

The U.S. Public Sector Is “A Milk Cow” For Private Enterprise

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Social Security and Medicare are under attack from Wall Street, conservatives, and free market economists. The claims are that these programs are unaffordable and that the programs can be run more efficiently and at less cost if privatized.

The programs are disparaged as “entitlements.” The word has come to imply that entitled people are getting something at great cost to everyone else. Indeed, entitlements have become conflated with welfare.

In fact, Social Security and Medicare are financed by an earmarked payroll tax paid by employees. (Economists regard the part of the payroll tax that is paid by employers as part of the employee’s wage.)

According to the Social Security and Medicare trustees, Social Security as presently configured can pay full promised benefits for the next two decades and with current payroll tax and demographic trends can pay 75% of benefits thereafter. Medicare can pay full benefits for 12 more years and 90% of promised benefits thereafter.

It makes sense to look ahead—something that democracies seldom do—but there is no current crisis.

The Carter administration did look ahead and put in place a series of future increases in the payroll tax sufficient to keep the programs in the black for several decades into the future. Shortly thereafter in 1981 there was a claim that there was a short-term financing problem. The National Commission on Social Security Reform was created. Alan Greenspan was appointed chairman, and the commission is known as the Greenspan Commission.

What the commission did was to accelerate in time the payroll tax increases that were already in place. In my opinion, this was done in order to reduce projected federal budget deficits that concerned Wall Street and Republicans. The consequence of the accelerated payroll tax increases is that over the next decades the programs accrued large surpluses in the trillions of dollars that the federal government spent on other programs, substituting for the surplus payroll revenues non-marketable Treasury IOUs to Social Security and Medicare. Far from entitlements worsening the federal deficit, entitlement surpluses have reduced it.

The real Social Security crisis is that the government does not have the money to redeem its IOUs.

The government, of course, will print money to bail out the banks’ uncovered casino bets, but not to bail out the elderly from the theft of their funds.

The government has wasted trillions of dollars on wars that have enriched the military/security complex by killing, maiming, and displacing millions of peoples in seven countries, but Washington “cannot afford” Social Security and Medicare. Representing the people is not something “our” representatives do. They are too busy representing a handful of private interest groups such as the financial sector, the military/security complex, and agribusiness.

According to the propaganda, the problem faced by Social Security and Medicare is demographic. There are fewer workers per retiree to carry the burden of an “intergenerational transfer.” I have often wondered how this claim fits with the claim that the US is being overrun with illegal aliens who have numerous children. We constantly hear about how Texas, California, and other states are being taken back by Mexico.

As most employers of illegals deduct and pay the payroll tax and as illegals, being illegal, do not file for income tax refunds or stand to collect the “entitlements,” it is unclear that the demographic conclusion is correct.

Whatever the problem demographics pose to entitlement funding, the greatest problem has come from the offshoring of US high-value-added middle class jobs. The millions of US manufacturing, industrial, and professional service jobs such as software engineering that have been moved abroad in order to increase the personal incomes of corporate owners and managers have left a huge gap in the payroll tax base.

Few if any laid-off workers have found comparable employment, and millions have found no employment. In recent years new university graduates have also found their employment prospects limited by jobs offshoring.

To understand the real problem, all you have to do is to look at the official information on real median family incomes. There has been no growth for decades. The population is growing, but not median incomes, and the lack of jobs has resulted in a declining labor force participation rate. If incomes were growing, a higher payroll tax could be paid out of income gains.

The way to attack the entitlements problem is to bring the jobs home. This could be done by taxing corporations according to the location, domestic or foreign, at which they add value to their product. If they produce in the US, a low tax rate would apply. If they produce abroad, a high tax rate would be applied that negated the savings from producing offshore.

But this would not suit the interests of the owners and managers of capital. Their solutions are to raise the retirement age, to further falsify the Consumer Price Index by using the Chained CPI to understate Social Security cost of living adjustments, and to privatize Social Security and Medicare.

The first falsification of the CPI was the work of the Boskin Commission during the Clinton administration. The Boskin Commission destroyed the CPI as a measure of the cost of a constant standard of living by introducing “substitution.” To keep it simple and brief, if a price of an item in the weighted basket of goods used to compute inflation rises, a lower priced item is substituted for it. The effect, and most likely the intention, of “substitution” was to make more money available for non-entitlement programs by reducing cost-of-living adjustments for Social Security. Payroll tax revenues are lumped together with other tax revenues, and the government funds itself from the total.

Three decades ago I was an advocate of privatizing Social Security or part of it. In those days returns from investments exceeded returns to Social Security. Moreover, private nest eggs not used up in retirement would become stakes for heirs, thus raising the wealth of the population. As the supply-side macroeconomic policy had cured stagflation, there was a strong prospect of a sustained market rise from which Social Security privatization would benefit.

However, after observing the deregulation of the financial system, the financialization of the economy, and the subservience of the Federal Reserve and US Treasury to “banks too big to fail,” it is impossible today to support for honest reasons the privatization of entitlements. Today financial markets are rigged by manipulation and a fantastic creation of money. Rigged markets can continue until the currencies that are being created in profusion collapse.

The reason Wall Street wants Social Security privatized is in order to collect fees for managing the money. Insurance companies want Medicare privatized in order to collect premiums, whether paid by individuals or the government as under Obamacare. Conservatives want rid of entitlements because they think they are welfare, underserved, the cause of the budget deficit, and because they are hard-hearted and lack compassion and any sense of social cohesion.

Free market ideologues do not like Social Security, because although it is paid for by the recipients of the benefits it is a government program. Alan Greenspan wanted to do more with his commission than to accelerate the Carter payroll tax increases. Greenspan stated his dislike of the Social Security system and thought it was inconsistent with a free or ideal society. However, he understood that Social Security could not be abolished at that time: “Our type of economy is far removed from where I would like to see it, but you have to be careful about moving from one type of society to another.” <https://web.archive.org/web/20061008205611/http://www.tcf.org/list.asp?type=NC&pubid=873>

The ideological attack on entitlements is again underway. Wall Street is funding it and egging it on. Wall Street is looking forward to fees that will eat up all gains and in these days of negative interest rates eat up capital as well.

Privatization is one of the neoliberal hallmarks of Globalization. In the US prisons have been privatized and prisoners turned into almost free labor for private businesses. Privatized prisons and almost free labor have created a demand for more incarceration, which is the reason that the “free, democratic” US has the highest incarceration rate in the entire world, both in absolute numbers and as a percentage of the population.

The claim is always that it is cheaper to privatize than for the government to do it, but the evidence contradicts this claim. Consider the military, for example. Many of the functions that the military formerly performed itself are now contracted to private corporations, which is the reason for the extremely high cost of the US military. Russia, for example, is about twice the land mass of the US and defends itself with a small fraction of US military expenditures.

The privatized US health system is much more costly than national health systems. Privatized health care require profits for every element in the system. In contrast, national health care systems require no profits.

The reason privatization is popular in Republican and conservative ranks is that it creates lucrative incomes for connected private corporations. It is a way of shoveling public tax monies into private hands who return the favor with political campaign contributions and donations to conservative and free market think tanks.

Every privatization has been a scam, and the privatization of entitlements will be the biggest scam yet.

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