Ryan-Sununu Bill: Case Study of Looting Plans

by Richard Freeman

"If you asked the Chilean people, they would say that Social Security privatization is the best thing that the Pinochet dictatorship ever did." Asked if this was his own view, the individual said, "Yes, there are real criticisms of the Pinochet dictatorship. That [privatization] is the best thing it ever did; it was a huge boon for the Chilean economy."

The speaker is Tom Giovanetti, president of the Dallas, Texas-based Institute for Policy Innovation (IPI), in a discussion on Dec. 13.

The Wall Street and City of London banks' push for privatization, under the direction of "Economic Hit Man" George Shultz—one of the original authors of the 1973 Pinochet coup—is now in the phase of legislative proposals, one of which Republican leaders intend to ram through Congress as quickly as possible at the beginning of 2005. The insane President George Bush has manically promoted this, his most recent and unbalanced appearance being at the panels of the Dec. 15-16 "White House Economic Summit."

Emerging as one of Wall Street's preferred pieces of legislation for privatization, is the so-called "Social Security Personal Savings and Prosperity Act of 2004," (HR 4851), sponsored by Rep. Paul Ryan (R-Wisc.) and Senator John Sununu (R-N.H.), and known, therefore, as the Ryan-Sununu bill. Among the 18 or so privatization bills, this one seeks to siphon off the greatest amount of money to Wall Street, and in its general features, is broadly representative of most of the other bills, being simply more extreme. This Ryan-Sununu bill was written, directly, by Tom Giovanetti's IPI, and deliberately modelled by Giovanetti, his staff, and his controllers on Pinochet's Chilean privatization model.

The bill, like others in the same pipeline, represents the need to shift trillions of dollars of Social Security's money into the speculative markets of a dying financial system. Speaking on WKVO radio station in Columbus, Ohio on Dec. 16, Lyndon LaRouche noted that "what [the bankers] need the Social Security funds for now, is to try to put a stimulus into the financial market, just to build up the market, the financial market: Because they know that very soon, there is going to be a real avalanche that's going to hit the U.S. financial market. That's inevitable. They want to steal Social Security—they're going to steal *all of it;* not some of it. What they're talking about is the shoe in the front door, but they intend to put the whole foot in."

This will leave millions of Americans with nothing; many will die of privation. To implement this program, requires a fascist dictatorship on a scale greater than Pinochet's; no wonder they openly speak of George Shultz's favorite "Chile model."

80% of Payments To Go to Stock Market

The Ryan-Sununu bill has three major provisions. Its sponsors seek to package the bill in "anti-austerity" verbiage, in order to con some wayward Democratic and moderate Republican support. Indeed, it will carry out harsher benefit cuts, despite its denial, than privatization plans that specify large cuts up front. Further, its economic assumptions are more psychotic than an LSD trip.


Rep. Paul Ryan

Let's examine the first of the provisions of the Ryan-Sununu plan, the one it shares in some form with all the others. Its key objective is to siphon off Social Security tax payments that would normally go into the Social Security Trust Fund, into individual accounts instead, to be invested in the bubble-ized stock market instead, and secondarily, the corporate bond market.

Under the current, successful Social Security system, each worker contributes 6.2% of the first $87,900 of his or her wages (payroll), to the Social Security Trust Fund; his employer contributes the same amount; the total equals 12.4% of the worker's salary. When the Social Security Trust Fund maintains a surplus, which it is doing and will do for the next few decades, it invests this money, by law, into reliable, risk-free U.S. Treasury securities, which pay a dependable, but moderate rate of return. In fact, under the traditional system, the retiree's benefit increases each year by a rate greater than the inflation rate, so that the retired worker is getting a real benefit increase each year.

By law, the Social Security Trust Fund cannot invest in stocks or corporate bonds, because of the high risk involved: stocks can go up, but they can also crash.

The ideological gaggle of privatizing think-tanks, financial institutions, and lawmakers plan to gouge the American people's Social Security contributions—the largest cash flow in the world—directly from the workers' living standards. The Ryan-Sununu sponsors say their legislation will make joining the new system voluntary. But by relentlessly bombarding workers with lies—such as that the traditional system will go bankrupt imminently; that by staying in the traditional system, workers will lose benefits; that by going into the new system, workers can magically earn triple what they would earn in the traditional system—workers are to be stampeded into the new system, just as they were in Chile. The Ryan-Sununu backers say that it would not be mandatory, as with other proposals, for young workers to join the new plan; but that can be changed once the new system is in operation.

A Dec. 1, 2003 press release from IPI disclosed that under the proposed legislation, there would be "a dramatic increase to an average of 6.4 percentage points of the payroll [Social Security] tax to be moved into personal accounts." That is a diversion of payments that would represent 52% of the 12.4% Social Security tax normally paid by workers and employers combined; what is normally paid into the Social Security system now would go into Individual Accounts (IAs) managed by Wall Street firms, and for which the firms would collect a fee in the range of 10-25% of the value of the account. The IPI says that it will tell young workers to invest 80% or more of their new accounts in stocks—to "make more money."

Thus, trillions, and eventually tens of trillions, of dollars would be diverted into the stock and other market accounts, and simultaneously, would prop up the dollar and the dollar-based system, by covering the United States' bulging current account deficit, which foreign investors are becoming increasingly unwilling to do.

Lies and Fantasies

The problem this grand theft creates is obvious and enormous. The current traditional Social Security system works as follows: Each employed worker contributes to the retirement benefits of those who are retired; when this contributing worker retires, the next generation of the labor force contributes to his or her retirement benefit. However, because the Ryan-Sununu bill would pull half the tax payments that would normally go to the traditional Social Security system, out of that system, this would create a gaping hole. Very soon, were such a bill to become law, the traditional system would be able to pay merely half the level of benefits.

Sen. John Sununu

At this point, the banker supporters of this plan claim that they "break new ground": They claim that they will not institute austerity. Whereas some plans would cut existing Social Security benefit levels by 15-45% over the coming decades, "this plan won't," they say. They claim that they have an alternative way to deal with the problem they are planning to create. As former Congressman Jack Kemp argued in a Dec. 9 column, were the Ryan-Sununu sponsors to say that they will cut benefits, they would get few, if any, Democratic supporters for their bill, and it would never be adopted by Congress. Therefore, Kemp advised, don't admit benefit cuts. This is pure, mendacious calculation. Kemp calls for using the same quackery that he used to pass the 1981 Kemp-Roth tax cuts, as part of the larger "supply-side" tax cuts of Ronald Reagan's Administration—which, over the period 1981-93, overlapping the single term of President George H.W. Bush, created more U.S. debt outstanding, than had been created during the previous 185 years of American history.

The Ryan-Sununu second prong is a fiscal austerity demand on the whole Federal budget, placed in a bill purporting to "reform" Social Security alone. The bill specifies an *annual* 1.5% cut in the Federal budget, according to a July 2004 IPI policy report by Lawrence Hunter. The IPI dismisses this cut as hardly harmful, though its effects will be significant. There will be much deeper additional austerity.

Part three of Ryan-Sununu would plunge the United States into huge new Federal debt. It calls for issuing up to $5 trillion or more of U.S. government bonds, which IPI's Giovanetti says will be like special issues of 30-year "war bonds"—war on Social Security?—*for which the U.S. government will be fully responsible.* Giovanetti stated on Dec. 8 that the sponsors of the legislation would issue these bonds to "honestly face the liabilities," though the shenanigans they are trying to pull on this front show anything but honesty.

But to fully understand these latter two prongs, one must examine a piece of insanity central to the bill.

Martin Feldstein's Psychosis

In January 1996, former Council of Economics Advisers chairman Martin Feldstein delivered a paper which has become the touchstone for not only the Ryan-Sununu bill, but also the closely allied Cato Institute bill (sponsored by Rep. Sam Johnson (R-Tex.) and known as HR 4895), and several others.[1] In this paper, Feldstein, who is a property of Anglo-American banking circles—his higher degrees were at Oxford University, and he is a member of JP Morgan Chase Bank's advisory council—proclaims his faith in the near-miraculous power of "compound interest." This power, he professes with the fervor of a religious fundamentalist.

Feldstein advances a stock-market-led recovery—put money into the stock market, and the economy will grow. Feldstein states that between 1960 and 1995, the real pre-tax return on non-financial capital was 9.3%. Therefore, if under privatization, workers' individual accounts were put into stocks, they would earn up to a 9.3% compounded return on investment per year. That would produce hundreds of thousands of dollars for workers' IA accounts with which they

1. "Privatizing Social Security: The $10 Trillion Opportunity," delivered at the American Economics Association meeting of January 1996. Available in shortened form at www.cato.org/pubs/ssps/ssp7.html.

could retire. The 9.3% rate is too much psychosis even for the supporters of Ryan-Sununu to swallow. They say the compounded rate of return on IA accounts will be 4.6%. The point is simply to take a number and compound it, ivory tower-style—let reality be damned!.

There are two overriding problems with Feldstein's approach, and that of his accolyte. First, stock market speculation will not build growth, it will intensify the takedown of America as a producer economy. Second, there is the matter of reality. A 4.6% compounded rate would produce a 25% return over five years. But according to Standard & Poors, during the most recent five years ending December 2004, the stock market's real rate of return has been sharply negative. And during the approaching period, the collapse of the financial system will cause catastrophic drops.

However, on the surface, everything in the Ryan-Sununu bill, and sister bills, depends on the Feldstein "compound interest." The Ryan-Sununu bill is explicitly premised on the fact that allegedly, the worker will earn so much in his or her IA through investment in stocks, that his benefits under the old traditional Social Security system can be cut, by up to 100%, with no problem! Through the new system, the worker will be rolling in dough, *so the old traditional benefits won't really have to be paid.*

Likewise, the new stock market speculation will produce so much growth, that this will increase tax revenues, and the $5-10 trillion in new bonds that the U.S. Treasury will issue, to cover the cost of moving to a new privatized system, "will be easily paid off."

Of course, the sponsors of the new legislation are trying to carry out some new and completely unprecedented trickery, by having the new $5-10-trillion bond issuance they propose, placed "off-budget," so that the new debt won't have to be officially reported. This is lying at the highest degree.

However, some of the ruthless financiers who stand behind the Ryan-Sununu and similar bills, don't really believe the "compound interest" garbage. They simply want to get their hands on the money as quickly as possible, using whatever excuse is necessary. When the compounded interest doesn't materialize, they will simply fiercely cut benefits—as was done in Pinochet's Chile, and as was done in Hitler's Germany. That is why they openly demand the "Chilean model."