

[< Home](#)

The Economics of Social Security Reform

Peter Diamond

SHARE      

WORKING PAPER 6719

DOI 10.3386/w6719

ISSUE DATE September 1998

Economic analysis centers on three questions whether to have a mixed defined contribution (DC)/defined benefit (DB) plan and how to invest the funding. The paper compares a DB funded plan with a funded DC plan without any individual choice. The paper then considers individual choice about benefits, with particular attention to widows. Portfolio choice is considered for a central fund and in individual accounts, particularly the costs of implementation, as are the implications of greater funding. The implications for the labor market are examined. The major economic issues are not controversial. More funding involves higher taxes (or lower benefits) in the near-term in order to have lower taxes (or higher benefits) in the long run. More funding can reduce the frequency of needed adjustments to Social Security and can increase national savings. These economic effects are similar with or without individual accounts, although the politics will differ. The financial advantage of a diversified portfolio applies to a central fund, whether for a DC or a DB. Indeed, a DB that adjusts well handles risk better than a DC. Economically, the case for diversification is clear, but political questions arise about investing well and avoiding improper interference in corporate governance. Individual accounts respond to political concerns and allow diversity in individual portfolios but add to administrative costs and raise questions about the quality of individual investment decisions. They also raise the political question of maintaining redistribution. It is unclear whether individual accounts would make the labor market more or less efficient. My bottom line is that a well-run DB

system is economically more efficient than a mixed DC/DB system. The real issue then becomes how well the US government could run either system.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures ▼

Download Citation ▼

Published Versions

Arnold, R. D., M. J. Graetz and A. H. Munnell (eds.) Framing the Social Security Debate: Values, Politics, and Economics, National Academy of Social Insurance. Brookings Institution Press, 1998.

Related

TOPICS

Public Economics
National Fiscal Issues

PROGRAMS

Public Economics
Economics of Aging

More from the NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online [conference reports](#), [video lectures](#), and [interviews](#).



Martin Feldstein Lecture, Summer Institute 2025 **The Fiscal Future**

N. Gregory Mankiw, Harvard University and NBER
July 10, 2025

2025, 17th Annual Feldstein Lecture, N. Gregory Mankiw, "The Fiscal Future"

FELDSTEIN LECTURE

PRESENTER: [N. GREGORY MANKIW](#)

N. Gregory Mankiw, Robert M. Beren Professor of Economics at Harvard University, presented the 2025 Martin Feldstein...



Methods Lecture, Summer Institute 2025
**Uncovering Causal Mechanisms:
Mediation Analysis and
Surrogate Indices**

Raj Chetty, Harvard University and NBER
Kosuke Imai, Harvard University
July 24, 2025

**2025, Methods Lecture, Raj Chetty and Kosuke Imai, "Uncovering Causal Mechanisms:
Mediation Analysis and Surrogate Indices"**

METHODS LECTURES

PRESENTERS: [RAJ CHETTY](#) & [KOSUKE IMAI](#)

SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs..."



International Trade and Macroeconomics, Summer Institute 2025

Panel on The Future of the Global Economy

Oleg Itskhoki, Harvard University and NBER
Paul Krugman, City University of New York and NBER
Linda Tesar, University of Michigan and NBER
July 8, 2025

2025 International Trade and Macroeconomics, "Panel on The Future of the Global Economy"

PRESENTERS: [OLEG ITSKHOKI](#), [PAUL R. KRUGMAN](#) & [LINDA TESAR](#)

Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

National Bureau of Economic Research

Contact Us

1050 Massachusetts Avenue
Cambridge, MA 02138
617-868-3900
info@nber.org
webaccessibility@nber.org

HOMEPAGE

[Accessibility Policy](#)

[Diversity Policy](#)

[Privacy Policy](#)

FOLLOW

