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REMOVING SOCIAL SECURITY'S TAX CAP ON WAGES WOULD DO MORE HARM THAN GOOD

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D. MARK WILSON¹

The Social Security system continues to face an immense financial crisis.² In 16 years, it will begin taking in less money than it needs to pay the benefits it has promised to participants.³ In order to maintain the benefit payments from the Old-Age and Survivors Insurance (OASI) program, in 2017, Congress will either have to raise taxes or begin to borrow substantial sums from the public. Without reform, the Social Security retirement program will run an annual deficit of \$594 billion (in 2001 inflation-adjusted dollars) by 2075.⁴

In light of these projections, some policymakers have begun to call for an increase in Social Security taxes—which means raising

either the OASI payroll tax rate or the maximum amount of wages subject to the tax, or both.⁵ Some lawmakers also have proposed increasing the taxable wage cap,⁶ while some policy analysts are calling for its complete elimination.⁷

To answer the questions of whether it is possible to save the OASI program by changing the maximum amount of wages subject to the OASI payroll tax and what effect higher taxes would have on the economy, Heritage analysts used Social Security Administration (SSA) data and a leading econometric model of the U.S. economy.⁸ Specifically, they examined the effect of changing the taxable wage cap in

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1. This report is an update to Gareth G. Davis and D. Mark Wilson, "The Impact of Removing Social Security's Tax Cap on Wages," Heritage Foundation *Center for Data Analysis Report* No. CDA99-01, January 19, 1999.
 2. Hereafter, the term "Social Security" refers only to the Social Security Old-Age and Survivors Insurance program. These projections do not include and would not involve any change in the Disability Insurance (DI) program or the Health Insurance (HI or Medicare) program.
 3. Heritage Foundation calculations based on data from the Social Security Administration (SSA), available at <http://www.ssa.gov/OACT/TR/TR01/lrIndex.html> (October 2001).
 4. *Ibid.*
 5. In 2001, the Social Security payroll tax was levied on the first \$80,400 of labor income. Any income earned over this amount is not subject to the 10.6 percent OASI payroll tax. The tax cap amount is increased every year by the rate of growth in average wages.
 6. In the 106th Congress, Senator Daniel Moynihan (D-NY) introduced the Social Security Solvency Act of 1999 (S. 21), which would have raised the tax cap on wages.
 7. National Council of Senior Citizens, "Social Security Tax Cap Secret," at <http://www.ncscinc.org/press/sptax-cap.htm> (October 2001).
 8. The Heritage Foundation Center for Data Analysis used the Mark 11 U.S. Macroeconomic Model of WEFA, Inc., formerly Wharton Econometric Forecasting Associates, to conduct this analysis.

order to raise the largest amount of revenue, and thus have the best likelihood of restoring the system to full solvency. That change involves eliminating the taxable wage cap and subjecting all labor income to the OASI payroll tax.⁹

Based on SSA's own projections, Heritage analysts found, however, that eliminating the cap on wages subject to the OASI payroll tax would generate only enough revenue to delay the date of the system's insolvency by a few years. Moreover, by 2035, the OASI program would have enough revenue on hand to pay only 87 cents on every promised dollar in benefits.¹⁰

Yet the cost of this change would be substantial. It would require the largest tax increase in U.S. history,¹¹ subjecting millions of American families to a massive hike in their payroll taxes and further reducing an already dismal rate of return.¹² This change would harm America's economic prospects by slowing economic growth and reducing employment opportunities.

Specifically, eliminating the cap on taxable wages would:

- **Result in the largest tax increase in the history of the United States** to raise \$505 billion (in nominal dollars) over five years and almost \$1.2 trillion over 10 years.¹³
- **Fail to save Social Security from bankruptcy**; the system's insolvency date would be

pushed back only seven years, from 2017 to 2024.¹⁴ (See Chart 1.)

- **Increase the top effective federal marginal tax rate** on labor income to almost 52.5 percent,¹⁵ its highest level since the 1970s.
- **Reduce the take-home pay of 10.4 million workers** by an average of \$4,907 in the first year alone after the cap is removed.¹⁶
- **Weaken the economy by reducing the number of job opportunities and savings**; in fiscal year (FY) 2011, the decline in job opportunities would exceed 1.1 million, and the loss in personal savings (adjusted for inflation) would amount to \$39.5 billion.¹⁷

The CAP ON TAXABLE WAGES

The OASI program is currently funded by a payroll tax of 10.6 percent on labor income (wages, salaries, and self-employment income), with a cap on earnings subject to the OASI tax. In 2001, the maximum taxable amount (the cap) is \$80,400. This amount is indexed to change annually by the rate of growth in the average wage.

Social Security benefits are calculated on the basis of a worker's earnings over his or her career. However, only the worker's earnings under the maximum taxable amount (and subject to the payroll tax) are used to compute those benefits.

9. Increasing the taxable wage cap or eliminating it would affect the same number (and type) of workers and their families. The only difference in impact between increasing the cap and eliminating it would be the size of the tax increase and its effect on family budgets and the economy.

10. Heritage Foundation calculation based on data from the SSA. This projection is a purely static estimate that does not include the shifting of income from taxable to nontaxable compensation that is likely to occur if the tax cap is removed. Income shifting would decrease the amount of revenue available to pay benefits.

11. *Ibid.*

12. See William W. Beach and Gareth G. Davis, "Social Security's Rate of Return," Heritage Foundation *Center for Data Analysis Report* No. CDA98-01, January 15, 1998.

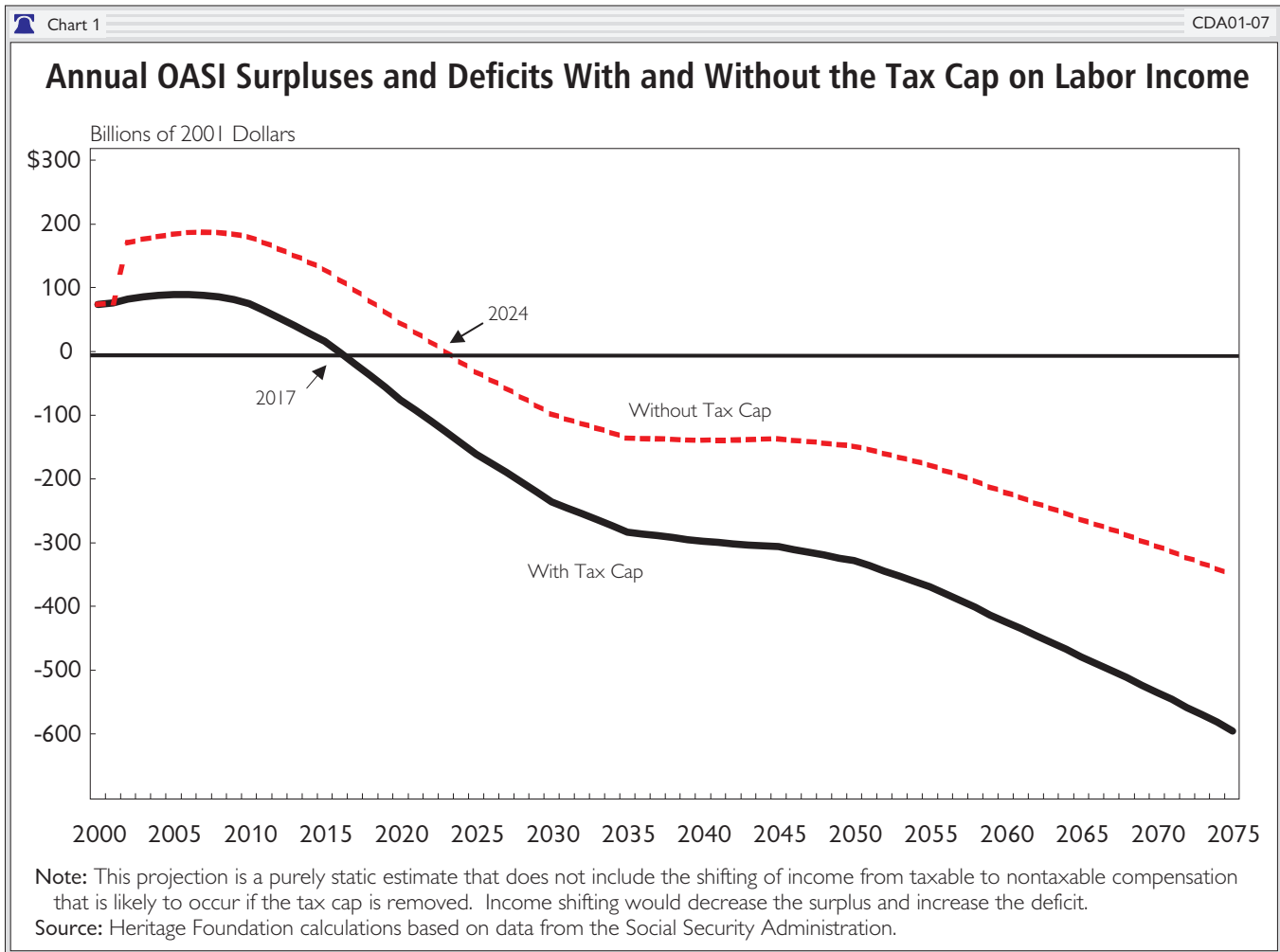
13. *Ibid.*

14. *Ibid.*

15. Heritage Foundation calculation based on a top federal income tax rate in 2002 of 38.6 percent, the OASI tax rate of 10.6 percent, the DI tax rate of 1.8 percent, and the HI tax rate of 1.45 percent. Rates include both the employee's share and the portion paid by the employer on behalf of the employee, but they do not include state and local taxes. The top federal income tax rate is scheduled to decline to 37.6 percent in 2005 and 2006, and to 36 percent in 2007.

16. Heritage Foundation calculation based on data from U.S. Bureau of the Census, March 2000 Current Population Survey. The \$4,907 includes the portion of the tax increase employers pay on behalf of their workers and is based on a static analysis that does not assume any change in economic activity.

17. Heritage Foundation calculation based on WEFA model simulation (see Appendix A).



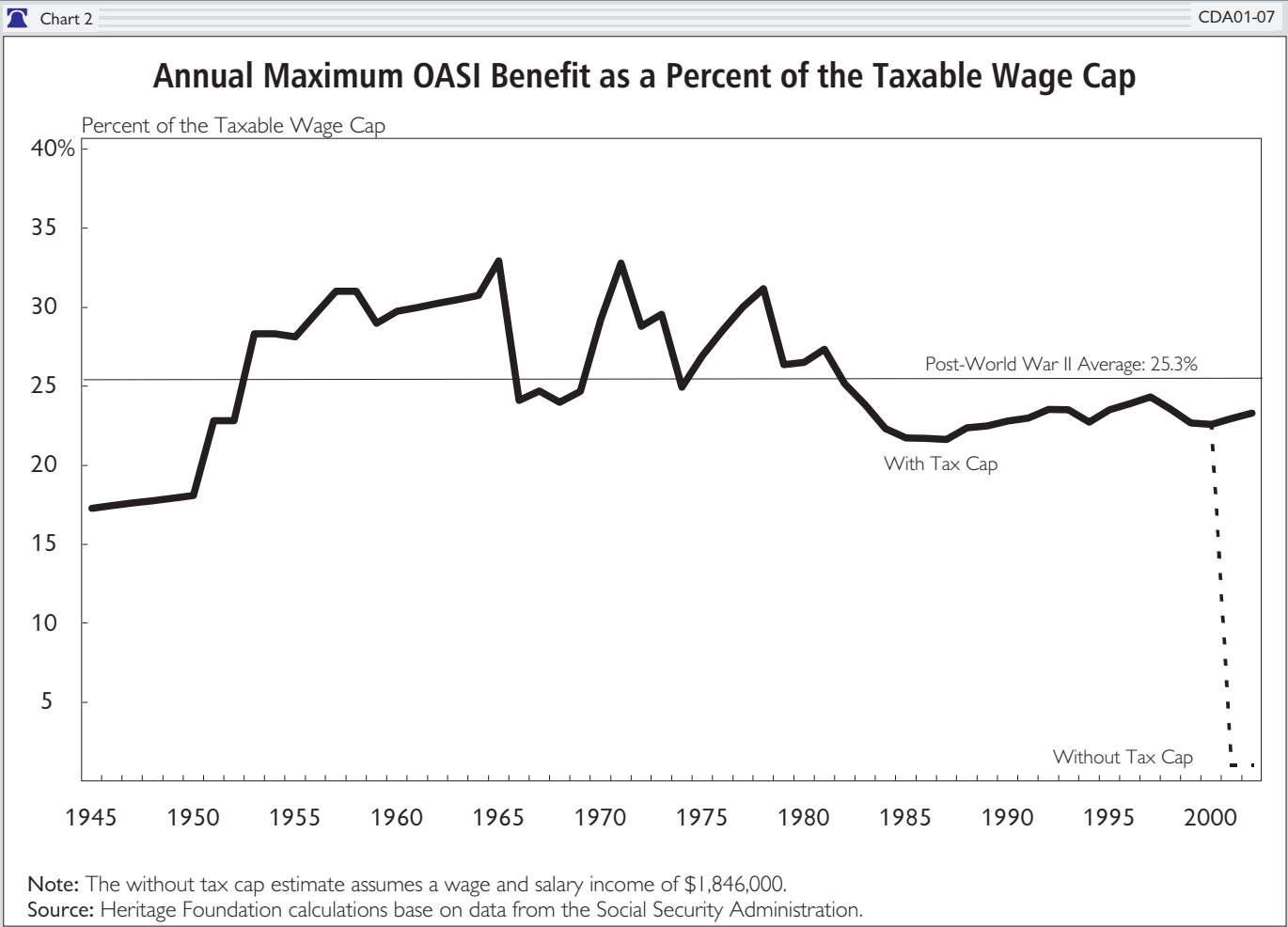
A cap on taxable earnings has existed since the inception of the Social Security system in 1937. The maximum taxable amount reflects the original purpose of the OASI program: to provide workers with a “safety net” of retirement income. Social Security was created as a pay-related retirement system, not as a welfare program that redistributes money from workers to those in need regardless of whether or not its recipients had paid into the system. The benefits that retirees received were linked to the taxes they had paid when they were in the workforce. Social Security was intended to supplement rather than replace private sources of retirement income by providing only a basic, government-guaranteed source of income.

Maximum Level of Benefits and Maximum Taxable Wages

Within this context, Congress determined that it was appropriate to set an upper limit on the amount of income Americans would receive from the Social Security program. A limit on benefits, combined with the principle that workers’ benefits should relate to the amount of money they paid into the system, made an upper limit on the taxes that workers would pay appropriate.

In 1939, Congress set the maximum Social Security benefit at \$494 per year (\$6,326 in 2001 dollars), with the cap on taxable labor income set at \$3,000 (\$38,417 in 2001 dollars).¹⁸ In 2001, the maximum benefit payable to a single participant retiring at age 65 totals \$18,456, while the

18. Although the Social Security Act was passed in 1935, benefit payments were not supposed to begin until 1942. In 1939, Congress amended the Act to provide benefits to the dependents of retired and deceased workers and begin paying benefits in 1940.



maximum taxable amount of labor income subject to the payroll tax is \$80,400.¹⁹

Since 1945, the maximum OASI benefit as a percent of maximum taxable earnings has ranged from 17.3 percent to 32.9 percent.²⁰ (See Chart 2.) In 2001, the maximum OASI benefit was just 23 percent of maximum taxable earnings, well below the post-World War II average of 25.3 percent.

If the tax cap is removed, the percentage will fall to less than 10 percent. For example, raising the cap on taxable wages to the mean income for families in the top 5 percent of the income distribution (\$272,354 in 2000) without increasing the maxi-

imum benefit would dramatically drop the maximum OASI benefit to just 6.8 percent of maximum taxable earnings.²¹

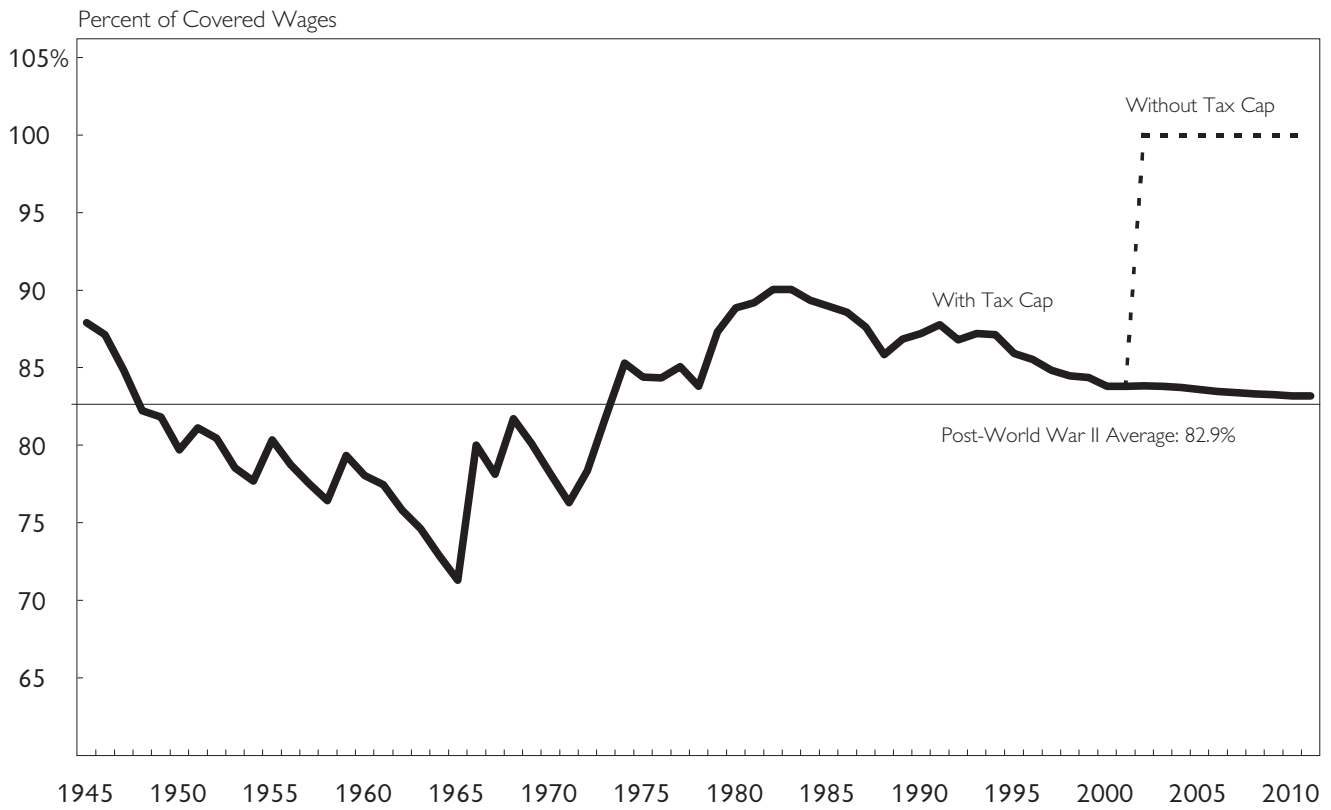
Since 1939, Congress has raised both the maximum taxable amount and the Social Security payroll tax rate on many occasions, exposing an ever-higher percentage of workers' income to taxation. Contrary to the assertions made by a number of commentators today, the proportion of covered earnings below the maximum taxable amount is not now at an historic low. In fact, it is above the average for the entire post-1945 period. (See Chart 3.)

19. Heritage Foundation calculation based on a worker's earning the maximum taxable amount during each year of his or her working life.

20. Heritage Foundation calculation based on data from the SSA.

21. *Ibid.*

Percent of Covered Wages Subject to the OASI Payroll Tax



Source: Heritage Foundation calculations based on data from the Social Security Administration.

Proportion of Wages

From 1945 to 1965, the proportion of wages subject to the Social Security payroll tax declined from 87.9 percent to 71.3 percent. From 1965 to 1983, this trend reversed as additional revenue was needed to pay for the Great Society’s expansion of benefits, climbing to an all-time high of 90 percent. Since then, the percentage of total payroll subject to Social Security taxes has declined slowly to 83.8 percent. This proportion is projected to fall slightly to just over 83.2 percent of total earnings by 2011—still above the post-World War II average of 82.9 percent.²²

The Tax Rate

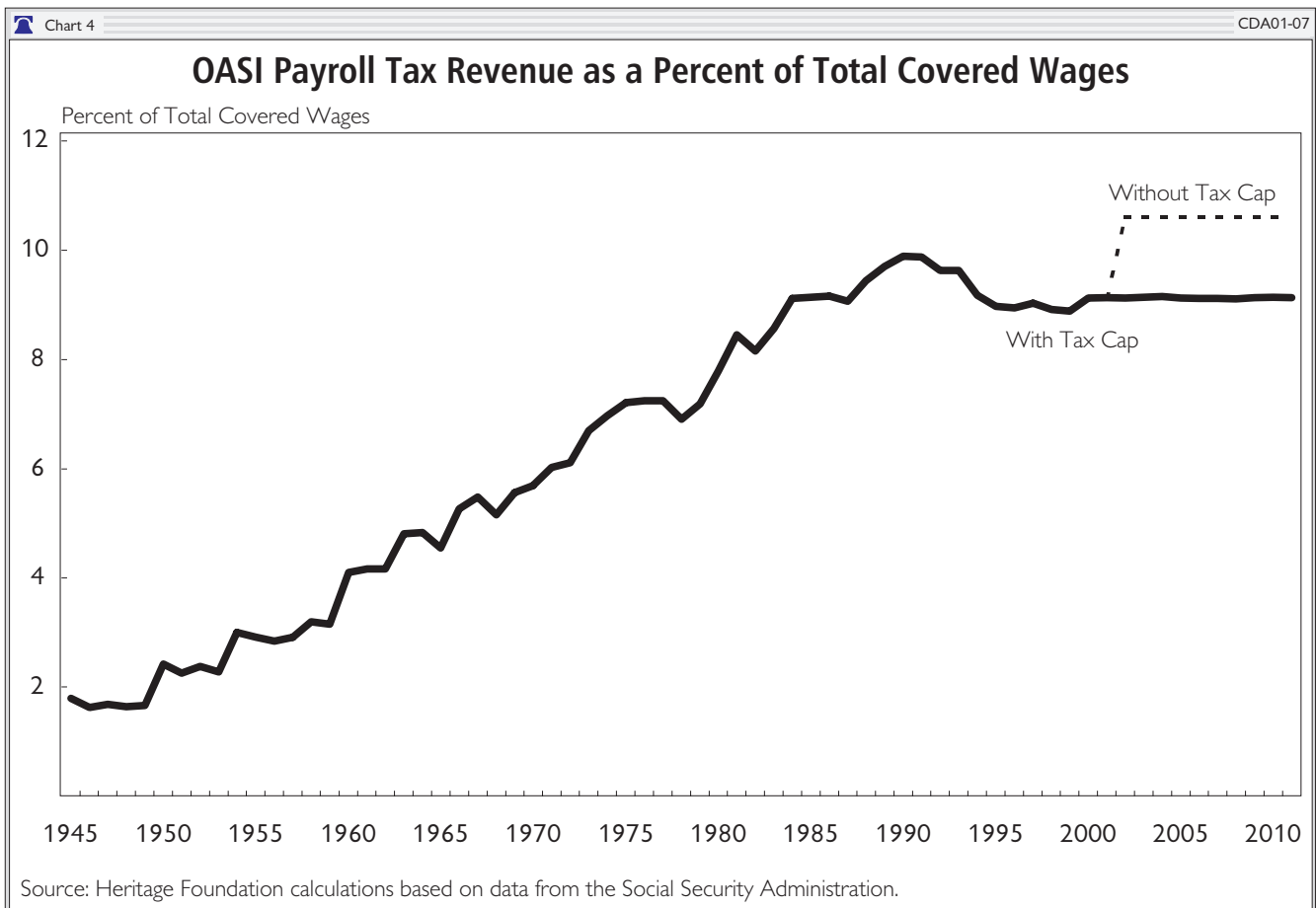
Not only is the total proportion of payroll subject to Social Security taxes above historic levels, but the successive increases in the payroll tax rate

mean that the proportion of total labor income consumed by OASI taxes is close to an all-time high. As Chart 4 shows, since 1945, the proportion of all covered wages (including those that lie above the maximum taxable amount) consumed by OASI taxes has increased to 9.1 percent. Removing the maximum cap on taxable payroll would increase this tax burden to 10.6 percent of all covered labor income. This would boost payroll taxes as a share of all covered wages, salaries, and self-employment income to their highest level ever.

THE BIGGEST TAX INCREASE IN U.S. HISTORY

As noted above, eliminating the Social Security taxable wage cap would result in the largest tax increase in U.S. history—amounting to \$505 bil-

22. Heritage Foundation calculation based on *Annual Statistical Supplement to the Social Security Bulletin*, 2000, and *2001 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*.



lion over five years (\$461 billion in 2001 inflation-adjusted dollars). The increase would dwarf the size of each of the last three tax increases (passed in 1993, 1990, and 1982), regardless of whether they were measured in nominal or inflation-adjusted dollars.²³ Even after the enormous tax increase, Social Security would still have to borrow an average of \$203 billion per year (adjusted for inflation) from 2035 to 2075 in order to maintain benefits.

Removing the cap on taxable wages also would result in a massive 10.6 percentage point hike in the top marginal tax rate for millions of workers—bringing the top rate to almost 52.5 percent, the highest rate since the 1970s.²⁴ Should Social Security’s tax cap be removed, many workers would immediately find that federal taxes consume over 52 cents of every additional dollar they earn from employment.

An increase in the marginal tax rate on labor income would damage the economy by reducing the incentive to work. The fact that the Social Security tax increase would fall on wage, salary, and self-employment income would lead many workers (especially the self-employed and small-business owners) to find ways to avoid this tax, perhaps by taking employment income in the form of non-taxable “profits” or fringe benefits.

WHO WOULD PAY ADDITIONAL OASI TAXES?

Heritage analysts, using data from the U.S. Bureau of the Census, estimate that eliminating the Social Security taxable wage cap would subject 10.4 million workers to a \$1.2 trillion tax increase from FY 2002 to FY 2011.²⁵ Almost 5.7 million of these workers are heads of families, and 2.8 mil-

23. The last three tax increases were passed in the Omnibus Reconciliation Act of 1993, the Omnibus Budget Reconciliation Act of 1990, and the Tax Equity and Fiscal Responsibility Act of 1982. Based on calculations provided by the Tax Foundation and available upon request.

24. Heritage Foundation calculation based on Internal Revenue Service and SSA data.

lion are spouses. Another 1.5 million single workers also would see their paychecks decline. On average, these 10.4 million workers would see their taxes increase by \$4,907 in the first year after the tax cap is removed.²⁶

Of the 10.4 million workers who would be directly affected by tax increases,

- **8.5 million (82 percent) are men;** two-thirds, or 5.7 million, of these men are aged 35 to 54; another 1.7 million are over the age of 54 and nearing or eligible for retirement.
- **On average, these 10.4 million workers work 49 hours per week year-round.**
- **8.2 million (79 percent) are married.**
- **4.5 million (43 percent) are married with children.**
- **7.3 million (67 percent) have college degrees;** 1.2 million (11.4 percent) are high school graduates or less.
- **Over 50 percent (5.5 million workers) live in eight states:** California (1.5 million), New York (859,000), Texas (754,000), Illinois (519,000), New Jersey (503,000), Florida (495,000), Pennsylvania (430,000), and Michigan (429,000).
- **Most (6.1 million, or 58 percent) live in the suburbs.** Another 2.3 million, or 22 percent, live in central cities.
- **Over two-thirds (7.2 million) are private-sector wage-and-salary workers;** 2.1 million (20.5 percent) are self-employed.
- **Nearly 10 percent (816,000) are union members.**
- **Nearly 5 percent (485,000) are not U.S. citizens.**

- **Over two-thirds (7.1 million) are in executive, managerial, and professional specialty occupations,** but not all are doctors, lawyers, or CEOs.
- **Over 1.2 million of the affected workers are teachers, nurses, truck drivers, computer analysts, construction workers, farmers, police officers and firemen, mechanics, repairers, and retail sales workers.**
- **Two-thirds (6.6 million) work in six major industries:** manufacturing (1.9 million); finance, insurance, and real estate (1.2 million); other professional services (1.1 million); business and repair services (940,000); medical services (660,000); and retail trade (728,000).

These Americans work long and hard to provide for their families and save for their retirement years. The record size of the tax increase and its focused impact may induce many of the 583,000 workers aged 62 and above to retire early rather than pay additional taxes. Others may decide to shift some of their compensation from wages and salaries to benefits that are not subject to payroll taxes. Still others may reduce spending and/or saving as their disposable income declines. The most likely impact of an increase in payroll taxes would be some combination of these three responses.

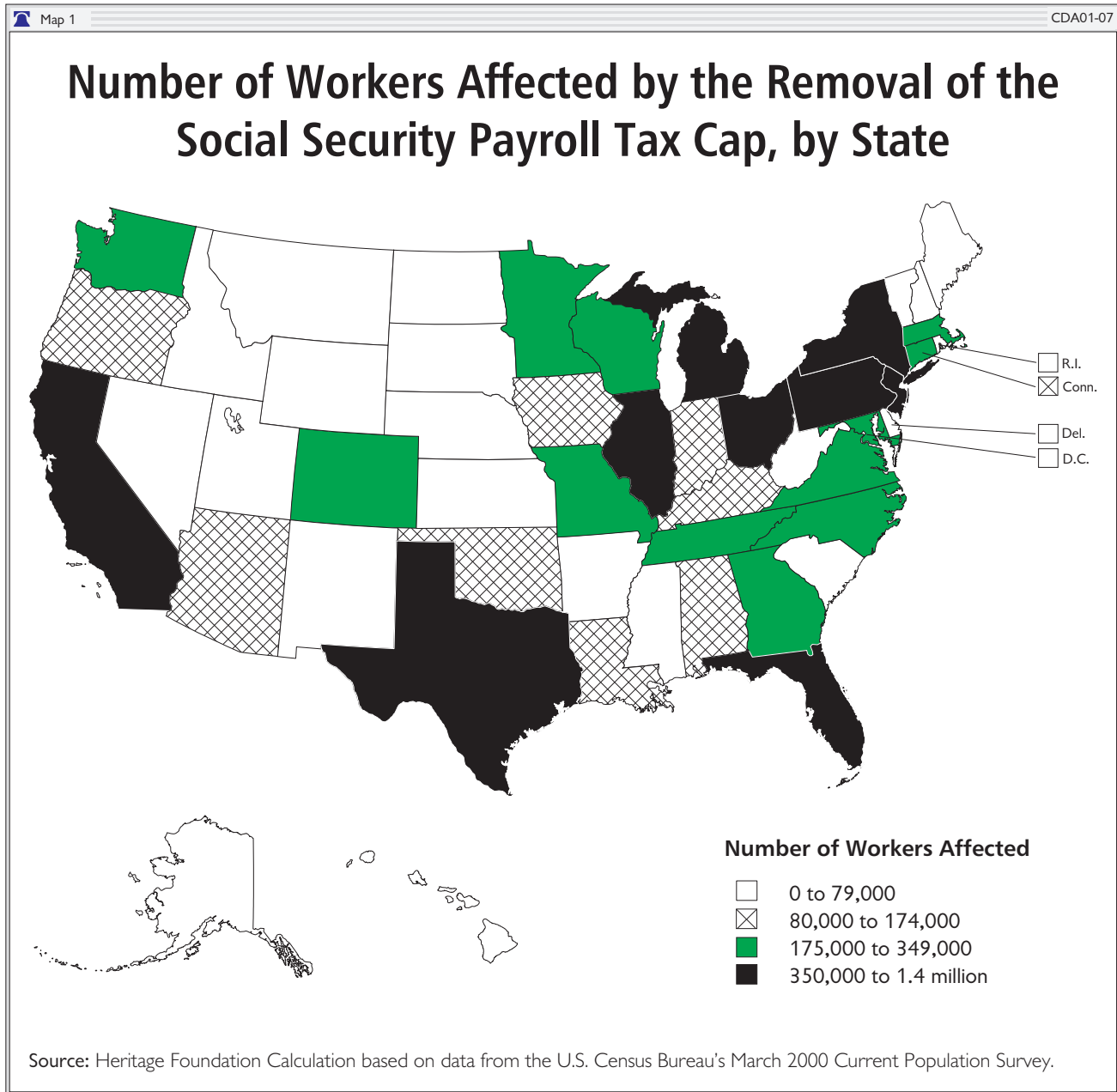
HOW REMOVING THE CAP WOULD AFFECT RETIREMENT SAVINGS

Data from the U.S. Department of Labor show that families earning more than \$90,000 a year (many of the same families who would be affected by the tax increase) use a disproportionate share of their income to pay Social Security taxes and invest in pension funds.²⁷ This spending is made with discretionary income that is left over after purchasing such necessities as food and clothing. Eliminating the Social Security tax cap on labor income would reduce the discretionary income

25. Unless otherwise noted, all data in this section come from Heritage Foundation tabulations of the U.S. Bureau of the Census March 2000 Current Population Survey.

26. This number includes the increase in Social Security taxes that employers would have to pay on behalf of workers.

27. U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, "High Income Tables 1998–1999," at <http://stats.bls.gov/csx/1999/highincome/hincome.pdf> (October 2001).



that these families have for such activities and likely lead to a decrease in private retirement savings.

This effect also would be amplified by an expectation of higher Social Security benefits in the future, making these families even less inclined to set aside funds for their own retirement. In 1998–1999, these families devoted almost \$1 of every \$7

in their budgets to Social Security and private pensions.²⁸ Significantly increasing federally mandated taxes for retirement would substantially decrease take-home pay and likely reduce the amount saved for retirement rather than the amount spent on food and shelter.

Increasing the OASI taxable wage cap is also likely to alter the support Social Security receives

28. *Ibid.* The “Personal Insurance and Pensions” category includes Social Security taxes paid. Currently, Social Security taxes are calculated based on a fixed share of labor income up to a maximum threshold. Given that the wages of upper-income households are more likely to exceed this threshold and contain a higher proportion of non-labor income, we can expect the inclusion of Social Security taxes in these figures to underestimate the differential between low-income and upper-income earners in the proportion of income that is devoted to retirement savings.

from high-wage workers. These high earners are currently projected to receive very low or even negative rates of return on the OASI payroll taxes they pay in the future.²⁹ Any tax increase that focuses on these workers would cause their rate of return to fall so low that their perception of Social Security would likely change from that of a retirement system to just another welfare program that consumes 10.6 percent of their labor income with no benefit to themselves. Such a change in perception of Social Security is likely to reduce public support for the program.

HOW REMOVING THE CAP WOULD AFFECT THE ECONOMY

Removing the Social Security taxable wage cap would reduce job creation and economic growth while substantially increasing payroll taxes for American workers. A slowdown in the growth of compensation and a significant decrease in the savings rate would further squeeze family budgets.

To analyze the economic effects that removing the taxable wage cap would have on jobs and economic growth, Heritage economists employed the WEFA U.S. Macroeconomic Model³⁰ to conduct a dynamic simulation of the proposal. They reconstructed WEFA's July 2001 long-term model to embody (1) the economic and budgetary assumptions published by the Congressional Budget Office (CBO) in August 2001, (2) the recent increases in federal spending, and (3) the latest Blue Chip forecast for economic growth following the September 11 terrorist attacks.³¹ This specifically adapted model uses CBO budget assumptions to produce dynamic simulations of proposed policy changes. (For a description of how removing the taxable wage cap was incorporated into

this version of the WEFA U.S. Macroeconomic Model, see Appendix A.)

The Heritage dynamic analysis shows that removing the taxable wage cap would:

- **Decrease economic growth.** Higher OASI payroll taxes would decrease the rate of economic growth by 0.3 percentage point in FY 2002 and 0.5 percentage point in FY 2003. (See Appendix B.) By the end of FY 2011, gross domestic product (GDP), adjusted for inflation, would be \$136 billion lower than the baseline forecast without the tax policy change.
- **Reduce the number of job opportunities.** Over 1.1 million fewer Americans would be working at the end of FY 2011, compared with the baseline forecast. Moreover, the unemployment rate would average 5.6 percent instead of 5.2 percent from FY 2002 to FY 2011.
- **Decrease family income.** By the end of FY 2011, real disposable personal income (income after taxes, adjusted for inflation) for a family of four would fall by \$2,736. In response to this decrease in family budgets, consumer spending would drop by \$160 billion, or \$2,100 for each family of four.
- **Decrease family savings.** By the end of FY 2011, a family of four would be able to save \$520 less (adjusted for inflation) than the baseline forecast. The already low savings rate would decline by an average of 0.7 percentage point from FY 2002 to FY 2011, from 0.8 percent to just 0.1 percent.
- **Reduce investment.** Investment (adjusted for inflation) would decrease by an average of \$36 billion per year from FY 2002 to FY 2011. By

29. Beach and Davis, "Social Security's Rate of Return."

30. The Heritage Foundation Center for Data Analysis used the Mark 11 U.S. Macroeconomic Model of WEFA, Inc., for this analysis. The model was developed in the late 1960s by Nobel Prize-winning economist Lawrence Klein and several of his colleagues at the Wharton Business School of the University of Pennsylvania. It is widely used by *Fortune* 500 companies, prominent federal agencies, and economic forecasting departments. The methodologies, assumptions, conclusions, and opinions herein are entirely the work of Heritage Foundation analysts. They have not been endorsed by, and do not necessarily reflect the views of, the owners of the model.

31. Diana I. Gregg, "High Probability of Recession Now, Recovery Next Year, Says CEA Chairman," Bureau of National Affairs, *Daily Report for Executives*, October 3, 2001, p. A23.

the end of FY 2011, the net capital stock would be \$180 billion lower.

Eliminating the Social Security tax cap would increase the unified budget surplus over the FY 2002 to FY 2011 period from \$3.239 trillion to \$3.789 trillion, but the off-budget and on-budget surpluses move in opposite directions. The tax increase raises the off-budget (Social Security) surplus by \$672 billion from FY 2002 to FY 2011, while the on-budget surplus declines by \$122 billion because of slower economic growth and personal income tax revenue.

CONCLUSION

Since the inception of the Social Security program in 1937, Social Security taxes have been raised at least 24 times, an average of once every two years.³² Yet the system continues to slide toward bankruptcy. Although the Tax Equity and Fiscal Responsibility Act of 1982 was supposed to restore the Social Security system to permanent solvency, a mere 17 years later, the system is once again confronted with the specter of bankruptcy.

Eliminating the cap on the maximum taxable amount of labor income subject to Social Security taxes would represent the largest tax increase in

the history of the United States. It would raise taxes on millions of hard-working Americans and their families, reduce savings, slow economic growth, and eliminate employment opportunities. It likely would also have the unintended consequence of undermining one of the most vital activities that American families undertake: privately saving for retirement.

Despite the massive hike in the tax burden, eliminating the cap on taxable earnings would not save the Social Security system; it would only extend its solvency by a mere seven years from 2017 to 2024. Even after implementing this tax increase, the OASI program in 2035 would have enough revenue on hand to pay only 87 cents on every promised dollar in benefits. Either payroll tax rates would have to be raised, money would have to be borrowed from the public, or promised benefits would have to be cut.

In short, eliminating the Social Security maximum taxable wage cap will do little good and too much economic harm.

—*D. Mark Wilson is a Research Fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*

32. Social Security Administration, *Annual Statistical Supplement to the Social Security Bulletin*, 1997, p. 34. This does not include annual indexing of maximum taxable earnings.

APPENDIX A: METHODOLOGY

Heritage Foundation economists follow a two-step procedure in analyzing the economic and budgetary effects of proposed policy changes.

First, using published forecasts of total earnings and taxable earnings from the Social Security Administration (SSA), preliminary static payroll tax revenue estimates stemming from eliminating the Social Security payroll tax cap were estimated. These static estimates are based on a methodology that does not account for the macroeconomic effects that would result from an increase in tax rates. These effects include changes in gross domestic product (GDP), interest rates, employment, personal income, and inflation that can significantly affect tax revenues. Therefore, the static estimates provide a very limited analysis of the economic and budgetary impact of any policy change. To forecast the change in federal tax revenue, spending, and the economy more accurately, a dynamic model must be used.

Second, the static revenue changes were introduced into the WEFA U.S. Macroeconomic Model. The WEFA model is a dynamic model of the U.S. economy designed to estimate how the general economy is reshaped by policy reforms, such as tax law and spending changes. Heritage economists developed a revised WEFA model for Heritage work that embodies the economic and budgetary assumptions published by the Congressional Budget Office (CBO) in August 2001, the recent increases in federal spending, and the latest Blue Chip forecast for economic growth following

the September 11 terrorist attacks.³³ This specifically adapted WEFA model produces dynamic responses from the CBO baseline as a result of the proposed policy changes.

THE SIMULATION

The WEFA model contains a number of variables that are used to simulate proposed policy changes. The following sections describe how the CDA static estimates were introduced into the WEFA model to estimate the dynamic economic and budget results.

Payroll Taxes. The WEFA model contains a variable that measures the total amount of OASDI (Old-Age, Survivors, and Disability Insurance) payroll taxes as a percentage of wage and salary income. Heritage economists increased this effective tax rate for each of the forecast years to reflect the increase in static payroll tax revenue estimates.

Labor Force Participation. Small adjustments were made in the model's exogenous labor force participation rate to account for the dynamic effects of increasing payroll tax rates on the supply of labor.

Monetary Policy. The model assumes that the Federal Reserve Board will react to this policy change as it has historically. This assumption was embodied in the Heritage model simulation by including the stochastic equation in the WEFA model for monetary reserves.

33. Gregg, "High Probability of Recession Now, Recovery Next Year."

APPENDIX B

How Removing the Social Security Tax Cap Would Affect Selected Economic Indicators (Preliminary Results)

Economic Indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2001-2011 (Average)
Gross Domestic Product					In Billions of 1996 Dollars							
Forecast	9,350.9	9,811.4	10,165.4	10,226.5	10,563.7	10,892.1	11,236.4	11,571.2	11,921.5	12,293.4	12,685.8	11,073.6
Baseline	9,350.9	9,517.3	9,924.3	10,302.0	10,642.3	10,976.9	11,330.9	11,678.6	12,040.1	12,421.3	12,821.3	11,165.5
Difference	0.0	-26.9	-68.9	-75.5	-84.8	-84.8	-94.5	-107.4	-118.6	-127.9	-135.5	-91.9
Real GDP Growth Rate					Percent Change from Year Ago							
Forecast	1.2	1.5	3.8	3.8	3.3	3.1	3.2	3.0	3.0	3.1	3.2	3.1
Baseline	1.2	1.8	4.3	3.8	3.3	3.1	3.2	3.1	3.1	3.2	3.2	3.2
Difference	0.0	-0.3	-0.5	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	0.0	-0.1
Total Employment					In Thousands of Jobs							
Forecast	131,568	133,147	134,512	137,327	139,162	140,591	142,562	144,575	145,605	147,408	148,780	141,367
Baseline	131,568	133,441	135,038	137,953	139,827	141,317	143,349	145,472	146,568	148,471	149,900	142,134
Difference	0	-294	-526	-626	-665	-726	-787	-897	-963	-1,063	-1,120	-767
Unemployment Rate					Percent of Civilian Labor Force							
Forecast	5.3	5.9	5.7	5.5	5.4	5.5	5.5	5.6	5.7	5.7	5.8	5.6
Baseline	5.3	5.7	5.4	5.2	5.1	5.1	5.1	5.1	5.2	5.2	5.2	5.2
Difference	0.0	0.2	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.6	0.4
Disposable Personal Income					In Billions of 1996 Dollars							
Forecast	6,847.5	6,918.5	7,014.3	7,281.9	7,503.7	7,717.5	7,912.8	8,072.7	8,267.2	8,465.6	8,618.4	7,777.3
Baseline	6,847.5	7,028.3	7,162.8	7,443.4	7,666.1	7,883.4	8,085.3	8,260.6	8,441.6	8,672.0	8,826.8	7,949.0
Difference	0.0	-109.8	-148.5	-161.5	-162.4	-165.9	-172.5	-187.9	-194.4	-206.4	-208.4	-171.8
Disposable Income Per Capita					In 1996 Dollars							
Forecast	24,709	24,751	24,896	25,635	26,203	26,736	26,984	27,216	27,609	28,033	28,301	26,636
Baseline	24,709	25,144	25,423	26,203	26,770	27,311	27,572	27,849	28,258	28,716	28,985	27,223
Difference Per Person	0	-393	-527	-568	-567	-575	-588	-633	-649	-683	-684	-587
Difference for Family of Four	0	-1,572	-2,108	-2,272	-2,268	-2,300	-2,352	-2,532	-2,596	-2,732	-2,736	-2,347
Consumption Expenditures					In Billions of 1996 Dollars							
Forecast	6,371.9	6,566.8	6,798.5	7,021.8	7,254.6	7,456.0	7,632.2	7,781.7	7,939.1	8,129.5	8,347.9	7,492.8
Baseline	6,371.9	6,604.1	6,868.0	7,110.2	7,353.9	7,564.3	7,749.7	7,911.7	8,079.2	8,280.9	8,507.8	7,603.0
Difference	0.0	-37.3	-69.5	-88.4	-99.3	-108.3	-117.5	-130.0	-140.1	-151.4	-159.9	-110.2

Note: All years are fiscal year end. Some numbers may not add due to rounding.
Source: Center for Data Analysis, The Heritage Foundation.

How Removing the Social Security Tax Cap Would Affect Selected Economic Indicators (Preliminary Results)

More Economic Indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2001-2011 (Average)
Personal Savings					In Billions of 1996 Dollars							
Forecast	233.9	121.1	-16.4	7.6	-20.4	-19.2	-13.9	-10.9	20.1	22.2	-49.1	4.1
Baseline	233.9	191.1	58.9	76.0	37.4	32.9	34.9	40.0	66.8	68.7	-9.6	59.7
Difference	0.0	-70.0	-75.3	-68.4	-57.8	-52.1	-48.8	-50.9	-46.7	-46.5	-39.5	-55.6
Personal Savings Rate					Percent of Disposable Personal Income							
Forecast	3.4	1.7	-0.2	0.1	-0.3	-0.2	-0.2	-0.1	0.2	0.3	-0.6	0.1
Baseline	3.4	2.7	0.8	1.0	0.5	0.4	0.4	0.5	0.8	0.8	-0.1	0.8
Difference	0.0	-1.0	-1.0	-0.9	-0.8	-0.6	-0.6	-0.6	-0.6	-0.5	-0.5	-0.7
Investment					In Billions of 1996 Dollars							
Forecast	1376.2	1404.4	1513.8	1606.2	1707.1	1799.6	1898.2	1994.5	2089.9	2187.0	2285.3	1,848.6
Baseline	1376.2	1412.5	1527.7	1622.6	1726.4	1823.3	1927.4	2030.4	2132.2	2236.3	2341.7	1,878.1
Difference	0.0	-8.1	-13.9	-16.4	-19.3	-23.7	-29.2	-35.9	-42.3	-49.3	-56.4	-29.5
National Capital Stock-Res.					In Billions of 1996 Dollars							
Forecast	9,600.2	10,064.3	10,561.7	11,091.6	11,646.8	12,221.8	12,813.0	13,414.9	14,023.7	14,641.3	15,269.9	12,574.9
Baseline	9,600.2	10,068.5	10,577.0	11,119.4	11,688.0	12,278.2	12,887.4	13,511.0	14,144.8	14,790.1	15,449.4	12,651.4
Difference	0.0	-4.2	-15.3	-27.8	-41.2	-56.4	-74.4	-96.1	-121.1	-148.8	-179.5	-76.5
Consumer Price Index					Percent Change from Year Ago							
Forecast	2.8	1.8	2.4	2.3	2.5	2.5	2.5	2.5	2.4	2.4	2.4	2.4
Baseline	2.8	1.9	2.7	2.6	2.8	2.7	2.7	2.6	2.6	2.5	2.5	2.6
Difference	0.0	-0.1	-0.3	-0.3	-0.3	-0.2	-0.2	-0.1	-0.2	-0.1	-0.1	-0.2
Treasury Bill, 3 Month					Annualized Percent							
Forecast	3.2	2.7	3.4	3.9	4.3	4.5	4.6	4.5	4.4	4.2	4.1	4.1
Baseline	3.2	2.7	3.8	4.5	5.0	5.2	5.3	5.2	5.1	5.0	4.9	4.7
Difference	0.0	0.0	-0.4	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-0.6
Treasury Bond, 10 Year					Annualized Percent							
Forecast	5.1	5.1	5.0	5.2	5.4	5.5	5.6	5.6	5.5	5.4	5.4	5.4
Baseline	5.1	5.2	5.3	5.6	5.9	6.0	6.0	6.0	5.9	5.9	5.8	5.8
Difference	0.0	-0.1	-0.3	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4	-0.5	-0.4	-0.4

Note: All years are fiscal year end. Some numbers may not add due to rounding.
Source: Center for Data Analysis; The Heritage Foundation.

How Removing the Social Security Tax Cap Would Affect Selected Budget Indicators (Preliminary Results)

Federal Budget Indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2001-2011 (Total)
Federal Tax Revenue				In Billions of Dollars								
Forecast	1,988.8	2,114.1	2,201.6	2,318.9	2,454.1	2,564.1	2,688.5	2,822.0	2,966.7	3,110.9	3,340.7	26,581.6
Baseline	1,988.8	2,072.9	2,159.9	2,286.9	2,428.2	2,543.1	2,672.7	2,812.5	2,961.9	3,111.1	3,349.0	26,398.2
Difference	0.0	41.2	41.7	32.0	25.9	21.0	15.8	9.5	4.8	-0.2	-8.3	183.4
Federal Spending				In Billions of Dollars								
Forecast	1,868.0	1,952.9	2,002.8	2,076.9	2,163.4	2,226.2	2,293.9	2,381.3	2,467.8	2,557.9	2,670.0	22,793.1
Baseline	1,868.0	1,954.9	2,014.6	2,099.0	2,194.2	2,263.9	2,337.2	2,429.4	2,520.6	2,615.0	2,730.8	23,159.6
Difference	0.0	-2.0	-11.8	-22.1	-30.8	-37.7	-43.3	-48.1	-52.8	-57.1	-60.8	-366.5
Federal Surplus/Deficit				In Billions of Dollars								
Forecast	120.8	161.2	198.8	242.0	290.8	338.0	394.6	440.7	498.9	553.0	670.7	3,788.7
Baseline	120.8	118.0	145.3	187.9	234.0	279.1	335.5	383.1	441.3	496.2	618.2	3,238.6
Difference	0.0	43.2	53.5	54.1	56.8	58.9	59.1	57.6	57.6	56.8	52.5	550.1
Federal On-Budget Surplus/Deficit				In Billions of Dollars								
Forecast	-38.1	-49.5	-42.2	-20.1	4.6	30.2	62.8	85.4	118.1	147.7	237.4	574.2
Baseline	-38.1	-49.8	-38.9	-15.9	8.7	35.9	71.9	100.1	137.7	173.1	273.2	696.2
Difference	0.0	0.3	-3.4	-4.3	-4.1	-5.7	-9.2	-14.7	-19.7	-25.5	-35.8	-122.0
Federal Off-Budget Surplus/Deficit				In Billions of Dollars								
Forecast	158.9	210.7	241.0	262.1	286.1	307.7	331.8	355.3	380.8	405.3	433.3	3,214.3
Baseline	158.9	167.8	184.2	203.8	225.3	243.3	263.6	283.0	303.6	323.0	345.0	2,542.4
Difference	0.0	42.9	56.9	58.4	60.8	64.4	68.3	72.3	77.3	82.4	88.3	671.9
Medicare Part A Surplus				In Billions of Dollars								
Forecast	27.5	31.2	32.7	34.8	34.8	37.3	35.3	33.2	30.4	25.3	16.1	311.3
Baseline	27.5	32.9	36.4	39.9	41.1	44.8	44.1	43.5	42.3	38.9	31.5	395.3
Difference	0.0	-1.6	-3.6	-5.1	-6.3	-7.4	-8.8	-10.4	-11.8	-13.6	-15.4	-84.0

Note: All years are fiscal year end. Some numbers may not add due to rounding.
Source: Center for Data Analysis; The Heritage Foundation.

How Removing the Social Security Tax Cap Would Affect Selected Budget Indicators (Preliminary Results)

More Federal Budget Indicators	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2001-2011 (Total)
Publicly Held Federal Debt												(Average)
Forecast	3,304.3	3,193.5	3,019.5	2,795.3	2,525.4	2,203.3	1,826.9	1,398.0	983.0	930.0	876.0	1,975.1
Baseline	3,304.3	3,215.6	3,096.7	2,926.5	2,712.8	2,449.3	2,132.4	1,762.4	1,333.8	930.0	876.0	2,143.6
Difference	0.0	-22.1	-77.2	-131.2	-187.4	-246.0	-305.5	-364.4	-350.8	0.0	0.0	-168.5
												(Average)
Publicly Held Federal Debt												(Average)
Forecast	32.5	30.6	27.4	24.0	20.6	17.1	13.5	9.9	6.6	6.0	5.4	16.1
Baseline	32.5	30.7	27.8	24.8	21.8	18.6	15.4	12.1	8.7	5.8	5.2	17.1
Difference	0.0	-0.1	-0.4	-0.7	-1.1	-1.5	-1.8	-2.2	-2.1	0.2	0.2	-1.0
												(Average)
Uncommitted Funds*												(Average)
Forecast	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	71.3	559.9	1,164.6	1,796
Baseline	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	79.8	629.8	71.0
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	71.3	480.1	534.8	1,086
												(Average)
Net Publicly Held Federal Debt**												(Average)
Forecast	3,304.3	3,193.5	3,019.5	2,795.3	2,525.4	2,203.3	1,826.9	1,398.0	911.7	370.1	-288.6	1,795.5
Baseline	3,304.3	3,215.6	3,096.7	2,926.5	2,712.8	2,449.3	2,132.4	1,762.4	1,333.8	850.2	246.2	2,072.6
Difference	0.0	-22.1	-77.2	-131.2	-187.4	-246.0	-305.5	-364.4	-422.1	-480.1	-534.8	-277.1
												(Total)
Federal Net Interest Paid***												(Total)
Forecast	247.1	217.2	203.4	193.2	182.1	169.6	153.4	134.6	111.5	85.6	57.5	1,508.1
Baseline	247.1	218.3	208.9	204.8	198.4	188.8	174.2	156.6	134.2	108.9	80.7	1,673.8
Difference	0.0	-1.1	-5.5	-11.6	-16.3	-19.2	-20.8	-22.0	-22.7	-23.3	-23.2	-165.7

Note: All years are fiscal year end. Some numbers may not add due to rounding.

*Uncommitted funds is the term the Congressional Budget Office uses to describe the surplus tax revenue that will accumulate because it cannot be used to redeem publicly held federal debt.

**Net publicly held debt equals publicly held debt less uncommitted funds.

***Federal net interest paid is the interest paid on publicly held debt less the interest earned on uncommitted funds.

Source: Center for Data Analysis, The Heritage Foundation.