

THE TAXONOMIST

Social Security's Zealous Raider

By Robert S. McIntyre

Twenty-five years ago, I wrote a playful spoof pretending that the top Republican member of the House Ways and Means Committee had proposed to cap the income tax at \$50,000 in earnings, with everything above that tax-free. Although GOP affection for unfair taxation was almost as strong then as it is today, nobody really went that far. But recently Federal Reserve Chairman Alan Greenspan has offered his own version of my ostensibly nutty idea. In February, he told the Senate Budget Committee that he wants to keep the capped Social Security payroll tax, while slashing those pesky retirement benefits. He would use the savings to help finance permanent extension of President Bush's tax cuts!

In other words, our esteemed Fed Chairman believes that an even greater share of a tax that people stop paying when they earn \$87,000 a year should be diverted toward paying for tax cuts mainly for people who make much, much more.

Until the early eighties, Greenspan was known as a hack right-wing economist with an odd affection for Ayn Rand and crooked savings and loans. He achieved public acclaim in 1983 when he teamed up with Senator Daniel Patrick Moynihan (D-NY) on what became part two of the Great Social Security Preservation Project. Part one, enacted in 1977, increased the taxes that pay for Social Security by 30 percent. The Greenspan-Moynihan effort cut retirement benefits by almost as much (although the lion's share of those cuts are still being phased in).

In combination, these changes were supposed to convert Social Security from a struggling pay-as-you-go system to one that would be partially pre-funded and fully solvent. And since then, Social Security has taken in far more than it has spent (\$1.5 trillion so far and growing rapidly), with the excess socked away in government bonds as a reserve to pay future benefits.

The case for pre-funding Social Security depended critically, however, on the premise that the rest of federal budget would be roughly balanced—a goal then considered quite embarrassing to fail to achieve. If so, when the baby boomers retired, the government would have no debt other than what it owed Social Security, and would find it easy to repay that debt without excessive taxes or borrowing. (And once Social Security had bought all the available federal bonds, it would build up huge additional investments, just like states hold for their

pension plans.) If not, then Social Security would still be hard for future generations to afford.

Had things worked out as advertised, by the time George W. Bush took office there would have been no national debt except for the amounts owed to Social Security, and Social Security's solvency would be assured until at least 2041. But our leaders, led by Ronald Reagan and the first President Bush, totally reneged on the deal. Instead of balancing their budgets, they ran giant deficits and brazenly spent every penny of Social Security's reserves on tax cuts and other programs. By the mid-1990s, it had become apparent to Senator Moynihan that the Social Security Preservation Project had been a hoax all along. He began to call for rolling back the payroll tax rate and returning to pay-as-you-go, with the hope that the lost Social Security taxes would be replaced by more progressive levies.

During President Clinton's second term, however, a miracle occurred. Spurred by Clinton's 1993 tax increases on the rich, tight budgeting and a fabulously growing economy, the regular budget swung into balance. By vetoing several Republican-passed tax cuts, Clinton kept it that way, as the original Social Security deal had envisioned.

Sadly, that period of responsibility was short-lived. George W. Bush has enthusiastically raided the Social Security trust fund to help offset his tax cuts for the wealthy. And now Alan Greenspan wants to go even further down that road—which, as Moynihan came to suspect, may have been Greenspan's goal all along.

There's no doubt that as a quasi-pension system, Social Security is very progressive, offering benefits that are a much higher share of contributions to lower-income workers than to higher-income workers. But if the Social Security tax is used to pay for the government's regular activities, then it's about as regressive a tax as one can imagine—one that rich people are nearly exempt from paying, even though they get the biggest benefits from defense, courts, an educated work force and ultimately, the way we structure our society.

If we can't find leaders a lot more trustworthy than Bush and Greenspan, maybe it's time to admit error and stop pretending to pre-fund Social Security.

ROBERT S. MCINTYRE is the director of Citizens for Tax Justice.