# *Essays*

## In Political Economy

FROM THE LUDWIG VON MISES INSTITUTE

# The Revolution of 1935: The Secret History of Social Security

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Social Security was not just about the provision of publicly funded old-age pensions in the name of social insurance. It was designed as a tool of macroeconomic policy, a social arm of central planning passed in age of boundless faith in the power of the state. As such, the program was steeped in economic fallacy and became an integral part of the discredited Keynesian plan to turn stones into bread. Far from achieving its stated aims, it helped prolong the Great Depression and has contributed mightily to the decline of American liberty.

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## Section I: Introduction

A second American revolution occurred almost 70 years ago. On August 14, 1935, after very little public or congressional debate, President Franklin Delano Roosevelt signed the Social Security Act into law on. Many of his allies were disappointed because they wanted more than the act provided; FDR assured them much more was coming.[2] He said, on signing the bill into law, that Social Security "represents a cornerstone in a structure which is being built but is by no means complete."[3] In the midst of the Great Depression, and with most of his New Deal initiatives failing to restore the economy, FDR hoped that the federal government, through programs such as Social Security, would temper and control the business cycle. Social Security, FDR said, would "flatten out the peaks and valleys of deflation and inflation."[4]

Social Security was representative of national planning schemes, some of which had been tested during World War I and regained popularity with intellectuals after the crash of 1929. Many intellectuals believed the government could wage war on poverty and, by using the techniques of wartime planning so popular with progressives during World War I, manage the business cycle.[5]

Social Security was a Keynesian device meant to ensure that buying power would remain strong in times of high unemployment. By Keynesian, I mean a kind of thinking that pre-dated John Maynard Keynes by centuries but which he would popularize with his writings in the 1920s and 1930s. Keynes had rediscovered it in his reading of the

[2] Although the Social Security system initially covered a relatively small part of the workforce, FDR assured his allies it would expand: "I see no reason why everybody in the United States should not be covered," FDR privately told Francis Perkins. "Cradle to the grave—from the cradle to the grave they ought to be in a social insurance system." See Arthur Schlesinger, Jr.'s *The Coming of the New Deal*, p. 308 (Houghton Mifflin Company, Boston, 1959).

[3] See *Policymaking for Social Security*, by Martha Derthick, p.5 (Villard Books, New York, 1991).

[4] *The Public Papers and Addresses of Franklin D. Roosevelt*, Samuel Rosenman, ed., Vol. IV, pp. 324-325 (Random House, New York).

[5] Some socialists said FDR was moving toward central planning and economic nationalism. Said Stuart Chase: "National Planning and economic nationalism must go together or not all. President Roosevelt has accepted the general philosophy of planning." He added that the nation could confidently move toward autarchy. Also see George Soule's comments in Walter Lippmann's *The Good Society*, p. 91 (Grosset & Dunlap, New York, 1936): "It is nonsense to say that there is any physical impossibility of doing for peace purposes the sort of thing we did for war purposes."

philosopher Bernard Mandeville,[6] whose "Fable of the Bees" was considered an example of how deficit spending could restart an economy.[7]

This philosophy held that, by using fiscal and monetary policies, a government could inject inflation into a weak economy and thereby work miracles. Keynes, for all his brilliance, was merely another member of this inflationist school that dated back centuries.[8] And although Keynes seemed to have little direct influence when he met with FDR, he did influence many of the president's key economic advisers.[9] The latter, in turn, helped change FDR's economic thinking, so Keynes's thought became influential in the 1930s. This was the period in which America formally reversed its historic individualist principles. One of the founding fathers of Social Security has said that the contribution of Keynes was not appreciated,[10] but Keynes's philosophy helped justify a massive welfare state.

Myriad additional programs followed over the years because of the initial triumph of the Social Security Act. One of FDR's newspaper friends called the act "a monumental achievement,"[11] even as he complained that the benefit amounts were "miserably inadequate."[12] This one new program helped bring about a fundamental change in American culture and government: The federal government that pushed ahead with Social Security took on many new powers and radically changed our economy.[13]

Most important of all, Social Security transformed American culture in ways the authors of the original Social Security Act may not have expected: The foundational social

[6]*The General Theory of Employment, Interest and Money*, Vol. VII, from *The Collected Writings of John Maynard Keynes*, p. 378 (St. Martin's Press, Royal Economic Society, London).
[7]Ibid.
[8]For more on this, see Ludwig von Mises, *Human Ac tion*, Fourth Revised Edition, p. 466, in which he discusses the inflationist view of history: "A very popular doctrine maintains that progressive lowering of the monetary unit's purchasing power has played a decisive role in historical evolution." (FEE, Irvington-on Hudson, N.Y.,1966,).
[9]See *The Keynesian Episode: A Reassessment*, by W.H. Hutt, pp. 269-70 (Liberty Press, Indianapolis, 1979).
[10]*Madam Secretary: Frances Perkins*, by George Martin, p. 346 (Houghton Mifflin, Boston, 1976).
[11]*Half Way with Roosevelt*, by Ernest K. Lindley, p. 218 (Viking Press, New York, 1937).
[12]Ibid, p. 219.
[13]Reviewing the achievements of FDR, Doris Kearns Goodwin writes: "No longer would government be viewed as merely a bystander and an occasional referee, intervening only in times of crisis. Instead, the government would assume responsibility for continued growth and fairness in the distribution of wealth." *No Ordinary Time; Franklin and Eleanor Roosevelt: The Home Front in World War II*, p. 625 (Simon & Schuster, New York, 1994).

insurance[14] program, among other things, discouraged savings, expanded the state's reach into the family, and redistributed income in ways no one imagined (quite often from the working poor and the lower middle class to the upper middle class—the latter tend to have more political clout as exercised through organizations such as the AARP). It also created a huge unprecedented peacetime bureaucracy, a bureaucracy that frequently—and quietly—pushed for more expansion of the program under the guise of serving the people. Many of the leaders of the program became quietly political, despite their ostensibly apolitical civil service status.[15]

The program had another profound effect on American culture: It created the institution of mass retirement. Social Security, along with other modern welfare state programs, encouraged the concept of golden years in which individuals would stop working. Some of the best and wisest people in our society would vegetate; they would do fewer things, write fewer letters, and, most important, work less. Some physicians call this "the theory of disengagement."[16]

The program was designed to foster senior inactivity by a clause that would allow recipients to earn only what one Social Security advocate called "pin money."[17] To make more than pin money would mean a penalty to anyone receiving Social Security. This idea was added to the original bill by the labor unions, which until the 1930s had been highly suspicious of welfare state measures such as social insurance.[18] FDR and his allies readily agreed to the penalty notion. We will see later that they had little expectation that the economy would fully recover;

[14] I will discuss this term in a later section.

[15] The best example is one of the administrators of Social Security, Wilbur Cohen. With the Republicans back in power in 1953, the supposedly non-partisan Cohen quietly "wrote speeches and supplied information" for the Democrats. Says a friendly biographer: "It was not the first time that the non-partisan Social Security administration shaded into partisan politics." See *Mr. Social Security: The Life of Wilbur Cohen*, by Edward Berkowitz, p. 41 (University Press of Kansas, Lawrence, 1995).

[16] See *Dare to Be 100*, by Walter M. Bortz, III, p. 52 (Random House, New York, 1997).

[17] Barbara Armstrong, executive director of the Committee on Economic Security (CES) that wrote the Social Security plan, said retirement would mean "that you've stopped working for pay." See *The History of Retirement: The Meaning and Functioning of an American Institution, 1885-1978*, by William Graebner, p. 185 (Yale University Press, New Haven, Conn., 1980).

[18] "The American antistatist tradition," write a pair of historians, "produced a union movement which in principle, though often not in action, refused to look to the government to improve the position of the government." See *It Didn't Happen Here: Why Socialism Failed in the United States*, by Gary Marks and Seymour Martin Lipset, p. 31 (W.W. Norton & Company, New York, 2000).

they believed work had to be rationed.

Social Security advocates convinced tens of millions of Americans that their golden years meant withdrawing from the most challenging part of their lives. This would free up millions of jobs, an important consideration in the midst of the Great Depression. That's because FDR's recovery policies, which included Social Security as a counter-cyclical device, did not restore a prosperous economy,[19] as an FDR historian conceded: "The America over which Roosevelt presided in 1940 was in its eleventh year of depression. No decline in American history had been so deep, so lasting, so far reaching."[20]

As measured by unemployment and production data, America's recovery from the Great Depression did not appear to begin until the buildup for World War II and the war itself. That's when FDR discovered his affinity for a military Keynesianism.[21] (In truth, the data are highly misleading. It wasn't until after the war that the economy began to recover[22])

FDR, credited as the first major American politician to support a social security system, actually campaigned in 1932 in favor of limited government. He bitterly criticized Herbert Hoover's huge deficits and attempts to bolster failing businesses with federal help, some of which mirrored the ideas of the New Deal.[23] Still, on the campaign trail, FDR promised to roll back, not

[19]By 1938, in the midst of a recession, it was clear to many of FDR's advisers that the New Deal was failing. One of his political advisers, Vice President John Nance Garner, said, "I don't think the Boss has any definite programs to meet the business. I don't think much of the spending program. You can't keep spending forever. Some day you have to meet the bills." See *Jim Farley's Story: The Roosevelt Years*, p. 138 (McGraw Hill, New York, 1948). Roosevelt also complained when Secretary of Commerce Dan Roper told him that the economy was slipping into recession. "Dan, you've got to stop issuing these Hooverish statements all the time." Ibid., p. 101.

[20]The historian is Doris Kearns Goodwin, and her implication was that FDR had failed to reverse the depression just as Hoover had. See *No Ordinary Time*, p. 42 (Simon & Schuster, New York, 1994).

[21]Roosevelt was "deliberately planning to use a great armament program as a means of spending money to create employment," the journalist John T. Flynn wrote in 1939. See *Prophets on the Right*, by Ronald Radosh, p. 207 (Simon & Schuster, New York, 1975). Also, Thomas Greer, in *What Roosevelt Thought: The Social and Political Ideas of Franklin Roosevelt*, quotes FDR in 1937 as saying Americans don't want to solve unemployment problems by a huge armament program, yet Greer concedes that FDR resorted to such an arms buildup. (Michigan State University Press, East Lansing, 1958), p. 74.

[22] "World War II and the Triumph of Keynesianism," by Robert Higgs, *Freedom Daily*, March 1995.

[23]See *FDR, Architect of an Era*, by Rexford Tugwell, p. 71 (Macmillan, New York, 1967).

expand, the size of the federal government: "For three long years I have been going up and down this country preaching that government—federal government, state and local—costs too much. I shall not stop that preaching."[24] The Democratic Party platform of 1932 called for a balanced budget, sound money, and a 25-percent reduction in federal spending.

FDR gave no indication he was committed to a massive expansion of the federal government. Later, as we will see, FDR said that circumstances had changed. His supporters would argue that the Great Depression, and the popularity of the more radical social insurance proposals such as those advocated by Huey Long, Upton Sinclair, and Frances Townsend,[25] had led him to support this "moderate" program called Social Security.

Yet even before he took office, FDR was quietly committed to a social insurance program[26] as part of a program of countercyclical measures he believed would cure the problems of the business cycle. These initiatives were failures if one measures by unemployment numbers and traditional economic indices.[27] They did not restore prosperity, as advisers told FDR six years into the New Deal.[28]

Social Security was a key part of FDR's economic thinking. It was a revolution that shifted the responsibility for income maintenance from the private to the public sector, from the family to the state, and from voluntary organizations to public bureaucracies. And it was a revolution carried out by elite groups of welfare workers, Social Democrats, and others who believed European democratic socialism could be imported to the United States step by step.[29] They

[24] *The Roosevelt Myth*, by John T. Flynn, p. 37 (Devon-Adair Company, New York, 1961).
[25] *Social Security: The First Half Century*, Gerald Nash, ed., pp. 35-36 (University of New Mexico Press, Albuquerque, 1988).
[26] *Social Security in the United States*, by Paul Douglas, p. 15 (McGraw Hill, New York, 1936).

[27] In 1937, after five years of the New Deal, another recession began. Two historians have written, "The resulting downturn began in August 1937 and continued through the winter and spring of 1938. It was nothing short of catastrophic." See *FDR's Fireside Chats*, Russell D. Buhite and David W. Levy, eds., p. 111 (Penguin Books, New York, 1992).
[28] FDR conceded to Farley that there were problems, but he blamed a conspiracy against him: "I know that the present situation is the result of a concerted effort by big business and concentrated wealth to drive the market down and just to create a situation unfavorable to me." See *Jim Farley's Story*, p. 101.
[29] "The vast expansion of public assistance functions and expenditures beginning in the 1930s was superimposed upon a long tradition of disdain totally incongruous with the political and economic power assumed by the public welfare sector." See *The Professional Altruist: The Emergence of Social Work as a Career, 1880-1930*, by

believed in a "new liberalism" that was at odds with America's traditional Jeffersonian philosophy. Classical liberalism died in the United States in the 1930s through such programs as Social Security, just as it had died in Britain some four decades before. A new liberalism expanded the powers of the federal government. The old American individualist tradition was distrustful of distant central governments and the bureaucracies they spawned. "Americans assumed that their country was unique in assigning to private voluntary institutions a wide range of responsibilities which in other nations were relegated to governments or elite groups," writes one historian.[30]

Almost everyone, FDR critics and admirers alike, agree that Social Security was a watershed event in our history. It was indeed a "monumental achievement," even if it seemed modest at the time. But FDR said of the legislation that, if it were the only bill passed in the 1935-36 congressional session, Congress would have accomplished much.[31] Social Security was so important to those—such as FDR—who scorned the individualist tradition because it was the centerpiece of a revolution that meant "big government, modern government" was here to stay.[32] When Social Security survived—and, in its earlier years, it was unknown whether it would, and it required all the political, judicial, and legislative skills FDR and his allies could summon—Americans implicitly accepted the most essential part of a new social policy. Washington, not individuals, not state or local governments, would now have great power over individual citizens' retirement planning, unemployment insurance, and welfare payments. When FDR signed the Social Security Act, the United States, for the first time in her history, would have "a significant, permanent social welfare bureaucracy."[33]

FDR assured his social democratic allies that Social Security was just the beginning of an expanded role for the federal government. But it wasn't until toward the end of his life, in the Economic Bill of Rights speech in 1944 that so "thrilled" his supporters,[34] that he was ready to

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Roy Lubove, p. 54 (Atheneum, New York, 1969).

[30]See *The Struggle for Social Security, 1900-1935*, by Roy Lubove, p. 5 (University of Pittsburgh Press, Pittsburgh, 1986).

[31]See *The New Deal: A Documentary History*, William E. Leuchtenburg, p. 80 (Harper & Row, New York, 1968).

[32]Frances Perkins said "modern government" was here to stay when she saw the 1944 GOP platform, which accepted many of FDR's welfare-state initiatives. The Republicans were in the process of becoming "a me-too party." See *Frances Perkins: a Member of the Cabinet*, by Bill Severin, p. 223 (Hawthorn Books, New York, 1976).

[33]Goodwin, p. 625.

[34]One of the CES's publications contained a recommendation that health insurance should be included in the original Social

publicly abandon the campaign promises of 1932 and the American individualist tradition.

Only four years after its creation, this landmark program was already expanding. The Social Security administration had 12,000 employees and was growing. As soon as it was in place, there were calls for sister bureaucracies. American Socialists were disappointed that more people were not covered in the 1935 act (such as servants and farm workers); that disability insurance wasn't initially covered; that health insurance had not been included; and that initial payments were so small.

But many of those leftist critics, who had at the time claimed it was too modest, later conceded that Social Security's establishment opened the door for the government to do many other things.[35] Almost all the measures left out of the original bill were added within 30 years and, proving the success of FDR's strategy, many of the expansions were signed into law by Republicans, though many of them were initially opposed to Social Security.

That is why even many of those Socialists who scorned FDR, who said he was a bumbling savior of capitalism, could still summon up grudging praise for him. Socialism was quietly achieved over generations as part of a mixed economy that seemed, on the surface, to be a traditional laissez-faire American economy.

Social Security, whether it was called social insurance or government pensions, was the first step on the road to the American welfare state. How it finally happened in the United States, after decades of frustrating unsuccessful efforts by Social Democrats, professional bureaucrats, and social workers, is a story of many ups and downs. In the end, we will see that FDR went around Congress, which was too unpredictable and whose review process might have foiled him. FDR found his own experts who he knew would give him what he wanted, and then he unveiled a complex Social Security proposal that he expected to be adopted whole. Congress, generally intimidated by the experts, went along with few objections.

But we are getting ahead of the story. Now it is time to examine why welfare state advocates had all but given up on the United States by the late 1920s. Why did America seem to

Security package, but FDR cut that part out. See *Madam Secretary*, pp. 347-48.

[35] One politician who noticed the transformation was FDR's fellow Democrat, Al Smith. By the mid 1930s, he was complaining that the "Brain Trusters caught the Socialists swimming and ran away with their clothes." See *Al Smith, Hero of the Cities*, by Matthew and Hannah Josephson, p. 459 (Houghton Mifflin Company, Boston, 1969). That's a good comparison given that the American Socialist Party had called for a mandatory government pension system for several decades.

have an exceptional character so different from advanced democracies in the British Empire and Western Europe, which had begun to build welfare states decades before the United States?[36]

## Section II—
## Social Security Before 1935: The Roadblocks to Social Insurance in America

*"The great Karl Marx had no patience with the negative attitude of French socialists and anarchists to the state."*
—I.M. Rubinow, prominent leader of American social insurance movement and often viewed as one of the fathers of Social Security, in his 1916 book on social insurance[37]

*"Sooner or later a crash is coming…men will be thrown out of work…the vicious circle will get in full swing and the result will be a serious business depression."*
—Roger Babson, September 1929[38]

Social Security has become the crown jewel of a welfare state, which is why its defenders today are ardent in fighting privatization of any part of it. America has changed dramatically from the pre-1935 era in which social insurance was condemned by many as an attempt to import German Socialism. Many of the same politicians who once criticized Social Security, either ended up praising it[39] or kept their criticisms to themselves.[40] This was FDR's goal—that no succeeding politicians could ever undo his work.[41]

Today, those who would privatize or even reform Social Security[42] face a

[36] Bismarck, hoping to undercut the socialists of Germany, began with a social insurance program in 1881. See *Germany, 1866-1945*, by Gordon A. Craig, pp. 150-52 (Oxford University Press, New York, 1978).

[37] See *Social Insurance,* by I.M. Rubinow, p. 26 (Henry Holt & Company, New York, 1916).

[38] *Searching for Alpha: The Quest for Exceptional Investment Performance*, by Ben Warwick, p. 62 (John Wiley & Sons, New York, 2,000).

[39] An example is Ronald Reagan, who had been a critic of Social Security. Toward the end of his presidential years, he said, "Social Security has proven to be one of the most successful and popular [federal] programs." See *Social Security After 50: Successes and Failures*, Edward Berkowitz, ed. (Greenwood Press, New York, 1987).

[40] Any presidential candidate who proposed to tamper with Social Security was "a candidate for a frontal lobotomy," said Jack Kemp during the 1988 campaign. From *Social Insecurity*, by Dorcas Hardy, p.16 (Villard Books, New York, 1991).

[41] "With those taxes in there, no damn politician can ever scrap my social security program," FDR said. See Schlesinger, p. 309.

[42] The problem of the would-be privatizers is what they would do with the huge unfunded liabilities of the system. It would cost billions of dollars just for the transition to a private system. In the meantime, according to economist Milton Friedman and observers such as Marshall Carter and William Shipman, the unfunded liabilities of the system are about $7 trillion. For more see

formidable task. It is difficult for many Americans to remember a time when the government didn't run passenger railroads; when America lacked a huge peacetime military establishment; when she had a noninterventionist foreign policy; or when there were any substantial questions about the utility of Social Security. Nevertheless, the welfare state took much longer to take hold in the United States than in Europe, where socialism had a stronger following and a longer tradition.

By the early 1930s, Germany had a Social Security program for nearly 50 years. As early as 1871, 10 years before he would propose his first social insurance plan, Bismarck said, "It is time for us to realize what parts of socialist demands are reasonable and right, and to what extent these reasonable elements can be incorporated into the extant State system."[43] American social insurance advocates would later adopt many of these ideas. Germany under Bismarck had passed a social security plan. Bismarck was ready for some forms of socialism as a way of outflanking the Social Democrats.[44]

More important, American politicians would be consciously or unconsciously encouraged by another reason cited by Bismarck in arrogating the ideas of socialists: It would mean political success if it were sold as something for nothing or something for very little. "Every statesman who takes up these ideas will come to the front,"[45] according to Bismarck.

Britain had a government pension scheme since before World War I, when the Liberal/Labour government of Herbert Henry Asquith in 1911[46] laid the foundations of a welfare state that would be instantiated by the Labor and Conservative parties over the next two generations. It is significant that the British Liberals took these steps as their party was adopting socialist ideas. Only a few years before this, in the mid-1890s, the Liberal party leader, Sir Lewis Harcourt, said of this transformation, "We're all socialists now."[47]

my "Insecure Promise" in the November 1999 issue of *Financial Planning* magazine. Also, a former Social Security official likes to brag that the program is so entrenched that it would be impossible to destroy. "Where does an 800-pound gorilla sit? Answer: anywhere it wants to. And where does the most popular government program sit? You got it." From Andy Landis's *Social Security, the Inside Story*, p. 3 (Crisp Publications, Menlo Park, Calif., 1997).

[43] See *Bismarck*, by Emil Ludwig, p. 534 (Blue Ribbon Books, New York, 1934).

[44] See *Bismarck*, by Alan Palmer, pp. 206-207 and 250 (Charles Scribner's Sons, New York, 1976).

[45] Ibid.

[46] See *The Strange Death of Liberal England, 1910-1914*, by George Dangerfield, pp. 7-30 (Capricorn Books, New York, 1961).

[47] *British History in the 19th Century and After, 1782-1939*, by G.M. Trevelyan, p. 402 (Harper & Row, New York, 1966).

Many European countries had adopted social security schemes by the outbreak of World War I. But in America, there was a tradition of "rugged individualism" that resisted most forms of collectivism. That spirit had to be weakened by an economic calamity. The "real roots"[48] of the Social Security Act were in the Great Depression of 1929. That was the sentiment of Francis Perkins, U.S. secretary of labor, a key FDR adviser as well as one of the founders of the American welfare state; but this sentiment is only partly correct; social welfare advocates had been working for decades to institute an American welfare state. The Great Depression gave them a chance to win politically. By the early 1930s, after almost a quarter century of efforts to build an American welfare state through a catchall package of social insurance programs, advocates had accomplished very little politically. But they won over many elites to the idea of social insurance.

What is "social insurance"? A term rarely seen today, it is a name for a series of government welfare programs that established the modern welfare state in Europe and in the United States; the term is an attempt to use the terminology of the private sector. "Social insurance systems," says a longtime Social Security bureaucrat, "involve definite benefit amounts and qualification conditions prescribed by law, with the cost being met by contributions from the covered individual and/or the employer, and sometimes in part from general government funds." Social insurance programs, he adds, are administered by government and are compulsory.[49]

One glossary defines social insurance as "a device for the pooling of risks by a transfer to an organization, usually governmental, that is required by law to provide pecuniary or service benefits on behalf of covered persons."[50] Coverage is compulsory by law.

[48]This phrase is from a 1962 talk given by Francis Perkins called "The Roots of Social Security," which can be found at the Social Security Administration's web site (www.ssa.gov/history/perkins5.html). She said, "I've always said, and I still think we have to admit, that no matter how much fine reasoning there was about the old-age insurance system and the unemployment insurance prospects; no matter how many people were studying it, or how many committees had ideas on the subject, or how many college professors had written theses on the subject—and there were an awful lot of them—the real roots of the Social Security Act were in the great depression of 1929. Nothing else would have bumped the American people into a social security system except something so shocking, so terrifying, as that depression."

[49]This description of social insurance comes from Robert J. Myers, the second actuary of the Social Security system and one of the program's most important leaders. See his comprehensive book, *Social Security*, Fourth Edition, p. 7 (Pension Research Council, Philadelphia, 1993).

[50]The second definition is from "Glossary of Insurance Terms," by Robert W. Osler and John S. Bickley, eds. (Insurers Press Inc., Santa Monica, 1972). However, there is still

The coercive nature of these programs had been perhaps the biggest stumbling block in the adoption of social insurance in America by the early 1930s. Perkins understood that the protracted economic disasters of the late 1920s and 1930s—the stock market crash and the failures of both the Hoover and FDR administrations to restore the economy—were a godsend for those who wanted to reverse America's individualist traditions. This would be an opportunity to reverse the long record of failure of American social insurance advocates. Perkins realized this unique opportunity had to be exploited quickly. During the debate in Congress in 1935 over the initial Social Security law she said, "it is probably our only chance in 25 years to get a bill like this."[51]

some confusion on the nature of Social Security programs. See *Barron's Business Guide Dictionary of Insurance Terms*, Second Edition, by Harvey W. Rubin (Barron's, New York, 1991). Here he defines social insurance as a "compulsory employee benefit plan under which participants are entitled to a series of benefits as a matter of right. The plan is administered by a federal or state government agency and has as its objective the provision of a minimum standard of living for those in lower and middle wage groups." But, as we will see, Section 1104 of the original Social Security Act in 1935 and subsequent court decisions have held that the participants have no "rights" and there are no statutory obligations to pay beneficiaries anything.

America was trying to survive the Great Depression. There was a continuing economic slump under a Republican administration, which was followed by the absence of a recovery under succeeding Democratic administrations. These disastrous economic times persisted in America until the nation entered World War II. All these factors—along with some masterful political strategies used by FDR—were why Social Security finally became a reality after four decades of struggle.

To its proponents, it was more than a single new program; it was part of a government economic security package. (The Social Security bill, we will see later, was originally called the economic security bill. Only toward the end of the bill's legislative process was it called the Social Security law.) This economic security package was sold in part to Americans the way Alan Greenspan's monetary policies have been sold to Americans since the late 1980s. Like the monetary policies of the 1980s and 1990s, Social Security was designed to be an economic cure-all. Monetary policy was supposed to be an inspired method of practically abolishing the business cycle, of guaranteeing that recessions would

[51] From *Madame Secretary*, by George Martin, p. 341 (Houghton Mifflin Company, Boston, 1976).

never occur again; and Social Security was supposed to ensure perpetual prosperity, or at least the absence of economic recessions, while decreasing welfare costs.

Social Security, its supporters claimed, was the cornerstone of an inspired fiscal policy. The policy would revive the economy and keep it out of trouble.[52]

## "Thrift Becomes a Mockery" and "an Economic Falsehood"

The welfare-state movement began in the United States with the founding of the first social insurance committee of the American Association for Labor Legislation (AALL) in 1912.[53] Some might say it began earlier than that. The AALL, which was established in the United States in 1906, was an offshoot of a parent German organization and a European movement going back to at least the 1880s. Leaders of the American group "saw the confused, illogical state of mind of most Americans on the subject of relief."[54] Many liberal or socialist academics pushed for a social insurance model that would be superimposed on an America that had generally spurned social insurance.

The United States of the late 19th and early 20th centuries was not hospitable to collectivist thinking, but rather a nation that embraced the self-help philosophies of Horatio Alger and Samuel Smiles. It was a place where the social Darwinism of William Graham Sumner and the individualist philosophy of Herbert Spencer were given respectful hearings; where the limited government philosophies of Thomas Jefferson and John Taylor of Caroline[55] were in the political mainstream.

In 1910, Columbia University economist Henry Seager, in his book, *Social Insurance, A Program of Social Reform*, conceded that Americans were fierce individualists. Seager, whose book is cited by the Social Security Administration as one of the earliest American texts promoting social insurance, jeered Americans' "absorption in individual interests and

[52]For Theodore Roosevelt's support of social insurance, see *Progressivism in America*, by Arthur A. Ekirch, Jr., pp. 164-66 (New Viewpoints, New York, 1974).
[53]See *Social Security and Its Enemies: The Case for America's Most Efficient Insurance Program*, by Max J. Skidmore, p. 29 (Westview Press, Boulder, Colo., 1999).
[54]Typical was *Social Insurance: A Program of Social Reform*, by Henry Rogers Seager (MacMillan Company, New York, 1921).

[55]See *Tyranny Unmasked*, by John Taylor; F. Thornton Miller, ed. (Liberty Fund, Indianapolis, Ind., 1992). There are many examples in this book of Taylor's Jeffersonian philosophy of limited government and his suspicion of government's tendency to arrogate power. Writes Miller, "He (Taylor) took a strong stand against government expansion and corruption, but he was likewise hostile to attempts to reform society through the use of government, from extending the suffrage to the abolition of slavery" (pp. xvii-xviii).

our reluctance to undertake things in combination with our neighbors or through the government."[56] Another labor historian opined that America's individualism included pursuing personal independence "to the point of perversity. Americans did not like to be rounded up, even for their own good."[57]

The only hope for tens of millions of Americans, said Seager, was through the public sector. He added that it was ridiculous to think most wage earners could save for their old age: "For every wage earner to attempt to save by himself to provide for his old age is needlessly costly. The intelligent course is for him to combine with other wage earners to accumulate a common fund out of which old-age annuities may be paid to those who live long enough to need them."[58]

For those who were poor, the idea of improving themselves through thrift was a mirage, according to social insurance advocates. "Thrift is a desirable habit for those who receive a wage that makes saving a possibility, but thrift becomes a mockery in the homes of the poor, and saving an economic falsehood," said the Pennsylvania Commission on Old Age Pensions in a report from March 1919.[59]

This belief in the futility of thrift and self-help will recur as we meet some of the other pioneers of the American social insurance movement. The movement traces its roots to European antecedents, to nations with aristocracies dating to the era of feudalism—nations in which elites were expected to protect average people. One British socialist who helped build her nation's pension schemes and welfare state at the turn of the 20th century wrote that her welfare schemes were taken "straight out of the nobler aspect of the medieval manner."[60] In the modern era, the substitute for the feudal aristocrats was strong central governments.

It is this theme of stronger central governments—governments that were no longer to be feared but that were, by the 1930s, the only effective institutions that could protect the average person,[61] according to American Liberals—that would be endorsed by many Social Democrats

[56] See Social Security web page: www.ssa.gov/history/seager.html.

[57] From *Samuel Gompers and Organized Labor in America*, by Harold Livesay, p. 3 (Little, Brown & Company, Boston, 1978).

[58] Ibid.

[59] From the Pennsylvania Commission on Old Age Pensions: *Social Insurance, the Handbook Series*, compiled by Julia E. Johnsen, p. 245 (H.W. Wilson Company, Highbridge, Bronx, New York, 1922).

[60] I refer to Beatrice Webb, a key adviser to the Asquith government that laid the foundations of the British welfare state before World War I. See her *Our Partnership*, p. 385 (London, 1985).

[61] See *The Age of Reform*, by Richard Hofstadter, p. 307 (Knopf, New York, 1981).

and Liberals in the midst of the Great Depression.

But even before the triumph of the American welfare state in 1935, there was a push by a small number of social insurance advocates in the United States. They wanted a series of welfare programs, and they called for leaders who would duplicate the work of a Bismarck or of the British Liberal/Socialist governments of the early 20th century.[62]

An American economist of the time, Richard Ely, supported many of the ideas of German socialists. Ely condemned laissez-faire philosophies and criticized the traditional American suspicion of centralized government.[63] "The state was," Ely wrote, "an educational and ethical agency whose positive aim is an indispensable condition of human progress."[64] This kind of philosophy was necessary for social insurance to succeed in America. At about the time of Ely's comments, it was the ideas of the American welfare-state movement that were starting to gain some strength as the Progressive Era began in America.

## The New Deal's Antecedents

Theodore Roosevelt's New Nationalism—his party presidential platform in 1912—called for welfare-state measures as well as a more aggressive American foreign policy that would abandon its traditional noninterventionism and antimilitarism to become a world power. Theodore Roosevelt, who despised Jefferson, endorsed social insurance just two years after Seager's book was published.[65] The Bull Moose/ Progressive Party platform of 1912 also included, "We pledge ourselves to work unceasingly in state and nation for: The protection of home life against the hazards of sickness, irregular employment and old age through the adoption of a system of social insurance adapted to American use."[66]

Many American socialists also strongly endorsed social insurance as a halfway measure to their ultimate goal. They had social insurance in their party platform since 1900. It was seen as part of a strategy of abolishing capitalism, or at least adopting the main elements of a democratic socialism.

[62] Typical was the comment of I.M. Rubinow, who wrote of the American social insurance movement in the 1930s: "Bismarck, Lloyd George, Millerand and who else? Who is to be the leader?" See his *The Quest for Security*, p. 606 (Henry Holt & Company, New York, 1934).

[63] For more on Ely, See Murray N. Rothbard's article, "Richard T. Ely: Paladin of the Welfare-Warfare State" in the Spring 2002 issue of *The Independent Review: A Journal of Political Economy*.

[64] The Ely comment is from *The Dictionary of the History of Ideas*, Philip Wiener, ed., p. 512 (Charles Scribner's Sons, New York, 1973).

[65] From *Progressivism in America*, by Arthur A. Ekirch, Jr., pp. 164-66.

[66] Ibid.

"Modern socialists," wrote socialist leader Morris Hillquit in 1912, "expect the realization of their program not as a result of a sudden revolt of the masses driven to desperation by suffering and misery, but as the outcome of a process of gradual, planned reforms to be achieved through concerted, intelligent and vigorous struggles, political and economic, conducted by a well-organized and powerful working class."[67]

Perkins and Hillquit obviously didn't agree on how social insurance would become a reality. One saw a gradual move to social insurance, while the other saw it as part of a response to an economic crisis. Still, both agreed that social insurance was a necessity for America. Both shared contempt for America's individualist traditions.

## American Social Insurance Prior to 1935

By 1916, Socialist Congressman Meyer London proposed social insurance legislation in Congress, which held hearings on the bill.[68] Owing to the opposition of members of Congress and labor leaders who were suspicious of the central government caring for their members, the legislation died with that session. Still, many of the prominent leaders of the New Deal came out of this era and its movement for social insurance programs at the federal level.

Minor victories were won when some states adopted voluntary or mandatory social insurance programs in the first 20 years of the 20th century, such as Wisconsin's unemployment insurance plan. But no one, by the early 1930s, had passed legislation to move the federal government into offering poverty relief for the elderly poor, or providing pensions for working Americans.[69] The absence of a central government program, one that could be used to impose standards on the rest of the nation, was a frustration for social insurance advocates. They often bemoaned the huge role of private voluntary agencies prior to the Social Security debate. They knew they were fighting a tradition of private help and self-help in America.[70]

[67] *Social Insurance, the Handbook Series*, pp. 35-36.

[68] See *The Struggle for Social Security*, by Roy Lubove, p. 16 (University of Pittsburgh Press, Pittsburgh, Pa., 1986). See also Isaac M. Rubinow's *The Quest for Security*, p. 541 (Henry Holt & Company, New York, 1934) for the story of Socialist Congressman Meyer London's social insurance bill.

[69] See Carolyn Weaver's "Birth of an Entitlement: Learning from the Origins of Social Security," Reason Online. www.reason.com/9605/Fe.WEAVERsocialsec.html.

[70] Writes one historian, in analyzing the changes wrought by the enactment of Social Security and the beginning of an American welfare state: "The vast expansion of public assistance functions and expenditures beginning in the 1930s was superimposed upon a long tradition of disdain totally incongruous with the political and economic

Harry Hopkins was FDR's close adviser and one of the more important players in the drama of 1935. He had a career before World War I as a New York City social worker. He wanted to give charity work in the United States a new focus. One of his colleagues at the time characterized him as "a strong advocate of state assistance as against a private relief system."[71]

Along with Perkins, Hopkins was one of the members of a key committee that helped initiate social insurance in the United States, as we will see. Hopkins laid the groundwork for several other social welfare programs in the following few decades, as well as a new philosophy of liberalism[72] that borrowed some of the principles of socialism. Hopkins said that Social Security and the New Deal finished the agenda of the Progressive Era.[73]

Yet, just a few years before the New Deal, in the late 1920s, the victory of an American welfare state was not assured. Few of these social insurance ideas had become law. And, just before the Great Depression, social insurance advocates—those who wanted the federal government to provide a wide range of mandated welfare services—had become discouraged after decades of seemingly futile efforts.[74]

Extended bad economic times were needed to transform American society. A year or two of recession or depression followed by a quick recovery hadn't presented the social insurance cause with good opportunities to triumph. Panics, depressions, even the temporary war socialism of 1917-1918, didn't turn Americans away from their belief in limited government. Republicans were elected and reelected in the 1920s because they cut taxes, closed down wartime government bureaucracies, and called for a return to "normalcy." Americans, in this era, still wanted government to be small.[75]

power assumed by the public welfare sector." See *The Professional Altruist: The Emergence of Social Work as a Career*, by Roy Lubove, p. 54 (New York, Atheneum, 1969).

[71]From *Harry Hopkins: Sudden Hero, Brash Reformer*, by June Hopkins, p. 72 (St. Martin's Press, New York, 1999).

[72] For more on how American liberalism was transformed, see *The History of Economic Analysis*, by Joseph Schumpeter, p. 394 (Oxford University Press, New York, 1954).

[73]Hopkins said, "The initiatives of the Progressive Era became the reflexes of the New Deal." Ibid., p. 3.

[74]Writes Abraham Epstein: "The 1920s saw the leadership of the movement was silenced and interest waned." See *The Crisis in Social Security; Economic and Political Origins*, by Carolyn Weaver, p. 56 (Duke Press Policy Studies, Durham, N.C., 1982).

[75]The U.S. devoted 5.5 percent of GNP to public spending in 1920, while Great Britain and France were spending about 20 to 25 percent of GNP on public spending. See *A History of Taxation and Spending in the Western World*, by Carolyn Webber and

Americans consistently rejected social insurance ideas once recoveries had come. A strong economy was the best remedy for hard times. And, even in hard times, voluntary agencies and family ties were sufficient to weather economic storms. America, perhaps because of her frontiers, perhaps because her people were staunch individualists, was exceptional. The nation had neither feudalism nor huge central governments dispensing large social welfare benefits in her history. America was different.

### American Particularism: "A Cherished American Tradition"

Prior to 1935, social insurance for Americans was not a government responsibility. It was entirely private. One got help through the community, fraternal groups, and above all, the family. As one historian wrote: "In the past, families negotiated the exchange of needed resources within the household. Decisions about medical care, work force participation and schooling demanded sacrifices from related family members."[76]

Another objection to social insurance was that government required Americans to be part of it. "Compulsion is repugnant to freedom. The privilege of [living] in freedom so long as the rights of others are not damaged is a cherished American tradition."[77] Resistance to coercion, to a centralized government imposing its solutions to social problems, was still a factor even in the debates of 1935 over the first Social Security law.[78] "The prime reason why social insurance fared so badly in the early part of the 20th century was our cherished ideal of rugged individualism."[79]

Seager also, in his historic book, noted that "individualism" was a basic American trait: "Thus, the phrase, social reform, which, in other countries, suggests comprehensive plans of state action, is still usually associated in the United States with the welfare departments of private corporations, privately endowed schools of philanthropy, or such splendid examples of private beneficence as the Russell Sage Foundation."[80] Seager also bemoaned the lack of a major political party in the United States that was committed to social insurance programs:

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Aaron Wildavsky, p. 451 (Simon & Schuster, New York, 1986).

[76]See *Old Age & the Search for Security: An American Social History*, by Carol Haber and Brian Grattan, pp. 183-84 (Indiana University Press, Bloomington, 1994).

[77]*Social Security in America*, by William Lloyd Mitchell, p. 13 (Robert B. Luce, Washington, D.C., 1964).

[78]"Americans assumed their country was unique in assigning to private, voluntary institutions a wide range of responsibilities which in other nations were relegated to governments or elite groups." See Lubove, p. 5.

[79]Mitchell, p. 6.

[80]Seager, pp. 1-2.

socialism "numbers fewer converts relatively to the population in the United States than in any other country of the Western World."[81] A cause of this individualism, which amazed Seager and aggravated others, was a belief in limited government, a classical liberal philosophy regarding all governments—especially centralized ones.[82]

Unless governments were bound to carefully defined limits, they would inevitably become so big they would dominate every aspect of life, American political philosophers warned.[83] Social insurance, critics said, would lead to an overextension of the government because there was no authority for it in the Constitution. And, once a social insurance program began, critics asked, where would it stop? Besides, what guarantee was there that the government could attack social or economic problems any more effectively than private agencies? "Whatever the reasons given, no more sound basis exists for the government to write insurance than to bake bread and furnish it to the consumer at cost. The wheat fields of the United States can furnish as sound an argument for government ownership as the insurance business. Bread is likely a necessity to the people as insurance," said U.S. Senator Lawrence Y. Sherman of Illinois, as quoted by Fred L. Gray, president of the National Council of Insurance Federations.[84]

For Americans to lose their aversion to socialism would take some earthshaking event or series of events that could be blamed on the private sector. And even after such a circumstance, it would require a strategy that disguised the socialist nature of social insurance solutions for a Social Security program to become law, as even in the midst of the Great Depression socialism still was not popular in America.

## Main Street and Babbitts

Before the Great Depression of 1929, economic disasters happened often in American history. There was a

[81] Ibid.

[82] Regarding Jefferson's election of 1800, "They had denounced the funded debt as a means of creating a money power; they did not repudiate any part of it, but they paid it off. They had objected to the excise tax, especially on whiskey, and they quickly abolished it amid the general rejoicing of the backcountry farmers. They had protested against the high cost of the federal establishment and they reduced expenses." From *The Rise of American Civilization*, by Charles and Mary Beard, vol. I, p. 383-84 (MacMillan, New York, 1961).

[83] Said Thomas Jefferson: "I own I am not a friend to a very energetic government. It is always oppressive." See *American Sphinx: The Character of Thomas Jefferson*, by Joseph J. Ellis, p. 122 (Vintage Books, New York, 1996).

[84] Social Insurance, the Handbook Series, p. 27.

depression in the 1890s. Woodrow Wilson departed the presidency in 1921 with the nation in the midst of an economic slump. But these economic problems usually resulted in no drastic changes in American economic institutions, with the exception of the panic of 1907. The latter eventually led to the recreation of an American central bank in 1913,[85] an institution Americans had rejected more than a half century before.

Without central bank direction or federal intervention through fiscal policies, America's economy had always recovered. America in the 1920s retained much of its classical liberal/limited government model. That meant private-sector solutions, including voluntary institutions, were the preferred way of attacking social and economic problems. A reliance on a strong private economy, along with family and private help, had been the traditional social welfare program in America.

An example was the depression of 1920-21. A strong dose of tax cuts, a balanced budget, no new major federal programs, and allowing bad investments in the private sector to be liquidated—the traditional methods of laissez-faire advocates throughout most of American history—restored a growing economy. Many American Social Democrats in the 1920s were frustrated with the lack of an American welfare state. More important, they wondered why was there no significant American socialism in this period or even into the early 1930s. Large socialist parties, which won posts in European governments, had been a strong factor in building social insurance institutions in other countries.

Social insurance advocates, after at least two decades of effort in the United States by the late 1920s, were disheartened; given the buoyant economy, it appeared that Babbitt, Main Street, and the American traditions of individualism and voluntarism would be forever triumphant. *The Lost Generation* ridiculed America's supposed backwardness. The sage of Baltimore, H.L. Mencken, delighted in ridiculing the American yahoo. Nevertheless, a distinct individualist American tradition was turning its back on the collectivism of most nations of Western Europe in the 1920s, where socialist governments or at least socialist participation had become common.

Defenders of American individualist traditions argued that there was something alien about social insurance. It reminded them of Bismarck and German socialist ideas.[86] Some of the supporters of

[85]See *Issues in Money and Banking*, by George Macesich, p. 49 (Praeger, Westport, Conn., 2000).

[86]Writes one historian: "The fact that a number of American economists, and other

government pension and welfare schemes had studied in Germany;[87] they were impressed with German socialist ideas, though most said they were not socialists. But clearly, social insurance advocates were subscribing to socialist ideas that had been learned from others by Lloyd George, Bismarck, or Theodore Roosevelt,[88] whose New Nationalism program forced Woodrow Wilson to move to the left to win the 1912 presidential race.[89]

### "Never Fell Under the Sway of Laissez-Faire"

Most leaders of the social insurance movement were people of the left who disliked businessmen and admired socialist ideas. These included Seager,[90] physician I. M. Rubinow, and social scientist Abraham Epstein, Rubinow's student and the research director for the Pennsylvania Old Age Pension Commission. This intellectual elite in turn greatly influenced the first generation of Social Security bureaucrats: Arthur Altmeyer, Wilbur Cohen, and Edwin Witte. Another characteristic of this group was that they often wrote or spoke favorably of what had been accomplished by Bismarck's socialist policies; they approved also of socialists Beatrice and Sidney Webb in Britain under the pre-World War I Liberal Imperialist government of Herbert Asquith, which laid the foundations of the British welfare state.[91]

Often, American social insurance advocates could be described as socialist.[92] Others such as George Soule and Stuart Chase, two liberal economists, as well as philosopher John Dewey, were sympathetic to social insurance schemes because they believed they could be part of a national planning movement that would use many of the techniques of war socialism used by the Wilson administration's War Industries Board during World War I.[93]

I. M. Rubinow, a physician-turned-social insurance advocate, was

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intellectuals, were trained in German universities or influenced by German social theory enabled social insurance to gain a foothold in the United States." See *The Struggle for Social Security, 1900-1935*, by Roy Lubove, p. 7 (University of Pittsburgh Press, Pittsburgh, 1986).

[87] *Progressivism in America*, by Arthur A. Ekirch, p. 165 (New Viewpoints, New York, 1975).

[88] Ibid.

[89] Ibid.

[90] For more on Seager, see part II of this series.

[91] See *The Liberals in Power, 1905-1914*, by Colin Cross (Barrie & Rockcliff, London, 1963).

[92] For more on Chase and other liberals who were drifting toward socialism in the 1930s, see *The Failure of Independent Liberalism, 1930-1941*, by R. Alan Lawson, p. 82 (G.P. Putnam's Sons, New York, 1971).

[93] For more on the government's control of the economy during World War I, see *The Uneasy State: The United States from 1915 to 1945*, Barry D. Karl, pp. 42-46 (University of Chicago Press, Chicago, 1983).

particularly influential. His books praise socialists and show contempt for business. He was effective in reversing America's traditional suspicion of central governments. Appointed as a consultant to the Committee on economic security, which established the first Social Security law, Rubinow insisted that social insurance must be part of the New Deal. He called on FDR not to forget those "left by the wayside of modern civilization."[94]

For more than two decades, Rubinow had a profound effect on the decision makers who eventually won the debate over social insurance programs in America. Theodore Roosevelt included social insurance in the 1912 Progressive Party platform because of Rubinow.[95] FDR admired Rubinow and was reading his work as the first Social Security bill was written.

Rubinow's classic books on social insurance[96] were cited often during the 1935 debate. He wrote admiringly of Karl Marx,[97] and praised German philosophers and economists because they "never fell under the sway of laissez-faire."[98] As stated by Wilbur Cohen, a longtime Social Security bureaucrat who was influential in building and expanding the American welfare state: "I.M. Rubinow was one of the giants in the field of social insurance in the pioneering days of social reform in the United States."[99]

Still, there remained difficult obstacles for the social reformers. Most Americans didn't want socialism even in the midst of the worst economic disaster in the nation's history. The reformers' cause was hurt further by association when American critics of social insurance charged that its supporters had stolen the ideas of the German Socialists.[100] And there were additional obstacles many wouldn't

[94]From *The Reluctant Welfare State*, by Bruce S. Jansson, p. 170 (Wadsworth/Thomson Learning, Belmont, Calif., 2001).
[95]Ekirch, Ibid.
[96]See *Social Insurance*, by Isaac M. Rubinow (Henry Holt & Company, New York, 1916). See also Rubinow's *The Quest for Security* (Henry Holt & Company, New York, 1934).
[97]See Rubinow's *Social Insurance*, p. 15.
[98]Ibid. Also, throughout his book, *The Quest for Security*, Rubinow criticizes the American philosophy of limited government, calling it "a nihilistic attitude to government" (p. 604). He rails against private insurance (p. 542) and a capitalist economy that he claims forces people to "buy, buy, buy" (p. 35). He calls for an American Bismarck, Lloyd George, or Millerand (p. 606)—European leaders who were either socialists or wanted to arrogate many of the programs of socialists.
[99]Cohen's comments can be found at the Social Security web page, www.ssa.gov/history/rubinow.
[100]For a discussion of German social insurance programs from the Kaisers to Hitler to the German Federal Republic, see *Social Security: The First Half Century*, Gerald Nash, Noel H. Pugach, and Richard F. Tomasson, eds., pp. 181-97 (University of New Mexico Press, Albuquerque, 1988).

have expected—from organized labor.

### "Basically Undemocratic:" A Labor Leader's Opposition

Among the opposition to social insurance in America in the late 19th and early 20th centuries were labor leaders such as Samuel Gompers,[101] who called for government initiatives including worker protections, but opposed a mandatory social insurance program. Social insurance was an idea that stressed an insurance that was run, not for profit, but for the benefit of society; Gompers was wary of that idea. To him, it smacked of German socialism. "Compulsory social insurance," he complained, "is in essence undemocratic."[102] Foreshadowing the objections of those who would later complain that the government would mismanage the assets of a program, Gompers wanted workers to depend on themselves, private institutions, their unions—anything but the government. Gompers' opposition to social insurance owed in part to the American individualist tradition,[103] as he revealed when he said that the average working man must avoid the clutches of Socialists, intellectuals, and their cohorts.[104] American labor, interestingly, was either hostile or indifferent to social insurance programs almost until 1935 when Social Security was finally adopted.

In a 1917 address to the American Federation of Labor, Gompers warned that social insurance was "basically undemocratic"[105] because, in almost all nations where it was on the books, it was compulsory; and because American social insurance advocates believed theirs would also have to be compulsory. "As I live," Gompers said in testifying before Congress, "upon the honor of man…I would rather help…a revolution against compulsory insurance and regulation than submit."[106]

He also warned of another danger—that social insurance would initiate a kind of economic warfare in America. The battle would not be between rich and poor, but between those who were paying the taxes for the system and those who were collecting from it.[107] "The first step in establishing social insurance is to

[101] See *The Crisis in Social Security: Economic and Political Origins* by Carolyn Weaver, p. 28 (Duke University Press, Durham, N.C., 1982).
[102] Ibid.
[103] "Voluntarism, the right of citizens to define and pursue their goals, resulted in limited government and maximum liberty." See *The Struggle for Social Security, 1900-1935*, by Roy Lubove, p. 5 (University of Pittsburgh Press, Pittsburgh, 1986).
[104] *The Struggle for Social Security*, p. 16. See also Gompers's speech: "American Federation of Labor, National Civic Federation. Annual Meeting Addresses," pp. 5-10, New York, January 22, 1917.
[105] Ibid., Gompers.
[106] *Samuel Gompers and Organized Labor in America*, by Harold Livesay, p. 135 (Little, Brown & Company, Boston, 1978).
[107] Ibid, Gompers.

divide people into two groups—those eligible for benefits, and those considered capable to care for themselves,"[108] Gompers said.

That was a remarkable prediction, considering that young people in the later part of the 20th century have come to worry about skyrocketing payroll tax rates. Their complaint was that senior groups, in pushing for greater Social Security benefits, were at fault.[109] Prominent business magazines in the late 20th century predicted a coming political war between the young and the old. Gompers had foreseen this 80 years before.

Gompers contended that social insurance would also undermine the character of workers: "There must necessarily be a weakening of independence and spirit and virility when compulsory insurance is provided for so large a number of citizens of the state."[110] He also believed that social insurance would feed a movement for leviathan government: "Government power grows by that upon which it feeds. Give an agency any political power and it at once tries to reach out after more…. Its effectiveness depends upon increasing power."[111] Again he was prophetic, as Social Security bureaucrats, in the election of 1936 and after the election of 1952, consistently worked behind the scenes with friendly politicians to protect or expand the program.[112]

Social insurance, Gompers said at the 1916 congressional hearings on the social insurance bill, would discourage the virtues of thrift and self-reliance, values that were scorned by Rubinow. Gompers called for "the inauguration of a revolution against compulsory insurance."[113]

108 See also, *Social Insurance, the Handbook Series*, compiled by Julia E. Johnson, pp. 202-205 (H.W. Wilson Company, Highbridge, Bronx, N.Y., 1922).

109 Gompers's fear of the clash of interests between those paying the taxes and those receiving the benefits has been confirmed. Citing a congressional study, former Senate Finance Committee staffer Carolyn Weaver noted the intergenerational injustice that has been spawned by the actuarial problems of the system. "The expected payback period for today's older workers, those retiring in 2000, is 12.9 years, rising to 18.3 years for workers retiring in 2030." The same study notes that the payback period for retiring workers in 1960 was "1.1 years." See Weaver's article on Social Security in *The Fortune Encyclopedia of Economics,* David R. Henderson, ed., p. 299 (Warner Books, New York, 1993).

110 Ibid.

111 Ibid. See also Milton Friedman's comment: "It is far easier to introduce a government program than get rid of it." From Amity Shlaes's book, *The Greedy Hand: How Taxes Drive Americans Crazy and What to Do About It,* p. 6 (Random House, New York, 1999).

112 *Mr. Social Security: The Life of Wilbur J. Cohen*, by Edward D. Berkowitz, pp. 103-105 (University Press of Kansas, Lawrence, 1995).

113 See Carolyn Weaver's *The Crisis in Social Security: Economic and Political Origins,* p. 40 (Duke Press Policy Studies, Durham, N.C., 1982).

Rubinow, ridiculing Gompers' comments in one of his books in the 1930s, asked, "But why this fear of compulsion...It is a little naïve and one might say almost juvenile, as if our industry were afraid to be confronted with some control and some responsibility."[114]

Gompers, in the 1917 address, told workers to depend on themselves; to look to their unions or fraternal groups for essential welfare services, but not to trust the state to provide for them. In the case of social insurance, the fear was the burden it would impose on workers and employers, a fear that was later raised in the debate over the first Social Security law.

This opposition to the compulsory nature of social insurance was a major reason America was the last major industrial nation to embrace the welfare state. As president, FDR could not push the issue of social insurance too far at the start, which disappointed those of his allies who also wanted mandatory health insurance in 1935.[115] FDR was happy to win a nascent Social Security program, even one that many social insurance advocates saw as conservative and relatively modest. He told his somewhat disappointed social insurance supporters to forget about compulsory government health insurance for the time being, even as he assured advisers that he expected America to someday adopt a full-scale welfare state.[116] The seemingly modest Social Security has fulfilled FDR's predictions.[117]

## American Socialism: "A Foreign Ideology"

The Socialist party in other countries was instrumental in achieving the ultimate goal of a welfare state. In the United States, socialist goals could not be achieved by socialists. It

[114]Rubinow bitterly complained about Gompers in one of his books. He quoted Gompers at a 1916 congressional hearing promising that, "as long as there is a spark of life in me I will help in crystallizing the spirit and sentiment of our workers against the attempt to enslave them by well-meaning siren songs of philosophers, statisticians and politicians." See Rubinow's *The Quest for Security*, p. 541 (Henry Holt & Company, New York, 1934).

[115]See *Madame Secretary*, by George Martin, pp. 347-348 (Houghton Mifflin, Boston, 1976).

[116]Perhaps the best testament to this is FDR's statement upon signing the Social Security Act: He called it "a cornerstone in the structure which is by no means complete." See history web page of the Social Security administration for FDR's statement: www.ssa.gov/history/html.

[117]See Amity Shlaes's *The Greedy Hand: How Taxes Drive Americans Crazy and What to Do About It*, p. 61 (Random House, New York, 1991). Shlaes, who notes that tens of millions of Americans now pay more in payroll taxes than income taxes, notes that Social Security began on a rather small scale. She quotes a comment from a 1936 Social Security pamphlet: "You and your employer will each pay 3 cents on each dollar you earn up to $3,000. …That is the most you will ever have to pay."

would take one of the major parties "stealing the clothes"[118] of the socialists for a welfare state to be established in America. While America had a fling with collectivist ideas in the early part of the 20th century, the American Socialist Party, the most consistent proponent of sundry social insurance schemes,[119] had become irrelevant as the 1920s went on. It was no threat to become a major political party. In 1920, its presidential candidate, Eugene Victor Debs, polled nearly a million votes from a jail cell,[120] but this was the high point for the party. Never again would it do so well in a presidential contest. Debs had been sent there because of his courageous opposition to American entry in World War I—a war that splintered his party. Debs and many others suffered because of the anti-libertarian actions of Woodrow Wilson.[121]

Wilson's administration crushed dissent, passed the Sedition Act, spied on its citizens, persecuted German-Americans, and illegally jailed tens of thousands of Americans in the first red scare of post-World War I America.[122] It is amazing that Wilson remains a liberal icon. He is consistently rated as one of America's great or near-great presidents by panels of historians and political scientists, yet his hatred of various ethnic and racial groups is well known.[123]

[118] Al Smith applied this phrase to the New Deal. He said, "the young Brain Trusters caught the Socialists in swimming and ran away with their clothes." See *Al Smith, Hero of the Cities*, by Matthew and Hannah Josephson, p. 459 (Houghton Mifflin Company, Boston, 1969).

[119] In 1911, Congressman Victor Berger, a socialist from Wisconsin, proposed a pension bill, but it died. See *The Historical Development of the Social Security Act*, by Abe Bortz, SSA historian, p. 21, www.ssa.gov/history/bortz.html.

[120] *The Socialist Party of the United States*, by David Shannon, pp. 155-58 (Quadrangle, Chicago, 1955). See also *It Didn't Happen Here: Why Socialism Failed in the United States*, by Seymour Martin Lipset and Garry Marks (W.W. Norton & Company, New York, 2000). The authors argue that Americans have been notably resistant to the allure of socialism: "The inability of American socialists to create a durable Labor or Socialist party is not a historical quirk of a bygone era." The quote is from a sympathetic review of the book in the September 3, 2000 "*32* Book Review," p. 16.

[121] For more on the unpopularity of Wilson at the end of his second term, see *The Politics of War: The story of two wars which altered forever the political life of the American republic (1890-1920)*, by Walter Karp, especially pp. 340-42 (Harper & Row, New York, 1979).

[122] *The First Freedom: The Tumultuous History of Free Speech in America*, by Nat Hentoff, pp. 113-20 (Dell Publishing, New York, 1980).

[123] See Tony Brown's *White Lies, Black Lies: The Truth According to Tony Brown* (William Morrow & Company, New York, 1995). Wilson, who remains one of the icons of modern American liberalism, clearly hated black people (p. 76). Brown also warned that Americans were rushing headlong into entitlement socialism, even though they didn't realize it. Wrote Brown in a comment reminiscent of Fredric Bastiat: "The American electorate opposes socialism

Wilson had intelligence units spying on American blacks.[124] As his administration was ending, he denied a pardon to Debs, a decent, courageous man regardless of one's opinion of his economics or politics. From the early 1920s, the American Socialist Party foundered into insignificance. Its pre-war promise was never realized, though some of its ideas were adopted by the left wing of the Democratic Party. In 1932, at the height of the depression, Socialist party numbers continued to be disappointing. And by 1936, Norman Thomas, an appealing, well-spoken presidential candidate of the Socialist Party who would later show sympathy for some of the leaders of the isolationist America First movement, would poll less than 150,000 votes,[125] a huge drop from Debs's 1920 performance.

By 1932, FDR attracted many voters who had previously cast their ballots for socialists. The Socialist Party had contained a social insurance platform in 1932.[126] But some socialists would come to suspect that FDR's New Deal, including Social Security, had used the veneer and not the substance of their programs. Thomas, by the late 1930s, complained that the problem of American socialism was, "Roosevelt in a word."[127] FDR stole many of the ideas of socialists, including their support for social insurance programs. But divisions in the American Socialist Party destroyed its effectiveness in the 1930s. Some socialists concluded that the way to an American welfare state, with Social Security as its core, would be through the Democratic Party.

in principle, but is in full gallop in the pursuit of Socialist entitlements. As economist Ludwig von Mises mused, there is a lot of support for socialism among its opponents" (p. 9). For more on Wilson's hatred of black Americans, see *Rascal King: The Life and Times of James Michael Curley (1874-1958)*, by Jack Beatty, p. 178 (Addison-Wesley Publishing, New York, 1992). Beatty quotes Wilson as telling a delegation trying to persuade him not to resegregate various federal departments that, "Segregation is not humiliating but a benefit, and ought to be regarded by you gentlemen." (p. 178). But blacks and whites had worked together in these departments for decades without incident, which makes Wilson's actions appear bizarre. For more on Wilson and some of his anti-libertarian policies, see *The Politics of War: The Story of Two Wars which Altered Forever the Public Life of the American Republic (1890-1920)*, by Walter Karp, p. 340 (Harper & Row, New York, 1979).

[124]Ibid, Brown.

[125]See *The Socialist Party of America*, pp. 205-06. The author says the party's performance in the 1932 election was disappointing and would worsen throughout the 1930s, as it would be co-opted by New Deal measures; many of its former members started to vote for Democrats. Shannon quotes lawyer Clarence Darrow as saying he couldn't join the Socialist Party because, "he would be so lonely." Also, for more on the Norman Thomas comment, see Irving Howe's *Socialism in America*, p. 73 (Harcourt Brace Jovanovich, New York, 1985).

[126]*The Socialist Party of America*, p. 219.

[127]Ibid.

Indeed, Upton Sinclair, a socialist novelist who had his own quirky redistributionist/social insurance ideas and whom we will meet again later on, left the Socialist Party in the early 1930s. He then registered as a Democrat so he could run for governor of California in 1934. Despite the change, Sinclair, says a biographer, remained a socialist and, "wanted to see a Socialism in America, as much as ever."[128] But Sinclair switched parties not only to have a better shot at winning office, but because he was "convinced that Socialism was and would remain for an overwhelming majority of Americans a foreign word and a foreign ideology."[129]

Sinclair's story is, in part, the story of Social Security and the rise of the American welfare state. It was a state whose supporters insisted social insurance programs did not constitute socialism and who claimed that, even if social insurance was socialism, it was insignificant; that it would not upset American individualist traditions. They said social insurance was a conservative force that would save free enterprise.[130]

Social insurance would have to find a backdoor method of winning in America. The straight collectivist model failed in the 1920s and even at the height of the depression. In the 1930s, new methods of presenting the principles of socialism without the labels of collectivism were found in the Great Depression—a technique that was supremely successful and goes on to this day.[131] One prominent socialist leader, Michael Harrington, advocated in the 1960s that socialists join the left wing of the Democratic Party. Indeed, the story of Social Security is, in part, the story of selling a socialist program without socialist terminology. It is what the French called "a socialism without doctrines."[132]

## Section III—
## Selling Social Insurance to America Using the Language of the Private Sector

[128]See Leon Harris's admiring biography of the novelist: *Upton Sinclair, American Rebel*, pp. 296-98 (Thomas Y. Cromwell, New York, 1975).
[129]Ibid.
[130]Ibid, pp. 304-19.

[131]The process of selling socialism under another name has been a success. At the time of this writing, presidential candidate George Bush was confused regarding whether Social Security was a federal program or not. My congressman, Anthony Weiner (D-N.Y.), at a recent town hall in Kew Gardens, New York, insisted that, "Social Security is not socialism." But of course he also insists that payroll taxes are "only 7.65 percent." He conveniently excludes the employer part of the tax, which is actually 15.30 percent!
[132]I take this phrase from an article on the welfare state in *The Dictionary of the History of Ideas*, Philip P. Wiener, ed., pp. 509-13 (Charles Scribner's Sons, New York, 1973).

> *"It is recognized that the use of the term social insurance may result in some misunderstanding of the basic nature of a social security program by the general public; who tend to think in terms of their acquaintance and knowledge of private insurance, or even government insurance involving a contractual relationship."*[133]
>
> *"I think social insurance is not, in fact, insurance. It is not anything in the world but the taxing of people to provide free services to other people."*[134]

## Using the Good Name of Insurance

The term "social insurance" was significant; it was used by experts and advocates seeking to persuade Americans to adopt a previously spurned welfare-state model. Insurance was something most Americans understood and liked. Social Security was presented as insurance in the beginning (though later the term was disavowed from fear a court would rule the government had no legal right to offer insurance). Later, after the first bill was passed in 1935 and the program survived the expected court challenge, many supporters once again tried to associate their ideas with the good name of insurance. Some Social Security advocates admitted they had exaggerated any similarities between the two.[135]

Insurance had a good name—insurance companies, unlike banks, generally had not failed in the Great Depression.[136] Insurance seemed safe.[137] Insurance companies required

[133] *Social Security*, Fourth Edition, by Robert J. Myers, p. 13 (Pension Research Council, University of Pennsylvania Press, Philadelphia, 1993).

[134] The comment was from the ranking Republican on the House Ways and Means Committee in 1935, as quoted in Martha Derthick's *Policymaking for Social Security*, p. 225 (Brookings Institution, Washington, D.C., 1979).

[135] Writing of the early years of Social Security, Robert J. Myers, an actuary of the system, agreed that, "Admittedly, the Social Security Board [now the Social Security Administration] very definitely overstressed the insurance concept in the early years of the program. This was done primarily to build up and maintain public support for the Social Security program—by drawing on the good name and reputation of private insurance." *Social Security*, Fourth Edition, p. 15.

[136] "During the Great Depression, it was not the U.S. government that bailed out the banking industry—it was U.S. insurance companies." See *All About Annuities*, by Gordon K. Williamson, p. 21 (John Wiley & Sons, New York, 1993).

[137] "Insurance," wrote one historian, "was the central symbol of all these messages, and it was stressed precisely because it was expected to secure public acceptance. Because insurance implied a return for work and investment, it preserved the self-respect of the beneficiaries; because it implied a return in proportion to investment, it satisfied a widely held conception of fairness; and because it implied the existence of a contract, it appeared sound and certain." See Derthick, *Policymaking for Social Security*, p. 5. See also Dorcas Hardy's *Social Insecurity* (Villard Books, New York, 1991). Hardy is a former Social Security commissioner.

huge cash reserves, reserves that to this day are larger than those of Social Security. Insurance companies were dependable. They operated under strict controls enforced by both a competitive market and by regulators. Insurance policies were also the personal property of policyholders. Americans were told that Social Security, which in fact never operated according to the principles that insurance companies are required to follow, was just another kind of insurance. Using insurance terminology was a clever way to establish American socialism. Also, the ostensible success of America in World War I was, social insurance advocates believed, more proof that a highly regulated economy could and would produce prosperity.

Pragmatist philosopher John Dewey, arguably the most influential American philosopher of the 1930s, noted "the social possibilities of war."[138] In the midst of the Great Depression, many on the political left were asking why the federal government, which fixed prices, took over railroads, and directed many elements of the economy during World War I, couldn't plan and manage the economy in peacetime just as it had in wartime.[139]

[138]See John Dewey's *Individualism Old and New* (Mincton, Balch, New York, 1935).
[139]*The Economy of Abundance*, by Stuart Chase, p. 310 (Kennikat Press, Port Washington, N.Y., 1936).

Why couldn't the state solve the problems of security which, they complained, were overwhelming the average man? Why couldn't the nation make war on poverty just as Hitler was doing in Germany? Some admiring Americans claimed that Germany had made a remarkable recovery; why couldn't the federal government use some of the same techniques?

"It is nonsense to say that there is any physical impossibility of doing for peace purposes the sort of thing we actually did for war purposes,"[140] wrote economist George Soule in the early 1930s. Stuart Chase, a Social Democratic economist who used the term "New Deal" in a book of the same title in 1932, believed that an "abundant economy"[141] could be created by central planners.

[140]Soule's comment is quoted in *The Good Society*, by Walter Lippmann, p. 91 (Grosset & Dunlap, New York, 1936).
[141]See also Chase's *The Economy of Abundance*, p. 310 (Kennikat Press, Port Washington, N.Y., 1930); and John Dewey's *Individualism Old and New* (Mincton, Balch, New York, 1930). Speaking of John Dewey, George Soule, Stuart Chase, and other democratic socialists of the 1930s who called for war-planning techniques in peacetime, one pro-New Deal historian wrote, "The War Industries Board tightly regulated and managed the economy, achieving remarkable results that many observers believed were proof of the efficacy of a planned economy." See *The Great Depression: America, 1929-41*, by Robert S. McElvaine, p. 11 (Times Books, New York, 1984).

"Autarchy," he wrote, "is distinctly thinkable and is probably coming."[142]

Many New Deal policies seemed to confirm this prediction. Franklin Roosevelt, once he was president, increased some of Hoover's draconian tariffs[143] and scuttled the London Economic Conference.[144] A year into the New Deal, Chase congratulated FDR on accepting "the general philosophy of planning."[145] Social Security was to be part of that philosophy.

Despite Chase's call for a permanent welfare state to be established and accepted by Americans, there were still considerable obstacles to be surmounted even after FDR's election in 1932. We have seen earlier that FDR, as he campaigned for president for the first time, was compelled to pledge his support for limited government. He insisted that the federal government had been spending too much and had taken too much power from the states.[146]

A new strategy was needed to overcome, without directly attacking, the philosophy of limited government; it was needed because a permanent American welfare state was still just a dream even a year into FDR's first administration. FDR could improvise various temporary agencies and programs, but could he find a permanent structure that could survive even when the opposing party eventually won power?

## "Normalcy" or Income Redistribution?

By the late 1920s and into the early 1930s, social insurance ideas had been either rejected or ignored by most Americans. As one social insurance advocate said, "The leadership of the movement was silenced and interest waned."[147] Even during the worst of the Great Depression, "As late as 1934, a leading proponent of social insurance conceded that the majority of the

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[142] Lippmann, p. 91.

[143] See *Watershed of Empire: Essays on New Deal Foreign Policy*, Leonard Liggio and James J. Martin, eds., p. 112 (Ralph Myles, Colorado Springs, 1976).

[144] From Arthur Schlesinger, Jr.'s *The Coming of the New Deal*, pp. 224-226 (Boston, Houghton Mifflin, Company, 1958).

[145] *As We Go Marching*, by John T. Flynn, p. 200 (Free Life Editions, New York, 1967).

[146] FDR, campaigning in 1932, called Hoover "the greatest spender in history." From *The Roosevelt Myth*, by John T. Flynn, p. 37 (Devon-Adair Company, New York, 1961). See also the first installment of this series at LewRockwell.com for more on FDR's classical liberal criticisms of Hoover. Norman Thomas also complained about Hoover's tax policies: "it's a wonder they don't put a tax on tickets to the bread line" *The Great Depression: Opposing Viewpoints*, Bruno Leone, ed., p. 15 (Greenhaven Press, San Diego, 1994).

[147] From Carolyn Weaver's *The Crisis in Social Security: Economic and Political Origins*, p. 56 (Duke Press Policy Studies, Durham, N.C., 1982).

working population did not clamor for social insurance."[148]

Yet, just a few years later, a good deal of the Socialist agenda of the welfare state—unemployment insurance, pensions, and government co-opting of private and family relationships—had been adopted, without the socialist labels, by the Democratic party that once had been the defender of the American classical liberal tradition. Social insurance, after a few initial objections, came into the American mainstream without the taint of socialism. How were FDR and his allies able to do it? And why, as we look back on a welfare state that is more than 65 years old and in no apparent danger, was the establishment of Social Security so important?

Other government institutions that challenged the American classical liberal tradition eventually failed. Railroads were handed back to private ownership after World War I, albeit with many problems that were a residue of state control.[149] (It took another half century of intense regulation to force many of them back into the hands of the government.) Most price controls were lifted after the war. The War Industries Board closed up shop. Many government bureaucracies shut down.

Wilson's successor, Warren Harding, promised "normalcy." With his election in 1920, many taxes were reduced under his administration and under his successor, Calvin Coolidge. Even in the 1930s, in the midst of the Great Depression, many of the most conspicuously socialist or fascist parts of the New Deal either died or were struck down by the courts.

By contrast, Social Security would not be struck down by the Supreme Court or decommissioned by Congress. It would not be doomed or even reduced by an opposition party determined to reverse the revolution of 1935,[150] nor face any sunset provisions or receive any serious reconsideration from Congress until the early 1950s.[151] And even then,

[148] Ibid.

[149] For the story of government operation of the railroads during the war and the return to the private sector, with all sorts of new additional costs, see *The War History of American Railroads* by Walker Hines, especially pp. 226-30 (New Haven, Yale University Press, 1928). Hines says managers of private roads "were intensely dissatisfied with the labor situation." See also my story, "Train Wreck," in the August 1999 issue of *The Freeman*, pp. 8-11 (Foundation for Economic Education, Irvington-on-Hudson, N.Y.).

[150] It was Keynesian economist John Kenneth Galbraith, a self-proclaimed socialist, who testified that Republicans, when they recaptured power in 1952, did not dare touch Social Security or the welfare state. See *Name Dropping*, pp. 2-3 (Houghton, Mifflin & Co., Boston, 1999).

[151] See Senator Carl Curtis's battle with the Social Security Administration in the 1950s. He called for the system to be converted to a flat benefit system. He also argued that

several Social Security bureaucrats worked successfully to frustrate the efforts of one lawmaker who wanted to find out whether the program was actually insurance and where the legal guarantees were.[152] (The issue of a legal guarantee, as we will see, was raised during the 1935 hearings.)

From what some saw as modest beginnings, Social Security eventually become so large[153] that it required its own Cabinet department by the 1990s. Liberal supporters always insisted that it was neither welfare nor a dole. They also said that Social Security was an insurance program that was part of an economic security package. This huge package of legislation, they said, would insulate Americans against more depressions or even serious recessions. Others—such as Rubinow and his student Epstein, who supported a redistributionist view of social insurance—frankly saw Social Security as a way to take money from one group and give it another.[154]

## The New Deal and its Hooverish Antecedents

Social Security programs should be viewed as more than unemployment and welfare programs posing as insurance. They were part of an economic stimulus/inflationist philosophy that was centuries old.[155] Social Security should be deemed as much a part of the FDR administration as the WPA, AAA, or PWA, but with much greater historical significance than those other inflationist remedies. Social Security became a permanent part of American life, while many New Deal agencies died.

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Social Security had no guarantees and no legal protection, which led Altmeyer to charge that Curtis was trying to destroy the program; in *The Formative Years of Social Security*, by Arthur J. Altmeyer, pp. 224-34 and 298-301 (University of Wisconsin Press, Madison, 1966). Why did Altmeyer become angry with Curtis? Curtis "insisted that social security is not a contract, not even insurance in the legal sense of the world. He cited the little-known section 1104 of the Social Security itself that Congress reserves the right to alter, amend or repeal any provision of this act." See *Social Welfare in the United States*, Poyntz Tyler, ed., p. 55 (H.W. Wilson Company, Highbridge, Bronx, New York, 1955).

[152]Ibid.

[153]The Social Security program, which began in 1935 covering just over half of the industrial work force, today covers more than 90 percent of the workforce. The program today has 44 million beneficiaries, providing about "$12 trillion worth of life insurance." The coverage is now "almost universal." See *Social Security: The Phony Crisis*, by Dean Baker and Mark Weisbrot, p. 13 (University of Chicago Press, Chicago 1999). See also *The Real Deal: The History and Future of Social Security*, by Sylvester J. Schieber and John B. Shoven, p. 94 (Yale University Press, New Haven, Connecticut, 1999).

[154]Rubinow expected social insurance to produce a more "equitable distribution of income." Weaver, p. 37.

[155]See *The History of Economic Thought*, by John Fred Bell, pp. 142-43.

Under the economic security philosophy, the federal government would act decisively in economic crises, even more decisively than it had under Hoover—the first president to shun the classical liberal practice of letting the economy heal itself during a depression.[156] Historical mythology to the contrary, Hoover was no classical liberal. He shunned the laissez-faire policies recommended by some of his advisers as a way to restore the economy.[157]

In fact, Hoover ran huge deficits; raised taxes; jawboned employers not to cut salaries and to retain workers; started the Reconstruction Finance Corporation; and increased tariffs—all policies that his classical liberal advisers thought were wrong.[158]

These actions, combined with the blunders of the Federal Reserve Board before, during, and after the crash of 1929, ensured that the economy foundered.[159] Hoover also stunned congressional leaders when he called for government bailouts of ailing corporations. They were "shocked at the revelation that our government for the first time in peacetime history might have to intervene to support private enterprise."[160]

Hoover's first Treasury secretary, Andrew Mellon, had been popular in the 1920s because of his tax cutting. He objected to Hoover junking laissez-faire in the 1930s. He recommended letting sick, badly run businesses die, as did many in the 1930s. However, the other part of his recommendation is usually ignored: he also wanted huge marginal tax cuts. He believed that tax cuts in the 1930s[161] would bring about the same results as those of the 1920s, '60s and '80s: a strong recovery. Hoover, who eventually resorted to raising taxes,

[156]See Murray N. Rothbard's *America's Great Depression* (Van Nostrand, Los Angeles, 1963). Especially see his quote of Mellon on Hoover's depression policies, p. 237: "In this country there has been a concerted effort on the part of both government and business not only to prevent any reduction in wages but to keep up the maximum number of men employed, and thereby to increase consumption."

[157]For an account of how Hoover moved away from classical liberalism and "shocked" many of his allies, see "Working Paper 9405, The Federal Reserve Before Marriner Eccles (1931-1934), by Walker F. Todd (Federal Reserve Bank of Cleveland, 1994); see especially pp. 10-12.

[158]Walter Lippmann said of Hoover's policies: "The permanent New Deal—the policy initiated by President Hoover in the autumn of 1929 was something utterly unprecedented in American history." From *A History of the American People*, by Paul Johnson, p. 229 (Harper Collins, New York, 1998).

[159]Rothbard, ibid. See also Milton Friedman and Anna Schwartz's *A Monetary History of the United States, 1867-1960*, p. 305 (Princeton University Press, Princeton, New Jersey, 1963).

[160]Ibid, Walker Todd.

[161]Jude Wanniski, in *The Way the World Works*, pp. 130-45, tells the story of Mellon's failed attempt to convince Hoover to endorse large tax cuts to help the economy recover.

rejected laissez-faire and exiled Mellon to England as ambassador.[162] FDR continued and extended many of the policies Hoover initiated.

Observers as divergent as Austrian economist Murray Rothbard, commentator Walter Lippmann, Hoover biographer Joan Hoff Wilson, and a member of FDR's brain trust agreed that Hoover did not stand by and wait for the economy to recover.[163] Nevertheless, this laissez-faire canard was used against Hoover by FDR on the campaign trail in 1932. Hoover, although he later opposed Social Security, had shown his commitment to inflationist remedies, which were of the same general sort as FDR's, though not as extensive or as well articulated. Decades after the crash and the economic problems of New Deal policies, once there was no political danger in admitting it, Rexford Tugwell, one of FDR's key economic advisers, conceded that the New Deal employed many of the methods used by Hoover. "Most of what [Hoover] began would be taken over by Roosevelt and then called the New Deal,"[164] Tugwell wrote in 1967.

### "Coming Back" Though Central Planning

Social Security was part of an economic strategy to guarantee Americans "freedom from fear." This strategy persuaded Americans—or at least their lawmakers—that previously scorned social insurance programs were now acceptable and would stimulate a recovery and prevent further recessions.

FDR was committed to injecting inflation and stronger consumption patterns into a dead economy in 1933. Social Security was designed as one of the programs the federal government would use to lift the nation out the depression and keep it from falling into another one. FDR was also ready to stimulate the economy with government spending and income redistribution. The government would spend even if it meant, to paraphrase John Maynard Keynes, that the government would hire men to dig and refill holes.

Just as Social Security was just about to go into effect in the United States, Keynes, in his classic economics text, wrote, "the State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways."[165] Keynes, who had followers in FDR's Treasury Department, influenced a generation of American economists and bureaucrats, many of whom helped

[162] Ibid.
[163] Ibid., Rothbard.
[164] From Tugwell's *FDR, Architect of an Era*, p. 71 (Macmillan, New York, 1967).

[165] See *The General Theory of Employment, Interest and Money*, Vol. VII, from *The Collected Writings of John Maynard Keynes*, p. 378 (St. Martin's Press, Royal Economic Society, London, 1973).

formulate the first Social Security program.

Stuart Chase, in *The New Deal*, approvingly quoted Keynes's recipe for ending the depression: less savings, more consumption. "It is not the miser who gets rich," Keynes wrote, "but he who lays out his money in fruitful investment."[166] Keynes approvingly quotes Mandeville as calling for the government to spend to generate a strong economy. That "consists in giving everybody the opportunity of being employed."[167]

That idea was part and parcel of New Deal policies and the economic security package that encompassed Social Security: Put money in people's pockets; discourage thrift; and, for certain elderly people, discourage work. This thinking was also present in the report of the Committee on Economic Security (CES), which helped create Social Security and which I explore in detail later on. Thus Keynes's intellectual influence was exerted secondhand, but it was felt in many New Deal policies designed to redistribute wealth, including federal inheritance taxes.

FDR's meeting with Keynes seemed to have had little effect on the president. Keynes thought FDR had a weak understanding of economics.[168] Still, FDR had his own neo-Keynesian advisers who could simplify Keynes's arguments for him. FDR relied to a large extent on Marriner Eccles, a former private banker who served in the Treasury Department and later became America's most important central banker.[169]

FDR appointed Eccles as his Federal Reserve Board chairman. Although Eccles had not read much Keynes by the early 1930s,[170] he recommended and used many of the same inflationist remedies of *The General Theory*, remedies that were supported by most of FDR's advisers. Keynes's inflationist prescriptions were not really new. They had been tried many times before—in the France of Louis XIV, in the French Revolution, to finance the American Revolution through currency that became almost worthless, and in the Roman Empire—and had always failed after initial success.[171]

[166] Chase's comment is from *The Great Depression: Opposing Viewpoints*, Bruno Leone, ed., p. 61 (Greenhaven Press, San Diego, 1994).
[167] Keynes, pp. 359-62.

[168] "I don't think your president knows anything about economics," Keynes is quoted as telling Perkins. See *The Next Left: The History of a Future*," by Michael Harrington, p. 29 (Henry Holt & Company, New York, 1986).
[169] See Lewis J. Walker's article, "Marriner Eccles" in the Financial Literacy section of *On Wall Street Magazine* (Securities Data Publishing, New York).
[170] Ibid.
[171] Economist Ludwig von Mises wrote, "Inflation is the true opium of the people and it is administered to them by anticapitalist

Social Security, modest as it was in 1935 compared to the massive program that exists today, was designed to ensure a strong economy and an end to the Great Depression. "Our social security program," Perkins said in lobbying for the economic security package, "will be a vital force against the recurrence of severe depressions in the future."[172]

## Only One Agency Can Turn the Cycle

FDR and his allies, during the debate of 1935, argued that the beginnings of social insurance programs were a way to jumpstart the economy. More important, as we will see, Social Security was not to be just an emergency measure. Instead, it was to be, along with other inflationary measures, part of a permanent structure of welfare programs that would tame the business cycle. And only the government, through countercyclical programs such as Social Security, could do it. Said Eccles at the height of the depression: "There is only one agency in my opinion that can turn the cycle upward and that is the government."[173]

But what would come first? A government social welfare structure created through Social Security, or a full economic recovery, with the single-digit unemployment numbers of the 1920s and brisk GDP growth? For FDR, the question was easily answered. Reform must precede recovery. Social engineering, he believed, must precede prosperity because the private sector, without government direction, could no longer ensure a strong economy.

Social Security—not a buoyant, revived private sector—would ensure the recovery. Said FDR: "It is childish to speak of recovery first and reconstruction afterward."[174] Later on, we will see exactly what was achieved. The recovery took many painful years and frustrated tens of millions of Americans, few of whom seemed to blame FDR, since he repeatedly won reelection. But FDR was about to construct a mechanism whereby very few Americans over the next few generations would dare to challenge the glowing assertions of

governments and parties." See *The Theory of Money and Credit*, p. 485 (Liberty Fund, Indianapolis, Indiana, 1981). See also Milton Friedman's interesting *Episodes in Monetary History: Money Mischief* (Harcourt, Brace, Jovanovich, New York, 1992), especially p. 265, for more on the disasters of planned inflation during the French Revolution. See also *Fiat Money Inflation in France*, by Andrew Dickinson White (Foundation for Economic Education, Irvington-on-Hudson, N.Y., 1959).

[172]Leone, p. 162.

[173]See *Marriner S. Eccles, Private Entrepreneur and Public Servant*, by Sidney Hyman, p. 99 (Stanford University Graduate School of Business, Palo Alto, Calif., 1976).

[174]*The Public Papers and Addresses of Franklin D. Roosevelt*, Vol. III, Message to Congress, June 4, 1934 (Random House, New York, 1938).

social insurance advocates.[175] The welfare state would come before any recovery. This was a revolution.

How did FDR ensure that this welfare entitlement program would go on forever, that no succeeding administration would jettison it the way his NRA had been destroyed and as so many of the socialist measures of World War I had been terminated? FDR created not only a strategy to enact Social Security, but also one to make it permanent. In the decades to come, his strategy had even his opponents in the Republican Party vowing their support for Social Security.[176]

## Section IV—Building a Constituency for Social Insurance

*"There is no doubt that the real destroyer of the liberties of any people is he who spreads among them bounties, donations and largesse."*
—Plutarch[177]

*"When Franklin Roosevelt proposed Social Security, he didn't go out selling it with actuarial tables.…He basically said, 'Look, here's the deal: You pay, you're taken care of; you have social security in your old age.' "*
—Hillary Clinton[178]

### Preparing the Ground for the Welfare State

About two years into FDR's first term, the nation was still in a deep slump. Despite the many promises of the 1932 election, despite numerous

[175] Several decades later, the success of FDR's welfare-state-first, restore-a-healthy-economy- later strategy was apparent in the boasting of former Social Security officials. In a 1997 book, a former Social Security official writes this warning for lawmakers: "If you are a politician in this democracy it is very risky to propose anything which would weaken Social Security. The program is just too popular. The reality is that 43 million people (about one in six Americans) receive Social Security checks every month and most of them are voters." See *Social Security: The Inside Story*, by Andy Landis, p. 13 (Crisp Publications, Menlo Park, Calif., 1997). Indeed, in 1976 a *Washington Post* writer who argued the obvious—that Social Security is not insurance, but a welfare program—found himself deluged with angry letters. "Then I came to perceive that social security was not a program; it was a religion. It's very hard to reform a religion," wrote Jodie Allen. See Derthick, p. 166. It is interesting that Allen uses the word "religion," because many of the first generation of Social Security executives agree that new employees were trained to think of the program in the same terms as religion.

[176] For more on how the bi-partisan support for Social Security led to a great expansion of the program see my "The Disastrous Deal of 1972" article at www.Mises.org, which tells the story of how a Republican administration greatly expanded Social Security.

[177] *The Big Lie: What Every Baby Boomer Should Know About Social Security and Medicare*, by A. Haeworth Robertson, p. 67 (Retirement Policy Institute, Washington, D.C., 1997).

[178] Ibid, p. 5.

economic remedies applied, the economy responded sporadically. The prosperity of the 1920s was not restored by the New Deal. Unemployment numbers remained high throughout FDR's first two terms. FDR and his many allies blamed industry: Sick industries produced too few jobs, and the private sector was not dependable.

Harry Hopkins, FDR's close aide, said the cure for depressions was simple, and would mean justice for workers: "Guarantee steady jobs in private industry if you want enthusiastic workers."[179] FDR added that employers must pay "fair wages,"[180] as, according to Hopkins, too many jobs paid insufficient wages. Periodic bouts of unemployment further depressed buying power. FDR was convinced that too many elderly people retired into poverty. These were problems that social insurance programs were designed to solve through unemployment insurance and pension payments, according to FDR, who had pushed for some of these programs as governor of New York.[181]

[179]From June Hopkins's book, *Harry Hopkins: Sudden Hero, Brash Reformer,* p. 188 (St. Martin's Press, New York, 1999).
[180]See *FDR's Fireside Chats*, Russell D. Buhite and David W. Levy, eds., p. 33 (Penguin Books, New York, 1992).

[181]See *True Security: Rethinking American Social Insurance*, by Michael J. Graetz and Jerry L. Mashaw, p. 75 (Yale University Press, New Haven, Conn., 1999).

In 1934, FDR began preparing the public for an economic security/Social Security plan designed to tame the business cycle. He argued that the depression and the urbanization of American life had transformed American culture. Not only had the private sector failed, in part because the nation was running out of resources, but individuals were overwhelmed by the uncertainties of the business cycle. Families, fewer of whom lived on farms, could or no longer would take care of elderly family members. Urbanization required greater public-sector services, especially those that could be provided only by the federal government.

"Security was attained in the early days through the interdependence of members of the family upon each other," [182] FDR said. He claimed that these family relationships—like the seemingly endless resources of the frontier—were gone: "The complexities of great communities and organized industry make less real these simple measures of security."[183]

In his 1934 message to Congress, FDR said he was close to offering his own economic security plan: "Next winter we may well undertake the great task of furthering the security of a citizen

[182]See *The AARP: America's Most Powerful Lobby and the Clash of Generations,* by Charles R. Morris, p. 70 (Times Books, New York, 1996).
[183]Ibid.

and his family through social insurance. Among the objectives I place the security of men, women and children of the nation first. Above all, I am convinced that social insurance should be national in scope—leaving the federal government the responsibility of investing, maintaining and safeguarding the funds constituting the necessary insurance reserves."[184]

## American Life: "Insecure to the Point of Despair"

FDR was echoing the sentiments of Isaac Rubinow and Abraham Epstein, intellectual leaders of the social insurance movement whose work was followed by some of the most important members of the federal government.[185] For decades, this pair argued that the private economy was too unpredictable to provide workers with security.

Another leader in the successful battle to adopt Social Security programs was U.S. Supreme Court Justice Louis Brandeis. He was one of FDR's key advisers and a noted proponent of Keynesian philosophy. Brandeis had been an advocate of public works and social insurance dating back to the Progressive Era. In 1911, he wrote, "irregularity of employment is…the greatest of industrial wastes, and one of the main causes of social demoralization."[186]

The private employer was not providing "regularity" of employment. Job security, Brandeis and other social insurance advocates held, could only be provided by the government through an extensive program of social insurance. They claimed that individual methods no longer worked; that thrift, self-improvement, and the American dream of a better life for each succeeding generation through a growing economy were false hopes for the average American worker.

Epstein warned, "The challenge confronting us in the 20th century is that of economic insecurity, which weighs down our lives, subverts our liberties and frustrates our pursuit of happiness."[187] He added that, because capitalism had failed, "our modern system of industrial production has rendered our lives insecure to the point of despair."[188] For Epstein, neither central bank policies nor the disastrous tariff policies of Hoover were the principal reasons for the depression. Epstein blamed the depression on "the blind greed and

[184] *Madame Secretary*, by George Martin, p. 342 (Houghton Mifflin Company, Boston, 1976).
[185] See *Louis D. Brandeis, Felix Frankfurter, and the New Deal*, by Nelson L. Dawson, p. 103 (Archon Books, Hamden, Conn., 1980).
[186] Ibid.
[187] See Carolyn Weaver's *The Crisis in Social Security: Economic and Political Origins*, p. 37 (Duke Press Policy Studies, Durham, N.C., 1982).
[188] Ibid.

stupidity of our business leaders."[189] He said there was one way to solve it: "through an increase in the purchasing power of the masses. The people at large must have economic security."[190] And only the central government could provide it.[191]

## A Self-Liquidating Program

FDR had to devise a strategy to persuade Americans to accept a huge, new, expensive program in the midst of the greatest depression in the nation's history. Further, he had to find a way to ensure that a large part of American society would consider this program essential and beyond political debate. What would be his strategies? There would be a short-term one: social insurance was vital to the survival of Americans in a depression because it would help revive a failing economy; and a long-term one: making social insurance an integral part of the average's American's retirement planning, to put it beyond politics.

Social Security would go on forever, FDR intended, because people would enjoy the idea of obtaining much in various welfare benefits—although they would be called insurance payments—in exchange for paying in little or nothing.

[189]*Insecurity: A Challenge to America*, by Abraham Epstein, p. 659 (Random House, New York, 1938).
[190]Ibid.
[191]Ibid.

Still, the program did not make economic sense. For example, some critics charged that taking more taxes from workers and adding to the costs of employers in the midst of a depression would hurt the economy. Some supporters of social insurance didn't want workers to have a payroll tax deduction. They argued the government should pick up the entire bill through general revenues, of course ignoring the ultimate source of all things the government does.

FDR also argued that the economic security package, of which Social Security was a part, would restore the economy because people would have money to spend even if they were out of work. Nevertheless, most historians, looking at the terrible unemployment numbers of the late 1930s, agree that he was wrong on this count.

New Deal mythology to the contrary, unemployment was still high in the late 1930s.[192] But FDR had another goal in mind with the passage of Social Security. He wanted to create a permanent American welfare state of "cradle to grave"[193] government services, but he emphasized to supporters that social insurance programs couldn't be instituted all at once. These programs must be

[192]*Statistical Abstract of the United States*, p. 205 (Government Printing Office, Washington, D.C., 1960).
[193]*The Roosevelt I Knew*, by Francis Perkins, p. 183 (Harper & Row, New York, 1946).

incremental. And these programs would only be established if taxpayers believed they were not receiving welfare services or a dole.

## "Politics All the Way Through"

The taxpayers had to be convinced they had prepaid for a program such as Social Security—a welfare program that had an insurance veneer[194]—and that they were entitled to it. FDR conceded the political goals of Social Security in a conversation several years after the passage of the first law. He said the program, despite its taxes that could hurt an economy in the midst of a depression, would eventually become so popular that Americans would never allow any politician to kill it. "I guess you're right on the economics, but those taxes were never a problem of economics," FDR said. "They were politics all the way through. We put those payroll contributions there so as to give contributors a legal, moral and political right to collect their pensions.…With those taxes in there, no damn politician can ever scrap my social security program."[195]

## "Enslaving Workers"

As the economy initially seemed to respond to the New Deal inflationist medicine, FDR proclaimed in 1935, "we're coming back and we did it through planning."[196] Unfortunately, the economy, just two years after the passage of the Social Security law, didn't respond positively to the economic security policies. In fact, economic disaster was again just around the corner when FDR proclaimed, "we're coming back."

Whether it was the effect of the economic security package or the failure of other New Deal policies, the economy did not boom after 1935 and the passage of the Social Security/economic security Act. Even with the sluggish recovery of the early 1930s, the American economy did not approach the vigorous growth rates of the 1920s until World War II; instead, the United States went into another depression in the summer of 1937.[197]

Again, perhaps FDR's critics were "right on the economics," as he

[194]See Isaac Rubinow's *Social Insurance*, p. 11 (Henry Holt & Company, New York, 1916).
[195]From *Franklin Roosevelt and the New Deal, 1932-1940*, by William E. Leuchtenburg, p. 133 (Harper Torchbooks, New York, 1963).

[196]*Madame Secretary*, p. 399.
[197]By 1937, with payroll taxes beginning to be collected, the nation went into a recession that wiped out all of the previous (alleged) economic gains. Many pro-New Deal historians concede that the economic security/Social Security package had not worked. An interesting prediction of Social Security's effect on the economy had come two years before, in 1935, from Rep. John Tabler. See *Social Security: The Formative Years*, by Arthur J. Altmeyer, p. 37 (University of Wisconsin Press, Madison, 1966).

conceded. One Congressional critic warned in 1935 during the economic security debate, "Never in history has any measure been brought here so insidiously designed as to prevent business recovery, to enslave workers and prevent any possibility of employers providing work for people."[198]

In 1932, when FDR was elected, unemployment was 23.6 percent. Two years later, the rate had declined, but only to 21.7 percent.[199] By 1936, New Deal policies clearly seemed to be working some improvement, although they were gradual and there was still an unemployment rate of 16.9 percent, meaning nine million Americans were without a job. But by 1938, six years of New Deal policies had clearly failed to restore prosperity—the unemployment rate was back up to 19 percent.[200] Some of FDR's advisers were worried that the economic conditions could justly be labeled the FDR depression.

It is interesting to read the admissions of sympathetic historians and others who try to praise the New Deal. Doris Kearns Goodwin and others concede that New Deal policies hadn't solved the Great Depression by the eve of World War II. Robert McElvaine concedes that the economic security/Social Security plan didn't cure the depression, but made it worse,[201] partly because money that was drained from workers and employers wasn't scheduled to be repaid for many years. A friendly commentator writing in 1937 conceded that the payroll tax "will continue to be a drain on purchasing power."[202] (Payroll taxes began in 1936 with unemployment insurance. Old-age insurance taxes began in 1937. Benefits were not scheduled to begin until 1942, although it was later

[198] Altmeyer, pp. 37-38.
[199] *Statistical Abstract of the United States*, p. 205 (Government Printing Office, Washington, D.C., 1960).
[200] Ibid.

[201] After praising the New Deal and FDR, McElvaine conceded, "For all it did, for all it changed, the New Deal never succeeded in its primary goal: ending the Depression." From *The Great Depression: America 1929-1941*, by Robert McElvaine, p. 337 (Times Books, New York, 1984). That sort of analysis might have come from FDR opponent John T. Flynn or the embittered James Farley, a former postmaster general and FDR political adviser, who claimed that FDR deliberately misled allies about his third-term intentions. "Franklin D. Roosevelt put by the third term suggestions every time gentler than the other, then entered on a long period of enforced silence, and finally engineered his own nomination." From *Jim Farley's Story: The Roosevelt Years*, p. 151 (McGraw Hill, New York, 1948). One of FDR's disgruntled former allies, labor leader John Lewis, complained some six years into the New Deal that FDR's recovery had failed and millions of workers were suffering: "How many years, how many years can you stand to be without a job…to live the normal life of a citizen." From *FDR and His Enemies*, by Albert Fried, p. 164 (St. Martin's Press, New York, 1999).
[202] From *Half Way with Roosevelt*, by Ernest K. Lindley, p. 218 (Viking Press, New York, 1937).

decided to move that date up to 1940.)[203]

The depression of 1937-38 and the continued economic problems of 1939-40 seemed to validate the economic criticism of congressional critics and others that Social Security had the same basic faults as the Townsend Plan (examined below) and similar rob-Peter-to-pay-Paul schemes. Some of FDR's advisers warned that the miserable economic record could redound to the administration's detriment.[204] Why had the Social Security/economic security package failed in its immediate economic goals? McElvaine and other FDR historians argue that Social Security and other New Deal measures weren't Keynesian enough—FDR was afraid to take more than a small dose of inflation. When FDR went fully Keynesian and waged World II, running huge deficits, then the economy responded, they say.[205]

## "Rank Paternalism"

Social Security was unique. Its supporters made such contradictory claims as that this new government entitlement was in keeping with America's individualist traditions. Citizens would not just be given a dole, they would earn their benefits by "contributing" to the Social Security system. It was to be their own insurance, even though taxpayers had no contractual rights.

FDR hoped that constant pairing of Social Security with the good name of insurance would build a good reputation, though insurance never

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[203]McElvaine, p. 330.

[204]Dan Roper, FDR's secretary of commerce, warned that the 1937 recession was wreaking havoc with the economy. FDR fumed: "Dan, you have to just got to stop issuing these Hooverish statements all the time." See *Jim Farley's Story: The Roosevelt Years*, by James Farley, p. 101 (McGraw Hill, New York, 1948). Farley, who said his faith in FDR was "shattered" by 1937 (p. 151), also quotes Vice President John Nance Garner as another skeptic after six years of New Deal spending: "I don't think the Boss has any definite program to meet the business situation. I don't think much of the spending program. You can't keep spending forever; some day you have to meet the bills" (p. 138).

[205]Thomas Greer, in *What Roosevelt Thought: the Political and Social Ideas of Franklin Roosevelt* (Michigan State University, East Lansing, 1958), wrote that FDR said in 1937 that unemployment "has been solved in some countries by starting huge armament programs, but we Americans do not want to solve it that way" (p. 74). But on the same page, Greer writes, "ironically it was solved that way." John T. Flynn quoted FDR in 1938 as saying, "the one big thing the federal government can spend money on is the Army and Navy." From *The Roosevelt Myth*, p. 121 (Devon-Adair Company, New York , 1961). Also Robert Nisbet, in an interesting book on the relationship between Stalin and FDR, wrote, "He (FDR) was by no means the first ruler in history to find his attention turning to the dogs of war in the wake of domestic failures; nor would he be the last." See *Roosevelt and Stalin, the Failed Courtship*, p. 93 (Regnery Gateway, Washington, D.C., 1988).

was mentioned in the initial legislation and Social Security clearly was not insurance, as officials later conceded. They agreed that the term "insurance" had been overemphasized.[206] Indeed, Rubinow said, "social insurance might almost be defined as a form of insurance which cannot live up to the exacting laws of insurance science. Then again it has been decried as rank paternalism and this indictment must be readily admitted."[207]

None of this mattered for a president seeking an effective way to sell it. Once the "earned benefits" were in place, FDR reasoned, the program would build a constituency that would grow as people lived longer, a constituency that would command considerable political power. And, since the first generations would pay little, in the 1940s and '50s, payroll tax increases would tend to be postponed.[208] The result was that taxpayers in the 1960s, '70s, and '80s could expect huge tax increases to finance big increases in the program.

By the late 1970s and the early 1980s, Social Security was projecting huge deficits in the future. The program had to be "saved" several times.[209] But most of the first generation of Social Security beneficiaries thought it was a good deal. Indeed it was, for some. And by the 1950s, benefit increases always seemed to come just before elections.

Many of the early recipients received far more in benefits than they paid in taxes, a fact those in the Social Security administration would frequently highlight.[210] The program has a web page devoted to the first beneficiary, Ida Fuller of Vermont, who paid in $22 to Social Security and received almost $21,000 in payments over 31 years.[211] Her well-publicized case was a good way to build a political constituency for a new program that was distrusted by many Americans. But such cases disguise an unpleasant truth that the Social Security administration never

[206] F.A. Hayek wrote of the campaign to sell Social Security to the American people: "When in 1935 the United States introduced the scheme, the term 'insurance' was retained—by a stroke of promotional genius—simply to make it more palatable. From the beginning, it had little to do with insurance and has since lost whatever resemblance to insurance it may have had." See *The Constitution of Liberty*, pp. 288-89 (University of Chicago Press, Chicago, 1960).

[207] See Isaac Rubinow's *Social Insurance*, p. 11 (Henry Holt & Company, New York, 1916).

[208] *The Real Deal: The History and Future of Social Security*, by Sylvester J. Schieber and John B. Shoven, pp. 83-85 (Yale University Press, New Haven, Conn., 1999).

[209] See my article, "The Disastrous Deal of 1972" at www.Mises.org.

[210] *The Real Deal: The History and Future of Social Security*, by Sylvester J. Schieber and John B. Shoven, pp. 8-12 (Yale University Press, New Haven, Conn., 1999).

[211] For more on Ida Fuller see, *Social Security: An Idea Whose Time Has Passed*, by Helen P. Rogers, p. 3 (Wellington Publications, Carmel, Calif., 1985).

advertised: Those in on the early part of the scheme benefited at the expense of later generations. Today many Americans, especially those with lower incomes, are paying more in payroll taxes than income taxes.[212] But few would understand this aspect of Social Security. As was the case for many of the lawmakers who voted on the program in 1935, the average citizen didn't understand the program—a problem that persists to this day.[213] Some officials of the program were pleased with that. As one Social Security administrator said in the 1960s, Social Security was built on ignorance.[214] It was built, in part, on taxpayers not understanding that they were paying twice as much in taxes as they thought[215]—employers paid half the payroll tax on their behalf and counted it as a business cost.

Most people didn't grasp the true costs of the program.[216] They thought they were getting a lot back in exchange for paying in very little.[217] This idea, along with the propaganda launched by social insurance advocates and later Social Security bureaucrats, accounts at least in part for the popularity of the program.

FDR was right about the politics of Social Security. An easy winner of four presidential elections, FDR obviously had a much better grasp of politics than of economics. No future politician, FDR correctly reasoned, would dare touch his Social Security program, which in a few years became more a religion than a government program for many of the beneficiaries and for many of the people who administered it.[218]

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[212]See *The New Century, New Deal: How to Turn Your Wages into Wealth Through Social Security Choice*, by Wade Dokken, p. 34 (Regnery Publishing, Washington, D.C., 2000).

[213]*The Real Deal*, Ibid.

[214]A Social Security official is quoted in the 4/26/65 issue of *Barron's Weekly* saying, "continued general support for the Social Security system hinges on continued public ignorance of how the system works." See *The Social Security Fraud*, by Abraham Ellis, pp. 58-59 (Foundation for Economic Education, Irvington-on Hudson, N.Y., 1966).

[215]Speaking about what little opposition there was to the payroll tax rates in the early years of Social Security, the authors of a history of the program write, "Part of the reason that workers did not resent the payroll tax was half of it was hidden from them, in that half was paid by the employers. While most economists today agree that the employer portion of the payroll tax is borne by workers, the old adage that what you can't see won't hurt you seems to apply in this case." See *The Real Deal: The History and Future of Social Security in America*, by Sylvester J. Schieber and John B. Shoven, p. 100 (Yale University Press, New Haven, Conn., 1999).

[216]Ibid.

[217]Ibid.

[218]Altmeyer, in his book, *The Formative Years in Social Security*, says Social Security officials were given such initial training that they learned to look at Social Security as almost a religion. "They did it so they had religion. They had it complete." See also *The Real Deal*, p. 10. Wilbur Cohen demonstrated that the welfare state was an attempt to engage in wholesale social engineering when he wrote, "There is no

## Social Insurance as Religion

Politicians of both parties eventually conceded the point. They would have to get religion or lose power, many of them thought.[219] When the GOP recaptured power in 1952, party members learned to embrace FDR's welfare-state policies and play the vote-buying game as well as the Democrats. Republicans increased Social Security benefits in election years.[220] Republican administrations signed expansions of the Social Security program into law and wanted credit for doing so.[221] The GOP claimed to be opposed to welfare state measures, but by the 1950s, *Life* magazine wrote, "Both major political parties maintain a pleasant fiction about the American welfare state."[222]

FDR and his aides insisted they supported free enterprise and that their goals were always to help people have a decent retirement. They achieved much more. Federal pension, welfare, and unemployment programs were the way to their vision of a reformed capitalism. As FDR said when he began his efforts to lobby Congress to pass the Social Security legislation, "We can eliminate many of the factors that cause economic depressions, and we can provide the means of mitigating their results. This plan for economic security is at once a measure of prevention and a method of alleviation."[223]

Social Security, along with the rest of the economic security package, was expected by its supporters to be so successful as to pay for itself in

god that is not made by man. There is no hope that is not made by man. We must have faith in men so they will so reorganize the social system that all of us can have intelligent, significant lives." See *Mr. Social Security: The Life of Wilbur J. Cohen*, by Edward D. Berkowitz, p. 39 (University Press of Kansas, Lawrence, 1995).

[219] Ibid.

[220] Any presidential candidate who proposed to tamper with Social Security was a "candidate for a frontal lobotomy," Jack Kemp quipped in 1988. From *Policymaking for Social Security*, p. 16. Indeed, one ex-Social Security official brags that the program has almost unlimited popularity. He argues that the program has become more powerful than any major politician; that its raw political power requires that both parties embrace it: "Where does an 800 pound gorilla sit? Answer: Anywhere it wants to. And where does the most popular government sit politically? You got it." See *Social Security, The Inside Story*, by Andy Landis, p. 13 (Crisp Publications, Menlo Park, Calif., 1997).

[221] See *Policymaking for Social Security*, by Martha Derthick, p. 67 (Brookings Institution, Washington, D.C., 1979). Also see my "The Disastrous Deal of 1972" at Mises.org.

[222] *Life* Magazine, January 25, 1955, "The Welfare State Is Here to Stay," by Fletcher Knebel.

[223] President Roosevelt's Message to Congress, Transmitting the Report of the Committee on Economic Security, p. 3. This can be found at the Social Security Administration's history web page.

reduced unemployment, increased buying power, and a reduction in welfare programs. But even though some initially thought that eventually—by 1965—Social Security would have to be paid for in part through general revenues as payroll taxes would reach their limit, FDR still insisted that the program would be economically sound: "as more and more workers qualified for old-age insurance, fewer and fewer workers would need old-age assistance. The insurance would gradually liquidate much of the need for the relief program."[224] The reduction of poverty would save the government so much money that it would offset the costs of the program.

To predict that a huge part of the welfare state could be gradually liquidated was, of course, a dream. It was a dream as incredible as the dream of Reagan Republicans in 1980 who promised, if elected, to shut down the departments of Energy and Education;[225] as incredible as the promises of various politicians that defense spending would be curtailed, that there would be a middle class tax cut,[226] and so on. But before he could go ahead with a Social Security plan, FDR, who had not stressed major new programs in the campaign in 1932, had to move slowly and employ clever political strategies to disguise a major new commitment of the federal government.

Social Security was not the first major social insurance scheme offered during the economic traumas of the 1930s. Many others were also under debate by the time Social Security was finally introduced in 1935. But some of the elements of these plans showed up in Social Security. In the next section, we will see some of these competing plans and their similarities to the final Social Security law.

## Section V—FDR's Answer to "Every Man a King"

*Social Security would require a worker "to retire from competition and to spend his pension money."*
—S. Tynes, historian[227]

*"If Dr. Townsend's medicine were a good remedy, the more people one could find to support in idleness, the better off it would be."*

[224]Ibid.

[225]For Reagan's unfulfilled commitment to breaking up two federal cabinet level departments, see Lou Cannon's *President Reagan: The Role of a Lifetime*, p. 86 (Simon & Schuster, New York, 1991).

[226]*Putting People First: How We Can All Change America*, by William Jefferson Clinton (Times Books, New York, 1992).

[227]*Turning Points in Social Security*, by S. Tynes, p. 52 (Stanford University Press, Palo Alto, Calif., 1966).

—Walter Lippmann[228]

## The Economic Security Package: A No-Growth Philosophy

For FDR, Social Security was to be depicted as the most effective and moderate method of reducing unemployment. At the same time, he claimed it was in keeping with the American traditions of free enterprise because it wasn't a dole. It was designed to generate buying power and reduce unemployment. The unemployment insurance would maintain buying power in times of high unemployment.

Social Security's pension functions—which could be activated only if a person virtually withdrew from work—were also designed to ration jobs, passing them from the elderly to the young. Hopkins and FDR agreed that America was going to have a high unemployment rate for the foreseeable future, with little hope of improvement[229] (this evaluation was restricted to private conversations). The country could not grow its way out of its economic problems. A permanent welfare state was needed.

In this respect, Social Security was in keeping with a Malthusian/Frederick Jackson Turner philosophy, which had impressed FDR. Turner, a historian of the Progressive era, held that the closing of the frontier at beginning of the 20th century had foreclosed growth.[230] Urbanization was straining family ties, and the industrial plant had been overbuilt. Turner, who was revered by both Roosevelts and by Woodrow Wilson, held that the frontier, while it had existed, had acted as "a safety valve,"[231] a place where workers could always find free land and start afresh. They could escape from the tyranny of an industrial economy, from the uncertainties of the business cycle.

In the 1930s, FDR argued that the frontier was closed. Freedom could no longer be achieved by the individual himself, FDR said. The individual was now the "forgotten" man and woman. The forgotten man must look to the government for an equitable share of

[228]From *Freedom from Fear: The American People in Depression and War,* by David M. Kennedy, p. 257 (Oxford University Press, New York, 1999).
[229]Hopkins was pessimistic about industry's ability "to absorb all able-bodied workers," and he expected permanent unemployment of four to five million. See *The Great Depression: Opposing Viewpoints*, Bruno Leone, exec.ed., pp. 227 and 263 (Greenhaven Press, San Diego, 1994).

[230]FDR, on September 23, made this statement on the campaign trail: "Our industrial plant is built; the problem just now is whether…it is not overbuilt. Our last frontier has long since been reached, and there is practically no more free land." See *The Progressive Historians: Turner, Beard, Parrington,* by Richard Hofstader (Alfred A. Knopf, New York, 1968) for an interesting essay on Turner's effect on FDR's neo-Malthusian economic thinking (p. 90). See also *The Memoirs of Herbert Hoover, 1929-41*, p. 244 (MacMillan ,New York, 1952).
[231]Ibid.

national wealth.[232] Only with the help of the government, providing protection, could the individual be free.[233]

Programs such as Social Security—with its unemployment, pension and welfare features—had become necessary because America, as FDR and Hopkins believed, was going to have a permanently large number of unemployed. A recovery to pre-1929 levels was not on the horizon, they privately agreed, a self-fulfilling prophecy through the rest of the 1930s.

Despite FDR's public insistence that Social Security and other federal programs were designed to support a healthy private sector and that "Happy Days Are Here Again," FDR seemed to have little hope the nation could grow its way out of the depression. He told Frances Perkins, "Depression America had work only for so many. Forcibly idling some was the price of securing a living wage for others."[234]

Rationing of jobs, discouragement of thrift and the work ethic, and pushing of the elderly out of the workforce would be apparent in the first Social Security law. Section 202(d) read: "Whenever the (Social Security) Board finds that any qualified individual has received wages with respect to regular employment after he has attained the age of sixty-five, the old age benefit payable to such an individual shall be reduced, for each calendar month in any part of which regular employment occurred, by any such amount equal to one month's benefit."[235] Put another way, those who expected to receive Social Security's old-age insurance payments and wanted to continue to work would be allowed to earn only "pin money."[236]

## Thunder on the Left: "It Can't Happen Here"

[232]*What Roosevelt Thought: The Social and Political Ideas of Franklin D. Roosevelt*, by Thomas H. Greer, p. 16 (Michigan State University Press, East Lansing, 1958).
[233]Ibid., Hofstader.
[234]*Freedom from Fear: The American People in Depression and War*, by David M. Kennedy, p. 257 (Oxford University Press, New York, 1999).

[235]The Social Security Act, p. 7, at www.ssa.gov/history/reports/ces/cesbookapen16.html. See also an article from the October 1996 issue of *The Free Market*, published by the Ludwig von Mises Institute in Auburn, Alabama. In "Social Security Reform: True and False," economist Dale Steinreich says the institution of retirement was "a malicious form of government planning" to reduce the unemployment rate. Steinreich notes that Social Security ensured that "the most experienced and knowledgeable workers" were taken out of the work force because of Social Security.
[236]That term was used by Barbara Armstrong, a member of the Committee on Economic Security that essentially wrote the first Social Security law. See *The History of Retirement: The Meaning and Functioning of an American Institution, 1885-1978*, by William Gaebner, p. 185 (Yale University Press, New Haven, Conn., 1980).

FDR and his allies clearly felt political pressures from the left when they formulated Social Security. Many socialist/redistributionist pension schemes were floating about in the early 1930s. FDR couldn't ignore the power of these proposals, many of which were crackpot ideas or simply attempts to use strong economic inducements to persuade people to retire. FDR used some parts and principles of these plans. Still, he designed Social Security to seem tame by comparison with them so he could depict his own plan as moderate. The most dubious of these competing pension plans may have been the share-the-wealth plan of Senator Huey Long.

A demagogue who controlled his state with an iron fist,[237] Long delighted in the title "the Kingfish," the name of a radio character in the popular "Amos & Andy" radio show. Long was thought by some to be a fascist, a potential American Mussolini. He was profiled by the socialist novelist Sinclair Lewis as a would-be American dictator in the novel *It Can't Happen Here*.[238] Long, in his "Every Man a King" plan, wanted a radical redistribution of wealth. He was instrumental in helping elect FDR in 1932, especially in frustrating the attempts of New York Democrat Al Smith. Long and FDR shared a belief that inflationist/redistributionist remedies would restore the economy.

FDR believed in bigger inheritance taxes. He wanted to expand taxes on the rich, and he supported a more progressive income tax code. In his 1935 tax message, he said, "creative enterprise is not stimulated by vast inheritances."[239] Later, during World War II, FDR pushed his arguments further when he proposed that that all personal incomes above $25,000 be taxed at a 100-percent rate; Congress rejected this proposal.[240]

Long and FDR agreed on a larger government and redistribution of income. They disagreed on the extent of these policies. Long, whose economic populism had taken votes away from Socialists in his state, argued that the New Deal, including the proposed Social Security plan, had not gone far enough. Almost two years into FDR's first term, Long turned on the president and became a bitter critic because the administration wasn't radical enough for him.[241] One of Long's criticisms,

[237] *Huey Long: a Candid Biography*, by Forest Davis (New York, 1935).

[238] *It Can't Happen Here*, by Sinclair Lewis (Sun Dial Press, Garden City, N.Y., 1935). Lewis depicts a fascist dictatorship of the United States led by a Senator Buzz Windrip, who promises various schemes to provide wealth to the poor. Windrip represents Long.

[239] *The New Deal: America's Response to the Great Depression*, by Ronald Edsforth, p. 241 (Blackwell Publishers, Malden, Mass., 2000).

[240] Ibid.

[241] The entire Huey Long program is sympathetically laid out by Henry M.

however, already was obvious: The New Deal was failing to restore a strong economy. The economy had come nowhere near the growth levels of the 1920s. Stronger inflation and greater redistribution measures were needed, Long asserted. The administration feared Long was a loose cannon. FDR thought Long could be a spoiler and put the GOP back in power in the next presidential election.

Long, indeed, hoped to do exactly that. His big-picture strategy was to run in 1936, but win in 1940, taking the White House from the GOP that would take it from FDR.[242] Long had some political ammunition: the New Deal wasn't working—not if its goal was to restore the growing economy of the 1920s. Long, in 1935, took the Senate floor to complain, "We have one million more men out of work now than one year ago."[243]

Long called for the federal government to limit fortunes and redistribute income. "Our present plan is that we will allow no one man to own more than $5 million,"[244] he said in a 1934 speech. He also called for the government to guarantee every family $5,000 in annual income, what Long called "a fair share of the income of this land thereafter to that family so that there will be no such thing as merely the select to have those things, and so there will be no such thing as a family living in poverty and distress."[245] Senator Long said his program would make "every man a king."[246]

## Thunder on the Left II

Among the other radical ideas in the political arena in the early 1930s were the Townsend Plan and the proposals of Upton Sinclair, the socialist novelist who wrote *The Jungle*. Sinclair said the "private ownership of tools, a basic freedom when tools are simple, becomes a basis of enslavement when tools become complex."[247] Sinclair's End Unemployment in California program (EPIC) was designed to have the

Christman, ed., in *Kingfish to America: Share Our Wealth—Selected Senatorial Papers of Huey Long,* p. 128 (Schochen Books, New York, 1985).

[242] See Arthur Schlesinger's *Coming of the New Deal*, p. 312, where he notes that Long tried to stop FDR's Social Security plan, which he believed didn't go far enough compared to his "share the wealth" plan.

[243] The unemployment rate, almost two years into the New Deal, was still 21.7 percent in 1934, not much better than the 23.6 percent of 1932. *Statistical Abstract of the United States* (Government Printing Office, Washington, D.C., 1960). Also see *Franklin Roosevelt and the New Deal, 1932-1940*, by William E. Leuchtenburg, pp. 179-80 (Harper Torchbooks, New York, 1963).

[244] Ibid.

[245] For a detailed account of Long's share-the-wealth scheme, see *Huey Long*, by Harry T. Williams, pp. 677-706 (Vintage Books, New York, 1981).

[246] Christman, p. 128.

[247] *Upton Sinclair, American Rebel*, by Leon Harris, pp. 297-317 (Thomas Y. Crowell Company, New York, 1975).

government manage the economy to ensure there would be no scarcity. It included a proposal for the government to establish an exchange agency to bring the unemployed and the owners of empty factories into contact. Workers would produce whatever they could, and send it to a central depot for trade. The idea was to let "workers produce for themselves,"[248] Sinclair wrote. He also warned, "Autocracy in business cannot exist alongside democracy in government."[249]

Sinclair surprised many by winning the Democratic gubernatorial nomination in California in 1934. Although he lost in the general election to a sitting GOP governor, he garnered some 880,000 votes and ran a surprisingly strong race.

The FDR administration vacillated on Upton Sinclair's candidacy. (In the end, the party ignored him and his schemes.) Nevertheless, the idea of greater control of the economy through social insurance programs was gaining currency. An admiring Sinclair biographer, writing about his strong showing, said, "the results indicated that the moment for Social Security legislation had arrived."[250] A year later this prediction came true.

Another example of a popular social insurance proposal of this time was the Townsend Plan, which called for giving everyone over 65 a monthly payment of $200, provided each beneficiary spent it all each month and stopped working.[251] It was to be financed with a 2-percent national sales tax.[252] Of course, no one could say whether the tax would stop at 2 percent. (Social Security also began as a 2-percent tax on the first $3,000 of income, and the tax was to be split between the employer and employee.[253] The tax was envisioned to go no higher than 5 percent, but the rate has been raised dozens of times since 1935.) The president, under the Townsend Plan, was given the power to raise the tax to 3 percent. Most economists warned that the Townsend Plan would have taken billions of dollars from one group and given it to another, and that its effect on the economy would have been disastrous.

All of these plans called for much more than just helping elderly who were in need. They would have had the government radically redistribute

[248] Ibid.
[249] Ibid.
[250] Ibid.

[251] *The Formative Years of Social Security*, by Arthur Altmeyer, pp. 9-10 (University of Wisconsin Press, Madison, 1966).
[252] *Social Security: The First Half Century*, Gerald Nash, ed., pp. 35-36 (University of New Mexico Press, Albuquerque, 1988).
[253] *Social Security: The Inherent Contradiction*, by Peter J. Ferrara, pp. 2-31 (Cato Institute, San Francisco, 1980). See also *Congressional Research Report for Congress: Major Decisions in the House and Senate Chambers on Social Security, 1935-1985*, by Carmen D. Solomon, p. CRS-5 (Library of Congress, Washington, D.C).

wealth. These competing social insurance proposals, especially the most radical ones, helped influence the birth of Social Security. Social Security was to be a less radical version of the same ideas. FDR, in some cases, used parts of these proposals because he saw these other versions of social insurance as a political threat.

## Stealing from Townsend and the Kingfish

FDR depicted himself as the man in the middle who was the voice of moderation.[254] He was neither a "heartless" conservative who would let the elderly poor and the unemployed starve, nor a radical socialist who wanted to put people on a dole that might discourage them from working. Nevertheless, FDR used economic incentives to persuade elderly people to stop working.

One commentator says FDR was saving capitalism by "incorporating just enough socialism into the U.S. system to give it a measure of immunity against the charge that it was abandoning the unemployed elderly to destitution."[255] The idea of moving the elderly out of the work force was praised years afterward by one of FDR's aides, who saluted Townsend, saying he "was a good old man. He meant well."[256]

FDR wasn't so charitable in speaking of Huey Long,[257] but there is evidence that Social Security borrowed some components of the "every man a king" idea. For example, Long proposed old-age pensions for all persons over 60 years of age "who did not earn as much as $1,000 per year or who possess less than $10,000 in cash or property, thereby to remove from the field of labor in times of unemployment those who have contributed their share to the public service."[258]

An essential part of Social Security was paying people to leave the workforce because one could not depend on the private sector to generate sufficient jobs, as FDR and his allies believed. All these proposals also looked to the public

[254] FDR said he was "fighting Communism, Coughlinism, Townsendism…I want to save our system, the capitalist system; to save it is to give some heed to world thought of today. I want to equalize the distribution of wealth." See *Insuring Inequality: Administrative Leadership in Social Security, 1935-1954*, by Jerry R. Cates (University of Michigan Press, Ann Arbor, 1983).

[255] The Roosevelt comment is from *The Retirement Myth*, by Craig S. Karpel, p. 148 (Harper Collins, New York, 1995).

[256] From Francis Perkins's 1962 speech, "The Roots of Social Security," p. 6. It can be found at the Social Security web page, www.ssa.gov/history/perkins5.html.

[257] FDR considered Long one of the most dangerous men in the country. See *The FDR Years: On Roosevelt and His Legacy*, by William E. Leuchtenburg, pp. 77-80 (Columbia University Press, New York, 1995).

[258] Christman, Ibid.

sector, and a mandatory government pension system, as the way to provide old-age protection and to increase buying power. Long also proposed that "every family should be furnished by the government with a homestead alliance, free of debt, of not less than one third of the average family wealth of the country, which means, at the lowest, that every family shall have the reasonable comforts of life up to the value of from $5,000 to $10,000."[259]

Given the strength of the Townsend movement and Long's considerable political following, FDR felt compelled to steal some of their thunder in putting together his social insurance program. "Long," said one friendly historian, "forced Roosevelt to the left, thereby expanding the scope of the New Deal and hastening its enactment."[260] Francis Perkins, in arguing for an FDR-backed Social Security plan, recognized the pressures from plans such as those offered by Long and Townsend. FDR agreed: "We have to have it. The Congress can't stand the pressure of the Townsend Plan unless we have a real old-age insurance system nor can I face the country without having devised one at this time."[261] John T. Flynn, a financial columnist and FDR critic, wrote, "Roosevelt observed to his intimates that it was necessary to steal a little from good old Doctor Townsend."[262]

And in Social Security, there are bits and pieces of the thinking of Long, Townsend, and Sinclair. But while FDR found some parts of these programs interesting and desirable, how would he use them? Which plan should he choose? How would he weave parts of them into his economic security package? And finally, while one of these plans might provide political benefit for FDR, did any make economic sense? Would any of these plans actually bring about a recovery?

Many economists and historians saw most of the plans as redistributionist schemes that would hurt the economy. But again, the bigger challenge for FDR and his social democratic allies was political: How could one actually enact some part of any of these schemes? What was politically possible in the mid-1930s?

## Section VI— Changing the Terms of Social Insurance Debate

*"On June 29, 1934, the president issued Executive Order 6757 creating the Committee on Economic Security."*[263]

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[259] Ibid.

[260] Ibid.

[261] From Frances Perkins's *The Roosevelt I Knew*, p. 294 (Harper & Row, New York, 1946).

[262] *The Roosevelt Myth*, by John T. Flynn, p. 73 (Devon-Adair Company, New York, 1961).

[263] *Social Security and Its Enemies: The Case for America's Most Efficient Insurance*

*"At all levels (of the Committee on Economic Security), the process was heavily stacked in favor of those who favored social insurance. Industrial and business groups known to oppose social insurance, such as the National Association of Manufacturers, were not asked to participate."*[264]

## A Bismarckian Victory for American Social Insurance Advocates

For more than 20 years, Congress had rejected almost every social insurance plan offered. Now, in FDR's first term, with a heavily Democratic Congress and a big victory in the 1932 presidential race, it was time for FDR to do something about his promise, made to Francis Perkins and others, to pass social insurance legislation. He was ready, with strategies that finally turned the tide for social insurance and gave America its first Social Security law.

Social Security advocates used another advantage in addition to the crash and the depression that never seemed to end: They took the debate away from lawmakers and the public and turned it over to experts they selected. These experts redefined the terms of the debate so that when Congress considered the issue in 1935, lawmakers were awed by experts who had all the facts. These experts were difficult to challenge because during the most important debates on social insurance these experts were participants, while members of Congress were not.

As FDR prepared to move ahead with his social insurance strategy, several plans, including pensions and federal unemployment insurance, were already pending in Congress in the 1933-34 session. The authors of the Wagner-Lewis bill attempted to persuade the states to enact unemployment insurance programs by partially funding them with federal dollars. Other bills introduced by Senator Clarence Dill and Representative William Connery, passed in the House, died in the Senate.

FDR endorsed the Wagner-Lewis bill at the outset of the session, saying the bill's "general principles…seem to me sound…and I hope that the bill will be passed by Congress at this session."[265] FDR had made social insurance a legislative priority in the 1933-34 session.[266] However, he then surprised many of his allies when he

*Program*, by Max J. Skidmore, p. 35 (Westview Press, Boulder, Colo., 1999).

[264] *A New Deal for Social Security*, by Peter Ferrara and Michael Tanner, p. 20 (Cato Institute, Washington, D.C, 1998).

[265] Roosevelt quoted in *Louis D. Brandeis, Felix Frankfurter, and the New Deal*, by Nelson L. Dawson, p. 107 (Archon Books, Hamden, Conn., 1980).

[266] *The Coming of the New Deal*, by Arthur Schlesinger, Jr., pp. 301-03 (Houghton Mifflin Company, Boston, 1959).

announced that he wanted a more comprehensive approach to social insurance than just one old-age or unemployment program. He sought "sweeping legislation dealing with jobs."[267]

FDR also wanted the legislative battle over social insurance to stop while his experts studied the issue, even though at least one of the bills seemed to have a good chance of passage. The Dill and Connery plan was one of the more moderate of various government pension schemes in the arena. The Dill/Connery measure called for federal grants to states that adopted old-age pension laws, with the federal government picking up about 30 percent of the tab.[268] FDR not only wanted something more comprehensive, but he also wanted a process over which he would have greater control.

Senator Robert Wagner, a key New Deal ally, agreed with FDR and his associates about the need for change in America. He believed a welfare state, one that would use a "Bismarckian" social insurance program as a model to decrease the volatility of the business cycle, needed to come to America. Wagner also believed that business was "too stupid" to realize how good social insurance would be for it.[269] Wagner was one of the chief sponsors of the new FDR-endorsed plan that was ready in early 1935.[270]

In 1934, Wagner announced that "Unemployment insurance, old age pensions, health insurance, more leisure for the ordinary fellow—all these things are coming, and coming soon."[271] More important, he asserted that such programs were vital "because the economic stability of our whole society depends on them."[272] Here was another example of countercyclical Keynesian thinking at work.

But despite Wagner's rosy predictions, the question for liberals, Social Democrats, and others who wanted a welfare state remained: How could this become a reality in a nation that, even during the Great Depression, repeatedly rejected socialism? The answer was to present a program and a welfare state that represented socialism without the labels.[273] America, in the eventual

[267]From *Promises to Keep: Saving Social Security's Dream*, by Marshall N. Carter and William G. Shipman, p. 32 (Regnery Publishing, Washington, D.C., 1996).

[268]*The Real Deal: The History and Future of Social Security*, by Sylvester J. Schieber and John B. Shoven, p. 27 (Yale University Press, New Haven, Conn., 1999).

[269]*The History of Retirement: The Meaning and Functioning of an American Institution, 1885-1978*, by William Graebner, p. 197 (Yale University Press, New Haven, Conn., 1980).

[270]*Robert F. Wagner and the Rise of Urban Liberalism*, by J. Joseph Huthmacher, p. 174 (Atheneum, New York, 1967).

[271]Ibid.

[272]Schlesinger, pp. 304-05.

[273]This was the strategy used by social insurance advocates in England, where the

passage of Social Security, would be given "socialism without doctrines."[274]

## "Some Kind of Socialism… Will Be Realized"

In the 1930s, commentator and financial columnist John T. Flynn wrote that Americans were "producing socialism and an organization of society under private ownership without capitalism."[275] John Dewey, the preeminent American philosopher of the period and a Social Democrat, wrote: "We are in for some kind of socialism, call it whatever you please, and no matter what it will be called when it will be realized."[276]

As elements of American Social Democratic groups were pushing a package of path breaking social insurance programs, they needed a way to sell the program. It couldn't be sold as "spending money" or "helping the poor." It could not be depicted as socialism.

Social Security advocates said it was not a welfare program. FDR stressed that it was not a dole, but that it would be based on principles as close to private insurance as possible.[277] Its benefits would be earned, not given. But most of all, Social Security advocates claimed it was insurance. This strategy was emphasized in the beginning years of the social insurance movement, but squelched in the first Social Security law, where no mention of insurance is made for fear the courts would strike it down.

Indeed, the legislative draftsman of the first Social Security bill, Thomas Eliot, expressed "very grave doubts"[278] about the constitutionality of the bill. In his memoirs of the New Deal, he would concede that he purposely made the first Social Security law confusing.[279] Later, in 1937, after the court held that the program was constitutional, advocates of Social Security resumed calling it insurance.[280]

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welfare state was started by a Liberal government, and in Germany, where it was begun by a Conservative government.

[274] From an article on the origins of the welfare state in the *Dictionary of the History of Ideas*, Vol. IV, Philip Weiner, editor-in-chief, p. 510 (Charles Scribner's Sons, New York, 1973).

[275] *Prophets on the Right: Profiles of Conservative Critics of American Globalism*," by Ronald Radosh, p. 199 (Simon & Schuster, New York, 1975).

[276] See John Dewey's *Individualism Old and New* (Mincton, Balch, New York, 1930).

[277] Schlesinger, p. 308.

[278] See Thomas H. Eliot's essay, "The Legal Background of the Social Security Act," at www.ssa.gov/history/eliot2.html.

[279] *Recollections of the New Deal*, by Thomas H. Eliot, pp. 102-115 (Northeastern University Press, Boston, 1991).

[280] Once Social Security had survived a U.S. Supreme Court case, the name was officially changed from the "Old-Age Benefit Program" to the "Old Age Insurance Program" because the Social Security bureaucracy was going to sell the program as a form of insurance. See a detailed

During the debate over the first law, social insurance advocates also cited economic justifications for Social Security. FDR allies such as Senator Wagner and Secretary of Labor Frances Perkins argued that social insurance would have a countercyclical effect; that it would eliminate recessions and depressions.[281] The government would manage the economy through these programs and through various price-fixing measures.

For their model, some social insurance advocates also looked back nostalgically on World War I and its war socialism. This was the period of the War Industries Board (WIB) and the various collectivist ideas put into action by the federal government.[282] However, the bureaucracies carrying out these policies were largely dismantled in the early 1920s. Now, in the midst of the Great Depression, there was another chance to use this model and make it a permanent part of American life.

## An End Run Around Congress: "Government by Experts"

FDR's pulling back from Connery/Dill, the first social insurance bill to make it out of a congressional committee, seemed odd at the time. In retrospect, it was a clever tactic. He temporarily stopped battling for a package in Congress, though he had claimed it was a top administration priority at the outset of the session, and though the prospects were good for some kind of social insurance legislation. Nevertheless, there was always a chance that Connery/Dill might have been amended until social insurance advocates would not have recognized it. More dangerous for their cause, the legislators, and not the experts, would have had greater control of the process.[283]

FDR told allies he was going to come up with his own package.[284] He would not initially ask some songressman or senator to do it. He would put it in the hands of the

chronology of Social Security events at ssa.gov/history/chrono.html.

[281] *The Great Depression: Opposing Viewpoints*, Bruno Leone, ed., pp. 162-68 (Greenhaven Press, San Diego, 1994).

[282] See Murray N. Rothbard's essay, "World War as Fulfillment: Power and the Intellectuals"; in *The Costs of War: American Pyrrhic Victories*, John V. Denson, ed., pp. 249 ff. (Transaction Publishers, New Brunswick, N.J., 1999).

[283] Social Security historian Carolyn Weaver said of the 1935 debate: "Advocate-experts controlled the information made available to citizens and representatives, and Roosevelt worked diligently to control the choices that were presented." See *The Crisis in Social Security: Economic and Political Origins*, Weaver, p. 76. See also Peter Ferrara and Michael Tanner's *A New Deal for Social Security*, p. 20 (Cato Institute, Washington, D.C., 1998): "At all levels, the process was heavily stacked in favor of those who favored social insurance. Industrial and business groups known to oppose social insurance, such as the National Association of Manufacturers, were not asked to participate."

[284] Ibid.

experts, but he would decide which experts and what they would discuss.

The Committee on Economic Security (CES) was created in the summer of 1934 by executive order, a tack FDR found advantageous: A few years later, when he was fearful that an "isolationist" Congress would not approve a bases-for-destroyers deal with the British, he simply dubbed the deal an executive agreement, thus removing a key foreign policy decision from the authority of Congress. In 1934, fearful that Congress might not agree with his ideas about social insurance and the need for a welfare state, FDR temporarily removed the debate from Congress through an executive order creating his own committee.

No members of Congress were on the CES, a fact that some congressmen later thought gave the experts greater input than Congress on Social Security.[285] The founding program of the welfare state was thereby built without significant Congressional input. By the time the package came to Congress, debate was almost secondary.

In addition to the main CES committee, there were 13 technical committees, and these produced most of the bureaucrats who administered the program once it was approved. These experts were appointed by FDR. He chose the experts who crafted the legislation through a path-breaking report—whose contents are examined below—and he determined the outlines of the report. FDR exerted control over these experts, control he often lacked in his dealings with Congress or the Supreme Court. For instance, the CES wanted a mandatory health insurance program included in its Social Security report.[286] FDR said it was too soon for national health insurance and that ended the issue.[287] Certainly,

[285] Several senators, such as Champ Clark and Thomas Gore, complained that experts often outnumbered senators at committee hearings. Typical was the complaint of Clark on June 19, 1935: "So it is with some trepidation that a mere senator of the U.S. rises to appeal to his colleagues in this body, and to differ from the opinions of a galaxy of experts." *Congressional Record*, 174th Congress, p. 9628.

[286] Even though FDR wouldn't allow compulsory medical insurance to be included in the economic security act, the CES medical advisory committee included a section that was not included in the landmark 1935 report: "Although we realize that a difference of opinion exists as to the advisability of establishing compulsory health insurance, we are convinced, after reviewing experience in this country and abroad, that the compulsory feature is essential to the accomplishment of the end in view." See *Madam Secretary*, by George Martin, pp. 347-48 (Houghton Mifflin, Boston, 1976). Still, FDR told many of his social insurance allies in 1935 not to be disappointed because the first Social Security bill was not as big as they wanted. More would be coming, he assured them: "We cannot eat the whole cat at one meal." See *Unemployment in History*, by John A. Garraty, p. 214 (Harper & Row, New York, 1978).

[287] Ibid.

congressional committee chairmen couldn't have been handled so easily.

## FDR Saves the American Welfare State

FDR must be credited with either brilliance or luck for the way he overcame a problem in moving the economic security package through Congress. In the middle of the legislative process, congressional leaders told him the entire package would have to be broken up into smaller pieces for some of it to pass.[288] And yet, FDR sent the CES/economic security package to Congress for an all-or-nothing vote. In the words of one Social Security official, FDR insisted "from the very beginning that there should be one omnibus bill, because his idea was old age assistance, aid for dependent children, aid for the blind were very popular,"[289] and the most popular programs would carry the other ones.[290] Thus, FDR was ready to let Wagner's initial bill die because "he had bigger fish to fry."[291]

Without the bulk of his economic security package, FDR threatened to withdraw his support. This go-for-broke approach with a something-for-everyone bill has become a commonly used, highly effective congressional strategy that continues to be employed today. It is a prime contributor to the growth of government because it tends to add more things—often extraneous things—to legislation; it is effective because lawmakers often vote for bills they are philosophically opposed to because the bills spend money on other things they support. This unwieldy process also results in lawmakers voting on huge bills, much of which they don't understand.[292] This is the story of the 1935 debate over the first Social Security law.

In 1935, members of Congress were confronted with an economic security/social security bill—some of which they liked, some of which they opposed, and a lot of which mystified even its supporters. To object to any part of the bill meant one would be labeled anti-social security. Since the original bill encompassed some 10 new programs, at least one or two might be favored by many of any given lawmaker's constituents.[293]

## History Repeats Itself

[288] Weaver, p. 64.
[289] *The Transformation of Old Age Security: Class and Politics in the American Welfare State*, by Jill Quadagno, p. 109 (University of Chicago Press, Chicago, 1988).
[290] Ibid.
[291] Ibid.
[292] See F.A. Hayek's *Constitution of Liberty*, p. 510, f. 7, where he notes that much Social Security legislation passes without amendment because it is "too intricate and technical for piecemeal amendment by persons not conversant with all its complexities."
[293] For more on this see, my essay, "The Disastrous Deal of 1972," at Mises.org.

The go-for-broke approach for Social Security was used by Social Security bureaucrats and welfare-state supporters many times after 1935. For example, in 1972, in one of the most important votes in the history of the program, members of Congress were put in a difficult position. They voted not only whether to raise benefits by 20 percent, but whether or not to add cost-of-living adjustments (COLAs) to Social Security. The same 1972 Social Security bill also included raising the debt ceiling.[294] Voting against Social Security thus meant disabling the government, something few members of Congress wanted to be blamed for, regardless how one felt about Social Security. In addition, a member of the Nixon administration has conceded that both Congress and the administration approved the huge increases without any serious study of the effects of the expansion.[295] The legacy of FDR's tactical move continues to this day.

### The CES Goes to Work

FDR stocked the CES with men and women he knew were committed to the principles of social insurance. These people were also indifferent or antagonistic to the voluntarist ideas and Jeffersonian traditions of limited government. The members of the principal committee were Francis Perkins, chairwoman of the committee and secretary of labor; Henry Morgenthau, secretary of the Treasury; Homer Cummings, attorney general; Henry Wallace, secretary of agriculture; and Harry Hopkins, Federal Emergency Relief administrator.

Edwin Witte, a career bureaucrat and academic, was the executive director of the committee. Witte was a self-described "government man."[296] There were no Samuel Gompers types (the labor leader discussed in Section 2 who was suspicious of social insurance) on these committees. None of the handful of congressmen who might vote against the bill was there.

The committee debated different social insurance models, but never the underlying philosophy of social insurance and its place in American life. The CES—as we will see—was hostile to American business, blaming it for many of the problems of the nation just as Isaac Rubinow and Abraham Epstein had. Both Rubinow and Epstein were consulted by the CES.

Several other technical committees were formed to help the Committee on Economic Security. Almost all members were from the public sector. They were usually men and women who already were on record as

[294] See the discussion at the Social Security Administration web site, http://www.ssa.gov/history/law.html.

[295] See *Will America Grow Up Before It Grows Old*, by Pete Peterson (Random House, New York, 1996).

[296] See Witte, ibid.

favoring social insurance, men and women who had been calling for a social revolution in America for decades. Those few on the technical or advisory committees from the private sector were known for favoring progressive ideas; that is, they had no objections to social insurance. Some had served on the War Industries Board in World War I.

For example, Gerard Swope, president of General Electric, served on one of the technical committees. He favored social insurance and had been a member of the War Industries Board. He wanted to substitute cooperative planning for the "uncoordinated, unplanned disorderly individualism" in industry.[297] Swope, along with other industrialists who favored social insurance and the beginnings of an American welfare state, argued for "the curtailment of production to reasonable demand"[298] through trade associations.

The social insurance advocates, whether industrialists or social insurance experts, were in control of the most important part of this debate; Congress was not. The social insurance experts and advocates would control the information on Social Security once the bill was submitted to Congress. Most of the experts who testified on the Social Security bill were social insurance partisans, many of whom had devoted a lifetime to installing some form of an American welfare state. This was to be their moment of triumph after decades of frustration. Most wanted to use some form of either British or German social insurance. The CES's leaders and its report will be examined next.

## Section VII— The CES Goes to Work

*"Hopkins began to formulate a plan for a combination of social insurance and government planning in the form of counter-cyclical public works to help the American people attain economic security."*[299]
—An associate of Harry Hopkins

*"But social insurance might almost be defined as a form of insurance which cannot live up to the exacting laws of insurance science. Then again it has been decried as rank paternalism and this indictment must be readily admitted."*[300]
—(Isaac Rubinow)

### A Social Democrat at the Helm

In 1934, FDR set up the Committee on Economic Security. This

[297] Working Paper 9405, Federal Reserve Bank of Cleveland: "The Federal Reserve before Marriner Eccles," by Walker F. Todd, p. 12.
[298] Quadagno, p. 106.

[299] From *Harry Hopkins: Sudden Hero, Brash Reformer*, by June Hopkins, p. 17 (St. Martin's Press, New York, 1999).
[300] *Social Insurance*, by Isaac Rubinow, p. 11 (Henry Holt & Company, New York, 1916).

committee, and its sister committees, have been forgotten by succeeding generations of Americans. These committees were filled with men and women who had been pushing for social insurance programs for decades.

Their report called for more than a new program: it called for changes in the nation's economy and in the American philosophy of government. The welfare state grew out of the Social Security Act of 1935, and the Social Security program grew out of the report of this committee. What was the CES, and who were its members?

The most important members were Harry Hopkins, FDR's most trusted aide; Francis Perkins, secretary of labor and committee chair; and Secretary of Agriculture Henry Wallace. These three were strong proponents of government pensions, federal unemployment insurance, a broadening of the public sector, and economic planning. They were also all skeptical that the private sector could maintain a strong economy.

Once committee members were selected, there was no chance they would deliver a negative report on social insurance. There was no strong or committed member of the CES who was going to argue the case for private insurance, for American voluntarist traditions, or for allowing the private economy to recover on its own as it always had.

Homer Cummings, attorney general and committee member, seemed to have no strong opinions and attended few meetings. Henry Morgenthau was secretary of the Treasury and a committee member. He often relied on the opinions of others for how this new program should be framed. No one was going to argue about the philosophical implications of the welfare state they were trying to initiate, although Morgenthau and his associates in the Treasury Department questioned who would pay for Social Security.[301] They argued that the tax rates—as they were to be set—would be too low and that the next generation would be left to pay the bills for the program. Morgenthau feared that one administration would provide benefits to constituents, enjoying temporary political popularity, and then pass the bill to the next generation. He argued that the "old age provisions were unsound."[302]

[301]"Mr. Haas [George Haas, director of research for the U.S. Treasury Department] was of the opinion that the old-age insurance provisions recommended by the committee were unsound and Secretary Morgenthau shared that view." See *The Development of the Social Security Act*, by Edwin Witte, p. 73 (University of Wisconsin Press, Madison, 1962).

[302]"We cannot safely expect future generations to continue to divert such large sums to the support of the aged unless we lighten up on the future generations." From Morgenthau's congressional testimony in Epstein's *Insecurity, a Challenge to America*, p. 737 (Random House, New York, 1938). Morgenthau's doubts were

FDR, responding to criticisms of this sort, eventually increased payroll taxes.

Morgenthau's criticism was prescient, as echoed by a prominent economist writing some three decades later: "The first beneficiaries generally receive much more in benefits than they contribute and the last generation must be concerned with who will pay for these benefits."[303]

Some senators questioned whether the government could be trusted not to highjack money earmarked for Social Security. Senator Arthur Vanderberg, two years after Social Security became law, said, "Such a treasure—all in one place and conveniently eligible for Congressional raids through the years—is an utterly naïve conception. That it would remain intact and not suffer periodic depletions is more than human nature in a political democracy can rationally anticipate."[304]

Morgenthau also questioned whether creating a new set of agencies in the midst of the Great Depression was a good idea.[305] Nevertheless, Morgenthau did not rock the boat; after an impassioned plea from Perkins, he reluctantly signed the CES's final report to FDR. However, Morgenthau did persuade FDR to set up a new, higher payroll-tax schedule than originally projected to ensure that the system built up a big reserve and that it didn't have to dip into general revenues. This big reserve financing method would be changed in the 1939 reform so that the system would be run on a pay-as-you-go-basis.

The problem of paying for Social Security has been an enduring headache for taxpayers and for politicians trying to justify the system. Should the system be prepaid, with a big trust-fund reserve

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confirmed by an HEW secretary in the early 1960s: Abraham Ribicoff had argued that political pressure would never allow payroll taxes to exceed 10 percent, but he was proved wrong in his lifetime. Social Security rates expanded well beyond that rate. See *Policymaking for Social Security*, by Martha Derthick, p. 203 (Brookings Institution, Washington, D.C., 1979).

[303] See *Turning Points in Social Security*, by S. Tynes, p. 32 (Stanford University Press, Palo Alto, Calif., 1966). The problem, per economist Murray N. Rothbard, is that the bill for Social Security keeps growing: "For the government does not invest the funds it takes in taxes; it simply spends them, giving itself bonds which must be later cashed when the benefits fall due. How will the cash then be obtained? Only from further taxes or inflation. Thus, the public must pay twice for social security." See *Power and Market, Government and the Economy*, p. 136 (Institute for Humane Studies, Menlo Park, Calif., 1970).

[304] Vanderberg's comment is from *Social Security after 50: Successes and Failures*, Edward D. Berkowitz, ed., pp. 50-51, (Greenwood Press, New York, 1987).

[305] *The Coming of the New Deal*, by Arthur Schlesinger, Jr., pp. 308-09 (Houghton Mifflin, Boston, 1959).

that could be raided by politicians looking to pay off special interests? Or should it be a pay-as-you-go system, where current taxpayers pay current beneficiaries?

Critics feared that beneficiaries would become so focused on raising their benefits, they wouldn't care about the bills they were leaving for the next generation. Politicians seeking reelection, who made the decisions on benefit levels and taxes, would pay no mind to the future. The politics of the system were always a primary issue, even at the outset in 1935. Despite claims that Social Security would have a beneficial countercyclical effect, there was little serious consideration of the opposite: the possibility that a big, new program, in the midst of an economic disaster, might retard a recovery, as taxes drained consumer buying power. Social Security might hurt struggling businesses by adding another cost, critics contended.

But, as with much of the rest of the New Deal, many Social Security leaders and CES members were anti-business. Wilbur Cohen, a young progressive, was hired for the CES staff by Edwin Witte, the executive director of the CES and a self-described "government man."[306] Cohen was initially assigned to monitor the progress of the first Social Security bill. Cohen became a prominent Social Security bureaucrat. He rose through the civil service to the position of secretary of the Department of Health, Education, and Welfare in the 1960s. He was so identified with the program that he became known as "Mr. Social Security."

Cohen "despised"[307] business and found its routines "dull." Isaac Rubinow's writings, which Cohen greatly admired, were also contemptuous of business. Rubinow even praised Karl Marx at times, and he admired German economists for never accepting laissez-faire economics. One historian wrote that the common thread running through New Deal legislation "was an anti-business animus."[308]

It is significant that Perkins was charged with chairing the CES. She was a social democrat who was suspicious of business. Perkins had traveled to Britain to study its welfare state and believed many of the UK's measures should be adopted by America. She accepted a Cabinet post in FDR's administration in 1933 on the condition that social insurance would be a top priority and that it

[306] *Madame Secretary,* by George Martin, p. 344 (Houghton Mifflin Company, Boston, 1976).

[307] "Cohen found the routines of the grocery dull and claimed to despise the business world." See *Mr. Social Security: The Life of Wilbur Cohen*, by Edward Berkowitz, p. 9 (University Press of Kansas, Lawrence, 1995).

[308] See *A New Deal for the American People,* by Robert Biles, p. 131 (Northern Illinois University Press, DeKalb, 1991).

would lead to new programs. Although Perkins did not identify herself as a socialist, she wanted to move the Democratic Party to the left and have it adopt some of the ideas of European democratic socialist governments. "As I see it, we shall have to establish in this country substantially all of the social insurance measures which Western European countries have set up in the last generation,"[309] she wrote to FDR on the eve of the debate over Social Security.

She was a critic of business and of the American philosophy of limited government. In one of her books, she sneered at the Jeffersonian tradition of limited government—"Whatever that was."[310]

## Harry the Hop

Harry Hopkins was a New York City social worker who labored for two decades to create government social insurance programs. He was "a strong advocate of state assistance as against a private relief system."[311] He became one of FDR's key advisers, and it was FDR who affectionately nicknamed him "Harry the Hop."

As early as 1932, "Hopkins began to formulate a plan for a combination of social insurance and government planning in the form of countercyclical public works to help the American people attain economic security."[312] Aubrey Williams, a CES member and longtime social insurance advocate, said of him: "It is not too much to say that the entire social security program got its first great impetus from Hopkins's decision that day."[313] Hopkins also believed that a huge permanent federal structure was needed because a permanently high number of jobless was inevitable. He seemed skeptical that the private economy could ever recover and again generate prosperity.[314]

Hopkins, as head of the Works Progress Administration (WPA), pushed for the expansion of the public sector as the way to cure depressions. He also believed in using political organizations to distribute jobs.[315] This led to constant controversy surrounding the eight years of the WPA, especially because Hopkins was quoted as saying that the Democrats would "spend and spend and elect and elect."[316]

It also meant controversy, as one group of Democrats was favored over the other, and enemies of FDR could find themselves threatened with the

309 Schlesinger, p. 304.
310 From *The Roosevelt I Knew*, by Francis Perkins, p. 24 (Viking Press, New York, 1946).
311 June Hopkins, p. 72.
312 Hopkins, p. 157.
313 Ibid, p. 166.
314 Ibid.
315 From *The Uneasy State: The United States From 1936 to 1945*, by Barry D. Karl, pp. 135-36 (University of Chicago Press, Chicago, 1983).
316 Ibid.

loss of federal aid as penalty for a lack of political loyalty.[317] Hopkins wanted more than a more efficient system of patronage. Working on the CES report, he hoped "to have a permanent government jobs program included in this broad array of cradle-to-grave economic safeguards for all Americans."[318]

Henry Wallace, who was elected vice president in FDR's third term, was a supporter of FDR's convergence philosophy; both thought the United States and the Soviet Union were to converge in their philosophies of government. Wallace also subscribed to the New Deal idea that the federal government must use fiscal and monetary policies to "balance" production and consumption,[319] which put Wallace in tune with most New Deal thinkers who saw central planning and autarchy as the best ways to bring America out of the depression.

The CES members discussed above, the most influential on the committee, helped produce a report that justified American social insurance. It was a road map for a mixed economy, for an American state that would reject laissez-faire and embrace a corporatist/welfare-state philosophy. The report was the basis for what would become the most important domestic program in American history, the program from which the welfare state would grow. Social Security transformed American society, culture, and government.

## The CES Indicts America's Backwardness

America lagged behind the "advanced" countries of the West in not adopting a social insurance framework, as FDR said in a letter with the CES's report to Congress.[320] The report said that America must catch up with the rest of the world.

The main theme of the report was the need for social insurance programs such as unemployment insurance, old-age assistance, and government pensions in the midst of the Great Depression. But what strikes anyone reading this document is how the committee went beyond the issue of social insurance. In the spirit of Henry Seager, Isaac Rubinow, and Abraham Epstein, it indicted the private economy. The report is more than a blueprint for an American welfare state; it is a bitter criticism of American individualist values and of capitalism.

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[317] FDR, angry with Robert Moses, the highway czar of New York, threatened to cut off federal aid to New York City if Moses wasn't removed. This episode is detailed in Robert A. Caro's *Power Broker: Robert Moses and the Fall of New York*, pp. 426-62 (Alfred A. Knopf, New York, 1974).

[318] *The Uneasy State*, p. 180.

[319] Schlesinger, pp. 83-84.

[320] *President Roosevelt's Message to Congress: Transmitting the Report of the Committee on Economic Security*," p. 1, ssa.gov/history/reports/ces3.html.

The decade of the 1920s, a decade of great growth for the American economy, was, in fact, not a good time for the country, the report said. America's great growth rates during most of the decade were an illusion: "Many people lived in straitened circumstances at the height of prosperity; a considerable number live in chronic want."[321] Social insurance, from welfare programs to public employment, must be made a permanent part of the nation's economy, according to the report, even after prosperity was restored. The problem of America's unemployed was America's employers, many of whom were at fault. "There would be no unemployment problem," the report complained, "if all workers were guaranteed a sufficient annual wage."[322]

And if private employers would provide their workers with "guaranteed employment,"[323] the report said, unemployment insurance would likely be superfluous. However, there is no discussion in this report about what constituted "a sufficient annual wage," or how employers, in the hard times of the 1930s, could guarantee employment or even guarantee their own survival.

## Contemplating an "Expansion in Federal Social -Welfare Activities"

The CES report is clear that these social insurance/economic security programs must be permanent and could not be voluntary. Speaking of unemployment insurance, the report holds that, "[s]ome European unemployment insurance systems are voluntary, but the experience everywhere has been that compulsory coverage is necessary to include a majority of the industrial workers."[324]

The economic problems of the early 1920s could have been eased if a uniform system of state unemployment insurance had been in existence. But there was a danger of leaving the problem of unemployment insurance to the states. The problem, in essence, was federalism. What if some states, the CES warned, enacted systems and others didn't? States in the latter category, the report claimed, would have "an unfair advantage."[325]

So, the report said, "This obstacle to State action can be removed only through the imposition by the Federal Government of a uniform tax [rate of contribution] on all employers throughout the country, so that no State will have an unfair advantage."[326] States that wanted to

[321] *Report of the Committee for Economic Security*, Ibid., CES5, p. 2 of the report.
[322] Ibid., p. 18.
[323] Ibid.

[324] Ibid.
[325] Ibid, page 9.
[326] The report reads that with a "uniform pay-roll tax it will be possible to remove the unfair competitive advantage that employers operating in States which have failed to

participate in the unemployment insurance system—and with unemployment running at around 25 percent, what state could withstand the political pressure of turning its back on this opportunity?—would have to meet federal standards to qualify for the aid, a provision that also applied to the pension functions of Social Security.

The government must not only offer various social insurance programs, according to the report, but it must do something else. It must become the employer of last resort in good times as well as bad; it must engage in a kind of industrial policy. "Public-work programs are most necessary in periods of severe depression, but may be needed in normal times, as well, to help meet the problems of stranded communities and over manned or declining industries."[327] Again and again, this landmark report returns to this point: Public works, even in times of low unemployment and vigorous growth, should "be recognized as a permanent policy of the Government and not merely an emergency measure."[328]

The CES report argued that the government would have to become a prominent part of the American economy even in the best of times. The government would have to engage in a continuous program of public works and a central planning board would have to be set up by the federal government. Only the public sector, the CES held, could ensure that everyone would have an adequate minimum income, a point I examine in the next section.

"Hereafter, the Federal Government will still have a large and continuing responsibility for many parts of the heretofore undifferentiated relief program and some of our recommendations contemplate expansion in Federal social-welfare activities."[329]

## Section VIII—The CES's Historic Report and the Economic Security Package

*"I think we stand today in this country at the crossroads of a great decision which transcends all parties, all sections and all interests; and this decision is whether we are going to choose American organized industry as the instrument for the solution of these tremendous, far-reaching problems or whether we are going to resort to some modified form of Russianism and attempt to solve these problems by government."*
—Representative Charles Eaton[330]

adopt a compensation system enjoy over employers operating in States which gave protection to their wage earners." Ibid., p. 3.

[327] Ibid.

[328] Ibid.

[329] Ibid.

[330] *Turning Points in Social Security*, S. Tynes, ed., p. 55 (Stanford University Press, Palo Alto, Calif., 1966).

## Adequate Income for All

As we have seen, the Committee on Economic Security was a harsh critic of the private sector.[331] It supplied an official validation of the importance and credibility of the social insurance movement in America. The CES report not only established the need for Social Security as part of an economic security package, but it also called on the government to move in a new direction, taking greater control of the economy. The government, with adoption of these economic security policies, was also to move into other new areas: It would ensure "adequate" income for all, again echoing the words of social insurance pioneers Isaac Rubinow and Abraham Epstein.

The federal government, the report said, must engage in central planning, a goal of progressives and socialists since the end of World War I, as well as of some industrialists such as Gerard Swope and Owen Young, who had praised the techniques of the War Industries Board (WIB). Socialists and their liberal allies argued that the same authoritarian techniques used to win the war should be used to promote prosperity in peacetime. "This entire program points immediately and inevitably toward practical advance planning on a broad scale to make the potential resources of a region available for the general welfare of the people involved and toward detailed development of individual projects. To this end we endorse the recommendations of the National Resources Board for the establishment of a permanent national planning board."[332]

The government would ensure that everyone was able to obtain "adequate income."[333] The CES also recommended basic changes in the American work ethic, attacking the American individualist tradition. For instance, unemployed workers should not take jobs they didn't like: "Workers, however, should not be required to accept positions with wage, hour, or working conditions below the usual standard for the occupation or a particular region, or outside of the State, or where their rights of self-organization and collective bargaining would be interfered with."[334]

This kind of thinking would put the government in the business of permanently setting wage standards, instead of leaving it to competitive forces. Hoover had tried to informally keep up wages at the outset of the Great Depression.[335] Now the CES report called for a formal and

[331] See the report at ssa.gov/history/reports/ces3.html.

[332] Ibid., p. 8.

[333] Ibid., p. 18.

[334] Ibid, p. 17.

[335] *America's Great Depression*, by Murray N. Rothbard, p. 227 (Van Nostrand, Los Angeles, 1963).

continuing commitment to wage standards by the federal government.

In sum, the social security/economic security package that would follow the report amounted to much more than a new government pension plan or unemployment insurance scheme. It was a commitment of the government to supply almost all of a citizen's basic needs throughout his life; it was a commitment that the federal government would assume some responsibilities of the family.

"A program of economic security, as we envision it, must have as its primary aim the assurance of an adequate income to each human being in childhood, youth, middle age, or old age—in sickness or in health."[336] Of course, the price for this support, in addition to new taxes, was that the federal government was now going to be a part of almost every person's life, no matter his age. However, the report frequently focuses on those in the middle and toward the end of life. Support for the middle-aged and the elderly is significant, because the report consistently holds that the private economy fails workers, especially older ones: "Employment difficulties for middle-aged and older workers have been increasing, and there is little possibility that there will be reversal of this trend in the near future."[337]

## From the CES to the Great Society—"An Expansion in Federal Social Welfare Activities"

The economic security package, the report held, help everyone throughout his life. The federal government "must provide safeguards against all of the hazards leading to destitution and dependency."[338] The logical outcome of this philosophy was a continued expansion of the federal government into new areas. It would lead to the federal government declaring, decades later, a war on poverty.

Unsurprisingly, the war on poverty was led by a scion of the FDR welfare-state philosophy, President Lyndon Johnson, who idolized FDR. (Indeed, one of LBJ's press secretaries said of his boss, "he saw it [the Great Society] as a chance to finish what the New Deal began."[339] It was in the era of President Johnson—and, curiously enough,

[336] Committee on Economic Security (CES) Report, p. 18.

[337] Ibid.

[338] Ibid., p. 17.

[339] That comment came from Bill Moyers, Lyndon Johnson's former press secretary. *See Flawed Giant: Lyndon Johnson & His Times, 1961-73,* by Robert Dallek, p. 83 (Oxford University Press, New York, 1998). Dallek later (p. 61) quotes Johnson as saying, "If you look at my record, you would know that I am a Roosevelt New Dealer. As a matter of fact, John F. Kennedy was a little bit too conservative for my taste."

President Nixon, a Republican—that some of the greatest expansions of Social Security[340] took place).

The CES report anticipated much of this. For those who thought the New Deal was too little, or who were upset that FDR did not include compulsory health insurance in the original package, the CES report promised that the federal government's welfare efforts, its attempts to manage the economy and engage in social engineering, were just about to begin. "Hereafter, the Federal Government will still have a large and continuing responsibility for many parts of the heretofore undifferentiated relief program and some of our recommendations contemplate expansion in Federal social-welfare activities."[341]

## "Landmark" Legislation Goes to Congress

Senator Robert Wagner was one of the principal sponsors of the economic security package—which was later called the Social Security bill (HR 7260)—though Wagner knew little of the technical details or the philosophy of this deliberately obfuscatory bill, according to Perkins. Decades later she conceded that many lawmakers backing the bill didn't understand social insurance.[342] It was designed to confound, a "hodgepodge"[343] of different programs deliberately arranged in unrelated titles and in a confusing way so as to survive any court challenges and defeat possible opponents, according to CES's attorney Thomas Eliot, who drafted the bill.[344] (This practice continues to this day,[345] with many Americans not

[340] President Lyndon Johnson, in the late 1960s, told his HEW secretary Wilbur Cohen that his suggested 10-percent benefit increase wasn't good enough. "C'mon Wilbur, you can do better than that," Johnson told Cohen. President Richard Nixon and Congress outbid each other to raise the benefits just before the 1972 elections. For more on these politically motivated benefit increases, see Martha Derthick's *Policymaking for Social Security* (Brookings Institution, Washington, D.C., 1979).

[341] CES report, p. 36.

[342] Beginning with the idea that many lawmakers—both friend and foe—were confused by the 1935 Social Security law, a CES member who wrote the law concedes the bill was deliberately written in an "awkward" way. See Thomas Eliot's *Recollections of the New Deal*, pp. 104-05 (Northeastern University Press, Boston, 1991).

[343] Ibid.

[344] The first Social Security bill was deliberately confusing. "Lest the court take judicial notice of the way officials were trying to sell the program, administrators believed it was imperative to keep the language sufficiently opaque." See *Social Security: Visions and Revisions*, by Andrew Achenbaum, p. 28 (Cambridge University Press, London).

[345] Effective control by Congress over the operations of such agencies as the Social Security Administration is essentially impossible, given the technical character of SSA's task and its near-monopoly of experts. They become self-governing, and their proposals are mostly rubber-stamped by Congress. See *Capitalism and Freedom*

knowing how much they pay in payroll tax. The most common circumstance is ignorance that the employer pays half of a taxpayer's bill.)

At the outset, the first Social Security program, which contained 10 new programs, encompassed three broad areas. First was a joint federal/state unemployment program funded by a permanent payroll tax on employers. Second was a guaranteed retirement income plan for those who had worked throughout their lives as well as for the elderly in poverty. It was to be paid out of a federal trust fund that both employers and employees would be taxed to support. Third, there was an Aid to Dependent Children (ADC) program, financed through federal matching grants to states that established satisfactory programs to help poor people under age 16.

These programs used combined federal/state vehicles to thwart possible constitutional objections to a completely federal program, a so-called federal insurance program that was not authorized by the Constitution. Not only was this an inventive way of expanding the federal government, but the philosophy itself also set precedents. Before the Social Security Act of 1935, several states tried to help those elderly who fell into poverty; now the federal government was expanding this approach.
With the old-age program that tens of millions of workers were now forced to pay into, the government was attempting to solve a problem of old-age income before it occurred—even though most Americans, before Social Security, had provided for themselves in old age or with the help of their families or fraternal groups. Advocates of social insurance, in passing the first Social Security law, "worked hard to blur the distinction between prevention and alleviation, and between insurance and welfare."[346]

The act's introduction stipulated that the federal government was to get involved in new areas: "An act to provide for the general welfare by establishing a system of Federal old-age benefits, and by enabling several states to make more adequate provision for aged persons, blind persons, dependent and crippled children, maternal and child welfare, public health, and the administration of their unemployment compensation laws; to establish a Social Security Board; to raise revenue; and for other purposes."[347]

Rates were initially set at 2 percent—1 percent each to be taken from the

by Milton Friedman, p. 186 (University of Chicago Press, Chicago, 1962).

[346] Achenbaum, ibid.
[347] See Carolyn Weaver's article, "Birth of an Entitlement," Reason Online: www.reason.com/9605/Fe.WEAVERsocialsec.html.

employer and the employee. The rates were expected never to rise above 5 percent—again, half paid by the employer and half by the worker. (A secretary of HEW in the 1960s predicted that the rates would never rise above 10 percent.[348] All such predictions, we now see, were wrong.) In the beginning, $3,000 of the wage base was subject to payroll taxes.

Supporters of the economic security package were fearful that the U.S. Supreme Court would strike down Social Security. The federal government had no authority to collect insurance premiums. So the payroll taxes were characterized in two puzzling ways in the legislation. Employers were paying "an excise tax," while workers were paying "an income tax."[349]

The terminology was vital. Social Security advocates had to create a plan that would be constitutional and that would make states want to participate. The payroll tax for the unemployment fund was the key because it allowed employers who paid into a state insurance fund to offset their federal tax obligations. Thus, "federal law would force all states to enact unemployment insurance law,"[350] but would not penalize those that already had them. The offset system was duplicating a technique that had used the federal taxing power to penalize Florida in the 1920s. Florida had attracted many residents by not having an estate tax, but the federal government, using a back-door way to reduce states' rights, decided to let those states with estate taxes offset their federal taxes, a method that eventually changed Florida policy just as it induced states to join the Social Security system a decade later.

The federal government, while offering the states a partnership in a complex unemployment/old-age-pension/help-for-the-disabled program, was going to exact a price: Its power would expand at the expense of states' powers.

## The Right to Repeal

Another important section of the original bill—given that bureaucrats and politicians were already promising the program would be expanded—comes near the end, in Section 1104: "The right to alter, amend, or repeal any provision of this Act is hereby reserved to Congress."[351] This was a critical provision for social insurance advocates who were expecting the initial program to expand. It was as important to Social Security

[348] The prediction had been made by Abraham Ribicoff.
[349] See the Social Security web page, www.ssa.gov/history/reports/ces/cesbookeapen16.html.
[350] Ibid.

[351] See *Unemployment in History,* by John A. Garrity, p. 214 (Harper & Row, New York, 1978).

advocates as the general welfare clause is in the Constitution. Section 1104 allowed the federal government to escape any promise made.

Section 1104 was designed to ensure that Social Security payments were not property rights, but were benefits that could be rescinded at the pleasure of Congress or the Social Security Administration. Here was a fail-safe negation of any possible legal guarantee for the payment of benefits to those who had paid the taxes and expected a return.

Included in the bill were mandatory "old- age-benefits payments"[352] for most employee, as well as a matching federal/state program of unemployment insurance. The federal government also was to become immersed in welfare programs: It would share with the states the costs of caring for the destitute who didn't qualify for Social Security insurance. It would also provide help to states for the care of dependent mothers and children, the crippled and the blind, and provide money for public health services.

Under the leadership of the federal government, the public sector's everyday role in the life of the average citizen would expand greatly, just as the CES report had predicted. Social Security old-age insurance payments were rather modest in the beginning. The minimum monthly check was $10 and the maximum was $85. By 1991, the average monthly check was $602.[353]

Many New Deal supporters called the nation's first major social insurance program too small, arguing that it was insignificant compared to the Townsend Plan or Senator Huey Long's "Share the Wealth" scheme. One pro-FDR historian labeled Social Security "inept," even as he referred to the Social Security Act of 1935 as "landmark" legislation."[354] Socialists "approved of the direction of such measures to relieve unemployment and promote security as the public works program and the Social Security Act of 1935, but argued that these measures and programs were either not sufficiently bold or badly administered."[355]

Before Social Security became a landmark in the history of the American welfare state, there were many discussions and debates in Congress as the report became

[352] Ibid.

[353] *Historical Development of the Social Security Act*, by Abe Bortz, SSA historian. It can be found at www.ssa.gov/history/bortz/html. See also *Social Insecurity: The Crisis in America's Social Security System and How to Plan Now for Your Own Financial Survival*, by Dorcas R. Hardy and C. Colburn Hardy, p. 11 (Villard Books, New York, 1991).

[354] The act was "a tremendous break with the inhibitions of the past," according to Arthur Schlesinger, Jr. See *The Coming of the New Deal*, pp. 313-15 (Houghton Mifflin, Boston, 1958).

[355] See *The Socialist Party of the United States: A History*, by David Shannon, p. 232 (Quadrangle Books, Chicago, 1967).

legislation. There would also be a crucial test in the U.S. Supreme Court, which we will see later accepted the Rubinow/Epstein view of the American individualist tradition. In early 1935, the economic security/Social Security bill was introduced. Hearings on the bill were held simultaneously in both houses of Congress.

## Section IX— The Debate

*"Old age pensions would spread purchasing power to an enormous extent."*
— Robert Wagner, a sponsor of the first Social Security law[356]

*"These titles (in the Social Security bill) impose a crushing burden upon industry and labor. They establish a bureaucracy in the field of insurance in competition with private business. They destroy age-old retirement systems set up by private industries, which in most instances provide more liberal benefits than are contemplated in Title II."*
—The Republican minority members of the Ways and Means Committee reviewing the first Social Security bill in April 1935[357]

### The Debate in Congress, Part I

When the CES sent its report to Congress in early 1935, the FDR administration pressed to get the Social Security bill passed quickly. This time, unlike with previous social insurance measures before Congress, there was a strong commitment to the program, which was named Social Security in the middle of the debate in Congress. The debate was at times difficult, as few of the lawmakers understood the issue. Many of the strongest supporters of Social Security were confused by the details. The bill passed by wide margins in both houses. Nevertheless, there were a few critics who feared that America was about to lose its individualist tradition.

The 1935 battle in Congress was an important moment in American history, one in which a new philosophy of government was approved by the nation's lawmakers, many of whom were rushed to vote. "Debate" may be the wrong term, as many of the participants—members of Congress—had little idea what was going on. They were not present when the Committee on economic security hammered out the various proposals. They were at a disadvantage. FDR's circumvention of Congress was about to succeed.

[356] *The History of Retirement: The Meaning and Function of an American Institution, 1885-1978*, by William Graebner, p. 191 (Yale University Press, New Haven, Conn., 1980).

[357] From *The Formative Years of Social Security*, by Arthur J. Altmeyer, p. 37 (University of Wisconsin Press, Madison, 1966).

Once the CES's economic security/Social Security package was delivered to Congress in January 1935, hearings were held in both houses at the same time. Many members, especially supporters of Social Security, did not understand the significance of the package,[358] which created the beginnings of an American welfare state. Representative Sam B. Hill of the House Ways and Means Committee admitted the process was moving too fast for him: "I want to confess it is difficult for the members of the Ways and Means Committee, who have studied it for weeks and weeks, to get the full purport and understanding of all its provisions and ramifications."[359]

The tax rates were a source of confusion at the CES, where there had been much debate over whether the first Social Security program should be a system with big reserves—a prepaid system—or a pay-as-you-go plan. That debate was triggered in part because Treasury Secretary Henry Morgenthau thought the system would not be properly financed. As noted earlier, he believed initial rates would be too low and many beneficiaries would receive a free pension though they would contribute little or nothing. He was also fearful that the money would run out by 1965—given the original schedule of tax rate increases—and that money to pay for the program would then have to come out of general revenues.

The latter kind of financing was always favored by socialists and by men like Epstein and Rubinow. But FDR and many of his allies had been selling Social Security as an "earned" benefit. This was not a dole, they said' this was a kind of insurance plan. Whatever it was, FDR's Treasury secretary was worried that it would be a way of one generation passing on its bills to another.

"There are some," Morgenthau said, "who believe that we can meet this program as we go by borrowing from the future to pay costs. …They would place all confidence in taxing power of the future to meet the needs as they arise. We do not share this view. We cannot safely expect future generations to continue to divert such large sums to the support of the aged unless we lighten the burdens upon the future generations in other directions. …We desire to establish this system on such sound foundations that it can be continued indefinitely in the future."[360] These fears were well founded—

[358] See "The Roots of Social Security," available at the Social Security web site, p. 17 (www.ssa.gov/history/perkins5/html).

[359] See Abraham Epstein's *Insecurity: A Challenge to America*, p. 744 (Random House, New York, 1938).

[360] Epstein, p. 737.

Morgenthau's predictions came to pass when a pay-as-you-go system eventually was adopted.

Many critics and supporters of the package were on equal ground in that few on either side understood what was going on. Others believed the debate was academic, that the first Social Security law would be invalidated later by the U.S. Supreme Court, which had struck down many of FDR's pet programs. Nevertheless, the debate, at times, was idiotic.

A congressional leader who knew little of what he was supporting was put in charge of the package in the House as a way of keeping possible allies in line. The chairman of the Senate Finance Committee, a faithful FDR ally, had no idea what was in the bill he was pushing through Congress.[361] The chairman of the House Ways and Means Committee, Robert Doughton, "just didn't really have possession of all the facts and wasn't that interested in the details of the Social Security program."[362]

One senator, Thomas Gore, was frustrated by the tone of the debate and contended that Congress was becoming a secondary player. He argued that "the experts" were the ones who were going to decide the issue of whether or not America would turn away from its voluntarist traditions. "No careful and intelligent observer in these unhappy times can have failed to observe that this has ceased to be a government in which legislation is by congressional action and vote, but has become a government by experts,"[363] Gore complained. He continued, "A man who feels himself qualified to participate in the formulation of legislation, to have any voice in its formulation, should not offer himself for election to the Senate or the House of Representatives, but he should procure for himself a position as a member of some commission, or as an employee of some commission, or as an employee of an agent of some bureau of the Government."[364]

Senator Robert Wagner, one of the chief sponsors of the bill, little understood the philosophy or the details of the plan that has sometimes been identified with his name. Francis Perkins, years later, said Wagner and many other congressional leaders were often confused by Social Security.[365]

Indeed, this was the beginning of a pattern that continues to this day—a program so complex that most lawmakers have little idea what they are voting on. Cabinet secretaries

[361] Roots, p. 17.

[362] From Robert J. Myers; see his *Within the System: My Half Century in Social Security*, p. 141 (Actex Publications, Winsted, Conn., 1992).

[363] See Carolyn Weaver's *The Crisis in Social Security: Economic and Political Origins*, p. 14 (Duke Press Policy Studies, Durham, N.C., 1982).

[364] Ibid.

[365] Ibid., Roots.

become window dressing in the legislative process. They end up relying almost exclusively on the civil servants who administer a complex program to tell them how to run it, or, if in the legislative branch, how to vote on expansions of a program.

Some four decades after the Social Security Acto of 1935, Robert J. Nyers, one of the leading experts on Social Security, said, "Usually our [HEW] secretaries haven't been students of the Social Security program so they'd need quite a lot of briefing."[366] That was also true of Congress at the birth of Social Security. It is one reason why bureaucrats have been able to persuade elected officials to approve expansion of Social Security through the decades, regardless of the party that controlled government or what someone had promised before coming into office. Few lawmakers have had the background to debate the issue with seasoned Social Security bureaucrats.

Both parties eventually became supporters of Social Security expansion; there has been no anti-Social Security party or even a small group of effective lawmakers who wanted a critical examination of the program.[367] Until recently, there has never been more than a handful of lawmakers with the knowledge and the political strength even to examine Social Security, as any examination of the program could mean political suicide.

## The Debate in Congress, Part II

Perkins noted during the 1935 congressional debate that this was a new type of legislation—nothing of the sort had ever come before Congress. Once again, the economic argument was also made. Senator Pat Harrison, chairman of the Senate Finance Committee, said the Social Security bill was "a means for dealing with unemployment in the years to come."[368] But even at the height of the depression, individualism and voluntarism defined American culture. Many historians and commentators of the 1935 act, both friendly and critical of Social Security, have noted that there was no overwhelming public demand for a social insurance program.[369]

[366] *Policymaking for Social Security*, by Martha Derthick, p. 66 (Brookings Institute, Washington, D.C., 1979).

[367] Once the program was established, most lawmakers of both parties found it easy to vote for increases and too difficult to master the complexities of the Social Security program. Derthick, in the aforementioned *Policymaking for Social Security*, writes, for instance, "For the decade in 1950, it [Congress] regularly enacted social security benefit increases or other liberalizations in election years. Between 1960 and 1972 it acted less regularly but on the average less often" (p. 88).

[368] See *The Great Depression: Opposing Viewpoints*, Bruno Leone, ed., p. 172 (Greenhaven Press, San Diego, 1994).

[369] "Even among the most industrial states, the vast majority of the elderly were

FDR and his associates knew they had to move fast, find just the right moment, and employ clever strategies if they were to overcome expected opposition in Congress, in the U.S. Supreme Court, from the states, and from Americans who believed the government should not force people to become a part of a unitary retirement system administered by the federal government. As one commentator put it, "Paradoxically, the major motivating force behind the passage of the Social Security Act of 1935 was probably not the provision of adequate retirement income but the creation of jobs. …Old age pensions were promised in future years to help the elderly financially but were also legislated to encourage older workers to leave or remain out of the workforce."[370]

Wagner said that as "a practical result millions of men who are entitled to rest will yield places in industry to the young and the strong who are entitled to jobs."[371] Said a senatorial supporter of the package: "Our decision will affect the entire economic, social, and perhaps political life of our country."[372]

FDR, in his attempt to persuade Americans to accept social insurance, encouraged seniors "to disengage" from work.[373] Such a policy seems questionable in a wealthy society in which skilled seniors may spend more time in retirement than in their work lives. The federal government encouraged Americans to take it easy; to withdraw their considerable skills and spend the rest of their lives on, say, the golf course. This was a dramatic change in our culture, because most Americans, until Social Security, had considered some form of work throughout their lives a good, healthy practice. Now the government wanted to persuade them to yield their places to younger people because a recovery was not expected by the brain trust of the FDR administration. The federal government virtually invented our concept of retirement.[374]

dependent on neither organized private or public charity or the almshouse. Instead they were self-supporting or supported by families or friends" Weaver, p. 59.

[370]See Craig S. Karpel, *The Retirement Myth*, p. 148 (Harper Collins, New York, 1995).

[371]Wagner's testimony is found in the January 22, 1935 session of the U.S. Senate Finance Committee, p. 2, at the Social Security Administration's history web site.

[372]Senator McNary, June 18, 1935. See *The Congressional Record*, 74th Congress, Record 9541.

[373]"The dominant theory in the psychology of aging is the theory of disengagement, first described over 30 years ago by Cumming and Henry in their book, *Growing Old*. This theory holds that as a person ages, he or she gradually loosens their bonds with the environment." From Walter M. Bortz, III's *Dare to Be 100*, p. 52 (Random House, New York, 1997). This theory was conceived when Social Security was changing attitudes about older people working.

[374]See *The History of Retirement*, p. 186, for CES member Barbara Armstrong's comment about people receiving Social

## The Congressional Debate, Part III

A small group of congressional critics voted against the original Social Security law—the bill passed by a vote of 371-33 in the House and 76-7 in the Senate. Their objections were that Social Security would discourage independence. Many Americans, they feared, would rely on the government instead of themselves. Americans would stop saving or save less for retirement because they had Social Security.[375] Critics also feared that as the program would expand, Americans would become dependent on lawmakers who would politicize the program, expanding it in election years.

Other criticisms of the original Social Security bill included the notorious Section 1104, which some thought meant that taxpayers would pay for a program in which they had no contractual rights. About two decades later, the U.S. Supreme Court validated this last criticism when, in the wake of the McCarthyist red scare of the 1950s, it upheld the decision of the Social Security Administration when it denied Social Security benefits to the widow of a Communist. The widow's husband had been a Communist for six years until 1939, and then left the party. Her husband paid payroll taxes over many years, yet she was denied survivor benefits.[376]

The court held in the case of *Fleming vs. Nestor* that the Social Security law provided no property rights.[377] The court also said the famous Section 1104 provided the Social Security Administration with "flexibility" and "that provision makes express what is implicit in the institutional needs of the program."[378] In other words, the Supreme Court, in the fall 1959 term, settled the Social Security guarantee question of 1935, which was raised again by a congressman in 1953[379]—there are no legal guarantees under the Social Security laws. However, there were three dissenters in the decision who found it "repugnant" to the Constitution and a gross violation of property rights. [380]

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Security because "you've stopped working for pay."

[375]By the 1990s, Merrill Lynch had published several studies showing that tens of millions of Americans had almost no financial assets and were undersaving for retirement.

[376]See U.S. Supreme Court Reports, Vol. 363, October 1959 Term, *Fleming vs. Nestor*, pp. 610-627.

[377]Ibid.

[378]Ibid., p. 611.

[379]See *The Real Deal: The History and Future of Social Security*, pp. 81, 139, 275.

[380]One of them wrote of the *Nestor* decision, "I cannot believe that any private insurance company in America would be permitted to repudiate its matured contracts with its policyholders who have regularly paid all their premiums in reliance upon the good faith of the company" (U.S. Supreme Court Reports, Vol. 363, p. 624).

The most effective criticism of the original 1935 law was economic: that Social Security would burden taxpayers and employers with a new tax at the worst possible time, and further delay the recovery. Some lawmakers also worried that the reserves could be used by unscrupulous lawmakers to pay off political debts. The most frequent criticism was that America was taking an ominous step in reversing her individualist traditions and was on the road to European collectivism. "My fear," said Senator Daniel Hastings, "is that when the Federal Government undertakes the job of social security, through direct taxation for that purpose, it has taken a step that can hardly be retraced."[381] Hastings told Perkins that America, with the economic security bill, was moving toward European socialism and that would "end progress" and "bring the people to the level of the average European."[382]

"The lash of the dictator will be felt," complained another congressman, who feared Social Security would lead to fingerprinting.[383] Representative James W. Wadsworth argued, "This bill opens the door and invites the entrance into a political field of a power so vast, so powerful as to threaten the integrity of institutions and to pull the pillars down upon the heads of our descendants."[384]

Finally, as the bill appeared headed for passage, there was a last-minute compromise offered by an opponent that threatened to short-circuit Social Security before it could even begin: Social Security should be forced to compete and at least offer a product as good as private pensions, Senator Bennett Champ Clark argued. Why not, he added, let some private employers opt out of the system? Those who offered pensions that would be equal or superior to Social Security should not be required to be part of the Social Security system. [385]

"I have on my desk here letters from more than 75 employers now having plans more beneficial to the employees than the government plan, who protest against having their plan wiped out," said Clark.[386] In approving a new government program, why not allow private-sector competition with it? This was the essence of the Clark amendment, which was approved by the Senate.

Critics contended that Clark, in trying to exempt employers who offered

[381] *The Great Depression: Opposing Viewpoints*, p. 171.
[382] Ibid.
[383] *The Historical Development of the Social Security Act*, by Abe Bortz, SSA historian. The essay is at www.ssa.gov/history/bortz.html.
[384] *The Coming of the New Deal*, by Arthur Schlesinger, Jr., pp. 311-12 (Houghton Mifflin Company, Boston, 1959).
[385] *The Formative Years of Social Security*, by Arthur J. Altmeyer, p. 37 (University of Wisconsin Press, Madison, 1966).
[386] *The Congressional Record*, June 18, 1935, p. 9629.

private pension plans, was doing the bidding of the insurance industry. The official Social Security Administration history claims Clark wasn't really interested in the idea of economic security. Rather, he was responding to the demands of well-heeled special interests: "The Clark amendment was developed by a group of insurance lobbyists under the leadership of Walter Forster, of the insurance brokerage firm of Towers, Perrin, Forster and Crosby, and introduced by Senator Clark as an amendment to the Administration's bill while it was under consideration in the Senate Finance Committee."[387]

Although defeated at the committee level, the bill was approved on the Senate floor by a 51-35 margin. FDR insisted the Clark amendment be stopped at all costs.[388] It finally died in a conference committee. FDR's supporters in the Senate understood how dangerous the Clark amendment was. Senator Alben Barkley, blaming the "high-pressure salesmen"[389] of annuities, said Social Security would fail in competition with the private sector: "I don't believe any old-age pension system we may inaugurate can long endure half public and half private,"[390] Barkley said. Another FDR ally, Senator Robert La Follette of Wisconsin, agreed the Clark amendment would be lethal for the new program: "It would be inviting and encouraging competition with its own plan, which ultimately would undermine and destroy it."[391]

Whether or not Clark was acting at the behest of the insurance industry, it remains that if Social Security hadn't been given monopoly status as the retirement plan of tens of millions of American workers, its history would have been dramatically different. Given a choice, many Americans would have opted out. Competition between the private and public sectors would have taken place. More Americans would have been given the opportunity to save for retirement, control their retirement assets, and remain independent of the political pressures on lawmakers.

The defeat of the Clark amendment was ironic, noted Robert Myers, a career Social Security bureaucrat and the system's second actuary: At the same time Social Security advocates were insisting that employers with good retirement plans could not be exempted, that they could not be trusted, a large group of government workers was exempted from the first law. "Interestingly, the largest employer of all, the federal government, opted out of the Social

[387] Research Note #11:The Clark Amendment to the 1935 Social Security Act, www.ssa.gov/history/clarkamend.html.
[388] *A New Deal For Social Security*, by Peter Ferrara and Michael Tanner, p. 22 (Cato Institute, Washington D.C., 1998).
[389] *The Congressional Record*, June 19, 1935, p. 9629.
[390] Ibid.
[391] Ibid.

Security program in 1935 on the same grounds [as the Clark amendment]—that it had adequate pension plans for its civilian and military personnel!" said Myers.[392]

This "do as I say, not as I do" policy was a source of embarrassment for Social Security officials over the years. They insisted that more people should be covered and the program expanded, but occasionally some hardy soul would ask why Social Security and other federal employees were not part of the system. Sometimes a perceptive taxpayer would also ask why bureaucrats were allowed to "double dip"—to work long enough to collect from their retirement system, and then go into the private sector and work long enough to qualify for Social Security. These were difficult and annoying questions for bureaucrats.

The 1935 debate in Congress was short, but a few critics raised challenging questions. There was even a short period when it seemed as though Social Security might fail, another casualty of America's suspicion of social insurance programs. Yet, in the end, FDR saved the day. His strategy of a bill that had to be adopted whole—with multiple programs for several different groups—coupled with using his own group of experts to overawe Congress, was successful. Most members of Congress weren't ready to debate the complexities of social insurance, and key members of the Supreme Court agreed with Rubinow and Keynes, as we will see.

## The Courts and Social Security

Even after the bill passed Congress and was signed into law by FDR, there was one more threat hanging over the fate of social insurance in America. Would the U.S Supreme Court, as it had with so many other New Deal measures, strike down Social Security as violation of the 10th Amendment, which reserves to the people and the states those powers not expressly given to the federal government? Or was Social Security vulnerable to a constitutional challenge because of its strange taxing methods?

In a suit brought by a shareholder of Edison Electric Illuminating Company in Boston, an objection was made to the withholding tax.[393] It was charged that Social Security taxes were illegal excise taxes and that the program violated the Constitution. Indeed, the United States First Circuit

[392] *Social Security*, Fourth Edition, by Robert J. Myers, p. 231 (Pension Research Council, University of Pennsylvania Press, Philadelphia, 1993). See also *Within the System: My Half Century in Social Security*, also by Myers. Myers, a Republican, is frank about how "expansionist" bureaucrats went around the backs of Eisenhower administration officials and destroyed the goals of the administration (pp. 157-58).

[393] U.S. Supreme Court Reports, Vol. 301, Helvering vs. Davis, October 1936 Term, pp. 623-43.

Court held that, "Title II (of the Social Security Act) was void as an invasion of the powers reserved by the 10th Amendment."[394] The circuit court also held that the withholding tax was not an excise "as excises were understood when the Constitution was adopted."[395] The government appealed the case to the nation's highest court.

The U.S. Supreme Court rode to the rescue of FDR's nascent welfare state. In the October 1936 term, the court, which included FDR confidant Louis Brandeis, decided two cases that upheld the unemployment insurance and old-age pension provisions of the Social Security Act. The majority opinion of *Helvering vs. Davis*, decided on a seven-to-two vote, was written by Justice Benjamin Cardozo. The language he used was, again, a triumph of the Rubinow/Keynes philosophy that dominated the debate of 1935. Cardozo wrote, in justifying Social Security, that the private economy had failed the average man: "With the loss of savings inevitable in periods of idleness the fate of the workers over 65, when thrown out of work, is less than desperate…a recent study of the Social Security Board found… approximately three out of four persons 65 or over were probably dependent wholly or partially on others for support."[396]

[394]Ibid.
[395]Ibid.
[396]Ibid.

That may or may not have been true; if true, it may or may or not have been a bad thing—is it bad if the elderly sometimes rely on relatives rather than the government?—but it remains unrelated to government's taxing and other powers under the constitution. Cardozo ultimately fell back on the all-encompassing general welfare clause, but, even as he did, there was some self-doubt: "The line still must be drawn between one welfare and the other, between particular and general. Where this shall be placed cannot be known through a formula in advance."[397]

So, at least as far as the welfare state was concerned, there could be no stated rules that would limit the government. But on the issue of the central government overreaching its powers, Cardozo was clearer and repeated the familiar philosophy of the CES report: Social Security was constitutional because, "only a power that is national can serve the interests of all."[398]

The dissenting justices warned that, in serving that national interest, this interpretation of the general welfare clause was "repugnant to the 10th Amendment."[399] Nevertheless, they were only two justices out of nine. The issue was settled; the welfare state was born and would grow. The

[397]Ibid.
[398]Ibid.
[399]Ibid.

Ninth Amendment, which guarantees states' rights, and the 10th Amendment were at the beginning of a long decline in authority and popularity.[400]

"If the Senate and the House of Representatives in this long and arduous session had done nothing more than pass this Bill, the session would be regarded as historic for all time," FDR said upon signing the Social Security bill into law on August 14, 1935.[401]

## Section X— America Begins Its Transformation

### The Philosophical Debate Ends

Social Security opponents had questioned not only the effect of an entitlement program on America's character, but also the effect on America's economy, which continued to sputter through the years of the New Deal in the 1930s. Still, as soon as social insurance advocates won their victory, they made plans to expand the program—Social Security's first expansion, or reform, was only four years in the making. Clearly, more than just the birth of one government program took place in 1935.

The argument over Social Security was over more than an entitlement program and its survival, or even over whether the government should be in the entitlement business at all. Social Security, as part of an economic security package, was also to be an economic corrective. FDR stressed it was to be part of a permanent structure, to be used in good times as well as bad, to ensure that the economy avoided slumps: "It will act as a protection to future administrations against the necessity of going deeply into debt to furnish relief to the needy. The law will flatten out the peaks and valleys of deflation and inflation."[402] Senator Robert Wagner, pleading for the package before the Senate Finance Committee, claimed, "the transfer of purchasing power by benefit payments when danger threatens will float the business ship off the shoals of depression to the seaway of prosperity."[403] Wagner also complained that the private sector was "too stupid" to realize that a scheme such as Social Security, or the Townsend Plan, would be good for the economy and good for business.[404]

400 *The Forgotten Ninth Amendment*, by Bennett B. Patterson (Bobbs-Merrill Company, Indianapolis, Ind., 1955).
401 From *The New Deal: A Documentary History*, William E. Leuchtenburg, ed., p. 80 (Harper & Row, New York, 1968).
402 *The Public Papers and Addresses of Franklin D. Roosevelt*, Vol. IV, pp. 324-25 (Random House, New York, 1938-1950).
403 Wagner's testimony is from the January 22, 1935, session of the U.S. Senate Finance Committee, p., at the Social Security Administration's history web site.
404 Displaying the anti-business bias of FDR and his allies, Senator Wagner said

Supporters claimed Social Security would be an economic corrective because when people had Social Security, they would not fall into poverty at such a high rate. With Social Security, workers could leave jobs sooner, and be able to afford retirement, so unemployment rates would be lower. With Social Security, buying power would be maintained even when the private sector foundered and unemployment was rising. Because of all this, the government would spend less on poverty programs.

Critics of the economic security package questioned FDR's logic. Wouldn't Social Security hurt the economy as it took more money out the pockets of workers and employers? Wasn't it a tax increase—just as Hoover initiated at the beginning of the Great Depression—at the worst possible time? "Will the administration's Social Security bill promote recovery?"[405] asked John C. Gall, a labor lawyer and congressional lobbyist who fought the economic security bill on behalf of the National Association of Manufacturers (NAM). Gall argued that the traditional American practice of letting the economy recover through market forces would be the best policy. Testifying in the Senate and the House, he warned that the unemployment-fund section of the bill was also faulty. He noted that Francis Perkins failed to disclose that the much-admired British unemployment fund was bankrupt, in part because it had been politicized by lawmakers to win the support of voters.

And given America's greater propensity to expand its economy after bad times, it would be dangerous to imitate the British experiment with unemployment insurance, Gall said, adding: "This is particularly true in a country like ours where unemployment on a wide scale has been the exception and not the rule throughout our history; where natural resources abound; where new industries employing hundreds of thousands of people have developed and will continue to develop from year to year; where the population cannot, by any stretch of the imagination be called homogeneous; and where many of our social,

government pensions, and ideas such as the Townsend Plan, were good for private industry: "Big business is too stupid to see that the Townsend Plan will be the means of giving it a new lease on life—that capitalism can only be saved by retiring permanently ten million old people, and at the same time, giving these old people the means by which to once more restore purchasing power in the United States." See *The History of Retirement: The Meaning and Function of an American Institution, 1885-1978*, by William Graebner (Yale University Press, New Haven, Conn., 1980).

[405]Gall's testimony on the economic security act is from the February 15, 1935, session of the Senate Finance Committee session, at the Social Security Administration's history pages, www.ssa.gov/history.

political and economic problems arise out of the failure to balance the interests of industry and agriculture."[406]

Throughout his testimony, Gall warned that the midst of a depression that the administration had not been able to cure was not a time for the government to spend more money and take millions of dollars from businesses and individuals. Representative Treadway agreed: "Why talk about wanting to relieve the depression, why talk about charity, why talk about all these things when you are placing a financial lash upon the backs of the people whose backs are breaking under a load of debt and taxes?"[407]

Gall's questions were numerous and challenging: "How can recovery be promoted by additional expenditures by a Federal treasury already in the red?" "How can recovery be promoted by the levy of new and additional taxes on employers and employees, when the effect is to withdraw from the channels of trade and commerce a substantial portion of income normally spent for goods and services?" "How can real recovery, which means the restoration of normal employment and payrolls, be promoted by discouraging employers from expanding employment and increasing payrolls?"[408] Gall was convinced the economic security package could kill chances for full recovery.[409]

"These titles," wrote House Ways and Means Committee minority members in reviewing the first Social Security bill in 1935, "impose a crushing burden upon labor and industry."[410] (This was when a 2-percent payroll tax was proposed. Today, almost 70 years later, the payroll tax covering Social Security and Medicare is 15.30 percent. Tens of millions of Americans pay more in payroll taxes than on their income tax.)[411]

Senator Thomas Gore suggested that the economic security package was de facto socialism.[412] He complained that Social Security had been dropped on the desks of members of Congress without members playing a part in the CES proceedings. And he asserted that the program lacked contractual rights: "What guarantee is there? Has the citizen got any constitutional guarantee? Has the

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[406]Ibid.

[407]See *Congressional Research Service Report: Major Decisions in the House and Senate Chambers on Social Security, 1935-1985*, by Carmen D. Solomon, p. 8 (Library of Congress, Washington, D.C., 1986).

[408]Ibid.

[409]*The Formative Years of Social Security*, by Arthur J. Altmeyer, p. 37 (University of Wisconsin Press, Madison, 1966).

[410]*A New Deal For Social Security*, by Peter J. Ferrara and Michael Tanner, p. 23 (Cato Institute, Washington, D.C., 1998).

[411]Ibid.

[412]Ibid., p. 67.

citizen any moral guarantee?" Gore was obviously discussing Section 1104, in which Congress explicitly reserved "the right to alter, amend or repeal any provision of the act."[413] We have seen that this fear—at least with regard to ex-Communists—was well founded.

Gore also wondered whether, at some future date, "some man might come into power who would take more than he ought from one and give it to another?"[414] This issue arose again in the early 1950s, when a few members of a congressional subcommittee noted that Social Security recipients had no contractual rights. Arthur Altmeyer, a longtime Social Security official, strongly battled this criticism, holding that, although there was no contractual right, there was a statutory right to benefits. He also argued that Congress would continually move to improve the rights of workers and improve payments.[415]

### "What Is He Doing There?"

Though there were a few Social Security critics, most members of Congress were ready to support FDR on Social Security. Many of the supporters of Social Security had little understanding of the details and philosophy of the bill, while opponents were overawed. Most members of Congress lacked either the expertise or the time to study it in detail. Almost three decades after the debate, Perkins and other New Deal leaders were virtually laughing at the key members of Congress who went along with FDR's economic security package without asking questions.

In fact, key leaders in both houses, Perkins agreed, had little idea what they were doing: "Yes, there was an overwhelming vote for Social Security, and so it was established. But of course you knew that the two committee chairmen…Senator Pat Harrison of Mississippi was a wonderful orator. He didn't know the first thing about this bill. Congressman Bob Doughton of North Carolina knew even less about because he was deaf and couldn't hear what was said about it."[416] Doughton was the chairman of the House Ways and Means Committee. Harrison was the head of the Senate Finance Committee. Had they understood what was going on, these leaders might have destroyed the legislation just as easily as Congress later foiled FDR's court-packing scheme.

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[413] *The Formative Years of Social Security*, by Arthur J. Altmeyer, p. 264 (University of Wisconsin Press, Madison, 1966).
[414] Ibid.
[415] Ibid.

[416] See Frances Perkins's talk, "The Roots of Social Security," p. 17, at the Social Security Administration's web site (www.ssa.gov/history5html). See also *Recollections of the New Deal*, by Thomas Eliot, p. 115 (Northeastern University Press, Boston, 1991).

One member of the Senate Finance Committee, Senator William Henry King of Utah, asked a CES aide to write a series of critical questions for him to ask, which he did. But the same aide, Edwin Witte, also came up with the answers.[417] This same senator—a supposed critic of Social Security—later posed in the famous picture of FDR signing the Social Security Act into law. That was too much for Thomas Eliot, the CES attorney, who had written the deliberately confusing Social Security law. Years after King had gone to his grave, Eliot couldn't resist wondering about the photo and wrote of the departed King, "What is he doing there?"[418]

All the important work was done before the issue came to Congress. Complained one senator: "So it is with some trepidation that a mere Senator of the United States rises to appeal to his colleagues in this body, and to differ from the opinions of this galaxy of experts."[419] Members of Congress noted that there were more social insurance experts at committee meetings than committee members. Few members of industry were there to state their case. As one historian wrote, summing up why FDR's strategy of taking the biggest part of the issue away from Congress was successful, "Advocate-experts controlled the information made available to citizens and representatives and Roosevelt worked diligently to control the choices that were presented."[420]

[417] Ibid.

[418] Ibid.

[419] Congressional Record, June 18, 1935, 174th session, p. 9628.

### "Pathetically Insufficient"

FDR, who campaigned in 1932 by criticizing the big spending schemes of Herbert Hoover, spent his first and second terms creating public jobs and trying to inject buying power into the economy through inflationary schemes including Social Security. But these measures never restored a strong economy and full employment. Only World War II would appear to do that.[421] Some of his supporters, who concede that the New Deal failed to restore a healthy economy, argue that the inflationist concept was good, but that FDR's programs were too small. The deficits weren't big enough. The commitment

[420] See Carolyn Weaver's *The Crisis in Social Security: Economic and Political Origins*, p. 76 (Duke University Press, Durham, N.C, 1982).

[421] World War II didn't prove that Keynesianism worked, writes economist Mark Skousen. Unemployment decreased because many people were drafted into the armed forces, and although savings increased, there were very few things to buy. "The standard of living declined during this time, despite higher nominal incomes. According to the U.S. Department of Commerce, per capita income actually declined in real terms during the period 1940 to 1945. Americans gave up many of the pleasures of life." See Skousen's *Economics on Trial: Lies, Myths, and Realities*, p. 112 (Business One Irwin, Homewood, Ill., 1991).

to remaking the economy wasn't strong enough. Tugwell complained, "the New Deal was pathetically insufficient."[422]

Until FDR discovered the benefits of the military industrial complex, they say, until he adopted a form of military Keynesianism, a strong economy could not have been restored—a perspective which, if accepted, would condemn America to a permanent warfare/welfare state. This thinking might explain why most Democrats, as well as Republicans once they came back into power in the 1950s, accepted both a huge social welfare state and a huge military budget as a permanent part of American life.[423]

"In general," one historian writes, "conservative interests have neither sought to repeal enacted legislation and restore the status quo ante, nor to put forth alternative public measures as rivals to social insurance."[424] The welfare/warfare state was safe under Eisenhower, Nixon, and Reagan, political rhetoric to the contrary notwithstanding. A suspicion of the welfare state had once gone hand in hand with an abhorrence of a permanent military complex before the revolution of the 1930s, which destroyed the nation's classical liberal model. No sooner had Social Security become law, no sooner had workers begun to pay taxes and the unemployed to apply for benefits, than FDR began to claim that the economic security/Social Security programs, as part of his New Deal economic strategies, were succeeding. But were they?

## Section XI— The Triumph of Social Security

*"Rugged individualism and social insurance are not comfortable bedfellows, and we will not pretend that struggles between liberty and security, or individual and collective responsibility are not at stake."*[425]

*"We ought to call it Social Insecurity, not Social Security. The Social Security system is a ticking time bomb."*[426]

[422]*The Great Depression: Opposing Viewpoints*, Bruno Leone, ed., p. 263 (Greenhaven Press, San Diego, 1994).

[423]See Arthur R. Ekirch's *The Decline of Liberalism* (Athenaeum, New York, 1967), especially pp. 314-36. Ekirch writes that "individual freedom continues to be threatened by the forces of nationalism and war—and the resulting concentration of ever greater powers in the institutions of the modern state and its corporate adjuncts."

[424]See *Policymaking for Social Security*, by Martha Derthick, p. 132 (Brookings Institution, Washington, D.C., 1979).

[425]*True Liberty: Rethinking American Social Insurance*, by Michael J. Graetz and Jerry L. Mashaw, p. 23 (Yale University Press, New Haven, Conn., 1999).

[426]Former Social Security Commissioner Dorcas R. Hardy, who, along with her father, a financial adviser and author, C. Colburn Hardy, in *Social Insecurity: The Crisis in America's Social Security System and How to Plan Now for Your Own Financial Survival*, p. xiii (Villard Books, New York, 1991).

*"It is very hard to reform a religion."*[427]

## The Roosevelt Depression

In August 1935, the debate ended over whether America's individualist traditions would continue. When FDR signed the Social Security Act into law, the nation was set to follow the same welfare-state policies as Western Europe. The 40-year campaign for American social insurance won its biggest battle, and more victories were ahead as Social Security's expansion began. The immediate issue for Social Security advocates was the promise of "economic security." The Social Security/economic security package was meant to ensure that America stayed clear of further recessions and depressions.

Regardless of whether one views Social Security and the economic security philosophy it encompassed as a success or a failure, most historians, even FDR sympathizers, agree with this: America's economy, which fell into a depression in the late 1920s, never fully recovered until the buildup for World War II and the waging of the war. Indeed, a few years after the passage of the Social Security package, the country was beset with the Roosevelt Depression. Some of FDR's aides were complaining that the nation faced economic conditions as bad as they had been under Hoover. The downturn began in the summer of 1937 and continued through the summer of 1938. Wrote two historians of the return to depression: "It was nothing short of catastrophic."[428] One commentator called the New Deal "the wedding of good intentions to bad economics."[429] "We Democrats," said a congressional representative during the recession, "have to admit we are floundering. …We are a confused, bewildered group of people."[430]

As noted in Section 4 above, by 1938, six years of New Deal policies failed to restore prosperity, and unemployment remained high. It is interesting to read the admissions of pro-FDR historians such as Doris Kearns Goodwin, who concedes New Deal policies hadn't solved the Great Depression by the eve of World War II. Robert McElvaine, for example, agrees that the economic security/Social Security plan made the depression worse because money

[427] Jodie Allen of the *Washington Post*, who generated controversy by insisting that Social Security is America's largest welfare program; in Martha Derthick's *Policymaking for Social Security*, p. 166 (Brookings Institution, Washington, D.C. 1979).

[428] *FDR's Fireside Chats*, Russell D. Buhite and David W. Levy, eds., p. 33 (Penguin Books, New York, 1992).

[429] *Franklin D. Roosevelt: A Rendezvous with Destiny*, by Frank Freidel, p. 145 (Little, Brown & Company, Boston, 1990).

[430] *The New Deal: America's Response to the Great Depression*, by Ronald Edsforth, p. 152 (Blackwell Publishers, Malden, Mass., 2000).

was taken from workers and employers, but wasn't scheduled to be paid out until years later.[431] (Payroll taxes began in 1936 with unemployment insurance. Old-age insurance taxes began in 1937. Social Security old-age insurance benefits were not scheduled to begin until 1942, although the schedule for payments was later accelerated. The famous Ida Fuller, the legal secretary who paid about $20 in taxes then proceeded to collect tens of thousands of dollars in Social Security payments over the next 30 years, began receiving checks in 1940.)

The depression of 1937-38 and the continued economic problems of 1939-40 seemed to validate the criticisms of John Gall and others who said Social Security had the same basic faults as the Townsend Plan and other redistribution schemes. Why had the Social Security/economic security package failed in its immediate economic goals? McElvaine and other historians argue that Social Security and other New Deal measures didn't go far enough. They say that FDR was afraid to take more than a small dose of Keynesianism, and when he went whole hog on Keynesianism and waged World War II, the economy responded.[432] Only the buildup to World War II, along with mass conscription when the war came, restored a strong economy.

## Reform Before Recovery

Social insurance supporters who conceded that Social Security failed as an economic restorative argued that it was a historic success for other reasons. Public works were constructed.[433] Reform—the building of a welfare state—had preceded recovery, an important political strategy because if recovery had come first, then it is unlikely Americans would have accepted a welfare state.

Americans have been told for 65 years that the maternal state that provides welfare services is necessary because it pulled the nation out of the Great Depression. This is a myth that deflects examination of the basic philosophy of a huge central government that does more than just pay out old-age insurance benefits; the welfare state, under America's biggest social insurance program, engages in wholesale social engineering.

In the wake of the birth and expansion of Social Security, the

[431] After praising the New Deal and FDR, McElvaine concedes, "For all it did, for all it changed, the New Deal never succeeded in its primary goal: ending the Depression." From *The Great Depression: America 1929-1941*," p. 337 (Times Books, New York, 1984).

[432] McElvaine, p. 330.

[433] *The New Deal: America's Response to the Great Depression*, by Ronald Edsforth, p. 288 (Blackwell Publishers, Malden, Mass., 2000).

federal government took responsibility for the care and feeding of tens of millions of its citizens, many of whom were capable of taking care of themselves. The states lost power to the central government. The American individualist philosophy was in retreat. Francis Perkins could rightly gloat and write of the Jeffersonian tradition of limited government, "Whatever that meant."[434]

## The Road to the Welfare State

Despite the failure of social insurance measures to restore the economy, America, with the passage of Social Security in 1935, was finally on the road to becoming a permanent welfare state. The FDR administration insisted nothing had changed; the American traditions of individual liberty, states' rights, and individual responsibility were intact. But much had changed. FDR knew how important the victory of Social Security was for his permanent welfare state, one that would expand under both Republican and Democratic administrations.

Many other welfare plans and inflationist schemes of his administration had petered out. Some other agencies were destroyed by court decisions that left FDR frustrated and threatening to restructure the court. Other administrations had been able to install only temporary measures. FDR succeeded where others had failed. He left a Social Security program that, for many decades, was invulnerable to criticism and partisan politics, just as he had intended. "FDR," writes one historian, "had a better claim than either Theodore Roosevelt or Woodrow Wilson to the title of the twentieth-century regulatory and administrative state; it was FDR who, more than anyone else, succeeded in replacing the nineteenth-century tradition of liberal individualism with his own brand of welfare state liberalism."[435]

Roosevelt's changes, another historian says, "converted a nation of aggressive individualists into a social minded nation accepting the principles of the welfare state."[436] A few years after the passage of the Social Security Act, the second part of the Roosevelt revolution took place. The same historian says Roosevelt's policies "changed an isolationist or largely isolationist nation into one committed to world partnership and world leadership."[437]

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[434] *The Roosevelt I Knew*, by Francis Perkins, p. 24 (Viking Press, New York, 1946).

[435] *The Last Patrician: Bobby Kennedy and the End of American Aristocracy*, by Michael Knox Beran, p. 25 (St. Martin's Press, New York, 1998).

[436] *The Place of Franklin D. Roosevelt in History,* by Allan Nevins; in the volume *Historical Viewpoints, Second Edition, Vol. II Since 1865*, John A. Garraty, ed., p. 304 (Harper & Row, New York, 1970).

[437] Ibid.

Winning the Social Security debate, FDR said, was critical. As he signed the bill into law in August 1935, he said that it was a victory of tremendous importance: "If the Senate and the House of Representatives in this long and arduous session had done nothing more than pass this Bill, this session would be regarded as historic for all time."[438] FDR understood the importance of the revolution of 1935. More important than just a new social insurance program that was the crown jewel of an American welfare state, his legacy would be accepted by both major political parties. For generations to come, there would be no serious discussion of the principles of the welfare state, but only about how fast it should expand.

After Social Security began, the federal government disingenuously claimed it was setting up "a Social Security account"[439] for each taxpayer. Such claims, FDR said, had a political purpose: "That account is not useless. That account is there so that those sons of bitches up on the Hill can't ever abandon this system after I'm gone."[440]

As discussed earlier, FDR's grasp of economics was faulty. His New Deal policies, which included establishing a huge new social insurance program to tame the business cycle, failed by any objective standard. But FDR won the political debate in the 1930s and, ostensibly, forever. It was a debate about the nature of government and the existence of public bureaucracies themselves. Social Security commentator Robert Dahl, writing in his book *Turning Points of Social Security*, said, "Nothing is harder to create than a new institution. Nothing harder to destroy than an established one."[441]

Conservative economist Milton Friedman, who during his wartime government service helped initiate the withholding tax, has said that once bureaucracies are created, they exert a tyranny of the status quo. He should know. The withholding tax—which was designed to help generate revenue for World War II and which was supposed to end with that war—is now a permanent fact of life. Similarly, no one suggests that sunset laws could ever apply to Social Security. Said one HEW secretary: "How are you going to terminate a retirement program that people have been paying into with the expectation of receiving money back?"[442]

Sixty-seven years after Social Security's founding, as Americans

[438] *Public Papers and Addresses of Franklin D. Roosevelt, 1935* (U.S Government Printing Office, Washington, D.C.).
[439] See Dorcas Hardy's *Social Insecurity*, p. 7.
[440] Ibid.
[441] *Turning Points in Social Security*, by S. Tynes, p. 38 (Stanford University Press, Palo Alto, Calif., 1966).
[442] *Two Lucky People: Memoirs*, by Milton and Rose Friedman, pp. 122-23 (University of Chicago Press, Chicago, 1998).

grapple with the controversial issues of increasing payroll taxes for a ravenous welfare system whose long-term actuarial foundations are shaky, this institution has proved that people with such diverse viewpoints as FDR, Dahl, and Friedman were in agreement. The passage of Social Security was a decision, a change, from which America has never turned back. The welfare state is as much a part of our lives as television. Only the end of this program of apparently endless entitlement—whose supporters never concede it should see any change other than expansion—can begin the move to restore a classical liberal America. Social Security is, and may always be, the crown jewel of the American leviathan state.

## Postscript—The Lessons of the Revolution

> *"Above this race of men stands an immense and tutelary power, which takes upon itself alone to secure the gratifications and to watch over their fate. That power is absolute, minute, regular, provident, and mild. It would be like the authority of a parent if, like that authority, its object was to prepare men for manhood; but it seeks, on the contrary, to keep them in perpetual childhood…."*
> —Alexis de Tocqueville[443]

Social Security followed the rules of other government bureaucracies: Start small. Target a group said to be in need, a group no one in the private sector supposedly can or will help. Argue that the government is filling a need that the private sector is incapable of serving.

Government bureaucracies, which often begin modestly and then grow, grow enormously because they allow no competition from the private sector. Indeed, they prevent it, either indirectly through taxation and regulation to make competition difficult, or by making competition illegal.

The debate is philosophical. Bureaucrats say it is ridiculous to think the private sector can provide services such as mail delivery, pensions, or railroads, though all these services were provided efficiently by the private sector before regulation led many entrepreneurs to abandon industries.[444]

[443] *Democracy in America*, Alan Ryan's introduction, p. 318 (Everyman's Library, Knopf, New York, 1994).

[444] Consider the subways of New York City. They were built with private funds, but the fare was regulated by state and city authorities who insisted it not be raised above a nickel, preventing private owners from generating sufficient revenues for profits and improvements. The last private owners were happy to sell out in the early 1940s. Once publicly owned, the fare grew from a nickel to $1.50 over 60 years, a 2,900-percent increase. But no one complains about obscene profits in the public sector because—given its waste and mismanagement—there are no profits and

Government bureaucracies are usually led by people considered experts in their field. Often, the claim of expertise is conferred by journalists who claim they are objective, but who favor socialist policies. The experts often believe their goals are noble. The logic of their arguments is this: People must be saved from themselves; society must be saved from above; the benighted must be saved by the enlightened.[445] Many of these reformers were players in the great Social Security debate of 1935.

Such reformers believe in "a dictatorship of virtue."[446] They are happy for their state welfare systems, their Great Society, Square Deal, New Nationalism, New Freedom, and New Deal, to be mysterious and take on quasi-religious overtones so people who dare to question their foundations can be depicted as radicals and virtual heretics, as most critics of Social Security have been until the last twenty years or so (when huge payroll tax increases became effective, leaving many Americans paying more in payroll taxes than income taxes).[447]

The system, advocates believe, must be above politics, just as the welfare state is in the United States today despite several conservative administrations that were supposedly elected to dismantle it.[448] And, most of all, it must be complex. The survival of the system, said one Social Security official some 40 years ago, is assured because people don't understand it.[449] And as noted earlier, Social Security officials have referred to their training as a process of "getting religion."[450]

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service is substandard! Another example: Despite several bond issues, the state authorities have been promising a new Second Avenue Subway line for 60 years.

[445] See *Dictatorship of Virtue*, by Richard Bernstein (Alfred A. Knopf, New York, 1994).

[446] Ibid.

[447] "The simple fact is that FICA contributions are just a second income tax masquerading under a more acceptable name." See Martin Gross's *The Tax Racket*, p. 12 (Ballantine Books, New York, 1995).

[448] On the whole, wrote Derthick, Republicans in charge of Social Security have been very liberal (p. 67).

[449] "Continued general support for the Social Security Administration hinges on continued public ignorance of how the system works. I believe that we have nothing to worry about because it is so enormously complex that nobody is going to figure it out"—a Social Security official quoted in *The Social Security Fraud*, by Abraham Ellis, pp. 58-59 (FEE, Irvington-on-Hudson, N.Y., 1996).

[450] Arthur Altmeyer, one of the first generation of Social Security executives, says Social Security officials were given such initial training that they learned to look at Social Security as almost a religion. "They did it so they had religion. They had it complete." See *The Real Deal: The History and Future of Social Security in America*, by Sylvester J. Schieber and John B. Shoven, p. 10 (Yale University Press, New Haven, Conn., 1999).

The belief in this huge entitlement becomes a form of theocracy. A person who doesn't believe is an "extremist," outside the political mainstream.[451] But the Social Security problem of recent years is that many of the former true believers have developed doubts: More than a few former Social Security officials and advocates, after years of overseeing this giant program or boosting it, have lost faith.[452] Others, while still supporting the concept, have confessed to a few doubts and have called for previously unthinkable reforms, such as allowing part of the taxpayer's "contribution" to go into a private account.[453]

[451]Any presidential candidate who meant to tamper with Social Security was "a candidate for a frontal lobotomy"—Jack Kemp. See Derthick, p. 16.

[452]Typical is *The Big Lie: What Every Baby Boomer Should Know About Social Security and Medicare*, by A. Haeworth Robertson, former chief actuary of the Social Security Administration (Retirement Policy Institute, Washington, D.C., 1997). See also Dorcas Hardy's *Social Insecurity*.

[453]Two examples of Social Security supporters who now concede there should be some partial privatization are Sam Beard, in *Restoring Hope in America: The Social Security Solution* (Institute for Contemporary Studies, Oakland, Calif., 1996); and *New Century: New Deal*, by Wade Dokken (Regnery Publishing, Washington, D.C., 2000). Both identify themselves as liberal Democrats, with Dokken celebrating his friendship with President Clinton and his wife. Beard is a former aide to Senator Robert Kennedy.

Nevertheless, the Social Security theocracy is still with us today because supporters, some of whom concede that the program has problems, have been able to convince media elites that the program is still needed for paternalistic reasons. At the heart of any government welfare program is the idea, which many say is a well-intentioned one, that people must be cared for by the government because most of them would never be able to take care of themselves.[454] For example, in the case of Social Security, officials say the average person can't be trusted to save for his or her own retirement; that only with the help of the government can the average person ever hope to live decently in old age.

Paul Webb, a Social Security regional commissioner in the 1970s, rejected the notion that if people didn't pay into Social Security, they would save more: "Critics make the unlikely assumption that we humans, if we didn't pay into Social Security, would wisely save our money or buy a private insurance policy of high value."[455] But whether a person is thrifty or believes in the modern institution of retirement begs the issue. Webb assumes that he or some government bureau knows what is the optimum amount for any given individual to save for retirement in

[454]See Ellis, *The Social Security Fraud*, p. 97.

[455]Ibid.

the first place, better than the individual could know.[456]

Bureaucrats don't even consider the bigger issue: Is it right for some government department to decree that everyone should retire? There are millions of Americans who have no intention of retiring. Why should they be forced to "save" for a thing they never expect to do? Why not force someone to save for law school, even though he or she has no intention of going to law school? Why should any adult be forced to save for anything? Isn't it his money?[457]

Webb, and others who believe in the welfare state embodied in Social Security, implicitly argue that some Platonic guardians[458] can be trusted to manage billions of dollars of assets. And, of course, they believe themselves to be the right guardians, the wisest among us. Their beliefs imply that all Americans consent to this loss of liberty because this kind of liberty—the right to control the fruits of one's labor—would amount to license.

The triumph of this paternalistic philosophy is one of the lessons of the Social Security revolution of 1935, which, more than any other event, created the modern American welfare state. We see the debate over this statist philosophy repeated even today, more than 65 years later. The debate about privatizing all or part of Social Security is a repeat of the debate over the Clark amendment of 1935.[459] The Clark amendment, offered as the first Social Security legislation was about to become law, didn't seek to destroy the new entitlement program; it merely sought to set up competition with it. Those private employers who were willing to offer a private pension plan as good as Social Security would have been exempted from the new mandatory Social Security system. It was disallowed by Social Security

[456] Derthick, p. 5: "for the vast majority, participation is involuntary."

[457] The "returns" of Social Security are about 2 percent. That's much lower than an average portfolio of stocks and bonds. The Social Security payback period has increased from 1.1 years, for those retiring in 1960, to 12.9 years in 2000; that figure that will rise to 18.3 years by the year 2010. See Carolyn Weaver's article in *The Fortune Encyclopedia of Economics*, David R. Henderson, ed. (Warner Books, New York, 1993).

[458] "Plato's moral code," writes philosopher Karl R. Popper, "is strictly utilitarian; it is the code of collectivist or political utilitarianism. The criterion of morality is the interest of the state. Morality is nothing but political hygiene." See Popper's *The Open Society and Its Enemies*, vol. 1, p. 107 (Princeton University Press, Princeton, N.J., 1971). And even if one allows the notion that some wise ruler should arrange every detail of our lives, Judge Learned Hand once wrote that it was futile: "For myself it would be most irksome to be ruled by a bevy of Platonic Guardians, even if I knew how to choose them, which I assuredly do not." See his *The Bill of Rights*, p. 73 (Harvard University Press, Cambridge, Mass., 1958).

[459] See Section 10 for more on the Clark amendment.

supporters in 1935.[460] Here, again, is the lesson of every government bureaucracy: Make private competition illegal, or make it so difficult through regulation that no one will compete. Statists then say, "We told you so. Only the public sector can do these things."

This vicious circle must be broken if Americans are to resurrect their philosophical origins. The lesson of 1935 is that collectivism must be confronted in the marketplace of ideas. Americans must understand that, when they support Social Security, government price controls, and nationalized businesses such as the comical Amtrak,[461] the price of this support is more than high taxes; it is the erosion of their liberty.

As Alexis de Tocqueville warned, the alternative is not easy—liberty has a high price.[462] But liberty's benefits are innumerable and invaluable. The battle over the continuance of Social Security over the next few years will be an essential part of determining whether Americans are ready for liberty. The goal must be nothing short of eliminating this program of forced wealth redistribution and replacing it with voluntary programs of retirement savings.

Have the lessons of 1935 gone so far and taken away so much of America's liberty and self-sufficiency that Americans are finally ready to understand that socialism is too expensive? Friends of liberty must hope that Leviathan's blunders have finally changed the philosophical current. They must hope that a new generation of Americans will once again value liberty over democratic socialism masquerading as security. ❸

[460] For more on this, see *Social Security and Its Enemies: The Case for America's Most Efficient Insurance Program*, by Max. J. Skidmore (Westview Press, Boulder, Colo., 1999). Skidmore writes, "Despite the rosy promises of its advocates, privatization does not guarantee a better return, a good return or even any return," p. 4. To the contrary, stocks have easily beaten the "returns" of Social Security over any long period. As Professor Siegel documented in his book, *Stocks for the Long Run*, the historic return of equities is about 9 percent a year. No social insurance system in the world has come anywhere near this.

[461] *Amtrak Subsidies: This Is no Way to Run a Railroad*, by Stephen Moore (Cato Institute Home Page, "This Just In," May 22, 1997). See also my article on Amtrak, "Financial Train Wrecks Ahead," in the March 2002 issue of the Mises Institute's *The Free Market*.

[462] "Nothing is more fertile in prodigies than the art of being free; but there is nothing more arduous than the apprenticeship of liberty…. Liberty is generally established with difficulty in the midst of storms and is perfected by civil discords; and its benefits cannot be appreciated until it is already old." From Alexis de Tocqueville's *Democracy in America*, as quoted by F.A. Hayek in his book, *The Constitution of Liberty*, p. 54 (University of Chicago Press, Chicago, 1960).