

Picking Apart the ‘Ponzi Scheme’: Is Rick Perry Right?

By Amy Bingham

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It was 1920 and the stock market was booming. Americans were itching to invest and the charismatic Charles Ponzi offered them an opportunity to make big money quickly, promising an investment return in 90 days that was 10 times that of the annual interest rate for bank accounts.

As the checks poured in, Ponzi pocketed them, investing in nothing and paying the few people who asked for their returns with the cash from others' investments. In less than 200 days, as the number of investors trying to cash out exceeded those paying in, Ponzi's house of cards crumbled. All that was left were poor investors and a term that nearly a century later still rocks the third rail of American politics.

Social Security "is a Ponzi scheme," presidential candidate Rick Perry said during [Wednesday's Republican debate](#). "It is a monstrous lie. It is a Ponzi scheme to tell our kids that are 25 or 30 years old today, 'You've paid into a program that's going to be there.' Anybody that's for the status quo with Social Security today is involved with a monstrous lie to our kids, and that's not right."

But to be a true Ponzi scheme the federal government would have to convince people to voluntarily pay into Social Security, a program that was created 15 years after Ponzi's scheme collapsed, instead of levying a payroll tax. The government would then have to commit fraud by lying to the public and saying the retirement program was fiscally sound and that everyone would get full benefits while secretly knowing there was no way to pay for them.

"The critical thing that makes a Ponzi scheme despicable to me is the fraud, and Perry's exaggerating a little bit if he's implying that there is fraud," said Harvard Law professor Mark Roe.

While Perry's choice of words may not be completely accurate, they are not entirely off-base either. Young people are paying into a system with the promise of receiving retirement benefits later in life when, in fact, the system in its current form may not be able to [pay](#) those benefits starting in 2036.

"I think it's more true than not," said [Michael Tanner](#), a senior fellow at the conservative CATO Institute. "You rely on the next generation of taxpayers who will pay into the system to pay your benefits."

The difference, some argue, is that the promise of retirement security is backed by a government that can raise taxes, is publicly admitting that Social Security will be insolvent unless it is amended and is not lying to people to convince them to invest but instead is collecting a mandatory tax.

"What my Social Security contribution gets me is a promise backed by the full faith and credit of the United States, and I think that promise is far different than the promise Bernie Madoff gave over drinks," said Robert Jackson, an associate law professor at Columbia Law School, referring to the most recent high-profile Ponzi schemer Bernard Madoff, who is currently serving a 150-year prison sentence for scamming \$50 billion from investors.

"For sure, it's troubling that young taxpayers may not have Social Security benefits, but that's not fraud, that's a public debate," Jackson continued. "[Perry's] statement has a grain of truth and a pound of fiction."

Perry's comments are nothing new for the Texas governor who in his book *Fed Up!* said the federal retirement program was not only a Ponzi scheme, but a "failure," "something we have been forced to accept for more than 70 years now," and one of many New Deal programs that have "never died, and like a bad disease, they have spread."

Perry has not backed away from any of the comments he made in the 2010 book. At a campaign stop in Iowa last month, the GOP front-runner told reporters, "I haven't backed off anything in my book. So read the book again and get it right."
"This is going to be his persona, the straight-shooter type of guy, what you see is what you get, which has got a certain appeal," Tanner said. "At a time when people are sick of politicians he's going to come across as the anti-politician."

But Perry is venturing into [virtually uncharted territory](#) by attacking a system that 87 percent of voters say has been good for the country, according to a July Pew Research [poll](#).

"It's actually an outrage that he would call it a Ponzi scheme," said Nancy Altman, the co-chair of the Strengthen Social Security Campaign. "Our elected officials should be reassuring the American people that the money they pay in is a part of a trust, and that the government is going to protect that."

Altman, who served as Alan Greenspan's assistant on the bipartisan commission that developed the 1983 Social Security amendments, said Perry's comments were evidence of how the discussion surrounding Social Security has changed over the past 20 years.

"The difference between then and now is the tenor of the discussion. Everyone understood Social Security was a program that was extremely valuable and that worked," Altman said. "No one was talking about fundamental changes and certainly no one in the mainstream would've thought to call it a Ponzi scheme."