Written by William P. Hoar on September 14, 2010

Social Security in the Red

Item: In the early years of the Depression, write Robert Dreier and Donald Cohen in an article entitled "Ignore the fear-mongering on Social Security," in the Los Angeles Times for August 14, "most business leaders and conservatives considered the very idea that government had a moral responsibility to help senior citizens retire with dignity to be outrageously radical, a dangerous trampling of individual liberty. They predicted that the Social Security tax would bankrupt the country."

FDR, according to these cheerleaders, "outmaneuvered Social Security's opponents, using his bully pulpit to explain why they were misguided.... Most Americans agreed."

Item: *Columnist Michael Hiltzik insisted in the* Los Angeles Times *for August 8, in "The myth of the Social Security system's financial shortfall," that the Social Security trust fund is "real money." The fund, he railed, "for some two decades has been the prime target of the crowd trying to bamboozle Americans into thinking Social Security is insolvent, bankrupt, broke — pick any term you wish, because they're all wrong."*

Item: *President Obama, in his weekly address on August 14, vowed to protect Social Security from unnamed GOP "leaders" determined to carry out the "privatizing" of the system and "tying your benefits to the whims of Wall Street traders and the ups and downs of the stock market."*

Correction: The current President is being duplicitous about Social Security. Indeed, even the distinctly non-conservative FactCheck.org concluded that President Obama's claims excerpted above were "mostly false."

The Republican leadership is being criticized for something it is *not doing* by prominent Democrats who have been trying to change the subject from what they themselves really *are doing* — crippling the economy with an unrelenting campaign of taxation and spending. In fact, one could rightly criticize GOP leaders for not pushing to "privatize." They have steered far away from that route, not even approaching President Bush's modest attempt in 2005, which was misrepresented and asphyxiated.

As FactCheck pointed out, even if Bush's plan of five years ago were to be fully implemented, less than one-third of any person's Social Security taxes could have been placed into private accounts. There was so little support for the plan, even within the GOP, "that it died without ever being introduced as a formal piece of legislation." Currently, the closest thing to what President Bush advocated is being offered by Representative Paul Ryan (R-Wis.), the ranking member of the House Budget Committee. At the time of Obama's remarks, the congressman's legislation had but 13 cosponsors, none from the Republican House leadership. President Obama, pointed out FactCheck, "further distorted the

Republican position when he claimed that the GOP plan would '[tie] your benefits to the whims of Wall Street traders.' That's not true of the private accounts Bush proposed. Those would have been invested in strictly regulated, broadly based mutual funds, much like the funds in which millions of federal workers invest their own retirement funds."

More importantly, those funds would have been employed voluntarily by those seeking to invest (some) of their own money, as opposed to mandatory Social Security "contributions" that call for imprisonment if a normal citizen tries to get out of paying.

If Social Security is such a marvelous notion, why did it need to be a mandatory monopoly? Jim Powell, the author of *FDR's Folly* (2003), has noted that there "never was a popular demand for Social Security, even during the Great Depression. Few Americans were interested in the kind of government-run program that the German politician Otto von Bismarck had introduced in Europe. According to Social Security expert Carolyn Weaver [author of The Crisis in Social Security (1982)], in 1929 about 95 percent of senior citizens were self-supporting — an increasing number had private pension plans or annuities. Many seniors were helped out by family and friends."

In a summary piece for the Future of Freedom Foundation in April of 2009, Powell continued:

> Despite the shock of the Great Depression, private pension plans continued to perform well. "Industrial pension plans not only grew steadily," Weaver reports, "but also proved quite resilient, with certain features improving markedly…. The rate of failure for existing plans, moreover, was relatively modest. Of the systems operating in 1929, those that were discontinued, closed to new employees, or suspended by 1932 [a low point in the Depression] involved less than 3 percent of all covered employees." People lost pension coverage primarily because they lost their jobs — a consequence of misguided government policies that brought on the Great Depression and prolonged it.

By 1935, President Franklin Roosevelt embraced the German idea that there should be government-run "social insurance." That wasn't legitimate insurance, where participants have a contract, they pay premiums based on their life expectancy, the premiums are used to make productive investments that will cover the benefits, and the participants and their heirs have a property right to receive benefits that have been paid for….

There was considerable opposition to the proposed Social Security Act from both Democrats and Republicans. Sen. Bennett Clark of Montana proposed an amendment that would have enabled employers to opt out of Social Security if they had pension plans offering more generous benefits than Social Security. That would have meant freedom of choice for employers and employees alike, but advocates of Social Security were adamantly against freedom of choice.

Most present-day apologists for Social Security don't go as far as Hiltzik of the *Los Angeles Times*, cited above, who seems to think we will all be rescued by a munificent and bottomless "trust fund." Still, the affection of many big-government believers can be embarrassingly gushing. One CNBC television commentator last year acknowledged Social Security to be "the largest Ponzi scheme in history" but said he "loves" it regardless. Nonetheless, a good many Social Security supporters continue the falsehood about a trust fund overbrimming with money.

The trustees of the trust fund certainly recognize it has no economic value in an authentic sense. The bonds held in the fund are a sort of IOU, a measurement that indicates how much the government owes to the system, and which will have to be paid eventually by taxpayers. Even the left-wing Clinton administration's budget officials understood this, pointing out in the 2000 budget that the trust fund balances "are available to finance future benefit payments and other Trust Fund expenditures — but only in a bookkeeping sense.… They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large Trust Fund balances, therefore, does not, by itself, have any impact on the Government's ability to pay benefits."

This past year's trustees for the Social Security and Medicare systems said in a similar fashion: "Neither the redemption of trust fund bonds, nor interest paid on those bonds, provides any new net income to the Treasury, which must finance redemptions and interest payments through some combination of increased taxation, reductions in other government spending, or additional borrowing from the public."

Meanwhile, those trustees say Social Security has a $7.9 trillion shortfall. This means "the program would require $7.9 trillion in cash — today! — to afford its promises." By other calculations, arguably more realistic, the unfunded liabilities of the Social Security are closer to $16 trillion. That's security?

The notion that the government can keep charging endlessly, spending beyond its means, without paying a pretty price is a costly fallacy, whether one is discussing Social Security or other so-called entitlements. According to the Congressional Budget Office's most recent 10-year baseline budget assumptions, by 2020, a full half of all the income tax revenue in the country will be needed just to pay the interest on a National Debt of $23 trillion.

We could cut benefits, but 50 million recipients are a lot of folks for spineless politicians to resist. Or we could raise taxes, but many young people are already doomed to paying more than they will ever get back in benefits, and the payroll tax is now the largest that is paid by most Americans. Or we could allow Americans to assume more choices and control over their own futures.

Unfortunately, if the past is a guide, the likeliest path will follow the direction currently being taken by the White House and liberal establishment: Berate the opposition and be economical only with the truth.

— Photo: AP Images