

Mutual Obligation and the American Social Contract

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In America, we don't tend to use the words "solidarity" and "social contract" as frequently or naturally as the Europeans do, but the idea of a social contract is actually as American as apple pie—or Social Security. In fact, the concepts of mutual obligation and mutual support that are the foundations of a social contract are also the foundations of both our republican form of government and the institutions of our civil society.

Our American version of the social contract has two parts.

First, there is the contract between people at any point in time. As in the European tradition this means the fortunate and strong are seen as having an obligation to help the unfortunate and weak when calamity strikes. In America, however, that obligation is also accompanied by a corresponding responsibility. Those who receive help are expected to use their assistance to regain their independence to the extent they can. That notion of mutual responsibility was at the heart of the debate over welfare reform during the early 1990s, and it contrasted with the earlier doctrine of welfare rights—a one-way vision of obligation.

In America, the obligation of the community at any point in time is seen generally as backup to personal responsibility and not the first resort. We are all expected to turn first to personal savings and insurance when in difficulty, and only then to turn to the wider community.

But there is a second part of the contract, and that refers to the contract between the generations over time. It is a critical foundation of the idea of social insurance. Social Security and Medicare are manifestations of our agreement, as Americans, that as each generation ages its members can count on a degree of security underwritten in part by their own contributions and in part by future generations. In return, the older generations also have an obligation to help provide a secure foundation for their children and grandchildren.

Mutual obligation pervades the American social contract. Mutual responsibility is its central moral and social value, and continued respect for that value is essential if the huge financial commitments between the generations are to be managed in a prudent and secure manner.

As we look well into the future, we must surely be worried that the intergenerational social contract of today is structurally unsound and morally challenged. The social insurance programs we have constructed now threaten to weaken the economic security of our children and grandchildren rather than strengthen it. And increasingly they conflict with basic notions of social justice. We need structural reforms of those programs to revive our vision of the social contract.

How We Got There

There are several reasons for our predicament.

For one thing, we have gradually weakened the link between the payroll contributions to our social insurance programs and the benefits they promise. By their very design, there was always going to be a tension between dedicated funding and promised benefits as social insurance programs matured.

We have struggled with some success to maintain the link between contributions and benefits in Social Security, but we have steadily abandoned the relationship between contributions and projected benefits in the case of Medicare. Promised Medicare benefits today have little to do with projected payroll contributions or dedicated taxes and will require ever-larger general revenue support.

Exacerbating this funding problem, our version of social insurance has morphed from a two-way obligation into a one-way legal entitlement to assure a comfortable, long retirement for middle-class Americans—whatever the cost in terms of funding for other social programs or the burden on future generations. Medicare and, to a lesser degree, Social Security now pose a staggering financial threat to the economic security of our children and grandchildren. This is a violation of the social contract and a travesty of the idea of mutual obligation.

Those of us who are baby boomers have a lot to apologize for.

The second problem with the social contract in practice is the way we plan the financing of our social insurance and related programs. The federal budget process has encouraged self-delusion about our long-term fiscal state and has added to fiscal irresponsibility.

The five- or at most 10-year budget window we use in Congress hides the true fiscal picture of these programs. It encourages new long-term obligations because the long-term books don't have to balance. The Medicare drug legislation is just the most recent example of the budget process enabling a huge unfunded commitment. Meanwhile, the budget process actually discourages politicians from taking prudent steps to bolster the long-term financing of programs, because the process emphasizes the short-term pain but pays no attention to the long-term gain.

Moreover, the very “entitlement” or “mandatory” budget designation given to these social insurance programs is a threat to social justice. They effectively have first claim on available funds, while other priorities—even central elements of the social contract itself—must fight over what's left. Surely, there is something wrong with a society which guarantees heavily subsidized drug coverage to millionaires yet cannot or will not assure quality basic education to our children or basic health coverage to working families.

As we look to the future, we must restore the values of the American social contract by amending today's version, making it fairer and actually more progressive and placing it on a sound long-term financial footing.

Achieving Justice with Financial Prudence

How can we do that, and what would the fiscally responsible social insurance system of the future look like? A necessary condition for achieving justice with financial prudence is to alter the way the budget process deals with programs like Medicare and Social Security.

The most elementary but critical step would be to show the present value of future obligations front and center in the annual budget and to require an explicit vote on any change. That would mean that Members of Congress would have to lay out and discuss the intergenerational commitments involved in these programs and face a recorded vote on how they chose to allocate those commitments between Americans. At the very least, requiring such a disclosure and vote would trigger a conversation in the country about the long-term financial picture and whether any modifications of those commitments should be made.

A more substantive step would be to require Congress to establish a long-term and enforceable budget—perhaps for 30 years—for entitlements such as Medicare and Social Security. That 30-year budget should be reviewed every five years and adjusted according to economic conditions, competing needs, and new projections about the burden on future generations. That budget would be debated alongside other priorities and components of the social contract, such as education, housing, and discretionary health programs. And if the projected outlays or revenues for the entitlement programs began to depart from the budget, some form of budget trigger would be used to bring them back to the agreed levels.

Let me be very clear about an important point here: A long-term budget for these programs would not end the obligation to protect recipients. In that sense, the programs would remain entitlements. They would be entitlements in the way that public elementary and secondary education is an entitlement, or virtually free health care in Britain is an entitlement, but like these latter programs, they would henceforth have real, long-term budgets that would have to be debated and balanced against other priorities and competing goals.

In this vision of the future, therefore, social insurance programs would no longer be entitlements without limits. Nor would they have an automatic preemption of resources over the needs of other features of our social contract, such as education and housing. And no longer would the financial interests of today's active and retired generations automatically take precedence over the financial interests of our grandchildren.

To be sure, those of us who argue for these process changes recognize that they are not simple or easy to achieve and sustain. But for the sake of future generations, we must begin to discuss them.

A National Conversation

I'm convinced that pushing for this process change would itself trigger a serious conversation about how to reshape social insurance programs in order to make them conform better to the ideals of the American social contract and the social value of mutual obligation. In my view, that conversation must have at least four themes.

First, we must refocus programs more on the idea of true insurance and move away from the current emphasis on promising a flow of benefits as a payback for contributions made. When Social Security was created, it was intended in large part to be insurance against poverty in old age and, in a sense, against the financial burden of living too long. Social Security, and later Medicare, were not envisioned as vehicles to finance large parts of everybody's retirement on their children's and grandchildren's tab.

True insurance means giving stronger protections for those with the least means while tapering down the benefits for the less needy. It means making these programs more of an insurance against calamity and poverty. We have already income-adjusted Social Security to a significant degree through the design of the payroll tax and the partial taxation of benefits. We also adjust Medicare Part A at the front end through the payroll tax. So we have taken some steps in that direction.

But if we are to limit the huge burden on future generations, we need to build on these steps in a systemic way. For instance, we should further decrease after-tax Social Security payments and increase Medicare Part A out-of-pocket costs for middle- and upper-income Americans while increasing benefits for less affluent Americans. And we should further adjust premiums for Medicare B and D by income—after all, they are subsidized insurance, not even true social insurance programs.

Second, in keeping with a real budget for social insurance, and particularly Medicare, we need to put into place mechanisms that will enable us to constrain directly the volume of public spending in these programs. Call it explicit rationing if you will. Or call it a reasonable process to avoid passing on a huge credit-card debt to our children.

Now, some of you may contend that the way to reduce the long-term financial burden of Medicare and other health programs is by improving the unit efficiency of health services through outcomes measures, or through health IT, or by even more aggressive marketplace competition. I agree with all those steps to improve value for money, but an overall public budget for publicly financed health programs is necessary for two reasons.

- One is that there is no close or obvious relationship between improving unit efficiency and a reduction in total spending in health. That's why computer prices can go down while total computer spending goes up.
- The other is that, in my opinion, the only way we will actually be able to pressure the health system to deliver better value for money—which, after all, means paying people a bit less to a bit more—is through an overall budget constraint.

I already mentioned the need for a real budget as part of budget process changes and the need for a mechanism to enforce that budget. While in principle that might be done with automatic adjustments to such things as payment rates, I think we have learned the hard way that that is not likely to be politically successful. We would be more likely to succeed if a statutory bipartisan commission were created to recommend a package of program adjustments.

The commission would periodically review benefit levels and covered services and submit its package of changes to Congress for an up-or-down vote to maintain course on the budget. A variant in Medicare would have the commission structuring global

budgets for hospitals or other parts of the health system, such as in Britain or Canada. A commission could also fine-tune a premium support system, which would operate as an adjusted voucher.

Senator Dianne Feinstein (D–CA) and Senator John Cornyn (R–TX) have just reintroduced legislation for a permanent solvency commission for Social Security and Medicare. I think that could be the model.

Third, there has to be a significant change in the eligible retirement age for social insurance programs. We cannot sustain a system in which today’s young Americans can expect to spend as much as one-third of their adult life in retirement, financed by succeeding generations who have to support their parents and grandparents while trying to plan for their own retirement.

That means raising the normal retirement age as quickly as possible to 70 or beyond and linking it in the future directly to life expectancy. It also means adjusting—actually, liberalizing—our definition of disability as well as improving work flexibility for older workers.

Early retirement on Social Security, in other words, cannot in the future be just a preference. It must instead be related to deterioration in a person’s ability to continue in employment. And we need to make it easier for older workers to switch to less physically demanding jobs through such things as general reforms in our health care system so that coverage ceases to be job-based.

Fourth, we will need to accompany changes in our social insurance system with improvements in our system of personal savings and insurance. As the social insurance system of the future becomes more focused on those who truly need society’s help, we must encourage those who are able to do so to build up resources and protections for hard times and for retirement so that they are less reliant on others.

My own preference is to do that partly within an overall redesign of Social Security and Medicare by permitting some payroll taxes to be devoted to private retirement savings and insurance.

But even if you do not agree with that approach, we must still foster personal financial protection alongside social insurance. Simple steps like automatic enrollment in savings plans would help to realize that goal. So would incentives to encourage long-term care insurance. And delinking health care coverage from the workplace would foster long-term and personally owned insurance contracts that could be carried into retirement.

A Vision for the Future

The vision of the future that undergirds this redesign of our social insurance programs maintains the values of our society that are enshrined in the American idea of the social contract.

Such a redesign would provide better protection to those who need it while reducing the crushing financial burden the current design will impose on future generations. It would also conform more closely to President Franklin Roosevelt’s original vision of social insurance as one leg of a three-legged stool of financial security, with personal saving and pension programs providing the others.

I believe this vision of a future social insurance arrangement would also maintain the coalition needed to assure that any social contract and network of programs will be preserved. I believe that because it returns more emphatically to the bedrock values of our society, including our sense of social solidarity and mutual obligation both across society and between generations.

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