Gramlich notes, might be "the most sensible way" to get current retirees, "who already get a good money's worth return on their Social Security contributions," to help solve the system's problems. This approach would also have the Social Security trust fund gradually invest up to 40 percent of its assets in the stock market—instead of, as is now done, in Treasury bills—to take advantage of the historically higher returns. One danger: with more than $1 trillion—one-seventh of the gross domestic product (GDP)—involved, management of the money might become politicized.

Individual accounts. "My personal favorite," Gramlich writes, "tries to scale back benefits to eliminate today's long-term actuarial deficit." The normal retirement age would gradually rise, and benefits for high-wage workers would be cut. Then comes the critical part: mandatory individual savings accounts funded by a 1.6 percent payroll tax. The accounts would be held by the Social Security system, but individuals would be free to choose whether to invest their funds in bond index funds, stock index funds, or some combination. This would reduce, if not eliminate, the danger of politicized investment decisions.

Personal security accounts. Instead of small-scale individual accounts, this scheme would create much larger individualized savings accounts, called "Personal Security Accounts." Of the 12.4 percent payroll tax (paid half by employers, half by employees), five percent would be diverted to those accounts, which could be administered by private registered investment companies. Government benefits would be reduced correspondingly. Feldstein favors a complete switch to a fully funded, privatized system of individual accounts.

The biggest problem with privatization, notes Matthew Miller, is figuring out "how to get from here to there. The trick in switching midstream from 'pay-as-you-go' to a pre-funded private retirement system is that one generation has to pay twice: first for the retirement of its parents and then for its own. . . . Chile, whose successful privatization of Social Security these reformers love to tout, paid for the change thanks in part to the five percent of GDP budget *surplus* they were running when they switched. No such luck here."

Radical privatization may be unlikely, but there is little doubt that the New Deal program is due for a major overhaul. "Whether there's a Republican or Democrat in the White House, they'll be forced to make changes in Social Security," Senator Bob Kerrey (D.-Neb.) told the *Wall Street Journal* (July 9, 1996). "The world has changed a lot since 1935."

Cutting the Price of Power

"Electrical Storm" by Tom Arrandale, in *Governing* (July 1996), 2300 N St. N.W., Ste. 760, Washington, D.C. 20037; "Electric Utilities: The Argument for Radical Deregulation" by Peter Navarro, in *Harvard Business Review* (Jan.–Feb. 1996), and Thomas R. Kuhn et al., "Electric Utility Deregulation Sparks Controversy," in *Harvard Business Review* (May–June 1996), Boston, Mass. 02163.

Deregulation has come to telecommunications, airlines, and other industries, and now it seems to be the electric utility industry's turn. Traditionally, electric power has been supplied by tightly regulated local utilities that enjoy government-sanctioned monopolies. Some 200 such utilities today provide three-fourths of all the electric power in the United States. "But that monopoly system is about to break up," reports Arrandale, a freelance writer.

In high-rate states such as California (where the price of electricity is roughly 50 percent above the national average), major industries have been seeking to cut their electric bills, and even threatening to move out of state. In 1992, Arrandale notes, Congress "cleared the way for unregulated private companies with efficient gas-fired generating plants to sell power to wholesale customers [i.e. utilities themselves] at cheaper prices. This year, the Federal Energy Regulatory Commission ruled that these discount competitors must be allowed to use the long-distance transmission grids that the utilities have built to carry power across the countryside." Now, the unregulated companies want states to give them "access . . . to the poles and wires along the streets and highways of virtually every community in the country." Massachusetts has already embraced the concept, and small-scale experiments are under way in Michigan and Maine. Meanwhile, mergers have sharply increased, as companies seek to cut costs and gain control over large regional markets.

In the debate over how far and how fast

electric utility deregulation should go, two issues stand out:

Who should pay for past mistakes? "With federal and state regulators' consent," Arrandale notes, "U.S. utilities have sunk $160 billion into their white-elephant nuclear generating plants and money-losing power purchase contracts." If outside companies are now allowed to pick off these utilities' customers, investors will suffer. Kuhn, president of the Edison Electric Institute, the industry's main trade association, argues that a utility's "departing customers" should be required to pay their fair share of the accumulated bill. Navarro, an economist at the University of California, Irvine, who favors "a radical, national deregulation" of the industry, contends that this would reward bad management and be unfair to consumers. He favors a zero-recovery policy.

Will deregulation hurt small businesses and residential customers, who lack bargaining power? That will indeed happen, admits Navarro, unless such "small captive customers" band together. Government regulators, says this advocate of radical deregulation, "must help organize [these] customers into large, more effective bargaining units."

Molding Good Corporate Citizens

"Reinventing the Corporation" by Jonathan Rowe, in *The Washington Monthly* (Apr. 1996), 1611 Connecticut Ave. N.W., Washington, D.C. 20009.

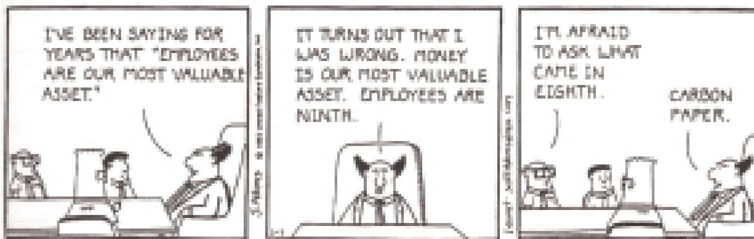
On the second day of 1996, with Christmas just safely past, the American Telephone and Telegraph Corporation outdid Ebenezer Scrooge. Although its profits were soaring (along with executive salaries), AT&T announced it was laying off 40,000 workers. Presumably the action was intended to increase efficiency and maximize profits—but was it the decent, responsible thing to do? Many Americans thought not—and Rowe, a contributing editor at the *Washington Monthly*, contends that they were right.

"The problem, of course, is that corporations today aren't constituted to be responsible," he says. The CEOs of large, publicly traded corporations are forced to heed "an institutional mandate to maximize pecuniary gain."

Yet the corporation, Rowe points out, is a government creation. The state grants a charter to a group of people, recognizing them as a separate entity—a corporation—with its own rights and liabilities, distinct from those of the individuals involved. Limited liability encourages large-scale ventures, because the individuals involved do not put their entire fortunes at risk. Yet since the corporation is a creature of the state, the U.S. Supreme Court observed in 1906, "it is presumed to be incorporated for the benefit of the public."

When the Constitutional Convention was held in 1787, only about 40 business corporations had been chartered, and most were for the construction of bridges, toll roads, and other public works. Most enterprises were small enough to require the capital of only an owner or a few partners. Even as corporations became more common in the 19th century, states imposed restrictions on those they chartered, confining them to certain types of business, limiting their size, and often fixing 20-to-50-year time limits on the charter. A corporation that failed to fulfill its responsibilities could have its charter revoked.

But with the rise of the "robber barons" and their large trusts in the late-19th century, that began to change, Rowe says. States competed to offer the fewest restrictions. Delaware won. By the mid-1970s, half of the 500 largest corporations in the country were chartered there.



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With "corporate responsibility" now seen by many as an oxymoron, it is time, Rowe contends, to "reconnect the corporation to the social