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## LONG-TERM SOCIAL SECURITY SHORTFALL SMALLER THAN COST OF EXTENDING TAX CUTS FOR TOP 1 PERCENT

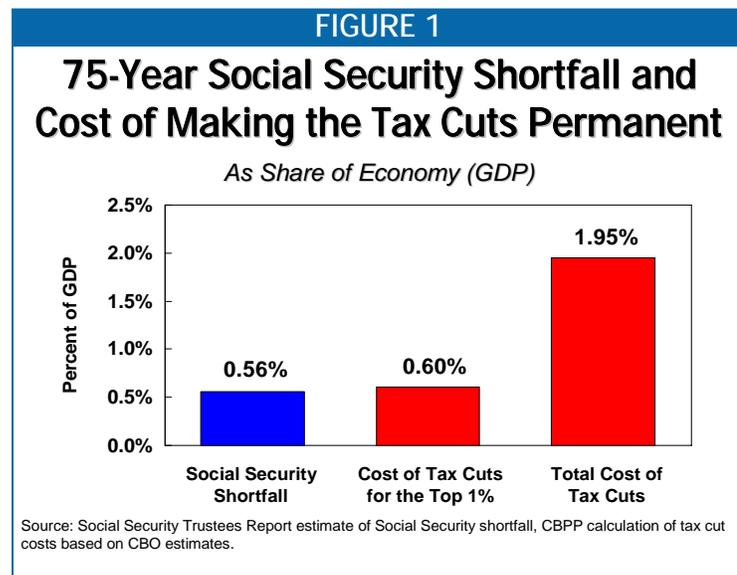
By Kris Cox and Richard Kogan

The Social Security trustees' report issued on Tuesday, March 25, 2008 estimates that Social Security faces a total shortfall over the next 75 years of 0.56 percent of Gross Domestic Product (GDP). This is slightly *less* than the estimated cost over that same period of extending the 2001 and 2003 tax cuts just for the top 1 percent of households: 0.6 percent of GDP.<sup>i</sup> (Currently, households in the top 1 percent make more than \$450,000 per year.)

This striking fact should serve as a much-needed “reality check” in discussions over entitlement programs and the nation’s long-term fiscal future. Too often, such discussions assume that Social Security faces a titanic shortfall that will require radical restructuring of the program, while paying little or no attention to the enormous fiscal damage that would result from extending the tax cuts without paying for them.

Extending all of the tax cuts (not just those for the top 1 percent) would cost 1.95 percent of GDP over the next 75 years, if their cost is not offset through spending cuts or other revenue increases. That is *three and one-half times* the size of the Social Security shortfall over that period.

These comparisons are not meant to imply that allowing some of the tax cuts to expire in 2010 would free up funds that could be used to bolster Social Security; official budget projections already assume that the tax cuts will expire as scheduled under current law. Nor do they mean that Social Security does not face significant long-term challenges; hard choices will be needed regarding both the program’s revenues and its benefits to make Social Security solvent over the long term.



Moreover, the Medicare trustees reported at the same time that Medicare's Hospital Insurance (Part A) trust fund faces a 75-year shortfall that is almost triple the shortfall in Social Security. Medicare's financing problems are much more difficult to solve because they largely reflect the sharp increase projected in health care costs throughout the U.S. health care system as a whole. Broader health care reform will therefore be an essential part of addressing the nation's long-term fiscal problems.

But as policymakers consider how to reform Social Security and to address the expiring 2001 and 2003 tax cuts, they should not overstate the problems facing the former or understate the cost of extending the latter.

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<sup>1</sup> The Trustees project that, in dollar terms, the 75-year Social Security shortfall, or the program's "unfunded obligations," equal \$4.32 trillion. This compares with a cost of \$4.63 trillion for extending the tax cuts for the top 1 percent of households. These figures are measured in present value, i.e., they are discounted to equal 2008 dollars. Estimates of the present-value cost of the tax cuts are based on the Trustees' economic assumptions. The cost of the tax cuts includes the cost of the portion of Alternative Minimum Tax (AMT) relief needed to prevent the AMT from taking back much of the tax cuts' value. For further explanation, see Aviva Aron-Dine and Robert Greenstein, "The AMT's Growth Was Not Unintended," Center on Budget and Policy Priorities, November 30, 2007.