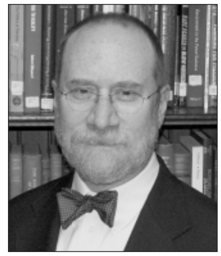
The Shady Origins of Social Security



BY SHELDON RICHMAN

Writing in the *New York Times* last January, Professor Barry Schwartz, author of *The Paradox of Choice: Why More Is Less*, described the creation of Social Security as though it were an act of divine intervention: "Social Security was created as an insurance scheme, not a pension scheme." The passive voice is good for shrouding important matters, such as responsibility.

The actual story of the genesis of Social Security sheds a good deal of light. According to Charlotte Twight's superlative book *Dependent on D.C.: The Rise of Federal Control over the Lives of Ordinary Americans*, "Contrary to conventional wisdom, the public did not desire the compulsory old-age 'insurance' program that we call Social Security when it became statutory law in 1935. It was passed and later expanded despite initial public opposition and strongly prevailing ideologies of self-reliance." Essentially, the government had to fool people into accepting the program. It did so by misrepresenting Social Security as insurance and by using many other devices to make it difficult for the public to find out what really goes on in Washington.

Obviously, FDR calculated that a clear and honest proposal would have been rejected.

As Twight notes, after five years of depression, nothing like Social Security had been sponsored by a member of Congress. She quotes Carolyn Weaver, a historian of Social Security, who has written, "[T]here simply was no significant demand for such a program." When President Roosevelt had the idea proposed in Congress, according to another historian, Edward Berkowitz, "no ground swell developed in support of social insurance programs because they did not affect the major problems of relieving the victims of the depression."

Although most people did not want to see the government get into the pension business, they did favor federal help for the elderly who had lost their savings. A bill to that effect was wending its way through congressional channels—until Roosevelt, who wanted full-blown Bismarckian compulsory "social insurance," told Congress to hold off passing the ad hoc aid. Twight reports: "This postponement was critical in preserving needs-based old-age assistance as an issue that later could serve as a lever for moving Roosevelt's controversial program of compulsory old-age insurance through Congress." (German Chancellor Otto von Bismarck is credited with constructing the first modern welfare state in the late nineteenth century. The Social Security Administration pays homage to Bismarck by posting his photo on its website: http://www.ssa.gov/history/quickintro.html.)

Roosevelt set out to make opposition to his plan politically costly. Drawing on Weaver's work, Twight enumerates FDR's strategy: "(1) control information flowing to Congress and the public; (2) dominate the agenda with the presidentially backed bill; (3) package the compulsory old-age insurance provisions with other, more popular, programs, such as federal funds for old-age assistance, unemployment compensation, and maternal and child health services; and (4) refuse to sign individual sections of the bill if separated from other sections (an 'all-or-nothing' offer or tie-in sale)."

In other words, Roosevelt wanted to make it virtually impossible to oppose his unpopular socialistic plan without also effectively opposing more modest publicly supported measures. As Edwin Witte, executive director of Roosevelt's Committee on Economic Security, wrote, "I doubt whether any part of the social security have been enacted into law but for the fact that the Pres-

Sheldon Richman (srichman@fee.org) is the editor of The Freeman.

ident throughout insisted that the entire program must be kept together." (Quoted in Twight, p. 63.)

No effort was spared in having Social Security ride on the coattails of old-age assistance. "Moreover," Twight explains, "they placed the popular old-age assistance title first, believing it [in Witte's words] 'had the effect of drawing away opposition from other titles, which had much less popular support.' When it seemed 'probable that the old age insurance titles would be completely stricken from the bill' and leading Democrats on the House Ways and Means Committee advised the president 'that the old age insurance provisions could not be passed,' Roosevelt 'insisted that this was the most important part of the bill and very definitely gave these Administration leaders to understand that all essential parts of the measure must remain intact.' "

According to Twight, Witte acknowledged in his 1962 book, *The Development of the Social Security Act*, that members of Congress received mostly "critical or hostile" correspondence about Social Security. He said that the "net impression [was] that there was serious opposition to the bill and no real support." He went on, "Few members of the Ways and Means Committee were sympathetic with the economic security bill." Many of them voted for it, Witte wrote, only because "it had the endorsement of the President."

Tying Social Security to a popular modest program of assistance to the elderly poor was not the only device used to win passage. Another device was gradualism—starting a radical program on a small and seemingly unthreatening scale, saving the major expansions until later when people have gotten used to the idea. As Twight explains, "The bill that became law established a compulsory old-age benefit program quite different from the one we know today. Many groups were excluded from coverage; the payroll tax rates were low." Seeming to divide the tax between employer and employee was another way to camouflage the full meaning of the program. While that division makes it appear that companies pay half the tax, in fact they may pay none of it at all (depending on the particular labor market). Employees may actually pay most or all the tax because their cash wages may be lower than they would be in the absence of the FICA tax. Businesses can't pay taxes; they can only collect them.

In later years, the program changed in important ways. Twight writes: "The record documents a sustained and systematic expansion: increases in worker categories covered, expansion of levels and types of benefits, increases in payroll tax rates and in the taxable wage base, the switch to pay-as-you-go financing (divorcing benefit increases from the necessity of immediate tax increases), and a decrease in the relative importance of means-tested old-age assistance."

Hiding the Costs

The American people eventually came to favor Social Security, but not until "[g]overnment officials . . . actively sought to reshape public opinion." Twight's book documents this campaign in great detail. That effort included hiding the program's present and future costs and describing Social Security in misleading insurance terms. This is how Americans came to believe they have a contractual relationship with Social Security similar to the relationship with a private insurance company. (They don't: The Supreme Court said so twice. Besides, a contract requires consent, which is lacking in Social Security.)

The upshot of the government's disinformation campaign was to diminish or eliminate the public's ideological opposition to a socialized retirement system.

Why did the Roosevelt administration engage in subterfuge to get Social Security established? Obviously, it calculated that a clear and honest proposal would have been rejected. A later Social Security administrator, Wilbur J. Cohen, once said of the language used to describe the program, "Its value is in what it conceals rather than what it reveals" (Twight, p. 75).

But why did Roosevelt want Social Security in the first place? One could advance the theory that FDR and the Brain Trust cared only about the public interest, their insight into which was superior to that of the people themselves. But the Public Choice school of political economy has provided ample reason to doubt such public-interest explanations for what politicians do. The more likely reason is that Roosevelt and his coterie saw the long-term political advantage of Social Security, namely, the vote-getting potential of making all Americans dependent on government for their retirement income. Later politicians have certainly enjoyed spending the billions of dollars taken in by the payroll tax that were not immediately paid to retirees.