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# Financing the Welfare State: Elite Politics and the Decline of the Social Insurance Model in America

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While there is a vast and rich literature on the benefits and services provided by the welfare state, few scholars have investigated how these programs are financed. The tax side of the budget equation is crucial for the ability of welfare states to exist and expand; without a stable and growing source of revenues, the welfare state can neither meet its existing obligations nor increase its responsibilities. The mode of finance can be particularly important, as some taxes are more visible or contested, and thus more difficult to raise. For example, because there are limits to how much revenue can be raised with progressive income taxes, many industrialized countries finance large social programs through contributory finance, that is, payroll taxes. Levied over a broad swath of the population, these taxes generate a large amount of revenue, yet are politically acceptable because people see them as payments that entitle them to benefits in return.

Payroll taxes are central to the American social in-

surance model, financing two of the most significant government programs in American history: Social Security and Medicare. Since its passage in 1935, Social Security has alleviated much senior poverty, while Medicare provides access to healthcare for a population often lacking insurance. As universal entitlements, both programs are enormously popular with the public, and have enjoyed support even through times of fiscal difficulty and rising antitax sentiment. Despite the economic and political success of these programs, policy-makers have turned away from the social insurance model in recent decades, arguing that a limit has been reached in the public's willingness to pay these taxes. As a result, the existing programs have not been put on stable long-term footing. Moreover, proposed expansions of the welfare state, including improvements in Medicare, long-term care coverage, and access to health insurance for the uninsured, have foundered, in large measure owing to their lack of financing.<sup>1</sup>

Why have elites rejected this highly successful mode of financing social policy? Why have they turned their backs on payroll tax funding, especially when the average citizen appears willing to pay higher payroll taxes, when American tax rates are still

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1. In the following paragraphs we discuss the role of financing in the addition of a prescription drug benefit to Medicare in 2003.

quite modest compared to those in other western industrialized nations, and when program expansions or the long-term stability of Social Security could have been achieved with relatively modest increases in payroll contributions?

We find that political elites, who initially formed a broad consensus around this system of financing, abandoned the payroll tax model after the mid-1970s despite continued public support for it. Moreover, the new consensus against payroll tax finance encompasses both liberals and conservatives. We explain this by a series of political changes that altered both who was involved in debates over social insurance and the political landscape around them. First was the breakdown of a relatively autonomous, insulated policy-making community around social insurance in the 1970s. This opened the stage to a wide range of voices, many of them critical of payroll tax finance, at a time when the major social insurance programs faced growing financial difficulties. While social insurance programs had hitherto been shielded from this kind of scrutiny, contributory finance came under particular criticism in the new debates for its avowed regressivity and negative effects on economic growth.

As the chorus of negative voices grew, there was a second major change in American politics, one that would move politicians further from median opinion and turn their attention toward the affluent. While the average American remained supportive of the contributory finance model throughout this period, wealthier citizens became less favorable toward social insurance. Efforts to trim program growth in the late 1970s and early 1980s diminished the expected lifetime returns from Social Security and Medicare for the affluent, and they increasingly turned against the programs even as the average citizen remained favorable. This divergence in public opinion emerged at precisely the time when political changes increased the incentives for politicians to follow their own policy preferences and those of the affluent – now opposed to payroll taxation – rather than those of the average citizen. The incentives for lawmakers to pursue their own policy goals and those of the privileged rather than hew to median public opinion were intensified by a number of factors: increased incumbency advantage; candidate-centered elections; and the importance of the wealthy and the interest groups into which they are organized for campaign finance. The politics of welfare state finance offers a case study of this process, revealing the stability of mass preferences on the major social insurance programs, yet a growing elite-mass gap on how to pay for them.

The rejection of payroll tax finance by elites – both political elites such as politicians, policy analysts and advocates, interest group leaders, business leaders, and academics, and economic elites within the mass public (the affluent) – has been crucial in shaping the politics of the welfare state. We argue that a num-

ber of program expansions would have been popular among the mass public, but were blocked from consideration by the anti-payroll-tax preferences of political elites. In rejecting expansions of contributory finance, policy-makers have foreclosed possible improvements in the American safety net that would prove popular with average citizens. At a minimum, existing programs could have been shored up, ensuring their long-term fiscal stability.

## THE NATURE AND SIGNIFICANCE OF CONTRIBUTORY FINANCE

Why study payroll taxes? Thus far, few people have; while there is an enormous literature about the welfare state's many spending and service programs only a handful of scholars have examined the various methods for financing.<sup>2</sup> Yet, the availability and mode of welfare state finance have tremendous consequences for both politics and public policy. Without the ability to raise the necessary revenues, policy-makers can neither create nor expand social programs unless they are willing to engage in deficit financing (as with the 2003 Medicare reform).

In many countries, payroll taxes finance health insurance, pensions, disability, and unemployment compensation. Payroll taxes differ from income taxes in that they entitle the payee to a benefit in return. Often, payroll taxes are paid by both an employee and employer as a percentage of wages, although in some countries, and for some programs, the burden lies entirely with either the worker or employer. By contrast, income taxes are part of "general revenues" in that they do not have an earmarked purpose, but are available for general spending. Although they might be used to cover the cost of social insurance, general revenues can also be rerouted to other priorities.

Not all social insurance programs are financed entirely by contributions; in fact, most European countries use a mix of payroll taxes and general revenues to finance social insurance. However, contributions are still an essential part of these programs for the sense of entitlement they create in the payee, making him or her more willing to pay these taxes. It is for this reason that social insurance programs have proven so popular throughout advanced industrial states as a means of offering social protection. Using the language of "insurance" conveys the sense that the government is insuring the public against the risks of a loss of income. Whereas the "premiums" paid by employers and/or employees to these social insurance

2. Notable exceptions are Junko Kato, *Regressive Taxation and the Welfare State: Path Dependence and Policy Diffusion* (Cambridge: Cambridge University Press, 2003); Julian E. Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945–75* (Cambridge: Cambridge University Press, 1998); and Sven Steinmo, *Taxation and Democracy: Swedish, British, and American Approaches to Financing the Modern State* (New Haven, CT: Yale University Press, 1993).

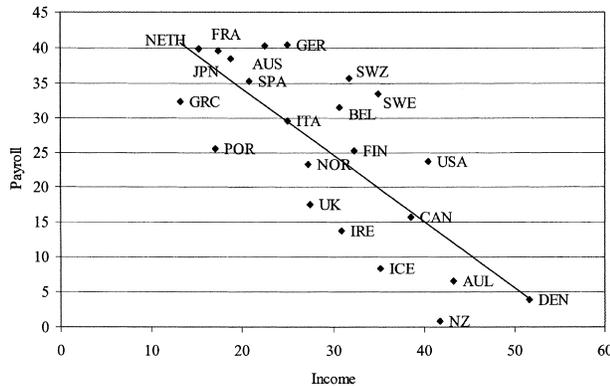


Fig. 1. Income versus Payroll Taxation in OECD Countries (percent of all revenues, 1998)  
Source: OECD

programs create a link between individual contributions and individual entitlement, the larger effect is to create collective protection against risk.

Although countries vary markedly in the degree to which they rely on this mode of finance, there appears to be a direct trade-off between reliance on payroll taxes and use of income taxes. Figure 1 shows the percentage of revenues garnered through payroll and income taxes in OECD countries. Countries such as Australia and Denmark have very low payroll taxes and rely heavily on income taxes, while France, the Netherlands, and Germany gather a high percentage of their revenues through social security contributions, and a lower percentage through income taxation. Among the “liberal” welfare state countries, the United States is notable for leaning more heavily on payroll tax finance.<sup>3</sup>

The extent to which countries depend on income or payroll taxation has ramifications for the politics of the welfare state. Tax expert Eugene Steuerle has argued that progressive income taxes, with high marginal rates, are highly visible to the public and often stimulate political opposition. The basic dilemma facing liberals, he argues, is that there is a fundamental incompatibility between progressive financing and a large, generous welfare state.<sup>4</sup> Figure 1 demonstrates that the countries that rely heavily on income taxation do indeed have smaller welfare states and/or have faced tax revolts in recent decades. The United States, United Kingdom, Canada, Australia, and New Zealand all depend on income taxes, and also make up the “liberal” cluster of welfare regimes that generally offer a lower level of social protection.<sup>5</sup> Denmark

and Iceland both have larger welfare states that are financed through income taxes, yet Denmark faced a powerful antitax movement in the 1970s against these high marginal rates. Similarly, the liberal welfare regimes all have experienced strong antigovernment and antiwelfare state political movements since the 1970s, with the high level of taxes as a major target. The tax revolts suggest the political limits of progressive financing.

The power of payroll taxes as an expansive mode of finance lies in two features: the lower visibility of these taxes; and their appeal to individual self-interest.<sup>6</sup> While filing income taxes is an annual process that confronts the individual with precisely how much of their income is going to federal or state government, social security contributions are quietly skimmed off paychecks. The employer contribution is even less visible, even though at least part of this tax is passed on to workers in the form of lower wages. In addition, many people view their social security taxes as “contributions” to their own pension or health insurance plan, rather than as a tax levied by government. This helps account for the willingness of people to pay these taxes. Before it was disbanded in the mid-1990s, the Advisory Commission on Intergovernmental Relations tracked attitudes in the United States toward a number of taxes. These surveys, along with polls by CBS, *New York Times*, and Gallup, show that from 1978 through 2003, federal income and local property taxes were perennially the most unpopular, whereas state income taxes and Social Security taxes were perceived the most positively.<sup>7</sup> We supplement these findings with additional data in which the public professes support for higher payroll taxes for new programs or to reinforce existing ones.

Despite public support for the contributory taxes funding social programs such as Medicare and Social Security, elite support for this mode of finance eroded in the 1970s, following a long period of consensus around the merits of payroll tax finance. Where did this consensus come from, and why did it fall apart in the 1970s? By tracing the political evolution of the payroll tax model since the 1930s, we can identify why

6. A third factor in some European countries is that contributions are paid to autonomous social insurance funds that are independent of the central state budget and thus hold a great deal of legitimacy, even when trust in the central government is low. These funds also are managed by the social partners – usually, representatives of labor and business – and labor unions have fiercely protected the payroll taxes that nourish these funds. On the financing of the French social insurance system, see Bruno Palier, *Gouverner la Sécurité Sociale* (Paris: Presses Universitaires de France, 2002); on the German social insurance model, see Philip Manow, “Social Insurance and the German Political Economy,” Discussion Paper 97/2 (Köln, Germany: Max Planck Institute for Social Research, 1997).

7. Advisory Commission on Intergovernmental Relations, *Changing Public Attitudes on Government and Taxes* (Washington, DC: ACIR, 1994), 4; see appendix table A3. State income taxes largely escape citizen ire because voters have greater trust in state and local government than in federal government, and state tax rates are relatively low and typically are flat.

3. The term “liberal” refers to the European sense of the word – the strength of market ideologies in politics and the welfare state. The notion of the United States as a liberal welfare state comes from Gøsta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990).

4. Eugene Steuerle, *The Tax Decade: How Taxes Came to Dominate the Public Agenda* (Washington, DC: Urban Institute, 1992), 5–10.

5. Esping-Andersen, *Three Worlds*.

elites repudiated it in recent decades, despite continued public support.

### CONSTRUCTION OF AN ELITE CONSENSUS: 1935–1974

In some ways, it is surprising that the United States has relied on contributory finance for its major welfare state programs. When Congress created the first national payroll tax in 1935 to pay for old-age pensions, there was strong opposition on both the left and the right to this mode of finance. Yet, by the 1950s, an elite consensus had formed in favor of payroll taxes, nurtured by a small and relatively autonomous policy-making community around the Social Security program. This not only enabled Social Security to expand in succeeding decades, but also offered a politically attractive system of finance for other social spending. As popular opinion favored both social insurance programs and payroll contributions to fund them, elite and mass policy preferences were seemingly congruent in this period.

There was no initial agreement about how to finance Social Security when it was created in 1935, as powerful voices across the political spectrum opposed contributory finance. On the left, many viewed payroll taxes as an unjust burden on low-income workers. Both the CIO and a number of Democrats in Congress advocated Townsend-style pensions, which would be paid for through general revenues rather than payroll taxes.<sup>8</sup> For those on the right, which included conservative members of Congress and some in the business community, the payroll tax was a heavy burden on business that would finance undue expansions of federal power. A particular point of criticism was the fact that, because no benefits were to be paid in the early years of the program, the levying of a payroll tax created a substantial surplus that was available to finance other expansions of the federal government.<sup>9</sup>

Despite these criticisms, Franklin Roosevelt was determined to create a social insurance program funded entirely through the contributions of workers and their employers, reflecting his own conservatism on matters of welfare and public finance. In FDR's view, universal, noncontributory pensions smacked of the dole and would demean the dignity of workers.<sup>10</sup> By attaching Social Security entitlements to paid work, workers would have a sense that they *earned* the right to their pensions and that this was no mere welfare hand-out from the government. As Mark Leff has pointed out, FDR also was a fiscal conservative concerned that universal, flat-rate pensions would be-

8. Arthur J. Altmeyer, *The Formative Years of Social Security* (Madison: University of Wisconsin Press, 1966), 296; Mark H. Leff, "Taxing the 'Forgotten Man': The Politics of Social Security Finance in the New Deal," *Journal of American History* 70 (1983): 364–65.

9. Leff, "Taxing the 'Forgotten Man,'" 371.

10. *Ibid.*, 366.

come an enormous burden on the Treasury. Moreover, other fiscal conservatives in the administration seem to have influenced his thinking, arguing that payroll tax finance was a way to raise revenues and help close budget deficits.<sup>11</sup> Thus, when Roosevelt created the Committee on Economic Security (CES) in 1934 to consider a host of social reforms, he charged them with the task of designing contributory old-age pensions for which there would be no increase in general taxation.<sup>12</sup>

While some in the CES had reservations about the use of payroll tax finance, they were faced with the simple fact that progressive income taxes would provide insufficient revenue to finance a program the size of Social Security. In the mid-1930s, most people were exempt from these taxes, and CES staffers agreed it would be politically difficult to raise them.<sup>13</sup> Levying payroll taxes on a wide base of the population was a surer way to generate the necessary revenues for the program, while the use of regressive taxes could be justified given the promise of future benefits in return.<sup>14</sup> Despite criticism by some in Congress of its financing system, the 1935 Social Security Act created a wholly contributory-financed program of old-age pensions, along with a means-tested pension (Old Age Assistance [OAA]) for those not eligible for Social Security.

Instead of producing a consensus on Social Security finance, debates continued on the subject for the next fifteen years. Liberals continued to assail the regressive financing, while conservatives worried that these taxes would bankroll an unchecked expansion of government. Reflecting these concerns, a series of successful congressional maneuvers froze the scheduled payroll tax rate increases in the 1940s and thus barred the accumulation of a large Social Security reserve fund.<sup>15</sup> There also were continuing calls for an expansion of means-tested OAA or the creation of universal flat-rate pensions. Many social insurance advocates viewed the popularity of the means-tested OAA as a particularly grave threat to Social Security,

11. *Ibid.*, 376–78; Julian E. Zelizer, "The Forgotten Legacy of the New Deal: Fiscal Conservatism and the Roosevelt Administration, 1933–1938," *Presidential Studies Quarterly* 30 (2000): 331–58. Much also has been made of the quote by FDR that payroll taxes would make sure "no damn politicians can ever scrap my social security program." However, he made this statement six years after the passage of the legislation, making it hard to tell whether this was part of his original thinking. See Leff, "Historical Perspectives on Old-Age Insurance: The State of the Art on the Art of the State," in *Social Security after Fifty: Successes and Failures*, ed. Edward D. Berkowitz (New York: Greenwood Press, 1987), 33.

12. Edwin E. Witte, *The Development of the Social Security Act* (Madison: University of Wisconsin Press, 1963), 7.

13. Leff, "Taxing the 'Forgotten Man,'" 379.

14. Statement by Robert Ball, U.S. House Committee on Ways and Means, *Medical Care for the Aged: Executive Hearings before the House Ways and Means Committee*, 89th Cong. 1st Sess., 27 Jan. 1965, 824.

15. James S. Parker, "Financial Policy in Old-Age and Survivors Insurance, 1935–50," *Social Security Bulletin* 14 (1951): 3–10.

given that more people were eligible for OAA than for Social Security in the early years of the program.<sup>16</sup>

The political consensus around the Social Security program and its system of finance dates from the 1950 amendments to the Social Security Act that expanded the generosity and coverage of Social Security – thereby reducing reliance on the means-tested OAA program – and reaffirmed that payroll taxes alone would pay for the program.<sup>17</sup> The latter was essential to build support for the program among fiscal conservatives in Congress. Barring general revenues and creating a strict link between contributions paid and benefits received ensured that Social Security would not become a “welfare” program, but was an entitlement that people earned through hard work and their own contributions.<sup>18</sup> In addition to making Social Security a work-based entitlement, many conservatives believed that linking higher benefits to the need to raise payroll taxes would help rein in the program’s expansion. House Ways and Means Committee Chair Wilbur Mills, for example, firmly believed that payroll tax finance helped constrain the size of the social insurance programs by confronting people with tax increases if they demanded higher benefits.<sup>19</sup> For these fiscal conservatives, payroll tax finance was essential for their support of Social Security.<sup>20</sup>

Despite the conservative financing structure, liberals also came to embrace contributory finance as a means to attain their social policy goals. Liberal advocates pragmatically saw the importance of payroll tax finance for winning over the conservative southern Democrats in Congress who dominated the revenue-raising committees. In addition, given the institutional fragmentation of the American political system, in which revenue gathering is separate from appropriations, liberals came to see the value of a self-financed program.<sup>21</sup> With a dedicated, automatic

funding source, Social Security administrators would be spared having to grovel before the appropriations committees each year, never certain from one year to the next whether the funds would be available for their program.<sup>22</sup> Labor unions also came to accept the Social Security program and payroll tax finance. As was noted earlier, the CIO opposed payroll-tax financed social insurance in the 1930s, favoring instead universal and flat-rate pensions. By the 1950s, however, organized labor became a strong champion of the Social Security program, and an important advocate for its later expansion. According to Martha Derthick, the AFL-CIO continued to prefer some general revenue financing for social insurance programs, but accepted payroll taxes because Congress insisted on having a self-supporting program.<sup>23</sup>

Agreement on the financing of social insurance contained some latent tensions. After all, fiscal conservatives were convinced that payroll taxes were a way to restrain the expansion of Social Security whereas liberals believed they would enable the program to grow. In addition, many liberal advocates envisioned using contributory social insurance to meet a wide range of social needs, believing that Social Security and the payroll tax system were a first step down the road of continuing extension of the welfare state.<sup>24</sup> Finally, although liberals acceded to payroll taxes in the short-term, many assumed general revenues would be necessary later on. Concern about the burdens of contributory finance on the poor could be pushed aside while tax rates were relatively low. Yet, looking ahead to the maturation of the Social Security program, many members of the Social Security Administration (SSA) believed that general revenues ultimately would have to supplement payroll tax dollars.<sup>25</sup> This could put them at odds with fiscal conservatives, who were determined to keep general revenues out of the coffers of Social Security.

While these tensions could have undermined support for the program, they were managed by a small group of policy-makers who formed a policy community around Social Security and other social insur-

16. Altmeyer, *Formative Years*, 122–26. This was due to the fact that only those having contributed to Social Security would be eligible for benefits. Those already retired would continue to receive OAA.

17. Leff, “Taxing the ‘Forgotten Man’”; Edward D. Berkowitz, *America’s Welfare State: From Roosevelt to Reagan* (Baltimore, MD: Johns Hopkins University Press, 1991), 55–64.

18. Zelizer, *Taxing America*. In fact, there is no one-to-one relationship between contributions and benefits, as the benefits formula is skewed to give higher returns on low-income earners’ contributions, and lower returns on the taxes paid by higher earners. Thus, while the program clearly violates the insurance principle on the benefits side, policy-makers have been determined to maintain this principle in the system of finance. See Jacob Perlman, “Changing Trends under Old-Age and Survivors’ Insurance, 1935–1950,” *Industrial and Labor Relations Review* 4 (1951): 173–86.

19. Zelizer, *Taxing America*, 237–38.

20. Leff, “Speculating in Social Security Futures: The Perils of Payroll Tax Financing, 1939–1950,” in *Social Security: The First Half Century*, ed. Gerald D. Nash, Noel H. Pugach, and Richard F. Tomasson (Albuquerque: University of New Mexico Press, 1988), 267–68.

21. Sven Steinmo, “Political Institutions and Tax Policy in the United States, Sweden, and Britain” *World Politics* 41 (1989): 500–535.

22. Leff, “Speculating in Social Security,” 264; Berkowitz, “Social Security and the Financing of the American State,” in *Funding the Modern American State, 1941–1995: The Rise and Fall of the Era of Easy Finance*, ed. W. Elliot Brownlee (Cambridge: Cambridge University Press, 1996), 154.

23. Martha Derthick, *Policymaking for Social Security* (Washington, DC: Brookings Institution Press, 1979), 243–44; Leff, “Speculating in Social Security,” 270.

24. Altmeyer, “The Need for Social Security in the Postwar World,” *Social Security Bulletin* 9 (1946): 3–7; Derthick, *Policymaking*, 25.

25. Advisory Council on Social Security, “Proposed Changes in the Old-Age and Survivors Insurance: Report of the Advisory Council on Social Security to the Senate Finance Committee,” *Social Security Bulletin* 11 (1948): 3–5; Altmeyer, “Old-Age, Survivors, and Disability Insurance,” Statement to the Ways and Means Committee, 28 Feb. 1949, repr. in the *Social Security Bulletin* 12 (1949): 13; Robert M. Ball, “What Contribution Rate for Old-Age and Survivors Insurance?” *Social Security Bulletin* 12 (1949): 3–9.

ance programs.<sup>26</sup> The community was a network of like-minded technocrats that included key figures from the Social Security Administration, organized labor, and a small number of legislators on the House and Senate tax-writing committees.<sup>27</sup> Working together closely, these individuals shared a pragmatic orientation toward tax and social policy, including that of Social Security.<sup>28</sup> Their ability to control this policy area also was due to institutional features of Congress that created a sheltered space for the crafting of tax and entitlement policy. One of the most influential members of the community was Wilbur Mills, who, as head of the Committee on Ways and Means, arguably led the most powerful committee in Congress during an era of “committee government.”<sup>29</sup> Committee deliberations were closed to the public, and its bills were introduced under a closed rule (meaning that only up or down votes would be allowed). Moreover, Ways and Means assigned committee seats to members of Congress, which gave its chair great leverage over other legislators.<sup>30</sup> These institutional features of Ways and Means, combined with Mills’s tremendous understanding of the Social Security program’s technical details, enabled him to fend off critics of the program and to dominate decision-making around it.<sup>31</sup>

This policy community played a critical role in consolidating the contributory finance model in the early 1950s and protecting it over the years.<sup>32</sup> The 1950 Social Security amendments were essentially a product of the Ways and Means committee and a small number of SSA officials, reflecting their priorities for the program.<sup>33</sup> In the succeeding years, Mills engineered a steady expansion of Social Security in a manner that satisfied both liberals and fiscal conservatives. Social Security benefits were continually liberalized, and this usually was in an election year when legislators most needed something to bring home to their districts.<sup>34</sup> Yet, there were no general revenues for the program and higher payroll taxes followed all benefit increases – thereby seeming to keep the program in check.<sup>35</sup> The payroll tax rate rose incremen-

tally through 1975, with increases averaging 0.33 percent each step, or 0.1 percent annually.<sup>36</sup>

A favorable economic and demographic climate also enhanced the ability of this small group of policy-makers to dominate this area. High growth rates, rising wages, low inflation, and high birth rates all helped generate more revenues than could be spent on existing beneficiaries, thereby enabling continuous program expansions without major payroll tax increases.<sup>37</sup> As a result, members of Congress rarely faced difficult votes on Social Security involving substantial tax hikes or benefits cuts. While taxes rose continually, usually these increases were incremental and occurred after an election year. More generally, the early years of a pay-as-you-go pension system offer the most political benefits and impose the least pain, as policy-makers can continually vote benefit expansions without imposing steep tax hikes.<sup>38</sup> As the Social Security program offered nothing but political payoffs for all, there was little reason for members of Congress to scrutinize the SSA or the power of the tax-writing committees in determining legislation.

The elite policy community also played a vital role in the development of subsequent social insurance programs, such as disability and health insurance. The SSA hatched the idea of adding disability insurance (DI) to the Social Security program, but faced strong opposition from Republicans, the American Medical Association (AMA), and the Chamber of Commerce. After Democrats gained power in both the House and Senate in 1954, they used the proposed disability program to compete with a Republican president. The measure was passed in 1956, creating a new payroll tax levied on employers and employees to finance the new program. Much like Old Age and Survivors Insurance (OASI), the DI program followed an expansionary trajectory. Benefits were liberalized in 1958, 1960, 1965, 1967, and 1972, and the payroll tax paid by employers and employees increased from 0.25 percent of payroll in 1960, to 0.94 percent in 1995.<sup>39</sup> Until the 1970s, this expan-

26. Derthick, *Policymaking*; Zelizer, *Taxing America*, 8–10, 12–14.

27. Authors such as Derthick and Zelizer underline the role of key SSA administrators, such as Alfred Altmeyer, Robert Ball, Robert Myers; Wilbur Cohen of both the SSA and the Department of Health, Education and Welfare; Nelson Cruickshank of the AFL-CIO; and Wilbur Mills of the House Ways and Means Committee.

28. Derthick, *Policymaking*, 25.

29. David W. Rohde, *Parties and Leaders in the Postreform House* (Chicago: University of Chicago Press, 1991), 12.

30. John Manley, *The Politics of Finance: The House Committee on Ways and Means* (Boston: Little, Brown, 1970).

31. Zelizer, *Taxing America*, 127–29, 357; Rohde, *Parties and Leaders*.

32. Zelizer, *Taxing America*, 13, 70–74.

33. Leff, “Speculating in Social Security,” 266.

34. See Edward R. Tufte, *Political Control of the Economy* (Princeton, NJ: Princeton University Press, 1978).

35. Zelizer, *Taxing America*, 128–29; Derthick, *Policymaking*, 239, 244–46.

36. U.S. House Committee on Ways and Means, *Green Book: Overview of Entitlement Programs* (Washington, DC: U.S. Government Printing Office, 1998), 59; for a similar analysis see R. Douglas Arnold, “The Political Feasibility of Social Security Reform,” in *Framing the Social Security Debate: Values, Politics, and Economics*, ed. Arnold, Michael J. Graetz, and Alicia H. Munnell (Washington, DC: National Academy of Social Insurance, 1998), 402.

37. Berkowitz, *America’s Welfare State*. In addition, the SSA used a “level-wage assumption” in projecting revenues at a time when wages were constantly rising, which meant “unanticipated” surpluses in the trust fund could pay for expanded benefits. See Derthick, *Policymaking*, 350–55, 385.

38. Paul Pierson, “From Expansion to Austerity: The New Politics of Taxing and Spending,” in *Seeking the Center: Politics and Policymaking at the New Century*, ed. Martin A. Levin, Marc K. Landy, and Martin Shapiro (Washington, DC: Georgetown University Press, 2001), 54–80.

39. Derthick, *Policymaking*, 309; U.S. House Committee on Ways and Means, *Green Book: Overview of Entitlement Programs* (Washington, DC: US Government Printing Office, 2000), 42.

sion occurred with little scrutiny or concern by most members of Congress.<sup>40</sup>

When elites within this policy community opposed an initiative, however, they could stymie change. For example, Mills's opposition to using payroll tax financing for the Medicare program posed a major obstacle to the passage of this legislation in the first half of the 1960s. Concerned over the impossibility of maintaining a close link between contributions and benefits in a health insurance program, and the potentially high costs of medical care, both of which could threaten the actuarial stability of the Social Security trust fund,<sup>41</sup> Mills single-handedly blocked the development of the Medicare program, and pushed through his own version of reform, the Kerr-Mills legislation, which created the means-tested precursor to Medicaid.<sup>42</sup> When Democrats won a massive majority in 1964, Mills saw the political tides shifting and decided to take an active role in developing Medicare rather than be left behind.<sup>43</sup>

Financing was central to the debates over the Medicare legislation. Although conservative critics and the AMA strongly opposed the measure for a host of reasons, they also charged that the payroll tax was regressive and would hurt job creation.<sup>44</sup> Despite some divisions over financing, SSA officials generally pushed for new payroll taxes to pay for the program, viewing this as important for making the new program an earned right.<sup>45</sup> For fiscal conservatives such as Mills, payroll taxes were essential because, as many had argued for Social Security, the link between benefits received and taxes paid should restrain the public's appetite for expanded benefits.<sup>46</sup> The final legislation relied on payroll taxes to pay for Hospital Insurance, but created a voluntary program financed out of premiums and some general revenues to cover doctors' bills.<sup>47</sup>

In sum, throughout this period, the policy community forged a consensus around payroll tax financing of Social Security and other social insurance programs, and the tax faced relatively little scrutiny from either the left or the right. As long as this policy community could deliver social benefits to the general public, and do so through a mode of finance that generated little public ire, their efforts aroused few criticisms from either end of the political spectrum.

There were attempts by conservative Republicans to hold the line on program expansions, and some grumbling about the insurance analogy drawn by administrators, but essentially they stopped challenging the concept of social insurance and contributory finance.<sup>48</sup> While Republicans initially opposed the DI program, their complaints were muted after it passed, and they made few efforts to rein in its expansion. Similarly, with the passage of the Medicare program, it quickly became accepted as yet another element of the American welfare state for which politicians on both sides of the aisle would try to claim credit.

While good opinion data are not always available for this period, it appears that the expansion of social insurance programs was very much in line with public preferences. In Social Security's first decade, public support for government pensions ranged as high as 96 percent.<sup>49</sup> The available evidence also shows that people quickly became accustomed to paying payroll taxes. In his careful study of early opinion on Social Security, Michael Schiltz found, for example, that only 21 percent of respondents in 1936 and 13 percent in 1937 thought that the law should be changed to make employers pay the entire amount of the payroll tax.<sup>50</sup>

Although support for Social Security was high from the outset, much of the public in those early years failed to understand the connection between the taxes they paid and entitlement to benefits, and in the first decades after the creation of the program there was continued citizen support for a noncontributory, universal pension.<sup>51</sup> Thus, Social Security administrators worked to portray the payroll tax not as a form of taxation, but rather as a contribution that workers made to ensure their own security. Using the language of insurance – calling taxes “premiums,” and referring to benefits as “annuities” – administrators worked hard to distinguish Social Security from the other welfare programs. As SSA administrator Altmeier wrote about Social Security in 1946, “It is not a plan for giving everybody something for nothing but a plan for organized thrift.”<sup>52</sup> In this, the SSA appears to have succeeded, as Americans came to view Social Security as an earned entitlement by dint of the contributions they make as workers. As Robert Shapiro and Tom Smith, two observers of public opinion on Social Security, said,

Social Security's emphasis on workers' required contributions to the government's social insurance system gave the public an easy way to understand the program, since it fit in

40. Derthick, *Policymaking*, 312–13.

41. Eric Patashnik and Julian Zelizer, “Paying for Medicare: Benefits, Budgets, and Wilbur Mill's Policy Legacy,” *Journal of Health Politics, Policy and Law* 26 (2001): 13–15.

42. Theodore R. Marmor, *The Politics of Medicare*, 2nd ed. (New York: Aldine de Gruyter, 2000), 32–33.

43. *Ibid.*, 45; Zelizer *Taxing America*, 230–31.

44. U.S. Committee on Ways and Means, *Medical Care for the Aged*, 743–44.

45. Zelizer, *Taxing America*, 235–36.

46. U.S. Committee on Ways and Means, *Medical Care for the Aged*, 1965, 802–5.

47. On the logic behind this financing structure, see the analysis of Patashnik and Zelizer, “Paying for Medicare.”

48. Derthick, *Policymaking*.

49. Michael E. Schiltz, *Public Attitudes toward Social Security: 1935–1965* (Washington, DC: Government Printing Office, 1970), 36.

50. Schiltz, *Public Attitudes toward Social Security*, 90; see also Leff, “Taxing the ‘Forgotten Man,’” 361.

51. Derthick, *Policymaking*.

52. Altmeier, “The Need for Social Security,” 7.

well with American values concerning the work ethic, capitalism and democracy.<sup>53</sup>

The success of the SSA's efforts in framing Social Security, as well as the political consensus that developed around the program in its first four decades, is evident in public opinion in two regards: the program was so uncontroversial that few surveys included questions about Social Security between the 1950s and the mid-1970s, but those survey questions that were asked show a great deal of public support.<sup>54</sup> The percentage of Americans saying that they approved of Social Security laws – 89 percent in 1938 – was 92 percent in 1952.<sup>55</sup> During the 1960s, between two-thirds and three-quarters of Americans said that the government should spend more on Social Security, a level of support that continues to this day.<sup>56</sup> More specifically on the issue of taxes, in surveys in 1945, 1953, and 1978 asking, “What kind of taxes are most in need of being lowered,” Social Security taxes were at or near the bottom of the list in each instance (see Appendix Table A2). In the early 1970s, only one-fifth of survey respondents disagreed with the statement, “It is important to keep increasing Social Security benefits, even if it means even higher taxes.”<sup>57</sup>

Thus, in the first four decades of American social insurance programs, there developed an elite consensus around social insurance and the contributory system of finance that resonated with the preferences of the American public. This consensus helped promote the expansion of the initial Social Security program, and the extension of social insurance into other areas. By the early 1970s, however, cracks began to appear in the edifice of support for social insurance, setting in motion a growing critique of payroll tax finance, and social insurance, which would accelerate through the 1980s and 1990s. While the views of the mass public did not change, elites would begin to repudiate the programs and their financing, setting in motion a new politics around social insurance.

## THE BREAKDOWN OF THE CONSENSUS: 1975 TO THE PRESENT

A number of factors came together in the 1970s to undermine the consensus around contributory finance. Economic difficulties and the resulting crisis in social insurance programs highlighted the fact that there

would be no more “easy votes” around programs like Social Security. At the same time, the insulated community that had hitherto dominated social insurance policy-making also broke down. As this community lost its monopoly on intellectual and policy expertise, a raft of new critical voices flowed in from both the left and the right, raising many of the criticisms of payroll tax finance that had not been heard since the 1930s and 1940s. Affluent voters, attuned to the new critiques and subject to social insurance program changes that reduced their net benefits, lost their enthusiasm for the payroll-tax financed programs. This occurred just as policymaking was opened to the wider Congress, which had increasing incentives to hew to the preferences of affluent voters and narrow interest groups. Ironically, the old closed community produced outcomes closer to the preferences of the median citizen, whereas opening up the process resulted in policy oriented toward wealthier and more organized groups. As a consequence, the American welfare state lost a major source of financing, stymieing redistributive initiatives for decades to come.

## The Shifting Economic and Political Context for Social Policy

By the mid-1970s, the American economy was in crisis, facing recession, rising unemployment, and high levels of inflation. This had immediate implications for the fiscal solvency of the social insurance trust funds. The disability program began to run trust fund deficits, while the cost of the Medicare program immediately outstripped initial projections. Major cost increases from the kidney dialysis benefit added in 1972 reinforced the view of Medicare as a “runaway program.”<sup>58</sup> Some of the most publicized problems were in the Social Security program itself and resulted from a series of benefit expansions in the early 1970s. High wage and price inflation provided the impetus for these expansions, because retirees were losing purchasing power at a time when the Social Security system was running a large surplus.<sup>59</sup> In February 1972, Wilbur Mills, by then a presidential candidate and in competition with Richard Nixon, jettisoned his past fiscal conservatism, proposing significant increases in benefits and the wage base, as well as the indexation of benefits. These proposals became the Social Security Amendments of 1972, which included a 20 percent benefit increase, automatic cost of living adjustments, and an indexed wage base. The amendments also extended Medicare coverage to the disabled and attempted to rein in Medicare costs with professional standard review organizations. As a result of the 1972 amendments and the benefit increases preceding it, replacements rates (the per-

53. Robert Y. Shapiro and Tom W. Smith, “The Polls: Social Security,” *Public Opinion Quarterly* 49 (1985): 562.

54. Ibid. Irving Crespi, “Social Security and the Polls: No Ado about Something,” *Public Opinion* (1982): 19.

55. Shapiro and Smith, “The Polls: Social Security,” 566.

56. Ibid. 568; Jennifer Baggette, Robert Y. Shapiro, and Lawrence R. Jacobs, “Poll Trends: Social Security – An Update,” *Public Opinion Quarterly* 59 (1995): 428–30; Greg M. Shaw and Sarah E. Mysiewicz, “Poll Trends: Social Security and Medicare,” *Public Opinion Quarterly* 68 (2004): 406–7.

57. Shapiro and Smith, “The Polls: Social Security,” 572.

58. Jonathan Oberlander, *The Political Life of Medicare* (Chicago: University of Chicago Press, 2003), 47.

59. This account draws from Derthick, *Policymaking*, and Berkowitz *America's Welfare State*, chap. 4.

centage of pre-retirement wages made up by Social Security benefits) increased dramatically.<sup>60</sup>

Paying for these new benefits quickly became problematic. The adverse economic conditions of the 1970s posed multiple threats to the Social Security system, threats made all the worse by the recent decision to change two conservative actuarial practices that had cushioned the system. First, the level-wage assumption, an accounting fiction in which SSA actuaries assumed that wage growth was flat rather than dynamic, was dropped. Second, “current-cost” financing was adopted, in which the program would keep only a small surplus – approximately one year’s expenditures – and spend most of the money coming in, in order to diminish the negative effect on the economy.<sup>61</sup> The reduction of these safeguards was exacerbated by the fact that the inflation adjustment instituted in the 1972 legislation over-adjusted benefits at a time when inflation was already high. As a result, starting in 1973, the trustees’ annual reports showed a long-term deficit in Social Security (over 75 years) and, as of 1975, predicted a short-term deficit as well, with expenditures exceeding income for the first time in program history.<sup>62</sup>

As the Chairman of the House Ways and Means Committee, Al Ullman, predicted in 1977, there would be no more easy votes on Social Security.<sup>63</sup> With the maturation of the Social Security program, and resulting decline in the ratio of contributors to beneficiaries, benefits could no longer be raised without more substantial tax increases. Other “painless” revenue-raising maneuvers, such as extending coverage to hitherto uncovered groups, were nearly exhausted as well, leaving policy-makers with the stark choice of either raising taxes or cutting benefits.<sup>64</sup> Economic stagnation also meant that automatically rising revenues had come to an end. As in the rest of the federal government, the era of “easy finance” was over, posing difficult dilemmas for policy-makers.<sup>65</sup>

In the same period that economic shocks were destabilizing the major social insurance programs, larger institutional and ideological shifts in American politics helped erode the consensual decision-making processes around Social Security and Medicare. One significant change was the decline of the insu-

lated, autonomous policymaking community around social insurance. Its demise came in part simply because the original architects and advocates left office: Between 1970 and 1975, SSA chief actuary Robert Myers, Commissioner Robert Ball, Ways and Means Chairman Wilbur Mills, and ranking Republican John Byrnes all stepped down. After the long tenures of its early occupants, the office of the Social Security commissioner became a “revolving door,” with nine commissioners between 1973 and 1983.<sup>66</sup> The SSA also faced strong criticism in the 1970s and early 1980s for its handling of disability insurance and the new Supplemental Security Income program. This served to undermine confidence in the institution and bring it under increased congressional scrutiny.<sup>67</sup>

At the same time, institutional reforms in Congress diminished the power of the House Ways and Means Committee over tax and entitlement policy, undercutting one of the most significant actors in the policy-making community. By the early 1970s, there were moves to decentralize decision-making power in Congress in an effort to increase transparency, and the tax-writing committees were a particular target. A group of mostly northern, liberal House Democrats, many of whom were elected in the 1960s, were frustrated by the coalition of conservative southern Democrats and Republicans that held power through the seniority system and thwarted (in the reformers’ eyes) liberal legislation. These junior Democrats forced a series of reforms that reduced the power of committee chairs in general and the Ways and Means committee in particular.<sup>68</sup> As a result, Ways and Means began using subcommittees for the first time and hearings were opened to the public, effectively diminishing the chairman’s power. Ways and Means also lost control over committee assignments, thus removing an important source of leverage over House members.<sup>69</sup> More generally, while the committee once enjoyed a monopoly over expertise, the decline of this committee, and the new sunshine reforms, opened the door to the growing influence of think tanks, lobbyists, and other organized interests.<sup>70</sup>

While the movement to democratize congressional decision-making might have led to greater attention to the median citizen, other forces in American

60. The replacement rate for a married man at average wages increased from 50 percent before 1965 to 67 percent in 1975; the increase for a married man at the federal minimum wage was from 67 percent to 92 percent (Derthick, *Policymaking*, 363).

61. Zelizer, *Taxing America*, 328.

62. The long-term projections deteriorated so quickly also because SSA actuaries finally started using new, lower fertility rate assumptions that better reflected the fact that birthrates had been declining for some time (Derthick, *Policymaking*).

63. Derthick, “How Easy Votes on Social Security Came to an End,” *Public Interest* 54 (1979): 94.

64. *Ibid.*

65. Steuerle, *Tax Decade*; Brownlee, *Funding the Modern American State, 1941–1995: The Rise and Fall of the Era of Easy Finance* (Cambridge: Cambridge University Press, 1996).

66. Paul Light, *Artful Work: The Politics of Social Security Reform* (New York: Random House, 1985), 43.

67. Derthick, *Agency under Stress: The Social Security Administration in American Government* (Washington, DC: Brookings Institution, 1990).

68. Rohde, *Parties and Leaders*.

69. Derthick, *Policymaking*, 387–91; Light, *Artful Work*, 19; see also Eric Schickler, *Disjointed Pluralism: Institutional Innovation and the Development of the U.S. Congress* (Princeton, NJ: Princeton University Press, 2001), chap. 5.

70. Zelizer, *Taxing America*, 357–58; R. Douglas Arnold, *The Logic of Congressional Action* (New Haven, CT: Yale University Press, 1990); Edward V. Schneier and Bertram Gross, *Congress Today* (New York: St. Martin’s Press, 1993).

politics were reducing the responsiveness of political elites to the typical member of the public. First, the incumbency advantage in congressional elections grew from 1 to 3 points in the 1940s and 1950s to 10 points in the 1970s, with the greatest surge in the late 1960s and early 1970s.<sup>71</sup> Because of redistricting and other factors, more districts became “safe,” and by wider margins, increasing politicians’ “leeway” to pursue policy goals at variance with median public opinion.<sup>72</sup> Indeed, the policy responsiveness of congressional candidates to district ideology and preferences fell after the early 1970s.<sup>73</sup>

Second, with the decrease in voter turnout, especially within low-income groups, there were more incentives for elected politicians to attend to the preferences of the affluent, who comprise an increasing share of the electorate over time.<sup>74</sup> Moreover, with the decline of the political parties, and the rise of candidate-centered and media-driven elections, politicians have needed to raise a lot of money, which comes from high-income individuals and the interest groups and political action committees that represent them.<sup>75</sup> As a result, policy outcomes have become more likely to reflect the preferences of the affluent than those of the low-income or even median members of the public.<sup>76</sup>

We can see the effects of these developments in the debates over payroll taxes, as elites came to renounce this mode of finance despite continuing support for it among the general public.

71. Michael Krashinsky and William J. Milne, “The Effects of Incumbency in U.S. Congressional Elections, 1950–1988,” *Legislative Studies Quarterly* 18 (1993): 321–44; Robert S. Erikson, “The Advantage of Incumbency in Congressional Elections,” *Polity* 3 (1971): 395–405; David R. Mayhew, “Congressional Elections: The Case of the Vanishing Marginals,” *Polity* 6 (1974): 295–317; John R. Alford and David W. Brady, “Personal and Partisan Advantage in U.S. Congressional Elections, 1846–1986,” in *Congress Reconsidered*, 4th ed., ed. Lawrence D. Dodd and Bruce I. Oppenheimer (Washington, DC: CQ Press, 1989), 153–69.

72. Lawrence R. Jacobs and Robert Y. Shapiro, *Politicians Don’t Pander: Political Manipulation and the Loss of Democratic Responsiveness* (Chicago: University of Chicago Press, 2000).

73. Stephen Ansolabehere, James M. Snyder, Jr., and Charles Stewart, III, “Candidate Positioning in U.S. House Elections,” *American Journal of Political Science* (2001) 45: 136–59.

74. Richard B. Freeman, “What, Me Vote?” in *What, Me Vote?*, ed. Kathryn M. Neckerman (New York: Russell Sage Foundation, 2004); Steve J. Rosenstone and John Mark Hansen, *Mobilization, Participation, and Democracy in America* (New York: MacMillan, 1993).

75. Thomas Byrne Edsall, *The New Politics of Inequality* (New York: W.W. Norton, 1984); Steven E. Schier, *By Invitation Only: The Rise of Exclusive Politics in the United States* (Pittsburgh: University of Pittsburgh Press, 2000); Theda Skocpol, *The Missing Middle: Working Families and the Future of American Social Policy* (New York: W.W. Norton, 2000).

76. Larry M. Bartels, “Economic Inequality and Political Representation,” unpublished mss. Princeton University, 2002; Martin Gilens, “Public Opinion and Democratic Responsiveness: Who Gets What They Want from Government?” paper presented at the Annual Meeting of the American Political Science Association, 2004.

### The Debates over Payroll Taxes, 1970–1983

The first strong criticism of contributory finance came not from the right, but from the left. Starting in the late 1960s, economists from the major universities and think tanks criticized Social Security’s design and weighed in with plans of their own. Arguing that Social Security was not a real insurance program, but merely a tax and transfer system, these economists asserted that the taxes were regressive and should therefore be supplemented or replaced by an alternative mode of finance.<sup>77</sup> These views were echoed in a 1969 report of President Johnson’s Committee on Income Maintenance Programs, which criticized social insurance taxes as regressive while funding programs that did little against chronic poverty.<sup>78</sup>

Some of the toughest critiques of the program came out of the Brookings Institution, as economists there condemned the payroll tax as a regressive burden on the poor and, to some extent, the middle class.<sup>79</sup> Various aspects of the program’s design meant that lower income people faced higher effective payroll tax rates than the affluent: the lack of exemptions or a standard deduction as in the federal income tax; the ceiling on wages subject to taxes; the fact that unearned income is not taxed; and the belief of economists that labor bears the cost of both the employee and employer contributions. John Brittain argued that the high effective payroll tax rates for poor people thwarted the war on poverty while also attacking as “patronizing” the attitude of the Social Security Administration that the poor be forced to pay payroll taxes for their future when they could not afford their current needs.<sup>80</sup> These studies went on to argue that the middle class was unfairly burdened as well, because the exclusion of unearned income meant that the payroll tax was regressive over a large part of the earnings range.<sup>81</sup> Furthermore, at many income levels, increases in payroll taxes had wiped out the income tax reductions of 1964–1965 and

77. Berkowitz, “Social Security and the Financing of the American State,” 189.

78. Jerry R. Cates, *Insuring Inequality: Administrative Leadership in Social Security, 1935–54* (Ann Arbor: University of Michigan Press, 1983), 5.

79. John A. Brittain, “The Incidence of Social Security Payroll Taxes,” *American Economic Review* 61 (1971): 110–25; John A. Brittain, *The Payroll Tax for Social Security* (Washington, DC: Brookings, 1972); Benjaming A. Okner, “The Social Security Payroll Tax: Some Alternatives for Reform,” *Journal of Finance* 30 (1975): 567–78; Joseph Pechman, Henry J. Aaron, and Michael K. Taussig, *Social Security: Perspectives for Reform* (Washington, DC: Brookings, 1968); Nancy N. Teeters, “The Payroll Tax and Social Security Finance,” in *Broad-Based Taxes: New Options and Sources*, ed. Richard A. Musgrave (Baltimore, MD: Johns Hopkins University Press, 1973), 87–112.

80. Brittain, *The Payroll Tax for Social Security*, 7. A decade later, Jerry Cates leveled a similar criticism, portraying SSA propagandizing as designed to obscure the regressive effects of the program through a false analogy to private insurance (Cates, *Insuring Inequality*).

81. Brittain, *The Payroll Tax for Social Security*, 16.

1970–1971.<sup>82</sup> In the short term, these economists urged that the exemptions and standard deductions used in calculating income taxes be introduced to the payroll tax to make it less regressive. For the long term, studies advocated replacing payroll tax revenues with those from the more elastic and progressive income tax.

Some of the more important interest groups on the Democratic side also began to question payroll tax finance. By the 1970s, unions were voicing concerns about the regressivity of the Social Security tax that had not been heard since the 1930s and 1940s. In 1969, the AFL-CIO proposed relying on general revenues for one-third of program costs, which had been the original preference of SSA officials before the 1950 Amendments foreclosed that possibility.<sup>83</sup> Unions also criticized this mode of finance during debates in the 1970s and early 1980s over how to solve the Social Security trust fund crises.<sup>84</sup> By the early 1980s, they were joined by the AARP in arguing for general revenues to cover a greater share of program costs.<sup>85</sup>

The growing chorus against payroll taxes led some Democrats to oppose increases in these taxes to deal with the threat of trust fund insolvency. During the 1976 presidential campaign, all of the Democratic candidates came out against raising the Social Security payroll tax rate to solve the current financing crisis. Some Democrats repudiated the payroll tax altogether, whereas others favored increasing the proportion of wages covered by these taxes – thereby increasing the burden on the rich – but keeping rates at their current level. At this point, many Republicans and conservative Democrats opposed raising the ceiling on covered wages, but endorsed higher payroll tax rates as a way to assure solvency.

The Republican stance began to shift by the late 1970s, however, reflecting a growing conservative movement against all forms of taxation. Business, once a relatively liberal backer of social insurance, increasingly became an organized conservative voice in American politics.<sup>86</sup> Especially important was the development of a powerful lobby for small business in the late 1970s, and the rise of a political discourse about the importance of small businesses to economic growth.<sup>87</sup> While large corporations paid less

attention to payroll taxes than to corporate tax cuts and regulatory reform, representatives of small business such as the Chamber of Commerce were sharply critical of payroll taxes. In 1977, for example, business groups attacked Carter's proposal to increase the payroll taxes paid by business, and then lobbied for payroll tax reductions in Reagan's 1981 tax package.<sup>88</sup> As the president of the National Federation of Independent Business said in 1981, "Social Security payroll taxes are killing us."<sup>89</sup>

One means for spreading the pro-business message was through the efforts of various think tanks. Conservative think tanks such as the Heritage Foundation, Cato Institute, and American Enterprise Institute (AEI) receive much of their funding from businesses, and they became increasingly vocal and influential opponents of social insurance programs and payroll taxation.<sup>90</sup> AEI published a series of booklets in the 1970s on Social Security, ranging from a critical but relatively neutral assessment of the Social Security program and its financial difficulties<sup>91</sup> to an attack on the program for misleading the public into a false willingness to pay taxes.<sup>92</sup> Other criticisms included the claim that early retirement decisions of the elderly depressed economic growth and that, with the aging of the population, current workers would have to pay far more into the Social Security system than they would ever receive in benefits. As a result, Social Security was declared to be a waste of current workers' tax dollars, which could be more productively invested elsewhere.<sup>93</sup> Critics like Milton Friedman therefore called for cuts in payroll taxes and the use of general revenues in the hope that this would expose the true costs of the program to the general public.<sup>94</sup>

By the late 1970s, a growing tax revolt at the grass-

88. Mary Russell and William Chapman, "Carter's Bailout Plan for Social Security is Opposed on Hill," *Washington Post*, 10 May 1977, A2; Rich, "Labor Urges Curbing Future Social Security Bite," A 14; Robert Pear, "Government Finds Payroll Taxes Make Up Rising Share of Revenue," *New York Times*, 6 Mar. 1983, A1.

89. Edward Cowan, "Tax Cuts: First, Business Wants Fast Depreciation," *New York Times*, 1 Feb. 1981, 3A.

90. Edsall, *New Politics of Inequality*; Vogel, *Fluctuating Fortunes*, chap. 8.

91. J.W. Van Gorkom, *Social Security: The Long-Term Deficit* (Washington, DC: American Enterprise Institute, 1976); Rudolf G. Penner, *Social Security Financing Proposals* (Washington, DC: American Enterprise Institute, 1977); Michael R. Darby, *The Effects of Social Security on Income and the Capital Stock* (Washington, DC: American Enterprise Institute, 1979).

92. William C. Mitchell, *The Popularity of Social Security: A Paradox in Public Choice* (Washington, DC: American Enterprise Institute, 1977).

93. Carolyn L. Weaver, *The Crisis in Social Security: Economic and Political Origins* (Durham, NC: Duke University Press, 1982), chap. 9; Martin Feldstein, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," *Journal of Political Economy* 82 (1974): 905–26.

94. Milton Friedman, "Payroll Taxes, No; General Revenues, Yes," in *The Crisis in Social Security: Problems and Prospects*, 2nd ed. rev., ed. Michael J. Boskin (San Francisco, CA: Institute for Contemporary Studies, 1978), 25–30.

82. Teeters, "The Payroll Tax and Social Security Finance."

83. Derthick, *Policymaking*, 250.

84. Spencer Rich, "Labor Urges Curbing Future Social Security Bite," *Washington Post*, 5 Jan. 1979, A14; "Income Tax Bill Criticized at Hearing," *Washington Post*, 24 Mar. 1981, D15.

85. "Retired People's Group Rejects Moynihan Plea," *New York Times*, 18 Feb. 1983, A19.

86. See Kay L. Schlozman, Benjamin I. Page, Sidney Verba, and Morris Fiorina, "Inequalities of Political Voice," Task Force on Inequality and American Democracy, American Political Science Association, [www.apsanet.org/imgtest/voicememo.pdf](http://www.apsanet.org/imgtest/voicememo.pdf), 49; Edsall *New Politics of Inequality*; David Vogel, *Fluctuating Fortunes: The Political Power of Business in America* (New York: Basic Books, 1989).

87. Jonathan J. Bean, *Big Government and Affirmative Action: The Scandalous History of the Small Business Administration* (Lexington: University Press of Kentucky, 2001), 105–7.

roots provided the mass support for what had hitherto been an elite-level drive against taxation.<sup>95</sup> The tax revolt started in California in 1978 and spread to other states, building on a larger sense of disaffection and distrust of government. Conservative strategists saw an opportunity in this movement to knit together antitax and antiregulation business elites with a broader, electoral base that reached deep into the Democratic party. Ronald Reagan swept into the White House on this wave of antitax and antigovernment sentiment. Quickly making good on this promise to cut taxes, Reagan, legislated in 1981 what was, at the time, the largest ever peace-time tax cut in U.S. history, signifying a major shift in the Republican Party away from often moderate, centrist stands on social programs, to attacks on the welfare state and the taxes that sustain it. This revitalized anti tax fervor reverberated across the political spectrum, making politicians afraid to advocate new taxes.

While one could argue that it was the mass tax revolt that led policy-makers to renounce the payroll tax, the move against contributory finance instead reflects the growing disjuncture between elites and mass opinion on taxing and spending. After all, the tax revolt began not as an attack on payroll taxes, or even on all taxes, but was specifically about the property tax. What sparked the California property tax revolt was a state supreme court ruling that removed earmarks on property taxes. Affluent homeowners were no longer willing to pay high property taxes if they were not kept in their local district,<sup>96</sup> and they constituted the greatest supporters of Proposition 13, which rolled back property tax rates.<sup>97</sup> By contrast, one reason the payroll tax is relatively popular among typical Americans is that it is earmarked, representing a contractual obligation on the government to make pension payments in return for one's contributions.

Thus, public support for payroll taxation was extremely strong through the 1960s, and slipped just slightly in the 1970s and early 1980s.<sup>98</sup> From the 1930s through the 1960s, the modal answer to survey questions about payroll taxes was pro-tax (Figure 2). This slipped somewhat to 87 percent in the 1970s and to 62 percent in the 1980s, although a portion of this change can be attributed to changes in wording and format among the bundle of questions asked each decade. When similarly phrased questions are exam-

95. John W. Burns and Andrew J. Taylor, "The Mythical Causes of the Republican Supply-Side Economics Revolution," *Party Politics* 6 (2000): 419–40.

96. William Fischel, "Did *Serrano* Cause Proposition 13?" *National Tax Journal* 42 (1989): 465–74.

97. David O. Sears and Jack Citrin, *Tax Revolt: Something for Nothing in California* (Cambridge, MA: Harvard University Press, 1982).

98. To examine these trends, we collected from the archive of the Roper Center for Public Opinion Research all survey items from the 1930s on which a pro- or anti payroll tax view could be discerned.

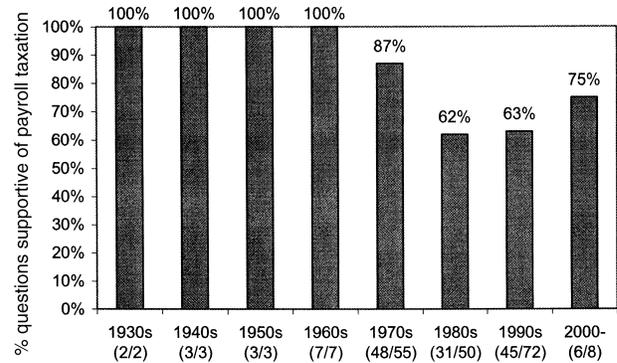


Fig. 2. Survey Responses in Support of Payroll Taxation, 1930–Present

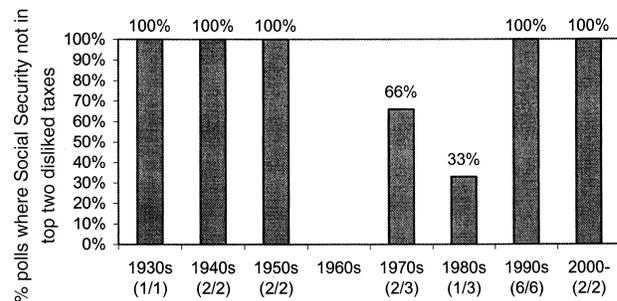


Fig. 3. Social Security versus Other Taxes, 1930–Present

ined over time, an even more consistent pattern of support for payroll taxation is found. From 1978 through 1982, respondents said they would prefer higher payroll taxes to lower Social Security or Medicare benefits 13 out of 16 times (see Appendix Table A1). Through the 1980s Social Security taxes were regularly viewed as less objectionable than other kinds of taxes, particularly federal income and property taxes (Figure 3); in only three out of eleven is Social Security among the top two most disliked levies (see Appendix Tables A2 and A3 for examples; the other poll results are available from the authors). The data in Figure 4 show furthermore that in the late 1970s and early 1980s, without exception, survey respondents preferred a federal income tax cut to a payroll tax cut. Thus other than some slippage in the 1980s (which is counteracted later, as shown in the following paragraphs), median public opinion was supportive of payroll taxation most of the time, especially in the face of benefit cuts, and certainly when compared to the more universally disliked federal income tax.<sup>99</sup>

Despite this stability in public preferences, many

99. See also Baggette, Shapiro, and Jacobs, "Social Security – An Update."

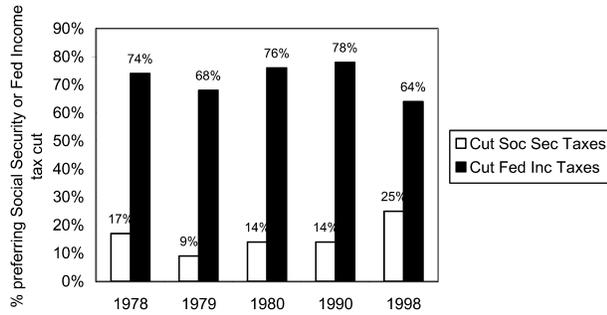


Fig. 4. Cut Social Security Taxes or Cut Federal Income Taxes, 1978–1998

policy-makers decided that payroll tax increases had to be stopped. While the 1977 financing crisis had been met with higher payroll contributions, there was, by 1979, a drive by Democratic lawmakers to block the scheduled tax increases.<sup>100</sup> This idea ultimately was abandoned, given the realities of inflation and the economic slowdown, and by the early 1980s policy-makers faced a new Social Security crisis. This crisis was a consequence of decisions in the 1970s to index Social Security benefits to inflation – a disastrous decision given the combination of high inflation and negative wage growth in that period. Moreover, with the adoption of current cost accounting, the trust fund's reserves had been set so low that it was very susceptible to economic disturbances; the balance equaled 66 percent of one year's expenditures in 1975 and just 25 percent in 1980. Finally, the 1977 rescue legislation had “backloaded” the tax increases. That taxes would increase in 1985 and 1990 did nothing to help in the early 1980s.<sup>101</sup> In 1982, the Social Security trust fund had to borrow funds from the Medicare trust fund to cover benefits and was expected to run out of money in July 1983.

The fierce debates that ensued over the future of the Social Security program revealed a great deal about the new policy-making climate around social insurance programs. Labor unions, the AARP, former SSA administrators, and some Democrats argued in favor of infusing the Social Security program with general revenues to mitigate the regressive effects of the payroll tax.<sup>102</sup> Yet, the Reagan administration, business groups, and many Republicans opposed any increase in taxes but were especially against using general revenues to bail out the program.<sup>103</sup> Hewing to a longstanding view that payroll taxes restrained

the growth in the program, they believed that opening the door to general revenues would result in tax increases later on.<sup>104</sup> Instead, they advocated cuts in Social Security benefits.

The severity of the financial crisis forced a compromise whereby policy-makers adopted a 50–50 decision rule on the mix of tax increases and benefit cuts.<sup>105</sup> Benefits were cut by taxing affluent retirees' benefits, delaying the annual cost of living adjustment for six months, and increasing the retirement age from 65 to 67 (and correspondingly, reducing the early retirement benefit). New revenues came from a tax on the Social Security benefits of high-income recipients, an increase in the payroll taxes paid by the self-employed, the introduction of new workers into the system (new employees of the federal government and nonprofit institutions), and the acceleration of previously scheduled payroll tax increases.

It is notable that, even at the height of the antitax movement, the Social Security crisis of 1983 was addressed in part with an increase in payroll taxes. The electoral repercussions for lawmakers were minimal.<sup>106</sup> Public regard for the programs and support of the contributory model remained high, as most people stated they would rather face payroll tax increases than spending cuts to save the Social Security program.<sup>107</sup> One lesson that elites could have drawn from this episode was that contributory finance remained a viable political way to pay for popular social programs. However, instead of seeing this as a sign that the payroll tax continued to be a politically acceptable revenue source, there was a sense of “never again” among lawmakers and a rejection of contributory finance – a view that has informed social insurance policy-making since.

### The Politics of Contributory Finance since 1983

Since the 1980s, the elite-mass gap on entitlement spending and funding has widened. Many policy-makers became determined to block payroll tax increases to fund existing or new entitlement programs, yet they did so despite continuing support among a large swath of the public for these programs, and a professed willingness to pay higher payroll taxes for them. The lack of a funding source had undermined existing social programs and led several new

104. Small business groups vocally opposed any tax increases, but particularly a payroll tax hike. Ultimately, they had to swallow their objections to the small increase that finally was agreed on, but this stiffened their opposition to any future increases in payroll contributions.

105. Light, *Artful Work*.

106. Reagan was elected by even larger margins among seniors in 1984 than in 1980 (thanks to Robert Binstock for that observation). There was no electoral retaliation at the congressional level either. Some observers like Light, *Artful Work*, attribute 1982 GOP congressional losses to the administration's 1981 threat to cut Social Security, but the incumbent's party usually loses seats at the midterm, so it is difficult to attribute the loss to that cause.

107. Light, *Artful Work*, 69–70.

100. Mary Russell, “Democrats to Seek Trim in Scheduled Payroll Tax Rise,” *Washington Post*, 25 Jan. 1979, A3.

101. Light, *Artful Work*, 92.

102. Edward Cowan, “Plan to Raise Social Security Tax Called Possibility,” *New York Times*, 25 Oct. 1982, A13; “Income Tax Bill Criticized,” 1981.

103. Edward Cowan, “Leaders of Both Parties Facing Tough Choices on Social Security Problems,” *New York Times*, 6 Nov. 1982, A28.

social policy initiatives to founder, including the drive to cover catastrophic and long-term care costs under Medicare, broad-based health care reform, and efforts to shore up the Social Security trust fund. Indeed, undermining the American welfare state by cutting off sources of funding has become a key strategy of the newly ascendant conservative movement within the Republican Party.

### *The Elite-Mass Gap on Entitlement Finance*

Median public opinion has remained very supportive of Social Security and Medicare spending over time, and largely in favor of payroll taxation. Even as confidence in these programs has waxed and waned with fiscal crises in the last three decades, overall support has remained very strong.<sup>108</sup> Since the mid-1970s, supermajorities of 80 to 90 percent have said that spending on Social Security should be increased or kept the same; one-tenth or fewer respondents have said that such spending should be reduced.<sup>109</sup> Among a long list of domestic and foreign programs, the largest elite-mass gap on spending preferences in the 1980s and 1990s was for Social Security (Figure 5 shows the 1998 data).<sup>110</sup> Similarly, large majorities of Americans in the 1980s and 1990s wanted to maintain Medicare spending rather than raise the eligibility age or reduce benefits to lower the federal deficit.<sup>111</sup> Even on the potentially more contentious issue of payroll taxation, median public opinion has been favorable. Since reaching a low point in the 1980s, the percentage of pro-payroll tax survey responses has increased (Figure 2). Social Security has not been among the most disliked taxes in any survey in the 1990s and 2000s (Figure 3), and the American public continues to prefer a federal income tax cut to a payroll tax cut (Figure 4).

Despite this public support, Republican opposition to entitlement programs and payroll taxation has hardened since the 1980s. Mounting federal deficits in the early 1980s made cutting or limiting the growth of Social Security, the largest component of the fed-

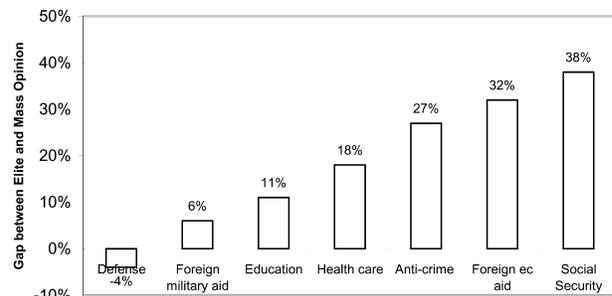


Fig. 5. Elite-Mass Gap on Domestic and Foreign Priorities, 1998

eral budget, attractive, at least until Republicans met with both senior citizens' political fury and Democrats' political haymaking. This strong political opposition led to a widely held view among politicians that Social Security was a "third rail" of American politics.<sup>112</sup> Yet, this did not reduce the determination of many Republicans to tackle these programs and their mode of finance. If anything, the difficulty of directly attacking the program led to a new strategy of holding the line on tax increases instead – a backdoor way to control the costs of entitlement programs.

In this political strategy, we can see influence of affluent, who clearly have become less favorable to Social Security and its system of finance. Since the inception of the Social Security program in the 1930s, the rich never favored it or payroll taxes to the same extent as middle- and lower-income people (Table 1a and 1b).<sup>113</sup> We would expect these gaps in opinion by income – 10 percent or so in the 1930s – to grow over time, especially starting in the late 1970s. Individual retirement accounts (IRAs) were created in 1974 and became popular after clarification and liberalization in 1981. The first 401(k) investment plan was created in 1980. These alternative investment vehicles promised much greater rates of return than Social Security, and have been used most extensively by high-income citizens.<sup>114</sup>

108. Lawrence R. Jacobs and Robert Y. Shapiro, "Myths and Misunderstandings about Public Opinion toward Social Security," in *Framing the Social Security Debate: Values, Politics, and Economics*, ed. R. Douglas Arnold, Michael J. Graetz, and Alicia H. Munnell (Washington, DC: National Academy of Social Insurance, 1998), 355–88.

109. Baggette, Shapiro, and Jacobs, "Social Security – An Update;" Shapiro and Smith, "The Polls: Social Security."

110. Benjamin I. Page and Jason Barabas, "Foreign Policy Gaps between Citizens and Leaders," *International Studies Quarterly* 44 (2000), 348; see also Fay Lomax Cook and Edith J. Barrett, *Support for the American Welfare State: The Views of Congress and the Public* (New York: Columbia University Press, 1992).

111. See Harris Survey: Jan. 1984, Dec. 1984, June 1985, Aug. 1989, Apr. 1990; Cambridge Reports Survey: Oct. 1984; Times Mirror Survey: May 1988, Feb. 1995; Associated Press Survey: Nov. 1988; Gallup Poll: Oct. 1990, May 1995, July 1995; Time, CNN, Yankelovich Partners Survey: Aug. 1995, Feb. 1997; and Fox News, Opinion Dynamics Poll: July 1997, available from the archive of the Roper Center for Public Opinion Research on Lexis-Nexis.

112. In 1981, the Reagan administration, seeking to rein in Social Security spending, proposed the first cuts to current clients' benefits in the program's history: immediate reductions in benefits for the two-thirds of retirees who take their benefits "early," before age 65; a delay in the annual cost-of-living adjustment; and tightening of disability requirements for the DI program. Senior citizens responded with surges of letter-writing to Congress, and both the House and Senate rebuked the administration. The proposal was soon withdrawn. See Andrea Louise Campbell, *How Policies Make Citizens: Senior Citizen Activism and the American Welfare State* (Princeton, NJ: Princeton University Press, 2003), chap. 5; and "Participatory Reactions to Policy Threats: Senior Citizens and the Defense of Social Security and Medicare," *Political Behavior* 25 (2003): 29–49.

113. In these early polls, income classifications were determined by interviewers. There is undoubtedly some error, but the patterns of survey responses by estimated income are quite consistent.

114. For example, with 401(k) plans, eligibility, participation, and contributions all rise monotonically with income. In 2001, only

**Table 1. Percent Supporting Old-Age Pensions by Income, 1936–1944**

a. Supporting Old-Age Pensions by Income		
Income level	Jan. 1938	July 1938
Very poor	75%	84%
On relief	87%	93%
Poor	73%	88%
Average	72%	77%
Above average	65%	72%

Source: Schiltz 1970, 38.

**b. Supporting Extension To Unspecified Groups of Social Security by Income**

Income level	Jan. 1938	Apr. 1943	Aug. 1944
Low	69%	90%	94%
Middle	63%	82%	89%
High	59%	81%	81%

Source: Schiltz 1970, 65.

Furthermore, in the late 1970s and early 1980s, the expected lifetime value of Social Security for the affluent declined, as they faced both higher taxes and lower future benefits. The reforms implemented to address the trust fund crises of that period affected all future beneficiaries, but hit maximum wage earners the hardest. The top wage to which the Social Security payroll tax was applied rose only gradually at first, from \$4,200 in the late 1950s to \$7,800 by 1971. But, by 1977, it had doubled to \$16,500, and, by 1982, had doubled again, to \$32,400.<sup>115</sup> The combination

one-quarter of workers earning \$20,000 or less were eligible to participate in a 401(k) plan compared to one-half of those who earn between \$20,000 and \$40,000 and three-quarters of those who earned \$40,000 or more. Only 14 percent of all workers earning less than \$20,000 participated in a 401(k) plan in 2001, compared to 55 percent of those earning \$40,000 to \$60,000 and 67 percent of those earning over \$100,000. The percentage of 401(k) participants making the maximum employee contribution is 0.1 percent among those earning \$20,000 or less, 2.5 percent for those earning \$40,000 to \$60,000, 17 percent of those making between \$80,000 to \$100,000, and 53 percent among those making \$100,000 or more. The complete statistics by income are available in Alicia H. Munnell and Annika Sunden, *Coming Up Short: The Challenge of 401(k) Plans* (Washington, DC: Brookings, 2004), 56, 62. In 2001, household incomes by quintile were: up to \$18,000 (lowest quintile); \$18,000 to \$33,000 (second quintile); and \$33,000 to \$53,000 (third quintile); \$53,000 to \$83,000 (fourth quintile). The top five percent of household incomes started at \$150,000. Hence, only the top quintile begins to have high 401(k) participation and contribution rates (and an even smaller slice of individuals do, since “households” include multiple earners). See U.S. Census Bureau, “Income Limits for Each Fifth and Top 5 Percent of Households, All Races: 1967 to 2003,” tab. H-1, <http://www.census.gov/hhes/www/income/histinc/h01ar.html>.

115. U.S. House Committee on Ways and Means, *Green Book*, 1998 24.

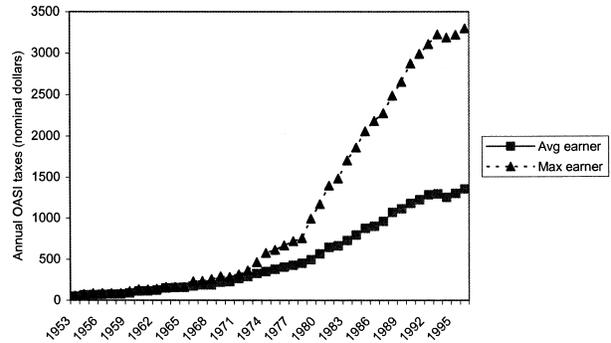


Fig. 6. Annual Social Security Tax Paid by Average and Maximum Earnings Workers (in nominal dollars)

of higher wage ceilings and higher tax rates meant that payroll tax contributions for top earners jumped dramatically after 1978 (Figure 6). Replacement rates – the percentage of pre-retirement earnings covered by Social Security payments – dropped for all income groups after the 1970s, but the decline was sharpest for high-income groups. Payback times – the number of years necessary to recover one’s payroll tax contributions plus interest – rose significantly after 1980 (Figure 7), again most sharply for maximum earners. Furthermore, the Social Security benefits of affluent recipients were taxed after 1983. In short, Social Security’s value dropped significantly for affluent citizens after the late 1970s: Their payroll taxes increased sharply, their benefits comprised a smaller share of their preretirement incomes, and the number of years it took to earn back their contributions in the form of benefits jumped dramatically. With government pension benefits looking less attractive, and private options proliferating, we might expect the divergence on Social Security opinion by income to grow.

Indeed, although opinion data by income from the 1970s and 1980s are not readily available, survey data from the 1990s – after these changes were fully apparent – reveal a continuing and growing divergence in opinion by income. The ten-point gaps of the 1930s are now twenty-point differences. When asked in January 1998 which approach to Social Security’s problems they would most prefer, only 13 percent of respondents making over \$75,000 per year chose “increasing payroll taxes” compared to 32 percent of

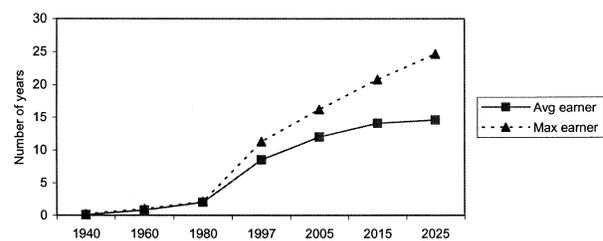


Fig. 7. Payback Times for Workers’ OASI Taxes

**Table 2. Percent Supporting Social Security Taxation by Income, 1998**

Jan. 1998: How Deal with SS Problem			
	Increase SS taxes	Reduce benefits on upper income beneficiaries	Raise retirement age
<\$10,000	32%	41%	19%
\$10–19,000	17%	50%	21%
\$20–29,000	19%	57%	15%
\$30–49,000	16%	54%	19%
\$50–74,000	18%	53%	15%
\$75,000 +	13%	58%	19%

Source: Roper Archive of Public Opinion data (online at Lexis-Nexis).

those making less than \$10,000 per year (Table 2). Even greater divergences by income are revealed in data in which a narrower slice of the affluent can be identified. Between 1984 and 1996, the National Election Study asked whether respondents wanted spending on Social Security increased, decreased, or kept the same. The top income group (top 5 percent) is about 30 percent less likely than the poorest one-third of the sample to want Social Security spending increased; it is even about 15 percent less likely to prefer increased spending than the next highest income group, the 68th to 95th percentile (Figure 8). In sum, public support for Social Security spending and taxation varies by income, with upper income respondents less supportive of the program and its financing.

With Republicans increasingly attuned to the preferences of these wealthy voters, it is hardly surprising that they have called for cuts in payroll taxes while encouraging private market approaches to both Social Security and Medicare.<sup>116</sup> In this, they have taken many of their proposals from think tanks such as Heritage, Cato Institute, and AEI, which have issued a steady stream of critical reports and studies of entitlement programs. These organizations have made payroll taxation a particular target, usually as part of a larger agenda of creating personal retirement accounts to supplement or replace Social Security.<sup>117</sup> Thus, Peter Ferrara and Michael Tanner of the Cato Institute have argued that young workers will benefit

116. Nolan M. McCarty, Keith T. Poole, and Howard Rosenthal, *Income Redistribution and the Realignment of American Politics* (Washington, DC: AEI Press, 1997).

117. See, for example, Daniel J. Mitchell, "Cut the Social Security Payroll Tax," Policy Analysis 129 (Washington, DC: Cato Institute, 1990); Rea S. Hederman, Jr., William W. Beach, and Andrew Grossman, "The Unacceptable Costs of Raising Payroll Taxes to 'Save' Social Security," WebMemo 639, Heritage Foundation, 13 Jan. 2005.

little from Social Security and should be allowed to contribute to individual retirement accounts instead, to assure a fair return on their money.<sup>118</sup> Indeed, a 1983 memo by Stuart Butler of the Heritage Foundation outlined an extensive "privatization" strategy that would reduce federal spending in areas like Social Security by providing "incentives for beneficiaries of federal spending to choose non-governmental alternatives." He held up IRAs as a "perfect example of this process."<sup>119</sup>

The response of Democrats to the antitax fervor on the right has been to compete with Republicans on the theme of "tax fairness." Throughout the 1980s, Democrats emphasized that the Reagan tax cuts went to benefit the rich, precisely because at the same time that income tax rates were reduced, the 1983 Social Security bailout increased payroll taxes. Given the ceiling on wages covered by payroll taxes, this meant that tax burdens shifted onto lower- and middle-income groups. This fact was highlighted by liberal think tanks such as the Center on Budget and Policy Priorities, which showed that working poor families were paying more in taxes since the Reagan tax cuts, in part because of higher payroll taxes.<sup>120</sup> Additionally, the work of Urban Institute economist Eugene Steuerle showed that moderate-income families were paying substantially higher taxes than they had in the past – in part due to the growth in payroll tax burdens.<sup>121</sup> These findings helped build bipartisan support for tax breaks for families, including expansions in the Earned Income Tax Credit – a measure created in the late 1970s specifically to compensate working poor people for their payroll tax contributions.<sup>122</sup> They also helped harden views among Democrats against further payroll tax increases.

Competition over the issue of tax fairness could create strange bedfellows around the idea of reducing payroll taxes. In the early 1990s, Daniel Patrick Moynihan called for a cut in payroll taxes to eliminate the surplus that was building up in the Social Security trust fund. In Moynihan's view, this "surplus" was the product of regressive taxes levied on working people that were used to mask large budget deficits and finance current government spending. Thus, when President George H.W. Bush considered pushing a

118. Peter J. Ferrara, *Social Security: The Inherent Contradiction* (Washington, DC: Cato Institute, 1980); Ferrara and Michael Tanner, *A New Deal for Social Security* (Washington, DC: Cato Institute, 1998).

119. Stuart Butler, "Privatization: A Strategy for Cutting Federal Spending," Heritage Foundation Report 310, 7 Dec. 1983.

120. Spencer Rich, "Tax Burden Sharply Higher at Poverty Level, Study Says," *Washington Post*, 14 Apr. 1984, A2.

121. The main emphasis of Steuerle's research was to show how the erosion in the value of the standard deduction and personal exemption had increased the tax burden on families with children. Steuerle, *Tax Decade*, 87–89.

122. Christopher Howard, "Protean Lure for the Working Poor: Party Competition and the Earned Income Tax Credit," *Studies in American Political Development* 9 (1995): 404–36.

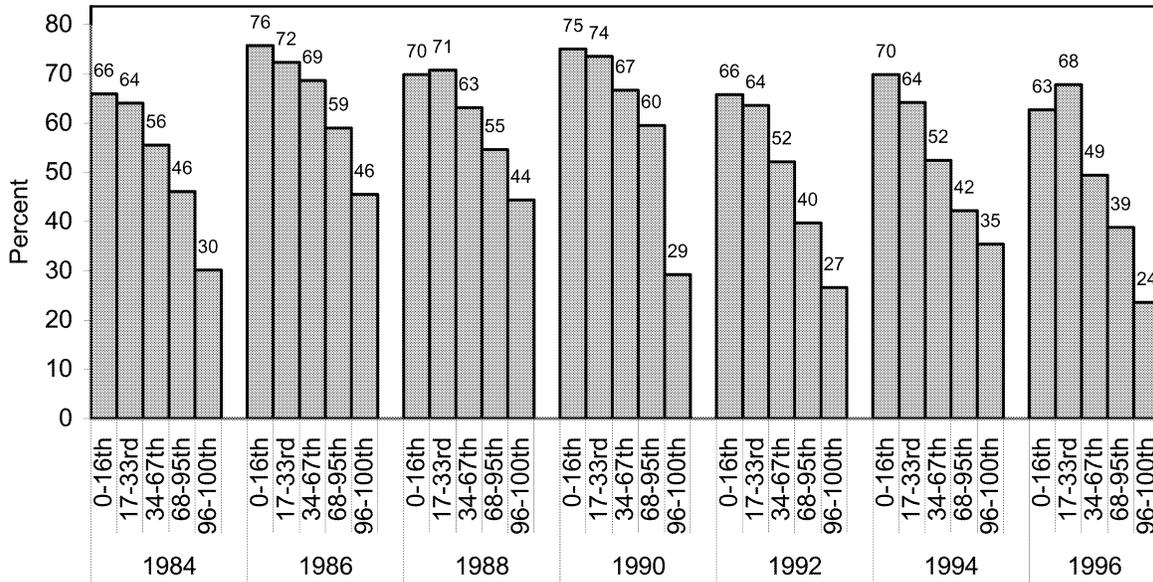


Fig. 8. Respondents Wishing to Increase Federal Spending on Social Security, by Income Percentile

tax cut that would have benefited the wealthy, Moynihan proposed blocking a scheduled payroll tax increase in order to eliminate these surplus revenues and expose the true size of the deficit.<sup>123</sup> The proposal generated some immediate opposition, but also garnered support from an eclectic mix of actors and organizations. By the time Moynihan’s proposal came up for a vote in 1991, he had the backing of the AFL-CIO, Democratic National Committee, Democratic Leadership Council, and Citizens for Tax Justice, as well as conservative organizations and think tanks, including Citizens for a Sound Economy, Heritage, Cato, the Chamber of Commerce, and the National Federal of Independent Business.<sup>124</sup> Legislators from across the political spectrum also favored the measure.

While Moynihan’s proposal did not come to pass, it broke the taboo on payroll tax cuts in ways Moynihan probably did not intend. On the left, efforts to make tax cuts more progressive came to focus on the payroll tax. For example, during the recent debates over President George W. Bush’s tax cut, many liberals argued that what was most needed was a “payroll tax holiday” rather than more tax cuts for the rich.<sup>125</sup>

123. Berkowitz, *America’s Welfare State*; Eric M. Patashnik, *Putting Trust in the U.S. Budget: Federal Trust Funds and the Politics of Commitment* (Cambridge: Cambridge University Press, 2000), 88–90.

124. Spencer Rich, “Plan to Cut Payroll Tax Gains Support,” *Washington Post*, 15 Mar. 1991, A10; David S. Cloud, “Social Security Tax Cut: A Fatal Attraction?” *Congressional Quarterly Weekly Report*, 16 Mar. 1991.

125. Robert B. Reich, “Whose Tax Cuts?” *American Prospect*, 16 Dec. 2002, 2–3; Max B. Sawicky and Robert Denk, “How Do You Spell Relief?” *American Prospect* 12 (2001); Joshua Micah Marshall “A Liberal Tax Revolt,” *American Prospect* 9 (1998): 66–71; Jonathan

There also have been calls on the right for payroll tax cuts.<sup>126</sup> In 1997, this confluence of opinion led to efforts by Senators Edward Kennedy, Trent Lott, and John Ashcroft to pass a law enabling payroll tax relief, with members on both sides of the partisan line arguing that the proposal was a way to show their concern for blue-collar America.<sup>127</sup>

Given this growing chorus of opposition to contributory finance, why have there been no legislated reductions in payroll taxes? Actual cuts to payroll taxes would threaten popular social programs such as Social Security and Medicare, opening up a political can of worms that few policy-makers have wanted to face. Cutting payroll taxes would ultimately mean raising other forms of taxes and/or cutting benefits, and while Republicans most fear the former, Demo-

Rowe and Clifford Cobb, “The Worst Tax: How Payroll Taxes Have Hurt America’s Working Class,” *Washington Monthly* 29 (1997): 17–20.

126. See, for example, Norman J. Ornstein, “The Payroll Tax is Getting Out of Hand,” *New York Times*, 8 Nov. 1992, F13; “Why Not a Payroll Tax Cut?” *Business Week*, 12 Feb. 2001, 28. In the aftermath of the 11 September 2001 terrorism attacks, Bush economic advisor Lawrence Lindsey proposed a payroll tax holiday to stimulate the economy, which was included in a Senate Republican economic stimulus plan. See Shailagh Murray, “Payroll-Tax Break Gains Support on Capitol Hill,” *Wall Street Journal*, 16 Nov. 2001, A2; and “Plan for Payroll-Tax Holiday Gains Steam,” *Wall Street Journal*, 28 Nov. 2001, A3.

127. Helen Dewar, “Payroll Tax Caught in Senate Cross-Fire; Plans From Left and Right Show Issue May Catch on as Campaigns Near,” *Washington Post*, 24 Dec. 1997, A4. In 1998, a bipartisan commission to study the future of Medicare ruled out payroll tax increases as Republican Newt Gingrich secured “no new payroll tax” pledges from his four appointees, and President Clinton also said that he believed increased payroll taxes might not be necessary to address Medicare’s future solvency (“Keep Options Open on Medicare,” *St. Petersburg Times*, 31 Jan. 1998, A12.

crats worry about the latter. These concerns usually have driven Republicans and Democrats apart whenever the idea of cutting payroll taxes is proposed.<sup>128</sup> However, lawmakers have not raised the payroll tax in twenty years, and as we will show in the following section, they have both eschewed these tax increases to pay for a host of social initiatives and let policy “drift,” allowing current financing to stay in place and slowly undermine existing programs as needs grow.<sup>129</sup>

### **Consequences for Social Policy**

The bipartisan consensus against payroll taxes has had consequences for social policy, as taking payroll tax increases off the table deprived policy-makers of a key source of revenue for new spending initiatives. One example of this was the 1988 Medicare Catastrophic Coverage Act (MCCA) which expanded Medicare for the first time in the program’s history to cover the catastrophic medical costs of the elderly.<sup>130</sup> The impetus for the legislation came out of the 1982 Advisory Council on Social Security, which proposed capping out-of-pocket costs for acute care paid for through Medicare, and paying for this through a modest increase in retirees’ Part B premiums. The Council advocated beneficiary-only financing because “strong anti-tax sentiment in American politics” at the time led them to reject general revenue financing.<sup>131</sup> Increased payroll taxes were ruled out as well, given the “widespread agreement” in Congress that the payroll tax levels set in the 1983 reforms had brought them to their political limit.<sup>132</sup>

When the measure came before the House and Senate, Democrats went along with the self-financing arrangement even as they added more benefits, like prescription drug coverage, that made more funding necessary. Moreover, in addition to the increase in Part B premiums, Democrats decided to levy an income-related surtax on elders’ income as a way to raise revenue without burdening poor seniors. Because income taxation of high-income seniors’ Social Security benefits had been introduced in 1983 without furor, a similar progressive financing mechanism was seen as politically feasible for Medicare Catastrophic. At the same time, conservatives liked the income-related premiums because they believed that

Medicare coverage of high-income seniors was an inefficient use of government resources.<sup>133</sup>

Yet, it was precisely this financing mechanism that fueled mass opposition to the MCCA, leading to its repeal by late 1989. Although only 36 percent of seniors would have had to pay any surtax at all, and a mere 5 percent would have paid the maximum surtax of \$800 a year (\$1,600 for a couple), many seniors were convinced that they would be liable for \$800 in taxes.<sup>134</sup> As many high-income seniors already had catastrophic coverage through former employers or private insurance, they had no interest in paying higher premiums for a benefit they did not need. The outcry against the legislation led to its repeal. Stunned by this dramatic turn of events, many legislators became exceptionally cautious about future attempts to expand Medicare. One of the lessons was that extensions of social insurance could not be financed entirely by the elderly, but would have to involve expansions of the original intergenerational bargain behind Social Security and Medicare. This would imply use of either payroll taxes or general revenues.

These lessons then stymied efforts to expand federal coverage of long-term care costs beyond the coverage offered to indigent seniors through Medicaid. Medicare originally excluded long-term care, other than brief coverage after hospital stays, because the program’s architects feared that it was a “bottomless budgetary pit that would destroy the politically delicate budget for health insurance.”<sup>135</sup> In the late 1980s, the advocacy of senior interest groups and Rep. Claude Pepper seemed to breathe new life into the long-term care reform effort. Polls showed that 80 to 85 percent of respondents said they favored a federal program to provide long-term home care; support remained at 70 percent when higher taxes were mentioned.<sup>136</sup>

However, when the Pepper Commission met in 1990 to discuss ways to reform both long-term care provision and access of the general public to health insurance, it deadlocked over the problem of financing. First, many feared that long-term care costs would spiral out of control, much as Medicare costs were perceived to have done. Furthermore, Republicans adamantly opposed tax increases to pay for expansions of health insurance coverage. In an example of the broad antitax brush lawmakers use when invoking mass opinion, Commission member Bill Gradison argued that the problem lay in public unwillingness to pay new taxes: “the real question is

128. Andrew Biggs, “Dems’ Risky Tax Scheme,” Cato Institute Website, 13 Jan. 2003, [http://www.cato.org/pub\\_display.php?pub\\_id=2951](http://www.cato.org/pub_display.php?pub_id=2951).

129. Jacob S. Hacker, “Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States,” *American Political Science Review* 98 (2004): 248.

130. Richard Himelfarb, *Catastrophic Politics: The Rise and Fall of the Medicare Catastrophic Coverage Act of 1988* (University Park: Pennsylvania State University Press, 1995); Jonathan Oberlander, *The Political Life of Medicare* (Chicago: University of Chicago Press, 2003).

131. Oberlander, *Political Life of Medicare*, 60–61.

132. *Ibid.*, 61.

133. *Ibid.*

134. Himelfarb, *Catastrophic Politics*.

135. Bruce C. Vladeck, *Unloving Care: The Nursing Home Tragedy* (New York: Basic Books, 1980), 49.

136. Julie Rovner, “‘Pepper Bill’ Pits Politics against Progress,” *Congressional Quarterly Weekly Report*, 4 June 1988; Kaiser Family Foundation, “Kaiser, Harvard Health Policy Survey,” June 1996, Princeton Survey Research Associates [producer] (Storrs, CT: Roper Center for Public Opinion Research [distributor], 1966).

whether a large new non-means tested social insurance program can be adopted in the face of strong public opposition to higher taxes *and* major competing demands for existing revenues.<sup>137</sup> While the final report advocated the creation of a social insurance program to pay for long-term care, it appended a list of revenue-raising options to the report but did not commit to any specific mode of financing. The failure to agree on financing for either long-term care or acute care reform meant that the Commission's proposals were widely viewed as "dead on arrival."<sup>138</sup>

One area in which there was Democratic support for a new payroll tax was for health care reform. Many saw a largely employer-paid payroll tax as a way to replace the existing contributions of employers to health insurance plans. Thus, by the early 1990s, there were numerous reform proposals that included payroll tax increases. For example, during Senator Bob Kerrey's bid for the 1992 Democratic nomination, he proposed a 5 percent payroll tax to fund universal coverage. John Dingell and Daniel Patrick Moynihan also put forth alternatives that employed one or two percent payroll taxes to make up for gaps in coverage.<sup>139</sup> While crafting health care reform, the Clinton administration floated an early trial balloon for a payroll tax to cover the reform's costs.

Ultimately, however, the administration jettisoned the idea. One campaign advisor, Atul Gawande, told Clinton, "We must not embrace a payroll tax. Although it is a guaranteed ceiling on the costs of coverage for businesses, they find this concept anathema."<sup>140</sup> Feeling that an increase in the payroll tax would be politically too damaging, the administration turned to other mechanisms, which ironically led to the effort's failure. The administration's plan introduced an employer mandate, the "whole rationale" for which was "to avoid payroll taxes."<sup>141</sup> Yet, it was business opposition to this mandate that helped bury the reform effort.

In addition, Clinton was so concerned about taxes that, in his September 1993 speech unveiling the reform plan, he barely spoke about financing. He stressed there would be no new taxes except on tobacco, but declined to mention the regional health alliances, which were the key to lowering costs and enabling broadened coverage.<sup>142</sup> As a result, the public

could not understand "how more people could be covered, more benefits added, and more bureaucracies established without costing them more money."<sup>143</sup> According to Robert Blendon and colleagues, three-quarters of Americans believed some tax increase would be required, and they showed "some willingness to pay a modest amount in order to achieve universal coverage. When the president proposed no new taxes, aside from a higher cigarette tax, Americans thought that there was something wrong with the financing of his plan."<sup>144</sup> The scrupulous effort to avoid new taxes of any kind – including payroll taxes – thus contributed to the demise of the Health Security Act.

Finally, the debates over the future of Social Security have been marked by continuing unwillingness to increase the payroll tax to cover future liabilities. Currently the Social Security trust fund is in long-term actuarial imbalance, meaning that within the 75-year period for which SSA actuaries make projections, the trust fund plus current contributions will be unable to cover full benefits (the Medicare trust fund is also scheduled to face a fiscal crisis in the future of greater magnitude, although it is inherently less predictable). Estimates show that the payroll tax would only have to be raised 0.8 to 1.3 percent each on employers and employees to retain the current system's structure far into the future.<sup>145</sup> Social Security reform plans like those of the AARP and economists Peter Diamond and Peter Orszag include a payroll tax increase as part of a package of measures to address the long-term solvency of the Social Security trust fund.<sup>146</sup>

Conservatives staunchly opposed to a payroll tax increase have instead turned the debate toward Social Security "privatization." Influential studies from conservative think tanks, like a 1998 report from the Heritage Foundation, argued that the "rate of return" provided by traditional Social Security, invested in Treasury securities, was lower than "even the most

143. Robert J. Blendon, Mollyann Brodie, and John Benson, "What Happened to Americans' Support for the Clinton Health Plan?" *Health Affairs* 14 (1995): 16.

144. Blendon, Brodie, and Benson, "What Happened to Americans' Support," 16.

145. See, for example, Robert Ball's "maintain benefits" proposal in the 1994–1996 Advisory Council on Social Security report; also see R. Douglas Arnold "The Political Feasibility of Social Security Reform," in *Framing the Social Security Debate: Values, Politics, and Economics*, ed. R. Douglas Arnold, Michael J. Graetz, and Alicia H. Munnell (Washington, DC: National Academy of Social Insurance, 1998), 389–417. An increase of .8 to 1.3 percent each on employers and employees would be smaller than the 1.8 percent increase between 1960 and 1970, the 1.33 percent increase between 1970 and 1980, and the 1.52 percent increase after 1980 (see 1998 *Green Book*, 58). The current 15.3 percent combined payroll tax is of course not insignificant, but still far below payroll taxes in other advanced industrialized nations.

146. Peter A. Diamond and Peter R. Orszag, *Saving Social Security: A Balanced Approach* (Washington, DC: Brookings, 2003); "Where AARP Stands," *AARP Bulletin*, April 2005, 26.

137. *Call to Action: The Final Report of the Pepper Commission* (Washington, DC: U.S. Government Printing Office, 1990), 198.

138. Daniel S. Greenberg, "Washington Perspective: Pepper Rebuffed," *Lancet* 335 (1990): 649; see also Julie Rovner, "After the Pepper Commission: Now the Real Work Begins," *Congressional Quarterly Weekly Report*, 10 Mar. 1990.

139. Haynes Johnson and David S. Broder, *The System: The American Way of Politics at the Breaking Point* (Boston: Little, Brown, 1996), 72, 332, 377.

140. Johnson and Broder, *The System*, 88.

141. *Ibid.*, 409.

142. Theda Skocpol, *Boomerang: Health Care Reform and the Turn against Government* (New York: W.W. Norton, 1996), 110.

conservative private investments” would yield.<sup>147</sup> During the 2000 campaign, George W. Bush pledged to introduce private accounts into Social Security to allow individuals to invest in equities and potentially improve their returns. Converting to an individual account system, however, poses enormous transition costs, estimated to be \$2 trillion over the next two decades.<sup>148</sup>

One approach to paying for the transition costs would be to increase payroll taxes, as Republican Senator Lindsey Graham proposed in 2004.<sup>149</sup> However, President Bush ruled out a payroll tax rate increase to reform Social Security, proposing to finance the transition with more national debt. In an era of high budget deficits, concern about increasing the national debt became a major source of both elite and mass opposition to privatization.<sup>150</sup> Thus by rejecting payroll tax financing, Bush’s privatization proposal, as of this writing, is foundering for lack of funding, as happened with Medicare Catastrophic, long-term care reform, and Clinton’s Health Security Act.

It is true that, despite the repudiation of the payroll tax model to finance new social programs, there have been no successful efforts to actually cut these taxes or to fundamentally alter Social Security. However, doing nothing is just as significant – letting a policy “drift,” by failing to increase funding for a program as demand grows, is as consequential as cutting funding.<sup>151</sup> Moreover, given the political difficulties of direct attacks on Social Security, the conservative strategy of barring tax increases has helped create financing crises in the major entitlement programs. Diminishing the fiscal capacity of the state through holding the line on payroll taxes, barring general revenue financing, and cutting other taxes (like income and corporate taxes) makes it much more difficult for the social insurance programs to expand or even be put on stable long-term footing. By joining in the anti-payroll-tax drive and competing with Republicans on the issue of tax fairness, Democrats have contributed to this erosion of fiscal capacity.

## CONCLUSION: IMPLICATIONS FOR AMERICAN SOCIAL POLITICS

In this article, we have traced the rise and fall of the political consensus around contributory financing – a mode of taxation that has played an essential role in expanding the welfare state in both the United States

and other OECD countries. We have shown that the politics of payroll tax finance are largely shaped by elite beliefs and behavior, rather than by mass public opinion. Public views about contributory finance have been fairly constant across the history of American social insurance programs, with some fluctuations in recent years reflecting the declining support of the affluent. Yet, elite views on both the left and the right of the political spectrum have shifted markedly. In the very early years of the Social Security program, there were strong criticisms of payroll taxation from both ends of the political spectrum. In the period from about 1950 until the mid-1970s, however, an insulated policy community helped forge a consensus around the major social insurance programs and the contributory taxes that sustained them. This consensus then broke down in the late 1970s, owing to the decline of this policy community at a time of rising fiscal difficulties in the programs and ideological change among elites. The latter was fueled by shifting electoral incentives for lawmakers, who have moved away from the median voter toward the more affluent voter and the preferences of organized interests. Since the 1970s, it has been the opponents rather than the supporters of payroll tax financing who have been the more organized and vocal actors in this issue area.

This study has a number of implications for our understanding of the politics of American social policy. One is the growing influence of elite interests in American politics and the concomitant questions this raises about the nature of representation.<sup>152</sup> In classic accounts of lawmaker behavior, political scientists portray elected officials as attempting to discern and to anticipate public opinion.<sup>153</sup> Yet, the “public opinion” that increasingly matters is that of the affluent portion of the electorate. In the case of payroll taxes, lawmakers have ignored the general public’s willingness to pay increased taxes for the continuation of existing programs, particularly when people see the potential benefits they will receive in return. Instead, lawmakers are increasingly attentive to the preferences of a small slice of the electorate that views social insurance programs as a waste of their taxes and/or a heavy burden on employers.

A second, larger point is that the disputes and debates around taxation are essential for understanding the politics of the welfare state. Without a workable mode of finance, lawmakers cannot expand social programs. The creation of Social Security not only re-

147. Heritage Foundation study qtd. in Richard W. Stevenson, “To Social Security Critics, the Argument is Simple,” *New York Times*, 2 Mar. 1998, A1.

148. Because today’s payroll contributions fund today’s benefits, additional money would be needed to fund the transition to private accounts.

149. Edmund L. Andrews, “Bush Says He Won’t Raise Taxes for Social Security Overhaul,” *New York Times*, 10 Dec. 2004, A30.

150. *Ibid.*

151. Hacker, “Privatizing Risk.”

152. Bartels, “Economic Inequality and Political Representation” and “Partisan Politics and the U.S. Income Distribution,” unpublished mss., Princeton University; Jacob S. Hacker and Paul Pierson, “Abandoning the Middle: The Bush Tax Cuts and the Limits of Democratic Control,” *Perspectives on Politics* 3 (2005): 33–53; Schier, *By Invitation Only*.

153. Arnold, *The Logic of Congressional Action*; John W. Kingdon, *Congressmen’s Voting Decisions*, 3rd ed. (Ann Arbor: University of Michigan Press, 1989).

sulted in a broadly-available and highly-popular set of benefits, but also signified a new mode of finance that could overcome the objections of fiscal conservatives and shelter the new social insurance programs from constant congressional scrutiny. The result was a set of social programs widely supported by the general public. Despite this fact, lawmakers have turned against this mode of finance, leaving them without the means to finance new initiatives. Thus, policymakers have arrived at a dilemma of their own creation – many government programs are popular with the public, but having vilified income taxes, property taxes, and now payroll taxes, how are lawmakers to fund them?

One answer is deficit spending, the technique proposed for Bush’s individual Social Security accounts and adopted in the 2003 Medicare reform adding a prescription drug benefit. With previous efforts to expand the welfare state, including Medicare Cata-

strophic and Clinton’s Health Security Act, defeated because of their tortured funding mechanisms, lawmakers seeking to expand Medicare in 2003 sidestepped the question of financing. Other than a modest premium on seniors, which covers only a fraction of the legislation’s cost, the program is funded by general revenues, which into the foreseeable fiscal future means deficit financing (i.e., future generations will pay).

In sum, the politics of the welfare state is about more than the benefits programs that have received so much scholarly attention. Financing plays a critical role in both what is possible and in the shape of social programs. In the United States, devising a workable financing mechanism was critical to the development of social insurance; now that this mode of finance is off the table, future expansions of the welfare state will be difficult and constrained by the fiscal health of the federal government.

APPENDIX

Table A1. Attitudes toward Payroll Taxes versus Social Security and Medicare Benefit Levels, 1978–2000

Year	Question wording	Modal answer pro payroll taxes
1978	What’s the one kind of tax you’d most like to see reduced? Income tax (49%); Property tax (33%); Sales tax (9%); Social Security tax (8%).	X
1979	To reduce Social Security taxes, do you favor or oppose reducing the benefits for today’s senior citizens? Favor (4%); Oppose (93%); DK (3%).	X
1979	To reduce Social Security taxes, do you favor or oppose reducing the benefits for future senior citizens? Favor (8%); Oppose (88%); DK (4%).	X
1979	To fight recession, do you favor or oppose reducing Social Security taxes to give workers more money to spend and thus stimulate the economy? Favor (33%); Oppose (55%); DK (12%).	X
1979	If it came to a choice between increasing Social Security taxes or in 20 years raising the age at which full retirement benefits are paid from 63 to 68, would you favor or oppose raising the age for retirement benefits? Favor (36%); Oppose (51%); Not sure (13%).	X
1979	If it came to a choice between increasing Social Security taxes or lowering Social Security retirement benefits, would you favor or oppose lowering Social Security retirement benefits? Favor (21%); Oppose (69%); Not sure (10%).	X
1979	If you had to choose between having higher Social Security taxes or lower retirement benefits in the future, which would you choose? Higher taxes (63%); Lower benefits Favor (15%); Both (vol.; 9%); Not sure (13%).	X
1981	If there is not enough money in the Social Security system to meet its obligations, what should be done? Increase taxes (26%); Limit benefits (46%); Both (vol.; 5%); Neither (vol; 11%); No opinion (12%).	X
1982	Do you favor or oppose keeping Social Security benefits as they are now, even if it means having to raise Social Security taxes? Favor (71%); Oppose (26%); Not sure (3%).	X
1982	The Social Security system is in financial trouble now. There are two basic approaches. Do you prefer increasing Social Security taxes to the point that they are sufficient to pay for benefits at their currently projected levels? (44%); leaving Social Security taxes at their	

(continued)

Table A1. Continued

Year	Question wording	Modal answer pro payroll taxes
	currently projected levels and reducing the benefits for future retirees to the point that they can be paid for from these taxes (30%); DK (26%).	X
1982	Do you favor or oppose keeping Social Security benefits as they are now, even if it means having to raise Social Security taxes? Favor (70%); Oppose (24%); Not sure (6%).	X
1982	Are you willing to raise the age at which people are eligible to get Social Security benefits from 65 to 68? Willing (21%); Not willing (70%); DK (9%).	X
1982	Are you willing to increase Social Security taxes as much as necessary to keep benefits rising with the cost of living as they have been in recent years? Willing (44%); Not willing (47%); DK (9%).	
1982	If there is not enough money in the Social Security system to meet its obligations, what should be done? Increase taxes (36%); Limit benefits (47%); Both (vol; 3%); Neither (vol; 7%); No opinion (7%).	
1982	Should help the Social Security system, do you approve or disapprove of keeping Social Security benefits as they are now, even if it means having to raise Social Security taxes? Approve (53%); Disapprove (42%); Not sure (3%).	X
1982	If the choice were simply between reducing Social Security benefits or increasing Social Security taxes to save the Social Security system, which would you choose? Reduce benefits (34%); Increase Social Security taxes (51%); Both (vol; 4%); Not sure (11%).	X
1994	In order to prevent a cut in Social Security spending, would you be willing to pay more Social Security taxes? Yes (45%); No (52%); DK (3%).	
1995	In future years, it is expected that revenues for the Medicare system will not be enough to cover expenses. Which do you think is the best way to deal with this situation? Increase Medicare payroll taxes (12%); Decrease Medicare benefits (10%); Decrease spending on other programs (65%); Not sure (13%).	
1998	If you had to choose between the following two proposals in order to deal with the long-term problems of Social Security, which would you choose: providing more revenues by increasing Social Security taxes on people who are working today (57%); or cutting expenditures by reducing Social Security benefits for people who currently receive them (21%); Neither/both (vol.: 17%); DK (5%).	X
1998	It is estimated that the Social Security trust fund will run out of money by the year 2030. What do you think is the best option for supporting Social Security? Reducing benefits to current and future retirees now (15%); increasing Social Security taxes now (37%); or waiting until the problem hits and fixing it then (13%); Not sure (35%).	X
1999	In order to deal with the shortfall in Social Security funds, would you prefer raising the Social Security payroll tax rate (20%), reducing benefits for all recipients (5%), or a combination of the two (56%)? Not sure (19%).	
2000	Experts estimate that starting in 2010, Medicare taxes collected by the government will not be enough to cover the medical expenses for the increasing numbers of elderly who qualify for Medicare. How would you prefer the government address the shortfall? By raising Medicare taxes (57%); or cutting Medicare benefits (11%); Both (vol.: 2%); Neither (vol.: 20%); DK (11%).	X

Source: Roper Archive of Public Opinion data (online at Lexis-Nexis).

**Table A2. What kind of taxes are most in need of being lowered?**

	1945	1953	1978*
Personal income	68%	68%	49%
Taxes on real estate/Property tax	29%	17%	33%
Sales taxes	24%	15%	9%
Excise taxes (gasoline, cigarettes)	23%	14%	—
Luxury taxes	22%	20%	—
Corporation income taxes	16%	3%	—
Social Security taxes	6%	2%	8%
All	6%	6%	—
None	1%	1%	—
DK	4%	6%	—

\*What's the one kind of tax you'd most like to see reduced?  
 Source: Roper Archive of Public Opinion data (online at Lexis-Nexis).

**Table A3. What do you think is the worst tax—that is, the *least* fair?**

	1978	1988	1989	1990	1992	1994	2003
Local Property Tax	27%	24%	28%	28%	25%	28%	38%
Federal Income Tax	21%	26%	21%	26%	25%	27%	21%
State Sales Tax	10%	15%	14%	12%	16%	14%	13%
Social Security Tax	11%	17%	18%	15%	10%	12%	11%
State Income Tax	11%	9%	9%	10%	9%	7%	11%
Don't Know/No Answer	8%	9%	10%	9%	15%	11%	6%
None/All (vol.)	9%						

Source: 1978: CBS News/NYT (“most unfair”); 1988–94: Advisory Commission on Intergovernmental Relations, “Changing Public Attitudes on Governments and Taxes,” Washington, DC: 1994, 4; 2003: Gallup.