Subway Tokens and Social Security
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L. Randall Wray
Research Director, CFEPS

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There is a wide-spread belief that Social Security surpluses must be "saved" for future retirees. Most believe that this can be done by accumulating a Trust Fund and ensuring that the Treasury does not "spend" the surplus. The "saviors" of Social Security thus insist that the rest of the government's budget must remain balanced, for otherwise the Treasury would be forced to "dip into" Social Security reserves.

Can a Trust Fund help to provide for future retirees? Suppose the New York Transit Authority (NYTA) decided to offer subway tokens as part of the retirement package provided to employees—say, 50 free tokens a month after retirement. Should the city therefore attempt to run an annual "surplus" of tokens (collecting more tokens per month than it pays out) today in order to accumulate a trust fund of tokens to be provided to tomorrow's NYTA retirees? Of course not. When tokens are needed to pay future retirees, the City will simply issue more tokens at that time. Not only is accumulation of a hoard of tokens by the City unnecessary, it will not in any way ease the burden of providing subway rides for future retirees. Whether or not the City can meet its obligation to future retirees will depend on the ability of the transit system to carry the paying customers plus NYTA retirees.

Note, also, that the NYTA does not currently attempt to run a "balanced budget", and, indeed, consistently runs a subway token deficit. That is, it consistently pays-out more tokens than it receives, as riders hoard tokens or lose them. Attempting to run a surplus of subway tokens would eventually result in a shortage of tokens, with customers unable to obtain them. A properly-run transit system would always run a deficit—issuing more tokens than it receives.

Accumulation of a Social Security Trust Fund is neither necessary nor useful. Just as a subway token surplus cannot help to provide subway rides for future retirees, neither can the Social Security Trust Fund help provide for babyboomer retirees. Whether the future burden of retirees will be excessive or not will depend on our society's ability to produce real goods and services (including subway rides) at the time that they will be needed. Nor does it make any sense for our government to run a budget surplus—which simply reduces disposable income of the private sector. Just as a NYTA token surplus would generate lines of token-less people wanting rides, a federal budget surplus will generate jobless people desiring the necessities of life (including subway rides). ◆

FOR FURTHER READING

(Available from http://www.levy.org/publications/publications.html)

"The Emperor Has No Clothes: An Analysis of President Clinton's Proposed Social Security Reform," Jerome Levy Economics Policy Note 1999/1, L. Randall Wray.

"How Can We Provide for the Baby Boomers in Their Old Age?" Jerome Levy Economics Policy Note 1999/5, Dimitri B. Papadimitriou and L. Randall Wray.

"More Pain, No Gain: Breaux Plan Slashes Social Security Benefits Unnecessarily," Jerome Levy Economics Policy Note 1999/8, Dimitri B. Papadimitriou and L. Randall Wray.

"Does Social Security Need Saving? Providing for Retirees throughout the Twenty-first Century," Jerome Levy Economics Public Policy Brief No. 55, 1999, Dimitri B. Papadimitriou and L. Randall Wray.

"Can Social Security Be Saved?" Jerome Levy Economics Working Paper No. 270, May 1999, Dimitri B. Papadimitriou and L. Randall Wray

"Abolish the Surplus," Center for Full Employment and Price Stability Policy Note 99/01, L. Randall Wray.

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