A Debt-Threatened Dream

Big deficits for Social Security, small chance for reform

By George J. Church.

(Time, May 24, 1982) -- Ronald Reagan last week called it "a political football" kicked around by "demagoguery" and "falsehoods." To one of the President's advisers it is "the most sacred cow we have around here." Democratic Senator James Sasser of Tennessee believes that "it might well be the dominant issue in this fall's campaigns." Even last week Senate Republicans were pitted against House Republicans, to the glee of their Democratic adversaries, and a meeting of a blue-ribbon presidential commission degenerated into a partisan shouting match (see box).

The subject is Social Security, the nation's biggest, broadest and probably most successful social program. To some 36 million people, nearly one American in every six, the Social Security system now provides a monthly check promising that old age, widowhood or disabling injury will not throw them into poverty. To 116 million others who pay Social Security taxes, the system offers assurance that they too will be taken care of when they become too old to work.

But after more than 40 years during which such protection has been taken almost for granted, the nation faces a distressing question: Just how much Social Security can it afford? The answer: not as much as the formulas now written into law would provide in the future.

After decades of overambitious expansion, Social Security is quite simply running out of ready cash to get through the 1980s. Right now it is paying out in benefits $17,000 more than it collects in payroll taxes every minute of every hour of every day. At that rate, the trust fund on which 31.6 million pension checks are drawn every month will be nearly empty by July 1, 1983. Social Security checks would have to be held up until additional taxes could be collected, and that could take weeks, during which the elderly, many of whom depend on those checks for most or all of their income, would fall behind in paying rent, food and fuel bills.

That dismal prospect was central to a political drama that began two weeks ago. Senate Republican leaders met with Administration officials to cobble together some kind of budget for fiscal 1983 that would produce overall federal deficits less gaping than those foreseeable under President Reagan's initial proposals. They agreed on a resolution calling for, among other things, $40 billion in "savings" to be taken out of the $568 billion in Social Security expenditures now expected over the next three fiscal years. The $40 billion represents about the amount by which Social Security benefit payments are expected to exceed tax collections, but the resolution designedly gave no hint as to
whether the savings would be accomplished by reducing future benefits, raising taxes, or whatever. Chairman Pete Domenici of New Mexico got the Budget Committee in the Republican-controlled Senate to approve the plan on a partisan 11-to-9 vote.

Democrats, who view Social Security as one of the New Deal's proudest achievements, howled that the Republicans were trying "to balance the budget on the backs of old people." The Budget Committee in the Democrat-controlled House last week passed a competing resolution to trim federal deficits primarily by reducing military spending and raising non-Social Security taxes; it said nothing at all about Social Security cuts. Only eleven of the 54 G.O.P. Senators are up for re-election this fall. But every member of the House, Republican as well as Democrat, faces the potential wrath of elderly voters worried about a cut in their benefits. Rebelling against the $ 40 billion proposal, House Republican Leader Robert Michel of Illinois warned, "You've got to take that off the table before you even start" drafting a budget.

Caught in the crossfire, Reagan artfully dodged the matter at his press conference Thursday night. He said, "The Social Security" issue is obscuring the main problem, which is pass the budget." He assured the elderly that they would go on receiving their present pensions, plus a 7.4% cost of living increase due July 1. Any future changes, he asserted, would have to await the year-end report of a bipartisan commission headed by Economist Alan Greenspan, which he and Congress appointed last December in a transparent effort to defer the issue until after the November congressional elections. The President did concede that there are times when "you could temporarily put a ceiling on a cost of living adjustment," which he correctly pointed out would not be a cutback but simply a reduction in the amount of increase. In short, the outlook is for more wrangling and no action on Social Security, at least until a bitter congressional election campaign in which Democratic candidates will portray themselves as saving the system from Republican assaults and many G.O.P. opponents will undoubtedly pledge undying fealty to Social Security.

Reforming the system, however, cannot be evaded, even though the day of reckoning -- when Social Security runs out of money -- can and probably will be postponed. One way: allow the retirement fund to continue borrowing from the separate disability and Medicare funds, as it is doing this year. But the three funds could all too easily run dry during 1984; not only pension checks but disability payments and Medicare reimbursements to hospitals that care for the aged sick would be delayed. At very best, the system will barely squeak through the 1980s, in constant danger of running short of funds. That narrow escape will occur only if the economy booms, thus raising tax collections more than anyone dares to predict. Even then, Social Security faces a long-range crisis in the early 21st century as fewer and fewer working people have to support more and more elderly.

Politicians have made several attempts to solve the problem, but nothing has worked. Social Security beneficiaries oppose with passion and fury any notion that they should not get at least inflation-matching increases, and they are likely to exact speedy revenge at the polls. Their concern is currently being fed by the prospect that they may be made
scapegoats for a financial mess created primarily by the overly generous $ 750 billion tax cut passed by Congress last year at Reagan's insistence. In fact, Social Security is an obvious target for anyone seeking to hold down federal spending, and thus the deficit, simply because the program is so enormous. Social Security benefit payments have rocketed from $ 33.8 billion in fiscal 1970 to an estimated $ 206.5 billion (including Medicare) in the fiscal year starting next Oct. 1. This total amounts to 26% of all anticipated federal expenditures.

More fundamentally, the aged have been misled for two generations into believing that Social Security payments constitute no more than a return to them of the payroll taxes that they have paid during their working years. This is dramatically untrue. The average retired person today can expect to collect lifetime benefits five times as great as the total taxes that he or she once paid, plus interest. From the very first, * Social Security benefits have been paid out of taxes deducted from the paychecks of people working that year, who in turn have to rely at their retirement on benefits from taxes paid by their children's generation.

*Social Security check No. 1, for $ 22.54, went in January 1940 to Ida Fuller of Brattleboro, Vt., who had paid a total of $ 22 in Social Security taxes. Fuller drew her last monthly check, for $ 112.60, in December 1974, shortly after her 100th birthday. By then she had collected $ 20,944.42 in return for her $ 22.

No matter: the elderly, and many of the young, have been convinced that they have a right to Social Security payments high enough to maintain a comfortable standard of living despite old age, widowhood or disability, and this right is every bit as inalienable as the rights to life, liberty and the pursuit of happiness. Harold Sheppard, associate director of the National Council on the Aging, has a one-word description of benefits paid now and all increases that may be necessary to keep those payments abreast of inflation. The word is: sacred. And all politicians know that the aged are far more likely to vote than the young.

At bottom, the Social Security system and the nation face a crisis of political leadership. The aged, the widowed, the disabled and even the young have been promised more than the nation can guarantee to deliver at any reasonable cost. Leaders must explain why those promises are getting harder and harder to keep. The answers begin a long way back.

The idea that national governments, rather than churches, charities or extended families, might have to concern themselves with helping the old and the disabled is relatively new in history. Imperial Germany in 1889 enacted the first pension plan, financed by equal contributions from employers and employees, largely because Chancellor Otto von Bismarck saw it as a method to wean the masses away from socialism. As he explained candidly: "Whoever has a pension for his old age is far more content and far easier to handle than one who has no such prospect." Similar plans were adopted by most other major industrial nations over the nest three decades.
But the U.S., sticking by its tradition of rugged individualism, held out. Theodore Roosevelt ran for President in 1912 on a Progressive Party platform calling for a national system of social insurance. He lost, and the proposal was not an issue again in presidential elections until 1932, when another Roosevelt, Franklin, campaigned for the White House in a Depression-ravaged nation where the plight of the elderly had become desperate.

Even after Roosevelt's landslide victory, Congress was reluctant to enact a plan that seemed far too radical to some members. Roosevelt repeatedly warned congressional leaders that if they did not approve a moderate Social Security bill, popular pressure would force them to adopt irresponsible Government handout schemes like the ones being pushed by California's Dr. Francis Townsend and Louisiana Governor Huey Long. To soothe the conservative qualms, Roosevelt demanded that his planners draft a scheme that was not "the same old dole." That ruled out any use of general revenues, meaning primarily income taxes, to finance any part of Social Security. The system had to be funded entirely by a payroll tax levied half on employers and half on workers, so that it could be presented to the nation as a sort of contributory insurance plan. To this day, paycheck stubs identify Social Security taxes withheld from a worker's wages as FICA -- for Federal Insurance Contributions Act -- deductions.

The retirement program set up by the Social Security Act of 1935 was modest. It covered workers in commerce and industry only (excluding the self-employed, farmers, service workers and government employees), plus their spouses and dependents. Taxes, collected beginning in 1937, were set at 1% of the first $3,000 of a worker's pay, a minimum of $30 a year, with a matching levy on the employer. Benefits initially averaged $22.60 a month. Those were moderate sums even then, and designedly so. Social Security, as Roosevelt made quite clear, was not intended to guarantee a comfortable retirement; it was meant to ward off destitution. Said F.D.R. while signing the law: "We can never insure 100% of the population against 100% of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family . . . against poverty-ridden old age." It was a point that his political successors would have done well to remember, and most certainly did not.

Congress began trying to provide old-age insurance for something close to 100% of the population as early as 1939, before the first Social Security benefits were paid. It decreed that if a pensioner died, benefits would continue to be paid to the widow and dependents. Since then, coverage has been steadily expanded to include farm and domestic workers; employees of state and local governments and nonprofit organizations like hospitals; self-employed people, including doctors and lawyers; members of the armed forces; even ministers and members of religious orders, so long as they do not take vows of poverty. Retired millionaires collect, as well as laborers; benefits go to almost anyone who has ever paid Social Security taxes and to some people who never have. In recognition of their important role in society, housewives who have not worked outside the home and thus never paid into the system collect benefits equal to 50% of those earned by their husbands.
In time, whole new programs were added. In 1956 Congress started payments, financed by Social Security taxes, to disabled workers, and in later years it greatly liberalized the definitions of who could qualify. Though the eligibility rules were tightened last year at Reagan's request, the program costs $17.7 billion a year. In 1965 the Medicare program was enacted to help cover the hospital and medical bills of people 65 or older. Hospital bills are paid out of a portion of Social Security taxes assigned to a separate trust fund; insurance to pay doctors' bills is financed by voluntary contributions from the elderly who elect to sign up. Current cost of the compulsory Medicare program to Social Security; $34 billion annually.

An especially important expansion began in 1956, when Congress permitted women to retire at 62 rather than 65, on 80% of the standard pension; men were allowed to do the same in 1961. Today two-thirds of all Social Security pensioners retire before the "normal" age of 65. Although their pensions are lower, they not only collect benefits for more years, they also pay taxes into the system for fewer years. When Social Security began, only 54% of all men and 62% of all women lived until 65; those who did make it that far could expect to live another 12.8 years. By 1980, 68% of all men and 82% of all women could expect to live until 65, and those who reach that age this year will, on average, live -- and collect pensions -- for more than 16 years.

Besides making ever more people eligible for benefits, Congress, with the approval of the White House, kept raising the payments -- eleven times between 1950 and 1972, six of those times during election years. It seemed a safe as well as a wonderfully popular thing for politicians to do; into the early 1970s, tax collections almost without exception ran ahead of benefit payments, and the Social Security trust funds ran surpluses.

In 1972 a fateful moment came. Arkansas Democrat Wilbur Mills, chairman of the House Ways and Means Committee, was in the middle of what turned out to be a brief and futile run for the Democratic presidential nomination. Mills pushed through Congress a bill raising Social Security benefits 20%. More important, the bill decreed that beginning in 1975, Social Security benefits were to be keyed to the Consumer Price Index. If the CPI in the first quarter of any year averages more than 3% higher than it was twelve months earlier, benefits are raised the following July by an amount equal to the full increase.

As a method of protecting the incomes of the aged against inflation, the move was questionable to begin with. The CPI is heavily influenced by increases in housing prices and mortgage interest rates, but relatively few of the elderly buy houses. In any case, the increases were spectacularly mistimed. From 1975 through 1981, the CPI shot up at some of the fastest inflationary rates in American history. Social Security benefits more than kept pace. The maximum annual benefit jumped 200% during the 1970s and has risen 38.5% in the past four years. Although inflation is now cooling, benefits are still being boosted to make up for past price rises. The 7.4% increase due July 1 was dictated by inflation that occurred mostly in 1981. When it goes into effect, monthly checks will average $406 for a single pensioner and $695 for a retired couple; the maximum for a single pensioner will be $729.
Such increases have transformed the Social Security system into exactly what Franklin Roosevelt never intended it to be: the primary source of income for most of the aged. In the early years, Social Security pensions averaged 30% to 34% of a retired person's last monthly paycheck; in 1981 the average was 55%. This is the result not only of indexing benefits to the CPI but of generous formulas for calculating initial benefits, which have been written into the law. Only about 30% of all Social Security beneficiaries receive private pensions, and various surveys indicate that about one-quarter of the retired depend on Social Security checks for 90% of their income. As many as 16% are believed to have no other income at all.

Thanks largely to Social Security, the rate of poverty among the elderly has dropped from 29.5% in 1967 to 15.7% in 1980. Says M.I.T. Economist Lester Thurow: "Social Security was a system designed to move us toward a world where the elderly were treated equally with the non-elderly. We have virtually reached that world."

But as Thurow and many others also emphatically point out, continuing to raise Social Security benefits may soon make the elderly better off than the young, whose earnings are not protected against inflation. And the costs are staggering. In 1975 -- by no coincidence the first year that benefits were indexed to inflation -- Social Security's pension fund, whose formal title is Old-Age and Survivors Insurance (OASI), paid out more than it took in. By 1977 the drain had become so great as to threaten the financial solvency of the system. This occurred even though taxes had been steadily raised from that original $ 30 a year. By the mid-'70s the maximum amount paid by any worker had reached $ 825.

Congress responded in 1977 by passing an act calculated to raise $ 227 billion in additional Social Security taxes during the following ten years -- on top of substantial increases that had already been written into law. The maximum tax will rise from $ 965 in 1977 to at least $ 3,025 in 1987, because tax rates rise steadily and the proportion of earnings to which they apply goes up every year. The maximum Social Security tax this year has hit $ 2,170 -- 6.7% of earnings up to $ 32,400 -- an increase of 125% in just five years. The taxes are a serious burden on the economy; it is estimated that about one-quarter of all American families pay more in Social Security taxes than they do in income taxes. In theory, employers pay a tax exactly as heavy as that levied on their workers. Actually, more economists believe that the employer's share of the tax is in effect paid by workers and consumers. If an employers' Social Security contribution rises, as it does now every year, he will either pass out smaller raises to his workers or increase the price of his products, or both. Alternatively, he may decide to hire fewer workers. Thus the Social Security tax is believed to increase both inflation and unemployment.

When the 1977 payroll-tax increase passed Congress, legislators congratulated themselves on having assured the financial solvency of Social Security for the next 50 years. Alas, they did not ensure it for four years. Benefits kept being pushed up by inflation. Tax collections, despite the sharp increases in rates, were held down by recessions and widespread unemployment, which in April hit a post-World War II high of 9.4% of the labor force. The impact on the Social Security system of a 1% rise in
unemployment is far greater than that of a 1% increase in the inflation rate. Every time one U.S. worker is laid off, the system loses more than $125 a month in taxes that he and his employer no longer pay.

By last year, the OASI fund was perilously close to running out of money. After his May 1981 recommendations were rejected, President Reagan proposed a makeshift bargain: the Greenspan commission would be appointed to recommend what ought to be done by Dec. 31, 1982, and, to keep the fund from running dry before then, Social Security should be given permission to borrow from the disability and Medicare funds. Congress granted that permission, but only for 1982.

That was scarcely a stopgap solution. If the borrowing authority is allowed to lapse and the retirement fund goes back on its own on Jan. 1, the fund will be able to send out checks on time only through June 1983. Extending the permission for OASI to borrow from the disability and Medicare funds would buy a bit of additional time, but probably no more than 18 months.

The three funds together took in $178.2 billion in 1981, or $3.1 billion more than they paid out during the period. Defenders of Social Security benefits sometimes cite this surplus as proof that there is no crisis. But Social Security's trustees * have warned that the disability and Medicare fund reserves are too low to guarantee the timely payment of benefits beyond "sometime during 1984," unless the system is reformed. And if the economy grows vigorously from now through the rest of the 1980s -- a fiscal event every few economists are predicting -- the funds will barely squeeze by, with no margin to guard against a temporary downturn.

*Secretary of the Treasury Donald Regan, Secretary of Labor Raymond Donovan and Secretary of Health and Human Services Richard Schweiker.

It is true that if the Social Security system can somehow stay afloat through the '80s, it will sail into calmer waters for a long period beginning around 1990. For one thing, a 1% tax increase -- half a point each on workers and employers -- goes into effect that year. For another, the number of people retiring from 1990 through the rest of the century will be held down by the low birth rates of the Depression and World War II years. Meanwhile, members of the 1946-64 baby-boom generation will be hard at work, presumably earning rising incomes and paying swelling Social Security taxes, even without a further increase. The ratio of workers paying into the system to people drawing benefits, after falling from 16.5 to 1 in 1950 to 3.2 to 1 now, will at last stabilize at about the current level. Says Alicia Munnell, vice president of the Federal Reserve Bank of Boston and a leading Social Security authority: "We go through the '90s in gerat, great shape." Assuming we can get to the '90s.

There is no excuse for complacency, as Munnell also points out, since the prosperity of the '90s will affect only the pension and disability funds. The Medicare fund could be bare by 1990 and draining reserves out of the other two. At least, that is likely if hospital costs keep climbing as rapidly as they have been doing for the past several decades (in
March, while the CPI as a whole went down for the first time in 17 years, its medical-care component went right on increasing at a 12% annual rate).

The real long-range worry is a potential demographic disaster for Social Security, beginning around the year 2010. Then the baby boomers will start to retire, in numbers greater than U.S. society has ever had to cope with. Meanwhile, the working population will have been thinned by the low birth rates of the past 15 years. The ratio of Social Security taxpayers to beneficiaries, after holding at about 3 to 1 into the early 21st century, could drop to as low as 2 to 1 by 2030. According to some projections, the Social Security taxes that those two workers and their employers would have to pay to support one retired person could drain away 25% of American payrolls. That would not only

put an all but unbearable strain on the 21st century economy, but could provoke a tax rebellion among the young. Warns Michael J. Boskin, an economist and Social Security expert at Stanford University: "This could cause the greatest polarization in the U.S. since the Civil War. It would be age warfare."

No such doomsday scenario is inevitable. It could be changed by a renewed surge in birth rates, for example, or a continued rise in immigration by Hispanics and Asians, most of whom are young and who will work and pay Social Security taxes for many years before the collect benefits.

But it would be most imprudent to stall on fundamental reform of the Social Security system and trust to these uncertainties. As Boskin puts it, if pessimistic demographic predictions come true and "we wait until early next century to do something about this, the Social Security deficit could be well over a trillion dollars." Given the moral imperative of providing people who are now working with ample time to adjust their retirement plans to changes in Social Security, the Administration and Congress should combine action to ease the immediate cash squeeze and budget deficit with long-range reforms, legislated now to take effect gradually over the decades. Otherwise, the prosperous '90s might be no more than an interlude between crises.

There is no dearth of plans for both short- and long-range reform. Experts have exhaustively debated dozens of proposals; it seems most unlikely that the Greenspan commission can come up with any new ones. What has been lacking, and is still lacking, is the political will to overcome the furious opposition that a proposed change in Social Security inevitably arouses.

The one solution that gets very little discussion is any raising of Social Security payroll taxes still further, on top of the huge future increases already written into law. Though some Social Security experts believe that a relatively small additional increase could both stop the immediate cash drain and build adequate reserves to handle the 21st century demographic dilemma, the idea makes politicians shudder. As a matter of equity and politics, there is little appeal in further increasing a tax whose burden falls most heavily on low-income workers, while the well off escape Social Security taxes on a portion of
their earnings and are having their income taxes cut. There is justified concern too that another payroll-tax boost could further delay the economic recovery that would help Social Security more than anything.

That leaves two general classes of short-term solutions:

Tap General Revenues. Liberals, and others opposed to any reduction in benefits, argue for using income tax and other revenues to make any payments that cannot be financed by the payroll tax. Former Social Security Commissioner Robert M. Ball contends that the system could get through the '80s with relatively small "borrowings," which could be repaid, with interest, out of the reserves that the pension fund will again begin to accumulate in the '90s.

The argument against general-revenue financing is stated succinctly by Social Security Commissioner John Svahn: "What general revenues?" In an era of budget deficits that could all too easily approach $200 billion a year, the Government simply has no funds to spare. Diverting money to Social Security would force the Government to borrow even more from the financial markets than it is already doing to finance defense and general social spending, thus helping to keep interest rates high. Alternatively, giving Social Security an open-ended call on general revenues might prompt further cutbacks in other programs, such as food stamps and Aid to Families with Dependent Children, which the poor need more and which have already been slashed severely. Says Elizabeth Kutza, associate professor at the University of Chicago's School of Social Service Administration: "There is now open competition among welfare groups. There is fear that the elderly will capture all the welfare resources, at the expense of other disadvantaged people" who have no powerful lobby to speak for them. That competition is difficult to mediate, she adds, because "most people now regard Social Security as a guarantee of middle-class income levels. The elderly lobby groups represent a white-collar view of the world."

Slow the Growth of Benefits. Despite much demagoguery, no one is talking about snipping so much as a penny off present benefits; anyone now receiving an average pension check of $379 a month can count on continuing to collect at least that much, unless the trust funds do indeed run dry. But it seems imperative to keep future inflation from pushing up benefits as rapidly as it did from 1975 to 1981. Besides saving money for the trust funds and helping to trim the overall budget deficit in the short run, a limit on future increases could also help build up reserves to soften the 21st century's demographic crunch. Any increase decreed now will almost certainly be frozen into the benefit rates paid to future retirees; the cumulative cost over the decades is gigantic.

Debates over what to do about Social Security in forthcoming federal budgets initially focused on quick, temporary ways to conserve cash. Among the suggestions: a one-year freeze on cost of living adjustments (COLAS) in Social Security pension benefits and many other federal programs, an idea first put forward in February by Democratic Senator Ernest Hollings of South Carolina, which would save $ 11.3 billion; and a three-
month delay in the COLA that might be paid in July 1983 (estimated savings: $3.3 billion at an 8% inflation rate), a plan advanced by Senate Republican Leader Howard Baker in an unsuccessful attempt to keep budget-compromise negotiations between Reagan and congressional leaders from breaking down at the end of April.

To have more than a brief impact on the deficit, any such plan would have to be combined with a cap on future COLAS. One proposal advocated vigorously by Harvard's Martin Feldstein, a member of TIME's Board of Economists, would be to limit future increases to "inflation less 2%"; that is, if the CPI rose 8% in a given year, Social Security benefits would go up only 6%. The virtue of this plan is that it would be similar to the treatment of COLAS in private industry: workers whose wages are indexed to inflation generally get raises equal to only a portion of the CPI increase.

The most popular idea among academic experts is to index benefits either to the rise in prices or to the increase in average wages throughout the economy -- whichever is less. That would keep benefits in inflationary periods from racing far ahead of tax collections, which are keyed to the rise in wages. Advocates defend the plan on grounds of equity too: Why should the elderly be afforded fuller protection against the ravages of inflation than the young and middle-aged workers those taxes pay for their pensions?

Stanford Economist Rita Ricardo-Campbell emphasizes the most damning Social Security statistic of all: since 1970 average Social Security benefits, adjusted for inflation, have risen a remarkable 37%; average weekly wages, adjusted for inflation, have not increased at all. Says Ricardo-Campbell: "We have been taking real income from young people who are heads of households, who don't own a home, who don't have the assets, and giving it to the old people," at least some of whom live in mortgage-free homes and who have accumulated savings." Says M.I.T.'s Thurow: "If real wages go up, real Social Security benefits should go up. But if real wages go down, you can't expect the elderly to be immune from all the problems facing the economy."

Public opinion just might be swinging toward some such solution. Harris polls conducted for the National Council on the Aging last year found that 73% of those questioned generally opposed reductions in COLAS. Those responding to a March Gallup poll, however, voted narrowly in favor of lower COLAS as part of a general hold-down on federal spending, 48% to 44%. The trouble for politicians, of course, is that the only people who are likely to vote for or against a candidate on the basis of that one issue are the aged, and they are still passionately opposed to any tampering with COLAS. This opposition is basically driven not by economic calculation but by plain fear of a poverty-ridden old age -- and this fear is an understandably powerful motivation. Like many other retired couples, Evan Francis, 75, and his wife Mildred, 77, of Los Angeles, wrongly interpret any talk of lower future benefits as a threat to the $582 a month they receive
from Social Security. Says Evan: "If the Government cuts it off, there would be a revolution in the streets."

A continuing drop in the inflation rate will of course automatically and painlessly reduce COLAS. As President Reagan observed last week: "By the time next year rolls around, there maybe won't be any cost of living increase, because there won't be any increase in the cost of living." It would be risky to assume that this happy state will indefinitely continue: there have been too many periods in the past when inflation dwindled, only to flare up again.

For the longer run, the most plausible idea for reforming Social Security is to reverse the trend toward earlier retirement by gradually raising the retirement age at which full benefits are paid. Advocates note that the same advances in medical science and health care that have been lengthening the lives of the retired would also permit them to keep working for more years. Congress recognized this reality in 1978 when it voted to raise the mandatory retirement age from 65 to 70. If the age for collecting full Social Security benefits were raised to 68 from 65, and the early retirement age to 65 from 62, the savings to Social Security would be tremendous.

The key to any attempt to raise the eligibility age, Social Security experts agree, is to phase in any change slowly, giving workers who are now in late or mid-career time to adjust their retirement plans. The central feature of Reagan's disastrous proposals last May was a reduction for those who retire at 62 from 80% of full benefits to 55% -- starting Jan. 1, 1982. The Senators who voted 96 to 0 to oppose his plan protested vehemently that it would be an unconscionable blow to people who had already made plans to retire within the next year.

Texas Democrat J.J. Pickle, chairman of the House Ways and Means subcommittee on Social Security, at that time was drafting a bill to raise from 65 to 68 the retirement age at which full benefits could be collected, in small steps beginning in 1990 and ending in the year 2000. In one of the more egregious examples of the partisanship that has dogged all efforts at Social Security reform, House Speaker Tip O'Neill ordered Pickle to go no further. The reason: O'Neill saw an opportunity for Democrats to assail Reagan as an enemy of Social Security, and he did not want the issue clouded by anything that could be interpreted as a Democratic plan to reduce benefits for anybody.

A more reasonable objection to raising the retirement age is voiced by Harvard Economist William Hsiao. Says he: "Armchair professors and bureaucrats who sit behind desks pushing a pencil all day can work until age 68 without any serious difficulty," but manual workers are too worn out by physical labor to stay on the job that long. Others insist that many of the people who now retire at 62 do so less because of choice than because of failing health or inability to find another job if they are laid off in their early 60s. For those reasons, Pickle's bill, while raising the age for full benefits to 68, would have permitted retirement at 64% of normal benefits at any age after 62.
Though Pickle's bill has been side-tracked, the idea of delaying retirement remains a plausible way to ease the burden on the system. Beginning this year, Social Security laws offer a 3% increase in eventual retirement benefits for each year that workers stay on the job past their 65th birthday; some experts suggest raising that bonus to 8% or 10%. House Majority Leader James Wright, another Texas Democrat, talks of substituting income tax credits for each year of continued employment past age 65.

Some other reform proposals that are worthy of consideration but need more exploration before they can enter the political debate:

* Tax Social Security benefits. No one proposes applying income taxes to the half of benefits that are financed by taxes levied on employers, but some economists advocate taxing the half that is financed out of deductions from workers' pay-checks. Mickey Levy, in a study done for the American Enterprise Institute, a conservative Washington-based think tank, calculates that three-fifths of all Social Security beneficiaries would pay no tax anyway, because their incomes are too low and their exemptions too high (people over 65 get double the current $1,000 personal exemption from income taxes). Taxes paid by the other two-fifths, he figures, could be recycled back into the Social Security system and would not only ease the current cash squeeze but also help build reserves for the future. However, no politician wants to take on the job of explaining to retired people why any of the benefits they regard as a sacred right purchased by past taxes should be subject to a new tax. Cover everybody. At present, some 3 million federal employees do not contribute to Social Security. They belong to a separate civil service system that gives them higher pensions. Bringing them into Social Security would bolster the system's reserves and also end the "double dipping" that permits federal employees to retire early on a civil service pension, work for a few years in a job in private industry, and qualify for a Social Security pension too. But any proposal for such change faces two serious obstacles. Federal employees constitute a significant lobbying force, and included in their numbers are Senators and Congressmen, a group not famous for voting against its self-interest -- ever. Rewrite benefit formulas. A change in the complex formulas for calculating benefits, in order to give a newly retired worker an initial pension representing a somewhat lower percentage of what he earned in his last years on the job, could produce large long-run savings. It also would return the Social Security system to Roosevelt's idea of basic minimum protection against poverty, and would prod those now working to save more for their retirement. Encouraging savings is a goal that hardly any economist, conservative or liberal, will quarrel with.

In the end, the solution to Social Security's double dilemma -- of an immediate cash crisis and the threat of a long-range demographic disaster -- is unlikely to come from any single approach. What is needed is a combination of steps: some immediate limitation on COLAS, some intermediate move to prevent inflation from pushing up benefits faster than the rise in wages and payroll taxes, some long-range measures to raise the retirement age and keep the formula for calculating benefits from straining the resources of society.
The danger is that Congress and the Administration will do none of the above. Instead, they are all too likely to let the system drift closer to the point at which the money runs out, then enact a series of emergency proposals -- and trust to luck. In change the system so that it can both surmount the current money shortage and continue providing protection to the elderly and disabled without placing an intolerable burden on the young involves making the kind of choices that politicians so far have been running from, with irresponsible cowardice.

Chicago Social Security Expert Kutza summarizes the problem: "Everyone knows the range of possible solutions. There has been panel after panel, discussion after discussion; every single option has been documented. The only real question is: Which political leader is willing to bite that bullet?" The answer right now seems to be nobody, because every suggested solution will offend some powerful group. But the reconciliation of conflicting interests is the real art of politics. In this case, some form of reconciliation is a social necessity.