

Herman Cain says his plan to reform Social Security worked for Chile, but can it work in the USA?

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Herman Cain is now polling alongside perpetual Republican kinda sorta frontrunner Mitt Romney. Today, [KPCC's AirTalk did a segment on the sudden arrival of the Cain Train](#). Time to get up to speed on everything the pizza king stands for, and fast! [Yesterday, it was the 9-9-9 plan to reform the tax system](#). Today, it's Cain's scheme to fix Social Security.

In the CNN/Tea Party Debate, Cain said his plan could copy the "Chilean Model" (see the above video). So what does that mean?

It means privatizing Social Security, as Chile did in the early 1980s. José Piñera, the Chilean government official who oversaw the conversion of his country's social security system from its classic model to one based on private investment accounts, [explained how and why he did it](#), back in 1997 (his account now lives on the Cato Institute site).

He loves the idea, and thinks its benefits far outweigh its potential disadvantages:

That does not mean that we do not have any problems in Chile, but I believe that a society based on individual freedoms -- economic, social and political -- is a much more prosperous and lively society.

Could something like this be done in the U.S.? People have said it's utopian and that nobody in the establishment would support privatization, but I believe the situation is changing.

Recently, I was invited by Sen. Phil Gramm, R-Texas, to testify before the Senate Subcommittee on Securities. Basically, everyone agreed that a system like this is much more consistent with American values than a system created by a Prussian chancellor in the 19th century.

How about that dig! Social Security is as old as Prussia, and where the heck is that? Private investment empowerment is so much more now.

Well, OK. But Piñera argues that he needed to fix Chilean social security because it was bankrupt, or headed there in a hurry. Our Social Security system isn't bankrupt, anymore than it's a Ponzi Scheme, as Texas Gov. Rick Perry has claimed.

However, some GOP candidates and even Republican politicians not running for the White House insist that Social Security is a Ponzi scheme and that it's unfair to compel workers to pay into the system if they're never going to see benefits.

Herman Cain isn't so much calling it a Ponzi scheme as demanding that it be done away with completely.

So Cain wants to emulate Chile, a nation that the U.S. has clearly emulated on matter of domestic policy many times before, and see Social Security phased out. Workers could invest what they would have paid into Social Security in the stock and bond markets, instead. Presumably, the funds that are created would be low-cost and low-risk.

The case for doing this says that the government would shed an allegedly too-costly entitlement program while providing workers with a chance to earn a much higher return than they would if they relied on Social Security, whose benefits are set by the government and only indexed to inflation. The point isn't to make money. It's to make sure that the money will provide an adequate cushion against poverty.

BUT, and it's a big but, you have to prepared for market volatility, of the kind we've seen lately, if you get on the Cain Train. Funds go up and funds go down. There's no guarantee that you won't lose a lot right before you're ready to retire. Also, people are often crummy at managing their retirement investments.

Meanwhile, Social Security chugs along, safely providing a modest benefit to millions of Americans, year after year. We may have to raise the retirement age, to make sure that there are enough people paying into the system to keep its trust fund well-capitalized. But then again, people are living a lot longer than they did when that 19th-century Prussian chancellor dreamed up social insurance.

It's not that hard to understand Cain's plans to reform taxes and Social Security, in the end. The 9-9-9 plan shifts a fiscal burden to less-rich Americans. The Chilean Model shifts risk from the government, which can easily absorb it, to the private citizen, who can't.

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