The Chained CPI: Shackling America's Economic Recovery

A National Committee to Preserve Social Security and Medicare Foundation Report prepared in consultation with Dean Baker, Co-Director, Center for Economic and Policy Research

Report Methodology

Earlier this year the Congressional Budget Office projected the impact of switching to the chained CPI would have on benefit payments over the 10-year budget window.[1] This projection is the basis for the projected cut in benefits by congressional district. The analysis uses data from the Social Security Administration for benefits by Congressional District for 2013.[2] It assumes that reduction in benefits in each district is proportional to its share of total benefits.

The economic impact of these cuts is calculated based on CBO's estimate of the range of multipliers for transfer payments to individuals like Social Security. CBO puts the range for the multiplier for such transfers from 0.8 to 2.1.[3] This study shows a high impact scenario, which assumes a multiplier of 2.1, a low impact scenario which assumes a multiplier of 0.8, and a middle impact scenario which uses the mid-point of 1.45.

It translates these numbers into jobs by congressional district by taking CBO's projected ratio of jobs to GDP for the economy as a whole in each year and applying it to reduction in output in each congressional district. The job loss for each district shows loss in a high, middle, and low scenario corresponding to the three multiplier scenarios discussed above.

It is important to note that the negative economic impact projected from these cuts assume that the economy remains below full employment. If the economy is close to full employment, then spending from Social Security will be largely displacing, rather than adding to, other spending. While the economy is far from full employment by any measure in 2013, the Congressional Budget Office projects it to be close to full employment later in the decade. The unemployment rate is projected to fall to 5.7 percent by 2017 and then edge down to 5.3 percent by 2022. If these projections prove accurate then the output and employment impacts calculated in this study will be smaller.

However, it is worth noting that CBO has been consistently overly optimistic about the pace of the economic recovery. In its January 2010 projections, which were made after the economy had begun

1 The projections are available at Congressional Budget Office (CBO). 2013. "Proposal in the President's Budget Request for Fiscal Year 2014 to Use the Chained CPI for Certain Mandatory Programs and the Tax Code Starting in 2015." Washington, DC: CBO. http://www.cbo.gov/sites/default/files/cbofiles/attachments/44231_ChainedCPI_0.pdf
CBO also included projections of a set of enhancements that would begin to take effect in 2020. These enhancements were not incorporated into these calculations. Insofar as cuts are partially offset by benefit increases, their economic impact would be reduced.

2 Exact source SSA data. Baseline Social Security spending is taken from Congressional Budget Office (CBO). 2013. "Budget Projections—February 2013 Baseline Projections." Washington, DC: CBO. [Table 1-3]. http://www.cbo.gov/sites/default/files/cbofiles/attachments/43905_BudgetProjections.xls

3 Congressional Budget Office (CBO). 2010. "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output From April 2010 Through June 2010." Washington, DC: CBO. [Table 2]. http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/117xx/doc11706/08-24-arra.pdf

to turn around, CBO projected that the unemployment rate would average 6.3 percent in 2013 and 5.3 percent in 2014.[4] In January of 2009 it had projected an average unemployment of 5.8 percent for 2013 and 5.1 percent for 2014.[5] This track record suggests that policymakers should use caution in considering CBO's most recent projections on the pace of the economy's recovery.

4 Congressional Budget Office (CBO). 2010. "Key Assumptions in CBO's Projection of Potential Output." Washington, DC: CBO. http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/108xx/doc10871/keyassumptionspotentialgdp.xls

5 Congressional Budget Office (CBO). 2009. "CBO's Economic Projections for Calendar Years 2009 to 2019." Washington, DC: CBO. http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/99xx/doc9957/econproj.xls