The 3 Percent Cut to Social Security, a.k.a. the Chained CPI

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By Dean Baker, Truthout | News Analysis

According to inside-Washington gossip, Congress and the president are going to do exactly what voters elected them to do: they are going to cut Social Security by 3 percent. You don't remember anyone running on that platform? Yeah, well, they probably forgot to mention it.

(Image: Social Security via Shutterstock)

Of course, some people may have heard Vice President Joe Biden when he told an audience in Virginia that there would be no cuts to Social Security if President Obama got re-elected. Biden said: "I guarantee you, flat guarantee you, there will be no changes in Social Security. I flat guarantee you."

But that's the way things work in Washington. You can't expect the politicians who run for office to share their policy agenda with voters. After all, we might not like it. That's why they say things like they will fight for the middle class and make the rich pay their fair share. These ideas have lots of appeal among voters. Cutting Social Security doesn't.

While the politics of cutting Social Security are bad, it also doesn't make much sense as policy. In Washington, the gang who couldn't see an $8 trillion housing bubble until its collapse sank the economy has now decided that deficit reduction has to be the preeminent goal.

They don't care that we are still down more than 9 million jobs from our growth trend; deficit reduction must take priority. These whiz kids apparently also don't care that the cuts that have already been made are slowing growth and costing us jobs.

If we actually did have to reduce the deficit, it's hard to see why Social Security would be at the top of the list. After all, the vast majority of seniors are not doing especially well right now. Our defined benefit pension system is disappearing and 401(k)s have not come close to filling the gap. Retirees and near retirees have lost much of the wealth they had managed to accumulate when the collapse of the housing bubble destroyed much of their home equity.

From a policy standpoint, it would make far more sense to tax Wall Street speculation. Congress' Joint Tax Committee estimated that a 0.03 percent tax on each trade could raise almost $40 billion a year. Such a tax would also make the financial sector more efficient by eliminating a huge volume of wasteful trading.

It also is bizarre that Social Security would even be considered in the context of the deficit. In law and in practice, it is a separate program, financed by its own designated stream of revenue. Cutting benefits as part of a deficit deal means that we will be making cuts to Social Security with zero quid pro quo in the form of increased revenue. That hardly makes sense if the point is to protect the program.

What's more, the cut in fashion in Washington is especially poorly targeted. The idea is to reduce the annual cost of living adjustment by 0.3 percentage points annually by using a different inflation index. That translates into a cut in benefits of 3 percent for those who have been retired ten years, 6 percent after 20 years, and 9 percent after 30 years. The people who have been retired the longest and are, therefore, the poorest, will see the largest cuts.

And remember those pledges not to cut benefits for those currently retired? Oh right, no one meant that to be taken seriously.

The benefit-cutters' argument is another nice piece of DC humor. The argument is that the current index overstates inflation. However, there is an experimental index produced by the Bureau of Labor Statistics which shows the current index actually understates inflation for seniors.

That is just an experimental index, but if the concern really is accuracy, then the obvious answer would be to construct a full index to examine the cost of living for the elderly. But that suggestion just draws contempt from the Social Security cutters.

In order to avoid feeling too badly about their plan to cut Social Security, many of the cutters want to protect some programs for low-income people. For example, Supplemental Security Income (SSI) a program for the disabled and low-income seniors, will be protected. The word is that SSI will continue to be indexed to the current inflation index.

If we believe the claim that the chained Consumer Price Index (CPI) - which is different from other inflation indexes because it factors in consumers switching to cheaper products when prices go up, thereby measuring a lower inflation rate - is the more accurate measure of inflation, this is a proposal to increase SSI benefits each year by an amount that is 0.3 percentage points more than the annual rate of inflation. That may make sense to inside Washington types, but anywhere else, this is loon tune stuff. If SSI benefits are too low (they are), then raise them. What possible logic can there be to have benefits rise each year by a bit more than the actual rate of inflation?

The bottom line is that President Obama and many leading Democrats are prepared to give seniors a larger hit to their income than they gave to the over-$250,000 crowd. And the whole reason it is necessary is that the Wall Street types who wrecked the economy say so. Is everybody happy?

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