Two versions of a Social Security fund

by Leif Johnson

The Jan. 15 proposals presented by the President's Social Security Commission demonstrate how dangerous, if not plainly evil, a set of seemingly minor adjustments to the economy can be.

Most people will focus their attention on where the commission intends to obtain the money to meet the Social Security system's obligations. In this, there are no surprises: the commission demands a new round of wage taxation, coupled with cuts in Social Security payout—the equivalent of deferred wages for retired workers, accumulated from taxes on their pre-retirement wages.

The only obvious incongruity here is that AFL-CIO President Lane Kirkland not only supported every wage-taxation element enumerated in the recommendations, but also proposed an additional $40 billion Social Security tax to those earning more than the present $19,000 cut-off.

The real matter of economic importance is not simply where the commission will get the money—a total of $169 billion over the next six years—but what they intend to do with that money. They are going to hoard it. The commission proposes to replenish the Social Security Trust Fund, which would build the fund to slightly more than $100 billion by 1989.

That Trust Fund, written into the original 1935 Social Security Act, cannot lend or otherwise invest its resources in the U.S. economy. It must sit there, a Midas-like hoard, sterile, quarantined from all economic use. The Trust Fund was designed by the Social Security Act's original sponsors—a group of New York City private banking houses—to abort the 1936-37 recovery and to reorganize the Depression economy into Mussolini-style corporatism.

Thus, what the commission, headed by Alan Greenspan, a member of the fascist Mont Pelerin Society, proposes is to bleed the depressed U.S. economy of $169 billion, and then freeze that money. This is the credit-crunching policy conducted by Federal Reserve Board Chairman Paul Volcker since October 1979; and it was Volcker's credit restriction, combined with usurious interest rates, that has reduced the wage base of the Social Security tax to the point that the system could not finance its obligations to pay benefits.

It then gave the Mont Pelerin monetarists a further opportunity to wreck the American economy.

President Reagan and Congress, confronted with the need to achieve a solution to the underfunding of the Social Security system, face a situation like that of a cash-strapped industrial company. Our hypothetical company is simultaneously faced with the illiquidity of its pension system and the necessity to replace its machinery. Should the company's scarce resources be allocated to the pension system or the replacement of machinery?

If the company's executive meets pension payments, he satisfies his retirees or his local union, but because he cannot replace machinery, he goes broke and his employees have neither jobs nor pensions. If he replaces machinery he may save the business and can make up pension payments that were missed.

A national economy has, of course, a greater freedom than any single employer. It can issue credit to cover expenses so that, if the economy is functioning properly, it should never be in a payments crisis where one or another payment must be triaged. Yet the economy operates under the same constraint as the individual entrepreneur. It must produce wealth, in ever increasing amounts and, necessarily, more productively.

Thus, the federal government must ensure the proper investment in wealth production. Failing that, the government automatically abnegates any long-term commitment—such as Social Security—although the population may not discover the failure until long afterwards.

Consider the effects that sterilization of $169 billion in the Trust Fund through 1989 will have on the present economy. These funds could be deployed in one of three immediately necessary items of national deployment:

1) Funding, through loan guarantees or export credits of U.S. exports. Amounts as low as $25 billion a year would, in conjunction with a New World Economic Order debt reorganization, produce an export increase of probably $100 billion annually, which could create well over one million industrial jobs. A million newly employed workers would pay $2 billion annually in Social Security taxes.

2) Development of the antiballistic-missile beam-weapons system which would create the technological basis for full scale application of laser and fusion technologies in industry. This would cost $100 billion over 10 years, or about half the funds sterilized annually by the Trust Fund's replenishment.

3) Development of nuclear fusion power, the door to a new industrial revolution. According to the Fusion Act passed in late 1981, the total cost of this effort through the year 2000 would be $10 billion.

A true Social Security Trust Fund, one designed to fulfill its obligations, would be an "industrial growth fund." From this fund the government would finance breakthrough industrial technologies and stimulate domestic growth through world trade. The profits of this growth would allow industries to install the newly developed technologies.