



### Preparing for Social Security Reform

Political incentives are lacking for the 2024 presidential candidates to discuss Social Security reform. Yet businesses and our economy will soon be significantly affected by the reforms needed to sustain America's signature entitlement program. This analysis aims to concisely present key facts for planning.

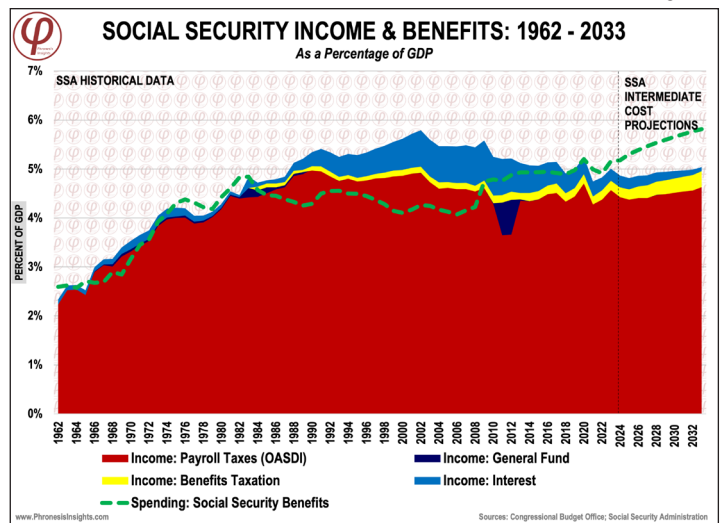
Last week's Congressional Budget Office (CBO) [Long-Term Projections for Social Security](#) report highlights the situation. Social Security—Old Age Survivors Insurance (OASI) and Disability Insurance (DI)—is in rough shape, owing primarily to the gross underfunding of OASI. (For simplicity, this analysis treats OASDI as a single entity. Medicare will be the subject of another analysis.)

The payroll tax funding OASDI is simple. Current workers' wages are taxed at both the individual paycheck level (6.2%) and the employer payroll level (6.2%) so that combined, 12.4% of workers' first \$168,600 in 2024 wages are taxed to fund the program. Hence, both an individual earning \$40,000 and their employer each pay \$2,480 in OASDI taxes. A top wage earner and their employer each pay up to \$10,453 in OASDI

taxes. Self-employed individuals in these two scenarios owe \$4,960 and \$20,906, respectively.

According to the [Social Security Trustees](#), the program's "cost has exceeded its non-interest income since 2010," and the program's "total cost began to be higher than total income in

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### POLICY SNAPSHOTS

**Congress:** The House and Senate are scheduled to reconvene the week of Sept. 9. House Speaker Mike Johnson is preparing a 6-month appropriations "stopgap funding measure," that will be linked to federal election security protections and other measures deemed critical, especially among Republicans, who control the House. Reportedly the measure would maintain current funding levels and bypass spending cuts. Businesses with government contracts extending into the fiscal new year will again be left with uncertainty, but if the plan is adopted, there would be no lapse of government funding on Oct. 1. It is unlikely that the Democrat-controlled Senate will pass this measure to fund the government with the GOP policies included. However, that negotiations and legislative maneuvering are taking place

in early September is a positive sign that Congress will pass a government-funding resolution without the necessity of last-minute temporary measures that could rattle the financial markets with policy uncertainty. Otherwise, Congress will be paying close attention to the Tuesday, Sept. 10 [Presidential Debate](#) at 9:00pm EDT in Philadelphia.

**Federal Reserve:** The Sept. 5 Job's report from the Bureau of Labor Statistics will be a key final piece in the Fed's decision to hold steady or lower the benchmark federal-funds interest rate at their Sept. 17-18 meeting. [The Wall Street Journal](#) has reported that that the Fed is poised to lower the rate by 0.25% to 0.5% (currently 5.25% to 5.50%, since July 2023). The Fed's statements and other materials are linked [here](#).

### Inside Discussion

**Page 2:** *More on Social Security Reform.*

**Page 3-4:** *Exclusive interview with commentator and President Reagan biographer Henry Olsen, discussing the economic thought and policy of President Trump and the rise of GOP populism through the lens of President Reagan.*

### About

**J. Douglas Branch II** founded Phronesis Insights after 25 years in senior roles in both House and Senate, including the Joint Economic Committee and Homeland Security and Governmental Affairs Committee. He has worked in many areas including federal tax, budget, financial services, monetary policy and economics, and congressional procedure and strategy.

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## Preparing for Social Security Reform, Continued

2021.” Current benefits are funded by both payroll taxes and program reserves. OASI reserves are projected to be depleted between 2033-2035. The date for reserve exhaustion could be accelerated or delayed by economic and other factors.

Economic pain is diminished when problems are addressed earlier, but historically Social Security reform comes at the last minute before benefit cuts. Such was true with the 1983 [Greenspan Commission](#) with agreement coming mere weeks before the deadline. We can lament that reform does not come sooner, but the reality is that businesses should plan for a last-minute reform. The reform will be a shock to businesses and the economy. Businesses that understand and develop plans to weather this storm will be in better shape.

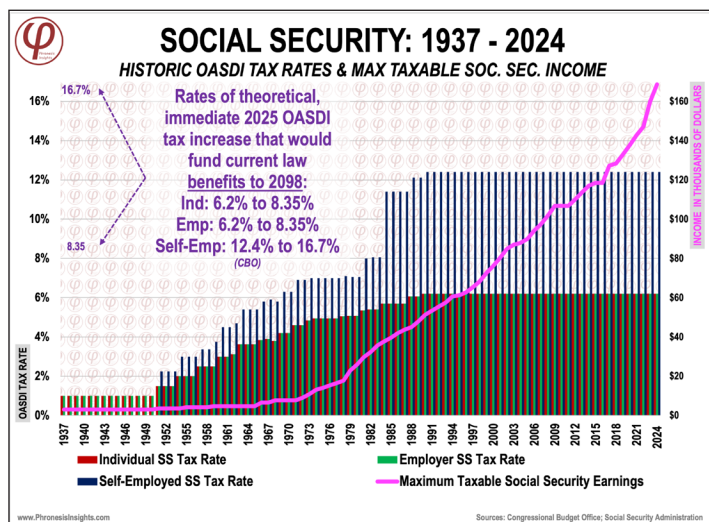
Absent legislative action, when Social Security reserves are depleted, two competing laws come into effect. CBO’s recent “Long-Term Projections” notes, “Under the Social Security Act, beneficiaries would remain legally entitled to full benefits. However, under the terms of the Anti-deficiency Act, the Social Security Administration would not have legal authority to pay those benefits on time.” CBO’s current baseline, deficit, and debt projections assume that current benefits will continue and be deficit-financed. Absent reform, CBO estimates that Social Security’s annual revenue would only cover 77% of benefits in 2035 and 72% by 2098. That is a benefit reduction of 23% to 28% over the coming 75 years.

While benefit cuts are possible, a reduction of this magnitude is unlikely because, were it to materialize, much of the aging population would be devastated. This would leave retail and other businesses in a very difficult situation as well. This is one worst-case scenario.

The other “extreme” would be a straight payroll tax increase. CBO projects that an immediate 4.3% OASDI tax hike would pay “benefits prescribed by current law through 2098.” That would increase employee and employer payroll taxes from their current 6.2% of wage income to 8.35%, or from 12.4% to 16.7% for the self-employed. Such an increase at one time is without precedent. There is a long history of [Social Security payroll tax increases](#)—from 1% in 1937 to 3% in 1960 to the current 6.2% in 1990—but the largest single-year OASDI tax hike was 0.5%. The 8.35%/16.7% rate is also premised upon the rates going into effect for 2025, and that won’t happen. Assuming reform is delayed to the early 2030s, the OASDI tax rate will need to be notably higher than 8.35%/16.7% to close the gap.

For businesses and individuals, both benefit cuts and tax hikes are bad. A benefit cut would mean those on Social Security have less money for day-to-day expenses, decreasing their purchases of products and services offered by businesses. A payroll tax hike would increase the cost of labor, both directly from the tax on the employer and employee demands for higher wages to pay their increased OASDI tax share. This has the potential to eliminate jobs and decrease prosperity.

Between these two extremes is where Social Security reform will likely land in the next decade. That means some combination of benefit reductions from changes in age eligibility and means-testing, and tax increases like removal of the wage base limit, application of the OASDI tax to capital and interest income, and OASDI tax increases. Another possibility is deficit-financing through borrowing from Treasury, but that would create new inflationary effects and other fiscal and economic challenges. These costly and economically harmful reforms are coming, and both presidential candidates should—but won’t—answer for how their policies will help reduce the economic headwinds that will be generated by reform.



No one knows the exact composition of the coming Social Security reform, but we know the magnitude of the gap to be filled. Filling it will affect businesses directly and indirectly. Business should make plans now to ensure that they remain profitable while protecting their employees. For instance, many businesses already have invested in AI and train employees to work with such technology to maintain and increase productivity, and it’s not too late for other businesses to take such steps. Each business will have its own plan. What all businesses have in common is the short horizon for when reform will come, and the limited time to adapt.

## Henry Olsen on Trump's Economics Through the Lens of Reagan

**DB:** *You've got a great track record in reporting elections, and I'd like to draw on insights from your 2017 book, "[The Working Class Republican: Ronald Reagan and the Return of Blue Collar Conservatism](#)." Your ideas help to better understand both Presidents Reagan and Trump. Reagan embraced the ideas of liberty and the free market with a populist appeal. Your chapter on Reagan's presidency ends:*

*The spirit that Trump awakened ... is essentially the same ... that Reagan ... attracted. Trump's election gives the conservative movement and the Republican Party its last, best hope to finally build Reagan's new Republican Party and once again make America a shining city on the Hill.*

**What is this awakened spirit of which you write?**

**HO:** The fundamental thing to understand about Reagan is that he loved liberty, but he loved human dignity more. When private forces or public forces conspire to limit, control, or crush human dignity, he was inalterably opposed to them. That's the spirit that, in its best form, the Trump movement seeks to both understand and rejuvenate—the idea that people possess innate dignity that needs to be nurtured and enhanced. What had happened in the preceding few decades before Trump was that America went awry and stopped trying to enhance and nurture human dignity in all of its citizens. And if we can recapture that [spirit], that is where the center of America is. That would complete Reagan's dream of turning the Republican Party not into an ideological party, but into a broad, principled party that represents the aspirations of a wide swath of Americans.

**DB:** *I worked 12 years on the Joint Economic Committee. I understand that to spur economic growth, you need to lower the cost of capital for new business investment. This is broadly good. Free trade is broadly good. Certainly, in the macro it is, but you don't always see the benefits evenly distributed across America. Often, the benefits tend to disproportionately benefit the coasts, the ivory tower enclaves, and major cities. The middle of the country has not benefited nearly to the same extent. How does the Republican Party reconcile this? How do we reconcile the economic policies of Trump and Reagan?*



**Henry Olsen**, is a senior fellow at the Ethics and Public Policy Center, studying and providing commentary on American politics. His work focuses on how America's political order is being upended by populist challenges, from the left and the right. He also studies populism's impact in other democracies in the developed world. Follow Olsen, who tweets at [@henryolsenEPPC](#)

**HO:** Policies are meant for their time. Ideals and principles transcend time. When Reagan was alive, we did not have the [same] capability to have global free trade ... Consequently, investment was local, it was national, or it was near-national. What we have now is a regime where people can devise ideas and create capital in a developed country and contract with labor and management in another country and make a product for less, ... and sell it back in the home country.

The idea that free trade is good and enhances wealth is true only if you ignore national boundaries. You see a massive

uptick in wealth in the developing world, which people in the developed world are contracting with. And you see a massive uptick of wealth in the people who are making the deals, the contractors. This is what you see in the financial capitals, the electoral capitals, the places that are designing these things that are being manufactured elsewhere; everybody else is stagnant or losing.

That's not good in a democracy. The way you reconcile the policies is by having recourse to the ideals ... Reagan would have never said the U.S. was unimportant, a mere accident of line drawing. He believed in American exceptionalism and American nationalism, ... many times he would slap on tariffs or quotas when other countries were unfairly subsidizing products, and consequently hurting American industry.

What you have to do is realize that the health and well-being of American citizens comes first, and the gain to trade comes second, and devise policy so that people across the skill spectrum and across the geographic spectrum are largely benefiting from American economic policies. It's not a return to statism. It's not a return to a planned economy. What it is, is a return to an understanding of economics as being something that works for all of the people. It is meant to expand all the people's human dignity and growth prospects. It's not an idealized abstraction of de-nationalized individuals making contracts with one another without regard to the effects on their neighbors and their fellow citizens.

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*Insider Interview with Henry Olsen, Continued*

**DB:** *Trump has tremendous appeal, but let's broaden out to JD Vance and what he brings. He understands finance. Under the Trump-Vance vision, how do businesses adapt going forward?*

**HO:** It's hard to know exactly because it's hard to know exactly what policies they will pursue. Broadly speaking, American businesses need to invest more in Americans or American communities. That means accepting a lower return to capital and a higher return to labor, and that higher return to labor can be in terms of greater disposable income or it can be in terms of expanded employment opportunities. It can be in terms of investing in plants in the United States rather than in plants or in businesses overseas. Fundamentally, the Trump instinct and the Vance understanding—I use those words intentionally—is that American business is part of an ecosystem called the nation. And that American business needs to take its citizenship seriously and needs to invest in the people whose consent through the democratic process is necessary for the American nation to thrive. That means putting America first. That means putting American workers first.

**DB:** *Broadening further, whether it's Trump or Harris, you don't hear the traditional supply-side mantra coming from either candidate. Is this something that's here to stay? Are we beyond that era of politics and economics?*

**HO:** In its pure form, it is completely in the past. That's because, as with any human action, it created reactions and had consequences that its progenitors had no conception of. Going back to the 1980s, you weren't going to have investment flowing to Indonesia, Vietnam, Bangladesh, India. Reagan's great radical idea in the 1980 campaign was free trade with one country—Mexico. He was the one who created the idea of what he called the North American Common Market that became NAFTA and now USMCA. What happened was the unexpected collapse of the Soviet Union, and the utter intellectual dominance of liberal democratic capitalism meant the entire world wanted access to American and European markets, and investment flowed to those places.

So ... it's a great time to be an Indian or Bangladeshi or Indonesian or Malaysian. It's not a great time to be a Michigander or a Wisconsinite, or if you were in Ohio and in a hard manufacturing or labor-intensive industry. That's not something that the supply-siders had in mind. Consequently, the question you have to ask is, are you in a democracy or are you in a mercantile oligopoly or oligarchy? Effectively, when supply-siders argue that the pursuit of wealth should continue without regard for national borders or the economic status of

American citizens, they are essentially arguing that democracy doesn't matter. Free market economics in this view seems to demand an oligarchy where the will of the people cannot be expressed through anything contrary to their individual market desires. This means that the will of the people as expressed through democratic elections is illegitimate, in this view, if it results in constricting individual market choices. That won't stand, particularly because American nationality has no core except democracy, except for the idea that the will of the people and the consent of the government as expressed through democratic elections is legitimate, subject to recognizing certain basic natural rights. ...

The only question is, what will we come up with that adequately balances the real need for freedom and markets and dignity of the producer, and the dignity and freedom of the laborer?

**DB:** *In 1988, near his term's end, Reagan gave a Columbus Day speech that seems like a winning message for today:*

*Let me take a moment to tell you something I've never said before. You know I'm a former Democrat. And it's often said that the once-proud Democratic Party of F.D.R. and Harry Truman is dead and gone; that the Democratic Party has been taken over by the left; ... But there's something you should know.*

*The party of F.D.R. and Harry Truman couldn't be killed. The party that represents people like you and me, that represents the majority of Americans—this party hasn't disappeared. The fact is we're stronger than ever. You see, the secret is that when the left took over the Democratic Party, we took over the Republican Party. We made the Republican Party into the party of working people; the family; the neighborhood; the defense of freedom; and, yes, the American flag and the Pledge of Allegiance to "one nation under God." So, you see, the [Democrat] party ..still exists, except that today it's called the Republican Party. And I'm asking all of you to come home and join me.*

**HO:** It is a winning argument today. The fundamental thing that Ronald Reagan understood was that what Americans want is opportunity and dignity, and they're willing to limit the freedom of themselves and others who have greater power than them to procure dignity, but that they do not want the slavery of statism. That latter point is what Trump innately understands, ... One suspects that while Ronald Reagan understood Hayek and Bastiat, that Donald Trump probably knows who Salma Hayek is, but not Friedrich Hayek. I suspect that JD Vance does understand. Vance is the person who can bring Reagan's long dream to fruition. ... If the Republican Party were to pick up unabashedly that mantle, which is what Reagan did—but his successors failed to do—then it would become the majority party for the first time in a century.