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The Solvency Problem

SOCIAL SECURITY—the centerpiece of retirement security for most Americans—will soon be insolvent. Government actuaries forecast the program can pay all promised benefits until 2034. At that point, the $2.9 trillion trust fund will be empty and dedicated Social Security taxes will be the only source of revenue. Since the program will have enough annual revenue to pay only 79 percent of annual benefits, every retiree will face an immediate benefit cut of 21 percent. Similar cuts will be imposed on disabled workers, spouses, survivors, and new applicants. In all, 83 million beneficiaries will lose more than one-fifth of their expected benefits.[1]

All this is old news. In 1994, the actuaries forecast trust fund depletion in 2029. Fifteen years later, they forecast 2037.[2] Although the exact year bounces around a bit, largely because of short-term economic fluctuations, the central message does not change: Social Security is racing toward insolvency. If Congress continues to do nothing, the program will be unable to pay all promised benefits. Moreover, the date of insolvency is getting closer. Once 35 years distant, trust fund depletion is now a dozen years away.

This book explores why Congress has done nothing to fix Social Security over the last three decades. Polls show the program remains popular among virtually all groups: Democrats and Republicans, workers and retirees, the young and the old, the poor and the affluent. Polls also show that many people place Social Security near the top of the list of problems they want Congress to fix. Still, Congress does nothing. Legislators have not voted on a single solvency plan since 1983, not in the House, not in the Senate, not in committee, not on the floor.

This book also explores what legislators are likely to do as insolvency nears. Although legislators are unlikely to allow Social Security to slide over the fiscal cliff, thus imposing deep cuts on beneficiaries, it is less clear how they will fix the program. Will they raise taxes as they did to restore solvency in 1977? Will they cut benefits as they did in 1983? Will they reinvent Social Security as President Bush proposed in 2005?

Roots of Insolvency

Why is Social Security headed toward insolvency? One reason is the long and steady decline in *mortality*. Retired people live longer today than they did when Congress created the program. Life expectancy for 65-year-olds has increased from 13.7 years, when Social Security began paying benefits in 1940, to 20.3 years today. Demographers predict it will continue to increase, reaching 24.3 years in 2095.[3] Although there is much to celebrate in this extraordinary increase in life span, it presents enormous problems for Social Security. A system designed to support retirees for 14 years cannot easily support them for 24.[4]

A second reason is the long but unsteady decline in *fertility*. The long-term trend is clearly downward, from 3.3 children per woman in 1918 to 1.8 in 2017.[5] Fewer children today mean fewer taxpayers tomorrow. But fluctuations in fertility also create troubles for Social Security. Fertility averaged 2.4 children per woman during the Great Depression and World War II (1933–45), increased to 3.3 during the postwar baby boom (1946–64), and then dropped to 2.1 during the equally long baby bust (1965–83).[6] The baby boom generation is larger than its immediate predecessor, which makes paying for the earlier generation's retirement relatively easy. The baby boom generation is then followed by a smaller generation, which makes paying for the boomers' retirement more difficult. Indeed, the retirement of the baby boom generation, which occurs gradually between 2008 and 2034, is the proximate cause of Social Security's insolvency.

For Social Security, demography is destiny. Increasing longevity means retirees, spouses, and survivors collect benefits longer than ever before. Decreasing fertility means fewer workers to support each beneficiary. The resulting decline in the ratio of taxpayers to benefit collectors—from 3.4 workers per beneficiary in 2000 to 2.8 in 2020, 2.3 in 2035, and 2.1 in 2070—underscores the magnitude of the problem.[7]

Financing Social Security

The most important thing to know is that Social Security is largely a pay-as-you-go program. Some pension systems are *advance funded*. They extract money from current workers, invest those funds in stocks and bonds, and use investment returns to support those workers when they retire. In contrast, *pay-as-you-go* systems extract money from current workers and immediately redistribute those funds to current retirees. It is also relevant that Social Security is *self-supporting*. Social Security taxes cannot be used to fund other programs. Other revenues cannot be used to support Social Security.

The top half of figure 1.1 shows how Social Security's revenues and benefits increased from 1970 to 2019, and how they are expected to change through 2034. Most of the increases are the result of wage growth and population growth. They do not reflect inflation, since all values are expressed in 2020 dollars. The increases also reflect several policy changes that Congress enacted in 1983. Three distinct periods stand out. From 1970 to 1983, annual revenues approximated annual benefits. From 1984 to 2020, annual revenues exceeded annual benefits, with the surpluses added to the trust fund. From 2021 to 2034, annual revenues will be less than annual benefits, with trust fund redemptions covering the shortfall.

The bottom half of figure 1.1 shows how the value of Social Security's trust fund has varied, or is projected to vary, throughout this period. Historically, the trust fund was just a small buffer, accumulating occasional surpluses, funding occasional deficits, but never totaling more than a few months of benefits. It functioned like a rainy-day fund, insuring that short-term revenue declines during a recession did not threaten monthly benefits. In 1983, however, Congress created a much larger reserve, both by moderating the growth of benefits and by increasing the growth of revenues. Those decisions are shown in the top half of the figure, where revenues suddenly exceed benefits, and in the lower half, where the trust fund begins its rapid ascent. By 2008, the trust fund was nearly $3 trillion (in 2020 dollars), enough to fund 46 months of benefits. The trust fund peaked in 2020, before beginning to decline in 2021. Absent congressional action, it will hit zero in 2034. At that point, annual benefits will plummet by 21 percent in order to equal the program's actual revenues.

Legislators' actions in 1983 reflected the fact that strictly pay-as-you-go systems are ill suited to handle demographic booms and busts. The solution was to move toward a *modified pay-as-you-go system*, where some revenues would be salted away to support the retirement of unusually large cohorts. Congress took actions that enlarged the trust fund by postponing cost-of-living adjustments for beneficiaries, accelerating already scheduled tax increases for employed workers, and increasing the tax rate for self-employed workers. It also reduced benefits for future retirees by gradually raising the full retirement age from 65 to 67 over 39 years.

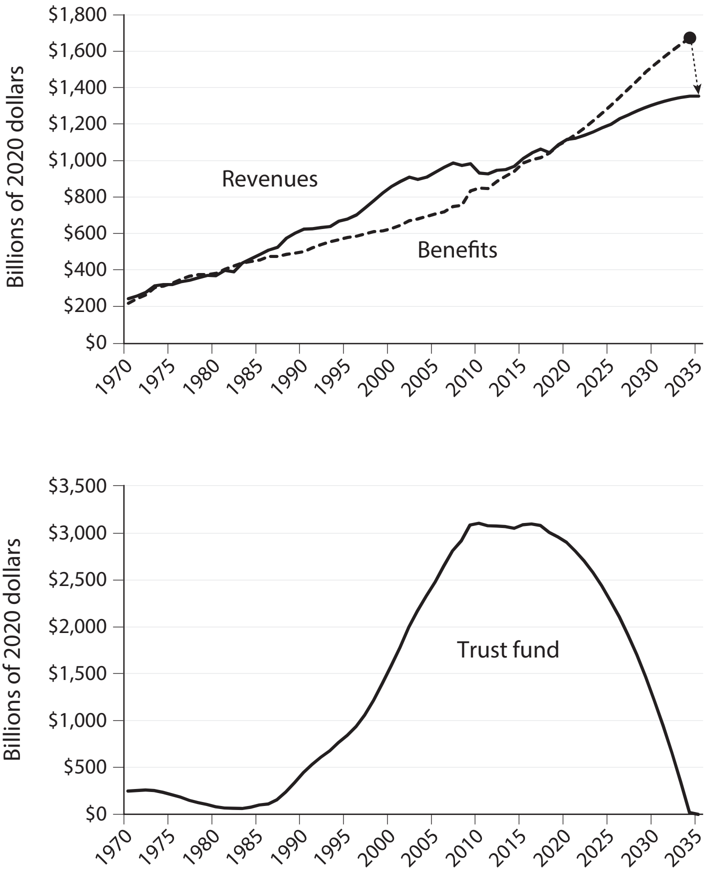

FIGURE 1.1. Revenues, benefits, and trust fund balances in 2020 dollars, 1970–2034. Revenues include payroll taxes, income taxes on Social Security benefits, and interest from the trust fund. Revenues, benefits, and trust fund balances, which are for the combined old-age, survivors, and disability programs, are indexed to the consumer price index. Historical results to 2019, then actuarial projections.
Source: Social Security Administration 2020d, table VI.G7.

The 1983 reforms worked. Congress not only solved the 1983 solvency crisis, it made Social Security financially healthy for more than a half century. But Congress did not solve all the problems associated with declining fertility and mortality. Raising the retirement age by 2 years is not a long-term fix when life expectancy is increasing by 10. Raising the tax rate just for self-employed workers—then about 8 percent of the workforce—is not a long-term solution when the total number of workers per beneficiary is declining by one-third.[8]

Revenues and Benefits

Social Security has five revenue sources. *Employed workers* pay 6.2 percent of their wages up to the maximum taxable wage base ($142,800 in 2021). *Employers* pay an equal amount from their own coffers. These two sources account for 84 percent of system revenues. *Self-employed workers* pay both sums—12.4 percent in all—subject to the same wage limit, accounting for 5 percent of system revenues. Many *beneficiaries* pay income taxes on a portion of their Social Security benefits. Collected by the Internal Revenue Service, these assessments are redirected to the Social Security Administration, where they make up 3 percent of total revenues. Social Security currently earns *interest* from the trust fund, accounting for 8 percent of system revenues. This source will vanish once the trust fund runs dry.[9] When revenues are insufficient to pay promised benefits, Social Security withdraws money from the trust fund. Redemptions began in 2021 and will continue until 2034.

Social Security is called a *defined benefit program* because monthly benefits are established by law as a fraction of what individual workers contributed to the system over their careers. Although the formulas for distributing benefits are complex, they are based on simple principles. Workers are entitled to retirement benefits after contributing to the program for 10 years. The amount they collect depends on their past taxed wages, and specifically on their 35 highest-earning years. Consequently, those with short careers collect less than full-career people. Similarly, those with low average wages collect less than people with high average wages. The benefit formula, however, is highly progressive, so that lower-wage people realize a much greater return on their contributions than higher-wage people do. As chapter 8 shows, a hypothetical worker who earned Social Security's maximum taxable wage for an entire career would have contributed 8.5 times as much as a person who earned the federal minimum wage during the same period, yet would collect only 2.8 times as much during each retirement year.

Benefits are first calculated for an individual's so-called *full retirement age* (FRA), currently age 67 for those born after 1959. Those who choose to collect benefits earlier than 67 receive reduced benefits. For example, people who file at age 62 receive 70 percent of the FRA benefit. Those who choose to collect benefits later receive augmented benefits—124 percent of the FRA benefit for people filing at age 70. These age-related adjustments are designed to be actuarially fair: Retirees receive, on average, the same lifetime benefits no matter when they start collecting benefits. All benefits are adjusted annually for price inflation.

Workers are entitled to disability benefits if they are unable to perform gainful employment. The amount they collect also depends on their past taxed wages. Spouses of retired, disabled, or deceased workers are eligible for spousal benefits based on workers' past wages. Other beneficiaries include divorced spouses and the minor children of retired, disabled, or deceased workers.

The cost of administering the entire Social Security system is remarkably low, just 0.6 percent of annual benefits. Operating the retirement program is less costly (0.4 percent) because verifying age-based eligibility and delivering benefits electronically are simple tasks. Operating the disability program is more costly (1.8 percent) because disabilities are difficult to verify and monitor.[10]

Fixing Social Security

Policymakers have two fundamentally different routes for making Social Security fiscally solvent. One approach is to adjust the various revenue and benefit streams until they are in balance. These *incremental solutions* resemble what Congress adopted to solve the 1977 and 1983 solvency crises. For the first shortfall, Congress simply raised the payroll tax. For the second, legislators postponed cost-of-living adjustments, reduced benefits for current beneficiaries by taxing some of their benefits, reduced benefits for future beneficiaries by raising the retirement age, and raised taxes for self-employed workers. The benefit cuts were seven times greater than the tax increases.

Over the past quarter century, experts and policymakers have developed hundreds of provisions that would modify the revenue and benefit streams to restore solvency. Government actuaries have appraised most of them, estimating how much each provision would affect annual revenues and benefits. Congress has yet to act on any of these incremental solutions. In fact, neither the House nor the Senate has held a single roll call vote on Social Security solvency since 1983.

Another way to fix Social Security is to reinvent it. Some policymakers propose transforming the current pay-as-you-go defined benefit program into an advance-funded system. Their model is the employer-sponsored *defined contribution plan*, widely known as 401(k) and 403(b) plans, where workers and employers contribute money to individually controlled retirement accounts that are invested to fund each worker's retirement.

Over the past quarter century, experts and policymakers have developed many proposals of this type. They are often called *privatization plans* because they would direct workers' contributions to individually owned private accounts. Retirement benefits would depend on how much workers contribute over their lifetimes and how well their individual portfolios perform. The various plans differ from one another in how they would pay the transition costs of moving to an advance-funded system and on whether they would replace all or part of traditional Social Security. Government actuaries have reviewed many of these plans, estimating how well various cohorts of workers and retirees would do and how much each plan would contribute to solvency. Congress has yet to act on any of these privatization plans.

Retirement Income

Why has Congress done nothing to fix an increasingly urgent problem? Perhaps legislators do not believe that cutting benefits by 21 percent is a big deal. After all, don't most retirees have alternative sources of income? Given the existence of employer-sponsored defined benefit plans, employer-sponsored defined contribution plans, individual retirement accounts, and private savings, won't most retirees be able to cope with a reduction in just one income stream? Unfortunately, the image of Social Security as a small element in retirement security applies to only a fraction of current and future retirees.

One careful study of 2016 retirees found that households in the bottom fifth of the income distribution received, on average, $10,800 in annual retirement income, with 95 percent coming from Social Security (see chapter 8 for details). Those in the next fifth received, on average, $22,700 in retirement income, with 84 percent from Social Security. For people in these two groups, already struggling to support themselves, a 21 percent cut in benefits would be devastating. Those in the middle fifth, who received, on average, $35,500 (66 percent from Social Security), and in the next fifth ($50,200 and 49 percent), would be in better shape to cope with a 21 percent benefit cut. But losing 10 to 14 percent of total income would still cut deeply into their ability to pay medical, food, and household expenses. Only retiree households in the top fifth, who received, on average, $87,000 in retirement income (28 percent from Social Security), would be reasonably well insulated from the effects of insolvency.[11]

What about current workers? Will they be better prepared to fund their retirement than current retirees? So far, it does not look promising. Traditional employer-sponsored pension plans, which guarantee retirement benefits for as long as people live, are disappearing. Only 20 percent of current workers participate in these defined benefit plans. Although these plans are still common in state and local governments, where 76 percent participate, and still common among unionized private sector employers, where 54 percent participate, only 8 percent of nonunionized private sector workers are active participants.[12] Most people participate in exactly one defined benefit plan: Social Security.

Most employers today offer only defined contribution plans. These plans are riskier than defined benefit plans for both workers and retirees. First, they shift to workers the burden of saving. Some workers do not save enough. Second, they shift to retirees the risks of investment losses and outliving their assets. Although 64 percent of private sector workers have access to defined contribution plans, only 47 percent actually contribute.

The most ominous finding is that *half* of all private sector workers do not participate in any employer-sponsored retirement plan, whether defined benefit or defined contribution. Nonparticipation is directly related to income, with 78 percent of workers in the bottom quarter of the wage distribution not participating in any employer-sponsored plan, compared with 52 percent, 36 percent, and 22 percent in the other quartiles.[13] In short, most future retirees cannot rely on employer-sponsored retirement plans to protect them from Social Security's insolvency.

The Cost of Reform

How much would it cost to save Social Security in its current form? The appropriate benchmark for comparison is the nation's gross domestic product, the value of all goods and services produced annually. GDP is the total pot available for public and private spending.

Current payments to Social Security beneficiaries—retirees, disabled workers, spouses, dependents, and survivors—constitute 5 percent of GDP. As figure 1.2 shows, Social Security's share of GDP will increase steadily to 5.9 percent in 2034, when the last boomers retire. What happens next depends on what Congress does. If legislators do nothing, the Social Security share of GDP would drop immediately to 4.7 percent, as benefits contract to equal that year's projected revenues. If legislators raise taxes to fund all promised

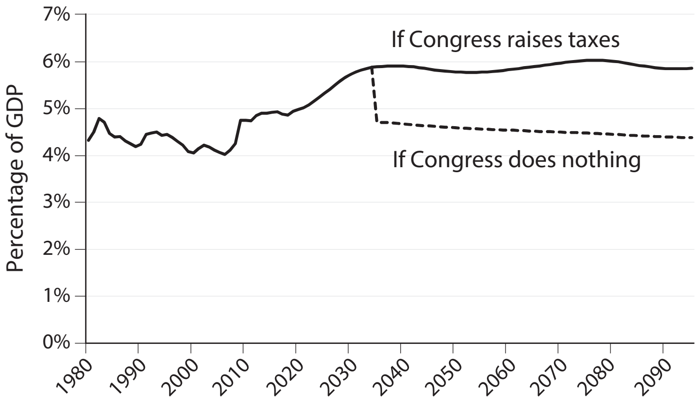

FIGURE 1.2. Social Security benefits as a percentage of GDP, 1980–2095. Historical results to 2019, then actuarial projections.
Source: Social Security Administration 2020d, table VI.G4.

benefits, they would need to allocate an additional 1.2 percent of GDP annually to Social Security beginning in 2034, with an additional 0.3 percent annually between then and 2095. In short, it would cost between 1.2 and 1.5 percent of annual GDP to preserve Social Security in its current form.

Why do actuaries project that benefits as a share of GDP will increase so modestly after 2035, especially given the share's rapid growth between 2008 and 2034? The answer is that a rough balance will emerge between two countervailing forces. Increasing longevity will drive up lifetime benefits, as Social Security pays beneficiaries for additional years. Meanwhile, the boomers' gradual demise will drive down total benefits, as a smaller successor generation of retirees replaces the baby boom generation. The latter is a one-time bonus. The former will continue until longevity plateaus or reverses, or until policymakers do something to compensate for increased longevity.

How does the cost of saving Social Security compare with what Congress has done to address other problems? Consider congressional action during George W. Bush's first presidential term. In 2001, Congress passed his sweeping tax cut, which legislators expected would cost $1.4 trillion over a decade. In 2003 and 2004, Congress enacted additional tax cuts, first for individuals and then for corporations, with an estimated decade-long cost of $476 billion. In 2004, Congress enacted prescription drug coverage for seniors, an action expected to cost $400 billion over the first decade. These three actions cost 1.0 percent, 0.4 percent, and 0.3 percent of GDP per year, or 1.7 percent in all.[14]

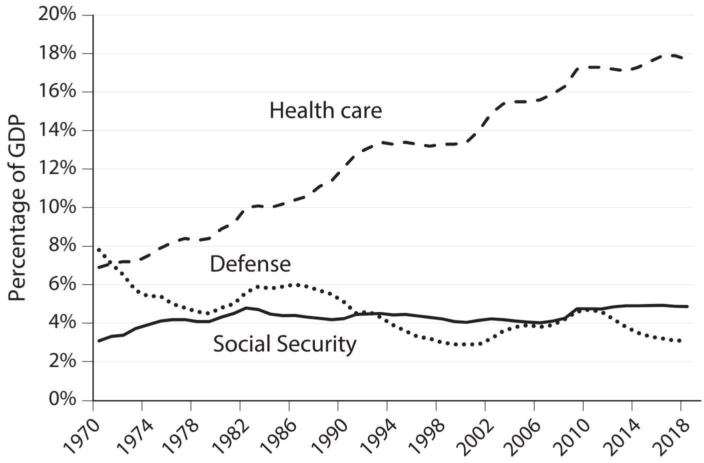

FIGURE 1.3. Spending on Social Security, defense, and health care as a percentage of GDP, 1970–2018. Social Security and defense are exclusively federal programs. Health care includes spending from all governmental and nongovernmental sources.
Sources: Social Security Administration 2020d, table VI.G4; Office of Management and Budget 2020, table 6.1; Centers for Medicare and Medicaid Services 2020, table 1.

Congress also authorized military action in Afghanistan and Iraq. Although legislators approved these military actions without cost estimates, one expert later estimated those wars cost $4.4 trillion over 14 years—averaging about 2.2 percent of GDP annually.[15] The point is *not* that allocating an additional 1.2 percent of GDP to Social Security annually would be easy. The point is that such allocations are common.

Society is endlessly reconfiguring the sectoral allocation of GDP. Figure 1.3 captures how three large sectors of the economy changed between 1970 and 2018. Notice the huge increase in the health sector, from 7 percent to 18 percent of GDP, and the huge decline in national defense, from 8 percent to 3 percent of GDP. The sector that changed the least was Social Security, which increased from 3 percent to 5 percent of GDP. Allocating an additional 1.2 percent of GDP to preserving Social Security is a relatively small adjustment compared with the huge sectoral shifts that legislators have created or tolerated in health care and defense. Of course, some of these sectoral shifts were unplanned. No one set out to double the share of the economy devoted to health care.[16] In contrast, preserving Social Security in its current form requires that legislators explicitly choose to devote an additional 1.2 percent of GDP to a single program.

No one can doubt that 1.2 percent of GDP is a great deal of money. It would be $255 billion in today's economy. Whether this is a reasonable sum to pay, year after year, to protect Social Security beneficiaries from a 21 percent benefit cut is a question that citizens and their elected leaders need to address. It is fundamentally a question about values and preferences. How citizens and legislators resolve this question between now and 2034 is the central subject of this book.

The Urgency of Reform

Does it matter when Congress fixes Social Security? Perhaps Congress does not address Social Security's insolvency because there is nothing urgent about fixing a program that actuaries expect will remain solvent for 12 years. After all, most individuals, organizations, and governments are not devoting 2022 to fixing 2034 problems.

The reasons for procrastination are many. First, it is human nature. Students pull all-nighters to finish course papers; labor negotiators reach settlements just before midnight; legislators pass budgets just as funding runs out. Why fight human nature? Second, waiting clarifies the choices. The forecast that Social Security will become insolvent in 2034 is just a prediction: it could be earlier; it could be later. Why not wait until everyone agrees on exactly what will happen and when? Third, compromise is easier when the consequences of stalemate are disastrous for both sides. Fourth, the last two times legislators faced solvency crises in Social Security—1977 and 1983—they did fine waiting until the last minute. Why does this solvency crisis warrant an earlier intervention?

Actually, there is little uncertainty about when Social Security's trust fund will run dry. Social Security is one of the most predictable spending programs in the federal budget. It would be folly to forecast the Pentagon's budget two decades in advance. Will we be at war or peace? What long-term conflicts will fade and what new conflicts will surface? What new weapons technologies will emerge and will they cost more or less than current technologies? Social Security is different because statutory formulas—not revised since 1983—largely determine the flow of revenues and expenditures. Of course, births and deaths matter too, but it takes two decades for infants to become workers, and six decades for infants to become retirees, so demographic uncertainty is not a problem during the next two decades. Although experts disagree about the best way to restore solvency, they do not disagree about the inevitability of insolvency or about its approximate date.[17]

The principal reason for fixing Social Security soon is to spread the costs of reform more widely. If Congress had dealt more thoroughly with the long-term solvency problem in 1983, the baby boom generation would have contributed more to the solution. The youngest boomers were then 19, the oldest 37. They had most of their careers ahead of them, during which they could have paid higher taxes or prepared for shorter or less lucrative retirements. The longer legislators wait, the less baby boomers can be part of the solution. If Congress waits until 2034, the youngest boomers will be 70, the oldest 88. At that point, the only way to make boomers part of the solution will be to cut benefits for everyone.

Another reason for fixing Social Security soon is that the repair options narrow as insolvency approaches. Many options that legislators could choose today, such as gradually increasing the retirement age or gradually increasing the tax rate, disappear in 2034. Once the trust fund is empty, gradualism is not an option. The remaining options will be to impose large and immediate tax increases, impose large and immediate benefit cuts, or borrow heavily to transition to a new system.

Delay may also be a strategic choice. Some policymakers believe that if Congress waits until the trust fund empties, the chances will increase that Congress will enact their favorite reforms. For example, some people who seek to raise taxes accept that legislators are less likely to do so while benefits are flowing freely. But once the trust fund empties and benefits are about to decline, legislators will finally accept the inevitable and raise taxes. Similarly, some people who seek to reinvent Social Security by transitioning to a system of private accounts believe that reinvention will be easier once the 2034 precipice nears. Both groups are correct that legislators are more likely to act on the eve of automatic benefit cuts. But delay cannot possibly favor all sides.

Politics

Creating a large trust fund fundamentally changed the politics of Social Security.[18] When the trust fund was small, typically containing a few months' worth of benefits, the program could easily slip into insolvency, as it did in 1977 and 1983. Since inaction would lead to immediate benefit cuts, legislators had little choice but to fix the program immediately, whether by raising taxes or adjusting benefits. Once the trust fund became enormous—all courtesy of the 1983 reform—legislators could delay action for decades, drawing down the trust fund rather than working to preserve or enhance it. Delay has been legislators' collective choice for more than a quarter century.

After passing the 1983 reform plan, legislators transitioned from being active policymakers, who worked to maintain and improve Social Security, into being passive position takers. Between 1950 and 1983, legislators on the relevant House and Senate committees had become experts at negotiating complex bills as they drafted and enacted 16 major bills affecting the program's revenue and benefit streams. Since then, Congress has enacted only minor housekeeping bills, while leaving the tax and benefit formulas unchanged.[19] Today's Congress is bereft of legislators with experience bargaining about Social Security.

Freed of the need to hammer out compromises about taxes and benefits, today's legislators stake out increasingly extreme positions. Some Republicans talk about reinventing Social Security, harnessing the power of markets, and replacing the current pay-as-you-go defined benefit program with an advance-funded defined contribution program. Meanwhile, some Democrats talk about expanding traditional Social Security, making it more generous for low-wage workers, or using a more generous formula for cost-of-living adjustments—all this on top of making the program solvent. Democratic and Republican legislators also diverge on whether raising Social Security taxes is a good idea. Democrats seem willing; Republicans insist on tax-free solutions.

When partisan elites polarize, the mass public often follows. For example, when elected officials divided on health care, climate change, and defense policy, many citizens split along the same partisan fault lines. Social Security has not followed this script. We see some evidence of polarization in the early 1980s, when President Reagan sought to cut Social Security, and in 2005, when President Bush sought to privatize the program. But these episodes of polarization were mild and short-lived. What is striking about Social Security is that the program enjoys widespread public support, not only among Democrats and Republicans but also among workers and retirees, the young and the old, the poor and the better-off.

Elite polarization is real, however, and it makes fixing Social Security's solvency problem vastly more difficult. Ordinarily, simple majorities in Congress suffice for modifying tax and expenditure programs because simple majorities can enact the annual budget resolution. But the Congressional Budget Act explicitly prohibits using budget resolutions to modify Social Security. Fixing Social Security requires that Congress enact an authorization bill, something that requires a supermajority in the Senate—60 percent. In short, fixing Social Security is necessarily a bipartisan affair, requiring the support of a House majority, a Senate supermajority, and the president.[20] With Republican and Democratic legislators so deeply divided on how to fix Social Security, the incentives for compromise are minimal, especially with insolvency more than a decade away.

Social Security has survived unchanged since 1983 because it rests on three pillars. First, it enjoys broad public support. Second, it requires supermajorities in Congress to modify or replace it. Third, the trust fund has protected beneficiaries from the consequences of legislative stalemate. But this third protection is a pillar of sand, one that has already started to dissolve. Absent congressional action, the trust fund disappears in 2034.

The 2034 fiscal cliff towers over the revenue shortages of 1977 and 1983 because the $2.9 trillion trust fund has been protecting everyone from the reality that tax revenues have been insufficient to support Social Security benefits since 2010. For a while, interest on the trust fund papered over the gap. But each year, as more baby boomers retired, the gap grew larger. In 2021, administrators began liquidating the trust fund. Each successive year will require larger and larger redemptions. Finally—poof!—the trust fund will disappear. When it does, annual revenues will cover only 79 percent of benefits.

The trust fund's disappearance will make fixing Social Security an urgent issue, not just for beneficiaries, who will face enormous benefit cuts, but also for legislators who fear being blamed for the cuts and blamed for the fixes. Most legislators will feel cross-pressured when they vote on actual reform proposals. On the one hand, few legislators will want to enrage Social Security beneficiaries by allowing 21 percent automatic benefit cuts. After all, most congressional districts are brimming with retirees, and retirees vote more regularly than younger people do. On the other hand, most remedies are quite expensive. Extracting 1.2 percent of GDP from workers and their employers could infuriate them, too. Although workers may not vote as regularly as retirees do, they outnumber them. The dilemma is particularly difficult for Republican legislators, since most have signed pledges never to raise taxes.

For most budgetary decisions, members of Congress do not have to worry about keeping revenues and expenditures in balance. If they want to spend more without taxing more, they run deficits. If they choose to cut taxes without cutting spending, they run more deficits. Deficit spending, however, is not an option for Social Security. "No deficits" is not a norm. It is not a quaint custom. It is the law. The trust fund is the only legal source for paying benefits. Social Security taxes are the only legal source for filling the trust fund. It has been that way since 1935. When the trust fund runs dry, program administrators have no choice but to reduce benefits until they equal incoming revenues. Only Congress can prevent those cuts by passing legislation that restores the balance between taxes and spending.

The Plan

This book explores the politics of fixing Social Security. I investigate two important questions, one about agenda setting, the other about decision making. *Agenda setting* refers to the process by which an issue becomes the focus of legislators' attention. I explore why Social Security became a central issue on legislative agendas in 1935, 1939, 1950, 1972, 1977, and 1983—the major turning points in the program's history—and why legislators have largely ignored Social Security since 1983, despite the program's known and serious solvency problem. *Decision making* refers to the process by which legislators enact new policies once an issue appears on the agenda. I explore why they selected some options rather than others. Why, for example, did legislators fix the 1977 solvency problem exclusively by raising taxes, and then fix the 1983 solvency problem largely by cutting benefits?

My discussion of agenda setting is structured by John Kingdon's model, where political leaders join three otherwise separate streams, consisting of problems, policies, and politics.[21] For Social Security, the original problem was that workers were unable to provide for their own retirement. Alternative policies for addressing the problem included need-based old-age assistance and contributory-based old-age insurance. Politics includes the range of pressures on elected officials, including elections, public opinion, mass movements, and interest groups. President Roosevelt's signal contribution was to join those three streams and persuade Congress to enact the Social Security Act of 1935. Subsequent problems emerged, including the adequacy of benefits, the scourge of inflation, and the mismatch between revenues and expenditures. Sometimes legislators found solutions for these problems. Sometimes legislators ignored them.

My discussion of legislative decision making is guided by the notion that legislators care intensely about reelection. They regularly calculate whether particular actions—even particular votes—would enhance or diminish their electoral prospects. For half of Social Security's history, roll call voting was a breeze for legislators because they were repeatedly conferring new benefits on their constituents. Since 1977, voting has been more of a nightmare. Social Security is now on its third solvency crisis. Each time legislators have had to choose between raising their constituents' taxes and cutting their constituents' benefits. Imposing costs is the toughest part of a legislator's job.

My investigation is part chronological and part thematic. Chapter 2 examines how Congress created Social Security in 1935, expanded it from 1939 to 1974, and handled the solvency crises of 1977 and 1983. This historical account helps explain why legislators designed the system as they did and how they allocated—and reallocated—costs and benefits among workers, employers, and retirees. It also shows how early decisions shaped later decisions. Chapter 11 picks up the historical account in 2005 and examines President Bush's attempt to reinvent Social Security with voluntary personal accounts. Legislators never acted on his ambitious plan.

A second theme focuses on the policy options themselves. Chapter 4, for example, explores alternative retirement systems, examining the advantages and disadvantages of advance-funded versus pay-as-you-go systems. This provides the foundation for discussing proposals to reinvent Social Security. Chapter 5 explores incremental options for fixing Social Security. What are the arguments for and against proposals such as raising the retirement age, increasing the tax rate, or modifying the benefit formula?

My central theme is politics itself, as I explore why legislators make the choices they do. Explaining legislators' decisions would be relatively easy if I cared only about the past. Any congressional scholar—and that, by the way, is what I am—can do that with ease. My larger ambition, however, is to help readers think about the future, to think about how legislators will, or will not, fix Social Security between 2022 and 2034. And for that task, I need to theorize about what makes legislators tick, not just in 1977 or 1983, but in general. Chapter 9 sets out a framework for accomplishing that task based on my previous work on legislative decision making. Because legislators are politicians who care intensely about reelection, chapters 6, 7, and 8 first examine the interests and actions of various players who affect legislators' decisions, including voters, donors, and interest groups.

The final chapters employ these tools to analyze future policymaking. Chapter 10 explores the politics of adjusting the revenue and benefit streams to restore solvency. Chapter 11 explores the politics of reinventing Social Security, using a 2005 case study to think more generally about options to alter the program's basic structure. Chapter 12 analyzes politics at the precipice. What happens in 2034 when the trust fund runs dry and every beneficiary faces a 21 percent benefit cut? And who would be advantaged by decades of procrastination? Would it be those who sought to preserve traditional Social Security or those who sought to reinvent it? Chapter 13 concludes by examining what might stimulate legislators to act more responsibly and fix Social Security now.

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