June 28, 2005 SSP No. 34

Noble Lies, Liberal Purposes, and Personal Retirement Accounts

by Will Wilkinson

Executive Summary

Opponents of President Bush's proposal to make individually owned personal retirement accounts a part of the Social Security program routinely charge that it is motivated by ideological animosity toward the values Social Security is supposed to embody, such as equality and social cohesion. However, a frank look at the Social Security status quo reveals that the program is very poorly designed to realize liberal ideals. Social Security has a barely progressive overall structure, if it is progressive at all. The huge volume of transfers inherent in the system accomplishes very little income redistribution within generational cohorts. Furthermore, it works to the disadvantage of current workers, who will receive a smaller "return" on their payroll taxes than do current retirees. The terms of the imaginary "compact between the generations" are manifestly unfair.

What is worse is that the Social Security status quo embodies a government-perpetuated deception designed to generate its own political support by misleading voters into believing that their payroll taxes entitle them to later benefits. The architects of Social Security created a structure and accompanying rhetoric that were specifically intended to encourage the false belief that the system provides a kind of insurance, similar to private insurance based in contract and property, and therefore involves a binding entitlement to benefits.

However, there is no justification for this deception on contemporary liberal grounds. The persistent intentional misrepresentation—the "noble lie"—embedded in the structure and language of the Social Security system is in fact antithetical to the ideals of transparent government, open democratic deliberation, and equality among citizens—ideals at the core of contemporary liberal thought.

A system of personal retirement accounts plus a means-tested safety net would serve the "social insurance" function better than the Social Security status quo *according to liberal standards*. Contrary to critics of reform, personal retirement accounts would materially enhance equality and social cohesion by more fully integrating workers into the market, providing everyone with a stake in its growth, closing the gap between the investing and noninvesting classes, and making more salient the mutuality of interests in a market society.

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Does supporting substitution of private accounts for taxes and transfers really betray "aggressive hostility to equality"?

Introduction

President Bush's proposal to make individually owned personal retirement accounts a part of the Social Security program has provoked ferocious opposition. A recurrent theme in the attacks on personal account proposals is that they represent an ideologically motivated attack designed, not to save Social Security, but to destroy it.

"The crown jewel of the New Deal faces an existential threat," writes Jonathan Chait in the *New Republic*.[1] Greg Anrig, vice president of the Century Foundation, charges that advocates of personal accounts are "fixating on unproven ideology."[2] Robert Scheer argues in the *Nation* that would-be reformers of Social Security are animated by a hatred of the status quo simply "because it works" and that "ideological hostility to progressive taxation and income redistribution is the real issue behind the assault on Social Security."[3] In the *American Prospect*, Jon Margolis charitably allows that the push for personal accounts "is ideology, not greed," and evenhandedly observes that advocates of personal accounts are "neither more avaricious nor more dishonorable than their opponents. Their desire to dismantle Social Security is motivated by sincere belief, one founded on an aggressive hostility to equality."[4]

Rep. David Obey (D-WI) contends that matters of fundamental principle are at stake. "We really do believe it would be immoral to blow up the one program that sends the signal that we are all in this together."[5] Elaborating along similar lines, political theorist Benjamin Barber maintains that President Bush's proposal amounts to "a kind of reverse social contract: It dissolves the bonds that tie us together." According to Barber, any move toward Social Security "privatization . . . makes us less of a public. It diminishes the republic—the res publica, or public things that define our commonweal. It turns the common 'we' into a collection of private 'me's.'"[6]

What is the basis for such charges? Here are some facts. Under President Bush's proposal, individuals under the age of 55 would be given the option of diverting a certain portion of their Social Security payroll taxes into personal investment accounts. When workers retired, the accumulated capital in those accounts would supplement regular Social Security benefits that would be reduced to reflect the partial diversion of payroll taxes. A floor would be set so that, regardless of the performance of the investments in their private accounts, all individuals would be guaranteed a minimum retirement income. In other words, the president's plan calls for a move away from the current, purely "pay-as-you-go" system—in which tax revenues from current workers support benefits for current retirees—in the direction of a system in which most people's retirement income would be based, at least to some extent, on their own savings.

For the sake of clarifying the relevant issues, let us concede that the hybrid system proposed by President Bush is not the ultimate goal of some advocates of Social Security reform. Scholars at the Cato Institute, in particular, have long supported a total transformation to a system from which the pay-as-you-go element has been completely eliminated. Under that scenario, most people would fund their retirement entirely with private savings. A safety net of a guaranteed minimum retirement income would also be available, funded by general tax revenues.

Presumably, whatever criticisms have been leveled at President Bush's hybrid plan would apply with added force to a full-scale move from pay-as-you-go to mandatory private savings plus a means-tested safety net. What is it about such a move that strikes opponents as so threatening to cherished ideals? Does supporting substitution of private accounts for taxes and transfers really betray "aggressive hostility to equality"? Would implementing a private savings-based retirement system truly threaten continued transmission of "the signal that we are all in this together"?

Opponents of Social Security reform have cast the current debate in terms of a clash between libertarian and welfare-liberal values. Libertarians and classical liberals put primary stress on the political values of individual responsibility and limited government; welfare liberals, as opposed to classical liberals, place relatively greater weight on the values of equality and social solidarity.[7] Opponents of reform seem to assume that changing Social Security is a zero-sum game: because a savings-based system would clearly advance the self-reliant libertarian cause, it must therefore represent a setback for egalitarian welfare liberals.

The assumption of a zero-sum conflict on this particular issue, however, deserves to be called into question. A strong case can be made that a savings-based retirement system could do a much better job of promoting equality and social solidarity than the status quo manages to accomplish. Further, it can be argued convincingly that the status quo is in fact jarringly inconsistent with welfare-liberal ideals. Accordingly, thoughtful liberals ought to find a move toward personal accounts worthy of support—notwithstanding the fact that the Cato Institute hatched the idea and President Bush now supports it.

Making Sense of Social Insurance

The assumption of zero-sum conflict rests on another, deeper assumption, namely, that there is something about the structure of the current system that is especially congenial to welfare-liberal values and that would be irretrievably lost by the move to private accounts. That underlying assumption, however, turns out to be bogus. On the contrary, the Social Security status quo violates core principles of welfare liberalism.

First, any claim that the Social Security status quo is an irreplaceable bulwark of egalitarian values cannot be based on the income redistribution achieved by the program. Of course, there is a great deal of *gross* redistribution: in 2004 workers were forced to part with $658 billion in earnings via payroll taxes, while retirees received $493 billion in benefits.[8] This snapshot picture doesn't tell the whole story, however. When you look at the whole lifetime of Social Security participants, it becomes clear that the total amount of *net* redistribution is quite limited. Research by Jeffrey Liebman of Harvard University's Kennedy School of Government shows that "income-related [net] transfers are only 5 to 9 percent of Social Security benefits paid."[9] In other words, more than 90 percent of the money taken in Social Security taxes is recycled back to people in the same income bracket as those from whom the money was originally taken.

How can that be the case? First, the benefit structure of Social Security is only mildly progressive, if at all, and it is funded by a highly regressive payroll tax. Moreover, people with higher incomes tend to live longer and enter the workforce later, thereby sweetening the deals they receive over the course of their lifetimes. According to research by economists Julia Lynn Coronado, Don Fullerton, and Thomas Glass, the net result of Social Security taxes and benefits is to leave the lifetime Gini coefficient—the main statistical indicator of income inequality—basically unaffected. They find that "Social Security does not redistribute from people who are rich over their lifetime to those who are poor. In fact, it may even be slightly regressive."[10] Martin Feldstein of Harvard University concludes that "social insurance programs [such as Social Security] are not designed to be vehicles of income redistribution."[11]

The minimal income redistribution effected by Social Security, if there is any, cannot supply a sound reason for rejecting personal retirement accounts on welfare-liberal principle. After all, it would be fairly simple to design a safety net for a private savings-based retirement system that would render that system more progressive in terms of reducing income inequality than the pay-as-you-go status quo. What then, if anything, does the status quo accomplish that a system based on personal retirement accounts could not hope to duplicate?

The usual answer is that Social Security functions as "social insurance." The purpose of Social Security, supposedly, is to insure against the risks of life in a volatile market economy by guaranteeing retirement security for all. From that perspective, the egalitarianism of the program lies, not in the details of its benefit structure or its level of redistribution, but in its universal nature. The program includes all Americans in its sweep: all workers contribute to the program with payroll taxes, no matter how poor they are; all retirees receive benefits, no matter how rich they are. All for one, one for all.

Because Social Security is billed as a social insurance program, opponents of Social Security reform routinely accuse proponents of personal accounts of making a kind of category mistake whenever they point out that Social Security benefits represent low returns relative to private investments. For example, it would be obtuse to complain that one has seen a low return from the premiums paid on an auto insurance policy. The point of the insurance policy is that you will be reimbursed if you experience a loss, not that you get a positive return on your premiums. If you never file a claim, and never see a dime from the

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insurance company, then you should consider yourself *lucky*. In this vein Chait writes: "Privatizers portray Social Security as a kind of low-performing 401(k) plan. But the program was never intended as a personal retirement plan. It's a form of social insurance, designed to spread risks throughout the population."[12]

Notwithstanding strongly held beliefs to the contrary, Social Security's status as social insurance is decidedly problematic. There are two distinct possibilities, neither of them comforting to defenders of the status quo. First, it can be argued convincingly that Social Security as currently operated is not properly classified as insurance at all, social or otherwise. Alternatively, it may be conceded that Social Security is a kind of social insurance, but in that case so is a safety net attached to a private savings-based retirement system. Either way, to the extent the concept of social insurance has any coherent meaning, support for social insurance offers no basis for opposing personal retirement accounts.

Social Security Is Not Social Insurance

At first blush, such an assertion seems outlandish. After all, "Social Security" is just the popular name for the Old-Age, Survivors, and Disability *Insurance* program.[13] American workers and their employers pay a 12.4 percent payroll tax that is labeled "Federal Insurance Contributions." These taxes are deposited in the Old-Age and Survivors Insurance and Disability Insurance Trust Funds, from which retirement "benefits" are paid. A system of dedicated "insurance contributions" and "insurance trust funds" certainly *sounds* a lot like an insurance system. But is it?

Well, what is insurance, anyway? Insurance is a device for guaranteeing an individual against loss by transferring the risk of loss from the insured individual to the insurer. In private insurance, the agreement between the insured and the insurer is a legal contract, a "policy," which sets out the terms and conditions of coverage. The fee paid by the insured individual is the "premium." Reimbursement of losses incurred by the insured through the incidence of an event covered by a policy is paid from a fund constituted by the premium payments of many individuals exposed to a similar risk of loss. The group contributing to this fund is sometimes called the "risk pool." Premiums are determined by actuarial principles sensitive to the probability of the occurrence of the insurable event and the likely cost of the loss should the event occur.[14]

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Presumably, social insurance, to be worthy of the name, should function roughly like private insurance. The key difference—the difference that transforms mere insurance into social insurance—is that the risk pool for social insurance is the general public, instead of merely those individuals who voluntarily decide to hold policies and pay the associated premiums. So, for example, for the disability insurance component of Social Security, all workers pay "premiums" in the form of payroll taxes, and all receive predetermined benefits upon the occurrence of the "insurable event"—namely, the onset of a medical condition that prevents the worker from performing her job for at least one year.[15] However, the main element of Social Security, assistance for senior citizens, differs significantly from the disability component. It is altogether baffling how the prospect of reaching a certain age, or voluntarily withdrawing from the labor force, constitutes a "risk" of loss. Achieving the age of 62 or 65 simply does not carry with it a significantly heightened risk of poverty, nor does retirement. On the contrary, old age is correlated with wealth, the average 70-year-old being rather better off than the average 25-year-old. Becoming older and retiring from the workforce are not a risk to insure against but a near-inevitability to prepare for. A loss might occur on a birthday, but a birthday is not a reimbursable loss.

In his 1910 book *Social Insurance: A Program for Reform*, the first systematic American work on the topic, Columbia University economics professor Henry Rogers Seager laid out his criteria for determining which events should and should not trigger coverage by social insurance:

> If the need is one the wage earner clearly foresees as certain to arise, then I should be the last person to wish to relieve him of responsibility for meeting it. If, for example, we were discussing means of helping wage earners to pay their rent, I should say that the only safe means are measures designed to increase their energy, ambition, and efficiency. Only in extreme cases should a need of this sort be met by outside help. But the future needs we are considering are not of this sort. Many wage earners go through life without being the victims

> of industrial accidents, without serious illness, never lacking for work, and *not living long enough to become superannuated*. These are all risks to which wage earners are exposed, not certain needs which they can clearly foresee.[16]

When Seager wrote those words, life expectancy at birth was about 51 years. A 25-year-old in 1910 could expect to expire just before reaching 65 years of age, today's age for full Social Security eligibility. It was not unreasonable, then, to consider living well past that age, "living long enough to become superannuated," as an unforeseeable risk to which one was exposed and against which one might wish to be insured. Similarly, when Social Security became law in 1935, life expectancy barely exceeded the age of eligibility.[17]

Today, a representative 25-year-old can expect to make it to her 80th birthday.[18] The need to prepare for the interim between retirement and death is now one "the wage earner clearly foresees as certain to arise," or, at least, foresees as very likely to arise. Under these conditions, no honest proponent of social insurance should "wish to relieve him of the responsibility of meeting it." The phenomenal rise in life expectancy over the course of the 20th century has simply removed retirement from the category of risk and has therefore rendered the idea of old-age insurance obsolete.

Or Is It?

Although most of Social Security's sloshing of funds back and forth within income brackets does not constitute net income redistribution, a limited degree of redistribution does occur, so the program is not a complete wash. In the same way, it may be argued that a limited degree of social insurance occurs as well. While retirees receive benefits irrespective of whether they have suffered any kind of loss (in this case, lack of other retirement income), and while the level of benefits they receive is totally independent of whether or not they have suffered a loss, still, at the end of the day, some of the retirees receiving Social Security benefits do lack sufficient other retirement income, and so for them Social Security does function to safeguard against misfortune. To be charitable, then, it is possible to say that there is an element of social insurance in Social Security.

However, the term "social insurance" stretched this loosely would also apply equally to a private savings-based retirement program with a safety net. First, if an income-supplementing stream of government Social Security checks functions as insurance, then it is difficult to see how an income-supplementing stream of personal retirement account annuity checks fails to perform the same function. One might wish to argue that the loosely defined insurance function is fulfilled only when the government taxes everybody in order to pay benefits to those who have suffered some misfortune. And personal accounts do not involve this kind of interpersonal redistribution. However, welfare programs for the poor, price supports for farmers, and disaster relief for hurricane victims can all be seen in this light as kinds of social insurance. But so, too, can a means-tested benefit program for retirees funded from general tax revenues.

A retirement safety net could easily be designed that would qualify as paradigmatic social insurance. If the safety net were funded by special payroll taxes earmarked for the purpose (but taxes far lower than today's Social Security payroll taxes, since they would be funding benefits only for people who actually needed them), the analogy to disability insurance would be exact. Accordingly, if social insurance more narrowly defined is thought to be especially praiseworthy from the perspective of welfare liberalism, a private savings-based retirement system with an appropriately designed safety net ought to be preferable to the crude blunderbuss approach of the current pay-as-you-go system.

Social Security's "Noble Lie"

To recap, Social Security doesn't do much, if anything, to redistribute income, and what it does do could easily be replicated or surpassed by a private savings-based system. Likewise, Social Security doesn't have much to do with social insurance, and the limited extent to which it does provide an insurance function could easily be replicated or surpassed by a private savings-based program.

So what does the Social Security status quo offer that a move toward private accounts can't match? The key "virtue" of the current system, according to its supporters, is political, not substantive. And that virtue is that Social Security's

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design and accompanying rhetoric encourage voters to think of Social Security benefits as an entitlement—as something they've earned—in order to ensure the long-term political viability of the redistribution that the system does effect, redistribution voters might not otherwise support. In other words, Social Security is supposedly preferable to a private savings-based system because it is *deceptive*.

In fact, Social Security payroll taxes and retirement benefits are not linked in any legally binding way. As the Supreme Court established authoritatively in the 1960 *Flemming v. Nestor* decision, retirees do not have a contractual right to a particular level of Social Security benefits.[19] Social Security, described neutrally, consists of a tax, on the one hand, and a set of government transfers, on the other, and no legally binding connection between the two. Paying the tax creates no claim to benefits. Congress may decide to cut benefits, or to cut the program altogether, without trespassing on any legally recognized right. Since legislatures cannot legally bind future legislatures, the existence and level of payroll taxes and Social Security transfers are a matter of popular will and legislative discretion.

From the program's inception, however, the lack of a legally binding entitlement to benefits was deliberately obscured. The idea was to bill the program as insurance, thereby making benefits seem earned rather than part of a socially stigmatized "dole." Accordingly, during "fireside chats" and public speeches, Franklin Roosevelt told American workers that they had an "insurance policy" with the government, that "the insurance policy . . . is bought" with a payroll tax "premium" and is "far more favorable to [workers] than any policy that any private insurance company could afford to issue."[20] He told Congress that the "old-age insurance system" created "individual accounts" for millions of workers who may be "likened to the policy holders of a private insurance company."[21]

There can be no doubt that the language of "individual accounts," private "insurance policies," "premiums," and so forth was meant to evoke in voters' minds the familiar framework of secure property rights and legally enforceable contracts. In her comprehensive survey of the history of the Social Security program, political scientist Martha Derthick notes that "[i]nsurance industry executives complained privately that leaders of social security were hostile to their industry but eager to exploit its good name for their own purposes."[22] Roosevelt encouraged voters to think of their taxes as "buying" an insurance "policy" and thereby establishing morally and legally binding property rights to benefits.

The political value of presenting Social Security as insurance trumped competing policy considerations. Thus, when a visitor to the Oval Office pressed Roosevelt on the regressive nature of the payroll tax, the president candidly replied:

> I guess you are right about the economics, but those taxes were never a problem of economics. They are political all the way through. We put those payroll contributions there so as to give the contributors a legal, moral, and political right to collect their pensions. . . . With those taxes in there, no damn politician can ever scrap my social security program.[23]

To consolidate public perceptions, Roosevelt attacked with astonishing vehemence anyone who dared describe the program outside of the administration's preferred rhetorical frame. To those who made the "reality-based" observation that one's Social Security benefits—one's "insurance policy with the government"—in fact included no contract, property, or legal right and were secured by nothing stronger than the discretion of future legislatures, Roosevelt lashed out with a charge of treachery verging on treason:

> When they imply that the reserves . . . will be stolen by some future Congress . . . they attack the integrity and honor of American Government itself. Those who suggest that are already aliens to the spirit of American democracy. Let them emigrate and try their lot under some foreign flag in which they have more confidence.[24]

The Roosevelt administration's success in framing old-age benefits as social insurance was so complete that it is now widely considered heretical to deny that Social Security is, in fact, a social insurance program. "To challenge the insurance analogy or resist using the terms was to show oneself an enemy of the program," Derthick observed.[25] That is no less true today.

An interesting historical footnote: The Roosevelt administration's political strategy was constrained in the first years of the Social Security program by the threat that the Supreme Court would rule the program unconstitutional. Given the inconvenient fact that the Constitution created no federal power to implement a scheme of so-called social insurance, the administration had to walk a fine line, using its formidable rhetorical resources to aggressively "brand" Social Security as insurance while simultaneously guarding itself against an inevitable constitutional challenge.

Despite the Roosevelt administration's full-court press to characterize Social Security as insurance, the word "insurance" is conspicuously absent from the original 1935 Social Security Act. Title II of the act introduces "old age assistance." Following the plan of previous New Deal bills to keep new taxes and new programs of government wealth transfer conceptually and legally separate, Title VIII introduces new taxes and makes no connection whatsoever with the new benefits introduced in Title II. The text and structure of the bill appear to scrupulously avoid any intimation of intent to insure.[26]

Just prior to the 1937 Supreme Court cases challenging the constitutionality of the Social Security Act, administration officials systematically purged educational and promotional materials of insurance language.[27] And, in the cases before the Supreme Court, the government argued forcefully, truthfully, and successfully that the Social Security Act did not establish an insurance program. The Supreme Court agreed and upheld the program.[28]

Wilbur Cohen, at the time an assistant to Social Security Board chairman Robert Altmeyer, reported that just after the Supreme Court handed down its decision, he walked down the steps of the Court "in a glow of ecstasy. . . . When I got back to the office I received Mr. Altmeyer's approval to send out a memo to the staff stating that because of the decision, we could now call the old age benefits program 'old age insurance.'" Now that Social Security had been ruled constitutional, because it was *not* insurance, it became safe finally to *call* it insurance. Cohen went on to explain the reasoning behind the choice of language: "The American public was and still is insurance-minded and opposed to welfare, the 'dole' and 'handouts.'"[29]

In a fascinating article titled "Preferences, Promises, and the Politics of Entitlement," Stanford University economist Paul Romer points to government pamphlets explaining Social Security just before and just after the Supreme Court decision.[30] A 1937 pamphlet, written shortly before the Supreme Court decision, described the program accurately and with a minimum of manipulative art:

> The United States Government will send checks every month to retired workers . . . under the old-age benefits plan. . . . The same law that provides these benefits for you and other workers sets up certain new taxes to be paid to the United States Government.

A 1938 pamphlet, published after the decision, shows the insurance framing project once again in full flower:

> Your [Social Security] card shows that you have an insurance account with the U.S. Government—Federal old age and survivors insurance. This is a national insurance plan for all workers in commerce and industry . . . taxes are like the premium on any other kind of insurance.

In 1972, more than three decades after he glided ecstatically down the steps of the Supreme Court, Wilbur Cohen engaged the future Nobel Prize winner Milton Friedman in a debate over Social Security. Not unlike the Roosevelt administration's argument before the Supreme Court, Friedman maintained that "social security is not in any meaningful sense an insurance program in which individual payments purchase equivalent actuarial benefits." It is a tax plus a program of government transfers "in which all sorts of considerations other than the amount paid determine the amount received."[31] The government, Friedman charged, was therefore guilty of manipulating the public through misleading rhetoric.

Arguing in fine nominalist fashion, Cohen maintained that Social Security must be insurance because the government calls it insurance and that, furthermore, he once wrote an article in the *Encyclopedia Britannica* stating that it was. In any case, Cohen argued, rhetoric has its virtues. "I believe in rhetoric," Cohen said, "because it makes a lot of things palatable that

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might be unpalatable to economists."[32] But it is not only economists, Cohen goes on to clarify, to whom "a lot of things" might seem unpalatable.

> Let me emphasize that the reason why [welfare] programs don't get appropriations, don't get support from the taxpayer, is simply that they do not appeal to the middle class, middle income person.[33]

Cohen's point is absolutely central to the design and labeling of the current Social Security program: to make a program of wealth redistribution palatable to voters who would not otherwise find it so. This is the "noble lie" of Social Security.

Cohen's reasoning has become conventional wisdom among defenders of the status quo. In a recent book, political scientist Max J. Skidmore asks:

> If it were necessary for everyone to go through the humiliating process of proving poverty in order to receive benefits, could middle-class support for Social Security continue, or would it vanish overnight? If that support vanished, there is no doubt that the system would vanish also.[34]

Max Sawicky, an economist at the left-of-center Economic Policy Institute, puts the point forcefully: "I pity the poor who wind up isolated in a ghetto of means-tested programs. Programs for the poor isolate their beneficiaries politically and end up poorly supported."[35]

President Bush's recent endorsement of Robert Pozen's "progressive indexing" plan, which would make Social Security more progressive by reducing promised benefits to high-income retirees, has sparked a rash of Cohen-like arguments. Writing in *Slate*, Berkeley economics professor Brad DeLong even quotes Cohen:

> Even without private accounts, aggressive means-testing à la Pozen risks undermining Social Security over time. Insulating the poor from cuts is a left-wing goal. But it will create a large class of Americans who get much, much less out of Social Security than they put in and for whom Social Security as a whole is demonstrably a very bad deal. Early Social Security guru Wilbur Cohen may well have been correct in his belief that "in the United States, a program that deals only with the poor will end up being a poor program."[36]

Princeton economist and *New York Times* columnist Paul Krugman harbors similar suspicions of progressive indexing, arguing that Bush's embrace of Pozen's idea is "an attempt to turn Social Security into nothing but a program for the poor," with the goal of transforming "F.D.R.'s most durable achievement into an unpopular welfare program, so some future president will be able to attack it with tall tales about Social Security queens driving Cadillacs."[37]

Most supporters of the Social Security status quo recognize that a means-tested program paid for out of general tax revenues could *in principle* serve the loosely construed "insurance" functions of Social Security. And most acknowledge that it could do so more efficiently, be funded by less regressive taxes, and have a more progressive benefits structure. The Pozen plan, for example, would increase the progressivity of Social Security benefits. However, it is conjectured that the more a program looks like means-tested welfare, the more politically "unpalatable" it will be. If retirement programs fail to "appeal to the middle class," they will "isolate their beneficiaries politically" and lead to inadequate levels of benefits. But, as DeLong puts it, "Insulating the poor from cuts is a left-wing goal." Therefore, the fact that voters supposedly have policy preferences that might lead to inadequate benefits is deemed *unacceptable* from a left-wing perspective. It is therefore necessary to move massive amounts of money from the middle class back to itself, behind a mirage of manufactured entitlement, in order to secure a residue of adequate redistribution.

The deception is explicitly acknowledged, but it is rationalized as a necessary means to a morally obligatory end. Fearing that Americans would not support the level of assistance that a just state is thought to be obligated to provide, status quo-ists argue that it is not only permissible but necessary for citizens to be manipulated into supporting a program that will, under cover of obfuscatory language and structure, do what morally must be done. The end of ensuring a sufficiently high level of benefits to the elderly poor justifies the means: purposefully deceptive manipulation of public opinion.

Should conscientious liberals accept that reasoning as sufficient justification for perpetrating an enduring deception? Is the false rhetoric of insurance permissible on liberal grounds? Can a liberal political philosophy countenance this kind of "noble lie"? According to the leading lights of contemporary welfare-liberal political philosophy, the answer is no.

Publicity, Deliberation, and Democratic Legitimacy

In her detailed historical analysis of Social Security, Derthick concludes that the policymakers responsible for our Social Security system "sought to foreclose the options of future generations" and had "designed social security to be uncontrollable."[38] Such insulation from public control, Derthick goes on to argue, is unacceptable in a democratic society:

> That the gross features and relative burdens of the leading government programs should be open to debate, and therefore vulnerable to fluctuations in politics and policy, would seem essential to any realistic theory of democracy.[39]

If Derthick is correct, Social Security has been insulated from serious democratic reform largely because the deceptive manner in which the program has been framed distorts public understanding of its nature, and that prevents voters from fairly weighing their preferences about competing policies, skews their deliberations together as citizens about the common good and the terms of social cooperation, and therefore undermines their full agency as free and equal citizens in a liberal democracy.

John Rawls, the dominant liberal political philosopher over the past half century, has articulated two principles of "publicity" that underlie the legitimacy of the liberal-democratic state.[40] First, the *rules* that govern fair social cooperation must be public, in the sense that they are publicly known, and not secret, covert, or obfuscated.[41] Second, the *reasons* that citizens and policymakers give each other to justify the rules of social cooperation must be public, in the sense that they are not based in parochial interests or couched in terms of moral, religious, or ideological conceptions that some reasonable citizens may reject.[42] A public reason, or public justification, is one each reasonable citizen can accept from the perspective of his role as a participant in the shared enterprise of fair social cooperation. In *Political Liberalism*, Rawls emphasizes why both public rules and public reasons are necessary for the legitimacy of state coercion:

> [I]f the basic structure relies on coercive sanctions, however rarely and scrupulously applied, the grounds of its institutions should stand up to public scrutiny. When . . . basic social arrangements and individual actions are fully justifiable, citizens can give reasons for their beliefs and conduct before one another confident that this avowed reckoning itself will strengthen and not weaken public understanding. The political order does not, it seems, depend on *historically accidental or established delusions, or other mistaken beliefs resting on the deceptive appearances of institutions that mislead us as to how they work*.[43]

Although it is quite unlikely that Rawls had Social Security in mind, it would appear to be a paradigmatic example of public policy that, as the previous section shows, depends on "established delusion, or other mistaken belief resting on the deceptive appearances of institutions that mislead us as to how they work." Because the structure and rhetoric of Social Security are designed to mislead and manipulate, the *rules* by which we are governed are not sufficiently public and therefore, by Rawls's standards, are inconsistent with basic tenets of liberalism.

Political theorist and Nobel Prize–winning economist James Buchanan has written lucidly on the incentives of those with political power to create "fiscal illusions" that cause "tax payers to think that the taxes to which they are subjected are less burdensome than they actually are" and "make beneficiaries consider the values of public goods and services to them to be larger than may actually be the case." Buchanan notes that Social Security is "ready made" for criticism as a fiscal illusion, for "it is apparent to almost everyone . . . that the effects of promoting the institutions under the 'insurance' rubric, which implies actuarial independence and integrity, tends [sic] to conceal from participants the real flows of costs and benefits."

Because the structure and rhetoric of Social Security are designed to mislead and manipulate, the rules by which we are governed are not sufficiently public and therefore are inconsistent with basic tenets of liberalism.

Buchanan argues: "There seems little question but that, if the same fiscal transfers were proposed openly and without attempts at illusion, there would be significantly greater political resistance."[44] That is, Social Security engenders so little resistance precisely because its nature is *not* public in the way Rawls demands.

Rawls also emphasizes that a just liberal state must govern according to rules that have a sufficiently public *justification*. The grounds of a just society's institutions must "stand up to public scrutiny." A just liberal order is one the principles of which each citizen has reason to affirm. In a diverse, pluralistic society, in which there are many competing comprehensive conceptions of morality and value, justification of policy must not be offered from within the confines of any particular private ideology, religion, or moral system but must be offered on *public* terms all reasonable citizens have sufficient grounds to accept. "Our exercise of political power is proper," Rawls writes, "only when we sincerely believe that the reasons we would offer for our political actions—were we to state them as public officials—are sufficient, and we also reasonably think that other citizens might reasonably accept those reasons."[45] Similarly, Dennis Thompson and Amy Gutmann of Princeton, laying out the conditions for a legitimate democracy, write, "The reasons that officials and citizens give to justify political actions, and the information necessary to assess those reasons, should be public."[46]

The "redistributive end justifies the manipulative means" argument manifestly fails the test of public justification. It should be clear why that is an argument reasonable citizens have reason to reject, for the argument is predicated on the assumption that the policy it promotes is not widely accepted by the public. The argument is that too few members of the voting public would endorse a principle of redistribution that would provide a level of benefits to the elderly poor that Cohen, Skidmore, Sawicky, DeLong, Krugman, and their ideological allies would consider sufficient, and so the voting public must be tricked into supporting that level. Obviously, it cannot be reasonable to ask a citizen to accept a policy that is *intended* to manipulate and deceive him.[47]

A program that persists because of a concerted government policy of manipulation cannot be squared with basic liberal requirements of legitimacy.

Although the liberal emphasis on public justification is one that was revived in recent times by Rawls and his followers, the idea of public justification has a long and distinguished liberal pedigree. In 1795 Immanuel Kant argued,

> A maxim which I cannot divulge without defeating my own purpose must be kept secret if it is to succeed; and, if I cannot publicly avow it without inevitably exciting universal opposition to my project, the necessary and universal opposition which can be foreseen a priori is due only to the injustice with which the maxim threatens everyone.[48]

Because the principles of a just social order are principles that everyone has reason to affirm and comply with, a principle that cannot be publicly articulated without eliciting reasonable resentment and resistance cannot meet the standards of liberal justice. As Buchanan observes, Social Security excites so little opposition because it perpetrates a fiscal illusion. And the "redistributive end justifies the manipulative means" argument is a prime example of a political maxim or principle that cannot be publicly avowed without undermining its own aim.

Kant was animated by a belief in the necessary universality of reason, but contemporary liberals are more concerned with what Rawls called "the fact of pluralism," the fact that today's liberal democracies are populated by citizens with a wide array of competing comprehensive philosophies about the nature of morality and value. The "noble lie" argument for manipulating the framing of Social Security was driven by the conviction that a single, specific vision of redistribution was *the* substantively correct standard for evaluating public policy. According to the moral logic of the New Deal's version of comprehensive welfare liberalism, the manipulative technocratic design of the Social Security program may have been justified by the perceived moral urgency and weight of its aim. However, because this is a moral conception that is not (and never was) shared by all or most reasonable citizens, it is an inappropriate basis for policy in a pluralistic liberal society. Worse yet, a program that persists because of a concerted government policy of manipulation, and which therefore obscures from citizens the true terms of their political association, cannot be squared with basic liberal requirements of legitimacy.

The propagation of false conceptions of our political institutions also hinders the ability of citizens to deliberate together about terms of political association and therefore undermines the conditions for mutual respect and solidarity in a democratic society. Deliberation involves finding common ground and offering reasons for political principles that other citizens have reason to accept. Willingness to engage in public deliberation is one of the main ways that we express respect for one another as free and equal citizens who are "in this together." Political philosopher Thomas Christiano argues that "a society in which individuals deliberate publicly before making decisions embodies a kind of mutual respect and concern among citizens."[49]

Similarly, Amy Gutmann and Dennis Thompson, prominent champions of the value of deliberative democracy, write:

> The practice of deliberation . . . seeks to realize the root value of reciprocity that should prevail among democratic citizens. Citizens who have effective opportunities to deliberate treat one another not merely as objects who are to be judged by theoretical principles but also as subjects who can accept or reject the reasons given for the laws and policies that mutually bind them. The reasons are not to be regarded as binding unless they are presented to citizens who have the chance to consider and reject them either directly or through their accountable representatives in a public forum.[50]

Political manipulation that obscures the "laws and policies that mutually bind" us treats citizens as objects, undercuts the conditions for mutual respect, and violates the principle of reciprocity, "which says that citizens owe one another justifications for the laws they collectively enact."[51]

Social Security has a deep and pervasive effect on citizens' lives. It determines how much of their wages workers can keep and therefore what they have left to save or consume. It conditions our expectations about old age, frames the way we plan our lives, and alters the nature of our relationships with our parents and children. Because liberal citizens are not to be treated as mere objects—not to be used as pawns in a game played by other more politically powerful citizens to satisfy their political preferences—the ways in which our political institutions shape our lives and condition our aspirations must be transparent to us and must not be obscured. As Rawls argues:

> [P]ublicity ensures, so far as practical measures allow, that citizens are in a position to know and to accept the pervasive influences of the basic structure that shape their conception of themselves, their character and ends. . . . [T]hat citizens should be in this position is a condition of their realizing their freedom as fully autonomous, politically speaking. It means that in their public political life nothing need be hidden.[52]

By maintaining that the nature of a political institution that shapes our lives *should* be obscured, those who espouse the "redistributive end justifies the manipulative means" argument fail to take seriously their fellow citizens' freedom as autonomous, self-governing persons. They fail, in other words, to live up to their liberal principles. As Friedman said in his debate with Cohen,

> Men who would not lie to their children, their friends, or their colleagues, whom you and I would trust implicitly in personal dealings, have propagated a false view of social security—and their intelligence and exposure to contrary views make it hard to believe that they have done so unintentionally and innocently.[53]

Personal Accounts and Social Cohesion

The more it is subject to scrutiny, the more the welfare-liberal case for the Social Security status quo crumbles away. The pay-as-you-go, tax-and-transfer structure of the current system offers little in the way of income redistribution, and whatever social insurance function it provides is roundabout, scattershot, and easily improved upon. The only real "advantage" of the current system, it turns out, is that it deceives voters into believing there is some nexus between the taxes they pay and the benefits they later receive. But that deception cannot be justified in liberal terms.

Proposals to replace, partially or fully, the current system with one based on personal

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retirement accounts are savaged as attacks on social cohesion—on the shared sense that "we're all in this together." Yet the social cohesion provided by the Social Security status quo is fundamentally phony and therefore morally compromised. It is nothing more than the common participation in an illusion of property entitlement. Can't we do better than that?

Yes, we can. Personal accounts offer, not the illusion of property rights, but the real thing. If an ersatz entitlement is supposedly good for social cohesion, isn't a real, legally binding entitlement even better?

Independent of "green-eyeshade" questions of the status quo's solvency and demographic stability, a system of mandatory personal savings accounts could go a considerable way toward rectifying the flaws of Social Security as an expression of liberal ideals. Personal accounts have a transparent structure, and their appeal does not require manipulative framing. They possess the virtues of actual private property and contract upon which the deceptive appeal of "Social Security as insurance" was built. There is a straightforward connection between contributions and future benefits. And the sense of entitlement to benefits need not be manufactured, for the funds in the accounts begin and end as property in which the citizens have genuine legal and moral rights. Furthermore, a system of personal accounts would put an end to the practice of making political promises to ourselves that can be met only by future generations on unfair terms to which they have not agreed, and rationally would not agree.

Equality

A system of personal accounts would be able to advance egalitarian values currently neglected by the status quo. In particular, the Social Security status quo is substantively inegalitarian in terms of intergenerational distribution. Social Security is a system of wealth transfer from later to earlier generations. As the number of workers per retiree shrinks, and as life expectancy continues to climb, later generations must receive a lower "rate of return" on their tax dollars in order to keep the system sustainable.

There is no egalitarian justification for this kind of unequal treatment of different generations. The larger burdens placed upon later generations, simply by virtue of being born later, are not offset by any compensating benefits, a state of affairs that violates the reciprocal sharing of burdens and benefits that contemporary liberals understand to be at the heart of justice. Advocates of the status quo constantly trumpet the sanctity of Social Security's "compact between the generations."[54] But a compact that systematically benefits one party at the expense of another is manifestly unfair. Such a compact would not gain the disadvantaged party's consent and, therefore, could not be morally binding. A compact between the generations ought not to be a raw deal for those with later birth dates.[55]

Personal retirement accounts would avoid the inegalitarian consequence of the status quo while providing real benefits in terms of equality. Personal retirement accounts do not involve redistribution from one generation to another and therefore do not face problems of intergenerational inequality or unfairness. Insofar as personal accounts involve redistribution at all, it is from earlier stages of a person's life to later stages of the same life, and egalitarian concerns normally do not apply to questions of distribution within the individual's life.

Personal accounts would promote equality in another, deeply significant way. They would involve all working members of society in capital markets, thereby breaking down the distinction between investing and noninvesting classes of citizens. The Social Security system was designed 70 years ago under vastly different social and economic conditions. In 1935 owning stocks and bonds was the privilege of the exceptionally wealthy. In 2005 almost half of all U.S. households own stocks or stock mutual funds. However, stock ownership remains out of the reach of many poorer Americans. Eighty-four percent of those with annual household incomes of $75,000 or more own stocks or stock funds. But only 26 percent of those with incomes less than $30,000 own stock.[56] Personal retirement accounts would instantly narrow that chasm of ownership.

But it is not the investment gap, per se, that we should worry about. Holding assets has empowering effects on citizens' financial attitudes and expectations. Catherine Montalto of Ohio State University reports that "[h]ouseholds with low net assets have shorter planning horizons, are less likely to take financial risk when saving or investing, and are less likely to save, compared to the total population of households."[57] That pattern of behavior helps explain why poverty is often self-reinforcing. Owning a piece of the market through personal retirement accounts will help poorer citizens and families to build assets, providing an important incentive to acquire the information, skills, and confidence that will help them improve their overall ability to save, invest, and acquire even more assets and further shrinking the gap between the investing middle and upper classes and the noninvesting lower classes. Workers with investments are avid consumers of financial journalism, and the growing pool of investors has created a market for more and better sources of financial information.[58] By providing them a stake in the market, personal retirement accounts would help to demystify investment and finance for millions of Americans, thereby lowering the barriers to wealth for those who most need it.

It is not sufficiently acknowledged that the Social Security status quo is itself a barrier to wealth, especially for the least well-off. In the current system, the least wealthy workers are hit hardest by the regressive Social Security payroll tax and are left with little or no discretionary income to invest. For many of the least well-off members of society, the opportunity cost of the payroll tax is the ability to acquire a direct claim on the growth of capital. Wealthier Americans are able to hitch their wagons directly to the performance of the system of capitalist production, to build real assets through a legal claim on the productivity of capital. The least wealthy, after they have paid a 12.4 percent tax on their wages and covered life's necessities, are left with little more than a nonbinding political promise to a claim on the income of future workers.

Social Security also contributes to inequality by making it most difficult for the poor to pass on wealth to their children and grandchildren. Economists Jagadeesh Gokhale and Laurence Kotlikoff have found that Social Security "appears to be raising wealth inequality, as measured by the Gini coefficient, by roughly one fifth, substantially increasing the share of total wealth held by the richest members of society, and greatly reducing the flow of bequests to the next generation."[59] The rich get richer, and the poor get a promise. It is difficult to see how this consequence of the Social Security status quo can be justified by those who profess to care about equality.

Even if we assume, contrary to fact, that the expected value of the claim on the income of future workers under Social Security and the expected value of the claim on the productivity of capital under a system of personal retirement accounts are equal—that the two approaches have an equivalent "rate of return"—we are still obligated to ask which approach best encourages self-respect, a sense of personal efficacy, and the development of capacities necessary for a decent life in a market society. A system of personal retirement accounts would integrate millions of citizens into the system of American wealth creation, empower workers to take control of their financial well-being, and further blur the class line between workers and capitalists. The Social Security status quo, by making it difficult for the least wealthy to buy a stake in the growth of the market economy, helps to ensure that millions remain mere workers who only incidentally gain from its growth.

Those who care about equality and fairness therefore have ample reason to reject the Social Security status quo and instead promote a system of personal accounts combined with a means-tested safety net. If it is true, as Margolis charged, that advocates of personal retirement accounts "desire to dismantle Social Security" because of "an aggressive hostility to equality," then they have decided to promote an exceedingly counterproductive policy. It would make more sense for the aggressively hostile anti-egalitarian to promote the Social Security status quo instead.

Solidarity

Opponents of Social Security reform are able to characterize the move toward personal retirement accounts as a move away from social cohesion only because they wildly underestimate market cooperation as a source of social cohesion. "With privatization," Barber writes, "[the Bush] administration is trying to seduce us back into the state of nature, where the strong dominate the weak and anarchy ultimately dominates the strong and the weak, undermining security for both."[60] Just how it is that a program that provides workers the choice of placing a portion of their payroll tax in an investment account, while retaining the assurance of a means-tested safety net, edges us closer to an anarchic war of all against all must remain a mystery. After all, there are no mutual funds in the state of nature.

Opponents of Social Security reform wildly underestimate market cooperation as a source of social cohesion.

To provide citizens with a direct stake in the market is to integrate them more fully into a web of mutual support that is vastly more intricate and organic than the pattern of government transfers.

There is no question that a thoroughgoing system of personal retirement accounts would change the pattern of interdependence among Americans. Individually prefunded retirement accounts would make citizens more independent or self-reliant in the sense that they would rely increasingly on the fruits of their own labor in retirement rather than on coerced transfers from other workers through the government. It is possible to see this move toward greater individual responsibility as an erosion of social solidarity only if one thinks that the structure of society begins and ends with the pattern of government transfers.

The worry about solidarity might be illustrated with a game kids play at camp to help break the ice and build trust in the group. In that game, everyone sits on the lap of the person behind her, and the line wraps around until the group forms a single interdependent circle. Everyone is supported by everyone else; they are "all in this together." The move to personal accounts is like everyone simultaneously standing straight up, each person removing his weight from the lap behind, and removing his support from the person in front. Everyone stands alone, separate. Under a system of personal retirement accounts, then, society becomes a collection of free-standing, self-supported individuals rather than an integrated network of mutual support.

However, that picture of social cohesion, like the game, is for children. Advanced market economies function through immensely complex networks of interdependence and cooperation. To provide citizens with a direct stake in the market is to integrate them more fully into a web of mutual support that is vastly more intricate and organic than the pattern of government transfers. As market-based interdependence develops, workers become ever more specialized and therefore ever more dependent on the network of cooperative exchange. People in advanced market societies, who grow none of their own food, make none of their own clothes, and would not know how to build shelter if their lives depended on it, are truly "in this together."

Modern highly developed market societies are the paradigm of interdependent, mutually advantageous cooperation and are as far as can be imagined from a society of atomistic predators. Market societies are wealthy because they rely on and reinforce a high level of social trust and norms of cooperation. Empirical studies find that the level of trust in a society is strongly positively correlated with its level of economic development. Wealthier societies are more trusting and cooperative. And societies with strong market institutions are wealthier. World Bank economists Stephen Knack and Philip Keefer find that "trust and norms of civic cooperation are stronger in countries with formal institutions that effectively protect property and contract rights."[61] In a large cross-cultural experimental study, a team of anthropologists and economists recently found that "the higher the degree of market integration and the higher the payoffs to cooperation, the greater the level of prosociality found in experimental games."[62] Markets promote the habits of the heart that create social solidarity and cohesion.

More important, however, is the fact that it is through the system of cooperative market exchange that our interests are most deeply and genuinely intertwined. The web of positive-sum market exchange gives us reason to consider perfect strangers as "virtual friends" whose well-being and productivity positively affect our own, thereby encouraging a social ethos of benevolence and cooperation.[63] Personal retirement accounts, by providing citizens with a direct stake in the performance of the market, make explicit and salient what is too often implicit and abstract: our interests are bound together through the system of market cooperation.

By broadening the investment class to include all workers, a system of personal retirement accounts would help to align the interests of all segments of society with the sources of our common prosperity and security and would thereby strengthen our connection to the *res publica*. As Nobel Prize–winning economic historian Robert Fogel notes: "A century ago, the typical household in OECD nations spent over 80 percent of its income on food, clothing, and shelter. Today these commodities account for less than a third of consumption."[64] That astounding decline in the price of life's necessities was the consequence of high rates of economic growth due primarily to market-driven technological innovation, not the redistribution of wealth.

Because of market competition and innovation, almost all Americans in the lowest income brackets have refrigeration, quality plumbing, spacious living arrangements, and labor-saving appliances. Many own multiple cars, TVs, computers, and devices unavailable to anyone a few decades ago.[65] But too few of the least wealthy Americans own a piece of the market, and therefore too few have a personal, direct stake in the performance of the system that has put microwave ovens and cell phones within their reach.

The ways in which our wealth and well-being are affected by economic performance, and by government policy that influences performance, are not salient to too many Americans. Expanding the base of investors to encompass all working Americans would give the nation a truly common interest in the institutions that in fact bind our interests together. Far from unraveling the social fabric, personal retirement accounts would strengthen American social solidarity by unifying us behind the true sources of our interdependence, wealth, and economic security.

But what about the argument that defenders of the status quo consider their trump card—namely, that a means-tested safety net would not attract sufficient public support to keep it properly maintained? Again, it bears repeating that this argument is basically an expression of contempt for the American electorate. It assumes, by welfare-liberal standards at least, that most Americans are less generous and caring than whoever is making the argument.

However insulting, is the argument correct? Is there any reason to believe that a decently funded safety net for retired Americans would be unable to maintain public support? Perhaps, 70 years ago, New Dealers had cause for concern about Americans' rugged-individualist aversion to the "dole." But today? Is disability insurance—which, unlike the old-age dimension of Social Security, goes only to people who have suffered a loss—unpopular? Unemployment insurance? How about the earned income tax credit? Or disaster relief for hurricane victims?

Yes, it is true that the old Aid to Families with Dependent Children program attracted plenty of conservative ire, but AFDC lacked strong public support because of well-founded concerns about its perverse effects of encouraging dependence and illegitimacy. The program was in many ways *too generous* in terms of eligibility and benefits, as is now acknowledged by those who agree that the mid-1990s welfare reform has been a great success. But total means-tested non-AFDC/TANF welfare spending has increased significantly since the advent of Clinton's plan to "end welfare as we know it."[66]

Despite worries that means-tested assistance for the elderly poor would be underfunded, there is at least as much reason to believe that such programs would be *over*funded. The political power of groups like the AARP, high voter turnout among the elderly, the desire of middle-aged workers not to be burdened by their parents' financial woes in retirement, and general sentimentality about the elderly poor could result in high benefit levels that would create perverse incentives for savings and retirement planning.[67]

A system of personal retirement accounts would minimize problems of perverse incentives by virtue of the fact that a means-tested safety net would serve only as an adjunct to the main retirement system based on mandatory private savings. Absent a requirement to set aside money in personal accounts, a means-tested benefits program for retirees would create a "moral hazard" problem: workers would have an incentive to "game" the system and consume their incomes earlier rather than save sufficiently for retirement.[68] Well-designed personal retirement accounts funded over workers' careers, however, would simultaneously reduce the moral hazard problem and, by ensuring that workers have accumulated assets, diminish the likelihood that retirees would require assistance in old age.

There are further economic grounds for believing that moving to a means-tested retirement program—and eliminating the churning of tax and transfer dollars within income brackets—would result in a more generous allowance for the elderly poor. As Feldstein observes, optimal tax theory predicts that the heavy taxes needed to sustain the current churning exert downward pressure on means-tested programs generally:

> The deadweight burden of an extra dollar of taxes increases with the share of income taken in taxes. The high level of taxes that is needed to finance middle class social insurance programs therefore increases the deadweight burden of any incremental taxes that would be used to finance means tested poverty programs. The large social insurance programs thus reduce the optimal size of means tested poverty programs.[69]

If Feldstein is right, then defenders of the status quo who think they are protecting the poor have

Personal retirement accounts would strengthen American social solidarity by unifying us behind the true sources of our interdependence, wealth, and economic security.

got matters completely backwards. Showering money on the rich and poor alike, far from being a favor to the poor, may in fact result in less money for the poor. As empirical support for this proposition, the fact that 10 percent of Americans over 65 live below the poverty line indicates that the status quo is hardly a bonanza for the elderly poor.[70]

Conclusion

Social Security reform isn't just for libertarians. As this paper demonstrates, egalitarian liberals have little reason to defend the Social Security status quo and compelling reasons to promote the adoption of a well-designed system of personal retirement accounts.

Social Security as we know it is based on a self-conscious program of manipulation designed to obscure the nature of the program and create a sense of entitlement that makes the program extremely difficult to change. This kind of political manipulation violates liberal ideals of publicity, public justification, and democratic deliberation among equals. Moreover, anyone devoted to the ideals of equality and solidarity should be far from enamored of the current system. A program of personal retirement accounts, together with a means-tested safety net, would serve the commonsense objectives of "old age insurance"—protecting the elderly poor from financial calamity—better than the status quo, and without resorting to systemic deception. Furthermore, broadening ownership through personal accounts promises to enhance equality and solidarity in profound and appealing ways. It is only a reflexive ideological antipathy to market institutions that prevents liberals from grasping the deep liberal appeal of personal accounts.

The status quo cannot be justified on liberal terms—regardless of whether one's preferred brand of liberalism is classical or egalitarian.

Although Social Security may have ceased to be a fatally electrifying third rail, the design of the Social Security system still embodies the most successful strategy of structural political manipulation in the history of American politics. Roosevelt's handiwork in forging a perception of moral connection between the payroll tax and payments to retirees, thereby manufacturing a sense of entitlement, remains robust, as is evidenced by the enduring popularity of Social Security. So far, Roosevelt's strategy has ensured that "no damn politician can ever scrap my social security program," and it may continue to doom the efforts of politicians, such as President Bush, who hope to fundamentally reshape FDR's ironclad structure to promote the blessings of broader ownership.

Public opinion, however, is not to be confused with public justification, and the status quo cannot be justified on liberal terms—regardless of whether one's preferred brand of liberalism is classical or egalitarian. If personal retirement accounts fail to gain legislative purchase within this political cycle, they may in the future require champions from the party of Roosevelt to bring them into political reality. In that event, bona fide liberals should recognize that they have compelling reasons to support a move to personal retirement accounts. However, if it is too much to grab the rail, look Roosevelt in the eye, and do what ought to be done, the honest liberal might at least acknowledge that the manipulation at the center of the current system is wrong and admit no obligation to defend it.

Notes

1. Jonathan Chait, "Blocking Move," *New Republic*, March 21, 2005, p. 21.

2. Greg Anrig, "The President's Gift," *American Prospect Online*, March 10, 2005, http://www.prospect.org/web/page.ww?section=root&name=ViewWeb&articleId=9307.

3. Robert Scheer, "Because It Works," *Nation*, March 8, 2005, http://www.thenation.com/doc.mhtml?i=20050321&s=scheer0308.

4. Jon Margolis, "Antisocial Security," *American Prospect Online*, http://www.prospect.org/web/page.ww?section=root&name=ViewWeb&articleId=9374.

5. Quoted in E. J. Dionne, "Bush's Misplayed Hand," *Washington Post*, March 9, 2005.

6. Benjamin Barber, "Privatizing Social Security: 'Me' over 'We,'" *Los Angeles Times*, January 27, 2005.

7. Classical liberalism is, roughly, the view that each person ought to have, and the state ought to protect, the greatest amount of freedom consistent with the equal freedom of others, where freedom is understood "negatively" as freedom from interference or coercion. Welfare liberalism modifies classical liberalism by arguing that freedom must not be merely "formal" but must also be given "fair value" by the state guarantee of minimum levels of certain goods and services, thereby

licensing coercive state redistribution of wealth.

8. Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund, *2005 Annual Report of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Fund* (Washington: Government Printing Office, 2005), p. 10.

9. Jeffrey Liebman, "Redistribution in the Current U.S. Social Security System," in *Distributional Aspects of Social Security and Social Security Reform*, ed. Martin Feldstein and Jeffrey Liebman (Chicago: University of Chicago Press, 2002), p. 4.

10. Julia Lynn Coronado, Don Fullerton, and Thomas Glass, "The Progressivity of Social Security," NBER Working Paper no. 7520, February, 2000.

11. Martin Feldstein, "Rethinking Social Insurance," *American Economic Review* 95, no. 1 (March 2005): 3.

12. Chait, p. 20.

13. Personal retirement accounts would affect only the Old-Age and Survivors Insurance (OASI) part of Social Security and leave the Disability Insurance (DI) part untouched. In what follows, I am addressing OASI, not DI, and by "Social Security" I mean to refer to OASI only, unless otherwise indicated.

14. For standard definitions of insurance, see, for example, "Insurance," *The Columbia Encyclopedia*, 6th ed. (New York: Columbia University Press, 2004); or "Insurance," *Wikipedia: The Free Encyclopedia*, http://en.wikipedia.org/wiki/Insurance (accessed May 10, 2005).

15. The Social Security Administration website says: "We consider you disabled under Social Security rules if you cannot do work that you did before and we decide that you cannot adjust to other work because of your medical condition(s). Your disability must also last or be expected to last for at least one year or to result in death." http://www.ssa.gov/dibplan/dqualify4.htm. Unemployment insurance is similar, although unemployment insurance is state based and is funded by a tax on employers rather than by worker payroll withholding. Of course, workers do pay at least part of this tax through lower wages.

16. Henry Rogers Seager, *Social Security: A Program for Reform* (New York: Macmillan, 1910), p. 21. Emphasis added.

17. Elizabeth Arias, "United States Life Tables, 2002," *National Vital Statistics Reports* (U.S. Department of Health and Human Services) 53, no. 6 (November 10, 2004).

18. There is good reason to believe that current life expectancy figures may be seriously underestimated. See Arnold Kling, "The Long and Short of Lifespan," *Tech Central Station*, January 18, 2005, http://www.techcentralstation.com/011805B.html.

19. *Flemming v. Nestor* 363 U.S. 603 (1960).

20. Franklin D. Roosevelt, "Madison Square Garden Speech," October 31, 1936, http://www.ourdocuments.gov/doc.php?doc+69&page=transcript.

21. Franklin D. Roosevelt, "A Message Transmitting to the Congress a Report of the Social Security Board Recommending Certain Improvements in the Law," January 16, 1939, http://www.ssa.gov/history/fdrstmts.html#1939.

22. Martha Derthick, *Policymaking for Social Security* (Washington: Brookings Institution, 1979), p. 199.

23. Quoted in ibid.

24. Roosevelt, "Madison Square Garden Speech."

25. Derthick, p. 199.

26. See Larry DeWitt, "The 1937 Supreme Court Rulings on the Social Security Act," U.S. Social Security Administration, 1999, http://www.ssa.gov/history/court.html.

27. See Paul Romer, "Preferences, Promises, and the Politics of Entitlement," in *Individual and Social Responsibility: Child Care, Education, Medical Care, and Long-Term Care in America*, ed. Victor R. Fuchs (Chicago: University of Chicago Press, 1995).

28. DeWitt.

29. *Congressional Record*, September 16, 1957, p. 28874, cited in Derthick, p. 199.

30. Romer cites Jerry R. Cates, *Insuring Inequality* (Ann Arbor: University of Michigan Press, 1983), pp. 32–33.

31. Wilbur J. Cohen and Milton Friedman, *Social Security: Universal or Selective?* (Washington: American Enterprise Institute, 1972), p. 26.

32. Ibid., p. 54.

33. Ibid.

34. Max J. Skidmore, *Social Security and Its Enemies: The Case for America's Most Efficient Insurance Program* (Boulder, CO: Westview, 1999), p. 7.

35. Max B. Sawicky and Tyler Cowen, "Federal Tax Code Draws Criticism from Citizens, Experts, Economists," *Wall Street Journal Online*, March 16, 2005, http://online.wsj.com/public/article/0,,SB1

11089397931779810,00.html.

36. Brad DeLong, “Pozen Pill,” *Slate*, May 3, 2005, http://slate.msn.com/id/2117948/.

37. Paul Krugman, “A Gut Punch to the Middle,” *New York Times*, May 2, 2005.

38. Derthick, p. 417.

39. Ibid., p. 418.

40. For a discussion of “publicity,” see Axel Gosserries, “Publicity,” in *Stanford Encyclopedia of Philosophy* (Spring 2005 edition), ed. Edward N. Zalta, http://plato.stanford.edu/entries/publicity.

41. “In saying that an institution, and therefore the basic structure of society, is a public system of rules, I mean then that everyone engaged in it knows what he would know if these rules and his participation in the activity they define were the result of an agreement.” John Rawls, *A Theory of Justice*, rev. ed. (New York: Oxford University Press, 1999), pp. 48–49.

42. John Rawls, *Political Liberalism* (New York: Columbia University Press, 1989), pp. 212–54.

43. Ibid., p. 68. Emphasis added.

44. James M. Buchanan, *Collected Works of James M. Buchanan*, vol. 4, *Public Finance in Democratic Process: Fiscal Institutions and Individual Choice* (Indianapolis: Liberty Fund, 1999), chap. 10. Buchanan credits Italian theorist Amilcare Puviani with the idea of “fiscal illusion.”

45. Rawls, *Political Liberalism*, p. 68.

46. Dennis Thompson and Amy Gutmann, *Democracy and Disagreement* (Cambridge, MA: Belknap, 1998), p. 54.

47. Welfare liberals are sometimes tempted to argue that (1) the principle of public justification requires only that policies be justifiable to citizens with *reasonable* opinions and that (2) citizens who worry that generous government welfare benefits have perverse unintended consequences, and that poverty is best ameliorated through nonstate institutions, are not being reasonable. However, this argument turns on little more than a “persuasive definition” of “reasonable,” begs the question, and refuses to take the fact of reasonable pluralism seriously.

48. Immanuel Kant, “Perpetual Peace,” in *Kant: Political Writings*, ed. H. Reiss (Cambridge: Cambridge University Press, 1991), http://www.constitution.org/Kant/append2.htm.

49. Thomas Christiano, “The Significance of Public Deliberation,” in *Deliberative Democracy: Essays on Reason*, ed. James Bohman and William Rehg (Cambridge, MA: MIT Press, 1997), p. 247.

50. Amy Gutmann and Dennis Thompson, “Democratic Disagreement,” in *Deliberative Politics: Essays on Democracy and Disagreement*, ed. Stephen Macedo (New York: Oxford University Press, 1999), p. 243.

51. Ibid.

52. Rawls, *Political Liberalism*, p. 68.

53. Cohen and Friedman, pp. 26–27.

54. See Daniel Shapiro, “The Moral Case for Social Security Privatization,” Cato Institute Social Security Choice Paper no. 14, October 29, 1999, p. 4.

55. And, as Milton Friedman asks: “[I]s there not something immoral in our making promises to ourselves that can be redeemed only by our children? . . . The continuation of civilization requires many measures that can succeed only with the compliance of future generations. But should we not minimize rather than enlarge such compacts between generations?” Cohen and Friedman, pp. 39–40.

56. Joseph M. Anderson, “American Family Wealth: Analysis of Recent Census Data,” Consumer Federation of America, October 1999.

57. Catherine P. Montalto, “Wealth-Poor Households in the U.S.,” Consumer Federation of America, 2002, http://www.consumerfed.org/cfa5_wealth_poor_final_report.PDF.

58. Richard Nadler, “The Rise of Worker Capitalism,” Cato Institute Policy Analysis no. 359, November 1, 1999, p. 22.

59. Jagadeesh Gokhale and Laurence J. Kotlikoff, “The Impact of Social Security and Other Factors on the Distribution of Wealth,” Federal Reserve Bank of Cleveland Working Paper 9913, November 1999.

60. Barber.

61. Stephen Knack and Philip Keefer, “Does Social Capital Have an Economic Payoff? A Cross-Country Investigation,” *Quarterly Journal of Economics*, November 1997.

62. Joseph Heinrich et al., “‘Economic Man’ in Cross-Cultural Perspective: Behavioral Experiments in Fifteen Small-Scale Societies,” Santa Fe Institute Working Paper no. 01-11-063, 2001, p. 1.

63. The term “virtual friends” is taken from Paul Seabright, *In the Company of Strangers* (Princeton,

NJ: Princeton University Press, 2004).

64. Robert William Fogel, *The Escape from Hunger and Premature Death, 1700–2100: Europe, America, and the Third World* (New York: Cambridge University Press, 2004), p. 67.

65. See W. Michael Cox and Richard Alm, *Myths of Rich and Poor* (New York: Basic Books, 1999), pp. 14–17.

66. See Douglas J. Besharov, "The Past and Future of Welfare Reform," *Public Interest*, Winter 2003.

67. On the disproportionate political power of the elderly, see Casey B. Mulligan and Xavier Sala-i-Martin, "Social Security, Retirement, and the Single-mindedness of the Electorate," National Bureau of Economic Research Working Paper 9691, http://www.nber.org/papersw9691. Mulligan and Sala-i-Martin note that "the share of elderly benefits in GDP has grown more than the share of elderly in total population" and argue that this is because the elderly, whose interests are unified by common retirement, are more politically single-minded than the young, who divide their political efforts among different occupation-related interests.

68. See Feldstein, pp. 7–11.

69. Ibid., p. 6.

70. See ibid., p. 26.

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