Riding the Third Rail: The Possibility of Passing Social Security Reform

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INTRODUCTION

Since it gavelled into session on January 3rd, the 114th Congress has lived up to expectations, or, more accurately, a complete lack thereof. Once-routine orders of business—such as funding federal agencies or holding confirmation votes on cabinet nominees—have become sources of deep contention. After explicitly disavowing such tactics, House Speaker John Boehner and Senate Majority Leader Mitch McConnell courted a shutdown of the Department of Homeland Security in February after conservatives in the House Republican caucus demanded that Boehner attempt to use a DHS appropriations measure to undo President Obama’s executive action on immigration (McGregor, 2015). Meanwhile, the confirmation of Loretta Lynch—President Obama’s nominee to replace Eric Holder as Attorney General—has languished without a confirmation vote in the Senate for longer than all but two cabinet-level nominees in history (Enten, 2015).

Constant gridlock has had a stultifying effect on legislative ambition: Rarely have the prospects for significant legislative achievement in the United States appeared as bleak as they do now. As a result, many observers have completely written off the 114th Congress as a source of meaningful policy action, let alone action on divisive, big-ticket issues such as Social Security—currently the single largest item in the federal budget. In fact, Fred Hiatt—Editorial Page editor at The Washington Post—pointed to demagoguery on Social
Security reform in a March 22, 2015 column as a microcosm of contemporary legislative impotence.

The American public, however, should not write off the prospects for action on Social Security. Not only could Social Security legislation pass—it could pass before the end of Barack Obama’s presidency. Hidden in the morass of procedural dysfunction predicted throughout the waning years of the Obama administration is a unique opportunity to meet the challenges facing the largest social program in the United States. A close examination of the origins and policy history of Social Security suggests that reform efforts are not necessarily the partisan quagmire so often described. A full understanding of past reform efforts, meanwhile, provides a roadmap for contemporary reform. Taking advantage of unique political conditions and using history as a guide, President Obama could choose to cement his legacy by dealing on Social Security. Congressional leaders, meanwhile, could utilize the same lessons to achieve the show of legislative competence that they so desperately desire.

POLICY HISTORY

We realize that some of the measures we recommend are experimental... and, like nearly all pioneering legislation, will, in course of time, have to be extended and modified.

–Letter from the Committee on Economic Security to President Franklin Delano Roosevelt, January 1935

Origins

Before Social Security became the third rail of American politics—like the high-voltage electrical conductors lying exposed along railways, so charged that it is untouchable—
President Franklin D. Roosevelt was looking for innovative solutions to address the growing problem of destitute senior citizens across the country. On June 29, 1934, mired in the depths of the Great Depression and with an astounding 50 percent of seniors living in poverty, the President issued an executive order that would provide the spark for arguably the most impactful, successful social program in the history of the US federal government (Engelhardt and Gruber, 2004). Executive Order No. 6757 established the Committee on Economic Security, or CES, with the directive to “study problems relating to the economic security of individuals” and to provide actionable recommendations. Roosevelt gave the committee six months to complete its work (Roosevelt, 1934 in DeWitt et al., 2008).

After six months of deliberation, the committee returned a report detailing its core recommendations. These were divided into seven categories: employment assurance, unemployment compensation, old age security, security for children, risks arising out of ill health, residual relief, and administration (SSA, 1935). The findings of the Commission would, later that year, provide the foundation for the Social Security Act of 1935. The act was ambitious—an effort to create a self-sustaining program capable of providing economic support for the nation’s most vulnerable citizens.

**Congressional Response**

The need for action to redress the condition of the nation’s poor and elderly resonated with a bipartisan majority of Congress. Rep. John Higgins (D-MA) summed up the general attitude when he declared, on the final day of floor debate, “there is no more appealing subject to the minds of people of all classes than the tragedy and misfortune of men and women too old to work and without a dollar of income” (Higgins,
1935). Rep. Doughton (D-NC), Chairman of the powerful Ways and Means Committee, reiterated the need for legislative remedy to alleviate widespread destitution. “We must certainly deplore the extent to which large masses of our people are weighted down by privation and suffering, and we cannot overlook the grave social danger implied by the deterioration and pauperization of a large section of our population” (Doughton, 1935).

Republicans on the House Ways and Means Committee, though opposed to specific measures recommended by the CES, acknowledged the need for congressional action. In an attached statement to the committee report, the Republican minority on the House Ways and Means Committee emphasized their intention to “faithfully to produce a measure that would be constitutional and that would inure to the general welfare of all the people” (Republican Views, 1935 in DeWitt et al., 2008). One such Republican, Representative Harold Knutson of Minnesota, attacked the bill not as a socialist enterprise, but as providing insufficient relief to those who “have looked hopefully to this administration.” He went so far as to assert, in a statement that would make today’s progressives blush, that in near-bankrupt states the poor “must be taken care of by the federal government” (Knutson, 1935 in DeWitt et al., 2008).

Many of the concerns voiced in both the House and the Senate foreshadowed issues that Social Security would face in decades to come. Generation equity was, from the onset, a key concern. Sen. Byron Harrison (D-MS), Chairman of the Finance Committee, articulated what many were apparently thinking: “without question, under the plan favored treatment is accorded to those who are now of advanced years” (Harrison, 1935 in DeWitt et al., 2008). The Chairman’s cordial objection would prove prescient, and today might be
read as a monumental understatement. Senator Daniel Hastings, Republican of Delaware, also doubted the notion that a younger generation of workers would eventually receive the same benefits afforded to the older generation at the onset. He argued that in order for the plan to remain solvent, “we must discriminate between the young man of today and the old man of today and give the older man a great advantage” (Hastings, 1935 in DeWitt et al., 2008).

Not all opposition was similarly tempered. Representative James W. Wadsworth (R-NY) was near apocalyptic in his statement against a bill that he must have viewed as irresponsibly discounting the future. “This bill opens the door and invites the entrance into the political field of a power so vast, so powerful,” the senator warned, “as to threaten the integrity of our institutions and to pull the pillars of the temple down upon the heads of our descendants” (Wadsworth, 1935). Representative John Traber (R-NY) had a similarly dire assessment, questioning not only the bill’s merits but the good faith of its supporters. “Never in the history of the world,” he thundered, “has any measure been brought in here so insidiously designed so as to prevent business recovery, to enslave workers, and to prevent any possibility of the employers providing work for the people” (Traber, 1935).

*Enactment and Implementation*

Despite heated rhetoric, the original SSA did not provoke the level of congressional rancor elicited by any 21st century mention of Social Security reform. Less than seven months after President Roosevelt transmitted the CES report to Congress, the Social Security Act of 1935—designed around the CES’s recommendations—was presented for his signature. Prior to being hammered out in conference committee, versions of the bill passed the House and Senate by wide
bipartisan margins: 365-30 in the House and 76-6 in the Senate, with House Republicans splitting 81-15 in favor.

In fact, the most substantial threat to Roosevelt’s new initiative was not in the legislature but in the judiciary: Chief Justice Charles Evans Hughes’ Supreme Court had been exercising its prerogative to strike down massive pieces of New Deal legislation, most notably the National Industrial Recovery Act (*Panama Refining Company v. Ryan*, 1935). Prior to 1937, when Justice Owen J. Roberts broke with the conservative “four horseman” in *West Coast Hotel Co. v. Parrish*—a change of heart referred to as ‘the switch in time that saved nine’—Roosevelt’s administration privately doubted whether the Social Security Act would withstand judicial scrutiny (1937 from Ho & Quinn, 2009). However that same year, in *Helvering v. Davis* (1937), a 7-2 Supreme Court majority upheld the old-age insurance program as constitutional, clearing the way for the full implementation of the 1935 Social Security Act.

1939 Amendments: Expansion and Reform

Originally designed to pay out 3.5 percent of wages in a lump-sum grant to the estate of each elderly worker, Congress soon realized the inadequacy of a one-time payout to deal with the crippling poverty levels suffered by the nation’s elderly ex-laborers (Corson, 1940). In 1939, amendments were introduced making substantial changes to the legislation. These were based on additional recommendations of an advisory council, this time chartered jointly by the Social Security Board and the Senate Finance Committee (SSA, 2015).

The most significant change was a switch to distributing old-age benefits on a monthly basis rather than in the form of a
lump-sum payment made at the age of 65 (SSA, 1939). The 1939 amendments also increased the amounts payable in retirement with the goal of spurring consumer spending, making them “dependent on the average wage of the individual with respect to whose wages the benefits are payable” (SSA, 1939). This basic structure for old age benefits established in 1939—distributing monthly payments to a retiree roughly equivalent to the retiree’s earlier payment into the system—has survived as the basis of Social Security.

The 1939 Amendments also expanded the program beyond retired workers to include relief for survivors of deceased workers who had paid into the system earlier in life. The “federal old age insurance system,” explained President Roosevelt after signing the amendments, “has now been converted into a system of old age and survivors' insurance providing life-time family security instead of only individual old age security (SSA, 1939).” The Social Security Administration, or SSA, estimated that in 1940, the first year in which individuals would receive monthly benefits, roughly 485,000 people over the age of 65 would receive monthly benefits, and that the benefits payable to those individuals would slightly exceed $110 million. The amendments meant substantial cost increases; the SSA estimated that had the original lump-sum system remained in place, payable benefits for 1940 would have been roughly $30 million (SSA, 1939).

The 1939 amendment produced another defining characteristic of modern Social Security: a prohibition on the use of general revenue funds to pay benefits. This alteration furthered the President’s vision as a fiscally self-contained, sustainable program. Largely due to FDR’s personal popularity, House Resolution 6635, as the amendments were formally known, passed by an even wider margin than the...
original bill: 364 to 2 in the House and 57 to 8 in the Senate, with 35 abstaining.

1950 Amendments

The next major changes to Social Security, in 1950, were again the product of an advisory council, this time commissioned by FDR’s successor, Harry S. Truman. The council addressed three issues: inadequate coverage based on employment, unduly restrictions preventing some from participating and inadequate benefits (SSA, 1949 from DeWitt in DeWitt et al., 2008). The amendments expanded old age and survivors insurance (OASI) eligibility by 7.7 million individuals, bringing the total number of workers covered to nearly 45 million.

Just as importantly, the 1950 amendments increased the value of existing benefits by 70 percent. The SSA Director celebrating the changes and hailed them as “a tremendous advance in the long journey toward a universal, sound, and adequate means of providing security… through a method consistent with our system of individual incentives and free enterprise” (Pogge, 1950 in DeWitt et al., 2008). They were again passed by a wide majority of both chambers. This time, only one representative and two senators voted in opposition.

1983: The Greenspan Commission

Although Congress made several changes to OASI over the following decades, most notably lowering the retirement age to 62 for women and instituting permanent disability benefits—changing the program’s acronym to OASDI—the most substantial changes post-1950 were made via the 1983 Social Security Amendments. As with past congressional alterations, the amendments were based on the recommendations of a commission. This time responsibility
fell to the National Commission on Social Security Reform, headed by future Chairman of the Federal Reserve Alan Greenspan.

Only the president appointed previous committees, including the original CES. This time, however, President Ronald Reagan and Congress jointly appointed members, reflecting the growing political sensitivity of the topic. President Reagan, Senate Majority Leader Howard Baker (R-TN), and Speaker Thomas P. O’Neill (D-MA) were each responsible for selecting five of the commission’s fifteen members, and no more than three of their five selections could be members of the same political party (SSA, 1981).

Faced with short-term financial shortages and long-term insolvency, Greenspan’s commission unanimously agreed to leave the fundamental structure of Social Security unaltered (SSA, 1983). Twelve of the commission’s 15 members agreed on a series of alterations designed to attain short and long-term financial viability. These recommendations, ultimately adopted in the 1983 amendments, included changes to the tax schedule—manifested in modest hikes in the payroll tax—that the commission expected to generate an additional $40 billion over six years (SSA, 1983). Other commission recommendations adopted in the amendments were benefit reductions—the new amendments increased the retirement age to 66 by 2005 and to 67 by 2022 (SSA, 1983). In addition to pegging cost of living adjustments to a calendar-year basis, the amendments included a “taxation of benefits for higher income persons,” a provision that the Greenspan Commission predicted would produce $30 billion in short term savings and a 0.6 percent reduction in long-term payroll for OASDI (SSA, 1983).
The commission’s measures passed Congress definitively, but evidenced more opposition than previous amendments. The House voted 243-102 for passage, while the Senate voted 58-14. Twenty-eight Senators abstained, reflecting a reluctance to engage with the controversial matter. The political determination of President Ronald Reagan and Speaker of the House Tip O’Neill has been widely credited with shepherding passage of the amendments and with producing compromise among the members of the Commission itself. Robert Ball, a member of the Commission, suggested in a posthumously published 2010 memoir that consensus on recommendations would not have been reached absent personal nudging by both the president and speaker (Calmes, 2010).

**THE CURRENT FINANCIAL OUTLOOK**

Social Security has proved phenomenally successful at reducing poverty among the elderly in the United States (Van de Water et al., 2013). Untouched, however, it will be unable to pay out benefits well before a majority of the people currently paying in to the system reach the age at which they will become eligible. At its current pace, the program is simply not sustainable.

As countless reports have detailed, the solutions proposed by the Greenspan Commission and adopted in 1983 succeeded in rescuing Social Security in the short term, but failed to achieve long-term solvency. The program has ballooned in real cost and continues to do so at an alarming rate. In 2014, spending on Social Security totaled $814 billion, up $41 billion from 2012, and accounted for 24 percent of federal expenditures, up two percent from 2012 (CBPP, 2013). Approximately 37.9 million retirees received an average of $1,294 a month. Approximately 20 million others—mostly
spouses of workers, survivors of the deceased, and disabled workers—also received benefits (CBPP, 2013).

The Trustees of Social Security and Medicare release an annual report, the 2013 version of which bluntly states that Social Security cannot “sustain projected long-run programs in full under currently scheduled financing,” and that “legislative changes are necessary to avoid disruptive consequences for beneficiaries and taxpayers” (Trustees, 2013). The trustees predict a cash-flow deficit of $75 billion between 2013 and 2018, and an actuarial deficit for the OASDI of 2.72 percent of taxable payroll over the next 75 years, payroll tax being the overwhelming source of funding for the OASDI trust funds. The OASI fund, excluding disability, is projected to remain solvent until 2022, at which point expected costs exceed expected revenues every year until the fund goes completely bankrupt in 2033 (Trustees, 2014). The financial outlook for the disability insurance program is especially dire—trustees project the complete depletion of the trust fund, and an inability to pay out expected benefits, beginning close to 2016 (Trustees, 2014).

When the original version of the Social Security Act passed in 1935, only 54 percent of men reached age 65, and those who did had remaining life expectancy of approximately 12 years (SSA, 2015). Today, almost 78 percent of the population will reach age 65, and they can expect to live for an additional 17 years (SSA, 2015). These demographic realities mean longer payouts to a larger number of people.

The retirement of the Baby Boomer generation, coupled with increasing income inequality—problematic because taxable earned income is capped at $113,700—combine to create the massive shortfalls projected by the trustees. Echoing issues articulated by Sen. Daniel Hastings almost 80 years earlier, a
2012 CBO report concluded with serious concerns about generational equity: “current beneficiaries get back more than the value of their Social Security contributions, and far more than the baby boom generation will receive” (Nuschler, 2012). If left unaltered, today’s young workers will see minimal, if any, payout from the OASDI by the time they retire.

THE CONTEXT OF CONTEMPORARY REFORM

Timing: It Could Happen

Divorced from politics, stabilizing Social Security is relatively simple. In order to maintain long-term solvency, revenues must rise, benefits must fall, or some combination of the two must occur. Given Republican opposition to tax increases and shared concern over the size of the national debt, additional revenues with no cuts to benefits is unlikely to happen. Similarly, a Democratic president is guaranteed to veto any legislation that cuts benefits and contains no accompanying increases in revenue. President Obama, with his stated goal of addressing rising income inequality, is guaranteed to veto any unilateral benefit cuts over his final two years in office (Schiavenza, 2015).

Political inertia holds that neither party especially benefits from bringing Social Security to the fore: Democrats because it deprives them of a key talking point for the 2016 elections, Republicans because discussing additional revenues is anathema to their base and fodder for primary challenges. At first glance, a Republican congress paired with a Democratic president is unlikely to address a charged, big-picture issue like Social Security. However, given the Republican stranglehold on the House and the recent Democratic advantage in nationwide elections, it is unlikely that either party will control the presidency along with majorities in the
House and Senate before the OASDI trust funds runs into unpleasant fiscal realities (Kondick, 2014). At some point, a deal will need to be made, and there are also several reasons why one could be made in the next two years.

President Obama’s approval ratings are on the upswing, hovering around 49 percent (Gallup, 2015). And, as he remarked in his January 2015 State of the Union address, he has run his last campaign. Lame duck status reduces his political leverage, but also grants the president a measure of freedom. He has little to lose by alienating the hard Democratic left—an inevitable result of any negotiation on Social Security—and no remaining major legislative agenda to endanger by engaging a politically toxic issue (Scott, 2015). Ensuring the continued solvency of Social Security could significantly bolster his legacy, placing him in the company of Roosevelt, Truman, and Reagan, all of whom worked across the aisle to preserve and alter the program that keeps millions of Americans out of poverty.

Conservatives, meanwhile, would undoubtedly prefer to address entitlement reform with a Republican in the White House, focusing purely on benefit reduction. However, it is far from certain that a Republican candidate will prevail in 2016 (Oakford, 2015). Republicans face little risk of losing the House but could realistically lose the Senate, a development which would torpedo any unilateral benefit cuts to OASDI regardless of the presidential election (Byler, 2015). Congressional Republicans could conclude that negotiating with a sitting president—one hunting for legacy issues and with the political room to work around his base—is preferable to negotiating with a potentially stronger Democratic president in 2017.
Additionally, Republicans now realize that waiting until disability benefits are about to go unpaid before initiating negotiations is a losing strategy. The 2013 shutdown demonstrated that refusing to raise revenue because of spending concerns does not poll well when juxtaposed with cuts suffered by ordinary Americans (Baltz, 2013). All of these factors give Republicans a strong incentive to deal on Social Security before the trust funds approach insolvency.

**Method: How to Structure a Reform Effort**

While it is tempting to think of a Grand Bargain on spending as the vehicle for Social Security reform, additional amendments to the Social Security Act are more likely to succeed on their own. Despite a mutual desire to reach a grand bargain on fiscal issues, President Obama and Republican leadership have failed to do so repeatedly: in 2011, before the ‘fiscal cliff’ crisis; and again in 2013 when faced with a government shutdown. The primary obstacle—opposition in the House Republican caucus—is not likely to change, and any grand bargain that goes far enough to placate the fiscal hard-liners in the Speaker Boehner’s caucus would be dead on arrival at President Obama’s desk.

Dealing with Social Security separately from other fiscal matters allows both parties to reframe the debate. Rather than repeating the contentious budget fights of the past 4 years, they could speak in terms of rescuing a perennially popular program that Americans have counted on for generations (Rasmussen Reports, 2013). Limiting focus to only Social Security would give negotiators more freedom than they might have in a broader deficit reduction and entitlement reform debate.
Furthermore, there is ample legislative precedent for dealing with Social Security independently from other federal spending. All amendments after 1939 have done so, Social Security is required by statute to finance itself through the trust funds, and the SSA has been an independent agency since 1995 (SSA, 2015). This arrangement is a boon for negotiators because it allows both sides to take alterations to other entitlements and national debt discussions off the table, clarifying the choices to be made.

It is no accident that the original Social Security Act and every significant amendment have been based on recommendations provided by extra-legislative commissions. The commission structure allows members of congress to explore politically perilous subjects in a setting relatively removed from internal party pressures and quick-fire public reaction. A contemporary effort would follow this example and draw from the Reagan-O’Neill model in terms of commissioner appointment, ensuring that both parties bring credible voices to the table. The legislation establishing this new commission could also include a provision guaranteeing that its recommendations receive a vote on the House floor. This would enable commissioners to bypass the committee process—a potential sticking point—as well as give John Boehner cover to bring the committee’s recommendations up for a vote in potential violation of the unofficial Hastert Rule (Walt, 2013).

**Who: Potential Commission Players in Congress**

Along with the president’s approval, a successful commission would necessarily include the support of Speaker John Boehner. The speaker has demonstrated a willingness to pursue a grand bargain in the past, and has reached agreement with President Obama on the issue of chained CPI (Logiurato,
2013). Boehner could plausibly support the appointment of a Greenspan-type commission to make sustainability recommendations in the long-term, particularly if Democratic leaders made clear that everything would be on the table at the onset.

Perhaps more importantly, after six years of wrangling with the conservative wing of his own caucus and four years of leading a historically unpopular legislature, John Boehner is desperate to prove that his Republican majority can govern in the lead up to 2016. He appears exasperated, and uniquely willing at this point in his speakership to pass legislation utilizing moderate Democratic support. Asked recently by Politico Magazine if he was worried about blowback from the far-right if he were to deal with Democrats, Boehner reportedly “blew a puff of smoke and answered, ‘I don’t care’” (Thrush, 2015).

Representative Paul Ryan (R-WI) could be an attractive candidate to serve as a Republican on the new commission. Although his previous proposed budgets have advocated partial privatization of Social Security accounts, he has not ruled out any specific, revenue-neutral proposals. Ryan is heavily focused on fiscal issues, and as the newly seated chairman of the House Ways and Means Committee his presence would add legitimacy and a perception of seriousness among House Republicans. Although he has said he will not run in 2016, Ryan is also conscious of implications for future national ambitions (Cohen, 2015). A chance to replace the image of him presented of him in 2012—a budget wonk indifferent to real-world consequences of spending cuts—with ‘the savior of Social Security’ could prove tempting.
Likewise, a commission would require the cooperation of Senate Majority Leader Mitch McConnell (R-KY). Given current Minority Leader Harry Reid’s (D-NV) intransigent unwillingness to address Social Security throughout his tenure as majority leader, his diminished status may actually provide a boon to reform efforts (Nichols, 2012). Like Boehner, the newly ascendant McConnell is eager to show that a Republican majority can pass substantive legislation with a mind toward 2016. In a January interview, McConnell stated that his goal that the American people to view the Senate as “a responsible, right-of-center, governing majority” rather than “scary” (Kane, 2015). While working closely with Democrats would draw howls from the far right of his caucus, reforming a widely popular program in a way that ensures income for millions of retirees while reducing the United States’ long term debt obligations would demonstrate the legislative seriousness that McConnell desperately wants to convey.

For the new commission to have any chance of success, McConnell would have to appoint respected Senate Democrats along with moderate Republicans. Given his longtime focus on fiscal issues and experience working in bipartisan groups, Senator Mark Warner (D-VA) would be an ideal Democratic senator to join a group of commissioners. Warner, having won re-election in 2014, will not be on the ballot for another six years, giving him the leeway to climb out on a politically dangerous limb. Importantly, Warner has been frustrated by the failure of past fiscal reform efforts, most notably the bipartisan, deficit reduction focused “Gang of Six” (Gibson, 2013). Playing a key role on a Social Security commission could only raise his national profile and further establish his willingness to achieve bipartisan solutions as a self-described “radical centrist” (Vozzella, 2014).
Substance: What a Deal Could Look Like

Past efforts, particularly the Greenspan Commission, are instructive in defining the scope of successful reform. Any Congressional commission effort would have to begin with the same conditions that the Greenspan Commission unanimously approved in 1981: leaving the fundamental structure of Social Security as outlined in the 1939 amendments unaltered. It would also require consensus recognition that the current model is unsustainable in the long-term.

Agreement on these basic terms would quell fears on both sides of the aisle that either party was moving towards a radical departure from the status quo, giving commission appointees the freedom to negotiate. Proposals that seek to alter the foundation of the program, such as a complete shift to private accounts by Republican or a progressive taxable earnings cap based on wealth by Democrats, would be non-starters. In this regard, recent history is instructive. President George Bush made individual investment accounts the focus of his 2005 initiative to reform Social Security. The administration put forward what they viewed as a moderate proposal to create limited, opt-in individual accounts (Hasset, 2005). House Democrats made sure the measure never so much as made it to the floor for a vote. The failure overshadowed much of President Bush’s second term domestic agenda, and became a case study in political dangers of pursuing entitlement reform (Ferrara, 2011).

The most viable solution is a combination of revenue increases and benefit cuts built upon the existing foundations. On the revenue side, increasing the cap on taxable earnings makes sense; currently, only 5.4 percent of those paying into the system have income exceeding the taxable earnings base
of $113,700 (Nuschler, 2012). Complete elimination of the taxable earnings cap is unlikely given the historic connection between amount contributed and benefits received, which Roosevelt’s Committee on Economic Security first articulated. A shift towards a model in which the majority of benefits are funded by taxes on a small group of extremely wealthy Americans would alter Social Security’s basic premise and the basis for its perceived fairness. However, demographic and economic realities support a modest hike in the cap on taxable income—achieved by untethering it from average wage growth, as the cap has been since 1983.

Historic levels of income inequality have strained the traditional revenue model for OASDI (Census Bureau). Concentrated of growth in the top income brackets and stagnation among the incomes of middle class earners means that total covered earnings—the percentage of total earnings across the US that are subject to Social Security taxes—have dropped from 90 percent in 1982 to approximately 83 percent in 2013 (Nuschler, 2012). As income becomes more concentrated, a higher percentage of OASDI revenues necessarily must come from the wealthier earners in order to pay out the same benefits. Raising the taxable earning limit would be a tax increase, but one that affects only a small percent of Americans and that is grounded in the reality of growing inequity. This approach to revenues would allow both parties to claim that they are simply restoring the total taxable income to historic norms, while having avoided raising taxes on working- and middle-class Americans. Furthermore, a recent poll found that fully 61 percent of Americans over the age of 50 support raising the limit on taxable earnings (Sedensky, 2013).

On the benefits side, raising the retirement age incrementally is the most likely alteration, and a necessary trade-off for
Democrats if Republicans are to agree to a hike in the taxable earnings limit. Although deeply unpopular among elderly Americans, basic demography supports lifting the age; more people are retiring and living for longer periods of time than the system was originally meant to sustain. Congress could, for example, raise the full retirement age two years—from 67 to 69—over a period of time so as to make the reductions in expenses equal to the revenue provided by the increase on the taxable income limit. Such a time frame would mean that the age increases would have little to no effect on the benefits of most living recipients, tempering the impact of their political opposition (based on the average US life expectancy of approximately 80 years) (SSA, 2015). This change would keep the commission’s proposal revenue neutral, meaning that reductions in spending due to the age increase would equal increases in tax revenue due to a higher taxable earnings cap.

CONCLUSION

This analysis is not to suggest that large-scale Social Security reform is likely, or even probable, during the remainder of Obama’s presidency. A deal along the lines proposed here would placate neither progressives, who would favor the wealthy shouldering a larger share of ballooning OASDI obligations, nor conservatives, who would favor a move to private accounts. But a Democratic president with nothing to lose and legacy to gain, combined with Republican congressional leadership eager to prove itself, make the next two years a unique window of opportunity.

Social Security, as a federal program, has demonstrated remarkable resilience. Franklin Roosevelt did not imagine a program that would one day cover upwards of 60 million Americans and surpass $800 billion in annual cost. He did, however, recognize that his initiative would need periodic
alteration, as did the representatives who foresaw issues of generational equity long before the 1960s.

The historical record demonstrates that the problems presently facing Social Security, though perhaps unique in scale, are not unprecedented in concept. Furthermore, it offers a political framework for addressing them. If Congressional leaders and President Obama choose, they could follow the historic model of updating Social Security: recognizing the general need to government action; keeping the foundations in place to support millions of current and future retirees; and altering revenue and benefit mechanisms to reflect contemporary demographic and economic realities of lengthened lifespans and increased income inequality. Using a committee approach as in the past, while emphasizing revenue neutrality, political leaders can make solvent the signature program of the New Deal for future generations. What remains to be seen is whether Congress—along with President Obama—can muster the political courage to act. If not, circumstances both disastrous and predictable will force the hands of the men and women who follow.

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