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The Moral Case for Social Security Privatization

by Daniel Shapiro

Executive Summary

The most important arguments for Social Security privatization are moral, not economic. Privatization would not be justifiable if it were economically beneficial but morally suspect.

However, a privatized Social Security system meets moral criteria far better than does our current, bankrupt, pay-as-you-go system. A privatized Social Security system gives individuals more freedom to run their lives, is fairer, provides more security, and creates less antagonism between generations, fostering a greater sense of community.

In fact, privatization is defensible not only from the classical liberal or libertarian perspective, based on maximizing individual choice and liberty, but from virtually every perspective in political philosophy. Egalitarians, who frame their arguments in terms of fairness, welfare theorists who frame their arguments in terms of economic security, communitarians who frame their arguments in terms of community, and anyone who frames an argument in terms of whether average citizens understand the institutions or programs which they are asked to support, should all support privatization.

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Introduction

The economic effects of Social Security privatization are the subject of intense debate among public policy analysts. Will privatization boost national savings? Will it increase the rate of economic growth? What are the transition costs? These are all important questions. However, the primary concerns about Social Security privatization are moral, not economic. Social Security was accepted by most Americans on moral grounds. Ultimately, Social Security privatization will not be politically viable unless it is defensible on moral grounds. The morality of privatization is not, however, simply a strategic matter. Privatization would not be justifiable if it were economically beneficial but morally suspect.

One might expect that a moral argument for privatization would be framed in terms of classical liberal values, such as respect for individual rights and the liberty to manage one's own affairs. Indeed, such values are an important reason to privatize Social Security—but they are not the only reasons or the only values that direct us to a new Social Security system based on individually owned, privately invested retirement accounts.

We live in a society that celebrates moral pluralism, where different values compete for the most politically significant award. While most Americans believe that individual rights and liberty are important, values such as fairness, community, and security are also considered important. When those values appear to be at odds, some people think liberty must be traded off for the other values. Thus, they do not consider arguments framed solely in terms of individual rights to be compelling. Privatization, however, is defensible not only from the classical liberal or libertarian perspective but from virtually every perspective in political philosophy. Egalitarians, who frame their arguments in terms of fairness, welfare theorists who frame their arguments in terms of economic security, communitarians who frame their arguments in terms of community, and anyone who frames an argument in terms of whether average citizens understand the institutions or programs which they are asked to support, should all support privatization.

Liberty

The classical liberal view holds that individuals have the right to run their lives as they see fit, provided they do not interfere with the right of others to do the same. That, of course, is a very abstract concept which requires elaboration. Classical liberals or libertarians provide that elaboration via a set of rights to life, liberty, and property. These are negative rights, that is, the only duty they impose is to refrain from certain actions (murder, rape, assault, theft, and so on). Libertarians believe that positive rights, which require individuals to do something for someone, arise only through voluntary relations, for example, through contract or by assuming a responsibility such as being a parent.

Why is the liberty that is provided by protection of our basic rights so important? Four kinds of overlapping reasons are commonly invoked to answer that question. First, the fact that we don't know automatically what to do with our lives is a powerful reason for allowing people the freedom to discover what the best future might be. Humans don't come with a book of instructions. Though biology and culture give us various ends, we need to order these ends, figure out the best ways to pursue them, evaluate whether they are really worth pursuing, and—since we are all quite fallible—very likely revise some of them. Second, many of the plans and projects, ambitions and goals we pursue would have little value unless we chose them, endorsed them, or in some sense had a role in shaping them. Freedom from coercive interference is a necessary ingredient in this shaping, or molding, process. When we discover or decide what to do with our lives, we put our own stamp on the social matrix that helps shape our lives, so that our lives are not merely a social product but our own.

Third, liberty is essential—to paraphrase Immanuel Kant's often quoted dictum—we are to treat people as ends in themselves rather than merely as means. Coercion, using force or threats of serious harm to bend someone to one's own will, treats people as if they were mere resources for our consumption and pleasure. Voluntary interaction with others, on the other hand, demonstrates a respect for the kind of beings we are: human beings whose powers of rational thought and judgment enable us to live lives of our own and be responsible or accountable for what we make of them. That we view individuals as able to make something of themselves is (in part) what gives them dignity.

Fourth, liberty helps people flourish. The motto "be all you can be" is not just a slogan for the volunteer army but a reasonable description of how humans generally fare in a free society. A society which protects rights to life, liberty, and private property produces enormous prosperity and a flowering of voluntary organizations and associations. This in turn provides a wide range of opportunities for diverse individuals to find a way of life or career or project that is fulfilling. The more opportunities, the greater the possibility for finding fulfillment.

A purely voluntary pension system is most compatible with this classical liberal emphasis on liberty. From an economic standpoint, a pension system is an arrangement by which resources are made available (by investment and/or taxation) for retirement and old age. But from a classical liberal perspective, it is much more. Retirement decisions are part of major life decisions. Retirement decisions depend upon one's occupation, one's trade-off between work and leisure, one's time preference, the extent to which concern for the future guides one's present plans and goals, and so forth—and all of these are intimately involved with one's self-definition, one's ambitions, and one's goals. Thus the freedom to decide what kind of retirement to have, when to cease working, how much to put aside for one's retirement at various points in one's life, and how to invest or utilize one's contributions to one's pension are all freedoms that go to the heart of the freedom and responsibility to shape one's life. A system that is most attuned to that freedom and responsibility will leave pensions solely to market arrangements and leave support for the elderly who have inadequate or no pensions to voluntary organizations and familial arrangements.

However, many people find the idea of a purely voluntary system scary: they think it will not adequately provide for those who do not or cannot plan for their future. Such worries are likely exaggerated. When people are treated as responsible, that is, accountable, for their lives, this tends to instill another type of responsibility, the type of responsibility we speak of when we commend or admire someone for being trustworthy, reliable, and dependable. When people are treated as accountable for what they have made of themselves, they tend to respond to life's challenges and opportunities. This response involves not only making something of their own lives, but assisting those who cannot or will not cope with the challenges life brings. Prior to the rise of the welfare state, a variety of charities and mutual aid societies flourished, and these groups attended to the needs of those who fared badly.[1] Even with today's oppressive level of taxation and regulation, Americans are quite generous and sensitive to the problems of the unfortunate and disadvantaged. Indeed, it is the welfare state that has decreased our sense of responsibility to others: if the state can provide, if we can get later generations to fund our pensions, our motivation to assist others is diminished.[2]

Having said all that, there is little doubt that a purely voluntary pension system is not a feasible alternative for the foreseeable future. The privatization proposals introduced in Congress, and suggested by leading think tanks, envision a system of mandatory savings. While those proposals take a variety of forms, one useful model is the system adopted first by Chile in 1981. In the Chilean system, the funding and management of pensions is left to the market: individuals own their own retirement account and choose, within limits,[3] how to invest their contributions, and at retirement, in what form to receive their pension (e.g., phased withdrawals or annuities). However, employees are required to contribute a certain minimum annual percentage of their salaries to their pension savings account, and the government provides a safety net for those whose pensions at retirement are inadequate or nonexistent.

A system of compulsory private pensions does arguably infringe on or interfere with one's liberty and property rights since it compels contributions without that compulsion being necessary for the protection of others' rights. But compared with Social Security, this is far more respectful of classical liberal values. There is no property right to a pension in Social Security[4]—not surprisingly—since the system is a pay-as-you-go system that funds pensions mainly by taxes on present workers, rather than prior investment of workers' contributions. Thus one has virtually no freedom to determine how one's contributions are to be utilized. Responsibility for one's retirement is shifted, to a significant extent, from workers and retirees to the government, particularly for those with limited income and little or no additional sources of retirement funds.

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Equality and Fairness

It's no great surprise that a private pension system scores better on libertarian values than does the current Social Security system. But some people believe that a better score does not settle the question. For these people a just system is a fair one, and many academics understand fairness in an egalitarian sense.

Egalitarianism can be understood in two different ways.[5] Strictly speaking, egalitarians value equality as such, that is, they value equality not merely as a means to some other end but as an independent value. Understood this way, egalitarianism aims to minimize *relative* inequalities. On the other hand, some egalitarians place a very high value on *absolute* improvements in the lives of the worst off or most disadvantaged and attach no independent value to the size of the gaps between the worst off and other groups. Few egalitarians, it is important to emphasize, believe that inequalities per se or simply not being well off are injustices. Rather, most believe that justice requires minimizing *unchosen* inequalities or improving the condition of the worst off to the extent that their condition arises through no fault or choice of their own.[6]

By either definition egalitarians should favor privatizing Social Security. To see why, compare the intergenerational effects (relations between generations) and the intragenerational effects (relations among members of the same generation) of the two alternative systems.

The intergenerational effects inherent in the evolution of a pay-as-you-go (PAYGO) system are well understood. Social Security was a great deal for earlier generations (roughly, those born prior to the end of World War II): payroll taxes were relatively low, and retirees (who did not pay into the system their whole lives) got a great "rate of return" on their taxes, far above a normal market investment. The support ratio—the ratio of workers to retirees—was high, thanks to vigorous population growth, which supplied a steady stream of new taxpayers, and the relatively low life expectancy of retirees, which moderated growth in the implicit public pension debt—that is, the liability for expected future benefits. Those days are gone. Today's retirees have paid Social Security taxes their whole lives, life expectancy has increased, and population growth has slowed. The maturation of the system and a decrease in the support ratio has left us with high payroll taxes, a poor "rate of return" for young workers, and a huge implicit public pension debt. (That debt has not been reduced by the so-called surplus in the Social Security trust fund because the surplus is helping to finance the general operations of the federal government.)[7] These burdens placed upon later generations—which result simply from their time of birth and thus are not their fault or choice—are absent in a private system which invests workers' contributions. A system which invests contributions doesn't burden later generations and yet still gives earlier ones a good rate of return.

The intragenerational effects of Social Security are somewhat more difficult to evaluate.[8] Social Security may appear to have progressive redistribution because it has a progressive benefit formula: those with lower earning histories get a somewhat higher proportion of their past income in benefits than do higher-income recipients. However, upper-income people tend to enter the workforce later than the poor and to live longer after retirement. (Indeed, the poor have much higher death rates before age 65 than do the affluent.) This means upper-income people will pay into the system for fewer years and receive more in benefits than lower-income people over a lifetime. Furthermore, Social Security is funded in a regressive manner, by a flat payroll tax with a ceiling on the wages taxed. Studies of the intragenerational effects of Social Security have disagreed about whether the affluent's longer life expectancy, later entrance in the workforce, and Social Security's regressive funding make the system as a whole regressive in its intragenerational effects. Some have found that to be so, while others have found that the system is very slightly progressive. However, the categories of "poor" and "affluent" are too simple for egalitarian purposes, as most egalitarians are interested in inequalities between the worst off or disadvantaged and the better off or advantaged; and being bad off or well off is not simply a matter of one's income. In this regard, Social Security has particularly pernicious effects among some groups that egalitarians are likely to consider among the most disadvantaged. For example, blacks do less well than whites, and black males born in the early 1970s who earn about half the average wage, will get a negative return from Social Security.[9] Thus, all in all, Social Security's intragenerational redistribution is pretty dismal by egalitarian standards.

Compulsory private pensions, in contrast, have more positive intragenerational effects. While market pensions do not redistribute wealth among persons or groups, the safety net provided by the Chilean system does create progressive redistribution, since it goes only to the elderly poor and is financed out of general revenues, not through regressive payroll taxes. Furthermore, the absolute position of the poor and disadvantaged will greatly improve under a private system. The rates of return in a private system are much greater than in Social Security, and most of the poor's postretirement income at present comes from Social Security.

To summarize, egalitarians who are concerned with relative inequalities should favor a private system because it avoids the enormous intergenerational transfers from later to early generations and has more progressive intragenerational redistribution. Egalitarians who are concerned with the absolute position of the poor should also favor a private system because it will significantly raise their retirement income.

The above analysis interprets fairness from an egalitarian viewpoint. However, another common understanding of fairness links fairness not with equality but with reciprocity and mutual advantage. The opposite of reciprocity is exploitation, which is usually defined as a failure to get the value of one's contribution, and being forced or having little choice but to participate in a relationship or exchange. Social Security is more unfair in this sense than private pensions: it burdens later generations with a difficult-to-escape tax liability and gives them a rate of return far below what they could obtain from a private system.

Economic Security

Welfare state programs are frequently justified by the claim that there are welfare rights—that is, positive rights to economic security or a minimal level of well-being. Classical liberals believe that there are no welfare rights; as noted earlier, they believe that positive rights arise only through voluntary relationships.[10] Clearly, not everyone agrees. Even so, it is odd to justify Social Security by appealing to welfare rights, since such rights are usually founded on need, and Social Security is not a need-based or means-tested program. True, there are some need-based aspects of Social Security, such as its progressive benefit formula and the reduction in benefits if one works after reaching the official retirement age. But the program as a whole is not run, and not considered by its recipients, as a welfare program. It is considered social insurance, with one's entitlements tied to one's earning history; and it is funded by a payroll tax, which is meant to suggest earmarked contributions, rather than by general revenues, which fund welfare programs. Thus, premises about welfare rights cannot be used to defend Social Security—even apart from the question of whether or not those premises are true.

Political theorist J. Donald Moon has argued that social insurance programs can be defended as a politically viable way to enact welfare rights into law without undermining norms of self-respect.[11] Means-tested programs threaten the idea that self-respecting, able-bodied adults will support themselves through productive activity, because such programs base benefits upon need, thus enabling adults who can work to obtain benefits without work. They thus divide the community of able-bodied adults into two classes, those who are responsible moral agents who support themselves through work, and those who depend purely upon others for meeting their needs. That is why being "on welfare" is a pejorative phrase and why Congress recently enacted welfare reform that is supposed to make welfare conditional upon work. Social insurance programs, in contrast, are universal, so no stigma is attached to being a beneficiary; and because one's benefits are tied to one's productivity, then the right to receive benefits is compatible with being viewed as an independent person with self-respect, not someone purely dependent upon others for meeting one's needs. In this way, economic security is provided without being based upon need.

Moon's argument may show that Social Security is more compatible than means-tested programs with the idea that self-respecting, able-bodied adults should be productive and not purely dependent upon others for meeting their needs. However, if we use this standard of productiveness to compare a compulsory private pension system with Social Security, the former is a clear winner. Since Social Security is a PAYGO system, its link with individual productivity is extremely weak: while one's earning history does help determine, in part, one's benefits, one's pension is funded primarily by *others'* contributions or taxes. Normally, when we think of individuals as productive and supporting

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themselves through work, we mean that they receive income for *their own* contributions. That does not happen in Social Security. It does occur in a system of compulsory private pensions (except for the elderly poor who receive the minimum pension guarantee).[12]

Not only does a compulsory private system do a better job of maintaining the link between economic security and productiveness, it also provides more security, ironically, than Social Security. One's security is a function of (1) a guarantee or high probability of an income, and (2) the amount of income guaranteed. In the early stage of a PAYGO system, retirees and workers who retire within 15 to 35 years after the founding of the system have more security than they have under any private alternative.[13] Social Security in this early stage performs better than a private system on (2), while it is no worse on (1), because, at this stage, benefit levels are being redefined to retirees' advantage and the large supply of workers and low life expectancy limits the disadvantage of an increase in workers' tax rates . However, in the later stages, retirees and workers have less of both (1) and (2) than in a private system. The rate of return is lower, and worries today about whether promises will be kept are widespread because, to maintain the benefit levels earlier generations received, taxes will have to rise sharply. Thus, Social Security *redistributes* security over time. Early generations are made more secure at the price of reducing security for later ones. In contrast, a private system keeps all generations at the same level of fairly high security, in the sense that over time one's rate of return in the capital market will provide one with a substantial pension, regardless of which generation one belongs to.[14] The value of security seems to decrease if it is achieved at the expense of others. Thus, a private system is better than Social Security on this score.

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Community

Social Security is more coercive, less fair, and provides less economic security than a compulsory private system. Perhaps, though, Social Security can be defended on communitarian grounds. Communitarians are those who think our relationship to various communities is so important for our individual and social well-being that under today's circumstances some degree of individual liberty may need to be sacrificed to sustain that relationship.[15] Two ideas seem central to communitarians' analysis or definition of community. First, a community is an association of individuals who share some common values and interests—in particular a sense of what is public and private—or to put matters somewhat differently, a shared sense of the common good. Second, a community has a shared sense of solidarity, that is, a sense that one's identity is at least partially defined by one's membership in this association.[16] Since the United States, as a nation, does share some values and interests, and to some extent does constitute its citizens' identities, then communitarians will tend to favor the pension system that has a comparative advantage in sustaining common values, interests, and feelings of solidarity among Americans.

One way in which a pension system might sustain such values and interests is the way it expresses some idea of shared responsibility. Social Security might seem to have a comparative advantage for communitarians in this regard. A compulsory private system, which establishes a property right to a pension, is basically a system of individual responsibility plus a residual safety net for the indigent. While Social Security has traces of a notion of individual responsibility (one's earning history helps determine one's benefit level), the absence of individual property rights to a pension and its PAYGO nature mean that it is primarily others—in one's own generation and previous generations—who assume responsibility for one's retirement (and vice versa.) As the Social Security Advisory Commission report put it, "Social Security is based on the premise that *we're all in this together*, with everyone sharing responsibility not only for contributing to their own and their family's security, but also the security of everyone else, present and future."[17]

This communitarian defense of Social Security may have been plausible before current generations started getting a raw deal. But when a system produces severe intergenerational inequalities, and when public awareness of this unfairness comes to the surface, that system's mechanism for sharing responsibility no longer promotes a sense of solidarity among citizens or between generations. In fact, the opposite will more likely occur. Furthermore, as some communitarians have noted, a pension system cannot sustain a sense of solidarity if it does not keep its promises.[18] Social Security is rife with deceptive rhetoric and misleading terminology. Calling Social Security *social insurance*, payroll taxes *contributions*, and government IOUs *trust funds*,[19] all gives the distinct impression that Social Security is a funded pension plan rather than a PAYGO system. Even if citizens believe they are not being promised a market rate of return and understand that Social Security cannot promise such a return,[20] PAYGO systems make it very difficult for them to understand the system and determine just what is being promised. The relationship between taxes paid and benefits received is opaque: frequent changes are made in the taxation and benefit rates and schedules, its actuarial status is heavily dependent upon population trends and growth in wages, and in general the system is subject to frequent political maneuvering. Not surprisingly, accurate information about the way the system is being run, its likely future performance, and so forth is hard to come by. The absence of individual property rights in a PAYGO system means there is no incentive to provide such information (and makes it harder to enforce any obligation to provide such information).[21]

A privatized system, on the other hand, is transparent compared with Social Security, and its promises are not difficult to keep. A private system, except for the minimum pension guarantee, is a defined contribution system: the value of one's pension at retirement depends upon market returns. Unless fraud is present, defined contribution systems generally deliver market rates of return, which is what they are designed to do.[22] The relationship between premiums and benefits is easy to understand. Private pension plans have both the incentive and the obligation to provide information about their actuarial status and their rate of return, so the investor or participant has a reasonable basis for understanding the system. In addition, participants have a genuine property right in the system, which adds further incentive to follow and monitor the progress of their investment or contribution. With the exception of the definition of the minimum contribution and minimum retirement pension, a private system is not inherently subject to political manipulation.

Thus, surface impressions to the contrary, communitarians should favor a private pension system. In its earlier stages, Social Security may indeed have helped sustain the kind of solidarity that communitarians prize. But the earlier stages have given way to the later stages, producing huge intergenerational inequalities and giving citizens a sense that solemn promises made to them will not be kept.[23] On the other hand, a private pension system avoids unfair intergenerational redistribution, keeps its promises, and still retains some sense of shared responsibility via its minimum pension guarantee. Thus it doesn't produce the same potential for setting citizen against citizen, generation against generation, that Social Security does in its later stages.

The problem can be put a different way: communitarians should not applaud the sense in which "we are all in this together" in Social Security. In the later stages of Social Security, "we are all in this together" means, roughly, "we (later generations) are all stuck with this unfair pension system now and cannot easily escape its burdens." In a privatized system, "we are all in this together" is basically a reminder to help the elderly poor via the minimum pension guarantee. The latter, it is true, does not symbolize any intergenerational sharing of responsibility.[24] But since the system is fair and keeps its promises, it is more conducive to harmonious relations between generations.

Public Justification

No one doubts that, until recently, social insurance programs like Social Security were quite popular. Does this help justify Social Security, despite the arguments given above? No, because public *support* does not imply public *justification.* Public justification means that the public had good reasons for supporting the program. But the public could not have good reasons if it was seriously misled or misinformed about the program it endorsed, for then it could not understand what it endorsed. With regard to being misled, the rhetoric surrounding Social Security and the way it operates blocks the public's access to reasonably reliable or accurate information about the system. This is not true for a private system. With regard to being misinformed, there is considerable evidence that the illusion that Social Security is akin to funded pensions may very well have been crucial to obtaining the high level of support that it has enjoyed until very recently.[25]

Some defenders of Social Security have conceded the above points but argue that a reformed Social Security system would be justified if it becomes more like market insurance and thus

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more comprehensible and less subject to misinformation. They propose the following:

1. Place Social Security in a separate budget, and establish rules to prevent it from being influenced by the normal budgetary maneuvering.
2. Invest payroll taxes in whatever would lessen the implicit public pension debt with the least risk (e.g., some combination of private and government securities).
3. Allow individuals to partially opt out of Social Security, thus creating some direct competition between Social Security and market pensions.
4. Provide the equivalent of accurate quarterly or annual reports, and make widely available to all recipients of Social Security accurate information about its actuarial status, expected rates of return, and so on.

While reforms like these would make Social Security more like a private system, a Social Security system that merely imitates a private system is obviously inferior to the real thing. The reformed Social Security system would still remain PAYGO, and so determining one’s rate of return, the actuarial status of the system, and so forth, would remain difficult compared with a private alternative.

There is an even deeper problem with arguments that Social Security can be reformed to make it is easier to obtain accurate information about its functioning. Recall that this section began with the understanding that public *support* does not translate into public *justification* if the public has difficulty comprehending the institution it supports. However, making accurate information about Social Security might well eliminate or drastically reduce public support for the system, so that the issue of the relationship between public support and justification wouldn’t arise in the first place. Equating Social Security with fully funded market insurance (or viewing them as closely analogous) was and has been crucial to its support, suggesting that if the government advertised loudly, clearly, and persistently that the system is PAYGO (i.e., there are significant intergenerational transfers that harm later generations, one’s taxes are not being invested in a genuine trust fund, and the system should not be confused with market insurance), then public support for Social Security would decline. On the other hand, since a compulsory private system is (largely) market insurance and not PAYGO, accurate information about its nature is no obstacle to its obtaining public support.

Conclusion

Social Security is one of the cornerstones of the welfare state. Until very recently, it was considered politically untouchable, morally sacrosanct, and a success story, one all welfare-state advocates could point to with pride. Those days are gone. Defenders of Social Security acknowledge that they are on the defensive.[26] Social Security privatization is now politically acceptable, and a significant number of Americans no longer see Social Security as a success story. The moral shroud that used to surround Social Security is an illusion: there is no moral argument for Social Security. Not only would a private system provide more freedom, as libertarians stress, not only would it provide economic benefits, as policy analysts stress, but it would be fairer and more comprehensible, provide greater security, and help blunt antagonisms between generations. In short, privatization is a win-win proposal and is justified regardless of which political values one thinks most important. This message should be trumpeted loudly and clearly. The retirement system we have been stuck with for so long is not just bad for our pocketbooks and our freedom–it’s bad, period.[27]

Notes

[1]For a history of mutual aid societies in the United States, see David Beito, “Mutual Aid for Social Welfare: The Case of American Fraternal Societies,” *Critical Review* 4, no. 4 (Fall 1990): 709–36; and “‘This Enormous Army’: The Mutual Aid Tradition of American Fraternal Societies before the Twentieth Century,” *Social Philosophy and Policy* 14, no. 2 (Summer 1997): 1–19.

[2]See, for example, David Schmidtz and Robert Goodin, *Social Welfare and Individual Responsibility* (Cambridge: Cambridge University Press, 1998); Michael Tanner, *The End of Welfare Fighting Poverty in the Civil Society* (Washington: Cato Institute, 1996); and Tibor Machan, *Generosity: Virtue in Civil Society* (Washington: Cato Institute, 1998).

[3]In Chile, workers may invest only in specialized pension fund management companies. Only one fund per worker is allowed, and only one fund per management company. These restrictions are not necessary for the operation of a compulsory private pension system, nor an essential part of a defense of Social Security privatization. On Chile’s system, see *World Bank Policy Research Report, Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth* (New York: Oxford University Press, 1994) ch. 6 and E. Philip Davis, *Pension Funds: Retirement-Income*

Security and Capital Markets (Oxford: Clarendon Press, 1995), pp. 250–53.

[4]See *Fleming v. Nestor* 363 US 603 (1960).

[5]See Larry S. Temkin, *Inequality* (New York: Oxford University Press, 1993), pp. 7–8.

[6]John Rawls' difference principle, which states that social and economic inequalities should be arranged so as to provide the greatest benefit to the least advantaged, is an important exception, since his conception of the "least advantaged" seems to ignore the question of responsibility for one's plight. See *A Theory of Justice* (Cambridge: Harvard University Press, 1971), p. 302; and *Political Liberalism* (New York: Columbia University Press, 1993), p. 291. However, since *A Theory of Justice* was published, virtually all egalitarians have endorsed a responsibility or choice condition in their egalitarian principles. Perhaps the most important and influential has been Ronald Dworkin. See his "What is Equality? Part I: Equality of Welfare," *Philosophy and Public Affairs* 10, no. 3 (Summer 1981): 185–262, and "What Is Equality? Part II: Equality of Resources," *Philosophy and Public Affairs* 10, no. 4 (Fall 191): 283–345. See also my "Liberal Egalitarianism, Basic Rights and Free Market Capitalism," *Reason Papers* 18 (Fall 1993):171–73 and the references cited therein, for further discussion.

Two other complications about egalitarianism should be noted. First, some egalitarians answer the question "equality of what?" or "worse off in what respect?" in terms of resources such as income or wealth, while others focus on welfare, that is, some favorable psychological condition such as happiness or satisfaction. Second, egalitarians disagree about whether there are obligations of justice to future generations. Neither of these complications matters much for the purposes of this discussion. The first doesn't matter because when one system is much worse vis-(-vis resources, it will probably be worse vis-(-vis welfare. The second doesn't matter, because even those who reject obligations to future generations admit special obligations to their children and a concern for their descendants, even those not yet born; and so a pension system's effects on future generations is a matter of moral concern either way.

[7]Even if the "trust fund" monies had been invested, Social Security would not be fully funded and would remain a PAYGO system. Full funding would mean that the trust fund would be large enough that, if Social Security ended today and no future taxes were collected, the assets in the fund (the portion of the taxes on present workers that were not paid out immediately) plus interest could pay all the benefits to which existing workers and beneficiaries were entitled. This is not true and has never been true of Social Security.

[8]See World Bank, *Averting the Old-Age Crisis* pp. 131–34; and Peter Ferrara and Michael Tanner, *A New Deal for Social Security* (Washington: The Cato Institute, 1998), pp. 95–101.

[9]William W. Beach and Gareth E. Davis, *Social Security's Rate of Return* (Washington: The Heritage Foundation, Jan. 15, 1998), pp. 2 and 7.

[10]See David Kelley, *A Life of One's Own: Individual Rights and the Welfare State* (Washington: Cato Institute, 1998).

[11]See "The Moral Basis of the Democratic Welfare State," in *Democracy and the Welfare State,* ed. Amy Gutmann (Princeton: Princeton University Press, 1988), pp. 30–36, 41–46, and "Introduction: Responsibility, Rights and Welfare," in *Responsibility Rights and Welfare: The Theory of the Welfare State,* ed. J. Donald Moon (Boulder: Westview Press, 1988), pp. 4–8.

[12]Income transfers to the elderly poor are not generally considered "welfare" in the pejorative sense. It is unlikely, then, that these transfers will cause the system to be perceived as a welfare system.

[13]The benefits of Social Security in its earliest years were relatively modest, which is why those who retired somewhat after the system was first founded did better than the very first group of retirees.

[14]One might argue that this is false because, when a compulsory private system begins, those with inadequate voluntary savings will have little security when they retire. But this only means that the safety net may have to be larger in the beginning of this system than in the later stages. It doesn't refute the point that a system of mandatory savings does not redistribute security through time.

[15]For guides to communitarian literature, see my "Liberalism and Communitarianism," *Philosophical Books* 36, no. 3 (July 1995): 145–55; Chandran Kukathas, "Liberalism, Communitarianism, and Political Community," *Social Philosophy and Policy* 13, no. 1 (Winter 1996): 80–90; and Daniel Bell, *Communitarianism and Its Critics* (Oxford: Oxford University Press, 1993).

[16]A somewhat different way of explaining communitarianism is this: certain kinds of communities partially constitute our identities and a commitment to the good of these constitutive communities is what we value most of all. See Bell, *Communitarianism and Its Critics,* pp. 93–94.

[17]*Report of the 1994–1996 Advisory Council on Social Security Vol. 1: Findings and Recommendations,* p. 89, their emphasis. (Washington: Government Printing Office, 1997).

[18]Amitai Etzioni and Laura Brodbeck, *The Intergenerational Covenant: Rights and Responsibilities* (Washington: The Communitarian Network, 1995), p. 3.

[19]The Social Security trust fund in the United States is basically an accounting device that does not reduce future liabilities. The payroll tax revenues not needed to meet current expenses are "invested" in special-issues bonds, not traded publicly. The trust fund is credited with a bond—an IOU from one part of the government to another—and the Treasury gets the cash to finance current government programs. When Social Security's cash outflow exceeds the cash inflow from taxes (probably around 2012), the government will not find any money to pay promised benefits, only Treasury obligations. When the government then calls in the IOU, it will have to do what it would do if there were no trust fund: raise taxes, borrow money, or monetize the debt. See Carolyn L. Weaver, "Controlling the Risks From Advance Funding," in *Social Security's Looming Surpluses: Prospects and Implications* ed. Carolyn L. Weaver (Washington: American Enterprise Institute, 1990), pp. 168–72; and David Wise, "Six Initiatives to

Public *support* does not translate into public *justification* if the public has difficulty comprehending the institution it supports.

Privatization is a win-win proposal and is justified regardless of which political values one thinks most important.

Promote Private Savings," *Challenge* 32 (Nov.-Dec. 1992), p. 23.

[20]The recent availability of information from Cato's web site, *http://www.socialsecurity.org/calc/calculator.html*, which compares one's Social Security return with normal stock market returns, makes it easier to grasp this point. However, for most of the history of Social Security, this web site did not exist, and it's doubtful that many Americans have seen this web site.

[21]Not until 1990 was a law passed requiring the U. S. Social Security Administration to provide personal earnings statements and benefit estimates to everyone for whom a current address can be determined. This is supposed to begin in October 1999. Statements to those under age 50 are not required to include estimates of monthly retirement benefits. Virginia P. Reno and Robert Friedland, "Strong Support but Low Confidence: What Explains the Contradiction?," in *Social Security in the 21st Century*, ed. Eric R. Kingson and James H. Schulz (New York: Oxford University Press, 1997), p. 194, note 8.

[22]The Chilean system requires retirees to take out (indexed) annuities and/or periodic withdrawals at retirement. It prohibits lump-sum withdrawals. For information on the Chilean system, see World Bank, *Averting the Old-Age Crisis*, ch. 6.

[23]For data on the lack of confidence in Social Security, see Reno and Friedland, "Strong Support but Low Confidence: What Explains the Contradiction?" in *Social Security in the 21st Century*, pp. 184–88.

[24]The living cannot share responsibility with the dead. Shared responsibility between completely removed generations–those whose lifetimes never overlap with that of present generations—exists only in a symbolic sense.

[25]See Carolyn L. Weaver, *The Crisis in Social Security* (Durham, N.C.: Duke University Press, 1982), pp. 80–86, 123–24; and Martha Derthick, *Policymaking for Social Security* (Washington: Brookings Institution, 1979), pp. 199–201, 204. Weaver and Derthick are concerned with the origins and first 40 years or so of Social Security. Reno and Friedland, "Strong Support but Low Confidence: What Explains the Contradiction?" in *Social Security in the 21st Century*, p. 183, maintain that data since the mid 1970s show that the public has a good understanding of the basic features of Social Security. However, the surveys they cite do not explicitly ask questions about the PAYGO nature of the system. Recent surveys show that the public has more confidence in private pensions than in Social Security (ibid, p. 186), which may indicate that the public now understands how Social Security works.

[26]See Christopher Georges, "Social Security 'Privatization' Effort Makes Headway," *Wall Street Journal*, June 22, 1998, p. A24.

[27]For a longer and more philosophically complex version of the arguments given here, see my "Can Old-Age Social Insurance Be Justified?" *Social Philosophy and Policy* 14, no. 2 (Summer 1997): 116–44.