Jacob Hacker: Thank you, Margaret, not just for that introduction, but for the amazing service you've given to the academy. As all of you know, this is the last conference at which Margaret will be president, and we all owe her a very large debt of gratitude for the work she's done. So thank you.

(Applause)

I also want to, like her, remember Bob Ball. I hadn't realized we were on such an auspicious date to celebrate his life. But it certainly is a life to celebrate. And the contributions that he has made to the study and defense of social insurance. it seems to me, are an inspiration to all of us who write about and work on this topic.

I think that they are also a reminder of how crucial the National Academy is at this time. We are now facing, of course, the greatest economic crisis our nation has faced since the Great Depression. And we are talking about fundamental reform of our government and our economic policies. So I can't think of a more important time to talk about social insurance. I'm certainly honored to be able to open up this conference.

And I know that Joni Lavery is particularly glad that I'm here. She came up to me as I walked in the door about two after and almost grabbed me and dragged me into the room. After hearing about our conference co-chairs' absence, I realized why she was so nervous.

I'm told that I have about 20 minutes to speak to you, despite our late start -- Margaret was wonderfully efficient. And I'd like to keep to that, because I would like to be able to entertain questions.

I know that this is a hard challenge for me and perhaps for all academics. I've been told that academics are people who can speak for five minutes and five hours and say exactly the same thing. I was told by John DiIulio that politicians are people who can speak for five minutes or five hours and say nothing, so I guess we're doing a little better. I'm reminded in that respect of an evaluation I received as a new assistant professor at Yale some years ago. It began promisingly enough. It said, "Professor Hacker, if I had just 15 minutes years to live, I'd want to spend it in your class (pause), because that way it would seem like an hour."

(Laughter)

So with that, let me say, again, that there's no more important moment for considering "Social Insurance, Fiscal Responsibility and Economic Growth." Indeed, our new president just a short time ago spoke of a new era of responsibility, and it was these issues -- social insurance, fiscal responsibility and economic growth -- that were very much front and center in what he was saying.

Now, after hearing the language of responsibility for so many years, it may have been a little jarring to some to have President Obama use the term. But he was trying to, I think, redefine the term to mean more than just our own self-responsibility, but the responsibilities that we owe each other -- and, more broadly, what social contract should obligate us, should bind us, to replace the fraying one of our present day.

What I want to talk to you about is one important aspect of the social contract, the one I've been thinking the most about, the sharing of risk. That's how social insurance experts at least like to talk about the social contract: risk sharing. I think other people have better terms: solidarity, community. Or they simply say, “We're in this together.” “I've got your back.”

But however we define it, however we talk about it, there's no question that the institutions and the ethos of shared fate in our nation have eroded. A few years ago, as Margaret kindly mentioned, I was out there trying to convince people to pay attention to what I call “The Great Risk Shift.” Now I spend more of my time trying to talk them down from window ledges.

But my view has not changed in the intervening years on the challenges we face. They are great. But they are challenges that we can meet. Our workers are productive. Our employers are innovative, and our nation, at best, is a beacon to the world. It's the shining city upon the hill, as John Winthrop wrote. It was Reagan who liked to quote Winthrop, but on this point I must admit I like to quote another more recent president, “There's nothing wrong with America that can't be fixed with what's right with America.” And that's particularly true when it comes to social insurance and the sharing of risk.

Risk is the word on people's lips today. But they understand risk far too narrowly. For risk concerns not just a breakdown in our nation's financial institutions, it concerns, as I've said, 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.

And while we hear much about the national financial crisis that seemed to come upon us like a tsunami, Americans have been in financial crisis for some time. To me, the greatest challenge we face is to refocus our efforts on the plight that's facing most Americans. We've been hearing 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 on the one hand, and a few years ago bankruptcy reform that made it harder to file for bankruptcy. We have socialization of risk at the top, but we need to start talking about socialization of risk for the rest of Americans.

In that sense, I do believe 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.

We hear talk of a new New Deal, and 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 have to be different as well.

But there is a common element. The basic idea of the New Deal, often forgotten, was to reinvent and reconstruct capitalism. Markets had spun out of control, and they needed taming.

And they certainly need taming again today. It was FDR who 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."

Today he might add a middle class man's security, and hopefully he would say a middle class *person's* security.

"National security," he continued, "is not a half and half matter. It is all or none.”

We are all in this together.

That was in 1938, three years after the Social Security Act was passed. And the fact that he was speaking three years after the Social Security Act passed on the continuing challenge of insecurity underscores that social insurance wasn't, in FDR's eyes, a response to the Great Depression, the calamity, the collapse of the financial market and job market. It was an attempt to build a stronger foundation for American capitalism in the decades after recovery. We think of it so often as a soft liberal response, the “Social Security Act.” The original language was the “Economic Security Act,: and that really sums up the extent to which this was seen as a hard-headed approach to trying to rebuild the foundations of capitalism on stronger moral and economic grounds.

But, yes, FDR was driven by -- and we are all driven today by -- tales of cruelty in our society. In a recent issue of New Yorker, Atul Gawande, the physician and attempted health reformer, writes of health insurance reform in advanced industrial democracies.

He says: "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."

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.

(Laughter)

Arnold the Air Conditioner Repairman was written about in the *New York Times* in 2005. His name is Arnold Dorsett. He is, as my label suggests, an air conditioner repairman, and he makes a good living, $70,000 a year.

But it turns out he makes that $70,000 a year because Arnold is working 90-hour weeks. And the reason he's 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 herself, is that their son, Zachary, has a rare immune system disorder.

Now by the time this disorder is diagnosed, according to the *Times* story, the family has already run up $30,000 in credit card bills, despite the fact that they have health insurance.

They cannot meet their credit card payments. They cannot meet their mortgage. They cannot make their car loan payments. And eventually they succumb to the inevitable and file for bankruptcy in 2005.

This is what Arnold Dorsett said about his situation to the *Times*: "I make good money. I work hard for it. When I filed for bankruptcy, I felt that I had failed."

Arnold Dorsett felt that he had failed, that he was somehow responsible for this terrible plight that had befallen his family. But, of course, in that year, 2005, he was not the only parent to find himself in that situation. That was a year in which, thanks in part to the rush to file before the bankruptcy bill went into effect, two million American households filed for bankruptcy.

And there's dispute about the exact number, but we know that a very large share of those filings are due to medical costs and crisis. And most of the filings that are medical-related are filed by people who have health insurance. That's indeed the dirty little secret of our system; that today even people who have health insurance are at risk of catastrophic costs that can drive them into bankruptcy.

And that's, of course, to put aside the millions of Americans, some 50 million, at last count who don't have health insurance at all. Now, we all hear that number, and I think we kind of get inured to it. But we should keep in mind that it's a vast understatement of the problem—not just because it doesn't include the underinsured, but because millions of Americans, roughly 90 million, go without health insurance at some point over a two-year period.

These are people who, the research suggests, look a lot like other workers. They just happen to be at grave economic risk for those periods that they are not insured.

And we should not pretend this is just a dollars and cents issue, though it certainly is that. It is a life and death issue. The Urban Institute estimates that something like 22,000 working-age Americans die each year because they lack insurance.

If we look at studies of amenable mortality -- that is, death that could have been prevented with the provision of timely and effective care before the age of 75 -- we find that the United States is 19th out of the 19 rich nations for which we have evidence on amenable mortality. That means, if you look at the numbers, that we have about 101,000 more deaths than we would if we had the average rate of amenable mortality of the top three nations.

I came here on a Boeing 757, which seats about 100 people. So that means that about a thousand Boeing 757s would have to drop out of the sky, three a day, to equal the number who die before 75 in the United States because they don't get the care that they need. So let's not pretend that this is just an issue of dollars and cents.

And let's not pretend that healthcare is the only problem that we face. It is only the tip of a larger iceberg. In every facet of American's economic lives -- their healthcare, their pension plans, their job security, their family finances -- risk and responsibility has shifted from the broad shoulders of government 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 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.

But 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 it is a great benefit that the aged 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 they 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. Let's not pretend that they do this out of the goodness of their heart. Instead, in what is also a major entitlement, we spend billions of dollars subsidizing workplace benefits through the tax code.

But, of course, employers are less and less willing to take on these obligations. In part because there's less and less demand from workers and their unions that is effective in making them do so.

I talked about health insurance, but we also know that pensions have 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, Social Security and private savings inside and outside of 401(K) plans. We all know how wobbly a two-legged stool can be.

Americans also, we all know, have a limited personal safety net, even as government and the private sector have pulled back. I won't repeat the statistics you've probably heard many times, but bankruptcy and home mortgage foreclosures are up, savings is down, debt is up, and middle class incomes have grown slowly in an era in which not only have the risks increased but some Americans have pulled ever farther away.

So we need to see this as an integrated challenge. Yes, we have a short-term agenda, but our longer-term agenda should be more fundamental. We need a new New Deal. We need a new public/private partnership, and we need it to be based on the basic truth that Margaret mentioned up front, that security is not opposed to opportunity, but is essential to it.

And it's even more essential today in some ways than ever. 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.

FDR recognized this 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," he said, "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."

Today, as I've said, that frontier is closing back in on us, our vista's 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, that nationwide frontier of insecurity once again. Thank you.

(Applause)

Questions. I said I would leave time, and I think I have. So please.

Everyone wants some more coffee.
(Laughter)

Margaret Simms: Please move to the mic for asking questions. There are mics on either side of the room.

Question: My name is Hector Ortiz, student at Syracuse where I heard your presentation a couple of years ago.

My question is, you have talked about markets being risky and individuals lives also becoming riskier. Is government riskier? Are politicians making decisions that are making programs riskier, like that's the argument people made about the prescription drug benefit, what do you think about that?

Jacob Hacker: I think it's a great question. The fact is that many of the government programs of social insurance that I've described are not particularly risky. Social Security, in particular, can serve as a secure foundation for retirement for Americans for decades and I hope centuries to come. Though no one should look that far in the future. Even the actuaries don't.

But I do think that there is an important respect in which the government has failed here. It's failed both out of a failure of imagination and out of a failure of our politics. The area where I think this is most transparent is healthcare.

And Henry, who is going to be speaking in a moment, has written a brilliant article showing that our long-term entitlement problem, as it's often called, is really a healthcare financing problem. And that is often taken by people like me to say, look, we need to act on healthcare reform more broadly and figure out how to control costs. And I look forward to hearing the conversations about that issue.

But we shouldn't pretend that this problem isn't a result of things that government has done and failure of government to take important steps. The prescription drug bill is a good example.

The prescription drug bill did not put in place effective mechanisms for reining in the costs of prescription drugs for American citizens. At the same time, until recent times, we've seen very little of an attempt to address the serious problems in the Medicare program with regard to private health insurance plans, which the research suggests are overpaid fairly substantially to provide benefits to Medicare beneficiaries.

But thinking even more broadly, we have had now 15, 20 years in which these problems have mounted, and we have not effectively addressed them. 401(k)s are a good example, because the 401(k) revolution is often seen as somehow manna from heaven, right? That at one moment employers suddenly decided that they wanted to reorient their activities bestowing great riches upon middle class Americans. But in fact 401(k) is a section of the tax code. Created in 1978, it was revised in regulations in 1981.

And when 401(k)s were created, there was widespread recognition of some of the shortcomings of the 401(k) system. The risks that 401(k)s create are not secret. And they're not beyond fixing while preserving the essential idea that people should have an account to which they can invest their own money at their place of work. So that's another example where the failure of our politics and failure of imagination have stood in the way of really effectively addressing the risks that families face.

Notice one of the implications of this is that often we will most effectively address these problems with a true partnership between the public and private sectors. But I do think such a partnership has to be based on the recognition of the essential role of government in insuring broadly shared risk. We all know what those advantages are: Government has the ability to compel participation. It can provide benefits with extremely low administrative costs. It can distribute risks not just across people but also over time, which is something that is very hard for any institution without the full faith and credit of the federal government to do. So we should be clear about the need for public/private interaction and partnership, but we should also be clear about the important role of government and ensuring the broad distribution of risks.

John.

John Rother: Jacob, good morning, and thank you for -- it's always wonderful to hear you. The thing that struck me about today's talk was the change in the context. A few years ago Bush was promising the ownership society. And now it's here, we own it. (Laughter)

But I think you rightly pointed to the contrast between the socialization of risk at the top, which has now been embraced as a matter of necessity versus a lack of attention to further socialization of risk at the individual level.

And I wonder if you could just expound on that a little longer. Do you think that this actually -- this phenomenon of nationalizing the risk at the top will lead us to a greater willingness to use government to deal with risk at the individual level? Is this a view we can only do one thing at a time and the fact that we have major institutions in crisis means that we're not going to be able to focus on risk at the individual level?

Jacob Hacker: That's a great question. And I should say right away that I don't think there's any natural reason why the two would be connected. We have had periods in which government has stepped in to help those at the top that have not resulted in a broader call for social reform. And I will say, just as a starting point, that to me the issue that is really front and center in these discussions is the extent to which Americans can come to see and have some degree of faith in the ability of government to deal with these problems.

You know, it is striking to me how little public response there has been to the developments so far. Where, as someone might say, is the outrage about the fact that we have a bank like Bank of

America that is simultaneously taking government money and paying huge bonuses to its top executives?

I was at a talk and a man stood up and he said it used to be that people robbed banks. Now it's the banks robbing the people.

(Laughter)

And yet that sentiment is not, I think, front and center in our discussion, because I think for the most part there's an inchoate sense of crisis but not a directed sense that there needs to be a new approach. And it seems to me that one thing that we should really be doing is trying to bring Americans into a broader conversation about not just what we need to do to rescue our economy in the short term but how to build on a stronger foundation for the longer term.

But one of the thing this recent development shows us is we *do* have an ownership society. People own 401(k)s that are worth much less. Fewer own homes than used to, but still many do and they're worth much less.

In fact, there's always been a progressive alternative to the conservative vision of the ownership society. It was one that was embodied in the response of the government after World War II to the return of millions of servicemen who had helped their nation at a time of crisis--in the GI bill and the creation of our modern middle class. And one of the elements that was very important in this development was an emphasis on broad distribution of wealth and financial democracy.

And that’s one of the things that we need to reclaim. The enemy is not the idea that people should own many of the key sources of security. The enemy is the idea that you're on your own in dealing with economic security.

Joe.

Question: Joe White, Case Western University. Want to follow up on the previous question. Isn't there an irony there, there's actually a great potential for people to be very angry about the corporate jets and the bailouts and there has been some posturing and political action on that?

But the problem is that the liberals can't make a big deal about it because that devalues government. It shows that the government isn't competent. The government is bailing out all these people who don't deserve it. And the conservatives can't make quite as big a deal about it because they want to bail out those folks. It's a suppress sort of the populous against the leadership kind of thing right now where in fact it's out there, the sense is out there and it can come up as a reason, for example, not to bail out the automobile companies at the right moment when they're off flying in their corporate jets. But what do you think of that? Is there an irony going on there?

Jacob Hacker: There are so many ironies in American politics. That is certainly one of them. I think it's interesting the extent to which in recent weeks there's been a reversal, if you will -- that, of course, it was President Bush who pulled Republicans to act in the early stages of this crisis, and now, of course, many Republicans are saying that they believe that there should be no bailouts of any kind. I think the quote was no bailouts of banks, firms or individuals. And even this term "bailout" is a revealing one.

I do think that there's a broad sense of anger in the country. We have a cynicism about government and about politicians, but I think there's a tension here between the short and the long-term goals. And that's what's really manifest in many of the responses of people on the left, because the fact is that government is going to have to act, and in a way that's going to involve socializing, as I said, a huge amount of risk at the top of the economic ladder.

What is really important, is this not be seen as an isolated set of actions, that it be seen as part of a larger quid pro quo, a grand bargain, if you will. I kind of think of this as something like the bargain that was offered by Don Corleone, in the sense that “this is my deal.” What I think progressives should say is that in return for rescuing capitalism once again from itself, we will demand that capitalism works for ordinary Americans.

I'm reminded of a note that was sent to me by a young woman who said, after I had written a piece that she agreed with -- I don't think she was a democratic plant or my wife -- she said she agreed with me and she had never written an author before. Then at the end she said, "I'm sick of working for the economy. I want an economy that works for me."

I thought this was a pretty good sentiment, an economy that works for all of us. Perhaps we do need to get the economy to work in our financial markets and elsewhere, for those who have helped bring upon us this crisis, but ultimately I hope we make it work for all Americans.

Thank you.

Margaret Simms: I'm afraid we've run out of time. Thank you, Jacob, for starting us off.

(Applause)