

By David Moberg

IN THE ONGOING POLITICAL FLAP OVER THE PROPOSAL of Sen. Daniel Patrick Moynihan (D-NY) to cut Social Security taxes, one question stands out: is anyone prepared to make federal government finances progressive?

"Progressive" means taxing the rich—the beneficiaries of many years of tax cuts—according to their ability to pay while using federal funds to create a healthier overall economy and to protect individuals' well-being according to their needs.

If the Democrats seize the opportunity, they could bring many middle-class voters back into their fold and re-establish their most potent, if enfeebled, political claim—that they stand for the average working family and not for the rich. That requires doing more than cutting Social Security taxes. But few Democratic leaders have joined Moynihan's ranks, and the prospects for broader Democratic initiative seem dim.

Moynihan's proposal was spurred by a simple though outrageous move by the Bush administration. Despite Bush's lips, on January 1 taxes on working people increased by \$13 billion as Social Security's take from wages rose from 7.15 percent to 7.65 percent. Although the federal budget deficit, not counting Social Security, continues to grow steadily, the overall deficit has declined because of the rising Social Security surplus.

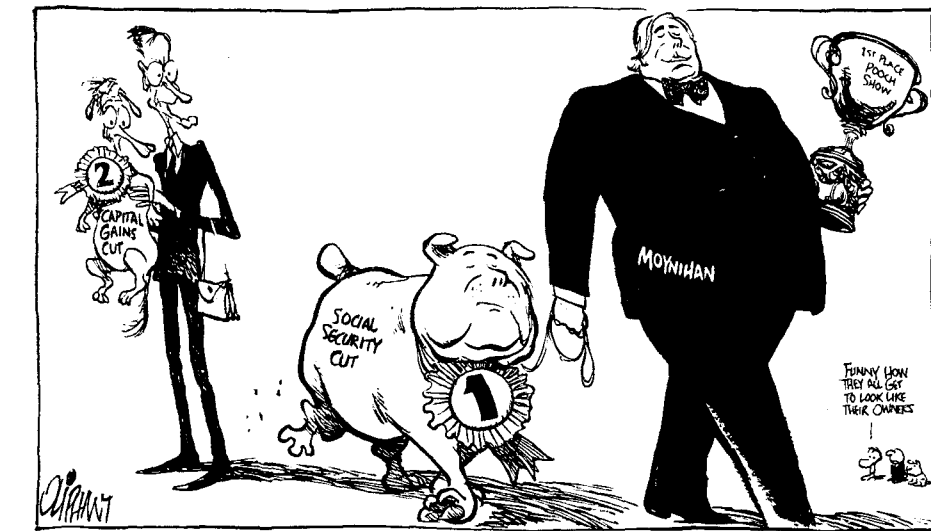
If one counts benefits as well as taxes, the Social Security system is, in fact, progressive. People receive Social Security benefits partly based on what they've paid in, but the system also replaces a higher percentage of earnings for the poor than for the wealthy. Ideally, everyone benefits but the poor benefit most.

Alone, however, Social Security taxes are regressive: the same flat rate applies to everyone—but only up to \$51,300 in earnings. So the very well-off pay the lowest rates. These regressive taxes now support a growing portion of the military, wealthy bondholders' interests and the rest of the government.

Fooled by the bill: Most people think their Social Security payments go into a trust fund to benefit them in their old age or to pay for Medicare or disability and benefits for surviving spouses and children. But Social Security always has operated as a "pay as you go" system: today's taxes go to today's beneficiaries. After years of income stagnation and inflation, Social Security finances seemed insecure in the deep recession of the early '80s. A 1983 bipartisan compromise imposed modest cuts and new or accelerated revenue collection to make Social Security solvent throughout this decade and to build surpluses that could guarantee benefits through the middle of the next century.

But what happens to this "surplus" that's expected to reach \$4.5 trillion by 2010? Currently the trust funds are used to purchase special Treasury securities, which reduce the deficit and supposedly constitute a claim on future government revenue. But where will the money come from to honor that claim? Future taxes.

"The [trust] fund is mythical," explains Robert Eisner, Northwestern University economist and budget expert. "There are no dollars sitting there. It's an accounting trick. The real problem for Social Security is simply the productivity of the country at the



Sen. Moynihan's proposal sparks social insecurity

time retirees are getting benefits and the willingness of the country to pay for the benefits."

The complications of Social Security financing are not only political but psychological as well. The separate tax, the trust funds and the surplus all are part of an elaborate ritual designed to convince people that the system is sound, that it is not "welfare," and that they have earned their share of this universal benefit. In the end, however, Social Security becomes just another part of the budget. Moynihan has acknowledged the need for a reserve equal to one year's Social Security payouts to cover fluctuations in the economy. While others argue that tax rates should remain constant to cover Medicare's impending crunch, a national health-care system would better cure Medicare's ills. But the real guarantee of the system lies in popular support.

Battling the Bush league: Bush and the Republicans would like to retain the Social Security surplus as a growing tax that reduces deficits and exempts the rich. Some Social Security experts defend the surplus but want to stop using it to finance the government. They would rather raise other taxes to balance the budget and use the surplus to buy outstanding government debt, shifting to the trust funds Treasury bonds now held by private individuals and institutions—a strategy which supposedly would unleash private savings for investment now tied up in government debt.

But reducing the debt, especially if the Federal Reserve monetary policy wasn't relaxed, could dangerously dampen the economy by constricting overall demand. In any case, more savings do not automatically lead to new investment without adequate demand for whatever businesses produce. Although infrequently noted, the current economic expansion has been stimulated by demand generated by big deficits. If a stronger economy is the real guarantee for Social Security, then the government should be investing in basic capital infrastructure (such as roads, bridges or mass transit), the environment, low-income housing and education, argue liberal economists like Northwestern's Eisner and Jeff Faux, director of

the Washington-based Economic Policy Institute. Although Social Security surpluses could be earmarked for such social investments in productivity, nothing but a political gimmick would be gained by using Social Security funds rather than general government revenues.

Better that the federal budget should be divided between a capital budget—which would acknowledge the legitimacy of borrowing for long-term investment—and a balanced operating budget with a surplus reserve during times of full employment.

The only way the Social Security surplus could produce real returns to pay future benefits is if it were invested in ongoing business enterprises, as are private pension funds. Freed from petty political pressures, professional managers could run such a public fund as well as any private pension or mutual

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fund—perhaps better, by pursuing a longer-run investment strategy. But this alternative is unthinkingly dismissed as "socialism," just as it was when Franklin Roosevelt's advisers first proposed it in 1935.

Conservatives like Rep. John Porter (R-IL) now see a chance to dismantle Social Security and replace it with new individual retirement accounts funded by the surplus, which would wipe out Social Security's original progressive, redistributive mission. Also, as Merton Bernstein, principal consultant to the National Commission on Social Security Reform, and co-author Joan Bernstein, argue in *Social Security: The System That Works*, such private retirement plans are riskier and less comprehensive than Social Security.

The Social Security debate highlights the way in which "the progressivity of the U.S. tax system—never very pronounced ... has been declining for more than two decades," as was argued last year by the late Joseph Pechman of the Brookings Institution.

Former President Ronald Reagan's tax policies worsened already rising inequalities in pre-tax income and wealth during the '80s. The top one percent of families received about nine percent of tax-reported income from 1952 to 1981, Pechman reported, but by 1986 their share had risen to 14.7 percent. Social Security tax increases consumed most people's modest income-tax cuts, and the 1986 tax reform did little to restore progressivity.

Is there a Robin Hood in the house?

Now Bush wants to overturn one of the few progressive accomplishments of that 1986 reform: treating capital gains as ordinary income. According to the Joint Committee on Taxation, Bush's capital gains cuts—unfortunately embraced by many Democrats—would grant an average of \$25,000 to each of the 376,000 richest people in the U.S. but less than \$20 to each average family making \$50,000 or less. Moynihan's plan would make it harder for such tax breaks for the rich to pass if Congress refuses to reduce workers' Social Security taxes.

The Democrats have accepted many of the backdrop arguments for this debate: deficits must be cut deeply, neither tax increases on the rich nor closing \$45 billion in annual corporate loopholes can be tolerated, and private savings must be increased.

But as Robert Blecker of the Economic Policy Institute notes, about the same percentage of the gross national product has gone into gross private savings in the '80s as in the previous two decades. With nearly \$1 trillion available for corporate takeovers and restructurings during the past decade, U.S. corporations haven't wanted for cash even though they haven't been making the long-term investments the country needs. There is no clear evidence as to which government policies encourage savings, and more savings alone won't necessarily generate productive investment. As David Aschauer of the Chicago Federal Reserve has argued, public infrastructure investment would now increase profits even more than private investment in new facilities.

Moynihan scores valuable points in his role as the political opposition as his tax-cut proposal puts the heat on Bush. Many Democrats, worried about deficits, feel they must offer an alternative to Bush's budget but don't want the political liability of advocating new taxes. They should, argues the Economic Policy Institute's Faux, be trading off the payroll tax for a more progressive income tax. "But I despair of the Democratic Party coming up with that," he adds. Indeed, Sen. Ernest Hollings (D-SC) promptly undercut Moynihan's message by calling for a regressive national sales tax. Many liberals fear a social security tax cut, linked with Gramm-Rudman deficit constraints and no new tax, would simply lead to further budget pressure on domestic programs.

Moynihan has precipitated, argues Faux, a useful but unnecessarily complex debate over two rather simple questions. Where should the government get revenue, and what should it spend it on? The liberal answer is clear: first, close loopholes and make income taxes more progressive; second, spend to reduce inequality, educate and retrain workers, care for the needy and rebuild the economy. This should be the Democrats' tune, but many of them apparently march to a different drummer.

INSHORT

By Joel Bleifuss

John Hull accused of murder

Earlier this month a Costa Rican judge signed an order asking the U.S. to extradite Iran-contra figure John Hull to face charges of violating Costa Rican neutrality. The order must be approved by Costa Rica's highest court before it is delivered to the U.S. Embassy. Further, in December, a Costa Rican government prosecutor, Jorge Chavarria, recommended that the "rancher," who holds both U.S. and Costa Rican passports and currently lives in Indiana, be indicted for the May 30, 1984, murders of three journalists. Linda Frazier of the U.S. and Jorge Quiros and Evelio Sequeira, both of Costa Rica, were killed when a bomb exploded at a press conference being given by contra leader Eden Pastora in La Penca, Nicaragua. The prosecutor's report, based on a six-month investigation by the Judicial Investigation Organization (OIJ), the Costa Rican FBI, supports the central allegations of the Christic Institute's 1986 civil racketeering suit against Hull and 28 others, including Oliver North's courier Robert Owen (who first met Hull while employed as an aide to former Indiana Sen. Dan Quayle), arms dealer Richard Secord and retired Gen. John Singlaub, the former head of the World Anti-Communist League. The Christic case was dismissed by a Miami federal judge in June 1988 due to "lack of evidence," a decision that is being appealed. Hull operated as a civilian commander in the Reagan administration's war against Nicaragua. He was also a double dipper for the contra cause. From 1982 to 1986 he was a CIA employee, and from October 1984 to September 1985 Oliver North paid him \$10,000 a month to provide "humanitarian assistance" to the contras fighting in southern Nicaragua. Based out of his 5,000-acre ranch in northern Costa Rica, Hull helped manage the contra resupply effort—an effort financed in part by turning the ranch with its six airplane runways into a transit station for the Medellin cartel. It is alleged that the contra supply planes would arrive from the U.S. with guns and returned laden with cocaine.

The plot sickens: The Costa Rican judicial investigation provides further information about how the La Penca bombing was planned, carried out and then covered up. According to the report, contra commander Pastora became a target because he refused to integrate his forces, the ARDE (Democratic Revolutionary Alliance), into the CIA-backed FDN (Nicaraguan Democratic Force). He did not want to associate with the former Somocistas who controlled the FDN, and he was firmly opposed to the contra drug operation. The report states, "Between mid-1983 and 1984, Hull became Pastora's principal opponent, backed by Oliver North, the FDN, Adolfo Calero, the Cubans and the narco-traffickers." According to the report, Hull and Costa Rican security officials, some of whom were CIA employees, met several times to discuss the need to "eliminate" Pastora. Further, and perhaps not coincidentally, on the day of the bombing, Hull left his ranch and flew to San Jose, Costa Rica. There he met in a CIA safe house with Robert Owen, CIA Costa Rica station chief Phil Holtz and several pilots for the contra's Southern Front. It is also known that soon after the bombing, Hull called a former business partner who lived near the border and told him not to use his plane to transport the bombing victims to hospitals. The next morning, Owen left for Tegucigalpa.

If at first you don't succeed...: Jack Terrell, a former mercenary who is cooperating with the investigation into the La Penca bombing, testified before the Fourth Trial Court in San Jose that the plans to kill Pastora did not end with that failed assassination attempt. Terrell related the following story, and it was reported in the OIJ report this way: "After the bombing, in December 1984, at a meeting in the Shamrock Hilton Hotel in Houston, John Hull, who was accompanied by Robert Owen, told Terrell that Eden Pastora was a communist and had become a problem for them in consolidating the Southern Front. For that reason he had to be killed. This viewpoint was discussed in a second meeting three days later in Miami. Those present at that meeting included, among others, UNO [United Nicaraguan Opposition] leader Adolfo Calero, FDN commander Enrique Bermudez, Robert Owen and John Hull. Also present was a person introduced as Amac Galil. Adolfo Calero, speaking of the need to unify the Southern Front and the obstacle that Pastora represented, pointed to Hull and told him that [Pastora] had to be eliminated. At this moment Felipe Vidal turned toward Hull and said that they had placed the bomb to kill Pastora but that it had been de-



A Wisconsin law professor, ROTC cadet and gay-rights activist listen as school officials debate banning the ROTC.

Gays fight for membership in a campus club that won't have them

MADISON, WIS.—After a setback in the impassioned struggle to oust the Reserve Officers' Training Corps (ROTC) from the University of Wisconsin for its anti-gay discrimination, activists are grappling with some familiar problems of building a progressive coalition.

The university's board of regents rejected a proposal on February 2 that would have suspended the ROTC in 1993 unless a federal policy that bars lesbians and gay men from serving in the military is changed.

Although the proposal captured national media attention when the Wisconsin faculty endorsed it in December, the board's 13-3 vote will confine university efforts against discrimination to a lobbying campaign targeted at Congress and the U.S. Department of Defense.

The vote comes only three years after the board acknowledged that the ROTC violated university policies as well as the state's pioneering law banning discrimination against lesbians and gay men.

Most university officials, including Chancellor Donna E. Shalala, say they oppose the military's anti-gay policy, which stems from a Defense Department directive that says the presence of lesbians and gay men in the armed forces "adversely affects ... discipline, good order and morale." But Shalala and others urged the board to retain the program because, they said, a suspension would hurt the university's ability to "work within the system" for a policy change.

Many observers suspect the chancellor was also concerned about the \$1.5 million the ROTC pumps into Madison's economy as well as the possible loss of federal research grants and the rumored closing of a

military installation in central Wisconsin.

"When the principle of non-discrimination was put up against material considerations, there was no contest," says Jordan Marsh, university affairs director of the Wisconsin Student Association and senior class president.

Marsh and other student activists have renewed a decades-old war against the ROTC on U.S. campuses. Since 1916, when the program was created to recruit and train officers for World War I, campus campaigns have amplified a variety of anti-militarist concerns, including the low academic credentials of most ROTC instructors, the military's philosophical opposition to critical inquiry and the role of universities in supporting imperialist U.S. foreign policy.

During the Vietnam War students succeeded in forcing administrators to expel the ROTC from several universities, including Yale and Harvard. The hot spots of today's movement are at Wisconsin, Yale, the University of Minnesota, Dartmouth University, the University of Iowa, the University of California-Los Angeles and Northwestern University.

Many leaders in the movement have publicly distanced themselves from anti-ROTC activism of generations past. The current wisdom is summed up by Dave Wilcox, co-president of the 10% Society, Madison's lesbian and gay student organization: "We have nothing against the ROTC on campus—provided they don't discriminate. It's not about militarism like it was in the '60s."

Michael Olneck, professor of educational policy studies and sociology, goes even further, describing the anti-ROTC coalition as a delicate force that agrees only on the principle of non-discrimination. "Attempts to identify us with past anti-ROTC movements would be mistaken and would contribute to our defeat," he says.

ROTC sympathizers, for their part, have effectively manipulated these

tactics. Law professor Gordon Baldwin, the faculty's official ROTC liaison, has sounded an accusation strangely reminiscent of a former Wisconsin senator. Just after the faculty vote in December, Baldwin told local news cameras that the proposal was endorsed by people with hidden agendas against the ROTC instead of a concern for lesbian and gay rights.

This sort of baiting rings uncomfortably clear for those anti-ROTC activists who have accepted the unsavory challenge of fighting for equal access to an institution whose very existence they deeply oppose.

Philosophy Ph.D. candidate John Fields, a gay activist and editor of the leftist biweekly *The Madison In-surgent*, identifies the problem of opposing both discrimination and militarism as the "balancing act of coalition politics." Fields, however, has chosen not to organize around the ROTC issue because he fears such work would compromise his integrity.

Others are more willing to dirty their hands. "Deciding not to oppose discrimination because I oppose the military would be a less-ethical position than opposing discrimination wherever it occurs, even in the military," says Joseph Elder, professor of sociology and South Asian studies.

Claudia Card, professor of philosophy and women's studies, adds that gay men have always served in the military by lying about their sexual orientation.

Despite the board's vote to retain the ROTC, activists have promised that the struggle is just beginning. Their immediate tasks include monitoring university lobbying efforts and networking with other campuses.

And, Regent Obert J. Vattendahl promises, an ROTC suspension resolution will come before the board in one year if the university has made no progress against the discrimination.

—Chip Mitchell