

WSJ Print Edition

We're warned of a 'crisis' when the money runs out in a few years. But the reserve is only a fiction.



POLITICAL ECONOMICS

The Social Security Trust Fund Deception

Few deceptions in American politics are quite so pernicious as the notion that the Social Security trust fund exists. Again this week we've received another warning that trust funds that are essentially nonexistent are on the verge of running out of money they already don't have.

Technically, there is a line item in the ledger of the Social Security Administration marked "trust fund." Two, actually—one for the old-age retirement benefit and one for the working-age disability program. Superficially, reports of the trust funds' declining fortunes are alarming. The old-age fund will have run dry by late 2032, several months sooner than previously estimated, the Social Security Trustees warned in an annual report this week. Combined, the two trust funds will be empty by 2034.

But this is all fictional, or notional if you want to be polite. The programs for several decades received more income via payroll-tax revenue than they paid out in benefits. Congress directed the surplus into the trust funds, on the theory that the pot of money would be available later if tax revenues fell below benefit payouts. But rather than invest those surpluses into the private sector as a large defined-benefit pension manager would, Congress directed that Social Security "invest" only in special-issue U.S. Treasury bonds.

The trust funds therefore represent borrowing by one hand of government from another. This transferred the cash to Congress to spend in the flush years, while putting the Treasury on the hook to redeem the bonds out of general revenue or borrowing once Social Security payouts began to exceed payroll-tax revenue. The Treasury already has been funding a portion of Social Security benefits since 2010, the year in which benefit payouts exceeded payroll-tax collections for the first time. The cost in 2025 was \$160 billion and will hit \$300 billion a year by 2030.

So when you get word that the trust funds will "run out of money" soon, that's a political rather than a fiscal warning. The previous political economy equilibrium regarding Social Security is expiring, and a new one will have to be found.

Prior generations made a political judgment that voters would expect to extract from the programs some approximation of the taxes they'd paid in, and that it would be best to habituate voters early to a stable level of payroll taxation that for decades was higher than required to fund each year's payouts. The trust funds were a way of cumulating workers' aggregate tax payments to ensure an equal sum would be paid out again, in aggregate, at some point.

It was a weird bargain. The gimmick works only in aggregate. At the individual level, you may extract much more or much less than you paid in, depending on accidents such as your life span. Baby boomers exacerbated the problem by granting themselves sufficiently generous benefits that the cumulated tax payments of the surplus years will run out before the boomers do.

The exhaustion of the trust funds in 2032 and 2034 won't change any--thing about that underlying dollar-in, dollar-out political-economy bargain. The programs will revert to paying only an aggregate level of benefits each year that can be financed from that year's payroll-tax revenue—which in the old-age program works out to roughly 78% of the current benefit level and falling.

The question is whether that deal is politically sustainable if it requires reducing dollars out as dollars in decline. This, in its entirety, is the looming Social Security "crisis."

The trade-offs will be subject to bloody political brawls because each possible resolution is so painful to someone: lower benefits to confine the programs' costs within the limits of the current payroll tax, a higher payroll tax with negative consequences for the labor market, or the codification of a permanent subsidy from general revenue into the programs at the expense of priorities such as defense.

But is that really a crisis? One of the sillier themes to emerge this week is the notion that candidates for office in the next few election cycles must present a plan for Social Security since the trust funds will run out on their watch. Of course no one who aspires to get elected will be so foolish.

The working out of a resolution will instead be as chaotic and contingent as most other decisions Congress makes. The crisis talk seems designed to frighten lawmakers into acceding to the left's preferred higher-tax, higher-benefit solution before anyone has a chance to think about it—and to prevent the younger voters who will bear the brunt of the taxes from noticing what's going on. Conspicuously, however, the political system has in recent years been highly resistant to levying higher taxes to fund Social Security.

Meanwhile, is waiting such a bad idea? Any workable political settlement for Social Security will require as its inputs a relatively stable immigration policy and perhaps several years of information on how artificial intelligence will transform the economy's productivity. Don't allow a phony crisis to pre-empt a real solution in the end.

By Joseph C. Sternberg

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

Producer-price index, change from a year earlier



Note: For final demand
Source: Labor Department

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.

WSJ Print Edition

Wholesale Prices Surge

Prices charged by American producers continued to push higher in May, the Labor Department said Thursday, marking another month of elevated wholesale inflation.

The producer-price index rose by 1.1% last month, following an equal increase in April. Over the past 12 months, the PPI is up by 6.5%, the fastest wholesale inflation since 2022.

Energy prices explained a good deal of the elevated trend, rising by more than 10% in May alone. But even excluding food, energy and trade-services categories, wholesale prices were up by 0.8%, a rapid one-month increase.

Wednesday's consumer-inflation report showed that while the Iran conflict has continued to push prices higher, some underlying inflation trends moderated in May. Still, consumer inflation remains above the Federal Reserve's target.

Economists watch the PPI because a small portion of its data are combined with consumer-inflation numbers to calculate the price index of personal-consumption expenditures, the inflation metric that the Fed targets. The core version of the PCE inflation index, which excludes food and energy costs, increased 3.3% in the 12 months through April.

—*Matt Grossman*

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.
