Who Should Pay Social Security’s $4 Trillion Debt?

By Jonathan B. Forman

According to the 2005 Report of the Social Security Trustees, the Social Security system currently has a deficit of $4 trillion. To pay benefits for the next 75 years, the government needs $4 trillion more than it will collect in payroll taxes and interest over that period. How should the government raise that $4 trillion? The conventional wisdom says that we should either raise Social Security payroll taxes or cut Social Security benefits, but that’s accounting nonsense. And it is keeping us from modernizing the Social Security system.

Social Security’s $4 trillion shortfall is simply not a debt that was incurred by future workers and retirees, and they should not have to bear its burden alone. Like any other public debt, that $4 trillion shortfall should be paid for with a broad mix of generic spending cuts and tax increases. Perhaps we should eliminate crop subsidies, stop subsidizing flood insurance for people who foolishly build homes by the ocean, or repeal the tax credit for energy produced from poultry waste. But there is simply no justification for making future workers and retirees pay the whole debt.

If anybody is liable for Social Security’s $4 trillion debt, it is the current and past generations of retirees who did not pay their fair share of Social Security payroll taxes. There’s no surprise there. Everyone knows that today’s workers pay a lot more Social Security taxes than our parents ever dreamed of paying. In 2005, for example, a top earner will pay Social Security taxes equal to 6.2 percent of her first $90,000 of wages, and her employer will pay a matching amount, for a grand total of $11,160. On the other hand, a top earner in 1965 paid just 3 percent of up to $4,800 of wages (around $37,000 in today’s dollars), and a top earner in 1950 paid just 1.5 percent of up to $3,000 of wages. According to a study by the Social Security Administration (SSA), the generations born before 1937 will get $8.1 trillion more from the Social Security system than they paid in, and those of us born after 1937 will pay for it.

My favorite example is Ida May Fuller, the very first Social Security beneficiary. According to the SSA, she was a legal secretary in Vermont who retired in November 1939. Fuller started collecting benefits in January 1940 at age 65 and eventually lived to be 100 years old, dying in 1975. She worked for just 3 years under the Social Security retirement program before retiring, and the accumulated payroll taxes on her salary during those three years totaled $24.75. Her first monthly check was for $22.54, and during her lifetime she collected a total of $22,888.92 in Social Security benefits.

In short, past and current retirees made out like bandits.

Of course, no politician dares suggest that we should collect Social Security’s $4 trillion debt from current retirees. Indeed, you’d be hard-pressed to find anyone who would make current retirees pay any portion of that debt. President George W. Bush says he will protect the benefits of everyone over the age of 55, and Sen. Chuck Hegel, R-Neb., wants to protect everyone over the age of 45.

Still, there is also no logical reason to collect that $4 trillion only from future workers and retirees. To be sure, that’s what we have always done. We’ve been programmed to link Social Security taxes and benefits, and while we have rarely cut Social Security benefits, we have raised payroll taxes more than a dozen times, and we have raised the payroll tax earnings cap more than 25 times (most recently, to $90,000 in 2005). No wonder a 2003 study by the Congressional Budget Office found that 70.6 percent of households paid more payroll taxes than income taxes in the year 2000 (41.3 percent if only the employee share is considered). But there is simply no justification for increasing Social Security payroll tax “contributions” again.

The point is that Social Security’s current $4 trillion shortfall is just like any other public debt. We would not raise payroll taxes to pay for roads or to pay for the war in Iraq. Nor should we raise payroll taxes on future workers or cut the benefits of future retirees to make up for the fact that past Congresses were unwilling to collect enough taxes from previous generations of workers.

Instead, we should pay off Social Security’s $4 trillion debt with the standard tools that governments use to balance their budgets (when they do): generic spending cuts and tax increases. Let future workers pay for their own Social Security benefits — with personal accounts or not — but let’s treat the current $4 trillion shortfall just like any other public debt and pay for it with a broad mix of spending cuts and tax increases. If we do that, then perhaps we can finally have a real debate about how to bring Social Security into the 21st century.