

Higher Payroll Taxes? Why?

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WASHINGTON, April 15 (UPI)—Would most Americans be in favor of raising payroll taxes on the middle class to finance huge income tax cuts for the rich?

Unquestionably, no. Yet, that is exactly what President Bush is now proposing. He argues for cutting tax rates on high-income families, eliminating all estate taxes, and tax-sheltering most of their savings—all of which would be financed by the steep payroll taxes that workers in lower-to-middle income families have been paying for decades.

Some basic facts put the problem in perspective. The payroll tax is the largest federal tax paid by most Americans. It amounts to over 15 percent of the first \$80,000 of a worker's earnings, evenly split between the worker and the employer—though, in the end, workers also pay the employer's share indirectly in the form of lower wages and salaries. The tax is regressive by any reckoning: those earning \$80,000 or less pay more tax in percentage terms than those with higher earnings.

The alleged purpose of the payroll tax is to fund the Social Security and Medicare programs. Since these programs are due to begin running large deficits in the next decade and beyond, when baby boomers begin retiring, large surpluses are now accumulating in the program funds to cover the unavoidable fiscal crunch down the road. Indeed, this was the plan developed by a bipartisan commission, headed by Alan Greenspan in 1982, and signed into law by President Ronald Reagan.

That said, Social Security and Medicare surplus funds are not squirreled away in a separate account marked "retiree benefits." Instead, the federal government uses each year's surplus that year, to pay for other expenditures or to retire government debt. There's an IOU showing that this money is owed to these programs, though no one really knows exactly where this money will come from when retirements begin rising.

So where has the Social Security surplus actually gone over the years?

In the 1980s and early 1990s, it was used mainly to help mask the size of the huge deficits being run by the rest of the federal government. As these deficits disappeared in the late 1990s, the Social Security surplus was used to retire government debt.

This was a sensible and popular use of the money, since a smaller federal debt over the next decade will make it easier for the government to pay the steep retirement expenses coming down the road. In fact, both presidential candidates in 2000 supported the use of the entire Social Security surplus for that purpose only.

But this pledge has been ignored. While the federal budget outlook has worsened and deficits have reappeared, the Bush administration proposes ever-larger income and estate tax cuts. The administration acknowledges that its budget will generate a deficit this year of more than \$300 billion, but that figure would soar much higher if the Social Security surplus were not being used to fund the tax cuts.

In fact, if the Bush plan becomes law, the entire \$3 trillion surplus in retirement programs for the current decade will be needed just to finance Bush Administration tax cuts—the \$1.35 trillion already passed by Congress, the new \$1.5 trillion package just proposed by the president, plus extra interest payments on the

new federal debt that will be created.

Let's bring this back home. Middle-income taxpayers, particularly those earning less than \$80,000 a year, will be funding income tax cuts primarily for those earning \$200,000 a year or more. The huge Social Security and Medicare obligations coming due around 2010 and beyond will be almost impossible to meet as annual deficits continue, long-term debt swells, and defense and homeland security bills mount. And Social Security and Medicare eligibility will no doubt have to be cut dramatically, even though lower- and middle-income Americans will have paid high payroll taxes for decades.

Americans face difficult policy choices over the next several years. Higher expenditures for defense and homeland security will certainly be necessary, as will fundamental reforms in Social Security and Medicare. Short-term measures to stimulate the economy, perhaps including a temporary cut in the payroll tax, should also be considered. But using Social Security funds to pay for tax cuts for the rich defies reason and fairness.

If it knew how administration officials planned to finance their proposed income and estate tax cuts, the American public is smart and principled enough to say no. If only it knew.

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