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Privatizing Pensions in the United States: Shifting Sands for Policy Makers?

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1. Introduction

With the June 2001 meeting of the President's Commission to Strengthen Social Security, George W. Bush has given a new impetus to an ongoing drive for a major transformation of the American retirement system. The President and his allies want to cut back the benefits provided by the social insurance pension programme that Americans call Social Security and replace it in part with individual retirement savings accounts. During the course of workers' careers, these accounts would be invested in financial markets on their behalf by private fund managers. Upon reaching retirement age, workers would be able to withdraw their savings.

Such a change is often referred to as "privatization" of Social Security. The meaning of this term differs from country to country;[1] it can also change over time. In the context of debate on retirement in the United States of America, its significance has shifted widely in recent years.

Previously, the adjective "private" often referred to occupational pension plans, which are set up and run by employers, sometimes acting jointly with labour unions. Such plans are "private" in the sense that they are not set up or run by the state. However, they are not individual. They are mandatory for all employees in a given group and do not allow for any individual choice as to whether or not to participate. Their funding is collective and they do not involve any individual employee ownership of assets.

Today, "private" has come increasingly to signify "individual". In current American debate on retirement, the term is sometimes used to indicate the existence of individual choice, particularly as to whether or not to participate in a plan and concerning investments. Above all, it is used to refer to individual ownership of financial assets, that is, individual savings accounts.

The new President convened his bipartisan Commission, which is to hand in its final report in the autumn of 2001, in order to work out a plan for "privatizing" Social Security in the latter sense. Without spelling out the details of how privatization might be carried out, George W. Bush has published a set of Guiding Principles which outlines the commission's mandate. This article examines some of the implications of these principles. It will start with an overview of the United States retirement system which stresses elements that are essential to an understanding of current discussion. Then, proposals formulated in 1997, when

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[1] A recent book edited by Xenia Scheil-Adlung (2001) explores how the concept of privatization of social security is understood in different countries. In this volume, Christiane Kuptsch examines variants of its meaning from an international perspective.

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privatization was recommended in an official report for the first time, will be examined. Lastly, George W. Bush's approach will be compared to the 1997 proposals.

2. The retirement system of the United States

The American retirement system has two main components: the national social insurance system, Social Security, concerns practically all workers; some groups of employees are affiliated, in addition, to one of a myriad of occupational pension plans.

Social Security provides far more in pensions to American retirees than occupational pension plans. The 1999 national census survey of the population aged 65 and older showed that 38 per cent of the age group's total income came from Social Security.[2] In comparison, occupational pension plans provided 19 per cent of their total income. The rest came from work earnings (21 per cent) and from returns on assets (19 per cent), plus a small share (3 per cent) from various other sources, including public assistance. Social Security provides less than half of the older population's income, but it is by far their largest single source of income.

It also pays out benefits to far more people than occupational plans. In 1999, Social Security paid out benefits to 90 per cent of the older population, while 43 per cent received income from occupational pension plans. Social Security is far more than one "pillar" of retirement alongside others; it is the bedrock of the national retirement system.

2.1. Social insurance

Social Security is a social insurance system. It is financed by contributions levied on earnings and it pays out pensions calculated on the basis of the past earnings of beneficiaries.

Affiliation is mandatory for all private-sector workers, both wage-earners and the self-employed. Employees in the public sector – working for states, counties, and municipalities – may remain outside the national system, but some three-quarters of public-sector employees are affiliated to it. Since 1983, all newly hired federal civil servants have been affiliated to Social Security. All told, over 95 per cent of American workers contribute to the national social insurance programme.

The current rate for contributions, which finance not only retirement pensions but also pensions for invalids and for family members of deceased workers ("survivors"), is 12.4 per cent of earnings below a ceiling which is high compared to wage levels: only about 6 per cent of employees have earnings above the ceiling.

Social Security alone does not enable Americans to maintain their standard of living in retirement. When benefits were first paid out in 1940, the average retirement pension was equivalent to only 27 per cent of the average wage of the workers contributing to the system. The level had dropped to only 15 per cent by 1949. The national Congress, which decides on all elements of the system, enacted the first hike in benefits in 1950. Between 1950 and 1969, the average pension was between 20 per cent and 25 per cent of the average wage. Subsequently, the level of pensions rose fairly steadily in relation to wages and reached a peak of 37 per cent in 1983. Since then, it has dropped slightly and is now around 36 per cent.[3]

[2] The data concern households headed by a person 65 years of age or older. The figures from the Current Population Survey cited here were published by the Social Security Administration (2000).

[3] These ratios were calculated by the author from data published by the Social Security Administration. Cf. Lucy apRoberts (2000), chapter 3.

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Ten years of contributions (40 quarters) are required to qualify for a retirement pension, as well as for public health insurance as of age 65 (Medicare). Pensions are calculated on the basis of average earnings over almost all of workers' careers: the formula takes into account earnings between age 22 and age 62, except for the five years when earnings were the lowest. The higher a worker's average earnings (up to the ceiling), the higher the pension. However, replacement rates are higher for retirees whose average earnings have been low, either because their monthly earnings were low or because they worked over a relatively short period of time.

When income in Social Security from contributions exceeds its expenses, a frequent occurrence over its long history, the surplus is credited to a special account within the accounts of the federal government called a "trust fund". Similar "trust funds" exist for other federal programmes which collect earmarked revenues. These funds hold reserves in the form of interest-bearing bonds issued by the federal treasury. Social Security has the authority to draw on these reserves as necessary to cover deficits, also a frequent occurrence since its creation, without having to obtain authorization from Congress.[4] This arrangement traditionally enabled the social insurance programme to register short-term surpluses or deficits without passing them on to the workers and the employers who finance the system through fluctuations in contribution rates.

This form of budgetary autonomy from the Congress is of great political importance. To Americans, it means that Social Security is a "self-support" programme for workers, one which has never been "bailed out" by the federal budget, that is, which has never received a subsidy from the state. It does receive interest payments from the federal budget on the treasury bonds in its reserves, but this supplement to contributions on earnings is considered compatible with the principle of self-support.

In 1983, the contribution rate was raised slightly above what was necessary to cover current benefits. Social Security began to systematically register surpluses which helped to limit federal deficits in the 1980s and 1990s. Congress intended to have the system build up large reserves in order to avoid future increases in the contribution rate. Most of the current federal budget surplus is due to extra revenues from contributions to Social Security, above and beyond benefit payments. Thus, Social Security has played an important part in financing general state expenditures.

2.2. Occupational pension plans

Occupational pension plans predate Social Security. Just before the onset of the Great Depression, some 15 per cent of employees in the private sector, mostly working for large public utilities – gas, electricity and water companies, and railroads – were affiliated to such plans. Occupational plans have always been most widespread in the public sector, where many employees had plans early in the twentieth century.

Occupational pension plans have long been considered desirable by policymakers. Ever since the early 1920s, federal law has encouraged such plans, as well as employee savings plans, for private-sector employees by granting exemptions on income tax to their financing. The advent of Social Security did not cause a decline in occupational plans. On the contrary, they expanded fairly rapidly once the social insurance programme was in place. In 1940, some

[4] This mechanism is described in the section on Social Security by the Committee on Ways and Means, U.S. House of Representatives (2000).

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15 per cent of private-sector workers were affiliated to an occupational plan, the same proportion as in 1929; by 1950, the proportion had reached 25 per cent, and in 1960, 41 per cent; affiliation peaked at 45 per cent in 1970.[5] While Social Security coverage and benefit levels have been remarkably stable since the early 1980s, private-sector occupational pension plans have been on the wane since the mid-1970s and now affiliate less than 25 per cent of employees.[6] Public-sector occupational pension plans have been maintained and affiliate some 80 per cent of the sector's full-time employees.

Employee savings plans have taken the place of occupational pension plans for many private-sector employees. These savings plans pay out lump sums to employees upon their departure from a job, whatever their age. Many of these plans are optional: individual employees choose whether or not to contribute and, generally, the employer contributes if an employee chooses to do so.[7] Optional savings plans offer employees some degree of individual choice as to how their accounts are invested.

3. Proposals for privatization put forward in 1997

Proposals for individual retirement savings accounts mandated by the state were put forward by an official government body in a document published in 1997, written by the members of an Advisory Council on Social Security which held its meetings from 1994 to 1996.

3.1. A break with tradition

The group in question was a "citizen advisory council" of a type common in the United States federal government. Such bodies are appointed to deliberate on particular areas of public policy. They wield no decision-making power, but they influence public debate and their conclusions are widely discussed in the media.

Advisory councils on Social Security have now been replaced by a permanent body called the Social Security Advisory Board. The 1994–1996 Advisory Council on Social Security was the last such body to meet. The councils were made up of representatives of employers and workers, as well as representatives of the "public", usually experts from universities. These advisory bodies offered political leaders an opportunity to test out reaction to possible modifications in social insurance and, with the exception of the last one, they helped to strengthen public confidence in the decisions taken by Congress, which legislates all changes in Social Security.[8]

Previous advisory councils on Social Security consistently reached a consensus and produced unanimous reports. Their recommendations consisted of minor adjustments in benefits and financing. Unlike their predecessors, the members of the 1994–1996 Advisory Council on Social Security split into two opposing camps and produced dissenting opinions.

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[5] Data from Daniel J. Beller and Helen H. Lawrence (1992).

[6] Data on coverage in the private-sector since 1975 are published by the Pension and Welfare Benefits Administration of the U.S. Department of Labor.

[7] Optional savings plans for private-sector employees are often called 401(k) plans, in reference to the article of the tax code which authorized tax-exempt employee contributions as of 1982. These plans are set up voluntarily by employers, acting unilaterally or through collective bargaining.

[8] Martha Derthick (1979) describes how earlier advisory councils on Social Security functioned. Lawrence Thompson (1999) explains the role of advisory councils in more recent decisions on Social Security.

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One faction proposed radical change in the form of cutbacks in social insurance and creation of mandatory individual savings accounts. This proposal was in keeping with the positions adopted by the World Bank in its report on retirement financing published in 1994, the year the last Advisory Council on Social Security began its deliberations.

The other faction recommended adjustments in benefits and financing of the kind usually proposed by advisory councils on Social Security. They did, however, break with tradition in one respect by suggesting investment of a portion of Social Security's reserves in the stock market. They reasoned that this move would increase the social insurance system's income, given that return on stocks is generally higher than return on federal government bonds. They perhaps also wanted to steal the thunder of the advocates of individual savings accounts. Much of the argument of the latter was based on the idea that workers would get high returns on savings invested on financial markets, especially the stock market. Investing Social Security reserves in the stock market would have used the returns collectively, that is, to bolster social insurance rather than to add to individually owned accounts.

3.2. Points of consensus among advocates of individual accounts

A further split among the members of the Advisory Council took place within the group advocating individual accounts. Some recommended that the accounts be managed by the state (referring to them as "publicly held"); others recommended management by private financial institutions ("privately held" accounts). These two positions had profoundly different implications as to how a "private" system would work, which will be examined below. However, the group recommending individual accounts agreed on several key points.

Making individual accounts mandatory

First of all, they agreed that individual accounts should be made mandatory for all workers.[9] This idea is in contradiction with traditional right-wing ideology which tends to consider that the state should leave decisions to civil society as much as possible.

In many countries, including the United States, the political right has long supported voluntary private provision for workers' welfare rather than social insurance.[10] It has also often supported state encouragement for voluntary provision – occupational pension plans, employee savings plans, individual savings plans for workers[11] – through tax exemptions.

However, in the United States, none of these private arrangements has been made mandatory and the idea has hardly ever been debated.[12] Now that mandating "private" individual saving for retirement is being discussed, why is there no question of making occupational pension plans or employee savings plans compulsory?

An answer to this question can be found in the 1994 World Bank report on financing retirement, which recommends mandating individual savings plans as the most appropriate

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[9] They proposed that, during a transition period, individual accounts not be set up for workers above a certain age. Gradually, those of all ages would be brought into the new system.

[10] Henri Hatzfeld (1971) has written a masterful history of opposition to social insurance in France. This tradition resembles positions of the political right elsewhere.

[11] Called Individual Retirement Accounts or IRAs, established by legislation in 1974.

[12] Proposals to make occupational pension plans mandatory for all employees were put forward under President Carter, but the idea was dropped when Ronald Reagan became President in 1981 and has not been seriously debated since.

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public policy for financing retirement. The objections expressed with regard to occupational plans boil down to the fact that employers, and sometimes labour unions, play a role in determining plan rules and investing funds. A system of compulsory individual accounts managed by private financial institutions would leave no decision-making power to employers or labour unions. The only players involved would be the state, financial institutions and individual workers.

Compulsory individual ownership by workers of financial assets would constitute a radical departure from American traditions, concerning both social insurance and occupational pension or savings plans.

Collection of contributions to individual accounts by the state

The second point of agreement was a corollary to the first. In order for individual accounts to be effectively mandatory, contributions paid into them would have to be obligatory, which implies some form of state control of their collection. The simplest way to accomplish this would be for contributions to be collected by an existing public agency. In the case of the United States, the agency best equipped to do this would be the Social Security Administration which handles social insurance for practically all American workers.[13] It was therefore proposed that contributions to mandatory individual accounts be collected via the same channels as contributions to social insurance.

No liquidation of individual accounts before retirement age

Finally, the advocates of individual accounts recommended that workers not be allowed to withdraw their money until retirement age, barring invalidity or death. The age defined in the 1997 report of the Advisory Council was 62, the age at which social insurance pensions first become available.

This is not necessarily the age of retirement in the United States. Some people leave the work force earlier, especially those who qualify for occupational pensions, which are sometimes available as early as age 55. Many leave later. Many Americans do retire at 62, the age at which they can begin to get a social insurance pension.

Forbidding access to the money in individual accounts until retirement age would constitute a radical departure from existing employee savings plans. Under such arrangements, employees can sometimes have access to the money in their accounts for certain purposes without tax penalties: in order to buy a home, in case of serious illness in the family, in order to finance education of a family member, etc. In any case, employees can withdraw their money upon leaving their employer, and many do. They also have the option of depositing the money from an employee savings plan in a tax-favoured savings account (Individual Retirement Account). If they use the money from such an account to purchase an annuity or if they do not withdraw money until the age of 59-and-a-half, the tax regime is more favourable than if they simply withdraw the money at an earlier age. These fiscal arrangements create incentives for workers to save until retirement. But existing regulations do not oblige them to save.

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[13] In the United States, contributions to federal social insurance are collected by the Internal Revenue Service, which is in charge of federal tax collection.

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3.3. *Points of debate among advocates of individual accounts*

The advocates of individual accounts on the 1994–1996 Advisory Council disagreed on other key points.

Lump sums or pensions?

One point of disagreement among the advocates of individual accounts concerned the form that benefits would take. The group advocating state management of the accounts recommended that retiree beneficiaries receive an indexed retirement pension. In addition, they recommended that there be an optional survivor's pension with a reduced retirement pension for workers who would choose that option. The group who favoured private management of accounts advocated a benefit in the form of a lump sum and leaving any arrangements for purchasing annuities or survivors' benefits up to individuals and private insurers.

State or private control of investments?

A major point of divergence concerned the respective roles of the state and of financial institutions. The advocates of public management recommended that the Social Security Administration not only collect contributions but also be in charge of account investments. Individual account-holders would be allowed to allocate their investments from a choice of different types of funds set up by the Administration. This idea is similar to many existing employee savings plans which offer employees a choice among several investment funds. The advocates of "privately held" accounts recommended that investments be managed by financial institutions designated by individual account holders. Decisions on investments would be left up to individuals who could choose from the options offered by private fund managers. Financial institutions would pay out the benefits to account-holders.

This second difference is a corollary of the first. A mandatory system that pays out only pensions would have to pool finances in some way in order to respect certain principles of justice. Otherwise, there would be inequalities in the "price" charged for a pension. For example, a private financial institution might pay out a lower annuity to a woman than to a man holding the same amount in assets at the same age. In order to offer the same price to all, the system would have to pool assets, at least when account-holders begin to get a pension. Similarly, equal indexing for all would require pooling of assets at retirement. The most efficient way to achieve this would be to have a single entity, i.e. the state, control accounts and pay out benefits.

Individual accounts as a supplement to social insurance or as a substitute?

The third major difference lay in the relationship between contributions directed to social insurance and those directed to individual accounts. The advocates of state management suggested that contributions to the social insurance system be frozen at their current rate (12.4 per cent) and that individual accounts be financed from a supplementary mandatory contribution. (The contribution rate they suggested for individual accounts was 1.6 per cent, which would have brought the total contribution rate to 14.0 per cent.) In other words, they envisaged individual accounts as a supplement to social insurance. At the same time, they wanted to stave off any move to increase social insurance contributions or benefits. In order to keep the contribution rate fixed, they foresaw gradual reductions in social insurance benefits.

The advocates of private management adopted a different approach. They recommended

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that contributions to social insurance be reduced (to 8.92 per cent instead of 12.4 per cent) and that a large portion of compulsory contributions be directed to individual accounts (the rate of contribution suggested for individual accounts was 5 per cent). This would have increased total contributions slightly (13.92 per cent instead of 12.4 per cent). It also would have required drastic and rapid cuts in social insurance benefits.[14]

4. Current proposals for privatization

The terms of debate on retirement income have changed since 1997. President Bush's Guiding Principles for the President's Commission to Strengthen Social Security are shown in the box below.[15] Several of the ideas put forward in the Advisory Council report of 1997 have been rejected by current advocates of privatization.

The President's Commission to Strengthen Social Security Guiding Principles

The Commission has been asked to make recommendations to modernize and restore fiscal soundness to Social Security, using six guiding principles:

- Modernization must not change Social Security benefits for retirees or near-retirees.
- The entire Social Security surplus must be dedicated only to Social Security.
- Social Security payroll taxes must not be increased.
- The government must not invest Social Security funds in the stock market.
- Modernization must preserve Social Security's disability and survivors' insurance programs.
- Modernization must include individually controlled, voluntary personal retirement accounts, which will augment Social Security.

4.1. Rejection of mandatory individual accounts

Current advocates of individual accounts are proposing them as a substitute for social insurance, but there is no longer a question of making individual accounts mandatory, a shift from the proposals formulated in 1997. This position emerged during George W. Bush's campaign for the presidency, during which he spoke of making such accounts "voluntary" or "optional" and of "allowing" workers to open them. How then is the President planning to partially replace social insurance with individual accounts? During his campaign, he proposed offering workers an individual choice between putting all of their contributions into social insurance or diverting a portion into individual accounts.

One of the Guiding Principles for the President's Commission is that "Social Security payroll taxes must not be raised." This statement does not seem very innovative if "Social Security" is taken to mean existing social insurance. The last rise in contribution rates took

[14] In theory, the supplemental contribution to social insurance of 1.52 per cent was to be "temporary". However, the authors of this proposal foresaw that it would be collected over a period of 75 years.

[15] Text posted on the website of the President's Commission to Strengthen Social Security (*www.commtostrengthensocsec.gov*) as of 20 June 2001.

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effect in 1990 and a hike has not been seriously considered since. However, in the context of the President's Guiding Principles, "Social Security" refers to any programme intended to provide retirement income financed through mandatory contributions levied on earnings ("payroll taxes"), that is, not only social insurance but also individual accounts. In other words, the President's Commission is to see that individual accounts are financed by diverting contributions away from social insurance. Any contributions going into individual accounts would be lost to social insurance, since the total contribution rate is not to be raised. (The President has not publicly specified how much might be diverted into individual accounts, but the press often cites the figure of 2 per cent, which would bring mandatory contributions to social insurance down to 10.4 per cent.)

Without this principle, the presidential Commission could recommend making individual accounts a supplement to social insurance, which could be financed out of supplementary contributions on earnings, above and beyond what goes into social insurance. Such accounts could be made mandatory by levying supplementary contributions on earnings to finance them. This approach was adopted in 1997 by the members of the Advisory Council who advocated individual accounts managed by the state.

The political difficulty of implementing this approach would lie in convincing the public to agree to an increase in contributions levied on earnings in order to finance savings accounts. Americans do sometimes object to increases in social insurance contributions, but, on the whole, they have accepted them well. When the contribution rate was raised above what was necessary to finance current benefits in 1983, there was little protest. It is far from obvious that they would embrace compulsory contributions to savings accounts.

Individual accounts as an addition to social insurance could also be made optional. This possibility was raised by Al Gore during the presidential campaign. The candidate advocated creation of optional individual savings accounts financed by voluntary contributions supplemented by tax credits financed from the federal budget.[16] Such a system would make the advantages of existing optional employee savings plans available to all workers, whereas at present they are available only to employees of companies that have chosen to set them up. Some Democrats claim that such a system would not undermine social insurance but complement it.

President Bush is proposing a system of partial individual "contracting out" of social insurance. The concept is a familiar one in the United Kingdom, but it is completely novel in the United States, where the term "contracting out" is not used.[17] Under the proposed contracting-out mechanism, the more contributions turned over to individual accounts, the greater the losses of income to social insurance and the more social insurance benefits would have to be cut. This is implicitly recognized in one of the Guiding Principles: "Modernization must not change Social Security benefits for retirees or near-retirees." George W. Bush is proposing to protect retirees and older workers from social insurance benefit cuts, but not younger workers.

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[16] Initially, these were referred to as "Social Security Plus" accounts ("Gore 2000" campaign flyer, 13 June 2000).

[17] In the United Kingdom, the option of contracting out of the State Earnings Related Pension System, a social insurance programme, has been offered to employees ever since contributions were first collected in 1978. However, contracting out was not initially an individual option; the decision had to be taken by a group of employees affiliated to the same occupational pension plan. Since 1988, individuals have been allowed to contract out of SERPS (or out of an occupational plan) and open up a personal pension plan in its place.

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4.2. *Rejection of state control of investments*

The idea of state management of individual accounts, suggested by some authors of the Advisory Council report of 1997, has been dropped. It would give the state power over great financial wealth, whether a government agency handled investments directly or delegated them to private financial institutions. Present advocates of privatization want control over investments to be exercised only by individuals and by the financial institutions which they choose to manage their accounts.

Nor is any political leader now advocating investment by the state of Social Security reserves on financial markets. President George W. Bush has explicitly ruled out such a possibility in his Guiding Principles: "The government must not invest Social Security funds in the stock market." The idea of having the state invest Social Security reserves in private securities has been dropped by all political leaders, including those Democrats who voiced support for it in 1997 following publication of the Advisory Council report. At the time, Alan Greenspan objected vehemently to the idea on the grounds that it would give the state great influence over financial markets.

It has not been taken up again by Democrats, who are now recommending that the budget surplus, including the Social Security surplus, be used to reduce the national debt. The President's principle that "the entire Social Security surplus must be dedicated only to Social Security" would appear to preclude the possibility that surpluses from Social Security be used for that purpose.

4.3. *Rejection of pensions and of annuities*

The idea of having individual accounts pay out pensions or annuities rather than lump sums has also disappeared. This would be feasible if a single (public) institution were controlling individual accounts and paying out benefits, as in the 1997 proposal in favour of control of accounts by the Social Security Administration. It would also be feasible if funds were pooled when holders reach retirement. A single agency could then issue pensions at the same price for all or a general compensation system could be set up so that different agencies could charge the same price.

George W. Bush has specified few details of the recommendations he expects from the new Commission, but in press conferences he has indicated that workers should be free to spend the money from their individual accounts as they see fit once they reach retirement age. In a campaign speech, he stated that individual accounts:

> . . . give people the security of ownership. They even allow low-income workers to build wealth, which they will use for their own retirement and pass on to their children . . . Ownership in our society should not be an exclusive club. Independence should not be a gated community. Everyone should be a part-owner in the American Dream . . . And millions of Americans will have an asset to call their own. This is the best thing about personal accounts. They are not just a program, they are your property. And no politician can take them away.[18]

The statement that account-holders would be able to pass their holdings on to their children

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[18] Campaign speech by Governor George W. Bush delivered at Rancho Cucomonga Senior Center, 15 May 2000.

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clearly implies that payment would take the form of a lump sum. In a similar vein, when President Bush's Commission was holding its first meetings, its two co-chairs wrote:

> Social Security's shortcomings go beyond budgetary issues. Chief among them is that workers don't truly own their Social Security benefits . . . The current Social Security system also does not allow workers to build up an estate that they can leave to their beneficiaries.[19]

It seems that obliging account-holders to accept payment in the form of a retirement pension or obliging them to convert the assets in their accounts into an annuity upon retirement is no longer being considered. This possibility was raised in 1997, but, as we have seen, it was coupled with a proposal to have all individual accounts managed by a single government agency.

5. Conclusion

A bipartisan presidential Commission similar to the present one was set up to report on the status of Social Security in 1981 by President Ronald Reagan. This National Commission on Social Security Reform, commonly referred to as the "Greenspan Commission" after its president, Alan Greenspan, handed in its recommendations in 1983 and the Congress quickly voted them into law.

There is little chance that the recommendations formulated by George W. Bush's Commission will meet with any such immediate approval from Congress. The rapid shifts in positions on how to privatize public provision for retirement might simply be a stage in the process of reaching consensus on a method. On the other hand, these shifts might indicate that debate on retirement will prove treacherous ground for those who want to replace social insurance with individual accounts.

One of the blocks to such a reform is that it would inevitably involve new forms of state control over individual behaviour, despite the fact that its advocates claim to be expanding individual choice. In 1997, a legal mandate was proposed under which all workers would have been obliged to save during their careers. For the most part, American workers accept the obligation to pay contributions for social insurance. Getting them to accept a new legal obligation to accumulate savings could prove difficult.

George W. Bush has backed off from this form of obligation by proposing that individual workers be offered a choice between contributing all of their mandatory contributions on earnings to social insurance or putting a part into individual accounts. His proposal would nonetheless involve the state dictating many aspects of individual behaviour. Most probably, the President's Commission will not propose the mandatory conversion of savings into pensions or annuities but rather that workers be given lump sums which they would be free to spend or save as they please. However, the state would dictate the age at which individuals would be allowed to withdraw money from their accounts. This form of ownership would be highly constrained. Workers would be able to choose the institution managing their accounts and they would exercise control over the types of investments, but they would not be able to spend their money until retirement age. This new form of state constraint might be ill-tolerated by the public.

[19] Daniel Patrick Moynihan and Richard Parsons, "Social Security Woes Need a Cure", *Wall Street Journal*, 15 June 2001.

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The case for individual accounts as it is currently being put forward to the American public rests ultimately on the appeal of individual private property. President Bush claims that individual accounts would turn American workers into owners of financial assets. He has stated that individual accounts would allow workers to "keep" a part of their mandatory contributions, a phrasing which implies that they "lose" the contributions that go into social insurance.

The only appropriate response to current assertions that private property is the sole reliable source of income security is to assert the advantages of social insurance. In the United States, as compared to continental Europe, the rationale for social insurance has rarely been clearly laid out in political discourse. New arguments in favour of social insurance seem to be emerging in current American debates. It is possible that the present drive to privatize Social Security will not lead to any significant change in the American retirement system but instead to a rediscovery of the value of social insurance.

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