ACHIEVING A "LENINIST" STRATEGY

Stuart Butler and Peter Germanis

Introduction

Marx believed that capitalism was doomed by its inherent contradictions, and that it would inevitably collapse—to be replaced by the next stage on the ladder leading to the socialist Utopia.

Lenin also believed that capitalism was doomed by its inherent contradictions, and would inevitably collapse. But just to be on the safe side, he sought to mobilize the working class, in alliance with other key elements in political society, both to hasten the collapse and to ensure that the result conformed with his interpretation of the proletarian state. Unlike many other socialists at the time, Lenin recognized that fundamental change is contingent both upon a movement's ability to create a focused political coalition and upon its success in isolating and weakening its opponents.

As we contemplate basic reform of the Social Security system, we would do well to draw a few lessons from the Leninist strategy. Many critics of the present system believe, as Marx and Lenin did of capitalism, that the system's days are numbered because of its contradictory objectives of attempting to provide both welfare and insurance. All that really needs to be done, they contend, is to point out these inherent flaws to the taxpayers and to show them that Social Security would be vastly improved if it were restructured into a predominantly private system. Convinced by the undeniable facts and logic, individuals supposedly would then rise up and demand that their representatives make the appropriate reforms.

While this may indeed happen, the public's reaction last year against politicians who simply noted the deep problems of the system, and the absence of even a recognition of the underlying problems during this spring's Social Security "reform," suggest that it

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will be a long time before citizen indignation will cause radical change to take place. Therefore, if we are to achieve basic changes in the system, we must first prepare the political ground so that the fiasco of the last 18 months is not repeated.

First, we must recognize that there is a firm coalition behind the present Social Security system, and that this coalition has been very effective in winning political concessions for many years. Before Social Security can be reformed, we must begin to divide this coalition and cast doubt on the picture of reality it presents to the general public.

Second, we must recognize that we need more than a manifesto—even one as cogent and persuasive as that provided by Peter Ferrara.[1] What we must do is construct a coalition around the Ferrara plan, a coalition that will gain directly from its implementation. That coalition should consist of not only those who will reap benefits from the IRA-based private system Ferrara has proposed but also the banks, insurance companies, and other institutions that will gain from providing such plans to the public.

As we construct and consolidate this coalition, we must press for modest changes in the laws and regulations designed to make private pension options more attractive, and we must expose the fundamental flaws and contradictions in the existing system. In so doing, we will strengthen the coalition for privatizing Social Security and we will weaken the coalition for retaining or expanding the current system. By approaching the problem in this way, we may be ready for the next crisis in Social Security—ready with a strong coalition for change, a weakened coalition supporting the current system, and a general public familiar with the private-sector option.

Framework for Reform

Peter Ferrara's "family security plan" provides a sound framework for reform.[2] The Ferrara plan resolves the contradiction within the existing system and provides a realistic phase-in process for a private pension plan. Recent efforts to publicize and implement the Ferrara plan, however, only confirm the fact that a successful reform strategy must be designed within a framework of well-understood constraints

[1]See Peter J. Ferrara, *Social Security: The Inherent Contradiction* (San Francisco: Cato Institute, 1980); *Social Security: Averting the Crisis* (Washington, D.C.: Cato Institute, 1982); and *Social Security Reform: The Family [Security] Plan* (Washington, D.C.: Heritage Foundation, 1982).

[2]Ferrara, *The Family [Security] Plan*, pp. 49–73.

and opportunities; otherwise we will fall into the same political traps that have discouraged many a would-be reformer.

In an effort to identify a broad framework for Social Security reform, the Heritage Foundation (1982) gathered various experts, who discussed the essential ingredients of reform. The principles and observations that emerged from that gathering can now be summarized.[3]

Calming Existing Beneficiaries

The sine qua non of any successful Social Security reform strategy must be an assurance to those already retired or nearing retirement that their benefits will be paid in full. It was irresponsible in the first place for the federal government to promise unrealistic benefits. But it would be even more irresponsible now to break faith with the millions of people who have based their retirement plans on these expected benefits. Instead of spreading widespread panic among our elderly, which will only undermine our efforts to reform the system, we should acknowledge the system's liabilities as a total writeoff.

From a purely political standpoint, it should be remembered that the elderly represent a very powerful and vocal interest group. This power was reflected in the recent bailout plan, which made no effort to address the system's underlying structural problems. One congressman, with disarming frankness, implicitly evidenced that considerable power when he explained his position on Social Security reform: "I have no intention of trying to explain what needs to be done, just give me a vote on something that can save the damn thing until I retire."[4]

The political power of the elderly will only increase in the future. The proportion of the population over 65 will rise steadily, from 11.3 percent today to 18.3 percent by 2030. So any proposal aimed at cutting benefits will face increasingly stiff opposition from the elderly, undermining the prospects for genuine reform. Any plan to change the system must therefore be neutral or (better still) clearly advantageous to senior citizens. By accepting this principle, we may succeed in neutralizing the most powerful element of the coalition that opposes structural reform.

Educating the Public

A second prerequisite for reform is to improve the public's understanding of the current program. During the recent financing crisis,

[3]For an edited transcript of that conference, see Peter Germanis and John Palffy, eds., *Rebuilding Social Security*, Heritage Lectures 18 (Washington, D.C.: Heritage Foundation, 1982).

[4]Rep. Marvin Leath (D-Tex.) quoting one of his colleagues in "Social Security Expediency," *Washington Times*, March 23, 1983.

there was only a vague awareness among the general population that the system was in serious trouble; the true nature of the problem and the proposed reforms were understood by very few Americans.

A comprehensive program of economic education must confront people with the facts about Social Security and the problems it faces. The many myths surrounding the system must be dispelled, especially the popular belief that Social Security is an "insurance" program financed by "contributions" that provide an "earned annuity." That many have come to rely on Social Security as their major or sole means of support, not realizing that it was originally intended only to supplement other sources of retirement income, is apparent from a reading of the popular press. Over the years, the program has become surrounded by a cloak of demagoguery and misinformation, woven by political leaders and interest groups seeking to further their own ends. If the public is ever to support real Social Security reform, this cloak must be removed.

Recognizing Successful Alternatives

Despite the unwillingness of Congress to undertake or even consider real reform, the public has shown a great deal of interest in private alternatives to Social Security. In a poll conducted by the Sindlinger Company for the Heritage Foundation, for instance, a majority of people surveyed said that they would favor a voluntary system. Even more people expressed the view that the private sector would be a more efficient vehicle than Social Security for providing pension benefits. The recent upsurge in savings put into Individual Retirement Accounts (IRAs) is further testimony to the public's enthusiasm for private pension plans. A New York Times/CBS News poll suggested that Americans had invested about $30 billion in tax-free IRAs for the 1982 tax year, which is much higher than the Treasury Department had estimated. According to the poll, nearly one out of every five employed adults had opened an account by early April.[5] Extending this option as an alternative to Social Security could both increase savings and provide funds for long-term capital investments.

A restricted private option is now being tried in Great Britain. Britain has a two-tier retirement benefit system made up of a mandatory basic pension plan and an earnings-related pension. It is possible, however, to opt out of the earnings-related pension (but not the basic pension). The employer has the legal responsibility of

[5]Robert A. Bennett, "I.R.A.s a Hit With Taxpayer," *New York Times*, April 15, 1983, p. D1.

making the decision to allow the employees to contract out of the plan. If an employer does decide on the contracting-out option, he is required to provide private pension benefits at least equal to those in the government program. This contracting-out scheme for the second tier has enjoyed a great deal of success. Since 1978, when it was fully initiated, nearly 45 percent of all British workers have enrolled in private pension programs.

The British system indicates that many employees are willing to choose a private retirement option in preference to a government-guaranteed plan. It also indicates that workers are willing to pay a price to leave Social Security. British workers who opt out of the earnings-related element of Social Security do not obtain a reduction in payroll taxes that is equal to the benefits they forgo. In other words, those who opt out still pay some tax to support existing and future beneficiaries of the government system.

According to John Goodman, the payroll-tax reduction available to those who contract out is carefully designed to be just large enough to encourage enough workers to opt out (thereby reducing future liabilities), while ensuring that these workers still provide considerable tax revenue to subsidize existing beneficiaries.[6] It does seem that the price people are willing to pay to leave Social Security is substantial. Perhaps in the United States it is large enough that those wishing to leave the system can cover a large part of its current obligations to beneficiaries while it still enables a high proportion of workers to opt out, thus reducing the system's future obligations.

A Plan of Action

The background issues discussed above suggest a political strategy to achieve basic reform of the Social Security system in the fashion suggested by Peter Ferrara. There are two main elements to this strategy.

The first element consists of a campaign to achieve small legislative changes that embellish the present IRA system, making it in practice a small-scale private Social Security system that can supplement the federal system. As part of this campaign, the natural constituency for an enlarged IRA system must be identified and welded into a coalition for political change. If these objectives are achieved, we will meet the next financial crisis in Social Security with a private alternative ready in the wings—an alternative with which the public is familiar and comfortable, and one that has the backing of a powerful political force.

[6]John Goodman, "Lessons From Abroad," in Germanis and Palffy, pp. 23–31.

The second main element in our reform strategy involves what one might crudely call guerrilla warfare against both the current Social Security system and the coalition that supports it. An economic education campaign, assisted by modest changes in the law, must be undertaken to demonstrate the weaknesses of the existing system and to allow it to be compared accurately (and therefore unfavorably) with the private alternative. In addition, methods of neutralizing, buying out, or winning over key segments of the Social Security coalition must be explored and formulated into legislative initiatives. The objective of this element of the strategy complements the first. The aim is to weaken political support for the present system when the next financial crisis appears. This two-pronged strategy will now be considered in more detail.

Creating a Private Model

Expanding IRAs

IRAs are a powerful vehicle for introducing a private Social Security system. They are extremely popular with the public. No politician wishing to be reelected would even suggest that the tax deduction for IRAs should be eliminated. Building on this strong political support, proponents of a private Social Security system should press for an extension of the deduction. No doubt Congress would find it difficult to reject proposals designed to allow workers to provide a more secure retirement for themselves.

The aim should be to secure legislation that not only indexes the basic IRA deduction and makes it available to all (including nonworking spouses) but also allows people to take a much larger IRA deduction if it is used to purchase old-age health insurance, disability insurance, or other benefits now available through Social Security. Ideally, this "super IRA" would be close to that of the Social Security system in both size and structure. As the payroll-tax rate increases, the maximum tax-deductible contribution to an IRA should increase to the same cash level. Similarly, the prescribed allocation of an IRA among retirement income, health insurance, and other uses should reflect the equivalent allocation of the Social Security tax.

The reason for designing a "super IRA" law with these restrictions is purely political. Expanding the IRA system in this way would make it a private prototype of Social Security. People could then compare the two alternatives. The public would gradually become more familiar with the private option, and would no doubt view it as a parallel system. If that did happen, it would be far easier than it is now to persuade people to adopt the private plan as their principal source of old-age insurance and retirement income.

Coalition Building

Building a constituency for Social Security reform requires mobilizing the various coalitions that stand to benefit from the change. Such a constituency is already extensive, but mobilizing it could become a self-generating process. If an extension in the IRA system is achieved, for instance, it will expand the natural self-interest constituency by making IRAs more attractive to more people. This wider constituency will then be better able to achieve further extensions that in turn will further expand the constituency. This self-generating process in the private sector is identical to the political process that has forced programs in the public sector to grow and serve ever larger constituencies.

The business community, and financial institutions in particular, would be an obvious element in the constituency. Not only does business have a great deal to gain from a reform effort designed to stimulate private savings, but it also has the power to be politically influential and to be instrumental in mounting a public education campaign. This influence was clearly demonstrated in the fight to repeal withholding on interest and dividend income. The banking industry's ability to lobby and garner support for the repeal effort led many in Congress to reverse their earlier votes. Financial institutions, likewise, have been extremely effective in marketing various types of savings plans, such as All-Savers Certificates and IRAs, thereby building up public acceptance of these innovations.

Interest groups concerned with Social Security reform can be divided into the young, the middle-aged working population, and the retired or those nearing retirement. Of these, the young are the most obvious constituency for reform and a natural ally for the private alternative. The overwhelming majority of people in this group have stated repeatedly that they have little or no confidence in the present Social Security system. Discontentment will only grow as the taxes needed to support the system continue to rise, and as the prospects for a reasonable return on one's "contribution" continue to fade.

Despite misgivings about Social Security, however, the young have yet to have a significant impact on the political process as it relates to reform measures. It is imperative, therefore, that they be informed about the problems inherent in the current system and that they be organized behind the private alternative.

Clearly, an important thread running through the entire strategy is education. An education campaign is needed to gain the support of key individuals in the media as well as to win over vital constituencies for political reform. The banking industry and other business groups that can benefit from expanded IRAs must be encouraged to play a central role in educating the public about the benefits of the private plan. They can do this both through their commercial advertising and through public relations.

Weakening the Opposition

Individual Accounts

To emphasize how unfavorably Social Security compares with the private alternative, the Social Security Administration should be required to establish an individual account for each person participating in the program. Furthermore, each person should be provided with an annual statement showing how much he has paid into the system and what benefits he can expect to receive. Individuals could then compare their returns from private investment with their returns under Social Security. Such a scheme would illustrate in cold numbers just what the program means for different individuals, and would help reveal the inter- and intragenerational distribution that occurs under the current system. The retired population might then come to realize that they have not purchased an earned annuity but instead are receiving a tremendous welfare subsidy. Younger workers, on the other hand, would see just how much of a loss they are taking by participating in the program. This mechanism for demonstrating the individual gains and losses that occur under Social Security is a key step in weakening public support for the present system.[7]

The technology for creating a reporting system already exists. Using it simply requires an improvement in the computer system of the Social Security Administration. The SSA, however, undoubtedly would claim that the enormous cost and complexity of such a system would prevent it from providing what would be highly embarrassing information. Fortunately, there are private-sector companies, such as Accucomp Financial Services, that are willing to compile the necessary information from an employee's tax returns for a very modest fee. (Accucomp does it for $35.)[8] The SSA could be required to contract out the service to such companies, or taxpayers could receive a tax credit for arranging it themselves.

[7]Anthony Pellechio and Gordon Goodfellow have calculated these in "Individual Gains and Losses from Social Security before and after the 1983 Amendments," *Cato Journal* 3 (Fall 1983): 417–42.

[8]See Accucomp's ad in the 1983 edition of *Money Guide* (published by the editors of *Money*), p. 61.

Detaching Supporters of Social Security

The final element of the strategy must be to propose moving to a private Social Security system in such a way as to detach, or at least neutralize, segments of the coalition that supports the existing system. A necessary step toward this objective is to honor all outstanding claims on the current system. Without such a commitment, we can never overcome the political opposition to reform, because the retired (or nearly retired) population will continue to strongly oppose any package that threatens to significantly reduce their benefits. Retaining the obligation to fund existing liabilities, however, will necessarily place constraints on the mechanisms that can be used to move the country towards a private system.

The problem of implementing a private system makes the British model particularly attractive. It is clear, in Britain at least, that workers are quite prepared to make some payments into Social Security (even though they will not receive benefits), provided they acquire the right to escape from a governmentally operated retirement system in which they have little confidence. We should consider, therefore, modifying Peter Ferrara's phase-in plan.[9]

Under Ferrara's plan, workers would be allowed to invest part, and eventually all, of the money they now pay into Social Security in expanded IRAs, in return for a corresponding reduction in their future Social Security benefits. Under our proposed modification, workers who choose to opt out of the system would not only lose their corresponding future benefits but would even have them reduced somewhat further for the privilege of getting out of Social Security. This added reduction in benefits could be viewed as a tax that would be used to pay off the system's remaining obligations.

An interim "opting-out tax" hardly conforms with the principles of fairness; yet it makes good political sense. If the support for leaving Social Security is as great as it seems, then it is unlikely that the level of contracting out will be significantly reduced by requiring workers to make some payment into the system while they withdraw and lose benefits (assuming, for the sake of argument, that they ever would have received those benefits!). But the opting-out tax would have important political advantages. It would serve to calm the fears of the elderly, because the net phase-out losses to the Social Security fund would be smaller under opting out than under the Ferrara plan, for virtually the same reduction in future liabilities. Hence, under

[9]We refer specifically to Ferrara's "family security plan," as discussed in *The Family [Security] Plan*, pp. 49–73.

an opting-out plan the support needed from general revenues would be smaller, and the threat to the trust funds would be reduced.

This modification would slightly dampen the enthusiasm of young workers, who are a strong segment of the coalition for change. But on the other hand, this modification would help to meet the concerns of the elderly and of the taxpayers and beneficiaries of federal programs who might resist the use of general revenues to cover the phase-in period.

Detaching workers who have made substantial tax payments into Social Security may not prove to be too difficult. A number of proposals have been put forward in which the worker's accumulated "contributions," plus interest, would be given to him in form of an interest-bearing bond, payable at retirement.[10] This bond would have a market value and could be sold, with the proceeds to be invested in a tax-deductible IRA. Using an appropriate version of this proposal should make it possible to gain some support even from those who have a substantial stake in the current system.

Conclusion

The last two years have demonstrated beyond a doubt that Social Security can be reformed only by treating the issue primarily as a political problem. There is little point in arguing over the nuances of theoretical plans if the political dynamics are not altered; no amount of logic will overcome an unfavorable coalition of interest groups.

It is also clear that the strategy we adopt must be flexible. It would be self-defeating to lay down a rigid blueprint and blindly adhere to it. Indeed, we must be prepared to refine segments of the plan, such as the opting-out mechanism or the design of the "super IRA," to meet the changing political circumstances.

Finally, we must be prepared for a long campaign. The next Social Security crisis may be further away than many people believe. Or perhaps it will occur before the reform coalition is strong enough to achieve a political breakthrough. In either case, it could be many years before the conditions are such that a radical reform of Social Security is possible. But then, as Lenin well knew, to be a successful revolutionary, one must also be patient and consistently plan for real reform.

[10]See Ferrara, *The Inherent Contradiction*, pp. 340–50.

THE POLITICAL FEASIBILITY OF PRIVATIZING SOCIAL SECURITY

Marilyn R. Flowers

Butler and Germanis are concerned with the feasibility of constructing a majority coalition to phase out the Social Security retirement program and replace it with an explicit welfare program for the needy elderly. They are also concerned with the provision of appropriate government and private incentives for working Americans to save and invest privately, to ensure themselves adequate retirement income.

In one important respect, their strategy is not "Leninist" at all. Butler and Germanis seek to form a political coalition. While I am not a student of Marxist-Leninist thought, I do feel reasonably confident that Lenin gave little thought to the possibility of achieving his goal with ballots rather than bullets. Fortunately, we are blessed in the United States by the existence of well-established democratic institutions within which to work for change, and a commitment from even our most fervent reformers that democratic process is the only legitimate avenue for change.

This is not to say that democracy as we know it is flawless. The history of Social Security illustrates some of the problems. Many of us today regret the way in which the Social Security program was allowed to develop. However, we are not surprised by that pattern of development. One needs only to read Edgar Browning's classic paper "Why the Social Insurance Budget Is Too Large in a Democracy"[1] to understand the political appeal of starting a pay-as-you-go government pension program. Early generations of retirees reap tremendous windfall benefits. Future generations, who will almost unavoidably be harmed, simply are not around in sufficient numbers to vote in opposition.

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[1]Edgar K. Browning, "Why the Social Insurance Budget Is Too Large in a Democracy," *Economic Inquiry* 13 (September 1975): 373–87.

The same problem exists in reverse if we try to phase out an existing pay-as-you-go program. There are identifiable groups of current voters who will be harmed by the phase-out. Those with the most to gain—future generations—do not have any political clout. If they did, we would not be in our present quandary. Can we realistically expect a majority of voters to support a phase-out—"privatization"—at any time in the future? This question has not been adequately addressed by Butler and Germanis. It is not nearly as obvious to me as it seems to them that such a coalition is waiting in the wings. In particular, I am not convinced that expanding IRAs will help as much as they think it will.

Let me illustrate the problem as I see it with a very simple example. Suppose we start out with a fully mature pay-as-you-go pension scheme in a society that has zero population growth and zero economic growth.[2] At any point in time, there are four workers for every retiree. Each worker pays $10 in payroll tax during each of the four working periods of his or her life and receives a $40 retirement benefit during the last period. This reflects the return provided by a pay-as-you-go system that is equal to the growth rate in the economy.

This type of program would be a good deal for all individuals if the growth rate in the economy were greater than the market interest rate. However, most economists regard this as an unlikely circumstance. The analysis that follows is based on the alternative assumption that the rate of economic growth is lower than the interest rate. In this case, the first retirees in the program enjoy a windfall gain. They pay taxes over only a portion of their working lives but receive full benefits. However, the program will be a bad deal for workers who must pay taxes throughout their entire working careers before becoming entitled to a retirement benefit. This is because the implicit "return" that they receive on their tax payments is lower than the return they could have received had their money been invested in the capital market.

Despite this bad deal, political support for the government pension program will not necessarily evaporate when it reaches maturity. To illustrate the problem of achieving consensus among the currently living population, let us consider, within the context of our simple model, a proposal to phase out the pay-as-you-go system along the lines suggested by Peter Ferrara.[3] All existing entitlements will be

[2]The zero-growth assumption is purely for analytical convenience and does not affect any of the basic conclusions of the analysis.

[3]Peter J. Ferrara, *Social Security: Averting the Crisis* (Washington, D.C.: Cato Institute, 1982).

honored, but additional entitlements will be allowed to accumulate. If we take any five-person group of one retiree and four workers with the numbers 1 through 4 designating ages from youngest to oldest, their entitlements as of the period the transition begins are as follows. The retiree will receive during that period the $40 benefit to which he or she is entitled by $40 of tax contributions made during his or her working life. Worker 4 has accumulated a $30 retirement claim, worker 3, a $20 claim, and so on.

Perceived gains and losses from the phase-out may depend critically on how these residual entitlements are financed. For example, suppose we continue to collect payroll taxes as long as benefits are being paid. The payroll tax will be phased out in coordination with the benefit phase-out. Worker 4 unambiguously loses. His or her tax obligation during the last working period is unchanged compared to what it would have been if the program had continued, but that tax payment no longer adds anything to retirement income. What about worker 3? During the remaining two periods of his or her working career, tax payments are $10 and $7.50 respectively. A tax saving of $2.50 in the second period is accompanied by a $20 reduction in government-provided retirement income. The market interest rate would have to be at least 800 percent for worker 3 to avoid losing from the phase-out. We could go through similar computations for all current voters. It is entirely possible in this simple example that even though everyone is harmed by the existence of the government program in the sense that their tax obligations could be put to better use, a tax-financed phase-out that guarantees existing entitlements could do even more harm to many or all current voters at the time of implementation. Future workers would reap the benefits.

The Ferrara plan would abolish the payroll tax immediately and finance residual entitlements out of general revenues. This procedure would redistribute the tax burden within each generation as compared to the distribution arising from financing out of payroll taxes, but it is important to note that the tax distribution across generations may not change significantly. Taxes that are imposed to finance entitlements are still phased out at the same rate at which benefits are reduced. Well-informed voters may therefore find financing out of general revenues as unattractive as financing out of payroll taxes. In reality, voters tend not to be very well informed. This may lend some appeal to financing out of general revenues from a political (albeit not an ethical) perspective. Burying the costs (in the form of taxes) of financing residual entitlements in general revenue rather than making such costs explicit by continuing to rely on an earmarked tax may serve to disguise these costs. Poorly informed voters may be led as a consequence to support a proposal that well-informed voters would oppose.

Financing through bonds is an alternative approach to making the transition to a fully funded pension system. This issue has been discussed by Professor Buchanan,[4] and I will only briefly summarize the argument. The problem with financing through taxes, in terms of its failure to appeal to current voters, is that those voters end up paying twice: once for the pensions of their elders and again for their own pensions. Despite the higher rate of return to be earned with private investment, the tax phase-out does not provide capital early enough for voters to invest and come out ahead in comparison to the pay-as-you-go system. If one accepts the Buchanan model of public debt, financing through bonds can be used to shift part of the tax burden of financing residual entitlements onto future generations of taxpayers. There is an ethical justification for this, since future generations will also reap substantial benefits from eliminating the pay-as-you-go system.

My concluding comment on the political feasibility of privatizing Social Security along the lines supported by Butler and Germanis is that they need to give more careful consideration to the alternative financing options. I doubt that expanding IRAs will be enough to attract political support for their plan. Certainly they have not supported that hypothesis in any analytical sense. Some careful calculations of gains and losses under various financing schemes would be helpful.

Let me now turn to another issue that has arisen periodically in the debate over Social Security reform. Mancur Olson, Joseph Pechman, and Rudolph Penner have presented a direct challenge to the proposition that a funded private pension system is inherently preferable to a pay-as-you-go government program.[5] Their argument has two components. First, they argue that intergenerational transfers are an efficient means of providing for old age. A pay-as-you-go transfer from young to old is in line with a long and worthy tradition of children supporting their aged parents. Second, there may be some inherent advantages in collectivizing this function. We can assure individuals who do not have children or whose children predecease them that they will be provided for nonetheless. Many individuals may feel that their retirement income is more secure if provided

[4]James M. Buchanan, Comment in *Financing Social Security*, Colin D. Campbell, ed. (Washington, D.C.: American Enterprise Institute, 1979), pp. 208–12; idem, "Social Security Survival: A Public-Choice Perspective," *Cato Journal* 3 (Fall 1983): 339–53.
[5]See their comments in the *Cato Journal* 3 (Fall 1983).

through a formal government program rather than as a consequence of an implicit and unenforceable contract with their children, and so on.

This argument cannot be rejected out of hand. It is reasonably plausible, at least on the surface. However, there are some interesting issues here that need further analysis. Let me suggest two of these. First, it appears that there are some fundamental changes in people's attitudes and behavior that occur when an intrafamily activity such as income support for the elderly is collectivized. Because of this, government transfer program may not very much resemble the private process that it replaces. For example, if transfers to aged parents were purely a family decision, I doubt that those among today's elderly who have accumulated significant wealth would be willing to ask their children for a significant portion of their income. Yet these same individuals seemingly have no qualms about using their political clout to demand through Social Security what is, in an objective sense, the same thing.

My discussion of this issue is admittedly ad hoc. Perhaps careful empirical analysis will fail to support my hypothesis that this change in attitudes occurs. This is a legitimate and important research issue. Certainly, better information would be helpful in assessing the desirability of privatizing Social Security.

There is a second potential difference between a private and a collectivized intergenerational transfer that also seems worthy of some research attention. In a private system, parents have an obvious incentive to invest in the human capital of their children. A collectivized system introduces a divergence between the private and social returns to investment in the human capital of the younger generation. With a public pension program, whether a couple has children or not or how heavily they invest in the future earning capability of their children may have an insignificant effect on their potential retirement income. Even if many parents continue to receive some marginal contributions from their children, the income effect of the public pension program can be important. If all couples respond to this change in incentives, however, the potential return from the public transfer program may be sharply reduced in comparison to the average return received with a system of intrafamily transfers from young to old. Birth rates may fall and the quantity and quality of human capital investment may decline. Finally, arguments for collectivizing an activity are often based on the existence of a severe free-rider problem in a private, voluntary setting. It appears, however, that in the case of Social Security, government provision itself introduces a free-rider problem that would not exist in the voluntary setting.