The False Messiah

Pete Peterson's Revelations Are Not Gospel

By Robert S. McIntyre

Peter G. Peterson, as he cheerfully admits, is not a member of the middle class. He's a rich Republican Wall Street investment banker. But in his crusade against deficits and entitlements, he adroitly poses as a champion of the middle class.

Given his circumstances, it's not entirely surprising that Peterson is an outspoken opponent of the federal government's two most progressive (and successful) programs: the graduated income tax and Social Security. What is odd is that his pose as a friend of the common American succeeds; that he publishes in liberal journals like the Atlantic and the New York Review; and that he enjoys a largely uncritical press.

Even odder is the fact that Bill Clinton, after presiding over the most progressive tax reform in two decades, would name Peterson as one of his ten appointments to the newly formed Bipartisan Commission on Entitlement and Tax Reform. Peterson is at the epicenter of a growing network dedicated to demonizing entitlements.

In order to squeeze his 1993 budget plan through the Senate last year, Clinton had to appease Nebraska Democrat Bob Kerrey, who in an emotional, late-night speech on the Senate floor complained bitterly that the plan was not tough enough on the middle class. To secure Kerrey's reluctant vote, Clinton agreed to form a commission to study possible cuts in entitlement programs and new taxes. Congress was awarded 22 of the 32 seats on the commission, 12 Senators and 10 Representatives, each split evenly between Democrats and Republicans. The remaining 10 choices were reserved for the President.

But when it came time to make appointments, House Republicans, led by GOP Whip Newt Gingrich, refused to fill their five designated positions unless Clinton conceded some of his slots as well. After months of delay and with his promise to Kerrey on the line, Clinton caved in and named several Republicans, including Pete Peterson. Although Peterson's views are antithetical to much of the Clinton agenda, he will fit in well with several other members of the commission, including the two co-chairmen, Senators Kerrey and Republican John Danforth, who want both big cuts in federal transfer payments and major tax changes that encourage savings and investment.

The 67-year-old Peterson, who served Richard Nixon as a White House staffer and then Secretary of Commerce, has emerged as perhaps the leading spokesman for what remains of the anti-deficit wing of the Republican Party. For example, Peterson is the founding president of the nominally bipartisan Concord Coalition, chaired by former Senators Warren Rudman and Paul Tsongas. Senator Tsongas, who began his electoral career as a Republican, declared in 1992, "Of all the Democratic candidates, I have the strongest appeal among Republicans." The Coalition wants to eliminate the deficit by the year 2000 by cutting entitlements and raising consumption taxes. Peterson has helped fund "Lead . . . or Leave," a group with a similar entitlement-bashing agenda that claims to represent Generation Xers. He and his staff have written a number of books and articles, most recently *Facing Up* (1993), excerpted in the *Atlantic* under the same title and adapted in a *New York Review* article called "Entitlement Reform: The Way to Eliminate the Deficit."

Kerrey and Danforth apparently hope their Entitlements Commission will provide a quasi-official endorsement for the Peterson program. Most GOP leaders fear that calling directly for entitlement cuts, namely in Social Security, is political suicide; they have instead stuck with vague recommendations for less "wasteful spending." Likewise, while they may favor lowering taxes on the wealthy, they are reluctant to call directly for higher taxes on middle- and low-income families to replace the lost revenue. Peterson is more forthright. Along with tax cuts for the rich, he explicitly endorses tax increases for the poor and the middle class as well as sharp reductions in what average families receive from the government.

But because Peterson cloaks his goals in the rhetoric of progressivity, the press has fawned over him. The misleading notions that entitlements are running up the deficit, stealing from future generations, and maintaining the elderly in affluence while young

people suffer, have become received wisdom for many. Much like Tsongas, Peterson has cultivated a reputation as someone who is above politics and willing to face the hard truth.

Seductive Rhetoric

As outlined in his 1993 book, *Facing Up*, Peterson would tinker with various federal spending programs from defense to welfare, with little net change in the total spent. The heart of his agenda is the following:

• Cut Social Security and Medicare by $135 billion a year by the year 2000 — a reduction of 21 percent that year and more thereafter. Both the Concord Coalition and "Lead . . . or Leave" endorse similar proposals.

• Enact vast new federal taxes on consumption. Initially, Peterson would generate $220 billion in additional annual revenue (in the year 2000) by imposing a national sales tax and a stiff tax on employee health benefits, as well as tripling or quadrupling selected federal excise taxes. He would use part of the money to pay for $30 billion or so in new loopholes for corporations and the wealthy. Eventually, he hopes to raise about a trillion dollars in new consumption taxes, so that he can eliminate personal and corporate income taxes entirely. The Concord Coalition endorses the same plan.

Peterson's bottom line is that the middle class gets too much from government and pays too little for it, while corporations and the rich deserve a break. Curiously, that's not how he sells his program.

Peterson frames his case by contending that well-off people get too much from government. "Counting both direct benefits and the value of entitlements conveyed through the tax code, the aggregate amounts received by people above the national median are simply staggering," he complains. "In 1991 nearly half of all entitlements went to households with incomes over $30,000. One quarter went to households with incomes over $50,000." Peterson takes into account all direct-benefit outlays and tax expenditures, then concludes that "On average, a household with an income under $10,000 collected roughly $5,700 in 1991. On average, a household with an income over $100,000 collected $9,300. This distribution of benefits by income . . . clearly . . . has nothing to do with economic equality."

To be a bit churlish, these figures don't necessarily seem all that bad. By Peterson's arithmetic, the lowest income group he cites gets almost its entire $6,000 average income from government assistance, while the high-income group's "benefits," mainly tax breaks, amount to only about 4 percent of its $200,000-plus average income.

But Peterson continues his populist rhetoric. "Middle-class Americans today feel hard pressed and beleaguered — and they are." Peterson promises to wring revenue from the "genuine upper class" through higher tax rates, lower tax subsidies, and greatly reduced entitlement benefits.

Alas, having piqued middle-class interest, Peterson switches his message. Stripping the big fish of federal benefits won't do much for the budget, he asserts, because the rich don't really get much in the way of government subsidies:

As for direct entitlement benefits, . . . not much help is available from the rich. The maximum entitlement savings obtainable from the 1 percent of households enjoying incomes of more than $200,000 are . . . about $5 billion if we took away all their benefits (something that even Bill Clinton . . . has never dreamed of suggesting).

Nor, he claims, can we get much from eliminating the tax breaks of the rich. "For all the subtle subsidies that help the wealthy borrow huge sums for home mortgages and take unlimited health-care deductions," he says, "just 7 percent go to the Americans whom the President calls `rich.' "

In truth, the wealthy get far more in tax breaks than Peterson admits. Hence, the bait-and-switch. Despite his rhetoric, Peterson apparently doesn't want the wealthy to relinquish anything. On the contrary, he would have the middle class suffer and the rich get tax cuts to more than offset any reductions in their direct federal benefits.

Rich Ironies

"Unlike some of my Wall Street colleagues," Peterson wrote in the October 1993 *Atlantic*, "I see absolutely nothing wrong with imposing higher tax burdens on the wealthiest in our society." That may be, but Peterson's tax program is about the most pro-rich approach imaginable.

Peterson harps on the "shocking" regressivity of various federal income tax breaks that he says provide an unfair advantage to the wealthy. Yet his ultimate goal is to repeal all personal and corporate income taxes. He is enamored of the so-called "progressive consumption tax," which would be levied on incomes after a deduction for money saved. By definition, corporations would pay no tax at all.

Since rich people can save a far higher share of their income than average families, a tax limited to spending would require extraordinarily high rates at the top to

avoid providing huge tax cuts to the wealthy. Indeed, only consumption tax rates of more than 100 percent for the very highest earners could approximate the progressivity of the current system. Enacting such rates would, of course, be impossible; as a result, Peterson's consumption tax would almost certainly cut taxes for the rich and raise taxes for most others.

Because a progressive consumption tax has unsolvable technical problems, Peterson offers a more practical, albeit hugely regressive, alternative: a 5 percent national retail sales tax, a 50-cent-a-gallon gasoline tax hike, sharply increased taxes on alcohol and tobacco, and a stiff tax on employee health benefits. Together, these taxes are supposed to raise $220 billion a year by the year 2000.

Distributionally, the Peterson tax package would take about five times as large a share of income from median income families as from the rich, and an even higher percentage from the poor. But that's not all. It would also give corporations new tax breaks and the wealthy a capital gains loophole. So, far from "higher burdens on the wealthiest in our society," Peterson would grant himself and his high-rent neighbors a tax cut.

To be fair, Peterson does offer a rationale for so tilting the tax code. In his book, he says, "By taxing consumption (as opposed to income), we of course create incentives that favor household savings." In addition, he argues that "Every other major industrial country relies more heavily — typically, much more heavily — on consumption taxes than the United States does. Not coincidentally, these other countries have higher rates of private saving than we do."

The underlying premise of these contentions — that higher savings would be an unmitigated boon for our economy — can be debated. But even conceding that point, Peterson's assertions simply do not hold up under scrutiny.

Start with Peterson's contention that "every other major industrial country" relies more on consumption taxes. Yes, most do — but not all. In fact, Japan, our biggest competitor, relies considerably less on consumption taxes and far more on income taxes than we do. And Japan leads the world in savings. Moreover, the rest of the industrial world does not agree that higher consumption taxes are the key to economic growth. On the contrary, 19 out of the 23 OECD countries have reduced their relative reliance on consumption taxes in recent years.

But why isn't it simply common sense that tax breaks for saving — or tax penalties for consumption — must lead to increased saving and less spending? Well, suppose that tomorrow the price of everything you buy went up by 5 percent but your income remained the same. It's unlikely that your first reaction would be to eat less, drive less, and move to a cheaper apartment so that you could save more. If anything, you'd cut back on your savings so you could consume just as before.

Alternatively, suppose you are trying to save money for retirement, a new car, or whatever. And suppose that the rate of return on your savings goes up, perhaps because the government gives savings a tax break. Would you rush to save more? Or, now that you could put less money aside and still meet your saving goal, would you choose to save less?

As a matter of economic theory there's no way to tell for sure, but the experience during the Reagan administration suggests Peterson is indeed wrong. In Reagan's 1981 tax act, new tax breaks were showered on savings, through deductible IRAs, capital gains tax breaks, a 30 percent cut in the top personal tax rate on investment income and a plethora of new corporate loopholes. Yet thereafter, savings plummeted. Conversely, when Congress repealed many of the tax breaks in 1986, savings eventually rebounded. Most experts who study these issues find no correlation between taxes on savings and savings rates, either in the United States or among the major countries of the world.

In 1992 when Peterson and I served on a "capital formation" subgroup of a Presidential commission exploring these issues, the assembled experts overwhelmingly concluded that the relative level of taxation on savings versus consumption has little or no effect on saving behavior. That experience may help explain Peterson's reluctance to cite serious evidence for his assertions that consumption taxes would increase savings. But it does not excuse his clinging to the notion of regressive, unfair taxes at the core of his deficit reduction program. One wonders whether he isn't pushing consumption taxes precisely because they are so regressive.

Is Social Security Unfair?

The other half of Peterson's program — the part that carries the most weight in public debate — is the notion that excessive federal "entitlements" are at the root of our deficit problem. Entitlements are federal programs not subject to annual appropriations. They are simply paid to whomever qualifies. Entitlements are expected to cost more than $800 billion in the upcoming fiscal year — more than half the entire federal budget.

Just under a quarter of mandatory spending goes for low-income programs such as Medicaid, food stamps, and welfare. Another sixth represents veterans benefits, federal employee retirement pensions, unemployment compensation, and several smaller items. (Farm price supports are less than 1 percent of total entitlements.) That leaves Social Security and Medicare, which currently account for about 60 percent of total entitlements.

To Peterson, the Concord Coalition, "Lead . . . or Leave," and others, Social Security is an expensive scandal. "We will no longer be able to afford a system that equates the last third or more of one's adult life with a publicly subsidized vacation," Peterson wrote in the *Atlantic*, hyperbolically implying that the average Social Security recipient lives to be 100. "Unfair and unsound . . . Social Security is a generational scam," Jon Cowan and Rob Nelson of "Lead . . . or Leave" wrote last year in the *New York Times*. "The Concord Coalition believes that reducing [Social Security] payments to people with mid-level and higher incomes is not only fair but also the only realistic way to get control of the deficit."

Is any of this true? Well, no.

Sure, Medicare is out of control — just like the rest of the health care system. But the only solution is comprehensive health care reform. Clinton's program, for example, seeks to stabilize outlays for Medicare's hospital insurance program as a share of GDP, cutting them by 20 percent below current projections by the year 2000, a goal the generally skeptical Congressional Budget Office says the Clinton plan could achieve. In the past Congress has tried to trim Medicare without broader reform. But the main effect was that hospitals and other health providers shifted costs to other patients in order to make up the difference. That's why we need a more comprehensive approach such as Clinton proposes. Peterson agrees that health costs ought to be cut, but says he is "more than a bit skeptical" about the possibility of doing so.

What about the Social Security retirement system? "It's an outrage," Ross Perot liked to say in 1992, "that somebody like me is entitled to Social Security benefits from the government." Well actually, Ross, there aren't many billionaires like you. More to the point, Social Security is not a windfall to the wealthy, it is not out of control, and it is not contributing to the deficit.

From the mid-1970s to the early 1980s, Social Security benefits were growing rapidly as a share of the gross domestic product, due in large part to an error in the benefits calculation formula that was double-counting inflation in making cost-of-living adjustments. In 1977 and then in 1983, Congress increased payroll taxes and cut benefits to address the problem. Last year, Congress again effectively reduced benefits by making a larger portion subject to personal income taxes for better-off retirees (in the case of couples, primarily affecting those making more than $60,000). As a result, after peaking at 5.1 percent of GDP in 1983, Social Security retirement benefits have declined to about 4.6 percent of the GDP. They are expected to remain at that level for at least the next two decades.

Meanwhile, the increased payroll taxes have produced a large investment fund for the Social Security system, a fund that is now growing by $70 billion a year. By the decade's end, it will be growing by $100 billion a year. This investment fund has been lent to the Treasury, thereby reducing the apparent budget deficit by corresponding amounts. In other words, far from contributing to the budget deficit, the Social Security system's surplus has been reducing the government's consolidated deficit for the past decade, and should do so for at least the next 15 years.

Peterson acknowledges as much, but says he is concerned that the surplus will evaporate once baby boomers retire in large numbers — a scenario that is quite likely. After 2013, Social Security expenditures are projected to increase. By 2015, they should return to their 1983 level of 5.1 percent of GDP. Ten years later, they are expected to exceed 6 percent of GDP, after which they should stabilize. In other words, 30 years from now, Social Security may cost 1 percent more of the GDP than it did in 1983. That's not a problem to be sniffed at; 1 percent of the GDP is a lot of money. But to put that in perspective, health care outlays have been growing by one percent of GDP every 35 months since 1980.

As time goes by, it probably will be necessary to adjust Social Security benefits and taxes to keep the system working. But it's disingenuous for those who focus on budget-balance by the year 2000 to complain about the problems of Social Security two generations in the future. Social Security is the one government program (besides the IRS budget) that makes the current deficit smaller than it otherwise would be.

But shouldn't the rich still forfeit most or all of their Social Security benefits, merely on principle? The Concord Coalition has gotten a lot of mileage out of its revelation that in 1990 retired people with annual incomes of more than $100,000 got $8 billion in gross Social Security benefits. It may sound like a lot, but after taxes (under current tax law) that amounts to less than $6 billion annually — about 2 percent of total benefits.

In fact, the number is so small it cannot provide the revenue Peterson says is needed. To slash Social Security and Medicare by a fifth to a quarter, as Peterson proposes, benefit reductions would affect more than just the affluent. Under the Peterson plan, benefit cuts would affect elderly couples making as little as $12,200 a year and elderly singles making just $7,100.

To be sure, under the Peterson plan those seniors making the most money would lose the largest percentage of their Social Security and Medicare benefits. The richest retirees would see their benefits cut by as much as 85 percent. But since benefits are a declining share of total income, rich retirees would lose a smaller share of total income than middle-income elderly people. Over the past decade, Congress has already reduced Social Security benefits by about a fifth for the wealthiest 10 percent of retirees, and by a third for those with the very highest retirement incomes.

But Congress made these changes primarily to assure the long-term financial viability of the Social Security system. It's a different story to propose benefit cuts to pay for general spending. The only reason the public tolerates a payroll tax capped at $60,600 in wages is that Social Security is rather like a pension plan. What people get out of the system is loosely based on what they put in (although unlike private pensions, Social Security gives a much better return to lower-income workers than to those who contribute at the maximum.) Absent a need to shore up the Social Security system, any reduction in benefits should logically and morally be accompanied by a reduction in payroll taxes.

In an Oct. 25, 1993 *New Republic* column praising parts of the Peterson plan, the usually estimable Michael Kinsley, echoing economist Milton Friedman, criticized Social Security for "transferring money from poorer people to richer ones." That's a harsh indictment, if true. But it's not. Despite the cap on taxable wages, the best-off fifth of all families (incomes above $55,000) pays almost half the Social Security taxes. But the best-off fifth of Social Security recipients (incomes above $39,000) gets only about 20 percent of the after-tax benefits. In other words, taxes paid by the better off cover not only retirement benefits for higher-income people but a large share of the benefits that go to lower-income people as well. That hardly looks like "redistributing income upward."

Pundits such as Kinsley like to point out that if one analyzes the Social Security tax and the Social Security retirement benefit structure in isolation from one another, each seems bad. The financing of Social Security — a capped payroll tax — is indeed regressive; the average retiree benefits are close to a flat $8,000 a year (after-tax), regardless of income group. But put the two aspects together and you find a progressive retirement system that's lasted for more than half a century, and has dramatically reduced poverty among the elderly. FDR was right: structuring Social Security on a quasi-pension model has ensured its political longevity.

No doubt we could imagine a Social Security system that's even more progressive. If Social Security were like welfare, then the best-off fifth would pay about two-thirds of the taxes, but get none of the direct benefits. But would such an aggressively means-tested system really work? The poor political fortunes of welfare over the years suggest otherwise.

In theory we could take wealthier people out of the Social Security system entirely, on the ground that they don't need the government's help to plan for retirement. That would satisfy people like the Concord Coalition who are scandalized that better-off retirees get Social Security checks. But Social Security would be in big trouble if it lost the wealthy's tax payments as a trade-off for cutting their benefits. Indeed, Social Security would be running far in the red, rather than enjoying a surplus. Were that the case, Peterson, Kinsley et al. could more reasonably blame Social Security for our budget deficit problem. Until then, we should respect Social Security as the very progressive retirement system that it is. If we want the wealthy to pay their fair share, there is a far better remedy than undermining Social Security. We can simply increase the progressivity of the tax system.

Beyond Regressive Reform

Unlike some of my friends, I don't begrudge Peterson's expression of concern about escalating budget deficits. As a matter of macroeconomics, one can debate what level of deficits and the ratio of debt to GDP are sustainable. With the 1993 budget accord, that ratio, which rose steadily during the Reagan-Bush years, is starting to come down. But the deficit is a problem because chronic structural deficits threaten the ability of the government to do its job. Devoting an ever larger percentage of the budget to debt service, as we saw over in the Reagan-Bush years, means less money to build roads, educate children, protect the poor, and all the other important tasks that only government can undertake well. President Clinton now finds there is little revenue available to spend on genuine public needs because of the deferred task of deficit reduction.

Those who complain about the supposed staggering growth of "entitlements" usually target Social Security simply because it's big. Shame on them. As noted, Social Security has actually declined as a share of GDP over the past decade; it is expected to remain stable for the next 15 years. Our real problem with entitlement spending, the one major area that has been growing rapidly, is health care. There, the solution is not to restrict entitlements, but to reform the system once and for all by joining a new entitlement — universal health coverage — with comprehensive cost containment.

Whatever happens with health care, tax reform remains the most promising strategy of reducing the long-term budget deficit. With total U.S. taxes now the lowest in the industrialized world, certainly there is room for higher taxes here. But whose taxes?

Rather than repeating the "trickle-down" approach of the early 1980s, as Peterson proposes, we could increase revenues through further progressive tax reforms. Clinton's 1993 budget act took back about 43 percent of the tax cuts granted the wealthiest Americans in the late 1970s and early 1980s. It did so primarily by increasing the top marginal personal income tax rate to 39.6 percent. But there is still more to do.

Future efforts to improve tax fairness should focus on closing loopholes that allow some corporations and high-income people to avoid paying their fair share, while harmfully distorting investment decisions. These are precisely the loopholes that Peterson either ignores or would expand in his proposed program.

Numerous economically sound, fair, and needed tax reforms are available. They range from restructuring the way we tax the profits of multinational corporations, to clamping down on corporate buying and selling of tax breaks, to closing loopholes for capital gains (rather than expanding them, as Peterson proposes). Changes such as these — a long list is available from Citizens for Tax Justice — could cut the deficit by huge amounts without crippling Social Security or loading new burdens on those least able to pay.

Deficits do matter, both to the economy and to the government's ability to respond to the needs of the nation. But "entitlements" are the wrong demon, and regressive solutions like Pete Peterson's fail the test of both fairness and economic soundness. He and his allies should stop pretending otherwise. •

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Pete Peterson's reply & Robert McIntyre's rebuttal in the fall 1994 issue of *The American Prospect* follow.

Pete Peterson replies:

What I Really Say about Balancing the Budget

However you look at it, America is failing to prepare for its economic future. Each decade our savings performance worsens, and each decade so do our prospects for higher living standards. During the 1960s, U.S. net national savings averaged 8.1 percent of GDP. During the 1980s, that rate fell by half (to 3.9 percent). Thus far in the 1990s, it has fallen by half again (to 1.7 percent) and today it amounts to a mere fraction of the rate of any other industrial country, large or small.

The decline in U.S. domestic business investment has been equally dramatic, except to the extent we have borrowed from foreign creditors. Public investment is also flagging. Of every nondefense dollar the federal government spends, only about 5 cents now go to build any tangible thing that remains standing after the fiscal year is over.

Commissions, task forces, and public figures are nearly unanimous on our need to change course — and soon. This is not just a Republican concern. Governor Mario Cuomo says that our savings and investment decline is "the nation's basic problem." Senator Bill Bradley calls it "a crisis." President Bill Clinton warns that it is "condemning our children and our children's children to a lesser life than we enjoy."

Few disagree with this consensus. But there are some vocal commentators who, if they don't openly dissent, carry with them such weighty ideological baggage that everyone understands their real agenda lies elsewhere. Prominent among them are certain "supply-side" dogmatists who would gladly mortgage America's future to pursue their libertarian fantasies. Prominent also are certain "progressive" crusaders whose egalitarian passions blind them to any issue that cuts across well-worn stereotypes. A good example of the latter is Robert McIntyre, at least insofar as his views are reflected in an essay that recently appeared in this journal. ("The False Messiah: Pete Peterson's Revelations Are Not Gospel," Summer 1994.)

There is also emphatic consensus that cutting the federal deficit is critical to improving our national savings and investment performance. A gradual reduction in the deficit will, over time, generate something close to a dollar-for-dollar increase in national savings.

We cannot eliminate the deficit — nor even reduce it very much for very long — unless we slow the growth in federal benefits to individuals, known in Washington-speak as "entitlements." Entitlements now amount to 54 percent of the federal budget — or 12.1 percent of GDP. Along with interest on the national debt, they are projected to account for all real growth in federal spending over the next decade. Within ten years, rising entitlement costs will add 2 percent of GDP to federal spending; within twenty years, they will add 3.9 percent; within forty years, 8.7 percent.

The need to confront entitlements has been articulated by a rapidly growing number of leaders who are not only — nor again, even primarily — members of the Republican Party. Indeed, the most aggressive cost-cutting proposals are coming from a rising generation of Democrats. These include Senators Bob Kerrey and David Boren, and Representatives Tim Penny, Charles Stenholm, Nathan Deal, Eric Fingerhut, Jim Bacchus, Lin Schenk, and Marjorie Margolies-Mezvinsky. Their concern is not just the deficit. They are also worried that endless growth in federal payments to an "entitled" cross-section of American households threatens to drain government budgets of all future-oriented spending. Robert Shapiro, economist for the Progressive Policy Institute, recently challenged fellow Democrats to come up with a "cut and invest" strategy — where his "cut" was an explicit reference to entitlements flowing to Americans who don't really need them. President Clinton, who in 1992 warned that America needs "more empowerment, less entitlement," has appointed a commission to study ways of controlling future entitlement outlays. By a vote of 30-to-1, this bipartisan commission (on which I serve) recently agreed that "the government must act now" to reform a system that is "not sustainable."

In an effort to bring these concerns to a wider audience, I wrote a book (*Facing Up*) and have assisted grass-roots efforts (such as those of the Concord Coalition) to initiate a national debate about deficits, generational justice, and our collective future. I laid out a plan to balance the budget by the year 2000 while at the same time increasing net federal assistance to low-income Americans and allocating one full extra percent of GDP toward federal investment in infrastructure, basic research, worker training, and early-childhood education and health.

The cornerstone of my plan is entitlement reform. Its components include a strategy to establish a real

public-sector "budget" for health benefits; a phased-in three-year hike in the Social Security full-benefit retirement age; limitations on regressive "tax expenditures" (such as those for home mortgage interest and employer-paid health insurance); and, most importantly, a comprehensive "affluence test" for recipients of all federal benefits, from Social Security and Medicare to farm aid and federal pensions. This affluence test would not take away any benefit from any household beneath the U.S. median income; above the median, it would employ a progressive sliding-scale that would ultimately cut benefits by as much as 85 percent for households with incomes of over $185,000 (in 1993 dollars).

In *Facing Up*, I acknowledged the necessity of higher tax rates and some new taxes. I endorsed the higher income and corporate tax rates proposed by President Clinton before they were enacted. I also advocated phasing in a higher (50-cent) tax on motor gasoline and enacting a 5 percent value added tax with exemptions for food, housing, and education. I further pointed out that my plan could be made more progressive (as well as more efficient and easier to administer) by substituting a single "consumed income" tax for our current patchwork of direct and indirect taxes.

My message has been greeted by diverse reactions. None, however, has been so factually erroneous and thematically misguided as Robert McIntyre's aforementioned essay. According to his account, I am a "rich Republican" who plays "bait and switch" by "demonizing" entitlements while secretly conspiring to "have the middle class suffer and the rich get tax cuts." My supposed "bottom line" is that "the middle class gets too much . . . while corporations and the rich deserve a break." Suggesting that greed makes me "enamored of the so-called progressive consumption tax," he acknowledges none of the extensive and bipartisan interest in the idea. As for the current debate over the cost of entitlements, his gloss is weirdly conspiratorial — at times implying that if it weren't for me and perhaps Senator Kerrey, no one would be talking about it.

Some of McIntyre's mistakes are merely annoying. For example, he ridicules as a wild exaggeration my statement that Social Security subsidizes Americans for the last third of their adult life. My calculation is based on three simple facts: adulthood begins at age 21, the median age of Social Security retirement is 62, and the average life expectancy at age 62 is 19.3 years. (I'll let the readers of this journal do their own arithmetic.) What really concerns me, however, is how McIntyre seems bent on misconstruing the big picture and falsifying my reform plan beyond recognition. McIntyre's most absurd charge, repeated several times in various ways, is that "Peterson apparently doesn't want the rich to relinquish anything." This is preposterous — on both the benefit and the tax side of ledger. In the year 2000, in fact, my plan would cost an average of $3,700 for a household in the $75,000-$100,000 bracket, $5,600 for a household in the $100,000-$200,000 bracket, and $23,300 for a household in the $200,000-plus bracket. Yet at incomes under $20,000, the typical household would be a net gainer. All of this is spelled out in detail in my book (in passages that have earned me the fury of many right-wing supply siders). McIntyre never says why or if he disagrees with my numbers. He simply ignores them.

I don't know how McIntyre misinformed himself. One possibility is that he was scandalized by my proposal that corporations receive three small productivity-oriented investment incentives, mainly to encourage R&D and worker training. But the revenue cost of these incentives is so modest — $14 billion by the year 2000, not the "$30 billion" figure McIntyre invents — that it couldn't possibly affect the overall distributional impact of my plan.

Another possibility is suggested by a cryptic chain of logic that surfaces midway through McIntyre's essay. McIntyre apparently believes that a "progressive consumed income tax" can neither include a corporate tax nor be as progressive as our current income tax. He infers, therefore, that my hidden agenda must be to gut the corporate tax and enrich my Wall Street buddies.

McIntyre is wrong on both of his premises. In fact, a cash-flow corporate tax is a standard feature in many consumption tax proposals — and could easily be added to the others. Although many economists question the need for a separate corporate tax, I have never advocated abolishing it. If McIntyre wants to keep it, he can. According to the Congressional Budget Office (CBO), moreover, a consumed-income system can be made as progressive as our current straight-income system at tax rates not much higher than those we have today. Yes, for the super-rich we might need consumption tax rates of well over 100 percent. McIntyre says this can't be done. But why not?

As another illustration of my supposed subterfuge, McIntyre cites the conclusion of experts assembled by a "capital formation" subcommittee (which I chaired) of the Competitiveness Policy Council. They "overwhelmingly concluded," he says, "that the relative level of taxation on savings versus consumption has little or no effect on saving behavior." Actually, what

they concluded was that the outcome is theoretically indeterminate. Many of them thought that the empirical evidence supports the claim that shifting to a consumption tax would boost savings. The CBO (hardly a Wall Street outfit) believes such a shift would raise the private savings rate by two percentage points of GDP — a very dramatic response indeed. Noting that the supersaving Japanese don't lean heavily on VATs, McIntyre further says that international comparisons fail to support my view. He is correct about Japan and VATs, although the Japanese, worried about their own long-term entitlement problem, are increasing their consumption tax to pay for it. Japan has always allowed huge tax exclusions for savings income, such as zero taxes on many kinds of capital gains, particularly appreciated securities (a "loophole" which, if I had proposed it, no doubt would have made McIntyre go ballistic). In any case, McIntyre entirely misses the explicit purpose of my brief aside on the consumed-income tax — which was to observe that there may be ways to shift the tax base toward consumption while increasing overall progressivity. He deliberately stands my discussion on its head.

Now let me turn to long-term fiscal policy, where McIntyre and I seem to share at least some common ground. He does concede that deficit reduction (if not budget balance) is a worthy national objective. Beyond there, however, we diverge. While I am willing to consider some new taxes or higher tax rates, I maintain that it is absolutely essential to act now to reduce the long-term cost growth in both direct and "tax expenditure" entitlements. The only alternative is to raise tax rates repeatedly — about one Clinton-size tax hike every four years — for the next half century. This I oppose on two grounds.

First, it is immoral to fund our own late-in-life consumption by subjecting future generations to tax rates we ourselves would never tolerate. According to official forecasts, for example, the cost of Social Security alone is due to rise by 50 to 84 percent as a share of every worker's taxable payroll by the year 2035; meanwhile, the cost of Medicare Hospital Insurance is due to rise by 183 to 434 percent by the same measure. If McIntyre wants these FICA-funded programs to remain both untouched and self-financing, he had better prepare his readers for enormous future tax hikes on the middle class and the working poor.

Second, such tax hikes are also unnecessary, since so many who expect to receive benefits are and will be better off than so many who are slated to pay taxes. Why use government as a directionless revolving door for a growing share of national income? Why not modify entitlement programs so that they better serve some identifiable public purpose — such as supporting the needy — at a less explosive cost?

McIntyre's reaction to this suggestion is predictably negative. He tries to minimize (though he does not dispute) the CBO data I cite showing that a large share of federal benefits go to relatively affluent Americans. When told that in 1991 the more well-to-do half of all U.S. households received at least $372 billion in entitlement outlays and tax benefits, he holds his passion for progressivity in curious abeyance, noting "These figures don't necessarily seem all that bad." Instead, he tries to counter my numbers with mere assertions — such as his statement that Social Security (along with the income tax) ranks as our "most progressive" social program. This is a mind-boggling claim, since most economists would surely rank Social Security as one of our *least* progressive social programs, and a fair number believe it's not progressive at all.

McIntyre, again focusing on Social Security, also tries to divert attention from the brute numbers by noting that this largest of entitlements is currently in "surplus" and therefore does not contribute to the deficit. First of all, this claim is technically inaccurate. If, as McIntyre opines, "Social Security is rather like a pension plan," then he knows that what really matters is the system's long-term actuarial balance. Social Security now has unfunded liabilities of over $7 trillion (more than 100 times the total unfunded liabilities of all private pension plans) — an amount that is growing yearly. If a corporate treasurer declared such a system to be in "surplus," he would be committing a career-ending felony. McIntyre also fails to mention that this year's modest excess of Social Security tax revenues over outlays ($22 billion) will, just 25 years from now, turn into a massive annual deficit of over $450 billion; 40 years from now, the annual deficit is projected to exceed $1 trillion.

More to the point, the size of today's "trust-fund" balance (consisting of nothing more than an inflow of Treasury IOUs) is of zero economic significance. The truth is: Any program contributes to the deficit when spending more on it raises the deficit and spending less on it lowers the deficit.

But here McIntyre begs to differ. You cannot change Social Security benefits, he argues, without being "logically and morally" compelled to change payroll taxes in the same direction. This pay-as-you-go imperative makes no sense at all. Taken literally, McIntyre's argument that benefits must always

match taxes seems to rule out the very existence of the cash-flow "surplus" he now regards as a boon. Perhaps McIntyre is alluding to a more meaningful issue: the balance of taxes paid and benefits received over the lifecycle of each generation. But if such is his standard, it is one that Social Security has never followed. Congress has frequently altered the balance, nearly always to reward the earlier-born at the direct expense of the later-born.

I raise the question of generational equity because it is so conspicuously absent from McIntyre's analysis. According to the House Ways and Means Committee, a typical 30-year-old couple with a child and an adjusted gross income of $30,000 paid eight times more in federal taxes in 1993 ($7,103) than a typical 70-year-old couple with no child and the same income ($855). Unless we reform entitlements, the tax gap between old and young can only rise much higher in years to come. Yet such inequities don't seem to interest this crusader for "tax justice." Amazingly, McIntyre is much more concerned about reassuring the rich that they will someday get benefits that are "loosely" related to their contributions. In order to justify a federal spending program, McIntyre actually fusses over the tender sensibilities of Wall Street tycoons.

McIntyre's final ploy is to blame everything on health care — which, he says, is the "one major area that has been growing rapidly." Correction: All major benefit programs are growing rapidly; health-care programs are just the main ones that are currently growing much faster than the economy. In any case, McIntyre's observation hardly justifies exempting other entitlements from cuts. The problem is total outlays — and so long as health benefits remain so resistant to cost control, it behooves us to economize wherever possible. This is especially true since most health-care outlays are a transfer from and to the same two groups (the young and the old) as most other large entitlements. McIntyre loves to seal different parts of the budget into separate accounts, as though money borrowed for one purpose won't bankrupt us just as quickly as money borrowed for another.

To be sure, the exploding cost of health benefits is a very serious problem. One might suppose a champion of progressivity like McIntyre would have endorsed at least one component of my cost-containment strategy: a cap on the tax exclusion for employer-paid health care. After all, this open-ended subsidy is worth most to Americans in the highest income brackets — and gives nothing to those who work for minimum wages or who have no insurance to begin with. But McIntyre mentions my proposal only to dismiss it — as a "stiff tax" on the middle class.

McIntyre's fondness for labels and gimmicks points to the basic difference between our approaches to health-care reform. I acknowledge up front that even modest cuts in cost growth will require some pain — that (in Henry Aaron's words) "sustained reductions in the growth of health-care spending can be achieved only if some beneficial care is denied to some people." McIntyre acknowledges nothing. Indeed, though he is vague about how he would achieve cost-control (his only concrete proposal is a "new entitlement"), he implies that painless reform can succeed in freezing federal health-care spending as a share of GDP. If such a freeze is his goal, he should understand its consequences. Given the dramatic aging of the American population over the next forty years, it would require a fifty-percent cut in each federal beneficiary's health-care consumption as a share of GDP. Such benefit cuts would be far more draconian than any I have ever thought possible or desirable.

From this I can draw only one of two conclusions. Either McIntyre really wants to ration seniors out of dialysis, ICUs, and nursing homes (while fighting any reductions in their Social Security checks). Or he is just looking for an easy debating score. The latter is suggested by the breezy way he leaves the issue ("Whatever happens with health care . . . "). Maybe he doesn't care much, after all, whether cost control succeeds or fails. But let's be generous. Let's assume that McIntyre's ambiguous approach to health-care reform will be as successful in controlling costs as my concrete proposals. And let's also allow him his Orwellian spin: He can call his cuts "a new entitlement" and condemn mine as "sharp reductions in what average families receive from government." Nonetheless, absent any other spending cuts, he still faces a future of yawning structural deficits — as much as 10 percent of GDP by the time today's third-grader reaches his age. The gap is even wider if he favors more public-sector investment. How is he going to find such vast resources?

At this point, McIntyre unveils his *deus ex machina* — further progressive tax hikes on the rich that leave the middle class untouched. There's just one problem with this strategy. It can't possibly raise more than a small fraction of what he needs. To illustrate, let's consider a few changes we might make in all three of the highest federal income tax brackets. Currently, these brackets are set at 31, 36, and 39.6 percent — with the first applying at $53,500 in taxable income for a single person

and $89,150 for a joint return. Now let's imagine that we shift them all upward — to 50, 60, and 70 percent. Combined with state taxes, this reform would give us the highest marginal income tax rates in the industrial world. But how much revenue would it raise? According to the CBO, only about 1.3 percent of GDP — much less than what McIntyre needs. And this is a static analysis that assumes — implausibly, of course — that the rich do nothing over time to reduce their tax exposure.

I do not belittle McIntyre's deep concern about "tax fairness." If taxes must be raised, I believe that the extra burden borne by the wealthy should be at least proportional to their lifetime income. But we also need to do our math — and acknowledge that the middle class, collectively, earns far more aggregate income than the "rich." It is a simple truth known to finance ministers around the world: You can have a very progressive tax code or you can raise a lot of revenue, but you can't do both. This is one reason why (to McIntyre's mystification) the largest public sectors in the world rely so heavily on flat-rate consumption and payroll taxes. When they need to raise big bucks, they do what Willie Sutton did. They go where the money is — and that means the middle class.

All this leads me to a larger point — which applies to public outlays no less than to public revenues. Early on, McIntyre says that Peterson "adroitly poses as a champion of the middle class." But here he flatters me. In fact, while I do champion the long-term interests of America's middle class, I have always dissented from the popular cant about middle-class victimization — which is just another way of excusing most of us from taking responsibility for our national direction. Long ago, George Bernard Shaw wrote: "I have to live for others and not for myself. That is middle class morality." Today, reality tempts us to reverse the last two pronouns in Shaw's epigram.

Middle-class sacrifice has become the true "third rail" of American politics. Everyone is at pains to avoid touching it. Many conservatives like to scapegoat the poor. Many liberals like to scapegoat the rich. Both sides like to wave their hands rhetorically, as McIntyre does, without spelling out just how all the numbers will add up.

But the blunt truth is unless the broad middle class participates in our national renewal, there can be no balancing of the budget, no return to a high-investment economy, and no renaissance of the American Dream. Dietrich Bonhoeffer once said that "the ultimate test of a moral society is the kind of world it leaves to its children." We will all have to sacrifice something — according to our means and at least temporarily — to reclaim the future for ourselves and for those who will live beyond us.•

Robert McIntyre rebuts:

Wrong Again

Oh, Pete, for goodness sake. Because your book and articles are full of figures, charts and specific suggestions, I thought we were supposed to take the substance of your plan seriously. But now you tell us that we should look only to your rhetoric, not your actual proposals. Well, sorry. The major point of my piece was to expose the wide gap between your Perot-like "shared-sacrifice" posturing and the program you actually advocate.

Let's start with taxes. You say that my "most absurd charge" was to fault you for not asking any added taxes from the rich. You assert that big tax increases on wealthy people are "spelled out in detail" in your book, and that I "simply ignore[d] them." Alas, however, the oversight wasn't mine, but yours. There are, in fact, no significant tax increases on the rich advanced in either your book or your articles; instead, there are mainly tax cuts, such as your proposed capital gains tax reduction.

To be sure, you do rather weirdly propose reenactment of the 1993 income tax hikes that were adopted months before your book was published last fall. Or more precisely, you include those tax hikes in your list of revenue-raisers, on the theory that you endorsed them before they became law. But, Pete, reenacting existing law would raise exactly nothing in added revenues. That's zero, zilch, nada — not "$23,300 for a household in the $200,000-plus bracket."

Actually, when it comes to taxing the rich, your plan is worse than zero. Not only do you propose new tax breaks for corporations and the wealthy — amounting to about $30 billion a year including your capital gains tax cut — you also set as your long-term goal complete abolition of the personal and corporate income taxes, in favor of a "progressive consumed income tax."

"I have never advocated abolishing [the corporate income tax]," you intone. But if you think that a corporate income tax is "a standard feature in many consumption tax proposals," you are sadly misinformed. The famous 1976 Ford Treasury Department brief for a consumption tax (which you apparently mistakenly attribute to the Congressional Budget Office) points out that under any comprehensive consumption-tax replacement for the income tax, "the corporate income tax is eliminated." Perhaps you were thinking of the consumption tax variant proposed in 1983 by Hoover Institute economists Robert Hall and Alvin Rabushka and recently disinterred by Rep. Richard Armey (R-Texas). That "flat tax" plan purports to include a corporate-level tax, but in fact the plan is merely a national sales tax, or value-added tax — except that the wage portion of value-added would be taxed at the personal level (with exemptions). Corporations would collect sales taxes and add them to final prices under the Hall-Rabushka plan, but as the authors admit, there would be absolutely no tax on corporate profits.

More globally, you seem to agree with me that a consumed-income tax can't be as progressive as the current income tax absent extraordinarily high tax rates: "Yes, for the super-rich we might need consumption tax rates of well over 100 percent," you admit. But you're more than a bit cavalier in your "why not?" response to my doubts about the technical and political feasibility of such high rates. When you can deliver even one Republican vote in the House or Senate for a tax rate of over 100 percent, please let me know. Heck, I'll even settle for a Democrat like Sam Nunn. Until then, I believe that you have conceded my point: your "progressive" consumption tax would end up far less distributionally fair than current law.

In any event, the whole notion of a "progressive consumption tax" is a non-starter, because it's impossible to solve the transition dilemmas. Generally, consumed-income tax schemes start with total income and then give people deductions for money saved and debts repaid (and add in money borrowed). The question then becomes: what do we do about existing savings and debts? If paying off old debts and "resaving" old savings are deductible — and it's hard to imagine how they wouldn't be — then the system will be unworkable for many years. A plethora of studies following Treasury's 1976 report have concluded that there is no satisfactory answer to these overwhelming transition problems.

That brings us back to your remaining tax proposals: a national sales tax, sharply higher excise taxes, and other taxes targeted on particular kinds of spending. My complaint about your approach is that it is extremely regressive and that most Americans would be much better off if we raised taxes through progressive income tax reforms. Your response, in essence, is that consumption taxes are preferable, whatever their regressivity, because of their purported economic benefits.

But as I noted, and as you partially acknowledge, there is little or no theory or evidence to back up your claim. Economic theory, you admit, offers "indeterminate" conclusions. As for evidence, well, you retract your statement in your book that "every other major industrial country" relies more on consump-

tion taxes than we do. You concede that the "supersaving Japanese don't lean heavily on" consumption taxes. In fact, Japanese consumption taxes as a share of gross domestic product (GDP) are considerably lower than ours, and despite the Japanese tax break for stock market capital gains, virtually everyone agrees that Japan's overall taxes on capital income — most notably its high corporate taxes — are much heavier than ours.

You claim that "many" of the experts at our "capital formation subcommittee" thought that shifting to a consumption tax might boost savings. Well, I took notes. At our June 1992 meeting, we heard from a representative of the corporate- and foundation-backed Committee for Economic Development, who reported that there is scant evidence that private savings incentives work. Then, in July, former assistant Treasury Secretary Emily Sunley (then with Deloitte and Touche, now with the International Monetary Fund) presented a paper concluding that there was no evidence that a value-added tax would increase savings (compared to any other tax hike that cut the deficit) and that a VAT definitely would not help trade. At that same meeting, MIT economist James Poterba reported that savings incentives or higher consumption taxes would do little or nothing to increase national savings. In response to your repeated questioning, there was absolutely no disagreement among the assembled group with those general propositions. In other words, no one in our group was willing to argue that shifting toward consumption taxes would significantly augment national saving.

That leaves you with a citation to the Congressional Budget Office for the proposition that shifting to a consumption tax would raise the private savings rate by 2 percent of the GDP. I don't know how you came up with that big figure. In fact, in 1992 CBO analyzed the economic merits of replacing part of the income tax with a value-added tax and concluded that a shift to a VAT would have "only minor effects on [the] economy."

Specifically, CBO's computer simulations estimated that, at best, long-term national savings might be 0.4 percent higher as a share of GDP under the VAT alternative. Since CBO's hypothetical VAT was twice as large as yours, that would translate into a possible savings boost of only 0.2 percent of GDP under your plan. Thus, your 2 percent figure appears to be off by a factor of ten.

CBO went on to note that any small potential VAT benefits "might well be offset by the VAT's failure to shift as much of its burden to foreigners as [the income tax] does" and by "the added costs of administering and complying with a VAT." Thus, overall, CBO found that substituting a VAT for part of the income tax "would not necessarily improve overall domestic well-being."

Much more important for most families than a speculative gain of a few tenths of a point in the long-term GDP is the difference of 3 or 4 percentage points in effective tax rates between progressive income tax changes and your proposed VAT.

In my original article, I suggested that your support for a VAT was not despite its regressivity, but precisely because of it. Your response fails to persuade me otherwise.

In your discussion of "tax expenditures," you strongly imply that I want to raise tax rates to stratospheric levels, while you want to close loopholes. That's entirely false. In fact, Citizens for Tax Justice's reform program concentrates almost entirely on plugging loopholes. The real difference between us is in which loopholes we want to close.

To me, a tax loophole, in the invidious sense, is a tax break that favors a few well-off people at the expense of the rest of us. Thus, CTJ's long list of needed reforms targets things like capital gains tax breaks, multinational corporate tax avoidance, excessive business depreciation write-offs, and so forth. In contrast, your short list of loopholes focuses on mortgage interest deductions and exemptions for workers' health insurance — items that as a share of income are actually far more beneficial to the middle class than to the rich. While a perfect tax code might well forego these middle-class breaks in favor of lower tax rates, tens of millions of families have made important financial decisions in reliance on them, the political chances of dramatically changing them are minimal, and the distributional gains from their curtailment would be slight, if any.

The most striking distinction between our approaches to "tax expenditures" is that the kinds of loopholes that I most want to close you actually want to expand. You call for new corporate tax breaks, a capital gains tax cut, and in your dreams, the ultimate high-income loophole: complete tax exemption for money saved or invested.

Let's move on to spending programs. As a result of last year's budget act, federal spending in the upcoming fiscal year will be at its lowest share of the GDP since before Ronald Reagan took office. Social Security, in particular, has fallen sharply as a share of GDP since 1983, and is expected to remain stable for the next 15 years or so. Yet you maintain that to meet your goal of a balanced budget by the year 2000, major reductions in Social Security and Medicare — on the order of 25 percent — are imperative. Although you claim to target only above-average retirees,

some of your proposed benefit cuts would affect elderly couples making as little as $12,200 a year and elderly singles making just $7,100.

In the year 2000, the Social Security trust funds are expected to show a surplus of revenues over expenditures of more than $100 billion. Because that money is lent directly to the Treasury, the consolidated budget deficit in the year 2000 will be that much smaller because of the trust funds.

So why go after Social Security? Because, you say, Social Security is a very big program and "[a]ny program contributes to the deficit when . . . spending less on it lowers the deficit." Thus, you reject the notion that we should respect the linkage between Social Security taxes and Social Security benefits.

That linkage, however, has been the key to Social Security's political longevity. The quasi-pension nature of the system has, at least so far, persuaded the best-off fifth of the population to pay for almost half the cost of the program in exchange for only about 20 percent of the promised benefits. Although you claim that it is "mind-boggling" to call this situation progressive, I think you're flat wrong. Social Security has succeeded in lifting millions of elderly people out of poverty in a dignified and sustainable way — very unlike our degrading and declining welfare system. It has made retirement years much happier and less worrisome for millions more middle-income retirees. And it has achieved these impressive results precisely because its contributory, "entitlement" nature has assured its political viability.

So do I worry about "the tender sensibilities of Wall Street tycoons," as you charge? When it comes to sustaining their support for Social Security, the answer is yes — and if your disdain for Social Security is any indication, perhaps I need to worry more. But do I think those tycoons should pay more of the cost of government? Yes again, but not by slashing their Social Security — rather, by making the overall tax code more progressive.

Of course, not all is rosy in the entitlements area, as my article noted. In both the short-term and the long-term, public (and private) health care costs are rising far too rapidly to be sustainable. One of the major reasons we need comprehensive health reform — which sadly is looking ever less likely — is to put a lid on excessive health cost increases.

You raise the specter that health insurance reform would lead to sharp reductions in beneficial care. But a second central goal of health reform should be to make needed care available at appropriate times and circumstances. The idea that a reformed health insurance system can be both better and cheaper is not pie in the sky. No other industrialized nation in the world spends as much as we do on health care, yet our results in terms of the health of our population lag behind.

The Social Security retirement system also faces long-term problems that will have to be addressed. Twenty years from now, as baby boomers begin to retire in large numbers, taxes and benefits will have to be significantly adjusted if current guesses about the future economy prove to be correct. As I noted in my article, it would be imprudent not to plan ahead for these events. But you only confuse the debate when you insist on citing Social Security's long-term financial problems as a reason why Social Security benefits should be immediately slashed in order to balance the budget by the year 2000.

Your final point on tax and budget policy is to claim that the share of total income received by the rich is so low that it's impossible to raise enough money from progressive tax reform to make a serious dent in the deficit. Well, let's see. According to CBO's most recent count, the richest 1 percent has more total income than the bottom 40 percent and the top 5 percent makes more than the bottom 60 percent (the top fifth makes more than everyone else combined). So the well-off do get quite a large share of total income. That's why, contrary to your assertion, progressive taxes raise more money at any given top tax rate — with lower taxes on most families — than do regressive taxes.

According to your book, you want to raise about $200 billion a year in taxes by the year 2000 from your various consumption taxes plus limits on mortgage interest deductions and employee health insurance exclusions. CTJ's working list of income tax reforms could raise at least as much. To illustrate, look only at corporate taxes: if U.S. corporate income taxes in the year 2000 were brought back to the same share of the GDP as they were in the 1960s, the corporate tax would generate $200 billion more in revenue in 2000 than is currently projected. Not every penny of that would ultimately come from high-income people, but because the corporate tax is very progressive, most of it would. If our corporate income taxes were as high a share of GDP as Japan's, the added revenue in the year 2000 would be about $500 billion. That ought to be enough to satisfy even the most rabid deficit-reduction hawk.

So, in conclusion, Pete, it's time to face up. Your "we will all have to sacrifice something — according to our means" rhetoric simply doesn't match your program, which asks less than nothing from those most able to pay. You really should have to choose between the two. Which will it be? •