Change the Assumptions to Growth, And Social Security Is in Fine Shape

by Richard Freeman

In testimony before the House Ways and Means Committee on Feb. 8, U.S. Treasury Secretary John Snow engaged in a heated, sometimes acrimonious exchange with Rep. James McDermott (D-Wa.), a leading member of that committee:

The meat of the exchange went as follows.

McDermott: Well, let me ask you a question about the problems with Social Security. You're a trustee [of the Social Security Trust Fund]. You sit there and they present you with three options. The trustees always select the lowest option. This is based on 1.8% [GDP] growth. Now when was the last year the United States economy grew 1.8%?

Snow: Congressman, we're looking at—

McDermott: When was the last year?

Snow:—40 years. . . .

Shortly thereafter:

McDermott: What if we said 3% [growth in GDP]; what would that do to the extension of [solvency of] the Social Security?

Snow: Almost nothing.

McDermott: Nothing?

Snow: Yeah, almost nothing, because the growth in wages translates into growth in benefits and absorbs the effect, so that the obligation of Social Security rises very fast too—rises at the same rate, basically.

McDermott: So your testimony is that the growth in wages means absolutely nothing in terms of increasing the longevity of the fund? Is that what you're testifying here?

Snow: No, not absolutely nothing. It means very little, and over the long term means almost nothing.

McDermott: Would you put that in writing? I would like to see that for those figures.

Snow: Sure, I'd be delighted.

Snow's statements that wage increases do not make a difference to Social Security, because when wages are increased, beneficiaries' benefits increase at the same rate, is flat-out untrue. When a top official of the Office of the Actuary of the Social Security Administration (SSA) was presented with what Snow said, and asked to comment, he told *EIR* Feb. 22,

"that's unfortunate. It's not the case."

The members of Team Bush have become more frenetic, as the bankers and George Shultz become more desperate about the state of the collapsing world financial system, with each new seismic shock that strikes it. Cheney/Bush et al. need to get Wall Street's hands on the Social Security cash flow now. Their statements are not meant to be true, but to continue a certain policy.

For 40 years, the financier oligarchs have imposed a post-industrial society policy that has destroyed the U.S. physical economy, and imposed a Malthusian pessimism eating away at American culture. These circles, who in the persons of George Shultz and Dick Cheney recruited, shaped, and order the Bush Administration, state that these axioms are unchallengeable and true forever. They then place these axiomatic premises as the starting values in an "economic model," and spit out a result which is nothing other than an image of their starting axioms.

These financial oligarchs claim that their Malthusian demographic assumptions determine what will happen in the economy, when, in fact, it is real economic progress that determines demographics, productivity, and everything else.

It is as if an actuary—or, mortuary—put a pillow over someone's head, cut the person's main arteries, and denied him all food, and then predicted that "my model will show that this person will die." Well, the person is dead before the model run starts.

When the Social Security Administration predicts in its Trustees report, and the Bush Administration endorses, a 1.8% annual real GDP growth rate for decades into the future, as the basis for the prediction that the Social Security Trust Fund is going bankrupt, these predictions are either lies, or a statement of intent to enforce the deep depression.

We will show that were LaRouche's "Super TVA" infrastructure recovery and reconstruction program embedded within a New Bretton Woods international monetary system, this would shatter the Malthusian assumptions of the banks, White House, and Social Security Administration. That policy would create millions of productive jobs, foster leaps in productivity, substantially increase wages, raise the workforce's

The Physical Economy Grows: Self-Similar Conic Spiral Action

Time

Physical Economic Output
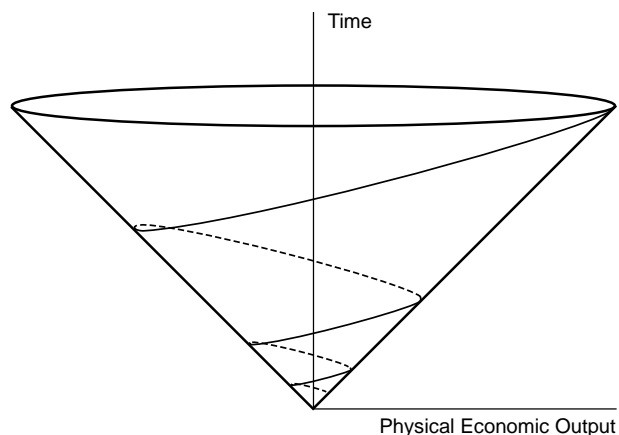
cognitive power. In the process, it would solve Social Security's "financing problem," perpetuating a Social Security surplus for generations.

We will look at this matter from two perspectives. First, the real question of whether the elderly can be sustained by the physical economy, pushing to the side all monetary/accounting matters. Second, the benefits of increased real wages and fertility.

Sustaining the Elderly

In 1984, LaRouche's book *So, You Wish To Learn All About Economics,* introduced the notion of a logarithmic spiral on a cone as an economic growth model. LaRouche pointed out that a spiral on a cylinder represented a steady-state economy, in which, as one advanced upward along the cylinder, each circular cross section of the cylinder had the same area as the cross section below; there was no growth. By contrast, LaRouche wrote, "The student should then imagine the volume of the cone is the locus of potential relative population-density, such that each circular cross-section identifies a definite potential relative population-density." Each spiral advance upward along the expanding cone represents not-entropic growth (see **Figure 1**). LaRouche advanced this idea further in his about-to-be-released book, *Earth's Next Fifty Years.*

A real economic expansion would generate increasing real productivity that is able to produce for the elderly—and every person—an increasing living standard in terms of access to medical care, the quality and amount of shelter, the market basket of consumer goods; all at a decreased cost as a share of the economy's total output and activity. That is, there is a maximization of the quality and quantity of goods, infrastructure, etc., devoted to each individual, but because

of the higher productivity of the economy, these goods represent less of a cost as a percentage of the expanding total output.

Whenever the United States has functioned on the principles of the American System of Economics, its history has proved that point. For example, over the past 200 years, because of higher productivity, America has vastly increased food output, but agricultural labor as a percent of total economic activity is far less of a share than it was 200 years ago.

With respect to medical care for the elderly, the expanded use for preventive medicine of MRIs, CAT-scans, etc.—the production of these machines on a large-scale will cheapen their cost—as well as work on new scientific principles in medicine, will lower the cost of medical care per elderly person, even while it prolongs life, and makes it more productive.

Once we know with certainty that the real physical economy has the power to sustain the elderly, this tells us that the Social Security system, whatever its financial terms, must conform to that principle.

As long as the Bush economic policies and the SSA's preselected assumptions prevail, the Social Security System will seem to be in difficulty. The SSA's leading assumptions are reported in the "2004 Annual Report of the Board of Trustees" of the Social Security Trust Fund (formally called "the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds.") We look at the SSA's Intermediate Cost Model, which is the model whose projections it most often publicizes.

Figure 2 shows that the SSA projects a sharp collapse in the annual rate of growth of real Gross Domestic Product (GDP), in the period 2015-80. The figure shows that this is substantially below what occurred between 1960 and 2000. On Feb. 28, *Bloomberg.com* commented about this projection that, "sustained annual Gross Domestic Product growth that low, would be the worst economic performance since the 1930s."

The SSA's 2004 report cranks out other Malthusian projections/assumptions, for the period 2015-2080, for productivity, labor force growth, real wage growth, and the fertility rate.

The SSA incorporates all of these elements into a determination of what it calls the Social Security Actuarial Balance, which is, right now, in deficit. For a given projected period, say 2005-2080, it adds up all the Income that will come in over this period, and all the Costs (payments of benefits) that will go out over this period, and sees which is bigger. Currently, the SSA projects this to be a deficit of $3.7 trillion in 2005 constant dollars. This actuarial deficit can also be expressed as a percent of all the anticipated payroll that will be susceptible to paying a Social Security tax over this period. Presently, the actuarial deficit, expressed as a

Social Security Administration Projection Makes Real GDP Growth Collapse, 2015-2080

(Growth Rate)
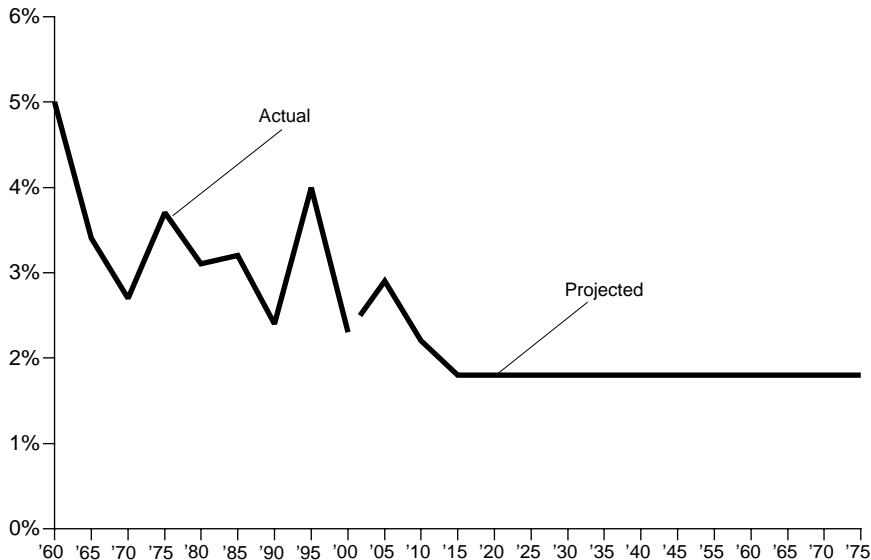
Source: U.S. Department of Commerce; 2004 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds ("2004 SSA Trustees Report").

The growth rate is shown over five-year intervals. Thus the figure for 1960 signifies growth from 1960 to 1965.

percent, is –1.89%, which represents the $3.7 trillion deficit divided by the anticipated taxable payroll over this period.

Most important, an economy governed by the SSA's projected parameters is a disaster, even without taking into consideration Social Security: this country's current account, budget deficit, and dollar valuation would blow out long before the Social Security system would go bankrupt.

Economic Transformation

Were we to have a real economic recovery, we would change all that. This would dissolve the post-industrial society nightmare.

The SSA does not allow for change of some variables—such as labor force employment or GDP—which it considers to be dependent functions of other variables in the system. However, some variables such as wages, fertility, and others can be changed.

A genuine recovery would change all parameters across the board. *EIR* examined President Franklin Roosevelt's 1939-44 economic mobilization for World War II, which scientifically transformed the U.S. economy from top to bottom, reinvigorating old industries and building new technology-driven industries from scratch. During this period, the U.S. physical economy doubled, and in some industries, the growth of real

productivity was as high as 20% per annum; for the economy as a whole, it was greater than 10% per annum. Real wages grew at 5-7% per annum.

Suppose that today's recovery program produced a real wage growth only half as large as that of 1939-44. We choose a conservative figure of 2.6% real wage growth per year. The great productivity increases would justify such a rate of wage increase. In opposition to this, the SSA assumes only a 1.1% real wage increase.

We will not calculate a wage bill, but we will indicate where the 2.6% per annum wage increase would occur.

Figure 3 shows the real unemployment in the U.S. is at least 17 million workers. Moving 10 million of those workers into the labor force over a few years' time, would not constitute a wage increase as such, but would give these workers wages, who before had none (those who now work part-time for economic reasons, would get a wage increase).

A second very powerful force would be the shift of employment patterns within the economy, as a direct feature of America's re-industrialization. One of the most dangerous characteristics of America as a post-industrial society over the past 40 years, is that it has shifted from a decent-wage productive economy into a low-wage society.

This is made stark by the comparison of two processes, which seem to be moving in opposite directions, but are the complementary phases of the *same process*. **Figure 4** shows that in 1964, the number of American workers engaged in manufacturing was 50% larger than the number engaged in retail, and leisure and hospitality sectors; but by 2004, the roles had reversed, the number of retail, et al. workers, at 27.5 million, was nearly twice as large as the number of workers in manufacturing (whose workforce had indeed contracted).
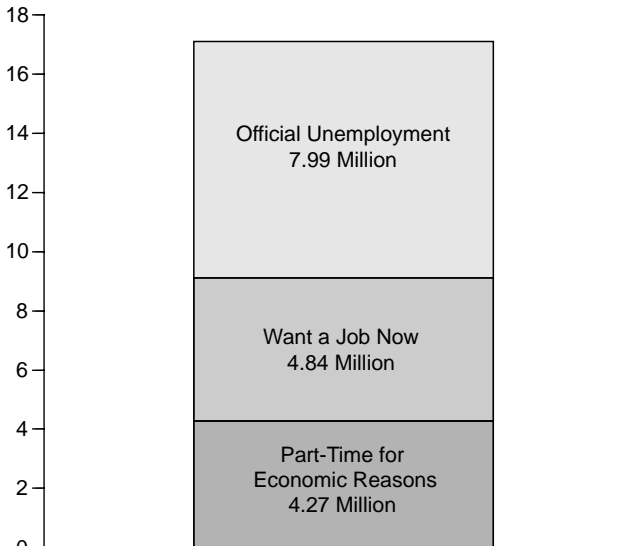
Figure 5 shows that by 2004, manufacturing workers earned $658.49 per week, more than twice the $305.17 per week of retail. Thus, there are twice the workers in retail, et al. as in manufacturing, but each such worker earns 45% of the wage of a manufacturing worker.

This has several deleterious consequences. First, manufacturing workers are productive workers who transform nature for man's advancement; retail workers are overhead. Second, in a functioning economy, the wage represents the capacity, for a worker and his family, to purchase a market basket of goods for their material and cultural development. If one earns a low wage, that development is stunted or does not occur. Third, a

Real Unemployment Is at Least 17 Million, February 2005

(Millions of People)

Source: U.S. Department of Labor, Bureau of Labor Statistics; *EIR.*

U.S. Manufacturing Employment vs. Other Sectors, 1964-2004

(Millions of Workers)

Source: U.S. Department of Labor, Bureau of Labor Statistics; *EIR.*

low wage worker pays less than half in Social Security payroll taxes that a manufacturing worker does.

Were the LaRouche recovery to begin reindustrialization, one would see a shift of at least 10 million workers from the retail, et al. sectors, and many millions more who work in non-productive, low-wage sectors comparable to retail, into manufacturing and infrastructure, to build the country. Their wages would *double,* constituting a key component of the 2.6% average annual wage increase we hypothesize.

Third, based on the 5-7% annual productivity increase that would be generated economy-wide from a "Super TVA," including a national magnetically levitated and high-speed railroad grid, it would be eminently possible for employers to turn over at least half of that higher productivity to higher real wages. The annual 2.6% annual growth in real wages would go to all workers.

Individuals in the Office of Actuary of the SSA confirmed to *EIR* at the beginning of March, that a 2.6% real annual wage increase would reduce Social Security's Actuarial Deficit from negative 1.89% to negative 0.27%, which is equivalent of reducing the deficit from $3.7 trillion to $529 billion. **Figure 6** shows that by busting through the SSA's assumption of 1.1% annual real wage growth, one eliminates most of the deficit.
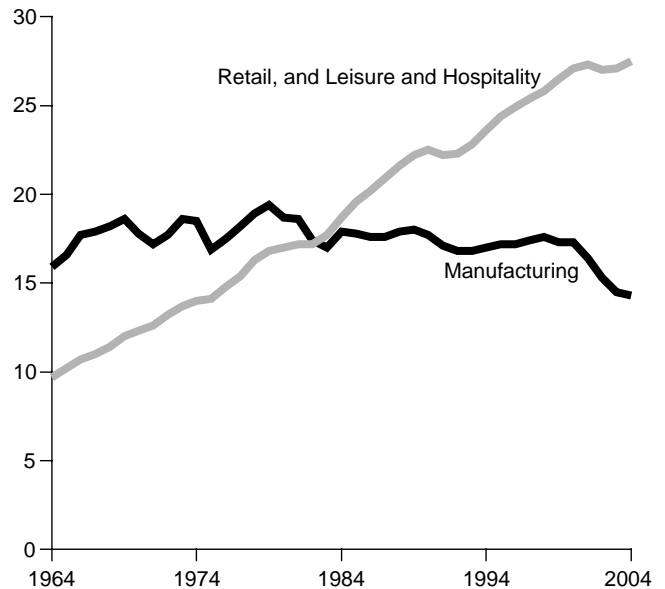
Optimism and Population

We also looked at the role of population growth. Working from Malthusian assumptions, in its official projections, the

U.S. Weekly Wages of Manufacturing Jobs, Compared to Other Sectors, 1964-2004

(Current Dollars)
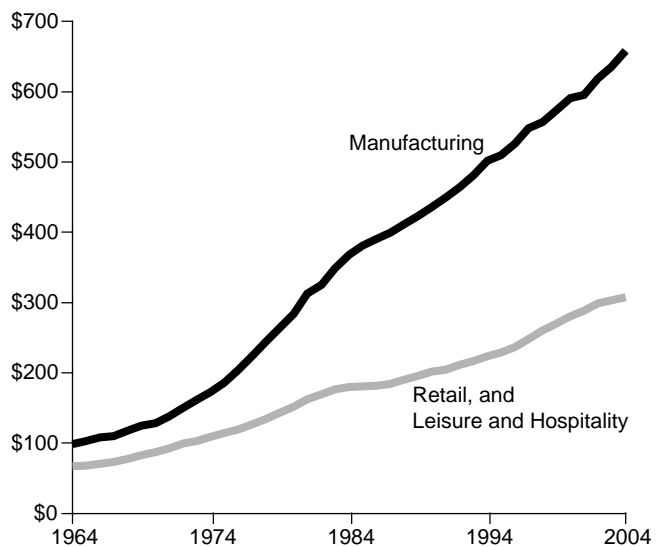
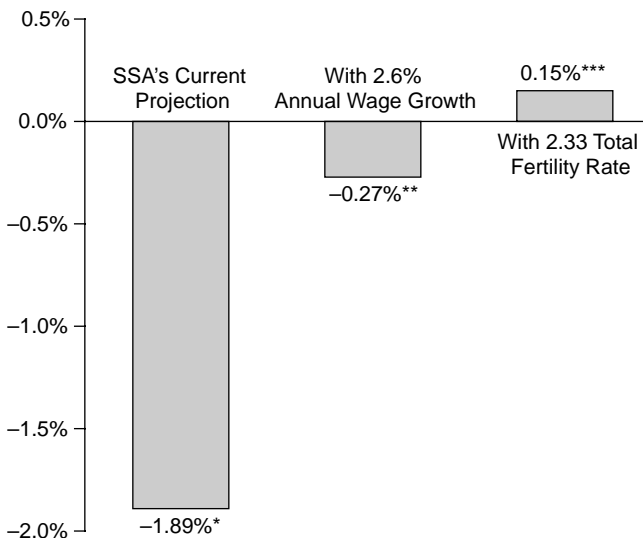Source: U.S. Department of Labor, Bureau of Labor Statistics; *EIR.*

Social Security Trust Fund's Actuarial Balance, Surplus or Deficit, 2005-2079
(Percent of Taxable Payroll)

*$3.7 trillion actuarial deficit
**$529 billion actuarial deficit
***$294 billion actuarial surplus

U.S. Social Security Administration, Office of Actuary; 2004 SSA Trustees Report; *EIR*.

U.S. Total Fertility Rate: Children Born to Average Woman of Child-Bearing Age
(Number of Children)

Source: U.S. Department of Health and Human Services, National Center for Health Statistics, "National Vital Statistics Report," (various years); Population Reference Bureau.
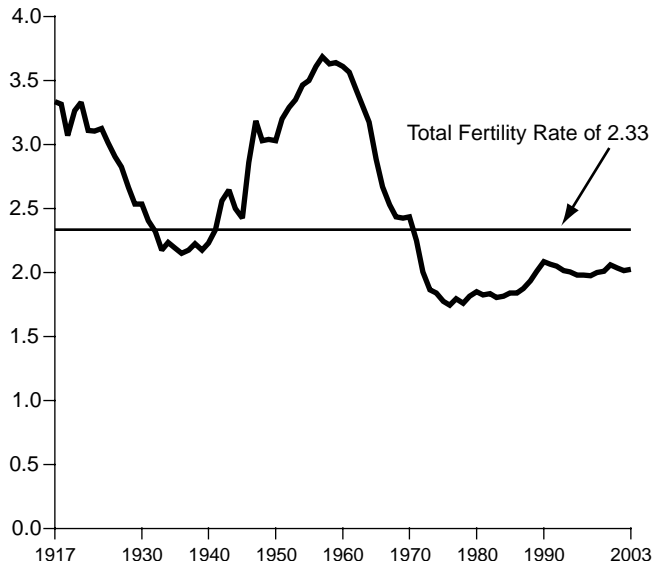
SSA assumes a zero-growth total fertility rate of 1.95 children; that is, a woman in child-bearing age range will have 1.95 children (that age range is usually assumed to be 19-44 years). The SSA's assumptions are in opposition to its own earlier projections, to the far more accurate projections of the U.S. Department of Commerce's Bureau of the Census, Population section, and to the historical rates of the United States even when it was moderately growing.

The SSA's model that projects Social Security's Costs and Income is highly dependent on demographics. The size and rate of growth of the labor force is a major element in the SSA's model. If the labor force is growing at a healthy rate, there will be more workers to pay Social Security taxes, generating more Income; if it is growing slowly, there will be fewer workers to pay such taxes, generating less Income. In the SSA model the rate of growth of the labor force is strictly dependent on the fertility rate, and the immigration rate—these rates determine how many people enter the labor force. The death rate is the other key rate, which determines how many retirees are alive to collect benefits. The SSA deliberately selected a very low fertility rate, and a low immigration rate. Plugging this in, the SSA model projected a Social Security "funding crisis."

Suppose, instead, that a successful economic recovery generates a 2.33 fertility rate—two and one-third children per woman during child-bearing age—we get a very different result.

In an advanced sector nation, for the population's bare reproduction, a fertility rate of 2.1 is required. Thus, it is assumed that 0.1 person will die between birth and young adulthood. That leaves 2.0 persons, on average a boy and a girl, to replace their parents, a man and a woman, who produced them.

Until 2000, the SSA had been projecting the future fertility rate to be 2.00 children per woman in child-bearing age range, but in that year, it suddenly lowered that to 1.95. When asked why, an individual from the fertility division of the SSA's Office of the Chief Actuary said, "We assumed that the U.S. rate would become more like that of Europe"—a very low rate.

The SSA's fraud is further ripped apart by the Census Bureau of the U.S. Commerce Department, which is the U.S. agency charged with responsibility for tracking population. In a document entitled, "Interim Projections of the U.S. Population by Age, Sex, Race, and Hispanic Origin: Summary and Methodology Assumptions," the Census Department projects that U.S. total fertility will be 2.19 by 2050, which is one-quarter of a child per child-bearing woman above the zero

growth projection of the SSA.

Instead of the SSA's fraudulent rate, *EIR* assumed a total fertility rate of 2.33 children per woman of child-bearing age, only slightly higher than the Census Bureau's projection. The main reason for this selection, is that this is the bare minimum *floor* fertility rate that America achieved whenever it didn't suffer economic collapse. **Figure 7** shows the 2.33 fertility rate was achieved during most of the 20th Century, with two exceptions. The first is the Depression years of the 1930s, when people did not have the economic security to have children (but it nonetheless stayed above the reproduction rate of 2.1). The second exception is the period 1970 to the present, when the post-industrial society policy destroyed the underlying economy. After falling during this period to as low as 1.77, since 2000, the fertility rate has been in the 2.02 to 2.04 range.

It should be stressed that *EIR* is not setting the 2.33 rate as a goal that must be achieved; people who offer monetary incentives to have couples have children miss the point. Rather, the principle is that the direction of the economy, and people's outlooks, determine demographics, not the other way around. Once LaRouche's recovery policy goes into effect, the nation's population will have a mission, and there will be powerful economic growth and cultural optimism. People will have a reason to bring children into the world, and will know that they have a living standard that will allow them to afford to do so, unlike today.

The difference in the fertility rates of 1.95 and 2.33 children per woman of child-bearing age, may not seem a lot. After all, the fertility rate of 2.33 is quite modest: during the Baby Boom peak of the 1960s, the fertility rate reached 3.7. The point here is that even this difference, of roughly 0.40 children per woman in child-bearing age, produces an enormous difference.

The 1.95 rates and 2.33 fertility rates lead to entirely different paths. The Office of the Chief Actuary (OCA) of the SSA ran model runs with the two different rates. The OCA started with the SSA's Intermediate Model: then, kept all the elements, ranging from the death rate and immigration rate, to wage levels, etc, the same, only changing the single element of the fertility rate. (Put another way, the second run does not put in the higher wages, nor the higher productivity; only a slight change in fertility arising from the economic and cultural effects of added economic growth.)

We will call the run that used the 1.95 fertility rate, the "Collapsing Fertility Rate" run; and call the run that used the 2.33 fertility rate, the "Minimum Fertility Rate" run.

In looking at the runs' results, we don't care about the absolute numbers, which, when working with a 75-year projection, must be taken with a very heavy dose of salt. What we are looking at is trends—how the assumptions lead to absolutely different *directions*. We examine how the SSA, using its 1.95 fertility rate, takes citizens, as well as

Congressmen, by the nose and leads them to dead ends. **Table 1** displays the results of the runs. **Figure 8** shows that the small increase of 0.4 children per woman in child-bearing age range, results in 100 million more people projected for 2080.

However, what stands out crucially is the *relationships of age groups*. In the runs of "Collapsing Fertility" and "Minimum Fertility," the number of elderly is virtually the same by 2080, about 96 million versus 98 million. Of great significance: In the run with Collapsing Fertility, the number of people under the age of 20 in 2080, is only 95.6 million, which is less than the number of people who are 65 and over. Whereas, in the run with Minimum Fertility Growth, the number of people under the age of 20 reaches 143.7 million.

Figure 9 shows, in the Collapsing Fertility run, the number of people over 65 overtaking the number of people under 20. With that as the pre-selected pathway, *built into the model,* it is clear to see that there will be a financing crisis. That's why the SSA went to such lengths to chose a fertility rate that conflicts even with the Census Bureau. In the Minimum Fertility

TABLE 1
Population, by Age Distribution
(Millions)

| Year | Actual Population | | | |
	Under 20	20-64	65 and Over	Total
1950	54.5	92.8	12.8	160.1
1960	73.1	99.8	17.3	190.2
1970	80.7	113.2	20.9	214.8
1980	74.6	134.4	26.2	235.2
1990	75.2	153.0	32.2	260.5
2000	82.5	170.4	35.4	288.3

| Year | Population Based on SSA Projection of 1.95 Children Per Woman of Child-Bearing Age | | | |
	Under 20	20-64	65 and Over	Total
2005	83.9	181.3	36.7	301.9
2010	84.6	190.1	39.8	314.5
2025	87.4	199.4	62.3	349.1
2040	89.7	206.2	76.9	372.8
2060	92.8	215.2	86.2	394.2
2080	95.6	223.5	96.0	415.2

| Year | Population Based on SSA Projection of 2.33 Children Per Woman of Child-Bearing Age | | | |
	Under 20	20-64	65 and Over	Total
2005	84.0	181.3	36.7	302.0
2010	85.4	190.1	39.8	315.3
2025	95.5	199.5	62.3	357.2
2040	107.9	210.9	76.9	395.7
2060	125.1	237.8	86.2	449.2
2080	143.7	275.4	98.0	517.2

Source: U.S. Social Security Administration.

Two Population Projections by SSA: Based On 'Minimum Fertility' or 'Collapsing Fertility'

(Millions of People)

SSA Projection: Minimum Fertility Growth

Actual Population

SSA Projection: Collapsing Fertility
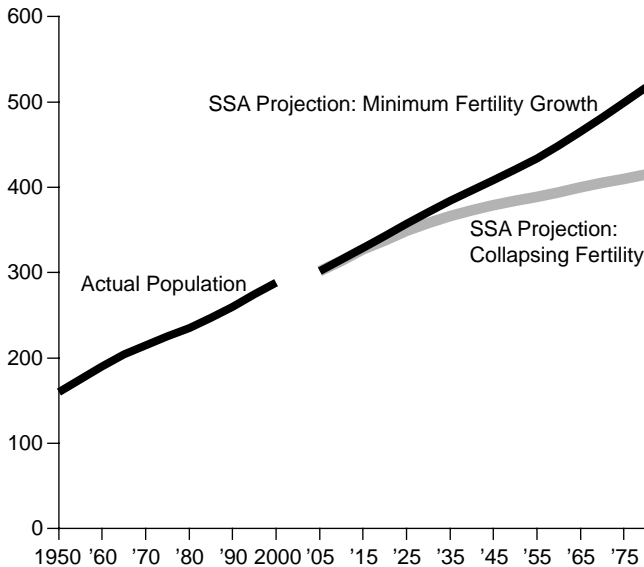
Source: U.S. Social Security Administration, Office of Actuary.

The breaks in the graph lines in Figures 8-10 distinguish between actual population and various projections.

Relationship Between Under-20 and Over-65 Population Depending on Fertility Assumption

(Millions of People)

Under 20, Minimum Fertility Growth

Under 20, Collapsing Fertility

Under 20, Actual

Over 65, Minimum Fertility Growth

Over 65, Actual

Source: U.S. Social Security Administration, Office of Actuary; *EIR.*

Growth run, the number of people over 65 will never overtake the number of people under 20.

Figure 10 shows that strictly as function of the zero-growth fertility rate, in the Collapsing Fertility run, the labor force crawls along at an extraordinarily low growth rate of 0.2% per year. Therefore, the number of workers is reduced, reducing their payment of Social Security payroll tax.

EIR confirmed with SSA's Office of the Actuary, during the first week of March, that our assumption of a 2.33 child fertility rate per woman in child-bearing age range, did have the effect we had thought it would. Figure 6 showed that adding the change in fertility rate, on top of the 2.6% real annual wage growth, would produce a 0.15% actuarial surplus, equivalent to a $294 billion surplus. By the OCA's standards, the two changes in economic behavior put the system into surplus for the next 75 years, and likely beyond.
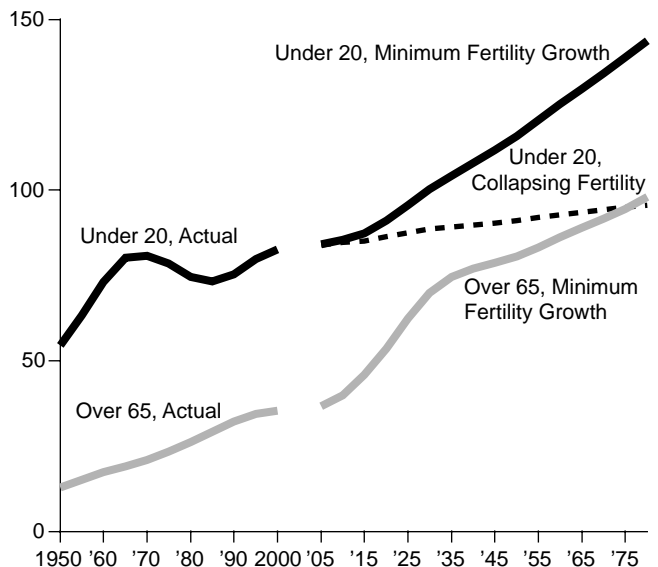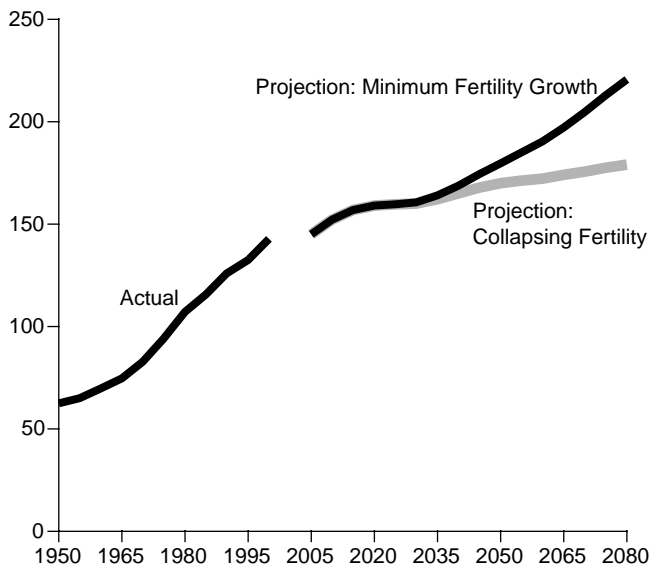
What produced this result is solely the underlying process of transformation of the real physical economy. That is where the emphasis must lie.

As the accelerated collapse of the world financial system heightens the need for Congress to take action within weeks, by bringing in both LaRouche and his policies, this will address the crisis, and cure Social Security in the process.

U.S. Labor Force: Growth vs. Stagnation

(Millions of People)

Projection: Minimum Fertility Growth

Projection: Collapsing Fertility

Actual

Source: U.S. Social Security Administration, Office of Actuary; *EIR.*