Introduction

Social security – the nation's largest, costliest, and most successful domestic program – has reached a critical juncture in its development. As its creators anticipated, nearly every wage earner now pays taxes into the system. In principle, all citizens may be eligible for "entitlements" at some point in their lives. Yet social security no longer enjoys solid popular support. Senior citizens worry that their benefits will be cut; younger Americans are skeptical – if not cynical – about their own benefits upon retirement. Social insurance, once viewed as an institution whose importance transcended politics, is now at the center of partisan debate in the United States.*

Social security's basic orientation has not changed much over time. It continues to alleviate the financial miseries that threaten everyone in a modern society – from family tragedies that might reduce a wage earner's income to the economic uncertainties that accompany old age. Despite the program's continuity of purpose, "rights" to social security are not contractual; benefits are subject to alteration in light of changing economic conditions, legislative priorities, and judicial wisdom. From the perspective of seasoned experts, this is how the system *should* operate.

*Most Americans think that social security outlays cover only retirement pensions for the elderly, but technically, social security (OASDHI) maintains four separate trust funds – one for old-age and survivors benefits (OASI); one for disability insurance (DI); and two for Medicare entitlements, hospital insurance (HI), and supplementary medical insurance (SMI). Aid to Families with Dependent Children (AFDC), along with Medicaid and Supplemental Security Income (SSI), evolved as part of social security's framework, even though they are financed through general revenues. Similarly, some authors use "social security" and "social insurance" interchangeably. There are good historical reasons for this convention: Social security was enacted to complement self-help, private philanthropy, corporate benevolence, and other nonfederal sources of aid to the unfortunate. My use of the terms is somewhat different: Social security is indeed the cornerstone of American social insurance, but "social insurance" in the full sense here embraces public and private institutionalized responses to the risks of everyday life, which are financed by employee and/or employer contributions as well as by taxes. As will become evident, such precision in terminology is indispensable if we are to grasp the complexity and confusion that surround social security.

From the beginning, social security was intended to harmonize individual ambitions with civic responsibilities. It was born of the Great Depression, a crisis that proved once and for all that socioeconomic forces beyond individual control could result in mass unemployment, hunger, and familial disruption even in America. Pressed to alleviate such problems as quickly as possible, Franklin Delano Roosevelt and his advisors started with a vision of social insurance that compensated for many lacunae in the way society protected itself against risks. They pieced together a strategy that built on familiar institutions to make nascent welfare-state policies palatable to Americans. Politicians endorsed this program as the embodiment of "Progressive" ideals. It was a pragmatic, if limited, solution to contemporary ills.

Today Americans tend to think of social security primarily as a program for the elderly. But the men and women who laid its foundations perceived the problem of old-age dependency in the context of the family and the passage of generations. By addressing the problems of the oldest members of society first, policymakers hoped to relieve hardship among the young and the middle-aged as well.* In addition to the indirect relief these groups would derive from socially guaranteed aid for the elderly, they themselves would benefit directly; they, too, would have pensions upon retirement. Meanwhile, they could count on other social services provided by the 1935 law, including aid to dependent children, expanded state-level unemployment compensation programs, assistance to the blind, and augmented public health services. As the system gained acceptance and was adapted to meet changing needs, expanding a "safety net" from cradle to grave became a distinct possibility.

But neither time nor funds were available to pursue such an ambitious agenda in the 1930s, nor was there commitment or a clear-cut strategy for doing so. Social security had to address immediate woes and hazards. It did not try to solve the underlying causes of unemployment or pauperism. The 1935 act straddled the fence between "welfare" – whose guiding criterion was the *ade-*

*Throughout this book, various subgroups among those involved with social security are designated as follows: "Policymakers" includes anyone who develops, administers, or evaluates social security measures. "Lawmakers" refers to elected officials to the executive or legislative branch of government. "Officials" typically hold elected or appointive federal-level positions. "Bureaucrats" refers to men and women with high-level responsibilities in directing programs. "Experts" are presumed to know how the system operates, unless the context in which the word is used suggests otherwise; they may be legislators, bureaucrats, or outsiders to government who enjoy a reputation for expertise.

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quacy of assistance – and the traditional American preference for self-reliance, as found in private insurance plans emphasizing the *equity* acquired through financial contributions during employment.

This tentativeness concerning long-term goals was deliberate, and the policymakers' caution was prudent. Social security's architects gave themselves room to maneuver and time to sort out priorities. The program's early advocates were far from clear – in public or in private – whether or not the new legislation was to serve redistributive goals. Nor did they know precisely how the program should strike a balance between personal rights and collective responsibilities in order to reduce the risks of old-age poverty and dependency.

Thus, it is not surprising that the 1939 social security amendments constituted a major "re-vision" of the original "vision" – official assurances to the contrary notwithstanding. Even before the first old-age pension had been disbursed, the political and economic climate had changed dramatically. Without being fully explicit about what they were doing, officials shifted the balance between "equity" and "adequacy," seeking to protect a still larger segment of the population. This action did not please everybody, but it satisfied friendly critics and reduced trust reserves – a major item on the political agenda. In the process, lawmakers doubled the amount of American insurance by enacting seemingly minor changes that did not raise taxes. Artful rhetoric and technical adjustments soon led to a bolder vision of social insurance.

Amid postwar prosperity, social security grew in ways that some experts had anticipated long before, but important developments unfolded in a way no one could have predicted. Some growth, of course, resulted from the mere passage of time as the system itself matured. Other changes showed how effective "the politics of incrementalism" could be. It proceeded in a step-by-step manner and built support for the program by forging heterogeneous coalitions. When times were good, the economy booming, and public confidence in government high, people expressed little concern about the limits to social security's development. As long as the number of new and current contributors far exceeded the number of beneficiaries, legislators could liberalize existing provisions, expand coverage, and increase benefits – and still point to huge surpluses in the trust funds. It was considered self-evident that the sense of mutual responsibility could and should be enhanced by federal initiatives. Because few hard choices had to be made, there seemed to be no need to enunciate a straightforward, potentially divisive rationale for legislative priorities. Many consequences of social security policymaking were thus ironic, unintended, and unspoken.

In 1972, amendments were passed that finally completed virtually all of the original act's vision. Postwar priorities had been accommodated as well. Social security loyalists discovered after World War II that serving the interests of "Middle America" might create the means to wipe out poverty in a land of reputed affluence. Payments and services to those who would never earn enough to be self-sufficient established a nationwide "floor" for widows, the disabled, the blind, and the very old. Few bothered to learn how the system functioned – that never really seemed to matter, because it apparently abided by quintessential American values.

Social security has become a central feature of American life; more than 36 million people are eligible for old-age, survivors, and disability (OASDI) pensions as of 1985. More than a quarter of all households receive monthly Old-Age and Survivors Insurance (OASI) benefits. It is the most important source of income for people over the age of sixty-five, accounting on average for $42 of every $100 they receive. In addition, 9 percent of all households receive Medicaid benefits; 5 percent get Aid to Families with Dependent Children (AFDC) or other cash assistance. These figures do not include the millions of Americans who benefit from the "black-lung" program, food stamps, the low-income home energy assistance program, veterans' programs, or federal civil service and railroad retirement pensions – "entitlements" partly financed and operated by social security with other federal agencies.[1] Through 1,300 local offices, ten regional headquarters, and central offices in Baltimore and Washington, the Social Security Administration (SSA) issues more than 432 million checks each year and determines eligibility and benefits. By recording earnings from W-2 forms and posting those earnings for subsequent use, SSA handles another 380 million transactions. Less than 2 percent of its operating budget covers overhead costs; administrators make mistakes only 1 percent of the time. This is a remarkable achievement for any bureaucracy.[2]

Despite its past successes and present significance, however, a crisis mentality has plagued social security since the 1970s. The postwar economic boom made for enhanced expectations. But euphoria was misleading; bust invariably follows boom. The optimistic, expansionist philosophy that inspired social security planning since World War II has now changed to one of guarded hope. Ironically, troubles began when the system enjoyed its greatest support and appeared to be in good financial health. Politicians continually reaffirm their commitment to its ideals, but they do worry about OASDHI's fiscal problems and seemingly "uncontrollable" long-term costs. As social security comes of age in an uncertain climate, people are disturbed by media reports, econometric projections, and technical disputes they do not fully understand – but can ill afford to discount.

When fear of a shortfall in trust funds or some other problem arises, the palliative almost always involves a presidential or other bipartisan, high-level panel of experts. Some technocratic tinkering here, some actuarial juggling there, and the system is once more pronounced "sound." This strategy, so successful in the past, no longer is efficacious. Since 1972, there have been no more easy votes on social security. Leaders pronounced the system secure, but rampant inflation and loss of confidence among voters forced them to eat their words. Gerald Ford sensed that something had to be done, but he and his advisors were unable to disentangle short-term financing problems from long-term issues. Jimmy Carter was no more successful, largely because of the advent of "stagflation." Key members of Reagan's administration could not decide whether social security was a "sacred cow" or a "golden calf." The problem worsened.

The crisis mentality of the last decade makes it difficult to persuade a skeptical electorate and conservative critics that technical modifications in and of themselves are plausible substitutes for confronting the deeper policy issues brushed aside or finessed since social security's formative years. Short-term "solutions" enacted between 1977 and 1982, after all, proved highly ephemeral. Mounting frustration, associated with ineffectual ad hoc recalibrations, has demonstrated the importance of a broader focus on the hidden dimensions of America's social insurance program. Far from reversing the historical tide of recent years, the public philosophy underlying Reaganomics gives credence to the proposition that "affluence strains resources for enlightened compassion."[3]

To avert a "legitimation crisis" (in Jürgen Habermas's phrase), Congress and the president in 1983 endorsed a compromise package crafted by the National Commission on Social Security Reform (NCSSR). Changes long contemplated but politically unpalatable – mandatory coverage of new federal employees and workers in nonprofit organizations, a phased increase in the "normal" retirement age, and taxation of social security benefits paid to the wealthiest recipients – all those and more became law under the 1983 social security amendments. The changes were not enthusiastically adopted (one-fifth of the House and a quarter of the Senate did not vote on the final bill at all), and the reforms did not tackle some of the thorniest issues at stake. But they should provide a tactical margin of error *if* the economy performs at least as well as the underlying actuarial forecasts anticipate. This landmark legislation may well offer the last chance for a long-overdue reassessment of social security as a whole.

In tone and format, the 1983 amendments to the Social Security Act fit the pattern of incremental reform that has characterized social security policymaking for fifty years. The National Commission on Social Security Reform declared that "Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its fundamental principles."[4] Raising the retirement age, taxing benefits for the wealthy, and delaying cost-of-living adjustments were all justified as ways to reaffirm social security's "traditional" functions. That the NCSSR package became law when many Reagan supporters were urging the division of OASDHI into strict annuity programs and welfare provisions underscores the depth of support for maintaining social security in its present form as far as practicable.

The 1983 amendments temporarily diffused the air of crisis besetting social security. OASDI trust funds are reportedly solvent for the next half century. Actuaries do not expect a shortfall in the HI trust funds for at least a decade. But key decisions on related matters of social policy remain to be made. Now is the time to ensure that the future costs of the baby-boom generation's retirement bill do not exceed revenues. Recurring charges that Federal Insurance Contributions Act (FICA) taxes are regressive and foster unemployment and inflation demand macroeconomic models adequate to explain the relationship between OASDHI and other facets of the economy. Nonetheless, social insurance's problems are not just actuarial or fiscal in nature. Economic concerns are assuredly relevant, but they do not constitute the crux of the matter.

The words of Thomas Jefferson, invoked by Senator Jennings Randolph (D–W.Va.) during the debate over the 1983 provisions, are illuminating: "As new discoveries are made, new truths disclosed, and manners and opinions change with the change of circumstances, institutions must advance also, and keep pace with the times."[5] Jefferson lived to see a younger generation reform and re-form institutions that he and the republic's other founding fathers had designed as the basis for "a new order of the ages." Today's situation is analogous. Because so many people have a stake in social security, it is politically tempting to treat the program (in Jefferson's exquisite phrase) as a "covenant, too sacred to be touched." Yet even those who share my view that the structure envisioned by the first generation of social security's policymakers should remain its cornerstone must acknowledge that major revisions are inevitable. Times change. Technical adjustments and implicit compromises that worked in OASDHI's formative years may not make sense under different circumstances.

Thus, if reforms are to succeed, they must bring a sophisticated historical sense to bear on the needs of the future. Social security has endured largely because of its resilience to short-term changes in the political economy. Issues raised in the Great Depression remain salient today even though the times bear little resemblance. Yet OASDHI's architects typically preferred not to engage in philosophical disputations concerning the meanings and functions of social insurance. They rarely have acknowledged all of the factors and constraints that influenced their tactical decisions, or admitted in retrospect that they wished that they had done things differently. To sustain and improve on the achievements of the program's first fifty years, a rising generation of policymakers perforce will need to probe beneath the "official" record and facts often taken for granted. Political leaders must reconsider how far to go in protecting Americans against the risks of contemporary life, in addition to reasserting what individual rights and mutual responsibility under social security should mean today.

The 1983 compromise affords an opportunity to move beyond mobilizing for the next crisis, and to take stock of the big picture. But few are ready to discuss social insurance in its totality. Reducing an unprecedented federal deficit (itself engendered by Reaganomics) provides an excuse to nibble away at social security: "Neoconservatives" like Peter Peterson, Martin Feldstein, and Michael Boskin advocate draconian measures to reduce OASDHI's scope, expecting the private sector to make up the difference. Social security's aging loyalists hardly underestimate the strength of critics on the right, but they have no desire to change things in any substantive way. "Neoliberals" have been distressingly silent about social security's future. Giddy about high-tech innovations, and banking on a new period of affluence, they seem to think that social security's continued existence is assured. But neither Gary Hart's *New Democracy* nor Paul Tsongas's *Road from Here* nor Robert Reich's *Next American Frontier* addresses social security's role in a world in which federal policy may be greatly restricted.[6]

The thesis of this book is that a fundamental reevaluation of social security is in order before time runs out, that previously expedient methods of piecemeal adjustments that rest on unspoken assumptions and highly technical recalibrations reached the limit of their usefulness with enactment of the 1983 amendments, and that social security's current problems can be fully understood only by recovering the real story of its origins and development, discarding the myths and misconceptions harbored by the public and policymakers alike. Confrontation with historical truth can free both from outdated assumptions and unexamined shibboleths. *Social Security: Visions and Revisions* aims to inform public policy debate and the lawmaking process with insights critical to re-forming social security for the challenges ahead.

Part I sketches the evolution of American social security. It is hoped that a clearer understanding of why the political process has failed to adopt a coherent approach to social insurance and social welfare throughout the last half century will foster honest talk and constructive change. Part II examines four aspects of social security urgently in need of revision: wasteful and counterproductive social and legislative arrangements regarding retirement, the consequences for women of putatively "gender-irrelevant" policies, the relationship between public and private insurance programs, and the problems generated by incorporating health care programs in an income-maintenance system dependent on intergenerational transfers. The final chapter sets forth specific policy recommendations based on the preceding historical, socioeconomic, and political analyses; it demonstrates how the proposed solutions are related to one another and how, taken as an aggregate, they might redefine and strengthen the enduring role of social security.

The only way to keep faith with the original vision of social security is to lift the veil that its creators themselves felt it necessary to spin in order to sustain the program for five decades. If social security is to remain at the heart of American society – to remain what Senator Bill Bradley (D–N.J.) calls the "best expression of community that we have in this country today"[7] –then its commitment to mutual responsibility must be perceived as no less important in our tradition than the ideal of self-reliance.

In making my policy proposals, I am under no illusion that they will be readily and overwhelmingly adopted. I do not pretend to have House and Senate majorities in my pocket, much less the nod of the president. The reader will find no misleadingly precise cost : benefit ratios in the concluding chapter, nor even short- and long-term cost projections for the reforms I advocate. Hegel's observation that Americans think of themselves as taxpayers first and as citizens last is perhaps truer today than ever. Enlightened self-interest, if nothing else, should give them pause, however. As this book will show, continuing along the same path of pragmatic incrementalism followed by social security during its first fifty years will lead policymakers into a cul-de-sac. But the contemporary fad for cutting back on all welfare programs will no longer yield substantial savings without serious loss to the nation's present and future well-being.

The "brutal truth" about social security's evolution and prospects shows that in fact Americans have been better than their Hegelian reputation – that in fact there is a strong Burkean component to the American ethos, one that affirms the vitality of a contract between the generations and regards the state as much more than a "partnership . . . in some . . . low concern" for individual enrichment.

Social security has served the nation well. As a vital symbol of the compact between present generations and those yet to come, it deserves the utmost intellectual and political effort to preserve it from obsolescence or even extinction. It is for this reason that I have ventured into the hotly contested debate over social security, past and present. I suggest major changes, but no reader will find me indifferent when it comes to the survival of social security itself. Quite simply, nothing can take its place.

PART I

Social security comes of age