Financial sharks advance four plans to privatize U.S. Social Security

by Richard Freeman

In January, when the 105th Congress convenes, the Contract on America gang, operating on behalf of the oligarchical financiers, is poised to introduce legislation to privatize Social Security. There are four basic privatization plans, all derived from the same looting premise. Over the 15-year period of 1997-2011, the proposals would divert \$2.4, \$3.0, \$6.3, or \$7.9 trillion into private or pooled accounts managed by Wall Street.

Privatization ("piratization" would be a better word) has two objectives: first, the \$10 trillion that would normally flow into the Social Security system over the next 15 years (a period arbitrarily chosen to gauge the application of the plans) is a major resource to loot, in the financiers' futile attempt to pump up the collapsing worldwide speculative bubble. Second, Wall Street and City of London speculators hope to make a half-trillion dollars or more from the management and use of these funds.

But, when the tens of millions of retirees seek to receive their Social Security payments to live a dignified, productive retired life, the funds won't be there. When the global financial disintegration hits, the Wall Street financial instruments into which the funds have been shoved, will blow. Thus, the elderly will instead be left holding a pile of worthless paper. For millions of elderly, this will throw them into destitution, sharply increasing the death rate.

For the formulation and organizing of the privatization schemes, Wall Street has used the services of a network of fascist Mont Pelerin Society think-tanks, including the Heritage Foundation, the National Taxpayers Union, and the National Center for Policy Analysis. The leading think-tank in this effort is the Washington, D.C.-based Cato Institute, which has a "Social Security Privatization Project." The pedigree of the funders of the Cato Institute show the level of Wall Street and City of London control over this effort: American Express Corp., American International Group insurance company, Alex Brown and Co. (which is allied to the Harriman financial interests), Citicorp, Chase Manhattan Bank, Fidelity Investments, Golden Rule Insurance (which is also big in the "managed" health care field), Prudential Securities, George Bush's White House counsel C. Boyden Gray, and speculator George Soros. In turn, Cato advises the Congressional Public Pension Reform Caucus, the leading force in Congress pushing the plans.

To manufacture a fake "necessity" for Social Security privatization, the financial sharks lie that the Social Security Trust Fund will be bankrupt imminently. In fact, it is sufficiently funded to stay solvent until 2029, which is 33 years from now. Moreover, if measures proposed by economist Lyndon LaRouche are adopted to restore the U.S. physical economy to health, including the ability to produce a growing productive workforce, the Trust Fund would be rendered sound for all of the 21st century.

How the system functions

To understand how privatiation would loot and dismantle Social Security, it is necessary to understand how the system currently is funded and works.

Technically, the Social Security Trust Fund is two funds: the Old Age, Survivors Insurance (OASI) Fund, and the Disability Insurance (DI) Fund, which are referred to as the Old Age, Survivors and Disability Insurance (OASDI) Trust Funds. The OASDI was founded in 1935, based on the U.S. Constitution's General Welfare clause, on a pay-as-you-go basis. That means that those individuals who are working, pay into OASDI an amount greater than or equal to the amount paid out to America's Social Security-covered retirees. Currently, the workforce pays for the retirees through a payroll tax equal to 6.2% of the worker's annual earnings (maximum taxable gross income level is \$69,200 per year); the employer also pays a payroll tax equal to 6.2% of the worker's earnings, so the combined tax is 12.4%. Of this amount, 10.5% goes to OASI, and 1.9% goes to DI. More than 40 million Americans, including disabled, are covered through OASDI. A retired Social Security-covered worker can expect to receive, on retirement, monthly Social Security checks that will give him or her an annual income equal to 42% of the average income of his or her 40 highest earning years.

However, in 1983, the OASDI board of trustees, based on the advice of a government advisory council, increased the OASDI tax rate (it still had not reached 6.2% then), in order to start building up a surplus. It anticipated that America was not producing enough young workers to pay into the OASDI funds to cover the retirees. (The fact that this demographic debacle, and the fall in the consumer market-basket, was caused by the post-industrial society policy, thus skewing OASDI tax collection levels, was not mentioned by government reports.)

The idea became to build up an OASDI surplus, which would continue to grow, though at a successively declining rate of growth, up through the year 2019. Then, payouts from the OASDI funds would exceed payins from all sources; the surplus would be drawn down. By 2029, the OASDI trust fund would have no surplus left, and the fund would be bankrupt (pending some other solution).

But, the principal purpose of the Social Security System is *not* to build a surplus, in order to invest it in U.S. Treasury securities, but rather, to pay for retirees through more payins than payouts, for which a sound economy is needed. (The OASDI outstanding surplus is invested in non-marketable Treasury securities, which nonetheless pay a competitive market rate of interest.)

Table 1 shows the operation of the OASDI fund. Column A is the amount paid in annually by employees' and employers' tax contributions; column D is the sum of all income into the OASDI fund, including net interest and taxation of benefits; column E is the payout of benefits to retirees; column G is the sum of all payouts, including benefits and administrative expenses. Column H is the annual amount by which total income exceeds total payouts; and column I is the outstanding assets-surplus in the OASDI fund.

TABLE 1

Operations of the Old Age, Survivors and Disability Insurance (OASDI) Trust Funds

(billions $)

Year	A	B	C	D	E	F	G	H	I
1997	395	43	7	444	365	7	373	72	638
1998	413	47	8	468	384	7	391	77	715
1999	433	52	8	493	405	7	412	81	796
2000	454	56	9	520	426	8	434	86	881
2001	477	62	10	549	450	8	458	91	972
2002	502	67	10	580	476	8	484	95	1,067
2003	530	73	11	615	505	8	513	101	1,169
2004	559	80	12	651	568	9	544	107	1,276
2005	592	86	13	691	568	9	577	114	1,391
2006	623	94	14	731	600	9	609	122	1,512
2007	655	103	15	773	634	9	644	129	1,641
2008	689	112	16	818	670	10	680	138	1,779
2009	725	123	18	865	708	10	718	147	1,927
2010	763	134	19	916	749	10	759	157	2,084
2011	802	147	20	969	791	10	801	168	2,251
1997-2011 totals:	8,613			10,083			8,398	1,685	

A=Net contributions (from employees and employers)
B=Net interest
C=Income from taxation of benefits
D=Total income, sum of A, B, and C
E=Benefit payments
F=Administrative expenses plus transfer to RR retirement
G=Total payout, sum of E and F
H=Net annual increase in Social Security Trust Fund
I=Outstanding assets-surplus in Social Security Trust Fund
Sources: OSADI Trust Funds board of trustees 1995 Annual Report for 1997-2003; *EIR* projections 2004-2011.

The piratizers' four plans

The sharks would dismember Social Security as we know it. Their plans would slash benefits, while siphoning off increasing amounts of funds to Wall Street.

Plan 1 would divert the amount by which income exceeds payouts, i.e., column H, into individual worker Private Retirement Accounts (PRAs). This would divert $1.685 trillion to Wall Street over the next 15 years. If the OASDI's surplus at the end of 1996 is also privatized (column I), which Republicans recommend, this would turn over an additional $562 billion over to Wall Street's management. Thus, a total of $2.247 trillion would be diverted to Wall Street.

Plan 2, the "Social Security Solvency Act" of Rep. Nick Smith (R-Mich.), H. 3758, would increase the amount by which income into the fund exceeds payouts (column H) by cutting payouts, through raising the age of retirement, cutting benefits, lowering the cost-of-living adjustment, etc. Based on outlines of his plan, plus were the outstanding surplus through 1996 also privatized, under the Smith plan, approximately $3-3.5 trillion would be diverted to Wall Street over the next 15 years.

Plan 3, of Rep. Mark Sanford (R-S.C.), would divert, not just the annual surplus, but most of the annual net contributions (column A) into PRAs. Roughly, Sanford would divert 65% of all net contributions that would normally go into the OASDI trust fund, into PRAs instead. Were the outstanding surplus through 1996 also privatized, then, under the Sanford plan, $6.3 trillion would be diverted to Wall Street. The Sanford plan does not account for a major problem it creates: Most of the current workers' net contributions (column A) would no longer pay for the current group of OASDI-covered retirees. Rather, it would go into Wall Street-managed PRAs, to fund current workers' future retirement under a privatized system. But how are the retirement benefits of the current batch of retirees to be covered, if most of the funds of the currently employed will no longer pay for that? Sanford proposes even harsher austerity and less payouts to retirees, but also to sell off U.S. government assets, such as the TVA, the Bonneville Power Authority, four additional Power Marketing Boards, government land, and so on, and deploying the money to pay for the unfunded liabilities of the OASDI.

Plan 4 is that of the Dallas-based, Mont Pelerin Society-run National Center for Policy Analysis. This would divert $7.9 trillion into Wall Street-controlled PRAs and pooled accounts (technically, were the $562 billion outstanding OASDI surplus privatized, it would not go into individual worker PRAs, but into a pooled public account, though to be managed by Wall Street, and be invested into bank CDs, stocks, and bonds).