceiling is currently subject to Social Security taxes. In 2019, it will be $132,900, but that figure will rise in response to wage inflation.) We are easily poised to keep the system healthy well into the future.

Republicans and their billionaire supporters may surface the 2005 push by President George W. Bush to privatize Social Security. But, as Chile's disastrous experiment with the privatization of their public Social Security system showed, isn't privatization really a plan to dismantle Social Security?

We need more current income going to save for future consumption, not less. Privatization calls for less retirement saving and a reduced Social Security. The last plan was to carve out part of the 12.4 percent FICA tax — say 2 percentage points — for individual accounts. Retirement accounts are good things; everyone should have one to supplement Social Security — your readers should be saving at least 5 percent of their pay in a retirement account — but taking away from Social Security will just make retirement even more insecure.

The reason why taking money out of the system to fund private accounts is expensive is that you have to raise taxes somewhere else — equivalent of 2 percent of pay — to pay current benefits or reduce current benefits immediately by 30 percent.

This means after the midterms, the higher federal deficits caused by the tax cuts of 2017 will fuel the chronic attack to cut the programs. Last year, Congress added to the deficit, not Social Security. The deficit rose substantially because of the 2017 tax cut, which reduced total revenue by 5 percent and revenue from corporate taxes by 35 percent.

Everyone should realize two key realities: First, Social Security is an essential form of insurance. It provides support for young families in the event of the death or disability of its breadwinners. It helps children with severe disabilities. It insures workers against old age, disability, or dying and leaving behind a survivor without adequate income. As a retirement benefit, Social Security is worth about $300,000 for the average household. Equally important, its benefits are guaranteed. In contrast, 401(k) returns are not guaranteed.

Consider this: They are worth almost a million dollars to a middle-income American. According to economist Eugene Steuerle and his colleagues at the Urban Institute, a single man who retires in the year 2020 after a full career earning a median wage (about $44,000) can expect to receive $536,000 in Social Security and Medicare benefits. In a couple where each spouse earned constant "average" wages over a career beginning at age 22 and retired on his or her 65th birthday, [the pair] would have over $1 million in health and retirement benefits. The expected benefits for couples turning 65 in 2050 — age 30 today — are scheduled to rise under current law to almost $2 million.

And the second key reality: Social Security and Medicare benefit all workers, whether white-, pink- or blue-collar. In 2012, 55 million Americans (out of a population of 313 million) cashed Social Security checks. All households, rich and poor, have the government as an economic partner.

What will it take to stop the party from achieving its goal in destroying what has clearly been one of the most significant programs enacted in the 1930s as part of FDR's New Deal?

The lessons of the 2005 resistance to President Bush's push to privatize Social Security is that when people mobilized and the Democrats stayed solid, proposals to partially privatize Social Security found no support among Democrats in Congress and the president's popularity fell every time he appeared to push forward with the issue.

In the past, a solid and strong Democratic Party has stopped erosion of the program. Now several Democrats have sound proposals to expand and improve Social Security, a move overdue as elder poverty will be on the rise and private pensions have eroded.

Our country made a commitment during the Depression to make sure that everyone and their families would be protected as they aged and if they became disabled. But national commitments don't renew themselves. Voting does.