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Financial Aspects of the Social Security “Problem”

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Financial Aspects of the Social Security "Problem"

Stephanie Bell
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L. Randall Wray

There is a widespread belief that the Social Security Trust Fund is going bankrupt. Thus, while Old-Age and Survivors Insurance and Disability Insurance (OASDI) is currently accumulating large financial surpluses, the fear is that Social Security faces a financial crisis because post-2020 program expenditures are expected to exceed revenues.¹ The solution, many argue, is to "use" (current and future) budget surpluses to "save" Social Security from financial collapse.² The idea, according to these "saviors," is that by "depositing" the surpluses into a trust fund, the Treasury can be prevented from "spending" them. Many of these "saviors" also insist that the rest of the government's budget must remain balanced, for otherwise the Treasury would be forced to dip into Social Security reserves. We examine these points by first providing an analogy.

Can a trust fund help to provide for future retirees? Suppose the New York Transit Authority (NYTA) offered subway tokens as part of the retirement package provided to employees—say, 50 free tokens per month (for life) upon retirement. Does this mean that New York should attempt to run an annual "surplus" of tokens (on average collecting more tokens per month than are paid out) in order to accumulate a trust fund to provide for future NYTA retirees? Of course not. When tokens are needed to pay future retirees, New York will simply issue more tokens at that time. Not only is it unnecessary for New York to accumulate a hoard of tokens, but it will not in any way ease the burden of providing subway rides to future retirees.

The authors are, respectively, doctoral candidate at the New School for Social Research and Visiting Lecturer at the University of Missouri-Kansas City, and Professor of Economics at the University of Missouri-Kansas City and Senior Research Scholar at the University's Center for Full Employment and Price Stability. This paper was presented at the annual meeting of the Association for Evolutionary Economics, Boston, Massachusetts, January 7-9, 2000.

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