



Choice Is Too Burdensome? It Just Ain't So!

BY AEON J. SKOBLE

It's pretty well certain that the money taken in Social Security payroll taxes would produce greater returns if invested by your financial adviser than it is likely to produce in the government's pyramid scheme. But proponents of maintaining the Social Security status quo object that not everyone has a financial adviser, and if people had to invest their own money, they would be either incompetent to do so or at best overwhelmed by the range of choices.

For example, Noam Scheiber writes in the March 7 *New Republic* that "an affluent voter knows he's going to retire in relative comfort whether or not Social Security is privatized; for a voter who sees Social Security as his main source of retirement income, the prospect of exchanging private accounts for benefit cuts is pretty alarming."

Why? If one's main source of retirement income is Social Security, what's really alarming is the idea that this money hasn't been put to better use, which is what private accounts would do. This would only be alarming if we assume that the average person can't invest responsibly. But other critics of privatization seem to argue that the real problem is that people don't want to. On December 20, 2004, *Washington Post* columnist Sebastian Mallaby claimed that the flaw in the "Ownership Society" model is that ownership is stressful: "If it's up to you to choose how to invest your pension account, agonizing over health stocks vs. Asian bonds may not be such a privilege." Well, thanks for

your concern, but you'll forgive me if I make that decision on my own.

Of course, this is to a large extent a straw man: Most private investment isn't like this at all. When you buy into mutual funds or invest in a 401(k) plan or other plans, such as those offered by TIAA-CREF, financial

professionals are watching the market and making most of these decisions on your behalf. The idea that the "regular Joe" doesn't have a financial adviser is a class-warfare scare tactic, evoking perhaps the Eddie Murphy character in *Trading Places*. But the truth is that anyone who buys an IRA or a mutual fund is employing a financial adviser. So I don't necessarily have to "agonize over health stocks vs. Asian bonds."

What is surely the case is that some people will want to take a more active role than others in choosing how their retirement money gets invested. According to Mallaby's argument, the fact that some people wouldn't care to

be bothered by this choice-making is sufficient grounds for denying it to everyone. Mallaby says, "Freedom and choice are wonderful things that allow us to realize our human potential. But there's a limit to how many choices each of us has time to make."

That's true, but regarding private retirement accounts, it's a non sequitur. It doesn't follow from the

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fact that we don't have unlimited time that the government should provide for my retirement.

Mallaby notes that the rich sometimes pay to avoid choices, for instance by hiring home decorators, and then concludes, "If the rich are deliberately avoiding choice, why are we so sure that the majority want more of it?" This misses the point of what the rich are doing. They are buying time. They still have to choose a decorator and then choose whether to accept the decorator's suggestions. More to the point, to hire a decorator is not to give up any rights. So this is a terrible analogy. The current system strips taxpayers of their right to invest their retirement money in more profitable ways. If we're going to stick with Mallaby's analogy for a moment, hiring a decorator is akin to investing with financial professionals. Social Security is akin to having the government tell you how to decorate the house—and then never deliver the sofa.

Mallaby argues that people may actually prefer a "big government" society to an "Ownership Society." This is an odd move to make—does Mallaby mean that *even if* people thought they would have more money in their retirement they'd still prefer to have the government run the program, just so they don't have to make all those choices? I can't imagine that people are so paternalistic toward themselves that they would actually choose to make less money. But perhaps Mallaby is speaking instead of people being risk-averse: the market is uncertain, and people may prefer the stability of a government program to the vicissitudes of the market. That would be funny if it weren't tragic: any number of conservatively managed index funds are both stable and more profitable than Social Security, and Social Security isn't especially secure—the money to pay for it is going to dry up, and if a tax hike is unattractive when it does, that will mean benefit cuts. So much for stability.

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What exactly is the argument against an ownership model anyway? Let us be clear about the terms of the debate: currently, we are not "investing" for our retirement when we pay our Social Security taxes. We are paying for the benefits that current retirees are collecting. Our benefits will (or won't) be paid by someone else later. It's accurate to refer to this as a "big government" model, since participation is mandatory and it requires a large government bureaucracy to operate. It presupposes that receiving a retirement benefit is a "right" (in the sense of an entitlement) that everyone has, regardless of whether they have worked hard, not so hard, or not at all; regardless of whether they have been thrifty or profligate.

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A truly privatized system wouldn't even be a "system," but rather several different systems, catering to various degrees of risk-aversion and risk-taking, and various degrees of hands-on investor involvement and delegation to financial professionals. But the key difference would be that in this case, you would be investing for your own retirement, meaning both the money you invest and the interest it accrues are entirely yours. So what you don't spend on your own retirement you can bequeath to your children, or donate to FEE, or Greenpeace, or whatever you wish.

Such a model requires a greater degree of personal responsibility, but that's a good thing, not a drawback, as Mallaby and Scheiber seem to imply. And it would recognize the basic fact that people are entitled to the fruits of their labor. Mallaby claims that this model is not morally better than the big-government model because some people don't like taking risks and because the system "may already be quite close to most citizens' sense of the right balance." *That's* why it's morally preferable to have the current pyramid scheme? It just ain't so. 