Book Review

The Use and Abuse of "Crisis" in Policymaking


Gary Burtless†

In his memoir entitled Growing Up, Russell Baker describes the experience of being raised during the Depression in a family with no father or breadwinner. His father, a rural stonemason, died in 1931, leaving behind some Sears Roebuck furniture, the proceeds of a modest life insurance policy, three small children, and a 33-year-old widow with no apparent prospects of employment. To keep most of her young family together, Baker's mother gave up one infant for adoption and moved with her remaining two children hundreds of miles to live under the roof of a more prosperous relative. The Depression did not end for the Baker family until nine years later, when Mrs. Baker took a second husband—fortunately, one with a job.¹

Though Baker's childhood was not exceptional by the standards of the 1930s, it would seem highly unusual within less than a generation. Few widows in the 1960s felt obliged to give up their children or move in with distant relatives to maintain a tolerable standard of living. In part, of course, their good fortune was due to the unexpected prosperity of the 1950s and 1960s, which made reasonably well-paying jobs plentiful. But it was also due in no small measure to a political innovation of the Depression: the

* Professor of Public Management and Political Science, Yale University School of Organization and Management, and William Nelson Cromwell Professor of Law, Yale Law School.
¹ R. BAKER, GROWING UP (1982).

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Social Security system. Under the Survivors Insurance portion of Social Security, surviving dependents of steadily employed workers were spared the material privation that was so common before 1940 among families deprived of their breadwinners.

Social Security brought about equally profound changes in the lives of American workers surviving to old age. While at one time most of these workers would have been expected to continue working well past 65, or to be dependent or indigent if they failed to do so, most 65-year-olds are today retired and living in relative comfort. An occasional voice is raised to complain that impersonal government programs have substituted for (though not replaced) the tender care of families in looking after the elderly. Most of us, however, including nearly all those past age 60, are pleased to know that the elderly are largely spared the unhappy choice of working or becoming dependent on affluent relatives. In the absence of Old-Age insurance, many would probably face this choice.

The Social Security Act, signed into law in 1935, was arguably the most significant piece of domestic legislation passed in this century. Its fiftieth anniversary in 1985 provided the occasion for a number of conferences and commemorative events. One of the most useful of these was a seminar series and conference in New Haven, Connecticut organized as the Yale Project on Social Security. Scholars in law, economics, sociology, and political science were asked to examine the history and underlying principles of social insurance in the United States. Several went well beyond this charge to offer a thorough assessment of alternatives to the current system.

The fruits of this research are gathered in a splendid new book edited by Theodore R. Marmor and Jerry L. Mashaw, both of Yale University. For readers unfamiliar with Social Security who are interested in its background and philosophy, the volume provides a superb introduction. For others like myself, who are already specialists in one or more aspects of the program, the book contains at least a few essays that are likely to be both unfamiliar and intriguing. Economists, for example, are generally ignorant of the constitutional and political issues surrounding Social Security. The papers in this volume by legal scholars and

political scientists contain accessible and often fascinating surveys of these issues.

The eight essays are organized in four sections. The first section, containing three essays, considers the historical and legal background of Social Security and the future economic prospects of the system. The second, with two papers, analyzes the largest Social Security program, Old-Age Insurance, as a leading player in the nation's overall retirement system. The third, which also contains two essays, examines two parts of Social Security that were added twenty or more years after the 1935 Act: Disability Insurance, introduced in 1956, and Medicare, enacted in 1965. The book contains no examination of unemployment compensation, another basic component of social insurance created under the 1935 legislation; nor does it treat the federal-state public assistance programs, Old-Age Assistance and Aid to Dependent Children, established in the original Act.

The volume ends with a somewhat curious essay on the ongoing “crisis” in welfare state programs in several West European countries. Although this piece is evidently intended to shed some light on the broader dimensions of our debate over social insurance, the controversies in Western Europe appear to me largely unrelated to the ones discussed in the United States. This should hardly be surprising, because Western European countries spend a far greater share of their national income on social welfare programs than the United States. Because many programs in Europe provide services that are not offered under government auspices in this country, much of the European debate over social welfare policy will seem unfamiliar to most Americans.

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5. Graetz, Retirement Security Policy: Toward a More Unified View, in id. at 91; Starr, Social Security and the American Public Household, in id. at 119.

6. Mashaw, Disability Insurance in an Age of Retrenchment: The Politics of Implementing Rights, in id. at 151; Marmor, Coping with a Creeping Crisis: Medicare at Twenty, in id. at 177.

Security during the past decade and a half has been conducted in an atmosphere of near hysteria: "Our governmental institutions fragment attention in an already diverse polity, making regular incremental adjustment difficult and thoughtful reassessment nearly impossible. . . . Thus those who want action, particularly reductions in benefits, resort to cries of 'crisis' to prompt action." Slow economic growth and rapid price inflation of the 1970s and 1980s undeniably provided ammunition to critics of Social Security, who have insisted that the Trust Funds are lurching towards insolvency.

I. Increased Security

Current policymaking in Social Security is a far cry from its condition before 1975. Martha Derthick, in her influential study of the political history of the program, has argued that from 1936 until about 1974, most critical decisions involving the agenda and basic design of Social Security were left in the hands of a comparatively small group of specialist "insiders." The deliberations of this circle of lawmakers and administrators were carried out beyond the glare of public scrutiny and well outside the poisonous atmosphere of impending crisis.

Although the same characterization might apply to policy-making in utility regulation, waste water management, and a dozen other areas of government activity, the absence of public participation in Social Security decisionmaking before 1975 must strike many observers as odd. The program provides Americans with an essential pillar of support in old age and offers them far greater insurance against disability and early death than any that

8. Id. at 4.

9. For a collection of essays critical of Social Security and its financial prospects, see Social Security: Continuing Crisis or Real Reform?, 3 Cato J. 393 (1983). The essays by Paul Craig Roberts (Social Security: Myths and Realities, id. at 393), A. Haeworth Robertson (The National Commission's Failure to Achieve Real Reform, id. at 403), Thomas J. DiLorenzo (A Constitutionalist Approach to Social Security Reform, id. at 443), and Peter J. Ferrara (The Prospect of Real Reform, id. at 604) suggest, explicitly or implicitly, that Social Security faces a continuing series of financial crises even after the passage of the 1983 Social Security Amendments. All these essayists favor replacing Social Security with a dramatically scaled-back public program and greater reliance on private (albeit tax-subsidized) retirement savings.

10. M. DERTHICK, POLICYMAKING FOR SOCIAL SECURITY (1979). Since 1975, the number of people actively involved in Social Security policymaking has widened, in large measure because the public has become concerned about the solvency and long-term sustainability of the program. See infra note 11.
they are likely to purchase on their own. Yet for much of the history of the program, the public, including the academic community, has shown itself to be singularly incurious about the basic nature and administrative details of the program. When the public’s attention has been drawn to Social Security, as it has been repeatedly since 1975, it has always occurred in the context of some short- or long-term “crisis” in the program that allegedly imperils solvency. While I am skeptical that any of these “crises” seriously threatened the pension or medical entitlements of even a single beneficiary, the atmosphere of crisis has fundamentally altered the nature of Social Security decisionmaking.

The main casualty of this increased attention has not been the quality of policymaking in Social Security, but the confidence of the public in the integrity of the system. Under the harsh light of public scrutiny, Congress and the Executive seem as capable of reaching sensible policy accommodation as they were when crucial decisions were made or framed by well-informed insiders. The major reforms in Old-Age and Survivors Insurance enacted in 1977 and 1983 were arguably better conceived than many of the reforms that preceded them in the 1960s and early 1970s, when Social Security policymaking was the supposed province of specialists. But as an aroused citizenry more closely examines policymaking, the faith of the public in the program has been shaken. Marmor and Mashaw cite statistics showing that confi-

dence in the survivability of the system, especially among younger workers, has fallen sharply since the early 1970s.\(^\text{12}\)

Marmor and Mashaw believe, and the essays in this book demonstrate, that the public's alarm has little empirical foundation. The social insurance programs enjoy firm political support and a solid basis in law. There is no economic reason to believe that the country cannot continue to pay for programs that look much like the present ones. The modifications that may someday be needed to keep the programs solvent are comparatively modest.

Why, then, the continuing public uneasiness? One reason is the highly charged nature of recent debate. Hard economic times in the 1970s and 1980s required for the first time a scaling-back of Social Security promises.\(^\text{13}\) Although the actual reforms were modest, the fact that they were needed at all appeared shocking to a public accustomed to receiving only good news with its Social Security checks. To influence the shape of reform, a tiny but articulate minority opposed to social insurance sometimes exaggerated the scope of financing problems faced by Social Security. Advocates of the program, with the opposite political aim, exaggerated the threat posed by program opponents. The resolution of the policy debate has strengthened my conviction that the position of Social Security is politically unassailable. But the heat and duration of the debate has apparently had the opposite effect on the wider public, which might have believed before 1975 that the legitimacy and permanence of the program were beyond dispute.

13. The Social Security Amendments of 1977, Pub. L. No. 95-216, 91 Stat. 1509 (codified as amended at 42 U.S.C. § 1305 (1982)), changed the indexing formula used to calculate benefits, reducing benefits for workers reaching age 65 in 1982 and later years. The Social Security Amendments of 1983, Pub. L. No. 98-81, 97 Stat. 65 (codified at 42 U.S.C. § 1305 (Supp. III 1985)), changed a number of aspects of the program, scaling back benefit obligations and increasing revenues. In the short run, benefits were cut by skipping part of a cost-of-living adjustment, and revenues were raised by increasing the contribution rate imposed on the self-employed and speeding up the implementation date of tax increases that had already been scheduled under the 1977 Amendments. Part of Social Security benefits were made taxable for the first time, and revenue from this additional tax was deposited in the Social Security Trust Funds. In the long run, benefit obligations were reduced by raising the normal retirement age from 65 to 67. This reform, which effectively reduces monthly benefits by 12% to 13%, will be phased in for workers reaching age 65 between the years 2003 and 2025. In both 1977 and 1983, the fiscal integrity of the Social Security system was restored through a combination of tax increases and benefit cutbacks.
II. Historic and Legal Background

A. Beginnings of the System

Students of the program know that neither the legitimacy nor the permanence of Social Security could be taken for granted during its formative years. In the first major essay of the volume, Robert M. Ball, former Commissioner of Social Security, provides a lucid and informative description of the original understanding of the program among men and women present at its creation. The vision of the original architects, including Franklin Roosevelt, probably was shared by only a minority of Americans in 1935. Their ideal of social insurance incorporated a variety of elements, including some borrowed from older systems in Europe and others unique to the United States. Workers were to be insured against the risk of wage loss under a compulsory program that required contributions from both employees and their employers. Benefits were to be independently financed using the earmarked contributions of workers and employers, and they were to be paid to insured workers meeting basic eligibility conditions, regardless of the worker's financial need for benefits. Finally, a worker’s benefit entitlement and eligibility were to be determined on the basis of his or her past covered earnings under the program. Although Ball does not explicitly mention the fact, the pension benefit formula has always been intentionally redistributive: workers with low steady earnings have historically received monthly pensions that replace a larger proportion of their lost earnings than is the case with more highly paid workers.

Although these principles have been adhered to through numerous revisions and extensions of Social Security, they have not been retained without controversy. In the 1920s, much of the public and many politicians would have preferred a simple flat-rate pension for the elderly, to be paid out of general revenues. The idea of subjecting Social Security and Medicare benefits to a means test has also been suggested, sometimes forcefully, over the years. However, the original architects surely were aware that basing benefits on past covered earnings (and hence tax contributions) would create a powerful constituency for the preservation of the system. Workers who made earmarked contributions to the program for many years would be loath to see it abandoned or

substantially scaled back on the eve of their retirement. The payment of benefits to retired workers with high unearned income similarly has some notable effects. It assures that Social Security will always have wide political support among the affluent as well as the needy, and it eliminates the stigma that sometimes accompanies a government benefit check. When Social Security has been extended, as it was in 1956 to cover disability and again in 1965 to cover hospital insurance for the aged and disabled, many of the original principles of the New Deal planners have been incorporated or only slightly modified.\textsuperscript{15}

B. Future of the System

In the second essay in the volume, James Tobin first examines the economic rationale and future prospects of Old-Age and Survivors Insurance and then suggests an alternative program that might accomplish many of the same goals with less political and economic strain. As are all the essays contained in this book, Tobin's chapter is lucidly written and persuasively argued. Tobin notes that the Social Security system faces a long-term problem in balancing contributions to the system with future benefits, and that it faces a short-term problem of eroding public confidence. The problems are intertwined, of course, and both are ultimately due to the economic and demographic trends of recent years. A sharp drop in labor productivity growth, which began in 1973, and a sharp expected rise in the proportion of the population older than age 65, after about 2010, have made the long-run prospects of Social Security much less promising than was assumed just fifteen years ago.

These trends have set the stage for an intergenerational conflict of a type that was noticeably absent over the first four decades of the program. The first small skirmish in this conflict was the fight over the so-called "notch babies," born after 1916, many of whom were given Social Security pensions below those of the immediately preceding generation as a result of amendments passed in 1977. The amendments were necessary to preserve the solvency of Social Security, but pensioners born in 1917 and later years are sometimes struck by the unfairness of a system under which

they receive lower retirement benefits than earlier generations even though they have made greater lifetime contributions. The fact is, however, that a pensioner born in 1917 can still expect to receive pension and medical insurance benefits that far exceed the discounted value of past payroll tax contributions. Unless the nation experiences a major turnaround in productivity growth or birth rates, the wage earner born in 1960 or 1990 will not be nearly so lucky.

Tobin's proposal for reform is based partly on earlier proposals advanced by Michael Boskin, Laurence Kotlikoff, and John Shoven. Tobin suggests that Old-Age and Survivors Insurance should gradually move, over a period of two or three generations, from an unfunded to a fully funded financing basis. Pension benefits under the revamped system should be based directly on contributions, with each worker under the fully mature system receiving a rate of return that is tied to the government's cost of borrowing. Some income redistribution would be retained in the new system by allowing the federal government to make special contributions to the pension accounts of workers suffering unemployment or long spells of low-wage employment.

Tobin apparently prefers the alternative system because it moves Social Security closer to a program of pure insurance and because it makes explicit the long-term obligation of the system (and, indirectly, the federal government) to deliver on its pension promises. While I agree with Tobin's observation that his proposal constitutes neither a liberal nor a conservative reform, I suspect that its long-run effect would be to reduce the redistributive tendency of the current system.

16. The 1977 amendments affected only the benefits paid to workers born in 1917 and later years. See 42 U.S.C. § 415(a)(1)(B) (1982). Workers born before 1917 were permitted to continue drawing benefits calculated under the defective indexing procedure introduced in 1972. As a result, some workers born in 1916 receive monthly benefit checks that are substantially higher than those received by workers born in 1917 who had similar earnings histories. This discrepancy is especially glaring for workers who delayed their retirement until age 65 or later; it is insignificant for workers who retired at age 62, which is now the most common age for workers to begin drawing Social Security benefits. Furor over the issue continues to this day, although under present budget conditions neither Congress nor the Administration is likely to do anything about it; proposed remedies for the benefit inequity are too expensive. For a recent analysis of the "notch babies" problem, see National Academy of Social Insurance, The Social Security Benefit Notch: A Study (1988).

Redistribution under the present system takes many forms, some of them so complicated that they are poorly understood even by the men and women who first proposed them. On balance, however, Social Security is the government's single most important source of redistribution. Without it, there would be comparatively little redistribution of money income from affluent to less affluent American households. If the system were reformed so that it essentially became an actuarially fair insurance plan, I am doubtful that Congress would see its way to help poorer families with quite the generosity it does today. If the program were otherwise actuarially fair, departures from fairness would have an explicit price that might require periodic justification. The form of redistribution suggested by Tobin—extra contributions to the pension accounts of unemployed or low-wage workers—could be interpreted by conservatives as a subsidy to sloth and indigence, thus making it even more difficult to justify the expense. Although most Americans do not object strongly to generosity toward the less affluent aged and disabled, they have traditionally been much less sympathetic toward redistribution to working-age adults.

C. Constitutionality of the System

In a fascinating article, the late Robert M. Cover discusses the constitutional status of Social Security. The legal status of the program was at one time doubtful; in the same year that Social Security was born, the Supreme Court invalidated part of the Railroad Retirement Act and the National Industrial Recovery Act. Many observers believed Social Security would experience the same fate. The reasons that it did not are succinctly described in Cover's essay.

Some major constitutional questions remain unanswered, however. One that especially interests Cover is the extent of property rights that workers may be said to possess in their pensions. The link between payroll contributions and benefit entitlements may appear to create a strong presumptive claim, but courts have


19. Cover, supra note 4, at 71-72.
given the government broad flexibility to withhold or reduce pensions when deemed necessary. Cover argues that this flexibility has the paradoxical effect of making participants in Social Security policy debates quite rigid. Potential beneficiaries are fearful that promised benefits will be reduced arbitrarily, and this tends to strengthen their resistance to even comparatively modest reforms. If greater constitutional protection were extended to protect the rights of workers in their pension benefits, the politics of Social Security reform might be more flexible.

II. Old-Age and Survivors Programs

A. Tax Implications

Michael Graetz analyzes the Old-Age and Survivors program as part of a wider set of programs and tax preferences aimed at providing incomes to the aged. Although he concedes that Old-Age and Survivors pensions might be somewhat redistributive in themselves, he argues that the contributory mechanism used to finance benefits is strongly regressive while the tax preferences for private pensions, Individual Retirement Accounts, and other retirement programs have perverse distributional consequences.

I have always been puzzled by attacks on Social Security based on the alleged regressivity of its financing mechanism. The tax is a constant proportion of earnings up to a relatively high annual limit, but this tax pays for strongly progressive benefits. As noted above, without this program, the federal government would engage in relatively little redistribution of money income from affluent to less affluent families. I suspect that the Medicare program is even more redistributive than the other Social Security programs. Taxes are based on a fixed proportion of earnings, but benefits are determined solely on the basis of covered medical expenses among the aged and disabled. These expenses are largely uncorrelated with prior contributions.

Viewed as a package, Social Security, Medicare, and the taxes that pay for them have the distributional consequences Graetz evidently desires. While the financing mechanism could certainly be made more progressive, no strong reason exists to justify the belief that the overall package of taxes and benefits would be

20. See, e.g., Flemming v. Nestor, 363 U.S. 603 (1960) (upholding termination of old-age benefits otherwise payable to alien who was deported for being Communist).
made more redistributive as a result. If the tax package were made more progressive, Congress might be spurred to make the benefit schedule less progressive, leaving the net distributional consequences of the program unaffected.

The tax preferences for retirement saving also receive unkind treatment in Graetz's essay. Many of his objections to these preferences stem from his apparent belief that Congress and the public share his view that the principal goal of retirement policy is to raise the incomes of the less affluent. This is doubtful. Congress may be more interested in encouraging employers and workers, regardless of their incomes, to set aside part of compensation for consumption during retirement. Since the pension contributions of employers do not immediately raise a worker's capacity to pay taxes, these contributions are not taxed until they are withdrawn by the worker at retirement. Although Graetz would disagree, I believe that this is a perfectly defensible line of reasoning.

B. Alternatives and Privatization

In the longest essay in the book, Paul Starr provides an authoritative survey of private alternatives to the current system and the economic arguments advanced in support of them. Although not himself an economist, he gives a clear and accessible interpretation of their implications for the federal budget and the future economy. Starr makes the interesting observation that feast rather than famine may offer the strongest political challenge to the current Social Security system. In the coming two decades, the Old-Age and Survivors program will accumulate several trillion dollars of operating surpluses. These reserves could provide an opportunity for policymakers to begin substituting a private system for the current one. If Congress were to dismantle the present system, the sheer size of the Trust Fund reserve would assure pensioners and workers near retirement age that their benefits were not in serious jeopardy. Opposition to this kind of reform would have to come from younger workers, who would be asked, under a transition program, to finance the retirement of their elders, and to save for their own retirement. Only a minority of younger workers appears to understand this simple logic, however.
III. Essays Not Written

If this volume has a gap it is the failure to present the ideas of a principled opponent, although these are briefly described in the essays by Tobin and Starr. Opposition to Social Security arises for two main reasons. The first is basically ideological. Many conservative thinkers, such as Milton Friedman, regard compulsory saving for old age and disability as an unwarranted intrusion on human freedom. While I do not share this view, it might be useful for many readers to see the position clearly mapped out in order to evaluate the claims of the authors in this volume, all of whom are quite sympathetic to Social Security. Including such an essay might also have induced the remaining authors to use greater care in stating and defending their basic assumptions about the ultimate goals of social policy and the proper role for government in achieving them.

A second common objection to Social Security is the perception that current wage earners pay heavily for a program whose benefits are directed to pensioners who are arguably better off than tax-paying workers and who contributed relatively little to the program themselves. This complaint is not treated systematically in any of the essays. It is surprising in the 1980s to read a book about Social Security that pays so little attention to the intergenerational conflicts that the program engenders. While I believe that the extent of this conflict is often wildly overblown, a systematic treatment of this issue would have helped many readers understand the wider social role of the retirement programs.

Conclusion

Notwithstanding the objections of its opponents and the baseless fears of some of its supporters, Social Security is likely to endure in something close to its present form for many years. In light of this fact, the editors of this volume are surely justified in calling for greater temperance in the policy debate. Readers seeking temperance, as well as principled policy guidance, will find it in these essays. ut courts ha
