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Protecting Social Security: The Case Against Extending the Full Retirement Age

by

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ABSTRACT

The Social Security "full retirement age" (FRA) is the age at which retirement income benefits are available without reduction for early commencement. Presently, that age is 67 for those born in 1960 or later. This paper is about the unfair and unnecessary threat to reduce Social Security retirement income benefits (Romig 2023) by extending the full benefit retirement age—a change that will affect upwards of 80 percent of future retirees (Ross 2024), most of whom can ill-afford the reduction (Romig 2023).

For those who don't follow these issues closely, the Social Security retirement, or Old-Age & Survivors Insurance (OASI) Trust Fund is projected to become insolvent in 2033.[1] Without Congressional action to preserve scheduled benefits, payable benefits would then be reduced by 20–25 percent.[2] While both President Trump (Bolton 2024) and House Speaker Mike Johnson (Murray et al. 2025) have promised not to cut Social Security at a time when there is intense political pressure to reduce the federal budget deficit (Duehren 2025), it is unclear what will happen once Congress settles on a fiscal 2026 budget and the president signs off. If benefits are not reduced, the trust fund insolvency issue must still be resolved.

To better understand why extending Social Security's FRA would be both unnecessary and unfair, this paper briefly explores Social Security's history, how Social Security payroll taxes subsidize other government expenditures, and how attempts are being made to roll back Social Security retirement benefit eligibility while other publicly funded retirement programs covering government employees have far more generous retirement eligibility provisions. The paper will conclude with recommendations to avoid program insolvency while preserving the FRA.

KEYWORDS: Social Security, FICA, Taxes, Trust Funds, OASI, OASDI, Medicare, Deficit, Inflation, Welfare, Treasury, Old-age, Intragovernmental and Federal debt, Retirement age

JEL CODES: H00, H50, H51, H53, H55, H61, H62, H63, H64, H21, H22, H23, H24, H31, E62

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[1] https://www.ssa.gov/oact/tr/2024/II_A_highlights.html

[2] https://www.ssa.gov/oact/tr/2024/trTOC.html

A BRIEF HISTORY OF SOCIAL SECURITY

The Social Security Act (the Act) was signed into law by President Roosevelt on August 14, 1935. Payroll taxes were initially set at 1 percent of earnings, capped at $3,000 for both employees and employers beginning in 1937 with benefits to begin in 1942 (later changed to 1940).

FDR—in defending[3] the regressive nature of the payroll taxes—stated, "We put those payroll contributions there to give the contributors a legal, moral, and political right to collect their pensions […] With those taxes in there, no damn politician can ever scrap my Social Security program."

FDR went on to say, "If I have anything to say about it, it will always be contributed, both on the part of the employer and the employee, on a sound actuarial basis. It means no money out of the Treasury." While actuarial projections at the time showed that the program would be self-sufficient in perpetuity, the program failed to be run "on a sound actuarial basis" (Robinson 2023).

Initially, the Social Security Act rules provided that funds were appropriated from general revenues in the amount equal to the payroll taxes into "reserve" accounts at the Treasury, and benefit payments were appropriated[4] from those accounts. Under the Act at the time, the amounts credited to the reserves were converted to marketable and non-marketable government bonds and the Act set interest at 3 percent.

However, concerns that the government was using the reserve account to pay other bills arose almost immediately, and so, in 1940, the Old-Age and Survivors Insurance (OASI) Trust Fund was established within the Treasury by changing the language in the Act from referring to the "Old-Age Reserve Account" to the "Federal Old-Age and Survivors Insurance Trust Fund." As

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[3] https://www.ssa.gov/history/genrev.html

[4] Under the Constitution, all federal spending is "appropriated" (authorized) by Congress. Note that it is legislative language, not a technical requirement, that equates the amount appropriated to the Trust Fund to payroll taxes. Technically, any amount can be appropriated if supported by legislation.

will be discussed below, the creation of the trust fund did not change the reality that the excess of OASI income (payroll taxes) over costs would be used for the general expenses of the Treasury.

Starting in 1960,[5] special issue non-marketable government (intragovernmental) bonds became the investment vehicle for the trust fund and the statutory interest crediting rate on those bonds was changed from 3 percent to a formula based on the prevailing average rate on marketable bonds.

For Social Security, the combined employee and employer payroll tax rates increased from the initial 2 percent applicable (1937–49) to today's 12.4 percent (effective in 1990), along with an increase in the taxable wage base from $3,000 initially to $176,100 for 2025.

In the late 1970s,[6] Social Security's finances began to deteriorate with an expectation that the trust fund would be depleted by the early 1980s. This led to President Reagan creating a bipartisan commission in 1981 to make recommendations addressing the short-term financing crisis. Also late in 1981, Congress passed an amendment to the Social Security Act which provided one-year limited authority for inter-fund borrowing among the OASI, the Social Security Disability DI, and Medicare Part A HI Trust Funds to meet immediate shortfalls.

In 1983, the Greenspan Commission led to the most significant changes in Social Security since its inception, but it did not attempt to address the long-term funding gap (Pattison 2015). To close the short-term funding gap as well as to provide for long-term solvency, Congress made other changes including adding the provision delaying the FRA from age 65 to age 67 for those born after 1959. These changes, together with those of the Commission, were expected to extend the solvency of the OASI and DI Trust Funds for at least the next 75 years (Penner 2000).

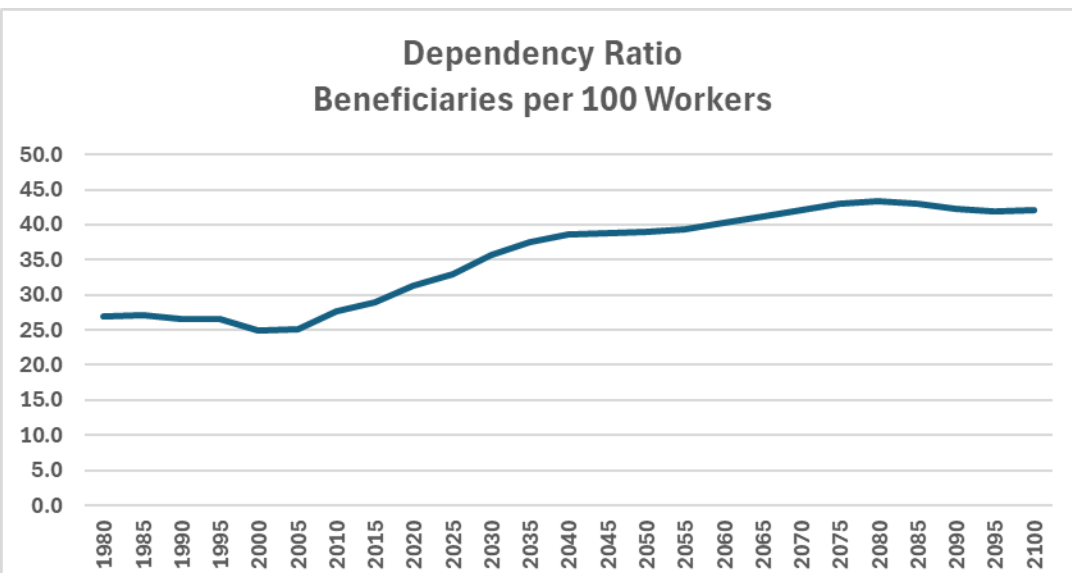
The 1983 Social Security Amendments decreased retirement benefits for those retiring at age 62 by 12.5 percent and by almost 11.5 percent for those delaying until age 70.

[5] https://www.ssa.gov/history/genrev.html
[6] https://www.ssa.gov/oact/progdata/fundFAQ.html

But that didn't happen. By the time the 2000 Social Security Trustees report was issued, if not earlier, projections were being made that the trust fund would become insolvent in 2037, 54 years after the 1983 amendments. In the 2015 Trustees report, three years were shaved off that estimate with insolvency then projected to occur in 2034.

So, why the rapid decline in the projected years to insolvency and, more importantly, what will be the cause of future cost of expenditure outlays beyond tax revenues? The report by the Social Security Chief Actuary in 2010 (Goss 2010), provides an excellent analysis of the source of rising benefit outlays relative to collected tax revenues in the past and projected for the future. At the risk of oversimplifying the report, the past deterioration can be traced to declining birth rates and the resulting impact on the ratio of Social Security beneficiaries to the working-age population, i.e., the "dependency ratio." In 1955, that ratio was 11.6 workers beneficiaries per 100 workers. By 1980, the number of beneficiaries to 100 workers had increased to 27, an increase of over 130 percent. The past and projected future dependency ratios are shown below in Figure 1. By 2070, the ratio levels out to about 42, an increase of about 55 percent from 1980.

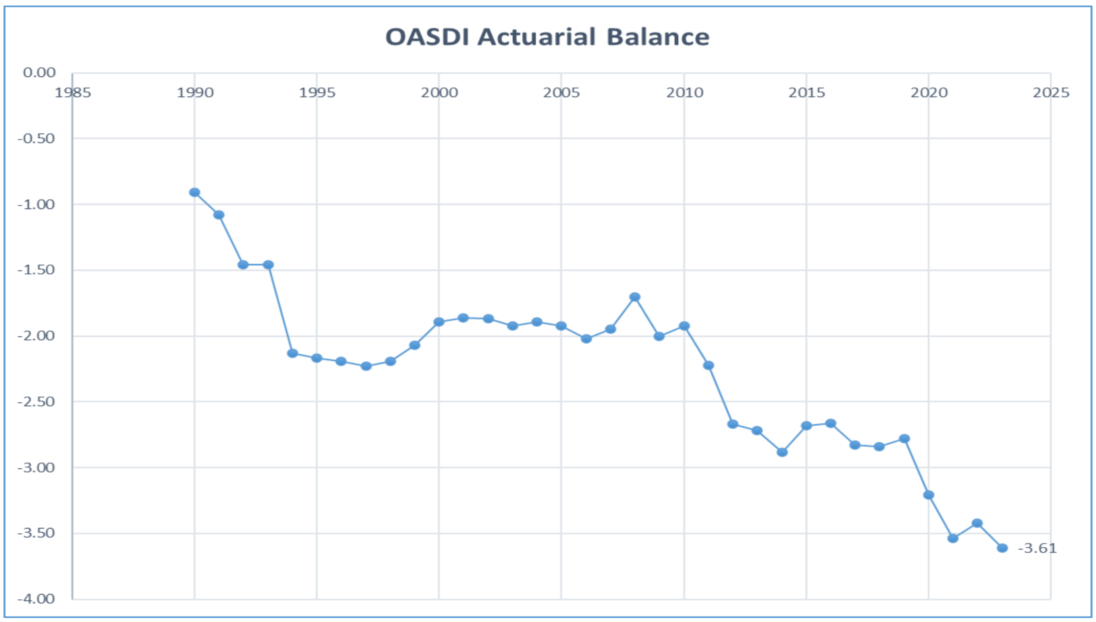
Figure 1



Source: Covered Workers and Beneficiaries — "Covered Workers and Beneficiaries — 2022 OASDI Trustees Report" 2022, https://www.ssa.gov/oact/tr/2022/lr4b3.html

What the Chief Actuary's 2010 report only alluded to—but is more explicit in the Social Security Trustees' reports over the years—is the failure of Congress to recognize the emerging trust fund insolvency. As shown in Lane (2024), the actuarial balance—the computed addition to the combined employer and employee Social Security taxes at the time necessary to maintain program insolvency for the following 75 years—was less than 1 percent in 1990. Today, that percentage is over 3.6 percent. Like any long-term liability program, the longer funding is deferred, the higher the eventual tab will be.

Figure 2



Source: 2023 Social Security Trustees Report, https://www.ssa.gov/oact/TR/2023/

Importantly, what the Chief Actuary's 2010 report also found was that a lower birth rate, not improving life expectancy, "remains the dominant factor for the increased Social Security program cost over the next 75 years." The report went on to say that, with life expectancy not being considered a major cause of the increasing cost of the program, "it is not clear that increasing the NRA (normal or full benefit retirement age) should be a principal approach for restoring long-term solvency."

The implication for immigration policy should be clear (Bahal 2024) and will be included in the recommendations below.

The Social Security (OASI) Trust Fund

The federal government manages its budget through hundreds of "funds" and "trust funds"—i.e., accounting entities.[7] [8]

The Treasury General Fund (TGF), the largest of the government's funds, accounts for financial activities not accounted for by any other fund, in essence, general tax and tariff revenues.[9] The Treasury General Account (TGA) is considered the government's checking account ("What's next for Treasury General Account? | FTI Consulting" 2023). It handles daily transactions and pays all government expenditures. Though research is not consistent on this point, the TGA is technically not a "fund."

The funds (other than the TGF) are almost entirely invested in intragovernmental debt through a process described below ("Q&A: Gross Debt versus Debt Held by the Public" 2017). As the funds are accounting units within the Treasury, they are considered an asset of the Treasury while the intragovernmental debt with which they are funded is a liability of the Treasury. Therefore, as the assets and liabilities offset one another, the funds do not appear on the government's balance sheet (but do appear in the footnotes) and are considered to be a "wash" (Goss 2010). [10]

The OASI Trust Fund is one of a number of trust funds designated "funds from dedicated collections" since they are financed by tax revenue earmarked by law for specific program benefits. While the number of such funds is unclear, out of approximately $7.1 trillion of intragovernmental debt held by all funds as of September 30, 2024,[11] about $4.4 trillion was held by funds from dedicated collections (Peterson Foundation 2024) (about 62 percent of the total) and, of this amount, the OASI Trust Fund accounted for about $2.6 trillion.[12] The Medicare Hospital Insurance (HI), the Medicare Supplemental Medical Insurance (SMI), and the Social

[7] https://www.fiscal.treasury.gov/files/ussgl/fsreports/tfintro.pdf
[8] The only substantive difference between "funds" and "trust funds" is how they are financed—by earmarked revenues or general revenues—and the purpose for which they are used, not their nomenclature.
[9] https://dof.ca.gov/wp-content/uploads/sites/352/budget/budget-analyst-guide/fundclassifications.pdf
[10] https://fiscal.treasury.gov/reports-statements/financial-report/balance-sheets.html
[11] https://fiscal.treasury.gov/reports-statements/treasury-bulletin/current.html
[12] https://www.fiscal.treasury.gov/files/reports-statements/financial-report/2024/notes-to-the-financial-statements22.pdf

Security Disability Insurance (DI) Trust Funds comprise virtually all of the value of the remaining trust funds from dedicated collections.

Funds other than those from dedicated collections are financed by intragovernmental transfers from general revenues, the largest of which are the Department of Defense Military Retirement Trust Fund, the Civil Service Retirement and Disability Trust Fund (which includes the Federal Employee Retirement System after 1986), and the Department of Defense Medicare-Eligible Retiree Trust Fund. Combined, these funds hold about $2.7 trillion in intragovernmental debt, or about 38 percent of the total. Hundreds of remaining funds are very small in comparison.

Of the largest funds holding almost all intragovernmental debt, only the Social Security Retirement (OASI), the Social Security Disability (DI), and the Medicare Hospital Insurance (HI) Trust Funds are financed exclusively by dedicated collections and, unless authorized by Congress, cannot borrow from the Treasury General Fund or from other funds.

The inability to borrow from the Treasury General Fund is a key distinction that has a bearing on the emerging insolvency of the Social Security OASI Trust Fund.

The Trust Fund Process

When employee and employer Social Security taxes are recognized by the Treasury, the TGF is increased by that amount and the funds are commingled with the rest of the TGF. The funds in the TGF are then used to acquire newly issued intragovernmental debt that is credited to the trust fund. In addition, the Treasury "pays" interest on the intragovernmental debt being held in the trust fund by "purchasing" additional intragovernmental debt at par from the Treasury using the TGF and crediting that debt to the trust fund. The value of the TGF remains unchanged by the purchase of the intragovernmental debt.

Funds used from the TGF to acquire intragovernmental debt remain part of the TGF and are available for any government expenditure. As the OASI Trust Fund gains an asset (the newly issued debt), the Treasury gains a liability (the same debt) and the transaction has no impact on the Treasury's balance sheet.

When Social Security benefits are paid by the TGA, intragovernmental debt is redeemed at par from the OASI Trust Fund using funds from the TGF. The debt elimination reduces the trust fund and the TGF, reversing the process of debt acquisition mentioned above.

Based on the 2024 account value, funds remaining in the OASI Trust Fund financed about $2.6 trillion in other government spending.

When the OASI Trust Fund is in the accumulation stage, funds remaining in the TGF in excess of the Social Security benefit payments are available for use for other government expenditures. In practical terms, Social Security taxes in excess of benefit payments represent a financial contribution to taxpayers, reducing *the need* to raise additional taxes or issue public debt to cover government spending. (Some research shows that, counterintuitively, the converse is true, that the trust fund assets have actually contributed to an increase in federal debt [Auerbach 2003].)

Conversely, when program disbursements exceed dedicated collections, the resulting shortfall reduces the TGF, creating additional pressure on the federal government to either increase taxes or borrow more from the public, all other things being equal.

The essential insight here is that regressive payroll taxes are being used to cross-subsidize general tax revenue for general government expenditures.

The notion that the OASI Trust Fund represents actual savings for future benefits is misleading. The government has no mechanism under its current form of unified budget accounting to sequester funds for a specific purpose (what Al Gore once referred to as the “lock box”). The assets held by the OASI Trust Fund are claims on future government revenue rather than independent financial resources.

This is why Social Security is called a "pay-as-you-go" system[13]—current tax collections and general revenues are used to make current payments.

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[13] https://www.ssa.gov/oact/solvency/provisions/individualaccts.html

The Impact of the OASI Trust Fund on the Federal Budget—and on Politics

Using information from the Congressional Budget Office's (CBO) January 2025 report,[14] total revenue for the fiscal period ending September 2024 was $4.9 trillion and outlays were $6.8 trillion, including about $1.3 trillion of Social Security retirement (OASI) benefit payments, or 19.3 percent of total outlays.

If the trust funds did not exist, the nation's financial condition would be no different than it is today.

Since 2010, the Social Security retirement benefit disbursements have exceeded non-interest trust fund income resulting in a budgetary impact (an addition to the federal deficit and debt, other things being equal) of an estimated $107 billion for fiscal 2024 (1.6 percent of total outlays, 0.4 percent of GDP), projected to increase to $589 billion in fiscal 2034 (5.7 percent of projected fiscal 2034 outlays, 1.2 percent of projected GDP). Total Social Security retirement benefit outlays, 19.3 percent of total current government spending, are projected to increase to 21.7 percent of total outlays by 2034.

Including the Social Security Disability Income (DI) Trust Fund,[15] the intermediate assumptions-based projected shortfall of the OASI and DI Trust Funds (i.e., the amount necessary to continue to pay scheduled benefits) never exceeds 1.74 percent of GDP over the next 75 years, declining after 2080 ("2. Estimates as a Percentage of Gross Domestic Product" 2024)

Clearly, it would appear that the magnitude of the budgetary (deficit) impact from continuing scheduled benefit payments relative to GDP would be manageable without having to extend the full retirement age. So, why is there a focus on reducing Social Security retirement income benefits by extending the full retirement age?

One answer is the drumbeat about the size of the federal debt (Frick 2025). But with the developing insolvency of the OASI Trust Fund and the cost of maintenance of scheduled benefits without reduction having a manageable impact on the federal budget and GDP as stated above, this should not be the answer.

[14] https://www.cbo.gov/data/budget-economic-data#5

[15] This is the only way it is reported by the Social Security Administration.

Therefore, one can conclude that it is not because of the budgetary impact of continuing to pay scheduled benefits but because the projected insolvency date for the OASI Trust Fund creates a ready-made opportunity to make fiscal space for President Trump's proposed tax cuts amounting to over $15 trillion (US Budget Watch 2024) over the 10-year budget window, not counting the regressive impact of President Trump's proposed tariffs (Clausing and Lovely 2025).

A more subtle – and perverse – explanation is that restoring solvency to the OASI trust fund by reducing benefits shifts some of the cost of President Trump's tax cutting initiatives to those who pay regressive payroll taxes.

Why Options to Reduce Social Security Are Flawed

Many ideas have been presented for Social Security reform.[16] [17] However, some of these, especially the widely discussed proposal to extend Social Security's full-benefit retirement age, shift the cost burden to a majority of Americans who happen to be lower and middle-income wage earners with the least resources.[18]

Proposals to increase the retirement age do not only harm those most economically vulnerable while increasing the number of older Americans in poverty (Mermin and Steuerle 2007), but also represent disparate treatment relative to participants covered by federal civilian and military retirement programs (pension and healthcare). This disparate treatment takes two forms: inequities in financing and extending the retirement age.

Financing Inequities

Unlike the Civil Service Retirement and Disability, the DoD Military Retirement, the DoD Medicare-Eligible Retiree, and the Medicare SMI Trust Funds, the Social Security OASI Trust Fund does not receive transfers from the Treasury General Fund. Those that do, receive intragovernmental transfers from their respective agencies or, in the case of the Medicare SMI

[16] https://www.ssa.gov/oact/solvency/index.html
[17] https://www.urban.org/exploring-social-security-reform-options
[18] https://dqydj.com/average-median-top-income-by-age-percentiles/

Trust Fund, directly from the TGF to cover current program benefit expenditures or to amortize unfunded liabilities.

Stated another way, when Social Security OASI (regressive) taxes exceed benefit disbursements, the excess cross-subsidizes other Federally sponsored retirement programs.

The transfers originate from general revenues (tax collections, fees, tariffs, or the sale of federal debt) to ensure these programs meet all current and future obligations. The complex trail of financing the retirement and healthcare trust funds for federal employees and the military (from general taxation to the TGF to the agencies to the trust funds) masks the public financing treatment these funds receive in contrast to Social Security.

Extending The Retirement Age

Increasing the age at which full retirement benefits become available is a critical issue for program participants and the primary focus for many Social Security reformers.[19] However, as discussed in a 2021 report by the Congressional Research Service (Isaacs et al. 2021), this would be especially painful and without merit for the majority of future retirees whose improvement in longevity trails the averages.[20]

Not only would extending the full retirement age impact those who could least afford it, but it would be unfair when compared to employees participating in the federal retirement programs who enjoy much more generous retirement eligibility requirements financed, in part, by the general public in addition to excess Social Security payroll taxes. This is not to suggest that Social Security retirement benefits should be equal to those in other federal retirement programs but rather that it would be unfair to target them for reduction.

As a result of the 1983 Social Security amendments, for participants born after 1959, the Social Security full retirement age was increased to age 67 resulting in a reduction in value for both

[19] https://www.ssa.gov/OACT/solvency/index.html
[20] https://www.ssa.gov/policy/docs/ssb/v81n3/v81n3p19.html

early retirements down to age 62 and deferred retirement benefits up to age 70. On the other hand, Federal Employees Retirement System (FERS) participants hired after 1987 may retire[21]:

- as early as age 62 with unreduced benefits if they have at least 5 years of service,
- as early as age 60 if they have 20 years of service,
- or as early as age 57 (or 55, depending on their year of birth) if they have 30 years of service.

In addition, those retiring before age 62 are eligible for a supplemental "bridge" benefit based on a projection of their Social Security benefit at age 62 payable until age 62.

For purposes of comparison and in summary, if we assume an employee born in 1960 or later has at least 30 years of employment:

- Social Security retirement income cannot begin before age 62 and would be reduced by 30 percent if income began at that age;
- FERS retirement income can begin as early as age 55 (and certainly by age 57 depending on the year of birth) with no reduction; and
- FERS participants may be eligible for a temporary Social Security bridge benefit.

Why Go After Social Security's Retirement Age

The impetus for increasing the Social Security full retirement age, aside from the political and economic strains discussed above, stems from the fact that average lifetimes have been increasing. But averages mask the impact on large segments of the population as gains in life expectancy and improvements in health status have not been shared by those with average and lower than average socioeconomic status and, thus, the gap has become wider. Recall from above the Social Security Chief Actuary's 2010 report stating explicitly that it is the decline in birth rates, not increasing longevity driving increased program cost.

[21] https://www.opm.gov/retirement-center/publications-forms/pamphlets/ri90-1.pdf

Recommendations

As the Social Security OASI Trust Fund is projected to be insolvent within 10 years, there is not enough time to introduce viable and politically palatable program changes or tax increases such as those discussed by the Congressional Budget Office[22] [23] that, by themselves, will prevent insolvency if assumptions bear out. The emerging insolvency is too large and is coming too fast, and the impact of the changes would take too long. Access to the TGF or borrowing from other trust funds must be permitted.

My recommendations present an approach to program sustainability that moves beyond conventional adjustments to consider fundamental structural reforms. The proposal's framework implicitly acknowledges both Modern Monetary Theory (MMT) perspectives on sovereign currency issuers and traditional public finance approaches to social insurance design. Reflecting the above, the recommendations are as follows:

1. **Do not extend the Social Security full retirement age.** Doing so would increase the number of people near or in poverty and would be discriminatory relative to those covered by federal retirement programs. It would unfairly burden the majority of retirees whose improvement in life expectancy has significantly lagged compared to the averages and whose financial resources are demonstrably weakest.

2. **Formally merge the Social Security OASI and DI Trust Funds** as these are often portrayed together in Social Security Trustee reports. The proposed OASDI merger represents an application of portfolio theory to social insurance, leveraging covariance benefits across disability and retirement risk pools. Merging these funds reduces the annual cost impact of the OASI Trust Fund insolvency and delays the projected date of insolvency to 2035.[24] After that date, combined OASDI benefits would be reduced by 17 percent, increasing to 27 percent by 2098 rather than the predicted 21 and 31 percent for OASI retirees, respectively, if the funds remain as they are.

[22] https://www.cbo.gov/topics/budget/budget-options
[23] https://www.cbo.gov/budget-options/58630
[24] https://www.ssa.gov/oact/TR/2024/II_D_project.html#133064

3. **Amend the Social Security Act to allow the (merged) trust fund to receive transfers from the Treasury General Fund to the extent necessary to pay scheduled benefits in full.** This would establish consistent treatment for Social Security with other federal retirement trust funds. The projected $589 billion transfer requirement by 2034 represents approximately 1.2 percent of projected GDP, a manageable fiscal adjustment within standard macroeconomic parameters.[25]

   Once the (merged) trust fund is exhausted, transfers, as needed rather than proscribed statutory transfers, will prevent a trust fund build-up—used in the past to subsidize general expenses of the government with regressive payroll taxes. This recommendation is also consistent with the Social Security Administration's acknowledgment that Social Security is a pay-as-you-go system.

   An alternative to direct transfers from the TGF would be to permit the (merged) trust fund to borrow from other trust funds. While this approach would prioritiza form over substance compared to direct transfers from the TGF, it may be a more politically acceptable approach. The impact on the federal budget would be exactly the same as that of allowing direct transfers or borrowing from the TGF.

4. **Eliminate the regressive employee portion of the Social Security payroll tax**, and replace it with a revenue-neutral, across-the-board percentage increase in personal income taxes, also ideally applied to unearned investment income (as other income taxes are).

   As additional revenue will eventually be needed to maintain TGF adequacy, to supplement tax increases, if any, amend the law to permit direct Federal Reserve purchases of new federal debt with a coupon rate equal to 1 percent. The Fed can then use

[25] The shift to TGF transfers introduces elements of functional finance theory ("Functional Finance: A Comparison of the Evolution of the Positions of Hyman Minsky and Abba Lerner | Levy Economics Institute" 2018), recognizing that artificial trust fund constraints may create losses in social welfare optimization.

that debt to manage bank reserves and interest rates as it does now, while generating the reserves necessary to maintain the TGF as Social Security benefit disbursements are made. Alternatively, allow the Treasury to borrow from the Fed with a similar effect.

5. **Revisit Immigration Reform.** Immigration policy significantly impacts both Social Security's long-term solvency (Bahal 2024) and broader economic growth (“The Effects of Immigration on the United States’ Economy” 2016). Research demonstrates that immigration provides crucial support to Social Security financing (Bahal 2024) through payroll tax contributions from younger workers, helping to offset the aging domestic workforce. Beyond Social Security, immigrants contribute to economic dynamism (Sherman et al. 2019) through labor force participation, entrepreneurship, and innovation.

   The efforts to deport law-abiding working immigrants and curtail future immigration will adversely impact Social Security trust fund solvency in ways not anticipated by the Social Security Trustees reports prior to the current Trump Administration. Policy decisions regarding immigration should carefully weigh these substantial economic and fiscal benefits (Watson 2024) against other policy considerations to ensure sustainable growth and stable Social Security funding.

These recommendations acknowledge the urgency of the situation and propose structural changes to ensure the continued viability of these crucial programs. However, it's important to note that any significant changes to Social Security would require substantial political consensus and careful implementation to minimize disruptions to beneficiaries.

What About the Federal Debt

It is important to understand that any changes to Social Security that do not involve benefit reduction will eventually involve an increase in taxes and/or public debt. A fundamental misconception pervades public discourse about federal debt as discussed by Nersisyan and Wray (2024): the notion that the US government could face bankruptcy like a household or corporation is a misconception. This view misses a crucial distinction about sovereign currency issuers such as the US. As former Federal Reserve Chairman Alan Greenspan has noted (Allen 2011), a government that issues its own currency cannot be forced into involuntary default as it retains the capacity to create dollars to meet its obligations.

The real constraint on federal fiscal capacity lies not in financial abstractions but in the concrete world of real resources (Kelton 2022). The binding limitation is the economy's productive capacity—that is, its ability to generate goods and services through the deployment of physical capital, human capital, and technological capabilities. When government spending pushes aggregate demand beyond the economy's productive frontier, the result is not bankruptcy but inflation—a degradation of currency value that emerges from the mismatch between nominal spending and real output.

This framework fundamentally reorients how we should evaluate fiscal sustainability. Rather than focusing on nominal debt levels or arbitrary financial ratios, the pertinent question becomes whether the economy can mobilize sufficient real resources to meet both public and private sector demands without generating inflationary pressures. This perspective, advanced by economists like Kelton and Wray, shifts the policy discussion from financial affordability to real resource allocation and development.

Discussions about federal debt sustainability should center on real economic capacity and resource availability, not just financial numbers. The challenge isn't about having enough dollars - it's about having the political will to provide enough real economic output to absorb the demand coming from those dollars.

The implications for social insurance programs are profound. The sustainability of Social Security depends not on trust fund accounting or debt-to-GDP ratios but on the economy's capacity to produce the goods and services beneficiaries will need to consume. This suggests that policy priorities should focus on enhancing productive capacity through investments in infrastructure, education, healthcare delivery systems, and technological advancement—the real determinants of our ability to support an aging population while maintaining price stability. This recasting of fiscal constraints from financial to real terms illuminates why conventional arguments about "running out of money" fundamentally misdiagnose the nature of our economic challenges and potentially and harmfully direct policy responses away from the critical task of expanding our productive frontier.

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