

THE DAILY CALLER

[PRINT PAGE](#)

A flash point for Social Security

1:35 PM 08/27/2010



ADVERTISEMENT

On August 5th, [SocialSecurity](#) trustees released their report showing that permanent annual Social Security deficits will begin in 2015, when next year's high school seniors graduate from college.

Since there are more than 50 million Social Security beneficiaries, and their numbers are growing faster than the number of taxpayers, there will be intense, politically irresistible pressure to continue paying benefits by raising payroll taxes and income taxes. But taxes won't be enough to save Social Security, because Medicare and Medicaid are also going broke, and payments on all the debt are skyrocketing.

Social Security was set up to have each person pay for somebody else's benefits. Current payroll taxes go to pay current [SocialSecurity](#) [benefits](#) and nothing is set aside for the future retirement of people working now. In the past, when current payroll taxes exceeded current benefits, the Social Security Administration used the surplus to buy special issue U.S. Treasury bonds. The surplus was mingled with the government's general funds and immediately spent on other programs. Now that Social Security is in deficit, the Social Security Administration will start redeeming those bonds, and the Treasury will draw on current revenues other than payroll taxes. Current Social Security beneficiaries believe they are entitled to their checks, but their total benefits tend to exceed the taxes they paid, and in any case their taxes were spent years ago. The [money](#) is long gone. There is no investment fund, no lockbox.

The flash point for Social Security could come when hard-pressed taxpayers conclude that even though they're paying monstrously high payroll and other taxes to support current beneficiaries, Social Security will be broke before they get any benefits. Nobody will be supporting them as they supported other people.

Outraged taxpayers will probably realize that they cannot both provide for themselves and continue paying for everybody else. It's a good bet that they will start trying to make up for lost time by building up their savings as rapidly as possible. Since it would be hard to increase income dramatically, it would

be necessary to dramatically cut taxes they're paying for other people. Probably increasing numbers of taxpayers will work off the books, in the underground economy, beyond the government's greedy hands. By the time these things are happening, there could already be a flourishing underground economy due to inflation, price controls, wage controls, profit controls, exchange controls, import restrictions, rationing and other regulations. More people will do business in cash to avoid leaving a paper trail. There could be a resurgence of barter.

When most people hear about the underground economy, they tend to think of drugs, weapons or other disreputable things. But as government expands its power over our lives, all sorts of good things become contraband. Perhaps the most perennially sought after are compact, high-value goods that could be used as money. One smuggler moved Swiss francs across a border, hidden in Polish sausages. Or diamonds — James Bond's creator Ian Fleming wrote a book about diamond smuggling. Gold and silver coins are more popular, since less expertise is needed to determine their value. For decades, private gold ownership was restricted in the U.S. and other countries. Journalist Timothy Green reported that "gold travelled amid a clutter of goats and pilgrims on Arab dhows in the Arabian Gulf, or hidden in the engine casing of freighters outward bound from Hong Kong. One shipment of movie projectors into India was ingeniously filled with canapé-sized bars of gold, while 560 cans of motor grease swung ashore in Yokohama docks — laced with gold."

At one time or another, contraband goods have included coffee, cigarettes, watches, whiskey, spices, perfume, silks, motor oil, rare stamps and sex hormones. Whatever the principal reason for such illegal trade, it's unreported, and taxes aren't paid. The point here is that as the years go by, more taxpayers are likely to conclude that Social Security won't be around for them and that they must start providing for their old age by paying less in taxes. Federal revenues will fall as a result, accelerating the collapse of Social Security.

Such a scenario will remain a serious possibility as long as Social Security continues to be a system where a declining percentage of the population must pay ever higher taxes to cover everybody else's benefits.

Jim Powell, a senior fellow at the Cato Institute, is the author of FDR's Folly, Wilson's War, Bully Boy, Greatest Emancipations, The Triumph of Liberty and other books.

Recommend

Be the first of your friends to recommend this.

Article printed from The Daily Caller – Breaking News, Opinion, Research, and Entertainment:
<http://dailycaller.com>

URL to article: **<http://dailycaller.com/2010/08/27/a-flash-point-for-social-security/>**

Copyright © 2009 Daily Caller. All rights reserved.