

already made in the human capital of the generation that will begin to turn 65—a very different milepost in the twenty-first century than it was in the last one—in the third year of the new president’s administration. ▀

Total Tax Credit

Michael Lind

The Social Security payroll tax hurts working Americans—and it’s getting worse. Because the tax (a flat levy of 15.3 percent, combining the nominal employer portion with the nominal employee portion) applies to income only up to \$97,500 (with a scheduled increase to \$102,000 this year), it is inherently, grossly regressive, falling far more heavily on working Americans than on the rich. At the same time, as a result of rising pre-tax wage inequality, the payroll tax system is growing dramatically more regressive. In 1983, 90 percent of wages and salaries were subject to payroll taxation; today, thanks to ballooning elite incomes above the Social Security payroll tax cap, only 84.9 percent of wages and salaries are subject to the payroll tax. As Christian Weller of the Center for American Progress has pointed out, this represents a huge, invisible tax cut for the affluent. At the same time, two-thirds of taxpayers owe more payroll taxes than income taxes.

Meanwhile, Americans who do not make enough money to need to file individual income tax returns are frozen out of tax credits for which they would otherwise be eligible. Right now, the child tax credit is only partly refundable (payable by the Treasury to citizens who do not pay income taxes), and the home mortgage interest deduction is not refundable at all. This means that millions of working-class Americans who benefit society at great personal expense by raising children and buying property are denied subsidies that their middle-class neighbors enjoy.

To address both these challenges with a single reform, we should apply all existing income tax credits against income and payroll taxes combined in a Total Tax Credit system. The total tax calculation—adding income taxes and Social Security payroll taxes, and deducting tax credits from the sum—could be done annually. In order to avoid requiring all Americans, including those who owe no income taxes, to file tax returns, we could let employers do the simple math. Employees with homes and children would get a fraction of the home

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mortgage deduction and the child tax credit left in their payroll taxes every two weeks. They would not need to wait for rebates after April 15. More take-home pay would show up in every paycheck. Working Americans who pay no income taxes would not be the only citizens who would be helped by the Total Tax Credit system. Many income tax payers would have a larger personal tax base against which to claim credits.

Wouldn't this blow a hole in Social Security revenues? Indeed, it would. But the hole could be filled partly by lifting the cap on the payroll tax and—if more revenue is necessary—by an infusion of general revenues, perhaps augmented by a value-added tax (VAT) or another federal consumption tax. Medicare already is paid for by a mixture of payroll taxes and general revenues, and there is no reason why this could not be as well.

Rare is the single reform that can accomplish several important objectives at once, by methods that are simple, straightforward and politically attractive. The cap-and-share Total Tax Credit system is such a reform. It would make the Social Security payroll tax more progressive, while retaining it rather than abolishing it; and it would allow millions of households that pay no income tax to enjoy tax breaks for home ownership, children and other purposes. Best of all, instead of requiring the establishment of new programs, the Total Tax Credit system would require only the modification of existing laws. That's a combination that's hard to beat. ▀

Reinvent Medicare

David Kendall

Runaway health care costs are breaking the back of workers, hurting U.S. companies' global competitiveness, and squeezing out government spending for other public needs. As the nation's largest health care program, Medicare both reflects and contributes to the problem of rising health care costs. In the face of a fiscal tsunami from the retirement of Baby Boomers, Medicare can no longer afford to sit passively on the sidelines, paying medical bills without question. It needs to lead the charge in the battle to improve the productivity and value of health care delivered in each community across the country. It needs to be reinvented so that instead of just paying medical bills, Medicare is directly accountable for improving the value of the health care delivered in each community.

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