



Daily Policy Digest

Tax and Spending Issues

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Social Security Is a Ponzi Scheme

Texas governor Rick Perry is being criticized for calling Social Security a "Ponzi scheme." But if anything, Perry was being too kind, says Michael Tanner, a senior fellow with the Cato Institute.

The original Ponzi scheme was the brainchild of Charles Ponzi. Ponzi convinced people to allow him to invest their money, but he never actually made any investments. He simply took the money he was given by later investors and gave it to his early investors, providing those early investors with a handsome profit. Unfortunately, in order to keep paying previous investors, he had to continue finding new investors. Eventually, he couldn't expand the number of new investors fast enough, and the scheme collapsed.

Social Security, on the other hand, forces people to invest in it through a mandatory payroll tax.

- A small portion of that money is used to buy special-issue Treasury bonds that the government will eventually have to repay, but the vast majority of the money is not invested in anything.
- Instead, the money you pay into the system is used to pay benefits to those 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.

As with Ponzi's scheme, this turns out to be a very good deal for those who got in early.

Indeed, the very first Social Security recipient, Ida Mae Fuller of Vermont, paid just \$44 in Social Security taxes, but collected \$20,993 in benefits.

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. 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.

In addition, at least until the final collapse of his scheme, Ponzi was more or less obligated to pay his early investors what he promised them. With Social Security, Congress is always able to change or cut those benefits in order to keep the scheme going, says Tanner.

Source: Michael Tanner, "Yes, It Is a Ponzi Scheme," National Review Online, August 31, 2011.

For text:

<http://www.nationalreview.com/articles/275908/yes-it-ponzi-scheme-michael-tanner#>

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