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PRIVATIZING
SOCIAL
SECURITY

Edited by

MARTIN
FELDSTEIN

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Privatizing Social Security



A National Bureau
of Economic Research
Project Report

Privatizing Social Security

Edited by **Martin Feldstein**



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(Resolution adopted October 25, 1926, as revised through September 30, 1974)

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Preface

This volume focuses on the possible methods and problems involved in shifting from an unfunded system of social security retirement benefits to a system based on mandatory saving in individual accounts. The research project that led to the current volume began several years ago. It is interesting to note that, when the project began, there were many who were quite skeptical about whether this was even a subject worth studying since the idea of such a radical change in the form of social security financing seemed so politically implausible. Much has changed since then. The official 1994–96 Advisory Council on Social Security appointed by President Clinton recently presented its recommendations for social security reform in which a majority of the members called for a shift from the current unfunded system to a system in which some portion of the benefits would be financed by a funded system. Whatever the outcome of those recommendations, it seems likely that the future public policy debate will carefully consider the proper role of funding and individual accounts of the type studied in this volume.

The first part of the volume examines the experience with privatizing social security in five very different countries—Chile, Australia, the United Kingdom, Mexico, and Argentina. The second part looks at a variety of issues that will have to be resolved if the United States chooses to adopt such a privatized system.

This project brought together experts on social security from several countries as well as from many universities and research institutes in the United States. I am particularly grateful to the Reserve Bank of Australia, the British Treasury, and the Ministry of Finance of Argentina for permitting senior officials to prepare studies for this project. These papers were presented and discussed at a conference held in Cambridge, Massachusetts, in August 1996. Professors Jeffrey Liebman and Andrew Samwick prepared the summary of the very interesting and lively discussion at the conference.

The research benefited from frequent interaction among members of the NBER research group on social security and from discussions of this research at meetings of the NBER programs on public economics and on the economics of aging.

I am grateful to the Smith Richardson Foundation for the funding that made this project possible. I also want to thank the members of the NBER staff for their assistance with all the details involved in the planning and execution of this research and of the many meetings that took place during the project. In addition to the researchers and research assistants named in the individual chapters, my thanks go to Kirsten Foss Davis, Rob Shannon, Mark Fitz-Patrick, Deborah J. Kiernan, and Norma J. MacKenzie for providing logistic support with the meetings and with the preparation of this volume.

Martin Feldstein