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FINANCING SOCIAL SECURITY: FACTS VS POLITICS

Is there a funding crisis? by Teresa Ghilarducci

On May 12, Health and Human Services Secretary Richard Schweiker announced that, "The crisis is here. And it must be faced. . . .If we do nothing, the Social Security system will go broke." Assuming bleak economic trends for the next 75 years, he claimed that cuts in Social Security benefits are necessary to solve the funding deficit. But other experts disagree. For example, William Driver, who was Social Security Commissioner under President Carter, testified in May that the short term funding deficit could easily be met by using general revenues. He also argued that the Administration's proposals are mainly political, because their proposed cuts are twice what is needed to solve the short term deficit.

Much of Secretary Schweiker's alarm is based on his 75 year forecast of the future of the system. In fact there is no way to make reliable economic projections that far into the future. As in any actuarial evaluation of an insurance fund, the question of the future solvency of Social Security funds depends on accurate predictions of all the factors that affect the income and outgo of the funds. The longer the forecast, the fuzzier the predictions. Future rates of employment and unemployment, labor force participation, wage growth, marriage, fertility, divorce, net migration, retirement, inflation and productivity must be estimated and evaluated for their effect on the system's finances. If an assumption is slightly off, the forecast can be drastically wrong. This is what happened in 1977, when Congress last amended the system's finances.

In 1977, sluggish economic activity and high inflation caused concern for Social Security's short-term financing. In addition, lower fertility rates caused concern for the long-term viability of the system. The fear was that more retirees would have to be supported by fewer working people. With this perspective, Congress and the Administration passed a schedule of tax increases to meet the anticipated short-run deficit expected in the 1980s, and commissioned various studies to investigate the long-term prospect.

Unfortunately, economic performance during the last four years has been much worse than it was expected to be in 1977. As a result, the short-term Social Security deficit will occur sooner than predicted, and the 1977 schedule of tax rate increases will not be implemented in time to cover the deficit. This is the "crisis" Secretary Schweiker described last May.

How can we deal with the "crisis"?

In 1980, President-elect Reagan directed a new Task Force on Social Security to evaluate the goals and future of the system. At that time, four other study groups had just completed or were doing the same kind of analysis. All five of these studies have now been published, and are cited below. All of them agree that the Old Age and Survivors Insurance fund (OASI) will be temporarily unable to pay retirement benefits on time in 1982, but that the Hospital Insurance fund (HI) and the Disability Insurance fund (DI) will continue to have surpluses. If these funds were pooled, there would be no short-term deficit in 1982, unless we have a severe depression in the meantime.

BERKELEY, CA 94720
(415) 642-0323

UNIVERSITY OF CALIFORNIA, BERKELEY
CENTER FOR LABOR RESEARCH AND EDUCATION
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All five studies also agree that in the long run (the next 25 years) even with mediocre economic performance, the OASI and DI trust funds should develop surpluses. Only the HI fund is expected to be in long-run deficit, because of soaring health care costs.

In the face of these conclusions from five separate studies, the Reagan Administration still proposes to cut social security benefits, in at least five different ways: (1) by raising the normal retirement age; (2) by eliminating student benefits; (3) by decreasing the amount of cost of living adjustment; (4) by limiting or possibly by eliminating altogether the minimum benefit; and (5) by further reductions in disability benefits. At the same time, the Administration proposes to eliminate the earnings test, thereby increasing benefits for a small group of workers in the 65-69 age bracket, with the biggest benefits going to those making over \$15,000 a year.

Why cut benefits?

In all four recent studies of Social Security financing which were started before the Reagan Administration came into office, there is no recommendation to cut Social Security benefits to meet the short-term deficit. Cutting benefits is obviously only one alternative. Why does the Reagan Administration now insist on this approach?

Late this Spring, calculations made by the Congressional Budget Office showed that the Administration's budget could not be balanced in this fiscal year. The increase in military spending will be greater than the decrease in spending for social programs. When Congress refused to make further cuts in expenditures for social programs, the Social Security system became the major potential source of large cuts to balance the budget. The tax cuts which were enacted recently will make the short-run situation worse.

The Social Security budget was never combined with the general revenue budget until the late 1960s. When President Johnson then combined the two, the huge Social Security surpluses of that time had the effect of obscuring the amount of general revenue spending on the Vietnam war. The same technique of combining the two budgets under this national bookkeeping system may now help the Reagan Administration meet its primary goal of "balancing" the federal budget. Thus, the proposed cuts in Social Security benefits may be unrelated to the basic condition of the system's financing. This may also explain why the Administration's proposals are so different than the recommendations contained in the four other Social Security financing studies recently completed.

The projected deficits in Social Security financing, both short term and long term can be met in a number of ways without cutting benefits. The pros and cons of these methods will be analyzed further in the next issue of LCR.

- Teresa Ghilarducci

References: (Following are the five studies quoted above. Copies can be obtained from University libraries or by writing to your Congressman.)

1. Final Report of the President's Commission on Pension Policy, Feb. 1981.
2. Final Report of the National Commission on Social Security, March 12, 1981.
3. Report of the 1979 Advisory Council on Social Security.
4. Universal Social Security Coverage Study Group, 1979.
5. President Reagan's Task Force on Social Security Report, 1980.

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