around methods of establishing criteria for determining the size of the transfer and for distributing and financing benefits.

Rationale for Social Security

In an economy where most economic decisions are freely made, why does society choose to override individual choice between private consumption and saving for the risks covered by social security? For simplification, the following discussion of this question is limited to the problem of providing income during retirement, but the analysis can be generalized to the other risks.

NEED FOR A GOVERNMENT PROGRAM

Each person faces daily a multitude of choices about how to spend his income or wealth—how much to spend on food, clothing, entertainment, and other current wants, and how much to set aside for retirement when earned income declines sharply or ceases. In the absence of compulsory social insurance, each person will make these decisions on the basis of his own tastes. He will invest his savings so as to achieve what he regards as the best mix of yield, liquidity, and safety. In making these decisions, the rational person will balance the cost of saving (foregone consumption today) against the benefits of saving (larger income in retirement) and will set aside the amount he considers appropriate. Each person should be able to achieve an optimum allocation of consumption between his working life and his retirement years—optimum in the sense that no other allocation would make him better off. Any other pattern is, by definition, not better and probably inferior.

In this view of the world, social security must, by assumption, "distort" the allocation of consumption and is, therefore, an unjustified interference with individual choice. Many persons may be forced to "save" more of their income than they would desire. In the extreme case, an individual with no dependents who is certain he cannot survive to retirement age would "prudently" save nothing for his retirement. Yet, social security taxes deprive him of the opportunity to dispose freely of a substantial part of his income. Social security also interferes with the freedom of workers to decide how to invest that portion of their income claimed by social security taxes. If they are skilled investors, they might use these funds to purchase assets with higher yields than the returns which social security implicitly provides. Such individuals would not gain from social security; actually, they may have a lower total income in retirement.[2]

Although attractive to anyone who values individual freedom in making economic decisions, this conception of the role of individual choice in providing for retirement is unrealistic. It does not take account of the fact, which even the most severe critics of social security will generally concede, that voluntary savings cannot yield the poor worker (i.e., the worker whose income is close to the amount necessary for subsistence) an income sufficient for retirement.[3] A family which

[2] The views described here are expressed forcefully by Milton Friedman in *Capitalism and Freedom* (University of Chicago Press, 1962), pp. 187–189.
[3] *Ibid.*, p. 184.