

Reimagining the future of social insurance in the wake of the pandemic

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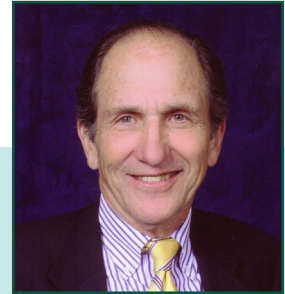
Understanding the fundamentals of social insurance should precede any discussion of its future. The basic purpose of social insurance is to anticipate risks and protect against them by providing economic security. It is to *prevent* individuals — and their families — from falling into destitution rather than trying to rescue them after they have fallen.

The principal threats to economic security are risks that are easily understood: the death of a family breadwinner, sickness, disability, involuntary unemployment, outliving one's savings, and being born into a poor family. Social insurance programs typically condition benefits on some level of prior contributions toward the support of the program. The more universal both contributors and beneficiaries are, the closer the program is to the ideal social insurance model.

The central image of social insurance that distinguishes it from welfare is the earned benefit. Individuals earn the right to receive benefits by making financial contributions to the program. The contributions may take the form of income taxes, although more typically proportional taxes support the programs, as with the Federal Insurance Contributions Act (FICA) payroll tax that supports Social Security and Medicare hospital insurance. The basic idea is for a beneficiary to contribute through taxation while working, in exchange for protection while out of work. Equitable treatment, not the equalizing of incomes, is the controlling standard.

Redistribution of income is clearly one consequence of such programs, but it is not their primary aim. The model of redistribution is not intended to be from rich to poor, but rather from more fortunate to less fortunate. Social insurance retirement programs distribute income over the life cycle of individuals (contributions while working, pensions when old). The relevant question for proponents of social insurance is the adequacy of citizen protection from the predictable risks of modern industrial societies. Seen this way, social insurance simply extends the security objectives of private insurance to circumstances where the risks cannot be insured privately or the purchase of adequate levels of commercial insurance is unlikely.

In contemporary America, the philosophy of social insurance has become most obvious in the Social Security, Medicare, and Unemployment Compensation programs. These programs protect against the changing fortunes characteristic of volatile market capitalism. They do so prospectively, placing a platform under family income, rather than subjecting would-be beneficiaries to demeaning tests of means or assets. In that sense they are entitlements, paying benefits to which recipients believe they are entitled by virtue of their



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contributions, with program obligations regarded as legitimate claims on future governmental revenues.

COPING WITH A CONUNDRUM

Social Security was enacted 85 years ago; Medicare was enacted 55 years ago. Regrettably, the passage of time has dulled what were once vigorous debates about the need for social insurance programs and their merits. Most Americans today probably could not offer a working definition of social insurance or identify the programs that best fit that definition, while earlier generations understood and debated the concept as a crucial issue in domestic politics. Strangely enough, as social insurance programs were enacted and then expanded to occupy their present prominent place in our public life, Americans' understanding (and even recognition) of the term "social insurance" atrophied. Indeed, the term has all but disappeared from our public discourse. Yet support for social insurance programs has remained overwhelmingly solid despite dramatic declines in Americans' trust of government.

This conundrum — widespread support for social insurance accompanied by widespread confusion about what it actually is — imperils policy debates about its future. For some years these debates about competing philosophies of social welfare provision have been colored by our deeply ideological politics. Those who favor smaller government and market solutions based on individual initiative and effort remain prominent in our public social policy conversations. Social insurance advocates have had to defend both social insurance proposals and established programs from intermittent charges of "socialism" and, in recent years, from steady attacks on social insurance programs' allegedly inevitable unaffordability. These political battle lines are well-entrenched and spring from profound ideological differences. Defenders of social insurance cannot ignore these claims. They tend to ensure that needed expansions of social insurance programs require decades of incubation and compromise to become operational programs.

The economic devastation wrought by the COVID-19 pandemic underscores the need to accelerate that frustrating timetable and put in place additional protections such as universal health coverage and greater retirement security for gig workers and others not covered by traditional employment. To get there, however, proponents of social insurance solutions must effectively address two of the most widely disseminated critiques of social insurance's two largest budget items: the Social Security retirement program and Medicare. The crux of the first of these critiques is that both programs are arguably unaffordable now and sure to become more so as the numbers of eligible older Americans grow. Critics cite projections that pension spending will rise faster than earmarked payroll taxes and that outlays for medical care will strain the federal budget to the point of crisis. For many, the second critique is philosophical: the assumption that social insurance programs are beyond the proper role of government. Their view is that limited government should attend to those who fall into poverty, not

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replace the role of family savings, private pensions, and private insurance. Public pensions and Medicare, for such critics, violate standards of both affordability and desirability.

Social Security's defenders may never win over critics who truly believe that the program should not even exist, but in the wake of the pandemic, with most Americans generally in search of more rather than less security, such critics will have difficulty gaining or maintaining traction. Thus for Social Security the most plausible future is one of incremental adjustment at most. A program that has commanded majoritarian support for decades, has been free of scandal, and has a growing population of beneficiaries is not a realistic candidate for transformation or substantial change. There are areas where incremental adjustment will be on the public agenda: changing family arrangements, the expansion of women in the employed labor force, and so on. In the near term the challenge for Social Security's defenders may be to combine more education about social insurance fundamentals with debunking myths about a program that can in fact be maintained in long-term balance without major adjustments.

THE QUEST FOR POLITICAL ACCEPTABILITY

The most prominent criticism of Medicare, by contrast, is more fiscal than fundamental. Citing forecasts of Medicare spending — along with comparable concerns about national expenditures — the repeated claim is programmatic unaffordability. How can a program growing demographically with outlays rising on average at twice the growth rate of national income avoid fundamental change?

Those favoring limited government repeatedly claim that competition among private health insurers and increasing patient cost-sharing will produce effective constraints. But those remedies have had little success so far, either in the U.S. or in other wealthy democracies. The central conclusion of cross-national research in medical care finance appears to be this: When every dollar of medical expenditure is a dollar paid to a medical care worker, countervailing power — or budget limits and bargaining — is a necessary prerequisite for successfully limiting the growth of per capita health spending. To assess the plausibility of this diagnosis, consider that the United States and Canada spent comparable proportions of national income from 1950 to 1970. Then, from 1970 to 2018, Canadian outlays increased from roughly 7 percent of GNP to 11 percent. U.S. outlays, by contrast, increased from a comparable 7 percent to 18 percent. Constraint, in short, is possible, but also controversial. Cost control has to be costly to somebody or it is not cost control.

Political acceptability, not ideal policy proposals, is crucial to both the short and long term. And since increases in both areas of social insurance are bound to grow, the prospects of budget strain are realistic. Spending increases of two to three percent of GDP on Social Security pensions over the long term would not, given the support cited, violate the criterion of political feasibility. But spending

two or three percent more than American income growth year after year for Medicare challenges the belief that the program could remain unscathed.

The problem with this line of argument is fundamental. It rests on the assumption that an American tax phobia simply will not permit increases in taxation to fund even widely supported programs. Major tax increases are indisputably hard to enact. Yet there is evidence from national crises — from depressions to war to pandemics — that the tax phobia diagnosis is overstated. The question implied for the medical care part of the discussion is whether political bargaining will produce repeated disappointment or hard-won progress.

Seeking the ideal balance point between reasonably burdensome taxation and its principal benefit — an economy that functions for the greater good and protects against universal risks — the rest of the OECD nations have shown what is possible and also the variability that is possible. We need to reject the notion that it can't happen here. The pandemic is rewriting the script, creating an opportunity to reimagine the range of steps that are both doable and desirable, buttressed by a public opinion strongly committed to protecting the core of social insurance ideas and programs.