Social Security's Looming Surpluses: Prospects and Implications
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The Budgetary Politics of Social Security

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I. Introduction

Social security is off limits for serious political discussion and debate. When crisis threatened in the early 1980's, both an independent commission and a genuinely bipartisan were deemed necessary. But were these proposals, which are now legally incorporated in the system, exposed to sufficient scrutiny? Concern is now being expressed that the reforms failed to take into account both the macroeconomic and macropolitical implications that are important. This paper addresses some of the rather obvious problems that emerge when political spillovers between the OASDI account and the comprehensive federal budget are acknowledged.

I shall first, in Section II, present a stylized model of the OASDI account as it is, was, supposed to work subsequent to the reforms enacted in 1983. In describing this model, I shall emphasize the restrictiveness of the conditions that must be satisfied to insure the sought-for results. Section III then examines the difficulties raised by the interdependence between the revenues and outlays of the OASDI account and non-OASDI components in the comprehensive federal budget. The impact of the 1983 reforms on the budgetary politics of the late 1980's and 1990's assumes center stage in this discussion. Section IV examines the institutional sources of possible interdependence, and analyzes the prospective affects of taking the OASDI account out of the comprehensive federal budget. In Section V, I try to place the system in the larger political context, and I make some predictions about future developments.

By way of preface, I should stress that my competence does not extend to pretended knowledge about either empirical or institutional details of the social security structure. I shall limit discussion to abstracted and stylized models which are themselves limited in scope. The discussion is limited to the OASDI part of the social security structure, and, for convenience, the non-temporal redistributional elements in the tax and benefit formulae are ignored. I make no effort to analyze impacts on aggregative economic variables.[1]

II. Sufficient Unto Itself: The Idealized Post-Reform System

Assume that, in a stylized pre-reform setting, the OASDI account operated on a pure pay-as-we-go intergenerational transfer basis. There was no trust-fund accumulation, but the participants were insured receipt of a return on tax-financed "investment" at least equal to the growth rate of the economy, which, in turn, was approximately equal to the rate of return on private investment.

This fully operational pay-as-we-go system of intertemporal transfer is then shocked by a dramatic and unpredicted shift in demographic patterns. There is an unanticipated surge in the rate of increase in population over a limited period of years, which is then followed by a return to slower rates of increase. The projected impact of this demographic shift on the operation of the pay-as-we-go transfer system comes to be widely recognized. As those persons who belong to the "baby-boom" generation reach retirement, the rate of tax on productive income earners must be increased sharply if, indeed, the implicit contract with members of the baby-boom generation is to be honored. Failing reform, the present value of future social security liabilities will exceed, and by a large order of magnitude, the present value of the anticipated revenues.

At some point, the "crisis" could have been expected to provoke attempts at reform. To forestall the dire predictions about possible default on the implicit intergenerational contract over ensuing decades, suppose an attempt was made --as in 1983-- to shift from the pure pay-as-we-go system to one that embodies some elements of a funded system. Rates of tax on currently productive income earners are increased beyond those rates that would have been dictated by strict pay-as-we-go accounting integrity. In the late 1980's, the trust-fund accounts start to accumulate surpluses, and these surpluses are programmed to accelerate dramatically over the decades of the 1990's, 2000's, and 2010's. These surpluses, invested at interest in government debt claims, are designed to be sufficient to allow the pension commitments to the bulge generation to be met during the draw-down decades of the next century, without unduly onerous tax rate increases on the then-productive. In a real sense, the members of the baby boom or bulge generation are subjected to current taxes that are sufficient not only to finance the pensions of those who are now retired or who will retire in the 1990's, but also to finance <u>their own</u> retirement in the third, fourth, and fifth decades of the next century. The period of trust-fund accumulation is to be followed by an anticipated period of trust-fund depletion, which is to be financed from the previously accumulated surpluses.

The central difference between a pay-as-we-go system of intergenerational transfers and a fully funded system lies in the latter's investment of excess revenues in income-earning assets. These assets, in turn, generate returns sufficient to finance the future-period obligations that are currently incurred. There must be an increase in the rate of capital formation in order to insure that future-period income streams are higher than they would be under the pay-as-we-go system. But, with the OASDI reforms, trust-fund surpluses are invested exclusively in claims against the United States government. These claims earn interest, which accrues to the account, but since the federal budget is in deficit the funds collected from payroll taxes, are used, directly, to finance current outlays by the federal government. Can we say, then, that the shift to a partially funded system, increases the rate of capital formation in the economy?

The answer is affirmative, if we impose the economists' pound of <u>ceteris paribus</u> and consider the OASDI account in isolation. The actual usage of the tax revenues is irrelevant in this setting. The debt claims against the government earn interest, and the account, therefore, grows precisely as if the funds should be invested in private income-earning assets in the economy. But how can we be assured that the net result is an increase in the rate of aggregate capital formation? This result is insured if we assume that, as it operates in fact, the system is independent in the _ceteris paribus_ sense. If choices made outside the social security system are not themselves affected by the trust-fund accumulations (a relationship to be discussed at length in Section III), then the rate of capital formation in the economy must increase because the accumulation of the OASDI's debt claims against the general treasury will allow for a release of loanable funds to the private sector. As the OASDI trust-fund "purchases" a debt claim from the treasury, there is a dollar-for-dollar reduction in the private sector's purchase of treasury obligations. This reduction in the purchase of treasury securities must increase the purchases of private sector securities, those issued by private borrowers who will, in turn, use the funds to purchase income-earning assets which can, in later periods, provide returns sufficient to amortize the obligations incurred.

As trust-fund surpluses grow in size over the next three decades, the _ceteris paribus_ scenario will require that the system's "purchase" of treasury debt claims not only replace non-OASDI purchases that might be needed to finance treasury deficits but, in addition, there be a net reduction in private holdings of debt claims that have been previously purchased. That is to say, some share of trust-fund surpluses may go toward retirement of pre-reform privately-held public debt. The effects of this operation are, of course, no different from those involved when the trust-fund surpluses replace private purchases of treasury securities for the purpose of financing a treasury deficit. In either case, private funds are freed up for additional investment in income-yielding assets.

In the second, or draw-down, period (estimated to commence in the second third of the next century), the OASDI account will find it necessary to call its debt claims against the treasury in order to meet its implicit obligations to members of the bulge generation. To honor these calls against it, the treasury will find it necessary to increase its sale of securities to non-OASDI purchasers. As loanable funds are shifted to the purchase of government debt instruments, the rate of investment in interest-earning assets in the economy will be reduced. The trust-fund decumulation period will have effects on the aggregate rate of capital formation that are precisely the obverse of those generated during the trust-fund accumulation period.

III. OASDI Trust Funds and the Federal Budget

As many critics of Marshallian economic method have noted, _cetera_ are seldom, if ever, _paribus_. This criticism applies in spades to the stylized scenario of OASDI independency that was roughly sketched in Section II and which presumably (or arguably) served as the basis for the reforms enacted in 1983. But, as has been the case with many other ill-advised ventures into economic policy, the reforms failed to reckon with the elementary realities of democratic politics. A small dosage of public choice theory might have dampened the enthusiasm of those who sought to insure the integrity of the system.

The fact is that the OASDI fiscal account is not, and cannot be, _politically_ independent of the non-OASDI income and outlays that describe the more inclusive fiscal operations of the federal government. There is no necessary economic interdependence here; there is no internal contradiction, in a general equilibrium sense, involved in treating the OASDI account as if it were separate and apart from remaining components of the comprehensive federal budget. The interdependence is political rather than economic, and it involves predictions concerning the behavior of political decision makers who are ultimately responsive to the demands of voting constituencies.

Budgetary Complements to OASDI Independence

To understand the potential effects of the projected trust-fund accumulations over the decades of the 1990's, 2000's, and 2010's, it will be useful to define carefully the budgetary discipline that political agents would have to follow to insure full OASDI isolation. As noted, the operation of the system as if it were independent would require that the partial derivative of the reform-induced changes in non-OASDI revenue and outlay streams over the half century be zero. That is to say, the path through time of non-OASDI revenues and outlays would have to be invariant with respect to OASDI shifts from pay-as-we-go, to trust-fund accumulation and, later, to trust-fund decumulation.

Note that the genuine independence here does not require specification of any particular relationship between non-OASDI revenues and outlays, either early, middle, or late in the projected temporal sequence. The non-OASDI portion of the budget may be in deficit, in balance, or in surplus, and shifts among these three possible sets of relationships may occur over time as dictated by political forces. All that is strictly required for independence is that this time path of the budget deficit (positive or negative) not be affected directly by what happens in the OASDI account itself.

How would the required invariance reveal itself in terms of the comprehensive federal budget? The comprehensive budget deficit would be observed to move above the non-OASDI time path, that is, toward budget surplus, during the period of OASDI trust-fund accumulation, and to move below the non-OASDI time path toward budget deficit, during anticipated periods of trust-fund decumulation. If we state this requirement more simply in terms of the measured budget deficit, the comprehensive deficit must be reduced, dollar-for-dollar, with increases in OASDI trust fund build-up and increased, dollar-for-dollar, with decreases in trust-fund balances in later periods.

Interdependence Imposed by Aggregative Budgetary Targets

This requirement for OASDI independence and isolation will be violated under any and all policy regimes that involve aggregative targets for the revenue-outlay relationship in the comprehensive budget. Suppose, by way of a simple and unreal example, that there should have existed a rigidly enforced rule for comprehensive budget balance both under the pay-as-we-go period for the OASDI account and later. This rule, in operation, would prevent the necessary generation of a comprehensive budget surplus during the periods of OASDI trust-fund accumulation. Or, conversely, it would facilitate the expansion in non-OASDI outlays and/or reduction in non-payroll taxes, while, at the same time, allowing the budget balance target to be met. Alternatively suppose, more realistically, that the comprehensive budget was in deficit during the period of pay-as-we-go OASDI financing, but that medium-range legislative targets had been established to reduce and then eliminate the comprehensive budget deficit; this is the Gramm-Rudman-Hollings setting. In this case, the generation of trust-fund surpluses in the OASDI account the deficit reduction targets to be satisfied, while still allowing the non-OASDI deficit to increase. Much the same results emerge under any scheme for deficit control that uses balance or imbalance in the comprehensive budget as a criterion for policy achievement. As a final example, suppose that a decision is made to keep the relationship between the measured comprehensive budget deficit and gross national product constant. Again, satisfaction of this norm would allow non-OASDI deficits to increase during the period of trust-fund accumulation.

Politicized Interdependence: OASDI Surpluses and Budgetary Ease

What will be the effects of any of the predicted violations of the strict independency requirement? Suppose that, in fact, the OASDI surpluses are generated, but that these surpluses serve merely to relieve pressures on political agents to reduce the non-OASDI deficit, so that non-OASDI outlays increase relative to non-OASDI tax revenues. The non-OASDI deficit increases despite the apparent decrease in the comprehensive budget deficit. This scenario, which is almost certain to be descriptive of fiscal-political reality in the 1990's, implies that the alleged reforms in the OASDI system will not accomplish their ultimate purpose, which was to relieve pressures upon income earners when the bulge generation reaches retirement age.

It may be useful to trace out the steps in the analysis here. Suppose that the generation of a trust-fund surplus (payroll tax revenues in excess of current program payments) causes political agents to expand outlays on non-OASDI programs. This policy combination negates the funding purpose of the OASDI reform, because no funds are released for an increase in private capital formation. No displacement of private lending to government takes place. As before, the OASDI account "purchases" claims against the treasury with the enhanced payroll tax receipts; but the government now uses these revenues, not to replace funds previously borrowed from the private sector but, instead, to expand rates of outlay on non-OASDI programs. There is no release of funds that can be made available to private investors in income earning assets.

One feature of this politicized interdependence scenario deserves special notice. If the trust-fund surpluses are used to facilitate expansions in non-OASDI spending, this spending will not increase the measured comprehensive budget deficit because the ultimate financing is from the payroll tax revenues that generate the surpluses in the first place. But, because surplus OASDI receipts are used directly to "purchase" claims against the treasury, there will be an increase in the size of the measured national debt, and, with this increase, an increase in interest obligations.[2] This apparently paradoxical feature stems, of course, from the accounting conventions that allow for the dual counting of payroll tax revenues, both as the source for the "purchase" of the internally held OASDI claims against the treasury and as the revenue offset to general outlays in the comprehensive budget. Payroll taxpayers think of themselves as "paying for" the future benefits that the OASDI claims against the treasury measure. But who, then, is "paying for" the expanded rate of non-OASDI outlay? This "payment" must finally rest with future-period general taxpayers, who must finance the amortization of the OASDI claims.

As noted, to the extent that the OASDI trust-fund surpluses are offset by expansions in non-OASDI spending, there will be no induced increase in the rate of private capital formation in the economy. There will be no indirect "funding" of the future-period pension obligations in the aggregate. The OASDI account, treated as an administratively separated unit, will accumulate claims against the treasury, and hence the general taxpayer, but there will be no increase in future-period income that will allow such claims to be more easily financed, either through taxation or debt issue.

Post-Surplus Political Consequences

In terms that are relevant for macroeconomic policy, the independence and interdependent scenarios described above are dramatically different. The first embodies an increase in private capital formation as a result of the 1983 OASDI reforms, independently of the movements in the non-OASDI federal budget. The second, and more realistic, scenario involves a dissipation of the OASDI surplus build-up through politicized profligacy in the non-OASDI budget. However, and this is a point worthy of some emphasis, the political consequences in the post-surplus period need not be so great as the economic differences in the two models might suggest.

In either case, at the beginning of the draw-down period, the OASDI will call in its claims against the treasury, and the treasury will stand obligated to advance the funds that are required to meet the emerging OASDI deficits. This OASDI demand on the treasury can be met by increases in the sale of government securities to the private sector, by taxation, or by a reduction in rates of non-OASDI spending. The treasury will face this fiscal choice whether or not it has maintained the discipline dictated by the independency scenario during periods of the OASDI trust-fund build-up. And, under either scenario, trust-fund advocates can argue that payroll taxes have, indeed, been sufficiently high to "finance" the draw-down of the surplus, quite apart from the presence or absence of fiscal discipline in the non-OASDI sectors of the comprehensive budget. Conversely, under either scenario,OASDI critics can possibly be politically effective by calling attention to the within-OASDI current deficits, regardless of fiscal policy in pre-deficit periods.[3]

A fully symmetrical interdependent fiscal stance over the whole build-up and drawn-down cycle might suggest that, during the surplus period, the non-OASDI deficits would be higher than under the independent scenario, but that during the draw-down period, non-OASDI deficits would be lower due to the increased fiscal pressures. But there would seem to be no behavioral basis in predicting such symmetry. The OASDI surpluses can, as noted, facilitate a hidden increase in the non-OASDI deficits, an increase that is consistent with the natural proclivities of constituency-responsive political agents. The later-period OASDI deficits present political agents with much less desirable options. Unless otherwise constrained, they will finance the OASDI deficit with additional borrowing from the private sector, thereby producing explosive growth in the size of the comprehensive budget deficits over the whole of the draw-down period. This resort to the private sector for sale of bonds would, of course, be more appropriate under the independency model, since public borrowing from the private sector would have been reduced and possibly eliminated during the surplus period.

IV. Sectoral Independence

Would the independent integrity of the OASDI system be more likely to be respected with accounting separation from the other revenue-outlay components of the comprehensive federal budget? That is to say, should earmarked payroll taxes be counted as federal budget revenues and should social security payments be included as federal expenditures? There exists a well-grounded public choice argument for sectoral separation among elements in the comprehensive budget, especially if revenues from particular sources are earmarked for and limited to spending on particular programs, and, further, if the financing of such programs is limited to the defined sources of revenues. The rationality of the political decision making process is enhanced if the costs and benefits of particular programs can be more readily identified and if the institutional structure is such as to encourage political agents to make choices by program. If the OASDI structure could be removed from the comprehensive federal budget, there would seem to be less likelihood that the build-up of OASDI surpluses over the next three decades would simply facilitate increases in the non-OASDI deficits, thereby reducing or eliminating the economic advantages of "funding."

There is an institutional difficulty of major proportions, however, in removing the social security account from the comprehensive federal budget, a difficulty that may negate the apparent advantages to be gained in overall fiscal responsibility. The payroll tax, and the revenues therefrom, finance both retirement and disability payments <u>and medical payments</u> under the health insurance account. It seems unlikely, therefore, that the OASDI account could be separated from the health insurance (HI) account, even if these combined accounts could be isolated institutionally from other revenue-spending components of the comprehensive budget. And, so long as the HI account faces prospective deficits, there would be a "natural" proclivity for political agents to use the build-up in OASDI trust-funds to finance the mounting deficits of the HI account, rather than to increase net purchases of securities from the treasury. Because the two accounts would seem likely to be included in any institutional-administrative sectoralization of the comprehensive budget, little would be gained by attempts to accomplish OASDI independence by this route.

A somewhat different and partially offsetting argument may be advanced against removal of the social security account from the comprehensive federal budget, an argument that is related to the sequence of post 1983 predicted revenues and outlays. Throughout most of its history, benefits under OASDI have increased well beyond the limits justified by actuarial standards suggesting that an excess of current revenues in the account is politically vulnerable. If the OASDI and HI accounts should be removed from the comprehensive budget, political pressures to use emerging surpluses to fund increases in non-OASDI deficits would tend to give way to comparable, or greater pressures, to divert surpluses into non-justifiable increases and expansions in program benefits.

V. Prospects, Politics, and Predictions

Application of elementary public choice theory to the current (early 1989) situation that describes the social security system yields relatively straightforward predictions, especially over the medium term extending from the late 1980's through the mid-1990's. The much-heralded "reforms," enacted in 1983, have commenced to generate the anticipated OASDI trust fund surpluses. These surpluses will not, however, be allowed to reduce the size of the non-OASDI deficits, the offset that would be required if the funding purpose of the revised tax structure is to be achieved. Instead, it seems almost certain that the trust-fund accumulation will become one of the primary means through which the comprehensive budget deficit will be kept within the limits defined by deficit-reduction targets, such as those embodied in the Gramm-Rudman-Hollings legislation. As I noted earlier, it seems likely that non-OASDI deficits, including the health insurance account, will be increased rather than decreased over the interim period. In particular, due to the political and accounting linkages between the various social security programs -- OASDI, DI, and HI -- structure, the OASDI surpluses will provide the politically-justifiable source for financing the increasing deficits in the HI account. To the extent that the OASDI surpluses exceed the HI deficits, they will allow for still further increases in federal spending programs outside the social insurance system.

To understand and to appreciate the full impact of the "reforms" and the inclusive budgetary politics of the federal government, it is useful to recall the fiscal setting of the early and mid-1980's. By 1983, it had become clear that some of the extremist supply-side projections were not within the realm of the possible; the tax changes of 1981, the unsuccessful attempts to reduce non-defense federal spending, and the increase in defense spending combined to insure an explosion in the size of the comprehensive budget deficit. A constitutional amendment to require budget balance gained support, both among the several states and in the Congress itself. Prospects for the adoption of such an amendment became very real in 1983. While this was taking place, Congress itself began to acknowledge that its own procedures were seriously flawed; there was an emerging recognition that the democratic proclivity to generate ever-increasing and permanent deficits must, somehow, be curbed.

First in 1985, and again in 1987 after judicial rejection of some features of the 1985 legislation, Congress enacted the

Gramm-Rudman-Hollings budgetary reforms that incorporated specific targets for deficit reduction over five-year periods, the first version dictating budget balance by 1991, the second by 1993. This phase-in feature of the legislation was grounded, apparently, on the conviction that taxpayers-beneficiaries in the late 1980's were unwilling to accept the fiscal austerity that might move more directly toward budget balance.

There was little explicit public recognition that the earlier-enacted "reforms" in the social insurance system would make the achievement of the Gramm-Rudman-Hollings budgetary targets much easier to achieve than if the pay-as-we-go OASDI structure had been maintained. The increases in the rates and base of the payroll tax virtually guaranteed that there would be a substantial excess of OASDI revenues over payment obligations over the interim period. These "reforms" in the sectoralized social security structure did, indeed, incorporate the fiscal austerity that was deemed politically impossible if undertaken directly.

If we view all this cynically, the wage-salary earners subjected to the increased payroll taxes were tricked by the dual counting illusion into financing the targeted reduction in the comprehensive budget deficit. Non-OASDI program beneficiaries and non-payroll taxpayers will enjoy unchanged, and even enhanced, current utility flows at the expense of payroll taxpayers. In a very real sense, the fiscal crisis that appeared on the way to resolution was simply postponed for up to three decades by the changes enacted in social security.

The OASDI account will, to be sure, accumulate very substantial nominal claims against the general taxpayer-beneficiary of the federal government. But there will have been no "funded" increase in the tax base that will allow the financing of these claims when due. After the first two decades of the next century, when these OASDI claims are called, members of the then productive wage-salary earners can make out a plausible case against further payroll tax hikes to finance these system-held claims. But by that time, the events of the 1980's will be bygones and the democratic politics of the 2020's will not respect the good intentions of the reformers of the 1980's.

What are the conclusions? Were the 1983 "reforms" a mistake? Did they serve to foster a set of fiscal illusions that will make ultimate reform in fiscal procedures more difficult? I shall not answer these normative questions directly here. But the analysis does allow me to identify the gainers and losers from the changes that were made. In any resource or commodity discussion, current payroll taxpayers lose; they are required to sacrifice current consumption-investment opportunities. These losses need not be matched in a utility dimension if payroll taxpayers think of themselves as "purchasing" a more secure funding of their own future retirement payments. Current non-payroll taxpayers and non-OASDI program beneficiaries gain in an opportunity cost sense. They are not required to reduce the flows that generate the current non-OASDI deficit. Future-period taxpayers generally (payroll and other) along with future-period non-OASDI program beneficiaries lose relative to their positions under either (1) continuation of the pay-as-we-go system combined with non-program sources of comprehensive deficit reduction or (2) genuine "funding" of the surpluses. In either of these cases, future-period taxpayers-beneficiaries would have available a larger income base from which OASDI payment obligations could be met. Alternatively, future-period OASDI claimants may themselves lose utility if their claims are not honored.

The result seems clear. The pattern of utility gains and losses, among groups within the current generation and between groups in the current and future generations, is not that which motivated the "reform" legislation. The Greenspan commission advocates may have produced a fiscal chain of events that was no part of their intention. Would they have been so enthusiastic in support of the changes and so self-satisfied with their apparent accomplishments if they had looked more realistically on the working of modern democratic politics in the 1980's?

The predictions made here have implications for the playing of budgetary politics in post-Reagan Washington, and especially in the 1989-1993 term of the next President. The "deficit issue," which is almost exclusively discussed in terms of the measured comprehensive budget, will be less acute because of the trust-fund accumulations, and will therefore be less acute politically unless major increases in domestic spending take place. There need be no major tax increase unless such increases do, in fact, occur. On the other hand, the machinations of Leviathan-led political agents should never be neglected. Especially in 1989-1991, residues of the "deficit issue" from the middle 1980's may be used as a political cover for broad-based tax increases, along with envy-induced (non-revenue enhancing)increases in upper bracket income taxes. This pattern of revenue enhancement, added to the trust-fund surpluses in OASDI, would allow for a threshold shift upward in the relative share of income returned to the government in taxes. Such a scenario will not, of course, embody genuine funding of the trust-fund surpluses. Post Reagan, we may face a political reality that simultaneously embodies a continuing deep mistrust of both political agents and institutions and a return to the public sector growth pattern that has characterized almost the whole of this century.

FOOTNOTES

[1] For presentations of the results of simulation models that examine those effects under several sets of assumptions, see, Study of the Potential Economic and Fiscal Effects of Investment of the Assets of the Social Security Old-Age and Survivors and Disability Insurance Trust Funds: Final Report (Baltimore: Social Security Trust Funds, May, 1988). Report prepared and submitted by Joseph M. Anderson, Richard A. Kuzmak, Donald W. Moran, George R. Schink, Dale W. Jorgenson, William R. M. Perradin.

Also, see, Final Report to the Social Security Administration on Contract No. 600-87-0072 Washington: Brookings Institution May 1988). Report prepared and presented by Henry J. Aaron, Barry P. Bosworth, Gary T. Burtless.

[2] It may be suggested that there is no increase in the size of the debt, properly measured. If retirement benefits are promised in future periods, the present values of these benefits are liabilities of the federal government that should be included in properly measured debt totals. The "funding" process merely serves to make these real liabilities explicit.

In the strict independence scenario, by contrast, there will be an explicit reduction in the size of the debt, properly measured, as trust-fund surpluses emerge.

[3] See, Carolyn Weaver, "Social Security's Looming Surpluses:

Panacea or Mirage," American Enterprise Institute, September 1988. p. 12.

Summary

The 1983 reforms in the social security structure were based on the implicit assumption that this system is fiscally independent of the non-social security components of the comprehensive federal budget. If the necessary political interdependence between the social security accounts and the other components of the budget is acknowledged, the effects of the 1983 legislation take on less desirable attributes. The main effect will be to allow the non-OASDI deficit to be larger than otherwise might have been. Payroll tax revenues become substitutes for either general-fund spending cuts and/or general tax revenue increases in efforts to move toward comprehensive budget balance.

Biography

James M. Buchanan is Harris University Professor and Advisory General Director, Center for Study of Public Choice at George Mason University and winner of the 1986 Nobel Prize in economics for his contributions to the theory of political decision-making and public economics.