How Social Insurance Protects Americans from Growing Economic Risks

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During a February 2003 concert in West Warwick, Rhode Island, pyrotechnics ignited a flash fire in a crowded nightclub. One hundred people perished, and nearly two hundred more suffered burns, lung damage and broken bones. Sixty-five children lost one or both parents; and most victims could not earn regular wages even as they faced increased expenses. National media coverage helped swell a victims' fund to almost $3 million, but that was barely enough to pay for funerals and short-term help. Fortunately, some victims could claim ongoing disability or survivors' benefits from Social Security; but others had to soldier forward on their own.

Now consider the less dramatic, but more pervasive risk of planning for retirement. To do that adequately, young adults need to guess how long they may live and stay healthy, and estimate whether savings, investments, and income will last long enough and cover special services like nursing home care. All of this is almost impossible for most to figure out entirely on their own.

Indeed, over a lifetime people face six kinds of risks: being born into a poor family; having a family breadwinner die early; coping with partial or total disability of a parent or oneself; suffering from costly illness or accidents; getting laid off from a job; and losing or outliving life savings. When such adversities occur, family incomes drop, expenses increase, or both. People cannot plan for all contingencies, and even the most generous charities cannot do enough.

That is where **social insurance** comes in – including Medicare, Social Security, unemployment insurance, and workers' compensation. Americans appreciate these programs, but it is still worth spelling out how they work and why they are so important to the U.S. economy and the economic security of America's citizens.

How Social Insurance Works

Social insurance programs amount to implicit contracts – among many people and across generations. Key features allow social insurance to protect individuals and families in advance against the economic disadvantages and anxieties associated with various risks.

- Social insurance is both **mandatory and universal**, requiring contributions from everyone who might face the covered risk. This avoids the "adverse selection" meltdown that would happen if people signed up after they already need benefits. **Only people who have contributed in advance become eligible to claim benefits when they later need them.**

- Although health insurance offers the same potential benefits to all contributors, **most social insurance programs promise cash benefits in relationship to what contributors pay in.** For example, Social Security retirement benefits are partially correlated to the payroll taxes contributed by employers and employees as a percentage of wages earned.

These basic features make social insurance different from welfare disbursements – and experience shows that Americans strongly value the certain and income-related benefits to which people understandably feel they are entitled because of regular contributions.

A Centrist Approach in a Market Economy

Social insurance programs are also supportive of a fluid market economy. With the historical shift from a predominately agricultural to an industrial, urban economy, most Americans became dependent on regular wages and salaries. Henceforth, life's misfortunes or decisions by employers to cut jobs could disrupt wages and imperil people's economic survival – until social insurance helped limit the risks. As Theodore Roosevelt explained in his nomination speech to the 1912 Progressive Party convention, it "is abnormal for any industry to throw back upon the community the human wreckage due to its wear and tear... Hazards of sickness, accident, invalidism, involuntary unemployment, and old age should be provided for through insurance." Financed by regular contributions from employers and employees, social insurance allows workers to share risks and prevents firms from offloading the human costs of work accidents and lay-offs onto taxpayers and families. Social insurance thus helps the market work smoothly and insulates against the social protests that would occur if wage-earners faced risks unaided.

Social insurance should be understood as a moderate alternative to social policy approaches often preferred on the right or the left. Conservatives are determined to limit public interventions in the market by supplementing charity with only minimal, means-tested welfare benefits; and they want public benefits to go only to extremely needy people who follow strict rules. Progressives aspire to reduce inequality by using taxes to enhance economic opportunity and redistribute income. But social insurance occupies the middle ground, because – much like fire insurance – it redistributes only from fortunate contributors who do not incur an insured risk to the unfortunate contributors who do end up suffering that adversity. The goal is greater economic security for all working families and generations, not a remaking of the class structure.

Accomplishments and Possibilities

Social insurance has already kept millions of working middle-class Americans out of poverty. Half of the U.S. elderly were impoverished during the Great Depression, as were about a third as late as the 1960s; but now only nine percent are poor, thanks to Social Security and Medicare. Survivors' insurance greatly mitigates child poverty, and the new Affordable Care reforms use subsidies and mandates to extend health insurance and protect families from medical bankruptcy.

Today, some call for changes in Social Security and Medicare that would, in effect, dismantle risk-sharing and pile additional costs on individuals and families. But such privatization is not a good idea given growing risks in a volatile economy. Instead, U.S. social insurance should be improved – for example, by raising insufficient benefits for families with dead or disabled breadwinners, and by replacing wages when a parent temporarily leaves a job to care for a child or frail family member. In fact, the United States could take the even bolder step of insuring all children, as future workers, against the risk of growing up in poverty. Every generation modifies social insurance – and as this happens again, Americans should take care to preserve past gains and enhance economic security against the hazards all of us must face and surmount. Through social insurance, we can do that better, together.

Read more in Theodore R. Marmor, Jerry L. Mashaw, and John Pakutka, *Social Insurance: America's Neglected Heritage and Contested Future* (Sage, 2014).