THE SOCIAL SECURITY "COLA": THE ELDERLY SHOULD PLAY BY THE RULES

Under the 1972 law that established automatic cost-of-living adjustments (COLAs) for Social Security recipients, Social Security benefits are adjusted for inflation only when the inflation rate exceeds 3 percent. However, many Members of Congress are urging that Social Security recipients get a COLA even if, as it now appears, the inflation rate falls below 3 percent. A resolution supporting the idea is already circulating in the House (H.Con.Res. 116). And John Heinz, the Pennsylvania Republican who chairs the Senate's Special Committee on Aging, is saying, in convoluted reasoning, that forgoing the COLA "penalizes the elderly for our success in curbing inflation." He seems to ignore that the elderly, as all other Americans, benefit from lower inflation every hour of every day. There is no sensible argument--either of fairness, of compassion, or of economics--to change the current law. The Reagan Administration and responsible Members of Congress should resist efforts to do so.

Indexing of Social Security benefits was instituted in 1972 partly because many conservatives believed that it would temper the pace of increases that Congress had been adopting on an ad hoc basis, usually in election years. What no one expected then was that inflation would roar ahead as it did. Nor did anyone realize that routine methods of calculating inflation, for the purposes of indexing benefits, overstated its real impact on the elderly's pocketbooks. The result was that over the past decade or so Social Security benefits have been rising faster than the inflation rate. Legislation designed to hold the elderly harmless from inflation actually gave them an enviable inflation bonus. At the same time, however, the real wages of working people, whose taxes pay for Social Security benefits, were falling. Average weekly earnings, adjusted for inflation, tumbled from $145.39 in 1973 to $125.66 in 1984, while average monthly Social Security benefits climbed from $166.40 to $196.84 in the same period. Example: Average weekly earnings fell to $139.42 in 1974, $134.91 in 1979, $124.49 in 1981, and $125.31 in 1983. Meanwhile, average monthly Social Security benefits rose to $169.55 in 1974, $180.55 in 1979, $188.29 in 1981, and $196.79 in 1983.

While real Social Security benefits rose 18 percent, real average weekly earnings fell 14 percent. Social Security taxes, moreover, increased sharply over the same period. The tax on workers rose by 20 percent, from 5.85 percent in 1973 to the current 7 percent.

COLAs forgone are not lost forever; if the cumulative increase in inflation reaches 3 percent the following year, Social Security recipients receive the full COLA. In other words, if inflation is 2 percent this year and 1 percent next year, cumulatively reaching 3 percent, an automatic COLA would be paid the second year. This would save the government $9 billion over a five-year period. For this reason, the Washington Post and the New York Times have urged strongly that no COLA be granted unless inflation exceeds the 3 percent trigger level.

Before the Congress or Ronald Reagan decide to change the rules for Social Security recipients, they should recall why the original law was enacted. The reasons for it now are as compelling as they were then. And Congress and the President too should consider those working Americans whose earnings support Social Security benefits. These Americans already are playing by the rules, contributing 14 percent of their pay to Social Security--more than some of them pay in income taxes. It is only fair that the elderly also play by the rules.

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For further information:

Editorial, "To Buy the Votes of the Elderly," The New York Times, April 8, 1986.

Editorial, "Grow Up, Congress," The Washington Post, March 31, 1986.

Senate Budget Committee, Constraining Social Security Cost-of-Living Adjustments: Background and Issues (Senate Print 99-2, January 1985).