Congress Needs To Fix The U.S. Economy, Not Social Security

This testimony was delivered to the U.S. Senate Committee on Finances, Hearing on Social Security Solvency on April 26, on behalf of the Lyndon LaRouche Political Action Committee; www.larouchepac.com.

Chairman Grassley, Ranking Member Baucus, and Members of the Committee:

1. Wall Street's needs and demands for Social Security's cash flow, do not point the way to Social Security's continued solvency.

The George W. Bush Administration's Social Security privatization scheme, and the privatization legislation outlines presented by some of the Committee's witnesses, are intended to abolish Social Security as a pay-as-you-go retirement insurance program, and to divert the largest public tax revenue stream in the world, to Wall Street.

The diversion is modelled, by George P. Shultz, by the Cato Institute, and others, on that of the fascist Pinochet dictatorship of Chile in 1981. That diversion ballooned the Santiago stock exchanges for a decade, but eventually left Chile's retirement funds in foreign banks; while leaving at least a majority of Chile's retirees today in poverty, and dependent on government welfare. All three major U.S. stock indices today are below their levels of 1999; after the dollar's decline is taken into account, they are below their levels of 1997. Dominated by hedge funds, financial stocks, and the soon-to-end U.S. real estate/housing bubble, the markets are facing a blow-out provoked by another plunge in the dollar. Their interests, the financial backers of the Club for Growth and Cato Institute, are demanding that President Bush and Vice President Cheney push through the diversion of Social Security funds to Wall Street. They oppose Social Security on economic principle; as does Federal Reserve Chairman Alan Greenspan, who has repeatedly told Congress this year that Social Security contributions do not constitute real national savings because they are not being invested in corporate assets.

Wall Street investment banks are anticipating, if Social Security is privatized, payroll tax diversions providing as much as 25% of all net flows into stock and bond funds over the next 25 years; this bail-out is entirely aside from the fees they could charge and collect on these private accounts, sometimes estimated at $10 billion a year or more.

Congress should reject the corruption of devising a bill to make Social Security into a Wall Street bail-out to stave off collapse on dollar markets.

2. Corporate pension funds have disappeared; Wall Street's "Enron" losses have shrunk savings and put remaining pension plans $450 billion in the red. More than half of Americans will only escape poverty in retirement with guaranteed Social Security benefits. Don't make Social Security Bush's "Enron II."

The rapid shrinkage of employer pension funds under the hammer-blows of falling stock markets and "emergency-low" interest rates; and the disappearance of personal savings under the added blow of falling real wages and household incomes, makes it insane to contemplate putting the last retirement leg standing—Social Security payroll contributions—into Wall Street-invested accounts. 120,000 defined-benefit employer pension plans were operating in the United States in 1986; only 31,000 remain today, according to the Pension Benefit Guarantee Corporation, providing guaranteed pensions to only 16% of the American workforce.

These 31,000 remaining corporate pension plans were, collectively, $450 billion in underfunded deficit at the end of 2004. The largest remaining plans—those in the auto sector of the economy—are now threatened by the potential bankruptcy of the biggest automakers. Some 52% of workers have less than $25,000 in savings of all kinds—in terms of retirement, effectively nothing—including 40% of those over 45. Surveys by consultant firms like Towers Perrin show that the Wall Street markets have been, in recent years, quietly but efficiently raising the average retirement age—currently back up to 63—as well as the planned retirement age of workers of the Baby Boom generations.

Wall Street is the last place to turn for the chimera of "increasing real returns" on Social Security payroll taxes and benefits. Just as the Baby Boom generation's lured investors were taken into the 1990s stock bubble and then wrung out, losing their non-Social Security savings; so privatization would use today's younger generation of working families, sucking in their savings to keep the housing/hedge fund bubble from a Wall Street collapse, but for only a short time.

3. Congress should not "plan for a century of economic Depression"—the effect of acting on SSA's projections—but instead, act to avert Depression and dollar collapse.

The only threats to Social Security's future are the President's threat to privatize it; and the economic policies of the globalized, floating-exchange-rate financial system. These policies have been destroying productive manufacturing employment, that conveyed high wages and retirement benefits other than SS; and forcing down real wages, as America has turned from producer to consumer/retail society.

These trends have worsened during this Administration: Real wages have risen less than 1% annually, and fell in the past year; 2.7 million manufacturing jobs were lost. As a direct result, Social Security payroll revenue rose only 9% from 2001-2004, after rising 18-20% in every other three-year period since 1983.

With the wage- and productivity-collapse of our last, biggest, and most capable remaining industrial sector—auto—now immediately threatening, Congress must act to reverse the collapse of U.S. economic infrastructure and agro-industrial power, and revive it.

It if does so, Social Security—whose revenues are a function of the rate of high-wage, productive job growth—will have no short- or long-term solvency problems.

The "solvency projections" of the Social Security Administration are worse than useless, in that they simply assume the continuation throughout the Century of the present trends of collapse of the U.S. productive economy. Accepting these projections amounts to Congressional planning for a century-long Depression: Employment growth stops, falling to 0.2-0.3% annually; productivity growth and GDP growth fail, at 1930s levels; real wages stagnate; birth and immigration rates well below the current rates bring the growth of the labor force to a crawl. If Social Security will eventually be bankrupted by such miserable economic conditions, the Federal budget, U.S. debt, the housing bubble, and the dollar would all have blown out long before.

Act to change these conditions, and to rescue and expand the productive economy.

4. The thorough defeat in the Congress of the privatization—looting—of Social Security, opens the door to a bipartisan, Congressional economic policy of recovery, from industrial collapse and crushing trade and budget deficits.

A policy like Lyndon LaRouche's proposed long-term "Super-TVA" infrastructure reconstruction and recovery program, creating millions of new productive jobs, would also perpetuate the Social Security surplus for decades.

In April, LaRouche PAC has put into circulation two presentations of the specifics of this perspective, by LaRouche, outlining the scope of the breakdown crisis, and what must be done. One is the mass circulation "An Emergency Reconstruction Policy: Recreate Our Economy!" It is circulating nationally as a pamphlet, which includes the record of the extraordinary action just taken by the Italian House of Deputies, calling on the Italian government to convene a conference of governments to enact a New Bretton Woods.

The second is a memorandum, "Emergency Action by the Senate," directed specifically to this body, in its Constitutional responsibilities to act for the General Welfare and the saving of strategic U.S. economic capabilities when the President is *non compos mentis* to do so. This memo—a copy is attached to this testimony—addresses the special advise-and-consent role of this chamber regarding the Executive Branch, which at present is fueling the U.S. economic crisis, and not acknowledging it.

5. LaRouche Memorandum: The problem before the Senate, and Congress, is not fixing Social Security; it is acting to stop a chaotic collapse of the dollar, with policy actions like those of President Franklin Roosevelt in 1933.

Today's monetary crisis is summarized by LaRouche in his "Recreate Our Economy!" pamphlet:

"The world is presently dominated by the floating exchange-rate form of present monetary-financial system, the present International Monetary Fund (IMF) system. This system, is, in fact, presently bankrupt, hopelessly bankrupt in its present form. It is kept alive, in the sense of a life-support system, chiefly, by a skyrocketting mass of sheer financial-derivatives and other fraud, including the forms of Enron-like, or comparable practices addressed by the New York State prosecutors.

"Typical of the principal means being used currently to postpone the general financial collapse for just another few steps ahead, are the flow of funds now being diverted to support needed for the British and U.S. mortgage bubbles. Typical of the onrushing disasters are the continuing efforts of President George Bush to carry out the mission assigned to him by the Federal Reserve System, to loot the U.S. Social Security system, and that gigantic effort to grab future control over all of the world's principal mineral resources which is reflected in such forms as the present petroleum-price bubble.

"This monetary-financial system is the greatest single obstacle to organizing a recovery from the presently onrushing financial crash. If that obstacle is not overcome very soon, the world as a whole is already on the brink of a planetary new dark age. Any recovery of the presently collapsing U.S. national economy depends upon immediate, and extensive reforms of that monetary-financial system. . ."

In fact, there is a growing recognition of the crisis as outlined here. As LaRouche began his April 13, memorandum to the Senate: "1.1. An increasing number and variety of relevant specialists have been joining an international chorus which is warning, in effect, that an ongoing, systemic economic collapse of the world's presently reigning, monetary-financial order, has now entered its terminal phase. As some leading voices in government, and relevant others, have indicated, since Spetember 1998, the world has entered a period of historic crisis, when the time has come that nations must act in support of a common interest, to create a new financial architecture for the world at large."

This recognition of the need for extraordinary action is shown, for example, in the April 6, 2005 passage of a resolution by the lower house of the Italian Parliament, drafted by LaRouche's representatives. The Chamber of Deputies cited in its findings, the dangers of the vast global overhang of unpayable derivatives, debts, and financial obligations of all kinds, especially in the United States banking sector.

The resolution calls on the Italian government, "To act in the relevant international venues in order to create a new financial architecture, aimed at avoiding future financial crashes and the repetition of specualative bubbles, and thus dedicated to the main objective of supporting the real economy; and to take all necessary initiative to reach, as soon as possible, together with other nations, the convocation of an international conference at the level of Heads of State and Government, to create a new and more just global monetary and financial system."

6. "The GM Panic": Take action to save the auto sector's vital industrial capabilities from decimation, and rebuild economic infrastructure, particularly rail transport.

Taking into account the scale of monetary-financial crisis, and the decrepit state of the U.S. physical economy, LaRouche lays out specifics—with rail development as a central feature—in a section titled, "What We Must Do" of his "Recreating Our Economy" paper. First, get to work on shelved, but "ready-to-go" projects of all kinds.

"The Federal state, county, and local governments of the territory of the U.S.A. have a vast accumulation of worthy projects in major maintenance and building of basic economic infrastructure. Many among these are authorized for expenditure as soon as funding is brought forward. The implementation of a sizeable portion of these hundreds of billions of dollars' worth of large accumulation of absolutely necessary and worthy public or private U.S. domestic investments in basic economic infrastructure, would be sufficient to bring the current level of net national income far enough above national breakeven-point, to allow us to bring the presently onrushing monetary-financial crisis of the U.S.A. under control."

Under this kind of rev-up, we will need to "choose a combination of such options which do not conflict fatally with one another in their competition for our scarce present resources." From our aging locks and dams systems, to rail, to water and sewer systems, to all aspects of infrastructure, there are needs for inputs from our shrunken industrial sector.

"For example, one of the largest components of our national productive capacity, both for the so-called private and public sectors, is concentrated in the machine-tool-centered capacity of our current aerospace and auto industry. At a time when it would be futile to attempt to maintain current levels of sales of new automobiles, we must think in terms of keeping the high-technology aspect of those industries fully operating, by diversifying the work-load to include urgently needed national programs in infrastructure, such as a new, urgently needed, national grid for passengers and freight, as a shift from the threatened early physical breakdown caused by post-World War II overemphasis on highway transportation.

"The general objective of initial, stop-gap adjustments of that type, is to concentrate on mobilizing useful programs which are intended to preserve and strengthen the vital high-technology end of our national productive capacity, by mobilizing what are presently threatened with becoming lost productive resources, while we still have the option of keeping those vital capacities alive.

"Thus, although the presently skyrocketting petroleum price is not a reflection of current shortages in petroleum supplies, but, rather, a reflection of wild-eyed speculation in monopolistic efforts to buy up the world's future petroleum stocks, we must begin to shift out of excessive dependency on combustion of petroleum products as a source of power for our nation, and the world at large. At the same time, the highway congestion and related logistical problems of our excessively highway-dependent national economy, require a marginally very large and rapid shift into mass-transport of goods and people, and a shift toward regionally produced hydrogen-based fuels to replace today's relative dependency on consumption of petroleum and natural gas as fuels. . . .

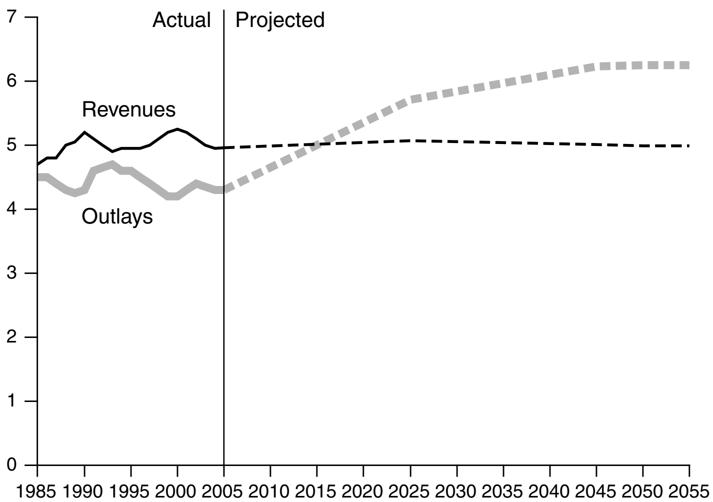
"We need, immediately, large-scale programs of development of basic economic infrastructure which combine the utilization and expansion of cadres of highly skilled operatives and technologies, but which also absorb large numbers of otherwise unemployed semi-skilled and unskilled labor as an integral part of the same programs. The maintenance and expansion of the ranks of the highly skilled production operative, and the upgrading of the unskilled and less skilled through the same programs which are led by the most skilled, strikes the balance needed for large-scale expansion of productive, rather than services employment, on which the initial phase of a recovery-effort must be premised."

7. Social Security and a Marshall Plan, or "Super-TVA," of great infrastructure projects.

Social Security's future revenues are not predictable, as study of the graph of their actual course from 1984-2005, in the Figure, will convince you. Rather, Social Security payroll tax revenues are *creatable* by acting on the economy.

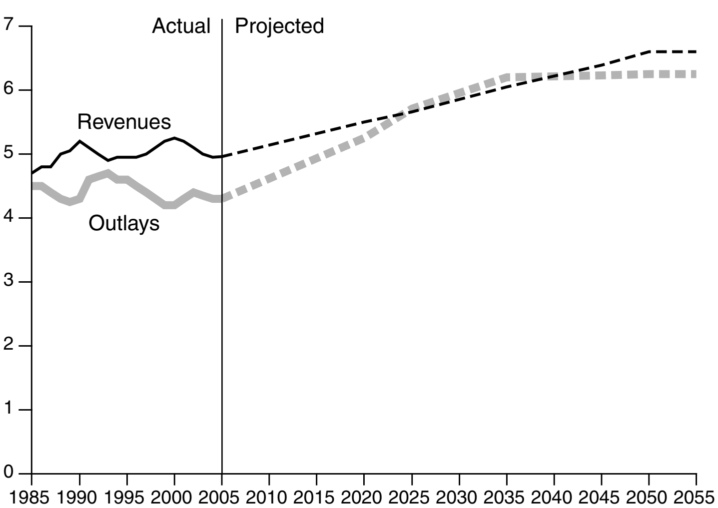
Figure 1 shows, regarding Social Security's tax revenues relative to GDP: Between 1984 and 2005, there are two periods of five years or so, in which employment in the U.S. economy grew by 1.5% annually, or more. (They roughly overlap Presidents Reagan's and Clinton's second terms.) During each of those periods, Social Security tax revenues as a portion of GDP rose, by 0.3-0.4%—a fairly sprightly jump.

FIGURE 1
Social Security Revenues and Outlays as Percent of GDP, 1985-2055
(Percent)



Source: Congressional Budget Office, "Outlook for Social Security, June 2004.

FIGURE 2
Forecast of Revenues and Outlays, If New Job Creation Is Always 1.5%/Year or Higher, 2005-50
(Percent of GDP)



Sources: Congressional Budget Office, "Outlook for Social Security, June 2004"; *EIR.*

And there are two shorter periods, in each of which U.S. employment grew by substantially less than 1.5% a year (1.2% for 1990-94, and 0.4% from 2000-04). During each of those two periods, the payroll tax as a percent of GDP took an unsightly tumble by about 0.3%.

Over the 15-year period 1985-2000 (i.e., leaving out the jobs bloodbath under Bush "43"), employment and the U.S. labor force grew by an average of just about 1.6% a year—27.7% over the whole 15 years. And the Social Security payroll tax revenue as a portion of GDP, grew by .55% during that time, from 4.7% to 5.25%.

As of 2005, jobs growth of 1.5% means about 2 million net new jobs a year.

Suppose a bipartisan U.S. leadership, after stopping Bush and Wall Street from stealing Social Security, launches—as a recovery policy from the looming dollar collapse—what Lyndon LaRouche has called an FDR-style "Super-TVA" policy of Federal credits for productive, skilled employment, mainly through high-technology reconstruction of our economic infrastructure. Minority leader Harry Reid has called for "a Marshall Plan for American infrastructure." And suppose such a recovery policy successfully launches an economic growth which keeps productive employment rising at 1.5% a year or better, to the middle of this century. That would mean creating about 2.6 million new jobs a year by 2020, some 3.3 million a year by 2035, and 4 million a year by mid-Century.

Immediately, with that kind of job creation, there are 15 million American workers "sitting on the sidelines" right now—unemployed, dropped out of the labor force, forced to work temp or part-time. If even two-thirds of those Americans were productively employed "FDR-style" in a jobs-creation recovery, they represent five years worth of the needed growth of the labor force to put Social Security further into surplus, on top of the natural labor force growth and immigration.

If the same relationship of jobs growth, to Social Security revenue growth, which obtained from 1985-2000, were extended to the 2050 horizon, the **Figure 2** shows what could happen. Social Security wouldn't need its surpluses to pay benefits. They could, in fact, be used as the reserve basis for some of the large volumes of Federal credits which would drive such a "Super-TVA."

Figure 3 demonstrates the same principle in terms of simple changes, in the direction of growth, in the Depression-like assumptions made by the Social Security Administration, and the differences those changed assumptions make, to the solvency of Social Security.

8. The American Public rejects privatization.

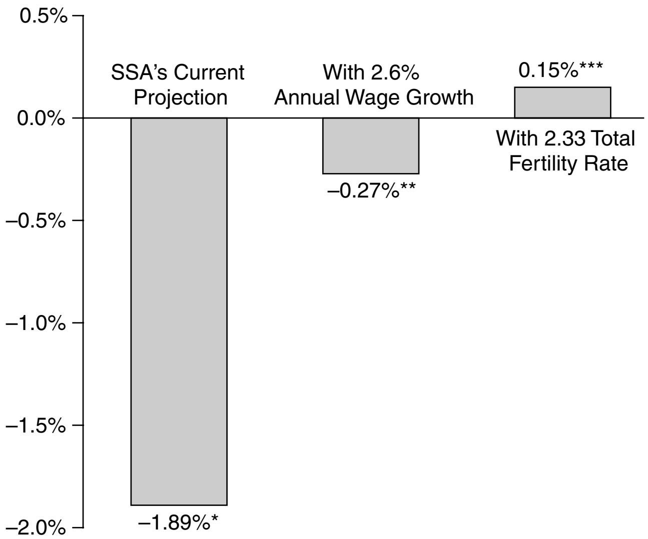
By now, a very large number of opinion surveys have converged to show that the American public does not support—in fact, by substantial majorities, opposes—the specifics of the Social Security privatization plans being presented by your witnesses today:

- The Ryan-Sununu bill scheme, devised by the Institute

FIGURE 3

Social Security Trust Fund's Actuarial Balance, Surplus or Deficit, 2005-79

(Percent of Taxable Payroll)



*$3.7 trillion actuarial deficit
**$529 billion actuarial deficit
***$294 billion actuarial surplus

U.S. Social Security Administration, Office of Actuary; 2004 SSA Trustees Report; *EIR.*

for Policy Innovation, would require a huge new Federal borrowing, of "transition costs," in the order of $5-7 trillion over its first ten years, in order allegedly to avoid benefit cuts while diverting at least the entire employee's Social Security payroll tax to Wall Street accounts. The Treasury's borrowing trillions on Wall Street, in order to divert trillions in taxes to Wall Street, is economic lunacy, and Americans reject it.

• The Johnson bill, based on the Cato Institute's "6% Solution," similarly involves trillions in new Treasury borrowing; as well as indexing of benefits to the CPI in order to cut benefits; also rejected by the American public. The cutting of benefits is not necessary to make Social Security solvent; it is an artifact of the Depression-like assumptions on which the long-term projections of solvency—since 1998 and currently—are based.

• Robert Pozen's "progressive indexation" scheme, which involves very substantial benefit cuts from which poorer workers will allegedly be spared, was frankly described, by Jagdeesh Gokhale of the Cato Institute at a March 9 forum in Washington, as "eventually making Social Security a means-tested welfare program." Making Social Security into welfare, was emphatically opposed by President Franklin Roosevelt at its inception.