

THE TAXONOMIST

Bush's Double-Barreled Attack on Social Security

By Robert S. McIntyre

George W. Bush's Social Security proposals have come under heavy and deserved attack over the past few months. But a few key points should be made clearer.

First, repeat after me: cutting Social Security benefits does not mean "saving" Social Security. It means *cutting* Social Security. We can debate whether that's advisable, but we shouldn't let anyone misname it.

Second, Social Security's most daunting problem isn't its small projected funding shortfall. The real crisis is that the rest of the government stole the trust fund, spent it, and because of Bush's tax cuts won't be able to pay it back. Or pretty soon, do much of anything else either.

On paper, saving Social Security is easy. A mere 7 percent increase in payroll taxes would allow the trust fund to pay promised benefits all the way through 2075. Simply boosting the 6.2 percent Social Security payroll tax rate on workers and employers to 6.65 percent would do the trick. So would raising the earnings cap on Social Security taxes from \$90,000 to \$175,000.

But making Social Security internally solvent won't ensure Social Security's future, as we may sadly discover when it comes time to redeem the trust fund, no matter how much more we add to it. One way or another, taxpayers in the future will have to come up with the money to pay for Social Security benefits. Our job today should be to try to assure that's possible. President Bush's mission seems to be to make sure it isn't.

The Bush government has chosen to pay for close to a third of its non-Social Security spending with borrowed money. As a result, Bush shamelessly asserts that by 2010 most of the national debt (including IOUs to Social Security) will have been accumulated on his watch. At the current pace, the debt will rise to more than three-quarters of the economy by 2015—up from less than half (and declining) in 2001 when Bill Clinton retired. Of course, as the debt balloons, so do federal interest payments.

Counting interest paid on the bonds held by Social Security, about a fifth of non-Social Security taxes paid this year will go to interest payments. Unless Bush's mistakes are reversed, by 2015 interest will devour 30 percent of our non-Social Security taxes—and this frightening trend will continue to accelerate thereafter. As anyone who's ever run up a credit card bill knows,

interest means paying for past spending. It's never pleasant, and at some point, it can become impossible.

Even if fiscal policy stabilizes somewhat after 2015, interest payments will continue to rise. By 2035, they would consume 37 percent of all non-Social Security taxes—at the same time that another 8 percent of those taxes would have to be spent to start redeeming Social Security's bonds. By 2075, a staggering two-thirds of all non-Social Security taxes would go to interest (55 percent) and bond redemption (11 percent). Since that's both unimaginable and unaffordable, everything the government does will be endangered—including the otherwise solvent Social Security system.

The obvious solution to this impending catastrophe would be to reinstate Bill Clinton's policy of collecting enough taxes to balance the regular budget. Then, instead of an ever-growing interest burden, we'd see interest expenses plummeting as a share of national income. In fact, from now through 2075, only 14 percent of federal tax revenues would have to be devoted to paying interest and redeeming Social Security's IOUs. All the remaining tax dollars that Americans pay would be available to support the rest of the government.

Not surprisingly, our current President disdains any such morally responsible approach. Not only has Bush ruled out a modest payroll tax boost to sustain the Social Security trust fund, he's called for further bankrupting the rest of the government with still more upper-income tax cuts—at a likely price tag of \$2.4 trillion over the upcoming decade.

One final point: what about Bush's proposal to divert half of the tax revenues that support Social Security's retirement fund into private investment accounts? Critics point to many huge problems with this scheme, but one insidious motive behind it deserves more attention.

Currently, Social Security benefits are calculated on a progressive scale that gives the highest rate of return on contributions to lower-wage workers. But private accounts, by their very nature, would offer everyone about the same rate of return. So Bush's plan would cause a dramatic shift in income away from those who need it the most and toward those who need it the least.

Come to think of it, isn't that Bush's trademark?

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