CATO
POLICY
ANALYSIS
February 12, 2025 Number 989

# Congress Can't Outgrow or Inflate Away the Social Security Financing Problem

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## EXECUTIVE SUMMARY

Social Security's finances are unsustainable, and neither high inflation nor stronger economic growth can resolve the program's financial problems. In this policy analysis, we explain how inflation and economic growth affect Social Security's fiscal outlook. Using the 1970s stagflation period, which was marked by high inflation and stagnant growth, as a case study, we highlight how quickly the program's finances can deteriorate under changing macroeconomic conditions. Inflation automatically drives benefit increases, as Social Security benefits are adjusted to account for changes in prices per current law. Even with strong wage growth, payroll tax revenues will not keep pace with the cost of rising benefits, as current law also mandates that new benefits increase in accordance with wage growth. While higher-than-expected economic growth improves revenues, it won't be enough to fully stabilize the system. Stagflation like that experienced in the 1970s would undermine Social Security's finances even more rapidly than either high inflation or lower growth. The US experience with stagflation should serve as a cautionary tale of a possible future in which Congress fails to stabilize the debt and the Federal Reserve attempts to support government deficits through higher inflation. Congress must act quickly to reform Social Security and avoid a fiscal crisis fueled by rising costs and demographic pressures.

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## INTRODUCTION

Higher inflation and lower economic growth would exacerbate the growing federal fiscal shortfalls caused by American entitlement programs like Social Security and Medicare. Over the next 75 years, Social Security and Medicare face staggering $25.2 and $53.1 trillion shortfalls, respectively.[1] Social Security faces increasing financial pressure due to changing demographics, from increasing life expectancies for program beneficiaries to a decline in the number of workers financing the program's spending, combined with absolute benefit increases. Inflation contributes to these pressures due to Social Security's automatic cost-of-living adjustments (COLA), which ensure that benefits grow with changes in economy-wide prices. In 2023, beneficiaries received an 8.7 percent COLA, the largest in four decades, driving a program-wide spending increase of $139 billion that year.[2] On the flipside, economic growth boosts wage growth, which affects Social Security's revenues and expenditures. While higher wage growth can improve Social Security's short-term finances by increasing payroll tax revenues, it simultaneously raises future benefit costs due to the way initial benefits are calculated, limiting the effectiveness of economic growth as a tool to solve the program's financial issues.

Rising debt and deficits make it more likely that government fiscal irresponsibility will override the Federal Reserve's intention to keep inflation low. As the federal government increasingly relies on borrowing to cover ever-rising expenditures, there is a growing risk that US policymakers will try to rely on inflation to reduce the real burden of the national debt. This scenario could lead to a dangerous cycle of rising prices and economic stagnation. These macroeconomic conditions would make Social Security benefits more costly by widening the program's deficits and accelerating an already unsustainable fiscal trajectory.

The historical experience of the 1970s provides a cautionary tale of how inflation coupled with stagnant economic growth can rapidly deteriorate the finances of this large-scale government program, which is already unsustainable as currently structured. Congress will be able to neither inflate away nor outgrow Social Security's structural imbalance. Therefore, to avert a rising tax burden for workers, alleviate fiscally driven inflation pressures, and stabilize the system's finances, Congress should pursue reforms that reduce future Social Security benefits to reflect demographic and economic realities.

## BACKGROUND: HOW SOCIAL SECURITY WORKS

When Social Security was first established in 1935, Congress intended for it to keep elderly retirees out of poverty. In subsequent decades, Congress expanded the program to cover a broader range of beneficiaries, including disabled workers, spouses, and survivors of deceased workers. Today, Social Security is the largest federal entitlement program, distributing around $1.4 trillion in benefits each year to nearly 68 million beneficiaries.[3] By design, Social Security acts as an intergenerational wealth transfer whereby taxes on current and future workers overwhelmingly fund retirees' benefits. As Social Security benefits become more costly, there is increasing pressure to raise more revenues. Because Social Security operates on a pay-as-you-go basis, changing economic and demographic conditions have a significant impact on the program's long-term sustainability as younger workers fund benefits for older beneficiaries.

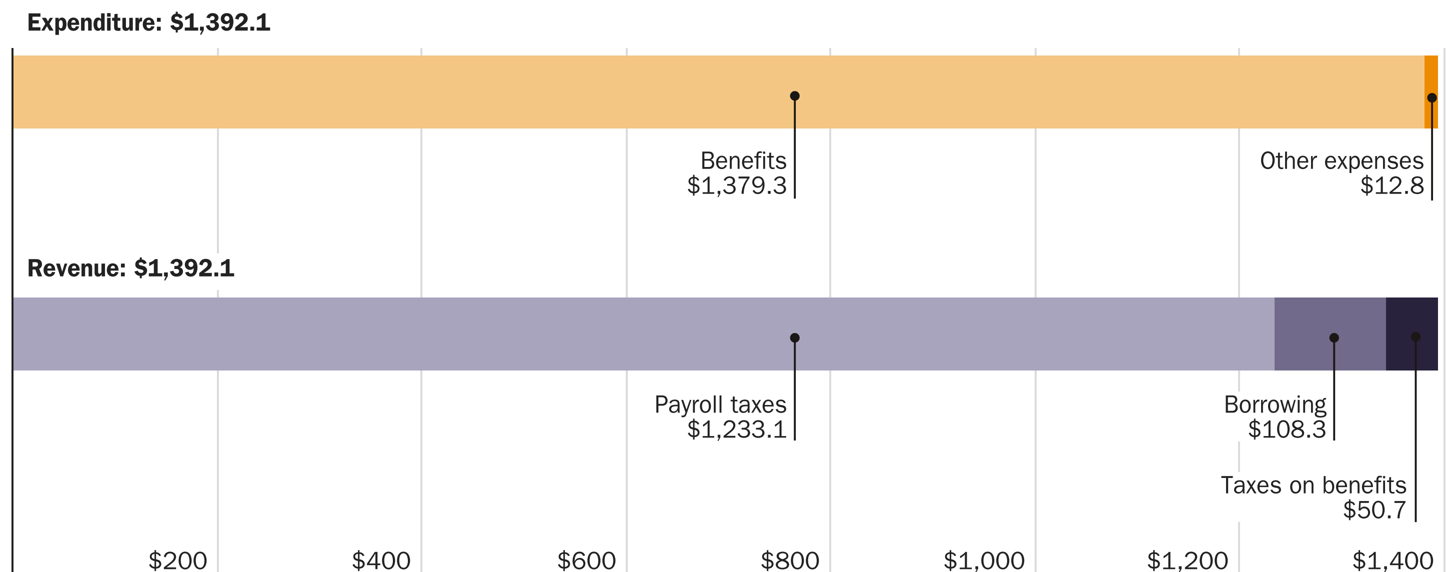
To determine benefit payments, Social Security calculates a worker's *initial* benefit by taking the worker's highest 35 years of earnings, adjusting each year of earnings upward for wage growth, and then averaging them together to create the Average Indexed Monthly Earnings (AIME). An individual's AIME is then applied to a progressive formula to determine the initial benefit (called primary insurance amount, or PIA). This benefit then automatically grows with inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) through annual cost-of-living adjustments. The program's revenues primarily come from payroll taxes on workers' wages, with additional funding coming from taxes on benefits and new debt issuance by the Treasury. Figure 1 shows the expenditures and revenues for the combined Social Security trust funds in 2023.

Changes in inflation, wages, and economic conditions directly affect the expenditures and revenues of the program. For the purposes of this paper, changes in economic conditions are generally framed relative to the Social Security trustees' baseline. Higher inflation implies

Figure 1

**Payroll taxes account for 89 percent of Social Security's revenue**

Total cost and income of the combined Social Security trust funds, billions of dollars




Source: Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, "The 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds," Government Publishing Office, May 7, 2024, Table II.B1.

Note: The graphic displays cumulative expenses and revenues for the combined Old-Age, Survivors, and Disability Insurance trust fund. Other expenses include administrative expenses and expenses from the Railroad Retirement financial interchange. Borrowing includes interest and redemptions from special-issue Treasury bonds held by the trust funds, which are recorded as income but don't improve program financing in any economically meaningful way.

an increase in prices, and higher wage growth implies an increase in wages, relative to Social Security's current projections. Under this framework, there are five primary mechanisms by which inflation and wage growth affect Social Security's cash flow:

- **Ongoing benefits.** Social Security benefits are automatically indexed to inflation using the CPI-W. Legislated cost-of-living adjustments ensure that program expenditures automatically increase with higher inflation.[4] Recent COLA increases demonstrate how inflation adjustments increase program spending significantly. In 2023, beneficiaries received an 8.7 percent increase, the largest in four decades, because of high inflation in 2022.[5] Total year-over-year Social Security spending thus increased by $139 billion—the largest spending increase in the program's history. That translates to the average monthly benefit check increasing by $146, while the maximum monthly benefit check for a worker retiring at full retirement age increased by $282. The 2023 inflation adjustment combined with lower-than-expected economic output translated into an increase of more than a trillion dollars in the 75-year Social Security budget shortfall, according to the 2023 trustees' report.[6] In sum, inflation can worsen deficits by increasing the cost of benefits through automatic spending increases.
- **Payroll taxes.** Social Security is primarily funded through payroll taxes on earned income. In 2023, the combined Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds, or OASDI, collected $1.2 trillion in net payroll tax contributions.[7] However, Social Security runs a cash-flow deficit under the current benefit-revenue structure.[8] In 2023, the combined OASDI trust funds distributed $1.4 trillion in benefit payments.[9] Assuming no changes in taxes or spending, wage growth must exceed inflation by a significant factor for Social Security to achieve cash-flow surpluses. If inflation is accompanied by strong economic growth and robust wage growth, the additional payroll tax revenue can help offset the cost of higher benefits. However, if inflation is accompanied

by insufficiently high or stagnant wage growth, the gap between benefit expenditures and payroll tax revenues can widen, worsening the overall budget picture.

- **Taxes on benefits.** One complication with the relationship between changing economic conditions and Social Security revenue is the taxation of benefits. Individuals with a combined income above $34,000 (which includes adjusted gross income, earnings from nontaxable interest, and half of their Social Security benefits) pay taxes on up to 85 percent of their benefits.[10] Because the income tax thresholds that determine how much benefit income is subject to taxation are not indexed to prices or wage growth, both higher inflation and higher earnings will result in more Social Security income becoming subject to benefit taxation (holding all else constant). Notably, taxes on benefits are a relatively small revenue stream for Social Security, accounting for $51 billion or 4 percent of total Social Security revenue in 2023.[11] Thus, small boosts in benefit tax revenue from higher inflation tend to be significantly outweighed by higher benefit costs stemming from automatic spending increases.
- **Initial benefits.** Another complication with the relationship between wages and Social Security's cash flow is the calculation of initial benefits. Unlike ongoing benefit adjustments tied to price levels, initial Social Security benefits are indexed to wage growth (which tends to grow faster than inflation, though this isn't always the case). Because Social Security uses an earnings-related benefit scheme and then benefits are further indexed to wages, higher wage growth will result in higher benefit costs. Calculating initial benefits in this manner results in unnecessarily excessive spending by increasing Social Security benefits in absolute terms (meaning in excess of inflation).[12] Inversely, suppressed wage growth has a moderating effect on benefit costs, reducing expenditures over the long run. Notably, the revenue losses from low wage growth will have a comparatively larger impact on program finances in the short term due to the outsized importance of payroll taxes for Social Security's cash flow while offsetting effects from new benefits are delayed.
- **Interest.** The Social Security trust fund records special-issue Treasury bonds, akin to intragovernmental IOUs, to reflect prior payroll tax surpluses, from which the Social Security Administration earns interest income despite those surpluses having been allocated to other government programs. These on-paper assets, which Social Security keeps on its books, earn interest that is reported as income to the Social Security trust fund. In 2023, Social Security recorded $67 billion in interest income.[13] Inflation can raise interest rates, which in turn can increase Social Security's revenues on paper. Because of this statutory accounting, higher interest rates can appear desirable by increasing Social Security's trust fund income from interest. The problem is that the trust fund does not hold real economic assets; instead, it acts as a legal accounting entity for the government to invoice itself for intragovernmental borrowing. As a result, if inflation were to increase interest revenues from special-issue Treasury securities, it wouldn't improve Social Security's financing in any economically meaningful way. No amount of accounting gimmickry will change the fact that Treasury borrows from the public when Social Security needs cash. Current and future taxpayers are on the hook to cover the full cost of annual program spending. The bottom line is that trust fund assets exist only in a conceptual way, as prior payroll tax surpluses are spent on other government functions.

Ultimately, the net effect of inflation on Social Security's finances depends on overall economic productivity and employment. Table 1 illustrates the general directions in which benefit costs and revenues will move based on changes in inflation and wage growth.

## Understanding the Social Security Trust Funds

The Social Security trust funds don't function like a traditional trust fund for a private pension plan. The Old-Age and Survivors Insurance and Disability Insurance trust funds are often-misunderstood components of Social Security. Rather than hold real savings or investments like

Table 1

**High inflation and low wage growth is a recipe for Social Security deficits**

| Economic conditions | Benefit costs | Revenue |
|---|---|---|
| Higher inflation and lower wage growth | ↑ (red) | ↓ (red) |
| Higher inflation and higher wage growth | ↑ (red) | ↑ (green) |
| Lower inflation and lower wage growth | ↓ (green) | ↓ (red) |
| Lower inflation and higher wage growth | ↓ (green) | ↑ (green) |

Notes: Arrows pointing up indicate increased benefits or revenues, while down arrows indicate decreased benefits or revenues. Red arrows signify changes that worsen Social Security deficits, whereas green arrows indicate changes that help reduce deficits. Additionally, this graphic illustrates the short-term cash-flow impact caused by changes in economic conditions. Over the longer term, lower inflation and higher wage growth can result in higher benefits as wage indexing increases benefits for future beneficiary cohorts.

a traditional trust fund, the Social Security trust funds are effectively intragovernmental accounting ledgers used to track the difference between revenues (from payroll taxes and other sources) and expenditures (benefit payments) over time. Social Security effectively operates on a pay-as-you-go basis. This means that the real focus for the program's long-term sustainability should be on annual revenues and benefit payouts rather than the trust funds. Accordingly, Congress should pay closer attention to how changing economic conditions, especially inflation and wage growth, can affect these expenditures and revenues.

Even if macroeconomic conditions are sound, Social Security is on an unsustainable fiscal path. Demographic shifts, such as an aging population and declining birth rates, mean that fewer workers are supporting more retirees. Rising debt and deficits could further exacerbate the financial strain on Social Security, increasing the likelihood that fiscal pressures would override monetary policy objectives, leading to higher inflation and economic stagnation. Such an outcome would deteriorate Social Security's financing, resulting in greater deficits and earlier insolvency. Given that inflation shocks and economic slowdowns are hard to predict and can have major impacts on Social Security's financing, legislators would be wise to look to the past. Nothing illustrates the deleterious impact inflation can have on Social Security's budget better than the stagflation of the 1970s.

## LESSONS FROM 1970S STAGFLATION

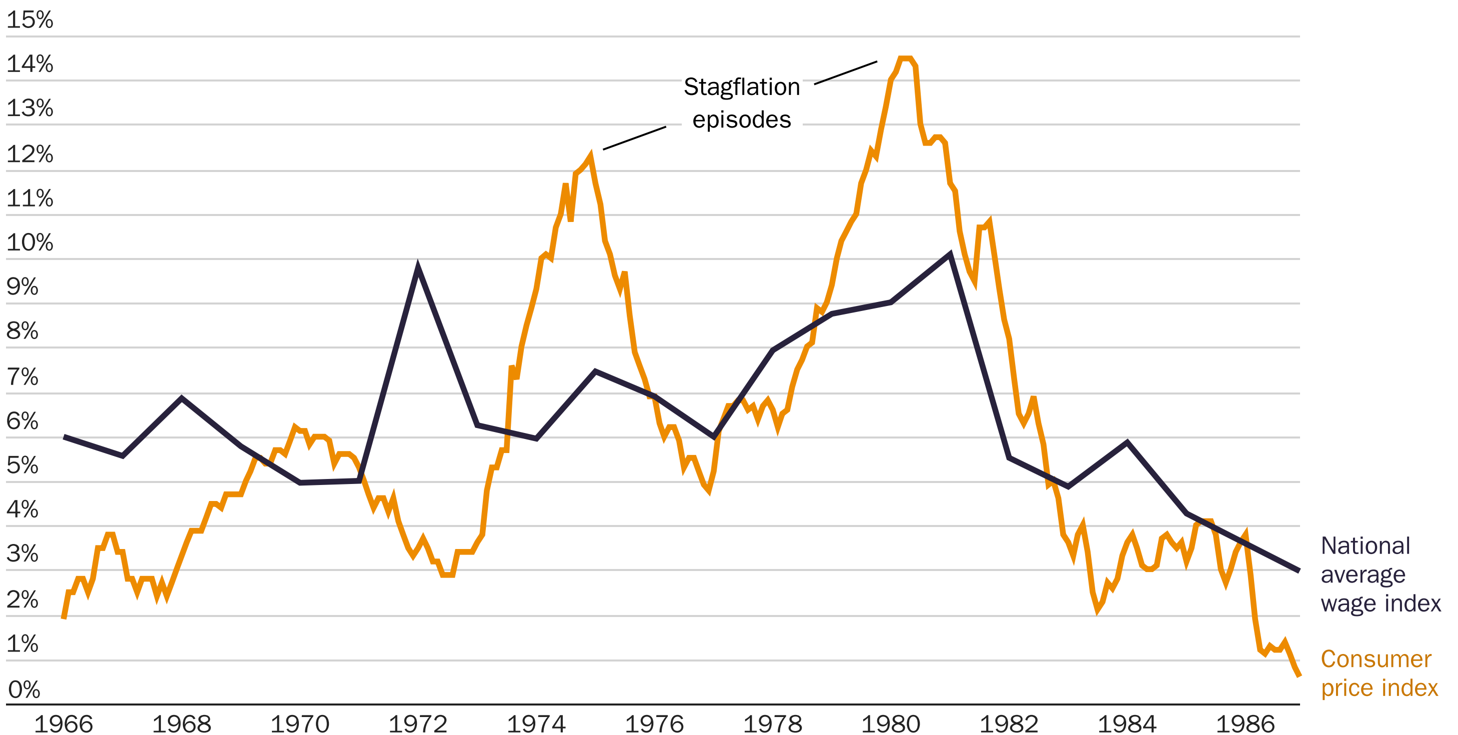
Inflation, all else being equal, has a negative impact on Social Security's cash flows. During the 1970s, so-called stagflation—high inflation combined with stagnant economic growth and high unemployment—rocked Social Security's finances. Figure 2 shows inflation and wage growth between 1966 and 1986.

US inflation rose following a major increase in spending tied to the Great Society initiatives that started in the 1960s. The initial surge in inflation was a major reason Congress established automatic cost-of-living adjustments and provided a large one-time benefit increase in 1972. What legislators didn't expect was a sudden and prolonged period of high inflation and suppressed wage growth. Over the next few years, Congress added additional benefit increases in response to inflation.[14] By as early as 1975, the Social Security trustees were projecting major funding shortfalls driven by the explosion in benefit spending and declining revenues. The actuarial balance (the difference between projected revenues and expenditures) continued to worsen over the following years. The OASI trust fund, for example, went from full long-term solvency in the 1970 trustees' report to projected insolvency by the early 1980s in the 1976 trustees' report.[15]

In an attempt to restore solvency to Social Security, Congress passed legislation in 1977 that slowed the growth rate in benefit levels and raised revenues.[16] Interestingly, the excessive benefit growth of the 1970s partly stemmed from a mistake in the 1972 legislation that established automatic cost-of-living adjustments. This legislation contained a formulaic error that effectively doubly indexed initial benefits to inflation. Thus, many retirees in the 1970s enjoyed benefits that were significantly in excess of what they contributed through payroll taxes. While the 1977 reforms corrected this formulaic error and briefly improved Social Security's budget outlook, they did not address the bigger, long-term problems driving the rise in costs and decline in revenues, such as unfavorable demographics (a diminishing number of workers supporting a growing number of retirees), changing economic conditions (such as lower growth or higher inflation), and the system's mismatched benefit-revenue structure. The

Figure 2

**Two major stagflation episodes occurred in the 1970s and early 1980s**




Sources: "National Average Wage Index," Social Security Administration; and "Consumer Price Index for All Urban Wage Earners and Clerical Workers: All Items in US City Average," Bureau of Labor Statistics, June 21, 2024.

1977 reforms also introduced wage indexing to calculate initial benefits, resulting in excessive benefit-cost growth over the long run (as compared to adjusting initial benefits for inflation).[17] In the following years, higher inflation and a subsequent recession pushed deficits deeper into the red. Figure 3 compares actuarial deficit projections across trustees' reports between 1971 and 1982.

The 1970s stagflation episode and its impact on Social Security's finances should serve as a warning for how quickly things can go from good to worse to dire in a few short years. The 1970s were marred by two prolonged bouts of inflation significantly exceeding wage growth. Predictably, high inflation drove up Social Security spending, increasing the cost of benefits. Meanwhile, stagnant wage growth and low productivity gains meant that payroll tax revenues didn't offset higher spending, thus widening deficits.

Another episode of high inflation and low wage growth would rapidly worsen Social Security's finances by increasing spending and reducing revenues. Worse, due to the United States' aging population and declining birth rate, Social Security will become increasingly vulnerable to this dynamic over time. As more people retire and fewer are born, a smaller tax base will have to pay for a larger group of beneficiaries.[18] Accordingly, an inflationary episode would cause automatic spending increases for an ever-larger beneficiary group, increasing the cost of benefits. Likewise, a smaller tax base will make it more difficult to rely on wage growth to offset the cost of new benefit spending.

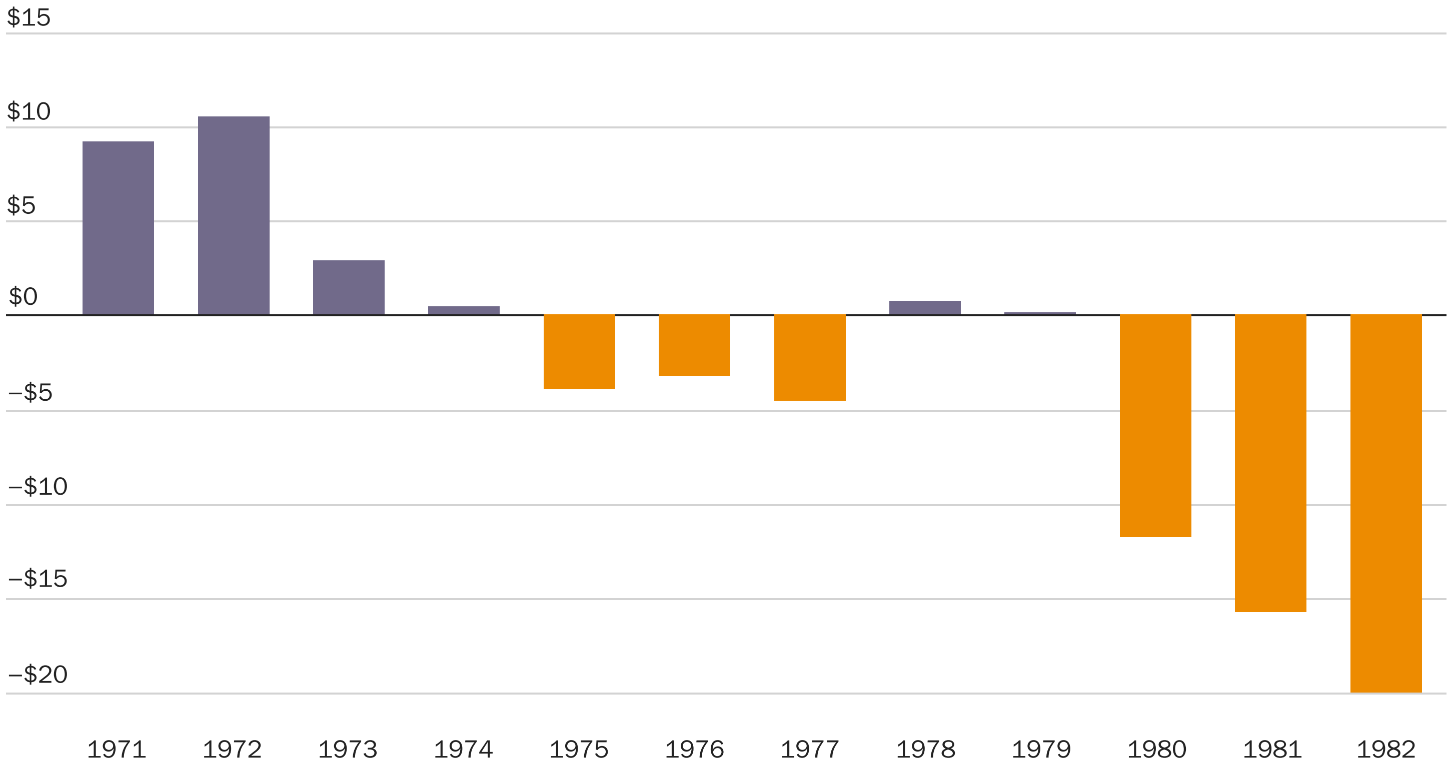
There are other lessons to be drawn from this episode. Congress has a habit of waiting until the last possible moment to address a problem with an impending deadline. Indeed, Congress waited until 1983, the year the OASI trust fund was due to go insolvent, to implement the reforms that made Social Security sustainable over the short and medium terms, including slowing the growth in benefit costs, increasing payroll taxes, and raising the retirement age.[19]

Per the latest trustee report, Social Security's trust funds are projected to be depleted by 2033. While these trust funds aren't cash reserves, they do have significant programmatic importance. When the trust funds run dry, benefits will be payable only from current taxes, resulting in an across-the-board benefit cut of 21 percent.[20] While Congress is extremely

Figure 3

**High inflation and stagnant wage growth caused major Social Security funding shortfalls**

Average actuarial surplus (+) or deficit (–) over the trustees' five-year projection window, billions of dollars




Sources: Social Security and Medicare Boards of Trustees, Reports from the Board of Trustees 1971–1982; and authors' calculations.

unlikely to let such a benefit cut occur, the situation does create a fiscal cliff that could force Congress to act, as in 1983—but the fiscal cliff today would be much, much worse. The current Social Security shortfall is significantly larger than the shortfall Congress tackled in the 1980s. In 1982, the long-range actuarial balance was –1.82 percent of taxable payroll (total earnings from wages and self-employment income that are subject to Social Security taxes). But in 2023, the long-range actuarial balance was –3.5 percent of taxable payroll, nearly double the size of the long-range actuarial deficit in 1982. As a result, the scope of program changes necessary to prevent trust fund insolvency today will have to be both larger and more comprehensive than was the case in the 1970s and 1980s. One thing is certain, though: Things are likely to get worse before they get better.

## THE ECONOMIC RISKS OF FISCAL IRRESPONSIBILITY

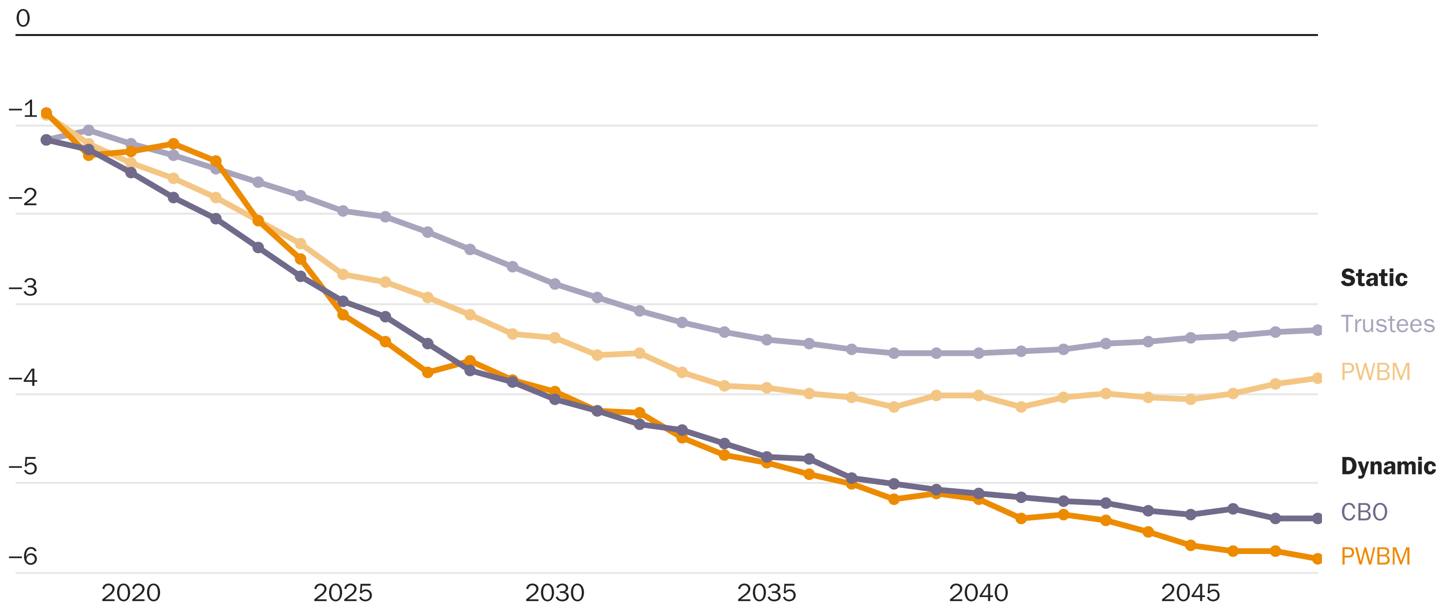
Absent corrective tax and spending changes, the rising US fiscal imbalance could lead to a repeat of the conditions of the 1970s. Faced with the politically daunting task of reforming entitlements or raising taxes, policymakers may continue to kick the can down the road, running up the national debt. This could eventually trigger a fiscal dominance regime of higher inflation, where strained government finances put pressure on the Federal Reserve to override its inflation control objectives.[21]

Conventional wisdom suggests that inflation has one upside for government finances: It reduces outstanding debt obligations. While it is true that inflation shocks can erode the value of existing debt, rises in inflation expectations quickly get priced in as investors demand higher interest rates to continue lending to the federal government.[22] Higher long-term interest costs will likely outweigh any temporary near-term reduction in the real value of debt. Entitlement programs like Social Security also get more expensive with inflation by design, as they increase benefits to compensate for a reduction in the dollar's value. Because the US debt is primarily driven by increases in spending on interest and entitlement programs, high inflation is not a viable strategy to deal with the coming fiscal cliff. Instead, it

Figure 4

**Debt crowd-out effects exacerbate Social Security's funding shortfall**

Projected annual Social Security noninterest balance ratios, percent of taxable payroll




Source: "Social Security's Worsening Financial Condition," Penn Wharton Budget Model, August 8, 2018.
Notes: PWBM = Penn Wharton Budget Model; CBO = Congressional Budget Office. The graphic shows projected annual noninterest balance ratios for the combined Old-Age and Survivors Insurance trust fund. The annual noninterest balance ratio represents the difference between a government's revenue and its noninterest expenditures as a percentage of the total amount of wages and salaries earned by workers subject to payroll taxes. "Static" and "Dynamic" indicate the type of model used, with dynamic models considering how individual economic decisions respond to changes in future macroeconomic conditions while static models do not.

will make the long-run fiscal and economic situation worse, even if it does erode the value of outstanding debt.

One mechanism by which high debt can result in economic stagnation is the crowd-out effect, where government borrowing displaces more productive private-sector investments. Per the Penn Wharton Budget Model (PWBM), the crowd-out effect reduces revenues for Social Security by slowing the growth in capital formation, labor productivity, wages, and the payroll tax base.[23] In 2018, for example, PWBM projected that Social Security's annual cash-flow shortfall in 2048 would be 77 percent larger than the trustees projected due to debt crowd-out effects. In other words, high debt itself makes entitlement programs less sustainable by shrinking revenues, creating the conditions for even more borrowing. It would take a miraculous change in economic or demographic conditions for Social Security to become solvent over the long term without fundamental changes to the program's structure.

Figure 4, which compares dynamic modeling from the Congressional Budget Office and PWBM to static modeling used by the trustees, highlights how accounting for the economic effects of debt crowd-out results in a much worse financial outlook for Social Security than the trustees currently expect. The metric used, the annual noninterest balance ratio, represents the difference between a government's revenue and its noninterest expenditures as a percentage of the total amount of wages and salaries earned by workers subject to payroll taxes. This metric is useful because it provides insight into how effectively the government's revenue from payroll taxes can cover its noninterest expenditures relative to the size of the taxable wage base, thereby indicating the sustainability of programs like Social Security.

That's not to say that impressive or even miraculous economic growth can never be achieved. Under some economic scenarios, Social Security's financial woes wouldn't be as severe and immediate. For example, a period of high wage growth, potentially driven by artificial intelligence (AI)–related productivity gains, could somewhat improve the program's finances. Higher wage growth would increase payroll tax revenues, helping to offset the rising costs of benefits and reducing Social Security's deficits. This contrast

underscores the importance of fostering economic conditions that promote strong wage growth and productivity gains.

Yet, economic growth alone is unlikely to entirely solve the problem at hand because of the existing benefit structure. Because Social Security benefits are indexed to wage growth, as wages increase, so do benefits. Therefore, while higher wage growth boosts revenues, it simultaneously raises the future benefits owed to retirees. This benefit structure means that economic growth is very unlikely to solve the Social Security budget problem. Even under ideal economic conditions, faster economic growth would only push back the trust fund insolvency date by a few years at most. During the 1990s, for example, the US experienced a boom in productivity and capital investment thanks to technological innovations, favorable demographics, reduced global tensions, and globalization.[24] However, these circumstances barely improved Social Security's budgetary future, leaving the long-term fiscal problem unresolved.

Counting on favorable economic conditions tomorrow to deal with a dire long-term fiscal challenge observable today is an exceedingly hopeful and unwise strategy. Whether AI will prove to be the productivity boom that many hope for remains to be seen. What is known is that Social Security faces an enormous $25 trillion long-term unfunded obligation (the difference between present value projected noninterest spending and revenue over the next 75 years).[25] This unfunded obligation cannot be easily inflated away. And under a 1970s-like stagflation scenario, inflation would widen financial shortfalls. The unfunded obligation would grow significantly due to a combination of benefit costs rising in tandem with inflation and revenues shrinking due to anemic wage growth. In this sense, coming to rely on inflation to meet the debt challenge would make the problem worse. In the same vein, economic growth is no panacea, and politicians should not stick their heads in the sand and pray that the American economy does the heavy lifting for them.

## CHARTING A PATH TO SOCIAL SECURITY SUSTAINABILITY

The intricate relationship between inflation, federal debt, and Social Security presents a pressing challenge for policymakers. As inflation increases benefits through cost-of-living adjustments for Social Security, it places a heavier financial burden on the workers funding current program deficits, widening those deficits and accelerating an already unsustainable fiscal trajectory. Compounded by the potential for a fiscal dominance scenario in which rising national debt pressures could drive inflation higher, the risk to Social Security and the broader economy is significant. On the other hand, faster wage growth brings the promise of higher revenues, but it also means higher benefit costs over the long run because of how initial Social Security benefits are calculated. Still, lower wage growth isn't desirable either. Along with reducing the revenue flowing into the Social Security system, lower wage growth also means less disposable income, limiting individuals' ability to save, invest, and spend on necessities and luxuries alike.

For American workers, a high-inflation, low-wage-growth scenario is particularly troubling. The reliance on payroll taxes to fund Social Security means that stagnant wage growth, often a by-product of inflationary periods, will not suffice to cover the escalating costs of benefits. This imbalance threatens the fiscal foundations of the program, endangering the financial security of vulnerable retirees by exacerbating automatic benefit cuts scheduled in law and placing an undue strain on the current workforce.

To navigate Social Security's financing challenges, legislators should reevaluate how the program works and whom it serves. Reducing unsustainable expenditures is imperative, from reducing the automatic growth in benefits from wage indexation to adjusting the program's eligibility ages to reflect longer life expectancies. Legislators should prioritize measures that foster economic growth and reduce the tax burdens imposed on younger workers from financing ever-expanding Social Security benefits. This includes managing the national debt responsibly and rebalancing Social Security spending and revenues based on changing demographic and economic conditions.

While the risk of higher inflation in the future is real, it's not too late to correct course. Congress can reduce inflationary pressures by credibly committing to deficit reduction and pursuing a fiscally responsible budget plan. Comprehensive fiscal reforms, which must include changes to Medicare and Social Security, can rein in the debt, boost economic growth, and help ensure a restructured Social Security program's long-term sustainability.[26] Delaying

entitlement reforms will only make the inevitable reforms more painful.

## CONCLUSION

Social Security faces an untenable financial situation caused by demographic changes and flawed program design. Improvements in life expectancy and a declining birth rate mean that a shrinking group of workers is supporting an increasing number of retirees *even if macroeconomic conditions are sound*. Excessive government debt accumulation poses the added risk that the Federal Reserve may feel pressure to monetize the debt, which is when the central bank issues new money and buys up government debt—a well-known inflation trigger. The resulting higher inflation could worsen economic conditions, which would accelerate the program's unsustainable trajectory. Automatic cost-of-living adjustments designed to protect beneficiaries from inflation increase program expenditures, while wage growth is a key determinant for both the revenues collected from payroll taxes and the growth in future benefit spending. The stagflation of the 1970s, characterized by high inflation and stagnant wage growth, is a stark reminder of how changing macroeconomic conditions can rapidly deteriorate Social Security's finances. During this period, the combination of rising prices and slowed economic growth depressed real wage growth, increasing the program's costs while reducing its revenues. This led to greater deficits and brought the system closer to insolvency much sooner than anticipated. This added risk of higher inflation due to the Federal Reserve potentially monetizing excessive government debt is another reason why Congress should reform Social Security as soon as possible.

## NOTES

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benefits subject to taxation. See “Income Taxes and Your Social Security Benefit,” Social Security Administration.

11. Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, “The 2024 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds,” Government Publishing Office, May 7, 2024.

12. Romina Boccia, “Social Security Benefits Are Growing Too Fast,” *Cato at Liberty* (blog), Cato Institute, September 21, 2023.

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## CITATION

Boccia, Romina, and Dominik Lett. "Congress Can't Outgrow or Inflate Away the Social Security Financing Problem," Policy Analysis no. 989, Cato Institute, Washington, DC, February 12, 2025.

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