Bush panel recommends diverting Social Security funds into stock market

Shannon Jones
11 August 2001

The Social Security commission appointed by President George W. Bush has unanimously adopted a staff report calling for the diversion of Social Security funds into the stock market. The plan for individual retirement accounts being advanced by the White House is but a thinly veiled attempt to sharply cut back or eliminate guaranteed federally supported pensions for retired and disabled people.

On July 19 the commission issued an interim report that claimed Social Security was "broken" and warned of an impending financial crisis unless Congress adopts its proposals. It pointed to the year 2016 as a "critical juncture" when current projections indicate that Social Security benefit payments will begin to exceed revenues because of the retirement of large numbers of those born in the postwar "baby boom."

The so-called Commission to Strengthen Social Security is comprised entirely of supporters of privatization. It is co-chaired by Time Warner CEO Richard Parsons and former Democratic Senator Patrick Moynihan. Bush created the panel to lay the groundwork for a legislative assault on the retirement program. Big business is determined to claw back hundreds of billions of dollars currently used to subsidize retirees and disabled people and pour them into the stock markets.

The report of the Social Security commission contains many deceptions and outright lies. The claim that the diversion of a portion of Social Security payroll taxes into private accounts will strengthen the system is false. In fact the opposite is the case. While such accounts guarantee a windfall for Wall Street banks and brokerage houses, they will increase, not decrease, the insecurity of those depending on Social Security. Further, the proposal to divert one-sixth of Social Security taxes to private accounts would push forward to 2007 the date at which revenues could no longer cover benefit payments.

In testimony before the House Budget Committee on July 27, Henry Aaron, an economist with the Brookings Institute, warned that the proposed changes could result in a disastrous decline in benefits, especially for poorer sections of the working class. "Under the Bush plan," he said, "cuts in combined Social Security and individual account benefits for married, low earners who receive lower than average returns on their individual accounts could approach 50 percent."

By claiming that a crisis is imminent the Bush administration seeks to whip up a panic atmosphere where cuts packaged as reform can be pushed through before millions of workers realize what is happening. By means of statistical tricks the commission's report seeks to build the case that Social Security discriminates against poor people, women and minorities, the very groups who have the most to lose if the system is dismantled.

The report goes so far as to suggest that the US government might default on its obligations to the Social Security trust fund, which is held in the form of US Treasury bonds, rather than raise taxes or cut back spending in other areas. It is estimated that money accumulated in the Social Security trust fund is sufficient to sustain payment of benefits at current levels until 2038. To keep the system solvent after that point only relatively modest changes would be required.

The report asserts, however, that the securities held by the trust fund are only paper claims and have no real value. Said Stanford University economist John Cogan, a commission member and deputy director of the Office of Management and Budget under President Reagan, "That's right, it's gone—yes, yes, yes."

Imagine for a minute the howls if the government raised the specter of a default on its obligations to redeem government securities held by the banking and corporate sector! But the prospect of the government reneging on its obligations to tens of millions of working people whose lives would be ruined by a default raises few eyebrows in the big business press.

If a danger exists to the solvency of the Social Security fund, it is largely due to the fact that the government has dipped into the multitrillion-dollar surplus to pay for its massive military budget and other expenditures and subsidize huge tax breaks for the wealthy.

Any threat to Social Security will be exacerbated by the tax cut signed into law by Bush two months ago, which amounts to $1.7 trillion over the next 10 years and $4.1 trillion over the following 20 years. During the debate on the tax cut the Bush administration and the Republicans dismissed concerns that a large tax giveaway to the rich would undermine the solvency of Social Security.

This underscores the point that a major purpose of the tax cut was to starve the federal treasury, forcing an early assault on Social Security, Medicare and all remaining social programs. The fact that the Democrats acquiesced to the massive tax cut makes them accomplices of the plans to gut Social Security.

In fact, important sections of the Democratic Party, which has until now generally opposed, at least in public, substantial changes to Social Security, have come out in support of diverting a portion of the system’s funds into the stock market. Speaking at a news conference July 24, Representative Ellen Tauscher of California called for investing 10 to 13 percent of the Social Security surplus in stocks. She was joined by Senator Jon Corzine of New Jersey, who advocated placing Social Security money in mutual funds.

In a July 29 editorial in the *Washington Post*, Jeffrey Liebman, a former assistant to Bill Clinton on economic policy, while claiming to oppose cuts to the system, made a major concession to the Bush plan. He called individual accounts the only realistic means of strengthening Social Security “in the current political climate.”

Meanwhile Senate Majority Leader Tom Daschle suggested that Democrats could support a pilot project that would allow some investment by the government in the market.

One conservative Democrat, Representative Charles Stenhom of Texas, has co-sponsored a bill with Republican Jim Kolbe of Arizona calling for individual accounts, cuts in benefits, reduced cost-of-living adjustments and an accelerated increase in the retirement age to 67. Benefits would be reduced further in line with any increase in average life expectancy. The plan is widely seen as a stalking horse for specific cuts the Bush-appointed Social Security commission is likely to propose.