



Half Full or Half Empty?

BY RUSSELL ROBERTS

It's easy being pessimistic about the future of America, especially for those of us who are classical liberals. We prefer limited government, yet government seems to continue to grow in all soils, in all weather, no matter which party's watching the farm. As dispiriting as this growth can be, it's good to remember that the glass might be half full after all.

Take Social Security. Please. Here we are in the richest society in human history, where most of us are able to take care of our own retirement. The current government system of Social Security treats us like children and imposes a significant tax burden on workers and employers, distorting the shape and productivity of work.

Social Security is mandatory for all workers, rich and poor alike. Masquerading as a pension plan, it is really a welfare system for the elderly. The benefit structure is arcane, and the government's promise to pay according to its own stated formula is broken at semi-regular intervals. The system is nominally financed by a payroll tax with the proceeds rolled into general funds. The coexistence of the regressive payroll tax and the progressive income tax makes tax reform opaque and unnecessarily contentious.

As the system heads toward a demographic crack-up, voices rise in opposition to any reform that might give workers more control over their earnings. We are told how risky the stock market is, how stupid most Americans are, and how incapable they are of making the right choices if they become free to direct just a fraction of their payroll tax "contributions" into assets they deem worthy, even when the list of those assets would be pre-approved by the government.

That's the half-empty story.

In my calmer moments, though, I think the glass is half-full. Truth is, that demographic crack-up being invoked to focus people's attention on the Social Security problem is a long way off. For a government, democratic or authoritarian, to worry about a problem that is decades down the road is highly unusual. And

when that problem rolls around, it will probably be solvable through a mix of benefit cuts, tax increases, and changes in the retirement age.

And yet President Bush has made privatization, albeit a faint-hearted version, the focus of his second term. While I might long for a more real version of privatization rather than a government-run forced saving program, it doesn't change the fact that we've come a long way.

Until the 2000 presidential campaign, no serious presidential candidate in the last 50 years had

dared to suggest such a fundamental change in the program that for many is enshrined as the centerpiece of the New Deal. That's 50 years—more than two generations. And while Bush's first term made no progress on Social Security, his decision to push it front and center shows that real change is no longer a fantasy.

What actually emerges from this discussion may turn out to be disappointing. There are likely to be unintended consequences—I worry about the political incentives for government to reduce the risk in private capital markets if government's hand gets entangled in the stock market.

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But on the positive side, the half-full side, we're having the discussion, and talk of private responsibility and smaller government gets a serious hearing. Sure, opponents of change still shriek of seniors starving in the streets. But that charge just doesn't have the traction it had 25 years ago. That change is truly remarkable. For the first time in the history of Social Security the defenders of the status quo are on the moral defensive. Those who would allow people control of their lives hold the moral high ground.

The lesson for liberty from this intellectual revolution is the virtue of calm insistence on the moral high ground of principle.

The most widespread defense of true privatization over the last 36 years has been made by Milton Friedman. He was not the first opponent of Social Security. But his eloquent defense of private, less coercive alternatives to government in *Capitalism and Freedom* in 1962 remains the most influential political document of the last 50 years.

Many of the ideas in *Capitalism and Freedom* have either been accepted or are now being taken seriously. Private Social Security, a volunteer army, educational vouchers, flexible exchange rates, a stable money supply, and so on. What is impressive about the list isn't its social or legal acceptance. What is impressive is that every one of these ideas was greeted with hoots of derision when it was first proposed.

Classical-Liberal Eloquence

Surely the eloquence of Friedman and fellow classical liberals has played a role in their acceptance. But it is possible that political forces simply turned in Friedman's favor and there is no causal connection between the ideas the defenders of liberty put forward and the resulting political success. It's simply a coincidence.

I doubt it. Ideas matter, and saying them well matters, too. But I think there is another lesson to be learned from the success of the ideas of *Capitalism and*

Freedom. That lesson is particularly important as we debate the future of Social Security.

Friedman never advocates half a glass of freedom.

He advocates a full glass. And he relentlessly makes the case for that full glass regardless of the political incorrectness of the position. As a result, the reality we get is at least a half a glass and sometimes much more.

I suspect Friedman supports the President's rough outline of privatization. But he always notes that there is no reason for the government to be involved at all in our retirement decisions. This unrelenting advocacy of the fully principled position is part of the reason that some form of privatization is imaginable today.

The best is often the enemy of the good. And that is why in the political arena, compromise may be wise. But in the intellectual arena, we should always advocate what is best. That is the only way of hoping for something good out of the political process. And that leaves open the possibility that future reforms will lead us, ultimately, to the best.

Inevitable Market Solutions

David Henderson, author of *The Joy of Freedom*, argues that we should always talk about free-market solutions as if they were inevitable. For some reason this gives these ideas a respectability they might not otherwise have.

In the coming months and perhaps years that still lie ahead in the political fight over Social Security, I encourage all of us to talk about the virtues of allowing individuals to make their own decisions with their money, pointing out that this implies that government should get out of the retirement business. Saying this calmly and insistently (instead of prefacing remarks with apologies for proposing something that is "unrealistic") makes it likely we will get at least a half-full glass and holds open the possibility of a full glass down the road.

