

At Home Abroad: The Presidential Election of 2004, the Politics of American Social Policy, and What European Readers Might Make of these Subjects

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Introduction

This chapter addresses two different, but related topics. The first is whether the US election of 2004 represents a serious mandate for social policy change. The second analyzes two of the most important social policy proposals that the Bush Administration decided to promote vigorously. Fundamental change in social insurance pensions, not prominent in the election, is now the most newsworthy source of social policy debate: proposals for individual risk-bearing retirement accounts that are misleadingly termed ‘privatization’. Medicare, the health insurance program for America’s elderly and disabled, was prominent in 2003-4, and remains so today. The relevant Medicare politics in 2005 will be about the implementation of the fundamental and highly controversial “reform” legislation enacted late in 2003. In both instances, the Bush Administration has used the language of imminent crisis to bolster policy reforms that in fact undermine rather than support America’s two most important social programs. This bold assertion, the core of the article, will require (and be given) extended argument and documentation.

In addressing these topics, one must also raise the question of whether—or in what ways—American reform programs and proposals are relevant to European social policy discussions generally or those in the United Kingdom particularly. In connection with that issue, I will take up one strikingly conventional framing of contemporary U.S.

social policy. That is the view that a new century—the 21st—presents new challenges to social policy, throwing up such new risks that a reconceptualization of the welfare state is warranted. The article closes with a largely sceptical response to that formulation.

Drawing lessons from the experience of other countries is never easy in any case (de Gier, de Swaan & Ooijens, 2004). This is especially problematic for Europeans when the topic is social welfare policy and the country compared is the United States. For decades now, the pattern of media coverage and academic commentary has been imbalanced. The US media—television coverage, radio broadcasts, newspaper reports and magazine stories—flow northward and eastward vastly more frequently than do southward flows from Canada or westward flows from the United Kingdom or continental Europe. The result is utterly asymmetrical, with others receiving much more information (accurate or not) about the U.S. than Americans receive about European or Canadian social policy. And, to compound matters, for most of the period after World War II, both European and Canadian commentators presumed that American social policy was underdeveloped, stingy, and, in some formulations, nothing but mean, means-tested, and humiliating programs for the poor. This posture, comforting to the observers, was never true and that further complicates lesson drawing. To put the point another way, learning about the United States with accuracy is a precondition, often not satisfied, for learning from its experience (de Gier et al 2004).

I. The US Election of 2004: Social Policy Implications for Those Abroad?

What, given the context noted above, should other social policy observers know about recent American social policy and how the risks of the 21st century are

understood? First, there is the question of what caused the electoral results in 2004 and, secondly the claim of an electoral mandate to change America in the direction of what President Bush calls an “ownership society.” There is much to learn about here, little in my view to envy and much to avoid.

A necessary condition for making sense of the role of social policy in this electoral struggle, however, is some familiarity with the rules of the American political game. US elections are almost never clear guides to the policy consequences in the following period. Partly, that is because only a third of the Senate—the second chamber—is up for election at any one time. In addition, Presidential contests typically feature broad claims about the direction candidates embrace, not detailed manifestos for particular policies to be enacted with an adequate legislative majority. (So, for instance, President Bush said remarkably little in the campaign of 2004 about the policy reforms he is now advocating for Social Security pensions.) Furthermore, in many areas of social policy, the principles of federalism leave to the states much of the initiative in policy change. That, too, was evident in the largest healthcare program directly affecting low-income Americans, Medicaid. Given that context, what can one conclude about the role of social policy in the 2004 and what is foreshadowed for the Bush second term?

The election of 2004 was much more an echo of the 2000 results than a dramatic Republican triumph that will change American politics fundamentally (Martin and Nadeau, 2004). Understandably described by the White House as a “mandate” for the future, the realities do not support this hyperbolic interpretation of a close election that, but for the outcome in Ohio, would have had a Kerry victory. For domestic politics, the likely prospects in 2005 and beyond are –despite the President’s constant appeal to a

reform mandate--continued stalemate over most of the crucial social policy issues in tax, health, and social security. Far from transforming the Congress, the election only marginally increased Republican majorities in the House and the Senate. Those margins are unlikely to produce anything like a Republican policy deluge. That the Bush Administration in its second term will attempt to produce a deluge is far more certain than its capacity to do so.

The clearest evidence for the 'echo' interpretation is the decisive role Ohio played this year, as compared with Florida's controversial result in 2000. Had Ohio—with economic conditions that were predicted to help the Democratic challenger—supported Kerry, the electoral result would have been reversed. (A change of 65,000 votes in Ohio would have made the difference according to reports in early December. By January, the evidence was accumulating that electoral fraud was involved and lawsuits are pending) So, why did the line-up of blue and red states remain so close to that of 2000, but the turnout and the margin of popular approval favour Bush so clearly? The answer does not appear to be popular approval of the war, agreement with the President's position on social security pensions and medical care, or support for his persistent pursuit of tax cuts that favour wealthier Americans.

In fact, the largest margins of support for Republican views emerged in what have come to be known as 'moral disputes' about the proper form of the family, the right conception of abortion policy, and, in particular, hostility to same-sex marriages. In eleven states, including "liberal" Oregon, citizens rejected in referenda every unorthodox challenge to the legal shape of the family. And they did so in proportions much greater than these states supported Bush over Kerry. In Ohio, for example, the ban on same sex

marriage won by overwhelming margins: 62% (3.2 million) yes votes versus 38% (2 million) no votes. In Florida, the “moral” issue on the referendum ballot was different. There the question was whether parents should be notified about abortion decisions of their minor daughters. The yes vote was 65% and the no vote, 35%, or 4.5 million Floridians agreeing with the President’s views and 2.5 million against (Marmor, 2004). These results appear to have increased turnout. And that may help to explain the greater mobilization of new voters in crucial `swing` states towards the Republican incumbent. What they undoubtedly demonstrate is that Bush’s margin on these issues greatly outdistanced his margins for the office of President.

These referenda results have little to do with the economic security issues that sharply divide the congressional parties. On social security pensions, there is no popular mandate for individual risk-bearing accounts that anyone can find. Indeed, there is public scepticism. On controlling medical care costs and Medicare reform, there is no evidence the President made gains where before his positions were less favourably received than those of Kerry. So, on public opinion concerning domestic politics, the picture is quite starkly opposed: support for so-called `family` and `wedge` issues, but not an ideological swing to the right on `bread and butter` issues. As Democratic pollster Stanley Greenberg put it, “very important things happened in this election to make Bush’s victory possible, but support for the president’s approach to domestic affairs is not one of them. The American electorate wanted change, but settled for the president” (Greenberg, 2004).

What does that foreshadow legislatively over the next four years? Stalemate is, as noted above, what I predict, with the Republican gains in the House and the Senate not enough to transform the rules of these institutions. Nor are the slight increases on the

Senate and House Republican totals likely to overwhelm the capacity of a determined Democratic congressional minority to block legislation they abhor with the old tool of the conservative coalition of the 1950s: the filibuster. In the Senate, 60 votes are required to stop debate—the filibuster when used to block legislation—and the Republicans number 55, with four so-called “liberal Republicans” likely to vote with the Democrats on issues of fundamental change in domestic policy, including changes in the makeup of the Supreme Court. What is equally important, the loss of Democratic Senate seats included three Southerners who were not party stalwarts.

Commentators from nations with parliamentary regimes, understandably used to the capacity of the majority party (or ruling coalition) to enforce voting discipline, have too easily accepted the idea of an American electoral mandate. American political institutions are designed to make it difficult to legislate, not easy. A determined minority has many means at its disposal if it has the will to use them. In the Bush first term, the President claimed a mandate when he lacked majority support in the popular vote. In the second term, Bush will surely appeal to this popular vote margin. But it is no more legitimate than Bush’s remarkable capacity to convince himself of his popular approval in 2000.

The fact is that this past November’s election echoed the divisions of 2000, with very few votes separating the two sides. That does not amount to saying either that social policy played no role in the election or that there are few differences between the parties on social policy. There are, but they were not decisive in this election. To matters of what Europeans would term ‘social assistance,’ the parties paid almost no attention. That reflects most of all the concessions President Clinton made to welfare reform in 1995,

cooperating with a Republican Congress' determination to "end welfare as we know it." In practice, this has meant terminating federal government guarantees of levels of social assistance that states use, effectively decentralizing the crucial issues that used to separate sharply partisan attitudes towards the alleviation of poverty. As in Britain, the common ground now is connecting welfare to work, with time limits on support accepted by congressional majorities. The result in 2004 was a campaign that largely ignored America's poor.

There were two respects, however, in which the distribution of income did figure in the election and implicate federal taxes in social policy. First, the very large current federal deficit was at the core of Senator Kerry's critique of the Bush Administration's fiscal policy. That policy had from 2001 incorporated what one could call 'military Keynesianism,' lower taxes and increased military outlays in connection with the wars in Afghanistan and Iraq. The Bush Administration claimed, of course, that their tax reforms were crucial to counteract the recession Bush faced. On the other hand, Kerry rightly emphasized that the bulk of the tax reductions enacted—and forecasted by Bush—were overwhelmingly concentrated on the top one percent of wealthy Americans. Whatever the merits here, the second and more crucial impact of fiscal policy on post electoral social policy is simply this. Even if Bush's proposals for further tax reductions are *not* enacted, the fiscal realities are such that bold social policy initiatives are unlikely. The deficit is at such a level that fiscally conservative Democrats and Republicans will likely balk at any expansionary social policy reform.

Primary and secondary education is a policy topic not usually grouped under the same rubric as welfare, social security, and medical care. But because of education's

crucial link to equality of opportunity, it did figure in the electoral campaign. What transpired was mostly an argument about whether the key reform of the first Bush term—the so-called “No Child Left Behind Act”—and the ensuing program was or was not adequately funded. The salience of that issue in the campaign was modest, while it is certain that the congressional struggle over aid to primary and secondary education will be constrained by the fiscal policy realities discussed above.

Where the electorate spoke most powerfully and differently—the family issues noted above—it had little to do with the role of the federal government in health, education, tax and social security. An echo is, of course, a great disappointment to the Democrats. But it does not constitute a breakthrough in American domestic politics. A more accurate predictive image might be mud-wrestling for four years.

II. Medicare and Social Security: The Major Arenas of Conflict

A snapshot of social policy—whether looking back on 2004 or forward to 2005 and beyond—almost always misleads in the sense that it understates incremental, quiet change over longer periods of time. In the case of Medicare, America’s social insurance form of health financing for its citizens over 65 and its disabled workers, we have an exception. The Bush Administration’s legislative reforms of late 2003 foreshadow in 2004 and beyond fundamental, non-incremental changes in the program. Dubbed the Medicare Modernization Act, the law provided both a complicated and controversial outpatient prescription drug benefit and, at the same time, set in motion long term and profound changes in the terms, financing, and administration of what has been largely a

single health insurance plan. Understanding how that happened and what it means requires some extended political reporting and analysis.

Medicare In Political Flux: A Story of Unjustified Hope, Undoubted Scandal, and Unwarranted Fear

For much of 2003, Medicare was regularly front page news in the United States. There was the initial surprising announcement in the spring that the Bush Administration would now strongly promote the addition of outpatient prescription drugs to the Medicare program. (This was a surprise because until then the pharmaceutical industry had typically opposed such a reform and President Bush had largely avoided Medicare in the wake of the tragedy of 9/11) The Bush proposal, first estimated to cost \$400 billion over ten years, ignited an intense partisan fight. The question raised in that struggle was whether a Democratic or Republican version of this Medicare ‘improvement’ would emerge from the Congress after a decade of stalemate over the issue of whether Medicare would substantially finance outpatient drug expenses of its elderly and disabled clientele (Marmor & Hacker, 2005).

That struggle was noteworthy. Not since Medicare’s enactment in 1965 had the program generated such prominent media attention and such confusion. What must be noted for a non-American audience, however, is just how much muddle there was about the problems claimed, the remedy offered, and the language used. Orwellian contradiction, sheer misrepresentation, and semantic sleights-of-hand best describe what passed for a debate about Medicare’s historical foundations, its current realities, and

likely future. Why such legislation passed in 2003 is the first puzzle to address if one is to understand what this episode foreshadows for American social policy.

In 1965, Medicare's enactment was a foregone conclusion because the Democratic Party had routed the Republicans the year before and dominated the Congress by a margin of two to one (Marmor, 2000). In 2003, the serious push to legislate a drug benefit for Medicare emerged for the opposite reason. In the absence of large partisan majorities in either the Senate or the House, both parties were wary of failing to act on what was claimed to be an obvious problem for Medicare. Indeed, for almost a decade, each political party had fought to make sure the other could not take credit for introducing such an expansion of Medicare's coverage. Stalemate was the repeated result, exemplified in 1999 by the failure of the special Breaux-Thomas commission on prescription drugs to reach agreement.

In 2003, however, Republican and Democratic leaders in the Congress and the Administration judged that continued stalemate might well provide the other side with an electoral weapon for the presidential and congressional elections of 2004. Both consequently became willing to sacrifice crucial features of their traditional policy aspirations. For Democrats, that meant giving up on a generous drug benefit (with an \$800 billion ten-year price tag), but insisting that whatever benefit there was included all Medicare beneficiaries. For Republicans, it meant strategic compromise, agreeing on expanding an entitlement program they have long criticized and no longer insisting that a Medicare drug benefit be strictly restricted only to those low-income elderly willing to join private plans. The \$400 billion budget limit on which the Bush Administration insisted later turned out to be a ruse. But it surely constrained the complicated design of

the drug benefit in ways that would prove important as Americans came to understand how limited the benefit really was.

The legislation itself, signed into law December 8, 2003, emerged with charges of budgetary deceit and substantive distortion flying around it. Then in March of 2004 came a double headline. The cost estimates, it turned out, had not only been understated, but the media reported scandalous allegations of bribery of key Congressmen and reprehensible silencing of government actuaries in the build-up to the reform's enactment. And, as if to insist that tragedy should follow farce, the headlines in the last week of March announced, portentously, that the program would go 'bankrupt' in 2019 if present trends were allowed to continue. Americans were and are bewildered by all this. What can anyone make of the mix of legislative drama, fiscal chicanery, and distant doomsday talk? The short answer is that you should take none of the headlines seriously. The longer answer takes longer.

The Reform of Medicare: Unjustified Hopefulness?

The passage of what came to be called the prescription drug bill in December of 2003 represented Medicare's biggest legislative overhaul in 38 years. But even close observers of Washington politics wondered at the time just what exactly it was all about. On one side, congressional Republicans and the Bush Administration described the legislation—then budgeted at \$400 billion over ten years—as a moderate, commonsensical way to provide long-overdue outpatient drug insurance to both older and severely disabled Americans. On the other side, Democratic opponents decried the bill, charging that it was an extraordinarily complex benefit as well as a monstrous giveaway

to insurance companies and drug firms. Lots of commentary about a ‘donut’ hole in the insurance coverage flowed from the lips of Democratic politicians and found their way onto television news and commentary.

These conflicting characterizations are understandable when one recognizes that the legislation was really two quite separable reforms. The first provides a much-needed, if modest, excessively complex, drug benefit. Because of its design and because it does not include effective ways of controlling drug costs, the plan, if implemented, will likely leave most seniors little better off than they are today, and some worse off. This is the prospect of the legislative reform that has already proven most disappointing to the public. Indeed, a week after the law was passed on December 8, 2003, a national ABC poll reported a 60-40 ratio of Americans critical as opposed to pleased with the reform. And more recent polls have shown even more critical majorities.

The second, darker side of the new Medicare legislation includes changes that have little or nothing to do with drug coverage and everything to do with special-interest demands and a longstanding ideological animus toward Medicare among conservative congressional Republicans. These provisions include large new subsidies for private insurers, and requirements that ensure drug firms will be spared from their greatest fear: namely, that Medicare could use its massive buying power to demand reductions in drug prices. The law also contains provisions that favour private health insurance plans and risk further degeneration of Medicare's all-in-the-same-boat structure.

Yet, what is most striking about the 2003 legislation is not the consistency of its vision, but its deep incoherence. In the name of greater free-market competition, the law offers substantial subsidies to the pharmaceutical and insurance industries. In the name of

providing greater income protection to the insured, it threatens Medicare's guarantee of universal benefits. (Indeed, it provides more than \$6 billion to support individual health savings accounts outside of Medicare, risking the fragmentation of the broader insurance risk pool.) And in the name of greater cost containment, it encourages the expansion of private health plans that have, to date, *not* saved Medicare money. And finally, the law creates new budgetary rules that could very well make Medicare *less* equitable and affordable down the road.

All of this highlights the puzzle of how such inconsistent, convoluted and far-reaching legislation could have passed in a context of the great partisan and ideological polarization. As a product of political conflict alone, we would expect not a massive new entitlement with so many contradictions and problems. With the Congress so evenly divided in partisan terms, one would have normally expected a more modest, lowest-common-denominator agreement -- for example, a bill covering catastrophic drugs costs only. Instead, this is a law driven by a mix of high Republican ideals and low political calculations crafted almost entirely in isolation from the Democratic opposition in the Congress and then adjusted just enough to win moderate congressional votes and temporarily sidestep hostile public opinion.

This brings us to the most overlooked reason for the reform's complexity: the conservative reform agenda itself, which simultaneously reflects ideological principles that celebrate free competition and the influence of powerful industries that hope to avoid it at all costs. Private insurers and drug companies do not really want competition: They want a playing field tilted in their favour. And they have been willing to do whatever it takes to seize the advantage.

All politics, to be sure, usually requires some compromise. But what is striking about the Medicare drug law is just how deeply the compromises -- or, more accurately, the concessions to private interests -- undercut the stated goal of the bill: drug coverage for seniors. The \$400-\$550 billion in new spending will be able to purchase only about half as much coverage as a sensibly designed bill could. This is not only because of the subsidies for private health plans and for Health Savings Accounts. It is also because of the higher overhead costs of private plans (about five to six times higher than for traditional Medicare) and the 20-to-30-percent higher prices for drugs that seniors will have to pay because the law forbids Medicare from using its bargaining power to negotiate better deals.

All this helps explain why the drug benefit itself is simultaneously so convoluted and so meagre -- covering, for example, only a small share of seniors' expected drug expenses overall, and reimbursing the \$251st dollar of drug spending but not the 2,251st (Center for Medicare Advocacy, 2004)¹. It also helps explain why seniors do not like the benefit the more they hear about it. And those polled are being realistic. A significant proportion of Medicare beneficiaries will almost certainly be worse, not better, off under the bill. This includes several million low-income seniors who will lose the generous coverage they now enjoy under state Medicaid programs. It also includes millions who already have pretty good drug coverage through their former employers -- coverage that may well be dropped, despite the bill's subsidies for employers that retain coverage.

¹ For readers abroad, the structure of the drug insurance will be incomprehensible. The deductible is the first \$250 of expenditures. From \$251-2251, the plan calls for a 25% co-insurance rate for the beneficiary. From \$2551-5100, the patient pays 100% of the costs (the donut), and is responsible for 5% of the drug costs above \$5,101.

The Republican hope that “their drug benefit” would take Medicare off the political agenda has proven ill-founded. In fact, the reform was certain to cause political conflict – and has. Republicans anticipated they could transform the political parentage of Medicare, turning into an asset an issue with which they have been battered by Democrats for years. But by pushing through such a confusing, convoluted, and unwieldy bill, they virtually ensured that the more that was known about the legislation, the more controversial it would be. Even hostile Democrats never imagined it would blow up so quickly. Nor did the Democrats turn out to be good forecasters. In 2003 they thought they ‘had to go along’ because, otherwise, the party would be held electorally responsible at the polls for holding up a bill (by filibustering) and would not be able to explain their opposition. As the polls revealed just a week after enactment, this legislation never had widespread, popular support. In 2004 the disquiet increased and in 2005 there is every reason to believe that the Medicare Modernization Act will come under increasing criticism for its confusions, disappointing benefits, and sheer complexity.

Sagas, Scandals, and Fiscal Forecasts: The Stories of 2004

In fact, Medicare became the biggest domestic issue of the presidential election year. But the mediagenic ingredients were not that obvious when the reform legislation passed amidst all the hoopla the Bush Administration could muster. Substantive criticism of the law’s provisions dominated the first phase of regret in December and early January, 2004. Later attention shifted dramatically towards the alleged fiscal deception

by the Bush Administration in their budget estimates for the drug reform. (In none of the episodes was clarity a feature of the reporting and discussion, which itself is part of the story.)

The tale of scandal is brief but easy to relate. The chief Medicare actuary—Richard Foster—was allegedly threatened in the summer of 2003 by his superior Tom Scully, the director of the Center for Medical Services. The threat was that if Foster reported budget estimates to the Congress higher than the department’s early ones, Scully would fire him (Scully, 2004). In the event, Scully, had left his job by late December of 2003 and was in 2004 busy doing lucrative private lobbying for a variety of health-related firms. The mix is perfect for journalistic excitement: mischievous interference by a political operative with a civil servant’s obligation to report his considered opinions to the legislature, with the added spice of apparent financial greed—the former federal health executive turned richly paid lobbyist---to close out the episode.

So the story of 2004/5 was that the Bush Administration lied about what the new prescription drug coverage would cost. They said \$400 billion throughout 2003, but they apparently knew it would be as much as \$550 billion. (The estimates in March of 2005 now reach over \$700 billion) The Congress, on this interpretation, was hoodwinked into passing the bill, and now Washington commentators affect shock that the price was so much higher than expected. Such a story infuriates taxpayers when and if they understand it. And, in the style of he said/she said American journalism, this episode has bred its own counter interpretation. As Steve Chapman of the Baltimore Sun claimed on March 30, 2004, the above account is “mostly a fairy tale.” Why according to Chapman? Because, he argues, most of the Congress knew the true budget facts all along. With this

barrage of claims and counter-claims, is it any wonder that making sense of the Medicare program reforms seems nearly impossible?

To add insult to intellectual injury, the attention to Medicare turned sharply in the spring of 2004 to yet another disturbing topic: the program's sustainability. Here, however, is quite another source of confusion, one that will take longer to explain.

Medicare Trustee Reports and Fearful Claims of 'Insolvency':

The pattern of fiscal scare-mongering is utterly familiar. Programme trustees report that Medicare revenues are not keeping pace with future spending obligations and, therefore, the trust fund for hospital insurance (Medicare Part A) faces a bankrupt future. Media accounts warn in these hyperbolic tones and many politicians declare that hard choices must be made to save the program.

Despite repeated earlier forecasts of insolvency, Medicare has never gone bankrupt. Nor will it ever.. Medicare has survived four decades of such warnings with no disruption of services to its elderly and disabled enrolees. The practice of forecasting Medicare's future finances is intended to serve as a prudent warning. In practice, the alarmist language accompanying media reports frightens and misleads the public and opens the door to distorted, imprudent policy debates,

Part of the problem is linguistic, and clarifying the language is essential to understanding Medicare's true condition. Terms like "trust funds," "solvency" and "fiscal prudence" are taken from private and personal finance and their meaning does not strictly apply when describing public programs like Medicare. The concept of private

bankruptcy, for instance, is simply irrelevant for Medicare, as it would be for the NHS as well.

Beginning with the New Deal programs of the mid-1930s, the phrase "trust fund" was an accounting term chosen to emphasize the trustworthiness of dedicated financing plans such as Social Security and Medicare payroll taxes and the solidity of the government's commitment to finance benefits. Today, however, using the same term in both public and private contexts actually obscures the differences between public and private trust funds. In private firms or households, a trust fund without funds is literally insolvent, unable to finance anything. Private trusts cannot tax and have precious few other options.

Congress, on the other hand, can change the payroll tax rate for Medicare and immediately eliminate shortfalls, assuming it can muster the political will to do so. Congress also can alter benefits and reimbursement provisions of the program's hospital or medical coverage or both, as it has done many times in different proportions since 1966 (Marmor, 2000). Thinking of the Medicare trust fund balance as the program's crucial variable is like believing a thermometer creates the reality of a heat wave or a cold snap.

Alarmist news accounts sometimes treat Medicare's bankruptcy as a predetermined fact, which is further misleading. Trustees' reports in fact always stress that a projected date of insolvency assumes no corrective actions or policy changes. In practice, Medicare always has taken action to bring its finances into balance either by increasing taxes and premiums or reducing payments to providers of care.

In the 1980s, for example, Medicare reformed its payment system for hospitals and physicians, slowing down the growth in program spending and pushing back the supposed date of so-called bankruptcy. More recently, the 1997 Balanced Budget Act included a series of Medicare reforms to control spending. After three years, the results of these reforms were dramatic: Instead of projected insolvency by 2001, Medicare's hospital insurance trust fund was declared fiscally healthy until 2025, the most optimistic forecast in a quarter-century (Caplan & Brangan, 2000).

The lesson here for commentary on American social policy is straightforward. Forecasts offer only possible futures, not inevitable ones. One should focus on the problems and disappointments generated by the Medicare legislation of 2003-4 rather than wring one's hands about futures decades hence. The present is pressing enough, but as the contemporary struggle over social security will illustrate, spectres of the future play a prominent role in day to day social politics in the United States.

Social Security: The Politics of Illusion in 2005

If Medicare figured prominently if misleadingly in the election of 2004, social security reform did not. To be sure, the presidential campaigns took predictable positions about this social insurance icon of American life: The Democrats promised to protect future benefits against Republican threats without admitting problems existed. The Republicans asserted without detail that redirecting some portion of required social insurance contributions into private, individual investment accounts would somehow solve the pension problems created by longevity and a higher ratio of retirees to workers

than earlier. Neither party dealt candidly with the problems facing the program, which are real if manageable. The result in 2004 was largely illusory political debate.

Facts, Values and Illusions in the Current Social Security Debate

President Bush has over the past few years dealt with Social Security by promising to make the retirement, survivors and disability program secure for future generations, but claiming not to have decided on the details for doing so. This mode, successful during the election as a constraint on his opponent, gave way to any number of speculations about what kind of ‘privatization’ the President will propose in 2005. The State of the Union address in late January, however, revealed that the President had settled on three crucial elements (Marmor and Mashaw, 2005).

First, the President wants to permit diversion of part of workers’ FICA (Federal Insurance Contribution Act) taxes into private accounts. Second, the Bush plan advocates changing the Social Security benefit formula from a wage-indexed to a price-indexed system. Third, it excludes all proposals for increasing Social Security trust fund revenues if they involve any increases, however small, in anyone’s taxes.

The central reform feature, private accounts, does nothing to make Social Security financing secure. As a number of informed commentators have rightly noted, this part of the Bush plan makes the short term financing problem much worse. It can make the long term picture better only by indulging in pie-in-the-sky economic assumptions. This

balloon is suspended by nothing but hot air. Unfortunately, too many press reports simply repeat the illusions in the name of journalistic ‘balance.’

The benefit formula change does make a difference. Indeed, it can bring the system back into close actuarial balance while preserving the purchasing power of today’s benefits. This seems helpful, but in fact is not all. Indeed, this proposal to help secure Social Security’s future is the exact equivalent of doing nothing at all.

To see this just remember a basic principle from high school algebra: things equal to the same thing are equal to each other. If no changes are made in taxes or benefits, Social Security’s actuaries project that, after 2042, Social Security will be able to pay only about 72% of promised benefits. Changing the promise by changing the benefit formula solves this problem. But if one does the math, the illusion becomes obvious. The result is possible only by making post-2042 benefits equal to the payment of 72% of currently promised benefits. This proposal, purged of its wage-index versus price-index technical jargon, is simply a 28% benefit reduction. It is precisely what the actuaries say would happen if we did nothing at all.

The issue at stake is whether this is a fair and sensible way to fix Social Security financing? And, to that question, the answer is clearly no. The current formula is meant to keep the standard of living of pensioners in a stable relationship to that of wage earners. With price-indexing pensioners steadily drop behind. By 2050 actuaries predict that American wage earners will have a 40% higher standard of living than today’s workers. Were the Bush proposal to be implemented, Social Security pensioners would be stuck at the living standard of 2005.

Creating large and increasing differentials between the standard of living of wage earners and retirees is not a trivial matter. Every 1% decrease in Social Security benefits increases the elderly poverty rate by roughly 1%. Loading the whole burden of fixing Social Security financing onto the backs of future beneficiaries would surely have disastrous social consequences.

There are in fact many sensible ways to make Social Security secure without putting disproportionate or unfair burdens on anyone. Why, observers might well ask, has President Bush chosen to avoid all of the plans that make modest adjustments in benefits and taxes in favour of a radical dismantling of Social Security? Why has he ruled out all tax increases?

The President gave his answer at his December “Economic Summit”. “I love the idea of people being able to own things,” he said. That was a theme of his acceptance speech at the Republican convention this past summer in New York. Privatizing Social Security is the cornerstone of his “ownership society”. Social Security has to be dismantled because it is not about ownership. But social insurance is about social solidarity. It is built on the understanding that we run common risks that can be ameliorated only by collective action. And by making everyone a contributor as well as a recipient it affirms that we recognize our common fate and our obligations of both self and mutual support.

President’s Bush’s vision of an ownership society is starkly different. He sees citizens as “owners” with the usual ownership right to exclude all others from sharing in their “property”. If Americans end up poor in old age it is because they failed to manage

their property successfully. They can then throw themselves on the mercy of private charity or residual, means-tested welfare benefits.

This is an “us”/ “them” vision of society. Every ship is to float on its own bottom. On this view increasing taxes to finance Social Security benefits is not an option. In the ownership society taxes truly are theft.

The current debate about Social Security reform is often mind-numbing in its complexity. Benefit formulas, price and wage indices, earnings forecasts and debt projections now fly thick and fast. But European observers should make no mistake about what the debate is about. While the devil is often in the details, the real debate is about values. It is about what kind of nation the United States represents. The fundamental question is whether it should be one that recognizes obligations of mutual support and collective responsibility, or one dedicated entirely to the individual pursuit of private wealth.

This question will dominate 2005’s domestic American politics. But for those interested in the likely outcome, the following can be safely argued. The claim of a mandate to insert private accounts into Social Security is shaky at best, an outright misrepresentation at worst. According to a Newsweek/Wall Street Journal poll conducted soon after the 2004 Bush re-election victory, most Americans do not support privatization (Hickey, 2005). Thirty five percent of them thought Bush had a mandate to ‘allow workers to invest some of their Social Security taxes in the stock market,’ while 51 percent said he had no such mandate. There is nothing like a workable consensus within the public.

That is not Bush's aim in any case. He will gamble, as he did on Medicare in 2003, on persuading a majority of the Congress to pass his reform. Indeed, he has pledged to get his plan through this year, before the 2006 midterm election year begins.

The key to the outcome is whether the President can persuade a congressional majority to take a big risk with their constituencies, which is to try to explain how risky speculation in the stock market and adding an estimated two trillion dollars to the national debt can be regarded as fiscally prudent or substantively plausible. Unlike tax cuts, which have an obvious appeal, and unlike the Medicare reform, which did have an added benefit, the Bush plan for Social Security is fraught with electoral danger.

In the Bush first term, his party was solidly unified and the Democrats were frequently splintered. In the Social Security fight, the positions are reversed. The Democrats appear united in opposition and their leaders now hope to win over at least 15 Republicans in the House of Representatives. In the Senate not one of the 45 Democrats has defected from the party position. And this is crucial because the Democratic victory depends either on Bush's failure to have a majority in either branch of the Congress or maintaining in the Senate at least 41 votes to defeat Social Security reform by a filibuster.

Bush, one must emphasize, is a radical critic of a traditional and popular program and that in itself presents risks to those legislators from whom he wants support. In addition, the problems of financing a transition to individual accounts without large benefit reductions is not possible without large scale public borrowing. Such additions to the federal deficit—the estimated two trillion dollars over ten years—is anathema to a subset of Republican fiscal conservatives in the Congress. Indeed, Tom Davis, chairman of the House Republican Campaign Committee is reported by the Wall Street Journal to

have said that ‘roughly 30 House Republicans, including himself, are already inclined to oppose Mr. Bush’ on his Social Security plan (Hickey, 2005).

Both the Medicare and Social Security developments in the present period are monuments both to intense controversy and the peculiarities of American political practices. We have reported the controversy above and noted the distinctiveness of American political arrangements. But, even more important to emphasize this year, these developments are fundamental challenges to two of the most durable programs of American public life, themselves legacies of the New Deal and the social insurance ethos it exemplified. That observation raises the question of whether there is something more fundamental at issue about the merit of the American welfare state itself. Whatever one might say about the Bush vision of an ownership society, does the 21st century require a fundamental recasting of purpose and program in social policy? (Le Bourdais, 2004)

New Century/New Risks: How Helpful as a Framing Device? And How Relevant is US Experience?

Let’s begin by asking whether the presumption of new risks for the new century is the right place to focus. What precisely are these new risks (as opposed to changing social facts) in the labour market, family circumstances, and realities of social exclusion? Are these new risks ones that the parents of the modern welfare state did not realize or anticipate?

In my view, there are few such new risks, with one important exception. Unemployment was central to welfare state developments in the 20th century and remains so today. The cost of medical care has been a central concern for a century,

though with a twist. In the early years of welfare state development, the major financial consideration about medicine was not the cost of care itself, but foregone wages from work. So, sickness benefits used to mean ‘sick pay’ not insurance payments for medical bills. Nonetheless, the common purpose of both was to deal with the risk that illness would threaten family income: in short, income protection. Indeed, providing a basis of economic security unites most of the rest of traditional social insurance programs: disability coverage, retirement pensions, and, in a limited sense, child allowances. Child allowances (whether direct or through tax concessions) reflect a concern for the adequacy of family income for a given size of family.

There are of course a whole set of familiar service programs that are protective, but not solely of income. Child abuse efforts are illustrative, but so are programs for the mentally handicapped, those with special chronic illnesses or injuries, and those workers requiring retraining. The point here is simple: the scope of the traditional welfare state was and is very broad and the image of a wholly new world of risk is in my view likely to mislead. The one distinctive development of the past half-century is, to be sure, changes in patterns of marriage and divorce, both of which present serious challenges to traditional social insurance cash programs. Here is where American experience might well be interestingly illuminating.

In the United States, as in most industrial democracies, the traditional retirement, old age, disability, and survivors financing arrangements took for granted a model family. That family consisted of a breadwinner (male), a female spouse, with or without children, though a family with children dominated the imagery. The conception of income protection proceeded from this assumptive world. If the breadwinner were hurt at work,

died prematurely, or reached a retirement age, collective publicly funded (or regulated) transfer programs were to replace the income from work. In the United States, the response to the increasing prevalence of divorce has been a marriage length test: benefits for the first spouse of a marriage longer than ten years. A second marriage, given that test, produces a second spousal benefit. But this adaptation cannot respond easily to what one could call serial marriages or partnerships: short-term marriages or long-term partnerships.

In other nations, the situation differs. In Quebec, for example, the civil code has apparently more easily adapted to the mixed realities of fewer marriages altogether and extended partnerships, whatever the gender of the partners (Le Bourdais, 2004). But nothing like this flexibility has emerged in the US, or generally elsewhere, including the rest of Canada. How to deal with same sex marriages excites constitutional activism in the United States, but with prohibitionist, not welfare state adaptation, in mind. Which children of which marriage—or partnership—are the legally entitled ‘survivors’ under the provisions of social security law in the US? This question, which has been both buried beneath moralistic commentary on homosexual marriage and bound by bureaucratic rules from another period, is certain to occupy more of the public agenda in the decades to come. But this prediction does not itself validate a wholesale revision of our view of the adequacy of the conception of risks the welfare state of the twentieth century took on.

In fact, the most important lesson for other countries from recent American politics is that the traditional risks covered by social security are ideologically under attack in new ways. The rhetorical umbrella under which the current President Bush has placed these attacks is, as described above, an appeal to the idea of an ‘ownership

society'. Brought into prominence at the Republican convention this summer, the ownership society is one where psychological and economic security arises largely from individual provision. So, home ownership is the key to residential security, though mortgage foreclosure amidst unemployment is not mentioned. Individual savings are held out as the most reliable means of dealing with retirement, health expenses, and unemployment. The role of the national government assumed by this array of wishes is that of a large charity for the unlucky, and a source of subsidies for those who can save on their own.

It is no surprise, then, that the Bush Administration has embraced health savings accounts, individual savings that are free of tax, with the added provision of catastrophic insurance as a guarantee against impoverishment. This, one perhaps does not need to add, would delight the Fraser Institute in Canada and their rightwing counterparts in the UK and Europe. The most surprising (and worrisome) instance of a revival of pre-welfare state thinking is the Bush Administration's penchant for individual investment accounts previously discussed. Not presented as an add-on with private savings, the President has since 2001 been keen to support using social insurance retirement contributions for individual risk-bearing investments. That, of course, entails transferring the risk of stock market investment to individual families. One would have thought that the rash of recent bankruptcies and loss of work-related pensions—Enron and United Airlines to name just two of the most prominent examples—would have prompted policy caution in this arena over the past three years.

The reality is that such proposals come from ideological conviction, not disciplined reflection about the risks ordinary families face. Just as most people regard

their driving skills as above average, so do many citizens delude themselves into thinking the stock market must go up or that their family will somehow avoid all the risks the welfare state was designed to address. This myopia is what makes the contemporary attack on the welfare state's foundations at least possible, if not popular. In the end, the American welfare state—centered as it is on popular social security pensions, a much appreciated Medicare for the elderly and disabled, and modest provisions for unemployment and workers compensation—will neither wither away nor disappear in a bold victory for its ideological enemies. But for those observing America, it would be wise to watch out for the illusions now in play in the American social policy arena. For the next four years, these proposals will be the centre of continuing ideological conflict. The imbalanced flow of commentary from the United States makes it certain that the world will learn about the claims. That makes it prudent to sort out the myths from the realities and, if the election of 2004 is any guide, that will be a substantial task.

One might close there, but for the obvious interest in what 2005 would have been like had Senator Kerry rather than President Bush won the election of 2004. On the three issues emphasized in this review, a Kerry victory would have been enormously consequential. On taxes, he would not have accepted the Bush proposals for further tax cuts disproportionately directed at the wealthy. Here the threat of a Presidential veto would have been enough to count on. On the implementation of the Medicare reforms, one could confidently predict that Kerry would not have in practice accepted the statutory restraints on using Medicare's market power to bargain with the pharmaceutical industry over prices and volume. How Kerry would have proceeded here is not easy to say, but that he would either have gone back to the Congress for authorization or used

administrative means is overwhelmingly likely. And, on Social Security reform, nothing along the lines of the Bush plan would have been on his agenda. Had Republicans proposed and managed to pass a Bush type plan, he would have certainly vetoed it.

The election then was important in shaping the agenda for 2005 and beyond. But while the line-up of plans and responses changed because of Bush's re-election, the fundamental partisan balance will, as I have argued, make stalemate on large-scale change the most likely scenario. The hostility to President Bush's foreign and military policies among America's allies is real. But, the realities of American politics make both foreign judgements inconsequential and Bush's domestic impact less powerful than in foreign and military policy. The fears of non-Americans are great enough to make the electoral results of 2004 a matter of great interest abroad. But, for social policy, which has less of an audience abroad, the prospects include considerable conflict and the partisan politics of efforts to change the votes of a small number of legislators.

Some observers interpret the Bush agenda with extraordinary generosity. So, for instance, columnist Michael Barone, lauds President Bush for "fighting [over] long-term stakes," acting with an eye to what America will look like in 20-, 30 even 40 years." (Barone, 2005). Understood as a justification for the programmatic reforms Bush has advanced in social policy, this is a stunning confusion of justifications offered and demonstrated merit. That Bush has his eye on long-term changes in American life is true, but that does not make either his incremental steps or his policy design defensible.

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