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SOCIAL SECURITY AND THE TAX CUT:
The 75-Year Cost of the Tax Cut Is More than Twice As Large as the Long-Term Deficit in Social Security

The full report can be viewed at:
http://www.cbpp.org/8-2-01tax.htm

On August 2, the Center on Budget and Policy Priorities released a report, *Social Security and the Tax Cut.* While some policymakers and pundits argue that the tax cut is modest and that Social Security faces an enormous financial chasm, the Center's report shows that the size of the tax cut (assuming its provisions are extended beyond their scheduled expiration dates) is *more than double* the long-term Social Security shortfall. The report further shows that the tax cut consumes non-Social Security resources that are likely to be essential to the development of a politically viable package of reforms to restore Social Security solvency. The report's findings include:

- According to the official estimates that the Social Security trustees issued in March 2001, the projected long-term deficit in Social Security over the next 75 years — the period used for measuring long-term solvency — equals 0.7 percent of the Gross Domestic Product, or $3.2 trillion in present value. (The present value is the amount today that, with interest, would exactly cover the long-term Social Security deficit.)

- To measure the long-term cost of the tax cut, the Center took the Joint Tax Committee's estimate of the cost of the tax cut in 2011 if all of its provisions are extended and assumed that these costs would remain constant as a share of GDP after 2011. (This is the standard approach that the Congressional Budget Office, the Office of Management and Budget, and the General Accounting Office use when preparing long-term fiscal projections.) The projected cost of the tax cut over 75 years amounts to 1.6 percent of GDP, or $7.7 trillion in present value. Thus, the cost of the tax cut over the next 75 years is more than twice as large as the long-term deficit in Social Security.

- The tax cut is likely to make Social Security reform considerably more difficult. To be politically viable, any reform plan will likely need to include the transfer of funds from the non-Social Security budget to close a portion of the Social Security shortfall, since it is inconceivable politically that Social Security benefits will be reduced and/or payroll taxes raised sufficiently to close the entire shortfall. Such a transfer, however, would create deficits outside the Social Security and Medicare Hospital Insurance trust funds, unless the tax cut is scaled back rather than extended in its current form.

  This holds true for plans that include individual accounts as well as plans that do not. In the absence of a transfer of funds from the non-Social Security budget, individual accounts would have to be financed by diverting revenue from the Social Security Trust Fund, which would exacerbate Social Security's projected long-term deficit. The Social Security benefit reductions that would be required as part of a plan to shift revenue from the Trust Fund to individual accounts *and* restore long-term solvency to the Social Security system would be so large that they would be likely to doom any such plan.

Policymakers concerned about both the long-term fiscal health of the nation and the restoration of long-term Social Security solvency, the report concludes, would do well to examine options for canceling some of the scheduled tax cuts before they take effect (particularly those targeted on households with the highest incomes) and using a portion of the resources as part of a larger package that includes changes in Social Security and restores long-term solvency to that program.