



May 17, 2012

More B.S. on Social Security

By [Robert Maynard](#)

Once again Vermont's junior Senator Bernie Sanders is [demagoguing the social security issue](#):

"I find it rather appalling that a Wall Street billionaire, Pete Peterson, a man who has more money than he knows how to spend, is hosting a conference today to call for massive cuts in Social Security, Medicare, Medicaid, and other government programs that are of enormous importance to the survival and dignity of millions of our fellow citizens — many of whom are struggling daily just to keep their heads above water," Sanders said.

"Billionaires like Mr. Peterson and others should not be using their wealth and power to beat up on some of the most vulnerable people in our country. That is morally grotesque."

Here is how the [Peter G. Peterson Foundation](#) characterizes their efforts on this subject: "Since establishing the [Peter G. Peterson Foundation](#) in 2008, Peter G. Peterson has led the organization in examining critical challenges including the federal budget deficit, dismal national and personal savings rates, and a ballooning national debt endangering the viability of Social Security, Medicare and the overall economy." The target of Senator Sanders' ire appears to be a "[Fiscal Summit](#)" held on our impending debt crisis. The [agenda](#) of the summit and the speakers who chosen to participate reveal an even handed and bi-partisan approach to addressing our fiscal future. Here is how the aim of the summit is described:

Fiscal issues can sometimes seem esoteric and disconnected from the daily economic concerns that Americans face. But the reality is that the long-term fiscal policy decisions leaders make today will shape America's economic future. Investment in both the public and private sectors could be severely curtailed if debt and interest payments keep rising, leading to fewer jobs, lower incomes, higher taxes, and declining living standards. On the other hand, getting our fiscal house in order could build confidence in the future direction of the American economy and ensure that critical investments can be made and important programs like Social Security and Medicare can be preserved and strengthened. How can policymakers clarify the connection between fiscal problems and economic realities, so that the American public knows what's at stake when it comes to confronting our long-term fiscal challenges?

Senator Sanders may disagree with the conclusions of some summit's participants regarding the magnitude of our debt crisis, or the proposed solutions, but he offers no actual critique of their efforts. Instead he blindly characterizes such efforts as an attempt to "beat up on some of the most vulnerable people in our country." It is quite clear from

the material coming on the summit's website that the aim is to "ensure that critical investments can be made and important programs like Social Security and Medicare can be preserved and strengthened." How on earth does Senator Sanders' see this effort as an attempt to "beat up on some of the most vulnerable people in our country?" Perhaps, unlike us ordinary mortals, he possesses some God-like capability to peer into our hearts and discern our inner motivation. Despite his claims, it is Senator Sanders' irrational and unthinking demagoguery that I find "morally grotesque."

If Senator Sanders is able to rise to a level of actually debating the merits of the question regarding Social Security's solvency, he might want to check out a November 2011 Cato Institute study titled "[Social Security, Ponzi Schemes, and the Need for Reform](#)." Here is how the author sums up the matter:

Recently there has been much debate over whether Social Security is or is not a Ponzi scheme.

Clearly Social Security has many structural characteristics that resemble those of the classic Ponzi or pyramid scheme. For example, like a Ponzi scheme, Social Security does not actually save or invest any of a participant's payments. When a worker pays taxes into the system, that money is used to pay current beneficiaries. Therefore, participants receive payments, not from returns on their own investments, but directly from inflows from subsequent participants.

As a result, Social Security was able to pay early participants a windfall return on their money. But as demographic changes result in fewer workers paying into the program and more recipients taking benefits out, the return to subsequent generations grows steadily worse. Today's young workers will receive a rate of return far lower than what they could receive from private markets.

However, there is one crucial distinction between Social Security and a Ponzi scheme. 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.

Yet, Congress's ability to preserve Social Security through higher taxes and lower benefits should not distract from the more fundamental problem that the program's Ponzi-like structure makes it unable to pay currently promised levels of benefits with current levels of taxation. In short, the program is facing insolvency without fundamental reform.

Instead of just making a bad deal worse, that reform should fundamentally restructure Social Security. It should remove the Ponzi-like aspects of the program and allow younger workers to save a portion of their payroll taxes through privately invested personal accounts.

We would be better served by political leaders who were capable of engaging in intelligent debate on this crucial issue rather than merely spewing irrational, demagogic rhetoric.

