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OA/ID Number: 29171
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Folder Title:
Social Security (Moynihan) (1990)

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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

February 22, 1990

THE CHIEF of STAFF
has seen

MEMORANDUM FOR JOHN H. SUNUNU
CHIEF OF STAFF TO THE PRESIDENT

FROM: MICHAEL J. BOSKIN *mb*

SUBJECT: Meeting with Representative John E. Porter (R-IL)

At his request, I met Tuesday with Representative Porter concerning his proposal to create Individual Social Security Retirement Accounts (ISSRAs).

- o Representative Porter felt the need to encourage the President to "show leadership" on the Social Security issue. I stressed that the Administration's proposal to save the Social Security surpluses is a strong, innovative plan that is superior to the Porter plan (see below).
- o I noted that the Administration valued creative thinking on any and all issues and that we are sympathetic to his general goals for Social Security:
 - protecting the integrity of the Social Security system for current and future beneficiaries;
 - preparing for the retirement of the baby-boom generation by ensuring that projected Social Security surpluses are not used to fund an explosion of new spending; and
 - raising the low rate of national saving.
- o At the same time, I made clear that the Administration is committed to the President's pledge to not "mess around" with Social Security. In particular (see below) we firmly reject any privatization proposal.
- o Representative Porter briefly outlined the general character of his plan. Without endorsing his approach in any way, I discussed both potential difficulties with the plan and further issues for his study:
 - Social Security is a very special program. Among other features, it offers an inflation-protected annuity for retirees. No private market investment plan can duplicate this feature since there are no securities that guarantee a positive real return (e.g., an indexed government bond).

- Similarly, a private market investment cannot guarantee a positive real return to contributions made during working years.
 - Representative Porter's approach leans heavily upon the additional income he anticipates from investing in securities--particularly AAA-rated corporate bonds--that offer higher returns than Treasury securities. He seemingly recognizes neither that seeking these higher returns requires assuming additional risk in retirement income nor that the difference in yields may narrow in response to such a large change in market investment patterns.
 - Social Security addresses a wide range of insurance needs such as disability, surviving spouses, and dependent children. Social Security also provides an adequate minimum benefit in part through a progressive benefit formula. The Porter plan does not currently address these issues and such complications as nonworking spouses, divorce, and non-traditional families.
 - The pay-as-you-go approach to Social Security produced a large unfunded liability. When completely implemented, the Porter plan would fully fund benefits, with each worker being taxed for his or her benefits. Initially, however, the plan would both meet the current unfunded liability and fully fund future benefits. This necessarily involves double-taxing current workers to meet both needs.
- o The General Accounting Office is currently studying the plan at his request. He intends to keep the Council informed of both the results of the study and any further developments.

cc: Richard G. Darman, Director, OMB
 Nicholas F. Brady, Secretary of the Treasury
 Roger B. Porter, Assistant to the President for Economic
 and Domestic Policy

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01. Memo	From Roger Porter to John Sununu Re: More on Moynihan and Social Security (1 pp.)	1/22/90	P/5	

Collection:

Record Group: Bush Presidential Records
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Series: Sununu, John, Files
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Open on Expiration of PRA
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 By JP (NLGB) on 5/12/05

Date Closed:	12/11/2004	OA/ID Number:	29171-005
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AR Disposition:		MR Disposition:	
AR Disposition Date:		MR Disposition Date:	

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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 P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
 P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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PRM. Removed as a personal record misfile.

Freedom of Information Act - [5 U.S.C. 552(b)]

(b)(1) National security classified information [(b)(1) of the FOIA]
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 (b)(9) Release would disclose geological or geophysical information

THE WHITE HOUSE

WASHINGTON

January 22, 1990

THE CHIEF of STAFF
has seen

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: ROGER B. PORTER *RBP*

SUBJECT: More on Moynihan and Social Security

I asked Larry Lindsey, of our staff, to look at what Senator Moynihan would do to finance his \$55 billion Social Security tax cut if he chose not to reduce spending or to conveniently forget Gramm-Rudman-Hollings. Larry's memorandum is attached, and shows what would have to be done with respect to the current marginal income tax rates to generate the kind of income envisioned in Moynihan's proposal. Once again, Senator Moynihan is skating on very thin ice.

Attachment

THE WHITE HOUSE

WASHINGTON

January 18, 1990

MEMORANDUM FOR ROGER B. PORTER

FROM: LARRY LINDSEY

SUBJECT: Paying for Moynihan Without Raising Capital Gains Taxes

This memorandum is in response to your further inquiry about how Moynihan might finance his \$55 billion Social Security tax cut by raising income taxes. For a number of reasons, not the least of which is that we are currently at or above the revenue maximizing capital gains tax rate, Moynihan might have to exclude gains from any rate increase. Needless to say, the necessary tax rate increase under this assumption would be far greater than that previously reported.

Tax Base Including and Excluding Capital Gains

The table presents the number of dollars of taxable income expected in each tax bracket in 1991 with capital gains in the tax base and with capital gains excluded from the base. This latter assumption is the one which should be used in evaluating rate increases with the top capital gains rate frozen at some level like 15 or 20 percent.

Distribution of Income Tax Base

<u>Tax Bracket</u>	<u>Taxable Income</u>	<u>T.I. Excluding Capital Gains</u>
15%	\$ 1623 billion	\$ 1602 billion
"low" 28%	\$ 521 billion	\$ 485 billion
33%	\$ 173 billion	\$ 129 billion
"high" 28%	\$ 228 billion	\$ 93 billion

Previously it was noted that if we assume no behavioral response by taxpayers and include capital gains in the tax base, Moynihan could finance the Social Security tax increase by (1) increasing the present "low" 28% bracket to 33% and (2) increasing the present 33% bracket and the "high" 28% brackets to 38%.

In order to finance the \$55 billion cut without raising the tax rate on gains, Moynihan would have to add an additional 7 points to the top tax rates as well as eliminating the bubble. This would take the "low" 28% rate up to 35% and the 33% and "high" 28% rates up to 40%.

Of course, even these assumptions presume no behavioral response by taxpayers with respect to their earning or deduction behavior. My own research as well as that of others indicates that this is an extreme assumption. However, it is unlikely that the Treasury or CBO scoring processes would take any non-capital gains behavioral response into account.

This represents the proposal as announced on December 28, 1989 and not the bill as introduced today.

January 23, 1990

SENATOR MOYNIHAN'S SOCIAL SECURITY PROPOSAL

Senator Moynihan has announced that he will introduce legislation on January 23, 1990 to cut the Social Security payroll tax rate. This memo

- a. Outlines current law;
- b. Describes Senator Moynihan's proposal; and
- c. Outlines pros and cons.

A. CURRENT LAW

The 1983 Social Security Amendments set payroll tax rates to accumulate a Social Security Trust Fund surplus. That surplus would then be available to help finance the retirement benefits of the baby boom generation.

SOCIAL SECURITY TAX RATES

	<u>Employee Share</u>	<u>Employer Share</u>	<u>Total</u>
1984 - 1987	5.70%	5.70%	11.40%
1988 - 1989	6.06%	6.06%	12.12%
1990 and after	6.20%	6.20%	12.40%

NOTE: This does not include the 1.45% payroll tax for the Medicare Hospital Insurance (Part A) program.

The tax is paid on annual earnings of up to \$51,300 in 1990. No tax is paid on earnings above that amount. The \$51,300 limit -- the so-called wage base -- is increased each year based on year-to-year growth in the national average wage.

B. SENATOR MOYNIHAN'S PLAN

The plan has two parts:

- 1. Repeal the 1990 increase.

For 1990, Senator Moynihan would reduce the rate from 6.20% each on employer and employee to the 1989 level of 6.06%.

Estimated 1990 cost: \$7 billion.

2. Beginning in 1991, Shift Social Security to Pay-As-You-Go Financing.

- a. For 1991 - 2014, Senator Moynihan would cut the payroll tax rate dramatically to 5.1%. This would return Social Security to so-called "pay-as-you-go" financing, under which a given year's benefits are paid for by that year's payroll tax receipts. Social Security operated under pay-as-you-go for many years prior to 1983.

Estimated 1991 cost: \$55 billion.

- b. For 2015 - 2045, Senator Moynihan would increase the tax rate significantly in order to pay the baby boom retirement benefits. Senator Moynihan estimates it would jump to 6.0% in the year 2015 and reach 7.6% by 2025.

Basically, Senator Moynihan trades a lower payroll tax rate in the next 25 years (1990 - 2015) for a higher rate in later years (2015 - 2049).

The following shows tax rates under current law and Senator Moynihan's plan:

SOCIAL SECURITY TAX RATE
EMPLOYEE SHARE ONLY (MATCHED BY EMPLOYER)

	<u>Current Law</u> <u>(Build Surplus)</u>	<u>Senator Moynihan*</u> <u>(Pay-As-You-Go)</u>
		(These are <u>preliminary</u> <u>estimates</u> provided by Moynihan's staff.)
1984 - 1987	5.70%	Not applicable
1988 - 1989	6.06%	Not applicable
1990	6.20%	6.06%
1991	6.20%	5.10%
1992	6.20%	5.10%
2015	6.20%	6.0%
2020	6.20%	6.80%
2025	6.20%	7.60%
2049	6.20%	*Awaiting estimates

Note: These rates do not include the payroll tax of 1.45% for Medicare Hospital Insurance (Part A) Coverage because the proposal affects only the tax rate for the Old Age, Survivors, and Disability (OASDI) program. The proposal would not change the current rate of 1.45% for Medicare Part A. Nor does it change the wage base of \$51,300 in 1990.

to John Sununu
this is a weyall fund -
conservative movement document. FYC
Newt 425790

1/24/90

ANSWERING MOYNIHAN

Senator Moynihan's proposal to cut Social Security taxes has created political chaos in the Republican Party and the conservative movement. This paper proposes an answer to Sen. Moynihan.

PREMISES

1. The Social Security surplusses are in fact being used to finance Federal spending and mask the deficit. They are not being "saved" to fund the retirement of the baby boom generation. In this, Sen. Moynihan is right.

2. The Moynihan plan would eliminate the surplusses, but not resolve the problem of funding the baby boom's retirement.

3. Regardless of what demographic and economic assumptions are made, funding the baby boom's retirement on a pay-as-you-go basis would require undesirable tax rates increases and reduce America's economic growth in the 21st century.

4. In the absence of an alternative, many conservatives and business groups will support the Moynihan plan, as will most American taxpayers, especially young workers. At a minimum, this will create strains within the Republican party. At worst, it could result in severe political damage to the Administration, the Republican party and the conservative movement.

5. Economic growth has outstripped what was anticipated in the 1983 Greenspan Commission report. The surplus is therefore larger than is needed at this time. This justifies rolling back the 1990 FICA rate increase, but does not justify Moynihan's proposal for a \$55 billion 1991 FICA tax cut.

6. Increased reliance on private savings to fund retirement benefits is a desirable policy objective.

7. Proposals (e.g. Cong. Porter's and Sen. Symm's) to rely on private savings to ameliorate the long-run Social Security financing problem cannot achieve critical mass within the time frame of the debate over the Moynihan plan (i.e. Spring 1990).

8. The Moynihan proposal has created an opportunity to reshape the political landscape, and adoption of a plan like Porter's or Symm's is within the realm of possibility within a period of 12-24 months.

PROPOSED STRATEGY

The Administration should respond to Senator Moynihan by:

1. **Accepting** -- indeed, embracing -- the rollback of the 1990 FICA tax rate increase, on the grounds that the Reagan-Bush expansion has yielded more revenues than anyone anticipated in 1983, and that tax cuts are good for economic growth.
2. **Explaining** that the surplus is the result of a bi-partisan commission that Sen. Moynihan participated in in 1983 and is intended to ensure that today's workers get their benefits.
3. **Suggesting** that if Sen. Moynihan thinks his 1983 plan is failing, it may indeed be time to take a careful look to see if it is doing what he said it would do.
4. **Insisting** that any consideration of major changes in Social Security should be deliberate and non-partisan -- not part of a politically-charged election-year debate.
5. **Proposing** the creation of a bi-partisan commission to review the 1983 compromise and suggest changes, if any, that may be needed. It should report back in January 1991.

DISCUSSION

The Moynihan "grenade" is now on trajectory to explode in Republican territory. The immediate objective is to bat that thing back up in the air. At a minimum, the above proposal would accomplish this objective.

A longer-run objective is to increase reliance on private savings to fund the baby boom's retirement. A properly-constituted commission could explore means of accomplishing this objective. At a minimum, a year's breathing space would give proponents of such proposals (Porter, Symms, etc.) a chance to demonstrate whether political support exists for their ideas. If not, the commission can propose the status quo. If so, other options would be available.

Would Democrats object to the creation of a new commission? Republicans? Hardly. In all likelihood, nearly everyone would be thrilled to see the pin put back in this particular grenade. (However, this is true only until positions begin to gel. Thus, the above steps should be taken ASAP -- e.g. in the State of the Union.)

Voters would also applaud the President. If there is one issue where the public wants to see deliberate decisionmaking, it is Social Security.

THE WHITE HOUSE
WASHINGTON
January 18, 1990

MEMORANDUM FOR JOHN H. SUNUNU

THROUGH: Frederick D. McClure 
FROM: Brian Waidmann, Special Assistant for Legislative Affairs
SUBJECT: Senator Bentsen's views on the Moynihan Social Security Tax Cut and on Capital Gains

Senator Bentsen, chairman of the Senate Finance Committee that has jurisdiction over Social Security, is in the Soviet Union this week talking to officials there about trade agreements. His top staffer, Senate Finance Committee Staff Director Van McMurtry reports the following:

- * Senator Bentsen's visceral reaction when he heard about the Moynihan Social Security proposal is that he did not like it, and thought it was trouble. He is meeting with his staff Monday to decide how to proceed, then will talk to Senators Mitchell, Moynihan and Sasser.
- * The staff will recommend that Senator Bentsen hold lengthy hearings on the proposal to see if that will calm the waters. They want Sen. Bentsen to say that this proposal needs careful study to determine its true ramifications. They may also get the issue tied up with a host of other issues, including the possibility of a multi-year budget agreement.
- * If this strategy does not work, he fears a stampede on the Senate floor.
- * As far as he knows, only Senators Pell, Baucus and Kasten have signed on as cosponsors.
- * He floated the possibility of the combined Congressional leadership and the White House opposing Moynihan.

On capital gains:

- * Senator Bentsen wants the White House to know that he wants to work with us on capital gains and savings incentives. He thinks a package can be worked out that would attract 80 votes. He says Senator Bentsen is not out to trap the White House into backing higher tax rates.

- * He wants Treasury staff authorized to work out a package that would be deficit neutral.
 - * He wants to negotiate with Treasury and the White House, and not Senator Mitchell. If those negotiations were successful, he would bring along Senator Mitchell, or at least minimize his opposition.
 - * He says the key to making this package work is to make it deficit neutral. I pointed out that if Senator Moynihan appears to be on the verge of success in his \$55 billion blowout of the budget without offsets, it hardly seems realistic to impose fiscal discipline on our capital gains talks.
 - * Senator Bentsen is meeting with Secretary Brady and Director Darman next week to explore options. He wants the opportunity to discuss this with the President shortly thereafter.
- 

Withdrawal/Redaction Sheet

(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02. Memo	From Roger Porter to John Sununu Re: Social Security and Regressivity (1 pp.)	1/18/90	P5	

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THE WHITE HOUSE
WASHINGTON

January 18, 1990

MEMORANDUM FOR GOVERNOR SUNUNU

FROM: ROGER B. PORTER *RBP*
SUBJECT: Social Security and Regressivity

One of the frequent claims made is that the social security system in general and the social security payroll tax specifically are highly regressive. I asked Larry Lindsey to examine the effect of the increased ceiling -- up to \$51,300 of earnings -- and the effect of the progressive benefit schedule on the question of how regressive the social security system really is.

His memorandum, which is attached, should provide some useful ammunition in the days ahead.

Attachment

THE WHITE HOUSE

WASHINGTON

January 17, 1990

MEMORANDUM FOR ROGER B. PORTER

FROM: LARRY LINDSEY

SUBJECT: Social Security and Regressivity

Much of the liberal support for Senator Moynihan's proposal to cut Social Security taxes has centered on the allegedly "regressive" nature of the Social Security tax. In fact, there is good reason to believe that the alleged regressivity of the tax is greatly exaggerated.

1. By definition, the Social Security tax is "regressive".

The Social Security tax is levied at a flat percentage rate up to a given level of income or "ceiling". In 1990, employers and employees are both taxed at a 7.65 percent rate on the first \$51,300 of earnings. The alleged regressivity comes from two factors. First, earnings over the ceiling are not subject to tax. Second, only wage income is subject to tax, not capital income such as interest and dividends. Capital income tends to be concentrated among higher income taxpayers.

2. Still, in 1991, the top 10 percent of American taxpayers collectively will pay one third more Social Security tax than the bottom 50 percent.

The fact that the Social Security ceiling is so high means that 89 percent of all wage and salary income is covered by Social Security. Roughly 94 percent of all American families see their entire wage and salary income covered by Social Security. Thus, for the vast majority of the population, the Social Security tax is proportional. The table presents estimates for 1991 of the percent of total income, income tax, and social security tax paid by various groups in the population.

<u>Taxpayer Group</u>	<u>Approximate Income Range</u>	<u>Percent of Income</u>	<u>Percent of SocSecTax</u>	<u>Percent of Income Tax</u>
Top 1%	over \$150,000	12.1%	2.1%	27.1%
Next 4%	\$80,000-\$150,000	13.2%	9.9%	17.3%
Next 5%	\$60,000-\$80,000	11.3%	12.2%	11.7%
Next 10%	\$45,000-\$60,000	17.3%	20.3%	15.4%
Next 10%	\$36,000-\$45,000	13.3%	16.3%	10.3%
Next 20%	\$21,000-\$36,000	18.2%	21.2%	12.1%
Bottom 50%	under \$21,000	14.6%	18.0%	6.1%

3. It is also important to keep in mind that Social Security is a tax-transfer system. The combined system is quite progressive.

Social Security benefits are tied to lifetime wages and thus to lifetime tax payments. But, the relationship is not linear. A progressive benefit schedule which is heavily weighted toward individuals with relatively low lifetime wages skews benefits toward relatively low income individuals. The following table provides average monthly benefits for retirees aged 65 at different earnings level. It is assumed that earnings over the individuals' worklife kept pace with the average growth in earnings and that therefore the individuals relative earnings were constant throughout their lives.

In addition, the table provides the amount of benefits received in comparison to taxes paid for each worker relative to a worker earning \$10,000. A Relative Benefit to Tax Ratio of 0.5 means that the Social Security system was only half as good a deal for that individual as for a worker with an income of \$10,000. For the vast majority of workers currently retiring, the Social Security system does provide a net "good deal". As the system matures, however, increasing numbers of higher income workers will find themselves net losers from the system while lower income workers will, on net, be beneficiaries.

<u>1989 Annual Earnings</u>	<u>1990 Monthly Benefits</u>	<u>Relative Benefit to Tax Ratio</u>
\$10,000	\$456	1.00
\$20,000	\$708	0.76
\$30,000	\$896	0.65
\$48,000	\$974	0.44
\$70,000	\$975	0.44

Two other factors should be noted. First, upper income retirees are quite likely to have half of their Social Security benefits subject to the personal income tax. This will reduce the after-tax benefits for these retirees and thus further increase the relative progressivity of the system. Second, the actual net benefits of the system depend on the worker's life span and marital status. In general, higher income workers live longer and thus receive relatively greater benefits, in actuarial terms, than lower income workers. On the other hand, single earner married couples do significantly better in terms of benefits received relative to taxes paid than do two earner married couples. As two earner couples tend to have higher lifetime incomes, this factor may enhance the progressivity of the system overall.

101ST CONGRESS
1ST SESSION

H. R. 3505

To amend title II of the Social Security Act to assure the continuing financial solvency of the OASDI Trust Funds, and to require periodic reports by the Board of Trustees of the Trust Funds regarding the actuarial balance of the Trust Funds.

IN THE HOUSE OF REPRESENTATIVES

OCTOBER 23, 1989

Mr. ROSTENKOWSKI (for himself, Mr. JACOBS, Mr. PICKLE, Mr. GIBBONS, Mr. RANGEL, Mr. STARK, Mr. FORD of Tennessee, Mr. JENKINS, Mr. DOWNEY, Mr. GUARINI, Mr. RUSSO, Mr. PEASE, Mr. MATSUI, Mr. ANTHONY, Mr. FLIPPO, Mr. DORGAN of North Dakota, Mrs. KENNELLY, Mr. DONNELLY, Mr. COYNE, Mr. ANDREWS, Mr. LEVIN of Michigan, Mr. MOODY, and Mr. CARDIN) introduced the following bill; which was referred jointly to the Committees on Ways and Means and Rules

A BILL

To amend title II of the Social Security Act to assure the continuing financial solvency of the OASDI Trust Funds, and to require periodic reports by the Board of Trustees of the Trust Funds regarding the actuarial balance of the Trust Funds.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Social Security Solvency
5 Protection Act of 1989".

1 SEC. 2. PROTECTION OF OASDI TRUST FUNDS.

2 Section 201 of the Social Security Act (42 U.S.C. 401)
3 is amended by adding at the end the following new sub-
4 section:

5 “(n)(1) It shall not be in order in the House of Repre-
6 sentatives or the Senate to consider any bill or resolution, or
7 any amendment thereto or conference report thereon, if upon
8 enactment such legislation—

9 “(A) would provide for a net increase in benefits
10 under sections 202, 223, and 228 of more than—

11 “(i) \$100,000,000 for a period comprising
12 the fiscal year during which the legislation would
13 be enacted and the next 5 fiscal years, or

14 “(ii) an amount which is equivalent to the
15 amount specified in clause (i) with respect to the
16 period referred to in clause (i) but which is further
17 projected under identical actuarial assumptions
18 over a period comprising the calendar year during
19 which the legislation would be enacted and the
20 next 74 calendar years,

21 without providing at least a net increase, for the same
22 period referred to in clause (i) or (ii), in the taxes im-
23 posed under sections 1401(a), 3101(a), 3111(a),
24 3201(a), 3211(a), and 3221(a) of the Internal Revenue
25 Code of 1986, and chapter 1 of such Code (to the
26 extent attributable to changes in section 86 of such

1 Code), of an amount by which the net increase in such
2 benefits exceeds the amount specified in such clause; or

3 “(B) would amend one or more of the provisions
4 comprising sections 86, 1401(a), 3101(a), 3111(a),
5 3201(a), 3211(a), and 3221(a) of such Code so as to
6 provide for a net decrease in the taxes imposed under
7 such provisions, and chapter 1 of such Code (to the
8 extent attributable to changes in such section 86), of
9 more than—

10 “(i) the amount specified in subparagraph
11 (A)(i) for the period referred to therein, or

12 “(ii) the amount specified in subparagraph
13 (A)(ii) for the period referred to therein,

14 without providing for at least a net decrease, for the
15 same period referred to in clause (i) or (ii), in such ben-
16 efits of an amount by which the net decrease in such
17 taxes exceeds the amount specified in such clause.

18 “(2) For purposes of this subsection, all estimates of
19 revenues and outlays shall be made by the Congressional
20 Budget Office, in consultation with the Director of the Joint
21 Committee on Taxation.

22 “(3) The point of order set forth in paragraph (1) may be
23 waived or suspended in the Senate only by the affirmative
24 vote of three-fifths of the Members, duly chosen and sworn.”.

1 SEC. 3. REPORT TO THE CONGRESS BY THE BOARD OF TRUST-
2 EES OF THE OASDI TRUST FUNDS REGARDING
3 THE ACTUARIAL BALANCE OF THE TRUST
4 FUNDS.

5 Section 201(c) of the Social Security Act (42 U.S.C.
6 401(c)) is amended by inserting, after the first sentence fol-
7 lowing clause (5), the following new sentence: "Such state-
8 ment shall include a finding as to whether the Federal Old-
9 Age and Survivors Insurance Trust Fund and the Federal
10 Disability Insurance Trust Fund, individually and collec-
11 tively, are in close actuarial balance, as determined by the
12 Board of Trustees."

○

TABLE 10.—SELECTED ECONOMIC ASSUMPTIONS BY ALTERNATIVE, CALENDAR YEARS
1960-2065 (Cont.)

Calendar year	Average annual percentage increase in—					
	Real GNP ¹	Average annual wage in covered employment	Consumer Price Index ²	Real-wage differential ³ (percent)	Average annual interest rate ⁴ (percent)	Average annual unemployment rate ⁵ (percent)
Alternative I:						
1988	3.9	6.4	4.0	2.4	8.8	5.5
1989	3.7	6.4	3.8	2.6	9.3	5.2
1990	3.6	5.5	3.0	2.4	8.7	5.0
1991	3.6	5.4	2.8	2.5	7.8	5.0
1992	3.4	5.0	2.5	2.5	6.9	4.9
1993	3.3	4.7	2.3	2.5	6.2	4.9
1994	3.2	4.4	2.1	2.3	5.5	4.8
1995	3.2	4.1	2.0	2.1	4.9	4.7
1996	3.0	4.0	2.0	2.0	4.7	4.7
1997	2.9	4.1	2.0	2.1	4.9	4.7
1998	2.9	4.1	2.0	2.1	5.0	4.7
2000	3.1	4.3	2.0	2.2	5.0	5.0
2010 & later ⁶	2.6	4.2	2.0	2.2	5.0	5.0
Alternative II-A:						
1988	3.9	6.4	4.0	2.4	8.8	5.5
1989	3.2	6.0	3.9	2.1	9.3	5.2
1990	3.2	5.5	3.7	1.8	9.0	5.1
1991	3.1	5.1	3.2	1.9	8.2	5.1
1992	2.9	5.0	3.0	2.0	7.5	5.1
1993	2.8	5.0	3.0	2.0	6.7	5.2
1994	2.7	4.9	3.0	1.9	6.2	5.2
1995	2.6	4.7	3.0	1.7	5.8	5.2
1996	2.6	4.7	3.0	1.7	5.6	5.2
1997	2.6	4.8	3.0	1.8	5.6	5.2
1998	2.5	4.7	3.0	1.7	5.6	5.2
2000	2.6	4.8	3.0	1.7	5.5	5.5
2010 & later ⁶	2.1	4.7	3.0	1.7	5.5	5.5
Alternative II-B:						
1988	3.8	6.4	4.0	2.4	8.8	5.5
1989	2.6	6.2	4.8	1.4	8.5	5.4
1990	2.6	5.3	4.5	.8	9.4	5.5
1991	2.6	5.5	4.5	1.0	9.1	5.5
1992	2.5	5.6	4.3	1.2	8.6	5.5
1993	2.5	5.8	4.2	1.6	8.0	5.5
1994	2.4	5.6	4.0	1.6	7.4	5.5
1995	2.3	5.5	4.0	1.5	6.9	5.5
1996	2.3	5.5	4.0	1.5	6.6	5.6
1997	2.3	5.6	4.0	1.6	6.4	5.6
1998	2.2	5.4	4.0	1.4	6.2	5.6
2000	2.2	5.4	4.0	1.3	6.0	6.0
2010 & later ⁶	1.8	5.3	4.0	1.3	6.0	6.0
Alternative III:						
1988	3.8	5.2	4.0	1.2	8.8	5.5
1989	-.6	4.7	5.4	-.8	9.7	5.9
1990	.9	5.4	5.8	-.4	10.1	6.7
1991	2.4	6.4	6.4	(*)	10.5	6.4
1992	1.2	5.8	6.3	-.5	10.3	6.2
1993	-.7	4.6	5.0	-.3	8.6	7.2
1994	2.7	6.8	5.3	1.5	8.8	6.9
1995	1.9	5.9	5.0	.9	7.9	6.7
1996	1.8	5.9	5.0	.9	7.5	6.6
1997	1.6	6.0	5.0	1.0	7.2	6.5
1998	1.6	5.8	5.0	.8	6.8	6.5
2000	1.7	5.9	5.0	.8	6.5	7.0
2010 & later ⁶	1.2	5.8	5.0	.8	6.5	7.0

¹The real GNP (gross national product) is the value of total output of goods and services, expressed in 1982 dollars.

²The Consumer Price Index is the average of the 12 monthly values of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

³The real-wage differential is the difference between the percentage increases, before rounding, in (1) the average annual wage in covered employment, and (2) the average annual Consumer Price Index.

⁴The average annual interest rate is the average of the nominal interest rates, which, in practice, are compounded semiannually, for special public-debt obligations issuable to the trust funds in each of the 12 months of the year.

⁵Through 1998, the rates shown are crude civilian unemployment rates. After 1998, the rates are total rates (including military personnel), adjusted by age and sex based on the estimated total labor force on July 1, 1988.

⁶Preliminary.

⁷This value is for 2010. The annual percentage increase in real GNP is assumed to continue to change after 2010 for each alternative to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The increases for 2065 are 2.7, 1.8, 1.5, and 0.5 percent for alternatives I, II-A, II-B, and III, respectively.

⁸This value is between 0.05 percent and -0.05 percent.

Actually used
Assumptions
PRUDENT ASSUM.P.

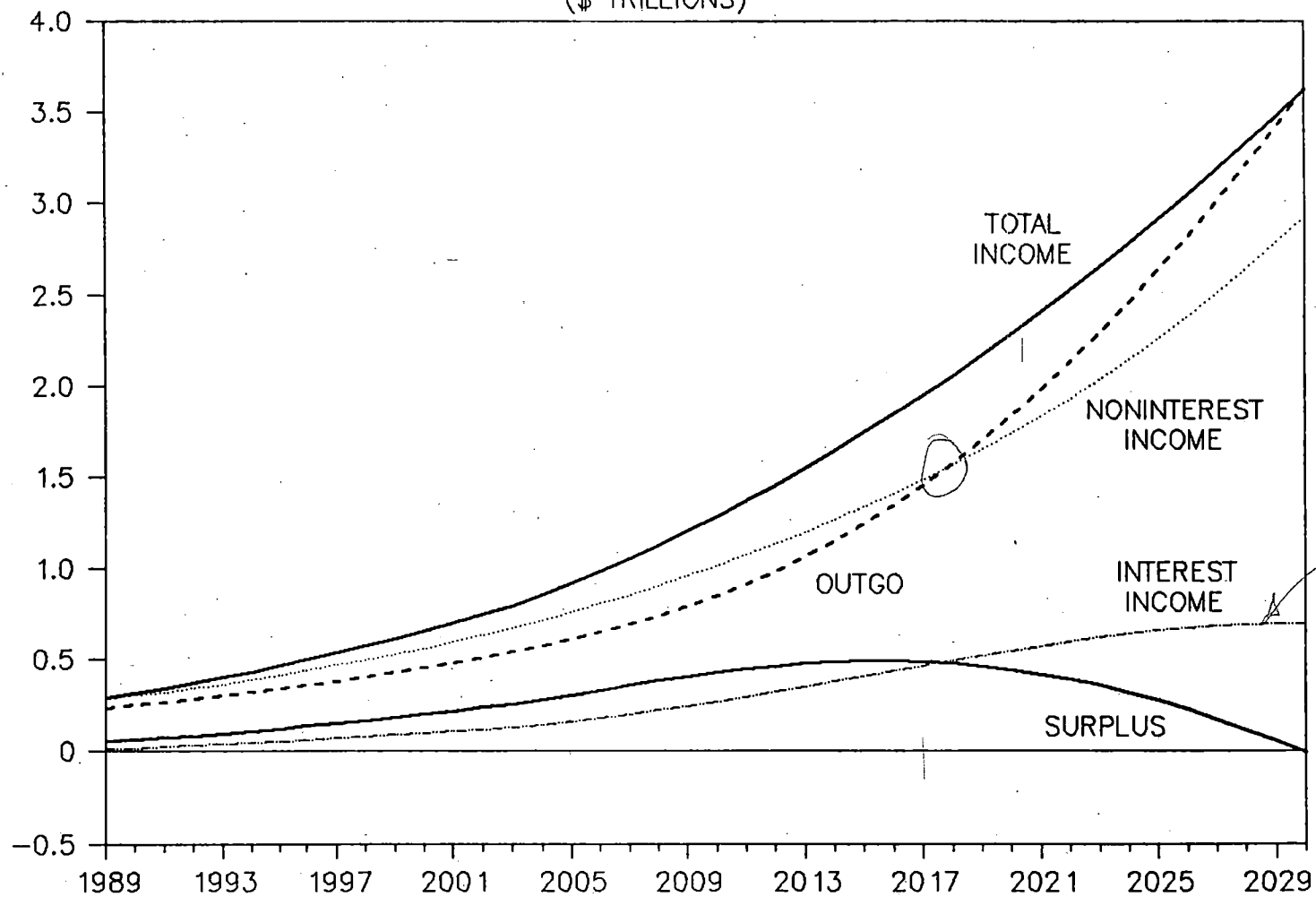
Joe. Security
Actuaries

Now 6.2%
June 1986 to 6.2% Now

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BASE CASE (ALTERNATIVE II-B)

(\$ TRILLIONS)



DATA FROM THE 1989 TRUSTEES REPORT
(\$ BILLIONS)

BASE CASE (ALTERNATIVE 11-B)

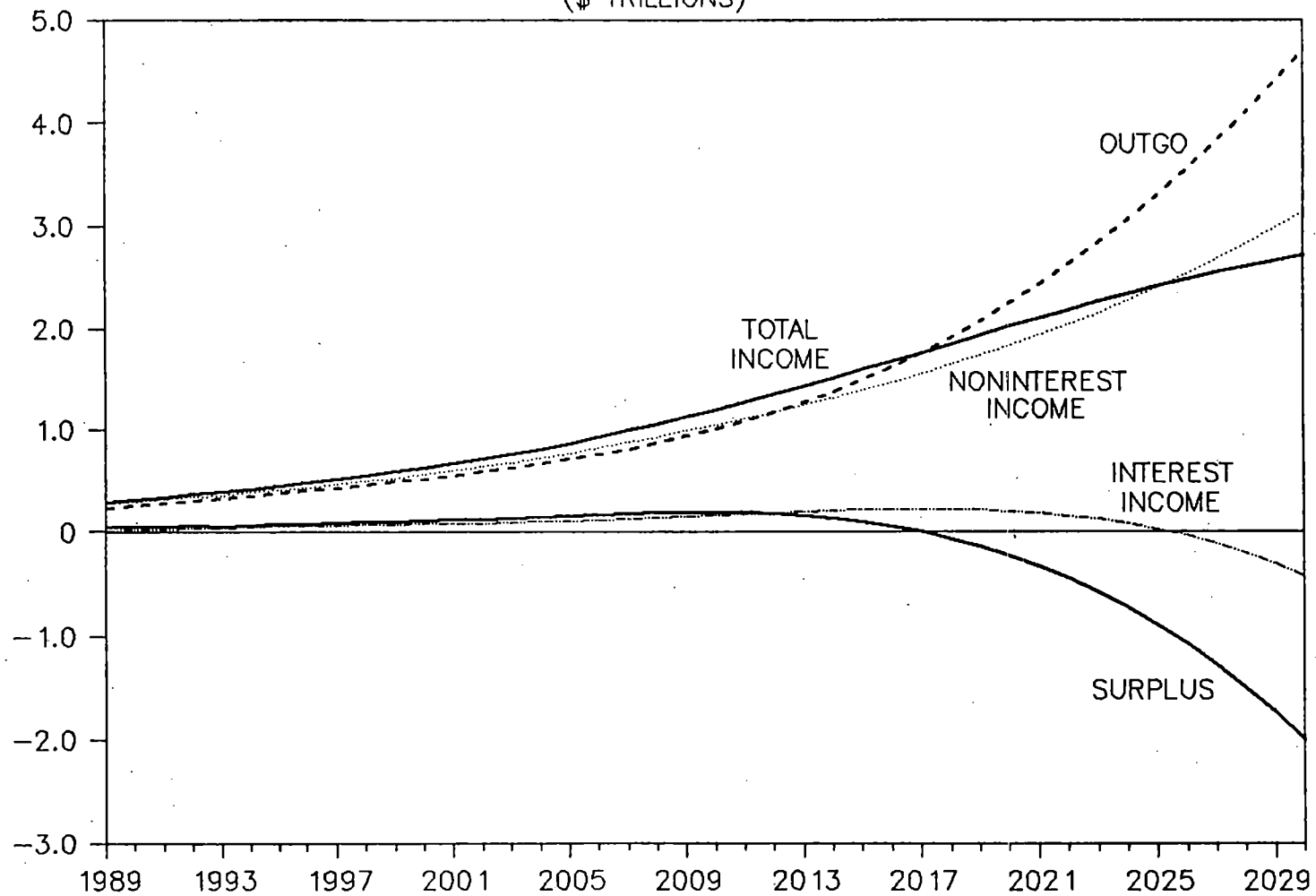
*Even in a pay as you
go system
this is reserve -*

OASDI						
INCOME						
	TOTAL	EXCLUDING INTEREST	INTEREST	TOTAL OUTGO	SURPLUS	YEAR-END ASSETS
1989	294.2	281.2	13.1	235.7	58.5	168.3
1990	322.2	303.3	18.9	253.2	69.1	237.3
1991	347.2	321.8	25.4	270.3	76.9	314.2
1992	374.4	342.2	32.2	287.9	86.5	400.7
1993	404.1	364.8	39.2	306.4	97.6	498.4
1994	435.6	389.0	46.7	324.8	110.8	609.1
1995	468.3	414.1	54.2	343.8	124.5	733.6
1996	502.6	440.7	62.0	363.9	138.7	872.3
1997	538.4	468.2	70.2	385.2	153.2	1,025.5
1998	576.9	497.7	79.2	408.1	168.8	1,194.3
1999	617.1	528.5	88.6	432.2	184.9	1,379.2
2000	660.4	562.1	98.3	457.7	202.7	1,581.8
2001	706.0	597.9	108.1	484.8	221.2	1,803.1
2002	753.5	635.5	118.0	513.5	240.0	2,043.1
2003	803.0	675.2	127.8	544.6	258.4	2,301.4
2004	861.1	717.4	143.8	578.4	282.7	2,584.2
2005	923.2	762.0	161.2	614.9	308.3	2,892.5
2006	989.0	808.9	180.1	654.5	334.6	3,227.0
2007	1,058.3	857.7	200.6	697.3	361.0	3,588.0
2008	1,131.5	908.9	222.6	744.9	386.6	3,974.7
2009	1,207.9	961.8	246.0	798.1	409.7	4,384.4
2010	1,288.2	1,017.4	270.8	857.0	431.2	4,815.6
2011	1,372.1	1,075.4	296.7	921.3	450.8	5,266.4
2012	1,459.4	1,135.7	323.7	992.6	466.8	5,733.2
2013	1,550.7	1,199.2	351.5	1,071.0	479.7	6,213.0
2014	1,645.3	1,265.3	380.0	1,156.5	488.8	6,701.8
2015	1,743.7	1,334.8	408.9	1,249.4	494.3	7,196.1
2016	1,845.3	1,407.4	437.9	1,350.6	494.7	7,690.9
2017	1,950.4	1,483.6	466.8	1,460.5	489.9	8,180.8
2018	2,058.8	1,563.6	495.2	1,578.3	480.5	8,661.3
2019	2,170.8	1,647.8	523.0	1,704.3	466.5	9,127.8
2020	2,286.2	1,736.4	549.8	1,838.4	447.8	9,575.6
2021	2,404.4	1,829.2	575.3	1,980.5	424.0	9,999.6
2022	2,526.1	1,926.9	599.2	2,130.9	395.2	10,394.8
2023	2,650.9	2,029.6	621.3	2,289.9	361.0	10,755.8
2024	2,778.9	2,137.7	641.2	2,456.8	322.1	11,077.8
2025	2,910.3	2,251.8	658.6	2,632.6	277.8	11,355.6
2026	3,045.0	2,371.8	673.2	2,817.5	227.5	11,583.1
2027	3,183.9	2,499.1	684.8	3,009.2	174.6	11,757.7
2028	3,326.7	2,633.6	693.1	3,208.7	118.0	11,875.7
2029	3,473.6	2,775.6	698.0	3,415.2	58.4	11,934.1
2030	3,624.7	2,925.4	699.3	3,629.0	(4.3)	11,929.8

18 month rate -

ALTERNATIVE III

(\$ TRILLIONS)



DATA FROM THE 1989 TRUSTEES REPORT
(\$ BILLIONS)

ALTERNATIVE III

OASDI

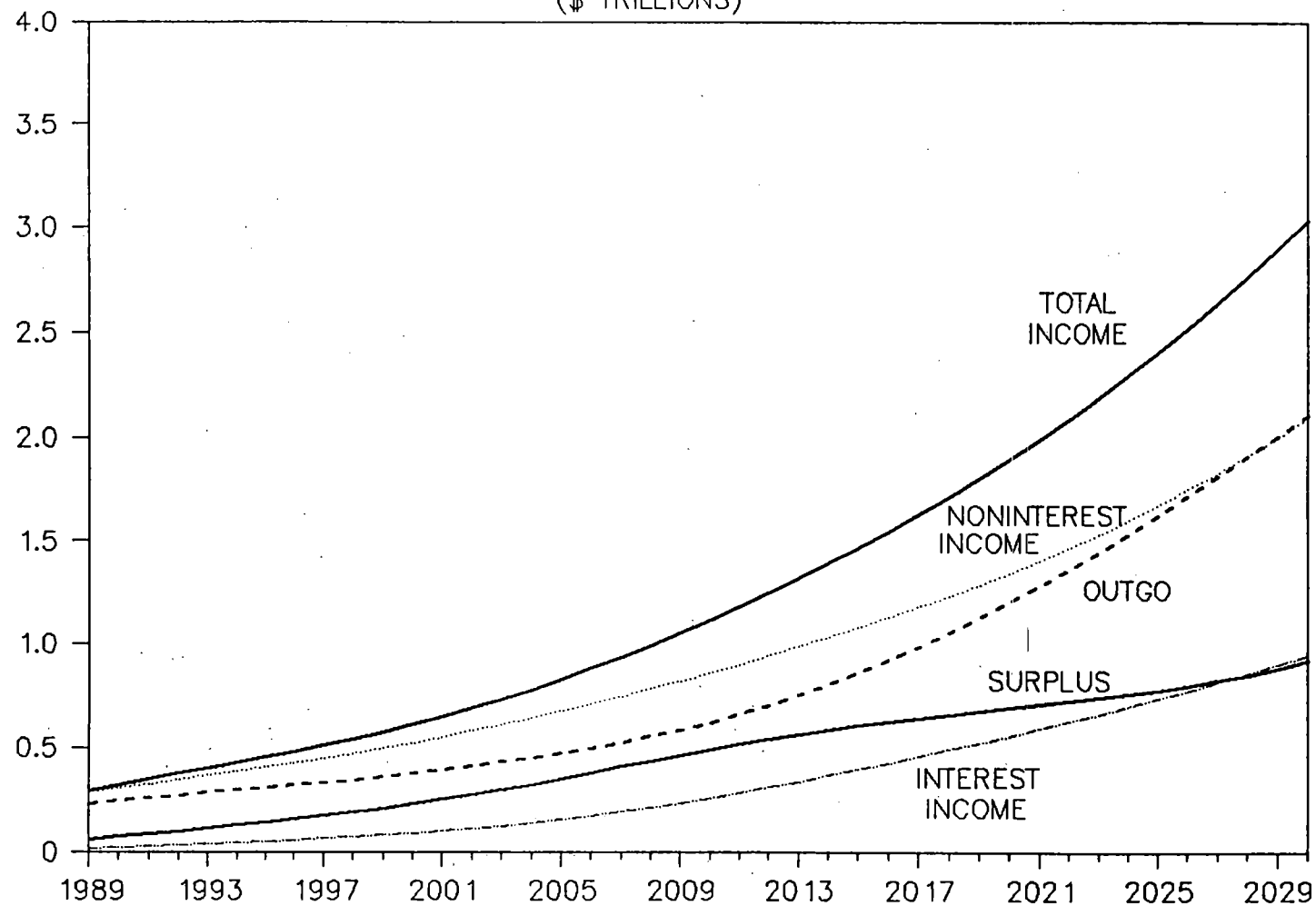
INCOME

	TOTAL	EXCLUDING INTEREST	INTEREST	TOTAL OUTGO	SURPLUS	YEAR-END ASSETS
1989	287.7	274.8	12.8	236.5	51.2	161.0
1990	309.3	291.6	17.8	256.0	53.4	214.3
1991	334.3	310.9	23.4	277.4	57.0	271.3
1992	363.2	333.7	29.5	301.6	61.7	332.9
1993	383.9	348.8	35.1	326.8	57.1	390.0
1994	414.3	373.8	40.4	349.9	64.4	454.4
1995	445.6	400.1	45.5	374.5	71.1	525.5
1996	479.0	428.6	50.4	400.9	78.1	603.6
1997	513.1	457.7	55.4	428.6	84.5	688.1
1998	548.8	488.5	60.3	458.6	90.3	778.4
1999	586.2	520.5	65.6	487.9	98.2	876.6
2000	626.2	555.9	70.3	519.0	107.2	983.8
2001	667.6	593.1	74.5	551.8	115.8	1,099.6
2002	710.6	632.3	78.3	587.0	123.6	1,223.2
2003	755.2	673.8	81.4	624.8	130.4	1,353.6
2004	808.8	718.8	90.1	666.1	142.7	1,496.2
2005	866.1	766.6	99.5	710.6	155.4	1,651.7
2006	926.5	816.8	109.7	758.7	167.8	1,819.5
2007	990.0	869.3	120.7	811.2	178.9	1,998.4
2008	1,057.0	924.7	132.3	868.9	188.1	2,186.4
2009	1,126.3	982.0	144.3	935.0	191.4	2,377.8
2010	1,198.9	1,042.5	156.4	1,008.2	190.7	2,568.5
2011	1,274.0	1,105.8	168.2	1,088.6	185.5	2,753.9
2012	1,351.2	1,171.6	179.5	1,177.3	173.9	2,927.8
2013	1,431.2	1,241.3	189.9	1,274.9	156.3	3,084.1
2014	1,512.8	1,313.9	198.8	1,381.9	130.9	3,215.0
2015	1,596.4	1,390.4	205.9	1,498.8	97.5	3,312.5
2016	1,680.9	1,470.3	210.5	1,626.8	54.0	3,366.6
2017	1,766.3	1,554.3	212.0	1,766.0	0.3	3,366.9
2018	1,852.4	1,642.7	209.7	1,917.2	(64.8)	3,302.1
2019	1,938.4	1,735.6	202.9	2,079.5	(141.1)	3,161.0
2020	2,024.4	1,833.6	190.8	2,253.3	(228.9)	2,932.1
2021	2,108.9	1,936.3	172.6	2,439.9	(330.9)	2,601.1
2022	2,191.9	2,044.4	147.5	2,638.6	(446.7)	2,154.4
2023	2,272.5	2,158.0	114.5	2,850.3	(577.8)	1,576.6
2024	2,350.4	2,277.8	72.6	3,075.8	(725.4)	851.3
2025	2,425.2	2,404.5	20.7	3,315.5	(890.3)	(39.1)
2026	2,495.0	2,537.3	(42.3)	3,569.2	(1,074.2)	(1,113.3)
2027	2,560.3	2,677.9	(117.6)	3,835.7	(1,275.4)	(2,388.7)
2028	2,620.1	2,826.4	(206.3)	4,116.2	(1,496.1)	(3,884.8)
2029	2,674.0	2,983.7	(309.7)	4,409.7	(1,735.7)	(5,620.6)
2030	2,719.5	3,148.6	(429.1)	4,716.8	(1,997.3)	(7,617.8)

18 mos

ALTERNATIVE I

(\$ TRILLIONS)



DATA FROM THE 1989 TRUSTEES REPORT
(\$ BILLIONS)

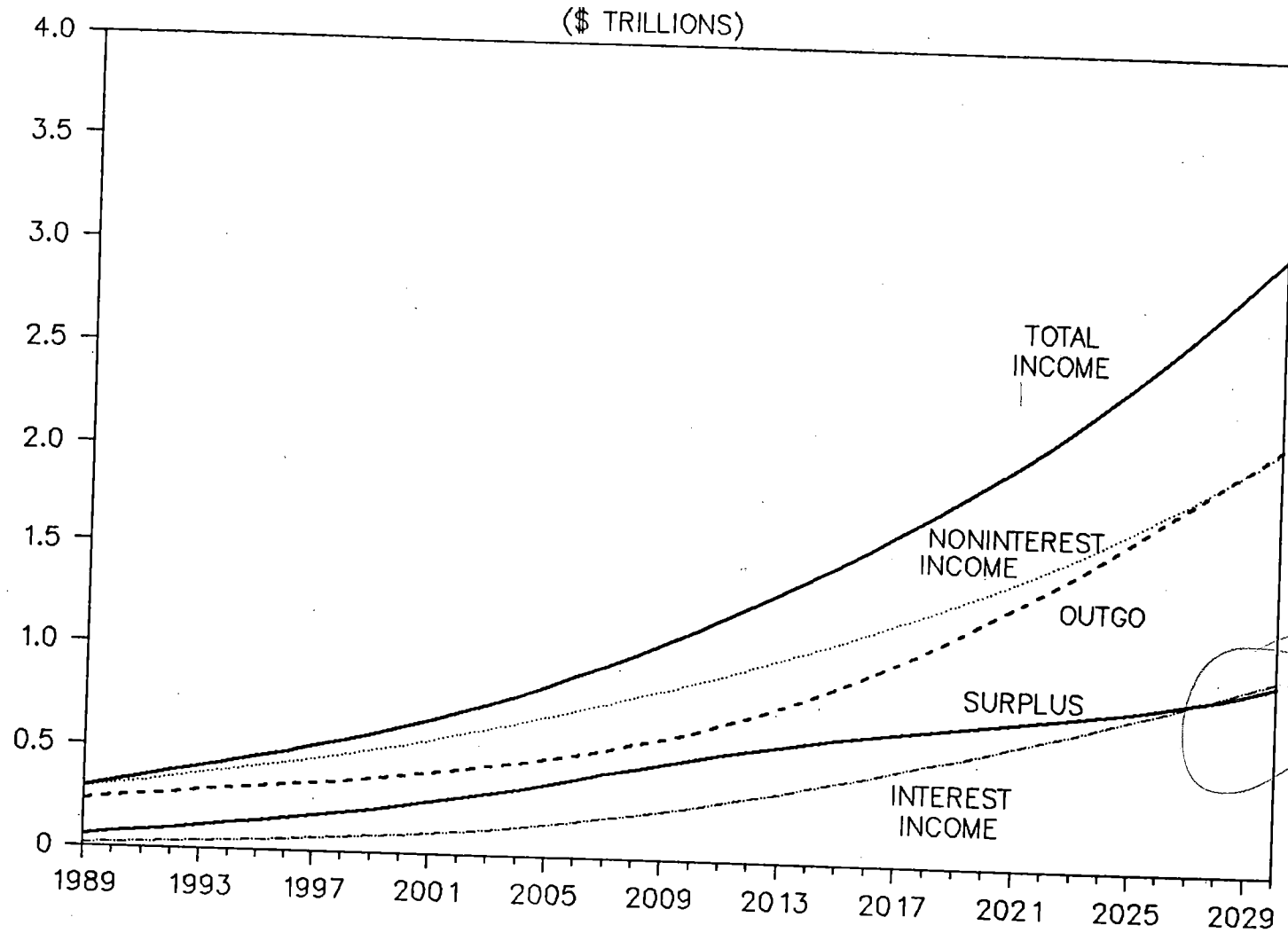
ALTERNATIVE I

OASDI

INCOME

	TOTAL	EXCLUDING INTEREST	INTEREST	TOTAL OUTGO	SURPLUS	YEAR-END ASSETS
1989	295.3	282.3	13.0	235.2	60.2	169.9
1990	324.4	305.6	18.8	249.5	74.9	244.8
1991	350.6	325.5	25.1	262.3	88.2	333.1
1992	376.9	345.5	31.5	274.9	102.0	435.1
1993	403.5	365.7	37.9	287.1	116.4	551.6
1994	430.2	386.1	44.1	299.1	131.1	682.7
1995	456.6	406.6	50.0	310.7	145.9	828.6
1996	483.5	427.6	56.0	322.9	160.7	989.3
1997	511.5	448.5	62.9	335.6	175.8	1,165.1
1998	541.9	470.9	71.0	349.3	192.6	1,357.7
1999	576.0	495.7	80.3	364.5	211.5	1,569.1
2000	612.6	522.4	90.1	380.4	232.2	1,801.3
2001	651.3	550.8	100.5	396.9	254.3	2,055.7
2002	691.6	580.3	111.2	414.5	277.0	2,332.7
2003	733.6	611.2	122.4	433.5	300.1	2,632.7
2004	780.6	642.8	137.8	454.3	326.4	2,959.1
2005	830.5	675.9	154.6	476.7	353.8	3,313.0
2006	883.0	710.2	172.8	500.8	382.2	3,695.1
2007	937.8	745.5	192.3	527.0	410.8	4,105.9
2008	995.3	782.1	213.3	556.5	438.9	4,544.8
2009	1,055.3	819.7	235.6	589.2	466.1	5,010.9
2010	1,118.1	858.9	259.2	625.2	492.9	5,503.8
2011	1,183.4	899.3	284.1	664.7	518.7	6,022.5
2012	1,251.3	941.0	310.3	708.5	542.8	6,565.3
2013	1,322.3	984.6	337.6	756.1	566.2	7,131.4
2014	1,395.6	1,029.6	366.0	807.7	587.9	7,719.4
2015	1,472.0	1,076.5	395.5	863.4	608.6	8,328.0
2016	1,551.0	1,125.1	425.9	923.6	627.4	8,955.4
2017	1,633.0	1,175.7	457.3	988.2	644.8	9,600.2
2018	1,718.0	1,228.6	489.4	1,056.7	661.3	10,261.5
2019	1,806.1	1,283.8	522.4	1,128.8	677.3	10,938.8
2020	1,897.7	1,341.6	556.1	1,204.4	693.3	11,632.1
2021	1,992.4	1,401.8	590.6	1,283.2	709.2	12,341.3
2022	2,090.6	1,464.7	625.9	1,364.9	725.7	13,067.0
2023	2,192.6	1,530.5	662.1	1,449.8	742.8	13,809.8
2024	2,298.5	1,599.5	699.1	1,537.5	761.0	14,570.8
2025	2,408.9	1,671.9	737.0	1,628.5	780.4	15,351.3
2026	2,523.5	1,747.6	775.9	1,722.0	801.6	16,152.8
2027	2,643.6	1,827.6	816.0	1,817.1	826.4	16,979.2
2028	2,769.2	1,911.8	857.4	1,914.2	855.0	17,834.2
2029	2,900.7	2,000.3	900.3	2,012.1	888.6	18,722.8
2030	3,038.2	2,093.1	945.0	2,111.5	926.7	19,649.5

ALTERNATIVE I



↔

FROM THE OFFICE OF

Senator Daniel Patrick Moynihan

New York

Friday, December 29, 1989

Contact: Brian Connolly
202/224-4451

A PROPOSAL TO CUT SOCIAL SECURITY TAXES

Statement of

Senator Daniel Patrick Moynihan (D.-N.Y.)

Senate Radio-TV Gallery

Room S-325, The Capitol

Washington, DC

On January 23, 1990, the first day of the next session of Congress, I will introduce a measure to repeal the scheduled increase in the Social Security tax immediately, and to return the system to a pay-as-you go basis beginning in 1991.

This will mean a tax cut in 1991 of approximately \$600 for a couple with combined earnings at the Social Security taxable maximum (an estimated \$54,300 in 1991). Savings in future years would be even greater.

Why do I make such a proposal? Because the Social Security trust fund surpluses are being used to finance the deficit in the operating budget of the federal government. This masks the true size of the budget deficit and perverts the original purpose for the surpluses -- to provide for the retirement of the baby boom in the next century.

I do not take this measure lightly, or without awareness of the complexity of the matter. To the contrary, at the beginning of this year I made it quite explicit that this option might have to be chosen.

Specifically, the report of the Democratic Commissioners of the National Economic Commission, issued on March 1, 1989, dealt primarily with the opportunities presented by the existence of large and growing surpluses in the Social Security trust funds. We stated that if the administration and Congress could bring about a balanced operating budget, the Social Security surplus would allow us to retire privately held government debt. This would

7-
automatically translate into an increase in national savings -- perhaps doubling the current savings rate -- which offered a means of insuring a strong productive U.S. economy capable of supporting retirees in the next century. We recommended this. At the same time, Commissioners Strauss, Gray, Iacocca, Kirkland, Rohatyn and myself were explicit in stating that unless this were done, there would be no defensible reason for continuing the payroll tax at present levels. Our report ended thus:

Let no one suppose that a Democratic Congress will much longer allow a payroll tax to be used to service a \$2 to \$3 trillion dollar debt owned in vastly disproportionate amounts by wealthy individuals and institutions. It already requires nearly one-half the revenues of the income tax to pay the interest. This is surely the largest transfer of wealth from labor to capital in the history of our "political arithmetic." But at least this is a graduated tax. By 1992 the trust fund reserves will have reached 100 percent of annual outlays; a considerable reserve. By 1994 the proportion reached 150 percent. If, in the next five years, no arrangements are made to save the future incomes to the funds, Congress -- you may depend on it -- will return to a "pay-as-you-go" financing.

That is not a threat. It is a political reality and indeed, an ethical imperative. The nation struggled for a generation to ratify the XVth Amendment to the Constitution. We are not about to see it effectively repealed by a reform in financing of Social Security.

The better part of a year has gone by. Early on there were various suggestions from the administration that our warning had been heard, and that some general agreement would be reached. Then silence. Silence can denote but one thing. The administration is content to see the budget deficit gradually eliminated by the growing Social Security tax revenue.

As we pointed out in our NEC report, the operating budget deficit is not declining. It is growing. The deficit for FY 1989

was \$204 billion without the Social Security surplus. The Congressional Budget Office baseline projections show the deficit in the operating budget growing to \$268 billion in the year 2000. In that same year the Social Security surplus will be \$236 billion. A \$268 billion deficit financed almost exclusively by the Social Security payroll tax.

This is totally unacceptable. The United States almost certainly now has the most regressive tax structure of any Western nation. The 1980s have witnessed a decline in the progressivity of federal taxes as a whole -- income, payroll, and excise taxes combined -- despite improvements made in the Tax Reform Act of 1986. As CBO Director Robert D. Reischauer recently noted: "... federal taxes in 1990 will be less progressive than they were in either 1977 or 1980" This is so because the Social Security payroll tax -- which is decidedly regressive -- has come to make up an increasingly large share of total federal tax levies. Social Security tax revenue as a percent of total federal revenue rose by 23 percent from 1980 to 1988, while personal and corporate income tax revenue as a percent of total federal revenue declined by 6 percent and 23 percent, respectively. And the Social Security Administration reports that of those taxpayers who will pay any Social Security tax in 1990, about 74 percent will pay more in FICA taxes (including the employer's share) than in income taxes.

The 1983 decision to move the Social Security trust funds to a partially funded basis was a responsible one. There are good grounds for actually saving for future retirement -- that is, using Social Security surpluses to increase national savings and

investment and hence economic growth. As Michael Kinsley recently put it:

There is no way society as a whole can save money for its future retirement. The resources retirees consume in the year 2025 will have to be produced in the year 2025 or thereabouts. All we can do is take steps now to increase our future productive capacity. . . . If the Social Security surplus were increasing productive investment -- even indirectly, by reducing the government's demand for credit -- it would be achieving that purpose.

"But," he adds, "it clearly isn't. Instead, it is enabling the government to avoid fiscal reality."

Exactly so. And we can no longer tolerate the use of Social Security surpluses to finance, say, B-2 bombers or a capital gains tax cut. The time has come to return Social Security to pay-as-you-go financing.

Social Security was financed on a pay-as-you-go basis for decades prior to 1983. Under this financing method, we set the Social Security tax rate at the level needed to produce the revenues for current benefits. This approach will eliminate the current regressive financing of the budget deficit, while keeping Social Security on a sound financial basis. It will also address the concerns of those who fear that large Social Security surpluses would inevitably be spent on benefit liberalizations.

Robert J. Myers, who helped create our Social Security system in 1934 and who for 23 years was its chief actuary, has urged a return to pay-as-you-go financing. In testimony of May 1988 before the Senate Finance Subcommittee on Social Security, which I chair, Myers stated: "I believe that OASDI should be financed on close to a current cost basis. Income should, on the whole, slightly exceed

outgo each year, in order to build up a fund which is about equal to one year's outgo -- and certainly no more. This should be accomplished by changing the future tax-rate schedule so as to more nearly match the trend of outgo."

We have tailored our proposal to Mr. Myers' specifications. The proposal calls for repealing the tax rate increase scheduled for January 1 and a further rate reduction on January 1, 1991. By keeping the current rate of 6.02 percent for employees and employers each through 1990 (rather than increasing the rate to 6.2 percent, as called for under present law), we will still build the reserve to roughly 95 percent of the following year's outgo. On January 1, 1991, we would cut the Social Security tax rate to 5.1 percent, the rate recommended by Mr. Myers.

The proposal would result in a \$7 billion saving for Social Security taxpayers in 1990 and a \$55 billion saving in 1991.

For later years there would of course be scheduled tax rate increases to meet rising costs. The rate would peak at 7.7 percent in 2049 and thereafter. This sounds high, but we would have to go this high around the same time under the current arrangements anyway, after the reserve was drawn down. And it must be remembered that with even modest rates of economic growth between now and then, the after tax living standard of workers in 2049 would still be greater than that we have today.

Legislative Council MEETING - 29TH

TALKING POINTS

SENATOR MOYNIHAN'S PROPOSAL TO REDUCE PAYROLL TAXES

BACKGROUND

The 1983 Social Security Amendments called for increasing Social Security payroll tax (FICA) rates to assure the fiscal stability of the Old-Age Survivors and Disability Insurance Trust Funds for 75 years. The tax rates were raised in 1984, 1985, 1986 and 1990. The 1990 increase is the last scheduled raise in the rates.

In a departure from past practice, these FICA tax rates were set at a level sufficient to prefund a portion of the retirement benefits of the "baby boom" generation.

Senator Moynihan, one of the architects of the 1983 compromise, has now proposed rolling back the 1990 increase in the payroll tax (.14%) and then in 1991, "floating the tax rate--setting it a level to cover current benefits and a small contingency reserve. Essentially, current workers (dominated by the baby boom) would only pay sufficient taxes to cover current retirees and future generations would pay higher payroll taxes to cover retirement benefits for the baby boom.

"The debate over this and similar proposals is not essentially about the well being of today's retirees. Rather, it is a debate how the Social Security promise will be honored in the future. The economic choices we make in the next few years may very well determine whether or not we will be able to keep these promises for the baby boom and beyond."

This proposal raises a number of significant issues and concerns:

1. The Trust Funds do not even have a contingency reserve of one year at this time. The one year level is considered a minimum. AARP believes that up to two years reserves are necessary. The contingency reserve is need to ensure that the Social Security System can get through periods of economic slowdown or recession without crisis.

2. Senator Moynihan's major reason for proposing a rollback in the tax rates is that the Social Security trust fund buildup is being used to mask the true extent of the Federal deficit and to finance the deficit in the operating budget of the Federal government. These are legitimate concerns but the Moynihan proposal goes well beyond simply dealing with this issue.

3. AARP believe that gradually removing the Trust Funds from the Gramm-Rudman-Hollings (GRH) deficit calculation would expose the true dimensions of the deficit and spur positive action.

4. The reserve was designed to ensure benefits to future generations. It was seen as source of new national savings which would make the economy stronger and more productive in the future.

5. The reserve was also seen as a fairer way to ensure benefits to the baby boom. It is reasonable to ask the large baby boom generation to provide for a portion of its own retirement benefits since future working generations will be of much smaller numbers.

6. However, the reserve can only serve these beneficial functions if the rest of the Federal budget is in relative balance. Senator Moynihan's proposal is based on the premise that we cannot get our budget house in order and therefore, we should not make future promises based on the buildup of the reserve. Many believe that this determination is premature and that we should not give up on the reserve yet.

7. Floating the tax rate would give an immediate tax cut to workers and their employers. But, it may undermine further confidence in Social Security. Eliminating the buildup of the reserve in favor of raises taxes in the future to pay benefits could raise anxiety and lower confidence. Some fear that benefits to the baby boom would end up being reduced because there would be little willingness in the future to raise the payroll tax to the levels necessary to sustain the current benefit promise.

8. Giving a tax cut now could be seen as little more than a continuation of the trend of the last ten years of immediate gratification with the bills to be paid later.

9. However, this tax cut is not "free". The money (\$50 billion or more in the first year of the floating tax rate) would have to be made up in other taxes or by increasing government indebtedness.

10. This proposal should be taken seriously and its effects carefully scrutinized.

TALKING POINTS RE:
MOYNIHAN'S SOCIAL SECURITY PLOY

- (1) In an ideal world, we would all love to be able to cut Social Security taxes without any cost.
- (2) Unfortunately, if we do cut Social Security receipts, we will short-change the very people we want to help: today's workers. We would undo the bipartisan Social Security rescue that was enacted in 1983.
- (3) In the long term, as a practical matter, the Moynihan plan would have to mean a major cut in Social Security benefits. (If reserves are not built up, they will not be there when baby-boomers retire -- and the tax burden on future workers would be prohibitive.)
- (4) To make sure the reserves are there, the Administration is proposing a new "Social Security Integrity and Debt Reduction Fund." (Legislation available in late January.)
- (5) In the near term -- as Moynihan himself acknowledges -- his plan would cost \$55 billion in FY '91 alone. (That's the coming budget year.) That \$55 billion revenue loss would have to mean one of three things:
 - (a) abandon the G-R-H targets and abandon any serious interest in deficit reduction; or
 - (b) cut benefits; or
 - (c) raise taxes. (Whose? Where does one find \$55 billion without hitting the average taxpayer?)
- (6) Moynihan, in fact, knows much of this. His plan is not serious. It is a political ploy.

Don't Touch Those Social Security Funds

To the Editor: 30/104/309

A Princeton economist recently wrote that the secret is out concerning the surpluses in the Social Security trust funds. Indeed it is, and so I fear are assorted entrepreneurs with schemes for getting their hands on some portion thereof!

On your Op-Ed page of July 7, my good friend Walt Rostow of the University of Texas proposes that we use the money to set up a public investment bank, which among other things, "would help put the stricken banking systems of important parts of the nation back on their feet." Hmm.

This morning, you report ("Study Suggests a Partly Private Social Security," Business Day) that a group at J. P. Morgan & Company would have us refund the surplus to individuals so that they can invest in stocks and bonds. Again, hmm.

A common theme of these and other proposals is that the political process cannot be trusted with so much money. The Morgan study begins: "The burgeoning surplus of the U.S. Social Security system has come to the fore this year as the latest temptation to procrastinate on decisive measures to cut the Federal budget deficit." Possibly. May one ask, however, that some consideration be given the fact that it was the political process that created this revenue stream.

This began with a conversation between me and Senator Bob Dole on the Senate floor on Jan. 3, 1983, followed by 11 days of intensive negotiations with a White House team led by James A. Baker 3d, then chief of staff. Agreement was reached at Blair House on Saturday night, Jan. 15.

In essence, we agreed to move from a pay-as-you-go system to a partly funded one. (The Canadians had shown the way.) We could count. We knew perfectly well that, to quote the

Morgan group, "the trust funds could absorb all outstanding Federal debt by the year 2005." We were well aware that we had put in place a revenue stream that could quadruple the national savings rate, again to cite the Morgan study.

All that need be done now — a lot, but even so, all — is to get our operating budget in balance. Thereafter, the trust funds will absorb the privately held debt, which automatically translates into an increase in national savings. But the trust funds themselves must remain intact and untouchable save to pay benefits. This becomes an issue of integrity and was integral to the Blair House accords.

It would be useful to hear from our Presidential candidates on this subject. DANIEL PATRICK MOYNIHAN
U.S. Senator from New York
Washington, July 11, 1988

Split-Level Government': Sen. Moynihan Replies

A Post editorial ["Split-Level Government," Oct. 18] states that it "sets a bad precedent" to move the Social Security trust funds off-budget. May I point out that they are already off-budget? S. 219 simply excludes them from the calculation of whatever you want to call the number that the Gramm-Rudman-Hollings legislation requires the budget committees to comply with.

The object of the bill is to bring the current operating budget of the federal government into balance, whereupon the trust funds commence actually to be "saved." This takes the form of retiring privately held public debt. The result, as The Post writes,

"would instantly raise the lagging national savings rate, reduce dependence on foreign loans and allow the Federal Reserve Board to lower interest rates—all steps toward economic health."

Not bad for a day's work. As the chairman of the subcommittee on Social Security, I introduced the bill in the last Congress and again on the first legislative day of this Congress. I didn't think it was "showy." I thought nobody even noticed.

DANIEL P. MOYNIHAN

U.S. Senator (D-N.Y.)
Chairman, Subcommittee on Social Security
Washington

104
309/30
No Money Worries?

In his column on the Social Security surplus [op-ed, June 16], Hobart Rowen cited Alan Greenspan to the effect that "unless we invest our Social Security accounts in private instruments, the surplus by itself doesn't contribute to net savings [in the economy]." Strictly construed, this statement is false. However, I believe one can see what the chairman of the Federal Reserve intended. If the Social Security surpluses lead to reduced borrowing by government, that in turn automatically leads to an increase in national savings. However, if the surpluses are "spent" by the government—which is to say used to disguise a true deficit in current account—then there is indeed no increase in savings.

The great object of fiscal policy in the next decade must be to increase savings by rolling back debt. The revenue stream—Social Security taxes—that makes this possible is in place. The funds are increasing at \$109,440,000 per day. The coming surpluses are, to cite the First Boston Corp., mammoth. The temptation will be to act as if we suddenly came into a lot of new money and had no more worries. This has to be resisted and to be resisted has to be understood.

The half-dozen of us who put the current arrangements in place in 12 days of negotiation in January 1983 knew we were creating the revenue stream that is now appearing. We knew we were moving from a pay-as-you-go social insurance system to a partially funded system. (The Canadians did this in the 1960s.) We knew the money would be needed as a form of forced national savings. To miss this opportunity—especially in the aftermath of the 1980s—would truly put the nation at risk.

DANIEL P. MOYNIHAN
U.S. Senator (D-N.Y.)
Washington

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U.S. Senator (D-N.Y.)
Chairman, Subcommittee on Social Security
Washington

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HEADLINE: Why We Called for a Surplus

BYLINE: Daniel Patrick Moynihan

BODY:

There was one thing the National Economic Commission could do, and we did do it.

We introduced into the deficit "debate" the proposition that if the United States is to maintain its standing in the world, it must promptly move to a sustained budgetary surplus.

Further, we identified and quantified that surplus. It should consist of and amount to the Social Security surplus. This is to say the roughly \$ 3 trillion in cash reserve that will accumulate in the Old Age Survivors and Disability Insurance Trust Funds between now and the year 2018. The reserve is currently rising at \$ 1 billion a week. Saving the surplus would roughly double net national savings, now a desperately low 2 percent of GNP.

We surprised ourselves. Or at least I was surprised. Nominally we ended up a divided commission. That became inevitable at about 9:15 p.m. EST last Nov. 8, when exit polls showed that Mr. Bush would be elected, having pledged no new taxes. Our Republican appointees were thereupon bound not just to support the pledge but to affirm that a "flexible freeze" would get the budget into balance. Our side could not do that, and so there is a majority and minority report. However, the commission had two goals. First was the short-term issue of the deficit. Second, the long-term issue of economic growth. This latter issue took us directly to the question of the Social Security surplus.

It was by no means inevitable that we would agree on this issue. But we did. (For what it is worth, the reports were prepared separately. The NEC staff had no idea what the Republicans would propose until their text arrived 15 minutes before the Public Printer's deadline on the afternoon of Feb. 27.) I dare to suggest that we did because of a set of exceedingly chastening facts.

The first set has to do with the enormity of the fiscal excess of the 1980s. In the two Reagan terms, the United States incurred almost as much debt as was required to wage the Second World War. After each of our wars, from the Revolution on, we have had to go into sustained periods of surplus to pay off the debt. If you like, we now have the moral equivalent of a war debt.

The second set of facts concerned the impact of current borrowing on future economic growth. We are in the process of beggaring the next generation and those that follow. Our witnesses pounded away at this, Volcker, Rivlin, Greenspan, Bergsten, Brock. Start up savings again or be known as a political generation that quite literally sold its country.

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Enter the Social Security surplus. In 1983 another commission -- the national Commission on Social Security Reform -- proposed a set of sweeping changes to the Social Security system. We had, for a near half-century, been operating on a pay-as-you-go basis. We now moved to a "partially funded" system whereby more is taken in than paid out, to establish a reserve when the "baby boom" retires (something the Canadians did in the 1960s.) For what it may be worth, some of us at least on the earlier commission had in mind that we were creating a revenue stream that would become available in the 1990s when the borrowing would have to stop.

At this point, most readers ask, what are you talking about? Fair enough. It has been at least three political generations since we have routinely run a surplus. Further, the process whereby extra cash flowing into the Treasury leads to the retirement of privately held public debt and a corresponding increase in private savings and investment, while simple, doesn't sound simple. We can't help that. As the saying goes, if we can send a man to the moon, we can take the trouble to figure out what happens when Treasury bonds are retired.

Now then. The deficit today. Isn't that a slight obstacle on the way to surplus? Yes and no. Yes, if you don't intend to do anything. But if you think that something like the fate of the nation is involved, it begins to look easy enough. Doable, certainly. There would be no significant social dislocation involved in, let us say, letting taxes return gasoline prices to their 1980 levels. (\$ 1 billion for 1 cent.) In the course of our deliberations, Commissioner Dean Kleckner of the Farm Bureau made a brilliant case for slashing farm programs which Mr. Reagan's last budget termed "far too costly" (\$ 600,000 per farmer over the period 1986-89). Easy \$ 20 billion there. So it goes.

A closing point. Budget balancing has been presented in the main as an exercise in virtue, which may account for the limited enthusiasm it has so far evoked. But if eliminating the deficit leads directly to a surplus? Interest rates go down. Stocks go up. Investment booms. Does not that prospect please? Even, possibly, entice?

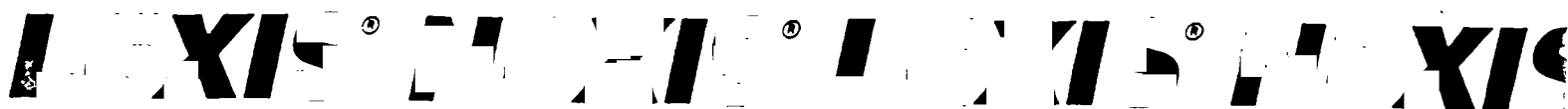
The writer, a Democratic senator from New York, served on the National Economic Commission.

TYPE: OPINION EDITORIAL

SUBJECT: SOCIAL SECURITY; ECONOMIC CONDITIONS

ORGANIZATION: NATIONAL ECONOMIC COMMISSION

NAMED-PERSONS: DANIEL PATRICK MOYNIHAN



30/104/162P

Conspirators, Trillions, Limos in the Night

By Daniel Patrick Moynihan

This appears to be the season for disclosing Washington secrets, and I don't see why only Republicans should be able to play. I've got a pretty good one. Secret messages concealed on the Op-Ed page of *The New York Times*. Whispered conversations on the Senate floor. White House limos hurtling through the wintry night to a house in northwest Washington. A bedroom — yup — on the second floor of the President's guest house, where nights earlier a visiting potentate would have been skewered by a plunging chandelier had he not been mysteriously otherwise engaged at the Watergate.

Huddled conspirators. Big bucks. Like, maybe, trillions?

Trouble is it was really on the up and up. And has a happy ending. So I don't suppose it would sell, and I might as well come out with it here and now.

In brief, in 12 days in January 1983, a half dozen people in Washington put in place a revenue stream that is just beginning to flow and that, if we don't blow it, will put the Federal budget back in the black, pay off the privately held Government debt, jump start the savings rate and guarantee the Social Security Trust Funds for a half century and more.

It all began on a Monday morning, Jan. 3. Bob Dole of Kansas had an Op-Ed article that insisted that things would soon be looking up for the Administration — there was a near-depression on — and that Congressional Republicans were behind him. Nothing special, save for one paragraph. Having said that the issues confronting them presented as much oppor-

tunity as peril, he went on:

"Social Security is a case in point. With 116 million workers supporting it and 36 million beneficiaries relying on it, Social Security overwhelms every other domestic priority. Through a combination of relatively modest steps, including some acceleration of already scheduled taxes and some reduction in the rate of future benefit increases, the system can be saved. When it is, much of the credit, rightfully, will belong to this President and his party."

Oh? Not 24 hours earlier the budget director, David A. Stockman, had foretold that the "most devastating bankruptcy in history," that of the Social Security Trust Funds, was only months away. Which wasn't so, but a lot of people believed him. What the columnist Sylvia Porter called "a scare campaign of vicious proportions" had been going on. The new breed of conservatives seemed to detest the program even more than the old breed. And the funds were going down, the result of an interval in the 1970's when prices ran ahead of wages so that cost-of-living adjustments were not being offset by increased payments into the funds.

A year or so earlier, the Senate majority leader, Howard H. Baker Jr., had put together a bipartisan National Commission on Social Security Reform. Mr. Dole and I were appointed. Alan Greenspan was made chairman. Months went by with no apparent movement from either side. Then, suddenly, this signal from Mr. Dole. He and Mr. Greenspan had come to understand that the system's problems really were temporary and that in the long term it could be made heroically solvent.

On the day I was sworn in for a second term, I went over to Mr. Dole, who happened to be on the Senate

floor. If he was as optimistic as his article suggested, shouldn't we make one last try? Two days later, he and I and Representative Barber B. Conable Jr. were sequestered out to White House chief of staff James A. Baker 3d's house in northwest Washington. Negotiations began.

In time, we shifted our talks to Blair House (which was empty, owing to the chandelier incident), and on the night of Saturday, Jan. 15, we reached agreement on arrangements to save the system, which were promptly endorsed by the commission and the President.

Most of this story is now familiar. Here is what is not generally understood. Almost everyone involved knew — by then — that the Administration had got the nation's finances in terrible shape. Mr. Stockman, who joined our deliberations, has written about this in great detail. There would be \$200 billion budget deficits "as far as the eye could see." The national debt would triple in eight years.

A true
inside
story
revealed by
the Senator
Who Knows!

And President Reagan was not going to do anything to prevent it.

And so we would. Until then, Social Security had been on a pay-as-you-go basis, with a little cushion to take care of economic downturns. We could have fluffed up that cushion and let it go at that. We decided instead on a radical change in policy. Henceforth, we would collect and save for the far future, and not just the next year. An immense reserve would begin to accumulate before beginning to run down about 2030. In the process, we would pay off the national debt.

We have now had four full calendar years of the new revenue base. The trustees have just reported, and I have just had the first oversight hearing. Here are the numbers. The Social Security Trust Funds are increasing at the rate of \$109,440,000 per day and rising.

The current reserve is approaching \$100 billion. Between now and the year 2000 it will grow to \$1.4 trillion. (As of 1987, the entire assets of private pension funds were about \$1.49 billion.) This revenue stream must be deposited with the Treasury. If at the end of the day the Treasury has more money on hand than it needs, it simply retires privately held debt.

This can sound arcane but isn't. Every week some millions of Treasury bonds and bills "mature" and are cashed in. At present, the Treasury "rolls over" the debt, issuing new bonds or bills to get the cash to pay off the old ones. But if it isn't short of cash it needn't do this. The national debt begins to shrink.

Our present deficit "path" takes us, in theory at least, to a zero deficit by 1993. If that happens, the revenue stream from Social Security will be sufficient to begin retiring debt by

It all started
with a Dole
article.

1994. As public debt declines, national savings increase.

By 2010 the Social Security reserve is projected to be nearly \$4.5 trillion. (\$4,460,600,000,000!) If we wanted to go all the way, we could probably have zero national debt by that time. For the first time, incidentally, since 1836 — when we were down to \$38,000.

We could of course blow the opportunity. We could start to "spend" the Social Security surplus rather than using it to retire debt, and so get rid of the deficit. (Which for practical purposes now consists almost entirely of debt service.) But surely we should "save" it, and thus put aside the fiscal mess of the 80's.

Our real economic problem is that we don't save enough. Of 24 members of the Organization for Economic Cooperation and Development, we rank 20th, followed by Iceland, and a few such. Yet, as one witness at our oversight hearings put it, by the next decade we could be "awash in capital." This is the one sure way — saving and investment — to make certain the Social Security funds are still ample when the baby boom retirees.

One further point. In the near term, the proportion of retired persons in the population will be quite stable: the depression babies. Today, there are 21 persons retired for every 100 of working age. This ratio stays flat through 2010. Claims on the funds will be steady.

There you have it. Hard to believe? Yes. But within our grasp.

All done in 12 days in January. □

Daniel Patrick Moynihan, Democrat of New York, is chairman of the Senate Finance Committee's subcommittee on Social Security and Family Policy.

January 12, 1990

SELECTED PAST REMARKS BY SEN. MOYNIHAN ON SOCIAL SECURITY

Moynihan on Social Security and the the Greenspan Commission:

- o "'If it ain't broke, don't fix it,' is a commonsensical caution for people not content to leave well enough alone. I propose a corollary, one particularly suited to any discussion of the Social Security system; 'If it's fixed don't break it!'"[emphasis added]¹
- o "If we are to have another debate about changing the Social Security system, let us not lose sight of these facts: The program is secure; it is depended on; it is effective. The burden of proof falls upon those wishing to change things."²
- o "I submit to you that after 1985, social security will not contribute one cent to the Federal deficit -- in fact, it will be part of the solution."³
- o [The Social Security system is] "the most successful policy ever devised in our land."⁴
- o [The revenue stream resulting from the the Greenspan Commission's reforms] "will put the Federal budget back in the black, pay off the privately held government debt, jump start the savings rate and guarantee the Social Security Trust Funds for a half century and more [emphasis added]."⁵

¹ Congressional Record, 7-31-84, E3378

² Congressional Record, 7-31-84, E3378

³ Congressional Record, 3-20-84, S2926.

⁴ "Moynihan Praises Social Security System," by Robin Greene, UPI, 12/31/88.

⁵ "Conspirators, Trillions, Limos in the Night," by Sen. Daniel Patrick Moynihan, New York Times, 5/23/88.

(more)

Background On Moynihan And The Greenspan Commission

- o As a member of the National Commission On Social Security Reform (The Greenspan Commission), which issued its report in January, 1983, Moynihan supported increases in the payroll tax that funds the retirement portion of the program -- increases to be phased-in over a seven year period. One of those increases, from 6.06 percent to 6.2 percent, just took place on January 1st. Moynihan seeks repeal of that increase, and a further cut in the rate to 5.1 percent by Jan. 1, 1991.⁶ In other words, Moynihan now wants to do away with the increases he favored in 1983.

- o In fact, Moynihan wanted the tax increases to be even higher. In a supplementary statement to the Greenspan Commission's Report, signed by Moynihan and four other members⁷, a proposal to further increase taxes read as follows:

"For purposes of present legislation we would support putting in the law now an increase in the contribution rate beginning in 2010 of %.046 of payroll..."⁸ After the Greenspan Commission submitted its report, Moynihan tried his additional tax increase in the Senate Finance Committee, which voted 15-2 against Moynihan's proposal.⁹

- o The Greenspan Commission unanimously recommended, in the words of the report,

"that the Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its

⁶ "Moynihan's Plan Makes Bush the Tax Ogre," by Donald Lambro, Washington Times, 1/11/90.

⁷ The four other members were Lane Kirkland, Claude Pepper, Robert M. Ball, and Martha Keys. There were 15 members total on the Commission.

⁸ Report of the National Commission on Social Security Reform, (Washington, 1983).

⁹ "Social Security Rescue Plan Rushes to Final Hill Accord," by Pamela Fessler and Elizabeth Wehr, Congressional Quarterly, 3/12/83.

fundamental principles. The National Commission considered, but rejected, proposals to make the Social Security program a voluntary one, or to transform it into a program under which benefits are a product exclusively of the contributions paid, or to convert it into a fully-funded program, or to change it to a program under which benefits are conditioned on the showing of financial need."[emphasis added]¹⁰

- o Both houses of Congress, in a remarkable show of unity, swiftly enacted the Greenspan Commission's recommendations, including the seven year phased-in payroll tax increase. A typical lead was from Congressional Quarterly: "Setting partisanship aside, the full House and the Senate Finance Committee have given a Social Security rescue plan a quick push toward final passage."¹¹

The vote in the House for the Greenspan reforms was 282-148, on March 9, 1983.¹² The Senate voted 58-14, on March 25th, 1983, with Moynihan voting Yea.¹³

ATTACHMENTS

¹⁰ Report of the National Commission on Social Security Reform (Washington, 1983)

¹¹ "Social Security Rescue Plan Rushes to Final Hill Accord," by Pamela Fessler and Elizabeth Wehr, Congressional Quarterly, 3/12/83.

¹² "Social Security Rescue Plan Rushes to Final Hill Accord," by Pamela Fessler and Elizabeth Wehr, Congressional Quarterly, 3/12/83.

¹³ 1983 CQ Almanac; CQ Senate Vote 54

strategy for dealing with the Soviet Union. At very least, this strategy would require a coordinated response by NATO members to major Soviet challenges around the world. Such a strategy was possible during the first twenty years of the alliance's life, but détente in the last decade brought benefits to Europe that were not shared by America. Thus, most Europeans today believe that a working relationship can be maintained with the Soviet Union, while most Americans still see the Soviet Union as an aggressive power whose designs on Europe and other regions must be resisted. This difference in perception is dividing the alliance, and ultimately may threaten its viability.

A second issue for NATO is how to ease economic tensions that are sapping the alliance's strength. The U.S. is enjoying an economic recovery that is faster than Europe's. European leaders argue that the U.S. recovery is taking place at Europe's expense, and that high U.S. interest rates soak up money that could be invested in Europe's recovery. The U.S. and Europe are also engaged in several trade disputes that have serious implications for important economic sectors on both sides of the Atlantic. The strength of NATO depends on the combined economic strength of its members, and both the U.S. and Europe will have to make future economic decisions in view of their impact on the alliance.

How NATO should react to the challenge of events beyond the North Atlantic region is a third issue. The U.S. position is that NATO should fashion a coordinated response to such events. Washington believes that NATO has a duty to act when its security is at stake, and that European members should be ready to replace U.S. forces that might be moved from Europe in an emergency. The Europeans, however, are not keen on replacing U.S. troops, and they are especially reluctant to ready their own troops for combat abroad. They point out that U.S. and European interests may not coincide outside Europe, that some nations cannot legally use armed force outside their borders, and that Europe no longer has the resources necessary to project military force to distant points.

A final issue before NATO is how to improve its conventional military strength. This is a pressing concern because there is doubt whether NATO could counter an invasion by the Warsaw Pact without early, and probably cataclysmic, use of nuclear weapons. The Europeans know that their own homelands would be the first areas devastated in a nuclear exchange, so they and the U.S. have agreed on the need to upgrade conventional forces. There is disagreement, however, on the allocation of expense. The U.S. wants its allies to increase their defense budgets 3 percent annually, just as they said that they would do in 1978. The allies say that they will do their best to increase defense spending, but contend that their economic troubles may keep them from reaching the original goal.

How the burden of a stronger conventional defense should be shared is in fact one of NATO's knottiest problems. The U.S. spends more of its gross domestic product (6.5 percent in 1982) on defense than do its NATO allies (3.7 percent in 1982), and in 1983 the U.S. increased its defense spending by 7.6 percent while the allies raised theirs by only 2 percent. For their part, the allies point out that during the 1970s they increased their defense spending by 2 percent annually while U.S. military outlays fell by 1 percent per year. They note as well that they get more value for each dollar because their conscripted forces cost less than America's volunteer force. Burden-sharing also involves NATO's commitment to a more eq-

uitable balance in arms sales between the U.S. and the allies. At present, the U.S. enjoys a seven-to-one advantage in such sales within NATO. The allies recognize NATO's need for advanced weaponry, but they are afraid that a U.S. push for more of it will give American arms manufacturers an even larger share of NATO's markets. The cost of new weapons is high, and many Europeans doubt that they can afford them.

NATO's conventional strategy is also unsettled. Greater conventional strength based on advanced weaponry would decrease NATO's reliance on nuclear weapons, but also would enable NATO to strike deep into Warsaw Pact territory. The possibility that new weaponry might cause NATO to shift to an offensive strategy is extremely troubling to many in Europe, particularly in Germany.

These are the major issues that will dominate NATO's deliberations during the coming year. One of the important ways that the U.S. can contribute to resolving them is through arms control. Goodfaith efforts and meaningful negotiations with the Soviet Union can help close the rift between American and European perceptions, and can give our friends in Europe the political support that they need to make the case for increased defense spending and stronger conventional forces.

Other issues will surface, but if the alliance can handle these it will continue to provide an effective military shield behind which the nations of the West can prosper. The allies still appreciate the importance of NATO. So do many Americans. All parties, however, must be willing to accept the responsibilities and sacrifices necessary to keep the alliance healthy.◊

SOCIAL SECURITY DEPENDABLE

HON. BRUCE F. VENTO

OF MINNESOTA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, July 31, 1984

◊ Mr. VENTO. Mr. Speaker, recently an article by Senator DANIEL PATRICK MOYNIHAN concerning the current status of our Social Security System and its outlook for the future was published in the St. Paul Sunday Pioneer Press (July 15). Senator MOYNIHAN, who served as a member of the National Commission on Social Security Reform, observes that Congress' passage of the Social Security Act Amendments of 1983 insured the future stability of our Nation's basic social insurance program and notes that the Social Security Program has helped millions of older Americans avoid living in poverty. Senator MOYNIHAN's reasoned observations are especially timely in light of the recent remarks by President Reagan suggesting that young people will never be able to receive as much from this system as they are paying into it and that further (although unspecified) changes may be necessary.

President Reagan's comments are a disservice to the Nation and only serve to exacerbate unfounded fears and anxieties among young workers and older Americans. The President's statements and responses mislead young people when he suggests that there will not be a strong Social Secu-

rity System in the future to meet the needs of today's young people. For 50 years now, the American people have honored the social contract in which working people provide the financial security for older Americans and income security for those disabled. Irresponsible statements from President Reagan or others are geared to undermine the Social Security Program and generational contract. The real risk to the Social Security Program comes from the catastrophic events in our economy which has been subjected to the roller coaster ride of Reagan's "voodoo economics!" There is no sound reason to suggest that this social contract will not be honored for future generations as well as current retirees. The universal nature of the Social Security System has been and will continue to be the foundation of the System's strength, both for today's and tomorrow's beneficiaries.

[From St. Paul (MN) Sunday Pioneer Press, July 15, 1984]

SOCIAL SECURITY DEPENDABLE; DON'T TAMPER WITH IT NOW

(By Senator Daniel Patrick Moynihan)

"If it ain't broke, don't fix it," is a commonsensical caution for people not content to leave well enough alone. I propose a corollary, one particularly suited to any discussion of the Social Security system: "If it's fixed, don't break it!"

On Jan. 15, 1983, the National Commission on Social Security Reform, on which I served, agreed to a set of recommendations to put Social Security on a firm financial footing.

Our proposals became law three months later, and my optimism about their efficacy—expressed at the time—remains. On April 5 of this year, Donald T. Regan, treasury secretary; Raymond J. Donovan, labor secretary; and Margaret M. Heckler, health and human services secretary—the trustees of the Social Security funds—reported that the benefits provided "under these programs can be paid well into the next century."

During the commission's deliberations, Alan Greenspan, our chairman and former chairman of the president's Council of Economic Advisors, imposed a simple but crucial rule: Members were entitled to their own opinions, but not to their own facts. In deference to our chairman's rule, herewith some facts:

By next year, the revenues from Social Security taxes will match the costs of Social Security benefits. Indeed, we now expect revenue surpluses to begin in 1986 and build, according to Social Security's actuaries, to \$13.4 trillion by 2025 and \$18.4 trillion in 2045. Unless the economy takes a sudden nosedive and sharply erodes Social Security revenues within the next few years, the retirement and disability funding problems would seem to be behind us.

The universal social insurance system established in 1935 is central to the way we plan our lives.

Social Security is an undeniable success. The system has helped reduce poverty dramatically among the nation's elderly. In 1937, three years before the first check was distributed, two-thirds of all Americans 65 years or older had no means of support except help from friends and relatives or private charities. Today, more than 85 percent of all elderly citizens have incomes above the national poverty line.

If we are to have another debate about changing the Social Security system, let us not lose sight of these facts: The program is secure; it is depended on; it is effective. The burden of proof falls upon those wishing to change things.

President Ronald Reagan recently remarked (once again): "There is a possibility—well, probability—that many people, young people now paying in, will never be able to receive as much as they're paying." In response, James M. Brown, a spokesman for the Social Security Administration, said that Social Security "is not just a retirement benefit. You are buying a package that also includes protection against disability and death. Nobody else offers a package like that." The president sometimes seems genuinely to misunderstand the system.

Few among us know what our financial condition will be in the future, and it is only wise to eliminate fear of economic calamity by making regular, and relatively small, premium payments throughout our working lives.

At its inception in 1935, Social Security provides benefits only for retirees, but eligibility has since been broadened. In 1939 before the first benefit was paid, retirees' dependents and survivors were accepted as beneficiaries. And under President Dwight Eisenhower in 1958, permanently and totally disabled workers began receiving Social Security checks. Today, some 25 million retired workers, almost 4 million disabled workers, and more than 7 million survivors receive Social Security benefits.

As with other types of insurance, of course, the lucky ones are those who do not need to collect. But it is nice to know it is there.

There is no little antagonism to the compulsory nature of Social Security. However, the system is trustworthy only if it's universal. If given the chance, how many people would have the time, knowledge, and, above all, capital to provide security for the future? And what of those who would try but fail? Stock go down sometimes, right?

The plain fact is that Social Security means that older persons in America do not depend on their children for support. This is a blessing beyond words. Not to the children, but to the parents who know they never will be a burden to the dearest persons in their lives.

Recently, Treasury Secretary Regan said the practice of paying benefits to those at the "upper end" of the economic scale should be re-examined. Well, why should well-off Americans receive an income supplement? Because depriving them of the benefits for which they have paid undermines the insurance principle of Social Security.

Would it be right or prudent to tell those whose homes burn down that they cannot collect fire insurance because they have resources sufficient to cover the losses? Of course not. Just so with Social Security.

Once we end the universal nature of the system, we inevitably weaken the universal nature of its political support.

Certainly, there are administrative changes that can improve Social Security Administration operations. Our commission recommended, and Congress approved, appointment by the president of two members of the public to the Social Security Board of Trustees. We can enhance public confidence in the system by increasing public involvement in its oversight. But these appointments have not been made.

It has been suggested that the agency be made an independent body (it is now within the Department of Health and Human Services). I agree with Robert Ball, the agency's former commissioner, who said this step

(which would not change the benefit structure) "would add significantly to the public understanding of the trustee character of Social Security as a retirement and group insurance plan."

Social Security has been a fixture in the United States for nearly a half-century. Yet after all this time and success, some are not reconciled to it. This is unfortunate. But it is a minority view, and it doesn't change the facts. Social Security is fixed in more ways than one. Don't break it.

(Senator Moynihan, of New York, is the ranking Democrat on the Senate Finance Committee's Social Security and Income Maintenance programs subcommittee.—The Los Angeles Times)●

IN MEMORY OF FORMER CONGRESSMAN CHARLIE WILSON

HON. WILLIAM (BILL) CLAY

OF MISSOURI

IN THE HOUSE OF REPRESENTATIVES

Tuesday, July 31, 1984

● Mr. CLAY. Mr. Speaker, a former colleague, Charles Wilson, passed away Saturday, July 21, 1984. I insert my message to his lovely wife, Bok, as a lasting tribute to a true friend:

DEAR BOK: You are not alone. All of Charlie's many friends share his loss with you. Carol and I count ourselves among his closest friends.

At a time like this, words are not adequate to convey the pain and emptiness we feel. Even constrained by our limited power of expression, we are compelled to verbalize the deep hurt we share with you—the loss of our dear and longtime friend, Charlie.

True friends are a rarity. Charlie was our true friend. When he laughed, we laughed. When he cried, we cried. When he rejoiced, we rejoiced. When he hurt, we hurt. When he died, a part of all mankind died.

Ernest Hemingway put it best when he wrote: "For Whom the Bell Tolls." He said, "No man is an island, entire of itself; every man is a piece of the continent, a part of the main; if a clod be washed away by the sea, Europe is the less, as well as if a promontory were, as well as if a manor of thy friends or of thine own were; any man's death diminishes me, because I am involved in mankind; and therefore never seem to know for whom the bell tolls; it tolls for thee."

A longtime family commitment forced Carol and I to be in Connecticut, and we will be unable to see you for the next few days, however, we will call you when we return so that we can get together.

Sincerely,

BILL AND CAROL CLAY.●

SECTIONS 1 THROUGH 7 OF H.R. 1310

SPEECH OF

HON. SILVIO O. CONTE

OF MASSACHUSETTS

IN THE HOUSE OF REPRESENTATIVES

Wednesday, July 25, 1984

● Mr. CONTE. Mr. Speaker, I am glad to see that H.R. 1310, the math and science education bill, has returned to this floor for our consideration. And I am pleased to rise in support of this important measure.

Mr. Speaker, this initiative to strengthen mathematics and science education in this country is long overdue. Deficiencies in math and science curricula and equipment have serious injured the morale of this country's teachers and the capabilities of our students. The National Science Foundation [NSF] has reported that math and science teachers have had serious difficulty in obtaining information concerning new instructional materials, thereby hampering the Nation's efforts to improve curriculum. Additionally, the National Association of Secondary School Principals has reported that only 45 percent of all secondary schools possess some sort of science equipment. These are disturbing facts demonstrating serious, widespread problems in our country's ability to educate our children.

Fortunately, H.R. 1310 defines immediate Federal, State, and local roles for improving math and science education and teacher preparation. The bill provides incentives to encourage future generations of teachers to enter these fields, and to help improve the skills of current teachers. Additionally, the problems of student preparation and achievement are addressed by authorizing educational agencies and institutions to develop methods to improve, strengthen, expand, and modernize math and science education.

Moreover, H.R. 1310 addresses the serious problems of underrepresentation of women and minorities in these disciplines by requiring grant recipients to take concrete action to ensure equal educational opportunity. I strongly support this provision and salute the committee's continued efforts to improve opportunities for all Americans.

Mr. Speaker, in considering the bill before us today, however, I am concerned over one amendment added by the other body to provide funding for magnet schools which are part of an approved desegregation plan. My reservations about supporting this amendment stem from its heavy bias toward the larger school districts, while appearing to shun the smaller but equally needy districts. I understand from the colloquy on this debate, however, that the eligibility criteria set forth in the amendment do not preclude those smaller desegregating districts, and therefore I withdraw my reservations. Further I would hope that, this being the case, the Secretary will give close consideration to the needs of those smaller districts when considering awards under this program.●

others. I am proud to have the opportunity today to commend Mr. Michael Bongiovanni.●

SOCIAL SECURITY

● Mr. MOYNIHAN. Mr. President, 1 year ago, the Senate began its consideration of H.R. 1900, the Social Security Act Amendments of 1983. At this benchmark, it is instructive to reflect on the reform legislation enacted last April.

I call my colleagues' attention to the recent report by the Committee for Economic Development, entitled "Social Security: From Crisis to Crisis?" CED, a private nonprofit, nonpartisan organization of business executives, has suggested that the 1983 amendments to the Social Security Act "provide very little margin of safety." It contends that, should economic and demographic trends be less favorable than assumed in the 1983 amendments, the system could face another financial crisis in this decade. The economic assumptions on which Congress relied for these amendments, it is claimed, "fall to cover a realistic range of possibilities" with respect to actual economic performance.

This simply is not the case. The National Commission on Social Security Reform, on which I served, based its recommendations on economic assumptions generally considered to be quite cautious. The intermediate assumptions were thought by some to be less favorable than our best estimates would have suggested, but we were wary of the perils of over optimism.

I submit for your attention, then, an editorial which appeared in the Washington Post on February 25, entitled "Social Security False Alarm," and a letter to the editor of the Washington Post written by Robert M. Ball and Robert J. Myers. These two pieces give an accurate first year report card on the Social Security Amendments of 1983, one that ought to be considered by all.

Mr. Ball, the distinguished former Commissioner of Social Security and a member of the National Commission, and Mr. Myers, the highly respected former Chief Actuary and Deputy Commissioner of Social Security who served as executive director of the Commission write that the economic assumptions used by the National Commission were—

Slightly on the pessimistic side (and currently economic conditions are more favorable. Moreover, even under the pessimistic assumptions, the financing of the system will be reasonably adequate in the 1980's, and it would take much more than a small unfavorable wiggle in basic trends to produce a financial crisis.

Mr. Ball and Mr. Myers make a second point of considerable importance:

The social security program, which will be part of the unified budget until 1992, will not be a part of the deficit, but rather will be part of its solution.

At a time when it has become fashionable to advocate cuts to run-away entitlement programs in order to reduce the deficit, we must recognize precisely how, or if, entitlement programs are contributing to the deficit. I submit to you that after 1985, social security will not contribute 1 cent to the Federal deficit—in fact, it will be part of the solution.

I hope that my colleagues will take the time to review these articles. There is no way to guarantee that social security will never need additional financing changes. But as the Post editorial concludes, "there is no sense in sounding a general alarm while sailing in untroubled waters." Mr. President, I request unanimous consent that the following articles from the Washington Post, "Social Security False Alarm" and "Social Security is in Good Shape" appear in the RECORD.

The articles follow:

[From The Washington Post, Feb. 25, 1984]

SOCIAL SECURITY FALSE ALARM

Less than a year ago Congress enacted a bipartisan reform program to put the Social Security retirement system on sound footing for the foreseeable future. Now comes a report from the Committee on Economic Development, a national business policy group, warning that Social Security may be in trouble before the end of the decade.

Before you pick up your pen to dash off a worried letter to the president or Congress, you should know that the CED's report is not based on any new analysis or insight. The projections it cites are taken from last year's report of the Social Security Trustees, and are essentially the same as those used by Congress and the bipartisan Social Security commission in framing the reforms put into law last March. True, things have changed somewhat since that time—but not in the way that the CED's report would suggest. They've gotten better.

The important thing to remember about last year's reforms is that, for once, they were not based on a rosy view of the future. The reform package was designed to see the Social Security trust funds through this decade under a very pessimistic economic forecast—unemployment remaining above 10 percent until 1985 and not dipping below 8 percent until almost the end of the decade, and wages barely outpacing inflation.

Of course, the economy is already much better than that. And, as the Congressional Budget Office's new projections show, even if the economy heads back into a recession a year or so from now, the trust funds should have sufficient reserves to make it through the tightest period before legislated tax increases begin to build up the funds later in the decade. And, if economic conditions become very bad, the law now contains a safeguard that keeps benefit cost-of-living adjustments from outpacing wages when trust fund reserves are low.

Beyond this decade, it's important to remember, the retirement trust fund is headed toward a period of surpluses. That's because the generation that will be retiring in the mid-1990s was born in the low-birth-rate years of the Depression, while the labor force, which pays Social Security taxes, will still be swollen by the baby-boom generation.

Sometime in the next century, when the baby-boomers reach retirement, the surpluses will disappear, as the CED warns. Howev-

er Congress' brave decision to go beyond the commission's recommendations and phase in a delay in the retirement age makes it less likely that drastic changes will then be needed. In the meantime, building up enormous reserves in the trust funds—which would offset deficits in other parts of the budget—would only discourage needed budget discipline.

There is no way to put a system as big and important as Social Security on automatic pilot for all time. But there is no sense in sounding a general alarm while sailing in untroubled waters.

[From the Washington Post, Feb. 10, 1984]

SOCIAL SECURITY IS IN GOOD SHAPE

(By Robert M. Ball and Robert J. Myers)

Hobart Rowen ["Social Security: It's Not So Secure," op-ed, Feb. 16] asserts that the Social Security system is once again likely to run into financial difficulties despite the reform legislation enacted last April. A large part of his conclusion is drawn from the recent report by the Committee for Economic Development entitled "Social Security: From Crisis to Crisis?"

We disagree strongly with Rowen's conclusions. We refer only to the Social Security program (Old-Age, Survivors and Disability Insurance—OASDI) and not to the Hospital Insurance portion of the Medicare program. The National Commission on Social Security Reform recognized, and we agree, that under present law Hospital Insurance has a serious financing problem some five or more years from now. It was not the assignment of the national commission to deal with this problem, but rather with the more immediate problem of the Social Security program.

Rowen claims that eventually Social Security and other entitlement programs will require further changes for two reasons: first, "to keep them financially healthy and, second, to help cut the dangerous federal deficits." We believe that it is highly probable that the Social Security system will be financially healthy over at least the next two decades. For the period 20 to 75 years after that for which estimates are traditionally made, we believe the estimates underlying the financing of the program are reasonable and even somewhat on the conservative side.

As to Rowen's second point, the Social Security program, which will be part of the unified budget until 1992, will not be a cause of the deficit, but rather will be part of its solution. This is so because, under any reasonable assumptions, income to the self-financed OASDI trust funds will exceed outgo during the near-future years and for a couple of decades thereafter. It would not seem reasonable to further help reduce the general federal deficits by cuts in the Social Security program which, in itself, is in a state of positive fiscal balance.

The CED report leaves the implication (which Rowen latches on to) that, if economic conditions are only slightly worse than the intermediate assumptions, the system will be insolvent before the end of the 1980s. This is not correct, because the intermediate assumptions are, we believe, slightly on the pessimistic side (and currently economic conditions are more favorable). Moreover, even under the pessimistic assumptions, the financing of the system will be reasonably adequate in the 1980s, and it would take much more than "a small unfavorable wiggle in basic trends" to produce a financial crisis.

This is not to say that there is no possible scenario that would cause the Social Security system to have short-term financing

problems. What it would take is something like double-digit unemployment, with wages rising no more rapidly than prices. This we believe to be very improbable.

Even under the pessimistic assumptions of the 1983 Trustees Report, the OASDI trust funds would have a balance of at least two months' outgo at all times in the 1980s, while under the intermediate assumptions this ratio would, desirably, build up and would amount to about five months' outgo at the beginning of 1990, and increase rapidly thereafter.

We see no reason to make changes in the benefit structure in order to provide an even wider margin of safety than now exists.●

STRENGTHENING AMERICAN EDUCATION

● Mr. LAUTENBERG. Mr. President, few issues have more importance to the future of our country than education. Our ability to compete in the international economy in years to come, our ability to continue as a nation of opportunity for all, and to advance together as a nation, is dependent on the education provided our young people.

Recent reports from the Commission on Excellence on Education and others highlight existing weaknesses in our educational programs. Indeed, the National Commission on Excellence in Education has likened the situation in American education today to unthinking, unilateral education disarmament.

If such an incident had been leveled at the defense establishment in this country, the cries of dismay from the White House and the Congress would have been loud and instantaneous.

Reaction to the harsh assessment of the Education Commission has been more temperate. Nevertheless, Mr. President, I, for one, must express my deep chargin over the state into which our educational system has fallen. As the Commission on Excellence report rightly notes, citizens look to educators and elected officials to provide leadership to reverse educational trends in our country.

Providing more money for education is by no means the only answer to difficulties in education today. However, approval of increased educational expenditures can give encouragement to educators doing their best under difficult circumstances in the Nation's classrooms. It can provide increased resources for existing programs that have proved their effectiveness. It can help initiate new programs.

This year I have been working in the Senate as part of a special working group on education set up by Minority Leader ROBERT BYRD. Our group will be seeking a consensus on the appropriate spending levels for education in the fiscal year 1985 budget. After allowing for inflation, the President's budget request is about \$5 billion below what education spending was 4 years ago. While we may not be able to make up this entire shortfall, I certainly think an increase over the President's proposed budget is needed.

I have introduced legislation to provide a Federal matching grant program for computer education and teacher training. I think that computer education can serve to enhance the teaching of more traditional academic and intellectual skills. Putting computers in classrooms will not be a solution for the problems in education. However, with careful planning, computers can provide a new tool for teaching writing, mathematics, social studies, and other courses, and analytical skills.

Reauthorization of the Vocational Education Act must be a top priority for 1984. Solid vocational training is important in preparing students for productive careers.

Another major unfinished item on the education agenda is legislation to improve math and science education. The House of Representatives passed a math and science bill last spring, but the Senate has not yet scheduled consideration of its version of the bill.

The present unhappy state of American education has not developed overnight, nor will it be improved immediately. But there must be a starting point on the road to recovery.

We must not fail our children by refusing to heed the harsh message of the Nation at Risk report. We owe them the bright promise of a good education. We owe their teachers our strong support. And we owe the Nation an adequate investment in our educational system if we hope to prosper and maintain U.S. leadership in the world economy.●

YEAR OF THE OCEAN

● Mr. CHAFEE. Mr. President, the ocean environment remains one of our country's most precious natural treasures. In order to encourage better understanding and appreciation of the need to preserve ocean and coastal resources, I am pleased to join Senator STEVENS as a cosponsor of Senate Joint Resolution 257, designating the 12-month period beginning July 1, 1984, as the "Year of the Ocean."

I represent the Ocean State. The sea figures prominently in Rhode Island's heritage. Narragansett Bay remains our preeminent natural, commercial, and recreational resource. Rhode Islanders cherish the ocean for its beauty, for its rich abundance of marine life, and for what it contributes to our State's economy.

Rhode Islanders are also keenly aware of the fragility of delicate ocean and coastal habitats. The problems posed by pollution, waste disposal, coastal development, and energy exploration constantly threaten the ocean environment and require action to preserve marine resources.

As we continue to exploit the wealth of the ocean, it is our responsibility to plan now for the prudent management of the marine environment. The University of Rhode Island's distinguished Graduate School of Oceanography is

making an important contribution to marine resource management through research and field services designed to promote the development, use, and conservation of ocean and coastal resources.

By designating the "Year of the Ocean" Congress can renew its commitment to addressing the problems which threaten the ocean and coastal zone. Passage of this resolution can enhance public awareness of our tremendous reliance upon marine resources, as well as the consequences of failing to manage them wisely.

The ocean is essential to the life of the world. The "Year of the Ocean" program can help us to focus on its importance in each of our lives. I hope my colleagues will join in supporting the passage of this resolution and promoting its observance.●

HONORING JACK DEMPSEY

● Mr. D'AMATO. Mr. President, I rise to ask this body to honor one of America's greatest sports legends, the late Jack Dempsey. A legend in the boxing ring as well as in everyday life, Jack Dempsey's rise to heavyweight champion made him an example of the American spirit throughout the "Golden Age of Sports," the 1920's.

Like other legendary sports figures of that era, such as Babe Ruth, Bobby Jones, and Johnny Weissmuller, Jack Dempsey's style and accomplishments in his sport were revolutionary. Dempsey's aggressive "bob and weave" style ended the era of standup defensive style boxing forever and turned boxing into a top drawing spectator sport.

Winning the heavyweight crown for the first time in 1919, Dempsey retained the title until 1926. But his loss did not affect his popularity with the American public. Jack Dempsey remained a hero because he found success in his failures, an accomplishment endearing to many people who viewed Dempsey's rise to champion as representative of the everyday battles of most ordinary Americans.

His life before becoming champion also adds to the legend his name carries. The son of an impoverished Midwestern family, a miner at 13, a veteran of hobo jungles at 19, and heavyweight champion of the world at 24, Jack Dempsey's struggle is a true symbol of the American dream.

His legend is further supported by his unfailing kindness outside of the ring. From his restaurant on Broadway, Jack Dempsey played the role of host to the city of New York, as well as of a gentle, charitable man, always willing to help the unfortunate and the needy.

Touted as the greatest fighter of the half century in 1950 and inducted into the Boxing Hall of Fame in 1954, Jack Dempsey is still remembered as one of the greatest fighters of all time. But his legend is incomplete without mention of his kindness out of the boxing

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HEADLINE: Moynihan praises Social Security system

BYLINE: By ROBIN GREENE

DATELINE: WASHINGTON

KEYWORD: Reagan-Dems

BODY:

Sen. Patrick Moynihan, D-N.Y., praised the Social Security system Saturday as 'the most successful policy ever devised in our land' and then made a New Year plea on behalf of needy children in the United States.

Moynihan, who delivered the Democratic response to President Reagan's weekly radio address, got off an optimistic note by asking Americans to join him in 'a special wish for President and Mrs. Reagan.'

The New York senator noted that he and the president had been sparring with each other for the past eight years, saying 'they've been fair fights from first to last' and admitting, 'I'm going to miss them.'

'Our first go-round had to do with Social Security,' Moynihan said in praising the entitlement program.

'Without Social Security, almost half of the elderly would be poor today,' he said. 'With Social Security, Medicare and other government programs, the number of elderly poor has all but disappeared.'

'Social Security is the most successful policy ever devised in our land,' Moynihan said.

Citing a Census Bureau study released last week, Moynihan said: 'I wish I could report that the ... study concluded the same for children. It did not. ... Government benefit programs hardly touch child poverty.'

Moynihan said the study showed that 'there are two kinds of children in America and they live in two kind of families.'

The senator said children who live in two parent families will never be poor while children in single-parent families 'will almost always be poor sooner or later.'

'Their numbers are staggering,' Moynihan said. 'As many as one-third of our children live this way today. We've become the first industrial nation on earth in which children are the worst-off group.'

Calling child poverty 'the great challenge before us,' Moynihan said: 'If we get to work, it will really be a happy New Year.'

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30/104/162P Conspirators, Trillions, Limos in the Night

By Daniel Patrick Moynihan

This appears to be the season for disclosing Washington secrets, and I don't see why only Republicans should be able to play. I've got a pretty good one. Secret messages concealed on the Op-Ed page of The New York Times. Whispered conversations on the Senate floor. White House limos hurtling through the wintry night to a house in northwest Washington. A bedroom — yup — on the second floor of the President's guest house, where nights earlier a visiting potentate would have been skewered by a plunging chandelier had he not been mysteriously otherwise engaged at the Watergate.

Huddled conspirators. Big bucks. Like, maybe, trillions?

Trouble is it was really on the up and up. And has a happy ending. So I don't suppose it would sell, and I might as well come out with it here and now.

In brief, in 12 days in January 1983, a half dozen people in Washington put in place a revenue stream that is just beginning to flow and that, if we don't blow it, will put the Federal budget back in the black, pay off the privately held Government debt, jump start the savings rate and guarantee the Social Security Trust Funds for a half century and more.

It all began on a Monday morning, Jan. 3. Bob Dole of Kansas had an Op-Ed article that insisted that things would soon be looking up for the Administration — there was a near-depression on — and that Congressional Republicans were behind him. Nothing special, save for one paragraph. Having said that the issues confronting them presented as much oppor-

tunity as peril, he went on:

"Social Security is a case in point. With 116 million workers supporting it and 36 million beneficiaries relying on it, Social Security overwhelms every other domestic priority. Through a combination of relatively modest steps, including some acceleration of already scheduled taxes and some reduction in the rate of future benefit increases, the system can be saved. When it is, much of the credit, rightfully, will belong to this President and his party."

Oh? Not 24 hours earlier the budget director, David A. Stockman, had foretold that the "most devastating bankruptcy in history," that of the Social Security Trust Funds, was only months away. Which wasn't so, but a lot of people believed him. What the columnist Sylvia Porter called "a scare campaign of vicious proportions" had been going on. The new breed of conservatives seemed to detest the program even more than the old breed. And the funds were going down, the result of an interval in the 1970's when prices ran ahead of wages so that cost-of-living adjustments were not being offset by increased payments into the funds.

A year or so earlier, the Senate majority leader, Howard H. Baker Jr., had put together a bipartisan National Commission on Social Security Reform. Mr. Dole and I were appointed. Alan Greenspan was made chairman. Months went by with no apparent movement from either side. Then, suddenly, this signal from Mr. Dole. He and Mr. Greenspan had come to understand that the system's problems really were temporary and that in the long term it could be made heroically solvent.

On the day I was sworn in for a second term, I went over to Mr. Dole, who happened to be on the Senate

floor. If he was as optimistic as his article suggested, shouldn't we make one last try? Two days later, he and I and Representative Barber B. Conable Jr. were secreted out to White House chief of staff James A. Baker 3d's house in northwest Washington. Negotiations began.

In time, we shifted our talks to Blair House (which was empty, owing to the chandelier incident), and on the night of Saturday, Jan. 15, we reached agreement on arrangements to save the system, which were promptly endorsed by the commission and the President.

Most of this story is now familiar. Here is what is not generally understood. Almost everyone involved knew — by then — that the Administration had got the nation's finances in terrible shape. Mr. Stockman, who joined our deliberations, has written about this in great detail. There would be \$200 billion budget deficits "as far as the eye could see." The national debt would triple in eight years.

**A true
inside
story
revealed by
the Senator
Who Knows!**

And President Reagan was not going to do anything to prevent it.

And so we would. Until then, Social Security had been on a pay-as-you-go basis, with a little cushion to take care of economic downturns. We could have fluffed up that cushion and let it go at that. We decided instead on a radical change in policy. Henceforth, we would collect and save for the far future, and not just the next year. An immense reserve would begin to accumulate before beginning to run down about 2030. In the process, we would pay off the national debt.

We have now had four full calendar years of the new revenue base. The trustees have just reported, and I have just had the first oversight hearing. Here are the numbers. The Social Security Trust Funds are increasing at the rate of \$109,440,000 per day and rising.

The current reserve is approaching \$100 billion. Between now and the year 2000 it will grow to \$1.4 trillion. (As of 1987, the entire assets of private pension funds were about \$1.49 billion.) This revenue stream must be deposited with the Treasury. If at the end of the day the Treasury has more money on hand than it needs, it simply retires privately held debt.

This can sound arcane but isn't. Every week some millions of Treasury bonds and bills "mature" and are cashed in. At present, the Treasury "rolls over" the debt, issuing new bonds or bills to get the cash to pay off the old ones. But if it isn't short of cash it needn't do this. The national debt begins to shrink.

Our present deficit "path" takes us, in theory at least, to a zero deficit by 1993. If that happens, the revenue stream from Social Security will be sufficient to begin retiring debt by

**It all started
with a Dole
article.**

1994. As public debt declines, national savings increase.

By 2010 the Social Security reserve is projected to be nearly \$4.5 trillion. (\$4,460,600,000,000!) If we wanted to go all the way, we could probably have zero national debt by that time. For the first time, incidentally, since 1838 — when we were down to \$38,000.

We could of course blow the opportunity. We could start to "spend" the Social Security surplus rather than using it to retire debt, and so get rid of the deficit. (Which for practical purposes now consists almost entirely of debt service.) But surely we should "save" it, and thus put aside the fiscal mess of the 80's.

Our real economic problem is that we don't save enough. Of 24 members of the Organization for Economic Cooperation and Development, we rank 20th, followed by Iceland, and a few such. Yet, as one witness at our oversight hearings put it, by the next decade we could be "awash in capital." This is the one sure way — saving and investment — to make certain the Social Security funds are still ample when the baby boom retirees.

One further point. In the near term, the proportion of retired persons in the population will be quite stable: the depression babies. Today, there are 21 persons retired for every 100 of working age. This ratio stays flat through 2010. Claims on the funds will be steady.

There you have it. Hard to believe? Yes. But within our grasp.

All done in 12 days in January. □

Daniel Patrick Moynihan, Democrat of New York, is chairman of the Senate Finance Committee's subcommittee on Social Security and Family Policy.

Moynihan's plan makes Bush the tax ogre

By Donald Lambro
THE WASHINGTON TIMES

A Democratic proposal to reduce Social Security taxes is winning cheers from conservatives and business groups, but it has put President Bush in the risky position of opposing a politically appealing tax cut aimed at his middle-class support-

ers.

The proposal by New York Sen. Daniel Patrick Moynihan, which would cut the payroll tax by more than a percentage point, has spawned an internal political debate within the White House, according to administration officials.

It also has triggered some unusually harsh criticism of Mr. Bush

from some of his traditional supporters.

"This is a very dumb thing for the [administration] to be doing," said Kate O'Beirne, deputy director for domestic policy studies at the Heritage Foundation, which has enthusiastically endorsed the Moynihan tax cut. "Cutting the payroll tax is good politics and good policy. Working-

class Americans are clearly over-taxed."

There were even some within the administration, such as Housing and Urban Development Secretary Jack Kemp, who made it known yesterday that they support the idea of cutting the payroll tax to boost savings and

see TAXES, page A10

TAXES

From page A1

economic growth.

"[Budget Director Richard] Darman's position that he wants to keep the [Social Security] surplus buildup and opposes the tax cut is inconsistent with Jack's position," said a top Kemp aide. "He sees this as a burden on middle-income workers and small businesses."

Mr. Moynihan chairs the Senate Finance subcommittee on Social Security and is considered by groups representing the elderly to be one of the program's strongest supporters. He surprised his party's leadership and the administration when he unexpectedly announced late last month that he would introduce legislation to cut the payroll tax when Congress returns to business on Jan. 23.

The Social Security tax rate that funds the retirement portion of the program increased on Jan. 1 from 6.06 percent to 6.2 percent. Mr. Moynihan would repeal that increase retroactively and then cut the tax rate further to 5.1 percent by Jan. 1, 1991.

"This would be a \$55 billion tax cut for working people in 1991, and the amount would be greater in future years," Mr. Moynihan said in announcing the idea.

His proposal would benefit primarily working-class and middle-income taxpayers — the bedrock political constituencies that have

helped the Republicans win the White House in five out of the last six presidential elections.

Among other things, say economic and political analysts, it hands the Democrats a golden opportunity to appeal to traditionally Republican voters and at the same time turn the tables on the Bush administration by forcing it to oppose a popular tax-cutting idea.

"Poor George Bush," said Robert Shapiro, director of economic studies with the Progressive Policy Insti-

opposed by Mr. Bush. Mr. Darman says the \$55 billion in lost Social Security revenue that the tax cut would cost in 1991 alone would balloon the deficit and lead to renewed Democratic pressure to raise the top income tax rates.

Mr. Moynihan has yet to say how he will offset this revenue loss, whether through spending cuts or tax increases elsewhere.

White House Chief of Staff John Sununu said earlier this week that the administration was against cut-

Ironically, the strongest and most immediate support for Mr. Moynihan's proposal has come from an unholy alliance of liberal and conservative organizations, business groups and some GOP leaders in Congress.

tute, a Democratic think tank, and a close Moynihan adviser. "The White House decision to oppose the Moynihan tax cut makes him not only the president of no new taxes but of no new tax cuts."

According to Mr. Shapiro, an enthusiastic supporter of the idea, "The Democrats have learned the lesson that the Republicans have taught them, that there is never a political cost to cutting taxes. I think the political temptation is too great for the Democrats to turn away from this."

The Moynihan proposal is flatly

ting the payroll tax until the deficit was eliminated. Mr. Bush is expected to propose an alternative plan in his forthcoming budget to gradually reduce the national debt by using the accumulated Social Security surpluses.

Nevertheless, aides to the president said yesterday that Mr. Moynihan's proposal has been getting long and serious scrutiny.

"There's been a lot of debate over it, pro and con," said one Bush adviser. "This is a very clever political move by Moynihan, but we don't think it's going to hurt us politically."

Ironically, the strongest and most immediate support for Mr. Moynihan's proposal has come from an unholy alliance of liberal and conservative organizations, business groups and some GOP leaders in Congress. In addition to Heritage's endorsement, the proposal has won favorable reactions from the libertarian Cato Institute, the National Taxpayers Union, the National Federation of Independent Business and the U.S. Chamber of Commerce.

"It's a good idea," said David Boaz, executive vice president of the Cato Institute. The administration "ought to become an enthusiastic sponsor of it. Otherwise, they'll let the Democrats steal the most successful Republican issue."

Support on the left also has come from the Institute of Policy Studies, where public policy analyst Robert Borosage has called the idea "good economics, good public policy and good politics — the first protest of an increasingly hard-pressed middle class."

On Capitol Hill, Sen. Robert Kasten of Wisconsin, one of the leading Republican supply-side tax cutters, has indicated he would like to co-sponsor the measure. GOP support also has been voiced by House Minority Whip Newt Gingrich of Georgia and Rep. Henry Hyde of Illinois.

However, Democratic leaders have yet to reveal their positions, though Ed Lopez, Mr. Moynihan's chief Social Security aide, said the senator has been receiving support from Democratic offices "at the staff level" for the idea.

SUPPLEMENTARY STATEMENT

BY

Commissioners Robert M. Ball, Martha Keys,
Lane Kirkland, Daniel Patrick Moynihan and Claude Pepper
(members selected by the Democratic leadership of the Congress)

Long-Term Financing and Issues of Special Concern to Women

Meeting the Remaining Long-Term Deficit

All of us supported the compromise agreement which is being recommended by a vote of 12 to 3 of the full Commission.¹/ The agreement provides for fully meeting the Commission's short-term financing goal and also for meeting about two-thirds of the Commission's long-term goal--1.22% of payroll out of the 1.8% projected need.

We recommend that the remaining 0.58% of payroll deficit be met by providing additional revenues starting in the year 2010, in advance of the period when the bulk of the deficit is projected to occur. Sufficient additional revenues would be provided by an increase of less than one-half of 1% (0.46%) in deductions from workers' earnings beginning in 2010 and a like amount in employer payroll taxes (with an equal combined rate for the self-employed) or the revenue could be supplied by an equivalent general revenue contribution, or some combination of the two. For purposes of present legislation we would support putting in the law now an increase in the contribution rate beginning in 2010 of 0.46% of payroll (with the employee contribution offset by a refundable income tax credit) recognizing, of course, that in the next century the Congress may prefer to raise the money in some other way and that, in fact, such a rate increase would not be allowed to go into effect unless estimates at the time of the scheduled increase showed that it would be needed.

Benefit Cuts Under Pickle Plan

Percentage of Full Retirement Benefits*

Age at Retirement	Current Law	End of Stage One (2009)	End of Stage Two (2027)
62	80.0%	75.0%	70.0%
63	86.7	80.0	75.0
64	93.3	86.7	80.0
65	100.0	93.3	86.7
66	103.0	100.0	93.3
67	106.0	108.0	100.0

*Percentage of benefits available to a worker who retires at the normal retirement age.

tion for his long defense of the elderly, most would not give him their votes.

The Pickle amendment was approved by a 228-202 vote, with the backing of 152 Republicans and 76 Democrats, including Ways and Means Chairman Dan Rostenkowski, D-Ill., and a majority of committee members. (Vote 20, p. 530)

Pepper's measure, despite the backing of House Speaker Thomas P. O'Neill Jr., D-Mass., was rejected by a vote of 132-296. (Vote 21, p. 530)

"History is being written on this floor. We are changing the tradition of this country," O'Neill said when it was apparent the Pepper measure would fail. "In America, each generation has always paid for the generation that has gone before them."

The controversy over raising the retirement age or increasing taxes has been one of the major ones surrounding the Social Security crisis.

Pepper's impassioned plea to his colleagues not to cut benefits won him a standing ovation, but it was not enough to convince most members that the "structural" change of a higher retirement age was the best way to restore the confidence of current workers in the retirement system.

The Pickle amendment would raise the retirement age in two stages. The first would be a gradual increase from 65 to 66 over a six-year period ending in the year 2009. The second increase would be from 66 to 67 over another six-year period ending in the year 2027.

While individuals still would be able to take early retirement at age 62, their benefits would be reduced from the current 80 percent of full benefits to 70 percent in 2027. (Box, above)

Opponents seized on this change

and charged it would penalize the millions of workers who must retire early because of poor health or mandatory retirement.

"This amendment assumes people are able to work longer than they are now. This is just not the case," argued James M. Shannon, D-Mass. "This will simply cut their benefits."

But Pickle defended the age increase as necessary to keep up with changing demographics. He pointed out that life expectancy had increased more than 10 years since the 65-year retirement age was set in place over 40 years ago.

Raising the retirement age is "not harsh," he said. "That is just in keeping with the times."

Pickle's amendment also would require the Department of Health and Human Services to make recommendations by Jan. 1, 1986, on how Congress should deal with individuals who cannot retire later because of physically demanding jobs.

Those voting against passage of the bill included both liberals opposed to the higher retirement age and coverage of federal employees and conservatives opposed to additional taxes.

Senate Solution

The Finance Committee agreed to a broader package of changes to address the system's long-range problems.

The package, proposed by John Heinz, R-Pa., and adopted 13-4, called for a gradual increase in the retirement age from 65 to 66 over a 15-year period beginning in the year 2000.

It also would reduce initial benefits by 5 percent beginning the same year. Currently, workers receive an initial Social Security payment equal

to about 42 percent of their last paycheck. The package would reduce this "replacement rate" to 40 percent.

In addition, Heinz' amendment called for elimination of the current penalty imposed on beneficiaries who work after they reach retirement age, over a five-year period beginning in 1990. Now, benefits are reduced \$1 for every \$2 retirees up to age 70 earn over \$6,600 a year.

The package also would increase benefits for those who leave the work force to care for their children at home under age six. Currently, a worker's five lowest-earning, or non-earning, years are not counted when determining his or her initial Social Security benefit. The bill would allow two additional "drop-out" years for child care.

The committee rejected 15-2 a proposal by Daniel Patrick Moynihan, D-N.Y., to raise payroll taxes in the year 2010, in place of benefit cuts.

Other Finance Action

The committee also rejected 11-6 a motion by Russell B. Long, D-La., to delay the effective date of a provision calling for Social Security coverage of new federal employees until a supplemental Civil Service retirement plan could be established.

Members have given assurances that such a supplemental plan would be set up, but federal workers fear they face retirement benefit cuts if no new workers are available to pay into their current system.

Federal employee unions have waged an all-out campaign to defeat the coverage provision, but have met with little success so far. Finance Chairman Robert Dole, R-Kan., charged that a delay in the Jan. 1, 1984, effective date would only give lobbyists a longer time to fight for repeal.

Besides agreeing to the package of long-term provisions, the committee made several other changes in the House bill. One of the major ones was a proposal by Long to cut beneficiaries' cost-of-living checks, as a last resort, if reserves in the Social Security trust funds fall below a certain level because of unexpectedly bad economic conditions.

The provision would go into effect in 1985, but would be used only after all other emergency measures allowed in the bill — including borrowing between the system's three trust funds — had been exhausted.

The bill also would require the managers of the trust funds to give

six-months' notice that such a benefit cut might be necessary so that Congress would have the option to make other adjustments to the system before the COLA cuts were made.

The committee also agreed to:

- Include tax-exempt income when computing a beneficiary's income to determine if his or her Social Security benefits should be taxed. Both the House and Senate bills call for taxation of a portion of benefits for individuals whose adjusted gross income, plus 50 percent of Social Security benefits, exceeds \$25,000 (\$32,000 for married couples filing a joint return).

The proposal was offered by John H. Chafee, R-R.I., who argued that some beneficiaries might try to avoid the new tax by diverting their taxable income into tax-exempt income.

- Provide a more generous tax credit to offset higher taxes for the self-employed. The Finance Committee bill calls for a credit against self-employment taxes of 2.9 percent in 1984, 2.5 percent in 1985, 2.2 percent in 1986, 2.1 percent in 1987-89 and 2.3 percent after 1989.

The House bill calls for a credit of 2.1 percent in 1984, 1.8 percent in 1985-87 and 1.9 percent after 1987. Both measures would increase payroll taxes for the self-employed 33 percent, beginning in 1984, to equal the combined taxes now paid by employers and employees.

- Eliminate Social Security benefits for non-resident aliens, their dependents and survivors, except for payments equal to the amount the alien worker had paid into the system, plus interest.

- Expand Social Security coverage to include all new federal employees, members of Congress, the president and vice president. The House bill also would include top political appointees, certain elected officials and sitting federal judges.

- Exempt from Social Security coverage members of the Amish religious sect who work for Amish employers.

- Allow the three Social Security trust funds to borrow from each other through 1987, as long as no funds were borrowed from the Hospital Insurance (HI) trust fund, which finances Medicare, when its reserves were low.

- Eliminate Social Security benefits for imprisoned felons.

Jobless Benefits/SSI

The Finance Committee also agreed to a slightly less generous six-month extension of federal emergency

jobless benefits than the program adopted by the House. Existing emergency benefits, approved by Congress last year, are set to expire March 31. (*Background, Weekly Report p. 420*)

The Senate measure — expected to cost over \$2 billion — would allow up to eight more weeks of benefits to those individuals who have exhausted up to 55 weeks of federal and state benefits before April 1. The House bill would allow up to 10 more weeks.

In addition, individuals who do not qualify for the federal emergency benefits until after April 1 could receive up to 14 weeks of additional benefits depending on their state's jobless rate, under the Finance bill.

Those who have not exhausted their emergency benefits when the extension expires Sept. 30 could receive up to 50 percent of their remaining payments after the expiration date.

The Senate bill also would provide a plan to give certain hard-hit states some leeway in repaying interest owed on outstanding loans from the federal unemployment trust fund. Currently, states owe about \$12 billion to the fund, and many see little chance of being able to repay the loans, or make large interest payments, soon.

Under the plan, states would be allowed to spread their interest payments over a five-year period if they can show that they are taking steps to improve the solvency of their state unemployment compensation programs.

The committee also agreed to accept provisions in the House bill to increase monthly SSI benefits \$20 and to delay a scheduled SSI COLA six months until January 1985.

Medicare Provisions

The Senate bill's Medicare provisions are generally the same as those in the House measure, with differences in certain details. (*House bill, Weekly Report p. 455*)

For instance, both bills depart from the administration proposal by mandating that hospital admission patterns and other factors be reviewed to guard against costly manipulations of the new system, or poor care for patients. But the Senate measure specifies that Professional Review Organizations (PROs) authorized in the 1982 tax bill must do the job, while the House bill permits the use of other types of organizations. The Senate bill does not include a House provision authorizing severe penalties for certain violations of the system or compromised quality of care.

Both bills are based on the administration plan to provide for a system of set prices for inpatient treatment of different illnesses, and they prohibit charging individual patients more than the set price. Hospitals delivering care for less than the set price may keep the difference. This scheme would replace the existing system in which, within certain limits, hospitals are paid after delivery of care for the portion of their total costs attributable to Medicare patients.

The set prices would not include hospitals' teaching costs or capital expenditures for construction or major equipment; those costs would continue to be paid under the existing system. The Senate bill, however, mandates that capital costs be factored into the new price structure after October 1986. Many medical economists regard controls on capital expenditures to be an important step toward controlling inflation in health care costs.

Both bills substitute a four-year phase-in of the new payment method for the Oct. 1 effective date suggested by the administration. Both require separate rates for urban and rural hospitals, and for different regions of the country; the administration plan had called for a single, national schedule of rates with area adjustments only for labor costs. Both would give state cost control systems substantially more authority than the administration wanted to depart from the set-price payment method if they meet certain criteria.

Both bills require the secretary of health and human services to study and report to Congress on the feasibility of applying the new price system to physician services in the future. ■

CLARIFICATION

Medicare Payments. Weekly Report p. 457, col. 3, 2nd full paragraph. The Gephardt amendment permits hospitals to bill separately for services provided during hospitalization if the hospital billed separately for such services before Oct. 1, 1982. However, because the legislation (HR 1900) includes an overall prohibition against billing individual Medicare patients, separate billings under this provision would be allowed only to Part B of Medicare, the optional plan that covers physician fees. ■

**REPORT OF THE
NATIONAL COMMISSION
ON
SOCIAL SECURITY
REFORM**

JANUARY 1983

The National Commission makes the following recommendations unanimously:

- (1) The members of the National Commission believe that the Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its fundamental principles.* The National Commission considered, but rejected, proposals to make the Social Security program a voluntary one, or to transform it into a program under which benefits are a product exclusively of the contributions paid, or to convert it into a fully-funded program, or to change it to a program under which benefits are conditioned on the showing of financial need.**
- (2) The National Commission recommends that, for purposes of considering the short-range financial status of the OASDI Trust Funds, \$150-200 billion in either additional income or in decreased outgo (or a combination of both) should be provided for the OASDI Trust Funds in calendar years 1983-89.
- (3) The National Commission finds that, for purposes of considering the long-range financial status of the OASDI Trust Funds, its actuarial

* See additional views of Commissioner Archer in Chapter 4.

** See additional views (with regard to the last point) of Commissioners Archer, Fuller, and Waggoner in Chapter 4.

**Leaders Optimistic:**

Social Security Rescue Plan Rushes to Final Hill Accord

Setting partisanship aside, the full House and the Senate Finance Committee have given a Social Security rescue plan a quick push toward final passage.

The House March 9, by a 282-148 vote, passed a bill (HR 1900) to keep the system from going broke. The Finance Committee approved a similar measure (S 1) the following day by a vote of 18-1. (*House vote 23, p. 530*)

The legislation now goes to the Senate floor where debate is expected to begin March 15 or 16. Congressional leaders are optimistic about sending a package to President Reagan before the March 26 Easter break.

The votes in both houses heralded the end of nearly two years of bitter partisan bickering over Social Security. Members indicated they expected little trouble with the legislation before it reaches the president's desk.

Congress must complete action soon or the financially troubled retirement system will be unable to pay out some 36 million benefit checks in July.

The House and Finance Committee measures closely parallel the recommendations made in January by the president's National Commission on Social Security Reform. But they also include provisions dealing with the system's long-range problems — an area where the commission could not reach consensus — that appear to have dampened much of the conservative opposition to the commission plan. (*Commission recommendations, Weekly Report p. 155*)

These include steps in both bills to raise the retirement age. The House would raise the age gradually from 65 to 67 by the year 2027; the Senate Finance Committee approved a one-year increase by the year 2015, but it also agreed to cut initial benefits 5 percent after the turn of the century.

William L. Armstrong, R-Colo.,

—By Pamela Fessler
and Elizabeth Wehr

one of the biggest Senate opponents of the commission plan, praised the Finance Committee bill, although he said he still planned to offer some floor amendments.

He observed that quick action in both houses and adoption of the retirement-age increase had proved "the cynics are wrong. There are occasions when Congress will rally to the task and do what is politically hard."

Armstrong and other conservatives had criticized the commission's rescue plan because of its reliance on some large tax increases to keep the

all new federal employees and workers in non-profit organizations beginning Jan. 1, 1984, and would include all current and new members of Congress under the Social Security system.

In addition, both bills include a major revamping of the way the government reimburses hospitals under Medicare and a six-month extension of an emergency jobless benefit program. They also increase certain Supplemental Security Income (SSI) benefits for the aged, blind and disabled poor.

Pickle or Pepper?

Final House passage did not come without a sometimes emotional floor debate over the best way to solve the system's projected financial difficulties when the Baby Boom generation begins to retire in the next century.

The president's commission left

***"The cynics are wrong.
There are occasions when Congress
will rally to the task and
do what is politically hard."***

—Sen. William L. Armstrong, R-Colo.



system afloat. One critic, Steven D. Symms, R-Idaho, cast the one dissenting vote in the Finance Committee.

Both bills would raise about \$165 billion over the next seven years. They are expected to solve the retirement and disability system's financial problems well into the next century by raising a total of almost \$1.9 trillion over a 75-year period.

Besides increasing the retirement age, the two measures would raise scheduled payroll taxes over the next decade, delay the July cost-of-living allowance (COLA) six months and tax the Social Security benefits of high-income individuals for the first time.

They also call for the coverage of

that sensitive issue unresolved, and the House Ways and Means Committee bill called for a hybrid solution — cutting benefits and raising taxes — with the understanding that two substitute proposals would be considered on the floor. (*Weekly Report p. 453*)

Besides an amendment raising the retirement age — offered by Social Security Subcommittee Chairman J. J. Pickle, D-Texas — Rules Committee Chairman Claude Pepper, D-Fla., proposed a .53 percentage point increase in payroll taxes in the year 2010 to prevent a cut in benefits.

But House members showed during the debate that while they were willing to give Pepper their admira-

Fight Over Tax Cut Heats Up As Bush and Moynihan Dig In

By DAVID E. ROSENBAUM
Special to The New York Times

WASHINGTON, Jan. 18 — An emerging battle over whether to cut Social Security taxes heated up today with President Bush sharply criticizing the proposed cut while the author of the proposal, Senator Daniel Patrick Moynihan, said he would not budge.

Their statements indicated that Mr. Moynihan's proposal could trigger a fierce political and legislative battle over a sensitive issue.

Mr. Bush called the Senator's proposal to cut Social Security taxes a "charade" that would lead to a tax increase or lower retirement benefits. Mr. Moynihan, in his first interview on the subject since he made the proposal three weeks ago, insisted that he intended neither a political trap nor a gambit to force other taxes to be raised. He also strongly rejected the suggestion that he wanted to lower retirement payments.

At the White House today, President Bush repeated the charges his aides have been making for days. "It's an effort 'to get me to raise taxes on the American people by the charade of cutting them, or cut benefits,'" the President said of the Moynihan proposal, "and I'm not going to do it to the older people of the country."

With both sides jockeying for political advantage, Vice President Quayle also weighed in on what has become one of the hottest topics of an especially slow period in Washington.

In an interview with The Associated Press, the Vice President said: "Let me tell you something. Cut these taxes the way Moynihan is talking about, you

have to cut benefits at some time, and the President and the Republican Party now have an opportunity to show the American people, once and for all, that the Republicans are as committed to the integrity of this Social Security trust fund as anybody."

Moynihan Sees No Budget Link

Senator Moynihan was interviewed by in a telephone call to Jerusalem, where he is winding up a trip for the Foreign Relations Committee to Africa and the Middle East.

"No, no, no," the Senator said when asked whether his proposal was a trap to force an increase in the income tax or some other tax. "It is not fair to say I want to raise taxes to offset the Social Security tax cut."

The Social Security system, he continued, "edges on the sacred, and to see its revenues debauched this way is an independent question that stands apart from the budget deficit, a tax increase or any other question."

How It's Being Paid

As of Jan. 1, workers and their employers are each paying a 7.65 percent payroll tax, 6.2 percent for retirement under Social Security and 1.45 percent for Medicare, the health insurance program for the elderly and disabled. The Social Security rate rose from 6.06 percent last year and the overall rate from 7.51 percent.

The tax is paid on the first \$51,300 of wages. The maximum tax this year is \$3,924.45.

Mr. Moynihan would repeal this year's increase and reduce the Social Security portion of the tax to 5.1 percent next year, saving workers and their employers as much as \$560 a piece.

Social Security and Income Tax

He argued that in the Reagan and Bush years the Social Security tax had been increased to balance a cut in income taxes. That is "inequitable," he said, because the poor and the middle class are affected more by the Social Security tax and less by the income tax.

Income taxes increase the more a taxpayer earns from all sources. Social Security taxes are paid at the same rate by all workers, they are assessed only on wages and not on interest, dividends or capital gains, and they are not paid at all on wages above \$51,300.

"We now have the most regressive tax system in the Western world," Mr. Moynihan said.

Congress has been in recess since Mr. Moynihan offered his proposal just before New Year's Day. Democrats have reveled in the political discomfort it has caused President Bush and his Republican allies, but no Democrat has yet endorsed the Moynihan plan. The only support Mr. Moynihan has gained has come from a few conservative Republican lawmakers.

The view of most Democrats is that Mr. Moynihan should be applauded for underscoring the inequities of the tax

system and the extent to which Social Security revenue is being used to mask the size of the Government's budget deficit. But the Democrats, and most moderate Republicans, also believe that the country cannot afford a tax cut of any kind.

Schumer Sees Economic Danger

Reflecting that conviction, Representative Charles E. Schumer, a Brooklyn Democrat who is on the Banking and Budget committees, said a tax cut would drive up the deficit, cause more Government borrowing, soak up private savings and damage long-term economic growth.

Senator Moynihan said he hoped that the President and Congress could get together and agree on ways to reduce the budget deficit, by cutting spending or increasing some other tax. But even without that, he said, the Social Security tax should be lowered. "If the deficit is increased, that would be bad," he said. "But if we have to go through a small crisis to straighten things out, fine, let's do it."

Mr. Moynihan observed that he had long supported an increased gasoline

tax, but he said he would not stick his neck out and suggest any tax increase now unless Mr. Bush did likewise.

The issue is being driven by partisan politics. Senator Moynihan has embarrassed Republicans by proposing a tax cut. It is the same kind of proposal that helped Republicans win the last three Presidential elections.

Help to All Workers Seen

Mr. Moynihan said that a reduction in the Social Security tax would help all workers, while the Bush plan to lower the capital gains tax rate would largely help the wealthy.

The rejoinder today from Mr. Bush and Mr. Quayle — that Mr. Moynihan's plan would lead to a cut in Social Security benefits — was similarly a move to capture a Democratic stronghold, the party's long-time advocacy of higher retirement payments.

Mr. Moynihan maintains that the money raised today through Social Security taxes affects future benefits only indirectly. He said he planned nothing that would lower those benefits.

Bush: Moynihan Idea a 'Charade'

Social Security Plan Is Cover for Tax Increase, President Charges

By Ann Devroy
Washington Post Staff Writer

President Bush, leading the charge against a Democratic proposal to reduce Social Security taxes, said yesterday the plan is a "charade" aimed at getting him to raise income taxes or eventually reduce Social Security benefits.

Bush, Vice President Quayle and White House press secretary Marlin Fitzwater joined yesterday in assailing both a tax increase plan unveiled Wednesday by Sen. Ernest F. Hollings (D-S.C.) and last month's call by Sen. Daniel Patrick Moynihan (D-N.Y.) for a cut in Social Security taxes. They linked the two proposals, arguing that they are both part of a Democratic scheme to force a general tax increase.

Moynihan in December announced he will introduce legislation when Congress returns next week to roll back the Social Security tax increase that took effect this year and another hike scheduled to take effect Jan. 1, 1991.

The Moynihan plan would return the Social Security system to a pay-as-you-go system, instead of allow-

ing the buildup of a huge surplus to cover the retirement benefits of the Baby Boom generation. The surplus is being used to mask the real size of the federal budget deficit and the New York senator argues that this amounts to "thievery."

Hollings proposed Wednesday enactment of a 5 percent value added tax (VAT), in effect a national sales tax, to replace the revenues that would be lost by the Moynihan plan and by Bush's proposal to reduce taxes on capital gains.

Republicans yesterday gleefully seized on the Hollings proposal as proof that the Moynihan plan was a Democratic ploy to force a tax increase. Fitzwater, who called the Moynihan plan a "wolf in sheep's clothing," said, "First we had the tax cut, now we have the tax increase. Can cuts in [Social Security] benefits be far behind? Look out, older Americans."

Bush, questioned about the Moynihan plan at a picture-session, said, "This is an effort to get me to try to raise taxes on the American people by a charade of cutting them, or cutting benefits. And I am not going to do it to the older people in this country."

Quayle, in an interview with the Associated Press, called the Moynihan plan "a political trap, and once people understand it, they won't fall for it." Referring to the Hollings plan, he said, "The cat's a little bit out of the bag right now."

The emerging debate over the level of Social Security revenues and their use to mask the budget deficit was joined yesterday by a group of 11 leading economists, including those who have served Democratic and Republican administrations, who sharply criticized the Moynihan plan, saying it would do "serious harm to the economy."

The group said the immediate effect of cutting \$55 billion in payroll taxes would be to worsen the federal deficit, leading to an increase in interest rates and further erosion in growth of the economy.

The economists acknowledged the proposal could be a "tactical device" aimed at focusing public attention on the "outrage" of using Social Security surpluses to reduce the deficit level. But the result, they argued, could be a general tax increase and a payroll tax cut but no effort to reduce federal spending. "The best hope is that Sen. Moynihan's proposal provokes a review of the nation's currently absurd budgetary policies," the statement noted. "The worst fear is that it might actually be enacted."

The statement was signed by economists that included Henry Aaron of the Brookings Institution; Nobel Prize winner James Tobin; Barry Bosworth, who served in the Carter administration; Alice Rivlin, former director of the Congressional Budget Office; Charles Schultze, and Paul Samuelson.

The White House finds itself in an awkward position, opposing a tax cut that has drawn support from its usual allies at the Chamber of Commerce and the conservative think-tanks. But officials have settled on a strategy of attempting to portray the Moynihan plan as inevitably linked to a later tax increase, or to a reduction in benefits.

Charles Krauthammer

Moynihan's Gambit: 274A A Terrible 30 Idea 104 169 167

The '90s are three weeks old and we already have a candidate for most irresponsible idea of the decade. The idea is to cut Social Security taxes. The bomb-thrower is Sen. Daniel Moynihan (D-N.Y.).

We are a country with a \$3 trillion debt. Debt service alone claims one out of every seven dollars in the federal budget. Our savings rate in the '80s was the lowest of any of the major industrial countries (about a third of Japan's, for instance). In such a country, talk of any tax cut is irresponsible. Yet Moynihan proposes one that he matter-of-factly admits will increase next year's deficit by \$55 billion.

True, Social Security taxes are about the most unfair way to boost national savings and keep the deficit down. A responsible politician, therefore, would propose (as this most responsible columnist suggested 18 months ago) not to cut but to shift taxes: to match a cut in Social Security taxes with an offsetting rise in the more progressive income tax. That way Joe Sixpack is relieved of some of the burden of balancing the budget while the budget itself is not further unbalanced.

This Moynihan does not propose. Why? I suspect it is partly out of anger and frustration. He helped engineer the Social Security tax hike of 1983. That increase is generating a huge Social Security surplus: \$65 billion in 1990, going up to \$236 billion in the year 2000. That surplus, which Moynihan had hoped would be used to retire old debt, is instead being used to finance current deficit spending.

Moynihan's response: cut the tax, abolish the surplus. This proposal is probably meant as a ploy only. If you are going to continue to live off my Social Security tax, he is saying to George Bush, while demagoguing for a capital gains tax cut, I can out-demagogue you. If you don't stop talking about capital gains, if you don't balance the operating budget by cutting spending or raising taxes, if you don't begin using the Social Security surplus for what it was intended (to pay off old debt)—then I'll cut \$55 billion in taxes myself and really wreck the budget.

It is hard to believe that Moynihan actually wants this to happen. But ideas like this, particularly politically irresistible ideas like tax cuts, have a life of their own. Moynihan may not be able to control his monster.

Moynihan's frustration is understandable, but it doesn't justify bomb-throwing. A Social Security tax cut is a very bad idea. Why? Don't listen to me. Listen to Daniel Patrick Moynihan. Writing as late as May 1988, he reveled in the brilliance of the tax hike he now wants to kill.

"In twelve days in January 1983," wrote Moynihan, "a half dozen people in Washington put in place a revenue stream that is just beginning to flow and that, if we don't blow it, will put the Federal budget back in the black, pay off the privately held Government debt, jump start the savings rate and guarantee the Social Security Trust Funds for a half century and more."

There is no better way to "blow it" than to destroy the surplus. Moynihan's tax cut would do exactly that.

But Moynihan now claims that the Republicans blew it. He feels betrayed that the Republicans did not clean up the budget deficit but instead used the Social Security surplus to balance the books. This he calls thievery.

Today, that is. In 1988 he considered it normal accounting. "This revenue stream must be deposited with the Treasury," he declared. Today he professes to be shocked—shocked!—that the Treasury used it to shrink the deficit.

Moynihan in 1988: "Our present deficit 'path' takes us, in theory at least, to a zero deficit by 1993. If [his italics] that happens, the revenue stream from Social Security will be sufficient to begin retiring debt by 1994."

To begin retiring debt by 1994. So all along Moynihan expected that *until 1994* the Social Security surplus would be used to shrink the *current* budget deficit. The projected Social Security surplus in 1993 is \$99 billion. All along he was prepared for \$99 billion of the Social Security surplus to go toward offsetting the operating budget deficit—a prospect, he now professes, that scandalizes him.

Why was the original Social Security tax increase such a good idea? Because, explained Moynihan in 1988, "our real economic problem is that we don't save enough." That is as true today as it was in 1988. Now, however, Moynihan launches a gratuitous proposal for a \$55 billion annual dissaving.

Moynihan really doesn't want this to happen. He wants to keep his 1983 baby, have the operating budget balanced, have his Social Security surplus retire all of our outstanding debt to the Japanese and others, and thus reclaim our economy and increase our productivity. Good idea. But he threatens the entire enterprise with his shock treatment.

Shock treatment that makes no sense. He wants to balance the operating budget without Social Security. For that, a tax hike (or drastic spending cuts) is needed. The idea that the way to get Republicans to accept a tax hike is to threaten them with a tax *cut* is bizarre.

It is understandable that Democrats, having been whipsawed on the tax issue for so long, now savor the chance for some tax cutting demagoguery of their own. As one eager Democrat put it, "Ronald Reagan and George Bush have relieved the Democrats of any obligation to be responsible in fiscal matters." The Moynihan gambit embraces this newly

HAYNES JOHNSON

Devilishly Clever

Pat, that pixie, has turned the Washington political world upside down. His proposal to cut the Social Security payroll tax is the most ingenious, seductive and maybe destructive Machiavellian political maneuver since the Reagan true believers came to town preaching the miracles of supply-side economics and the benefits of big tax cuts.

In one brilliant move, Sen. Daniel Patrick Moynihan (D-N.Y.) has struck a welcome blow for honesty instead of hypocrisy in government, shifted the political focus from favors for the few to those for the many, challenged every adult American to decide what he or she is willing to pay for and turned the tables on the supply-side tax-cut theorists who held away here with such damaging effect on the country.

You remember the supply-siders. Cut taxes, they proclaimed, and miracles will occur: Economic growth will soar, tax revenues will actually *increase*, inflation will decline and savings rates will rise. And all of this will be achieved without having to endure the painful, politically unappealing process of slashing federal spending, enduring a wrenching recession or a combination of both.

Theirs was a fail-safe, pain-free formula for easy economic success and all so breathtakingly simple. Cutting oppressive top tax rates meant that people would have more money to spend. Higher tax rates discouraged investment; lowering them encouraged it. Furthermore, they promised, the more taxes were cut, the more economic activity would be generated. The greater the general prosperity, the greater the tax revenues for the general good. Why, you could actually reduce the national debt, increase defense spending *and* balance the budget within three years. Utopia.

Of course, it didn't turn out that way. The Reagan years did produce economic growth, lowered inflation and a huge defense buildup—but at a price of a severe recession in 1981-82, the greatest deficits in the nation's history, sharply reduced savings rates and a society so laden with debt that America's future has been mortgaged. It turned out, too, that the famous supply-side tax cuts were hardly as advertised. They represented a cynical public deception.

As Reagan's budget director, David A. Stockman, later confessed to writer William Greider, the truth about supply side was nothing more than the old

"trickle down" theory of economics favoring the rich over the poor. Stockman's dirty little secret, as imparted to Greider, was that supply-side doctrine "was always a Trojan Horse."

Now, with exquisite irony, it is Stockman's mentor, Moynihan, who has employed tax-cut politics to confound the conservatives and make them squirm. At Harvard University, where Moynihan then was teaching, young graduate student Stockman lived in Moynihan's home. "I have never known a man capable of such sustained self-hypnotic ideological fervor," Moynihan later said of his part-time baby sitter. "One day, he arrives at Harvard preaching the infallibility of Ho Chi Minh. Next thing you know he turns up in Washington proclaiming the immutability of the Laffer Curve."

Moynihan also was first to charge that the Reagan administration had "consciously and deliberately brought about" higher deficits as a means of forcing congressional domestic-spending cuts. At the time, Moynihan was denounced for making such an assertion. Events proved him correct, with a vengeance. Cuts necessary to achieve balanced budgets were never made, however. The deficit ballooned to even greater heights.

So, nine years later, comes a Moynihan-led move that promises to reverberate through the politics of the '90s. Under his plan, ordinary taxpayers reap the greatest tax-cut benefits. By contrast, under President Bush's capital-gains tax-cut plan, the wealthy benefit most.

Moynihan's proposal is deceptively simple and devilishly clever.

Funds from the annually rising Social Security payroll taxes are being diverted to mask the real size of the federal deficit and sustain the operating costs of the government. That's not the way it was supposed to work when Moynihan, among others, helped to achieve bipartisan agreement on Social Security. Those funds were intended to be preserved to pay Americans' retirement benefits in the next century. Instead, they're being plundered by today's politicians.

Let's end the charade, Moynihan argues. Cut back those payroll taxes and adopt a pay-as-you-go method for Social Security. Critics fear that Moynihan's plan will wreck "the system." Some of us who look back on the record of fiscal irresponsibility of the last decade think that the system already is wrecked. It's about time to start over.

Legislative Council MEETING - 29TH

TALKING POINTS

SENATOR MOYNIHAN'S PROPOSAL TO REDUCE PAYROLL TAXES

BACKGROUND

The 1983 Social Security Amendments called for increasing Social Security payroll tax (FICA) rates to assure the fiscal stability of the Old-Age Survivors and Disability Insurance Trust Funds for 75 years. The tax rates were raised in 1984, 1985, 1986 and 1990. The 1990 increase is the last scheduled raise in the rates.

In a departure from past practice, these FICA tax rates were set at a level sufficient to prefund a portion of the retirement benefits of the "baby boom" generation.

Senator Moynihan, one of the architects of the 1983 compromise, has now proposed rolling back the 1990 increase in the payroll tax (.14%) and then in 1991, "floating the tax rate--setting it a level to cover current benefits and a small contingency reserve. Essentially, current workers (dominated by the baby boom) would only pay sufficient taxes to cover current retirees and future generations would pay higher payroll taxes to cover retirement benefits for the baby boom.

"The debate over this and similar proposals is not essentially about the well being of today's retirees. Rather, it is a debate how the Social Security promise will be honored in the future. The economic choices we make in the next few years may very well determine whether or not we will be able to keep these promises for the baby boom and beyond."

This proposal raises a number of significant issues and concerns:

1. The Trust Funds do not even have a contingency reserve of one year at this time. The one year level is considered a minimum. AARP believes that up to two years reserves are necessary. The contingency reserve is need to ensure that the Social Security System can get through periods of economic slowdown or recession without crisis.

2. Senator Moynihan's major reason for proposing a rollback in the tax rates is that the Social Security trust fund buildup is being used to mask the true extent of the Federal deficit and to finance the deficit in the operating budget of the Federal government. These are legitimate concerns but the Moynihan proposal goes well beyond simply dealing with this issue.
3. AARP believe that gradually removing the Trust Funds from the Gramm-Rudman-Hollings (GRH) deficit calculation would expose the true dimensions of the deficit and spur positive action.
4. The reserve was designed to ensure benefits to future generations. It was seen as source of new national savings which would make the economy stronger and more productive in the future.
5. The reserve was also seen as a fairer way to ensure benefits to the baby boom. It is reasonable to ask the large baby boom generation to provide for a portion of its own retirement benefits since future working generations will be of much smaller numbers.
6. However, the reserve can only serve these beneficial functions if the rest of the Federal budget is in relative balance. Senator Moynihan's proposal is based on the premise that we cannot get our budget house in order and therefore, we should not make future promises based on the buildup of the reserve. Many believe that this determination is premature and that we should not give up on the reserve yet.
7. Floating the tax rate would give an immediate tax cut to workers and their employers. But, it may undermine further confidence in Social Security. Eliminating the buildup of the reserve in favor of raises taxes in the future to pay benefits could raise anxiety and lower confidence. Some fear that benefits to the baby boom would end up being reduced because there would be little willingness in the future to raise the payroll tax to the levels necessary to sustain the current benefit promise.
8. Giving a tax cut now could be seen as little more than a continuation of the trend of the last ten years of immediate gratification with the bills to be paid later.
9. However, this tax cut is not "free". The money (\$50 billion or more in the first year of the floating tax rate) would have to be made up in other taxes or by increasing government indebtedness.
10. This proposal should be taken seriously and its effects carefully scrutinized.

January 12, 1990

SELECTED PAST REMARKS BY SEN. MOYNIHAN ON SOCIAL SECURITY

Moynihan on Social Security and the the Greenspan Commission:

- o "'If it ain't broke, don't fix it,' is a commonsensical caution for people not content to leave well enough alone. I propose a corollary, one particularly suited to any discussion of the Social Security system; 'If it's fixed don't break it!'"[emphasis added]¹
- o "If we are to have another debate about changing the Social Security system, let us not lose sight of these facts: The program is secure; it is depended on; it is effective. The burden of proof falls upon those wishing to change things."²
- o "I submit to you that after 1985, social security will not contribute one cent to the Federal deficit -- in fact, it will be part of the solution."³
- o [The Social Security system is] "the most successful policy ever devised in our land."⁴
- o [The revenue stream resulting from the the Greenspan Commission's reforms] "will put the Federal budget back in the black, pay off the privately held government debt, jump start the savings rate and guarantee the Social Security Trust Funds for a half century and more [emphasis added]."⁵

¹ Congressional Record, 7-31-84, E3378

² Congressional Record, 7-31-84, E3378

³ Congressional Record, 3-20-84, S2926.

⁴ "Moynihan Praises Social Security System," by Robin Greene, UPI, 12/31/88.

⁵ "Conspirators, Trillions, Limos in the Night," by Sen. Daniel Patrick Moynihan, New York Times, 5/23/88.

(more)

Background On Moynihan And The Greenspan Commission

- o As a member of the National Commission On Social Security Reform (The Greenspan Commission), which issued its report in January, 1983, Moynihan supported increases in the payroll tax that funds the retirement portion of the program -- increases to be phased-in over a seven year period. One of those increases, from 6.06 percent to 6.2 percent, just took place on January 1st. Moynihan seeks repeal of that increase, and a further cut in the rate to 5.1 percent by Jan. 1, 1991.⁶ In other words, Moynihan now wants to do away with the increases he favored in 1983.
- o In fact, Moynihan wanted the tax increases to be even higher. In a supplementary statement to the Greenspan Commission's Report, signed by Moynihan and four other members⁷, a proposal to further increase taxes read as follows:

"For purposes of present legislation we would support putting in the law now an increase in the contribution rate beginning in 2010 of %.046 of payroll..."⁸ After the Greenspan Commission submitted its report, Moynihan tried his additional tax increase in the Senate Finance Committee, which voted 15-2 against Moynihan's proposal.⁹
- o The Greenspan Commission unanimously recommended, in the words of the report,

"that the Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its

⁶ "Moynihan's Plan Makes Bush the Tax Ogre," by Donald Lambro, Washington Times, 1/11/90.

⁷ The four other members were Lane Kirkland, Claude Pepper, Robert M. Ball, and Martha Keys. There were 15 members total on the Commission.

⁸ Report of the National Commission on Social Security Reform, (Washington, 1983).

⁹ "Social Security Rescue Plan Rushes to Final Hill Accord," by Pamela Fessler and Elizabeth Wehr, Congressional Quarterly, 3/12/83.

fundamental principles. The National Commission considered, but rejected, proposals to make the Social Security program a voluntary one, or to transform it into a program under which benefits are a product exclusively of the contributions paid, or to convert it into a fully-funded program, or to change it to a program under which benefits are conditioned on the showing of financial need."[emphasis added]¹⁰

- o Both houses of Congress, in a remarkable show of unity, swiftly enacted the Greenspan Commission's recommendations, including the seven year phased-in payroll tax increase. A typical lead was from Congressional Quarterly: "Setting partisanship aside, the full House and the Senate Finance Committee have given a Social Security rescue plan a quick push toward final passage."¹¹

The vote in the House for the Greenspan reforms was 282-148, on March 9, 1983.¹² The Senate voted 58-14, on March 25th, 1983, with Moynihan voting Yea.¹³

ATTACHMENTS

¹⁰ Report of the National Commission on Social Security Reform (Washington, 1983)

¹¹ "Social Security Rescue Plan Rushes to Final Hill Accord," by Pamela Fessler and Elizabeth Wehr, Congressional Quarterly, 3/12/83.

¹² "Social Security Rescue Plan Rushes to Final Hill Accord," by Pamela Fessler and Elizabeth Wehr, Congressional Quarterly, 3/12/83.

¹³ 1983 CQ Almanac; CQ Senate Vote 54

strategy for dealing with the Soviet Union. At very least, this strategy would require a coordinated response by NATO members to major Soviet challenges around the world. Such a strategy was possible during the first twenty years of the alliance's life, but détente in the last decade brought benefits to Europe that were not shared by America. Thus, most Europeans today believe that a working relationship can be maintained with the Soviet Union, while most Americans still see the Soviet Union as an aggressive power whose designs on Europe and other regions must be resisted. This difference in perception is dividing the alliance, and ultimately may threaten its viability.

A second issue for NATO is how to ease economic tensions that are sapping the alliance's strength. The U.S. is enjoying an economic recovery that is faster than Europe's. European leaders argue that the U.S. recovery is taking place at Europe's expense, and that high U.S. interest rates soak up money that could be invested in Europe's recovery. The U.S. and Europe are also engaged in several trade disputes that have serious implications for important economic sectors on both sides of the Atlantic. The strength of NATO depends on the combined economic strength of its members, and both the U.S. and Europe will have to make future economic decisions in view of their impact on the alliance.

How NATO should react to the challenge of events beyond the North Atlantic region is a third issue. The U.S. position is that NATO should fashion a coordinated response to such events. Washington believes that NATO has a duty to act when its security is at stake, and that European members should be ready to replace U.S. forces that might be moved from Europe in an emergency. The Europeans, however, are not keen on replacing U.S. troops, and they are especially reluctant to ready their own troops for combat abroad. They point out that U.S. and European interests may not coincide outside Europe, that some nations cannot legally use armed force outside their borders, and that Europe no longer has the resources necessary to project military force to distant points.

A final issue before NATO is how to improve its conventional military strength. This is a pressing concern because there is doubt whether NATO could counter an invasion by the Warsaw Pact without early, and probably cataclysmic, use of nuclear weapons. The Europeans know that their own homelands would be the first areas devastated in a nuclear exchange, so they and the U.S. have agreed on the need to upgrade conventional forces. There is disagreement, however, on the allocation of expense. The U.S. wants its allies to increase their defense budgets 3 percent annually, just as they said that they would do in 1978. The allies say that they will do their best to increase defense spending, but contend that their economic troubles may keep them from reaching the original goal.

How the burden of a stronger conventional defense should be shared is in fact one of NATO's knottiest problems. The U.S. spends more of its gross domestic product (6.5 percent in 1982) on defense than do its NATO allies (3.7 percent in 1982), and in 1983 the U.S. increased its defense spending by 7.6 percent while the allies raised theirs by only 2 percent. For their part, the allies point out that during the 1970s they increased their defense spending by 2 percent annually while U.S. military outlays fell by 1 percent per year. They note as well that they get more value for each dollar because their conscripted forces cost less than America's volunteer force. Burden-sharing also involves NATO's commitment to a more eq-

uitable balance in arms sales between the U.S. and the allies. At present, the U.S. enjoys a seven-to-one advantage in such sales within NATO. The allies recognize NATO's need for advanced weaponry, but they are afraid that a U.S. push for more of it will give American arms manufacturers an even larger share of NATO's markets. The cost of new weapons is high, and many Europeans doubt that they can afford them.

NATO's conventional strategy is also unsettled. Greater conventional strength based on advanced weaponry would decrease NATO's reliance on nuclear weapons, but also would enable NATO to strike deep into Warsaw Pact territory. The possibility that new weaponry might cause NATO to shift to an offensive strategy is extremely troubling to many in Europe, particularly in Germany.

These are the major issues that will dominate NATO's deliberations during the coming year. One of the important ways that the U.S. can contribute to resolving them is through arms control. Goodfaith efforts and meaningful negotiations with the Soviet Union can help close the rift between American and European perceptions, and can give our friends in Europe the political support that they need to make the case for increased defense spending and stronger conventional forces.

Other issues will surface, but if the alliance can handle these it will continue to provide an effective military shield behind which the nations of the West can prosper. The allies still appreciate the importance of NATO. So do many Americans. All parties, however, must be willing to accept the responsibilities and sacrifices necessary to keep the alliance healthy. ■

SOCIAL SECURITY DEPENDABLE

HON. BRUCE F. VENTO

OF MINNESOTA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, July 31, 1984

■ Mr. VENTO. Mr. Speaker, recently an article by Senator DANIEL PATRICK MOYNIHAN concerning the current status of our Social Security System and its outlook for the future was published in the St. Paul Sunday Pioneer Press (July 15). Senator MOYNIHAN, who served as a member of the National Commission on Social Security Reform, observes that Congress' passage of the Social Security Act Amendments of 1983 insured the future stability of our Nation's basic social insurance program and notes that the Social Security Program has helped millions of older Americans avoid living in poverty. Senator MOYNIHAN's reasoned observations are especially timely in light of the recent remarks by President Reagan suggesting that young people will never be able to receive as much from this system as they are paying into it and that further (although unspecified) changes may be necessary.

President Reagan's comments are a disservice to the Nation and only serve to exacerbate unfounded fears and anxieties among young workers and older Americans. The President's statements and responses mislead young people when he suggests that there will not be a strong Social Secu-

rity System in the future to meet the needs of today's young people. For 50 years now, the American people have honored the social contract in which working people provide the financial security for older Americans and income security for those disabled. Irresponsible statements from President Reagan or others are geared to undermine the Social Security Program and generational contract. The real risk to the Social Security Program comes from the catastrophic events in our economy which has been subjected to the roller coaster ride of Reagan's "voodoo economics!" There is no sound reason to suggest that this social contract will not be honored for future generations as well as current retirees. The universal nature of the Social Security System has been and will continue to be the foundation of the System's strength, both for today's and tomorrow's beneficiaries.

[From St. Paul (MN) Sunday Pioneer Press, July 15, 1984]

SOCIAL SECURITY DEPENDABLE; DON'T TAMPER WITH IT NOW

(By Senator Daniel Patrick Moynihan)

"If it ain't broke, don't fix it," is a commonsensical caution for people not content to leave well enough alone. I propose a corollary, one particularly suited to any discussion of the Social Security system: "If it's fixed, don't break it!"

On Jan. 15, 1983, the National Commission on Social Security Reform, on which I served, agreed to a set of recommendations to put Social Security on a firm financial footing.

Our proposals became law three months later, and my optimism about their efficacy—expressed at the time—remains. On April 5 of this year, Donald T. Regan, treasury secretary; Raymond J. Donovan, labor secretary, and Margaret M. Heckler, health and human services secretary—the trustees of the Social Security funds—reported that the benefits provided "under these programs can be paid well into the next century."

During the commission's deliberations, Alan Greenspan, our chairman and former chairman of the president's Council of Economic Advisors, imposed a simple but crucial rule: Members were entitled to their own opinions, but not to their own facts. In deference to our chairman's rule, herewith some facts:

By next year, the revenues from Social Security taxes will match the costs of Social Security benefits. Indeed, we now expect revenue surpluses to begin in 1986 and build, according to Social Security's actuarial, to \$13.4 trillion by 2025 and \$18.4 trillion in 2045. Unless the economy takes a sudden nosedive and sharply erodes Social Security revenues within the next few years, the retirement and disability funding problems would seem to be behind us.

The universal social insurance system established in 1935 is central to the way we plan our lives.

Social Security is an undeniable success. The system has helped reduce poverty dramatically among the nation's elderly. In 1937, three years before the first check was distributed, two-thirds of all Americans 65 years or older had no means of support except help from friends and relatives or private charities. Today, more than 85 percent of all elderly citizens have incomes above the national poverty line.

If we are to have another debate about changing the Social Security system, let us not lose sight of these facts: The program is secure; it is depended on; it is effective. The burden of proof falls upon those wishing to change things.

President Ronald Reagan recently remarked (once again!): "There is a possibility—well, probability—that many people, young people now paying in, will never be able to receive as much as they're paying." In response, James M. Brown, a spokesman for the Social Security Administration, said that Social Security "is not just a retirement benefit. You are buying a package that also includes protection against disability and death. Nobody else offers a package like that." The president sometimes seems genuinely to misunderstand the system.

Few among us know what our financial condition will be in the future, and it is only wise to eliminate fear of economic calamity by making regular, and relatively small, premium payments throughout our working lives.

At its inception in 1935, Social Security provides benefits only for retirees, but eligibility has since been broadened. In 1939 before the first benefit was paid, retirees' dependents and survivors were accepted as beneficiaries. And under President Dwight Eisenhower in 1956, permanently and totally disabled workers began receiving Social Security checks. Today, some 25 million retired workers, almost 4 million disabled workers, and more than 7 million survivors receive Social Security benefits.

As with other types of insurance, of course, the lucky ones are those who do not need to collect. But it is nice to know it is there.

There is no little antagonism to the compulsory nature of Social Security. However, the system is trustworthy only if it's universal. If given the chance, how many people would have the time, knowledge, and, above all, capital to provide security for the future? And what of those who would try but fail? Stock go down sometimes, right?

The plain fact is that Social Security means that older persons in America do not depend on their children for support. This is a blessing beyond words. Not to the children, but to the parents who know they never will be a burden to the dearest persons in their lives.

Recently, Treasury Secretary Regan said the practice of paying benefits to those at the "upper end" of the economic scale should be re-examined. Well, why should well-off Americans receive an income supplement? Because depriving them of the benefits for which they have paid undermines the insurance principle of Social Security.

Would it be right or prudent to tell those whose homes burn down that they cannot collect fire insurance because they have resources sufficient to cover the losses? Of course not. Just so with Social Security.

Once we end the universal nature of the system, we inevitably weaken the universal nature of its political support.

Certainly, there are administrative changes that can improve Social Security Administration operations. Our commission recommended, and Congress approved, appointment by the president of two members of the public to the Social Security Board of Trustees. We can enhance public confidence in the system by increasing public involvement in its oversight. But these appointments have not been made.

It has been suggested that the agency be made an independent body (it is now within the Department of Health and Human Services). I agree with Robert Ball, the agency's former commissioner, who said this step

(which would not change the benefit structure) "would add significantly to the public understanding of the trustee character of Social Security as a retirement and group insurance plan."

Social Security has been a fixture in the United States for nearly a half-century. Yet after all this time and success, some are not reconciled to it. This is unfortunate. But it is a minority view, and it doesn't change the facts. Social Security is fixed in more ways than one. Don't break it.

[Senator Moynihan, of New York, is the ranking Democrat on the Senate Finance Committee's Social Security and Income Maintenance programs subcommittee.—The Los Angeles Times]●

IN MEMORY OF FORMER CONGRESSMAN CHARLIE WILSON

HON. WILLIAM (BILL) CLAY

OF MISSOURI

IN THE HOUSE OF REPRESENTATIVES

Tuesday, July 31, 1984

● Mr. CLAY. Mr. Speaker, a former colleague, Charles Wilson, passed away Saturday, July 21, 1984. I insert my message to his lovely wife, Bok, as a lasting tribute to a true friend:

DEAR BOK: You are not alone. All of Charlie's many friends share his loss with you. Carol and I count ourselves among his closest friends.

At a time like this, words are not adequate to convey the pain and emptiness we feel. Even constrained by our limited power of expression, we are compelled to verbalize the deep hurt we share with you—the loss of our dear and longtime friend, Charlie.

True friends are a rarity. Charlie was our true friend. When he laughed, we laughed. When he cried, we cried. When he rejoiced, we rejoiced. When he hurt, we hurt. When he died, a part of all mankind died.

Ernest Hemingway put it best when he wrote: "For Whom the Bell Tolls." He said, "No man is an island, entire of itself; every man is a piece of the continent, a part of the main; if a clod be washed away by the sea, Europe is the less, as well as if a promontory were, as well as if a manor of thy friends or of thine own were; any man's death diminishes me, because I am involved in mankind; and therefore never seem to know for whom the bell tolls; it tolls for thee."

A longtime family commitment forced Carol and I to be in Connecticut, and we will be unable to see you for the next few days, however, we will call you when we return so that we can get together.

Sincerely,

BILL AND CAROL CLAY.●

SECTIONS 1 THROUGH 7 OF H.R. 1310

SPEECH OF

HON. SILVIO O. CONTE

OF MASSACHUSETTS

IN THE HOUSE OF REPRESENTATIVES

Wednesday, July 25, 1984

● Mr. CONTE. Mr. Speaker, I am glad to see that H.R. 1310, the math and science education bill, has returned to this floor for our consideration. And I am pleased to rise in support of this important measure.

Mr. Speaker, this initiative to strengthen mathematics and science education in this country is long overdue. Deficiencies in math and science curricula and equipment have serious injured the morale of this country's teachers and the capabilities of our students. The National Science Foundation [NSF] has reported that math and science teachers have had serious difficulty in obtaining information concerning new instructional materials, thereby hampering the Nation's efforts to improve curriculum. Additionally, the National Association of Secondary School Principals has reported that only 45 percent of all secondary schools possess some sort of science equipment. These are disturbing facts demonstrating serious, widespread problems in our country's ability to educate our children.

Fortunately, H.R. 1310 defines immediate Federal, State, and local roles for improving math and science education and teacher preparation. The bill provides incentives to encourage future generations of teachers to enter these fields, and to help improve the skills of current teachers. Additionally, the problems of student preparation and achievement are addressed by authorizing educational agencies and institutions to develop methods to improve, strengthen, expand, and modernize math and science education.

Moreover, H.R. 1310 addresses the serious problems of underrepresentation of women and minorities in these disciplines by requiring grant recipients to take concrete action to ensure equal educational opportunity. I strongly support this provision and salute the committee's continued efforts to improve opportunities for all Americans.

Mr. Speaker, in considering the bill before us today, however, I am concerned over one amendment added by the other body to provide funding for magnet schools which are part of an approved desegregation plan. My reservations about supporting this amendment stem from its heavy bias toward the larger school districts, while appearing to shun the smaller but equally needy districts. I understand from the colloquy on this debate, however, that the eligibility criteria set forth in the amendment do not preclude those smaller desegregating districts, and therefore I withdraw my reservations. Further I would hope that, this being the case, the Secretary will give close consideration to the needs of those smaller districts when considering awards under this program.●

others. I am proud to have the opportunity today to commend Mr. Michael Bongiovanni.●

SOCIAL SECURITY

● Mr. MOYNIHAN. Mr. President, 1 year ago, the Senate began its consideration of H.R. 1900, the Social Security Act Amendments of 1983. At this benchmark, it is instructive to reflect on the reform legislation enacted last April.

I call my colleagues' attention to the recent report by the Committee for Economic Development, entitled "Social Security: From Crisis to Crisis?" CED, a private nonprofit, nonpartisan organization of business executives, has suggested that the 1983 amendments to the Social Security Act "provide very little margin of safety." It contends that, should economic and demographic trends be less favorable than assumed in the 1983 amendments, the system could face another financial crisis in this decade. The economic assumptions on which Congress relied for these amendments, it is claimed, "fall to cover a realistic range of possibilities" with respect to actual economic performance.

This simply is not the case. The National Commission on Social Security Reform, on which I served, based its recommendations on economic assumptions generally considered to be quite cautious. The intermediate assumptions were thought by some to be less favorable than our best estimates would have suggested, but we were wary of the perils of over optimism.

I submit for your attention, then, an editorial which appeared in the Washington Post on February 25, entitled "Social Security False Alarm," and a letter to the editor of the Washington Post written by Robert M. Ball and Robert J. Myers. These two pieces give an accurate first year report card on the Social Security Amendments of 1983, one that ought to be considered by all.

Mr. Ball, the distinguished former Commissioner of Social Security and a member of the National Commission, and Mr. Myers, the highly respected former Chief Actuary and Deputy Commissioner of Social Security who served as executive director of the Commission write that the economic assumptions used by the National Commission were—

Slightly on the pessimistic side (and currently economic conditions are more favorable. Moreover, even under the pessimistic assumptions, the financing of the system will be reasonably adequate in the 1980's, and it would take much more than a small unfavorable wiggle in basic trends to produce a financial crisis.

Mr. Ball and Mr. Myers make a second point of considerable importance:

The social security program, which will be part of the unified budget until 1992, will not be a part of the deficit, but rather will be part of its solution.

At a time when it has become fashionable to advocate cuts to run-away entitlement programs in order to reduce the deficit, we must recognize precisely how, or if, entitlement programs are contributing to the deficit. I submit to you that after 1985, social security will not contribute 1 cent to the Federal deficit—in fact, it will be part of the solution.

I hope that my colleagues will take the time to review these articles. There is no way to guarantee that social security will never need additional financing changes. But as the Post editorial concludes, "there is no sense in sounding a general alarm while sailing in untroubled waters." Mr. President, I request unanimous consent that the following articles from the Washington Post, "Social Security False Alarm" and "Social Security is in Good Shape" appear in the RECORD.

The articles follow:

[From The Washington Post, Feb. 25, 1984]

SOCIAL SECURITY FALSE ALARM

Less than a year ago Congress enacted a bipartisan reform program to put the Social Security retirement system on sound footing for the foreseeable future. Now comes a report from the Committee on Economic Development, a national business policy group, warning that Social Security may be in trouble before the end of the decade.

Before you pick up your pen to dash off a worried letter to the president or Congress, you should know that the CED's report is not based on any new analysis or insight. The projections it cites are taken from last year's report of the Social Security Trustees, and are essentially the same as those used by Congress and the bipartisan Social Security commission in framing the reforms put into law last March. True, things have changed somewhat since that time—but not in the way that the CED's report would suggest. They've gotten better.

The important thing to remember about last year's reforms is that, for once, they were not based on a rosy view of the future. The reform package was designed to see the Social Security trust funds through this decade under a very pessimistic economic forecast—unemployment remaining above 10 percent until 1985 and not dipping below 8 percent until almost the end of the decade, and wages barely outpacing inflation.

Of course, the economy is already much better than that. And, as the Congressional Budget Office's new projections show, even if the economy heads back into a recession a year or so from now, the trust funds should have sufficient reserves to make it through the tightest period before legislated tax increases begin to build up the funds later in the decade. And, if economic conditions become very bad, the law now contains a safeguard that keeps benefit cost-of-living adjustments from outpacing wages when trust fund reserves are low.

Beyond this decade, it's important to remember, the retirement trust fund is headed toward a period of surpluses. That's because the generation that will be retiring in the mid-1990s was born in the low-birth-rate years of the Depression, while the labor force, which pays Social Security taxes, will still be swollen by the baby-boom generation.

Sometime in the next century, when the baby-boomers reach retirement, the surpluses will disappear, as the CED warns. Howev-

er Congress' brave decision to go beyond the commission's recommendations and phase in a delay in the retirement age makes it less likely that drastic changes will then be needed. In the meantime, building up enormous reserves in the trust funds—which would offset deficits in other parts of the budget—would only discourage needed budget discipline.

There is no way to put a system as big and important as Social Security on automatic pilot for all time. But there is no sense in sounding a general alarm while sailing in untroubled waters.

[From the Washington Post, Feb. 10, 1984]

SOCIAL SECURITY IS IN GOOD SHAPE

(By Robert M. Ball and Robert J. Myers)

Hobart Rowen ["Social Security: It's Not So Secure," op-ed, Feb. 16] asserts that the Social Security system is once again likely to run into financial difficulties despite the reform legislation enacted last April. A large part of his conclusion is drawn from the recent report by the Committee for Economic Development entitled "Social Security: From Crisis to Crisis?"

We disagree strongly with Rowen's conclusions. We refer only to the Social Security program (Old-Age, Survivors and Disability Insurance—OASDI) and not to the Hospital Insurance portion of the Medicare program. The National Commission on Social Security Reform recognized, and we agree, that under present law Hospital Insurance has a serious financing problem some five or more years from now. It was not the assignment of the national commission to deal with this problem, but rather with the more immediate problem of the Social Security programs.

Rowen claims that eventually Social Security and other entitlement programs will require further changes for two reasons: first, "to keep them financially healthy and, second, to help cut the dangerous federal deficits." We believe that it is highly probable that the Social Security system will be financially healthy over at least the next two decades. For the period 20 to 75 years after that for which estimates are traditionally made, we believe the estimates underlying the financing of the program are reasonable and even somewhat on the conservative side.

As to Rowen's second point, the Social Security program, which will be part of the unified budget until 1992, will not be a cause of the deficit, but rather will be part of its solution. This is so because, under any reasonable assumptions, income to the self-financed OASDI trust funds will exceed outgo during the near-future years and for a couple of decades thereafter. It would not seem reasonable to further help reduce the general federal deficits by cuts in the Social Security program which, in itself, is in a state of positive fiscal balance.

The CED report leaves the implication (which Rowen latches on to) that, if economic conditions are only slightly worse than the intermediate assumptions, the system will be insolvent before the end of the 1980s. This is not correct, because the intermediate assumptions are, we believe, slightly on the pessimistic side (and currently economic conditions are more favorable). Moreover, even under the pessimistic assumptions, the financing of the system will be reasonably adequate in the 1980s, and it would take much more than "a small unfavorable wiggle in basic trends" to produce a financial crisis.

This is not to say that there is no possible scenario that would cause the Social Security system to have short-term financing

problems. What it would take is something like double-digit unemployment, with wages rising no more rapidly than prices. This we believe to be very improbable.

Even under the pessimistic assumptions of the 1983 Trustees Report, the OASDI trust funds would have a balance of at least two months' outgo at all times in the 1980s, while under the intermediate assumptions this ratio would, desirably, build up and would amount to about five months' outgo at the beginning of 1990, and increase rapidly thereafter.

We see no reason to make changes in the benefit structure in order to provide an even wider margin of safety than now exists.●

STRENGTHENING AMERICAN EDUCATION

● Mr. LAUTENBERG. Mr. President, few issues have more importance to the future of our country than education. Our ability to compete in the international economy in years to come, our ability to continue as a nation of opportunity for all, and to advance together as a nation, is dependent on the education provided our young people.

Recent reports from the Commission on Excellence on Education and others highlight existing weaknesses in our educational programs. Indeed, the National Commission on Excellence in Education has likened the situation in American education today to unthinking, unilateral education disarmament.

If such an incident had been leveled at the defense establishment in this country, the cries of dismay from the White House and the Congress would have been loud and instantaneous.

Reaction to the harsh assessment of the Education Commission has been more temperate. Nevertheless, Mr. President, I, for one, must express my deep chargin over the state into which our educational system has fallen. As the Commission on Excellence report rightly notes, citizens look to educators and elected officials to provide leadership to reverse educational trends in our country.

Providing more money for education is by no means the only answer to difficulties in education today. However, approval of increased educational expenditures can give encouragement to educators doing their best under difficult circumstances in the Nation's classrooms. It can provide increased resources for existing programs that have proved their effectiveness. It can help initiate new programs.

This year I have been working in the Senate as part of a special working group on education set up by Minority Leader ROBERT BYRD. Our group will be seeking a consensus on the appropriate spending levels for education in the fiscal year 1985 budget. After allowing for inflation, the President's budget request is about \$5 billion below what education spending was 4 years ago. While we may not be able to make up this entire shortfall, I certainly think an increase over the President's proposed budget is needed.

I have introduced legislation to provide a Federal matching grant program for computer education and teacher training. I think that computer education can serve to enhance the teaching of more traditional academic and intellectual skills. Putting computers in classrooms will not be a solution for the problems in education. However, with careful planning, computers can provide a new tool for teaching writing, mathematics, social studies, and other courses, and analytical skills.

Reauthorization of the Vocational Education Act must be a top priority for 1984. Solid vocational training is important in preparing students for productive careers.

Another major unfinished item on the education agenda is legislation to improve math and science education. The House of Representatives passed a math and science bill last spring, but the Senate has not yet scheduled consideration of its version of the bill.

The present unhappy state of American education has not developed overnight, nor will it be improved immediately. But there must be a starting point on the road to recovery.

We must not fail our children by refusing to heed the harsh message of the Nation at Risk report. We owe them the bright promise of a good education. We owe their teachers our strong support. And we owe the Nation an adequate investment in our educational system if we hope to prosper and maintain U.S. leadership in the world economy.●

YEAR OF THE OCEAN

● Mr. CHAFEE. Mr. President, the ocean environment remains one of our country's most precious natural treasures. In order to encourage better understanding and appreciation of the need to preserve ocean and coastal resources, I am pleased to join Senator STEVENS as a cosponsor of Senate Joint Resolution 257, designating the 12-month period beginning July 1, 1984, as the "Year of the Ocean."

I represent the Ocean State. The sea figures prominently in Rhode Island's heritage. Narragansett Bay remains our preeminent natural, commercial, and recreational resource. Rhode Islanders cherish the ocean for its beauty, for its rich abundance of marine life, and for what it contributes to our State's economy.

Rhode Islanders are also keenly aware of the fragility of delicate ocean and coastal habitats. The problems posed by pollution, waste disposal, coastal development, and energy exploration constantly threaten the ocean environment and require action to preserve marine resources.

As we continue to exploit the wealth of the ocean, it is our responsibility to plan now for the prudent management of the marine environment. The University of Rhode Island's distinguished Graduate School of Oceanography is

making an important contribution to marine resource management through research and field services designed to promote the development, use, and conservation of ocean and coastal resources.

By designating the "Year of the Ocean" Congress can renew its commitment to addressing the problems which threaten the ocean and coastal zone. Passage of this resolution can enhance public awareness of our tremendous reliance upon marine resources, as well as the consequences of failing to manage them wisely.

The ocean is essential to the life of the world. The "Year of the Ocean" program can help us to focus on its importance in each of our lives. I hope my colleagues will join in supporting the passage of this resolution and promoting its observance.●

HONORING JACK DEMPSEY

● Mr. D'AMATO. Mr. President, I rise to ask this body to honor one of America's greatest sports legends, the late Jack Dempsey. A legend in the boxing ring as well as in everyday life, Jack Dempsey's rise to heavyweight champion made him an example of the American spirit throughout the "Golden Age of Sports," the 1920's.

Like other legendary sports figures of that era, such as Babe Ruth, Bobby Jones, and Johnny Weissmuller, Jack Dempsey's style and accomplishments in his sport were revolutionary. Dempsey's aggressive "bob and weave" style ended the era of standup defensive style boxing forever and turned boxing into a top drawing spectator sport.

Winning the heavyweight crown for the first time in 1919, Dempsey retained the title until 1926. But his loss did not affect his popularity with the American public. Jack Dempsey remained a hero because he found success in his failures, an accomplishment endearing to many people who viewed Dempsey's rise to champion as representative of the everyday battles of most ordinary Americans.

His life before becoming champion also adds to the legend his name carries. The son of an impoverished Midwestern family, a miner at 13, a veteran of hobo jungles at 19, and heavyweight champion of the world at 24, Jack Dempsey's struggle is a true symbol of the American dream.

His legend is further supported by his unflinching kindness outside of the ring. From his restaurant on Broadway, Jack Dempsey played the role of host to the city of New York, as well as of a gentle, charitable man, always willing to help the unfortunate and the needy.

Touted as the greatest fighter of the half century in 1950 and inducted into the Boxing Hall of Fame in 1954, Jack Dempsey is still remembered as one of the greatest fighters of all time. But his legend is incomplete without mention of his kindness out of the boxing

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HEADLINE: Moynihan praises Social Security system

BYLINE: By ROBIN GREENE

DATELINE: WASHINGTON

KEYWORD: Reagan-Dems

BODY:

Sen. Patrick Moynihan, D-N.Y., praised the Social Security system Saturday as 'the most successful policy ever devised in our land' and then made a New Year plea on behalf of needy children in the United States.

Moynihan, who delivered the Democratic response to President Reagan's weekly radio address, got off an optimistic note by asking Americans to join him in 'a special wish for President and Mrs. Reagan.'

The New York senator noted that he and the president had been sparring with each other for the past eight years, saying 'they've been fair fights from first to last' and admitting, 'I'm going to miss them.'

'Our first go-round had to do with Social Security,' Moynihan said in praising the entitlement program.

'Without Social Security, almost half of the elderly would be poor today,' he said. 'With Social Security, Medicare and other government programs, the number of elderly poor has all but disappeared.'

'Social Security is the most successful policy ever devised in our land,' Moynihan said.

Citing a Census Bureau study released last week, Moynihan said: 'I wish I could report that the ... study concluded the same for children. It did not. ... Government benefit programs hardly touch child poverty.'

Moynihan said the study showed that 'there are two kinds of children in America and they live in two kind of families.'

The senator said children who live in two parent families will never be poor while children in single-parent families 'will almost always be poor sooner or later.'

'Their numbers are staggering,' Moynihan said. 'As many as one-third of our children live this way today. We've become the first industrial nation on earth in which children are the worst-off group.'

Calling child poverty 'the great challenge before us,' Moynihan said: 'If we get to work, it will really be a happy New Year.'

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Conspirators, Trillions, Limos in the Night

By Daniel Patrick Moynihan

This appears to be the season for disclosing Washington secrets, and I don't see why only Republicans should be able to play. I've got a pretty good one. Secret messages concealed on the Op-Ed page of The New York Times. Whispered conversations on the Senate floor. White House limos hurtling through the wintry night to a house in northwest Washington. A bedroom — yup — on the second floor of the President's guest house, where nights earlier a visiting potentate would have been skewered by a plunging chandelier had he not been mysteriously otherwise engaged at the Watergate.

Huddled conspirators. Big bucks. Like, maybe, trillions?

Trouble is it was really on the up and up. And has a happy ending. So I don't suppose it would sell, and I might as well come out with it here and now.

In brief, in 12 days in January 1983, a half dozen people in Washington put in place a revenue stream that is just beginning to flow and that, if we don't blow it, will put the Federal budget back in the black, pay off the privately held Government debt, jump start the savings rate and guarantee the Social Security Trust Funds for a half century and more.

It all began on a Monday morning, Jan. 3. Bob Dole of Kansas had an Op-Ed article that insisted that things would soon be looking up for the Administration — there was a near-depression on — and that Congressional Republicans were behind him. Nothing special, save for one paragraph. Having said that the issues confronting them presented as much oppor-

tunity as peril, he went on:

"Social Security is a case in point. With 116 million workers supporting it and 36 million beneficiaries relying on it, Social Security overwhelms every other domestic priority. Through a combination of relatively modest steps, including some acceleration of already scheduled taxes and some reduction in the rate of future benefit increases, the system can be saved. When it is, much of the credit, rightfully, will belong to this President and his party."

Oh? Not 24 hours earlier the budget director, David A. Stockman, had foretold that the "most devastating bankruptcy in history," that of the Social Security Trust Funds, was only months away. Which wasn't so, but a lot of people believed him. What the columnist Sylvia Porter called "a scare campaign of vicious proportions" had been going on. The new breed of conservatives seemed to detest the program even more than the old breed. And the funds were going down, the result of an interval in the 1970's when prices ran ahead of wages so that cost-of-living adjustments were not being offset by increased payments into the funds.

A year or so earlier, the Senate majority leader, Howard H. Baker Jr., had put together a bipartisan National Commission on Social Security Reform. Mr. Dole and I were appointed. Alan Greenspan was made chairman. Months went by with no apparent movement from either side. Then, suddenly, this signal from Mr. Dole. He and Mr. Greenspan had come to understand that the system's problems really were temporary and that in the long term it could be made heroically solvent.

On the day I was sworn in for a second term, I went over to Mr. Dole, who happened to be on the Senate

floor. If he was as optimistic as his article suggested, shouldn't we make one last try? Two days later, he and I and Representative Barber B. Conable Jr. were secreted out to White House chief of staff James A. Baker 3d's house in northwest Washington. Negotiations began.

In time, we shifted our talks to Blair House (which was empty, owing to the chandelier incident), and on the night of Saturday, Jan. 15, we reached agreement on arrangements to save the system, which were promptly endorsed by the commission and the President.

Most of this story is now familiar. Here is what is not generally understood. Almost everyone involved knew — by then — that the Administration had got the nation's finances in terrible shape. Mr. Stockman, who joined our deliberations, has written about this in great detail. There would be \$200 billion budget deficits "as far as the eye could see." The national debt would triple in eight years.

A true inside story revealed by the Senator Who Knows!

And President Reagan was not going to do anything to prevent it.

And so we would. Until then, Social Security had been on a pay-as-you-go basis, with a little cushion to take care of economic downturns. We could have fluffed up that cushion and let it go at that. We decided instead on a radical change in policy. Henceforth, we would collect and save for the far future, and not just the next year. An immense reserve would begin to accumulate before beginning to run down about 2030. In the process, we would pay off the national debt.

We have now had four full calendar years of the new revenue base. The trustees have just reported, and I have just had the first oversight hearing. Here are the numbers. The Social Security Trust Funds are increasing at the rate of \$169,440,000 per day and rising.

The current reserve is approaching \$100 billion. Between now and the year 2000 it will grow to \$1.4 trillion. (As of 1987, the entire assets of private pension funds were about \$1.49 billion.) This revenue stream must be deposited with the Treasury. If at the end of the day the Treasury has more money on hand than it needs, it simply retires privately held debt.

This can sound arcane but isn't. Every week some millions of Treasury bonds and bills "mature" and are cashed in. At present, the Treasury "rolls over" the debt, issuing new bonds or bills to get the cash to pay off the old ones. But if it isn't short of cash it needn't do this. The national debt begins to shrink.

Our present deficit "path" takes us, in theory at least, to a zero deficit by 1993. If that happens, the revenue stream from Social Security will be sufficient to begin retiring debt by

It all started with a Dole article.

1994. As public debt declines, national savings increase.

By 2010 the Social Security reserve is projected to be nearly \$4.5 trillion. (\$4,460,600,000,000!) If we wanted to go all the way, we could probably have zero national debt by that time. For the first time, incidentally, since 1836 — when we were down to \$38,000.

We could of course blow the opportunity. We could start to "spend" the Social Security surplus rather than using it to retire debt, and so get rid of the deficit. (Which for practical purposes now consists almost entirely of debt service.) But surely we should "save" it, and thus put aside the fiscal mess of the 80's.

Our real economic problem is that we don't save enough. Of 24 members of the Organization for Economic Cooperation and Development, we rank 20th, followed by Iceland, and a few such. Yet, as one witness at our oversight hearings put it, by the next decade we could be "awash in capital." This is the one sure way — saving and investment — to make certain the Social Security funds are still ample when the baby boom retirees.

One further point. In the near term, the proportion of retired persons in the population will be quite stable: the depression babies. Today, there are 21 persons retired for every 100 of working age. This ratio stays flat through 2010. Claims on the funds will be steady.

There you have it. Hard to believe? Yes. But within our grasp.

All done in 12 days in January. □

Daniel Patrick Moynihan, Democrat of New York, is chairman of the Senate Finance Committee's subcommittee on Social Security and Family Policy.

Moynihan's plan makes Bush the tax ogre

By Donald Lambro
THE WASHINGTON TIMES

A Democratic proposal to reduce Social Security taxes is winning cheers from conservatives and business groups, but it has put President Bush in the risky position of opposing a politically appealing tax cut aimed at his middle-class support-

ers.

The proposal by New York Sen. Daniel Patrick Moynihan, which would cut the payroll tax by more than a percentage point, has spawned an internal political debate within the White House, according to administration officials.

It also has triggered some unusually harsh criticism of Mr. Bush

from some of his traditional supporters.

"This is a very dumb thing for the [administration] to be doing," said Kate O'Beirne, deputy director for domestic policy studies at the Heritage Foundation, which has enthusiastically endorsed the Moynihan tax cut. "Cutting the payroll tax is good politics and good policy. Working-

class Americans are clearly over-taxed."

There were even some within the administration, such as Housing and Urban Development Secretary Jack Kemp, who made it known yesterday that they support the idea of cutting the payroll tax to boost savings and

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TAXES

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economic growth.

"[Budget Director Richard] Darman's position that he wants to keep the [Social Security] surplus buildup and opposes the tax cut is inconsistent with Jack's position," said a top Kemp aide. "He sees this as a burden on middle-income workers and small businesses."

Mr. Moynihan chairs the Senate Finance subcommittee on Social Security and is considered by groups representing the elderly to be one of the program's strongest supporters. He surprised his party's leadership and the administration when he unexpectedly announced late last month that he would introduce legislation to cut the payroll tax when Congress returns to business on Jan. 23.

The Social Security tax rate that funds the retirement portion of the program increased on Jan. 1 from 6.06 percent to 6.2 percent. Mr. Moynihan would repeal that increase retroactively and then cut the tax rate further to 5.1 percent by Jan. 1, 1991.

"This would be a \$55 billion tax cut for working people in 1991, and the amount would be greater in future years," Mr. Moynihan said in announcing the idea.

His proposal would benefit primarily working-class and middle-income taxpayers — the bedrock political constituencies that have

helped the Republicans win the White House in five out of the last six presidential elections.

Among other things, say economic and political analysts, it hands the Democrats a golden opportunity to appeal to traditionally Republican voters and at the same time turn the tables on the Bush administration by forcing it to oppose a popular tax-cutting idea.

"Poor George Bush," said Robert Shapiro, director of economic studies with the Progressive Policy Insti-

opposed by Mr. Bush. Mr. Darman says the \$55 billion in lost Social Security revenue that the tax cut would cost in 1991 alone would balloon the deficit and lead to renewed Democratic pressure to raise the top income tax rates.

Mr. Moynihan has yet to say how he will offset this revenue loss, whether through spending cuts or tax increases elsewhere.

White House Chief of Staff John Sununu said earlier this week that the administration was against cut-

Ironically, the strongest and most immediate support for Mr. Moynihan's proposal has come from an unholy alliance of liberal and conservative organizations, business groups and some GOP leaders in Congress.

tute, a Democratic think tank, and a close Moynihan adviser. "The White House decision to oppose the Moynihan tax cut makes him not only the president of no new taxes but of no new tax cuts."

According to Mr. Shapiro, an enthusiastic supporter of the idea, "The Democrats have learned the lesson that the Republicans have taught them, that there is never a political cost to cutting taxes. I think the political temptation is too great for the Democrats to turn away from this."

The Moynihan proposal is flatly

ting the payroll tax until the deficit was eliminated. Mr. Bush is expected to propose an alternative plan in his forthcoming budget to gradually reduce the national debt by using the accumulated Social Security surpluses.

Nevertheless, aides to the president said yesterday that Mr. Moynihan's proposal has been getting long and serious scrutiny.

"There's been a lot of debate over it, pro and con," said one Bush adviser. "This is a very clever political move by Moynihan, but we don't think it's going to hurt us politically."

Ironically, the strongest and most immediate support for Mr. Moynihan's proposal has come from an unholy alliance of liberal and conservative organizations, business groups and some GOP leaders in Congress. In addition to Heritage's endorsement, the proposal has won favorable reactions from the libertarian Cato Institute, the National Taxpayers Union, the National Federation of Independent Business and the U.S. Chamber of Commerce.

"It's a good idea," said David Boaz, executive vice president of the Cato Institute. The administration "ought to become an enthusiastic sponsor of it. Otherwise, they'll let the Democrats steal the most successful Republican issue."

Support on the left also has come from the Institute of Policy Studies, where public policy analyst Robert Borosage has called the idea "good economics, good public policy and good politics — the first protest of an increasingly hard-pressed middle class."

On Capitol Hill, Sen. Robert Kasten of Wisconsin, one of the leading Republican supply-side tax cutters, has indicated he would like to co-sponsor the measure. GOP support also has been voiced by House Minority Whip Newt Gingrich of Georgia and Rep. Henry Hyde of Illinois.

However, Democratic leaders have yet to reveal their positions, though Ed Lopez, Mr. Moynihan's chief Social Security aide, said the senator has been receiving support from Democratic offices "at the staff level" for the idea.

**REPORT OF THE
NATIONAL COMMISSION
ON
SOCIAL SECURITY
REFORM**

JANUARY 1983

SUPPLEMENTARY STATEMENT

BY

Commissioners Robert M. Ball, Martha Keys,
Lane Kirkland, Daniel Patrick Moynihan and Claude Pepper
(members selected by the Democratic leadership of the Congress)

Long-Term Financing and Issues of Special Concern to Women

Meeting the Remaining Long-Term Deficit

All of us supported the compromise agreement which is being recommended by a vote of 12 to 3 of the full Commission.^{1/} The agreement provides for fully meeting the Commission's short-term financing goal and also for meeting about two-thirds of the Commission's long-term goal--1.22% of payroll out of the 1.8% projected need.

We recommend that the remaining 0.58% of payroll deficit be met by providing additional revenues starting in the year 2010, in advance of the period when the bulk of the deficit is projected to occur. Sufficient additional revenues would be provided by an increase of less than one-half of 1% (0.46%) in deductions from workers' earnings beginning in 2010 and a like amount in employer payroll taxes (with an equal combined rate for the self-employed) or the revenue could be supplied by an equivalent general revenue contribution, or some combination of the two. For purposes of present legislation we would support putting in the law now an increase in the contribution rate beginning in 2010 of 0.46% of payroll (with the employee contribution offset by a refundable income tax credit) recognizing, of course, that in the next century the Congress may prefer to raise the money in some other way and that, in fact, such a rate increase would not be allowed to go into effect unless estimates at the time of the scheduled increase showed that it would be needed.

Benefit Cuts Under Pickle Plan

Percentage of Full Retirement Benefits*

Age at Retirement	Current Law	End of Stage One (2009)	End of Stage Two (2027)
62	80.0%	75.0%	70.0%
63	86.7	80.0	75.0
64	93.3	86.7	80.0
65	100.0	93.3	86.7
66	103.0	100.0	93.3
67	106.0	108.0	100.0

*Percentage of benefits available to a worker who retires at the normal retirement age.

tion for his long defense of the elderly, most would not give him their votes.

The Pickle amendment was approved by a 228-202 vote, with the backing of 152 Republicans and 76 Democrats, including Ways and Means Chairman Dan Rostenkowski, D-Ill., and a majority of committee members. (Vote 20, p. 530)

Pepper's measure, despite the backing of House Speaker Thomas P. O'Neill Jr., D-Mass., was rejected by a vote of 132-296. (Vote 21, p. 530)

"History is being written on this floor. We are changing the tradition of this country," O'Neill said when it was apparent the Pepper measure would fail. "In America, each generation has always paid for the generation that has gone before them."

The controversy over raising the retirement age or increasing taxes has been one of the major ones surrounding the Social Security crisis.

Pepper's impassioned plea to his colleagues not to cut benefits won him a standing ovation, but it was not enough to convince most members that the "structural" change of a higher retirement age was the best way to restore the confidence of current workers in the retirement system.

The Pickle amendment would raise the retirement age in two stages. The first would be a gradual increase from 65 to 66 over a six-year period ending in the year 2009. The second increase would be from 66 to 67 over another six-year period ending in the year 2027.

While individuals still would be able to take early retirement at age 62, their benefits would be reduced from the current 80 percent of full benefits to 70 percent in 2027. (Box, above)

Opponents seized on this change

and charged it would penalize the millions of workers who must retire early because of poor health or mandatory retirement.

"This amendment assumes people are able to work longer than they are now. This is just not the case," argued James M. Shannon, D-Mass. "This will simply cut their benefits."

But Pickle defended the age increase as necessary to keep up with changing demographics. He pointed out that life expectancy had increased more than 10 years since the 65-year retirement age was set in place over 40 years ago.

Raising the retirement age is "not harsh," he said. "That is just in keeping with the times."

Pickle's amendment also would require the Department of Health and Human Services to make recommendations by Jan. 1, 1986, on how Congress should deal with individuals who cannot retire later because of physically demanding jobs.

Those voting against passage of the bill included both liberals opposed to the higher retirement age and coverage of federal employees and conservatives opposed to additional taxes.

Senate Solution

The Finance Committee agreed to a broader package of changes to address the system's long-range problems.

The package, proposed by John Heinz, R-Pa., and adopted 13-4, called for a gradual increase in the retirement age from 65 to 66 over a 15-year period beginning in the year 2000.

It also would reduce initial benefits by 5 percent beginning the same year. Currently, workers receive an initial Social Security payment equal

to about 42 percent of their last paycheck. The package would reduce this "replacement rate" to 40 percent.

In addition, Heinz' amendment called for elimination of the current penalty imposed on beneficiaries who work after they reach retirement age, over a five-year period beginning in 1990. Now, benefits are reduced \$1 for every \$2 retirees up to age 70 earn over \$6,600 a year.

The package also would increase benefits for those who leave the work force to care for their children at home under age six. Currently, a worker's five lowest-earning, or non-earning, years are not counted when determining his or her initial Social Security benefit. The bill would allow two additional "drop-out" years for child care.

The committee rejected 15-2 a proposal by Daniel Patrick Moynihan, D-N.Y., to raise payroll taxes in the year 2010, in place of benefit cuts.

Other Finance Action

The committee also rejected 11-6 a motion by Russell B. Long, D-La., to delay the effective date of a provision calling for Social Security coverage of new federal employees until a supplemental Civil Service retirement plan could be established.

Members have given assurances that such a supplemental plan would be set up, but federal workers fear they face retirement benefit cuts if no new workers are available to pay into their current system.

Federal employee unions have waged an all-out campaign to defeat the coverage provision, but have met with little success so far. Finance Chairman Robert Dole, R-Kan., charged that a delay in the Jan. 1, 1984, effective date would only give lobbyists a longer time to fight for repeal.

Besides agreeing to the package of long-term provisions, the committee made several other changes in the House bill. One of the major ones was a proposal by Long to cut beneficiaries' cost-of-living checks, as a last resort, if reserves in the Social Security trust funds fall below a certain level because of unexpectedly bad economic conditions.

The provision would go into effect in 1985, but would be used only after all other emergency measures allowed in the bill — including borrowing between the system's three trust funds — had been exhausted.

The bill also would require the managers of the trust funds to give

six-months' notice that such a benefit cut might be necessary so that Congress would have the option to make other adjustments to the system before the COLA cuts were made.

The committee also agreed to:

- Include tax-exempt income when computing a beneficiary's income to determine if his or her Social Security benefits should be taxed. Both the House and Senate bills call for taxation of a portion of benefits for individuals whose adjusted gross income, plus 50 percent of Social Security benefits, exceeds \$25,000 (\$32,000 for married couples filing a joint return).

The proposal was offered by John H. Chafee, R-R.I., who argued that some beneficiaries might try to avoid the new tax by diverting their taxable income into tax-exempt income.

- Provide a more generous tax credit to offset higher taxes for the self-employed. The Finance Committee bill calls for a credit against self-employment taxes of 2.9 percent in 1984, 2.5 percent in 1985, 2.2 percent in 1986, 2.1 percent in 1987-89 and 2.3 percent after 1989.

The House bill calls for a credit of 2.1 percent in 1984, 1.8 percent in 1985-87 and 1.9 percent after 1987. Both measures would increase payroll taxes for the self-employed 33 percent, beginning in 1984, to equal the combined taxes now paid by employers and employees.

- Eliminate Social Security benefits for non-resident aliens, their dependents and survivors, except for payments equal to the amount the alien worker had paid into the system, plus interest.

- Expand Social Security coverage to include all new federal employees, members of Congress, the president and vice president. The House bill also would include top political appointees, certain elected officials and sitting federal judges.

- Exempt from Social Security coverage members of the Amish religious sect who work for Amish employers.

- Allow the three Social Security trust funds to borrow from each other through 1987, as long as no funds were borrowed from the Hospital Insurance (HI) trust fund, which finances Medicare, when its reserves were low.

- Eliminate Social Security benefits for imprisoned felons.

Jobless Benefits/SSI

The Finance Committee also agreed to a slightly less generous six-month extension of federal emergency

jobless benefits than the program adopted by the House. Existing emergency benefits, approved by Congress last year, are set to expire March 31. (*Background, Weekly Report p. 420*)

The Senate measure — expected to cost over \$2 billion — would allow up to eight more weeks of benefits to those individuals who have exhausted up to 55 weeks of federal and state benefits before April 1. The House bill would allow up to 10 more weeks.

In addition, individuals who do not qualify for the federal emergency benefits until after April 1 could receive up to 14 weeks of additional benefits depending on their state's jobless rate, under the Finance bill.

Those who have not exhausted their emergency benefits when the extension expires Sept. 30 could receive up to 50 percent of their remaining payments after the expiration date.

The Senate bill also would provide a plan to give certain hard-hit states some leeway in repaying interest owed on outstanding loans from the federal unemployment trust fund. Currently, states owe about \$12 billion to the fund, and many see little chance of being able to repay the loans, or make large interest payments, soon.

Under the plan, states would be allowed to spread their interest payments over a five-year period if they can show that they are taking steps to improve the solvency of their state unemployment compensation programs.

The committee also agreed to accept provisions in the House bill to increase monthly SSI benefits \$20 and to delay a scheduled SSI COLA six months until January 1985.

Medicare Provisions

The Senate bill's Medicare provisions are generally the same as those in the House measure, with differences in certain details. (*House bill, Weekly Report p. 455*)

For instance, both bills depart from the administration proposal by mandating that hospital admission patterns and other factors be reviewed to guard against costly manipulations of the new system, or poor care for patients. But the Senate measure specifies that Professional Review Organizations (PROs) authorized in the 1982 tax bill must do the job, while the House bill permits the use of other types of organizations. The Senate bill does not include a House provision authorizing severe penalties for certain violations of the system or compromised quality of care.

Both bills are based on the administration plan to provide for a system of set prices for inpatient treatment of different illnesses, and they prohibit charging individual patients more than the set price. Hospitals delivering care for less than the set price may keep the difference. This scheme would replace the existing system in which, within certain limits, hospitals are paid after delivery of care for the portion of their total costs attributable to Medicare patients.

The set prices would not include hospitals' teaching costs or capital expenditures for construction or major equipment; those costs would continue to be paid under the existing system. The Senate bill, however, mandates that capital costs be factored into the new price structure after October 1986. Many medical economists regard controls on capital expenditures to be an important step toward controlling inflation in health care costs.

Both bills substitute a four-year phase-in of the new payment method for the Oct. 1 effective date suggested by the administration. Both require separate rates for urban and rural hospitals, and for different regions of the country; the administration plan had called for a single, national schedule of rates with area adjustments only for labor costs. Both would give state cost control systems substantially more authority than the administration wanted to depart from the set-price payment method if they meet certain criteria.

Both bills require the secretary of health and human services to study and report to Congress on the feasibility of applying the new price system to physician services in the future. ■

CLARIFICATION

Medicare Payments. Weekly Report p. 457, col. 3, 2nd full paragraph. The Gephardt amendment permits hospitals to bill separately for services provided during hospitalization if the hospital billed separately for such services before Oct. 1, 1982. However, because the legislation (HR 1900) includes an overall prohibition against billing individual Medicare patients, separate billings under this provision would be allowed only to Part B of Medicare, the optional plan that covers physician fees. ■

The National Commission makes the following recommendations unanimously:

- (1) The members of the National Commission believe that the Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its fundamental principles.* The National Commission considered, but rejected, proposals to make the Social Security program a voluntary one, or to transform it into a program under which benefits are a product exclusively of the contributions paid, or to convert it into a fully-funded program, or to change it to a program under which benefits are conditioned on the showing of financial need.**
- (2) The National Commission recommends that, for purposes of considering the short-range financial status of the OASDI Trust Funds, \$150-200 billion in either additional income or in decreased outgo (or a combination of both) should be provided for the OASDI Trust Funds in calendar years 1983-89.
- (3) The National Commission finds that, for purposes of considering the long-range financial status of the OASDI Trust Funds, its actuarial

* See additional views of Commissioner Archer in Chapter 4.

** See additional views (with regard to the last point) of Commissioners Archer, Fuller, and Waggoner in Chapter 4.

Leaders Optimistic:

Social Security Rescue Plan Rushes to Final Hill Accord

Setting partisanship aside, the full House and the Senate Finance Committee have given a Social Security rescue plan a quick push toward final passage.

The House March 9, by a 282-148 vote, passed a bill (HR 1900) to keep the system from going broke. The Finance Committee approved a similar measure (S 1) the following day by a vote of 18-1. (*House vote 23, p. 530*)

The legislation now goes to the Senate floor where debate is expected to begin March 15 or 16. Congressional leaders are optimistic about sending a package to President Reagan before the March 26 Easter break.

The votes in both houses heralded the end of nearly two years of bitter partisan bickering over Social Security. Members indicated they expected little trouble with the legislation before it reaches the president's desk.

Congress must complete action soon or the financially troubled retirement system will be unable to pay out some 36 million benefit checks in July.

The House and Finance Committee measures closely parallel the recommendations made in January by the president's National Commission on Social Security Reform. But they also include provisions dealing with the system's long-range problems — an area where the commission could not reach consensus — that appear to have dampened much of the conservative opposition to the commission plan. (*Commission recommendations, Weekly Report p. 155*)

These include steps in both bills to raise the retirement age. The House would raise the age gradually from 65 to 67 by the year 2027; the Senate Finance Committee approved a one-year increase by the year 2015, but it also agreed to cut initial benefits 5 percent after the turn of the century.

William L. Armstrong, R-Colo.,

—By Pamela Fessler
and Elizabeth Wehr

one of the biggest Senate opponents of the commission plan, praised the Finance Committee bill, although he said he still planned to offer some floor amendments.

He observed that quick action in both houses and adoption of the retirement-age increase had proved "the cynics are wrong. There are occasions when Congress will rally to the task and do what is politically hard."

Armstrong and other conservatives had criticized the commission's rescue plan because of its reliance on some large tax increases to keep the

all new federal employees and workers in non-profit organizations beginning Jan. 1, 1984, and would include all current and new members of Congress under the Social Security system.

In addition, both bills include a major revamping of the way the government reimburses hospitals under Medicare and a six-month extension of an emergency jobless benefit program. They also increase certain Supplemental Security Income (SSI) benefits for the aged, blind and disabled poor.

Pickle or Pepper?

Final House passage did not come without a sometimes emotional floor debate over the best way to solve the system's projected financial difficulties when the Baby Boom generation begins to retire in the next century.

The president's commission left

**"The cynics are wrong.
There are occasions when Congress
will rally to the task and
do what is politically hard."**

—Sen. William L. Armstrong, R-Colo.



system afloat. One critic, Steven D. Symms, R-Idaho, cast the one dissenting vote in the Finance Committee.

Both bills would raise about \$165 billion over the next seven years. They are expected to solve the retirement and disability system's financial problems well into the next century by raising a total of almost \$1.9 trillion over a 75-year period.

Besides increasing the retirement age, the two measures would raise scheduled payroll taxes over the next decade, delay the July cost-of-living allowance (COLA) six months and tax the Social Security benefits of high-income individuals for the first time.

They also call for the coverage of

that sensitive issue unresolved, and the House Ways and Means Committee bill called for a hybrid solution — cutting benefits and raising taxes — with the understanding that two substitute proposals would be considered on the floor. (*Weekly Report p. 453*)

Besides an amendment raising the retirement age — offered by Social Security Subcommittee Chairman J. J. Pickle, D-Texas — Rules Committee Chairman Claude Pepper, D-Fla., proposed a .53 percentage point increase in payroll taxes in the year 2010 to prevent a cut in benefits.

But House members showed during the debate that while they were willing to give Pepper their admira-

CQ Senate Vote 54

Corresponding to Congressional Record Vote 54

54	54	54	KEY
ALABAMA <i>Denton</i> Y <i>Heflin</i> ? ALASKA <i>Murkowski</i> + <i>Stevens</i> Y ARIZONA <i>Goldwater</i> + <i>DeConcini</i> ? ARKANSAS <i>Bumpers</i> Y <i>Pryor</i> ? CALIFORNIA <i>Wilson</i> Y <i>Cranston</i> Y COLORADO <i>Armstrong</i> N <i>Hart</i> ? CONNECTICUT <i>Weicker</i> + <i>Dodd</i> Y DELAWARE <i>Roth</i> ? <i>Baden</i> Y FLORIDA <i>Hawkins</i> Y <i>Chiles</i> ? GEORGIA <i>Mattingly</i> N <i>Nunn</i> N HAWAII <i>Inouye</i> ? <i>Matsunaga</i> Y IDAHO <i>McClure</i> N <i>Symms</i> N ILLINOIS <i>Percy</i> ? <i>Dixon</i> Y INDIANA <i>Lugar</i> Y <i>Quayle</i> ?	IOWA <i>Grassley</i> Y <i>Jepsen</i> Y KANSAS <i>Dole</i> Y <i>Kassebaum</i> Y KENTUCKY <i>Ford</i> Y <i>Huddleston</i> ? LOUISIANA <i>Johnston</i> ? <i>Long</i> N MAINE <i>Cohen</i> Y <i>Mitchell</i> Y MARYLAND <i>Mathias</i> ? <i>Sarbanes</i> ? MASSACHUSETTS <i>Kennedy</i> ? <i>Tsongas</i> Y MICHIGAN <i>Levin</i> Y <i>Riegle</i> Y MINNESOTA <i>Boehwitt</i> Y <i>Durenberger</i> Y MISSISSIPPI <i>Cochran</i> Y <i>Stennis</i> Y MISSOURI <i>Danforth</i> Y <i>Eagleton</i> ? MONTANA <i>Boucus</i> Y <i>Melcher</i> Y NEBRASKA <i>Eaton</i> N <i>Zorinsky</i> N NEVADA <i>Hecht</i> Y <i>Laxalt</i> ?	NEW HAMPSHIRE <i>Humphrey</i> Y <i>Rudman</i> Y NEW JERSEY <i>Bradley</i> Y <i>Lautenberg</i> Y NEW MEXICO <i>Domenici</i> Y <i>Bingaman</i> Y NEW YORK <i>D'Amato</i> Y <i>Moynton</i> Y NORTH CAROLINA <i>East</i> N <i>Helms</i> ? NORTH DAKOTA <i>Andrews</i> Y <i>Burdick</i> Y OHIO <i>Glenn</i> Y <i>Metzenbaum</i> ? OKLAHOMA <i>Nickles</i> N <i>Boren</i> N OREGON <i>Hatfield</i> ? <i>Packwood</i> ? PENNSYLVANIA <i>Heinz</i> Y <i>Specter</i> Y RHODE ISLAND <i>Chafee</i> Y <i>Pell</i> + SOUTH CAROLINA <i>Thurmond</i> Y <i>Hollings</i> N SOUTH DAKOTA <i>Abdnor</i> Y <i>Pressler</i> ? TENNESSEE <i>Baker</i> Y <i>Sasser</i> Y	Y Voted for (yea). # Paired for. + Announced for. N Voted against (nay). X Paired against. - Announced against. P Voted "present". C Voted "present" to avoid possible conflict of interest. ? Did not vote or otherwise make a position known. Democrats Republicans
			54
			TEXAS <i>Tower</i> ? <i>Bentsen</i> ? UTAH <i>Garn</i> N <i>Hatch</i> N VERMONT <i>Stafford</i> ? <i>Leahy</i> Y VIRGINIA <i>Triple</i> Y <i>Warner</i> Y WASHINGTON <i>Gorton</i> Y <i>Jackson</i> Y WEST VIRGINIA <i>Byrd</i> Y <i>Randolph</i> Y WISCONSIN <i>Kasten</i> Y <i>Proxmire</i> Y WYOMING <i>Simpson</i> Y <i>Wallop</i> Y

ND - Northern Democrats SD - Southern Democrats (Southern states - Ala., Ark., Fla., Ga., Ky., La., Miss., N.C., Okla., S.C., Tenn., Texas, Va.)

54. HR 1900. Social Security Act Amendments. Adoption of the conference report on the bill to overhaul the Social Security system, to revamp the way the federal government reimburses hospitals for Medicare, to extend the federal supplemental unemployment benefit program for six months and to increase Supplemental Security Income benefits. Adopted (thus cleared for the president) 58-14: R 32-8; D 26-6 (ND 22-2, SD 4-4), in the session that began March 24, 1983. A "yea" was a vote supporting the president's position.

Don't Touch Those Social Security Funds

To the Editor:

30/104/309
A Princeton economist recently wrote that the secret is out concerning the surpluses in the Social Security trust funds. Indeed it is, and so I fear are assorted entrepreneurs with schemes for getting their hands on some portion thereof!

On your Op-Ed page of July 7, my good friend Walt Rostow of the University of Texas proposes that we use the money to set up a public investment bank, which among other things, "would help put the stricken banking systems of important parts of the nation back on their feet." Hmm.

This morning, you report ("Study Suggests a Partly Private Social Security," Business Day) that a group at J. P. Morgan & Company would have us refund the surplus to individuals so that they can invest in stocks and bonds. Again, hmm.

A common theme of these and other proposals is that the political process cannot be trusted with so much money. The Morgan study begins: "The burgeoning surplus of the U.S. Social Security system has come to the fore this year as the latest temptation to procrastinate on decisive measures to cut the Federal budget deficit." Possibly. May one ask, however, that some consideration be given the fact that it was the political process that created this revenue stream.

This began with a conversation between me and Senator Bob Dole on the Senate floor on Jan. 3, 1983, followed by 11 days of intensive negotiations with a White House team led by James A. Baker 3d, then chief of staff. Agreement was reached at Blair House on Saturday night, Jan. 15.

In essence, we agreed to move from a pay-as-you-go system to a partly funded one. (The Canadians had shown the way.) We could count. We knew perfectly well that, to quote the

Morgan group, "the trust funds could absorb all outstanding Federal debt by the year 2005." We were well aware that we had put in place a revenue stream that could quadruple the national savings rate, again to cite the Morgan study.

All that need be done now — a lot, but even so, all — is to get our operating budget in balance. Thereafter, the trust funds will absorb the privately held debt, which automatically translates into an increase in national savings. But the trust funds themselves must remain intact and untouchable save to pay benefits. This becomes an issue of integrity and was integral to the Blair House accords.

It would be useful to hear from our Presidential candidates on this subject.

DANIEL PATRICK MOYNIHAN
U.S. Senator from New York
Washington, July 11, 1988.

The Heritage Foundation Backgrounder

1/10/90

120

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Number

THREE CHEERS FOR MOYNIHAN'S \$55 BILLION TAX CUT FOR WORKING AMERICANS

(Updating *Backgrounder* No. 683, "The Case for Keeping Social Security in the Budget," December 19, 1988, and *Backgrounder* No. 597, "Upcoming Social Security Tax Hikes Can Threaten Retirement Benefits," August 5, 1987)

By now most Americans have received their first pay checks of the new year. To their shock, their take home pay is smaller than in 1989's final pay check. The reason is the stealth tax hike that is raising Social Security taxes for the seventh time in ten years. This one takes \$7 billion out of American pockets, cutting the take-home pay of all American workers by up to \$600 a year. As bad, the increased levy on employers will cause many to trim jobrolls or cancel their expansion. For 80 percent of middle-income families, the cruelly persistent escalating Social Security taxes have eroded all of their income tax cuts of the Reagan years.

These tax hikes allegedly are imposed in the name of "saving" the Social Security system. Yet even without the added revenues the retirement program will be financially solvent for at least the next three decades. The new funds, moreover, would not be put aside to build up a reserve to pay out benefits to "baby boomers" when they retire in the next century. Instead, the retirement funds' surplus mountain — \$70 billion this year and soaring to \$230 billion by the year 2000 — are to be spent on current government programs. Nothing is being saved, deposited, or invested for future retirees. "Thievery" is what Senator Daniel Patrick Moynihan, the New York Democrat, correctly brands this and he is attempting to stop it.

As chairman of the Senate Finance Subcommittee on Social Security, Moynihan will introduce legislation to end permanently this congressional mismanagement of Social Security retirement funds and grant long overdue tax relief to U.S. wage earners. His plan would cancel this year's unneeded Social Security payroll tax increase immediately and cut a further 2.2 percentage points next year. His intent is to have incoming payroll taxes and outgoing retirement payments balance each other each year. This would give \$55 billion back to American workers next year without affecting current or future Social Security benefits. Social Security would become a genuine "pay-as-you-go" system, rather than the cash cow that has been subsidizing federal spending. Moynihan understands the soundness of this. So should George Bush. The President should warmly endorse this tax cut for 125 million American workers. If he does not, he will be making a serious economic (to say nothing of political) mistake.

Since the Social Security program's inception in 1937 when the tax rate was set at two percent of payroll for the first \$3,000 of earnings, Social Security taxes have risen steadily. In 1960, the taxes amounted to 6 percent of wages; today they are 15.3 percent on income up to \$51,300, with half paid directly by workers and half by their employers. The current rate structure was set in 1983 when lawmakers expected sluggish economic growth, and thus low tax receipts, for the remainder of the decade. But the gloomy forecasts proved to be wildly off target. The robust economic expansion of the 1980s, with 18 million new jobs, generated a huge and unexpected

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

surplus in Social Security payroll tax receipts. The Moynihan tax cut proposal merely corrects the tax rates for this error in government forecasting.

Reducing the payroll tax also would help to the American economy enormously. A payroll tax is not merely regressive, falling disproportionately on lower-income workers, but it is one of the most economically destructive ways for the government to raise revenue, because it discourages businesses from hiring additional workers. Former U.S. Treasury economists Aldona and Gary Robbins estimate that the 1988 and 1990 payroll tax hikes will cost Americans 510,000 jobs and reduce gross national product by \$320 billion over the next ten years. By contrast, they argue, every dollar reduction in Social Security taxes would expand economic output by 68 cents.

Some critics of the Moynihan plan complain that his reduction in Social Security taxes today would eliminate the surplus needed to pay the benefits when the baby boom generation retirements. This ignores one central point: with or without a payroll tax cut, there will be no Social Security fund surplus (actually not even a "fund") since the surplus money routinely is spent on non-Social Security programs as soon as it reaches Washington. All that is in the "fund" is a stack of IOUs from the Treasury.

The best way for Congress to protect the solvency of Social Security in the next century is through a pro-growth tax policy. Part of this is the payroll tax cut recommended by Moynihan. Part of this is the capital gains tax cut urged by Bush. And part could be by other tax reforms, like expanding the Individual Retirement Account eligibility. Such a pro-growth tax policy is the best way to assure funds for retiring Americans. Example: If Americans' real per capita incomes were to grow by just 2 percent per year, or about the rate of growth of the 1980s, between now and 2030 — the year in which the "baby boom" pressure on Social Security will reach its peak — workers in that year will have more than double the incomes of today's workers, substantially easing the burden of paying for retirement and health care programs for the elderly population that year. By contrast, maintaining today's high payroll taxes will dampen productivity and output, meaning tomorrow's workforce will be less capable of paying the bill for retirees.

Another objection levelled at the Moynihan plan is that a Social Security tax cut will inflate the federal budget deficit. But the regressive Social Security tax was never intended to finance the deficit or pay for any program other than Social Security. Moreover, projections show that even with the Moynihan tax cut the deficit can be brought under control through modest spending restraint. For instance, if the Social Security tax were reduced to the level needed just to cover Social Security spending, and all other federal programs were frozen at 1990 levels, the budget would be balanced by 1994.

Thanks to hikes in the Social Security payroll tax, the vast majority of middle-income Americans forfeit a larger share of their income to the federal tax collector in 1990 than they did in 1980. Senator Moynihan's plan to roll back Social Security taxes would end this stealth tax increase and return pay-as-you-go honesty to the Social Security system by preventing Washington from raiding the pension program. The White House should join other champions of economic growth in endorsing the Moynihan tax cut.

Stephen Moore
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