NATIONAL BUREAU OF ECONOMIC RESEARCH

PRIVATIZING SOCIAL SECURITY

Edited by

MARTIN FELDSTEIN

This Page Intentionally Left Blank

Privatizing Social Security

A National Bureau
of Economic Research
Project Report

Privatizing Social Security

Edited by Martin Feldstein

The University of Chicago Press

Chicago and London

The University of Chicago Press, Chicago 60637
The University of Chicago Press, Ltd., London

Paperback edition 2000
Printed in the United States of America
07 06 05 04 03 02 01 00 2 3 4 5
ISBN: 0-226-24101-7 (cloth)
ISBN: 0-226-24102-5 (paperback)

Library of Congress Cataloging-in-Publication Data

Privatizing social security / edited by Martin Feldstein.
p. cm. — (A National Bureau of Economic Research project report)
Includes bibliographical references and index.
ISBN 0-226-24101-7 (cloth : alk. paper)
1. Pension trusts — Cross-cultural studies. 2. Pension trusts — United States. I. Feldstein, Martin S. II. Series.
HD7105.4.P75 1998
332.67'254—dc21 98-43851
CIP

∞ The paper used in this publication meets the minimum requirements of the American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials, ANSI Z39.48-1992.

Relation of the Directors to the Work and Publications of the National Bureau of Economic Research

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. The President of the National Bureau shall submit to the Board of Directors, or to its Executive Committee, for their formal adoption all specific proposals for research to be instituted.

3. No research report shall be published by the National Bureau until the President has sent each member of the Board a notice that a manuscript is recommended for publication and that in the President's opinion it is suitable for publication in accordance with the principles of the National Bureau. Such notification will include an abstract or summary of the manuscript's content and a response form for use by those Directors who desire a copy of the manuscript for review. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied, the character of the data and their utilization in the report, and the main conclusions reached.

4. For each manuscript so submitted, a special committee of the Directors (including Directors Emeriti) shall be appointed by majority agreement of the President and Vice Presidents (or by the Executive Committee in case of inability to decide on the part of the President and Vice Presidents), consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when notice of the proposed publication is submitted to him. It shall be the duty of each member of the special manuscript committee to read the manuscript. If each member of the manuscript committee signifies his approval within thirty days of the transmittal of the manuscript, the report may be published. If at the end of that period any member of the manuscript committee withholds his approval, the President shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty days additional shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board who shall have voted on the proposal within the time fixed for the receipt of votes shall have approved.

5. No manuscript may be published, though approved by each member of the special manuscript committee, until forty-five days have elapsed from the transmittal of the report in manuscript form. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general or the special committee have passed on its validity in every detail.

6. Publications of the National Bureau issued for informational purposes concerning the work of the Bureau and its staff, or issued to inform the public of activities of Bureau staff, and volumes issued as a result of various conferences involving the National Bureau shall contain a specific disclaimer noting that such publication has not passed through the normal review procedures required in this resolution. The Executive Committee of the Board is charged with review of all such publications from time to time to ensure that they do not take on the character of formal research reports of the National Bureau, requiring formal Board approval.

7. Unless otherwise determined by the Board or exempted by the terms of paragraph 6, a copy of this resolution shall be printed in each National Bureau publication.

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

Contents

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