Chapter 2

Working Families at Risk:

Understanding — and Confronting — the New Economic Insecurity

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Arnold Dorsett was an American success story. An air conditioner repairman, he earned more than his father ever did: almost $70,000 a year, thanks to a relentless schedule of eighty to ninety hour workweeks. He owned a good home in the suburbs. His wife, Sharon—training to be a nurse when they met, and hoping to return to school soon—stayed home to care for their three kids. Arnold was driven, a striver. He was also, it turned out, the father of a young boy who was sick and getting sicker.

Zachary had not been healthy since his birth—one reason why Sharon had never received that nursing degree and Arnold was working so hard to pay the bills. But it was not until he was eight that he was diagnosed with an immune system disorder that promised even bigger medical costs down the road. By then, the bills had crushed the family's finances. Despite having health insurance and refinancing their home, the Dorsetts had run up nearly $30,000 in outstanding credit-card balances and could no longer make their car or mortgage payments. In March 2005, they succumbed to the inevitable and filed for bankruptcy, becoming one of the roughly two million households filing that year. The choice was not easy. "I make good money, and I work hard for it," Arnold Dorsett said. "When I filed for bankruptcy, I felt I failed" (Leland 2005).

Crises like Arnold Dorsett's rarely make the headlines as they did in this case. The health woes of everyday families have simply become too familiar. Every 15 seconds, someone files a bankruptcy claim that is due in part to medical costs and crises (Himmselstein et al. 2009). In 2007, more than three in five of the nation's personal bankruptcy filings (and probably a similar proportion of mortgage foreclosures (Robertson, Egelhof, and Hoke 2008)) were related to medical costs and lost income due to illness or injury—a 60 percent increase since 2002 (Himmelstein et al. 2009). Most who end up facing these economic calamities have health insurance. Most are working. But insurance and work are not always enough.

In the twelve months prior to May 2007, for example, around three in ten nonelderly adults who had health insurance lacked adequate coverage, according to a survey by *Consumer Reports* (Gopoian 2007). The median family income of these "underinsured" Americans is nearly $60,000—almost exactly the same as the median income of those with adequate coverage. The underinsured are as likely to be white as the well insured, nearly as well-educated, and as likely to work full-time and in large or medium-sized companies. The only consistent way in which they differ from those who are better protected is that they are at grave economic risk

Of course, the underinsured *have* coverage, however inadequate. Millions more lack even this basic protection. Everyone has heard the numbers: 46 million Americans without health insurance (compared with fewer than 30 million in 1980), the vast majority of them in working families (DeNavas-Walt, Proctor, and Smith 2009). But the uninsured are a constantly shifting group that includes many more people than that. In the two years beginning in 2007, nearly 87 million people—one out of three nonelderly Americans—went without health insurance at some point (Families USA 2009). Almost two-thirds were uninsured for at least half a year; more than half were uninsured for at least nine months. Even those whose spells without insurance are short, may find themselves facing an unexpected disaster and end up not just with huge bills but also facing future coverage denials for "preexisting conditions."

Nor is this simply a matter of dollars and cents. It is a matter of life and death. Researchers at Harvard University estimate that 45,000 working-age Americans die each year because of the lack of universal insurance in the United States (Wilper et al 2009). But that is not even the most startling statistic. According to a recent study, the United States ranks 19th out of 19 rich nations in the rate of "amenable mortality"—deaths before age 75 that could have been prevented with the provision of timely and effective care (Nolte and McKee 2008). A decade ago, we were five places higher on the list. But we are nowhere near the nations with the best rates, all of which provide affordable quality care to all their citizens. If, for example, the United States had the same rate of amenable mortality as the three nations with the lowest rates of preventable death, more than 100,000 fewer people would die in the United States each year (Nolte and McKee 2008). These are risks that all Americans face because of the costly, fragmented, and inadequate American framework of medical financing.

For years, these ordinary Americans at extraordinary risk have remained off the American political agenda, a problem seen as insoluble in our polarized partisan climate. In 2010, however, the U.S. Congress passed and President Barack Obama signed "The Patient Protection and Affordable Care Act" (hereafter the "Affordable Care Act"). A remarkable policy breakthrough, the Affordable Care Act's price tag of roughly $1 trillion in federal spending over ten years (funded through tax increases and spending reductions) only gives a partial sense of its scope. The bill involves extensive new regulation of private health insurance, the public creation of new insurance-purchasing organizations called "exchanges," the reorganization and expansion of Medicaid for the poor, and both major reduction in spending growth within and substantial changes to the Medicare program for the aged and disabled. Given all this, the more revealing numbers concern not federal spending, but the predicted effects: more than 30 million Americans newly covered by 2019 and a substantial reduction in the cost of insurance for those who buy it through the exchanges, thanks to large new federal subsidies for coverage, greater economies of scale in administration, and new insurance rules that prohibit price discrimination against higher-risk patients (CBO 2010).

To be sure, the Affordable Care Act falls well short of the international health policy standard of universal coverage and robust efforts to restrain medical costs. The affluent democracy closest to us in terms of the structure and history of health insurance, Switzerland, has featured subsidized universal insurance since the mid-1990s and its per-capita spending is roughly 60 percent of ours (OECD 2009). But in light of the long history of reform's defeat, the Affordable Care Act represents a decisive departure from the past politics and policy of American health care. It also grows out of a major ongoing debate about how to update the American social contract. In the wake of the steepest economic downturn since the Great Depression, anxious conversations in corporate boardrooms and around kitchen tables have grown into a grand struggle over the role of government in the twenty-first century.

This chapter is about that grand struggle—its roots, its implications, and its future. The policy battles of 2009 and 2010 did not emerge fully formed out of the recent economic downturn. Rather, they were rooted in a deeper transformation of the American economy and American politics. Over the last generation, economic risk has increasingly shifted from the broad shoulders of government and corporations onto the backs of American workers and their families. This sea change has occurred not just in health care, but in nearly every area of Americans' finances: their jobs, their retirement pensions, their homes and savings, their strategies for balancing work and family. But until the economic collapse that begin at the end of 2007, the extent of this shift was largely missed and its causes, largely unexplored.

Even now, the focus remains on the immediate economic crisis and the major financial players who are deemed "too big to fail." But the economic crisis facing working families emerged well before the market crash, and tracing *its* roots is at least as crucial as examining the meltdown at the top of the economic pyramid. For it is at the heart of American family finances that we find the clearest evidence of what I have called the "Great Risk Shift," the massive downward transfer of economic risk and responsibility that has reshaped the financial lives of so many Americans. The erosion of American health insurance was only one aspect of this transformation, and the recently passed reform bill is only a partial solution even to this aspect.

This chapter begins, therefore, by tracing the rise and fall of America's distinctive framework of economic security, which differs from other nations less in total *size* than in the *form* that social protections take. Responsibilities that in other nations were handled by government (perhaps with the cooperation of nonprofit mutual insurers) fell to employers and for-profit providers instead. Encouraged by a complex array of subsidies and regulations, this uniquely "divided welfare state" (Hacker 2002) has crumbed over the last generation in the face of growing economic pressures on employers, as well as increasing political resistance to the ideal of economic security itself.

The chapter then considers the political roots of this transformation, including the rise of a conservative counter-attack on government in the 1970s, the growing polarization of Americans politics, and the pressures on both parties to cater to narrow economic interests rather than respond to the broad strains facing working families. Only by understanding the political forces that have abetted growing economic insecurity—why, that is, middle- and working-class Americans have been, until recently at least, "too small to save"—can we effectively forge a new set of assumptions for our new realities.

Finally, I turn to the question of what can be done. The health care bill represents a major step forward. Even after its passage, however, the United States still badly needs a twenty-first-century social contract that protects families against the most severe risks they face, without clamping down on the potentially beneficial processes of change and adjustment that produce some of these risks. This will require not just building on the steps taken in health care bill, but also moving beyond health care to recognize the more fundamental source of American economic insecurity: the deep mismatch between today's economic and social realities and the American framework for providing economic security. It will also require recognizing that economic security and economic opportunity are not antithetical; they go hand in hand. Just as investors and entrepreneurs need basic protections to encourage them to take economic risks, so ordinary workers and their families require a foundation of economic security to confidently invest in their futures and seize the risky opportunities before them.

America's Unique—and Endangered—Framework of Economic Security

We often assume that the United States does little to provide economic security compared with other rich capitalist democracies. This is only partly true. The United States does spend less on government benefits as a share of its economy, but it also relies more—far more—on private workplace benefits, such as health-care and retirement pensions. Indeed, when these private benefits are factored into the mix, the U.S. framework of economic security is not smaller than the average system in other rich democracies. It is actually slightly larger (Hacker 2002). With the help of hundreds of billions in tax breaks, American employers serve as the first line of defense for millions of workers buffeted by the winds of economic change.

The problem is that this unique employment-based system is coming undone, and in the process risk is shifting back onto workers and their families. Employers want out of the social contract forged in the more stable economy of past, and they are largely getting what they want. Meanwhile, America's framework of government support is also strained. Social security, for example, is declining in generosity, even as guaranteed private pensions evaporate. Medicare, while ever more costly, has not kept pace with skyrocketing health expenses and changing medical practice. And even as unemployment has shifted from cyclical job losses to permanent job displacements, unemployment insurance has eroded as a source of support and recovery for Americans out of work.

The history of American health insurance tells the story in miniature. After the passage of Medicare and Medicaid, health coverage peaked at roughly 90 percent of the population, with approximately 80 percent of Americans covered by private insurance (Hacker 2002). Since the late 1970s, however, employers and insurers have steadily retreated from broad risk pooling. The number of Americans who lack health coverage has increased with little interruption. Private health coverage now reaches just over 160 million Americans, or modestly more than half the American population.

Employment-based health insurance has not been the only casualty. Companies have also raced away from the promise of guaranteed retirement benefits. Twenty-five years ago, 83 percent of medium and large firms offered traditional "defined-benefit" pensions that provided a fixed benefit for life. Today, the share is below a third (Langbein 2006). Instead, companies that provide pensions—and roughly half the workforce continues to lack a pension at their current job—mostly offer "defined-contribution" plans like the 401(k), in which returns are neither predictable nor assured.

Defined-contribution plans are not properly seen as pensions—at least as that term has been traditionally understood. They are essentially private investment accounts sponsored by employers that can be used for building up a tax-free estate as well as for retirement savings. As a result, they greatly increase the degree of risk and responsibility placed on individual workers in retirement planning. Traditional defined-benefit plans are generally mandatory and paid for largely by employers (in lieu of cash wages). They thus represent a form of forced savings. Defined-benefit plans are also insured by the federal government and heavily regulated to protect participants against mismanagement. Perhaps most important, their fixed benefits protect workers against the risk of stock market downturns and the possibility of living longer than expected.

None of this is true of defined-contribution plans. Participation is voluntary, and due to the lack of generous employer contributions, many workers choose not to participate or contribute inadequate sums (Munnell and Sudken 2006). Plans are not adequately regulated to protect against poor asset allocations or corporate or personal mismanagement. The federal government does not insure defined-contribution plans. And defined-contribution accounts provide no inherent protection against asset or longevity risks. Indeed, some features of defined-contribution plans—namely, the ability to borrow against their assets, and the distribution of their accumulated savings as lump-sum payments that must be rolled over into new accounts when workers change jobs—exacerbate the risk that workers will prematurely use retirement savings, leaving inadequate income upon retirement. And, perversely, this risk falls most heavily on younger and less highly paid workers, the very workers most in need of secure retirement protection.

We do not yet know how severely the market crisis that began in 2008 will reduce private pension wealth, but the signs are deeply worrisome. Just between mid-2007 and October 2008, an *estimated* $2 trillion in retirement wealth was lost in 401(k)s and individual retirement accounts (Orszag 2008). A 2009 survey found that two-thirds of adults aged 50-64 lost money in mutual funds, individual stocks, or 401(k) accounts, with the vast majority with losses losing more than 20 percent of their investments (Pew Research Center 2009). (Most who had no losses had no investments.)

But while we cannot yet know how sustained these losses will be, we do know they come after a generation of decline in the retirement-preparedness of Americans. According to researchers at Boston College, the share of working-age households that are at risk of being financially unprepared for retirement at age sixty-five has risen from 31 percent in 1983 to 43 percent in 2004 and a projected 51 percent in 2009 (Munnell, Webb, and Golub-Sass. 2009). Younger Americans are far more likely to be at risk than older Americans: Roughly half of those born from the mid-1960s through the early 1970s are at risk of being financially unprepared, compared with 35 percent of those born in the decade after World War II. The least financially prepared are low-income Americans—in every age group.

In sum, as private and public support has eroded, workers and their families have been forced to bear a greater burden. This is the essence of the Great Risk Shift. Rather than enjoying the protections of insurance that pools risk broadly, Americans are increasingly facing economic risks on their own—and often at their peril. In the new world of work and family, the buffers that once cushioned Americans against economic risk are become fewer and harder.

The New World of Work and Family

The erosion of America's distinctive framework of economic protection might be less worrisome if work and family were stable sources of security themselves. Unfortunately, they are not. The job market has grown more uncertain and risky, especially for those who were once best protected from its vagaries. Workers and their families now invest more in education to earn a middle-class living, and yet in today's postindustrial economy, these costly investments are no guarantee of a high, stable, or upward-sloping path. For displaced workers, the prospect of gaining new jobs with relatively similar pay and benefits has fallen, and the ranks of the long-term unemployed and "shadow unemployed" (workers who have given up looking for jobs altogether) have grown. These are not just problems faced by workers at the bottom. In the 2001 downturn, the most educated workers actually experienced the worst effects when losing a full-time job, and older and professional workers were hit hardest by long-term unemployment (see, e.g., Stettner and Allegretto 2005).

Meanwhile, the family—once a refuge from economic risk—is creating new risks of its own. At first, this seems counterintuitive. Families are much more likely to have two earners than in the past, the ultimate form of private risk sharing. To most families, however, a second income is not a *luxury* but a *necessity* in a context in which wages are relatively flat and the mains costs of raising a family (health care, education, housing) are high and rising. According to calculations by Jared Bernstein and Karen Kornbluh (2005), more than three-quarters of the modest 24 percent rise in real income experienced by families in the middle of the income spectrum between 1979 and 2000 was due to increased work hours rather than rising wages. (Some of this overall gain has been reduced by recent family income declines.) In time-use surveys (e.g., Jacobs and Gerson 2004), both men and women who work long hours indicate they would like to work fewer hours and spend more time with their families—which strongly suggests they are not able to choose the exact mix of work and family they would prefer.

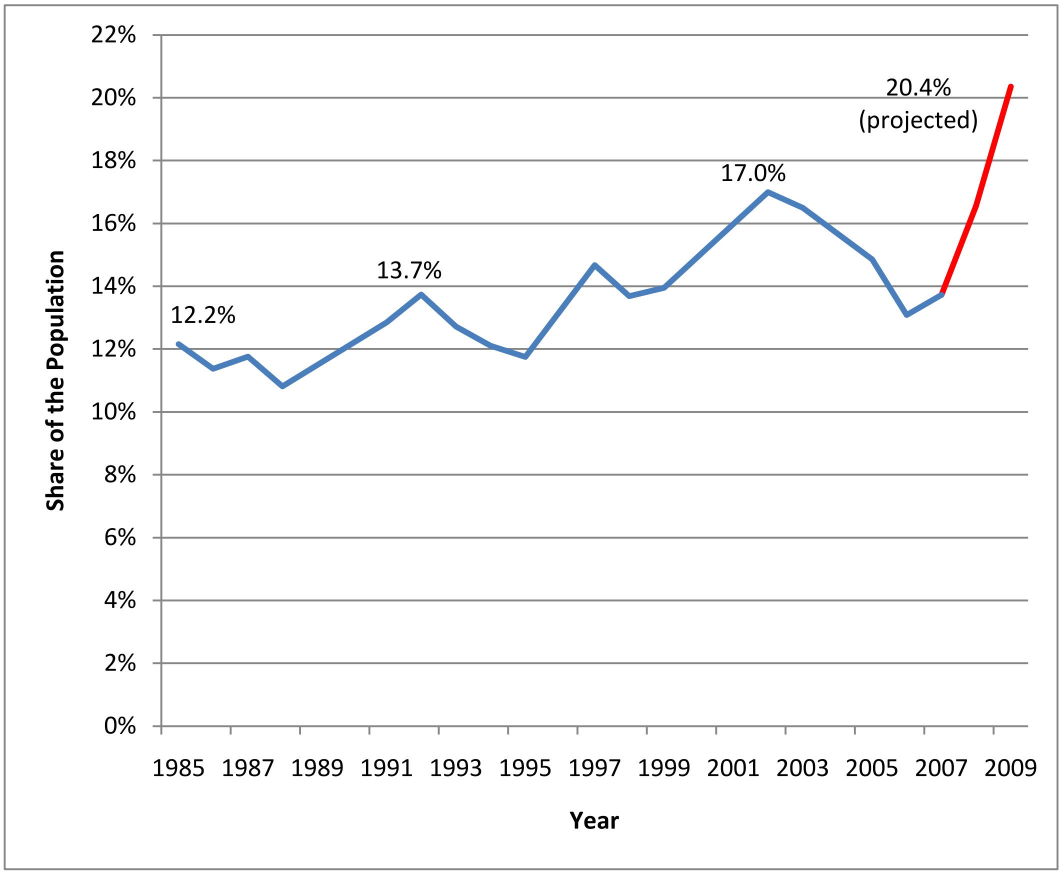
With families needing two earners to maintain a middle-class standard of living, their economic calculus has changed in ways that accentuate many of the risks they face. Precisely because it takes more work and more income to maintain a middle-class standard of living, the questions that face families when financially threatening events occur are suddenly more stark. What happens when women leave the workforce to have children, when a child is chronically ill, when one spouse loses his job, when an older parent needs assistance? In short, events within two-earner families that require the care and time of family members produce special demands and strains that traditional one-earner families generally did not face.

The new world of work and family has ushered in a new crop of highly leveraged investors—middle-class families. Consider just a few of the alarming facts:

- The instability of family incomes has risen substantially over the last three decades. Although the precise magnitude of the increase depends on the approach to measuring income variance that is used, my own research using the Panel Study of Income Dynamics (PSID) suggests that short-term family income variance essentially doubled from 1969 to 2004 (Hacker and Jacobs 2008). Much of the rise in income volatility occurred prior to 1985, and volatility dropped substantially in the late 1990s. But it has risen in recent years to exceed its 1980s peak. The proportion of working-age individuals experiencing a 50 percent or greater drop in their family income has climbed from less than 4 percent in the early 1970s to nearly 10 percent in the early 2000s. And while less educated and poorer Americans have less stable family incomes than their better-educated and wealthier peers, the increase in family income volatility affects all major demographic and economic groups. Indeed, Americans with at least four years of college experienced a larger increase in family income instability than those with only a high-school education over the past generation, with most of the rise occurring in the last 15 years.

- Family income instability is only one aspect of Americans' growing economic insecurity. Along with a team of researchers (and with funding from the Rockefeller Foundation), I have developed the "Rockefeller Economic Security Index," or RESI. The RESI provides a simple measure of the joint occurrence of three major risks to economic well-being: (1) experiencing a major loss in income, (2) incurring large out-of-pocket medical expenses, and (3) lacking adequate financial wealth to buffer the first two risks. In a nutshell, it represents the share of Americans who experience at least a 25 percent decline in their inflation-adjusted "available household income" from one year to the next and who lack an adequate financial safety net to replace this lost income until it has returned to its original level. "Available household income" is income that is reduced by nondiscretionary spending, including, most substantially, the amount of a household's out-of-pocket medical spending. Thus Americans may experience income losses of 25 percent or greater due to a decline in income or an increase in medical spending or a combination of the two. The RESI, available from 1985 through 2007 (with projections for 2008 and 2009) shows that economic insecurity has increased substantially over the last quarter century (see Figure 1). In 1985, 12 percent of Americans experienced a major economic loss sufficient to classify them as insecure in the RESI. During the recession of the early 2000s, this had risen to 17 percent, and projections suggest that in 2009 the level of economic insecurity experienced by Americans was greater than at any time over the past quarter century, with approximately one in five (20.4 percent) Americans experiencing a decline in available household income of 25 percent or greater.

Figure 1: Share of Americans Who Are Insecure, 1985-2007 (with 2008-09 Projections)



Notes: The "insecure" are those whose available household income declines by at least 25 percent from one year to the next (after adjusting for inflation), as a result of a decline in household income and/or an increase in out-of-pocket medical spending, and who lack an adequate financial safety net. Thus an individual is considered insecure if the sum of the increase in medical expenditures and lost annual income total at least 25 percent of his or her previous year's available income, as illustrated in Figure 3. Household income includes all private and government sources of income, including the estimated income value of defined-contribution retirement accounts, such as 401(k)s, for households with heads aged 60 or older. Household income is adjusted to reflect the economies of scale of pooling household resources and expenses. Household income is also reduced by the amount needed to pay off liquid financial debts when net financial wealth is negative. (All income is adjusted for inflation and expressed in 2009 dollars.) Individuals with adequate holdings of liquid financial wealth are not treated as insecure even when they experience 25 percent or higher income losses. We define "adequate" as enough liquid financial wealth to compensate for the lost income until typical recovery to pre-drop income or for six years, whatever comes first. Those entering retirement are also excluded from the count of the insecure even if available household income declines by 25 percent or more concurrent with retirement; once retired, however, they are counted as insecure when they experience such declines.

Source: Hacker et al. 2010.

- Personal bankruptcy has gone from a rare occurrence to a relatively common one, with the number of households filing for bankruptcy rising from less than 300,000 in 1980 to more than 2 million in 2005.[1] Over that period, the financial characteristics of the bankrupt have grown worse and worse, contrary to the claim that bankruptcy is increasingly being used by people with only mild financial difficulties. Strikingly, married couples with children are much more likely to file for bankruptcy than are couples without children or single individuals (Warren and Tyagi 2003). Otherwise, the bankrupt are pretty much like other Americans before they file: slightly better educated, roughly as likely to have had a good job, and modestly less likely to own a home. They are not the persistently poor, the downtrodden looking for relief; they are refugees of the middle class, frequently wondering how they fell so far so fast (Warren 2003).
- Americans are also losing their homes at record rates. Even before the housing market collapsed in 2008, there had been a fivefold increase since the 1970s in the share of households that fall into foreclosure (calculated from Elmer and Seelig 1998)—a process that begins when homeowners default on their mortgages and can end with homes being auctioned to the highest bidder in local courthouses. The run-up of housing prices before the economic downturn had much less of a positive effect on Americans' net worth than might be supposed, because even as home prices rose, Americans held less and less equity in their home. As recently as the early 1980s, equity was around 70 percent of home values on average; in 2007, it was 43 percent—the lowest level on record (Weller and Lynch 2009). In the recent downturn, approximately 20 percent of homeowners owe more on their home than it is worth (Simon and Hagerty 2009). For scores of ordinary

homeowners—roughly one in twenty-five mortgage-owning households in the past few years—the American Dream has mutated into the American nightmare.

- American families are drowning in debt. Since the early 1970s, the personal savings rate has plummeted from around a tenth of disposable income to essentially zero (Bureau of Economic Analysis 2009). Meanwhile, the total debt held by Americans has ballooned, especially for families with children. As a share of income in 2004, total debt—including mortgages, credit cards car loans, and other liabilities—was more than 125 percent of income for the median married couple with children, or more than three times the level of debt held by married families without children, and more than nine times the level of debt held by childless adults (Hacker 2008). According to a recent analysis of families with incomes between two and six times the federal poverty level and headed by working-age adults, more than half of middle-class families have no net financial assets (excluding home equity), and nearly four in five middle-class families do not have sufficient assets to cover three quarters of essential living expenses for even three months should their income disappear (Wheary, Shapiro, and Draut 2007). And, of course, the recent economic crisis has only exacerbated the problem, causing a loss of $15 *trillion* in private family assets and wealth between June 2007 and December 2008 (Weller and Lynch 2009).

As these examples suggest, economic insecurity is not just a problem of the poor and uneducated, as is frequently assumed. It affects even educated, middle-class Americans—men and women who thought that by staying in school, by buying a home, by investing in their 401(k)s, they had bought the ticket to upward mobility and economic stability. Insecurity today reaches across the income spectrum, across the racial divide, across lines of geography and gender. Increasingly, all Americans are riding the economic roller coaster once reserved for the working poor, and this means that, increasingly, all Americans are at risk of losing the secure financial foundation they need to reach for and achieve the American Dream.

Economic security matters deeply to people. When most of us contemplate the financial risks in our lives, we do not concern ourselves all that much with the upside risks—the chance we will receive an unexpected bonus, for example. We worry about the downside risks, and worry about them intensely. In the 1970s, psychologists Amos Tversky and Daniel Kahneman (1979) gave a name to this bias: "loss aversion." Most people, it turns out, are not just highly risk-averse—they prefer a bird in the hand to even a very good chance of two in the bush. They are also far more cautious when it comes to bad outcomes than when it comes to good outcomes of exactly the same magnitude. The search for economic security is, in large part, a reflection of a basic human desire for protection against losing what one already has.

This desire is surprisingly strong. Americans are famously opportunity-loving, but when asked in 2005 whether they were "more concerned with the opportunity to make money in the future, or the stability of knowing that your present sources of income are protected," 62 percent favored stability and just 29 percent favored opportunity (The Tarrance Group & Lake Snell Perry Mermin, George Washington University 2005).

It should not be surprising, therefore, that recent polling shows extremely high levels of economic anxiety among all but the richest Americans. In April 2009, for example, two in three adults said "today's economy presents [me] with more risks" than my parents confronted—six times as many who said they faced fewer risks (Brownstein 2009). A poll that I helped design, fielded as part of the American National Election Studies, shows that in 2009, more than half of Americans reported being "very" or "fairly" worried about their economic security. As Table 1 shows, across a range of economic risks, more than half—and often more than two-thirds—of Americans report having some worries about their economic security. (The one exception is "keeping up housing payments," which was "not at all" a worry of 55 percent of homeowners.) The greatest worries concern retirement income adequacy (54 percent of respondents reported they were "very" or "fairly" worried), out-of-pocket medical costs and health insurance premiums (more than 40 percent), keeping or finding a job (39 percent), getting out of debt (39 percent), and losing one's spouse or partner due to death or family separation (39 percent).

Table 1: **Prevalence of Reported Worry About Economic Risks, 2009**

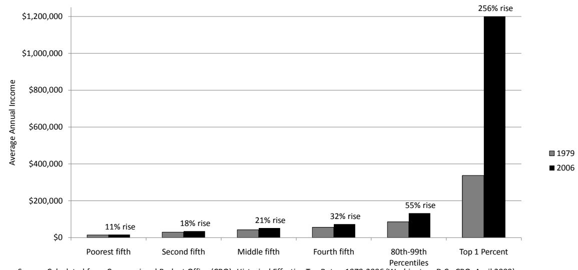
Domains of Risk	**Reported Prevalence, By Intensity of Worry — Spring 2009**			
	Very Worried	**Fairly Worried**	**Slightly Worried**	**Not At All Worried**
Overall Economic Security	24.3%	28.5%	35.7%	11.5%
Employment				
Keeping or Finding A Job	19.2%	19.7%	30.7%	30.5%
Wealth/Housing				
Keeping Up Housing Payments	12.4%	11.6%	25.0%	55.0%
Getting Out of Debt	20.6%	18.6%	25.4%	35.4%
Adequate Retirement Income	30.1%	24.1%	25.7%	20.0%
Nursing Home Costs in Retirement	11.5%	15.5%	32.5%	40.5%
Medical/Health Insurance				
Out-of-Pocket Medical Costs	19.0%	22.1%	34.6%	24.3%
Losing Health Insurance	17.3%	16.7%	31.1%	35.0%
Cost of Insurance Premiums	19.9%	22.4%	35.8%	21.9%
Familial Responsibilities				
Helping Out Family Financially	11.6%	20.0%	38.4%	30.0%
Losing One's Spouse/Partner	21.8%	17.7%	27.2%	33.3%

Source: Wave 15 of the 2008-2009 ANES Panel Study, comprised of U.S. citizens in the general population aged 18 or older as of November 2008, fielded between March 11 and April 9, 2009.

Even before the recent economic crisis, however, Americans overwhelmingly declared that the economy had become less secure in the last decade (65 percent, according to a February 2007 survey), instead of more secure (19 percent), and the strongest sense of rising insecurity was felt among those with family incomes between $36,000 and $92,000 (who said things have grown less secure by a more than four-to-one margin, 67 percent versus 17 percent; Rockefeller 2007). In the same 2007 poll, a majority of Americans also expected things to get less secure over the next 20 years.

It would be one thing if all this risk came with great reward for middle class, but it has not. The Congressional Budget Office has put together a comprehensive measure of the distribution of income, based on actual tax records as well as reported income in surveys (see Figure 2). Taking into account all government taxes and benefits, as well as private workplace health insurance and pensions, the middle quintile of households (that is, the 20 percent of households above the bottom 40 percent and below the top 40 percent) saw their inflation-adjusted incomes rise from $41,900 to $52,100 between 1979 and 2006—a gain of 21 percent (Congressional Budget Office 2009). The average after-tax incomes of the richest 1 percent of households rose from just over $337,100 a year to more than $1.2 *million* over the same period—an increase of more than 250 percent. Put another way, *more than a third* (36 percent) of total economic gains over the 1979-2006 period accrued to the richest 1 percent of households. By contrast, only 8 percent were received by the middle fifth. And recall that most of the income gains of middle-class families are due to the fact that family members are working more hours, not higher pay. The risk-reward trade-off looks more like a risk-reward rip-off.

Figure 2: Average Household After-Tax Income Including Public and Private Benefits, 1979 and 2006



Source: Calculated from Congressional Budget Office (CBO), *Historical Effective Tax Rates, 1979-2006* (Washington, D.C.: CBO, April 2009), www.cbo.gov/publications/collections/tax/2009/average_after-tax_income.xls). Income includes wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, cash transfer payments, and cash retirement benefits, as well as all in-kind benefits, such as Medicare, Medicaid, employer-paid health insurance premiums, food stamps, school lunches and breakfasts, housing assistance, and energy assistance. Federal taxes are subtracted from income and account for not just income and payroll taxes paid directly by individuals and households,

The Political Challenge

Growing economic insecurity is often viewed in exclusion from politics. Yet it is deeply related to a series of fundamental changes in the American political system over the last generation that have pushed toward the restriction of government efforts to deal with growing inequality and increasing risk of economic loss (Hacker and Pierson 2010).

The most fundamental of these shifts is the one that we most frequently take for granted: the rise of an aggressive, well-organized, and politically powerful conservative movement. The Republican Party suffered such serious losses at the polls (and in opinion polls) in 2006 and 2008 that it is difficult to remember just how powerful they became during the thirty years in which economic insecurity and inequality rose, or how pervasively they reshaped U.S. economic and social policy over this era. But it is important to understand the sources and the effects of the more hard-edged conservative critique of U.S. social and economic policy that has come to characterize the contemporary GOP—not least because, as of this writing in May 2010, the Republican Party is poised to make major gains in the fall midterm election by capitalizing on widespread voter discontent with the economy and the bailout of the financial sector.

Conservatism was on the defensive in the 1960s and early 1970s—as vividly confirmed by Barry Goldwater's crushing defeat by Lyndon Johnson in 1964. In the wake of Goldwater's repudiation, however, conservatives regrouped and refashioned their strategies. Mixing a libertarian emphasis on free markets and limited government with the more authoritarian prescriptions of America's emerging social conservative movement, the Republican Party and its grassroots backers roared back in the late 1970s—particularly in the South, where the national Democratic Party's support for civil rights drove a stake through the heart of its once-dominant one-party regime. With voting patterns forged during the New Deal finally loosened, Republicans crafted a new electoral and governing coalition that was able to capture the White House in every election but two from 1980 on—and which finally took Congress in 1994.

The success of conservatism in American politics was not just felt in electoral victories. Arguably, in fact, conservatives greatest success came in their ability to leverage often-slim electoral margins into fundamental changes in the tenor and direction of American policy debates (Hacker and Pierson 2005). Conservative political elites sought to privatize existing programs so as to increase personal responsibility and personal exposure to risk. They emphasized greater control over individual behavior as an alternative to expanded redistribution or insurance. They argued for a shift away from progressive taxation and toward a so-called consumption tax that would reduce taxes on the wealthy and raise them on the middle class.

Many of these ambitious goals have proved politically infeasible, but that does not mean they have not been pursued in more incremental, subterranean fashion. Such strategies of stealth took three main forms: (1) efforts to "convert" existing policies by changing the way they are carried out on the ground, (2) efforts to "layer" new policies on top of old ones so as to change the operation of the old, and (3) efforts to abet the "drift" of policies away from their original purposes by blocking attempts to update existing policies to new social circumstances (Hacker 2004).

During the 1980s and 1990s, for example, conservatives advocated the expansion of tax-favored retirement accounts, like 401(k)s, in part to create a "parallel system" of retirement savings that could compete directly with Social Security and ultimate become a basis for a shift away from the public retirement program (Butler and Germanis 1983). They also expanded the role of private health plans within Medicare, arguing that the program should shift away from a guaranteed-benefit model to a system of government-regulated competition in which seniors would have a fixed amount with which to purchase private health plans (Hacker 2004, 2006).

Moreover, in an environment of new or worsening social risks, conservatives did not have to enact major policy reforms to move policy toward their favored ends. Merely by delegitimizing and blocking compensatory interventions designed to ameliorate intensified risks, they were able to gradually transform the orientation of existing programs, allowing these programs to drift away from their original mission.

In trying to prevent policies from being updated, conservatives were greatly aided by the fragmented character of American government, with its multiple "veto points" where action could be blocked, and by the growing "polarization" of members of Congress, which made it harder to reach agreement on policy measures to update the eroding social contract. Gridlock was much better for the conservative project than it was for the cause of maintaining American social protection in the face of economic and social changes.

Perhaps the most important institutional source of stalemate in the 1990s and 2000s, was the rising prominence of the Senate filibuster. The filibuster—the tradition of unlimited debate in the Senate that requires sixty Senate votes to overcome—has metastasized from a procedure that was used rarely by intense minorities in the Senate into a normalized tool of minority obstruction. Cloture motions to end filibusters tell part, but only part, of the story. Since the 66th Congress of 1919-20, more than 1,200 motions have been filed to invoke cloture.[2] *More than 80 percent of them were filed since the 97th Congress of 1981-82, and more than 60 percent just since the 103rd Congress of 1993-94.* Although the filibuster surely displaced other, less formal forms of Senate obstruction, these activities were simply nothing like the hard-and-fast "rule of sixty" that now reigns. Controversial laws were routinely passed with majorities well short of the cloture threshold (which was *higher* before the 1970s). As the dean of congressional scholars David Mayhew (2008, 274) has put it, "Never before has the Senate possessed "any anti-majoritarian barrier as concrete, as decisive, or as consequential."

The filibuster matters in part because of how skewed the Senate already is in favor of less populated and generally more conservative states, thanks to the "great compromise" of two senators per state. This skew is actually greater now than it was in earlier eras when the filibuster was less commonly used. Compared with a population-based apportionment, the Senate is more rural, more Republican, and whiter, with effects on the apportionment of funds, the representation of minority groups—and the outcome of big legislative fights like the health care debate (Lee and Oppenheimer 1999; Griffin 2006). Even when a filibuster is unsuccessful, it shifts the center of political gravity substantially away from the center.

The filibuster would matter much less, however, if the two parties in government had not become so much more ideologically cohesive and distinct. Much contemporary commentary centers on the "polarization" of American politics, but the term is misleading, inasmuch as it implies that both parties have moved away from the center of American politics at equal speed. In fact, Republicans have moved substantially farther to the right of the political spectrum than have Democrats (Hacker and Pierson 2005, 2010). Furthermore, the reasons for the shift differ: Republicans have moved right because nearly *all* Republican politicians are more conservative than Republicans of a generation ago. Among Democrats, most of the shift to the left has occurred because conservative Southern Democrats in the South have lost office to conservative Republicans. The growing difficulty of reaching agreement in American politics was not, in short, an equal opportunity affair. It was driven by the shift of the Right farther right, and its effect was to abet the drift of American economic and social policy away from providing a basic foundation of economic security for workers and their families.

The inference most analysts take from the rightward shift of Republican sis that American voters as a whole have grown more conservative. Popular concerns did indeed spur GOP political gains in the late 1970s. But according to the weight of the evidence, middle-of-the-road Americans have not grown more conservative since the early 1980s, and may even have become slightly more liberal. James Stimson, for example, has developed a comprehensive measure of public ideology that shows that Americans are substantially more *liberal* today than they were in the early 1980s (Stimson 2004, n.d.). Given the difficulty of coming up with consistent measures of public opinion that are comparable over time (and not simply reactive to present circumstances), these results should be viewed with considerable caution. But they do strongly suggest that the shift of the Republican Party to the right—over an era in which the

GOP has become the dominant force in American politics—is not driven by a general public shift to the right.

Nor does the rise of a more conservative American political establishment seem to reflect an elevation of "moral issues" above economic concerns, which might be thought to explain why in an era of rising insecurity and inequality, voters have not turned against the Republican Party with its low-tax, limited-redistribution messages. Instead, voting has become *more* class-stratified—with low-income voters tending to vote Democrat, and high-income voters tending to vote Republican—than it was immediately after World War II (McCarty, Poole, and Rosenthal 2006; Bartels 2008). At the same time, economic issues appear to have become *more* important in motivating voter choice, and a more prominent part of the platform of both parties (Bartels 2008; Smith 2007). Whatever the reason for the conservative ascendance, it certainly does not signal that economic issues have faded in importance as a source of conflict between the parties or a motivator of voter choice.

Indeed, many of the most important changes in American politics have occurred at the level of political organization, rather that at the level of voter opinions or roll-call votes in Congress. The decline of organizations that once represented middle- and working-class voters on economic issues, such as unions and fraternal societies, has been accompanied by the rise of a well-networked and politically savvy conservative movement—organized at the grassroots level through churches and local business organizations and at the national level through think tanks, expanded business lobbies, and GOP-affiliated political action committees (Skocpol 2003).

Perhaps most important, money has become markedly more important as a political resource, as the cost of campaigns has skyrocketed. And money has always been the most unequally distributed of political resources: In 2000, an eighth of American households had incomes greater than $100,000; yet these fortunate households made up 95 percent of those who gave a thousand dollars or more to a campaign that year (Task Force on Inequality and American Democracy 2004). The parties now contact between a quarter (Democratic Party) and a third (Republican Party) of the wealthiest of Americans directly during campaign seasons, up from less than 15 percent of these high-income voters in the 1950s (Campbell 2007). Recent studies of representation suggest that lower-income Americans have little or no influence over the voting or policy choices of their elected representatives, while the most affluent have the greatest sway (Gilens 2005; Bartels 2008).

Tallying up the effects of these organizational shifts is not easy. For example, while business groups have gained ground, so have new "public-interest" organizations, organized around the environment and other single-issue causes. But these public-interest groups have neither coordinated their activities as effectively as conservative organizations have nor have they focused their attention on the economic issues that have continued to motivate voters and drive party conflict. Overall, therefore, the changes in American political organization just described have clearly weakened the political voice of the less advantaged on economic issues—which, of course, was never all that loud to begin with. With the exception of organizations representing the elderly (whose focus is the aged, not younger Americans) and a greatly weakened labor movement, few groups representing middle and lower income Americans are now major players in America's fierce debates over economic issues.

The Policy Challenge

As the last section suggests, the Great Risk Shift is not a financial hurricane beyond human control. True, sweeping changes in the global and domestic economy have helped propel it, but America's leaders could have responded to these forces by reinforcing the floodwalls that protect families from economic risk. Instead, lacking strong political pressure to address new and newly intensified risks and shore up dwindling protections, those leaders have acted in ways that have eroded the floodwalls that protection families even further. Proponents of these changes speak of a nirvana of individual economic management—an "ownership society" in which Americans are free to choose. What they are helping to create, however, is very different: a world of economic insecurity in which far too many Americans are free to lose.

Of course, we cannot turn back the clock on many of the changes that have swept through the American economy and American society, nor would we always want to. Accepting our new economic and social realities does not, however, mean accepting the new economic insecurity, much less accepting the assumptions that lie behind the current assault on the ideal of security. Americans will need to do much to secure themselves in the new world of work and family, but they should be protected by an improved safety net that fills the most glaring gaps in present protections, providing all Americans with the basic security they need to reach for the future as workers, as parents, and as citizens.

The first priority for restoring security should be Hippocrates' "do no harm." Undoing what risk pooling remains in the private sector without putting something better in place does harm. Piling tax break upon tax break to allow wealthy and healthy Americans to opt out of our tattered institutions of social insurance does harm. And though simplifying our tax code makes eminent sense, making it markedly less progressive through a flat tax or national sales tax would also do harm. A progressive income tax, after all, is effectively a form of insurance, reducing our contribution to public goods when income falls and raising it when income rises.

Yet while we should work to preserve the best elements of existing policies, we should also recognize that the nature and causes of insecurity, as well as our understanding about how to best address it, have evolved considerably. During the New Deal, economic insecurity was largely seen as a problem of drops or interruptions in male earnings, whether due to unemployment, retirement, or other costly events. Even as working women became the norm, our programs failed to address the special economic strains faced by two-earner families. So too did they fail to address the distinctive unemployment patterns that became increasingly prevalent as industrial employment gave way to service work—for example, the rising prevalence of long-term unemployment (in 2010, it took an average of more than 20 weeks to find a new job—double the amount of time in the 1982-83 recession (Scherer 2010)) and the shift of workers from one economic sector to another that often leads to large cuts in pay and the need for specialized retraining.

Flaws in existing policies of risk protection have also become apparent. Our framework of social protection is overwhelmingly focused on the aged, even though young adults and families with children face the greatest economic strains. It emphasizes short-term exits from the workforce, even though long-term job losses and the displacement and obsolescence of skills have become more severe. It embodies, in places, the antiquated notion that family strains can be dealt with by a second earner—usually a woman—who can easily enter or leave the workforce as necessary. Above all, it is based on the idea that job-based private insurance can easily fill the gaps left by public programs, even though it is ever clearer that it cannot.

These shortcomings suggest that an improved safety net should emphasize portable insurance to help families deal with major interruptions to income and big blows to wealth. They also mean that these promises should be mostly separate from work for a particular employer: a commitment that moves from job to job. If this sometimes means corporations are off the hook, so be it. In time, they will pay their workers more to compensate for fewer benefits, and there are plenty of ways to encourage their contribution without having them decide who gets benefits and who does not.

By the same token, however, we should not force massive social risks onto institutions incapable of effectively carrying them. Bankruptcy should not be a backdoor social insurance system. Private charity care should not be our main medical safety net. Credit cards should not be the main way that families get by when times are tight. To be sure, when nothing better is possible, the principle of "do no harm" may dictate protecting even incomplete and inadequate safety nets. The ultimate goal, however, should be a new framework of social insurance that revitalizes the best elements of the present system, while replacing those parts that work less effectively with stronger alternatives geared toward today's economy and society.

Most of us think of our nation's safety net as a way of helping those who have had bad fortune or have fallen on hard times. Yet providing economic security has far broader benefits for our economy and our society. Corporate law has long recognized the need to limit the downside of economic risk-taking as a way of encouraging entrepreneurs and investors to make the risky investments necessary to advance in a capitalist economy. The law of bankruptcy and the principle of limited liability—the notion that those who run a firm are not personally liable if the firm fails—allow entrepreneurs to innovate with the security of knowing they will not be financially destroyed if their risky bets fail (Moss 2002).

Just as there needs to be basic protections for entrepreneurs to foster risk-taking, families also need a basic foundation of financial security if they are to feel confident in making the investments needed to advance in a dynamic economy. All of the major wellsprings of economic opportunity in the United States—from assets to workplace skills to education to investments in children—are costly and risky for families to cultivate. Providing security can encourage families to make these investments, aiding not just their own advancement but the economy as a whole.

Providing economic security appears even more beneficial when considered against some of the leading alternatives that insecure citizens may otherwise back. Heavy-handed regulation of the economy, strict limits on cross-border trade and financial flows, and other intrusive measures may gain widespread support from workers buffeted by economic turbulence, and yet these measures are likely to reduce growth.

The challenge, then, is to construct a twenty-first-century social contract that protects families against the most severe risks they face, without clamping down on the potentially beneficial processes of change and adjustment that produce some of these risks. Three areas of economic risk in particular cry out for attention: employment risks, retirement income risks, and health care risks. But it would be a mistake to only design economic protections narrowly around specific economic concerns. Another priority is to create new and flexible policies for dealing with economic risks of all kinds. I propose one such policy, "Universal Insurance," at the end of this section.

Dealing with Risks to Workers

Nowhere is the need for both restoration and reform more transparent than in our need to upgrade protections for the unemployed after decades of drift and neglect. Unemployment insurance has eroded dramatically in the last generation (see, for example, Graetz and Mashaw 1999). And while important reforms were passed in 2009 as part of the American Recovery and Reinvestment Act of 2009 (the so-called stimulus package), they were much less sweeping than needed. Moreover, their success remains dependent on state policy decisions and state financing of unemployment insurance trust funds—both of which have limited their impact to date and carry the risk of future reversals. However, broad ideas for restoring unemployment insurance through comprehensive, national action are not hard to find, and the cost would be comparatively modest (see, for example, Kletzer and Rosen 2006;).

Restoring strong national standards that require states to cover workers who have worked for a minimum time would go a long way toward filling the gaps in the present program. An automatic trigger that extends benefits beyond their usual six-month cut-off on a progressively less generous basis would address increases in long-term unemployment while also encouraging workers to find new jobs. Long-term unemployment benefits could also be provided in the form of retraining vouchers to use for the purchase of private educational services.

Unemployment insurance, however, is not designed to deal with the most serious risk of losing a job—long-term declines, rather than temporary interruptions, in earning power and standard of living. Long-term joblessness has grown much more severe in the post-2007 downturn, though the problem of permanent job displacement predates the recent recession. There is increasing agreement among economists that some form of wage insurance is needed for workers displaced by trade or reengineering who are unable to find a new job with comparable pay or benefits (see, for example, Kletzer 2001). These proposals are vastly superior to restrictions on company hiring and firing, which can lead to labor-market inflexibility. It is for this reason that even some of the most ardent free-marketeers support wage insurance.

The details of wage insurance proposals differ, but each would provide a supplement to wages to encourage workers to take new jobs even if paying less than old jobs. To encourage workers to search aggressively for a higher-paying job, such assistance should cover only a portion of the wage loss that follows a job switch, and should decline gradually over time. However, such policies should not be limited to workers displaced by trade, as is true of most existing government help for displaced workers. The experience of losing a job is just as devastating if your job disappears forever as it is if your job heads off to a country where labor costs are lower.

Unemployment insurance could also be the platform for dealing with the most serious work-family conflict faced by many Americans today: the difficulty of taking time off when children enter our families. Encouraging states to provide several weeks of paid leave to care for newborns, newly adopted children, and newly placed foster children would, in a stroke, greatly reduce the strain that working Americans face when they decide to start a family.

Securing Retirement

If young workers need assurances to raise the next generation of Americans, they also need assurances to plan for their own future. The incentives for higher-income Americans to save have ballooned with the expansion of tax-favored investment vehicles. Yet most Americans receive relatively modest benefits from these costly tax breaks. In the words of one knowledgeable commentator, our incentives for saving are “upside down,” delivering most of their benefits to people who have substantial income and assets and virtually nothing to the vast majority of Americans who most need to save (Orszag and Pechman 2004). Replacing the current welter of tax breaks for non-retirement savings with a single Universal Savings Account that is most generous for Americans of ordinary means would go a long way toward restoring the balance.

Yet, when it comes to personal savings, the biggest challenge today is preserving a system of broad, guaranteed retirement pensions, including Social Security. Defined-benefit pensions are a thing of the past for workers who expect to retire in thirty or forty years, and defined-contribution plans, such as 401(k)s, are failing miserably to provide a secure foundation for workers' retirement. Securing our one guaranteed system, Social Security, is thus all the more essential. The future financial threats to Social Security are well known, if often exaggerated. But dealing with them does not require abandoning the core elements of the program: guaranteed lifetime benefits paid on retirement, provided as a right, and linked to lifetime earnings. The funding shortfall within the program can be relatively easily closed by increasing revenues into the program by raising the portion of high-income Americans' wages and salaries that are subject to taxation and by taxing capital as well as labor income, as well as by making Social Security benefits very modestly more progressive and by tying benefits to future longevity so that fortunate generations that live longer than the last receive slightly less from the program than now promised (for a proposal along these lines, which relies more on benefit cuts than necessary, in my view, see Diamond and Orszag 2005).

Even with these changes, however, today's workers will need other sources of income in retirement. As they are presently constituted, 401(k)s are not the solution. Too few workers have access to them, enroll in them, put adequate sums in them, or roll the amounts in their accounts (so-called lump-sum payments) into other tax-favored retirement accounts when they leave a job (see, for example, Munnell and Sunden 2006). Instead, we should create a universal 401(k) that is available to all workers, whether or not their employer offers a traditional retirement plan. Employers would be encouraged to match employee contributions to these plans, and the government could provide special tax breaks to employers that offered better matches to lower-wage workers.

Since all workers would have access to universal 401(k)s, there would no longer be the possibility that lump-sum payments would be spent instead of saved for retirement when workers lose or change jobs. All benefits would remain in the same account throughout a worker's life. As with 401(k)s today, workers could withdraw this money before retirement only with a steep penalty. Unlike in the present system, however, the same rules that now protect traditional pension plans against excessive investment in company stock would govern 401(k)s. What is more, the default investment option under 401(k)s should be a low-cost index fund with a mix of stocks and bonds that automatically shifted over time as workers aged, to limit the market risk as they approached retirement. Finally, and no less important, there should be serious consideration of the idea of requiring that 401(k) accounts be transformed into a lifetime guaranteed income at age 65, unless workers specifically requested otherwise and could show they had sufficient assets to weather market risk. Moreover, to help workers plan ahead, 401(k) balances would be reported to account holders not simply as a cash sum, but also as a monthly benefit amount that workers would receive when they retired if they had an average life expectancy, just as Social Security benefits are reported.

Health Care for America

Health care is at the epicenter of economic insecurity in the United States today for two interwoven reasons: health care costs have exploded and coverage has dwindled. The only way to address these twin problems is to address them simultaneously, broadening coverage so as to exercise effective control over costs.

This is, of course, the goal of the Affordable Care Act of 2010. The Act is a major step forward in providing health security. It is incomplete, however, in several key respects, and will require major updating over time. In addition, its passage by no means signals the end of the fierce political conflict that preceded its enactment.

The Affordable Care Act rests on three pillars: (1) a requirement that all Americans have coverage (with hardship waivers for those with very premium costs); (2) a framework for obtaining insurance outside of employment (state insurance exchanges) along with new regulations on insurers; and (3) large new federal subsidies to defray the cost of coverage through the exchanges for low- and middle-income families, coupled with the expansion of Medicaid up the income ladder. Although the Congressional Budget Office projects that the Act will cover more than 30 million people by 2019 and more than pay for itself, it is important to recognize that these projections are only that—projections. Much depends on the implementation of the law and the resolution of political battles currently surrounding it. Indeed, the main features of the law do not take effect until 2014.

The Affordable Care Act has two notable weaknesses that must be addressed to ensure broader health security is achieved and maintained. First, it relies heavily on the cooperative behavior of three sets of actors with their own distinct policy goals: states, employers, and insurers. The first are charged with creating the exchanges and expanding the Medicaid program, as well as carrying out the regulations of insurers. Although there is federal authority to intervene if states fail to set up exchanges, the law is more ambiguous when it comes to partial compliance, and very vigilant oversight at the federal level will be required to ensure that states act in keeping with the law. Moreover, the law creates a parallel set of national health plans for those without insurance, run by the Office of Personnel Management (OPM), the federal agency that handles the Federal Employees Health Benefit Program. This part of the law creates opportunities as well as risks, too.

Employers' and insurers' cooperation is required as well. Employers that now provide insurance may decide to drop it so their workers can receive coverage through the exchanges (which will entail paying a penalty, but could nonetheless be attractive to many). If this occurs on a broad scale, the effects of the law will be much more sweeping and potentially destabilizing than projected. As for insurers, they are certain to work hard to undermine the reach of the insurance regulations—and in many states, they may have the upper hand politically.

The second notable weakness of the Affordable Care Act regards cost-containment. Put bluntly, the cost controls in the Act are weak. Mostly for political reasons, the Act relies heavily on innovations in payments in Medicare, which, it is hoped, will diffuse into the private sector. Enhanced insurance market competition is a second, more speculative source of savings. The evidence suggesting that such measures will substantially slow the rate of increase in U.S. health spending is weak to non-existent, and indeed the CBO did not project large premium savings; most of the savings achieved by families will occur because of the direct federal subsidies and expansion of Medicaid (CBO 2010). But without serious restraint on costs going forward, the aims of the legislation—broader coverage, more affordable insurance, and thereby greater health security—will not be sustainable. Worse, the budgetary pressure on the federal government may well lead to cutbacks in the subsidies for coverage, reversing some of the gains made by the law. It nay also lead to calls for slashing Medicare by, for example, converting it into a defined-contribution plan that provides a fixed voucher for private coverage for Medicare enrollees. This would push more risk onto Americans, rather than push back against the Great Risk Shift.

Many commentators suggest that cost control is beyond the capacity of the federal government. This is false: In fact, since payment controls were first introduced into the Medicare program in the early 1980s, Medicare's costs per patient have risen slower, on average, than private health insurance spending per patient—with the gap particularly pronounced in recent years. Between 1997 and 2006, for example, health spending per enrollee (for comparable benefits) grew at 4.6 percent a year under Medicare, compared with 7.3 percent a year under private health insurance—even as Medicare maintained high levels of provider participation and patient access to care (Hacker 2008).

Certainly, Medicare faces serious strains. Yet the common critique of Medicare—that it is overly generous—is untrue. Medicare coverage is substantially less generous than the norm in the private sector. If we decide as a nation that we cannot "afford" Medicare, then we are deciding that we cannot afford to provide even relatively basic health care to the aged. Few Americans, I am certain, are ready to accept this dismal conclusion—and rightly so. Almost every other advanced industrial country provides insurance not just to the aged, but to all citizens, while spending much less on a per-person basis than the incomplete system of the United States (Woolhandler and Himmelstein 2002). Furthermore, many of these nations have older populations than we do, have citizenries that go to the doctor more often, and have better basic health outcomes. Yet their overall health spending remains far below ours and, in many cases, has also been growing more slowly (Anderson et al. 2000).

In the end, the main problem with Medicare has nothing to do with its effectiveness but rather with its limitation to the aged and disabled. This limitation hobbles the public sector ability to control costs because the program's reach is so restricted. It also means that paying for Medicare inevitably pits the needs of younger Americans against the needs of older Americans. Rather than take away the security of Medicare because younger Americans lack comparable protections, we need to build on the Medicare model while shoring up employment-based coverage where it works well to ensure that all Americans without secure workplace coverage have access to a new public health insurance plan as well as regulated private options.

How can this be done? By building on the new law in two key areas. First, the requirement on employers should be broadened so that, rather than requiring on a penalty system sanctioning employers that don't cover their workers, all employers would instead be given an affordable choice: They could provide insurance at least as generous as provided by the new national plans overseen by OPM, or they could pay a modest amount to help finance coverage for their workers, who would then be enrolled automatically in either these plans or the state exchanges. (Over time, I would argue for moving toward a national exchange.) People enrolled through these non-employment means would pay subsidized, affordable premiums based on their income and family size. More important, they should be able to choose a new Medicare-like public as well as among a range of private plans—a second major amendment to the 2009 law.

Those who followed the 2009 debate will recognize this last idea as the "public option" that I first developed in the early 2000s and which nearly was included in the legislation (Hacker 2001, 2008, 2009; Lewin Group 2008; Hacker 2007). Critics of the public option argued that it would wipe out private health insurance, but this is false on two counts. First, employment-based coverage may well decline under the current law, because employers will choose to pay a penalty rather than provide insurance. But this is true *regardless of whether there is a public option*. Under the approach I recommend, however, employers would instead be given a choice that ensured their workers were covered**,** while requiring that they make at least a minimal commitment to financing coverage for their workers. In higher-wage firms and unionized industries, it would still be in the best interest of companies to provide broad coverage. Unlike the present reform law, then, the refined framework I am proposing would ensure that everyone who works has secure health insurance, that many more workers can choose their plan (including a plan with free choice of doctors and specialists), and that firms that now struggle to provide health benefits, or cannot provide them at all, have an attractive, low-cost option for doing so.

Second, the new public option would co-exist alongside private plans, competing with them on a level playing field. To be sure, because the new public plan could come to cover a substantial share of those without secure workplace coverage, it could strong leverage to bargain for low prices on behalf of covered Americans and their employers. This, however, would create greater competitive pressures on private plans to hold down costs, creating greater savings and health security for all Americans. The goal is a system in which private insurance and public insurance are encouraged to compete in a regulated market that rewards plans that deliver better value and health to their enrollees. Public insurance can be a benchmark for private plans and a source of stability for enrollees, especially those with substantial health needs. Private plans can provide an alternative for those who feel that public insurance does not serve their needs and a source of continuing pressure for innovation in benefit design and care management. And both should have a chance to prove their strengths and improve their weaknesses in a competitive partnership.

Over time**,** the program I have just described could evolve in different directions, depending on how employers, on the one hand, and the public option and regulated private plans, on the other, fared in controlling costs. If employers came under greater financial strain in their management of health costs, they would have the option of contributing to the cost of coverage through the exchanges rather than providing coverage directly. If, however, they improved their ability to control costs, they would be more inclined to provide coverage on their own. Thus, this system would create a constructive public-private dynamic that would enroll the largest number of patients in the sector best able to provide affordable, high-quality health care—without holding the health security of ordinary Americans in the balance.

Universal Insurance

I have left for last the most inclusive and novel idea for dealing with the rising economic risks facing Americans**:** a new program I call "Universal Insurance." Universal Insurance would protect workers and their families against catastrophic drops in their incomes and budget-busting expenses.

The guiding principle behind Universal Insurance is that working families should have access to more than the highly segmented programs that now characterize American social protection. Instead, we should work to create a framework of insurance that instead covers all working Americans, that moves seamlessly from job to job and state to state, and that deals with the most severe risks to family finances, regardless of whether these risks fit neatly into existing program categories.

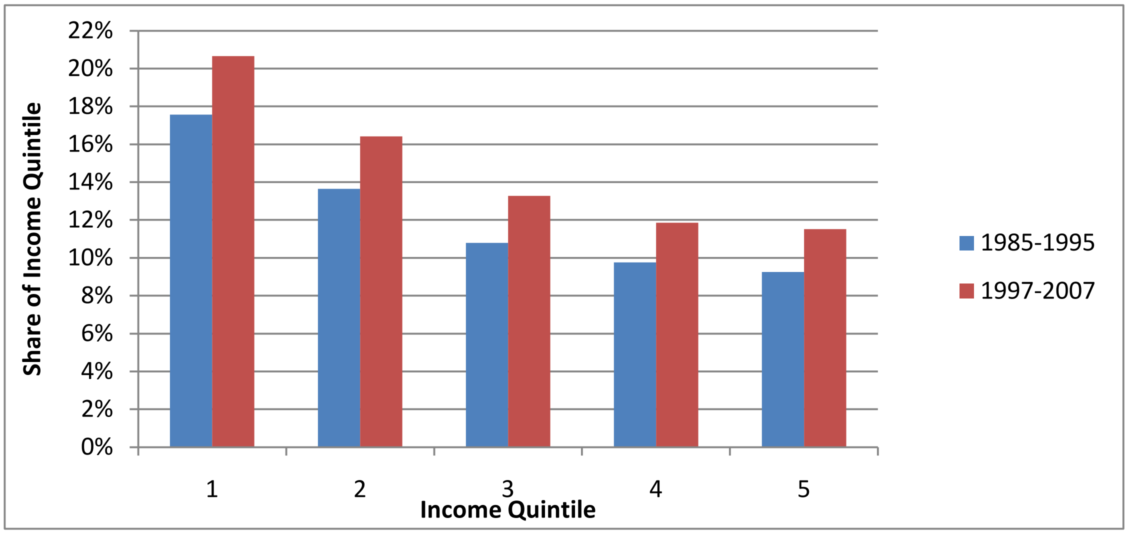
The label "Universal Insurance" is meant to connote two key features of the program. First, Universal Insurance would cover almost every citizen with any direct or family tie to the labor force, providing at least some direct benefits to virtually all families that who experience covered risks. Second, Universal Insurance would cover a wide range of risks to family income.

Universal Insurance is not a health program, a disability program, or an unemployment program. It is an income security program.[3]

Under Universal Insurance, all workers and their families would be automatically enrolled through their place of employment, paying premiums in the form of small income-related contribution (preferably including capital gains as well as labor income). In return for their premiums, workers would receive coverage for four potential shocks to family labor income that are large, serious, primarily beyond individual control, and incompletely protected against by present policies: (1) unemployment, (2) disability, (3) illness and maternity, and (4) the death of a family earner. In addition, Universal Insurance would provide coverage against catastrophic health costs–a leading source of economic strain. It could also be expanded to include paid family leave when workers need to take time off to have or raise children or care for family members in need of assistance. This coverage would apply to all families whose income was below a relatively high threshold (the 95th percentile of family income by state), and it would be available to families with assets as well as those without assets.[4]

Although nearly all families would be protected, Universal Insurance would be especially generous for lower-income families, which are most likely to experience large financial shocks and be most in need of help when they do. Figure 3 shows that the Rockefeller Economic Security Index is higher (more insecurity) for less affluent families than for more affluent ones. Lower-income families generally have little or no wealth to protect their standard of living when income declines, and they are least likely to have access to workplace health or disability insurance. Not surprisingly, therefore, unemployment has a much larger effect on the consumption patterns of lower-income families than it has on those of higher-income families.

Figure 3: Share of Americans Who Are Insecure, 1985-1995, 1997-2007, by Income Quintile



Notes: The "insecure" are those whose available household income declines by at least 25 percent from one year to the next (after adjusting for inflation), as a result of a decline in household income and/or an increase in out-of-pocket medical spending, and who lack an adequate financial safety net. Thus an individual is considered insecure if the sum of the increase in medical expenditures and lost annual income total at least 25 percent of his or her previous year's available income, as illustrated in Figure 3. Household income includes all private and government sources of income, including the estimated income value of defined-contribution retirement accounts, such as 401(k)s, for households with heads aged 60 or older. Household income is adjusted to reflect the economies of scale of pooling household resources and expenses. Household income is also reduced by the amount needed to pay off liquid financial debts when net financial wealth is negative. (All income is adjusted for inflation and expressed in 2009 dollars.) Individuals with adequate holdings of liquid financial wealth are not treated as insecure even when they experience 25 percent or higher income losses. We define "adequate" as enough liquid financial wealth to compensate for the lost income until typical recovery to pre-drop income or for six years, whatever comes first. Those entering retirement are also excluded from the count of the insecure even if available household income declines by 25 percent or more concurrent with retirement; once retired, however, they are counted as insecure when they experience such declines.

Source: Hacker et al. 2010.

Universal Insurance would aim to fill the gaps left by existing social insurance programs rather than replace these programs. It would thus be similar to private stop-loss insurance purchased by corporations to limit their exposure to catastrophic economic risks. By providing limited protection against large and sudden income declines, Universal Insurance would provide a much more secure backstop against catastrophic economic loss than Americans now enjoy. Moreover, Universal Insurance would provide this backdrop through the popular and successful method of inclusive social insurance, which pools risks broadly across all working families.

All these changes, of course, will not come without costs, and they certainly will not come without political struggle. Yet against the cost, one must balance the savings. Billions in hidden taxes are currently imposed by laws that facilitate bankruptcy, mandate emergency room care, and bail out the politically sympathetic when things go bad. The elimination of these expenses must be accounted for when tallying up the bill, as should the huge drain that our current system imposes when people do not change jobs, do not have kids, do not invest in new skills because they fear the downside risks. And we should not forget that the United States already spends as much as many European nations on social benefits; we just do so in a way that is enormously wasteful, inefficient, and incapable of providing economic security to those who most need it.

New Assumptions for New Realities

When it comes to economic risk, Americans have, for almost a century, seen a basic foundation of economic security as essential to the nation's economic prosperity and social health. The Great Depression of the 1930s—which left "a third of the nation," in FDR's famous telling, "ill-housed, ill-clothed, ill-nourished"—was widely seen as a natural disaster beyond the control or responsibility of the Americans it struck. In its wake, and especially after World War II, political and business leaders put in place new institutions designed to spread broadly the burden of key economic risks. These public and private institutions were never open to everyone. They required work, ongoing contributions, and proof of eligibility. But they were based on the notion that certain risks can only be effectively dealt with through inclusive institutions that spread costs across rich and poor, healthy and sick, able-bodied and disabled, young and old.

Today, however, this public-private framework is coming undone at the same time that new economic risks are increasingly buffeting American families. Over the last generation, we have witnessed a major transfer of economic risk from broad structures of insurance onto the balance sheets of American families. This transformation has reworked Americans' relationship to their government, their employers, and each others, with consequences for American politics and society that very much remain with us today.

In extreme form, American developments provide a window into transformations taking place in many affluent democracies, as fiscally constrained welfare states confront new and newly intensified social risks. The eminent sociologist Gosta Esping-Andersen (1997) has argued that the rise of new or newly intensified risks has strained the capacity of existing social welfare frameworks. In the "post-industrial" world of economic and family risks, the welfare state has had to run to stay still—to do more merely to secure past gains.

But Esping-Andersen and others have argued that this growing gap between risks and benefits is mostly a result of exogenous shocks to stable welfare states. In the United States, however, the Great Risk Shift has occurred due to active efforts to cut back benefits, driven in part by concerted political attacks on the ideal of economic security itself. Although public social programs have largely resisted the political and economic onslaught of recent decades, efforts to update them to changing social risks have failed, their ground-level operation has shifted in directions at odds with their initial goals, and new policies that subvert or threaten them have been put in place. The result has been a significant erosion of American social protection, despite the absence of many dramatic instances of policy reform. This helps explain why the United States stands out in cross-national comparisons of economic security, with only the United Kingdom and a few other nations appearing to follow a similar trajectory (though ones still markedly less dire).

Old assumptions are clearly no longer up to new realities. But the failure to revisit these assumptions and to face these new realities is not simply the result of outmoded thinking. It is the result of a profound political bias against effective responses to the new economic insecurity, grounded in major changes in American politics over the last generation. These include the rise of the filibuster as a barrier to active efforts to update our social policies, the increased sway of money and organized interests in American politics, and the rise of a powerful, organized conservative movement. To reclaim the ideal of economic security, therefore, requires not just new policy ideas, but also building public support and political momentum for a new social contract.

Today, America's public-private framework of risk protection is under strain, and most of that strain is coming from the erosion of private workplace benefits. It was once argued that government was not needed to provide basic risk protection—that private insurers could take care of health care; that private employers would ensure that everyone had a good pension. No one can confidently hold that view today. The only question is whether government should step in to assume the growing risks of America's flexible, dynamic, and, yes, risky economy, or whether Americans should be left to cope with these uncertainties largely on their own.

The argument for having government pool these risks is powerful: It could provide all Americans with the financial security they need to survive and thrive in a highly uncertain economy, encouraging workers to accept the downs as well as the ups of a largely unfettered free market. Social insurance programs like Medicare and Social Security feature low administrative costs and broad public acceptance and popularity. And because of the public sector's formidable bargaining power and unmatched standard-setting capacity, public health insurance programs are also arguably better poised than private-sector benefits to control spending on health services and encourage cost-effective medical utilization in the future. Certainly families like the Dorsetts—families thrust into the dark realities of medical bankruptcy by lack of adequate coverage—could expect greater health security if they had coverage under a broad public plan with guaranteed benefits and strict limits on out-of-pocket spending. That is why I have argued for expanding the Affordable Care Act to ensure a more seamless means of covering people either through employment-based insurance or regulated insurance markets with a public option.

But arguments like these are hardly universally accepted. For those who believe that risk protection interferes with the free play of competitive forces, for those who believe that government insurance merely coddles people who make the wrong choices, the only solution is to shift even more risk onto Americans' shoulders. The great debate of the twenty-first century will be whether the privatization of risk should be halted or hurried. And the outcome may well determine not just the future of U.S. social policy, but of the American model of capitalism as well.

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Notes

[1] The year 2005 was, of course, unusual because of the rush of filings before the 2005 bankruptcy bill took effect. The number in 2004, however, still exceeded 1.56 million, and it has been climbing back to pre-reform levels since 2006, despite the more stringent requirements that filers must now meet. In 2009, there were more than 1.4 million filings for personal bankruptcy.

[2] Data are available at http://www.senate.gov/pagelayout/reference/cloture_motions/clotureCounts.htm.

[3] Because Universal Insurance is an income-protection program, it would not take into account so-called in-kind benefits, such as Medicaid and subsidized child care. Under the proposal, Universal Insurance benefits would also not count against eligibility for antipoverty programs (although they would be treated as taxable income for all beneficiaries at the end of the year). Universal Insurance would, however, prevent many Americans from falling into poverty and would thus reduce the need for antipoverty benefits.

[4] Families with very extensive assets, however, would not be covered.