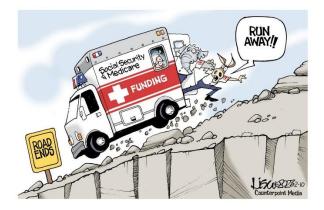
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Start worrying if Social Security is NOT ...uh... (you know the thing)!

Steve Bakke 🏁 February 14, 2023



"Social Security......it's going to have to be tweaked..." – Barack Obama, as President

*"Social Security does not add one penny to our debt..."* – Dick Durban, as Senate Democrat Majority Whip, along with many other politicians and the mainstream press.

The Social Security (SS) "kick the can down the road" season is here. This time the "fixit" debate is more tangled because there's a semantic battle making agreement impossible. But what's the term to use – "reform," "adjust," or perhaps "restructure"? "Sunset" shouldn't be used, and neither "cut," nor "eliminate" dare to be uttered. Rest assured, contrary to Biden's claim, republicans want to strengthen SS, not damage it nor eliminate it.

I've decided to borrow from Barack Obama's response when he commented on the program's financial problems...let's "tweak" it. But it won't be easy. First let's be reminded of how the system works.

Behind the idea that SS doesn't add "one penny to our debt" is an assumption that it is a program that maintains employer and employee contributions intact. It's not. For decades, as the funds came in, benefits were paid, and the balance remaining each period was used to loan money to the federal government – hence the "spin-term" IOU. To be fair, the funds were invested in Treasury securities, redeemable on demand. The funds loaned to the government were used in other federal programs, reducing the need to tax or borrow.

The first hint of a deteriorating financial situation for SS was when its contributions were inadequate to pay benefits and began running a deficit. It was forced to begin cashing in its accumulated Treasury securities. Now it appears the program will be permanently mired in deficits, meaning it'll be redeeming its Treasury securities on a yearly basis. It's veering toward insolvency.

The government is also creating large deficits. As SS redeems its Treasury securities, the government is forced to borrow the necessary funds, adding to the already exploding National Debt. In a few years, the program will redeem its last securities. With their backup

source of funds being depleted, something must be done. Strengthening the program's financial strength is also an important part of reducing the National Debt's exploding growth.

In 1945, the ratio of contributors to beneficiaries was approximately 42:1. It's now approximately 3:1. Additionally, SS now represents almost 20% of government spending. Those realities disprove the pretense that it's business as usual. We must decide how to preserve the system. It won't fix itself. "Don't touch Social Security" is a foolish and unrealistic political statement. Spending must be cut, or revenues increased. A combination of both moves will certainly be considered. My prediction is that overall outlays will never be cut. But some sort of long-term structural change is inevitable.

While seldom uttered publicly, you can be sure responsible legislators from both parties have one or more possible "tweaks" on their mind, including: raising the retirement age for young workers, limiting benefits or COLA adjustments, means testing, converting partially to "private accounts," and adjusting taxes on benefits. On the other side of the ledger, SS taxes can be increased, likewise the maximum contribution requirements. You



can add other solutions or combinations. As economist Thomas Sowell reminds us, there are no perfect solutions, only tradeoffs.

As mentioned, I'm using the word "tweak," as offered by President Obama, to point out the fact that action is necessary to keep the program solvent. In similar fashion, I'm going to rely on then Senator Joe Biden's advice who passionately offered an alternative for solving what he knew would become a huge problem.

Senator Biden repeatedly tried to convince the Senate to require "every program to be looked at freshly every four years." (That sounds like his version of the hated "sunset" solution). The first time was in the 1970s, and finally in the 1990s he did it for a fourth and final time. With arms flying, he hollered his advice: "I meant Social Security...I meant every single solitary thing in the federal government." He was on the right track.

The President and most democrats express dire warnings about republican suggestions for making Social Security solvent. Shouldn't we be worrying more about the possibility of Social Security NOT being considered for...uh...a little tweak?