Plan to invest Social Security into stock market will prove injurious

by Richard Freeman and Marianna Wertz

The fact that President Clinton delivered his State of the Union message on Jan. 19, in defiance of the British-organized impeachment lynch mob, was an important accomplishment. But, the centerpiece proposal of that speech, to put $600-700 billion of funds earmarked for the Social Security trust fund into propping up the U.S. stock market bubble, is ill-advised. This would not only risk the loss of the money, but simply making the proposal itself opens the door to a debate about proposals by Mont Pelerinite Republicans to put an even greater percentage into the stock market, including through individual personal retirement accounts.

The rationale for the stock market investment is that it would generate a higher yield on investment, which is alleged to be critical to add some years of solvency to the Social Security trust fund (which is formally known as the Federal Old Age and Survivors and Disability Insurance Trust Fund, or OASDI). However, the OASDI trust fund is not in any imminent danger, and investing a portion of it in the stock market is not a way to make it sound. It is further claimed that the $600-700 billion would be part of $2.7 trillion worth of funds that would be turned over for Social Security purposes over the next 15 years. The $2.7 trillion is, in turn, to come from an alleged $4.2 trillion U.S. budget "surplus" that will supposedly be generated over the next 15 years. But, this "surplus" is a hoax.

Thus, there is a proposal to put Social Security trust funds into the stock market, which would produce damaging consequences, linked to a budget surplus, which does not exist. In reality, the advisability of tossing a significant share of the Social Security trust fund into the stock market bubble has nothing to do with whether a U.S. budget surplus exists. Regardless whether there is an alleged surplus, putting the OASDI trust fund into the stock market is a bad idea. But the matter has been deliberately framed in a deceptive manner to link the two issues. The implication is that, because the economy is doing well—it is not—and that this led to a budget surplus, and because the "surplus" is the product of good work, one can experiment with it by playing the market.

We first show that the budget surplus is a hoax, and that the $2.7 trillion that the plan calls for "giving" to Social Security over 15 years, is in reality the surplus that the OASDI trust fund would have built up on its own—which the government will appropriate, and then give back, as if it were a gift. Next, we describe the plan to invest Social Security funds in the stock market. Finally, we demonstrate that investing the OASDI trust fund in the stock market is not what is needed to improve the trust fund's soundness.

The budget surplus hoax

Currently, the U.S. Federal budget has a deficit of more than $100 billion, and it will continue to be significantly in deficit for the next several years. But, it is trumpeted in the press and on Capitol Hill that the fiscal year 1999 Federal budget (which runs from Oct. 1, 1998 through Sept. 30, 1999) will run a surplus of $60-70 billion. What this refers to, however, is not the actual budget of the United States, but a phony construct called the "unified budget." This concoction was developed about 15 years ago to hide the actual size of the deficits that the U.S. budget is running. It figures prominently in the hoax that the United States will have a $4.2 trillion budget surplus current over the next 15 years.

Let us first determine what the actual U.S. budget deficit is, and then see how the "unified budget" has been used to distort it. There are two ways to determine the actual budget deficit.

The actual Federal revenue budget of the United States is the "general revenue budget," sometimes called the "on-budget budget." It provides for most of the functions of government: education, building infrastructure and public works, running the various departments of the Executive branch, the military, and so on. Its revenues come from a variety of sources: primarily, personal, corporate, excise, and estate taxes.

The Office of Management and Budget (OMB), which reports the official budget expenditures, revenues, and deficit, and makes future projections, reported its projections of future deficits of the "on-budget budget" in the official *Budget of the United States Government, Fiscal Year 1999*. This was reported in the "Historical Tables" appendix to the budget, on page 20. The data are presented in **Table 1.** The OMB projected that the "on-budget" U.S. budget deficit would be $94.7 billion in FY1999, and that the United States would still have a deficit of $62.7 billion in FY2003. It does not project beyond the year 2003. The size of the deficit may be revised downward, after correcting for increased tax revenues, but according to the government's own official figures, there is no surplus.

However, the official "on-budget budget" incorporates

© 1999 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

TABLE 1
Projected budget deficit of 'on-budget' U.S. budget
(billions $)

1999	$95.7
2000	104.9
2001	94.1
2002	44.6
2003	62.8

Source: Office of Management and Budget, *Budget of the United States Government,* "Historical Tables" appendix, p. 20.

TABLE 2
Projected budget deficit of actual U.S. budget
(billions $)

1999	119
2000	127
2001	124
2002	82
2003	94
2004	81
2005	72
2006	31
2007	18

Source: Congressional Budget Office, *FY 1999 Mid-Session Review,* Table 2.6.

some accounting tricks whose effect is to understate the actual deficit. To correct that, a budget expert at the Congressional Budget Office (CBO) stated that the real budget deficit can be derived best by measuring the yearly increase in the "Federal debt outstanding." This is the cumulative outstanding debt of the United States. It is only increased each year for one purpose: because the U.S. Treasury has floated new debt obligations to cover that year's budget deficit. That is, when expenditures execeed revenues, that results in a budget deficit, and the manner by which the government covers the gap is by issuing new Treasury debt. That increases the Federal debt outstanding for the year. **Table 2** shows the result of using this more accurate method. (In this case, the data for this table are taken from the CBO estimate of the Federal debt outstanding, because it is more up-to-date than the OMB's data.) One can see that the actual U.S. general revenue budget deficit for FY1999 will be $119 billion. Though this figure may be revised a little downward if tax revenues increase, it will exceed $100 billion.

How, then, can one transmute an actual U.S. budget deficit of $119 billion for FY1999, into a surplus of $60-70 billion, as the media, the Congress, and the White House allege? This is done by the legerdemain of the "unified budget," whose function is to mask the actual budget deficit. What the unified budget does is to find various funds that are in surplus, and mix them in, quite improperly and illegally, with the actual budget deficit, to produce an apparent surplus. This practice was started in a major way during the Reagan administration, because the administration was wracking up large actual deficits.

The favorite target to mix in with the actual budget deficit is the OASDI trust fund, because, since the Social Security reforms of the 1980s, this fund has been running growing annual surpluses (see below).

But this is quite illegal. The Social Security trust fund has its own dedicated tax, which produces a revenue stream earmarked only for the Social Security trust fund's purpose. *This special tax, by law, cannot be used to fund or to be mixed into the revenue stream of the general revenue or "on-budget budget."* Therefore, the ruse of the "unified" budget, which says that the actual budget is not in deficit, because we have now mixed in the surplus of the OASDI trust fund, is a complete fraud. Everyone who works on the budget knows that.

Let us show how this fraud works in FY1999. As stated above (Table 2), the FY1999 actual budget will have a deficit of $119 billion. Let us assume that tax revenues are higher than originally projected, so the deficit is only $100 billion. Now, in the current fiscal year, the OASDI trust fund will have a surplus of $117 billion. Mixing the two together, one has produced a surplus of $17 billion. The government also adds in, quite illegally, surpluses from other trust funds (such as the Highway Trust Fund), and employs other gimmicks. *Voilà!* It produces a surplus of $60-70 billion.

But there is an additional key element in the government's work to produce an alleged $4.2 trillion budget surplus over the next 15 years: The OMB has incorporated into its budget calculations, that U.S. tax revenues will continue to grow at an accelerating rate, because of the impact of the U.S. stock market bubble in swelling capital gains and other tax revenue. Thus, the OMB and all other agencies are counting on the continuance of the stock market bubble for revenues, a stinging commentary on the state of affairs of the U.S. economy.

The OMB does not take account of the deepening worldwide financial and economic disintegration, which will blow out tax revenues, whether generated from the stock market or the real economy, and send the budget deficit through the ceiling. Thus, the government's estimate of a $4.2 trillion surplus is based on fraud combined with fantasy.

Social Security surplus

Table 3 shows the CBO's projected Social Security annual surpluses. By fiscal year 2008, it is estimated at $186 billion. During fiscal years 1999 to 2008, the OASDI trust fund is expected to build up a cumulative surplus of $1.516 trillion. The CBO and OMB have not yet publicly released figures of what they project the Social Security surplus will be for the five fiscal years 2009 through 2013, but were the rate of growth assumed for 1999-2008 to continue, the sum for those five years would be approximately $1 trillion. Hence, for 1999-2013, the OASDI projected surplus is $2.516 trillion, or three-fifths of the total $4.2 trillion "budget surplus" that the government is projecting for next 15 years.

TABLE 3
Projected Social Security annual surplus
(billions $)

1999	$117
2000	125
2001	130
2002	142
2003	146
2004	155
2005	165
2006	173
2007	181
2008	186

Cumulative total, 1999-2008: $1.516 trillion
Source: Congressional Budget Office, *FY 1999 Mid-Session Review,* Table 2.6.

Therefore, when the government says that it will distribute, out of its imaginary $4.2 trillion surplus, $2.7 trillion to the Social Security fund over the next 15 years, all that it is doing is giving back to the Social Security trust fund money that already belongs to the Social Security trust fund, i.e., the $2.516 trillion surplus that the Social Security trust fund would be building over the next 15 years. This act consists of finding the OASDI's surplus, taking it, and then giving it back. This is an elaborate ruse, but if the government did not use it, it could not so easily pretend that it had a $4.2 trillion budget surplus.

How the plan to invest works

The proposal outlined in the State of the Union message, to put Social Security money into the stock market, has two parts. (*EIR* is investigating how this plan was advanced.) First, the plan calls for placing $600-700 billion earmarked for Social Security into the stock market. Under this plan, National Economic Council director Gene Sperling briefed the press after the President's Jan. 19 State of the Union message, the Social Security trust fund would never have more than 15% of its assets in the stock market. However, were $600 billion to be invested in the market, that would constitute one-fifth of what the projected asset level of the Social Security trust fund is to be in fiscal year 2014.

Second, the plan would create what are labelled "united savings accounts," or USA accounts, allegedly to encourage individuals to save. Most Americans would receive an initial government contribution of, say, $100; additional personal savings would be matched by the government up to a maximum amount, with larger contributions for lower-income workers. A few sources say that this money could be held in a savings account, but the encouragement would be for individuals to put it into the stock market. The amount of money that the U.S. government would provide for USA accounts over 15 years would be $500 billion.

Thus, the government would commit to the two plans together $1.1-1.2 trillion, the lion's share of which would go into the stock market.

Rep. Mark Sanford (R-S.C.), the proponent of one of the most radical Mont Pelerinite Social Security privatization plans, said on Jan. 20 that the presentation of this administration plan helps clear the way for others in Congress, like himself, to now bring forward their plans of how to invest Social Security funds into the stock market. Among other things, Sanford's plan would set up individual retirement accounts. Thus, we can now expect to see a flood of plans to put much larger sums of Social Security funds into the stock market.

What Social Security needs

The main rationale given for investing a portion of the Social Security trust fund into the stock market is that this will make the Social Security fund "solvent." Otherwise, it is claimed, the trust fund would go broke. This story is not true.

First, as a result of reforms of the Social Security System in the 1980s, the OASDI trust fund was mandated to build up a surplus over succeeding years to plan for contingencies. According to the mandate, the OASDI trust fund will go through three phases. First, by the year 2012, the revenue that the fund gets from a special dedicated Social Security payroll tax, will not be enough to cover payouts to retirees. At that point, the trust fund will also have to rely on the interest income it earns from the Treasury bonds it holds. In the second phase, by the year 2019, the combined tax income and interest income will not be enough to meet payouts to retirees, and the trust fund will then have to start drawing down the surplus it has built up. In the third phase, by the year 2032, all the trust fund surplus will be gone, and the rate of payout to retirees will exceed the income from the social security tax and interest. At that point, according to the story, the OASDI trust fund is broke.

Keep in mind that this last phase will not be reached until one-third of a century from now. The story that the collapse of the trust fund is imminent, is hokum. That is a lot of time to do something to reverse post-industrial society policies.

Second, the trust fund, by law (unless it is changed), is required to invest all of its money in U.S. Treasury securities. They are far sounder than stocks.

Third, the real issue is economic policymaking. The assumption that the OASDI trust fund will go broke by the year 2032 is premised on the assumption that U.S. GDP will grow by a real rate of about 1.9% per year between now and 2032. Were real transformation of the physical economy to occur—i.e., especially if President Clinton were to appoint Lyndon LaRouche as an economic adviser—the growth of the economy would take off like a shot. The other problem is that there are fewer younger workers, as a percentage of the total population, entering the workforce. It is the tax contributions of the younger workers which helps provide the money needed for retired workers. The demographic collapse is simply a part of the economic collapse. Were economic growth and optimism to return to the United States, families would have more children—not as a result of being told to, but as a

result of the enjoyment and confidence in the future that an advancing economy instills in a family.

Fourth, despite the official claim, that the purpose of putting the money into the stock market is to "make solvent" the Social Security system, in reality, it would bail out the stock market bubble. The Wall Street financier sharks want to have that new money in the stock market to prevent the its decline and to churn the market higher. They have been pushing for the trust fund's money to go into the stock market for years. The speculative U.S. stock market bubble is wildly out of control. It will pop, and will lose perhaps 50 to 75% of its value. The OASDI trust fund is now invested in Treasury securities, which, following upon the proper changes in broader economic policymaking, are a reliable investment.

Labor says 'No' to Social Security privatization

On Jan. 19, AFL-CIO President John Sweeney applauded President Clinton's Social Security plan, saying that it provided "a positive blueprint for aggressive, progressive action by the nation." "We are especially pleased with the President's strong opposition to replacing the nation's most important family protection plan with private accounts and his commitment to strengthen Social Security for the next century first and above all," Sweeney said.

In other words, the AFL-CIO opposes privatization but has compromised on the question of putting some Social Security funds into the stock market, under government supervision. In its recent paper, "Options to Strengthen Social Security for Working Families," the AFL-CIO supports changing the "investment mix" for Social Security funds by "moving a portion of the money into stocks to generate a higher rate of return"—which is what Clinton did. The labor federation claims, "This is a very different approach than individual investment accounts," because "having the overall fund invest in stocks would minimize risks for individuals."

The labor federation has launched a series of nationwide town hall meetings on Social Security, to create pressure from trade unionists across the nation on Congress, which will be debating Clinton's proposals this year. Hopefully, in the course of nationwide debate, the dangers inherent in putting any portion of the trust fund into the market bubble will become clear. Such compromises are not necessary and should not be made with the future of America's elderly population.

—Marianna Wertz

Lugar hearing misses the mark on cartels

by Suzanne Rose

The Senate Agriculture Committee hearing on Jan. 26, to examine the effects of concentration, specifically the proposed merger of Continental Grain and Cargill, offers clinical proof that holding onto certain ideas such as free trade and freedom of the marketplace can make you crazy when the economy is in crisis. Senate Agriculture Committee Chairman Richard Lugar (R-Ind.) convened the hearing, which is intended to be the first of a series on the subject of mergers and concentration. The Jan. 26 witness list was composed so as to give the appearance of hearing from "all sides"—including Cargill and the American Meat Institute representing "Big (Agri) Business," and farmer organizations representing farm families. But the clinical fantasy of belief in "free markets," when markets are in various states of collapse, was present throughout the proceedings.

The producers panel, featuring what passes today for farm organization leadership, Leland Swenson of the National Farmers Union and Dean Kleckner of the American Farm Bureau Federation, demonstrated that they have so accepted the dogma of "free trade," that they are incapable of mobilizing their membership to get out of the path of the freight train, even as it is mowing down their members. Faced with record-low livestock prices, and record farm bankruptcies, these leaders could only call for more studies of the train, the giant food monopolies like Cargill, and the beef cartel company Iowa Beef Processors (IBP), which have the power to crush farm prices because they dominate the marketplace. At the same time, the markets are disintegrating under the impact of the global financial crisis. Nevertheless, these farm leaders continue to worship at the altar of the free market.

Swenson, whose organization has taken action in the past to defend farm incomes, refused at this hearing to even reach a conclusion on whether concentration negatively affects the income of producers and the supply of food, preferring to call for further impact studies. "We urge a moratorium on further mergers until an impact study on income and whether they enhance or eliminate competition is done," Swenson said. This, despite the fact that he himself produced the figures to make the case that cartelization enriches the cartels, while destroying producers.

Swenson reported that just four firms control 79% of the