



Failing to Fix What's Broken Would Be the Real Nightmare

President Joe Biden tweeted last week that he will be a “nightmare” for Republicans who dream of cutting Social Security and Medicare. With this statement, Biden showed that he’s either shockingly ignorant about these two programs and any Republican reform efforts — or lack thereof — or just another politician who washes his hands of what happens when he’s out of office and the programs hit upcoming obstacles.

I have an idea which one it is. However, before revealing my guess, it’s worth revisiting the issue more fully. Each time I write about Social Security and Medicare, newspapers receive letters to the editors revealing how little the general public understands about entitlement spending and where it’s headed. This misunderstanding is particularly acute and ominous when it comes to Social Security.

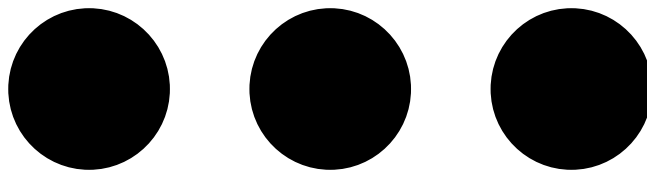
It’s important for people to grasp reality because no single issue will affect our fiscal future more than Social Security and Medicare. Spending on these two programs alone consumes 45% of the federal budget. Along with Medicaid, these programs are *the* drivers of our current and future debt. And to drive home the seriousness of our predicament, note that Medicare and Social Security together face a shortfall of \$116 trillion over the next 30 years.

How Congress decides to address this shortfall will have serious consequences on the government’s ability to pay for everything else or on Americans’ tax burdens, whether they be rich or poor.

This is why it’s worth trying to get through to those who, for instance, believe that Congress shouldn’t reform entitlements because they have paid for every dollar and are entitled to them. This assertion is incorrect. Americans have indeed been paying for some benefits, but not for their own and not for all of what they will receive.

Consider Social Security. The program is funded by a payroll tax of 12.4%. The revenues collected don’t belong to the workers except in the sense that paying taxes makes us eligible to receive Social Security when we retire. But these revenues don’t go into accounts with our names on them. Instead, they are used to fund payments made to current retirees. It’s a pay-as-you-go system, not an investment account. In the former, adjustments are sometimes necessary.

Second, beneficiaries receive more than they paid in taxes. The average Social Security retiree will get \$698,000 and will only have paid \$625,000. That explains the program’s insolvency. It’s even worse for



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Written by [Veronique de Rugy](#) on February 16, 2023

Medicare since the average beneficiary receives three times more than he or she pays in taxes for that program.

So, while no serious reformer seeks to cut a dime more than is necessary to make both programs safe and sustainable, workers and retirees upset about the changes won't have any legal rebuttal no matter how many payroll taxes they paid in. The Supreme Court said that much in a ruling in 1960.

Voters could of course throw those who want to touch Medicare and Social Security out of office. This political constraint is why every Congress stays as far as it can from seriously reforming these programs — but it doesn't mean the programs won't get cut. Failure to reform them, in fact, means benefits will automatically get cut.

Consider again Social Security. Right now, benefits paid out come from the payroll tax as well as money borrowed by the Treasury. Why does the Treasury do that? Because Social Security has a trust fund with about \$2.6 trillion in IOUs that it can redeem when the payroll tax isn't covering all the benefits. That's been the case since 2010.

These IOUs come from excess payroll taxes collected from past workers. That money was exchanged for Treasury bonds — pieces of paper. Treasury then spent these funds on whatever Congress directed: defense, highways, education, you name it. This matters for two reasons. First, unless Congress changes the law, as long as the Trust Fund contains IOUs, Social Security will ask Treasury for money and get it. Second, when the Trust Fund runs out of IOUs around 2033, Social Security benefits *by law* will be cut by about one-fifth. Something similar happens with Medicare, only sooner.

Biden — who's spent a half-century in the Beltway and knows how this works — unwittingly used the right word to describe his intention to block to Medicare and Social Security reform. By not acting, benefits will be cut without any possibility of sheltering those seniors who are poor. The nightmare looms for them.

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