

Social Security Data Belie Loopy Claims of a Fraud

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A number of presidential candidates have claimed that the Social Security program is a “Ponzi scheme.” We wonder if the figure below will convince some skeptics of the program that this is a very odd way to look at it.

A Ponzi scheme usually refers to a kind of fraudulent money-making venture. Unbeknownst to the victims of the fraud, the operators of the scheme do not use the money entrusted to them for a legitimate investment or business venture. Instead, the money is often used to provide earlier investors with a very high return. This keeps the scheme going, attracting yet more investors. Of course, the scheme’s operators keep some of the invested money, which is the main purpose of the fraud. Eventually, when no new investors can be found, the scheme collapses, and most of its victims lose all of the money that they have invested.

A far different story can be seen in the figure below. The green line depicts the number of new “investors” in Social Security—that is, the number of new US workers each year who have reported taxable earnings for the first time. Keep in mind that none of these workers have been the victims of a Ponzi scheme, certainly not one that stopped paying dividends as required by law. Going back to the figure, the number of new recipients each year (mostly retired or disabled

people and individuals in their families) is represented by the gray line, and the number going off the program, mostly upon dying, by the blue line.

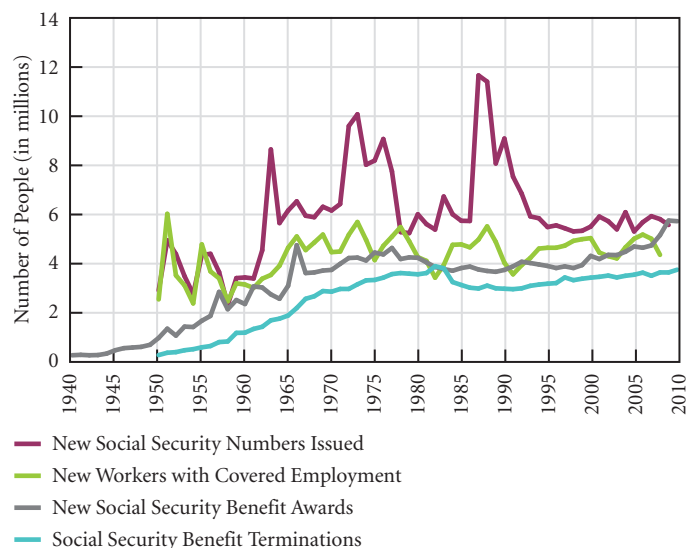
The dynamic of entry and exit illustrated puts a growing program into perspective. While new workers have been added to the system at an increasing rate since the program’s inception over 75 years ago, few would say that they had been duped in a Ponzi scheme. In retrospect, one can see that people have received their benefits and eventually left the system at a rate that has not lagged far behind the rate of worker entry. In all, about 224 million people have been awarded Social Security benefits of some kind. Of these, approximately 158 million have died or lost eligibility, with no sign that their “investment” of payroll deductions has been lost to a scheme of any kind. Almost by definition, a Ponzi scheme would not have such a solid track record in paying out dividends.

Of course, Social Security benefits are technically paid for in part by several trust funds, which are regarded with skepticism by many observers. As our colleague James K. Galbraith told Congress last year, widely discussed Congressional Budget Office analyses reporting specific years in which these funds will soon run out tend to rely on projections of variables that are extremely unpredictable. Moreover, he is right to point out that these assumed trajectories for population, inflation, economic growth, et cetera, often seem to be inconsistent with one another in fairly obvious ways.

Critics of the program are right to point out that the bonds in the trust funds have been issued to finance government programs, not profit-making activities. Hence, Social Security ultimately bases its promises only on the federal government’s overall ability to raise taxes, print money, and create bank reserves to pay its bills. This source of funding is certainly good enough for Social Security—no less than it is for the government’s other commitments. Looking at the figure, one begins to draw the conclusion that it would take an act of legislation—and a very foolish one indeed—to create a “Ponzi” generation of ordinary elderly people with virtually no retirement income.

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Millions of Workers Entering and Exiting the Social Security System with No Sign of a Ponzi Scheme



Sources: Social Security Administration Annual Statistical Supplements, 2010 and 2011