

Why Social Insurance?

By E. J. Dionne, Jr.

Summary

Some believe that the strongest danger facing us is financial insolvency in our social insurance programs — Social Security and Medicare. A larger danger is that we will forget why we have social insurance and why its preservation is necessary, not only to a civilized society, but also to the very market economy that has provided us so much wealth. Social insurance was a wise admission on the part of supporters of competitive economies that citizens would take the risks such economies require only if they are provided with a degree of security against old age, unemployment, the sudden death of a spouse and the vicissitudes of health. The basic idea behind Social Security, the need for collective provision against certain forms of insecurity, remains deeply popular despite the rise of the ideology of privatization.

Social insurance is one of the most brilliant creations of a century of democratic (small “d”) politics. It is an idea rooted in both socialist and biblical thought, but it saved capitalism. Social insurance arises from the understanding that competitive market economies do not distribute their fruits equitably and that competitive economies sometimes break down. Competition has benefits and costs, and both are shared unequally.

Security Permits Risk-Taking

Social insurance was a wise admission on the part of supporters of competitive economies that citizens would take the risk such economies require only if they were provided with a degree of security, especially against old age, unemployment, the sudden death of a spouse, and the vicissitudes of health. Risk is tolerable, even

desirable, as long as every one of life’s risks does not become an all-or-nothing game. This is especially true when one’s family, not simply one’s self, is put at risk. The power of the social insurance idea rests on a respect for individualism. It does not rest on a utopian and mistaken view of what radical individualism can accomplish.

In 1910, in *Social Insurance*, Henry Rogers Seeger, a Columbia University economist, wrote:

“Up to a certain point, it is moral and commendable for each to look after his own interests and the interest of those dependent upon him. It is a mistake to think that self interest in this sense is synonymous with selfishness. Adam Smith’s assertion — ‘that it is usually by pursuing our interests with due

consideration to the interest of others that we contribute most to the common well being' — is true of the ordinary man in the ordinary situation. But along with our individual interests which can best be cared for by individual enterprise, industry, and forethought, there are other interests that called for a collective and cooperative action.”¹

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forms of social insurance for: industrial accidents, illness, premature death, unemployment, old age, and the like. He concluded: “By ... the means of cooperative action and the creation of social insurance, and by these means only, in my opinion, can we hope to raise the whole mass of wage earners to higher standards of efficiency and earnings and to more intelligent appreciation of all of life’s possibilities.”²

He turned out to be right. That is why we embarked on a system of social insurance.

Franklin D. Roosevelt underscored this view in a 1938 radio address on the third anniversary of the Social Security Act. He noted that the first Americans to seek government protection were not the poor and lowly but the rich and strong. They sought protective laws to give security to property owners, industrialists, merchants, and bankers. He did not blame the

wealthy for seeking these protections. Instead, he argued that workers naturally sought comparable protections as they became more articulate through organization:

“Strength or skill of arm or brain did not guarantee a man a job. It does not guarantee him a roof. It did not guarantee him the ability to provide for those dependent upon him or to take care of himself when he was too old to work. ... Long before the economic blight of the Depression descended on the nation, millions of our people were living in wastelands of want and fear. Men and women too old and infirm to work either depended on those who had but little to share or spent their remaining years within the walls of a poorhouse. ... Because it has become increasingly difficult for individuals to build their own security single handed, government must step in and help them lay the foundation stones just as government in the past has helped lay the foundations of business and industry. We must face the fact that in this country we have a rich man’s security and a poor man’s security, and the government owes equal obligations to both. National security is not a half-and-half matter. It is all or none.”³

The United States has been remarkably successful because it followed the path laid down by Seeger and Roosevelt. Other industrial economies did the same, in many cases doing more than we did.

I now fear that the untrammelled intensification of laissez-faire capitalism and the spread of market values into all areas of life is endangering our open and democratic society.

Too much competition and too little cooperation can cause intolerable inequities and instability.

Unless it is tempered by the recognition of a common interest that ought to take precedence over particular interests, our present system — which, however imperfect, qualifies as an open society — is liable to break down.

The laissez-faire argument against income redistribution invokes the doctrine of the survival of the fittest... In any case, there is something wrong with making the survival of the fittest a guiding principle of civilized society... Species and their environment are interactive, and one species serves as part of the environment for others... The main point I want to make is cooperation is as much a part of the system as competition, and the slogan "survival of the fittest" distorts this fact... There has to be a common interest to hold a community together.

— George Soros, international investor and philanthropist, "The Capitalist Threat," *The Atlantic Monthly*, February 1997.

The Social Democratic Bargain

We have established throughout the industrial

democracies what Walter Russell Meade has called "the social democratic bargain," a marriage between market economies preached by capitalists, and worker protections preached by socialists.⁴ Most economic decisions remain in private hands, but national governments use the tools at their disposal, notably taxing and spending. You are not supposed to talk about these anymore. But in the post-war recessions, it was spending to take the edge off economic downturns that hastened the return to prosperity.

Labor laws guaranteed workers the right to organize, which boosted their share of economic largess. Government helped citizens of modest means secure housing, educate their children, and have a decent retirement. That social democratic bargain has been a good deal. It was possible because market economies delivered the goods and national governments had the power to tax, spend, and regulate as they and their electorates chose.

The political unhappiness that voters frequently express in the United States and in many countries of Western Europe is not primarily the result of scandal; it is not primarily the result of negative advertising; and it is not the product of politicians being mean to each other. Politicians have long been mean to each other. It is, instead, the result of weakening the social democratic bargain and of the social insurance state. This bargain is under siege from many directions. The global economy puts new competitive pressures on both firms and governments to trim benefits that had once been taken for granted. In the welfare states of Western Europe, this pressure is largely on public benefits. In the United States, we have an extensive system of private benefits in the form of company-provided health insurance and pensions. As we debate our public social insurance benefits, these basic, private

social benefits are being eroded. The proportion of workers without health insurance is rising. And the proportion of workers with pension plans involving substantial assured contributions from their employers is shrinking.

A second factor weakening the social democratic bargain results from the decline in the proportion of workers who are unionized. This is especially pronounced here and in Great

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Britain. A third factor is rising aging populations, accompanied by rising health care costs, which are putting great pressures on social insurance programs in every country in the West. Finally, a technological economy that puts a high premium on skills and education seems to be widening economic inequalities. This produces a paradox. Growing inequalities create new dissatisfactions with government and taxation, while at the same time putting more pressure on government to rectify the imbalances.

In the most pessimistic light, the social insurance state faces a profound political contradiction. On the one hand, we have steadily increasing demands upon government precisely because the social democratic bargain is breaking down. On the other hand, we have increasing mistrust of government which makes it difficult to expand the social insurance state where necessary, par-

ticularly in providing health care. But the recent successes of social democratic parties suggests that voters are resolving this contradiction in favor of social insurance. It is becoming more popular again precisely because the underlying reasons for its existence are becoming more explicit.

The basic ideas behind Social Security, the need for collective provision against certain forms of insecurity, remain deeply and broadly popular despite the rise of the ideology of privatization. Advocates of privatization keep running into the stubborn fact that most Americans broadly like Social Security because it works, and it accords with their values.

The original idea of the Social Security Act could have been proposed by new Democrats no less than old Democrats, and a great many Republicans. If there was ever a program designed to help those “who work hard and play by the rules,” to use the President’s phrase, this is it. If there was ever a program designed to offer a “hand up not a handout,” then surely Social Security and other provisions of the social insurance state meet that criterion.

Conclusion

Some believe that the strongest danger facing us is financial insolvency of Social Security and Medicare. Others talk about a low savings rate. Still others accent the dangers of big government. I believe the biggest danger facing us is that we will forget why we have social insurance, and why its preservation is necessary not only to a civilized society but also to the very market economy that has provided us with so much wealth.

The programs of the social insurance state, especially Medicare and Social Security, loom very large on the balance sheets of govern-

ment. As the Baby Boomers march toward old age and retirement, the costs will loom larger still. Nevertheless, fixing the social insurance state is very possible and within our reach. Saving it is absolutely necessary. Social insurance is the basic insurance policy Americans have for social stability, a modicum of social justice, and a society

Social insurance is the cost of doing business for a society that seeks to remain dynamic and inventive as well as just and fair.

in which risks are taken freely and energetically because there is some protection against catastrophe and social breakdown.

Few business people I know would cut their expenses by canceling their fire insurance. Social insurance is the cost of doing business for a society that seeks

to remain dynamic and inventive as well as just and fair. We need to rediscover the power of this idea and its value to us all.

Endnotes

- 1.
- 2.
- 3.
- 4.

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