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Is Social Security a Government-run Ponzi Scheme?

--- Written by [Sam Blumenfeld](#) ---

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With President Obama claiming that if our debt limit is not increased by Congress, it may force the government to stop payment of Social Security checks, the public, and in particular those dependent on these monthly checks, are a bit confused about how the Social Security System is financed. The truth is that the government does not have to go out and borrow money in order to pay Social Security recipients. Those payments are covered by

present receipts of FICA taxes. So the idea that Social Security payments are dependent on borrowed money is false.

Indeed, over the years these taxes have brought in more revenue than is actually needed to cover present payments of the Social Security System. The federal government spends that surplus and places in the Social Security Trust Fund government bonds at 5.50 percent interest, redeemable when the FICA taxes do not bring in enough money to cover Social Security payments.

Back in 2005, President Bush made Social Security an important issue in his State of the Union Message. This created interest in the Social Security Trust Fund and how it operates. Unlike a typical private pension plan, the Trust Fund does not hold any marketable assets to secure workers' paid-in contributions. Instead, it holds non-negotiable U.S. Treasury bonds and U.S. Securities backed "by the full faith and credit of the government." The Office of Management and Budget has described the distinction as follows:

"These [Trust Fund] balances are available to finance future benefit payments and other Trust Fund expenditures — but only in a bookkeeping sense.... *They do not consist of real economic assets* that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large Trust Fund balances, therefore, *does not, by itself, have any impact on the Government's ability to pay benefits.*" (Our emphasis.) (from FY 2000 Budget, Analytical Perspectives, p. 337)

In other words. The government IOUs are intrinsically worthless. "The full faith and credit of the government" is based on its ability to tax the American people to pay this government-created debt. As of the end of calendar year 2010, the accumulated surplus stood at just over \$2.6 trillion. Projections are that current receipts will continue to exceed expenditures until 2017. Thereafter, there will be a shortfall that will be made up by withdrawals from the Trust Fund, although the Trust Fund will continue to show net growth until 2025 because of the interest generated by its bonds.

Is this some sort of government Ponzi scheme? The federal government takes in more than it needs through FICA taxes to pay current Social Security recipients, spends the surplus on anything it wants, and has put into the Trust Fund \$2.6 trillions of Treasury paper of no intrinsic value, a debt imposed on future American taxpayers. Had that \$2.6 trillion been invested in American industry, in assets of real value, future taxpayers would not be obliged to pay off another one of Uncle Sam's huge debts. That investment would have created jobs and more wealth. But such simple economic sense is beyond the capability of our socialist bureaucrats and politicians in Washington.

So why is FICA collecting more money than it needs to cover Social Security's current obligations? Why not lower the tax and let American workers keep more of their own money? The politicians' reasoning is simple: the more money we have the more we can spend it in any way we want. Since eventually Americans will be taxed to pay for Social Security benefits not covered by current FICA taxes, why fool the public with this sham of a Trust Fund with \$2.6 trillion of worthless paper?

By the way, when government increases its debt limit, it simply takes on more debt. It owes more money which the American people will be obliged to pay interest on. Why give this profligate government more money to spend when it ought to be cutting its expenditures?

When are we going to get rid of the Department of Education, the Environmental Protection Agency, HUD, OSHA, and other alphabetic soup bureaucracies that are driving thousands of small businesses into bankruptcy because of strangling regulations. One of the reasons why jobs are not being created is that so many small businesses are folding because of onerous government regulations. Starting a small business these days is like going through an obstacle course. But a man like Obama has no idea what goes into creating a new private business. He never met a payroll, and he prefers government enterprise over private free enterprise.

By increasing the debt limit, future Americans will simply be saddled with more debt. It's as simple as that. Obama wants us to take on more debt. Why? Because it's the easiest way to bring America to its financial knees. And so you can be sure that he will continue to cause fear among the elderly that unless we borrow more money, they will lose their benefits. What a despicable lie.

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