'Pension Panic' Nails Coffin Of Bush Social Security Scheme

by Paul Gallagher

Events in Congress have offered proof of Lyndon LaRouche's judgment that the May 11 United Airlines (UAL) $10 billion default against all its employee pension funds, means that the "Chile Model" privatization of Social Security, frantically pushed by the Bush/Cheney White House for the past six months, is dead.

Bush is still driving manically on his national road show for the scheme, and privatization continues to be discussed by Republicans in Congress—in fact, new schemes of every degree of subtlety are proliferating there. But the near-panic over corporate pensions which has developed, since United was allowed by a bankruptcy court to abandon all its employee plans to the Federal Pension Benefit Guaranty Corporation, means that only insane elected officials would now vote to throw Social Security revenues into accounts on Wall Street, where the bones of the pension funds are now bleaching.

The President's insistence on privatization "is like putting Kool-Aid on the table" and refusing to take it off, said Rep. Charles Rangel (D-N.Y.) at a May 12 House hearing on Social Security. The day after that hearing, the May 13 *Arizona Republic,* a Republican-leaning daily, summed up the result: "GOP, Bush Should Fold on Social Security Reforms." And at May 13 hearings held by the Senate Democratic Policy Committee, the lunacy of privatizing Social Security while the private pension plans are failing (and most Americans don't have significant personal savings) was the dominant subject. Sen. Blanche Lincoln (D-Ark.) said, "The [United Airlines] decision means that without Social Security—where risk is not borne solely by the worker—all the risks are now borne by the working American. This is a three-legged stool, where two of the three legs are now already shaky or non-existent." Lincoln added, "The news of this week regarding United Airlines makes this [Social Security privatization] even more dangerous." And expert witness Prof. J. Bradford DeLong forecast, "Regarding the news of this week—this means the end of the employer-sponsored defined benefit pension plans. You saw what happened to the airlines. Three to four years from now, there is a 50% chance that the same fate will hit the auto industry."

How Many Crashes?

The remaining airline pension funds are lined up like airliners on their approach—to multiple crash landings!—with the auto pensions up in the air behind them. Following the May 11 United Airlines pension fiasco, Delta tops the list of U.S. airlines with underfunded pensions, with a deficit of $5.3 billion at the end of 2003, according to Standard & Poor's rating agency. At Northwest, the most recent funding deficit figure is $3.8 billion; at American Airlines, $2.7 billion; and $1.6 billion at Continental. The total is $11.4 billion which the Pension Benefit Guaranty Corporation (PBGC) may be facing, in pension deficits of airlines which now—UAL and US Airways having shed their pensions—are urgently demanding that their own employees make up to them in give-backs, or they too will go bankrupt and default on their plans. Pension plans aside, Delta and United *each lost $1.1 billion on their operations in the first quarter of 2005 alone,* and bankrupt US Airways lost another $680 million.

The pension funding deficit of General Motors was far larger, $47 billion at the end of its 2003 fiscal year, according to the assumptions of the PBGC; and of Ford Motor Co., $22 billion, by the same worst-case assumptions.

Northwest and American are in intense talks with unions about more contract "givebacks," and pension givebacks in particular. And as for the pension funds which the PBGC has taken over, their employees will get pension payments, but in many cases these will be sharply reduced from the pensions they had negotiated in their contracts. Worse, the evidence from the steel industry is that most of these corporations' retirees will lose their health insurance, and have to buy expensive and far less generous "elderly health insurance plans" themselves on the private market.

The airlines' pension funds, collectively, had a positive balance of $3 billion as late as 2000. Then came the collapse of the telecom and related bubbles on Wall Street, and the incompetent imposition of super-low short-term interest rates by the Federal Reserve under Alan Greenspan, which was publicly denounced at the time by Lyndon LaRouche, as not a cure, but a poison for the economy. Greenspan's low-interest-rate policy affecting all fixed-interest investments, imposed over the same time stock market values were being wiped out, has played a central role in flooding with $450 billion in red ink, the books of the nation's corporate pension funds.

Thus the insanity of turning Social Security, the remaining solid rock of retirement, and disability insurance in the United States, into "private retirement accounts" on Wall Street, has become glaringly clear. Democratic resistance is even firmer; Republican support is crumbling.

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Privatization Hearing Fails

House Ways and Means' Republican Chairman Bill Thomas (R-Calif.) held his first of a series of hearings on Social Security privatization on May 12, marked by great preparatory grandstanding by Thomas since President Bush's April 27 press conference. But the hearings got scant press coverage and were upstaged by other developments. Most obvious was the reverberating United Airlines shock, cited repeatedly by Democratic Congressmen at the hearing; even Thomas had to reference it. The other "distraction" from ideas of privatizing Social Security was a May 11 admission about benefit cuts, by White House National Economic Council Chairman Allen Hubbard at a press conference. House Democratic Leader Nancy Pelosi (D-Calif.) briefed the media early on May 12 on Hubbard's meeting with reporters the previous day. Hubbard had admitted that under Bush's current favorite privatization scheme, surviving spouses and minor children of middle-income or upper-income employees would get the same "progressively indexed" (i.e., sharply cut) Social Security benefits their parent or spouse had, whatever their own income might be. Pelosi insisted it was only a matter of time before the White House admitted that the same is true, in its plan, for the disability benefits of middle- or upper-income workers who become disabled.

Thomas's hearings, held in the largest hearing room in Longworth Building, were packed with aides and press, but the 40-50 ordinary citizens there were all protesting privatization, having come into Washington at the urging of Democratic leaders. These constituents had come in to lobby their Representatives, all Republicans, against backing Bush. The Committee's witnesses included the White House's current champion, Fidelity Mutual banker Robert Pozen, and five other privatization advocates from various Cato Institute-linked think-tanks; and former Clinton Social Security Commissioner Kenneth Apfel and one other opponent of privatization.

Thomas told his hometown *San Francisco Chronicle* before the hearing that he plans a "sprint" to a Social Security privatization bill by July that can pass the Republican-controlled House. But Pelosi, Ranking Democrat Charles Rangel of New York, and Rep. Sander Levin of Michigan all said that the pension panic has made Democrats absolutely determined to block throwing Social Security into the Wall Street markets, and should stop Republicans from voting for it as well. Levin said that no matter how many other issues Thomas loaded into his proposed legislation, supposedly to make privatization palatable, "Democrats, and the American public, won't lose sight of the tree being cut down in the middle of this forest."

Thomas himself brought up the UAL default, claiming he could throw "pension reform" into the broad smorgasbord of a bill he says he's working on. The Ways and Means Chairman slyly threw out, in his opening statement, that he wants to draw Democrats into a "members' panel on needed changes to Social Security"—a kind of repeat of the 1983 Social Security commission. But Democratic leaders indicated they would not be buying.

On May 13, the *Detroit News* quoted three Michigan Republican Congressmen opposing Bush's privatization scheme outright. Said freshman Rep. Joe Schwarz, "There is less and less enthusiasm for personal accounts. . . . Social Security was founded to be a defined benefits pension plan for people essentially too old to work and too young to die. That is how it should stay." Rep. Thaddeus McCotter said, "I don't favor a partial solution, especially one that will radically change the philosophy behind Social Security." And Rep. Candice Miller was quoted saying that she was very hesitant to support any "personal accounts" bill. A fourth Michigan Republican, Rep. Dave Camp, who chairs a Ways and Means subcommittee, said of Bush's two recently advanced privatization schemes, "I haven't endorsed either of them."

President Bush's Source Discredited

Ways and Means Ranking Democrat Rangel won an important political and psychological duel in "cross-examining" the Republicans' star witness and the White House's hero on privatization, Fidelity Mutual investments executive Robert Pozen, who is constantly advertised as a "Democrat with a privatization plan." Rangel's "mission accomplished" was marked by the repeated laughter throughout the large hearing chamber. In short order, he got Pozen to reverse himself on whether private accounts are necessary to "solve" Social Security, and to admit that some workers could lose their whole retirement with them. A sample:

Rangel: You know, the White House goes out of its way to identify you more by your party label, than by what you're saying.

Pozen: I would hope that the White House agrees with some of the concepts of progressive indexing.

Rangel: Take my word for it, your name would not have been projected as much as it has, if you were not a Democrat; but I'm proud of the fact that you know how to deal with them, because we may have to come to you for communication, you know, [laughter] because we don't know where they're coming from or what they want to do. . . .

Rangel: Basically, your background has been in the investment market. Is that true?

Pozen: My background has been in the investment market, though I've worked with various nonprofits in the Boston area on a series of—

Rangel: When I retire, that's what I hope to run, is a nonprofit. That's where the real money is, you know [laughter]. . . .

Rangel: Now the president often talks about those people in Congress have 401(k)s and thrift accounts; and, if it's good enough for them, it should be good enough for the American people. Do you believe the way he uses that statement that it's accurate? Is he offering the people the same thing that we enjoy as members of Congress?

Pozen: I understand that you as a member of Congress have Social Security, and that the 401(k)s and IRAs would be supplemental to Social Security, so I'm not sure—

Rangel: That is true.

Pozen: Congressman, I'm not representing the President here.

Rangel: Well, he's representing you! [laughter]