

were making profits, as the stock market bubble continued to grow. This enabled the managers of the funds to make profits of up to 20%. But, what the privatizers fail to mention, is that one-third of the \$25 billion in Chile's pension funds is invested in the volatile Santiago stock market. The other two-thirds is invested in equally unstable government debt, securities, and other paper, making the whole \$25 billion extremely vulnerable.

As for the "stake" Chilean workers supposedly have in this "rising" stock market, in September 1995, pension funds lost \$1.5 billion, allegedly due to market fluctuations. For the workers who retired then, this meant as much as a 20% drop in the monthly pension!

A final point: When the old Chilean social security system was privatized, the flow of tax contributions into the system basically stopped. Under those conditions, the system was not solvent enough to pay for the amount of money—called the "present value"—that each worker who had already been enrolled for years in the old system had accumulated. So the Chilean state privatized various of its holdings, and used the proceeds to purchase bonds, called Recognition Bonds, equal to the "present value" each worker had accumulated in the old system. The bonds were given to the workers. According to a Social Security privatization expert at the Dallas-based National Center for Policy Analysis on Sept. 23, if the U.S. Social Security system is privatized, a similar condition will obtain. To raise the money to issue Recognition Bonds to pay off the "present value" that U.S. workers would have accumulated in the old Social Security system, this "expert" said that the U.S. government should sell off to private investors, the Tennessee Valley Authority, the Bonneville Power Authority, four Power Marketing Authorities, federal highways, U.S. government land, etc. That is, the U.S. government will be stripped down and sold at fire-sale prices to the very financial sharks who are privatizing Social Security, on the grounds that this is needed to facilitate the privatization.

The solvency of Social Security

The "Contract on America" crowd has resorted to a tried and true method, the Goebbels Big Lie technique, to make the claim that the Social Security fund is about to go bankrupt. The media have played a big role in this. We look first at the terror campaign, and then dismantle the argument that the Social Security Trust Fund is bankrupt in the way that it is portrayed. Finally, we look at the real causes for long-range problems in the Social Security system, and what can be done about it.

On Dec. 5, 1995, ABC television's "Nightline" ran a program, alleging that the Social Security system is on the verge of insolvency. Host Forrest Sawyer warned that "Washington is still playing the old shell game. . . . Unless you round up those sacred cows called entitlements, and particularly Social Security, then you're just whistling in the wind, and no one in Washington is willing to take that one on." Next, a clip of

Gingrich was displayed, with him warning that "early in the next century our children [will] just literally start to be crushed." A Republican legislator was brought out to prognosticate that, "If we don't change our spending habits, our kids are going to be paying a tax rate of 82%," to fund a bankrupt Social Security system. In rapid succession, six Republican legislators were shown, each uttering the magical and frightening words, "a tax rate of 82%." Next, an ABC reporter held up a baby and intoned, "If she could talk, she'd probably ask . . . 'Why are they going to take 82%?'" Next, former Federal Reserve Board Chairman Paul Volcker was trotted out to call for "overhaul" of the Social Security system, to avert certain disaster.

Josef Goebbels could not have done better. The viewer would certainly conclude that he or she will be without Social Security and/or crushed under taxes to pay for it, unless the

The history of U.S. Social Security

In 1933, after taking office, President Franklin Delano Roosevelt took personal control of establishing a social security system. Roosevelt was guided by the highest conception of the U.S. Constitution, the general welfare clause, which saw the state as an essential instrument to foster the economy's development and the well-being of each citizen. No citizen should be permitted to starve or perish, and a sound instrument for retirement was provided for. In a June 8, 1934 message to Congress, Roosevelt spoke of a "national social insurance system," to protect against "misfortunes which cannot be wholly eliminated in this man-made world of ours"—in particular, loss of or insufficient income for the elderly and unemployed.

During the 1930s, the antecedents of today's neo-conservatives, the fascist crowd of Morgan and Du Pont, voiced many objections to the legislation, objections that are the identical arguments as those used today, 60 years later, against the system. As early as 1924, the banker-run Pennsylvania Chamber of Commerce railed that compulsory public schemes to aid the elderly were "un-American and socialistic, and unmistakably earmarked as an entering wedge of communist propaganda." Moreover, the watchword then, as today, was that if a retired or unemployed worker didn't have enough personal savings, and could not live with his family, he should simply live off private charity. But the inadequacy of the charity system, which was clearly insufficient during the specious prosperity of

system is privatized.

In reality, the OASDI Trust Fund, according to projections of its Board of Trustees, will be solvent until the year 2029. Even then, it would not face significant problems if the current economic strategy were reversed. But what the Wall Street pirates do, is to project a growing Social Security fund liability and yearly outflow—because of increased numbers of older people—against a shrinking number of young workers, a shrinking productive labor force, and a shrinking economy. Of course, under those conditions, if the current economic trends continue, the Social Security Trust Fund would eventually go bankrupt in 2029. But *those trends are abnormal*, reflecting post-industrial society policies. Were those trends reversed, by the type of economic reconstruction policies Lyndon LaRouche has advocated, the Social Security Trust Fund could be made be solvent.

To understand this, let us look at the demographic debacle and downward changes in the consumer market basket, wrought by the British oligarchy's policy of the post-industrial society, starting after the murder of President John F. Kennedy in 1963. This policy emphasizes speculation over real production; as a result, a speculative bubble began to grow. It grew with the disastrous decision of President Richard Nixon to decouple the dollar from gold in 1971. It was amplified again as a result of the 1973-75 and 1978-79 oil hoaxes, which, combined, increased the price of oil tenfold, and unleashed unregulated, offshore Eurodollar market, petrodollar recycling. In October 1979, then-Federal Reserve Board Chairman Volcker sent interest rates into the stratosphere. In 1982, the U.S. banking system was deregulated. Leveraged buyouts and, starting in the late 1980s, derivatives market trading, became the order of the day. As the specula-

the 1920s, showed itself during the Depression years of 1929-33. During that timespan, one-fifth of the commercial banks in America failed, and real personal savings fell by \$34 billion. Living from savings was moot: They had been wiped out.

Likewise, what public assistance for the elderly did exist, was criminally adequate. Between 1930 and 1934 alone, the yearly cost of old-age assistance, administered by the states, rose from \$2 million to \$32 million, nearly twentyfold in real terms, and the official number of recipients increased from 11,000 to 235,000. The number of people who really needed help, and didn't get it, totaled in the several millions.

Despite the hysterics of Newt Gingrich's political forebears, during the first half of 1935, the House of Representatives passed the Social Security Act by a vote of 372-33 and the Senate by a vote of 77-6. On Aug. 14, 1935, President Roosevelt signed the act into law. The Social Security Act not only provided for social insurance for retirement, it also provided for assistance to the indigent elderly, to the blind, to families with dependent children, and established the first comprehensive national unemployment insurance system.

Social safety net was common

Though born of the Depression, it would be wrong to think of Social Security as a measure only applicable to or arising from Depression conditions. First, many European nations had enacted a social security system covering their populations before the Depression. For example, according to the research book, *Congress and the Nation*, (Vol. I, 1945-64):

"In 1935, some 22 European nations already had such systems. Many dated back to before the First World War

and were far more comprehensive in scope than the U.S. program—including, for example, sickness, disability, health and maternity benefits. Six non-European nations at that time also had programs covering a sizeable portion of their population—Australia, Japan, New Zealand, South Africa and Uruguay.

"Germany was the first country to adopt a social security program when, in 1883, it set up sickness and maternity insurance. A contributory old-age and disability insurance system was added in 1889, and unemployment insurance in 1927.

"... England set up a charity program for the indigent aged in 1908. In 1911 it adopted a contributory social insurance program covering unemployment, disability and health care; and in 1925, a contributory old-age insurance system.

"France established unemployment benefits in 1905, added a contributory old-age insurance program in 1910, and sickness and maternity benefits in 1928."

Second, there is a distinction between assistance for the elderly poor and the kind of insurance provided under the Social Security System. Assistance for the indigent elderly is included in the second part of the Social Security Act. Although absolutely essential, it provides the recipient with funds which leaves him or her at or below subsistence level. But the Social Security system, formally called the Federal Old Age and Survivors and Disability Insurance Trust Funds (OASDI), is an insurance system, into which a worker and an employer pay in through a payroll tax. Upon retirement, the worker receives an income stream, to which he or she contributed, that allows him or her to live a dignified life, and to pursue his or her retired years productively, rather than having to merely scrape by.—Richard Freeman