**Project title:** Runaway social security

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**Brief summary:** In the past 70 years, U.S. programs focused on support of retirees (i.e., Social Security and Medicare) have dramatically grown. Going forward, they are scheduled continually to grow at rates faster than the rate of growth of the economy. Understanding this phenomenon is of critical importance to long-term fiscal policy: the growth of these systems strains the federal budget and potentially crowds out other government functions. While the most common narratives focus on the popularity of these programs or on the impacts of demographic shifts and an aging population, these forces are far from sufficient to explain the extent of program expansion. In this project, we seek to understand the forces driving this growth.

To that end, we develop a model in which the government has two primary motives for taxes and transfers: a redistributive desire to transfers some earnings from high-earning-potential individuals to low-earning-potential individuals, and a paternalistic desire to transfer earnings from working years to retirement years due to the belief that individuals discount the future too steeply and thus under-save for retirement. Standard incentive-compatibility constraints limit the amount of revenue that can be collected. As a result, transfers to retirees must crowd out redistributive transfers to early-life workers. This crowd-out, combined with endogenous savings responses, creates a feedback channel that causes the welfare benefits of transfers to retirees to grow across generations. After introducing a small paternalistic transfer, in each subsequent generation the government's incentives for such transfers increase. This process dynamically converges towards a stable policy that features a large share of government revenue being devoted to retiree support. This framework generates time-paths similar to what we have observed in the United States, makes predictions about the time paths we should expect to see moving forward, and helps us understand the policy levers available to influence fiscal policy in the presence of these forces.

**Project areas**: This project most directly addresses the following two standard focus areas.

*4) Economic Security of SSA Beneficiaries*
*7) Informing Trust Fund Projections*

It additionally directly engages with the first of the two "topics of particular interest this year."

*(1) Racial equity and support for underserved communities1. SSA encourages all researchers to consider equity – including the structural barriers that may contribute to disparate outcomes among people who have been historically underserved, marginalized, or adversely affected by persistent poverty – as you develop your proposals.*

Our project is fundamentally about understanding how funding of social security interacts with other policies directly designed to transfer money to low-income individuals in their working years. It develops the point that steering money away from early-life redistribution and towards retirement support can accentuate poverty among the young. Our project additionally provides guidance on how to optimally manage this trade-off and achieve the best early-life redistributive systems while still serving the important task of supporting late-in-life individuals.