

Social Security: Mythmaking and Policymaking

by John Attarian

As Social Security's critics know, the government program is robbed in myths, for example, that it is "insurance" financed with a "trust fund," paying "guaranteed" benefits "as a matter of earned right." These myths have given most Americans a mistaken understanding of Social Security. As a result, they perniciously affected policymaking in the past and severely constrain reform options today.

Beginning in 1935, when Social Security was enacted, the program's administrators made a huge effort to shape the public's understanding of and beliefs about it. In speeches, articles, pamphlets, and other mass-circulation literature, they described Social Security as "insurance" under which workers pay "contributions" or "premiums" to receive "guaranteed" benefits that, being "paid for," are theirs "as a matter of earned right," without any means test.¹

The mainstream media uncritically adopted these semantics, referring to "earned annuities regardless of other income," "old-age insurance," "insurance premiums," old-age income provided "as a matter of right," Social Security as a "mass insurance policy," and to the government as "writing insurance policies guaranteeing to pay monthly benefits."² Moreover, and very

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importantly, Social Security's payroll tax and the creation of the "Old-Age and Survivors Insurance Trust Fund" as part of the 1939 Social Security Amendments made this depiction seem real and believable.

As a result these semantics became Americans' frame of reference for thinking about the program. That is, the terms created a false consciousness about Social Security. By "false consciousness" I mean simply an understanding of something's nature that is at variance with reality, but that is nevertheless taken as true and governs belief and conduct.

The falseness of these beliefs is proved by Section 1104 of the original Social Security Act, never repealed: "The right to alter, amend, or repeal any provision of this Act is hereby reserved to the Congress." This routine reservation of power to amend legislation means Congress can cut benefits. And it has, several times, beginning with the removal of Social Security's money-back guarantee in 1939. This necessarily demolishes the "earned right," and with it any analogy to insurance, with its binding contractual obligations. For obvious reasons, this particular provision of Social Security, and its implications, were never publicized by Social Security's partisans.

This false consciousness quickly attained a powerful grip on the American mind. In 1950 the self-employed were brought under Social Security. Beneficiaries who had previously started small businesses in retirement

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found that their new efforts were now covered employment; monthly self-employment earnings above \$50, then \$75, would trigger loss of benefits under the “retirement earnings test.” Many self-employed elderly were outraged: had they not been told that their benefits came as a right?³ Similarly, the famous *Flemming v. Nestor* Supreme Court ruling (1960) arose because Ephram Nestor, deported for being a communist in the 1930s, lost his benefits under the 1954 Social Security Amendments, which suspended benefits for those deported for subversive activity. Invoking statements by politicians that benefits are paid as an earned right, Nestor’s unsuccessful suit is further evidence of the public’s absorption of Social Security’s myths.⁴

Beginning in the late 1950s several senior groups were organized, including, the American Association of Retired Persons (AARP) in 1958, the National Council of Senior Citizens in 1961, and the Gray Panthers in 1971. The growth of the population aged 65 and over, from 19.1 million in 1965 to 26.1 million in 1980 and 32 million in 1990, fueled the expansion of these senior organizations. The AARP, for example, grew from 800,000 members in 1968 to 5 million by 1975 to 16 million by 1986, and to 28 million in 1990.⁵

This was a fateful development. By the time Social Security experienced its first financial crisis in the 1970s, the elderly lobby was a mighty force—and its ranks were filled with people who had spent their entire lives since 1935 being told that Social Security was insurance, that they had paid for their benefits, which were theirs as an earned right. Moreover, in their experience

Social Security seemed to live up to its misleading image. In short, there had arisen a large, well-organized, and militant pressure-group bloc steeped in false consciousness and armed with the political power to give it a strong influence on policymaking.

Meanwhile, a new myth appeared: Social Security is a “social contract” or “compact between the generations.”⁶ No such contract or compact exists. The generations did not covenant with one another. Congress passed a law. And no “contract” can coexist with Section 1104, which empowers Congress to rewrite this “contract” unilaterally. Nevertheless, this myth won widespread acceptance.

Reagan’s 1981 Social Security Debacle

The power of the false consciousness was dramatically demonstrated in 1981. Inflationary stagnation and an erroneous double indexing of benefits for inflation, enacted in 1972, had combined to drive Social Security into annual deficits and projected bankruptcy. The Cost of Living Adjustment (COLA) was corrected in 1977, and a massive and bitterly resented tax increase was enacted.⁷ Yet Social Security’s deficits continued. In May 1981 President Ronald Reagan proposed cutting benefits to end the crisis. The proposal included a reduction in early retirement benefits (benefits which persons can collect if they retire before the normal retirement age) from 80 percent of the normal benefit to 55 percent.⁸

Attacks on Reagan’s proposals erupted immediately. Democrats in Congress flayed Reagan, declaring that “Benefits are a right—an earned right,” that he was guilty

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of “breaching a contract,” that “Social Security is bought and paid for by the hard labor of the American worker,” and so on.⁹ Letters to newspapers declared, “Where do you get the nerve to insinuate that Social Security recipients are ‘supported’ by workers? Social Security is an insurance program, generously contributed to by workers and employers”; beneficiaries “have earned their benefits”; and one’s benefit is “a pension earned by a lifetime of work.”¹⁰

In July 1981 Congress defeated most of Reagan’s proposals. But it did eliminate Social Security’s \$122 minimum monthly benefit.¹¹ This prompted a fresh eruption of ill-informed anger. For example: “These seniors contributed many hours and dollars to Social Security during their working years. This is not a dole.” “Columnists should stop writing about Social Security as if it were social welfare for senior citizens. . . . Social Security is an insurance program establishing a trust fund.” “The Social Security system is an insurance system whereby our payroll deductions are the premiums we pay.”¹² Congress and Reagan flinched; the minimum benefit was restored.

The response to Reagan’s proposed cuts would have been negative in any case. But the specific beliefs voiced proved that Americans had a false consciousness about Social Security, which determined their response to policy proposals and thereby affecting the proposals’ fate. The response proves too that most Americans had never heard of Section 1104—because Social Security’s partisans had chosen not to tell them.

More: Reagan’s defeat had roused the myth-indoctrinated elderly to vigilance and given themselves and politicians a demon-

stration of their power. From now on, Social Security policymaking would occur in the shadow of their bludgeon.

Social Security Myths and the Post-Reagan Paralysis

In 1983 Congress raised Social Security taxes and reduced future benefits by raising the retirement age and trimming early retirement benefits after 2000. (So much for the “contract.”) The benefit reduction for current beneficiaries was minimal, mostly through a new, modest benefit tax.¹³ Politicians had learned their lesson.

Throughout the 1980s, Congress wrestled with chronic large budget deficits. Various deficit-reduction proposals were made and some enacted; but most, such as the Gramm-Rudman-Hollings Act, exempted Social Security. The few proposals to cut Social Security, such as a 1985 attempt to eliminate the 1986 COLA, were quickly retracted in the face of seniors’ wrath.¹⁴

In January 1993 the new Clinton administration proposed reducing the deficit by freezing Social Security COLAs. The AARP condemned the freeze. Witnessing for the false consciousness, Senator Daniel Patrick Moynihan called it “unacceptable,” since it would weaken the idea that Social Security is insurance. We should, he said, “acknowledge that this is a contributory insurance program. These monies are held in trust. . . . It’s paid-up insurance.” Representative Newt Gingrich called Social Security a “contract” and vowed to “keep the Democrats from tampering with it.” President Bill Clinton reversed himself, told the AARP’s leadership he believed Social Security is a special

contract with the elderly—explicitly affirming Social Security’s myths—and dropped the COLA freeze.¹⁵

“A Sacred Trust”

The Republican alternative to Clinton’s deficit plan exempted Social Security. As myth-smitten as Moynihan and Clinton, Congressman John Kasich wrote that “Republicans believe that Social Security represents a fundamental agreement between the Federal Government and the American people—an agreement that must be preserved.” Republicans would cut the deficit without cutting benefits, which seniors deem “a sacred trust.”¹⁶

By the late 1980s it was clear that when the baby boomers retire, Social Security tax rates mandated under current law will not cover current-law benefits and that Social Security will have to liquidate its government debt holdings. Eventually it will be unable to pay full benefits on time. Debate arose over how to revise Social Security in order to avert fiscal crisis.

Means-testing benefits—eliminating or reducing them for better-off beneficiaries—is one option for reducing costs. But Social Security partisans such as Representative Bill Archer opposed means-testing because it “violates the earned-right concept” of Social Security.¹⁷ Means-testing remains unadopted.

Many Social Security reformers assert their commitment to maintaining benefits for current retirees. In 1997 the Heritage Foundation’s Daniel Mitchell observed that “all privatization proposals explicitly guarantee” benefits for current and imminent retirees—partly for political reasons, but also because of a “moral argument. . . . Simply stated, the government made a contract with them to provide a certain level in exchange for taxes paid, and it would be wrong to break that contract.”¹⁸ Clearly, Mitchell bought the myth that we are contract-bound.

More recently, David John, also of Heritage, declared that “The benefits of current retirees and those close to retirement must

not be reduced. Washington has a moral contract” with these persons. John explicitly advocated legally guaranteeing current-law benefits for them. Legislation has been introduced to create such guarantees.¹⁹ This would make a central tenet of the false consciousness a reality, obviously to make reform palatable to the myth-steeped, politically powerful elderly. But locking policymakers into benefit-side rigidity would be disastrous.

Unfortunately, refusal to reduce current retirees’ benefits saddles privatization plans with colossal transition costs, since the initial generation of workers under privatization must finance not only its own retirement, but that of the current beneficiaries. For example, in 1998 Peter Ferrara and Michael Tanner of the Cato Institute proposed leaving current retirees’ benefits unchanged and diverting 10 percentage points of the 12.4 percent Social Security tax into individual retirement accounts. The annual revenue diversions—the shortfalls that must somehow be financed—in 1998–2027 would have totaled \$10.6 trillion in 1998 dollars.²⁰

The only way to reduce transition costs is to cut current as well as future benefits—but that requires confronting and exploding the false consciousness and educating the public to see Social Security benefits for what they really are: redistributive transfers that are neither guaranteed nor earned rights, but rather contingent, malleable, and subject to revision by Congress. So far, reformers have been unwilling to do so. Until they do, they are doomed to wrestle with transition costs and to concoct complicated, costly schemes to defray them.

It emerges, then, that Social Security is trapped between the imperatives of economics and the imperatives of politics. On the one hand, it must have flexibility to raise taxes and cut benefits to remain solvent and affordable. On the other, taxpayers have been taxed over their threshold of pain for Social Security, while an entitlement mentality precludes benefit cuts—at least for current beneficiaries. Would-be Social Security reformers are caught in this same trap,

between a need for flexibility and politically imposed rigidity. The false consciousness worked mightily to create this trap. It necessarily follows that the false consciousness must be demolished for any real, sound reform to happen. □

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3. U.S. Congress, House Committee on Ways and Means, *Analysis of the Social Security System: Hearings before a Subcommittee of the House Committee on Ways and Means*, 83rd Cong., 1st sess., 1953, pp. 982–83, 986–92, 1000–07.

4. U.S. Supreme Court, Records and Briefs, October Term 1959, No. 54, *Flemming v. Nestor*, Brief for the Appellant, pp. 3–4, and Appeal from the United States District Court for the District of Columbia, pp. 25–26.

5. *Encyclopedia of Associations*, 5th ed., vol. I (Detroit: Gale Research Inc., 1968), pp. 532, 565; Martha Derthick, *Policy-making for Social Security* (Washington, D.C.: Brookings Institution, 1979), pp. 197–98; *2000 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds*, p. 147, Table II.H1—Social Security Area Population as of July 1 and Dependency Ratios, by Alternative and Broad Age Group, Calendar Years 1950–2075; *Encyclopedia of Associations*, 9th ed. vol. I (Detroit: Gale Research Inc., 1975), pp. 613, 663; *Encyclopedia of Associations*, 20th ed., vol. I, pt. 2 (Detroit: Gale Research Inc., 1986), p. 1364; *Encyclopedia of Associations*, 24th ed., vol. I, pt. 2 (Detroit: Gale Research Inc., 1990), p. 1752.

6. See for example, Joseph A. Pechman, Henry J. Aaron, Michael K. Taussig, *Social Security: Perspectives for Reform* (Washington, D.C.: Brookings Institution, 1968), pp. 75–76.

7. John Snee and Mary Ross, "Social Security Amendments of 1977: Legislative History and Summary of Provisions," *Social Security Bulletin*, March 1978, pp. 5–6, 12–13.

8. John A. Svahn, "Omnibus Reconciliation Act of 1981: Legislative History and Summary of OASDI and Medicare Provisions," *Social Security Bulletin*, October 1981, pp. 6–7; *Congressional Quarterly Almanac 1981* (Washington, D.C.: Congressional Quarterly, Inc., 1982), p. 118.

9. *Congressional Record*, June 4, 1981, 127:11622; *Congressional Record*, May 20, 1981, 127:10391–10394.

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11. *Congressional Quarterly Almanac 1981*, p. 120.

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18. Daniel J. Mitchell, "Creating a Better Social Security System for America," Background No. 1109, Heritage Foundation, April 23, 1997, p. 22.

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