

The Conservative Case for Cutting Payroll Taxes

By Senator Robert Kasten

Throughout my career in politics, I have espoused conservative principles. I have done this for two reasons. Number one, conservative principles work: They have a proven record of success in building both the society and the economy. And number two, conservative principles are populist: They are based on the public consensus that is the lifeblood of democracy and of political success.

I am here today to argue that cutting the Social Security payroll tax is the correct thing to do, and that it is a fundamentally conservative thing to do. It is good policy and good politics.

Over the last decade, conservatives have made great strides in American politics from being dismissed as advocates of big business and privilege to being respected as the defenders of prosperity, family, and limited government.

We've moved into a new neighborhood. We've moved from Wall Street to Main Street. This is no time to turn back. We cannot be for tax cuts on dividend checks for the wealthy and against tax cuts on paychecks for workers.

We conservatives must not surrender the ground we have won. We cannot abandon the field of pro-growth economics to liberal Democrats who are now arguing that tax cuts will have a dynamic impact on the economy. They know that a tax cut would create new jobs and bring in more revenue but they know this only because we taught them.

Protecting Benefits. I agree with Senator Pat Moynihan's approach, but I've made some improvements on it in my own tax cut proposal, the Social Security Integrity and Tax Reduction Act. Briefly, my bill would provide for a more modest tax cut than Moynihan's would; it would take Social Security off budget; it would extend the Gramm-Rudman balanced budget deadline to prevent tax increases; and it would provide for a cushion in the Social Security Trust Fund to protect benefits in the event of a severe economic downturn.

There are three chief reasons conservatives ought to rally behind this tax cut. One, it is pro-family. Two, it is pro-growth. And three, it is anti-Big Government.

If we want the traditional family to survive and prosper in this country, we simply have to stop government from oppressing it with unfair and excessive burdens. Since 1955, the basic payroll tax has risen nearly 400 percent; today, 74 percent of taxpayers pay more in combined payroll taxes than they do in income taxes. The impact on the family budget has been devastating: From 1955 to 1988, the federal tax burden on middle-income families rose twice as fast as their income.

We're widening the gap, the gap between what Americans earn and what government lets them keep. And that's unacceptable it's not what our country is about.

In 1955, a median-income family of four paid federal taxes at an average rate of 9 percent a year. In 1970, it paid 16 percent and by 1988, 24 percent. It's true that we cut income taxes during the 1980s, but most of the money people saved was eaten away by the 22 percent increase in payroll taxes. The maximum combined payroll tax for a one-earner family is now over \$6,000 a year.

Senator Kasten, a Republican, represents Wisconsin in the U.S. Senate.

He spoke at The Heritage Foundation on February 22, 1990.

ISSN 0272-1155. ©1990 by The Heritage Foundation.

Burden on Families. These excessive taxes have struck at the heart of the American family. The costs of childraising child care costs, health, housing, college education have increased dramatically. Congress has responded by creating government programs for middle-income families, like Head Start and the Act for Better Child Care. These programs require money and lots of it so the tax burden goes up. And the result is an increase in the burden on families.

Reducing the payroll tax would send a message to the families of America. It would say: "We the Government will not punish you for investing in America's future America's children."

We are often reminded about Social Security's declining ratio of workers to beneficiaries and how the ultimate health of the Social Security system itself depends on the productivity of tomorrow's workers. What could be more foolish than to keep boosting an already heavy tax burden, thus discouraging families from bringing up these bright and productive future citizens?

We have to bring the tax burden down, and leave families with more of their own income to invest in this essential resource. Rolling back the excess Social Security tax is a good first step, which could save families up to \$1,200 per year. Future reforms ought to include deeper reductions in the income tax rate and an increase in the personal exemption.

The family is the incubator of society. A government that interferes with the effective working of this incubator is sowing the seeds of future national disaster. Conservatives ought to join together and help us restore government to a position where it is no longer acting against this vital national interest.

Tax on Labor. The payroll tax also hurts America by making the economy less productive. In effect, the payroll tax is an excise tax on labor. It hurts businesses and workers by increasing labor costs and reducing take-home pay.

From the business standpoint, higher labor costs mean a reduction in the number of workers employed and in the amount of funds available for capital investment. From the workers' standpoint, higher labor costs mean less take-home pay, less savings, and less incentive to work. One of the reasons welfare recipients have been discouraged from taking entry-level jobs is the high federal tax on their first dollar of earnings. We need to stop chopping the bottom rung off the economic ladder and start making entry-level jobs more attractive to welfare recipients.

The tax increase will have a negative effect on economic growth. The Institute for Research on the Economics of Taxation estimates that, by contrast, every dollar of reduction in Social Security taxes would expand economic output by 68 cents.

Some conservatives are concerned that cutting this tax would result only in offsetting tax increases elsewhere in the budget. I think they are missing the big picture. I'm confident that if any proposed tax increase comes to the floor of the Senate, we'll have the votes to kill it. And furthermore, we know that the deficit is declining as a percentage of Gross National Product and that means we shouldn't scrap a wise tax reform out of a misplaced fiscal fear.

The growing Trust Fund surplus offers Congress a golden opportunity to expand the size of government. That's what we're doing right now: using the excess payroll tax to finance the expenses of general government.

I agree that Social Security is a compact between generations, but I also believe that this compact does not provide for tax increases in the name of Social Security that serve only to mask the true size of the deficit.

When we balance the non-Social Security budget, Congress is set to use the Trust Fund monies for spending programs. There are already several bills advocating the use of the surplus to fund government spending programs.

Unless we reduce that surplus and return the money to the American people it will end up in the pockets of special interests. And that result would be unacceptable to anyone who cares about reducing the government burden on our country.

Pro-family. Pro-growth. Anti-Big Government. This is a tax cut whose time has indeed come.

Contract with the Future. There is an internal debate among conservatives who support my bill about whether we ought to privatize Social Security outright. I oppose privatization, because I think the basic Social Security system is a contract with the future, and must remain the bedrock of our retirement system. But that doesn't mean we should not encourage private savings to supplement retirement benefits. We should encourage the American people to convert these tax cuts into wealth-creating assets. That's why I support the President's Family Savings Plan and preferential tax treatment of Individual Retirement Accounts.

Some conservatives, like my friend and colleague John Porter, think we ought to mandate these savings. I disagree. America ought to be a country of incentives, not mandates. We should instead establish private IRA-type accounts into which workers could deposit these excess payroll taxes if they so chose. In a recent public opinion poll, 68 percent of Americans supported this concept and 87 percent of those aged 18 to 25 supported it.

By diverting the excess taxes into productive investment, we could accumulate tremendous private savings without cutting Social Security benefits. In fact, the only long-term solution to meeting the retirement needs of the baby boomers is to create additional national private savings and to invest those savings in ways that will increase the productivity of future workers. This will reduce the tax burden on future workers.

Bias Against Saving. The reason people aren't saving enough today is that they have too little take-home pay to save. The tax code's bias against saving encourages people to consume. Here's how it works: If you save money, you're taxed on it twice once as income and again as interest. You spend the money instead, you're only taxed on it once when you first receive it as income.

The solution is to increase take-home pay by cutting the payroll tax and reduce the tax bias against saving by enacting the Family Savings Act and expanding IRAs.

We have a huge Social Security surplus today because the 1983 Social Security reforms were based on projections of slow economic growth for the rest of the decade. We all know what happened and it proves that we shouldn't try to project economic policy that far into the future, setting in stone tax increases that may prove to be unnecessary. We simply don't know the conditions future generations will face.

I ask you: How could adding \$3.2 trillion to the tax burden help the economy? That's how much the excess payroll tax will take from workers over the next three decades and it's a sure-fire prescription for low savings and stagnation, not high savings and growth.

The history of Congress paints a clear picture: Large surpluses are always spent, never saved.

Paul Craig Roberts is right; he says that using surpluses to pay off the debt amounts to “advocating a tax on labor in order to support bond prices.”

Learning the Lesson. That’s not what we ought to stand for. If we advocate taxing working families on Main Street in order to give windfall gains to bondholders on Wall Street, we will lose the trust and support of the people of this country.

And worse than that: We will deserve to.

But it’s not too late to avoid calamity. Let’s learn the lesson of 1980, of 1984, and of 1988: Growth economics works because it is in touch with the deepest hopes and aspirations of the common man. Let us not turn our back on this great legacy; rather, let us expand its strength and influence until all Americans participate fully in our national prosperity.

