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Macro Roundup Article

Headline: Bill Cassidy’s Well-Intentioned but Misguided Social-Security Reform

Article Link: https://www.nationalreview.com/2023/05/bill-cassidys-well-intentioned-but-misguided-social-security-reform/

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Tweet: .@biggsag of @AEIecon argues that funding Social Security by borrowing $1.5T and investing in American equity markets is a well-motivated but bad idea that would be "not meaningfully different from simply increasing the capital gains tax."

Summary: Senator Bill Cassidy proposes that, over a five-year period, the federal government should borrow approximately $1.5 trillion. The current federal borrowing rate is roughly 3.9%. The federal government would reinvest those funds in stocks, private equity, hedge funds, or other instruments that are riskier than U.S. Treasury bonds but offer higher expected returns. The fund would hold its investments for 75 years, presumably building interest along the way. Until then, the federal government would borrow to cover Social Security’s funding shortfalls. After 75 years, the investment fund could, in theory at least, repay that borrowing. As Wharton School economist Kent Smetters has shown, Cassidy’s approach is not meaningfully different from simply increasing the capital gains tax: When the stock market goes up, the federal government takes a slice of the gains. Everything else is simply window dressing.

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