At least Ponzi didn't force people to enroll

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Imagine that someone comes to you with a new plan to save for your retirement. They take your money, but they spend it. Then, they find new investors. They take money from those new investors and give it to you, then go looking for still more investors so that they can give their money to the people whose money they gave to you.

That is exactly what Charles Ponzi did in 1916 with the original Ponzi scheme. And that pretty well describes what Social Security does today.

The money you pay into the system is not saved or invested in anything. Instead, it is used to pay benefits to those "early investors" who are retired today. When you retire, you will have to rely on the next generation of workers behind you to pay the taxes that will finance your benefits.

That worked fine in 1950 when there were 15 workers paying into the system for ever retiree. But today there are only slightly more than three workers supporting each retiree. Within a couple decades, we will be down to just two workers per retiree.

Once Ponzi was no longer able to persuade enough investors to keep giving him money, his scheme collapsed. Similarly, as the number of workers paying into Social Security shrinks, the program will no longer be able to pay today's workers all the benefits that they have been promised.

So is Social Security a Ponzi scheme, as Texas Gov. Rick Perry recently charged?

Some defenders of the current system insist that it is not because, well, as USA Today editorialized, "Ponzi schemes are a criminal enterprise; Social Security is not." But this is simply a tautology that says nothing about the program's structure. Those young workers who will be forced to pay more in taxes while getting less in benefits will not take much comfort from Social Security's legality.

But those taxes and benefit cuts do point out one area where Social Security is different from a Ponzi scheme. Though it's usually a swindle, people sign up for a Ponzi scheme voluntarily. Once Ponzi was unable to talk enough people into investing with him, his scheme collapsed. People participate in Social Security because ... the government makes them. And if the Social Security system begins to run short of people paying into the system, as it is now, it can always force those people to pay more.

That's what the program has done more than 40 times since it began. Even after adjusting for inflation, Social Security payroll taxes have increased by more than 800 percent since the program began. Social Security payroll taxes are now the highest tax that the average American family pays. Roughly 80 percent of American families pay more in Social Security taxes than they do in federal income taxes.

Despite this, Social Security faces more than $20 trillion in future unfunded liabilities. That means payroll taxes would have to be hiked by nearly 50 percent, or the equivalent in other taxes, to keep the program solvent.

Social Security can also cut benefits. Under current law, if nothing changes, a 30-year-old worker today can expect to receive just 76 percent of the benefits that he has been promised. That will be far less than the amount of money he could have had if he had been able to invest his Social Security taxes privately. In fact, many young workers will be lucky if they receive back as much in benefits as they pay into the system.

Unlike Charles Ponzi's original Ponzi scheme, Social Security will never go broke as long as the government can force people to pay more taxes and accept fewer benefits. But does that make Social Security better than a Ponzi scheme - or worse?