The Moynihan proposal and the politics of unreality

by Andrew Rotstein

Some years back, as chief domestic policy adviser to the Nixon White House, Sen. Daniel Patrick Moynihan (D-N.Y.) issued a report on the crisis of the black family. It was in this document that the bombastic Harvard professor broached the soon-notorious idea of "benign neglect" toward the impoverished victims of racism in America. The ensuing firestorm in governmental and academic circles became the subject of a book, *The Moynihan Report and the Politics of Controversy*.

The senator's current proposal to roll back the recent increase in Social Security payroll taxes has touched off another uproar. This time, the debate shows the utter small-mindedness of most principal political factions concerned, the kind of small-mindedness that allows an emperor to blithely fiddle away while his kingdom goes up in smoke.

The background

In 1983, a Presidential Commission on Social Security was convened to provide for the actuarial soundness of the national retirement income system, especially as the 76 million Americans born between 1946 and 1964 begin to retire around the year 2010. Due to greater longevity, lower population growth rates, the resulting increase in the ratio of retirees to active workers, and the stagnation of productivity and living standards since the early 1970s, the Social Security system was headed for trouble. Given a continuation of prevailing trends, the retirement funds for the baby boom generation simply wouldn't be there when needed.

The commission recommended, and Congress legislated, substantial increases in the payroll taxes that fund the system, known to most Americans as the FICA (Federal Insurance Contributions Act) line on their pay stub. These hefty increases easily absorbed any break which Americans may have received from the much-vaunted Kemp-Roth income tax cuts of 1981. In fact, the fiscal history of the 1980s could be summarized as a massive tradeoff between slashed income taxes and higher Social Security taxes.

But the reforms of 1983 also took effect as the toll accumulated from past sins of economic policy, especially the "post-industrial society" fiasco and the early-1980s regime of Paul Volcker's high interest rates. The United States sank deeper into a fiscal crisis unprecedented in peacetime history, as the papier-mâché prosperity of the 1980s was fueled by a spree of debt-financing, public as well as private.

Congress, facing deficit reduction targets mandated by the Gramm-Rudman amendment, siphoned off the bulging surpluses in the Social Security Trust Fund to lessen the operating deficit, creating the public-relations appearance for the credulous that the deficit was actually coming down. The Trust Fund in return received special, non-marketable Treasury notes due in the next century, notes which must be redeemed out of federal tax revenues, or more federal borrowing.

If Moynihan—as in fact he has directly admitted—is simply trying to expose the massive accounting hoax behind the claims ballyhooed by Reagan and Bush of lowered federal deficits, he's chosen an easy target indeed. Without $60 billion or so in payroll taxes in the current fiscal year funneled into the Treasury, the federal deficit, fraudulently reported at $120 billion, would be over $180 billion. Add to that figure smaller amounts retained in the Aviation Trust Fund and the Highway Trust Fund, which are earmarked for but not spent on sorely needed infrastructure improvements, and the present federal deficit is easily roughly $200 billion a year—essentially unchanged from its mid-1980s peak.

The problem, of course, is that Moynihan's plan would expunge the ledger fraud, but would leave the underlying reality of economic stagnation unchanged. It would, however, unmask a yawning hole in the federal budget. It would also leave the retirement income of future Americans to be paid on an "as you go" basis, necessitating a level of taxes on the next generation of American workers so burdensome that they could spark ugly intergenerational strife, and accelerate the ghastly trends toward rationed medical care and the "right to die."

At best, returning the huge Social Security tax increases to working Americans could provide a pool of investible funds to fund modernization of our agro-industrial base and renovation of our dilapidated infrastructure. But in the current environment of industrial collapse, deregulation of banking and other industries, and wildly speculative financial markets, such a fond hope would be like expecting a chicken to lay a duck's egg. Any salutary result from such a rebate to American taxpayers would depend on a fundamental shift in federal economic policy—a shift neither Moynihan nor any other prominent official is seriously proposing. And therein lies the utter unreality of the whole business.

Political free-for-all

Instead, the Moynihan proposal has become a field-day for partisan jockeying and intrigue. Hapless Democrats see it as a way to seize the political benefits of the tax-cutting issue from the Republicans, and to reclaim some of their erstwhile blue-collar and middle-class base. To do so with a populist attack on Republican programs that have benefited the wealthy—a charge with good statistical evidence behind it—could give the party a desperately needed boost, especially in the context of a pre-1992 financial blowout. They also see it as a bargaining chip in the administration's renewed attempt to pass a capital gains tax break.

The White House publicly charges that the Moynihan measure would "mess around with Social Security"—a phrase known to strike terror in the hearts of millions of Americans. As a fig-leaf, the White House has proposed a "Social Security Integrity and Debt Reduction Fund," which would earmark Trust Fund surpluses for buying back (i.e., retiring) federal debt in circulation. It conveniently proposes that this scheme take effect in 1993, allowing the present hoax to carry the administration through its present term.

Democratic congressional leaders have a sharply ambivalent stand on the matter. They praise elements of Moynihan's approach, undoubtedly (at least in part) because they gain a partisan advantage from Bush's embarrassment. Yet on balance, they oppose his idea, probably because such aforementioned embarrassment is one in which they would generously share. Put otherwise, if congressional leaders break profile, take an uncompromising stand for fiscal truthfulness, and let the deficit cat out of the bag, they leave themselves the job of raising taxes by other means and/or effectively scrapping the deficit reduction targets of the Gramm-Rudman bill (although "stretching out" would be the preferred term).

In the petty world of Washington, where momentous questions like national economic viability only rarely overtake considerations of institutional stability and political safety, the Moynihan proposal is like a firecracker at a crowded party: you can liven things up with it easily enough, and maybe succeed in terrorizing your intended target; but you also stand an awfully good chance of getting yourself trampled in the ensuing mad rush for the door.

The folly of this spectacle is only magnified by the growing instability in the financial markets, where some semblance of "confidence" in governing circles often keep things teetering along for a while. It is not hard to see a situation in which intense rancor between the executive and legislative branches, or between the parties, could make the Moynihan bill into the centerpiece of a high-stakes game of "chicken."

The hidden agenda: austerity

One side-effect of this controversy is that it has fueled a useful debate on the real issues of U.S. economic decay, productivity stagnation, and the fiscal crisis. The willingness of commentators to address these issues seriously, seems to vary inversely with the degree of their partisan stake in the federal budget process.

Unfortunately, even most of those willing to address these matters converge on the following litany: Economic renewal depends on increasing the private savings available for investment in new plant, new equipment, and research and development; increasing America's paltry savings rate depends, above all, on lowering the financing requirements of the federal budget, which currently absorb up to half those savings; and this, in turn, boils down to tax increases and/or spending cuts—in a word, austerity.

In fact, before his Social Security gambit, Senator Moynihan was campaigning for a drastic increase in the federal gasoline tax. Sen. Fritz Hollings (D-S.C.), the often unmentioned third culprit in the Gramm-Rudman-Hollings Amendment mess, has proposed a national sales tax as a way of "restraining consumption"—the economists' parlance for gouging living standards.

The strategy of lowering consumption is the emerging motif among economists and policymakers, as recognition spreads that the "go-go" speculative fever of the 1980s is rapidly dissipating. Countless press commentaries in recent months have touted the need to "increase national savings," and academic scribblers of various camps have held forth on the issue, although they vary as to their bluntness about the need for lowering living standards.

MIT's Lester Thurow, a neo-liberal with considerable influence in certain Democratic Party circles, advocated in a Feb. 11 *Washington Post* commentary that real incomes must fall relative to output, a policy generally known as "forced savings." Harvard's Jeffrey Sachs, whose infamous "shock treatment" economics have curbed inflation by letting blood in Bolivia and now Poland, offers similar counsel for industrial nations.

Among Republicans, Paul McCracken, who served as chairman of the Council of Economic Advisers in the Ford administration, bluntly says in the Feb. 5 *Wall Street Journal* that Social Security recipients "are really on the public dole." This is the kind of talk that makes old age benefits into just another discretionary spending program that may face the axe in the tough times ahead.

And while Bush ceremoniously proclaimed in his recent State of the Union address that the system must be protected, his own CEA chairman, Michael J. Boskin, is on record calling for a fundamental restructuring of the entire program. In a 1986 volume ominously entitled *Too Many Promises*, Boskin says that Social Security should be revamped into a two-tier program to allow benefits to the non-poor elderly to be cut.