NEWS RELEASE

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TRUSTEES' REPORT INDICATES NEED TO SCALE BACK TAX CUT AND RESERVE A PORTION OF GENERAL FUND SURPLUSES FOR SOCIAL SECURITY AND MEDICARE SOLVENCY

The Social Security and Medicare trustees' report issued today shows the danger of proceeding with a tax cut as large as the Administration has proposed and thereby failing to set aside a healthy portion of projected non-Social Security, non-Medicare surpluses for use in helping to restore long-term solvency to these programs. This is a conclusion of an analysis the Center on Budget and Policy Priorities issued today on the trustees' report.

The Center noted that nearly every major Congress proposal of recent years to restore long-term Social Security — including proposals that maintain the current Social Security structure *and* proposals to partially privatize the system — have included substantial general revenue transfers to Social Security. The one plan that did not include general reserve transfers proposed to reach solvency through a combination of very large benefit reductions and payroll tax increases that almost certainly would be politically infeasible.

The Center's analysis explains that Medicare may require still-larger general revenue transfers. Even the proposals of the Breaux-Thomas commission — a number of which are highly controversial — would close only a small fraction of the long-term Medicare financing gap, which the trustees' report (using new assumptions) estimates to be 63 percent larger than last year's trustees' report did. It is virtually inconceivable, the Center said, that a package restoring long-term Medicare solvency could be enacted that does not include the infusion of significant additional resources into Medicare, alongside Medicare reforms.

"If most or all of the surpluses projected outside Social Security and Medicare are used for a large tax cut — or a combination of big tax cuts and smaller program increases — that will preclude devoting significant surplus funds to strengthen Social Security and Medicare," Center director Robert Greenstein observed. "That in turn, could render it difficult, if not impossible, for the foreseeable future to enact legislation that restores long-term Social Security or Medicare solvency. The trustees' report shows the folly of enacting a tax cut this large."

The Center noted that the claim by some elected officials that the public should not worry because Congress and the Administration will set aside for Social Security the $2.5 trillion in surpluses projected over the next 10 years in the Social Security trust funds is misleading. "The trustees' report that projects Social Security will become insolvent in 2038 and able to pay only about 70 percent of benefits after that date already counts all of the projected Social Security surpluses," the Center noted. "Reserving those funds for Social Security doesn't extend solvency one day. Additional funds are needed from the non-Social Security side of the budget."

The Center said that implying that Medicare "reforms" or the replacement of part of Social Security with individual accounts can restore solvency without cutting benefits, raising payroll taxes, transferring funds from the rest of the budget, or some combination of these approaches is equally misleading. "The hard fact," Greenstein stated, "is that no one has a plan to restore solvency in either program in a manner the public would accept that does not include substantial transfers of funds from the rest of the budget to Social Security and Medicare."

Greenstein added that the Administration's tax cut would make such transfers impossible — unless the nation starts running budget deficits again — because it would consume virtually all of the projected surpluses outside the Social Security and Medicare Hospital Insurance trust funds. The Congressional Budget Office projects that surpluses outside the Social Security and Medicare HI trust funds will total $2.7 trillion over the next ten years. More than $500 billion of this amount, however, is expected to be used simply to maintain current payments to farmers, extend various tax credits that expire every two years or so and always are extended, and remedy problems in the Alternative Minimum Tax so it does not encroach heavily upon the middle class.

The President's proposed tax cut would consume virtually all of the non-Social Security surplus that remains. The President's budget shows the tax cut would consume $2 trillion of the projected surpluses over the next ten years, counting the increased interest payments on the debt that would result from the tax cut. Estimates the Joint Committee on Taxation issued in early March on the cost of the reductions in income tax rates in the President's package (including the acceleration of the phase-in of the proposed 10 percent bracket that is included in the rate reduction bill the House of Representatives passed March 8) add nearly $200 billion to the cost. Additional costs will result if, as most observers expect, Congress subsequently acts to prevent the tax plan from causing an additional 15 million taxpayers to become subject to the Alternative Minimum Tax. Enactment of the proposed tax cut thus would leave no surpluses available outside Social Security to transfer to the Social Security or Medicare trust funds to help restore long-term solvency to these programs.

The Center noted that if a portion of the Administration's tax cut that is directed toward very high-income individuals were dropped or substantially scaled back and the resources in question transferred instead to the Social Security trust funds, the financial status of Social Security would be significantly improved. For example, if the estate tax were scaled back instead of repealed (by raising the amount of an estate that is exempt from taxation and exempting many of the modest number of small businesses and family farms now subject to the tax) and the resources saved by not repealing the tax were transferred to the Social Security trust funds, Social Security finances would be strengthened. This one action would eliminate more than one-fourth of the long-term Social Security deficit.

Greenstein added, "The trustees' report should act as a warning light. It should remind us the responsible course is to defer enactment of very large, permanent tax cuts or spending increases until decisions can be made, as part of a broader debate on national priorities, about how much of the general fund surpluses to reserve for use in legislation to restore long-term Social Security and Medicare solvency."

The full report can be viewed on the Center's web site at
http://www.cbpp.org/3-19-01socsec.htm