

People's Capitalism

*If the Beatles were still together, they would probably be singing about
day traders, not day trippers.*

RONALD BROWNSTEIN¹

Empower America was founded in 1993 by corporate lobbyist Vin Weber and three high-flying Republicans: Jack Kemp, a Distinguished Fellow of the Heritage Foundation, had been Secretary of Housing and Urban Development for President George Bush Senior; Jeanne Kilpatrick had been US ambassador to the United Nations (UN); and William Bennet had been Secretary of Education for President Ronald Reagan. Empower America funders included the Scaife and Olin foundations. It was chaired until 1996 by Steve Forbes of the business magazine *Forbes*, and Donald Rumsfeld, current Secretary for Defense, was on the founding board.²

Empower America described itself as 'bridging the gap between the array of think-thanks that produce white papers on the public-policy debate and the actual enactment of policy'. In 2004 it merged with an anti-regulation corporate front group, Citizens for a Sound Economy, to form FreedomWorks which 'fights for lower taxes, less government and more economic freedom'. A key issue for Empower America and subsequently FreedomWorks is the replacement of social security by a scheme whereby each worker can invest a portion of their taxation deductions in the stock market to pay for their retirement.³

This is something President George W. Bush is now promoting as a way of partially privatizing social security. He has pledged 'to add a private, market-based component to retirement security through "personal retirement accounts"'. Following his re-election in 2004 he set about implementing this programme. The idea is for a portion of the payroll taxes that are used to pay for social security to be diverted into private investment accounts, and it will grow according to the value of the shares, property or bank accounts it is invested in. In this way the money available to people when they retire will be based on the market growth of their investment, which advocates say will be more than they would receive through social security. Since these taxes are currently used to fund present-day retirees, the government has to borrow trillions of dollars to pay for the scheme over ten years.⁴

In one of its background briefing papers, entitled 'How to Fix Social Security', the Heritage Foundation argues that personal retirement accounts are 'the only solution that will give future retirees the opportunity to receive an improved standard of living in retirement. These accounts would give them more control over how to structure their income and allow them to build a nest egg...'.⁵

The logic of the reforms is difficult to understand. The rationale is that in 40 years or so, social security may not have the funds to cover people's pensions. Funds invested in the stock market, however, are presumed to grow much faster than social security funds invested in Treasury bonds, and therefore will make up the shortfall. However, social security funds are invested in low-yielding Treasury bonds because they are safe and the income is guaranteed. The stock market, on the other hand, is volatile and highly risky. Otherwise, 'the government could erase Social Security's entire projected deficit by selling bonds at 3 per cent and buying stocks that yield 7 per cent'. Economist and *New York Times*' columnist, Paul Krugman, notes that, in effect, what the government is proposing to do is 'borrow heavily and put the money in the stock market' via private retirement accounts. That is, the privatization of social security involves the 'government borrowing to speculate on stocks'.⁶

Because this is an idea that does not have popular support, and few people believe that social security is facing a future crisis, the Bush camp is 'raising millions of dollars for an election-style campaign' to promote it in what is expected to be 'the most expensive and extensive public policy debate since the 1993 fight over the Clinton administration's failed health-care plan'. However, this time, business is on the side of the president. The National Association of Manufacturers (NAM) is 'leading the charge for business interests' with an Alliance for Worker Retirement Security, consisting of 40 NAM members headed by Derrick Max, to back the president's social security privatization plan.⁷

Another business coalition, which includes NAM and is also being coordinated by Derrick Max, is the Coalition for the Modernization and Protection of America's Social Security (Compass). Compass is an umbrella group that includes other business groups such as The Business Roundtable, the Financial Services Forum and the National Restaurant Association. It spent \$5 million in 2001–2 making the case that social security would face a funding crisis in the future. Now it says its members are backing the president on this plan because they are concerned that he would otherwise use payroll taxes to make up the predicted social security shortfall. Bush denies that this will happen. Nevertheless, Compass is preparing to spend \$5million to help the campaign for private accounts.⁸

Various conservative groups are adding their own resources. Progress for America has budgeted \$9 million for the campaign and intends to raise more. Club for Growth is hoping to raise \$15 million for the campaign.⁹

The privatization of social security, and the financial support it is garnering in the business community, cannot be understood in terms of direct vested interests. Only the financial services companies, such as stockbrokers and investment firms,