SOCIAL SECURITY AND MEDICARE: DO WE NEED INCREMENTAL OR RADICAL REFORMS?


For a number of reasons, including the poor performance of the overall stock market during the past couple of years, the dramatic drop in several highly visible sectors including technology (particularly the “dot.coms”), and the Enron scandal, most Republicans have decided that now is not the time to push for the partial privatization of Social Security. However, should the Republicans win big in the 2002 Congressional elections or in the 2004 Presidential elections, the issue will most definitely be back on the table.

President Bush’s handpicked commission on Social Security reform presented three proposals in December of 2001 (President’s Commission to Strengthen Social Security, 2001). Each of the three proposals calls for the partial privatization of Social Security. The only two that are reasonably fleshed out both call for substantial infusions of funds from general revenues for many years, a provision making them unattractive to most of those on the left and many on the right as well. Since these proposals were presented in late 2001, most Republicans have been doing their best to distance themselves given their well-founded fear that the Democrats plan to use these proposals against them in the upcoming Congressional elections (Williamson, in press). Although proposals to partially privatize Social Security are probably off the table for the next several years, it is likely that related proposals will be back within a few years. Even before then it is likely that Congress will be taking up a number of other reform proposals designed to at least reduce the gap between Social Security revenues and benefits that is projected to open up starting in about 2041 (Board of Trustees, Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, 2002).

Political scientist Joseph White’s book, False Alarm: Why the Greatest Threat to Social Security and Medicare Is the Campaign to “Save” Them, has a great deal to say about proposals for Social Security reform, including the proposed partial privatization of Social Security, and much to say about Medicare reform as well. This book presents a compelling case against what White refers to as radical reform of Social Security and Medicare. He is opposed to the partial privatization of Social Security and is similarly opposed to the drive to privatize Medicare. As the subtitle indicates, at the core of White’s book is the argument that the greatest threats to Social Security and Medicare are the radical reform proposals being put forward by right-wing analysts in the name of “saving” them.

For a number of years it has been common for those on the right to argue that the nation is facing a “crisis” calling for radical policy changes in the very near future. In this context one proposed change is to partially privatize Social Security so as to ease the burden on the post-baby-boom cohorts when the boomers retire. Commentators and analysts on the right have attempted to frame Social Security as facing an impending crisis so as to justify their call for radical change. It is hard to build the case for radical change in a program that is very popular unless there is no other alternative given evidence pointing to an apocalyptic future. In recent years the proposed package of reforms has typically included not only the introduction of individual retirement savings accounts, but also other policy changes that under close examination add up to indirect cuts in benefits.

How is this restructuring going to save Social Security? The argument from the right is that it will allow the program to continue in an albeit scaled-back form. Without appropriate policy changes, huge cuts in pension benefits would have to be made starting in about the year 2041. Similar arguments have been made by analysts on the right with respect to Medicare. In this case the proposed solution to the projected funding crisis is the introduction of Medicare vouchers.

Who is right? Is Social Security facing a crisis? Does the argument that Social Security is facing a crisis hold up under careful scrutiny? What about Medicare? Would the solutions to the purported crises in Social Security and Medicare being offered by the right help save these programs or would they tend to do quite the reverse? These are the questions White’s book addresses.

The Entitlement Crisis

The expression “entitlement crisis” has been used very successfully by Concord Coalition President
Peter Peterson (1996) to frame the debate over Social Security reform in recent years. Peterson and various commentators who have adopted his framing of these issues emphasize the projected fiscal burden associated with the impending retirement of the baby boomers. They point to the demographic shift, to the projected increase in spending on such programs as Social Security and Medicare, and to the projected deficits linked to spending increases on these programs. They describe this set of issues as the “entitlement crisis.”

White, in contrast, argues that the expression “entitlement crisis” has been used as a strategy to undercut support for Social Security and Medicare as currently structured by suggesting that failure to make major changes (partial privatization and dramatic reductions in the level of benefits promised to future retirees) in the very near future is in some way immoral. This is expressed very explicitly by commentator David Gergen (1996), who describes the issue of entitlement spending as a matter of “national character and honesty” (p. 100).

White argues that when the expected increases in spending on Social Security and Medicare are described from the entitlement crisis perspective, a conscious effort is being made to avoid discussion of the reasons why social insurance programs are structured as they are. The social insurance approach embodies the idea of sharing risk across large numbers of covered workers, helps protect the less well off by employing redistributive benefit formulas, protects pension benefits from the effects of inflation, and allows workers to make retirement plans contingent on a pension that will not be radically altered by short-term fluctuations in interest rates or in the stock market.

An important point that White fails to discuss is the way in which Peterson often uses the trend in overall spending for Medicare, Medicaid, and Social Security together to suggest that major changes are called for in Social Security. As most experts agree that Medicare is facing much more serious funding problems in the decades ahead than is Social Security, by grouping these programs together Peterson builds what looks like a strong case for the need to radically restructure Social Security. This approach is misleading because Medicare, Medicaid, and Social Security are separate programs facing funding problems of quite different magnitudes.

**Generational Equity**

Closely linked to the debate over the entitlement crisis is the debate over generational equity. Analysts on the right sometimes attempt to frame the debate over Social Security and Medicare policy in ethical terms using the concept of “generational equity.” Proponents of generational equity argue that each generation must be responsible for financing its own retirement. One variant of the argument is that the baby boomers should not be asked to pay so much to fund pensions for those who are currently retired because when the boomers themselves retire it will be both politically and economically impossible for the post-boomer cohorts to provide the same level of support for them, given the differences in cohort size. Related to this is the argument that boomers should be doing more to provide for their own retirements via individual retirement savings accounts and planning ahead for less government support for health insurance during their retirement years. Some commentators have gone so far as to predict “generational war” unless efforts are taken to seriously reduce the projected burden on the post-baby-boom cohorts (Broder, 1996; Long- man, 1987).

Those who reject the generational equity framing of the debate over Social Security and other old age policies have not been able to reach a consensus on a name for their perspective. Alternatives such as “generational interdependence” and “intragenerational equity” have been suggested. From this perspective it does not make sense to focus on generational equity to the exclusion of equity based on other considerations such as social class.

In his discussion of the generational equity issue, White makes a number of very good points. For example, he argues that there are advantages, not just disadvantages, associated with being in one of the smaller age cohorts following the baby boom cohort. Those born into smaller cohorts are likely to find less competition when they enter the job market and they are also likely to benefit when they enter the housing market. Advocates of generational equity often suggest that the post-boomer cohorts will be forced to take a huge cut in standard of living to pay for the Social Security pensions of the boomers. White cites projections that between 1998 and 2035 average real wages will increase by about 30%, and this increase is after correcting for the increase in the payroll tax about then that would be needed to keep Social Security benefits and revenues in balance. He notes that generational equity is only one form of equity, and he points to the need to also consider trends in income inequality. I would argue this point in a slightly different way, pointing out that the call for (inter)generational equity is often at the expense of other very important dimensions of intragenerational equity, particularly those linked to race, class, and gender (Williamson & Watts-Roy, 1999). I would also point to the ways in which the availability of Social Security and Medicare indirectly contribute to the well-being of the middle-aged adult children of elderly recipients and the many ways in which older age cohorts contribute to younger age cohorts that are not captured in statistics with respect to spending on Medicare and Social Security.

**Partial Privatization**

White devotes an entire chapter to the proposed partial privatization of Social Security, that is, to the various proposals calling for the introduction of individual defined contribution retirement savings accounts as part of the Social Security system. He acknowledges that in the very long run there would be economic
benefits associated with the partial privatization of Social Security. In the long run (and we are talking several decades from now) such schemes would most likely reduce the burden on taxpayers. This is a valid argument. He is also willing to accept that some workers, particularly more affluent workers, would end up with larger pensions than they would be eligible for under the current scheme, depending in part on their birth cohorts and wage levels. But he then goes on to explain why he believes the partial privatization of Social Security is a bad idea. In this context one argument is that the transition cost would be huge, making the fiscal burden of financing the retirement of the baby boomers even harder than it would otherwise be.

Although some workers would end up with larger pensions under privatization, many others would end up with smaller pensions. Making matters worse, it is the workers who have the lowest incomes who would be most at risk of ending up with lower pension income in retirement. White also points to the evidence suggesting that there could be dramatic differences in pension levels based on which cohort a person has the fate of being born into. He explores the consequences of a 50% drop in the stock market during the two years just prior to retirement (which did take place during 1973 and 1974). Although a number of other analysts have mentioned this problem, White points to another related problem that has received much less attention, short-term shifts in interest rates. If interest rates drop dramatically during the year or two just prior to retirement, the size of the resulting lifetime monthly pension when personal retirement savings assets are annuitized will be dramatically reduced.

White includes a good discussion of how and why administrative costs would increase dramatically if individual accounts were introduced. Closely linked would be related increases in the costs of regulating the financial institutions that would be selling, administering, and investing the funds in these individual accounts. He argues that these costs could easily reduce long-term returns 15–30% from what they would be in the absence of these added costs. Advocates of privatization tend not to mention or emphasize these costs.

Drawing on the work of economists Dean Baker and Mark Weisbrot (1999), White points out that rosy projections as to future stock market returns are not consistent with pessimistic assumptions the same models make with respect to trends in the rate of economic growth. The assumptions with respect to the average rate of increase in the stock market over the next several decades are typically based on what those rates were over the past several decades. However, the same models often assume that the rate of economic growth over the next several decades will be much lower than it was during the past several decades. This line of reasoning is problematic because if the economy grows at a much slower rate than it did in the past, then it is not reasonable to assume that over the long run the stock market will continue to appreciate at the same rate as in past decades. If, on the other hand, we were to assume that the economy will grow at about the same rate as it did over the past several decades, then there would be no need for Social Security reform as the economy would generate more in Social Security revenues than would be needed to pay the pensions promised under current legislation.

**Medical Vouchers**

Medical vouchers are the most discussed of the current proposals for Medicare reform. The basic idea is to combine the Hospital Insurance (Part A) and Supplementary Medical Insurance (Part B) programs of Medicare into one program and offer beneficiaries a voucher that can be used to purchase health care from a wide array of providers offering different levels of service. Enrollees would be expected to make up the difference between the value of the voucher and the cost of the level of health care provided. Such a policy change would force most seniors to enroll in managed care organizations; today the vast majority of them are not enrolled in such organizations.

There is general agreement that ways must be found to contain the rate of increase in spending on health care. The use of medical vouchers is one approach that might help achieve this goal. White interprets the proposed shift to a medical vouchers model as an effort to transform Medicare from a defined benefit scheme into a defined contribution scheme. Once such a transition is made, the risk of increases in the cost of health care would shift from the government to the enrollees. There is a parallel here with respect to the risk shifting implicit in the proposed partial privatization of Social Security. A major point that White makes in his chapter on medical vouchers is that the evidence suggesting that vouchers would provide something equivalent to the Medicare benefit package more efficiently is very weak. We do not have enough reason to believe that the approach will work to justify such a radical change in policy.

**Three Other Bad Reform Proposals**

If we agree with White that it would be prudent to take steps to reduce the size of the gap between Social Security benefits and revenues that is projected to emerge about four decades from now, the question becomes: How? It is important to keep in mind that partial privatization is not the only bad idea for Social Security reform that is being seriously discussed. White includes a chapter devoted to explicating his position on three other widely discussed proposals that he does not support.

One proposal is to raise the age eligibility provisions in the program by increasing either the normal retirement age (NRA), the age at which a person becomes eligible for full Social Security benefits (which is already scheduled to be gradually increased from age 65 to age 67), or the early eligibility age (EEA), the minimum age at which a person can become eligible for Social Security benefits (currently age 62 and
not scheduled to be increased). Because most workers retire before age 65, the major effect of increasing the NRA is to cut pension benefits, due to provisions in these proposals calling for deeper cuts in benefits for those who retire early. For this reason, upping the NRA would tend to increase the number of workers who retire with inadequate pensions.

Some analysts have suggested that an increase in the EEA may be in order (Quadagno & Quinn, 1997). One reason often mentioned is that life expectancy at age 65 has increased more than 5 years since the mid 1930s. Another reason is that retirement behavior is much more responsive to the EEA than the NRA. White argues that an increase in the EEA would be a bad idea because of class differences with respect to who would bear the brunt of the reform; white-collar workers with desk jobs would find a delay in retirement easier than would many blue-collar workers.

White also discusses the impact of increasing the age of eligibility for Medicare benefits. Again, in his view, it is another bad idea because many elderly people who have no alternative to early retirement (or part-time work without health insurance coverage) would be required to pay out-of-pocket for their own health insurance for a few years at a cost of about $4,000 per year, a cost that would seriously burden those with low incomes.

A second reform proposal that White considers a bad idea is the introduction of means-testing for Social Security benefits. Actually what is being proposed is a new form of means-testing that would exclude the affluent from Social Security benefits (as opposed to limiting benefits to the poor). Many arguments are mentioned in this context. The most convincing are those attributed to Kingson and Schulz (1997), who argue that in the long run such a policy shift would undermine political support for Social Security.

The third bad reform idea discussed in this chapter is the proposal to cut the annual cost-of-living adjustment (COLA) to Social Security benefits; for example, keeping it 1% below the rate of inflation as suggested by the Boskin Commission (U.S. Senate Committee on Finance, 1996). White's major argument here is that if we elect to bring Social Security in balance using this approach, the burden is going to be the heaviest on those who live the longest. The very old are those most likely to be living below the poverty line. As retirees grow older they tend to use up other sources of income and become increasingly dependent on Social Security for retirement income. In short, reductions in the COLA target those who can least afford the cuts.

White's Incremental Proposals

White is clearly opposed to the radical reform of Social Security and the radical reform of Medicare, but he acknowledges that efforts must be made to rein in projected costs increases for both programs. How does he propose to do that? He favors an incrementalist approach to reform, a number of modest changes that leave both Social Security and Medicare more or less intact as they are. In this context he suggests that a portion of the Social Security trust fund be invested in the stock market. He would require all state and local government employees to participate in the Social Security program. He proposes to change the way that Social Security benefits are taxed to match policy for private pension schemes, and he favors an increase in the cap on wages and salaries subject to the Social Security payroll tax so that national aggregate contributions are based on 90% of all wages in covered employment in contrast to the current 85%.

Another of his proposals is to increase the number of years of work history that the pension benefit is based on from the best-remunerated 35 to the best-remunerated 38 years. This is one of the few proposals he makes that gave me pause. My concern is that this provision will target workers with irregular work histories, a category that includes many women and low-wage workers. Although I realize that there will be less of a problem for women in the years ahead as their work histories increasingly approximate those of men, we need to take a close look at the potential consequences of this proposed change for women, particularly those who spend many years in part-time work. The argument with respect to low-wage male workers gets complex. Some will have been steadily employed from a very early age (as opposed to those professionals who start working late and retire early), whereas others will have been in and out of the labor force and will find it hard to put together 35 years of full employment, to say nothing of 38.

One of the most interesting proposals White makes is the suggestion to combine a modest increase in Social Security's NRA (to age 68 as of 2030) with a provision that would allow eligibility as early as age 64 for those with at least 46 years of coverage. This flexibility would hypothetically allow a blue-collar worker who entered the labor force at age 18 to retire with full benefits at age 64 whereas a professional who enters the labor force at age 25 would not be eligible for full benefits until age 68.

For Medicare he makes a number of suggestions. Of particular note are the following proposals: removing the non-insurance functions from the program (e.g., currently some of the money goes to help fund medical education), merging Parts A and B, making Medicare Part B premiums proportional to the enrollee's income, and gradually increasing the size of the payroll tax dedicated to Medicare.

White's book, which is sponsored by the Century Foundation, provides an unusually engaging and articulate assessment of the debate over Social Security and Medicare reform. Although the topic is necessarily politically charged, the tone of the analysis and writing is not polemic. Progressive policy analysts will be very enthusiastic about this book, because it does an excellent job of formulating and documenting arguments they support, it adds a number of new arguments that have not been made or made as well by others, and, most importantly, it does such an impressive job of responding to arguments frequently made by commentators and analysts on the right. The

When I started research on widowhood some 30 years ago, I learned of only two studies on this subject: Felix Berardo’s of aged widowers in both rural and urban areas of Washington state (Berardo, 1970) and Peter Marriss’s on London widows (Marriss, 1958). Scattered references to this marital situation in the Human Relations Area Files were not much help in preparing me for this work. My original studies were of older widows in Chicago, where I had previously focused on married homemakers.

Since the 1970s, the subject of widowhood has blossomed, but mainly with concentration on widows. In their new book, Resilient Widowers: Older Men Speak for Themselves, Alinde J. Moore and Dorothy C. Stratton explain the relative invisibility of older widowers in sociological and psychological literature by paraphrasing Thompson (1994), who noted the preponderance of older widows in the population due to differences in death and remarriage rates, as well as the greater availability of widows for interviews. They also note Thompson’s observation that researchers tend to study disadvantaged groups and “older women have had a more difficult time than men in terms of resources and advantages in society” (p. 3), including the medical attention men get in reaction to their death rates. These explanations point directly to the patriarchal vestiges of the society and of the perceptions of male social scientists. The United States, like other societies based on the patriarchal system of values and policies, has provided more resources, as well as economic and political power, to its men than to its women. In addition, it has stereotyped men and socialized boys to be independent, self-reliant, and competent in living in complex industrial environments. Women are socialized to be empathetic, caring partners and mothers. This form of patriarchy divides the lived world into two spheres, the public one that is the province of men and the private one, the home and family domain of women. However, these very facts of the two-sphere world have actually worked to disadvantage older men who become widowed, as a number of researchers have found. Berardo (1970) concluded that older widowers suffer social isolation, because it was the wife who served as the connecting link between the husband and family, friends, social groups, and the community in general. In addition, the division of work in the typical home of people in pre-modern eras meant that men spent little time in the home, instead going to work in outside occupations and never learning to take care of themselves and the household. Thus, they feel lost when the helpmate dies and their gender socialization makes it difficult for them to seek help and express their loneliness to friends, let alone strangers in support groups.

There are many questions concerning death and survivorship, but for the purpose of this essay devoted to a review of two books, the basic question focuses on the differences and similarities in the lives, experiences, emotions, and relations of widows and widowers. Moore and Stratton’s volume reports on a study of widowers in Ohio and other states. The other book, by Deborah Kestin van den Hoonaard, discusses The Widowed Self: The Older Woman’s Journey Through Widowhood, and uses interviews with women in New Brunswick, Canada. I will also refer to two other studies: one by Kate Davidson of both