



Written by [Thomas Sowell](#) on August 29, 2012

## Entitlement Reforms

For those of us who like to believe that human beings are rational, trying to explain what happens in politics can be a real challenge.

For example, that segment of the population that has the least to fear from a reform of Medicare or Social Security is the most fearful — namely, those already receiving Medicare or Social Security benefits.

It is understandable that people heavily dependent on these programs would fear losing their benefits, especially after a lifetime of paying into these programs. But nobody in his right mind has even proposed taking away the benefits of those who are already receiving them.

Yet opponents of reforming these programs have managed repeatedly to scare the daylights out of seniors with wild claims and television ads such as one showing someone — who looks somewhat like Paul Ryan — pushing an elderly lady in a wheelchair toward a cliff and then dumping her over.

There are people who take seriously such statements as those by President Barack Obama that Republicans want to “end Medicare as we know it.”

Let’s stop and think, if only for the novelty of it. If you make any change in anything, you are ending it “as we know it.” Does that mean that everything in the status quo should be considered to be set in concrete forever?

If there were not a single Republican, or none who got elected to any office, arithmetic would still end “Medicare as we know it,” for the simple reason that the money in the till is not enough to keep paying for it. The same is true of Social Security.

The same has been true of welfare state programs in European countries that are currently struggling with both financial crises and riots in the streets from people who feel betrayed by their governments. They have in fact been betrayed by their politicians, who have promised them things that there was not enough money to pay for. That is the basic problem in the United States as well.

We are not yet Greece, but we are not exempt from the same rules of arithmetic that eventually caught up with Greece. We just have a little more time. The only question is whether we will use that time to make politically difficult changes or whether we will just kick the can down the road, and keep pretending that “Medicare as we know it” would continue on indefinitely, if it were not for people who just want to be mean to the elderly.

In both Europe and America, there are many people who get angry at those who tell them the truth that the money is just not there to sustain huge welfare state programs indefinitely. But that anger might be better directed at those who lied to them by promising them benefits that were inherently unsustainable.





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Neither Social Security nor Medicare has ever had enough assets to cover its liabilities. Very simply, there has never been enough money put aside to do what the government promised to do.

These systems operate on what their advocates like to call a “pay as you go” basis. That is, the younger generation pays in money that is used to cover the cost of benefits for the older generation. This is the kind of financial pyramid scheme that got Charles Ponzi put in prison in the 1920s and got Bernie Madoff put in prison in our times.

A private annuity cannot play these financial games without its executives risking the fate of Ponzi and Madoff. That is why proposed Social Security and Medicare reforms would allow young people to put their money somewhere where the money they pay in would be put aside specifically for them, not used as at present to pay older people’s pensions, with anything left over being used for whatever else politicians feel like spending the money on.

It is today’s young people who are going to be left holding the bag when they reach retirement age and discover that all the money they paid in is long gone. It is today’s young people who are going to be dumped over a cliff when they reach retirement age, if nothing is done to reform entitlements.

Yet the young seem not to be nearly as alarmed as the elderly, who have no real reason to fear. Try reconciling that with the belief that human beings are rational.

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