The Social Security Promise Not Yet Kept

By DAVID CAY JOHNSTON

SOCIAL Security retirement benefits are going to have to be cut, Alan Greenspan announced last week, because there just is not enough money to pay the promised benefits. President Bush said those already retired or "near retirement age" should not worry. They will get their promised benefits.

That, in short form, was the story carried on front pages and television news programs across the country.

But there is an element that was forgotten in the rush of news. It dates back 21 years to the events that catapulted Mr. Greenspan into national prominence and led to his becoming chairman of the Federal Reserve.

Since 1983, American workers have been paying more into Social Security than it has paid out in benefits, about $1.8 trillion more so far. This year Americans will pay about 50 percent more in Social Security taxes than the government will pay out in benefits.

Those taxes were imposed at the urging of Mr. Greenspan, who was chairman of a bipartisan commission that in 1983 said that one way to make sure Social Security remains solvent once the baby boomers reached retirement age was to tax them in advance.

On Mr. Greenspan's recommendation Social Security was converted from a pay-as-you-go system to one in which taxes are collected in advance. After Congress adopted the plan, Mr. Greenspan rose to become chairman of the Federal Reserve.

This year someone making $50,000 will pay $6,200 in Social Security taxes, half deducted from their paycheck and half paid by their employer. That total is about $2,000 more than the government needs in order to pay benefits to retirees, widows, orphans and the disabled, government budget documents show.

So what has happened to that $1.8 trillion?

The advance payments have all been spent.

Congress did not lock away the Social Security surplus, as many Americans believe. Instead, it borrowed the surplus, replacing the cash with Treasury notes, and spent the loan proceeds paying the ordinary expenses of running the federal government.

Only twice, in 1999 and 2000, did Congress balance the federal budget without borrowing from the surplus.

Both parties have treated the surplus Social Security taxes as "cash flow to the government," which has been allowable since the Johnson administration started counting Social Security as part of the federal budget, not as a...
separate budget, said C. Eugene Steuerle, a tax policy advisor to President Reagan.

He said that voters were promised in 1983 that the federal debt would be paid off with the surplus Social Security taxes. The fact that this has not happened and the debt has soared shows that "government usually can only deal with one objective at a time," Mr. Steuerle said. Back then, he added, the prime objective was to settle on a Social Security tax rate that would back the system and not have to be tinkered with for decades - not how the surplus would be handled.

He said using the surplus to pay routine bills makes sense to those who believe the government will have tax revenues in the future to repay the borrowed money.

President Bush asserts that making his existing income, gift and estate tax cuts permanent will spur growth that will, in turn, generate more tax revenue in the long run, making that repayment more likely.

Claire Buchan, a White House spokeswoman, said that making the cuts permanent will "promote prosperity for American workers" and that older employees can expect full benefits.

But Mr. Greenspan's new remarks have brought that into question. Other officials have raised doubts. In June 2001, Paul H. O'Neill, President Bush's first Treasury secretary, said all that Americans expecting benefits have is "someone else's promise" that the paper held by the Social Security Trust Fund will be redeemed with taxes paid later by others.

Michael Graetz, a Yale Law School tax professor and tax policy adviser in the administration of President Bush's father, said it was in the nature of Washington to spend surplus tax revenues. "Unless they put the money in a lockbox, which they haven't, the politicians are going to spend the money," he said, and say they will repay the loans with future taxes.

Mr. Greenspan said nothing last week about returning to a pay-as-you-go basis. Doing that would put about $40 a week in the pockets of workers making $50,000 annually.

Some argue that the surplus taxes are being used to help finance income tax cuts, which Mr. Bush wants made permanent.

Mr. Greenspan told Congress earlier that Mr. Bush's tax cuts should be kept in place. The biggest beneficiaries would be the top 400 taxpayers, whose average income in 2000 was $174 million each. They paid 22.2 cents on the dollar in federal income taxes and, under the Bush tax cuts, would have paid about 17.5 cents.

Over all that year, Americans paid 15.3 cents on the dollar of income in income taxes, but many middle-class Americans paid a larger share of their incomes to the federal government than the top 400 when both income and Social Security taxes are counted.