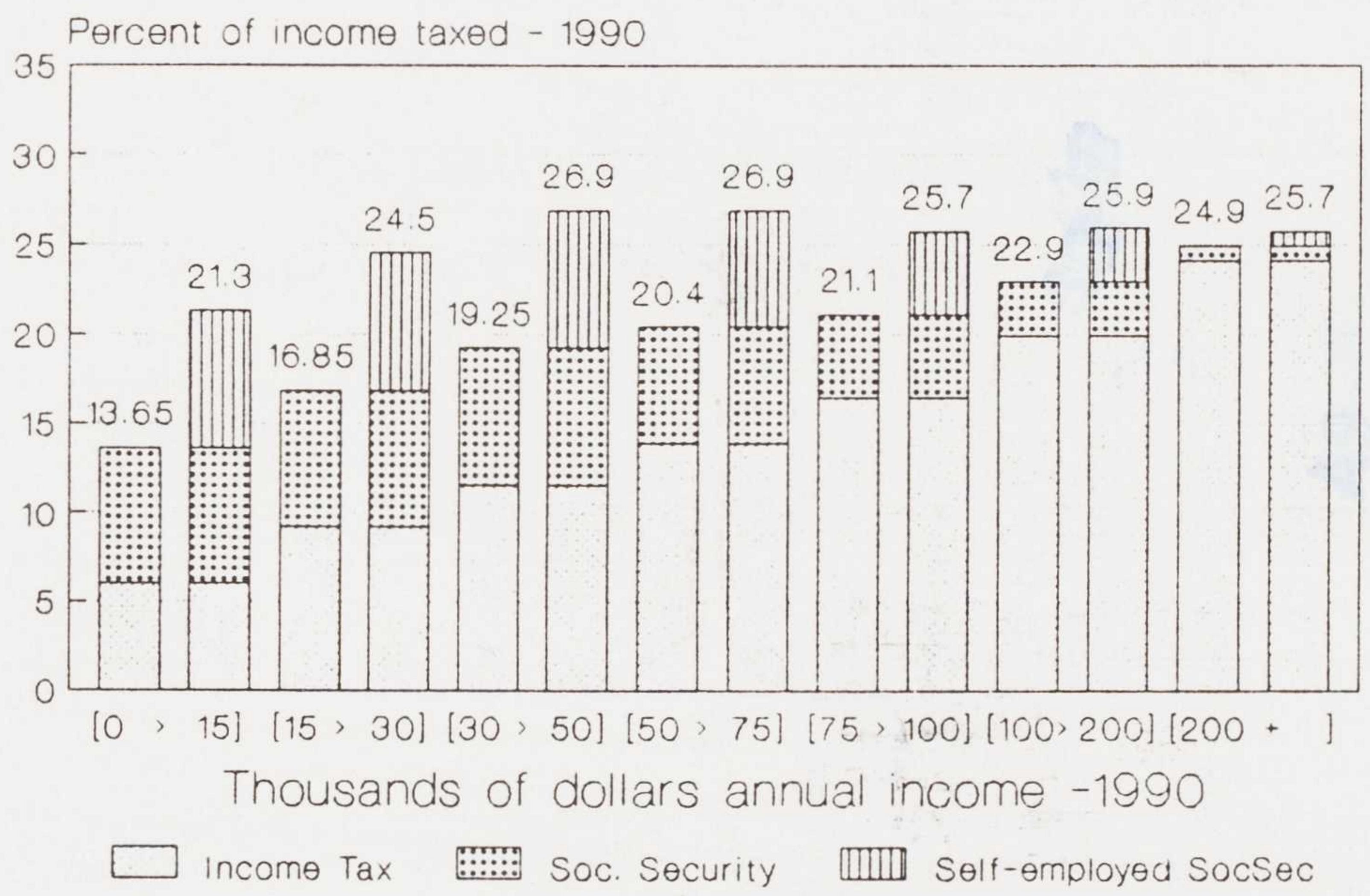
UNINTENDED IRONIES

Social Security was designed as a pension plan, fully funded by the recipient in his working years, but benefit increases soon outstripped the actuarial forecasts. Far more ominous, the general fund borrowed the reserves and then plunged so deeply into debt that the retirement reserves have become almost irretrievable. (Perhaps "almost" should be deleted. We may have reached "technical bankruptcy", described by Ohio State agricultural economist/sociologist Luther Tweeten as *when an attempt to reduce [the] debt causes it to increase* - because the economy is so slowed down by spending cutbacks or tax boosts that the loss of revenue exceeds the deficit reduction.)

Now the payroll taxes of the working population must support the retirees. That would be tolerable if the population ratios of the groups remained stable. But the clash of the generations will occur when the baby boomer bulge spans retirement years. That will be completed in AD 2031.

The treatment of trust funds as general revenue is a great leveler of tax rates, as shown by table E. Each earnings range has a bar both for wage/salary earners and the self-employed. In addition to the standard 7.65 percent (matched by employers), the self-employed paid an additional Social Security tax of 7.65 percent in 1990, up to $51,300 annual earnings.

E



Ignores about 4.5% other general fund taxes. From IRS Statistics of Income, Summer 1992. Soc. Sec. 7.65% to $51.300

The small contractor making $39,000 in 1990 paid a significantly higher percentage of his income in taxes than his counterpart earning $500,000. The percentage differential of 1.2 percent amounted to $468 more for the lesser income; $6,000 less for the higher.

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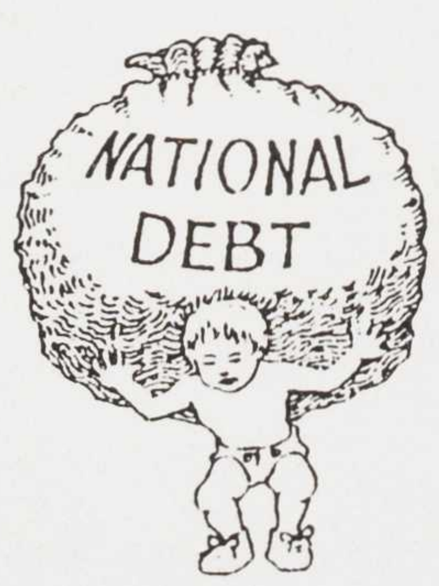

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