Journal of Economic Issues ›

Volume 34, 2000 - Issue 2: Papers From The 2000 Afee Meeting

Articles

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Pages 357-364 | Published online: 05 Jan 2016

Cite this article https://doi.org/10.1080/00213624.2000.11506273

JOURNAL OF ECONOMIC ISSUES
Vol. XXXIV No. 2 June 2000

Financial Aspects of the Social Security "Problem"

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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.

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