ECONOMICS, LABOR, & BUSINESS

The Benefits of Social Security

"Social Security and the Budget" by Alicia H. Munnell, in *New England Economic Review* (Aug. 1985), Research Department, Publications Section, Federal Reserve Bank of Boston, 600 Atlantic Ave., Boston, Mass. 02106.

Since 1980, some Reagan administration officials and some congressmen have suggested taking a New Look at America's social security system. To help reduce the annual federal deficit (now $211.9 billion), they have advocated cutting benefits and dipping into the system's trust funds.

But Munnell, senior vice-president of the Federal Reserve Bank of Boston, argues that there is "considerable confusion" about how social security—especially its trust funds—affects the total federal budget. In fiscal 1986, for example, taking in more than it pays out, the social security system will *reduce* the total federal deficit by nearly $23 billion, not add to it.

Four years after passing the Social Security Act (1935), Congress created three social security trust funds (for retirement, disability, and hospital insurance) to receive the social security taxes deducted from the payrolls of U.S. workers. When the system generates excess income, the surpluses are often invested or loaned to the U.S. Treasury to help offset current federal debts. The Treasury then pays interest on the money that it "borrowed," thus creating additional revenue for social security.

In fact, writes Munnell, during the last half century the social security system has produced a total of $58 billion in surplus assets. Moreover, the three trust funds are expected to accumulate a surplus of more than $480 billion during the next decade.

Why then the urge to tamper with social security? Munnell believes that including the system in the aggregate federal budget has obscured its positive financial contributions to the U.S. government. Originally, social security's accounts were listed separately from those of other federal programs. But, in 1969, following the advice of the President's Commission on Budget Concepts, President Lyndon B. Johnson unified the budget for the first time. (By doing so, Johnson also managed to convert a $1 billion deficit in 1969 into a $3 billion surplus.) But dissent in the legislature over this procedure slowly mounted. In 1983, Congress passed social security amendments that require the system's hospital and retirement plans to be itemized independently of the general federal budget, beginning in 1993.

Munnell backs this separation of accounts and advises moving up the date. "The sooner the separation occurs," she concludes, "the less chance for social security to distort . . . federal fiscal decisions."

Why No Inflation?

"The Soaring Dollar Did It" by Allen Sinai, in *Challenge* (Oct. 1985), 80 Business Park Dr., Armonk, N.Y. 10504.

Annual inflation, a scourge of the American economy a decade ago, now lies dormant. In November 1985, the U.S. inflation rate stood at 3.2 percent, versus roughly 14 percent five years ago—marking the largest decline