

Freedom Works

## CNN Rates Perry's "Ponzi Scheme" Remark False Because Social Security Isn't Illegal



By [Michael Duncan](#) on September 13, 2011

CNN's best attempt to discredit Presidential candidate Rick Perry's statement that Social Security is a Ponzi Scheme relies on a legal definition by the Securities and Exchange Commission. [Seriously](#):

"the Securities and Exchange Commission defines such a scheme as 'an investment fraud that involves the payment of purported returns to existing investors from funds contributed by new investors...Social Security is not a fraudulent criminal enterprise designed only to benefit current participants in the program. It is a legitimate government program meant to serve both current and future generations of retirees."

CNN's position depends on the subtle distinction between a "de jure" (by law) and "de facto" (by fact) operation, a difference which matters little to those getting fleeced. So yes, CNN, the IRS taking money from me to pay for Social Security is not technically a Ponzi Scheme because Ponzi Schemes are illegal and the government made Social Security legal. But I care much more that the program operates like a de facto Ponzi Scheme.

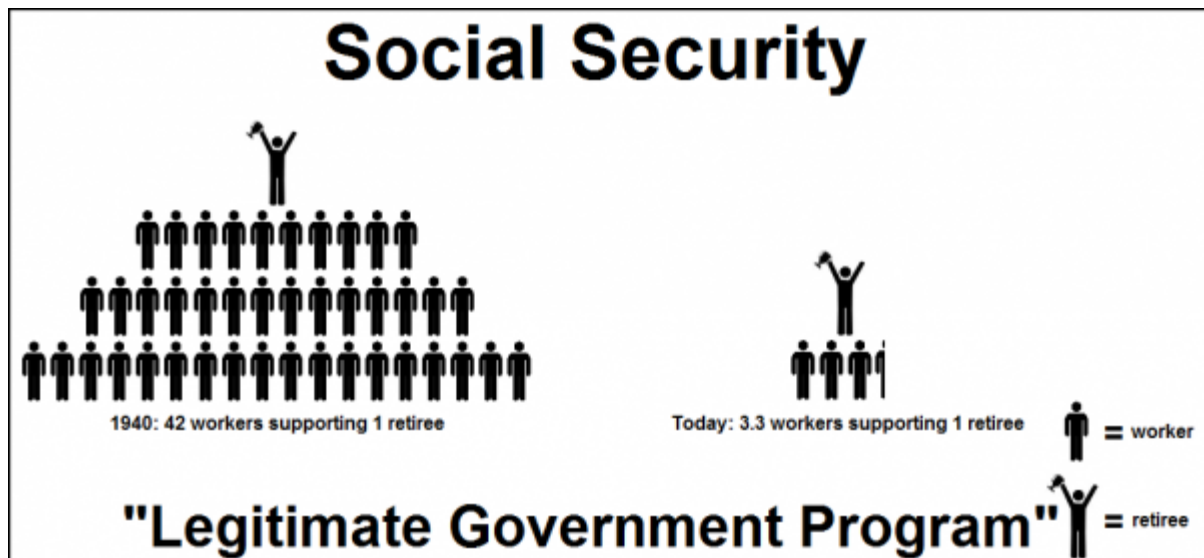
Even when CNN admits that it "is true that benefits to current Social Security recipients are paid for in part by new members of the workforce", they cannot comprehend how that makes Social Security operate like a Ponzi Scheme. Using the phrase, it seems, just doesn't make for polite political discourse at CNN.

But Perry calling Social Security a Ponzi Scheme is not some new Tea Party rhetoric, it's been a term used to describe the program for decades. **The term Ponzi Scheme was actually used as the justification for Social Security** by a liberal, Nobel prize-winning economist, named by *The New York Times* as "the foremost academic economist of the 20th century" (Jonathan Last has more on this [here](#)):

"Social Security is squarely based on what has been called the eighth wonder of the world - compound interest. A growing nation is the greatest Ponzi game ever contrived. And that is a fact, not a paradox." - Nobel prize-winning economist Paul Samuelson, 1976

**But our nation is growing older.**

As Staff Writer Julie Borowski [notes](#), reliance on new workers to pay for existing benefits to seniors is the one of the main reasons I am not free to opt-out of a system I did not consent to save my money for me. Social Security needs me and millions of young people like me to prop up a broken system paying out to an aging population. This doesn't worry CNN:



But this is not just about whether, under some definition, you could describe the activities of Social Security as being like a Ponzi Scheme. The bigger question should be why is a news outlet determining what defines "a legitimate government program"? When Dennis Kucinich got down on the House floor and [decried the war in Iraq as illegal](#) should CNN have responded by saying he's wrong because the government made it legal?

Of course not. A healthy Republic depends upon citizens challenging the positions of our government. CNN's unwillingness to challenge the government on Social

Security is troublesome, but for their position on Perry maybe CNN should pull out Webster's Dictionary and look up "intellectually dishonest".

**UPDATE:** Michael Tanner, senior fellow at the Cato Institute, [has a blog post up today](#) defending Rick Perry. The post has also appeared on [National Review Online](#):

Of course, Social Security and Ponzi schemes are not perfectly analogous. Ponzi, after all, had to rely on what people were willing to voluntarily invest with him. Once he couldn't convince enough new investors to join his scheme, it collapsed. Social Security, on the other hand, can rely on the power of the government to tax. As the shrinking number of workers paying into the system makes it harder to continue to sustain benefits, the government can just force young people to pay even more into the system.

...

Social Security is facing more than \$20 trillion in unfunded future liabilities. Raising taxes and cutting benefits enough to keep the program limping along will obviously mean an ever-worsening deal for younger workers. They will be forced to pay more and get less.