Supporting Marriage and Childbearing

Not only blood lines, but marital bonds as well should be strengthened by a privatized old-age pension system. The experience of the last 100 years testifies that "love is not enough" to sustain strong marriages. Small communities of economic interest must also exist within homes, a sense of common endeavor that lifts couples above their individual interests.

Chilean economist Christian Larroulet reports that if you go into one of the offices where Chile's private pension funds are managed today, "you see many couples asking in a simplified computer terminal about their future pension." The Chilean system rewards family effort—and family unity. Already, under the laws of most U.S. states, spouses enjoy some legal claim to their partner's private pension earnings. A vastly larger system should strengthen this vision of community property, encourage the economic logic for becoming and staying married, and in this way also discourage divorce. Economic interests would again be in harmony with family interests.

In addition, there would be an encouragement to fertility. The negative influence of tax-based government retirement systems on the birth of children is so well known that it bears among sociologists a generic name: "The Social Security-Fertility Hypothesis." Simply put, government pensions operating on a tax-and-transfer basis undermine the logic for having children. One's own offspring are no longer needed as an "investment" toward security in later life. Indeed, the new logic for individuals becomes: "Let others bear and pay for the rearing of the children who will support me in my old age." The childless adult prospers as a free rider on the system.

A privatized system should diminish (if not exactly reverse) this logic. It's unlikely the pre-modern habit of viewing one's children as primary "insurance" for old age would reappear, since that role would be taken on by one's investments in the private economy. But with state distortions of family relationships diminished, children at least would no longer be transformed by official action into economic liabilities. Within the context of a strengthened sense of lineage, stronger marriages, and family security rooted in the new patrimony, we should expect a greater propensity to bear children, and somewhat larger families.

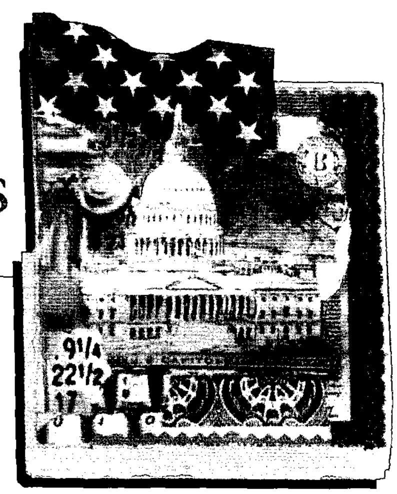
Bolstering Home Life, Shrinking the State

A final benefit of privatizing Social Security would be a withering of the state. The social history of the last 150 years might be written as the steady displacement of the patriarchal family by the matriarchal state. Education, child protection, economic security, and child care have all been taken from the family and absorbed by the nanny state. To privatize old age security is to strike back at the very heart of this process, and to return to the family domain a significant part of its natural authority. The precedent might encourage other blows against the parent state as well, such as a restoration of educational authority to families, or the return by working parents to the care of their own small children at home.

A lesson learned over the last century is that family autonomy must be buttressed by economic arrangements, and vice versa. The grand experiment in state old-age pensions has failed partly because it discouraged family links. A privatized Social Security system should be a central theme of any true "family values" platform in the future.

Allan Carlson is president of the Rockford Institute.

O.K., Social Security Needs A Bypass—But Will Our Politicians Allow It?



By James K. Glassman

Three years ago, Mark Sanford, a South Carolina real estate developer and former New York investment banker who had never run for office, decided he wanted to become a congressman. He ran for the House seat being vacated by Rep. Arthur Ravenel, in a heavily Republican district in Charleston. After a tough primary, he won the general election easily.

Over the next two years, Sanford, who's now 36, became known on Capitol Hill for two things: (1) sleeping in his office rather than in an apartment, and (2) proposing to change Social Security radically. Like a handful of other members of Congress—notably fellow Republican Reps. Nick Smith of Michigan and Jim Kolbe of Arizona, and, to a more modest degree, Democratic Sen. Bob Kerrey of Nebraska—Sanford wants to replace at least part of the 60-year-old government-run retirement program with personal investment accounts that Americans can control themselves.

None of the three most visible congressional advocates of shifting Social Security from the public sector to the private had trouble winning re-election.

Sanford not only wants to privatize Social Security, he's not shy about telling his constituents about it. During his campaign for re-election, he talked to voters at Rotary Clubs and senior citizens' centers, and to hear him tell it (and to read the newspaper accounts), his ideas were received enthusiastically. He even brought José Piñera, the labor minister who privatized Social Security in Chile, to Charleston for several town meetings to explain how well the private system is working now in Latin America.

Piñera, a persuasive speaker, reported to the Carolinians that Chile's privatization boosted national saving (sparking a country-wide economic boom), reduced financial demands on the government, and increased citizen confidence in a retirement system that they had come to doubt would ever provide the benefits promised. "He got really fired up about it," smiles Sanford.

Sanford won re-election this November with 97 percent of the vote. In Tucson, Kolbe received 69 percent, while in Michigan's rural Seventh District, Nick Smith won by 10 percentage points. So none of the three most visible congressional advocates of shifting Social Security from the public sector to the private had trouble winning re-election. Kerrey, who favors doing the same thing more gradually, wasn't up this year, but he remains a popular politician.

Social Security Is No Longer "Untouchable"

The cliché that Social Security resembles the electrified third rail on subway tracks (touch it and you're dead) seems to have been repudiated by the results of the three races I've just described. Still, one shouldn't rush to conclude that significant reform of the sort that allows private investments is a political winner. Only that Social Security reform is not an automatic loser.

Although reform that includes a healthy dose of privatization is both logical and attractive (it could simultaneously save a system headed for bankruptcy and also provide a better income for retirees), I suspect it will eventually face withering fire from Democrats, who will recognize that the very foundation of their party's appeal to voters is at stake. If the mass of Americans, permitted to invest privately the money they now fork over in payroll taxes, can take care of their own retirement needs without relying on the heavy hand of government, then why can't they take care of their own medical needs? The schooling needs of their own children? Pull on the Social Security thread, and the entire protective cloak of the welfare state may unravel.

So far, this opposition is largely unseen because we're in the non-threatening, intellectual stage of developing a big public policy idea (as we were with the flat tax before the Republican primary). Senate Minority Leader Tom Daschle lent support to privatization in an interview November 25 with the *Washington Post.* "People want a better return on their savings," he told David Broder. Even President Clinton himself, a well-known policy noodler, has shown interest in Chilean-style changes to Social Security. In an interview in July on MSNBC, the cable network, he was asked if he supported the idea of giving Americans the alternative of investing some portion of their Social Security payroll contributions privately. "I think that's something that could be tested," he replied.

The Danger of Demagoguery

Come election day, however, proposals to change Social Security become weapons. In a September interview, Clinton backpedaled from the open-mindedness he had expressed in July. (See page 51.) The underfinanced Democrat who ran against Rep. Smith hammered him over the bill Smith introduced last year to allow workers the option of investing most of their Social Security payroll taxes in a personal retirement account. (The proposal would also reduce benefits for higher-income Americans and raise the retirement age to 69 by the year 2018, then index it for changes in life expectancy.) Though the attacks did not defeat Smith, he believes they hurt him. This convinced the congressman "that it's necessary to have a bipartisan effort" if Social Security reform is to pass. (So far, the caucus of House members sympathetic to major changes in Social Security, founded last year by Kolbe and Texas Democratic Rep. Charles Stenholm, has nine Democrats and 20 Republicans.)

Still, despite the attacks from his challenger, Smith received good press on Social Security during the campaign. Typical was the *Lansing State Journal*, which ran an editorial headlined, "Social Security: Its Rescue Has a Champion."

Smith is still learning how to sell the idea of changing Social Security. It can be a difficult task. "The big challenge," he said, "is to convince people that there's a real problem. Most people think if government would just keep its cotton-picking hands off the trust funds, everything will be OK."

Kolbe, who was just elected to a seventh term, has been preaching Social Security privatization to his constituents for so long that most of them now accept the premise that a dramatic fix is needed—and a large share of the residents of his Arizona district are elderly. In breezing to re-election this year, Kolbe bore not only his outspokenness on Social Security but also the disclosure a few months ago that he is homosexual.

Still, he worries at least as much as Smith does. "I'm a little dismayed by what happened with Medicare reform," he told me. "Social Security reform is far more dangerous than Medicare, and we saw what the President did on that one."

A Popular Pitch for Privatization

Sanford is much more sanguine. Irrespressible, even. He ticks off the high points of his standard Social Security speech, which, he claims, rarely meets serious challenge from the audience. He first tells voters that the trustees "say it will go bankrupt in 2029 and face deficits starting in 2012." So it seems that the only answer is either benefit cuts or tax increases.

Then he points out that much progress has been made in Washington over the past two years in slowing non-entitlement spending. "But the part of the government that's on automatic pilot has gone way up," he warns. And so the next vital step "is addressing these entitlements."

Finally, Sanford talks about the present system—by which the government takes your tax dollars and gives them to current Social Security beneficiaries, with the annual excess (soon to disappear) going to fund the federal deficit—and about how it could be replaced with private retirement accounts. "I tell them that we want to empower people, put them in charge of their own money," says Sanford. "They seem to like that a lot."

Polls Indicate the Public's Mind Is Open

Sanford's right. In June, the Cato Institute commissioned a survey by Public Opinion Strategies to test public attitudes toward Social Security. The survey described this plan:

- You would be allowed to keep and invest the amount you now pay in Social Security taxes to save for your own retirement.
- You would decide how to invest the money, with some restrictions to limit very risky investments.
- Money could not be drawn until retirement.
- Any money left in your account when you die becomes part of your inheritance.
- There will be no reduction in benefits for current Social Security recipients.
- People under age 65...but over age 18 would have the choice of staying in the current Social Security system or moving to the new privatized system. Those choosing the new system will receive some partial benefits under the old system.

This is a good description of the general overhaul that's favored by Sanford, Kolbe, and Smith in the bills they've introduced. And the Cato survey found that 40 percent of Americans "strongly favor" it, 30 percent "somewhat favor" it, and only 13 percent oppose it.

A later question in the same poll asked respondents to choose between two ways to reform Social Security: (a) "the proposal that would gradually increase the retirement age, reduce benefits for people earning more than $100,000 a year, and reduce the rate of Social Security increases each year," or (b) "the proposal that would allow you to invest your Social Security taxes into your own personal retirement account like an IRA or 401(k)." Proposal (a) was favored by 20 percent, (b) by 67 percent.

Answers to questions like these depend heavily on exactly how they are presented and explained. A Yankelovich Partners survey done for Time/CNN in July found that only 37 percent of registered voters favored (while 51 percent opposed) a plan to "turn much of the Social Security system into a private retire-

When Government Pits Old Against Young

By Blake Hurst

In the last 30 years, per capita spending on entitlements has increased ten times as fast as the wages of working Americans, with most of the increase going to the elderly. First year Social Security benefits for an average retired couple basically doubled. The value of Medicare benefits bestowed on a typical male retiree rocketed from $27,000 in 1970 to almost $131,000 in 1995.

As a result of these shifts, many Americans who retired in the 1980s or before will get back from the Social Security Administration not only all of their Social Security taxes, but also every penny of income tax they ever paid during their working lives. You may ask: Then who paid for the roads, schools, national defense, and other services those Americans consumed over the decades? The answer: The cost was shifted to their children.

This is a huge transfer of wealth from the young to the old. And it is showing up in standards of living. According to Boston University professor Laurence Kotlikoff, the average 70-year-old today consumes nearly a fifth more than the average 30-year-old. In 1960, those proportions were reversed. It is almost impossible to talk about Social Security and the other entitlement programs for the elderly without being overwhelmed by numbers like these.

Of course, were I foolish enough to share these thoughts with my 95-year-old grandfather who gets a monthly check of more than $1,600 from Social Security, he would be unconvinced. He assumes he's just receiving back what's owed him. But he, like nearly all of our current retirees, has long since received back every dollar, with interest, that he contributed to the system. His benefits are a windfall, with no justification except for the political clout that the American Association of Retired Persons and the entitlements lobby wield.

But my grandfather made his way through life successfully by following two simple rules: Work hard, and don't borrow money. Those rules still apply. And that's why we have to reduce the unfunded liabilities of our current entitlement programs—which amount to a huge mortgage dumped by America's elders onto their successors.

We need Social Security reform. And if we're going to be serious about the effort, we'll have to spend some time talking about Grandpa's windfall.

Blake Hurst is a regular contributor to The American Enterprise.