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Bush Commission, Wall Street Push Social Security Theft

by Richard Freeman

On July 24, the dangerously mis-named Commission to Save Social Security (CSSS), appointed by President George W. Bush on May 2, released a first report, entitled, "Bringing Social Security Into the 21st Century." It were more truthfully called, "Throwing Social Security Into the Stock Markets."

The report called for the privatization of Social Security. It did not take long for the Cato Institute of Washington, D.C., which is controlled by the biggest Wall Street banks and insurance companies, and which represents hard-line followers of the free-trade fascist ideology of Friedrich von Hayek, to erupt with glee. The next day, the Cato Institute held a forum at its headquarters, at which Michael Tanner, director of Cato's Project on Social Security Privatization, vigorously defended the thrust and particulars of the CSSS report.

While a gaggle of overlapping groups support privatization, it is the City of London and Wall Street financier oligarchy which leads the fight for privatization, and which controls these groups. The Cato Institute, "free-market" extremists who oppose any role for government in the economy, is their favorite instrument. Of the 16 members appointed to the CSSS Commission, which is chaired by former Sen. Daniel Patrick "Benign Neglect" Moynihan and by AOL Time-Warner chief financial officer Richard Parsons, five members are either members of or actively collaborate with the Cato Institute's "Social Security Privatization Project."

The strategic context for privatization is that the financiers are staring into what, for them, is a terrifying reality: The bankrupt and unsalvageable world financial-monetary system, which is interlaced with $400 trillion worth of derivatives, speculative stock shares, etc., is in the final phase of disintegration. They desperately seek to hijack flows of funds in order to prop up the financial system, even as, at that very moment, some of the same oligarchs cash out of the market, and stampede into holdings of hard-commodity assets, such as gold, metals, increasingly scarce food supplies, land, etc., in order to position themselves for a post-crash world.

Social Security, for the managers of the Wall Street debt bubble, is the largest source of still-untapped funds in the world's largest economy.

Under Moynihan/Cato's Social Security privatization, workers would be directed to set up "Personal Retirement Accounts" (PRAs), and to put most of the payroll tax that they would normally pay to the Social Security Trust Fund, instead into the PRAs. These PRAs would then be invested in the stock market, to prop up Wall Street's bankrupt stock-market bubble. The Wall Street sharks earn large commissions from each PRA that they manage, but most importantly, they get to steal a huge cash flow in order to invest it. Instead of Commission to Save Social Security, it were better named the Commission to Steal Social Security.

Were the population to allow privatization to be implemented, the consequences would be devastating. The already 55% fall in the value of the Nasdaq stock index, between March 10 of last year and today, is a foretaste of what will unfold. As the total value of all U.S. stock markets falls by a further 40 to 75%, or more, what a worker should have been saving for his Social Security benefits, will be wiped out. It's not just that the retirees' rate of return will fall, but rather, most of the benefits he or she would receive in the future would be wiped out forever. Tens of millions of Americans would be reduced to severe poverty, and would not have enough to survive.

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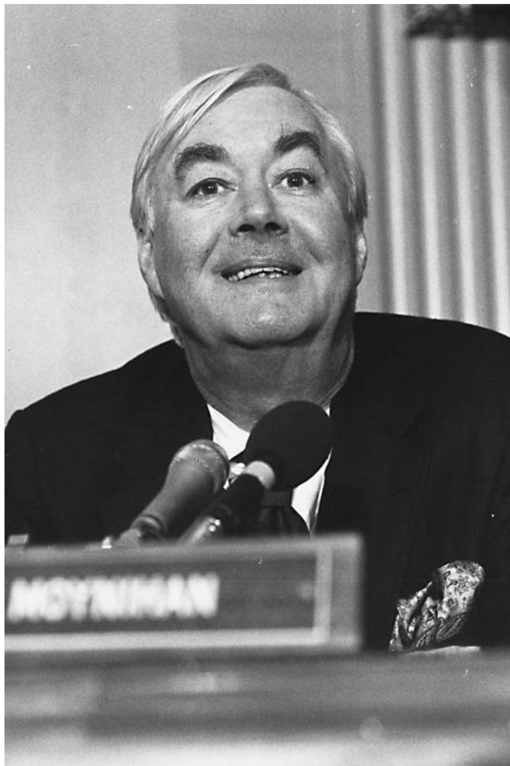

Former Sen. Daniel Moynihan (left) and Fed Chairman Alan Greenspan. A Greenspan Commission increased Social Security payroll taxes in the 1980s, creating a surplus which was then illegally used to cover budget deficits. Now Bush's Moynihan Commission tries to "nullify" that Social Security surplus, and let Wall Street steal the Trust Fund outright.

Benefit Cuts Proposed in Congress

Further, the oligarchy knows that it cannot even make the first steps on privatization without first enforcing ferocious austerity on the Social Security system, because the costs of instituting privatization are prohibitive. The Bush Administration and Wall Street are pushing legislation, to be introduced over the next few weeks by Congressmen James Kolbe (R-Ariz.) and Charles Stenholm (D-Tex.), which proposes to cut Social Security benefits, increase the retirement age to qualify for Social Security, etc.

The July 24 CSSS report was released to launch an all-out offensive to ram through Social Security privatization. It has four major lies which are supposed to allow the Bush administration, and certain Democrats, to push the case of privatization. We will rip apart those four lies, exposing Wall Street's diabolical purpose.

The Four Worst Lies

Lie #1— Social Security is not really a trust fund.

While the authors of the CSSS report are forced to use the term Social Security Trust Fund—because it actually exists—the CSSS and its Wall Street backers fundamentally deny that the Trust Fund exists, and liken it to a fiction. The CSSS reports states: "Many people believe that Social Security is a national pension fund in which workers make 'contributions' to an investment account called the 'Trust Fund'. . . . The reality is different."

Contrary to the CSSS lie, Social Security really is a Trust Fund. President Franklin D. Roosevelt and other patriots created the Social Security system in 1935 to provide a dependable income stream to those who have retired from active work, enabling them to live in economic security, with dignity.

What is called the Social Security system is officially two trust funds: one, the Old Age and Survivors Insurance fund, and the other, the Disability Insurance fund. Combined, they are called the Old Age and Survivors and Disability Insurance funds, or OASDI. The combined two funds, the OASDI, is what is called the Social Security Trust Fund.

Under the current Social Security system, the employee pays a specially designated Social Security tax, which is separate from all other taxes, and which is equal to 6.2% of his annual wage, into the OASDI trust fund. The employer matches that, so that an amount equal to 12.4% of the employee's annual wage is put into the Social Security Trust Fund. The Social Security tax is dedicated, and can only be paid into and be used by the Social Security Trust Fund; in turn, the Trust Fund can only spend the money it has received, for the purpose of paying Social Security benefits.

This is stated in the 1935 Social Security Act and the enabling acts of the following few years. The bankers violently disagree with the Act's provisions; they cannot do what they want to do, if they are forced to adhere to the Act.

Lie #2— The Social Security surplus is an accounting myth and really doesn't exist.

Again, the CSSS report is forced to use the term "Social

Security surplus"—because it actually exists. But Moynihan and the Commission spend the bulk of the report denying that the surplus really exists—and were immediately echoed by the *Wall Street Journal* in this blatant falsehood. This lie is central to the report, because CSSS uses it to deceitfully state that the Social Security system will be insolvent in just 15 years, and thus they beat the drums for an immediate move toward privatization to "save the system."

The CSSS report states "past payroll [i.e., Social Security] taxes were not truly saved," i.e., there were no savings of past taxes to build a surplus. Here the financier oligarchy actually tries to out-Goebbels Goebbels.

How It Works

In the early 1980s, the Social Security Trust Fund appeared to be running out of money. In response, a Federal Commission was established in 1983, called the Greenspan Commission, named after its chairman, Alan Greenspan. The Greenspan Commission recommended that the tax rate paid to the Social Security Trust Fund be raised to 6.2%, which was enacted, and has remained its level up to the present. The deliberate and stated reason for doing this was so that the Social Security Trust Fund would build up a large surplus, by, each year, taking in excess Social Security taxes above what had to be paid out to recipients in benefits. The Social Security Trust Fund was restricted by law to use the surplus money to buy only U.S. Treasury bonds. The Treasury sold to the Social Security Trust Fund special issues of non-marketable Treasury bonds. That means that they could not be sold on the open market. But in every respect, they were bona fide Treasury bonds, paying a real rate of interest.

As a result of this process—according to the "intermediate assumptions" reported in the Y2000 Annual Report of the OASDI Board of Trustees—by the year 2024, the Social Security Trust Fund would have a $6.048 trillion surplus. Why have this surplus? In the year 2025, the OASDI Trust Fund projects that the Trust Fund will face the situation where its annual level of payouts to Social Security beneficiaries will exceed the annual inflows into the Trust Fund that come from taxes paid by workers and employers, and the interest that the Trust Fund earns from its holdings of U.S. Treasury bonds. Beginning in 2025, the Fund will start to draw down the $6.048 trillion surplus, to make up the shortfall.

Under current projections, that surplus will be drawn down gradually, and will not run out of money until the year 2038. But, the current CSSS crew propose to not recognize, and to effectively *nullify* the Social Security Trust Fund surplus.

Let us look at the CSSS report's duplicitous reasoning on this. In the early 1980s, the Reagan Administration, under the direction of its Wall Street-directed team—Assistant Treasury Secretary Norman Ture, Congressman Jack Kemp (R-N.Y.), *Wall Street Journal* writer Jude Wanniski, and others—passed a series of measures, such as the 1981 Kemp-Roth Tax Act and the 1982 Garn-St Germain Act, which deregulated the banking system, gutted the U.S. physical economy, and plunged the U.S. budget into the red. The U.S. general revenue budget deficit started soaring toward $100 billion, and eventually rose above $400 billion, which were unprecedented deficit levels.

Recommend Treasury Default on Social Security

The same Wall Street-directed economic team which devised these disastrous economic measures, was desperate to cover up and pay for the deficits. Therefore, it created the monstrosity called the "unified budget." The general revenue budget of the United States is the real budget of the United States, and had been known as such for nearly 200 years. It is often called the "on-budget" budget. There are functions of government which are separate from the general revenue budget, and are called the "off-budget" budget. Principal among these, is the Social Security Trust Fund, which has its own revenue source, and should not be mixed with the general revenue budget. But the "unified budget" institutionalized just that. It mixed together the growing *deficit* of the general revenue/"on-budget" budget, with the building *surplus* of the "off-budget" budget, which was represented principally by the building surplus of the Social Security Trust Fund.

As an example, take the FY1997 U.S. budget. That year, the general revenue/"on-budget" budget ran a deficit of $103.4 billion, but the "off-budget" budget ran a surplus of $81.4 billion, almost all of that belonging to the Social Security Trust Fund. Consequently, the Office of Management and Budget (OMB) announced that the "unified budget" for FY1998 had a deficit of "only" $30 billion. The OMB and the Congress connived to take the more than $80 billion surplus of the Social Security Trust Fund and divert it toward paying off most of the deficit of the general revenue budget. But the 1935 Social Security Act strictly forbids this: Social Security Trust Fund monies are supposed to be used only for Social Security.

In its report, the CSSS characterized the situation in the following way: "These past [Social Security] surpluses were 'loaned' to the Treasury to cover the deficits in the rest of the federal budget." The CSSS puts the word loaned in quotation marks, because there never was a loan. There was not an agreement by which the Social Security Trust Fund loaned money to the general revenue budget. Rather, under the tutelage of the banks and insurance companies, and with the support of both major political parties, the OMB and U.S. Congress *by fiat order,* simply removed the money from the Social Security Trust Fund.

Now, the same banks and insurance companies which set up the CSSS, make the following argument in the CSSS report: When the Social Security Trust Fund gave its surplus

funds to the U.S. Treasury Department, in order to buy a special issue of U.S. Treasury Securities, the Treasury Department gave the money over to pay off the U.S. general revenue deficit. *Since the money has already been spent,* the CSSS argues, there is no money backing up the Treasury bonds which the Social Security Trust Fund owns. Therefore, those bonds, and the surplus they represent, are worthless, and the CSSS, in essence, *nullifies* the bonds. The CSSS advocates that the U.S. Treasury walk away from those bonds.

Thus, all the tax money which workers paid into the Social Security Trust Fund to build a surplus (above the level of current payouts), which now totals more than $1 trillion, is nullified. This is a vicious hoax.

But, the CSSS then turns around and declares, "since there is no surplus, there is nothing to keep the Social Security Trust Fund solvent until the year 2038." The CSSS then focusses on the year when the payouts of the Social Security Trust Fund will exceed the inflows which are paid into the Social Security Trust Fund. That year is actually 2024. But by a second sleight of hand, the CSSS "moves" the year forward to 2016. Thus, by its combined falsehoods, the CSSS has moved the time when the Trust Fund will no longer be solvent, from the approximate, but real, date of 2038, to the imaginary and purely political date, 2016.

The purpose of the elaborate set of maneuvers, in addition to nullifying the Trust Fund surplus, is to scream that the crisis is now more nearly upon us. The CSSS states several times in the report, "inaction is not a solution," and concludes that "the road leads to the same place—private investment of Social Security." That is, privatization to put the money in the stock market.

Racial Profiling, Denying Economic Growth

Lie #3—Social Security is a threat to women, blacks, Hispanics, and the young.

The CSSS report makes the claim that the "Social Security [system] poses a disproportionate threat to the overall retirement of women." It, and its Wall Street and Bush Administration publicists, try to incite different sections of the population against Social Security, by stating that Social Security poses a threat also to black and Hispanic Americans, and to the young. But the outlandish hypocrisy of the CSSS is revealed in the section on black Americans, where the CSSS implies that the Social Security system is discriminatory, because blacks get less back from Social Security than whites do.

But the reason for this is lower life expectancy—blacks die earlier than whites—and nothing to do with Social Security. If the CSSS were the least bit concerned about this, it would concern itself with public health in minority communities, so that blacks, Hispanics, and, in fact, all Americans, would live longer. But these same banks, which are behind the CSSS, were those, led by Lazard Frères investment bank, that ordered the shutdown of D.C. General Hospital, to carry out genocide against blacks in the nation's capital.

Lie #4—Greater economic growth will not solve the Social Security problem.

The giveaway to the mindset of the CSSS, is the report's section that states, "Faster economic growth . . . will not solve Social Security's financial problems." Thus, from the CSSS standpoint, not even a transformation of the economy can solve Social Security.

This is drivel. The core problem of the Social Security system is not accounting per se, although the bankers would try to deceive people that it is. The core problem is real economics, and the policy-making which determines it.

The problem is to transform the economy. In the 1960s, the City of London-Wall Street axis imposed upon the United States, a post-industrial society policy, which caused the collapse of production, and the growth of a cancerous speculative bubble. Within this environment, real living standards nosedived. In this pessimistic setting, of increasing cultural and economic decay, families produced fewer children. The two real problems of Social Security are: not enough young workers entering the workforce; and workers having too low a living standard—both of which problems were generated by the post-industrial-society policy.

Lyndon LaRouche's economic-policy changes would reverse the course of the past 35 years: junk the post-industrial-society policies, put the world financial system though bankruptcy reorganization, and generate real economic growth. That would create the economic growth and the demographic shift that would make the Social Security system permanently solvent.

More Austerity

Through the July 24 release of the CSSS report, Wall Street has set into operation its offensive for Social Security privatization. Wall Street's scribblers have written dozens of newspaper columns, and appeared on hundreds of TV and radio talk shows, demanding that the CSSS's prescription for that privatization be implemented.

The July 29 *New York Times* reported that Congressmen Kolbe and Stenholm would soon introduce legislation, calling for privatizing Social Security, and setting up Personal Retirement Accounts. But Kolbe and Stenholm reveal, that their proposal would demand severe austerity. It calls for reducing Social Security benefits, especially for middle- and upper-income workers; reducing cost-of-living adjustments; and raising the retirement age from 65 to 67 even earlier than now planned.

The greater austerity would come from the fact that, were Wall Street, and its CSSS, to succeed in privatizing Social Security and putting the funds into the stock market, in the ensuing financial explosion, workers would lose their entire retirement, and face a later life of destitution.