

COMMUNITY VIEW

The misrepresentation of Social Security

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When Social Security — more precisely, the Old Age and Survivors Insurance Program — was originally enacted by Congress in 1935, the payroll tax and the benefit program were separated because of doubt as to whether the Constitution allowed Congress to tax some people to benefit others. When this was tested in 1937 in the Supreme Court (*Helvering vs. Davis*), the government lawyer understood and successfully argued that OASI was not an insurance program requiring a trust fund and separate accounting, but was in reality a welfare program. Yet, in spite of the legal outcome, an early Social Security information booklet advised workers that their payroll deductions were strictly accounted for and kept separate from the general funds of the U.S. Treasury, which was clearly a gross misrepresentation of the legal and economic reality then and now.

While it was sold as a mandatory public insurance program, Social Security continues to be falsely represented as a “trust fund” or a “lock box” by almost every elected official who values political survival over grappling with legal or economic reality. Incredibly, and unfortunately, what had been promoted in 1935 as an insurance program with inherent protections became a pay-as-you-go entitlement program, the benefits of which could be changed, taxed away or withdrawn by a Congress possessing any remotely believable rationale to do so.

With ever-mounting deficits projected for Social Security (and let us not forget the huge Medicare program enacted much later), it is now clear to most of us

that the “trust fund” evaporated long ago, with its funds having been used to pay current beneficiaries in amounts far greater than the accumulated value of their payments — namely, payroll taxes withheld from them and paid by their employers. Once the link between what an individual put into the fund and what he or she got out of it was severed, both legally and in practice, the politicians added promise after promise of unearned benefits to those who had retired but who, fortunately for them, voted in large numbers — in effect mortgaging the incomes of workers not yet born. The urge to sweeten Social Security checks with extra dollars for dependents, and to create benefit concepts that had nothing to do with what a worker and his or her employer had put into the fund, not only increased a politician's chances for re-election, but also led to mushrooming annual deficits and increases in the national debt to levels that are fast becoming unmanageable, both economically and politically.

In 1980, David Stockman, a fellow CPA and the highly respected director of the Office of Management and Budget in the Reagan administration, said that Social Security had in effect become a giant public fraud, which he characterized in no uncertain terms as a “Ponzi scheme.” (In 1920, Charles Ponzi hit upon an idea to take in money from friends in Boston by promising to double their “investment” in a short period of time. He fulfilled his promises to early investors by issuing payments from later ones. Unfortunately for Ponzi and his so-called investors, there were not enough foolhardy people in Boston for his scheme to last. Ponzi eventually went bust and went to jail.)

This background is useful when one examines the political and economic mythology of America's most important social programs: Social Security and Medicare.

In his book, “The Triumph of Politics,” Stockman tells how the Reagan administration arrived at its economic calculations in the spring of 1981. There was much haggling over the numbers by competing groups. As the deadline approached for locking up the budget, Stockman called in Murray Wiedenbaum, chairman of the Council of Economic Advisors, and made a political deal. When contending factions grumbled at the result, Wiedenbaum was pushed to disclose the economic model that he had used to advise the OMB director. Wiedenbaum slapped his belly with both hands and said that “it comes right out of here — my visceral computer.” As a CPA, worried, like many other Americans, about our nation's fiscal future, I wonder how many visceral computers and bogus accounting and budget practices are still in use as our national budget has tripled since 1982 and our national debt has more than doubled.

If that is not bad enough, remember that the budget numbers presented to Congress by the president and voted on by the Congress are the result of the unreliable cash basis of accounting that many have said is analogous to what Enron used before it collapsed.

I believe that the next generation deserves better.

The writer, an Ossining resident, served in Congress from 1985 to 1989 and is the author of “Unaccountable Congress: It Doesn't Add Up.”