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The World Bank's Attack on Social Security

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Over the last decade, the World Bank has become one of the leading forces for privatizing public sector Social Security systems around the world. These systems, particularly in the industrialized nations, have been remarkably successful at reducing poverty among the elderly and disabled. There are no privatized systems that can boast a comparable track record.

The World Bank's attack on public Social Security systems has been both direct and indirect. The indirect attacks have been most important for industrialized countries like the United States. The World Bank has vigorously promoted the notion that Social Security systems, such as the one in the United States, are unsustainable. This was done most clearly in a 1994 World Bank book, titled Averting the Old Age Crisis.

As indicated by the title, this book implies that longer life spans, due to increasing wealth and improved medical technology, are going to impose an unbearable burden on nations, unless their Social Security systems are radically altered. It is easy to show that the basic premise of the book is wrong. Life spans have been increasing rapidly in the industrialized nations for more than a century. In most industrialized countries -- including the United States -- the increase in spending on Social Security programs in the past thirty to forty years was actually larger (measured relative to the size of the economy) than it is projected to be in the next thirty or forty years. In other words, the World Bank could have more appropriately written Averting the Old Age Crisis in 1960 than in 1994.

There is no plausible scenario in which the continued growth in the size of the elderly population will prevent future generations of workers from enjoying substantially higher living standards than their parents and grandparents. On average, living standards for workers in the industrialized nations have improved significantly over the last four decades, even after deducting the taxes needed to support a larger population of retirees. The World Bank studies have produced no evidence that the next four decades will be any different in this respect. (The distribution of income does raise a possibility of declining living standards for the majority of people, as an upward redistribution of income has led to stagnant or declining living standards for many workers in the United States in the last two decades. In spite of the greater threat it poses to the future living standards of the majority of people in the industrialized nations, the distribution of income has received almost no attention from the World Bank.)

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The lack of evidence to support its basic premise has not prevented Averting the Old Age Crisis from being extremely useful to political groups with an interest in privatizing Social Security systems around the world. It is highly unusual for economists to use the sort of inflammatory rhetoric of the book's title (i.e. referring to an old age "crisis") and in much of the text. Since the World Bank is often regarded as a neutral authority, conservatives opposed to Social Security systems for ideological reasons --as well as the financial firms that stand to profit from the privatization of Social Security -- have often cited the World Bank's writings to promote their efforts. It is worth noting that Estelle James, who led the research team that authored Averting the Old Age Crisis, is now a member of President Bush's Commission for privatizing Social Security, although not in her capacity as a World Bank employee.

The World Bank's role in promoting the privatization of Social Security systems in the developing world has been far more direct. In addition to providing rhetorical support to the ideological and financial interests who support privatization, the World Bank has also provided loans and technical assistance to nations that have privatized their Social Security systems.

The single-mindedness of the World Bank in promoting privatized systems is peculiar, since the evidence -- including data in World Bank publications -- indicates that well-run public sector systems, like the Social Security system in the United States, are far more efficient than privatized systems. The administrative costs in privatized systems, such as the ones in England and Chile, are more than 1500 percent higher than those of the U.S. system.

The extra administrative expenses of privatized systems comes directly out of the money that retirees would otherwise receive, lowering their retirement benefits by as much as one-third, compared with a well-run public Social Security system. The administrative expenses that are drained out of workers' savings in a privatized system are the fees and commissions of the financial industry, which explains its interest in promoting privatization in the United States and elsewhere. (U.S. firms like Merrill Lynch have been some of the big beneficiaries of Social Security privatization in developing nations such as Chile.)

The former chief economist at the World Bank, Joseph Stiglitz, sought to alter the Bank's single-minded support for privatized Social Security systems, co-authoring a paper ("Rethinking Pension Reform: Ten Myths About Social Security Systems") which pointed out that many of the reasons given for preferring privatized Social Security systems are not supported by evidence.

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