THE FREEMAN
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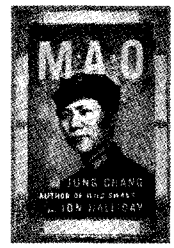

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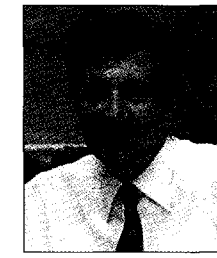
Abolishing Social Security—Through *Real* Privatization!



BY RICHARD M. EBELING

Liberty is inseparable from self-responsibility. A free man looks after himself and the members of his family. He also recognizes a personal and voluntary obligation, as a decent human being, to be willing to assist those who may be deserving of support when they have fallen on "hard times."

But liberty is inconsistent with any use of the government to obtain supposed "security" for oneself or others through coerced redistribution of income and wealth. The free man considers it immoral to obtain any benefits at the forced expense of others in society. For this reason the existing Social Security system should be abolished, and not be merely tinkered with as the current "reform" plans propose.

For 70 years the United States government has assumed the paternalist role of overseeing and planning our retirement. We Americans have been viewed and treated as irresponsible children who cannot be trusted to plan for our own future. Government has claimed the right to take a portion of our honestly earned incomes supposedly to care for us in our "golden years."

In addition, the government has deceptively fed us what Plato would have called a "noble lie": that our money has been put aside and invested for our own retirement, when in fact the money collected during any given year has been spent to cover the Social Security costs for the current retirees. Any "surplus" has been "invested" in U.S. government bonds, with nothing behind them other than the government's own police power to tax the next working generation to cover any shortfalls in the future.

> If the revenues from the sales of government lands and the accompanying mineral rights were to come even close to their current estimated market values, their privatization would equal the projected present value of all Society Security obligations over the next 75 years.

Now the deception is coming to an end. The demographics of the country are undermining the illusion behind the Social Security shell game. Thirty years ago there were about five workers in the labor force for every retiree who was receiving Social Security payments. That number is rapidly shrinking to a mere two to three workers per retiree. To make good on the government's pension promises the working population will have to be taxed a lot more—or benefits will have to be cut back significantly, along with raising the retirement age for Social Security eligibility.

The government's own projections highlight the trends at work. At the end of 2004, 48 million Americans received Social Security benefits: 33 million retired workers and their dependents; seven million survivors of deceased workers; and eight million disabled workers and their dependents. Total benefits paid in 2004 came to $493 billion. During 2004 an estimated 157 million working Americans paid into Social Security "trust funds." The system had tax revenue of $658 billion, with "assets" of $1.7 trillion dollars in the form of U. S. Treasury securities.

Because Social Security revenues will continue to exceed annual expenditures on retirees between 2005 and 2014, the total "assets" in the trust fund in the form of Treasury securities are projected to increase to $3.9 trillion. But with the coming retirement of the Baby

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Boom generation, Social Security expenditures will rapidly rise between 2010 and 2030.

Present government projections anticipate that annual Social Security expenditures will start to exceed Social Security taxes collected in 2017, with the resulting deficit covered by cashing out the Treasury securities. By 2041 all of these "assets" will have been cashed out and used up in payments to retirees. The total unfunded obligations over the next 75 years have been estimated to have a current present value of about $4 trillion.

Some critics of the current system have proposed a partial "privatization" of the Social Security funds. But these personal retirement accounts are just another version of the same deceptive game. Americans are to be "allowed" to "invest" a small portion of their own money in a group of government-approved mutual funds, with the bulk of their Social Security taxes continuing to go into some "reformed" version of the existing system. The government will decide for you what it considers "safe" investments. Over time the payoffs from these mutual funds and the stock market in general will become, even more than now, politically sensitive issues that will make them targets for increased regulatory manipulation by the "public policy" masters in Washington.

The only answer, therefore, is to abolish Social Security and return responsibility to individual citizens. In other words, what is needed is a full and real privatization of retirement planning by removing it completely from the hands of government.

But how can the Social Security system be abolished when so many people over several generations have had a significant part of their income taxed away? How would those who have paid into the system over many years, especially among the older and retired members of society, have the wherewithal to take responsibility for their own futures?

What I propose for ending Social Security is the privatizing of government-owned and -managed property. The territory of the United States totals about 2.3 trillion acres of land, out of which the U.S. government owns and manages 507 million acres—or slightly more than one-fifth of all the land in the country. Over a reasonably short period, say, five years, a vast majority of this land could be sold at public auction, with the proceeds being used to pay back what has been taxed from the American citizenry.

The revenues from the sales would be disbursed beginning with the oldest groups until as many Social Security taxpayers as possible had their wealth returned to them. As each group was being paid back, Social Security taxes on workers would be commensurately reduced, leaving them free to plan more of their own retirement. At the end of five years, all Social Security legislation would be repealed.

Expected Land Revenues

Just how much revenue might be available from these land sales? According to a variety of government departments, bureaus, and agencies responsible for control and management of these lands, federal land and the mineral reserves on them have, in 2005, an estimated total value of over $4.5 trillion.

The following are the estimated market values of just some of the leading mineral reserves on government-owned land: copper, $1.9 trillion; nickel, $837 billion; gold, $531 billion; zinc, $151 billion; platinum, $44 billion; lead, $29 billion; and silver, $27 billion.

There is, in addition, 250 million acres of timberland and 257 million acres of grazing land under federal control; these are estimated, respectively, to have market values of $214 billion and $350 billion, for a total of $564 billion.

In other words, if the revenues from the sales of government lands and the accompanying mineral rights were to come even close to their current estimated market values, their privatization would equal the projected present value of all unfunded Society Security obligations over the next 75 years.

Of course, if Social Security were in fact abolished over a relatively short period through the type of real privatization plan proposed here, there would be no future governmental pension obligations, and the cost of ending the system would likely be a dollar amount significantly less than presently projected over the remainder of the 21st century.

The great financial albatross of the coming decades would be eliminated, and a crucial aspect of freedom would be restored to the American people.

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Perspective

Property Protects

Opponents of authentic liberalism have long held that the state must be powerful enough to protect the powerless from the ravages of private property. The Supreme Court's decision in the *Kelo* eminent-domain case last summer shows what that principle is worth.

To recap, the city of New London, Connecticut, condemned 15 working-class homes for an upscale private development scheme that is to include a luxury hotel. Some of the targets, including an elderly woman who has lived in her house her entire life, refused to sell and went to court. After losing in the state courts, they moved to the U.S. Supreme Court, where the justices ruled 5–4 for the city.

The crux of the case was the phrase "public use," since the takings clause in the Fifth Amendment to the U.S. Constitution permits government to acquire private property through eminent domain only so long as it is for public use and "just compensation" is paid. (Of course, no takings can be reconciled with individual liberty.) The key question was: does the city's plan constitute a public use? The city argued that although the public will not use the land as it uses roads, the increased tax revenues and jobs yielded by the project will benefit the public. The property owners countered that the Bill of Rights says "public use" not "public benefit."

The Court's majority sided with the city, delighting government officials everywhere. Quoting a 1984 case, Justice John Paul Stevens said that the "Court long ago rejected any *literal requirement* that condemned property be put into use for the general public" (emphasis added).

The dissenters were stunned. In separate opinions Justices Clarence Thomas and Sandra Day O'Connor criticized the majority for purging the words "public use" from the Fifth Amendment. (For more detail see my FEE web article "The Supreme Court and the End of Limited Government" at www.fee.org/vnews.php?nid=6991.)

The threat to individual rights is obvious. But the ruling also sheds light on whether the state or the institution of property better protects society's powerless. A political-science professor of my acquaintance said that while the facts of the case bother him, he applauds the principle. He meant that while he believes government

should have the power to take property and put it to "better" uses, he was uncomfortable that working-class people were losing their homes to big corporations. I suppose he'd prefer that property be taken from big corporations and given to working-class people. His only objection is that *he* is not choosing the victims.

He is not naïve. As a well-informed political scientist, he knows that eminent domain victimizes those with the least money and fewest connections. But if he has to choose between government power and protecting the powerless, he'll take the power.

O'Connor and Thomas chose otherwise. O'Connor writes, "[T]he fallout from this decision will not be random. The beneficiaries are likely to be those citizens with disproportionate influence and power in the political process, including large corporations and development firms. As for the victims, the government now has license to transfer property from those with fewer resources to those with more. The Founders cannot have intended this perverse result."

And Thomas: "Allowing the government to take property solely for public purposes is bad enough [Yes!], but extending the concept of public purpose to encompass any economically beneficial goal guarantees that these losses will fall disproportionately on poor communities. Those communities are not only systematically less likely to put their lands to the highest and best social use, but are also the least politically powerful." He adds, "Urban renewal projects have long been associated with the displacement of blacks. . . . Regrettably the predictable consequence of the Court's decision will be to exacerbate these effects."

If liberty is to be won, its defenders must emphasize that property *especially* protects the most vulnerable against government impositions. Perhaps some good will come from *Kelo* after all.

★ ★ ★

In this issue we acknowledge—but do not celebrate—the 70th anniversary of Social Security. In 1935 President Franklin Delano Roosevelt signed the historic legislation that insinuated the central government into our retirement. This month's contributors explore the history and ramifications of this most lamentable governmental imposition. Can nothing positive be said of it? Only that it is perhaps the longest-running chain letter in history.

All technical criticisms aside, the most fundamental thing to be said about Social Security is that it violates the liberty and autonomy of the individual. Aeon Skoble shows why.

To hear its champions tell it, everyone loved Social Security from the start. Oh really? Check out what Jude Blanchette has dug up.

You might think Social Security is insurance—that is, if you have no idea what insurance really is. Will Wilkinson explains.

But what about the Trust Fund? In this FEE Timely Classic William Conerly explores how well the Social Security principle would work within the family.

And speaking of the notorious Trust Fund, John McGinnis dispels the popular impression that it has no assets.

The negativism about Social Security can be wearisome. So in the interest of uplift, here's Dwight Lee's FEE Timely Classic in which he looks for the bright side of the program.

Anyone who proposes to privatize the financing of retirement will be told that this would cause people to starve in their old age. Former *Freeman* editor Paul Poirot anticipated this objection long ago. His reply is a FEE Timely Classic.

In other articles, Andrew Morriss tours the Cayman Islands and Chris Matthew Sciabarra delves into the dialectics of liberty.

Our columnists will entertain and astound: Richard Ebeling further dissects Social Security. Donald Boudreaux suggests some economic research. Burton Folsom shows why he prefers entrepreneurs to bureaucrats. Walter Williams continues his economics course. And Alan Reynolds, bombarded with the cant that there are no jobs for young people, ripostes, "It Just Ain't So!"

Books on Mao Zedong, economic misconceptions, the threat from local governments, and guns engage our reviewers.

—Sheldon Richman
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No Jobs for Young People? It Just Ain't So!

BY ALAN REYNOLDS

In "The Young and the Jobless," *New York Times* columnist Bob Herbert recently wrote that "American workers, especially younger workers, remain stuck in a gloomy employment landscape. . . . The simple truth is that there are not nearly enough jobs available for the many millions of out-of-work or underworked men and women who need them."

If the number of people seeking work had actually been growing faster than the number of jobs they are willing and able to fill, then the U.S. unemployment rate would have been rising. Yet the unemployment rate fell from 6.3 percent in June 2003 to 5 percent in July 2005. The author's emphasis on "American workers" seems particularly misplaced, since unemployment in April was 10.2 percent in France and 11.8 percent in Germany.

Herbert then changes the subject, bemoaning the long-term decline in teenage employment rates—that is, the declining percentage of young people who work rather than attend high school: "A recent report from the Center for Labor Market Studies at Northeastern University in Boston tells us that the employment rate for the nation's teenagers in the first 11 months of 2004—just 36.3 percent—was the lowest it has ever been since the federal government began tracking teenage employment in 1948. . . . 'Younger workers,' said Andrew Sum, the center's director, 'have just been crushed.' "

The main reason a smaller percentage of American teenagers are employed than in the past, however, is that many more are attending school and far fewer are employed on the family farm. At the time of the April 1947 census, only 27.7 percent of those aged 18–19 were enrolled in school. By 1950, only 34.3 percent of Americans over the age of 25 had finished high school, compared with more than 85 percent today.

A September 2002 report from the Bureau of Labor Statistics (BLS) noted that the labor-force participation rate for teenagers has been falling for years because of "an increasing rate of school enrollment during the summer." The percentage of those aged 16 or 17 enrolled in school during the month of July rose from 21.4 percent in 1994 to 31.1 percent in 2000, while the percent in the labor force simultaneously declined from 57 to 51.2 percent.

The percentage of those aged 20–24 enrolled in college rather than working has likewise been rising. From 2000 to 2004 the number of adults who said they were not in the labor force because they were attending college increased by 750,000. Herbert views this as evidence that young adults are "faring poorly."

Given his anxiety about young people being in school rather than at work, it is ironic that he complains that "workers can't even get a modest increase in the national minimum wage." The BLS reports that only 520,000 workers were paid the minimum wage in 2004 and a third of those were teenagers. Although 168,000 teens were paid the minimum wage, however, nearly twice as many (329,000) were paid less than the minimum wage. Whenever the minimum wage has increased, the percentage of workers displaced into even lower-paying jobs has grown larger.

Herbert frequently compares employment figures for 2004 with the cyclical peak of 2000, as though unemployment during the third year of recovery from the recession of 2001 should be expected to be just as low as it was during the ninth year of the preceding

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boom. In fact, the teenage unemployment rate in 2004 was lower than it was in the third year of two previous recoveries—17 percent in 2004 compared with 18.6 percent in 1985 and 17.6 percent in 1994.

Although the monthly unemployment rate among teenagers is always higher than among mature adults, spells of teenage unemployment are typically brief. Of those aged 16-19 who were unemployed at some point in 2004, nearly 45 percent were out of work less than five weeks, and an additional 32 percent were out of work less than 14 weeks.

Herbert attributes to Andrew Sum the belief that "Gains among recently arrived immigrants seem to have accounted for the entire net increase in jobs from 2000 through 2004." That is surely false, regardless how creatively "net increase" may be defined.

Immigrants accounted for half the increase in the labor force so they would be expected to have accounted for no more than half the increase in employment unless unemployment declined more dramatically among recent immigrants than among natives. On the contrary, the Census Bureau estimates the unemployment rate in 2003 was 10.9 percent among immigrants who arrived since 2000 and 7.7 percent among those who arrived in the nineties, compared with 6.2 percent among native-born citizens.

"Workers have been so cowed by an environment in which they are so obviously dispensable," writes Herbert, "that they have been afraid to ask for the raises they deserve. . . . The wages of those who are employed are not even keeping up with inflation." The common misperception that wages have fallen in real terms results from a badly flawed average of aggregate earnings divided by hours among "production and nonsupervisory" workers—a series the BLS is about to discontinue. That flawed series was also badly adjusted for inflation by an archaic measure (CPI-W). If benefits and salaries are properly included, and deflated with a properly chain-weighted measure of inflation, then real compensation per hour among nonfarm businesses rose 3.9 percent between the first quarters of 2004 and 2005.

Herbert nonetheless writes of "an entire generation of essentially powerless workers largely at the mercy of employers," and claims that "very little has gone to the typical worker." Yet his examples are not about typical or median workers, but about such atypical groups as teenage dropouts in certain regions. "In Illinois," he writes, "fewer than one in every three teenage high school dropouts are working." But this too is a problem that has been diminishing over time.

The misnamed "dropout rate" measures the percentage of young adults aged 16-24 at the time of a census survey who were not enrolled in a high-school program and had not received a high-school diploma. It fell from 21.3 percent in 1972 to 10.5 percent for young black Americans and from 14.6 to 6.5 percent for non-Hispanic whites. The figure for Hispanics appears much higher (25.7 percent in 2002), but the Pew Hispanic Center found that half of those counted as U.S. dropouts were actually young immigrants who "quit school before coming to this country," and thus did not drop out of U.S. schools.

Squeeze on the Young?

Citing Andrew Sum, Bob Herbert also claims, "The squeeze on the younger generation of workers is so tight that in many cases the young men and women of today are faring less well than their parents' generation did at a similar age."

Since most of Herbert's concerns are about non-working teenagers, it is difficult to make much sense of comparing their living standard with that of their parents "at a similar age." Most of them are now supported by their parents, sharing the family's living standard.

Three days after Herbert's column appeared, on May 15, the *New York Times* launched a series on "Class in America" that I subsequently critiqued in the *Wall Street Journal*. Yet that article included a useful *Times* poll that specifically asked, "Compared with your parents when they were the age you are now is your standard of living" better or worse? It turns out that 39 percent said their standard of living was much better and another 27 percent said it was somewhat better. That is scarcely surprising, since real disposable income per person rose from $15,094 in 1974 (in 2000 dollars) to $27,281 in 2004—an increase of more than 80 percent.

Life, Liberty, and Retirement Pensions

BY AEON J. SKOBLE

The right to acquire property is a staple of liberal political theory. But why would anyone bother *accumulating* property? If my monthly expenses are a thousand dollars, then what use could I possibly have for any monthly income larger than a thousand dollars? I could plausibly reason that if I work harder today, I might be able to relax tomorrow. This presupposes, of course, that by working, I earn money, so if I earn more than I need today, I will be able to spend it tomorrow even if I am not working. In broad terms, this is what we do when we save for retirement. We take some of our earnings from work and save it for when we are older. Then we can stop working and still have money to live on. If we have a right to earn money at all, then we have a right to save for the future in this manner. In this essay I would like to discuss what that means, and give some reasons why it is true.

In classical-liberal political theory the right to acquire property follows from the fundamental rights to life and liberty. The argument goes something like this: If I own my life and my liberty, then the work I do is mine as well. Thus the fruits of my labor become my property. John Locke, for example, describes the "mixing of one's labor" with unowned natural resources as the origin of our right to material property. Locke actually uses the word "property" to refer not only to material goods, but to life and liberty. So to say that Locke sees property rights as fundamental is potentially misleading: the rights to life and liberty, or "self-ownership," are the conceptual underpinnings of any rights to what we would normally call "property." Just as self-ownership is a right that exists prior to the establishment of government, so too is the right to enjoy the fruits of our labors. If I have the right to acquire property, then I have the right to save it for a rainy day.

When the state dictates how I must spend my money, it is a violation of my liberty, for my actions no longer serve my own ends, but are being made to serve the ends of another against my will.

When the state dictates how I must spend my money, it is a violation of my liberty, for my actions no longer serve my own ends, but are being made to serve the ends of another against my will. Arguably, all taxation is thus a violation of liberty, but we need not settle that question to see that state-run "social security" programs violate our rights to plan for our own retirements. Indeed, under the current system, we aren't actually *investing* money for our retirement at all—our Social Security taxes pay benefits for today's recipients, and theoretically, tomorrow's workers' taxes will pay for our benefits. That's very different from investing, for two important reasons: one, it doesn't encourage responsible attitudes toward saving for the future, and two, it is far less profitable.

It's true of course that anyone is free to invest *additional* money in, say, a mutual fund or an IRA, above his government-mandated retirement "contributions." But with the exception of the more affluent, this is illusory: the average worker cannot readily afford to pay into

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both the government's retirement plan and a private plan. But even the affluent, who can afford this, nevertheless have their rights violated as well. In general, if Smith forces Jones to spend $100 on something Jones doesn't prefer to spend it on, then Smith has violated Jones's liberty, even if Jones is still free to spend the remainder of his money his own way. Jones has $100 less to spend on his own retirement fund.

Consider how the statist model of retirement planning operates: you do not choose whether to participate; you have no say in how the money is to be invested; and you cannot withdraw in response to poor performance. The ostensible upside to this is a guaranteed return. You do not have to worry about market crashes and depressions, nor do you have to worry about poor investment strategy. But the flip side of not having to worry about poor strategy is not being able to pursue a highly effective one. Even modestly performing mutual funds yield higher returns than Social Security. And while market crashes are less of a concern, government insolvency is a big concern. To forestall it, you (or your children) will have to pay even more to fund the system, which cuts into how much you (or they) will actually save for the future.

To whatever extent the average Joe doesn't know how to invest prudently, it is because he does not have to. If bicycling were banned, few of us would develop good bicycling skills.

One argument often advanced in favor of a state-run model is that the average working person cannot be counted on to invest wisely. This assumption is as unverifiable as it is paternalistic. (It is also a straw man, as I argued in the July/August 2005 issue of *The Freeman*, since modern-day financial services such as mutual funds, annuities, and IRAs are administered by professionals who *do* know how to invest wisely.) But more important, it's circular: to whatever extent the average Joe doesn't know how to invest prudently, it is because he does not have to. If bicycling were banned, few of us would develop good bicycling skills, and then the government would have a rationale for continuing the ban, namely, that bicycling is too dangerous—since most people don't know how to do it.

Even though it's true that there is some risk involved in riding a bicycle, people have the right to develop their faculties. They have the right to learn to ride bicycles—for without the right to learn to cycle, they are being denied the right to cycle. Similarly, people have the right to learn prudential savings and investment habits. Why should we value having the liberty to develop our faculties, even if there is some risk involved? That's the essence of personal growth. We take risks and learn new things. Learning to save for a rainy day is a basic skill, a virtue straight out of Aesop. While not everyone can skillfully manage an investment portfolio, everyone can learn the importance of thrift and planning for the future. Those who can (and want to) manage their investments in a hands-on way ought to be free to do so, and those who cannot (or prefer not to) ought to be free to let financial professionals do it for them, via mutual funds, annuities, IRAs, and the like.

Anytime the government forces you to act in prescribed ways for your own good, it is an insult to your sense of autonomy, even when the government is right. It's true that you ought to buckle your seat belt when driving, but it's still a patronizing insult to be coerced into wearing one. In many cases, of course, the government isn't right—Social Security, for instance. My retirement would come earlier and be more comfortable if I were entirely responsible for it.

Social Security as Entitlement Program

But it's not just anti-paternalism that we need to invoke, for the current system isn't merely a paternalistic requirement that I save for my retirement. It's an entitlement program in which everyone gets to claim a retirement pension from the state (that is, from working taxpayers), regardless of whether they've been industrious and thrifty. So you are not saving for your retirement at all; you are paying for the retirement of others, and hoping that later on someone else will pay for yours and that someone will manage this system efficiently. (If any private company offered a program like this, it would be

indicted for operating an illegal pyramid scheme!) Wouldn't it be easier to allow people to save for their own retirements? But let's state the point more plainly: individuals have a right to plan for their own retirement without coercion or interference from the state.

When I claim that individuals have such a right, anyone familiar with the current system might well reply that in fact we do *not* have this right, inasmuch as the system isn't structured that way. The government *does* interfere and use coercion to maintain Social Security. But I am not referring to legal rights—obviously we have just those legal rights that the lawmakers say we have—but to natural, that is, pre-political, rights. Consider the way this is formulated in the Declaration of Independence: we are said to have some rights by nature, for instance the right to live and be free. Then, "to secure these rights," governments are "instituted." In other words, the whole point of the government is to protect rights we already have. So it's not the case that we get a right to the fruits of our labors *from* the government, but rather that the government's *function* is to help us secure our right to the fruits of our labor. On that model, then, individuals may very well have rights the government doesn't respect adequately (or at all). If we have a right to the fruits of our labor, then we also have a right to save for our retirement.

Consider the spectrum of possible rationales for the state to usurp this right and their corresponding policies. One: the government thinks we are too stupid to care about planning for our retirement, so they will do it for us. Two: they recognize that we do care, but we don't know enough to be able to save effectively, so they will do it for us. Three: same as two, except that they admit they don't know any better than we do how to save effectively, so they mandate participation in non-state investment programs. Four: same as three, except they don't mandate participation, but then they provide old-age pensions for those who did not participate. Then consider number five: same as four, except without state pensions for those who refused to invest earlier. Clearly either scenario three or four (which in general represent some of the current proposals for reform) would be more consonant with liberty than scenarios one or two (which essentially represent the status quo), but it is really only five that captures both sides of individual liberty: personal freedom and personal responsibility. To say that we have the right to save for our retirement is not to say that someone else has a duty to provide for our retirement.

Positive and Negative Rights

In general, rights are always correlated with duties, but different conceptions of rights entail correspondingly different sorts of duties. Some theorists characterize rights as being "negative" or "positive," the difference being that positive rights entail a duty of others to provide that which is being claimed, whereas negative rights entail a duty of others to abstain from interfering with the pursuit of what is being claimed. "Natural," or pre-political, rights would have to be negative, for if all are moral equals, then no one can have a claim to authority over another without that person's consent.

The right to save for one's future is a negative right: others must refrain from interfering with my accumulating and investing property. Under the current model, we seem to have positive rights to a retirement pension, meaning that someone has a duty to support me in my retirement, even if he does not wish to do so and without regard to whether I've been thrifty. This is simultaneously compounded and obscured by the fact that the current system makes *everyone* the bearer of this duty toward everyone else by taxing all current workers to pay the pensions of current retirees and promising the workers that they will be entitled to a pension later on. But again, besides the interference with natural rights that this entails, it is also inefficient, since we end up with smaller pensions (and a large bureaucracy).

If we are to take seriously the conception of rights spelled out in the Declaration of Independence, we need to assert a right to financial independence—the right to work, the right to exchange our labor for money, and the right to control the fruits of our labor. This necessarily includes the right to plan and save for our own retirement, free from coercion or interference. The best "reform" would be to allow people full rights over their own lives, liberty, and property. As the founders recognized, this is a necessary condition of our having any meaningful right to pursue happiness.

Opponents of the "Crown Jewel"

BY JUDE BLANCHETTE

There was a time when self-reliance wasn't such a tough sell. Today, however, the thought of dismantling Social Security strikes most as somehow un-American. It is, after all, the "cornerstone of the New Deal." It saved the poor and elderly from indigence and provided dignity in a monthly paycheck. Legend has it that 70 years ago the nation was unanimous in its support for FDR's plan to nationalize retirement.

Yet not withstanding Roosevelt critic John T. Flynn's remark—"There was no real objection to social security—everybody was for it."—not all were duped. There did exist a group of conservatives, libertarians, Republicans, members of what we now call the "Old Right," who fiercely opposed President Roosevelt's plan for Social Security. They saw the program for what it was and understood its long-term consequences even if Roosevelt didn't. In short, they smelled a political scam. Behind the rhetoric of "safety" and "security" they knew it was an unconstitutional usurpation of the traditional powers delegated to the states and an infringement on individual liberty.

Historians today like to emphasize the opposition to Social Security by business groups and leaders. Blinded by the pursuit of power and mammon, they were the only Americans shortsighted enough to oppose aiding the poor and elderly. To a large extent it *was* business leaders who understood the consequences of imposing a tax on labor during a massive economic contraction. Taxes are almost always an economic drag, especially during a recession. Former head of General Motors and FEE board member Alfred P. Sloan declared, "Industry has every reason to be alarmed at the social, economic and financial implications [of Social Security]." Looking to profit and longevity and not votes, the business community was in a better position to evaluate the effects of the employer's and employee's "contribution" to Social Security.

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In early 1935 James A. Emery, chief counsel for the National Association of Manufacturers, appealed to the House Ways and Means Committee to rethink its push for national Social Security legislation. He argued that the Social Security bill before Congress would "discourage employment rather than encourage it." Why would the federal government raise taxes on business in the midst of a recession? According to Emery, "General recovery depends on our ability to enlarge our production, to employ more people, and to cut down and not raise up the price of goods. Every time we increase the price of goods in a diminishing market, we are diminishing the possibility of employing other men, because we are making it more difficult, not less, to sell goods. Until we can market goods, we cannot employ men."

Emery's attack on FDR and the New Deal lasted through much of 1935. Later that year he declared, "We

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are steadily confronted with an almost continuing attempt to evade the plain limitations placed upon the exercise of political power." He continued, "We face, in our opinion, evident determination to evade by indirection what centuries of experience have written into constitutional prohibitions against doing directly."

Delegates to the Chamber of Commerce's 1935 annual national convention roundly denounced FDR's New Deal, including Social Security. Regarding the Social Security bill being debated in Congress, the Chamber warned that "if the provisions in the bill pending should be adopted, the country will realize that within a decade there will be a tax burden amounting probably to as much as $1,000,000,000 a year." In July 1935, 200 business executives met at the Waldorf-Astoria Hotel and concluded that most of the New Deal would be thrown out as unconstitutional.

Unlike today, when both parties seem enamored with the basic tenets of "social insurance," congressional opposition to the 1935 bill was fierce. Once again, however, modern interpretation of this principled dissent is saturated with disdain for those who couldn't understand the "progressive" nature of FDR's plan. In his book *The Coming of the New Deal*, the historian Arthur M. Schlesinger, Jr., detailed the congressional opposition to the Social Security bill. Most of the objections, Schlesinger notes, were toward the old-age provision, not the unemployment coverage. Through clenched teeth Schlesinger quotes congressman after congressman who (rightly) decried Social Security as a financial monster. Rep. Thomas A. Jenkins of Ohio thought the legislation "nefarious" and that it placed "a financial lash upon the backs of the people whose backs are breaking under a load of debts and taxes." Rep. Allen T. Treadway of Massachusetts predicted the program would "destroy old-age retirement systems set up by private industries, which in most instances provide more liberal benefits." And Rep. John Taber of New York said, "Never in the history of the world has any measure been brought in here so insidiously designed as to prevent business recovery, to enslave workers, and to prevent any possibility of the employers providing work for the people."

Immediately after the bill's passage, stories of popular revolt began to appear in newspapers. In Brooklyn 26,000 business owners refused to file for employer-identification numbers. Julian Olney of County Presentations, Inc., simply wrote across his application, "You don't need to bother me any more. I don't believe in this." As the *New York Times* reported at the time, Olney "held that the Securities Act [sic] is unconstitutional, inasmuch as it provides no contract and no assurance of any return upon money paid by either employers or employees."

> Foreshadowing the criticisms of today, Hazlitt concluded, "All this is an elaborate hocus-pocus by which the Government issues IOU's payable to itself."

Popular revolt against Social Security continued for over a decade after the bill's passage. In 1951, 18 "housewives" emptied their bank accounts after they learned that the Internal Revenue Bureau (later the IRS) was authorized to seize money owed in back Social Security taxes. The women thought it unconstitutional that they were required by law to act as tax collectors for the federal government by withholding Social Security taxes from those who worked at their homes.

The *Times* also reported the case of 72-year-old Frederick C. Perkins, who in 1942 was sentenced to jail for not paying $51.16 in Social Security taxes. (He had served 18 days in 1934 for failure to comply with the National Recovery Act.) According to the *Times*, "Mr. Perkins asserts that Social Security tax is 'confiscatory, discriminatory and unconstitutional' and says he will go 'all the way to the Supreme Court, provided I have some help from friends.'"

The Court Approves

Although the Supreme Court found many of FDR's New Deal programs unconstitutional, Social Security was not among them. On May 24, 1937, the Supreme Court upheld the program in three cases: *Helvering v. Davis*, *Steward Machine Company v. Davis*, and