

The Social Security Rorschach Test

By [William Shipman](#) 1:41 PM 09/21/2011

Comments by Rick Perry and Mitt Romney on Social Security during the last two Republican presidential debates may have provided more insight into these two men than expected — something to ponder with the next debate coming up.

Mr. Romney told us that he is “committed to saving Social Security” and that “under no circumstances would I ever say by any measure it’s a failure.”

Mr. Perry called the system a “Ponzi scheme” and said it’s “a monstrous lie” to tell young workers that their payroll taxes will provide them with Social Security benefits.

Mr. Romney replied that Mr. Perry’s position could disqualify him as the GOP nominee. Apparently, a line has been drawn.

In his 2005 State of the Union Address, President Bush spent about 20 percent of his time talking about Social Security reform, specifically personal [investment accounts](#). Democrats fought this idea with all their strength. Although it’s less well known, Republicans engaged in a family brawl in which many fought Mr. Bush’s investment-accounts idea, too. They were afraid that if they supported the president, they would lose their next elections.

But now the brawl has broken through the Republican skin and is in the open. What can we learn from this?

First, reflect upon Governor Romney’s point that Social Security is not a failure “by any measure,” and try to square that with the fact that Social Security is mandatory. Each worker is compelled to pay 10.6% of his wage, on up to \$106,800, to the government for the retirement portion of the system. That means the average-wage earner has no choice on how to allocate 10.6% of his wage income for retirement. That’s bad enough, but it’s made worse by the fact that his Social Security benefits are very low: about half of what his [Social Security taxes](#) would provide if they were invested in a diversified portfolio of stocks and bonds.

Second, in 1950, when there were 16 workers per beneficiary, the payroll tax rate was just 3% on \$3,000 of wages. Since then the tax rate increased 18 times, and the wage subject to the tax increased 43 times. After adjusting for inflation the maximum tax

jumped 1,322%. Benefits rose as well, but proportionally much less. The squeeze in benefits relative to taxes has progressively made the system a worse deal.

Third, Social Security's actuaries estimate that the mismatch between future taxes and benefits is just under \$7 trillion. That number represents what must be invested right now, in addition to all future [payroll taxes](#), in order to pay scheduled benefits.

Finally, in the 1960 *Flemming v. Nestor* case, the Supreme Court ruled that workers have no property rights to their scheduled benefits. The government can reduce them at will, which it did in 1983 by increasing the retirement age from 65 to 67; or it can increase the tax at will, which it consistently has done. Also, when one member of an elderly couple dies, the government — in most cases — reduces Social Security benefits by a third. Sort of a death tax.

This system of no choice, low benefits relative to taxes, significant tax increases, a massive unfunded liability, the absence of personal property rights and a [death tax](#) apparently does not rise to the level of failure “by any measure” according to Gov. Romney.

For his part, Gov. Perry has called Social Security a Ponzi scheme: a fraudulent investment operation that pays subscribers not from [investment](#) earnings but from new subscribers' funds. To entice subscribers, such schemes must provide unusually high and/or stable returns. Given that the high returns require endless new subscribers to pay off previous ones, such schemes ultimately fail.

Although Mr. Perry's Ponzi analogy is not technically correct, it has some validity in that Social Security benefits are financed by ever more subscribers — that is, wage earners. But unlike a Ponzi scheme, Social Security is not fraudulent, and it doesn't pay large benefits relative to taxes. Indeed, it pays low benefits. A Ponzi scheme promises high returns. That's why people freely, although foolishly, play the game. Social Security promises low returns. That's why people are forced to play the game.

Mr. Romney has stated that the Republican nominee must be committed to saving Social Security, not abolishing it. It's not clear what he means. Does he want to save the objective of Social Security, which is, broadly speaking, the provision of [retirement benefits](#)? Or does he want to save its structure wherein today's young finance benefits for today's old?

Mr. Perry says the system is a Ponzi scheme and a lie. Does this mean that he wants to get rid of the structure yet keep the objective? Or does it mean that he wants to get rid of both?

The two candidates' differences on this issue may shed light on bigger philosophical disagreements they may have. Do they see government as bungling but benign, only in need of a seasoned CEO who can more successfully manage the enterprise? Or do they

see government as overreaching, stifling, oppressive and hurtful in its reach, and in need of a strong and principled leader to shove it out of the way?

How these candidates deal with Social Security, the government's largest program, may shed light on who they really are.