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FINANCING SOCIAL SECURITY: FACTS VS. POLITICS - II

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The last issue of LCR (#46 Sept.) gave an analysis of the politics involved in President Reagan's alarm about the short term deficit in Social Security funding, and described the origin and nature of the deficit. In this issue, the analysis will concern alternative methods of assuring adequate Social Security funding without cutting benefits, both in the short term and in the long run.

The financial position of the Social Security system, like that of private pension plans, reflects the growth and wealth of the entire economy. With stagnant growth and with high rates of unemployment and inflation, other financing methods are required. Four different approaches to the Social Secuirty deficit problem, both short and long term, have emerged from the recent studies discussed and cited in LCR #46, and from the history of previous proposals and debates about Social Security financing.

1. Eliminate the ceiling on the taxable wage base. Social Security benefits are funded by payroll taxes which totaled 13.3% this year. Both the employer and the employee paid 6.65% on earnings up to the maximum, which was $29,500 this year. The maximum will go up in proportion to the national rate of wage increase each year. But 8% of wage and salary earners make more than the maximum. If the tax were on all earnings, one study found that would be sufficient to eliminate both the short and long term Social Security deficit projections. (Brookings Inst., 1977).

2. Establish universal coverage. Employees of the federal government, and some employees in public sector agencies at state and local levels, have exercised their option not to be covered by Social Security. Although most public sector employees do participate, mandatory universal coverage would increase coverage from 90% of the nation's workforce to almost 100%. Up to $2 billion could be raised for the Social Security trust funds in just a few years with mandatory coverage. Unions representing public employees have been against most of the proposals for universal coverage. They fear some of their members may receive lower benefits and may not recoup their contributions to alternative public sector plans. Yet many public employees lose pension credits under both Social Security and alternate plans, by moving in and out of covered employment. And many public sector plans do not have survivors and disability and cost-of living escalator protection comparable to Social Security.

There are proposals for universal coverage that guarantee no existing entitlement will be reduced, which is the minimum position acceptable to the AFL-CIO. It is possible to meet this goal under universal coverage, and at the same time to provide new members of these plans with protection equal to or better than that of the older members under existing entitlement provisions. To do so requires more thought and more care than the current Administration has so far given to the basic interests of public sector employees.

3. Change the relationship between Social Security taxes and income taxes: Employees pay income taxes on the amounts they contribute to Social Security. Employers do not, because they can deduct their share of the Social Security tax as business expense. The amounts paid out as Social Security benefits are subject to individual income taxes of beneficiaries.

There have been several proposals to tax Social Security benefits in a way that would guarantee that only the top income groups would be affected. But the tax that would accrue to Social Security from this approach would be very small. Also, this approach is opposed not only by the AFL-CIO, but also by the National Council of Senior Citizens, the American Association of Retired Persons, and the Save Our Security coalition (or SOS, which includes some 90 concerned organizations).

The AFL-CIO and SOS propose instead to allow workers either a credit or a deduction on their individual income tax returns, for some part or for all of the amounts they pay in Social Security taxes. This approach could increase Social Security income significantly, while maintaining or even decreasing the effective tax rates of workers. It would also equalize the income tax treatment of workers and employers, as far as their Social Security tax contributions are concerned.

4. Provide funding from general revenues. Partial funding of Social Security from general revenues has been recommended since the inception of the system. In 1938, the social Security Advisory Council recommended that use of general revenue funding should be gradually increased until one-third of the system's total financing came from that source. Congress passed a bill in 1944 to allow the Social Security system to borrow from the general revenue fund as needed. But Congress repealed this law in 1950, in part because the Social Security trust funds then had tremendous surpluses. In 1979, the AFL-CIO, and the National Commission on Social Security, the Social Security Advisory Council, and former Commissioners R. Ball and W. Driver, and former HEW Secretary W. Cohen, all recommended financing from general revenues, to support some portion of the entire system, or at least the health insurance part of the system. There aren't any persuasive arguments for funding Social Security exclusively through the payroll tax--and in fact the system is not funded in that manner now. General revenues support the retirement payments of some of the most aged Social Security beneficiaries, and pay for the entire nonhospital part of Medicare. In the latter case, benefits are available to anyone who meets the old age or disability requirements, regardless of work history.

The fundamental issue still remains: how to construct a sound financial base for our social insurance programs. In order to maintain a barely adequate level of benefits under adverse economic conditions, funding from general revenues may be essential. Rejecting efforts to raise more income for the system will be equivalent to cutting Social Security in favor of other government expenditures. It is a matter of choice --both economic and political. The Administration's choice is to reduce benefits rather than to use another funding source. The political nature of this choice is indicated by the fact that the Administration also proposes to eliminate the earnings test--which will cost the system almost the same amount as the predicted deficit next year.

The cuts proposed by the Reagan Administration will save twice as much as needed to cover the projected deficits in the Social Security trust funds. Further, the Administration's proposals are based on unusually pessimistic economic assumptions. In every other area except Social Security, the Administration relies on its "supply-side" optimism to forecast that remarkable recovery will result from the budget cuts and the tax cuts. But the President's alarm about the Social Security deficit has been compared by one high-level analyst to diagnosing a finger scratch as gangrene, and then cutting off the arm. The Administration's proposals to cut Social Security benefits are especially extreme in the face of many careful and well-funded alternatives that are available to restore Social Security's basic solvency.

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