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Off Limits: Social Security Debate Shuts Down
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The nation's Social Security debate has a certain stale, mindless and ultimately destructive predictability to it.

When syndicated columnist Robert J. Samuelson suggested this week that many of its benefits amount to "middle class welfare," the program's fervent supporters immediately sprung into action. The Center for Economic and Policy Research blasted Samuelson as "inaccurate" and "misleading," suggesting that he "really doesn't like Social Security and ... is willing to make up numbers to push his case."

Last month, Factcheck.org blasted Democrats for denying that Social Security contributes to federal deficits. An outraged blogger from the Campaign for America's Future, Daniel Marans, came to the Democrats' defense, accusing the watchdog group of joining the "anti-Social Security lynch mob" that is "hell-bent on convincing a wary public that Social Security will not be there for them."

And so it goes. Combatants exchange blows over whether Social Security contributes to deficits, whether its trust fund is solvent, and how to fix any problems with its financing over the long term. The Fiscal Times' Eric Schurenberg is trying to make sense of it all.

Though perhaps entertaining, the debate is not cost-free. It feeds the widespread view that Social Security is somehow special, somehow deserving of unique treatment. But, in fact, we should approach Social Security only in the context of our larger budget deliberations, because what we tax and spend through Social Security has profound implications for what we can and should tax and spend on everything else.

Social Security activists always want to divorce the program from the budget debate altogether, arguing that it is self-supporting and, as such, has no role to play in deficit-cutting efforts.

The sense of Social Security's specialness isn't new, of course. It dates back to the program's founding in 1935, when President Roosevelt said that he established a dedicated source of funding – the payroll tax – so "no damn politician can ever scrap my Social Security program."

Not so fast. Like all others, our nation has limited resources. It also has a relatively small central government (compared to other major industrialized nations), nourished by a deep-seated rugged individualism and a distrust for federal authority that dates back to colonial days.

Thus, we have practical limits on how much we will tax and how much we will spend. For the last half-century, total federal spending has generally ranged between about 19 percent and 22 percent of gross domestic product (though it's a bit higher today), while taxes have hovered around 18 or 19 percent.

This year, Social Security payroll taxes and benefits equal an estimated 4.8 percent of GDP, according to the 2010 report of the Social Security and Medicare trustees. That represents a huge share of federal taxes and spending. Shouldn't we factor that into our overall budget discussions about how much we tax and spend, and for what?

Social Security is also more than a traditional pension program. It makes social policy. Its taxes are regressive, with workers paying a flat 6.2 percent on their wages up to the current cap of \$106,800 (which rises each year with the growth of average wages in society). Its benefits, though, are progressive, with those earning relatively less during their working years receiving higher benefits as a share of their earnings. Shouldn't we factor that into our social policy discussions?

Social Security taxes not just the worker at 6.2 percent but also his or her employer. Because employers limit wages to make up for that burden, most economists believe that, as a practical matter, employees wind up paying not 6.2 percent but, in essence, both parts of the payroll tax – or 12.4 percent. The same holds for the Medicare payroll tax, which is 1.45 percent per employee and per employer. Viewed that way, 77 percent of U.S. households pay more in combined Social Security and Medicare payroll taxes than they pay in income taxes, according to the latest estimates from the Tax Policy Center. Shouldn't we factor that into our tax policy discussions?

Social Security was created when the United States was a very different place than it is today. The nation is now much more prosperous, with an older, more diverse population that is living much longer. While average wages have stagnated in recent decades, those at the top (and especially those at the very top) have enjoyed huge income gains, widening the gap between rich and poor. Shouldn't we factor all that into our discussions about whether to raise the "retirement age" (at which retirees can get full benefits) and whether to raise the limit on taxable wages?

The issue isn't how to strengthen Social Security for the long run. The issue instead is how to think about Social Security in the context of overall federal taxes and spending, the share of the budget that goes to different demographic groups, and the vast array of changes that have come to American society in the years since FDR created Social Security – and to adjust not just this program but everything else accordingly.