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Sharing Risks in a New Era of Responsibility

By Jacob S. Hacker

Summary

In his inaugural address, President Obama spoke of a “new era of responsibility.” By this he meant not only our own personal responsibility but also our *social* responsibility to each other – our place in what is often called the “social contract.” A central aspect of the social contract is the sharing of risk. The twentieth century saw the creation of a public-private framework for the provision of basic economic security to Americans of all walks of life. Over the last generation, however, that framework has crumbled—a reality that is now unmistakable. And yet for far too long, our political leaders have neglected the increasing economic risks that have shifted onto middle- and working-class Americans. Even today, amid our pressing economic crisis, we are socializing risk at the top, but only beginning to debate the spreading of risk for the rest of Americans. The New Deal and the Social Security Act provide a revealing set of lessons for present-day economic reformers. The basic idea of the New Deal was to reinvent and reconstruct capitalism. Markets had spun out of control, and they needed taming. And markets certainly need taming again today. We need a new New Deal – a new public/private partnership based on the fundamental truth that security is not opposed to opportunity, but instead essential to opportunity. In a dynamic and flexible economy, well-designed social insurance is critical if Americans are going to have the confidence they need to invest in and achieve the American Dream.

We are now facing the greatest economic crisis our nation has faced since the Great Depression. We are talking about fundamental reform of our government and our policies. No moment could be more important for considering the theme of this conference -- *Social Insurance, Fiscal Responsibility and Economic Growth*.

The Social Contract

In his inaugural address, our new president spoke of a “new era of responsibility.” After hearing the language of personal responsibility for so many years, it may have been a little jarring to some to hear President Obama use the term. But the President was defining “responsibility” to mean more than just responsibility for ourselves; he was defining it to encompass the responsibilities that we owe each other – that is, the social contract that binds us to each other.

One important aspect of the social contract—my focus in what follows—is the sharing of risk. Social insurance experts like to talk about “risk sharing.” Others use words like “solidarity,” or

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“community.” Or they simply say, “We’re all in this together,” or “I’ve got your back.” But however we define it, there is no question that the institutions and the ethos of shared fate in our nation have eroded and must be rebuilt.

President Obama defined responsibility to include the social contract that binds us to each other.

The challenge is great. But it is a challenge we can meet. Our workers are productive. Our employers are innovative. Our nation, at its best, is a beacon to the world. It is a shining city upon the hill, as John Winthrop wrote. It was President Reagan who liked to quote Winthrop. On this point I like to quote a more recent president, “There is nothing wrong with America that can’t be fixed with what’s right with America.” That is particularly true when it comes to social insurance and the sharing of risk.

“Risk” is the word on people’s lips today. But risk concerns not just a breakdown in our nation’s financial institutions. More broadly, it concerns the breakdown in our nation’s social contract. It is risk that unites the fevered discussions about our financial mess and the difficult conversations that are taking place around kitchen tables today about our family finances. Yet while we hear much about the national financial crisis that seemed to have come upon us like a tsunami, we hear less about the financial crisis facing American families, which has been with us some time.

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The greatest challenge we face, in short, is to refocus our efforts on the financial crisis facing most Americans. We hear so much about the big financial institutions that are too big to fail. I worry sometimes that the rest of Americans are seen as too small to

save. We have bailouts of large financial institutions, on the one hand, and bankruptcy “reform” a few years back that made it harder to families in duress to file for bankruptcy protection, on the other. We have socialized risk at the top. It is time to talk about socializing risk for the rest of Americans.

Lessons from the New Deal

We stand at a crossroads, much as did Franklin Roosevelt when the cornerstone of our current system of social insurance was put in place in the 1930s.

I want to be clear that the problems we face are very different from those of that day, and the solutions that we need will be different as well. But there is a common element. The basic idea of the New Deal was to reinvent and reconstruct capitalism. Markets had spun out of control, and they needed taming. Those at the top had been shielded to some degree from economic risk by bankruptcy relief and limited liability for corporations, but the rest of Americans were left to face the “hazards and vicissitudes” of a modern industrial economy largely on their own. As FDR said, “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” (U.S. SSA 2008).

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FDR said that in 1938, three years after the Social Security Act was passed. What he meant, in the simplest terms, is that we are all in this together. There could no longer be security at the top of American society and rampant insecurity at the base. And the fact

that FDR was speaking about the continuing challenge of insecurity in 1938 underscores something important about the Social Security Act that we too often forget. Social insurance was not, in FDR's eyes, a cure for the Great Depression. It was an attempt to build a stronger foundation for American capitalism in the decades after recovery. We may think of it as a soft liberal response, the "Social Security Act." The original language was the "Economic Security Act," and it was seen as a hard headed approach to rebuilding the foundations of capitalism on stronger moral and economic grounds.

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- FDR 1938

But, yes, FDR was also driven (and we are all driven today) by concern about injustice. In a recent issue of *The New Yorker*, Atul Gawande, the physician and health care advocate, writes: "In every industrialized nation, the movement to reform healthcare begins with stories about cruelty." "The stories become unconscionable in any society that purports to serve the needs of ordinary people and, at some alchemical point, they combine with opportunity and leadership to produce change" (Gawande 2009).

The Human Cost

We certainly have our own tales today. During the campaign, we heard a lot about Joe the Plumber. So I want to tell you about someone else, Arnold the Air Conditioner Repairman. He was written about in the *The New York Times* in 2005. His name is Arnold Dorsett. As an air conditioner repairman, he makes a good living, \$70,000 a year. But he makes that \$70,000 a year because he works 90 hour weeks. And the reason he is working 90 hours a week — and the reason his wife, Sharon, is staying home to care for their three kids, rather than finishing her nursing degree and getting out in the workforce — is that their son, Zachary, has a rare immune system disorder. Despite having health insurance and refinancing their home, the Dorsetts have run up nearly \$30,000 in outstanding credit-card balances and can no longer make their car or

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mortgage payments. In March 2005, they succumb to the inevitable and file for bankruptcy. "I make good money, and I work hard for it," Arnold Dorsett told the *New York Times*. "When I filed for bankruptcy, I felt I failed" (Leland 2005).

Arnold Dorsett felt that he was somehow responsible for this terrible plight that had befallen his family. But, in that year, 2005, he was not the only parent to find himself in that situation. In 2005, just before legislation that restricted families' access to bankruptcy went into effect, two million American households filed for bankruptcy. Many of those bankruptcy filings — perhaps as many as half — are due to medical crises and costs. And most of the medical-related filings are by people who have health insurance. For today even people who have health insurance are at risk of

catastrophic costs that can drive them into bankruptcy. People who are “underinsured” look a lot like other workers. They just happen to be at grave economic risk if they need health care. And, of course, the Dorsetts were in a sense lucky, because they at least had health insurance. Yet ten of millions of Americans — some 50 million Americans, at last count — don’t have health insurance at all. Large as it is, that number is a vast understatement of the problem because it doesn’t include those like the Dorsetts who lack adequate protection. Nor does it include roughly 90 million Americans who go without health insurance at some point over a two year period — one in three nonelderly Americans.

This is not just a dollars and cents issue, though it certainly is that. It is a life and death issue. The Urban Institute estimates that about 22,000 working-age Americans die each year because they lack insurance. Studies of amenable mortality assess deaths that could have been prevented with the provision of timely and effective care before the age of 75. In a study of 19 rich nations, the United States ranked last — 19th out of the 19 nations for which we have evidence. We have about 101,000 more deaths than we would if we had the average rate of amenable mortality of the top three nations (Dorn 2008). This is a life and death issue.

More Risks Shifting to Workers

Our crumbling framework of health insurance is not the only problem that we face. It is the tip of a larger iceberg. In every facet of Americans’ economic lives — healthcare, pension plans, job security, family finances — risk and responsibility have shifted from the broad shoulders of government and employers onto the fragile backs of workers and their families.

There are two big reasons for this. First, we have failed to update our social contract and policies to reflect the changing economic and social realities of our nation. In an era of polarization and gridlock, drift has too

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often come to mark our policies. This is nothing new. Again and again in the 20th century markets have thrown up problems with which democracies had to grapple or risk losing their democratic character. Think of the progressive era of the 1910s, the new deal of the 1930s, and the Great Society and civil rights revolution of the 1960s. These all represent what my co author Paul Pierson and I call moments of the “politics of renewal” (Hacker and Pierson 2007). Since the 1980s, the politics of renewal has been on hold. Too often disagreement leads to gridlock, gridlock leads to stasis, and we fail to respond to the changing economic and social realities before us.

Today, our framework of social protection is outdated in important respects. While the aged generally receive good social benefits, young adults and families with children face many of the greatest economic strains and need assistance as well. Our framework emphasizes short term exits from the workforce, even though long term job losses and the displacement and obsolescence of skills have become more severe. And in places it still embodies the antiquated notions that family strains can be dealt with by a parent, usually a mother, who can easily leave

the workforce when there is a need for someone at home. Above all, and perhaps most grievous, it's based on the assumption that job based private insurance can easily fill the gaps left by public programs, when it is ever more clear that it cannot.

Which brings me to the second reason we need to act. Our social contract was built on the assumption that employers would serve as mini-welfare states, the last line of defense for millions of workers buffeted by the winds of economic change. And, of course, employers are not expected to take on these obligations simply out of the goodness of their hearts. Instead, in what is also a major entitlement, we spend billions of dollars subsidizing workplace benefits through the tax code.

But employers are less and less willing to take on these obligations—in part because there is less and less demand from workers and their unions that is effective in making them do so. Health care has already been mentioned, but retirement pensions have also changed dramatically over the last generation. We are moving from a system which has a three legged stool — of private pensions that look like Social Security, Social Security, and private savings — to a system that's more like a two legged stool made up of Social Security and private savings inside and outside of 401(k) plans. And we all know how wobbly a two legged stool can be.

Americans also have a limited personal safety net, even as government and the private sector have pulled back. Bankruptcy and home mortgage foreclosures are up, savings is down, debt is up, and middle class incomes have grown slowly while risks have increased.

A Security and Opportunity Agenda

We need to face this “Great Risk Shift” as an integrated challenge (Hacker 2006). Yes, we have a short-term agenda centered around keeping our economy afloat, but our longer-term agenda can and should be more fundamental. We need a new New Deal for American workers and their families. We need a new public/private partnership built on a basic foundation of financial democracy and social insurance. And we need this partnership to be based on a fundamental truth: security is not opposed to opportunity. Instead, security is essential to opportunity. In a dynamic and flexible economy, well designed social insurance is critical if Americans are going to

have the confidence that they need to invest in and achieve the American dream.

We need a new public/private partnership built on a basic foundation of financial democracy and social insurance.

FDR recognized this some 70 years ago on the third

anniversary of the Social Security Act when he offered a simple word of warning to end his celebratory address:

In our efforts to provide security for all of the American people let us not allow ourselves to be misled by those who advocate shortcuts to utopia or fantastical financial schemes. We have come a long way, but we still have a long way to go. There is still today a frontier that remains unconquered, an America unclaimed. This is the great, the nationwide frontier of insecurity, of human want and fear. This is the frontier, the America we set ourselves to reclaim (Nolte and McKee 2008).

Today, that frontier of insecurity, human want and fear is closing back in on us. Our vista is blocked by new fears and new constraints. But America is a can-do nation. We have conquered frontiers before. We peopled a vast nation. We sent men and then women into space. We crossed the frontier of injustice by repudiating slavery and Jim Crow and second class status for so many of our brothers and sisters. Together we can conquer that great nationwide frontier of insecurity once again.

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