Social Security: No, It's *Not* the Demographics, Stupid

by Dennis Small

It's pretty much the way Lyndon LaRouche called it, back in mid-February. If the LaRouche Youth Movement does its job, he said, and makes sure that the Democratic Party and sane Republicans get into fighting shape against the Bush Administration's plan for Chilean-style privatization of Social Security, then that fascist policy can be turned into a loser for Bush. That is essentially what has transpired over the last 2-3 weeks, as we report elsewhere in this magazine.

But, LaRouche warned at the time, do *not* expect Bush to stop the privatization drive, no matter how unpopular it becomes, or how nervous his own Republican Congressmen get. Wall Street financial interests, and Bush-Cheney handlers such as George Shultz, will not allow the Bush White House to quietly drop the matter, or wait for a "better moment." The gravely worsening global financial crisis demands drastic action now, as far as they are concerned.

And so it is that the Treasury Department announced on Feb. 28 that it has created a Social Security "war room" to oversee the propaganda for the privatization campaign—modelled, believe it or not, on the joint U.S.-U.K. Coalition Information Center which handled propaganda for the war on Iraq. It was that Center which pumped out all the lies and media confetti about WMD and yellow-cake, to obfuscate the fact that the policy of going to war against Iraq had already been adopted, long before the "facts" were cooked up to justify it.

Same thing on Social Security. The Bush Administration's accounting perverts have goosed up totally lying statistics which presumably demonstrate that Social Security is bankrupt, while Bush waves his hands and repeats, in menacing monosyllables: "Do the math! Do the math!" Fed Chairman Alan Greenspan meanwhile confounds the gullible with his polysyllabic equivalent of the same: "inexorable demographics," he intones, is leading Social Security into certain bankruptcy.

Both men are lying. "The math" does not show that Social Security is sinking. And no, it's *not* the demographics, stupid.

As we document below, and will be further elaborated in upcoming issues of *EIR*, behind both of these arguments are a set of Bush Administration assumptions—regarding wage rates, job creation, demographics, etc., and regarding the nature of the economic process itself—which are scientifically indefensible. More than mere lies, the Administration's dire predictions of bankruptcy, based on low job, wage, and productivity growth, simply reflect the bankers' *intention* to Hooverize the United States.

Fed Chairman Greenspan let it all hang out, in March 2 testimony to the House Budget Committee. The crisis is not in 2042, nor in 2018, as has often been stated; the crisis is in 2008, he insisted, when the Baby Boomers start to retire; and so we have to impose Schachtian austerity *now:* "I fear that we may have already committed more physical resources to the Baby-Boom generation in its retirement years, than our economy has capacity to deliver," the oracle said.

That statement of fascist intent, has the virtue of at least posing the real issue: not money and mathematical formulas and projections, but whether or not we can insure that the *physical economy* will continue to grow. Greenspan says no; LaRouche says yes. Let's look at the next 50 years of Social Security from this standpoint: will those five decades be of continuing scientific and economic advance, as Lyndon LaRouche presented in his report, "Earth's Next 50 Years" (see *EIR*, Feb. 11), or will they sink the United States and the world

Bush (left) keeps trying to con Americans into dismantling Social Security; while Fed Chairman Greenspan (right, on March 2) gives Congress the hard stuff—orders to cut benefits now for people of all ages, and send their payroll taxes to Wall Street. Both use the same lying "demographic arguments" as window-dressing.

into a New Dark Age, as the Bush Administration's statistical predictions reveal that they intend?

The Little Lies

Let's begin by looking at what the published numbers and predictions of the Bush Administration's Social Security Administration (SSA) itself show. Start with the most frequently repeated scare tactic of all:

Little Lie #1: *Social Security will be running at a deficit by the year 2018.* Not true—even according to the data reported by the SSA itself. As **Figure 1** shows, under the SSA's so-called "Intermediate" set of assumptions (which are premised on overall low growth of the economy—more on this below), the system's total Cost (i.e., pension and other payout of benefits) will rise from $510 billion in 2005, to about $1.872 trillion in 2055. The Total Income is the sum of two elements: Contributions, or Tax Income, which comes from the payroll tax; and Interest paid on the Total Assets (i.e. Treasury securities) held by the Social Security Trust Fund, which stood at $1.684 trillion at the end of 2004.

Costs exceed Income in 2018 only if you consider Tax Income alone—i.e., if you ignore interest payments in that year, which are expected to be some $201 billion. The only way that can happen, is if the U.S. Treasury defaults on the trillions in Treasury Bonds held by the Social Security Trust Fund. Is that what is intended by those who keep hollering about 2018?

Otherwise, the linear extrapolation of the SSA's incompetent assumptions in this Low Growth scenario, indicates that there will be a (diminishing) year-to-year surplus until the year 2028. After that, a (growing) deficit will commence. What that translates into for the Social Security Trust Fund is shown in **Figure 2:** the fund grows to a high of $3.8 trillion, and then declines until it goes negative in 2042.

This is the much-ballyhooed date on which something akin to the heat-death of the universe occurs, if the Bush crew are to be believed. But is this in fact our inexorable fate, as we are being told? It will be so only if the disastrous economic "assumptions" behind these graphs are imposed on the United States as policy, as Shultz and the other Wall Street hit-men intend.

A word about the SSA's economic assumptions is in order, at this point.

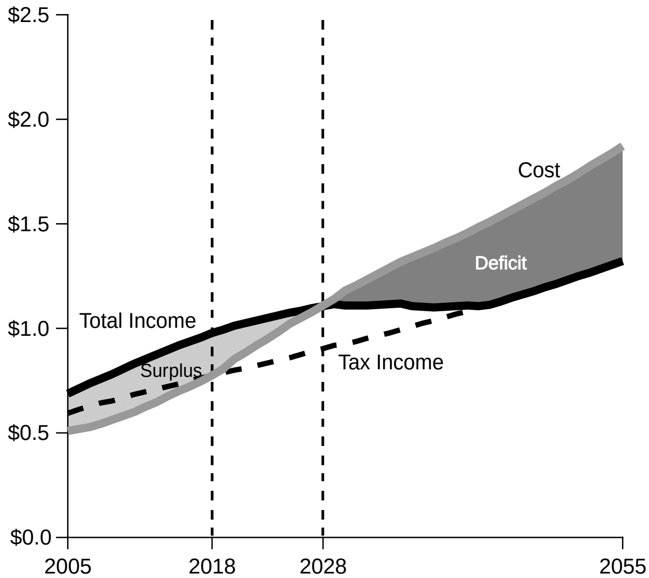
Table 1 presents four of the principal economic assumptions in the SSA projections. The first two—real wages and employment—are arguably the most decisive, as together, they directly determine the Contributions portion of the Total Income curve. In a nutshell, multiplying the real wage rate by total employment gives you a total national wage bill. Not all wage income is taxable by Social Security—e.g., income above about $90,000 per year is not taxed—but by and large, if wages rise and employment rises, Social Security Contributions will rise proportionally (see "Social Security: A Jobs Boom Would Perpetuate the Surplus," *EIR,* March 4).

The GDP and Productivity assumptions, although mathematically quite significant in the SSA models, are much flakier, and may reflect next to nothing about the actual physical economy. Productivity is measured simply as an increase in the dollar value of output, per unit of labor time worked. Thus, productivity will tend to rise under conditions of labor speed-up, even if the physical economy and its labor force are being ground up in the process—as is occurring under the Bush Administration.

The SSA presents projections based on three different sets of assumptions. The first they call "Intermediate," which generates the Low Growth scenario of Figure 1. The second is called "Low Cost," a misnomer, because it generates a somewhat higher growth trajectory of the economy. A final set of assumptions—which we have not listed in Table 1—is called their "High Cost" case, which in fact amounts to a zero-growth, or collapsing economy. Here, real wages rise by only 0.6% per year, and employment by 0.0%, i.e., it stops growing altogether. (For reasons we explain below, *EIR* has also interpolated a Moderate Growth scenario, by taking a mid-point between the SSA's assumptions of Low and High Growth.)

Two things are immediately evident from Table 1. The first is that the SSA's most optimistic, High Growth scenario is premised on economic growth assumptions which are *lower* than what was historically achieved in the five Clinton years of 1995-2000! Second, the Low Growth "assumptions" look an awful lot like what the Bush Administration has already achieved by its *policy intent,* from 2001-2003.

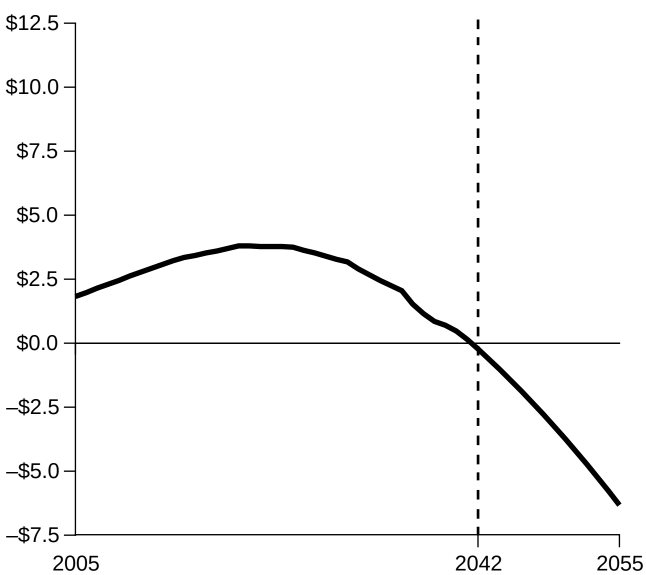
FIGURE 1
Social Security Income and Cost, Low Growth*
(Trillions Constant 2004 Dollars)



*SSA's "Intermediate" assumptions.

Sources: Social Security Administration (SSA); *EIR.*

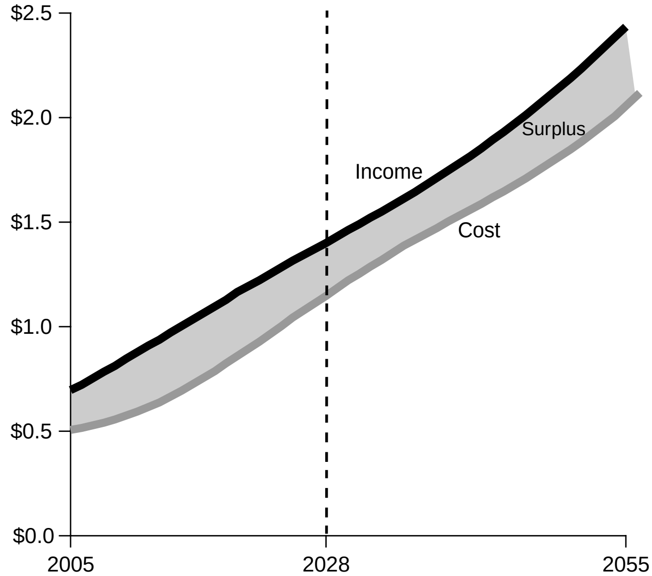
FIGURE 2
Social Security Trust Fund, Low Growth*
(Trillions Constant 2004 Dollars)



*SSA's "Intermediate" assumptions.

Sources: Social Security Administration (SSA); *EIR.*

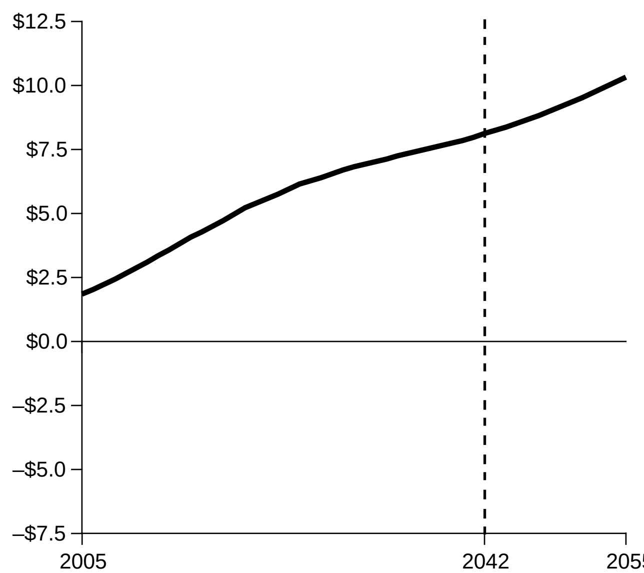
FIGURE 3
Social Security Income and Cost, High Growth**
(Trillions Constant 2004 Dollars)



**SSA's "Low Cost" assumptions.

Sources: Social Security Administration (SSA); *EIR.*

FIGURE 4
Social Security Trust Fund, High Growth**
(Trillions Constant 2004 Dollars)



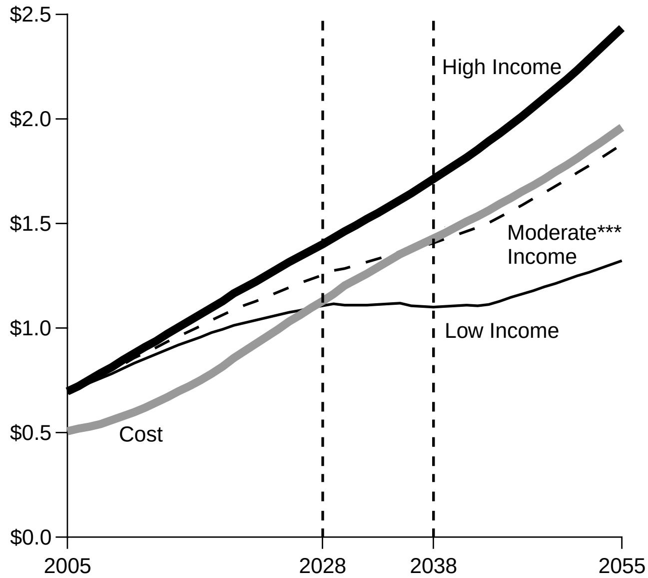
**SSA's "Low Cost" assumptions.

Sources: Social Security Administration (SSA); *EIR.*

FIGURE 5

Social Security Income and Cost, 3 Options

(Trillions Constant 2004 Dollars)



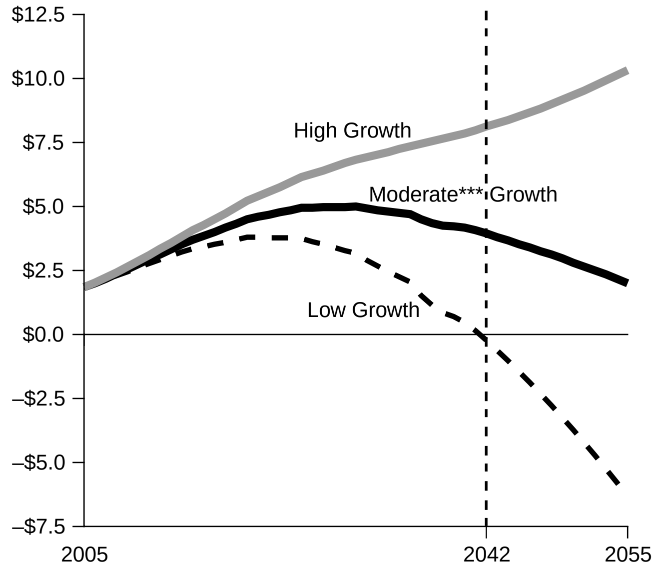
***EIR estimate.

Sources: Social Security Administration (SSA); *EIR.*

FIGURE 6

Social Security Trust Fund, 3 Options

(Trillions Constant 2004 Dollars)



****EIR* estimate.

Sources: Social Security Administration (SSA); *EIR.*

The Question of Wages

Little Lie #2: *The only way to maintain a Social Security surplus is by cutting benefits or increasing taxes.* Not true. Consider **Figure 3,** which shows the curves derived from the SSA's so-called "Low Cost" set of assumptions—which produce an overall higher growth trajectory. Under these assumptions—which keep both taxes and benefit levels as under current law—the system's Income exceeds Cost throughout the entire 50-year period, and on down the line. This leads to a Social Security Trust Fund which continues to grow, reaching some $10.343 trillion in 2055 (**Figure 4**).

The principal assumptions behind such a High Growth trajectory are listed, again, in Table 1. Employment, for example, increases by an average 0.6% per year, as compared to 0.2% in the SSA's Low Growth scenario. And real wages rise at 1.6% per annum, rather than the 1.1% assumed in the Low Growth scenario. Note that even that higher level of wage increases is only *half* the rate of growth during the 1995-2000 Clinton Administration years.

Little Lie #3: *No matter how much you raise GDP or real wages, this won't produce a Social Security surplus.* Not true. This lie was stated in almost as many words by Treasury Secretary John Snow, in testimony to the House Ways and Means Committee on Feb. 8. Snow dismissed this option with the argument that, although such GDP and wage increases do raise SSA Income, they simultaneously raise benefits paid out by a corresponding amount, and therefore do not improve the net outcome significantly.

TABLE 1

Principal Economic Assumptions

(Average Annual Percent Growth)

	1995-2000 (Clinton)	2001-03 (Bush)	2010-2080 Low Growth*	2010-2080 Moderate Growth**	2010-2080 High Growth***
Real Wages	3.1	–0.7	1.1	1.35	1.6
Employment	1.8	0.2	0.2	0.4	0.6
GDP	4.0	1.9	1.8	2.2	2.6
Productivity	2.0	2.9	1.6	1.75	1.9

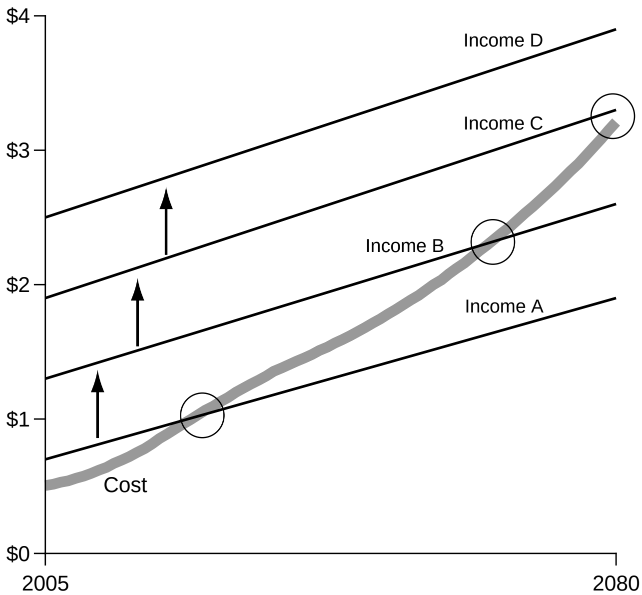
*SSA's "Intermediate" Assumptions ***EIR* Estimate ***SSA's "Low Cost" Assumptions

Sources: Social Security Administration, *EIR.*

FIGURE 7

Income Curve Over Time Shifts With Economic Policy

(Trillions Constant 2004 Dollars)



Sources: *EIR.*

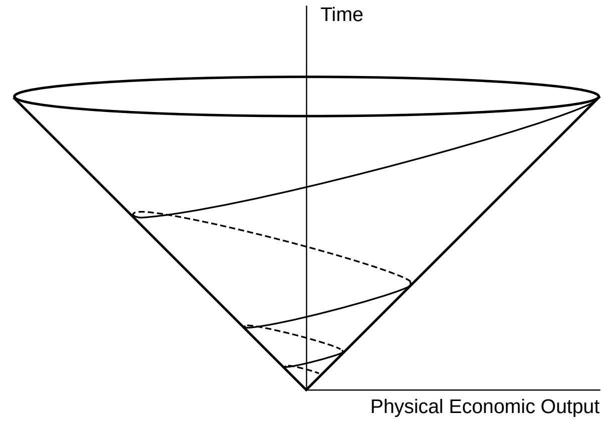
To get at the wage issue, as a first step, simply compare two of the SSA's own scenarios, and a third one generated by *EIR*—as we do in **Figure 5.** With the SSA's most publicized Low Growth set of assumptions, total SSA Income is greater than Cost until 2028, at which point Cost starts to outrun Income—as noted in *Figure 1* above. Under these assumptions, real wages only increase at 1.1% per year.

Then, turn to the SSA's High Growth scenario, which has real wages growing at 1.6% per year—as in Figure 3 above. In this case, over the 50-year period 2005-2055, SSA Income rises by 84%, up to $2.436 trillion. Costs also increase—but by a much smaller 9.5%. This produces a barely discernible upward shift in the Cost curve between the two cases. In other words, the changed parameters between these two sets of assumptions raise the Income several times as much as they raise Costs. So in this case, Costs *never* exceed Income—i.e., there is a long-term continuing surplus.

In *EIR*'s third scenario, of Moderate Growth—which we have drawn by simply taking a case halfway between the SSA's Low Growth and High Growth scenarios, and which assumes real wage growth of merely 1.35% per year, on average—Income would continue to exceed Cost until 2038, and the Social Security Trust Fund wouldn't run out until 2066 (see **Figure 6**). It should be emphasized that in no way, is this *EIR*'s *proposed* policy scenario—we will come to that point further ahead. It simply shows that a very slight increase of wages can postpone the purported doomsday, by decades.

FIGURE 8

The Physical Economy Grows: Self-Similar Conic Spiral Action



It is true that wages are not the only assumption that varies between the SSA's Low Growth and High Growth scenarios. For example, employment grows more rapidly (.6%) in the latter case than the former (.2%), and there are questionable other assumptions such as an increased death rate (which reduces Costs), which are hardly desirable from a policy standpoint.

So, to try to further isolate the wage component from the other variables, *EIR* obtained from the SSA, the outcome of a computer run, using SSA's model, in which all the other Low Growth set of assumptions were preserved, but real wages were increased, not by 1.1% per year, but by an average 2.6% per year, over the 75-year horizon from 2005—2080. According to the SSA itself, this produced only a miniscule "negative net actuarial balance" over that time frame—which means that total Income would exceed Cost for approximately the first half of that period, and then Cost would be greater than Income for the second half, and the cumulative total would pretty much balance out.

Put otherwise, under this scenario the Social Security Trust Fund Assets would grow from their current level of about $1.684 trillion for the first half of this 75 year period, and then decline back down to $1.6 trillion by 2080. The Trust Fund would not run out until well *after* 2080, under such assumptions of a real wage increase, alone.

It is clear that increasing real wages—the natural result of a healthy, growing economy, with continuous growth of real productivity—is a policy option that can help keep the Social Security system in the black to perpetuity.

The Big Lie

Which brings us to the big lie which is the bedrock of each and all of the Bush Administration's scenarios and assumptions.

The lie usually takes the form of arguing that, you can increase this, and increase that, but, in the final analysis, our population is growing older and living longer, and we just can't sustain all of those "useless eaters" (retirees, disabled people) with a smaller and smaller labor force. In other words, "inexorable demographics" will eventually end up bringing the system crashing down.

This is nothing more than a rewarmed version of the old Malthusian argument that population growth—which progresses geometrically—will eventually outpace the growth of food production—which only progresses arithmetically, and ultimately runs into the brick wall of finite resources which sooner or later run out.

Malthus was wrong and a fraud back in 1798, when he penned these arguments to justify the British Empire, and to attack the newly independent United States. And the Bush privatizers are wrong and a fraud today, when they repeat these lies in defense of their proposed new world empire, and against the legacy of FDR in the United States.

To look at the matter in terms of the graphics presented above, the modern Malthusians argue that you may be able to put off the day of reckoning of the Social Security system by having your Income curve rise more steeply, but eventually it will dip under the Cost curve, and lead you to deficits and oblivion.

But that is *not* how the real, physical economy works. A more accurate first approximation is presented in **Figure 7,** where you see a series of *shifts* over time in the Income curve—from A, to B, to C, to D, and so on—which are the result of deliberate policy changes. These policy changes include not only such monetary measures as increasing real wages, but more fundamental ones such as investment in science, technology, and basic infrastructure, which modify the overall physical productivity of the economy.

Such transformations make it possible for a given society, such as the United States, to maintain the retired portion of its population at a standard of living compatible with human dignity and society's continuing need to advance, *with progressively smaller proportions of its total societal labor time.* This is because man's unique nature as a cognitive, creative being, allows for the constant improvement of the productive powers of labor.

This is the very essence of a successful physical economy—the American System of Economy—as discussed by Lyndon LaRouche in his numerous writings on the subject. LaRouche has frequently represented this process of unending increases of the productive powers of labor, with that of self-similar conic spiral action (see **Figure 8.** Here, each new unit of rotational action (360°) sweeps out a larger and larger area—i.e., the same action produces more and more work, and thus physical economic output.

The upward shifting Income curves shown in Figure 7 should thus be thought of as the shadow cast by the actual physical economic process represented in Figure 8. For this same reason, such upward shifts have no upper limit—man can continue to progress infinitely. So long as he does so, there is no reason that a Social Security system such as that designed by President Franklin Roosevelt, cannot continue to remain solvent—and then some—to perpetuity.

The only real question is whether you want the Earth's next 50 years to be as forecast by LaRouche, or as planned by the fascist banking cabal that has instructed George Bush that he must privatize Social Security.

Mexico's Privatization: A José Piñera Disaster

by Dennis Small

In an April 10, 1998 open letter to President Bill Clinton, José Piñera, the architect of Chile's fascist Social Security privatization, wrote: "This [Chilean] success has led seven other Latin American countries—Argentina, Bolivia, Colombia, El Salvador, Mexico, Peru, and Uruguay—to emulate our example in the last five years."

Let's look at what Piñera and his Wall Street sponsors wrought in Mexico—a country that Piñera personally visited in 1997, to help ram through pension privatization.

In December 1995, during the government of the pathetic Yale economist Ernesto Zedillo, Mexico's Congress passed a new Social Security Law, which went into effect in July 1997. It made it mandatory that all private sector employees "invest" their pensions with private *Afores* (Retirement Fund Administrators), rather than with the state-run, pay-as-you-go IMSS (Mexican Social Security Institute).

The agency for public sector workers, ISSSTE, has not been privatized as of 2005, although there is a campaign under way to do so. Of the total Social Security system in Mexico, the IMSS covers about 81%, the ISSSTE 15%, and a handful of other smaller programs account for the remainder.

Looting by Foreign Banks

After almost eight years in operation, the privatized system is a disaster. According to a study published in 2004 by the Parliamentary Group of the opposition PRD party, *The Pension System in Mexico:*

• 26% of the labor force are not covered at all, because they do not pay in, or they do so at a level too low to qualify for a pension. This reflects—and probably understates—the massive unemployment and underground or "informal" activity in Mexico.

• 47% of the labor force is either seasonally employed or have wages so low, that they will receive benefits less than the official minimum pension.

• Only 27% of the labor force will receive a pension greater than the official minimum. This is almost as bad as Chile, where only 20% of the labor force will get a pension greater than the minimum.

Mexico's Afores, like Chile's AFP's, skim a cool 25% off the top of what workers pay in, as administrative fees. There are currently 12 Afores, managing about $37 billion in assets, and they are 77% controlled by foreign financial interests. These interests include Citibank, which controls 23% of the