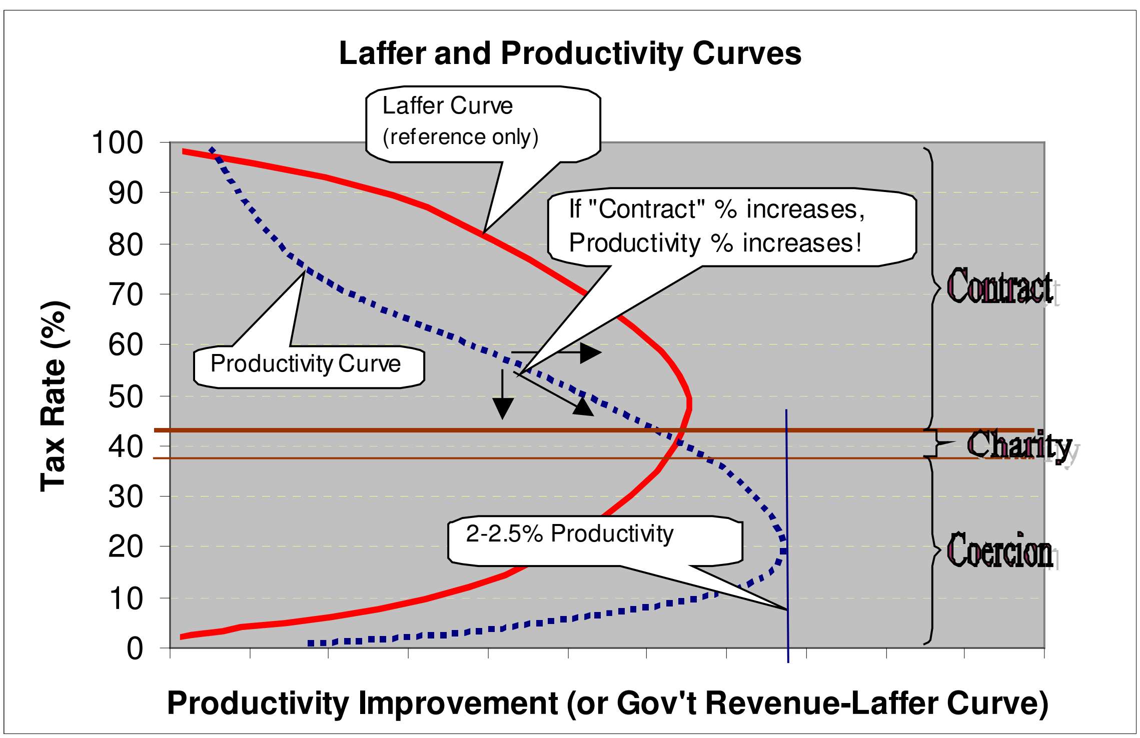
"Just-in-Time" Economics, Productivity Curve, and Social Security Privatization

We live in essentially a "Just-In-Time" economy. i.e. That which is produced is quickly consumed or placed into use in the marketplace. The "piggy bank" mind-set of many is that savings represent a long-term buildup of tangible wealth, which is then consumed over one's retirement. VERY MISLEADING...! A destructive investment theme would be encouraging the Boomers or any entity to build up a pile of gold or cash, or to believe there is an "inventory of goods and services" waiting for them as a result of their laborious fruitful career. The HOPE they have is that their pensions, financial assets, and home equity will enable acquisition of a *future stream of goods and services* that represent a preconceived value. Savvy investors know that real savings represents withheld consumption, which in turn enables viable businesses to increase R&D and capital investments; thus empowering them to supply the noted *"future stream of goods and services"*. If inflation (monetary expansion; not CPI increases) is consistent, then the value of future goods will be predictable. If inflation is not consistent, planning for the future becomes difficult at minimum and devastating at worst.

Therefore, the best economic GOAL is to incentivize and enable producers of Goods and Services to move up the productivity curve (see graph below) and achieve the max to ensure a viable *"future stream of goods and services"* will be available for those dependent upon them!! We can accomplish that by a lower level of government spending (lower level of coercion), thus a higher percentage of company proceeds ("contract"; i.e. capital gains or dividends) goes to investors rather than government. To illustrate an extreme, if government "coerced" (taxed) 100% of company profits, there would be little incentive for the company management to improve productivity, thus the improvement would be a small fraction of 1%, which is far to the left on the productivity curve!



Savings, or more important, investment in these companies, will be required to support the Boomers, if their government payment streams (pensions, Social Security, Medicare, etc.) are reduced as a result of less "coercion". Boomers retiring will only receive a future stream of Goods and Services from the "X" and "Y" Gens supplying them. If the "X" and "Y" Gens are not equipped to produce more with less (productivity increase), the retirees will live with less or go back to work. Therefore, policies that encourage productivity improvement are vital.

Example:
Privatizing Social Security (i.e. An increase in "Contract" or Investment %'tage) might offer an infinitesimal improvement under the best possible regulations, but the risk of moving lower on the productivity scale rather than higher due to policy compromise is extremely high…!

> **If we assume for a minute our current system without privatization is a "political given", then….** it's funding should be budgeted annually similar to most government spending today.
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> We know the current Social Security System is tax and transfer payment today. Whether the original intent of the system was to be a trust fund or not is beside the point; the "trust" verbiage and "spin" were likely designed to pass the bill..! Restating my earlier point, a terribly misdirected policy would be to commission any government agency to "build up a pile of gold or cash", or anything of real value designed to be distributed years later. For example, government building up a stockpile of gold bullion would have the same effect as hoarding, and eventual dishoarding. During the hording stage gold pricing would increase giving market signals to allocate excessive resources toward increased mining efforts. Then, upon distribution, the pricing would decrease, likely below the initial level, as the distorted excess of gold is diffused back into the market. Then, sadly, the gold mining resource allocation would overreact to a less than natural level until the government divestiture scheme is complete. Further, the gold itself produces nothing. We would actually bear an **expense** to guard and insure it. Finally, imagine the alternative of our government building up wealth via acquisition of domestic or foreign companies…! How would they choose them? Who decides to sell them? Whose interest is at stake?
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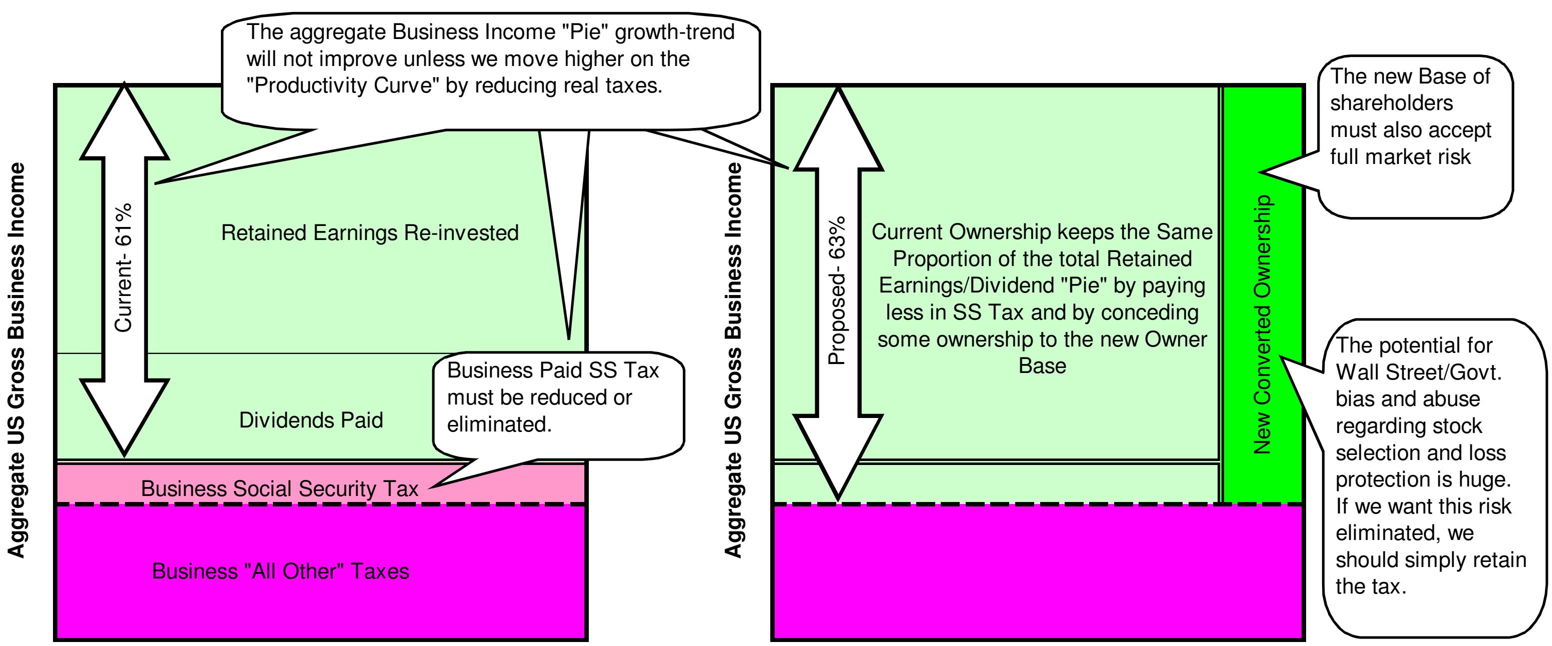
> The notion of an increased percentage transfer of wealth (higher "Coercion" %'tage) to support the Boomers is folly. The "X" and "Y" Gens will resist the higher taxes. To "add insult to injury", as the government resorts to the "monetary printing press" to pay for the increasing number of Boomers in retirement, the higher interest rates as a result will harm bond and real estate valuations.

If we want to pursue privatization albeit unadvised, then the following conditions would be logical:

- The effective **real tax rate paid** by businesses **must reduce** to incentivize management's investments into, and focus upon, productivity improvement. The enhanced 61% to 63% graphical example below inversely represents a reduced tax rate. This **incremental potential** improvement is the only way the total "pie" from which we all feed will eventually grow incrementally above a current improvement trend.
- If the Business Social Security tax was unchanged and only the employee participant tax was routed into a personal savings account, the overall size of the "pie" available for distribution would not change from current trends. Equities would simply become overvalued, as more money would inflate valuations of the same aggregate US business "economic engine".
- The new ownership base, which is a transformation from the old base, will include a new contingent of shareholders (the private SS account holders purchasing stock), and they must accept the responsibilities of traditional stockholders including the associated risks of loss or bankruptcy. They must be as effective as the current shareholder base. If their voting power is muted or channeled, or their risks limited, then they are not positioned or motivated to act effectively.

- Regarding the privatization proposal I believe the risk of overt government intervention into the last bastion of freedom in this country is frightening.
- If the goal is to encourage "ownership" in our society, then the **least** effective way to teach this valued principle is to make things of value easy to acquire. From sacrifice, saving, work, and education (sometimes the "school of hard-knocks"), the individual must learn to acquire company stocks rather than coerce their employers to allocate them.



Conclusion:

The prized goal of increasing the future stream of goods and services available for each person (working or not) is primarily achieved through productivity improvement. Therefore, our entrepreneurs and their teams must be continually motivated and empowered to pursue productivity improvements. We have logically deducted that higher tax (higher "coercion") rates impede productivity improvements. Thus, lower tax rates should enhance productivity. Albeit out of the scope of this study, we also recognize other conditions that may restrict productivity improvement such as:

- Compromised Rule of Law and Property Rights
- Restrictive Regulations
- Costly Litigation
- Misdirected Monetary Policy
- Encroachment of Freedom
- Fear

Positive improvement in any of these areas would effectively enhance productivity improvement as well.

Under the best of regulatory circumstances, privatizing Social Security would offer a minor improvement. The overwhelming likelihood is that the privatizing effort would be designed to violate fundamental risk and reward principles. Therefore, we should continue with our current "tax and transfer" system, except the allocation level would be established annually competing with all other ongoing government expenses extracted from our "U.S. economic engine".