

BOOKS

The Social Security Fraud

by Abraham Ellis

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Reviewed by William H. Peterson

U.S. Supreme Court Justice Louis Brandeis stated his opinion in *Olmstead v. United States* in 1928: “The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning but without understanding.”

Just six years later, with the New Deal, a zealous, presumably well-meaning President Franklin D. Roosevelt, if also presumably without much understanding, said in a message to Congress calling for a system of “social insurance”: “Among our objectives I place the security of men, women, and children of the Nation, first. Fear and worry, based on unknown danger, contribute to social unrest and economic demoralization. If, as our Constitution tells us, our Federal Government was established among other things ‘to promote the general welfare,’ it is our plain duty to provide for that security upon which welfare depends.”

That’s a stretch, FDR’s citing the General Welfare Clause as authority to launch Social Security. Note his cited phrase specifically says “promote” and not “guarantee,” and “general,” not “individual,” welfare.

Nonetheless, Social Security began in 1935, the same year as Child-Welfare Assistance, now known as Aid to Families with Dependent Children (AFDC). Social engineering was off and running, with both welfare schemes incurring the wrath of the Law of Unintended Consequences. For instance, both Social Security and AFDC, if in different ways, have contributed to the breakdown of the American family.

Abraham Ellis, an English-born lawyer practicing in Manhattan, does a solid job in demolishing the shaky case for Social Security—shaky legally, analytically, and empirically. Rightfully, he tags the scheme as a “fraud,” as but one more means, through the years, of extracting heavy taxes from the already tax-squeezed American citizen. The fact is that today, for most working Americans, payroll taxes are bigger than income taxes.

Initially, though, the Social Security tax was deceptively and of course politically light—one percent each on employee and employer. You needn’t ponder long on why Congress magnanimously suspended payroll tax increases scheduled for 1946 and 1949. Workers, after all, vote. Yet today the combined tax is more than 15 percent, up more than sevenfold.

That’s bad enough, but the record of the White House and Congress in further administering Social Security is just as bad or worse, as politics has ever reared its ugly head. For example, in 1956 women, who also happen to vote, were allowed to receive reduced benefits at age 62, unlike their male counterparts whose eligible age held at 65. In 1965 widows had their eligible age reduced to 60. Compassion is never in short supply in Congress.

Abraham Ellis has a fun chapter on “Social Security Semantics.” Social Security taxes are still tagged as “contributions”; the system has a fictitious actuarial aura in its official description as “Old-Age, Survivors, and Disability Insurance.” Social Security “trust funds” imply actual investment set-asides for future obligations while the funds themselves are virtually sham dummy accounts, with strictly pay-as-you-go intergenerational transfers; fund “trustees”—not going to prison for the deception—simply accept federal IOU’s and hand over the cash receipts to the U.S. Treasury for general government expenses; current workers carry ever more retired workers on their aching backs, now in the range of three workers per one retiree. In 2029 the ratio will be two to one. So the Ponzi-pyramid scheme unravels; so the \$350 billion cash cow laden with tens of millions of votes sinks into the muck of Welfare State politics.

In the introduction, FEE president Hans Sennholz wonders about the applicability of the touted privatization of Chilean social security to the American situation. He says reform here has to proceed “from the high ground of goodness and morality; any other ground, no matter how rational and economical, is bound to disappoint.”

The note on morality is appropriate. For in the upside-down world of Social Security, Abraham Ellis could have well come up with the crack: “There’s a Fraud in Your Future.” □

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The Home

by Richard McKenzie

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Reviewed by Karol Boudreaux

According to statistics, there were 442,000 children in foster care in the United States in 1992, nearly 50 percent more than in 1985. Critics argue that this system is grossly unfair to children, keeping them bound for years in a legal limbo where parental rights are neither terminated nor relinquished, and where social workers have disincentives to move children out of foster care. Despite the criticisms leveled at the current foster-care system, when Newt Gingrich suggested that some children might be better cared for in orphanages his idea was decried as a draconian throwback to a crueler time. Was it really?

In *The Home*, economist Richard McKenzie argues from personal experience that orphanages aren't such bad places after all. This coming-of-age memoir chronicles McKenzie's eight years during the 1950s in a North Carolina Presbyterian orphanage. Although not designed as a public-policy piece, the book nonetheless has a strong public-policy message. For some children, life in a well-run institution may be preferable to foster care or life in a dysfunctional, abusive family. The great virtue of *The Home* is that by telling his own story, and those of fellow orphans at The Home, McKenzie makes a compelling case for the institutional care of some children.

McKenzie's saddest story is of how he got to The Home. Like most other children at the orphanage he was not a full orphan—he did have one living parent, his father. But his father drank heavily and had no steady job. After McKenzie's mother committed suicide in 1952, his maternal aunts fought his father for legal control of him and his older brother. The aunts won the battle but decided they couldn't care for the young boys (then 10 and 12), and so sent them to The Home, where they joined some 200 other children.

Is McKenzie sorry that his aunts made this decision? The answer is an unequivocal "no." Indeed, McKenzie attributes much of his later success in life to his experiences at The Home. (He is an accomplished economist who holds a chaired professorship at the University of California, Irvine.) Far from bemoaning his life as a poor orphan, McKenzie argues that The Home was probably the best thing that could have happened to him—given the alternatives.

McKenzie credits The Home with giving him the "bounds" that he needed, instilling in him discipline and a desire to succeed, and providing support to start down that road to success. (The Home, for example, paid for his undergraduate education.) Of course, The Home was not perfect. McKenzie concedes that it could not provide him with the kind of emotional support offered by a loving family: "[i]f there is one thing we missed at The Home, it was having access to the type of person our mothers could have been." But in his eyes, it was vastly better than life with his father or life on the streets.

Over and over again McKenzie asks readers to consider how children of broken and abusive homes are best cared for. Is a child's experience in the current system really better than life at The Home? Throughout his account, McKenzie is careful to remind his readers that for children in situations like his, life was necessarily a choice between imperfect alternatives. There was no fairy godmother waiting to carry McKenzie and his brother off to a perfect family. Instead, the choice was between a dysfunctional family and institutionalized care. McKenzie convincingly argues that for him and for many of his peers at The Home, the orphanage offered more and better possibilities for a satisfying future than did relatives or foster care.

To his credit, McKenzie does not sugarcoat life at The Home. His days were full of hard work in fields, milking cows, working in orchards, doing school work, playing sports, and going to church. He had little free time and little in the way of material comforts: no shoes in the summer, too few blankets in the winter. When the children's workload increased one fall, McKenzie was forced to sell his favorite pet goat, a combination friend and confidante. Some of the employees at The Home were racist, and some were downright insensitive to the children. But others were wonderful people who became role models for McKenzie and his friends.

McKenzie wants his readers to understand "why an orphanage can be a refuge and a source of inspiration and why the overwhelming majority of those who spent their childhoods there can look back on them with fondness and gratitude." At the end of the book readers do understand just that.

This makes the final episode of McKenzie's book all the more discouraging. He returned to The Home in 1994 for an annual homecoming. No longer a residential orphanage, The Home now caters to "severely troubled children" who stay for weeks, not years. The annual cost of caring for each child now averages over \$45,000, compared with less than \$3,000 (in 1995 dollars) while he was in