Cato Institute Social Security Choice Paper No. 6: Privatizing the Social Security Trust Fund? Don't Let the Government Invest

January 14, 1997

Krzysztof M. Ostaszewski

Krzysztof M. Ostaszewski, the 1995 Fulbright Research Fellow in the area of social insurance, is the actuarial program director at the University of Louisville. He is a member of the Social Security Committee of the American Society of Actuaries.

Executive Summary

Given Social Security's dire financial condition, there is growing interest in attempting to harness the power of private capital markets to bail out the faltering system. However, despite its surface attractiveness, allowing the government to invest funds from the Social Security trust fund in private capital markets would be a terrible mistake that would have severe consequences for the U.S. economy.

It is easy to see why this approach has appeal. The trust fund is currently "invested" in government bonds. Allowing this money to be invested instead in private capital markets would appear to give the trust fund an opportunity to earn a much higher rate of return. Using this return to fill in some of the gap between future revenues and benefits would reduce the need for future tax increases or benefit cuts.

In reality, however, this approach is fraught with danger. Allowing the government to invest the trust fund in private capital markets would amount to the "socialization" of a large portion of the U.S. economy. The federal government would become the nation's largest shareholder, with a controlling interest in nearly every American company. Government ownership brings with it serious problems of government control and is a threat to the efficiency and competitiveness of the U.S. economy.

Moreover, experience in other countries has shown that government investments seldom achieve the rates of return seen in private investment. Attempts by the government to manipulate the markets could further undermine returns and threaten general market stability.

A much better approach would be to let individuals invest their own retirement money through true privatization. A system of individual private investment accounts, like that in Chile, would allow people to benefit from higher market returns without risking increased government involvement in the economy.

Introduction

Social Security's dire financial problems are now being acknowledged by even the most diehard supporters of the system. According to the latest report of the Social Security system's Board of Trustees, Social Security will be insolvent by the year 2029, down from 2030 in last year's report.[1] This represents the eighth time in the last 10 years that the insolvency date has been brought forward.

Unless the system is reformed, it will be forced to either raise taxes or slash benefits. Because both of those choices are likely to be politically unpopular, defenders of the current system have had to scramble for other ways to restore the program to solvency. One proposal currently gaining in popularity is to have the government invest funds from the Social Security trust fund in private capital markets.

This concept is expected to be supported by at least 6 of the 13 members of the Social Security Advisory Council, most notably former Social Security commissioner Robert Ball.[2] In Congress, Representative Gerald Solomon (R-N.Y.) has introduced legislation to allow for investment of both the Social Security and Medicare trust funds.[3] Early drafts of the Kerrey-Simpson Social Security reform legislation allowed investment of up to 25 percent of the trust fund.[4] Senate minority leader Tom Daschle (D-S.D.) has announced his support for investing the trust fund.[5]

The reasoning behind such proposals is a recognition that private capital markets earn a much higher rate of return than the government bonds that currently make up the trust fund.

As former commissioner Ball asks, "Why should the trust fund earn just one-third as much as common stocks?"[6]

Despite the surface attractiveness of such proposals, however, allowing the government to invest the trust fund would be a terrible mistake that would have severe consequences for the U.S. economy.

The Effective Socialization of the U.S. Economy

Allowing the government to invest the Social Security trust fund in private capital markets would amount to the "socialization" of at least a large portion of the U.S. economy. It would put ownership rights over much of the American economy in the hands of the U.S. government. Let us carefully examine the impact of such a proposal in order to better understand the problem.

Socialist command economies are characterized by three basic tenets:[7]

Government ownership of means of production;

Central economic planning; and

Government management of labor resources.[8]

Sadly, the proposed investments of the Old Age, Survivors, and Disability Insurance (OASDI) Trust Funds in the stock market bring us closer to each and every one of the three tenets.

First Tenet: Government Ownership

At its peak, the Social Security trust fund will contain approximately $2.9 trillion.[9] The total value of all 2,723 stocks traded on the New York Stock Exchange was about $6 trillion at the end of 1995.[10] It is easy to see, therefore, that investing the trust fund would allow the U.S. government to purchase if not a controlling then a commanding share of virtually every major company in America.

Many of the strongest proponents of investing the Social Security trust fund in the stock market have recognized the potential dangers posed by government ownership of such a large portion of the American economy. To allay such concerns some proposals have called for using stock index funds, not actual direct stock investments.[11] Exactly how this would be accomplished has been left vague, but there are essentially two possible approaches. The government itself could establish an index and purchase equal numbers of shares in every stock included in the index. Or the government could purchase shares in an existing index fund, such as Fidelity's Market Index or Vanguard's Index 500.

Government creation of an index fund would do little to avoid the pitfalls of government investment. Government decision makers would acquire property rights in corporate enterprises. Either they would exercise their rights, thus

creating a direct political influence in the ownership rights over much of the American management of private enterprises, or they would give up the voting rights and other shareholder privileges, thus indirectly enhancing the power of existing shareholders. In either case, ownership of the enterprises would be powerfully influenced by political agents, and the entire arrangement would be financed by the taxpayers. Recall that the Employee Retirement Income Security Act of 1974 (ERISA) places the fiduciary duty on all persons in control of private retirement funds to use such funds in the sole interest of the pension plan participants. This law does not apply to the Social Security Administration. In whose interest, then, will investment and management decisions be made?

Many Western European governments were once owners of large enterprises through nationalization and are still minority-and sometimes majority-owners of such enterprises there. State-owned enterprises are the dominant force in underdeveloped economies, and investment of the "provident funds" in Singapore and other African and Asian nations is largely government-directed.[12] However, because of negative experience with government ownership,[13] the worldwide movement has been away from such ownership toward privatization, through selling shares to the public. Proposals to allow the government, through the Social Security trust fund, to purchase stock go directly against this trend and back to the early twentieth century, when government ownership was hailed as more rational than the "anarchy" of the market.

Would it make a difference if the government purchased existing index funds from a third party, such as an investment company? Not significantly. In order for the government to purchase shares in an index fund, it would have to do so through either a mutual fund company selling an index fund, which would then purchase actual shares of stocks included in the index, or through some other financial institution creating an index, which would also eventually purchase actual shares. Although the index fund would provide a layer of insulation between the government and the corporations whose stocks were purchased, the problems of control would not be completely avoided.

First, the government will acquire control over the index fund manager itself and thus indirect control over the corporations. If index fund A controls the majority of shares in company B. and the government controls the management of fund A, the government can control company B.

However, even if the government does not attempt to exercise corporate control, there is reason to be concerned over allowing index fund managers to use taxpayer money to increase their ownership of corporate America. The huge number of shares purchased with Social Security money will represent powerful voting blocks, and, in contrast to most stock purchases, they will be uniformly voted. Yet these powerful new stockholders will not answer to anyone and will derive all of their new powers from the aggregated funds of average American citizens. Never in the history of this country has there been a proposal to hand over this much power to unelected officials with this little responsibility attached to it.

In essence, it is being proposed that the federal government use tax money to pick corporate winners and losers. Using funds borrowed from Social Security's future beneficiaries, the government would purchase massive blocks of shares, to be controlled either by the government or by financial institutions that are fortunate enough to receive government contracts for such purchases. It is difficult to imagine a more egregious proposal for "corporate welfare."

Second Tenet: Central Planning

With ownership comes control.

What if a company whose stock is purchased by the Social Security trust fund decides to move its operations overseas? Should the administrators of the investments of the trust fund remain indifferent to the plight of the company's workers, who after all will be future beneficiaries of the system? Shouldn't the trustees at least attempt to convince the company to retain its American operations? And if the company moves, wouldn't the ownership of shares represent an indirect subsidy to foreign employees extended by the American workers who are losing their jobs to them? What if the company is convinced by the authorities to keep its operations in the United States and this leads to a consistent stream of losses and subpar share performance?

The investment itself provides the opportunity for central planning and control. After all, companies whose stocks are

selected will receive a substantial investment boost not available to competitors who are not chosen. This raises a host of questions about what types of investments should be allowed.

> **"Investing the trust fund would allow the U.S. government to purchase if not a controlling then a commanding share of virtually every major company in America."**

For example, cigarette smoking is a major health concern to the nation and to the federal and state governments that spend public money to provide health care for those suffering from smoking-related diseases. Should Social Security be allowed to invest in cigarette companies? Is it appropriate for the Social Security system to offer price support to those shares while Medicare and Medicaid spend their resources in treating patients suffering from the long-term consequences of smoking?

Other controversial issues are easy to imagine. Should Social Security invest in nonunion companies? Companies that make nuclear weapons? Companies that pay high corporate salaries or do not offer health benefits? Companies that do business in Burma or Cuba? Companies that extend benefits to the partners of gay employees? The list is virtually endless.

Public employee pension funds have long been subject to such controversies.[14] For example, at one time more than 30 states prohibited the investment of pension funds in companies that did business in South Africa. Approximately 11 states restricted investment in Companies that failed to meet the "MacBride Principles" for doing business in Northern Ireland.[15] Companies doing business in Libya, other Arab countries, and communist states have also been barred from investment.[16] Some states have additional restrictions on investing employee pension funds, including requirements for investing in in-state companies, home mortgages, and alternative energy sources, including solar power. In some states investments are prohibited in companies that are accused of pollution, unfair labor practices, or failing to meet equal opportunity guidelines. Some public employee pension funds are prohibited from investing in the alcohol, tobacco, and defense industries. In a recent example, the city of Philadelphia announced it would sell its employee pension fund's Texaco stock because of alleged racist practices by that company.[17]

Use of a passive index either one created by the government or an existing one-would reduce, but not eliminate, the problem. There would remain questions about what stocks should be included in the index. Almost inevitably there would be a huge temptation to create a better, more socially appealing index of companies friendly to the public policies of the current administration or the current congressional majority.

Even if the proposed Social Security investments in stocks are truly meant to be passive with respect to social policy, it is nearly impossible to imagine such a position being sustainable in the long run. There is an old Polish proverb that says: "Do not give a man a hammer without expecting him to look for a nail."

Those looking for evidence of this temptation need look no further than attempts by the Clinton administration to force private pension plans to invest a portion of their portfolio in "socially redeeming" ways.[18] Actually, the last days of the Bush administration saw the first exploration of the idea of directing private pension investment. In November 1992, the Labor Department released a report discussing a procedure for valuing the "net externalities" of investments as a way of broadening the prevailing rate test permitted under ERISA to allow for politically targeted investments. The Clinton administration jumped on the idea with undisguised enthusiasm. In September 1993, Olena Berg, the Assistant Secretary of Labor for Pensions and Welfare Benefits, announced an expansive interpretation of the prevailing rate test that would "allow collateral benefits to be considered in making investment decisions." She especially urged pension fund investment in "firms that invest in their own work force."[19]

A year later, in September 1994, Labor Secretary Robert Reich called for investment of a portion of private pension funds in economically targeted investments (ETIs), which would provide such "collateral benefits" as "affordable housing, infrastructure improvements and jobs."[20] Fortunately, Congress has resisted this dangerous idea. But it is clear that some politicians are anxious to gain control over pension investments.

It is true that some private pension plans and investment companies face similar problems. Many companies offer "socially responsible" funds, which some investors choose. In fact, one of the most successful investment companies over the long term, the Templeton Funds (recently joined with the Franklin Group), has always shunned tobacco firms while delivering outstanding returns to its clients.[21] But most clients impose on private companies, and private investment professionals with whom they deal, a fiduciary duty to invest solely in the best interest of the clients. Furthermore, these private enterprises do not have the power to change laws that affect them, whereas the political agents influencing the Social Security trust fund investment strategy will likely have the power to enact statutes that affect the system. Finally, if the customers of a private investment firm do not approve of its policies, these customers can and do move their funds to another firm.

Third Tenet: Government Management of Labor

The message of capital markets, so often repeated by investment advisers, is that over the long run stocks are the best investments. Yes, they do pose risks, but over time the power of compounding stock market returns is astounding. So supporters of government investment have decided that there is a simple answer to Social Security's problems-buy stocks!

What is missing in this simplistic approach is an understanding of the cause of stock market returns. Stocks make money because companies make money. A report just released by the McKinsey Global Institute shows that the gross national savings and investment rates in the United states are far lower than those in Germany or Japan. Yet between 1974 and 1993, the United States created $26,500 of new wealth per person (in 1993 prices, measured by households' net financial wealth), while Germany created $21,900 and Japan $20,900.[22] How can the United States produce more wealth with lower savings and investment? The McKinsey researchers point toward higher productivity of capital in the United States. Their estimate states that American industry enjoyed an average return on capital of 9 percent between 1974 and 1993, compared with about 7 percent in Germany and Japan. American savers saw their wealth grow faster than their German or Japanese counterparts, even though Americans do save less.

One cannot brush this finding off by suggesting greater utilization of capital at the expense of labor in the United States because American labor productivity is also higher than that of Germany or Japan.

The McKinsey report further examines the reasons for the amazing American productivity. Their major finding is that the way managers run companies can be extremely important. American managers are more creative and ingenious in their management, marketing, and financing practices. American managers face greater competition and lower barriers to entry (in fact, this is probably why they have to be creative and ingenious). Last, but not least, strong pressures from investors and very efficient capital markets in the United States force managers to concentrate on financial performance, which causes them to carefully evaluate whether the project they intend to invest in truly creates value.[23]

One of the most fascinating events in the history of the twentieth century has been the spectacular collapse of the command economies of the former Soviet Bloc. Economists James Gwartney and Richard Stroup point out that the communist economies had among the highest recorded rates of economic investment in history, all of them guided by central governments.[24] Yet those massive investments turned out to produce little economic growth or wealth. This poor performance by managers in command economies stands in stark contrast with the achievements of American managers.

What is the reason for this dramatic difference in results? Were the managers in the Soviet Bloc just stupid, or was there a greater, systemic reason for the difference? Although we might wish to believe so, there is no evidence that American managers are intrinsically smarter than their Soviet counterparts. In reality there are several reasons for the difference, including the lack of both private property and a consistent legal system. But another important reason is the fact that in command economies not only does government give a job to everyone (full employment), but all management appointments become political.

Aggressive, creative managers are rarely the ones who carry the most favor with the government. When ownership

becomes political, visionary managers whose visions differ from those of the government no longer have their jobs. On the other hand, managers with little vision, but with political connections, maintain a firm hold on their jobs.

In the free market system, managers who fail to produce are threatened by the market for corporate control, i.e., by hostile takeovers. The market for corporate control is a force for change and innovation in the American industry.[25] This force will be weakened or even removed completely by government ownership of large blocks of shares. Whose side will the Social Security trust fund vote its shares with: a rogue corporate raider using billions of dollars of junk bond financing to fire well-known and respected managers of major corporations who just happen to have had a bad streak of seventeen consecutive quarterly losses, or the unlucky managers?

> **"A study by the World Bank of government-managed pension fund investments around the world found that such investments generally earned lower annual returns than privately managed pension investments."**

Undercutting Market Returns and the National Economy

The apparent purpose of allowing the government to invest the trust fund is to take advantage of the higher returns from private capital markets. There is strong evidence, however, that the government's investment policy could substantially undercut the returns it might otherwise expect to receive. High capital market returns in the United States are really derived from the high productivity of capital and the efficiency of the markets. Investment of the Social Security trust fund in private capital markets will hurt both of these sources of American economic performance; capital will be less productive and markets will be less efficient.

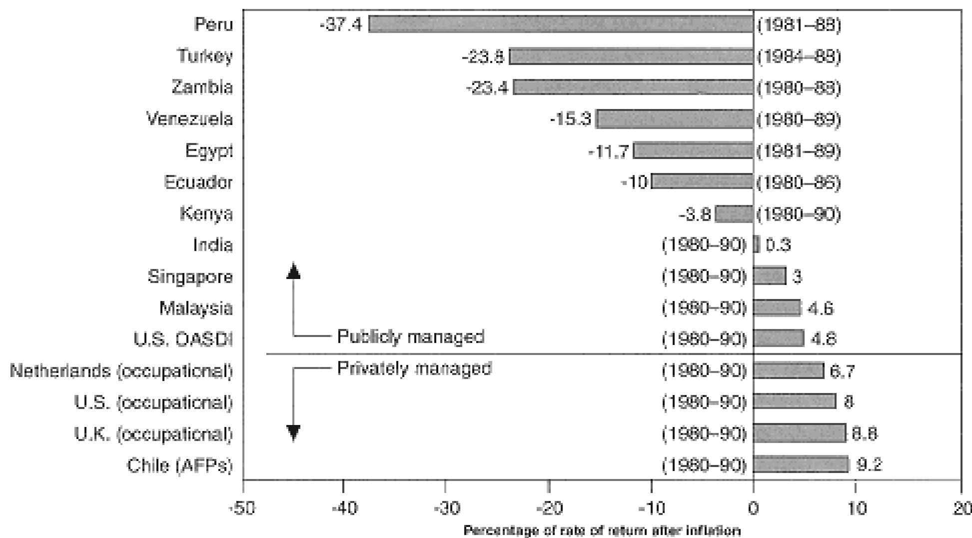
A study by the World Bank of government-managed pension fund investments around the world found that such investments generally earned lower annual returns than privately managed pension investments (Figure 1).[26] The study found that governments generally pursued one of two policies for their investments, both fundamentally flawed.

One policy was to invest heavily in government securities, which earn much lower returns than, for example, in stocks. There are two reasons for this policy. First, there is a cautionary search for safe investments because governments fear the political reaction if a more aggressive investment policy were to lead to adverse results. Second, buying up government debt allows the government to defer the consequences of its own overspending. Indeed, there is evidence that the power to shift government debt into pension funds may actually induce governments to spend and borrow more.[27] Borrowing from the pension fund is less transparent than borrowing from the open capital market. In many cases, such borrowing is not even reported as public debt, and the interest rate may be lower.

This is, in fact, what is already occurring with the Social Security trust fund. The current surplus is used to purchase federal Treasury obligations that are credited to the Social Security trust fund; the government then uses the money it has borrowed from the trust fund to meet current operating expenses.[28]

The other investment policy pursued by government-controlled pension funds is to invest in government-supported projects such as state owned enterprises or public housing. Again, the result is often extremely low rates of return. In fact, such investments frequently lose money.[29] Moreover, as pointed out in the previous section, government investment leads to greater government involvement in the economy that could, in turn, lead to policies that slow economic growth and reduce the return on capital for all investors, including the government itself.

Figure 1
Average Annual Investment Returns for Selected Pension Funds, 1980s



There are numerous studies in the modern finance literature showing that, in an efficient market, returns from stocks are determined by two factors: interest rates and the effectiveness of economic projects undertaken by the enterprises whose shares we buy.[30] Stocks are not goods-they are merely conduits of cash flows, exchanging current cash flows for future cash flows. Investing Social Security assets in stocks would harm both market efficiency, causing large amounts of money to be invested without duly diligent reviews of companies, and economic investment effectiveness, by removing incentives for the managers of those companies to perform. Thus, not only would Social Security trust fund investments in stocks not perform as well as expected, but all stock market investors and the national economy would suffer.

American stock exchanges are known to be the most efficient in the world.[31] Passive government stock investments would harm market efficiency, an efficiency achieved by the vigilance of active money managers, and would raise the cost of capital for all of us, relegating the United States to the ranks of mediocre economies.

The proposal to invest Social Security funds in the stock market endangers the very source of the strength of the American economy. We still enjoy the highest productivity of capital and labor in the world. These are key advantages enjoyed by American workers and savers in the new, competitive global economy. We cannot afford to lose them.

A Better Idea: Money to the People

Is there a better way to harness the power of private capital markets to guarantee a secure retirement for America's elderly?

Rather than allowing the government to control investments, we should give true power to the people, allowing individually owned and privately managed investment accounts similar to Individual Retirement Accounts (IRAs), and 401(k) and 403(b) plans.

Individuals would be free to invest the money in their accounts-and could probably do so through qualified money management companies-in stocks, bonds, and other investments, with certain limited restrictions to prevent very risky speculation. Government control would be limited to defining the options that could be offered for investment while actual control would remain in the hands of individuals.

This approach has proved highly successful in Chile and in a number of other countries.[32] There has been growing interest in individual private accounts in this country as well: A second option being supported by five members of the Social Security Advisory Council would allow approximately 50 percent of Social Security taxes to be diverted to private accounts. Other proposals in Congress and elsewhere would allow greater or lesser amounts of an individual's Social Security taxes to be privately invested.

Americans have shown themselves willing to embrace such a privatization of Social Security. According to a poll of

800 registered voters conducted by Public Opinion Strategies on behalf of the Cato Project on Social Security Privatization, more than two-thirds of all voters, 68 percent, would support transforming the program into a privatized mandatory savings program. More than three-quarters of younger voters support privatization. Support for privatization cuts across party and ideological lines, particularly among young voters.[33]

If we are truly serious about harnessing the power of private capital markets to solve Social Security's problems, we should allow investment in individual accounts, not a government takeover of capital markets.

Conclusion

Despite its superficial attractiveness, it would be a serious mistake to allow the government to invest the Social Security trust fund in private markets. Such an approach would make the federal government the nation's largest shareholder, with a controlling interest in nearly every American company. With ownership would come serious problems of control and social investment policy and threats to the efficiency and competitiveness of the American economy.

Experience in other countries has shown that government investment seldom achieves the rates of return seen in private investment. Attempts by the government to manipulate the markets could further undermine returns and threaten general market stability.

A much better approach would be to allow individuals to invest their own retirement money through true privatization. A system of individual private investment accounts, like that in Chile, would allow people to benefit from higher market returns without risking increased government involvement in the economy.

Notes

1. 1996 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Trust Funds (Washington: Government Printing Office), p.4.

2. The Advisory Committee's report has been repeatedly delayed, but its details have been widely leaked and the outlines of the likely proposals are well known. Bob Davis, "A Consensus Emerges: Social Security Faces Substantive Makeover," *Wall Street Journal,* July 9, 1996.

3. HR 491.

4. S. 824.

5. Senator Tom Daschle, press conference, November 26, 1996.

6. Peter Passell, "Can Retirees' Safety Net Be Saved?" *New York Times,* February 18, 1996.

7. James D. Gwartney and Richard Stroup, *Economics: Private and Public Choice* (Orlando, FL: Harcourt, Brace, and Company, 1995).

8. The third tenet is usually presented by the proponents of the command economy as "full employment." However, the political appointment of managers of state-owned enterprises was-in practice-the essential feature of central labor management. In fact, such political appointments may have been the key to the dramatic economic under performance of command economies in the 20th century.

9. 1996 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Trust Funds (Washington: Government Printing Office), p. 180, table m.B3 (Intermediate Assumptions, Year 2020).

10. 1995 Annual Report of the New York Stock Exchange (New York: New York Stock Exchange, Inc., 1995).

11. One can, and academics in the field of finance do, argue whether any additional returns can be earned by using active management instead of market index approaches (see, e.g., Michael C. Jensen, "The Performance of Mutual Funds in the Period 1945-64," *Journal of Finance,* May 1968; also Robert A. Haugen, *Modern Investment Theory,* Third Edition (Englewood Cliffs, NJ: Prentice-Hall, 1993). Clearly, utilizing a market index eliminates the costs of active management, thus saving future beneficiaries an amount of about I percent of their assets annually. (See Zvi Bodie, Alex Kane, and Alan J. Marcus, *Investments,* Second Edition [Homewood, IL: Richard D. Irwin, Inc., 1993], p. 111.) However, in this proposal it appears that the use of an index has been guided more by concern for the actual formal ownership of shares than purely by the costs of the option.

12. World Bank Policy Reports, *Bureaucrats in Business: The Economics and Politics of Government Ownership* (New York: Oxford University Press, 1995); and World Bank Policy Reports, *Averting the Old-Age Crisis* (New York: Oxford University Press, 1994).

13. World Bank Policy Reports, *Bureaucrats in Business: The Economics and Politics of Government Ownership.*

14. For a thorough discussion of state employee pension systems and their investment policies, see Carolyn Peterson, *State Employee Retirement Systems: A Decade of Change* (Washington: American Legislative Exchange Council, 1987).

15. Roop Mohunlall, et al., *The 1989-90 Source Book of American State Legislation, vol. Vl, A Pro-Growth Economic Policy* (Washington: American Legislative Exchange Council, 1990), pp. 98-9.

16. Carolyn Peterson, *State Employee Retirement Systems: A Decade of Change,* pp. 63-5.

17. Del Jones, "City Pension Fund to Sell Texaco Stock," *USA Today,* November 22, 1996.

18. Cassandra Chrones Moore, "Whose Pension Is It Anyway? Economically Targeted Investments and the Pension Funds," Cato Institute Policy Analysis no. 236, September 1, 1995.

19. See, for example, Thomas Jones, "Social Security: Invaluable, Irreplaceable, and Fixable," *Participant,* February 1996.

20. Robert Reich, "Pension Fund Raid Just Ain't So," letter to the editor, *Wall Street Journal,* October 26, 1994.

21. The Templeton Growth Fund has been in existence since 1954. It is rated "Four Stars" by Morningstar, Inc., an independent ranking organization, and according to Moningstar, has had an average annual return of 13.4 percent over the last 10 years, which placed it in first place for that period among its peers among Global Equity Funds.

22. *Capital Productivity* (Washington, D.C.: McKinsey Global Institute, June 1996).

23. Ibid.

24. James D. Gwartney and Richard Stroup, *Economics: Private and Public Choice* (Orlando, FL: Harcourt, Brace, and Company, 1995).

25. Michael Jensen, "The Takeover Controversy: Analysis and Evidence," in: *The New Corporate Finance: Where Theory Meets Practice,* edited by Donald H. Chew Jr. (New York: McGraw-Hill, Inc., 1993).

26. World Bank Policy Reports, *Averting the Old-Age Crisis*

27. Ibid., p. 94.

28. Mark Weinberger, "Social Security: Facing the Facts, Cato Institute Social Security Paper no. 3, April 10, 1996.

29. World Bank Policy Reports, *Averting the Old-Age Crisis,* pp. 94-95.

30. See, for example, Donald H. Chew Jr., Ed., *The New Corporate Finance: Where Theory Meets Practice* (New York: McGraw-Hill, Inc., 1993).

31. Burton Malkiel, *A Random Walk Down Wall Street* (New York: W.W. Norton & Co., 1990).

32. For a description of Chile's system see Jose Pinera, "Empowering Workers: The Privatization of Social Security in Chile," *Cato's Letter* no. 10, 1996. Other countries following Chile's example include Argentina, Peru, Colombia, Uruguay, and Mexico. In Europe, Britain provides a low minimum benefit through its traditional pay-as-you-go social security system, but has also allowed people to opt out of its benefits above this minimum through contributions to an expanded IRA. Nearly 70 percent of Britons have done so.

33. Michael Tanner, "Public Opinion and Social Security Privatization," Cato Institute Social Security Paper no. 5, August 6, 1996.