MILWAUKEE · WISCONSIN
JOURNAL SENTINEL

Obama's dubious investment scheme

Christian Schneider, Feb. 14, 2014

Nothing captures the American entrepreneurial spirit better than late night television ads. Within a mere hour, your television can try to sell you a griddle that makes perfectly shaped pancakes, a belt that you use to strap your cell phone to your head, an ultrasonic device that vacuums wax out of your ears, and an adult bib you can wear so you don't spill coffee on yourself in your car. (I recommend using all these products at the same time.)

But there's also a dark side to late night commercials. Sleazy pitchmen appear offering risky investment opportunities and get-rich-quick schemes, hoping to catch that proverbial sucker born every minute. It seems many of these ads are tailored to confuse the elderly, such as ones pitching gold coins as an investment less susceptible to the whims of the stock market.

Apparently feeling left out of the dubious investment game, the federal government is now set to launch its own questionable scheme. Last month, during the hour-long infomercial known as the State of the Union address, pitchman-in-chief Barack Obama announced that boy, does he have a deal for you.

During the speech, Obama announced a new government program that he says will help regular folks save for retirement. The MyRA program (which Obama stumbled in trying to pronounce) would allow a worker without access to an employer-provided retirement plan and living in a household with an income up to $191,000 to send a portion of his or her after-tax paycheck to the government to "invest" for them.

Certainly, inducing people to save more for retirement is a noble goal. But as CATO Institute economist Mark Calabria has noted, the MyRA program is simply a government "Ponzi scheme."

In essence, investors are merely floating the federal government a low-interest loan. As soon as an investor sends a check, the government spends it and hands the investor an I.O.U. for payment in the future. The plan invests its funds in U.S. government bonds, not in private companies driving economic growth. In fact, around two-thirds of all federal spending is comprised of "transfers" — taking your money and giving it to a recipient of government aid. In this sense, the plan is a reverse tax — the government is taking from the working poor to continue its own cycle of deficit spending.

The plan would be marginally more defensible if participants could actually expect better returns on their investments. As Calabria notes, between 1945 and 1980, a fiscal period that closely matches our own, real (inflation-adjusted) interest rates on U.S. treasury debt were negative a fourth of the time, and less than 1% two-thirds of the time. The federal government's own bond-based retirement plan, the Thrift Saving Plan, earned about 1.5% last year, and the 10-year compounded nominal return was only 3.6% — hardly keeping up with the private markets.

Even moderately sophisticated investors can understand that those aren't the types of numbers they need to see to grow a nest egg — especially if they are close to retirement. (Although if anyone wants to loan me their life savings and only ask for a 1.5% annual return, I'd be happy to oblige.)

It is no surprise, then, that Obama has repeatedly slammed proposals allowing taxpayers to voluntarily take a portion of their Social Security benefits and invest them in private markets. During the 2008 election, Obama hammered Arizona Sen. John McCain, accusing him of wanting to "privatize" Social Security and arguing that millions of Americans would have lost their savings in the stock market crash of 2008.

But under plans pushed by those like Wisconsin's own Paul Ryan, those funds would be protected from losses in the event of a market downturn. Ryan's "Roadmap" plan would have allowed Social Security recipients under 55 to voluntarily invest a portion of their earnings in personal savings accounts. If participants were satisfied with the real rate return of between 1% and 2% they were getting under the current system, they could keep it.

But if they wanted to shoot for a higher rate of return, they could — and their accounts would be guaranteed. Not only would such a plan inject more equity into the marketplace, allowing businesses to grow and hire more people, it would provide more retirement security than a moribund government-run program like MyRA.

Currently, the personal savings rate in America is an abysmal 4%. However, it seems unlikely that the MyRA investment scheme will change that at all when people catch wind of how the program works. Most people will probably just decide to invest in companies that make blankets with sleeves. They look so comfortable on the commercials.

Christian Schneider is a Journal Sentinel columnist and blogger. Email cschneider@jrn.com. Twitter: @Schneider_CM