Privatizing Social Security Is 'Enron II'

by Richard Freeman

The failed Chile model of Social Security privatization, which has cost Chilean retirees their pensions for 25 years, is nonetheless the model which the insane George W. Bush insisted, at the APEC summit Nov. 19-21 in Santiago, Chile, is a "great example" to be rammed through immediately in the United States.

Bush's manic determination to push this swindle shows that he is utterly crazy. Lyndon LaRouche has called the Social Security privatization an "Enron II, 100 times bigger than [the original] Enron, brought to you by the same people who brought you Enron," as he told a Vermont radio station Dec. 9. Ken Lay's Houston-based electricity broker and derivatives trading company, Enron, was the largest contributor to the Bush 2000 Presidential election campaign. It bankrupted the state of California by manipulating the deregulated electricity price up 50-fold; cashed out on billions of paper profits produced by "creative accounting"; and destroyed its employees' retirement fund by investing it in Enron stock, leaving *401k* retirement accounts with worthless assets.

"Enron II," the privatization of Social Security, involves much greater "creative accounting," much bigger Goebbels-style lies, and infinitely higher stakes. Enron involved several tens of billions of dollars, but "Enron II" is far, far larger. According to the projections of the Congressional Budget Office (CBO) in its supplemental tables, $255 trillion (in current dollars) will flow into the Social Security Trust Fund over the next 75 years: half from worker payroll taxes, and half from employer matching sums. This is the world's largest cash flow. The banks' accountants and lawyers have done the math. Under current law, Wall Street and City of London financiers cannot get their hands on a dime of this money. In Chile's privatized system, by contrast, fund financial managers take one-fourth of paid-in payroll taxes.

The bankers and Bush have lied that the Social Security Trust Fund will be bankrupt in the near future. The Trust Fund, set up by President Franklin Roosevelt, is easily solvent for the next several decades, and with a few small changes, can be eminently solvent into the 22nd Century. It is the bankers and their financial-monetary system that is bankrupt.

Therefore, the bankers propose to change the law to privatize the system, in order to get as much as possible of the workers' half of the cash flow taken out of the Trust Fund, and siphoned into private Individual Accounts (IA) which financial houses will manage. The Wall Street bankers will take huge fees off the top, as their Spanish and "Chicago" brethren do in Chile, and will plow the remainder of this huge flow into the bankrupt stock market, and the bond market, to prop them up.

But, for reasons which will become clear, two problems arise. To divert this magnitude of money out of the existing Social Security Trust Fund, the benefits of those still enrolled in the existing system must be cut. On Nov. 1, speaking in Ohio, one day before the election, a manic Bush lied, "I'll always keep the promise of Social Security for our seniors." But Bush knew, or should have known, that he was lying. On Dec. 1, 2001, Bush's hand-picked commission, the President's Commission to Strengthen Social Security (CSSS) had released its draft plan to privatize Social Security. Included within it was a proposal, seemingly arcane, to change the indexing of Social Security benefits from the rate of growth of wages, to the rate of growth of the Consumer Price Index. This pivotal change will, quite deliberately, lower retirees' Social Security benefits. On July 21, 2004, the CBO released its evaluation of the Bush CSSS privatization plan. It found that this indexation change would trigger cuts in benefits by 25%-40%.

Smoking Gun

Within the past week, the Bush lie took a body blow. On Dec. 9, Steven Goss, the chief actuary of the U.S. Social Security Administration, admitted to the *Oregonian* newspaper, that this indexing change hidden within privatization, would slash *$18 trillion* over 75 years from the current law's benefits (in so-called constant 2004 dollars; in current dollars, the cut would be more than twice as large).

An second, associated problem is that the cost to cover the *transition* from the traditional system to privatization—to cover the loss in worker Social Security taxes under the traditional system, which would now be diverted out to private IAs—is huge. Even the cuts in retirees' planned benefits, the result of to the built-in change in the type of indexation, would be insufficient to cover that gap. Therefore, new bonds would have to be issued by the Treasury to cover the cost of the revenue gap for paying benefits—though reduced—to those still enrolled in the traditional Social Security system.

On Dec. 6, Bush's press spokesman Scott McClellan stated publicly that the Bush Administration proposes the Treasury issue *transition bonds,* upon adoption of privatization, to pay for the transition cost from the traditional system to a "private system." He would not give figures. Rep. John Spratt (D-S.C.) places the transition bonds at $3 trillion in new debt. Tom Giovanetti, president of the Institute for Policy Innovation, which pushes privatization schemes, said on Dec. 8 that the Institute proposes issuing more than $5 trillion in straight-out debt for this purpose.

Thus, under so-called "privatization," the banks would be positioned to rip off trillions in new Individual Accounts, while the U.S. government would have to issue and *be respon-*

sible for up to $5 trillion (or more) in new debt, to be paid off almost exclusively from general tax revenues, which should normally pay for infrastructure, health care, education, and so on.

This is quite some privatization.

What happens when the stock market bubble pops, by an amount even greater than the 30% market fall that followed the puncture of the IT market bubble in March 2000? The worker who was lured or pressured to leave the traditional Social Security System will suffer three strikes: His projected benefits will already have been cut by the high fees that the firm managing his IA account charges, and by the negative change in the type of indexation of his benefits; if stocks collapse, the benefits are substantially gone—just like a *401k.*

Bush's insanity in driving for privatization not only is dangerous—because privatization cannot be done within Constitutional government, but could only be imposed on America through fascism—but also sets Bush up for the fall. LaRouche observed Dec. 7: "Bush has made the fatal mistake of his political life by deciding to privatize Social Security. By doing this he has been caught as a liar. He is discredited. He will crack under the pressure he will bring upon himself. This is an issue not only in the United States, but also internationally. It is the issue that will bring him down."

The extent of Bush's proposed change in the Social Security system can be measured against what Social Security now is. Expressing the intention of the General Welfare clause, in a June 8, 1934, message to Congress, President Franklin Roosevelt promoted a "national social insurance system," to protect against "misfortunes which cannot be wholly eliminated in this man-made world of ours." Roosevelt said: "These three great objectives—the security of the home, the security of livelihood and the security of social insurance—are, it seems to me, a minimum of the promise that we can offer to the American people. They constitute a right which belongs to every individual and everyone willing to work. They are the essential fulfillment of measures already taken toward relief, recovery, and reconstruction."

Prior to the Social Security Act, any public assistance for the elderly that did exist was criminally inadequate. Individuals could survive upon retirement only if they were wealthy, or supported by their children. In August 1935, the support for Social Security in the Congress was overwhelming: The House of Representatives passed the Act by a vote of 372-33; the Senate by 77-6. President Roosevelt immediately signed it into law.

Under Social Security, each worker contributes 6.2% of the first $87,900 of his or her wages, to the Social Security Trust fund; his employer contributes the same amount; the total equals 12.4% of the worker's salary. The Trust Fund is actually called the Old Age, Survivors, and Disability Insurance (OASDI). Each worker contributes to the retirement benefits of those who are retired; when this worker retires, the next generation of the labor force contributes to his retirement benefit.

Social Security has proved its indispensability. More than 47 million Americans receive Social Security: 36 million retirees, 5 million of their widowed spouses, and 6 million disabled. About two-thirds of Social Security beneficiaries—32 million people—receive 50% or more of their income from Social Security. For approximately 20% of the elderly, Social Security is their sole income.

What Makes George Lie

There is a special psychotic lying that is characteristic of George W. Bush, and it manifested itself in Bush's persistent falsehoods, before the election, that he would not privatize Social Security, and the deceitful statement he made in the third Presidential debate in Tempe, Arizona, on Oct. 13: "Let me make sure that every senior listening today, understands that when we're talking about reforming Social Security, that they'll get their check." Senator Kerry immediately rejoined that the check they would receive would be considerably smaller, and cited the study by the Congressional Budget Office. Because of its central importance in understanding that Bush *has known for more than three years that he would cut benefits if re-elected,* we look of the history of this matter.

In early 2001, Bush formed a commission to advocate privatization, which he called the President's Commission to Strengthen Social Security, co-chaired by Richard Parsons, the head of AOL, and the late former Senator and British Empire-worshipper, Daniel Patrick Moynihan. The 16 Commissioners all supported some form of privatization before joining. The Commission issued its final tome-like report in December 2001, supporting privatization.

The most famous of the three models contained in the report was Plan 2, or Model 2. This Plan 2 proposed a major change from the prevailing practice of Social Security since Roosevelt founded it. That practice is that each year, a Social Security recipient's monthly checks are increased by an index tied to the average national wage increase. The reasoning behind this, is that the retiree's benefits should correspond in some relationship to the wage level prevailing in the economy. The Model 2 of the CSSS proposed, instead, to increase the recipient's Social Security check by an index tied to the Consumer Price Index (CPI). The monetarists have "revised" this CPI repeatedly over years, so that it vastly understates inflation. The financiers on the Bush Commission knew, that when compounded over 75 years, the benefit increase tied to the CPI, would be only about half of that under the current Social Security law. The intention was, explicitly, back in 2001, to cut benefits.

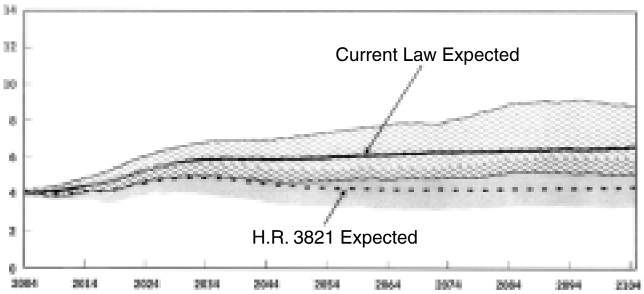
On July 21, 2004, the CBO released its "Long-Term analysis of Plan 2 of the President's Commission to Strength Social Security," which brought to the surface this scam. **Figure 1** shows the scheduled mean retirement benefits, expressed as a percentage of GDP, of the current Social Security System, versus the mean benefits of the President Commission's Plan 2; the gap widens.

Table 1 shows the gap in the annual Social Security recip-

FIGURE 1

Potential Retirement Benefits as % of GDP, Social Security Law vs. Privatization Plan

(% of GDP)



Source: Congressional Budget Office.

TABLE 1

Retirement Benefits for Middle 20% of Income Earners, Social Security Law vs. Typical Privatization Plan*

($ Annual Benefits)

Retirees Born In	Under Social Security	Under Privatization	Cut
1940-49	14,900	13,900	6.6%
1950-59	15,200	13,000	15%
1960-60	15,500	13,200	15%
1970-79	17,700	14,200	20%
1980-89	19,700	16,200	18%

*Legislation H.R. 3821 of Rep. James Kolbe (R-Ariz.), analyzed and scored by bi-partisan Congressional Budget Office.
Source: Congressional Budget Office.

ient's benefits. Notice that for those born in 1950, that is, those who will retire in 2015 at age 65, who are in the middle fifth of the population by income, the gap between the traditional system's annual scheduled benefits and those under the Bush plan is 15%, and the gap grows. A person in the middle income group born in 2000 (not shown in the Table), who will retire in 2065—and for whom participation in privatization will be *mandatory* under Bush's plan, were it to become law—will suffer a 45% cut in benefits. Bush told the Big Lie.

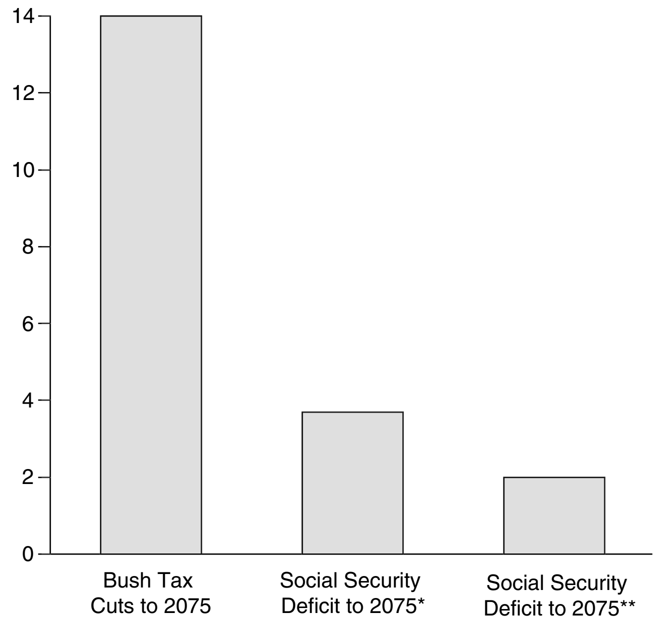
Another circulating lie is that the Social Security Trust Fund is, or soon will be bankrupt. As a much-alive Mark Twain once said, "The recent reports of my death are greatly exaggerated." The privatizers would like to see the Trust Fund's death, so they proclaim it.

The Trust Fund is currently following a plan that builds up an increasing surplus until 2019. In 2019, the Trust Fund will use the incoming Social Security tax funds, and begin to draw down a small portion of the surplus to pay out retirees' benefits. The Board of Trustees of the Social Security Trust Fund projects that the Trust Fund will draw down the last of its surplus, and thus become insolvent, in 2042; the CBO says 2052.

FIGURE 2

Bush Makes Far Bigger Budget Hole With Tax Cuts, Than Any Social Security Deficit, 2001-75

($ Trillions)



*Social Security Trustees 2004 Estimate
**Congressional Budget Office 2004 Estimate

Source: House Budget Committee, Center for Budget and Policy Priorities.

That provides between one and one-half and two generations to solve this question, in one of several simple ways. One is to increase the upper limit of income against which the Social Security tax is applied; the current limit of $87,900 could be doubled. This would put more of the cost of paying the Social Security Trust Fund on the wealthy. There are other methods, such as fundamental reforms of the economy.

According to reports, the CBO and the Board of Trustees of the Social Security Trust Fund project that over the next 75 years, the Trust Fund will run a constant dollar deficit of $2 trillion and $3.7 trillion, respectively (these are the sums they project would be needed to keep the Trust Fund solvent). **Figure 2** shows that during this same 75-year period, the Bush tax cuts, were they made permanent as Bush proposes, would create $14.2 trillion in revenue shortfalls, three to five times the Trust Fund problem. Repealing the tax cuts which benefit the wealthy, would more than close the Social Security shortfall, and finance infrastructure.

Then there is the money "borrowed"—taken illegally—from the Social Security Trust to cover the immense U.S. general revenue budget deficits. More than $500 billion was looted during George W. Bush's term alone. The illegal borrowing should cease immediately, and the recovery of the funds could be undertaken by a series of moves, that could include the doubling of the limit of income for Social Security taxation.

The Privatizers

The privatizers are a nasty coven, with George Shultz in the forefront. Shultz formed the Vulcans group in 1999, which shaped the personnel and ideas for candidate George W. and his incoming Administration, including attaching Shultz protégé Condoleezza Rice to Bush. (Some say Shultz vulcanized Bush's mind.) Shultz was also a force behind Arnold Schwarzenegger and the Enron swindle, and he has been deeply involved in the push for Social Security privatization. In 1998, the Republican House Policy Committee, chaired by conservative ideologue Rep. Chris Cox (R-Calif.), organized a "Social Security Working Group," to lead the push for privatization. George Shultz was on that board.

Shultz is a leader of the monetarist University of Chicago School—the Chicago Boys—led by Milton Friedman. In the 1970s, they installed fascist Augusto Pinochet as dictator of Chile in a military coup, and then imposed Social Security privatization in 1981. In an Oct. 2, 2000 interview with the Public Broadcasting System, Shultz advanced the Chile experiment: "So a Chicago School-like economy gradually evolved in Chile. It worked. They had the only decent economy in South America in the mid-'80s and on."

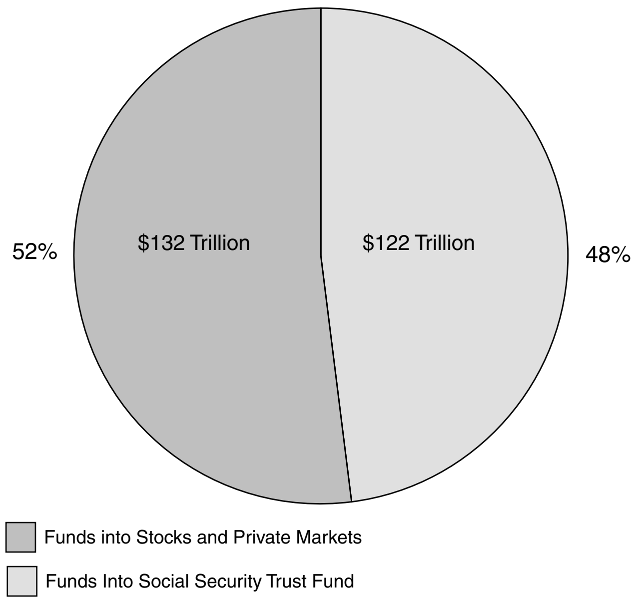
The other key institution is the Washington, D.C.-based Cato Institute, and its Project for Strengthening Social Security. This Cato project has been co-chaired by Jose Piñera, who, as Chile's labor and Social Security Minister for 1978-80, created the nightmare of Chile's privatized Social Security system; and Bill Shipman, who represented the Boston "Vault" forces for decades, as an officer of State Street Bank. A key board member of Cato's project is Shultz's buddy Arnold Harberger, one of the "Chicago Boys" who ran the Pinochet dictatorship and Social Security privatization.

Most of the top layers of Wall Street pump funds into the Cato Project: JP Morgan Chase, American Express, Morgan Stanley, Max Greenberg's AIG insurance company, Fidelity Group of mutual funds, and others. They also participate in drafting the bills that circulate in Congress to privatize Social Security. Most of these banks employ accountants and lawyers to figure out how much they can steal from Social Security.

According to data from the CBO's tables, during the next 75 years, $255 trillion will flow into the Social Security Trust Fund from employees' and employers' Social Security contributions. The workers' portion of this nest egg is $127.5 trillion. The greediest section of Wall Street, represented by Cato and its clone, the Institute for Policy Innovation, calls for putting no limit on how much a worker could contribute to his Individual Account. An Institute spokesman said on Dec. 8 that its plan would translate into workers diverting 6% of the 6.2% that they would normally pay into the Social Security Trust Fund, into private IA accounts, managed by Wall Street. That would mean, as **Figure 3** shows, that Wall Street would get its hands on $122 trillion.

FIGURE 3

Wall Street Privatization Plans Would Loot Up to 48% of Flows into Social Security, 2005-2079



Source: *EIR;* Congressional Budget Office data.

The system will blow out, one way or another, long before that date is reached. But this golden nest egg dances before the bankers' eyes.

Resistance

Senate Minority Leader Senator Harry Reid (D-Nev.) stated on NBC's *Meet the Press* show Dec. 5 that, "The most successful social program in the history of the world is being hijacked by Wall Street. . . . We as Democrats . . . are not going to let Wall Street hijack Social Security. It won't happen. They are trying to destroy Social Security by giving this money to the fat cats on Wall Street, and I think it's wrong." In rapid succession, Senators Jon Corzine (D-N.J.), Lincoln Chafee (R-R.I.), and Robert Matsui (D-Calif.) and Congressmen Earl Pomeroy (D-Md.) and Rick Fazio (D-Ore.) blasted Social Security privatization.

With LaRouche leading the fight, Bush's crazy push for privatization can be the means to humble him.