Written by William P. Hoar on September 15, 2009

The Burden of Social Security

Item: "President Barack Obama has said he would like to tackle Social Security next year," reported the Associated Press on April 24, "after Congress finishes work on health care, climate change and new financial regulations."

Item: *The "Economix" blog in the* New York Times *on August 11 reported:*

> *Lawrence Summers, director of the White House National Economic Council, told a conference of economists in Washington … that President Obama would probably start addressing the needs of Social Security before the end of his term….*

Mr. Summers said the top priority in overhauling Social Security would be to make sure that people could rely on their benefits…. Mr. Summers seemed intent on signaling that Mr. Obama's idea of "reform" would be to strengthen the program rather than to partly privatize it.

Item: *In a column in the Los Angeles Times for August 14, Nancy Altman wrote:*

> *Opponents have unleashed a torrent of hyperbolic claims and heated invective in an effort to stop President Obama's healthcare reform. But the president shouldn't be surprised by the rhetoric. Three-quarters of a century ago, nearly identical denunciations were used in an attempt to kill legislation that created one of the country's most popular government programs: Social Security….*

Then as now, opponents played the socialism card…. Unlike today, however, the political rhetoric never gained traction in 1935….

If Obama follows Roosevelt's lead, he, like FDR, may well produce a legacy that grateful Americans will be writing and talking about three-quarters of a century from now.

Correction: President Obama is already too prone to emulating FDR. Urging the president to mimic Franklin Roosevelt's glib pretensions about Social Security would be doubling down on a losing hand. It's bound to lead to more grief.

In his pitch to get Social Security through the Congress, FDR didn't mind shading the truth — or telling a whopper or two — when deemed necessary. Seventy-five years later, hagiographic historians are still covering for a cardsharp who dealt a hand that is still plundering the public and centralizing power.

One of FDR's enduring tall tales was the notion that Social Security is an insurance program. Another sham was that the program would somehow pay for itself.

Here is, in shorthand fashion, how Social Security works: the government takes tax money from workers and employers (who reduce the employee's pay accordingly). That money is then "borrowed" by government and spent immediately. Washington then turns to the general tax revenues to pay for the benefits. “Thus,” explained John T. Flynn in *The Roosevelt Myth* (1956, revised edition), “workers and bosses are taxed twice for a ‘security’ program with most of the funds being spent for other purposes.”

Naturally, Washington muddies the water. For the Social Security revenues that go to non-Social Security programs, the Treasury Department issues bonds to the Social Security Administration, notes Ferris State economist Mark Brandly. “Those bonds are held in the Trust Fund. Surely we can have confidence in anything called a Trust Fund,” mocks the professor derisively in an article for the Ludwig von Mises Institute. He continues:

> Think of this type of lending for a moment. The federal government is in debt to itself. Compare this to debt in the private sector. No business declares that it’s deep in debt because it loaned itself money. It’s the same with families. Parents don’t lay awake at night trying to figure out how to repay the money they loaned themselves. The government, however, thinks that it makes perfect sense to collect $100 of tax revenue, spend the $100, and then declare that it now owes itself $100. This scheme is not limited to Social Security. Currently, federal intragovernmental debt for all programs totals $4.3 trillion.

That, of course, is not how FDR described the process. Facing criticism, the president insisted in part: “Get these facts straight. The Act provides for two kinds of insurance for the worker. For that insurance both the employer and the worker pay premiums, just as you pay premiums on any other insurance policy. Those premiums are collected in the form of the taxes…. The first kind of insurance covers old age. Here the employer contributes one dollar of premium for every dollar of premium contributed by the worker; but both dollars are held by the government solely for the benefit of the worker in his old age.”

In actuality, those monies are not “held” or invested. After a worker retires, having been forced to support the system for decades, he essentially becomes a supplicant for a political handout. The pay-as-you-go funds are long gone. What remains is a non-enforceable chit that says that the next generation of suckers — that is, younger taxpayers — will have to pay even more if the scheme is to be kept afloat.

Financial adviser William Shipman also distinguished between actual policies and Social Security in a piece for the Cato Institute in 1995:

> In common usage a trust fund is an estate of money and securities held in trust for its beneficiaries. The Social Security Trust Fund is quite different. It is an accounting of the difference between tax and benefit flows. When taxes exceed benefits, the federal government lends itself the excess in return for an interest-paying bond, an IOU that it issues to itself. The government then spends its new funds on unrelated projects such as bridge repairs, defense, or food stamps. The funds are not invested for the benefit of present or future retirees.

Again, that is not how the program was sold. Speaking of Social Security, President Roosevelt told Congress in 1935 that, “except for the money necessary to initiate it, [the system] should be self-sustaining in the sense that funds for the payment of insurance benefits should not come from the proceeds of general taxation…. It is proposed that the federal government assume one-half of the cost of the old-age pension plan, which ought ultimately to be supplanted by self-supporting annuity plans.”

And how has all of that played out? Not well. The fiscal solvency of Social Security is regularly described, by law, by its trustees. The latest such report, issued in May, projected that the Social Security Trust Fund will be depleted outright in 2037, four years earlier than projected the previous year. The program will start running a deficit by 2016, a year sooner than last estimated.

The trustees also look at the "unfunded liabilities" of so-called entitlements. This represents what the government will still owe after it uses the current and future tax receipts to cover current and future benefits. Writes Pamela Villarreal for the National Center for Policy Analysis:

> The 2009 Social Security and Medicare Trustees Reports show the combined unfunded liability of these two programs has reached nearly $107 trillion in today's dollars! That is about seven times the size of the U.S. economy and 10 times the size of the outstanding national debt.

The unfunded liability is the difference between the benefits that have been promised to current and future retirees and what will be collected in dedicated taxes and Medicare premiums. Last year alone, this debt rose by $5 trillion. If no other reform is enacted, this funding gap can only be closed in future years by substantial tax increases, large benefit cuts or both.

Left-wingers often boast that they are for "choice," but are mighty selective about what can be legally chosen. At the time that Social Security "contributions" were being foisted on the country, some sought to make it voluntary, allowing people to opt in or out as they saw fit — especially since many Americans had better private plans that were actually pensions, not taxing schemes. If Social Security was such a good idea, why fear that choice?

Prominent "progressive" Senator Robert La Follette of Wisconsin would have none of an amendment that would have permitted just that. "If we shall adopt this amendment, the government having determined to set up a federal system of old-age insurance will provide, in its own bill creating they system, competition which in the end may destroy the federal system.… It would be inviting and encouraging competition with its own plan which ultimately would undermine and destroy it." (As quoted in *FDR's Folly: How Roosevelt and His New Deal Prolonged the Great Depression*, Jim Powell, 2003.)

The Senate, despite having twice as many Democrats as Republicans, nevertheless overwhelmingly passed the freedom-of-choice amendment. However, the measure was pulled in a House-Senate conference when the president threatened a veto. The resulting law would not allow Americans to make their own economic choices.

Centralized governments are enamored of velvet handcuffs. For giving up some liberty, there was said to be much more security. (The original Social Security legislation was called the Economic Security Bill.) Upon passage, FDR didn't talk about what was being taken, but what was being "given." The government, he said, was providing

> protection to thirty millions of our citizens who will reap direct benefits through unemployment compensation, through old-age pensions and through increased services for the protection of children and the prevention of ill health.

We can never insure one hundred percent of the population against one hundred percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.

This law, too, represents a cornerstone in a structure which is being built but is by no means complete. It is a structure intended to lessen the force of possible future depressions. It will act as a protection to future Administrations against the necessity of going deeply into debt to furnish relief to the needy. The law will flatten out the peaks and valleys of deflation and of inflation. It is, in short, a law that will take care of human needs and at the same time provide the United States an economic structure of vastly greater soundness.

Such was the age of chiselry.

— Photo of Lawrence Summers: AP Images